

## Fund Commentary

BLACKROCK GLOBAL FUNDS (BGF)

### BGF Asia Pacific Equity Income Fund



**Fund Manager**  
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### Market Summary

- ▶ Asian equities lost ground in February, with the MSCI Asia Pacific ex Japan index falling -1.70%. Political and social turmoil in the Middle East bred fears of oil supply disruptions and price increases, spooking investors who were already edgy over inflationary pressure in emerging markets. The Chinese consumer price index (CPI) rose 4.9% in January, although this was less than expected and tightening measures appear to be having some effect. Nevertheless, interest rates were increased again as the government acted to avoid social instability.
- ▶ There was considerable divergence in country performance over the month. Indonesia posted solid equity market gains, enhanced by currency appreciation as Fitch upgraded its outlook to “positive” for the nation’s sovereign credit. Thai equities enjoyed a resurgence in foreign investment and also finished in positive territory. In contrast, Taiwan and Korea finished well down as the recent trade from emerging to developed Asian markets appeared to unravel.

### Performance Analysis

- ▶ The BGF Asia Pacific Equity Income Fund gave up -0.46%, outperforming the regional index by 1.24%.
- ▶ The fund’s exposure to Australian large-caps was beneficial in February, with solid contributions from the “big four” banks: Commonwealth Bank of Australia, Westpac, National Australia Bank and ANZ. Earnings results were in line with market expectations, but generally painted a picture of improved provisioning for bad loans and solid net interest margin (NIM) growth despite increased funding costs. This sector remains a strong source of income within the region, with dividend yield in excess of 5%
- ▶ Two other Australian heavyweights – Telstra and BHP Billiton – also made strong positive contributions, although we own the latter’s UK-listed line in order to benefit from a wider-than-usual discount to the Australian line. BHP, frustrated in several recent acquisition attempts, used some of its huge war-chest to buy back shares in February. The market also reacted well to a foray into shale gas through a large acquisition in the US.
- ▶ We continue to benefit from our exposure to Korean small-cap technology stocks. Two of January’s top performers, Melfas and SNU Precision, were again among the top contributors as the market becomes increasingly aware of the opportunities each faces. Melfas designs and builds the circuits for touch-screens, crucial in smart-phones and tablet PCs, but has been

less prominent than its US competitors. The market is becoming interested in the commercial opportunities for organic LED (OLED) flat-screen panels and SNU is seen as a leader in this next-generation technology.

- ▶ Taiwanese equities were punished, with foreign investors taking profits after a strong couple of months. The technology sector suffered and our stakes in TSMC and Hon Hai dragged on performance. We maintain a positive outlook for the sector despite this short-term pullback, as a strengthening global environment continues to drive export growth and improving demand.

### Portfolio Changes

- ▶ The Fund has benefited from the trade out of ASEAN and India and into the northern Asian export-led economies in recent months. However we believe that this momentum may be faltering and banked some profits, reducing our position in Taiwan through the liquidation of holdings in Mega Financial, Nan Ya Plastics and Siliconware Precision Industries. We also trimmed Korea through the sale of Samsung Heavy Industries.
- ▶ We added several new names in Hong Kong, including retailer Esprit, which is delivering 4.4% dividend yield and should benefit from marginal improvements in European consumer demand. We also established a new position in HSBC. Despite the short-term noise surrounding management guidance, we have a positive outlook for HSBC given its strong balance sheet, reasonable valuations and potential to benefit from marginal improvement in the US economy.
- ▶ February also saw an addition to our position in China, where we believe that valuations are fair, given recent weakness, and companies are well positioned to deliver solid earnings growth in 2011. We added to our stake in China Mobile, on the belief that the market is under-valuing its opportunities for growth and for delivering shareholder return. Its dividend yield is currently 3.9%, but with the potential to grow given its huge cash reserves and low payout ratio.

### Strategy/Outlook

- ▶ Our cautious outlook in January appears justified given the market’s weakness over the past few weeks. Although volatility may persist, especially if political issues in the Middle East remain unresolved, we maintain an optimistic outlook for Asia Pacific ex Japan equities in 2011 as the US and European economies enjoy incremental improvements and loose liquidity supports asset markets.

- ▶ Australia remains our largest geographic exposure and February proved the value that segments of this market offer as defensive options in volatile periods, notwithstanding the economy's significant exposure to Chinese commodity demand. We also maintain significant positions in China, which has the potential to catch up to the region once inflationary pressures recede. Whilst there are structural factors to price inflation as wages increase, the more seasonal elements are showing signs of subsiding and should remove a strong headwind to the equity market.
- ▶ The trade from emerging to developed markets within Asia seems to have run out of steam and we have booked profits in Korea and Taiwan. Both economies are likely to face adverse currency movements at some in the near future.
- ▶ The regional technology sector gave back some of its recent gains in February, however we retain a significant exposure, reflecting our positive outlook for equities in 2011. We also maintain a high weighting in financials, including Chinese banks which we believe to be under-valued given strong earnings expectations this year.
- ▶ As at 28 February, the Fund was yielding 3.56% against a market yield of 2.63%

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