Fact Sheet

Pan Asia Opportunities Fund Ltd

About the Fund

The Pan Asia Opportunities Fund Ltd. (the "Fund") offers investors exposure to equity long/short alpha production in the Asian market (ex-Japan). Developed by BlackRock, our investment process directs the strategy using advanced techniques to identify mis-valuations across Pan Asia stocks and markets. These alpha opportunities are captured by taking long and short positions in individual equities while allowing for a minimal amount of dynamic beta and controlling incremental risk. This process is enhanced by a fundamental overlay that seeks to pro-actively allocate risk capital across our insights and market exposures. The goal is to create a consistent stream of high quality, uncorrelated alpha.

Fund objective

The Fund aims to deliver returns above the US Fed Funds target rate, while maintaining a return volatility of 10% – 15% per annum net of fees and expenses. The benchmark is a cash benchmark represented by the rate of return on the high end of the fed funds target rate.

Investment approach

The Scientific Active Equity team integrates our insights and an advanced optimisation process to select stocks in the Fund. At the heart of the strategy is a set of investment models that our research has shown to have the most influence in predicting active returns in the equity markets. We seek to systematically exploit our insights while minimising uncompensated risks and transaction costs:

- **Return:** Our insights are derived from fundamentally-based, economically-sound security and market analysis. We focus on Relative Value, Earnings Quality, Sentiment and shorter horizon investment themes.
- **Risk:** Proprietary portfolio and risk management systems produce diversified portfolios that limit uncompensated risks.
- **Cost:** Incorporate proprietary transaction cost models into portfolio construction to maximise net alpha for our clients. These include borrowing costs for short sales as well as the opportunity costs of trading.

We use proprietary optimisation and modified risk models to combine these return forecasts and to balance investment opportunities, while taking into account risk and costs of implementation.

Portfolio construction

The resulting long/short portfolio is highly diversified. We typically hold between 600 and 800 active positions within the Fund. We target industry and asset bounds to generally within +/- 3.0% of the net exposure. Country bounds are targeted to generally +/-2.0% of net exposure. Market exposure is targeted using a dynamic approach and is typically within +/- 0.3.

While the stock selection process is systematic, investment professionals are involved in every step, deciding on risk budgeting and performing quality checks to ensure the integrity of the process.

Stock selection model

The stock selection model for the Fund aims to predict the relative outperformance and underperformance of stocks in the Asia ex-Japan equity markets. Essentially, we want to buy firms with improving fundamentals at reasonable prices. The model consists of a number of independent components each of which has a strong rationale based on our understanding of the institutional framework and behavioural patterns of investors, and includes:

- **Relative valuation:** we build valuation models taking into account, where appropriate, asset value, sales, earnings and cash flow forecasts over short and long term horizons. Our research shows relative valuation anomalies pervade the Asia ex-Japan equity market and continue to provide attractive investment opportunities.
- **Earning quality:** we employ investment models that assess the quality of earnings and corporate management. We look for companies with improving fundamentals with low earnings volatility. These models are especially applicable given that corporate managers may exploit less stringent accounting standards and corporate governance in Asian markets.
- **Sentiment:** changes in company earnings expectations are reflected in brokerage analyst estimates. After adjusting appropriately for other factors, we find that there is under reaction to these changes, allowing us to predict subsequent relative performance, and that this effect is particularly strong in Asia ex-Japan.
- **Short horizon:** we also attempt to take advantage of shorter horizon investment opportunities that may arise. These include short term reversals, co-movements of securities as well as following investor flow.

One of the unique aspect of the Asia ex-Japan stock selection model is its cross border stock selection process which increases our breadth of active bets. We are able to make industry bets between countries, while remaining relatively neutral to each industry and country.

The systematic bottom-up stock-selection is augmented with a fundamental overlay that seeks to pro-actively allocate risk capital within our stock-selection insights as well as between stock-selection and market exposure.

Monthly performance summary (% since inception)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	2.31	1.18	-0.04	1.63	2.56								5.17
2010	-0.90	1.39	3.20	2.47	3.54	2.73	1.09	0.47	0.22	2.20	0.52	1.47	19.92
2009	1.18	3.21	-2.86	-0.41	-5.13	0.38	2.20	5.72	-2.04	-0.41	1.99	-0.02	1.18
2008	1.05	4.41	3.19	-1.42	-0.06	5.21	3.15	-0.54	-1.18	-3.02	-4.52	-1.31	4.54
2007	–	–	0.04	5.64	5.06	8.30	7.23	6.61	0.55	10.17	3.33	-3.27	52.20

Cumulative Return:* 112.83%
Annualised Return: 19.45%
Annualised Volatility: 10.88%

*Since inception of performance calculation, March 2007

Performance shown is net of all fees unless otherwise noted. Past performance is not a reliable indicator of future performance.

Risk control and cost management

The portfolio construction process controls the overall level of risk of the Fund as well as exposures to any risk where we have no associated return forecast. We also control the exposure to any individual industry, company or country.

In addition to the risk controls that are integral to our portfolio construction process, we utilise the resources of BlackRock's Risk and Quantitative Analysis (RQA) group to provide an additional layer of risk oversight that they provide to all of BlackRock's portfolios. Members of RQA regularly meet with our portfolio managers to review results of risk reports and stress testing on various possible economic and political scenarios.

Finally, we assess the various components of trading costs in the Asia ex-Japan market, so that the portfolio construction process generates trade lists that are easily traded with minimal impact on market prices. We also model the cost of borrowing stocks for the short positions and take these into account in portfolio construction. These trades are implemented by a dedicated trading team to ensure efficient execution.

Summary of key product features

- The Scientific Active Equity (SAE) team manages long/short and benchmark-relative strategies across a wide range of regions and benchmarks
- Broadly diversified bottom-up stock selection within industries/sectors across several hundred active positions in the Asia ex-Japan equities markets
- Investment universe of approximately 2500 names across 10 countries
- Limits downside risk by controlling for a diverse set of risk factors
- Dynamic beta model to adjust market exposure based on economic environment and market sentiment. Beta +/- 0.3
- Combines quantitative rigor and fundamental insight
- Dedicated researchers located in Asia (Hong Kong), in addition to London, San Francisco, New York, Sydney and Tokyo
- BlackRock SAE have been successfully managing assets in Asia since 2003
- Significant opportunities exist for experienced systematic managers in Asia

Pan Asia Opportunities Fund Ltd	
Fund style	Long/short equities hedge fund
Inception date	June 2006
Performance target	10% – 15% per annum (net of fees and expenses)
Target risk	10% – 15%
Benchmark	Deliver returns above the Fed Funds target rate
Management fee	2% per annum plus GST
Performance fee	20% of fund performance above benchmark
AUM (mm)	$698
Currencies available	USD
Status	Open
Liquidity	Monthly (30 calendar days notice) 3% early redemption fee within 1 year
Minimum investment	$1 million
Domicile	Cayman Islands
Prime Brokers	Credit Suisse, Goldman Sachs
Administrator	Citi HFS
Auditor	PricewaterhouseCoopers

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Further information

Contact your BlackRock Relationship Manager
Email Institutional Client Services: ICS-Australia@blackrock.com
www.blackrock.com.au

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