BlackRock

Q1 2011 | ISSUE 07 | UK
FOR PROFESSIONAL INVESTORS ONLY

Strategic Solutions

A fresh look at UK small and mid-cap stocks

Is this the right time to invest in smaller companies?

Outlook for 2011

Will global markets see a re-run of 2010?

Back to Basics

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Strategic Solutions

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Editor's Letter

Dear Investor,

As we move into 2011, I hope you have enjoyed Strategic Solutions and had success in your investment partnership with BlackRock in the last year. 2010 has seen decent real returns from most major asset classes, despite considerable fragility in peripheral European economies. For 2011 we fear that bad news from that quarter is not completely behind us and it is more realistic to expect market volatility as the refinancing needs of both countries and some banks meet political obstacles. Add this to worries about 'the end of the bull market' in US Treasuries as 'QE2' continues to prove controversial, and fears that the Chinese authorities will crack down hard on possible inflationary pressures, hurting the main global growth engine, and you could be forgiven for feeling somewhat downbeat about investing your clients' assets over the next twelve months. But we urge a more positive stance.

Richard Urwin, in his Global Market Overview for 2011, as well as our other contributors, have identified real grounds for optimism in certain areas of markets. Corporate balance sheets are strong and equities still look fairly cheap; as such there is value in selected equity and corporate bond markets. We detail the outlook for alternative assets, i.e. real estate, absolute return and private equity. And in our cover story this quarter, Richard Plackett takes up the Quarterly Investment Challenge and examines the case for investing in UK small and mid-cap stocks.

As markets begin to recover some of their pre-2008 liquidity and activity, we take another look at one of the most vilified corners of the fixed income arena, securitised assets, and see how the market in these instruments is beginning to work again. And if you buy the longer term global growth story, look again at commodities investing and the insights from the BlackRock Natural Resources team on industrial minerals and metals.

For those seeking diversified fund solutions, we put the spotlight this quarter on Philip Brides and Andy Warwick of BMACS, who showcase the benefits of multi-asset investing. This brings the best of fixed income management, the best of equity management and a great deal of added value from diversification, asset allocation and advanced risk management techniques. It is a great example of the renowned "One BlackRock" culture playing across different investment teams.

In our new section, The Fund Business, we get a bit more technical to bring you some thoughts on our own industry. 2011 will see a huge acceleration in the pace of regulatory announcements, so we give you thoughts from our experts ahead of an avalanche of acronyms, beginning with AIFMD and spanning FATCA, RDR, UCITS IV, UCITS V, MIFIDII and the rest. Plenty more will be written on these subjects, not least by BlackRock, in coming months but this should serve as a useful primer. Last but not least, in our regular Behind the Numbers feature, we spoke to Richard Romer-Lee of OBSR about what manager skills he looks for and how to uncover and exploit them.

So please accept my wishes for a prosperous year and let me know what you think of this publication, or any of our other materials, by email via strategicsolutions@blackrock.com ■

Alex Popplewell

Alex Popplewell
MD, Global Head of Retail Investment Communications

Richard Urwin's Global Market Overview

Richard Urwin outlines his economic and investment views for the year ahead across all asset classes and regions. Richard believes there could be strong parallels with 2010, in particular in the equity and commodity markets. However, the main difference will be in the bond markets where low yields in government bonds represent a significant challenge to return potential. It may still seem difficult to take investment risk in 2011 but it is, however, likely to pay off.

Factbox | **Richard Urwin**
Richard is Head of Investments within BlackRock's Fiduciary Mandate Investment team (FMIT) and chief economist in the BlackRock Multi-Asset Client Solutions group (BMACS).

Progress likely for risk assets and the global economy in 2011

This year is likely to be another positive year for equities and other risk assets, despite significant investor fears over the Eurozone sovereign debt crisis and concerns that a weakening US dollar and euro could harm emerging market growth prospects. The global economy is likely to have expanded by around 5% during 2010 after a slight contraction in 2009. Economic growth should persist through 2011 despite facing a number of headwinds. Growth could also be more balanced with developed economies contributing more to growth as the momentum built up in the second half of 2010 continues.

For instance, growth in Germany, Japan and the UK in recent quarters has averaged between 3% and 4%. The most significant event to affect financial markets in 2010 was arguably the European sovereign debt crisis. This is likely to have a significant influence on markets well into 2011 and beyond, given that southern Europe faces an extended period of retrenchment. However, the demise of the euro is a very low probability event. Further, seemingly inevitable debt rescheduling or default for many Eurozone countries is unlikely in the near term, allowing the banks which are more exposed to such debt time to adjust to any eventual write-downs.

In some respects, 2011 may feel like a re-run of 2010. Equities are likely to grind higher, with emerging markets outperforming modestly rather than spectacularly, partly as a result of currency appreciation.

Inflation risks

For the developed economies, we believe that inflation risk remains low, and 2011 is expected to be a year in which central banks see inflation as too low rather than accelerating. Low inflation does not imply deflation. Indeed, if deflation risk were to rise, so should the degree of monetary stimulus from central banks. Inflation risk in the global economy is biased towards emerging markets, reflecting the radically different economic conditions between emerging and developed countries. While the inflation risk in emerging economies is significant, inflation is unlikely to accelerate substantially. However, further tightening in monetary policy to counter inflation could cause additional appreciation in emerging market currencies in 2011 relative to currencies in developed economies.

Equity market outlook appears positive

There is no sign of irrational exuberance in equity market valuations despite the rally in equities since March 2009. On the contrary, equity multiples towards the end of 2010 appear modestly low by historical standards. Even in emerging markets, where the rally has been more pronounced, multiples are not materially out of line with the longer-term trend. We believe market valuations reflect some concerns about the length and degree of the global economic recovery. In these circumstances, additional returns to risk assets do not require utopian outturns, rather an environment in which challenging news is simply not quite as challenging as expected. Equity returns in 2011 will be heavily dependent on the global cycle. Valuations are not so supportive that equity markets would not fall on material growth disappointments, even if these stop short of recession. In addition, corporate earnings growth could slow from the strong rates of the past year or so.

Overall, advances in valuations are likely to be limited and volatile. Similarly, with a moderately favourable cyclical background, most forms of credit should outperform sovereign bond returns. The low level of bond yields does imply low returns to bonds in the medium term. However, for yields to back up significantly in 2011, one of two conditions would have to apply. Either global growth or inflation picks up enough so that central banks abandon their easy-money policy and raise interest policy rates sharply, or concerns over large and sustained budget deficits increase.

Interest rates in developed economies are expected to be kept low by central banks, implying that the anchor for low long-term yields will persist. We doubt that animal spirits will recover in 2011 even if global savings fall significantly. Hence, the catalyst for significant and sustained increases in bond yields during 2011 appears lacking. This suggests that government bond yields, excluding those in peripheral Eurozone countries, will remain at stretched valuations for an extended period, delivering poor real returns. Given the prospect of such poor returns and heightened risks for much sovereign debt, even very cautious investors may feel pressure to take extra risk.

2011: a re-run of 2010?

In some respects, 2011 may feel like a re-run of 2010. Equities are likely to grind higher – with emerging market equities outperforming modestly rather than spectacularly, partly as a result of currency appreciation in these markets – and commodities could make further gains as supply/demand imbalances persist.

The most marked difference in returns from 2010 could emerge in the sovereign debt market, with the headwind of very low yields. While diversification into corporate bonds and other non-government debt could add value, the scope for material spread narrowing is more limited. In short, 2011 could be another year where many investors find it difficult to take investment risk. It is, however, likely to pay off.

BMACS Strategic Preferences

Asset classes[1]

- ⊕ *Equities*
- ⊗ *Non-government bonds*
- ⊖ *Cash*
- ⊗ *Government bonds*

Equity regions

- ⊗ *Developed Asia Pacific*[2]
- ⊕ *Emerging Markets*[3]
- ⊕ *US*
- ⊖ *Europe ex UK*
- ⊖ *Japan*
- ⊗ *UK*

Equity sectors

- ⊕ *Energy*
- ⊕ *Healthcare/Pharmaceuticals*
- ⊕ *Information Technology*
- ⊗ *Consumer Discretionary*
- ⊗ *Consumer Staples*
- ⊖ *Industrials*
- ⊗ *Materials*
- ⊗ *Telecommunications*
- ⊗ *Utilities*
- ⊖ *Financials*

Key

- ⊕ *Positive*
- ⊗ *Neutral*
- ⊖ *Negative*

For more information about these funds please see blackrock.co.uk

Equities

Overall, we have a positive view on equities, biased toward high-quality, high income global equities with particularly bullish views on North America, Latin America and emerging Europe. As many investors need income against a backdrop of steady but reasonable growth, we believe that income equities look to be very good value.

