

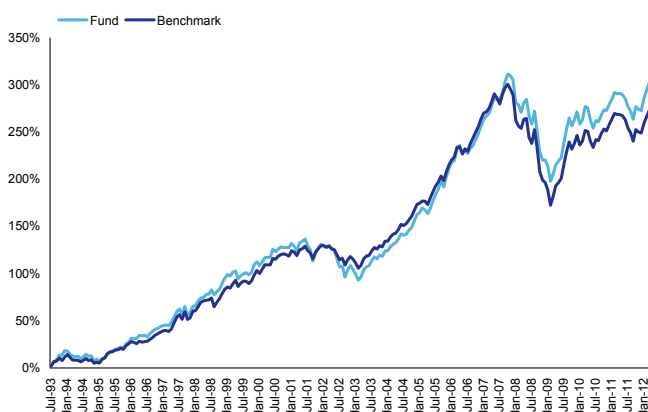
BlackRock Balanced Fund

Investment Performance (%)

	Fund Inception	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Balanced Fund (Net of Fees)	30 April 1992	2.02	7.63	7.63	1.21	7.66	-0.22	6.06
Diversified Benchmark (Gross of Fees)		1.88	6.90	6.90	1.18	9.86	-0.11	
Outperformance (Net of Fees)		0.14	0.73	0.73	0.03	-2.20	-0.11	6.06
BlackRock Professional Investor Balanced Fund (Net of Fees)	9 September 1999	2.05	7.74	7.74	1.72	8.27	0.35	4.34
Diversified Benchmark (Gross of Fees)		1.88	6.90	6.90	1.18	9.86	-0.11	5.37
Outperformance (Net of Fees)		0.17	0.84	0.84	0.54	-1.59	0.46	-1.03
BlackRock Wholesale Balanced Fund (Net of Fees)	30 September 1992	2.10	7.86	7.86	2.20	8.74	0.79	7.42
Diversified Benchmark (Gross of Fees)		1.88	6.90	6.90	1.18	9.86	-0.11	7.68
Outperformance (Gross of Fees)		0.22	0.96	0.96	1.02	-1.12	0.90	-0.26
BlackRock Income Fund (Net of Fees)	30 November 1983	2.07	7.79	7.79	1.61	8.08	0.13	8.90
Diversified Benchmark (Gross of Fees)		1.88	6.90	6.90	1.18	9.86	-0.11	-
Outperformance (Net of Fees)		0.19	0.89	0.89	0.43	-1.78	0.24	-
BlackRock Non Tax Paying Balanced Fund (Net of Fees)	31 December 1997	2.10	7.86	7.86	2.46	9.09	1.32	6.11
Diversified Benchmark (Gross of Fees)		1.88	6.90	6.90	1.18	9.86	-0.11	6.12
Outperformance (Gross of Fees)		0.22	0.96	0.96	1.28	-0.77	1.43	-0.01
BlackRock Wholesale Balanced Fund (Gross of Fees)		2.11	8.02	8.02	3.04	9.68	1.71	-
Diversified Benchmark (Gross of Fees)		1.88	6.90	6.90	1.18	9.86	-0.11	-
Outperformance (Gross of Fees)		0.23	1.12	1.12	1.86	-0.18	1.82	-

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. The benchmark is a diversified allocation of the S&P/ASX 300 Accumulation Index, S&P/ASX 200 A-REIT Accumulation Index, MSCI World ex Australia Index (hedged and unhedged in AUD with net dividends reinvested), UBS Composite Bond All Maturities Index, Barclays Capital Global Aggregate 500 Index (hedged in AUD) and the UBS Bank Bill Index.

Cumulative Performance (Gross)



Market Review

In the past few years of 'risk-on', 'risk-off' markets, the US equity market has been the best single global risk barometer. The past month hasn't followed that script. The US equity market rallied another 3% but most other 'risk markets' were actually weaker – in particular, European equities, emerging market equities, commodity and high yielding currencies all fell. This divergence reflects increasing confidence about the sustainability of the US economic recovery, combined with lingering concerns about the outlook for Europe and China.

The optimism about the US economic recovery is reminiscent of this time a year ago and two years ago. In both years a subsequent 'soft patch' caused fears about a 'double dip' recession to surge. It appears that the pre-conditions are in place for a re-run of previous years.

It might be too cute to expect a simple re-run of the past two years but we are certainly alert to that possibility. Beyond these near-term fears are the concerns about the fiscal 'cliff' at the end of this year when the Bush tax cuts and Obama stimulus measures expire at the same time as automatic budget cuts are due to be implemented. In the absence of any legislative change, this would represent a staggering contractionary impulse of 3 to 4% of GDP – enough to throw the US economy back into recession. It would seem unlikely that the politicians could allow such an outcome. But confidence in the political system has plumbed new depths due to the extreme partisanship of recent years highlighted most recently by the debt ceiling fiasco last year.

