

BlackRock Australian Equity Opportunities Fund

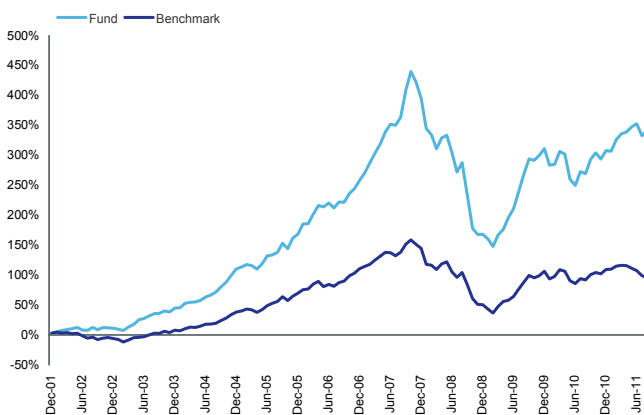
Investment Performance (%)

The BlackRock Australian Equity Opportunities Fund invests in the BlackRock Equitised Long Short Fund. Historical performance for the BlackRock Equitised Long Short Fund is outlined below.

	Fund Inception	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Australian Equity Opportunities Fund (Net of Fees)	21 September 2011	1.46	9.87	9.87	-	-	-	11.73
S&P/ASX 200 Accumulation Index (Gross of Fees)		1.22	8.40	8.40	-	-	-	9.04
Outperformance (Net of Fees)		0.24	1.47	1.47	0.00	0.00	0.00	2.69
BlackRock Equitised Long Short Fund (Gross of Fees)	18 December 2001	1.57	10.49	10.49	10.13	21.60	3.52	16.48
S&P/ASX 200 Accumulation Index (Gross of Fees)		1.22	8.40	8.40	-6.06	11.25	-2.04	7.13
Outperformance (Gross of Fees)		0.35	2.09	2.09	16.19	10.35	5.56	9.35

Past performance is not a reliable indicator of future performance. Gross returns are calculated before fees and taxes and assume reinvestment of distributions. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees, performance fees and expenses. Net performance of the BlackRock Australian Equity Opportunities Fund and the BlackRock Equitised Long Short Fund will vary due to fee differences.

Cumulative Performance (Equitised Long Short Fund)



Market Review

The Australian equity market rose slightly over the quarter, with the S&P ASX 200 Accumulation Index up 8.4%. Equity markets rallied over the quarter as the risks associated with the eurozone crisis moderated and positive macro news continued to flow from the US. Investor risk appetite locally was tempered somewhat by ongoing concerns about weakening Chinese growth, as well as fears of further softening in the Australian economy. The Australian market was also influenced by the reporting season and the various earnings downgrades that followed. In the US, the S&P 500 total return finished up 12.6%, as employment and other economic data supported growth prospects. Other offshore markets also rose, with the MSCI World Index total return up 11.7% (in USD terms).

Cyclicals outperformed over the quarter as investor sentiment improved, with the defensive Telecom and Consumer Staples sectors acting as funding sources. Market volumes, however, were relatively subdued. The local reporting season produced few major surprises, with results generally in line with the previously downgraded EPS growth forecasts. Many companies pointed to soft domestic trading conditions, and outlook comments tended to be cautious, particularly in retail. This trend continued after the completion of reporting season, with Leighton Holdings, QR National and Stockland Australia amongst a number of companies downgrading guidance. Corporate activity over the quarter included private equity groups making takeover offers for Billabong and Pacific Brands,

Crown acquiring a 10% stake in rival Echo Entertainment, and Singapore's Wilmar International becoming the largest shareholder in Goodman Fielder.

The leading sector for the quarter was Industrials (+14.9%), particularly the capital goods stocks. Information Technology (+14.8%) also performed strongly, with Computershare (+14.4%) benefiting from the improving outlook for equity markets and the USD. Telecommunications Services (+3.7%) was the worst performing sector, in a poor quarter for defensives, with Telstra up just 3.0% after announcing it had finalised its Definitive Agreements with NBN Co and the federal government. Materials (+5.9%) also performed relatively poorly, led by the miners, reflecting ongoing concerns about Chinese growth.

Among the best performing stocks was OneSteel (+82.2%), which rose after reporting 1H12 NPAT of \$78m, above its November guidance range, due largely to the improvement in its Manufacturing division. Also performing well were Imdex (+66.3%), NRW Holdings (+64.3%), Virgin Australia (+61.4%), and Billabong International (+58.7%).

Among the worst performing stocks was Mirabela Nickel (-49.6%), which fell with the nickel price and with high costs at its Santa Rita mine. Other poor performers included Intrepid Mines (-32.6%), Saracen Mineral (-25.3%), Ramelius Resources (-19.7%) and Alacer Gold Corp (-18.7%).

Of the heavyweights, contributions to performance were led by the banks, particularly ANZ Banking Group (+13.3%) and Westpac Banking Corp (+9.5%). The key detractors for the quarter were Stockland Australia (-7.8%) and Challenger (-6.3%).

Strategy Commentary and Outlook

The Fund's investment strategy outperformed its benchmark for the quarter, and has delivered strong outperformance over the past 12 months. The stock positions in the portfolio are based on combinations of our signals, which exhibited the following performance characteristics this quarter:

- ▶ Relative Valuation made the strongest contribution, through both profitability and cash flow signals;
- ▶ Market Signals contributed significantly, particularly the technical signals;
- ▶ Analyst Expectations also added considerable value via the sentiment signals;
- ▶ Earnings Quality made a negative contribution, mostly due to the signals based on companies' tax reporting; and
- ▶ Timing detracted value, especially the FX signal.