Although we are cautious towards Europe and expect a low beta environment, we feel it likely that volatility will allow fund managers to generate significant alpha. In Asia, though we have a negative view on Japan, we believe there is opportunity to pick up significant alpha in Taiwan and Korea. Funds such as, BlackRock European Dynamic Fund, BlackRock Continental European Fund, BlackRock Latin American Investment Trust and BlackRock European Trust aim to exploit these opportunities.

From a sector standpoint, we have a positive view on energy, healthcare and technology and a more cautious stance on financials and industrials. One of our funds that is taking advantage of these opportunities is BlackRock New Energy Investment Trust.

Bonds

We take a neutral stance on bonds, though the best opportunities we see are in investment grade credit, high yield and local emerging market debt. We are also somewhat interested in European securitised products, especially in downgraded or unrated assets. We have a negative view on European government bonds. An example of one of our funds which maximises yields is BlackRock Corporate Bond Fund.

Cash

Overall, we take a negative stance on cash, with particularly bearish currency views on the euro and the yen. That said, we see relative strength in the US and Canadian dollars.

Commodities

As commodities look set for further appreciation, we are bullish on these assets. The backdrop for gold is positive as a hedge against governments debasing paper currencies.

Opportunities in industrial metals are strong, based on the build out of developing economies and we also believe that agricultural commodities will be positive for farmers' incomes in the short term. The BlackRock World Mining Trust is well placed to take advantage of these positive trends.

[1] As at 31 December 2010.
[2] Developed Asia Pacific region includes Australia, Hong Kong, Korea, Singapore, New Zealand and Taiwan.
[3] Emerging markets is split Asia, Emerging Europe and Latin America.
[4] Source: CB Richard Ellis.

Outlook for Alternative Investing

Against a global economic forecast of modest growth with markets susceptible to volatility as sentiment switches from risk-on to risk-off, we ask BlackRock's Absolute Return (Fund of Hedge Funds), Private Equity, Real Estate teams and the BMACS group about the outlook for alternatives in 2011.

Absolute Return (Fund of Hedge Funds)

A primary theme for investors remains the conflict between the cyclical tailwinds of broadly accommodative fiscal and monetary policies and the secular headwinds of ongoing deleveraging and rising budget deficits. Headline events resulting from European financial difficulties, the economic health of Asia, the impact of increased regulation, legislation and other developments yet to arise will continue to drive markets over shorter periods. With all eyes on the health of the recovery, economic headlines have been played out in large market swings. In this environment, many hedge fund managers have placed a greater emphasis on capital preservation and risk management. However, they continue to balance this conservatism by taking advantage of market volatility. There are attractive opportunities in a number of market segments, particularly in areas exhibiting strong supply/demand imbalances. Also, small and medium-sized businesses are seeking capital after traditional lenders have retreated from the market. Skilled hedge fund managers are particularly well-positioned to help bridge this funding gap. Dislocations in the credit market will offer opportunities for credit strategies and the expected increase in M&A activity could benefit merger arbitrage specialists.

Private Equity

The current environment contains many factors which will continue to be positive for private equity investing. The large amount of cash on corporate balance sheets will provide ample opportunity for M&A activity. This will benefit the industry as firms exit existing positions and distribute long awaited returns to existing investors. With increasing regulation for financial services companies in the US and Europe, we are beginning to witness disaggregation in the sector. Private equity general partners (GPs) are eager to take advantage of this opportunity to expand into the financial services sector.

Against the forecast of modest growth in the medium-term in developed countries, GPs are exploring two strategies: investing in sectors which are expected to outperform the broader market (such as healthcare) and purchasing carveouts of distressed businesses. Emerging markets are providing great scope for private equity investment with higher economic growth rates and strong fundamentals, such as growing middles classes and rapid urbanisation and innovation. Emerging economies are also increasingly the host of IPO activity; in 2010 Chinese companies contributed 27% of deal volume in the US.

This increases the scope for GPs to make realisations and so makes the area even more attractive. Venture capitalists are investing more capital in first-time deals compared to follow-on rounds, signalling confidence in today's entrepreneurs. This area of the market tends to benefit from game-changing technology and there are currently huge advances in many fields. These projects often need less debt financing and can produce exciting returns.

Real Estate

On a global basis, property yields remain attractive relative to government bonds, however, with many developed market economies showing continued signs of fragility, together with widespread government austerity packages leading to a potential reduction in demand for government-leased space, the scope for sustainable rental growth remains a challenge in the short term. The main risk to real estate is rising bond yields, which will in turn squeeze the risk premium currently offered by real estate yields. While real estate is currently attractive in comparison to bonds, it is not compellingly cheap in its own right.

In European commercial real estate, the quality of assets and markets, rather than the specific sector, will drive performance over the next three years. As a result, larger, mature markets with more transparency and liquidity are expected to outperform. High quality, well-leased assets in the best central locations have seen a much more aggressive pricing recovery, while lower quality assets in secondary markets remain under pressure. Transaction levels have improved in recent quarters, but these are based off extremely low levels witnessed in 2009.

The significant volume of debt requiring refinancing continues to overhang the industry. In Europe this is estimated at €1tn with 40% considered 'troubled'.[4] In the UK, relatively few properties were refinanced or brought to market by the banks in 2008-2010 as they continued to 'extend and pretend' loans that had breached their covenants. We expect increased activity from banks in 2011, with prime properties in strong locations most likely to attract refinancing terms, and weaker quality property likely to be put up for sale. Many of the traditional lenders, such as RBS, HBOS and Lloyds are no longer in a position to provide significant funds for refinancing, which is creating opportunities for alternative lenders to come to the market. A number of real estate debt funds are currently being launched to capitalise on this opportunity.

In the US, commercial real estate total returns are improving, driven by the attractive yields on offer. Nonetheless, real net operating income (NOI) growth is not expected until 2013. Within the US housing sector, prices are more likely to go down than appreciate in the short term, but a more meaningful recovery will probably take place later in 2011 and into 2012. This is contrasted by the apartment sector which is currently witnessing a healthy recovery, posting the strongest NOI growth of all major property types over the 12 months to end Q3 2010. Apartments are expected to continue to outperform other sectors on a risk-adjusted basis in the near term. ■

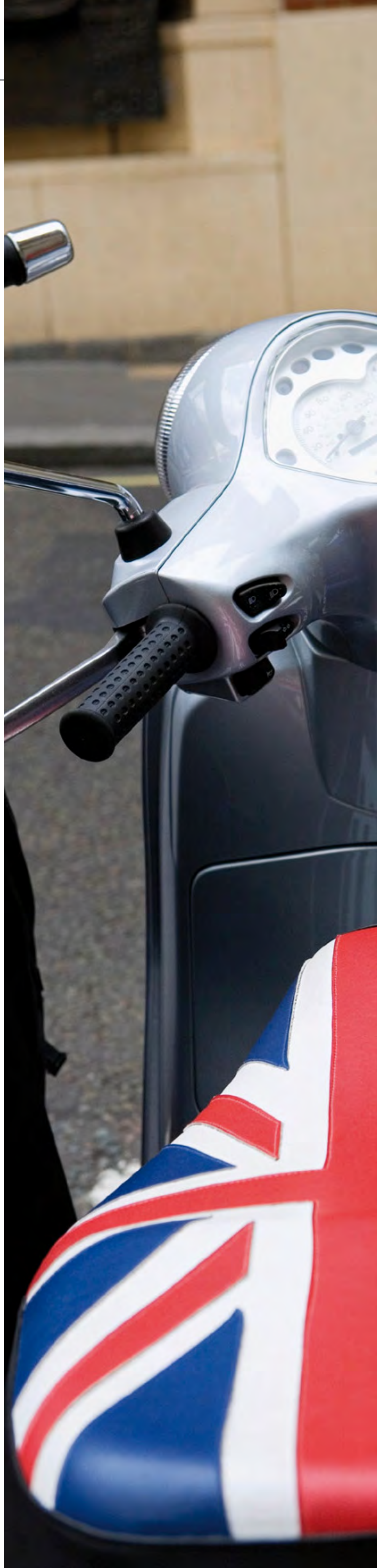
Product Signpost

BlackRock UK Special Situations Fund
BlackRock UK Smaller Companies Fund
BlackRock Smaller Companies Trust plc
The Throgmorton Trust PLC

Quarterly Investment Challenge

Is now a good time to explore small and mid-cap UK stock opportunities?

