

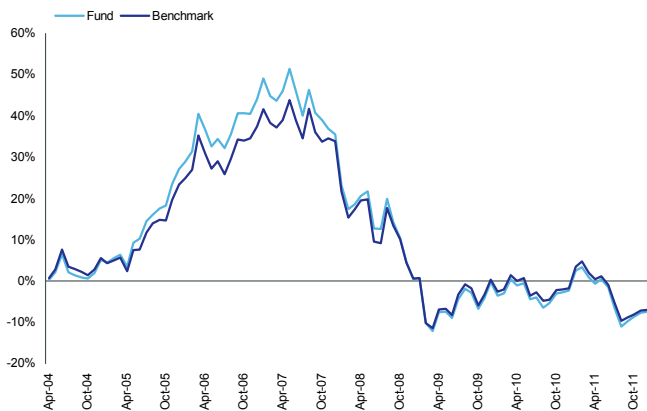
## BlackRock Scientific International Equity Fund (Alpha Tilts - Active Currency & Country)

### Investment Performance (%)

	Fund Inception	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock International Alpha Tilts Fund (Active Currency & Country) (Gross of Fees)	15 April 2004	0.20	2.59	-5.23	-5.23	-2.70	-8.49	-1.00
MSCI World ex Australia Index (unhedged in AUD) (Gross of Fees)		0.21	2.00	-5.34	-5.34	-2.58	-7.53	-0.94
Outperformance (Gross of Fees)		-0.01	0.59	0.11	0.11	-0.12	-0.96	-0.06
BlackRock Scientific International Equity Fund (Net of Fees)	31 December 1997	0.13	2.36	-6.06	-6.06	-3.56	-9.32	0.00
MSCI World ex Australia Index (unhedged in AUD) (Gross of Fees)		0.21	2.00	-5.34	-5.34	-2.58	-7.53	-0.04
Outperformance (Net of Fees)		-0.08	0.36	-0.72	-0.72	-0.98	-1.79	0.04
BlackRock Hedged International Alpha Tilts Fund (Active Currency & Country) (Gross of Fees)	15 April 2004	0.96	9.19	-2.31	-2.31	11.46	-3.42	3.88
MSCI World ex Australia Index (hedged in AUD) (Gross of Fees)		0.98	8.69	-1.91	-1.91	12.03	-1.92	4.37
Outperformance (Gross of Fees)		-0.02	0.50	-0.40	-0.40	-0.57	-1.50	-0.49
BlackRock Scientific Hedged International Equity Fund (Net of Fees)	4 April 2003	0.88	8.93	-3.21	-3.21	10.45	-4.32	6.61
MSCI World ex Australia Index (hedged in AUD) (Gross of Fees)		0.98	8.69	-1.91	-1.91	12.03	-1.92	7.57
Outperformance (Net of Fees)		-0.10	0.24	-1.30	-1.30	-1.58	-2.40	-0.96

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses. Refer to Fund details section for actual inception dates. The benchmark is a diversified allocation of 36% S&P 500 Index (Total Return hedged in AUD), 24% FTSE World Index ex US Index (Total Return hedged in AUD), 24% Merrill Lynch US Government Index (0-5 yr Treasury hedged in AUD) and 16% Citigroup World ex US Government Bond Index (hedged in AUD).

### Cumulative Performance (Gross Unhedged)



### Market Review

Equity markets moved modestly high through December. Whilst concerns over Europe remained they were balanced out by better data from the United States. The MSCI World Ex Australia Index returned +0.21% in unhedged AUD terms and +0.98% in fully hedged (or local currency) terms for the month.

In the US the ISM for November was 52.7 for manufacturing and 52.0 for non-manufacturing, indicating continued expansion. US non-farm payrolls for October were +120,000. The US Conference Board reading of consumer confidence rose from 55.2 to 64.5 in December. After a strong performance in September and October retail sales rose only 0.2% in November. US housing starts jumped 9.3% to an 18 month high of 685,000 (annualised) although the S&P Case Shiller Index of 10 major cities fell -1.1% over October. The US S&P 500 fell nearly -3.5% through to mid December before recovering to be up nearly 1% for the month.