The contribution from our industry and risk factors was positive, while our security specific returns detracted value.

Stock Selection

Two of the Fund's best contributors for the quarter were the long positions in NRW Holdings (NWH) and Imdex (IMD). Among the worst contributors were the long position in Saracen Mineral Holdings (SAR) and short position in Paladin Energy (PDN).

The long position in NWH was primarily driven by positive scores from Analyst Expectations, particularly the sentiment signals. The stock rose following its record 1H12 result which saw NPAT up 123% on pcp to \$45.3m. This was driven by improved performance and revenue growth across all operating divisions. NWH also revealed its order book remained strong, and it expected that a number of the more than \$3bn in current active tenders would be converted.

The long position in IMD was largely based on positive scores from Earnings Quality, especially the signals based on companies' tax reporting. The stock rose after announcing its 1H12 result, with NPAT up 88% to \$22.7m, and a positive outlook reiterated. IMD also announced it expected to roll out its proprietary solids removal technology in the Asia Pacific market in 2H12, and will commence the global roll out thereafter.

The long position in SAR was primarily driven by positive scores from Analyst Expectations, particularly the sentiment signals. The stock fell after reporting 1H12 NPAT of \$9.6m, down 72%. Production guidance was lowered to 110-120koz within a cash cost range of A\$900-975/oz, with the higher costs attributed to lower grades as the company transitions to new higher grade ore sources.

The short position in PDN was mainly based on negative scores from Relative Valuation, from both profitability and cash flow signals. PDN released its 4Q11 production results, achieving record uranium production for the quarter and stating it expected the uranium price to improve throughout the year. It also, however, lowered its FY12 production guidance to 7.1-7.4Mlb after a number of unscheduled shutdowns.

Outlook

The recent absence of major crises in the eurozone and encouraging signs of growth in the US appear to have improved investor sentiment. However, the macro environment remains highly uncertain. The eurozone remains susceptible to another crisis, triggered by such possible events as Greece failing to meet its budget targets, the debt crisis engulfing Portugal and Spain, and core European members opposing further assistance. In the US, fiscal drag looks set to produce considerable headwinds to growth. Added to this, uncertainty remains about the extent to which growth will slow in China. We remain cognisant of the implications of these global macro issues, in addition to signs of slowing domestic growth, on the Australian market.

About the Fund

Should be considered by investors who ...

- ▶ Seek a fund aims to provide higher returns from a broad exposure to the Australian equity market using a long-short strategy.
- ▶ Seek a fund that uses a proven, risk-controlled scientific process that is constantly being improved, to maximise its potential to deliver competitive returns to investors.
- ▶ Have a long term investment horizon.

Investment Objective

The Fund aims to deliver returns that are 8% per annum above those of the S&P/ASX 200 Accumulation Index (the "Benchmark"), before fees over rolling 3-year periods.

Fund Strategy

The Fund aims to outperform the Benchmark by gaining exposure to long and short positions across the Australian equity market. Key insights captured in our investment process include:

- ▶ **Earnings expectations:** Reactions to changing earnings forecasts are monitored to discern shifts in investor behaviour. We have found that investors generally under-react to changing earnings forecasts. This tendency allows us to predict the relative performance of stocks.
- ▶ **Relative value:** Company financial data is assessed to arrive at what we believe is the underlying value of individual firms. Valuation models take into account asset values, earnings prospects and the potential for variability in forecasts over short and long time horizons.
- ▶ **Earnings quality:** Company financial data is analysed to determine earnings quality and earnings sustainability. Measures of earnings quality and sustainability embrace financial strength as well as discretionary accounting decisions made by company management and business operating efficiency.
- ▶ **Market signals:** We believe that the share-selling/buying of market participants can signal prospective share price out/underperformance over the medium term.
- ▶ **Style timing:** By analysing market data, we are able to identify the dominance of specific investment styles, such as growth and value, at certain points in the investment cycle.

Fund Details

BlackRock Australian Equity Opportunities Fund	
APIR	MAL0072AU
Fund Size	5mil
Buy/Sell Spread	0.50%/0.50%
Management Fee	0.30% p.a.
Performance Fee	30%
BlackRock Equitised Long Short Fund	
APIR	BAR0061AU
Fund Size	154mil

BlackRock Australian Equity Opportunities Fund

Top Active Holdings

Long	Short
BEACH ENERGY LIMITED	ALUMINA LTD
IMDEX LTD	METCASH LTD
RIO TINTO LIMITED	SEEK LTD
ILUKA RESOURCES LTD	SINGAPORE TELECOM CUFS
CHALLENGER LTD	QBE INSURANCE GROUP LIMITED

Sector Exposure (Long/Short Component)

Sector	Long %	Short %
ENERGY	5.77	7.10
MATERIALS	23.84	26.52
INDUSTRIALS	19.16	15.86
CONSUMER DISCRETIONARY	12.00	10.55
CONSUMER STAPLES	2.18	6.15
HEALTH CARE	4.67	3.20
FINANCIALS EX A-REIT	11.46	12.60
A-REIT	0.00	0.26
INFORMATION TECHNOLOGY	2.87	2.36
TELECOMMUNICATION SERVICES	5.79	2.91
UTILITIES	0.73	2.08

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