Factbox | **Richard Plackett**
Citywire AAA rated, head of BlackRock's UK Small /Mid Cap team and portfolio manager of the BlackRock UK Special Situations Fund, with over 20 years' investment experience, suggests that investors seeking enhanced returns within the current economic recovery should look to small and mid-cap companies with exposure to emerging markets.



Since 1955, the HGSC Total Return Index of smaller companies has outperformed the broader FTSE All Share Index by an average of more than 3% per annum. Global economic conditions are creating some significant opportunities in companies that are exposed to some of the fastest growing economies in the world. Many high quality UK small and mid-cap stocks are significantly exposed to developing economies, rather than just to their domestic market, and are expanding by exploiting consumer and industrial demand in countries such as China and India.

Economic backdrop

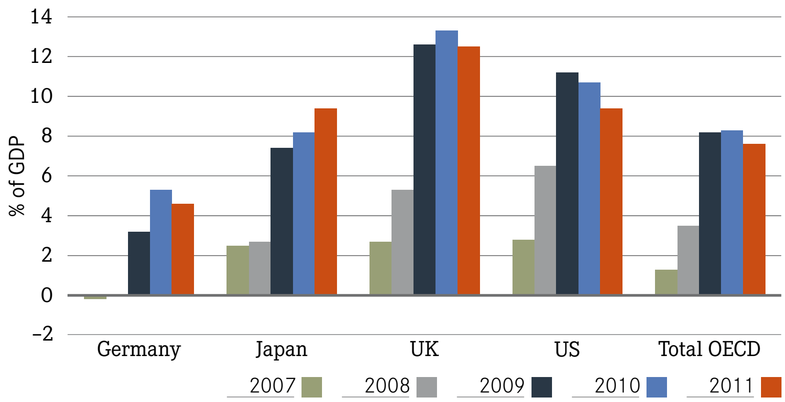
The global economy is in a state of flux at the moment. It is clear that while many markets enjoyed a synchronised recovery in 2009, different parts of the world are now in very different positions, which is likely to lead to more strongly diverse results in the future.

In the developed world, the economic outlook is constrained by the need to deleverage after significant increases in government expenditures to support economies during the credit crunch. The UK, in particular, is one of the worst offenders in terms of increased government debt, leaving the new coalition government struggling in attempts to bring the country's debt under control, and with most of the fiscal tightening set to occur between 2011 and 2015.

In addition to government debt, UK consumers also have a high level of debt relative to income by historic standards, with the ratio, having peaked just before the credit crunch at approximately 160% of income, still remaining at very high levels. The overall impact on consumer expenditure has been cushioned by reducing or low interest rates, but now interest rates can fall no further. While consumer expenditure has not collapsed, it will need to grow significantly below the overall level of GDP, for an extended period, if the level of consumer debt is to fall back to historic averages.

Meanwhile, the preliminary estimate for UK GDP for Q4 2010 showed the economy contracting by 0.5% quarter-on-quarter, which the ONS pointed out would have flatlined without the poor weather disruption in December. This, in conjunction with December CPI inflation well above the Bank of England's 2% target at 3.7%, paint a weak picture for the UK economy.

Government debt has spiralled higher

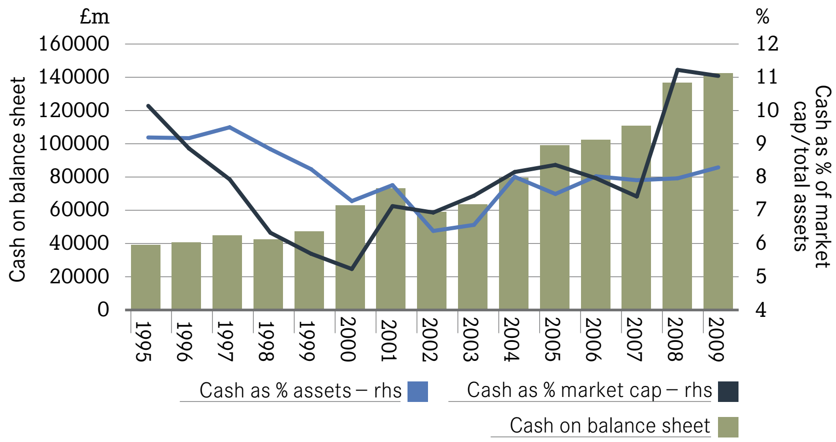


Source: BlackRock

Strong company balance sheets

The consumer and the government do not paint the whole picture of the UK economy, however, as businesses have very strong balance sheets. They have been constraining capital expenditures as a result of lack of confidence in the economy, but have significant scope to increase expenditure from present levels as confidence returns, e.g. via fixed asset investment, advertising and marketing spend and, failing that, mergers and acquisitions, with big companies buying smaller ones.

Corporate balance sheets have strengthened



Source: Datastream. Morgan Stanley. As at 31 March 2010.
MIRAS (Mortgage Interest Relief At Source), FISIM (Financial Intermediation Services Indirectly Measured).

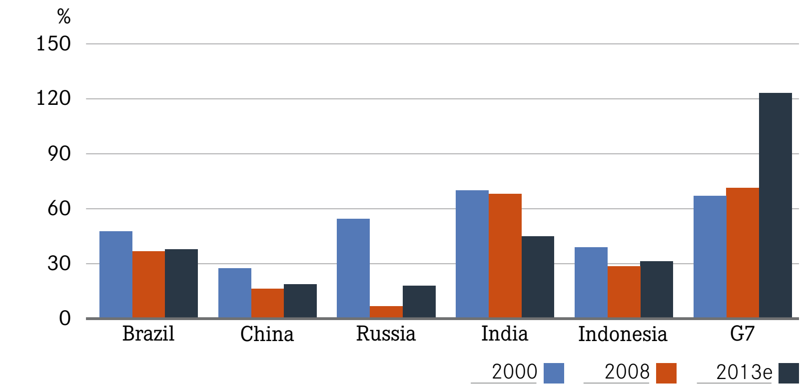
Looking for growth in developing economies

Beyond the developed world there is a strong story of economic growth. Some may question whether the growth in emerging markets will continue, but we believe it will. Debt levels are much less than in the developed world, both at the consumer and government levels.

Many developing economies also have a rapidly growing working population and, as education takes hold, this is turning into a new generation of consumers with rising incomes in the middle classes, increasing the growth potential and raising the likelihood of domestic demand becoming a driver of economic growth. As a result of these factors, we think it unlikely that there will be any 'double dip' into economic recession on a global basis, with any evidence of such a scenario more likely to occur on an isolated basis, particularly within weaker and more indebted economies.

Our conclusion is to ensure that our portfolios obtain exposure to developing world markets even when stock picking UK small and mid-cap companies.

Net Debt as a percentage of GDP



Source: Datastream. Morgan Stanley. As at 31 March 2010.
MIRAS (Mortgage Interest Relief At Source), FISIM (Financial Intermediation Services Indirectly Measured).

Why look to the UK stock market if we anticipate slower UK economic growth?

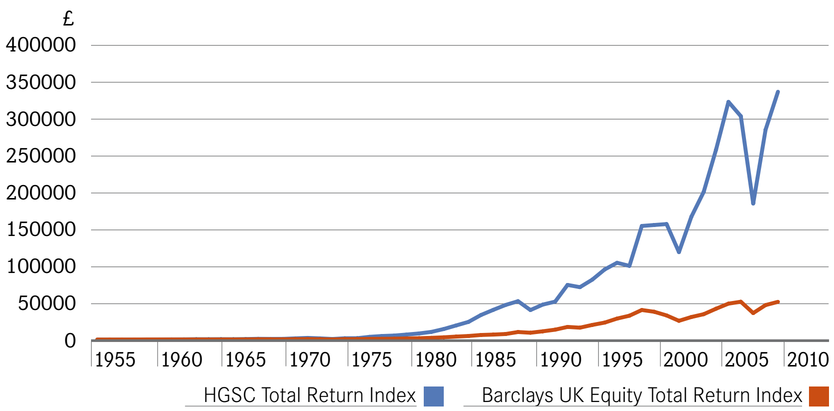
With the source of around 70% of UK corporate earnings derived from overseas markets, UK equity investors really are in a position to access the global economic backdrop, rather than only the domestic UK scene. In fact, looking closely at the companies listed on the UK stock market, you will note that the range of UK consumer facing and UK interest-rate sensitive sectors are generally in the minority.