In the UK the annual rate of inflation stood at 4.8% to the end of November, down from 5.0%. UK growth for Q3 was revised up to 0.6% from 0.5% however Q2 was

revised down from 0.1% to zero, leaving the annual pace of expansion unchanged at 0.5% to the end of September.

In Europe the head of the ECB, Mario Draghi, remained adamant that purchases of government bonds were "neither eternal, nor infinite" but that they would continue to facilitate the flow of credit to firms and households. Nevertheless German exports dropped 3.6% in October raising fears of a looming European recession.

Japanese GDP growth for Q3 was revised down to 5.6% from 6.0% (annualised). Industrial production fell -2.6% for the month of November raising fears of a slowdown in the post tsunami recovery.

In emerging markets China's inflation rate fell again to 4.2% in November in line with recent efforts to contain it. The services PMI for China fell to 49.7 in November, in line with the previously reported decline in manufacturing activity. In Brazil Q3 2011 GDP growth was 2.1% vs Q3 2010 however inflation showed signs of renewed life rising to 6.55%, above the 6.5% challenging the central banks desire to loosen policy.

# BlackRock Scientific International Equity Fund (Alpha Tilts - Active Currency & Country)

## Strategy Commentary

The strategy outperformed the benchmark during the quarter and added 0.59% of alpha, however it underperformed for the month of December with -0.01% alpha. Over the quarter our earnings quality, market and management insights added value across the US, Japan and Canada regions while detracting slightly in Europe. Relative value insights underperformed in US and Europe, but added value in Canada and Japan. Market and management insights also added value in Far East Asia. In the industry selection model, underweights in capital goods and chemicals as well as overweights in biotech stocks added value during the quarter, while overweights in consumer staples and autos detracted from performance.

Positive contributors in Q4 included overweights in LyondellBasell Industries, Marathon Oil Corp, Phillip Morris, Teck Resources Ltd and Google Inc, as well as underweights in Amazon.com Inc and Oracle Corp.

Our overweight in Philip Morris contributed positively in Q4 as the stock rose strongly. Despite difficult economic conditions, the tobacco company increased revenues by successfully marketing premium brands to emerging markets countries. Philip Morris also announced legal action challenging new Australian anti smoking laws that mandate all tobacco products to be sold in plain packaging. While the legal manoeuvres are not expected to succeed, they will likely delay the implementation of the unfavourable laws for some time. Our position was driven by our Earnings Quality and Sentiment measures. Within quality, we liked the company because it exhibited consistent earnings growth and balance sheet strength.

Over the year a number of overweight positions in defensive names generated alpha including the overweights in Phillip Morris and British American Tobacco. An overweight in Herbalife was a large contributor as the US vitamins and nutrition company announced blockbuster results in the first half of the year, which beat the consensus estimates in both domestic and emerging markets.

The largest detractors in Q4 included overweights in Avago Technologies Inc., BMC Software Endesa SA, Mead Johnson Nutrition Co., Central Japan Railway Lufthansa, as well as underweights in General Electric, Occidental Petroleum Corp, Royal Dutch Shell and Chevron Corp.

Our underweight in Occidental Petroleum detracted in Q4 as the stock gained over 32% during the quarter, driven by rising oil prices and increased output. The company's third quarter oil and natural gas production rose by more than 5% and surpassed analyst expectations. Occidental also received positive results from its exploration efforts around the Bakken oil shales in North Dakota. Our position was the result of negative scores from our Relative Value measures. Within Relative Value, we disliked the company because it ranked unfavourably on resource, earnings, and enterprise value based metrics.

For the year some of the main detractors for our strategy were pro-cyclical firms who had significant exposure to global growth. Overweight positions in names such as Teck Resources (Canadian miner) and in European auto firms (Peugeot, BMW) proved costly as high beta names were sold aggressively on fears of a global recession driven by the EU crisis and a potential Chinese hard landing.

