

Fund Update

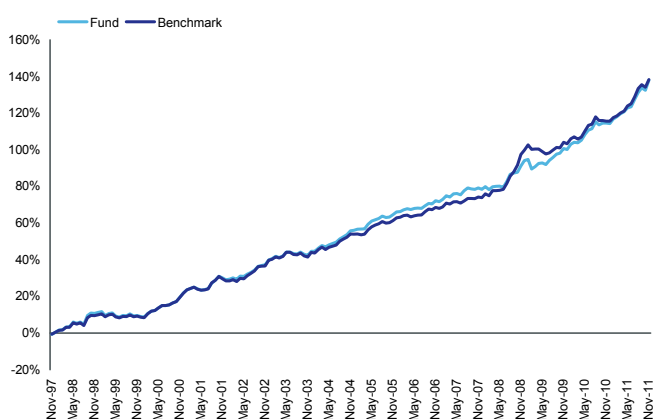
BlackRock Australian Bond Fund

Investment Performance (%)

	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Australian Bond Fund (Gross of Fees)	2.38	2.91	11.03	10.94	7.58	6.68	6.35
UBS Composite Bond All Maturities Index (Gross of Fees)	1.73	2.06	10.51	10.54	6.47	7.17	6.36
Outperformance (Gross of Fees)	0.65	0.85	0.52	0.40	1.11	-0.49	-0.01

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. Refer to Fund details section for actual inception dates.

Cumulative Performance (Gross)



Market Review

The UBS Composite Bond All Maturities Index returned 1.73% over the month to provide a 12-month return of 10.54%. The benchmark three year government bond yield fell 75bps to close at 3.12% while the 10 year government bond yield fell 58bps to finish at 3.93%.

The extreme volatility that characterised global financial markets in recent months continued in November as developments in Europe continue to drive large swings in investor sentiment. For most of the month, the markets remain mired in pessimism about the inability of European policymakers to articulate a cogent plan or roadmap out of the crisis, and from which markets might draw some comfort. There were some tentative signs toward the end of the month that the key actors in the European crisis might be getting closer to a plan that could give the markets some confidence that the requisite elements of a solution are at last being addressed. These elements involve some form of move toward fiscal union and proposals to enforce fiscal discipline on profligate countries and some form of mechanism through which the ECB might support sovereign bond markets confronting liquidity difficulties.

The European travails as of yet do not appear to have resulted in financing and / or confidence affects that have had a marked

impact elsewhere. There has been some evidence of slowing growth in Asia but nothing precipitate and the US data has bettered expectations on the growth side.

In Australia, the market was focused on the decision by the RBA to cut the policy rate from 4.75% to 4.50% at its November meeting. That cut reflected an easing of RBA concerns regarding inflation after the RBA's favoured "underlying" inflation measure rose just 0.3% in the September Quarter for a 2.3% annual increase which is in the bottom half of the RBA's 2-3% target band for headline inflation). With inflation quiescent and European fears elevated the RBA thought a move to "more neutral" rate settings was appropriate.

Credit markets echoed the generally negative sentiment of overall markets. This was evident by the large widening of the five-year Australian iTraxx CDS which closed 29bps wider for the month to end at 194bps. The UBS Credit Index returned 1.28% in November to provide a 12-month return of 9.04%.

Looking forward, global economic conditions remain challenging. Markets will continue their volatile ride as they continue to focus on Europe and whether or not policy makers can come up with a credible long term solution to the ongoing debt crisis. Domestically, despite the somewhat more positive risk tone in toward the end of the month, the RBA also remain focused on global developments, including Europe as well as any signs that Chinese growth may be slowing faster than anticipated. If there is a deterioration in global activity, an exacerbation of the European crisis or a harder landing than expected in China, the RBA may decide to cut more than once in the months ahead.

Strategy Commentary

The Fund outperformed its benchmark. The Fund had a conservative position with overweights to government and government-like high quality credit which benefitted performance.

About the Fund

Investment Objective

The objective of the Fund is to outperform the UBS Composite Bond All Maturities Index by 100 basis points p.a. over a rolling three year period (before fees).

Fund Strategy

The Fund is actively managed within a rigorous risk management framework and the portfolio is continually monitored and adjusted as necessary to suit changing economic and market conditions.

The investment process focuses on accessing the best ideas of our local and global fixed income teams. The teams seek to add value by managing duration, yield curve, credit, individual security, country and currency exposures against the Fund's benchmark. In seeking to access a broad array of value enhancing strategies, the team uses proprietary research-based knowledge and fundamental macro-economic and credit analysis.

Should be considered by investors who ...

- ▶ Seek returns superior to the benchmark by accessing a range of value-enhancing strategies in a portfolio of domestic and international debt securities.

Fund Details

BlackRock Australian Bond Fund	
Inception Date	31 October 1997
Fund Size	35 mil
Buy/Sell Spread	0.00%/0.07%

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