Another strong positive for UK equities is that valuations currently remain low both in absolute terms, relative to history, and in relation to bonds, where dividend yields in the UK are now higher than government bonds over 15 years. This has traditionally been an extremely powerful bull market predictor. As such, if you can identify shares of companies that are exposed to pockets of growth, these shares should go up at least with earnings growth from current low levels of valuation. It is our belief that one is more likely to find these opportunities in the small and mid-cap arena.

Long-term outperformance of smaller company shares

Since 1955, the HGSC Total Return Index of smaller UK companies has outperformed the broader FTSE All Share Index by an average of more than 3% per annum. This is largely a result of the higher growth prospects inherent with immature companies, which itself is simply a law of large numbers: a company that already has a thousand customers has to add 100 more to grow at 10%, while a company with 10 has to add just one. It is therefore very hard for large companies to sustain double-digit growth rates and so valuations must be very exciting if investors are to achieve good returns. Sometimes, they are.

Value of £100 invested on 31 December 1955



As at 31 October 2010. Source: Barclays Equity Guilt Study
(to 31/12/2002 data continued with FTSE All-share to 31/12/2009), Datastream.

More recent smaller cap outperformance

We've seen a recovery in small-cap performance more recently, in 2009 for example, when the catalyst was a vastly improving risk appetite after a tumultuous year in 2008. This was something of a blanket recovery, however, where both low and high-quality small-cap stocks outperformed. In 2010, in contrast, small and mid-cap companies also saw stronger performance but, this time, investors had become more selective and positioned themselves higher up the quality curve. In a world where recovery is highly differentiated by industry and geography, we expect this focus on 'growth investing' to continue.

Another positive factor has been a tailwind from corporate activity, with large companies (which have access to debt markets and large cash balances) interested in M&A activity. The latter has also been compounded by a weak sterling, rendering UK assets attractive to dollar-based investors, characterised by takeover activity helping the performance of stocks such as Chloride and Dana Petroleum.

How to identify the right smaller companies

We implement a bottom-up stock selection approach and there are several points to bear in mind when it comes to identifying the right smaller companies to invest in. In the current environment, for example, we feel it is important to ignore benchmarks. While there will be a significant slowdown in domestic growth characteristics in the UK market there are opportunities to invest in stocks which have the vast majority of their turnover outside the UK. Indeed, these are already starting to see recognition. For example, Aggreko and Weir have joined the FTSE 100 index.

With a longer-term perspective, there are clear characteristics which do not change very much in our methodology for identifying high quality growth companies. To implement this we place a huge emphasis on meeting company managements. Fortunately, our experienced and well-resourced team enables us to meet literally hundreds of company managements each year in what we see as a key competitive advantage. Once our targets have been established, the search for the right companies continues with a hunt for five key characteristics (see next page).

In practice, our investment decisions are taken over months and years, not days, with many of the companies featured in our portfolios the same names that were adding value to our portfolios five years ago. Uniquely, when small and mid-cap stocks have positive fundamentals, they can carry on their outperformance for a surprising length of time, making the transition all the way from the small-cap index to the FTSE 100, as Aggreko and Weir have shown within our portfolio.

Opportunities in the current market environment

With the outlook for global economic prospects appearing better than those of the UK, we have structured our portfolios to be invested principally in companies that are exposed to international earnings, therefore benefiting from the recovery in global GDP and weak sterling levels. Global growth is likely to be much stronger than that of the UK, primarily driven by the emerging markets, which will benefit stocks primarily within the industrials and technology sectors. We believe that the current positioning of our Fund is well structured to take advantage of these trends and we are positive on the outlook.

key criteria for selecting stocks

If these five criteria for investment seem tough, that is because they are. Targets that meet the grade are hard to find but an investor of UK listed mid-cap and smaller companies has a large universe to research and we, as fund managers, generally have a goal of finding the best 50–60 stocks.

Management skills

The first area that we examine is the company's management team and the culture they embrace, we believe that senior management plays a crucial role in shaping the company. In terms of management skills, we look at a combination of salesmanship, control and strategic clarity. A management team must be able to show that they know what the company is good at and stick to it, as divergence from the core business often results in failure. To this end, our initial interrogations are frequently followed up by a visit to the company's own headquarters so we can experience this first hand.

Barriers to entry

We also look to identify barriers to entry that will set the company aside from its competitors. Such barriers enable a company to sustain premium rates of return and grow strongly within protected niches. Examples of barriers to entry can include product (such as in the case of niche industrials and software companies), brand (in the case of publishers and retailers), long-term contracts (as in the case of outsourcing) and ownership of key people (for example in consultancies).

Cash generation

We then look at the company's cash generation, firstly to prove that earnings numbers are real and, secondly, to ensure that the company can sustain its own growth. History confirms that many of the real disasters in the UK stock market have occurred in companies that have consistently failed to generate cash. Therefore, concentrating on cash-generative companies helps investors to avoid such failures.

An attractive track record

Of course we also look at the track record of the businesses that we are targeting. BlackRock try to find small and mid-cap companies that have prospered over the longer term but which have also shown evidence of good short-term trading.

A strong balance sheet

This is very important because it gives companies significant strength. In addition, if a company with a strong balance sheet spots a potential acquisition, it also means they can make a move without having to raise any equity. Furthermore, a strong balance sheet means that a company has plenty of time to put things right if problems are encountered. ■

Product Signpost

BlackRock Balanced Income Portfolio Fund
BlackRock Balanced Growth Portfolio Fund
BlackRock Active Managed Portfolio Fund
BlackRock Cautious Portfolio Fund

Multi-Asset Investing:
a conversation with Philip Brides and Andy Warwick

"Diversification is the only free lunch in investing" is a well-worn phrase. Multi-asset funds are the easiest route to proper diversification, as they invest in a host of different asset classes from equities and fixed income to commodities. Multi-asset investing is growing significantly in popularity, so we sat down with Philip Brides and Andy Warwick, fund managers of the Balanced Income Portfolio Fund (a BlackRock Multi-Asset Portfolio Fund) to learn how the strategy works.

Factbox | **Philip Brides**
Philip Brides, CFA, CAIA, is a member of BlackRock's Multi-Asset Client Solutions (BMACS) group, which is responsible for investment solutions involving multiple strategies and asset classes. He is a portfolio manager involved in relative return and dynamic diversified growth mandates.

Factbox | **Andrew Warwick**
Andrew Warwick, CFA, is a portfolio manager involved in BlackRock's relative return and liability driven investment mandates. Furthermore, he is also responsible for derivative implementation and structured product strategies for the BMACS group.

What is the case for multi-asset investing?

Philip Brides: Markets are unpredictable. Even the most experienced investment professionals are often unable to predict exactly where the markets are heading. What they do know, however, is that there is often a cyclical nature to these movements. Market rotation occurs on many levels, not just among the major asset classes. Diversifying across multiple assets and their subclasses can help capture market upside and also aim to better mitigate against the downside.

Andy Warwick: Multi-asset investing can enable investors to take advantage of the wide range of assets available. For example, an equity portfolio can diversify through broad exposure to various sectors, geographies and companies of differing size, as well as stocks with exposure to currency fluctuations, political policies and the demands of other markets. In the fixed income market, diversification can be achieved by varying a portfolio's duration, yield, geography and debt rating level. A similar array of possibilities exists within alternatives, commodities and cash.

How can a multi-asset portfolio affect fund returns?

Philip Brides: Each asset class exhibits differing risk and return characteristics over various time periods. Therefore, spreading investments among a range of asset categories allows for more consistent performance under a variety of economic backdrops. If small-cap stocks perform poorly over a period, losses may be offset by gains in shares of larger, more established companies, and vice versa.

Likewise, in a period of weakening global equity markets, exposure to bonds and/or cash could mitigate declines within your portfolio. Over time, a well-diversified investment portfolio allows investors to take advantage of gains in strong-performing asset classes and reduce the negative impact of underperformers. This lessens the portfolio's overall risk exposure, providing more stable, returns. In addition, a more flexible portfolio can take advantage of any uptrend within any of the global markets.

This is a very exciting prospect, although it is not surprising that the process of seeking out the best investment opportunities within this vast universe can be challenging. Therefore, allocating to a professionally run multi-asset portfolio fund can provide the benefits of diversification without the time consuming necessity of picking the best baskets for your eggs.

What are some of the challenges of running a multi-asset portfolio?