Currency selection delivered positive performance over the quarter. Economic environment insights were the main drivers of the gains while both value and market sentiment insights were flat. Underweight positions in the euro and Swiss franc contributed significantly to the positive result. Modest losses on an Australian dollar position that moved from short to long were offset by gains in a complementary New Zealand dollar position.

Country selection was a small detractor over the quarter. While overweight positions in Germany & Italy added value, these gains were offset by underweights in Dutch and UK equities. Small gains were also made in Canadian, French & Japanese equities.

## About the Fund

### Investment Objective

The Fund aims to outperform the MSCI World ex Australia Index (unhedged/hedged in Australian dollars with net dividends reinvested) before fees over rolling three-year periods, while maintaining a similar level of risk as its benchmark.

### Fund Strategy

The strategy seeks to add value from stock and industry selection, by using our scientific process that uses local and global investment insights or themes to look for mispriced stocks and industries. For added performance, we apply an active currency overlay and an active country overlay.

The investment themes used as part of our stock-selection process are grouped under: analyst expectations which anticipate changes in investor expectations about earnings; relative value which looks at multiple measures of underlying fundamental value; earnings quality which assesses the quality and sustainability of earnings; and market information which focuses on sentiment factors and information revealed by management decisions. Our industry-selection models alter exposure to industries using insights that focus on fundamental, economic and technical conditions. The currency and country overlays are based on our fundamental value, economic environment and market sentiment themes.

### Should be considered by investors who ...

- ▶ Seek broad exposure to international shares.
- ▶ Seek a fund that blends well with most other active managers because its risk-controlled strategy of taking small active tilts across a large number of stocks tends to produce smaller, but steadier, excess returns on a greater number of stocks.
- ▶ Have a long term investment horizon.
- ▶ For the hedged version, seek to reduce the impact on A\$ returns on those investments that result from currency exposure.

# BlackRock Scientific International Equity Fund (Alpha Tilts - Active Currency & Country)

## Fund Details

BlackRock International Alpha Tilts Fund (Active Currency & Country)	
APIR	BGL0047AU
Fund Size	132 mil
Buy/Sell Spread	0.20%/0.20%
Number of Stocks in Fund	599
Number of Stocks in Benchmark	1548
Tracking Error (3 Years p.a.)	1.18%
BlackRock Hedged International Alpha Tilts Fund (Active Currency & Country)	
APIR	BGL0046AU
BlackRock Scientific International Equity Fund	
APIR	BAR0817AU
Management Fee	0.89% p.a.
BlackRock Scientific Hedged International Equity Fund	
APIR	BGL0109AU
Management Fee	0.94% p.a.

## Top Active Holdings

Overweight	Underweight
CONOCOPHILLIPS	GENERAL ELECTRIC CO
MCDONALDS CORP	IBM CORP
JPMORGAN CHASE & CO	PROCTER & GAMBLE CO
INTACT FINANCIAL	JOHNSON & JOHNSON
ROCHE HOLDING GENUSS	AT&T

## Top Holdings

Holding	Weight %
APPLE	2.61
MICROSOFT CORP	1.79
EXXON MOBIL CORP	1.78
PHILIP MORRIS INT	1.52
JPMORGAN CHASE & CO	1.51
ROCHE HOLDING GENUSS	1.45
MCDONALDS CORP	1.39
GOOGLE A	1.38
CONOCOPHILLIPS	1.36
BRITISH AMERICAN TOBACCO	1.33

## Country Exposure

Country	Weight %
Austria	0.38
Belgium	0.35
Canada	4.68
Denmark	0.51
Finland	0.82
France	4.28
Germany	2.93
Greece	0.01
Hong Kong	1.56
Ireland	0.00
Israel	0.16
Italy	0.76
Japan	10.17
Netherlands	2.00
New Zealand	0.00
Norway	0.61
Portugal	0.00
Singapore	0.84
Spain	1.58
Sweden	1.19
Switzerland	3.96
UK	9.03
US	54.17

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