

Fund Update

Australian Share Fund

JUNE 2010

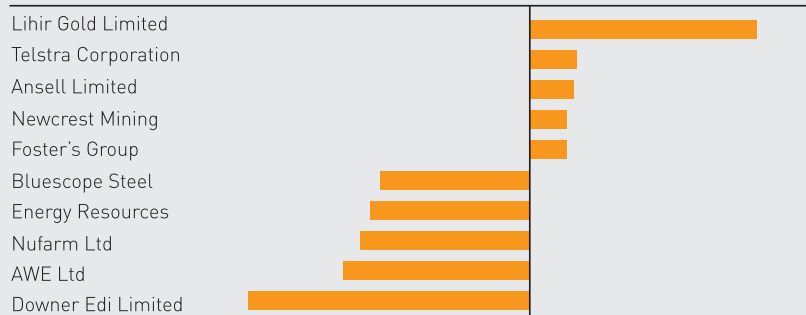
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Market Review

- For the third month in a row the Australian equity market lost ground in June with the S&P/ASX 200 Accumulation Index down 2.6% for the month and 11.8% for the quarter, making it the worst quarterly performance since the fourth quarter of 2008.
- Making news in June was the surprise change of leadership in the Australian Labor Party which ended the Prime Ministership of Kevin Rudd and gave Australia its first female Prime Minister Julia Gillard.
- The Resource Super Profits Tax (RSPT) continues to dominate headlines in the resources sector with recent reports suggesting that a compromise with the Mining industry is imminent. Following the change in leadership the Government has publicly taken a more conciliatory approach to negotiations and consultations with the resources industry around the details and implementation of the RSPT.
- Global Economic volatility remained elevated in June as investor uncertainty over the US economic recovery and resolution of the European debt crises remains high. US consumer and housing related economic data continues to disappoint investor expectations.
- Offshore news was also dominated by the fiscal and banking crises in Europe, which led to a €750bn bailout package by the European Union (EU) and the International Monetary Fund (IMF) to be made available to EU members.

The five best and worst performing stocks within the S&P/ASX 100 Leaders Index over the quarter are shown below:

S&P/ASX 100 – Top/bottom 5 Performers (Absolute Performance)



Source: ITG

- For the financial year, the major sharemarkets of North America and Europe generally outperformed Australia over 2009/10 but Japan under-performed.
- The US Dow Jones lifted by 15.0%, the S&P 500 gained 12.1% and the Nasdaq rose by 14.9%. In Europe the UK FTSE grew by 15.7% and the German Dax gained 24.1%. However the Japanese Nikkei fell by 5.8% over 2009/10.
- In Australia the ASX200 index gained 8.8% in fiscal year 2009-10, but the two halves of the year saw quite different outcomes. In the six months to December the index gained 25.3%, while in the June half it lost 11.7%.
- The Reserve Bank of Australia (RBA) raised the cash rate target by six times over the financial year, taking the rate from its 3% trough in September 2009 to its current level of 4.5%. Conversely, most major central banks remained on hold with the US Federal Reserve (the Fed) maintaining the target range at 0-0.25% throughout 2009-10.
- The Australian economy benefitted from the fiscal and monetary stimulus as seen in the strong rebound in employment, leaving the unemployment rate at 5.2% in May.
- Other developed economies also recovered momentum during the year but from a lower level; for example the US unemployment rate for May was 9.7%.

China's economy grew strongly under the impetus of strong stimulus measures but towards the end of the period policy shifted towards cooling measures, particularly in property.

- The RBA left the cash rate unchanged in June, with the Board citing market volatility in relation to Europe and its potential implications for growth as its main concern.
- The first quarter GDP report released at the start of June showed a modest 0.5% increase compared to the prior quarter's 1.1% gain.
- With global growth momentum also waning, the market is therefore pricing an extended period of steady monetary policy despite the Reserve Bank's inflation concerns.
- The Australian dollar (AUD) ended the quarter at 85.5 US cents after falling from a high of 93.8 US cents reached in mid April.
- The Telecommunications sector was the standout over the quarter up by 7.0% with Telstra (+8.70%) significantly outperforming the market after management signed an agreement with the NBN Co to participate in the National Broadband Network (NBN) rollout.
- In other company news Fosters Group (+6.81%) announced that it will spin off its wine assets into a newly listed company, after forecasting a \$1.3bn write-down against the wine business for its financial year 2010 result.
- The Resources sector was down -11.0% over the quarter, only marginally outperforming the broader market. Both diversified miners BHP Billiton [-13.63%] and Rio Tinto [-14.97%] significantly underperformed as the debate over the RSPT continued and base metal prices slumped. The change in Labor Party leadership however has increased the prospect of a compromise on the RSPT.
- Ongoing global uncertainty led to the gold price reaching record highs in June. Lihir Gold (+42.24%) announced that they entered into a Merger Implementation Agreement with Newcrest Mining (+6.95%), under which Newcrest will acquire all of Lihir's ordinary shares under a Scheme of Arrangement.
- The Financials sector was down -14.5% over the quarter due to increasing regulatory risk across the global financial sector and the continuation of the European debt crises.
- Within the Financial sector the Banks [-17.06%] were the primary drivers of the underperformance with all four banks detracting significantly.
- The highly cyclical Diversified Financial sector [-18.31%] was also down significantly driven by Macquarie Group (-21.44%) which fell heavily over the quarter after providing a cautious outlook commentary.