Philip Brides: I spend a reasonable amount of my time ensuring that our fund is efficient with its capital. Situations such as the one at the moment – where cash yields are so low – are particularly challenging. It is important not to sit on cash with long futures against it, because income generation becomes difficult under those circumstances. In that event, capital returns and total returns are generated, but there is hardly any income, which is our mandate.

Some other income funds in the market place that use options to generate incremental income can tend to take a lot of 'tail risk'. By tail risk, we mean there are events that are unlikely to occur, but if they did, it could hurt the portfolio. A lot of fund managers tend to sell out of the money options to generate incremental income and many do this in quite a passive or uncritical way. We think active management is very important to avoid significant extreme events.

Andy Warwick: Picking the best ideas and making sure the risk is managed properly are the two greatest challenges to multi-asset investing. There are so many ideas out there. In the multi-asset space, the world is your oyster. We can pick and choose to invest in different asset classes in a number of regions, but also have the freedom to give a particular asset class a miss if we feel it isn't going to deliver the right returns.

Although there is no shortage of ideas, the key is to pick the right ones and blend them into a balanced portfolio strategy. Anyone can buy a whole load of commodities, for example, but clearly that is going to be an incredibly volatile investment. Investors must ensure that their expected returns match the amount of risk they are willing to take.

Where do you see the multi-asset space going in the future?

Andy Warwick: We have already seen huge interest over the past two years and we anticipate more. The losses of 2008 were a distressing wake-up call for a lot of fund managers and their retail clients. The volatility since then has made it much more difficult to call the market. Multi-asset products are core products. Many retail investors try to time their allocations between equity and bond managers, which is very difficult at the moment. We are therefore seeing a lot of financial advisors allocating to multi-asset funds. This way, firms such as BlackRock can manage the market volatility for them, through multi-asset funds.

What are some of the main themes for 2011?

Philip Brides: Equity income will remain key for 2011 as the search for yield continues. The US recovery is likely to become more secure in 2011, aiding developed market equities against emerging markets. And with bond yields relatively low compared to historical levels, there is not much cushion against negative surprises in this market. ■

Product Signpost
BlackRock Corporate Bond Fund

Rehabilitation of the 'Doomsday Machine'?

Now is the time to go back into asset backed securities

As government bond yields hit historic lows, investors are increasingly chasing yield, pushing some to re-evaluate higher yield fixed income securities including ABS. But after the asset class's sensational failure, many ask: is it ever going to be time to go back into asset-backed securities? We think it is...

Asset class background and context

Securitised assets (sometimes labelled 'collateralised debt obligations', or CDOs) were saddled with much of the opprobrium during the fallout from the financial crash of 2008. Many investors purchasing asset-backed securities (ABS) were largely unaware or misinformed of the type and quality of asset they were buying. Despite their apparently secure AAA rating, many of these products contained slices of credit from poorly underwritten US subprime mortgages. Billions of dollars were lost as US homeowners defaulted, pulling the securitisation market – and the banks who held so much of this paper on their balance sheets – down with it.

Securitisation: why it works and what it can do

The goal of securitisation is to lower the cost and increase the availability of safe credit for consumers and businesses. It also serves as a standard and consistent method for packaging fixed income receivables. The process generally takes a variety of different types of receivables (such as mortgage payments, car loan payments, credit card receivables) and packages them into simple, standard structures resembling bonds which can be sold to investors. This reduces the need for the banks originating loans to hold regulatory capital and improves the liquidity of banks' loan pools. Furthermore, these loans have specific payment timing and collateral security so can be structured to provide a customised cashflow to the investor from a large set of hetergenous loans.

Securitisation provides a mechanism for segmenting the risk of lower-rated pools of loans to create a spectrum of safer or less secure cash flows for investors with different risk appetites to accumulate. As a mechanism for unbundling risk, securitisation can be dangerous to investors if the regulators and rating agencies do not understand the collateral being securitised. Assets assigned the highest ratings have, in some cases, returned little or no principal to investors. Intended originally as a mechanism for constructing standardised, easy to evaluate securities, securitisation techniques may also be used to produce opaque, complex instruments. As witnessed in the credit crisis, it is possible that parties involved are not vigilant enough or do not have sufficient information or systems to understand fully the risks embedded in these products.

Securitisation post-crash

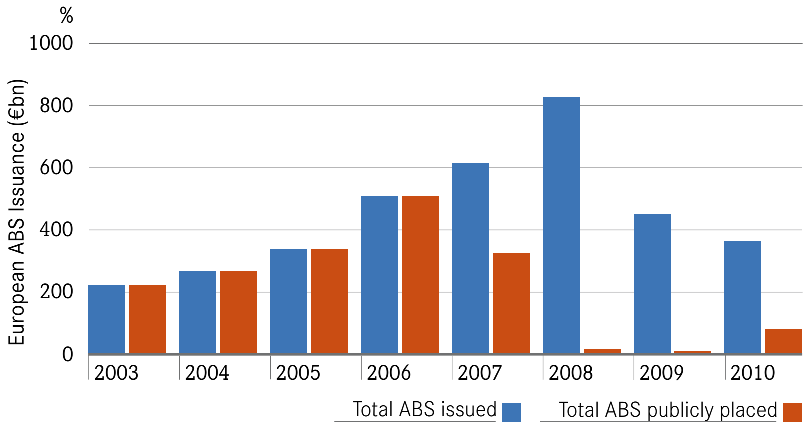
Since 2008, the securitised asset market has undergone a variety of changes. Spreads widened materially in early 2008 and markets became very illiquid. Securitised transaction volume was low and the transactions that did occur took place at prices that were much wider than normal levels (e.g. 100bp rather than 10bp over Libor).

The ABS markets did not re-price until the summer after the Lehman Brothers collapse. Even then, there was still only a trickle of transaction volume and massive price movements, especially for the more junior (i.e higher risk) pieces. As 2009 drew to an end, the environment was such that it seemed there was no bid for mezzanine paper; prices fell off and continued falling by the month. Although they remain wider than 2007 levels, spreads have narrowed significantly since 2009, causing some investors to dip back into ABS as a higher-yielding source of income.

In the first quarter of 2009, prices bottomed out as new investors realised they could generate supernormal returns by exploiting distressed asset prices. As these players discovered multiple opportunities, capital subsequently became available for securitised products. Since then, the markets have generally improved. Bids are now much higher, there is much more liquidity, much more participation and a lot of new funds set up to take advantage of the value in the market. This shift has corrected the idea that securitised products are toxic. Investors are realising that the assets are reasonable quality, and that the underlying portfolios performed really well through the crisis.

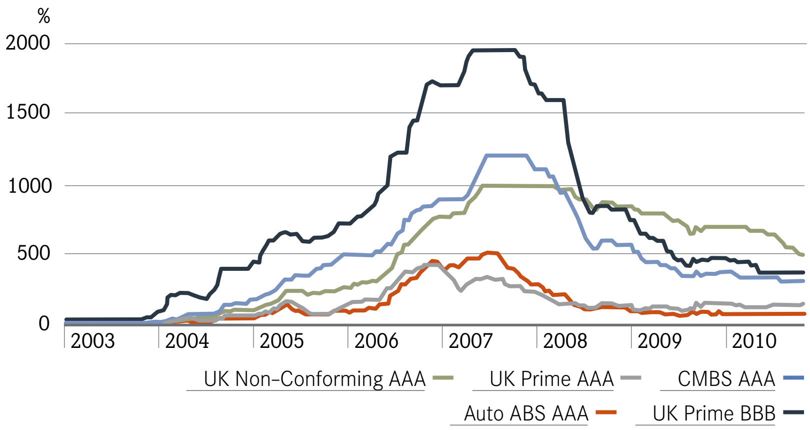
Publicly-placed asset-backed security issuance is on the increase once again after significant paring in 2008 and 2009

Asset Backed Securities Issued in Europe since 2003



Source: J.P. Morgan European ABS and CB research

Spreads since 2003



Source: J.P. Morgan European ABS and CB research

The cashflows are strong and confidence has improved. Securitisation markets are expected to remain fairly volatile. There will be continued demand for the higher yielding sectors, such as commercial mortgage-backed securities (CMBS) and this is where we see the most value.

Outlook and upcoming changes

Despite an improving environment in the ABS market, changes need to be introduced if investor confidence is to be sustained. A problem revealed by the credit crunch was that investors had purchased what they believed to be AAA-rated credit, when in fact the assets underlying those securitised instruments were not high-quality material. The technique of securitisation should not be held fully accountable for abuse and lack of credit analysis diligence. Ultimately, we need to rethink how credit is rated and how the quality of the assets underlying that credit is disclosed to investors.

