Fund Update

Asset Allocation Alpha Fund

JUNE 2010

BLACKROCK

Market Outlook

- June was another volatile month. Equity markets and other risky assets started the month weakly, rallied strongly intra month and then sold off into month end to end net weaker (in the case of the benchmark US equity market).
- The mix of issues troubling markets in June was somewhat different to the previous month. The fiscal issues in Europe, while no means less resolved, were less front and centre in June.
- Of relatively greater importance were heightened concerns about a slowdown in the Chinese economy coupled with an unexpected apparent slowdown in the US economy.
- Despite these concerns, there remain considerable arguments for investing in risky assets. Profit growth remains strong and earnings surprise and corporate earnings guidance remains generally positive, if somewhat softer than a month ago.
- Equity markets also have potential latent support from balance sheet management, as many companies have the potential to increase distributions to shareholders via increased dividends or share buybacks. Valuations remain generally supportive of risk assets – for example, in equity markets, forward PE ratios are very cheap relative to interest rates.
- In FX, the 'riskier currencies' (such as the Australian dollar, Canadian dollar, Indian Rupee and Brazilian Real) remain generally supported by attractive and in some cases (eg Brazil), rising interest rates.
- Some of the risks that we have been monitoring have increased over the past month.
- Positive surprises for macro-economic growth and inflation data have generally weakened over the month. This softening has been led by the United States, where macro-economic surprise has turned negative.
- The weaker tone in leading indicators noted last month continued in June. Our leading indicators have fallen to flat, the weakest they have been in over a year. This weakness has been broad-based across all major regions and across both developed and emerging markets.
- While macro policy settings continue to be extremely supportive in general, fiscal policy has become less expansionary of late in Europe and potentially in the US. That said, we continue to expect a mid-cycle slowdown, as monetary policy globally remains extremely supportive, with the potential for further quantitative easing if required.
- We are in an extreme environment and we still believe a flexible mindset is warranted. The exit strategy from current extreme macro-economic policy settings was always going to be problematic.

Performance Review as at 30/6/10

	Class C Units Net	Class D Units Net	Gross	Benchmark*	Out-performance^
1 Month	-0.46%	-0.43%	-0.32%	0.40%	-0.72%
3 Month	0.38%	0.49%	0.73%	1.12%	-0.39%
6 Month	-0.96%	-0.71%	-0.16%	2.15%	-2.31%
1 Year	0.92%	1.41%	2.35%	3.89%	-1.54%
2 Year (pa)	12.87%	14.18%	18.02%	4.68%	13.34%
3 Year (pa)	–	20.35%	25.40%	5.56%	19.84%
Since Inception (pa)#	13.35%	15.50%	19.64%	5.77%	13.87%

Class C – 12/5/2008; Class D – 29/5/2006; Gross – 28/2/2006.

Past performance is not a reliable indicator of future performance. Total net Fund returns shown are prepared on an exit-to-exit basis (ie. include all ongoing fees and expenses and exclude tax). Total gross returns and benchmark performance figures shown are gross (ie. do not include expenses, fees or tax).

^ Shows the difference between gross return and benchmark return, and should be considered relative to the target return of the Fund.

* UBS Australia Bank Bill Index.

- Although fiscal policy is yet to be tightened significantly (outside the distressed economies in peripheral Europe) the impact of fiscal policy on the global economy is transitioning from a major positive over the past year to neutral, and it will become a significant negative in 2011.
- The private sector could normally be expected to take up the slack at this stage of the cycle as labour markets and capital expenditure recover although the recent softer tone of macroeconomic data has cast that in some doubt.
- The European sovereign debt situation stabilised somewhat in June. However, spreads of peripheral EMU countries debt remain at historically extremely wide levels, indicating market scepticism that the very extensive liquidity support provisions put in place will be a permanent fix.
- While the European sovereign debt situation is by definition political, potential bearish triggers for renewed market concerns may include:
  - A situation where significant parts of the banking system in some EMU countries become distressed and require government support or even in an extreme case, nationalistion. This would transfer the balance sheet liabilities of the banks from the private to the public sectors.
  - This could, in turn, stress even the very considerable support arrangements put in place by the EU. The EMU sovereign support fund has been calibrated to provide liquidity for a number of smaller EMU economies for a number of years. If however, the sovereign debt of these countries is increased through absorbing domestic banking sector debts, then the total sovereign bailout required would increase. This could cause the EMU sovereign bailout fund to require a capital increase or risk being downgraded by ratings agencies.
- On the positive side, we think that recent months have demonstrated the depth of commitment by European political leaders to the Euro. Should further support be required, we have little doubt that it would be ultimately forthcoming. However, as events in May demonstrated, this process is unlikely to be immediate or smooth.
- As noted earlier, the US economy appeared to slow in June. There are a number of potential reasons for this. The expiration of some Federal Government measures to stimulate the housing market appears to have had a larger than expected impact on the housing market, at least in the short term.