There is also an element of déjà vu about the Euro-zone. The European Central Bank's (ECB) 3-year long term refinancing operation (LTRO) finally got the policy makers out ahead of the crisis. This is reminiscent of the announcement of the European Financial Stability Facility (EFSF) in May 2010 which successfully calmed the markets for some time. As the sense of crisis dissipated, however, so did the sense of urgency from policy makers which sowed the seeds for the next crisis in the second half of last year.

The run of data from China confirms that economy is slowing. Most forecasts predict growth will dip below 8% in the coming quarters. Much of the slowdown can be traced back to softer export growth, largely on account of weakness in Europe. Overall Chinese domestic demand has held up quite well. Retail sales were up about 15% year-over-year in January and February and spending on imports remains reasonably firm. The main domestic risk remains the health of the property market. Property prices are falling in most major cities and transaction volumes are down. Further price weakness is likely in the months ahead. It is, however, important to note that there is a safety net in China if this property downturn was to turn into a bust as Chinese banks are still effectively

BlackRock Balanced Fund

state-owned. As was the case a decade ago, when the Chinese banking system suffered a surge in non-performing loans, the government will simply extend more capital to banks with the explicit understanding that they keep lending to support the economy. Bottom line: China's economy is slowing, but a soft landing (rather than a hard landing) still appears to be the most likely outcome.

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Strategy Commentary and Outlook

The Funds outperformed their benchmarks over the quarter with positive contributions from global fixed income, Australian equities and asset allocation.

Looking out over the next 6 to 12 months, several things could plunge the region back into a full-blown crisis: (1) Greece fails to meet its budget targets and Germany rejects further handouts; (2) The debt crisis engulfs the Iberian Peninsula; (3) Inflation in Germany begins to accelerate, putting pressure on the ECB to turn hawkish; and/or (4) The French election hands President Sarkozy a loss. Accordingly, we continue to favour European tail risk trades through France CDS protection and Euro put options.

Notwithstanding the sell-off in some risk markets noted above, it is our sense that financial markets are priced for quite a sanguine outlook which may be presenting an opportunity given the myriad uncertainties affecting the global economic outlook. It is premature to conclude that US growth has moved into high gear or that the euro crisis is behind us. It may be that we have moved past the peak liquidity phase of the market as the LTRO is done (and the ECB has indicated that the hurdle for another tranche is high) and the Fed's 'operation twist' is due to finish in the middle of this year. Meanwhile, the VIX has dropped to around the 15 level — equal to the lowest level since before the crisis — suggesting investors have become complacent again. Volatility in currency markets is also at the lowest level since Lehman's bankruptcy. This raises the odds of a set-back in risk assets in coming months. The severity of any pull-back in risk assets will be determined by the extent of any slowdown in US data, whether the risks cited above in Europe materialise and how the China slowdown unfolds. Given reasonable outcomes, risk assets can continue to climb the wall of worry.

About the Fund

Investment Objective

The investment objective of the Funds is to provide investors with the highest possible returns consistent with a "balanced" investment strategy encompassing:

- ▶ an orientation towards growth assets;
- ▶ a bias toward Australian assets; and
- ▶ active asset allocation, security selection and risk management.

Fund Strategy

The investment strategy of the Funds is to provide investors with a diversified exposure to the best investment teams and strategies that BlackRock has globally within the context of an Australian based "balanced" investment portfolio.

The strategy is built around two steps:

1. Establishing the most appropriate strategic benchmark subject to the growth/income splits and market risk exposures of the range of Australian balanced funds; and
2. Enhancing the returns of the Funds relative to the strategic benchmark to the maximum extent possible by utilising investment teams, strategies and techniques from BlackRock's resources around the globe subject to a risk budgeting framework.

Should be considered by investors who ...

- ▶ Seek a fund which aims to provide a combination of capital growth and income.
- ▶ Accept the risk that moderate volatility may be experienced.

Fund Details

BlackRock Wholesale Balanced Fund	
APIR	PWA0822AU
Fund Size	953 mil
Buy/Sell Spread	0.175%/0.175%
Management Fee	0.95% p.a.
BlackRock Balanced Fund	
APIR	PWA0013AU
Management Fee	1.955% p.a.
BlackRock Income Fund	
APIR	PWA0004AU
Management Fee	1.60% p.a.
BlackRock Non Tax Paying Balanced Fund	
APIR	MAL0100AU
Management Fee	0.95% p.a.
Unit Price (NAV)	2.390900
BlackRock Professional Investor Balanced Fund	
APIR	MAL0103AU
Management Fee	1.40% p.a.

Fund Allocation

Asset Class	Weight %
Australian Shares	38.00
Australian Bonds	15.00
International Shares	26.00
Global Bonds	10.00
Listed Property	6.00
Direct Property	0.50
Cash	4.50

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