Ratings reborn

The financial crisis revealed the extent of investor ignorance about the underlying constituents, the transaction documents or deal details of an ABS. Instead, they bought a rating, figuring that AAA would always be 'money-good'. In many cases, the label 'AAA' was co-opted to represent something that was far removed from traditional sovereign or corporate AAA bonds in terms of risk.

So how can the industry solve this? Ratings are an integral piece of the investment community; they serve as risk sign-posts for individual investors, but provide part of asset allocation guidelines for portfolio management and insurance firms. Ratings agencies are working to redesign their models to prevent repeating their mistakes. However, this is a challenging process. When a securitised asset pool encounters a problem threshold, a trigger mechanism activates and the security is downgraded. If problems persist, the security continues to downgrade. This trigger mechanism doesn't help banks, particularly highly leveraged ones reliant on wholesale funding.

If an investment bank is suddenly no longer investment grade, it is also rapidly insolvent and the game is up, as with Bear Stearns and Lehman Brothers.

The agencies have been struggling with how to deal with this problem. One interesting proposal suggests the elimination of credit ratings from fund guidelines. Instead, funds would conduct their own internal ratings, but this would challenge smaller players and would possibly reduce liquidity. Although many of the major players want to be less dependent on ratings, it is difficult to see how an institution can assign an impartial rating if it is not a third party – and therefore a ratings agency. Overall, new ratings have been more conservative and stress tests have become more severe. Credit enhancement from new issue deals has also been much stronger.

Another proposal would see different ratings board members take turns rating various securitised transactions. This could jeopardise the quality of ratings as different board members might assign different credit support levels to the same transactions. A potentially better method might see compulsory ratings offered by all members of that ratings board in order to give better information to investors with potentially different views on the same collateral. This process would also eliminate the time-honoured process of 'ratings shopping' – whereby various corporations and transactions look for the best rating from a variety of different agencies.

Transparency

Enabling further disclosure about securitised assets is necessary to improve perceptions. Although it is essential to keep the 'inside' information relating to a corporate rating confidential, that standard is not universally applicable to securitised assets. Therefore, any information received by ratings agencies during the rating process should be disclosed to investors.

Ideally, the industry would move toward a standardised disclosure process for each type of collateral in the initial pool of assets. The issuers or servicers of that asset pool would then update information on the loan over the life of the transaction. Investors need to know the contents and the credit quality collateral pool in order to make sound investments.

Once a uniform set of disclosures relating to the performance of underlying collateral is agreed upon, the information should be made frequently available to an independent, central repository. Although that entity does not exist today, it could in theory be commercially established, given the marked interest of investors on receiving this information on a timely basis. Although it may take some time, the blue print for future development of a sound securitisation market is pretty clear at this point.

Conclusion

Overall, it is a good time to be evaluating securitised credit assets. Generally, loan origination is focused on extremely high-quality loans, rating agencies are onerous with regard to the credit enhancement demands, reporting and compliance are improving considerably and investors have more power than they have had in many years to exert influence to make their securitised assets safer and more transparent. With so much focus on how deals were constructed in 2007 and 2008, the current crop of deals are returning to using the safest structures with some of the highest quality collateral ever produced.

Securitisation is an important mechanism for credit creation, credit efficiency and risk distribution. It has a very real effect on the health of the economy. There is also a considerable incentive to see level-headed securitisation and proper collateralised lending come back on track as banks seek to deleverage and improve credit quality while improving capital adequacy. These problems are soluble and a simpler, more transparent market with lower leverage and better alignment of interests and better oversight is currently being constructed.

Once rationalised and better-regulated, securitised assets become materially less risky for investors. Controlling the quality of the loans, more appropriate risk retention and limits to the introduction of leverage without investor knowledge all help. In addition, some regulation regarding consistent and transparent reporting will allow investors to analyse their securities and efficiently recognise potential performance problems.

Finally, eliminating various conflicts of interest is important to restrict servicer behaviour over delinquent loans. Rationalising cashflow triggers should also help securitisation return to its roots as a fundamental credit investment for serious investors. ■

Product Signpost

BlackRock Gold & General Fund
BlackRock World Mining Trust plc

Back to Basics

Investing in industrial and precious metals and bulk commodities

As economic activity picks up from the 2009 lows, so attention has switched to the supply and demand balance, and thus the pricing and investment outlook, for the more basic of industrial commodities such as coking coal, iron ore and copper, as well as for the precious metals. Supply constraint and improving cashflows paint a rosy picture, but we stress the need for selectivity, both at the industry and stock level.

It is difficult to deny that the strength and growth of emerging economies is an important factor in future demand for commodities. Before 1870, China and India were often key drivers of world GDP, accounting for more than 40% over sustained periods of time. Our expectation is that the current level of close to 20% is likely to rebound over the long-term as these economies grow.

This is important for commodity investors as long-term trends and demographics will drive demand. We believe that the ability to identify the commodities which these economies will need, and accordingly be aware of those which they will have in abundance and can export to the rest of the world, will be crucial. As the global recovery continues, we expect to see overall improving economic activity and commodity demand from both the developed and emerging world and as demand increases, so too do pressures on mining and production.

While gold took the spotlight in 2010 in terms of media attention, there have been interesting moves in other metals, most notably in copper, which looks set to steal some of the limelight. The sustained pick-up in industrial activity led to significant increases in silver and copper prices in 2010, with gains of 80.3%[1] and 31.4%[1] respectively. Since the financial crisis, some metals have been able to increase supply as demand has recovered. This has capped price appreciation; aluminium is a case in point.

Other commodities have struggled to raise output, with copper being a standout in its inability to bring on new supply. The challenges facing supply seem to be structural and look as if they may be set to persist for a long time. This will benefit companies with existing copper production and support a rising price for the red metal. Tom Holl, Portfolio Manager, BlackRock Natural Resources Team, recently visited four mines in South America to improve our insight into copper production today.

[1]Source: Datastream 31 December 2010

Industrial metals

Demand is increasing, but can production keep up?

The most pressing challenge facing copper producers is the shortage of new discoveries of high-quality orebodies. The 'grade' of a deposit is the percentage of copper contained in the ore; the lower the grade, the more tonnes of rock which need to be processed to produce a tonne of copper. As demand continues to increase and the existing above – average grade deposits shrink, miners will have to extract lower grade material. There are two outcomes from this, either copper production will fall, or it will require investment in additional processing capacity to sustain current rates.

In 2009, 74% of copper was mined in open pits. However, as higher-grade deposits become increasingly hard to find and existing pits are exhausted, there will be an increase in underground copper mining. Rio Tinto forecast that by 2025, only 60% of all copper production will take place in open pits. Underground mining is often more challenging as it is harder to exploit economies of scale in the movement of ore and the capital requirements tend to be higher.

The impact on supply could be accentuated by the location of development assets. Some of the most promising new deposits are in non-OECD countries which can be subject to political instabilities. For example, the Democratic Republic of Congo (DRC) is copper rich, but the unstable political environment casts doubt over ownership rights. As a result, producers will look for a higher rate of return for incurring the additional risk, compared to a country with a less volatile political situation.

Rio Tinto forecast that in the next 15 years there will be an 8% drop in production capacity in low risk regions. Chile produces close to 35% of the world's copper, so any regional idiosyncratic issues here will have wide ramifications. The greatest challenge for copper mining in Chile is a shortage of water, as many of the deposits are in the Atacama Desert where fresh water is at a premium. It is increasingly difficult for mining operations to secure a constant water supply for new or growing operations.

One solution is the desalination of piped seawater. However, these processes are costly and require up-front capital expenditure to set up the plants. This type of investment would only be incentivised by a higher return on copper. Esperanza, a new copper mine being developed by Antofagasta is tackling the water challenge by building a process plant which uses seawater.

Against this strained outlook for supply, industrial demand for copper improved throughout 2010 and will probably continue to do so. Demand remains robust because copper is a key component in electrical infrastructure as well as consumer durables and there is potential incremental demand from financial markets through physically backed ETFs. There will probably be strong upward price pressures as deficits emerge and (already low) inventories are drawn down.

There is some risk that too rapid a price rise could lead to demand destruction; however, we believe the degree to which copper can be substituted with other metals is limited. Inventory levels and spare capacity for both zinc and aluminium are higher than copper and the red metal is expected to outperform both.

Nonetheless, the high energy needs in producing aluminium should provide some support to its price. There are plans for new production of nickel, scheduled to come into the fore over the coming 12-18 months.