- The prospect for tighter fiscal policy also appears to have increased. A number of tax cuts passed during the Bush administration are due to expire soon. The prospect of these tax cuts being extended appears to have receded recently, which may have possibly contributed to weaker consumer spending. There have been similar developments with regard to state governments, which require further support from the Federal government to avoid budget cutbacks.
- It is also possible that increased financial regulation flowing from the financial reform bill may have the unintended macro economic consequence of tightening credit. This of course is not confined to the US, as other national parliaments are also in process of increasing financial regulation and there are also the transnational rules of the Bank of International Settlements under Basle 3.
- Finally, the cyclical risk in China will remain a key focus in coming months as evidence builds that the economy is slowing. This should be a welcome development, but there will naturally be some concern that a slowdown in growth turns into a hard landing.
- We expect the slowdown in growth to be benign, but it will take some months to get some visibility on economic growth in 2011 in China.

Performance Review

The major detractor from performance

- Equity/Cash (reflecting long positions in US equities).
- Bond/Bond (reflecting curve steepening positioning in the Eurodollar futures curve).
- Equity/Equity (primarily reflecting short positioning in Spanish equities versus Euro-Zone and German equities).
- Other strategies made small contributions either negative or positive.

About the Fund

Investment objective

To maximise total returns by implementing a diverse range of global tactical asset allocation strategies within a flexible but disciplined risk management framework.

The Fund aims to provide investors the benefits of an active asset allocation process which could either be combined with specialist sector funds or used as a total return fund.

The Fund targets a return of 12 percentage points above the UBS Australia Bank Bill Index over rolling 3 year periods, gross of fees. There is no guarantee that we will achieve this target. Most, if not all, of the Fund's returns are likely to be in the form of income rather than capital gains.

Fund strategy

The Fund implements tactical asset allocation strategies. The strategies adopted are thematic, concentrating on exploiting trends, likely developments and mis-pricing in global asset markets.

The strategies adopted encompass equity, cash, fixed interest, property, commodity and currency markets. Trades executed to implement these strategies may be based on an expectation of the direction of a particular market or focus on relative values between and within regions, asset classes, sectors, currencies and instruments or some combination thereof.

In selecting appropriate trades for the Fund, particular emphasis is placed on being able to execute strategies in a targeted, cost efficient and risk controlled manner. Futures, swaps and options are extensively used in this process although at times physical instruments and securities may be held. The Fund's benchmark is the UBS Australia Bank Bill Index in Australian Dollars (AUD).

However, in aiming to add value the Fund will take currency positions away from this AUD denominated benchmark. Any asset class or sector exposures are opportunistic, reflecting the themes and strategies being pursued. Exposures to asset classes, sectors, currencies and instruments will involve "net short" or "net long" positions and at times these will be substantial.

Designed for investors who...

- Seek a Fund which offers the potential for high absolute returns.
- Seek exposure to asset allocation strategies which are typically overlooked in an increasingly sector specialised world.
- Have a long-term investment horizon and a tolerance for significant volatility in investment returns in the short-term.

Fund Positioning at Month End

- The Fund's positioning remained cautious throughout June. Our process is to back strong fundamental ideas with rigorous risk control when opportunities arise.
- During June, the confluence of generally positive, although softer, fundamentals with generally negative and highly volatile momentum in risk assets meant that such opportunities were difficult to identify.
- At the end of the month active risk levels remained low. It is most likely that this fall in risk assets is corrective rather than the start of a new bear market, but after such a long rally with minimal corrections it is possible that this consolidation phase lasts for several months.

In the directional risk strategies, the Fund's positions include:

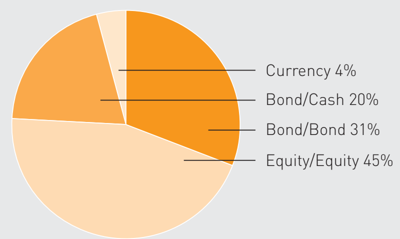
- Equity/Cash – square.
- Bond/Cash – short US 10 year inflation breakeven.
- Commodity/Cash – square.

In the relative value risk strategies, the Fund's positions include:

- Bond/Bond – short Australia vs long New Zealand; long sovereign risk in Australia vs short sovereign risk in France.
- Equity/Equity – long Eurostoxx and German DAX indices vs short Spain.
- Equity/Bond – square.
- Commodity/FX – square.
- FX – long Brazilian Real vs Chilean Peso.

The graph below shows the marginal contribution to portfolio risk by strategy.

Portfolio risk by strategy



If you have any queries relating to any of this information or to obtain a copy of the Product Disclosure Statement (PDS) for the Fund, please contact your relationship manager. Alternatively, if you have a query relating to the wholesale funds, please contact Distribution Services on 1300 658 766, or please call Adviser Services on 1300 366 101 if you have a query relating to our retail fund range.