Performance Review as at 30/6/10

	Professional Investor Australian Share Fund Net	Wholesale Australian Share Fund Net	Gross	Benchmark*	Out- performance^
1 Month	-4.21%	-4.18%	-4.10%	-2.59%	-1.51%
3 Month	-13.47%	-13.37%	-13.16%	-11.14%	-2.02%
6 Month	-11.86%	-11.65%	-11.26%	-9.93%	-1.33%
1 Year	10.03%	10.53%	11.52%	13.15%	-1.63%
2 Year (pa)	-5.40%	-4.98%	-4.12%	-4.94%	0.82%
3 Year (pa)	-6.15%	-5.75%	-4.93%	-7.85%	2.92%
5 Year (pa)	5.60%	6.10%	6.88%	4.52%	2.36%
Since inception (pa)#	7.25%	9.28%	9.94%	8.47%	1.47%

*S&P/ASX 200 Accumulation Index. #PIASF - 13/9/99; WASF and Gross - 31/12/93.

	Australian Share Fund Net	Gross	Benchmark*	Out- performance^
1 Month	-4.25%	-4.12%	-2.59%	-1.53%
3 Month	-13.63%	-13.20%	-11.14%	-2.06%
6 Month	-12.13%	-11.30%	-9.93%	-1.37%
1 Year	9.42%	11.47%	13.15%	-1.68%
2 Year (pa)	-5.96%	-4.15%	-4.94%	0.79%
3 Year (pa)	-6.72%	-4.98%	-7.85%	2.87%
5 Year (pa)	4.99%	6.87%	4.52%	2.35%
Since inception (pa)#	-	-	-	-

*S&P/ASX 200 Accumulation Index. #ASF and Gross - 31/5/88.

Past performance is not a reliable indicator of future performance.

^Shows the difference between Gross return and Benchmark return.

Long term performance returns show the potential volatility of returns over time. Gross performance figures make no allowance for expenses, fees or taxes. Please note that all performance is presented in absolute terms. Total net Fund returns shown are prepared on an exit-to-exit basis (ie. includes all ongoing fees and expenses).

Market Outlook and Portfolio Strategy

- We remain cautious, however we feel that the balance of risk is skewed to the upside. Although earnings downgrades are expected through the upcoming reporting season, much of this has been priced into the market. Banks have found a level of support despite a declining outlook.
- Talk of a 'double dip' in the US economy is too pessimistic in our view, and the outlook for medium term growth in Australia looks promising. Timing remains key, as we look to reduce our defensive position ahead of any market recovery.
- In terms of stock-specific insights, the Fund retains overweight exposure to Asciano (earnings upside to consensus forecasts), CSL (high quality franchise with supportive valuation), Brambles (strong leverage to the recovering business cycle), News Corporation (market underestimating near term earnings), Seek (leverage to domestic recovery) and Resmed (US dollar weakness providing an attractive entry opportunity into a medical device company expecting growth on the release of an upgraded product).
- During June, we moved our position in Brambles higher, and continued to increase the overweight position in CSL.
- An underweight position in Wesfarmers was initiated (earnings weakness across Wesfarmers discretionary brands), holdings in Telstra and Woolworths moved from underweight to overweight, and the overweight position in Amcor was closed.
- In terms of sector specific insights, we moved Banks to an underweight position, and continued to reduce our underweight in Real Estate Investment Trust sector.
- We established new positions in retailers (like-for-like sales growth and earnings certainty likely to see a re-rating and earnings upside) and oil producers (strong outlook for oil price post Gulf of Mexico oil spill), and closed out a number of stocks from the mining services basket.

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.

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Top 10 Positions as at 30/6/10

BHP Billiton Limited	13.73%
Commonwealth Bank of Australia	6.98%
Westpac Banking Corporation	5.78%
ANZ Banking Group Limited	4.94%
National Australia Bank Limited	4.39%
Telstra Corporation Limited	4.10%
Woolworths Limited	3.84%
CSL Limited	3.78%
Woodside Petroleum Limited	2.97%
Westfield Group	2.56%

Asset Allocation

Energy	6.98%
Materials	23.93%
Industrials	11.34%
Consumer Discretionary	5.60%
Consumer Staples	7.02%
Health Care	6.35%
Financials	27.30%
Information Technology	1.47%
Telecommunication Services	4.37%
Utilities	0.82%
Listed Property	4.83%

Composition may not total 100% due to rounding.

Performance Review

The main drivers of portfolio performance during the quarter were as follows:

Key positive influences:

- Overweight ResMed Inc (RMD) vs Industrials
- Overweight Amcor Ltd (AMC) vs Market
- Overweight MacArthur Coal Ltd (MCC) vs Resources

Key negative influences:

- Overweight Isoft Group Ltd (ISF) vs Defensives
- Overweight Brambles Ltd (BxB) vs Market
- Overweight Resources vs Industrials

Please note that all performance is presented in absolute terms.

About the Funds

Investment objective

The Funds aim to achieve capital growth through investment in Australian shares and other securities and to provide investors with some tax-effective income through the distribution of franked dividends. We aim to achieve this goal by outperforming the S&P/ASX 200 Accumulation Index over the medium to long term.

Fund strategy

The investment objective of the Funds is currently pursued by investing in a portfolio of Australian shares. The portion of the Funds not invested in securities will be invested in the money market (i.e. cash) through a BlackRock wholesale fund.

The Funds invest opportunistically in perceived value adding investment ideas, or "insights". We draw on a broad spectrum of investment expertise to identify these opportunities and capitalise on them.

Insights may be found on a number of different levels, for example within a company division, at the stock level, or among a group of stocks. The identification of investment insights is a research driven process.

Designed for investors who...

- Seek a fund which aims to provide capital growth and some tax effective income.
- Accept the risk of significant price fluctuations.