Precious metals

Golden highs and silver linings, but car sales could drive platinum prices

The uncertainty surrounding the global recovery continues to help the investment case for gold. The yellow metal hit the headlines throughout 2010 with the price of bullion repeatedly breaking record highs. There are many factors supporting the demand for gold as the official sector was a net buyer in 2010, jewellery demand is rising especially in China, ETFs are increasingly popular, there is weakness in major currencies and uncertainty about the durability and health of the global recovery. It is difficult to see these trends dissipating in 2011.

While demand may be rising, the mining industry is incapable of substantially increasing supply. Although the gold price has appreciated by over 350% since 2001, mine production has experienced no real material growth since then. The economics for existing production are improving, but not sufficiently to support the rate of growth seen in 2009. A number of the world's largest gold mines are approaching the end of their lives and grades are falling across the industry.

We estimate the total cost of production (exploration, development and mining) to be around US$900/oz. In the precious metals space, platinum has underperformed both gold and silver as it is more heavily driven by the strength of the automotive exhaust catalyst industry. We expect to see some of this underperformance made back in 2011 as growth from China (which is now the largest manufacturer of cars globally), coupled with a recovery in the European and US auto industries, should create a positive outlook for platinum demand. Much of the world's platinum production is in South Africa. There are geological, structural and political factors in the region which will continue to constrain the expansion of production.

Bulk Commodities

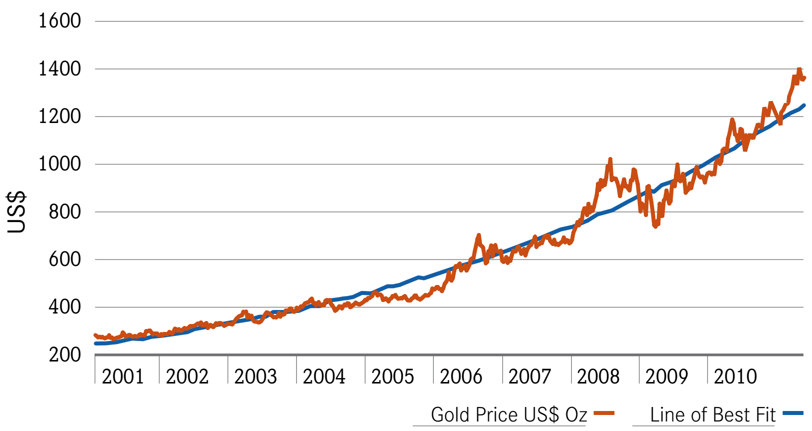
Infrastructure is supporting iron ore and coal

We expect there to be continued support for bulk commodities such as iron ore, coking coal and thermal coal. There is little scope for growth of iron ore production in 2011, and it is unlikely to meet the increase in demand. This should maintain the price close to current levels (around 15% higher than the average for 2010).

Coking coal has witnessed a transformation in its market dynamics in the past year or so. Until 2009, China was a large exporter of the commodity, but now is an even more significant importer.

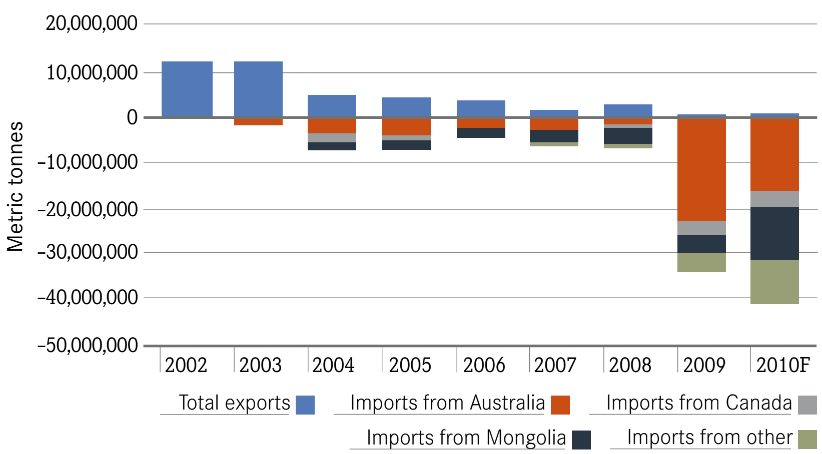
In 2004/2005, coking coal cost approximately $50 per tonne; it is now close to $200. In the short term, poor weather in Indonesia and Australia has limited exports, increasing tightness in the coal markets. In addition, infrastructure constraints in China, the introduction of a price cap and a crack-down on smaller unsafe mines is likely to negatively impact the growth of domestic coal production.

Gold Price US$/oz



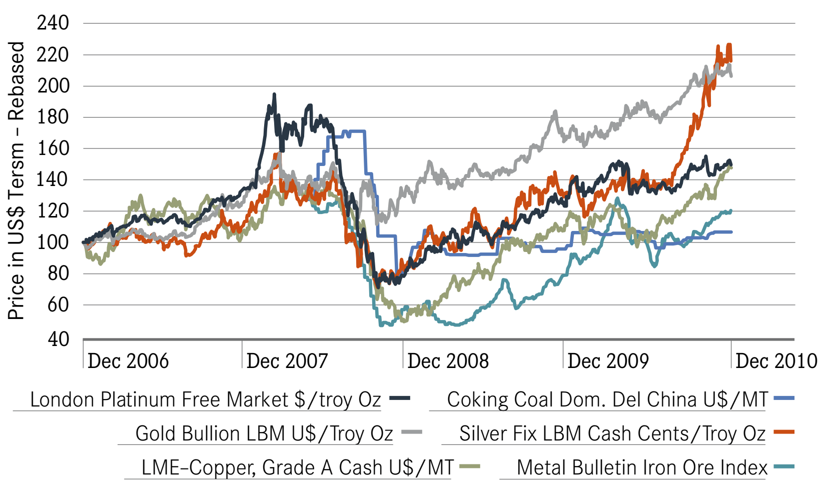
Source: DataStream 30 November 2010

Chinese Coking Coal Trade (tonne)



Source: Macquarie as at 10 June 2010

Commodity Prices US$



Source: DataStream 31 December 2010

We think that while some of the shorter-term weather related tightness may ease, the strong underlying demand coupled with an already constrained supply side should see coal prices moving upwards in 2011.

We remain relatively cautious towards the steel sector as we think margins for steel producers will remain under pressure owing to rising raw materials costs.

Healthy balance sheets, increasing demand and supply constraints in the mining sector provide exciting opportunities for the discerning investor who has a watchful eye on the state of the global economy

Following the stretched balance sheets in 2008, mining companies have, in general, taken a cautious approach to capital expenditure over the past two years. Continuing high prices for commodities have therefore led to unprecedented levels of cash generation. While this is leading to some increases in capital expenditure, the sector is also seeing increased dividends and M&A activity.

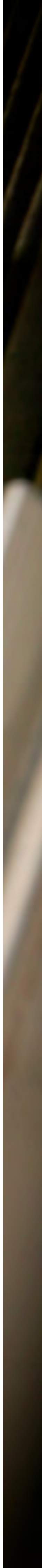
The resilience and growth of the economic recovery across both developed and emerging markets will be crucial in determining the dynamics of the commodities markets in 2011. As such, it will be important to continue to watch indicators of economic activity and the tone of macro-economic data to understand demand fundamentals. We have a positive outlook for those commodities which are experiencing supply constraints and believe this will offer exciting opportunities for investors in 2011, where commodity and stock selection will be integral to successful investment in this sector.

Regulation: an avalanche is on its way

The European asset management industry is about to become the subject of an unprecedented level of new legislation, enacted at both European and national level, primarily as a result of the financial crisis in 2008. Here, in the first of two reports focusing on forthcoming legislative changes, we outline the timetable for regulatory developments and delve a little deeper into their possible impact over the coming years.

Since the beginning of the financial crisis in 2008, the European Commission (the Commission), European Council and European Parliament have taken urgent action to safeguard the stability of the financial system, while working to complete a comprehensive financial reform to address: short-termism; poor risk management; and a lack of responsibility of certain areas in the financial sector, and to address the underlying weaknesses in the supervisory and regulatory framework. The objective is to provide a safer, sounder, more transparent and more responsible financial services framework and significant progress has already been made. The Commission recently announced that it expects to introduce its remaining proposals (of 20 initiatives unveiled in June 2010) to complete its financial sector reform by early 2011, while stating its view that is the joint goal of the European institutions to have the full reform agreed by the end of 2011, putting in place an advanced system of financial regulation as one of the foundation stones for healthy growth.

Regulatory developments are not limited to the European Union (EU), however. A number of national jurisdictions have recently implemented new initiatives which will affect financial services businesses on a cross-border basis, such as the UK's Bribery Act and the US Foreign Account Tax Compliance Act (FATCA). Here, we set out the key regulatory developments which will affect BlackRock, and its clients and partners, and consider a number of business implications (including opportunities) in the new legislation. BlackRock supports appropriate regulatory reform and will produce a number of additional, more in-depth discussions of the key regulatory initiatives outlined in the coming months.



Alternative Investment Fund Managers Directive

The Alternative Investment Fund Managers Directive (AIFMD) was approved by the European Parliament on 11 November 2010 and by the European Council on 17 November 2010, after more than 18 months of debate over the regulation of alternative investment funds in the EU. Further refinements will continue. The range of Alternative Investment Funds (AIF) falling within the scope of AIFMD covers hedge funds, private equity funds, real estate funds and any other European non-UCITS. It also affects offshore funds if managed in the EU by an AIFM or marketed into the EU.

The principal areas BlackRock has focused on for its investors are:

Marketing regime for AIF and to investors

- Significantly better than the original proposal of the European Commission and the more restrictive version sought by the European Parliament. EU investors will be able to continue to invest in EU and non-EU AIF at their own initiative, and EU AIFM will be able to passport, within the EU, their funds domiciled in the EU.
- Professional investors across the EU will be able to invest in funds of EU AIFM, which until the AIFMD were available under national private placement regimes.

Flexibility in fund governance structures

The final text recognises the fact that there are different legal forms of AIF avoiding many of the expenses of extensive restructuring resulting from a single model without any additional benefit for end investors. The Directive provides for a single AIFM for any AIF to be the entity responsible for compliance with AIFMD avoiding confusion. It also allows for external or internally managed AIF

Adequate ability to delegate portfolio and risk management structures

The final compromise is significantly better for investors than the original proposal, as existing portfolio and risk management delegation models for AIFs may continue provided that UCITS-style conditions are met. This allows firms to continue to manage global funds by delegating portfolio and risk management to appropriate entities outside the EU.

Provisions for private equity

The initial text would have lead to a steeply biased environment for private equity AIFM, requiring disclosure of strategically sensitive data. In the final text, the provisions require greater notification and disclosure, but the information is no longer of a sensitive nature.

The regime for depositaries and liability provisions

Standards of depositary liability have moved away from strict liability to a more reasonable negligence standard in some scenarios and the existence of prime brokers has been recognised. The pool of entities willing to provide depositary services may be reduced. This will almost certainly result in a change in functionality of traditional custodian/administrator roles. We are concerned at how these liability standards, or ones even more stringent, will be incorporated into the UCITS V review (see next issue).

UCITS IV

The most immediate impact of the legislation is the requirement on managers of UCITS (Undertakings for Collective Investment in Transferable Securities) to produce a Key Investor Information Document (KIID) to replace the existing simplified prospectus.

The KIID sets out the key elements of a fund allowing an investor to understand the nature and the risks of a fund and take investment decision on an informed basis. All KIIDs must be updated at least annually (as at calendar year end), allowing for easy comparability across different fund ranges. The requirement to produce performance and risk information applicable to all share classes will lead to the preparation of a large number of KIIDS in existing large multi-class umbrella funds, such as the BlackRock Global Funds (BGF) range.

UCITS IV aims to encourage the pooling of assets by providing an effective cross-border regime for merging UCITS, which has not always been available in the past. In addition, 'master/feeder' UCITS will be permitted for the first time. The management of companies that offer UCITS funds will in the future be subject to MiFID-style conduct of business rules. In jurisdictions such as the UK, the changes will be of low impact. For other jurisdictions, such as Luxembourg, this represents a change to existing requirements.

Finally, the registration procedure for the cross-border UCITS passport has been simplified and timelines shortened. Regulators' electronic filing systems will have to be enhanced to be able to process the increased volume of documentation which they will receive and transmit to their counterparts within the deadlines set out in the Directive.

UCITS IV: Depositary liability and remuneration

Following the Madoff fraud a number of very-public concerns were raised by EU member states over the controls exercised by depositaries over the funds for which they act and over the lack of consistency of European regimes. The key issues are the extent to which the depositary should be liable for assets held in custody (as opposed to assets which cannot be held in custody, such as derivative positions) and the extent to, and the manner in which, the depositary should be able to contract out of its liability when it appoints a third-party sub-custodian.

The UCITS legislative proposals will also seek to extend remuneration provisions under AIFMD and/or the Capital Requirements Directive to directors and staff employed by UCITS management companies to achieve a consistent treatment of remuneration. There will limited scope for the inclusion of other industry initiatives, such as allowing investment into UCITS feeder funds by UCITS fund of funds

UK Retail Distribution Review

The UK Retail Distribution Review (RDR) represents a fundamental change to the UK distribution market. The FSA has already made a number of rules, with more to follow, on the roles of platforms. Final rules are expected in early 2011, with a final implementation of such by the end of 2012.

The FSA's aim under RDR is to remove the perceived commission bias present in the sale of retail products to investors by intermediaries, such as financial advisors, by prohibiting the payment of rebates, commission and other types of inducements by product providers. Intermediary remuneration would then be agreed directly between the end investor and the intermediary.

Commission payments have not been removed in their entirety, as they are still permitted to institutional investors, such as insurance companies or other fund managers, even where they are made in respect of underlying retail products, such as unit-linked life insurance.

RDR covers the sale of all products to UK investors, so its impact is not limited to just UK products but also extends, for example, to EU funds registered for sale into the UK or sold by non-UK distributors with operations in the UK.

Once the final rules are in place product providers and intermediaries will have to renegotiate their future contractual and dealing relationships. This will require significant engagement and planning between product providers, intermediaries and platform providers if end investors are not to suffer from increased costs and reduced choice.

Investor Compensation Schemes Directive

The European Commission has proposed revisions to the existing 1997 Investor Compensation Schemes Directive (ICSD) in parallel with revisions to the Directive on Deposit Guarantee Schemes.

The Commission's aim is to protect investors and assist the proper functioning of retail banking and retail investment across the single market for investment services; and strengthen confidence in the use of investment services. However, a 50 basis point levy is likely to lead to a significant performance drag for funds.

Given UCITS V may impose greater depositary liability, there is a risk that the combined effect will be significantly higher depositary costs to cover the potential risks and reduced investor returns, without providing significantly greater protection. The extension of the ICSD to UCITS also raises a number of unintended consequences in that the proposals take insufficient account of legal structures and distribution models for UCITS.

Packaged Retail Investment Products

The European Commission's objective is to improve retail investor protection and create a consistent framework and approach with regard to the provision of information in respect of all packaged retail investment products (PRIPs).

This is achieved through a cross-product regulatory approach focusing on: Product Disclosure – i.e. rules on the form and content of pre-contractual information about the product; and Sales Process – i.e. rules governing the sales process for PRIPs, such as the conduct of business of product distributors, and the avoidance, management and disclosure of conflicts of interest in the sales or advice process.

Product disclosure provisions will be addressed in PRIPS whilst sales processes will be addressed in MiFID and in the revision to the Insurance Mediation Directive (IMD) for insurance products. It will be important to ensure that provisions on sales processes in MiFID and the IMD are sufficiently similar to improve investor protection across the broad range of investment and savings products bought by retail clients.

Disclosure will be made by way of a Key Investor Information Document (KIID) as developed for UCITS with a standardised risk rating but with different detail of information. This will need to be aligned to the marketing provisions of the Prospectus Directive for PRIPs admitted to trading on a regulated market or issued in the form of securities. In principle, the manufacturer should be responsible for producing the KIID and the distributor for delivering the KIID to the investor.

Timetable and explanations

The forecast dates for the implementation of a number of initiatives is set out below.

Fund issues

Undertakings for Collective Investment in Transferable Securities (UCITS) IV
Level 1 and Level 2 measures enacted. Awaiting national implementation for transposition date of 1 July 2011.

UK Retail Distribution Review (RDR)
Most rules published. Final rules on platforms still outstanding. Expected in early 2011, following November 2011 consultation.

Alternative Investment Fund Managers Directive (AIFMD)
Approved in Plenary session in Parliament in November 2010. Level 2 measures to follow in 2011. Likely transposition by Mid–2013.

Investor Compensation Schemes Directive (ICSD)
European Commission published a proposal for a Directive in July 2010. As yet undecided.

UCITS V (Re: Depositary liability and remuneration)
Commission Consultation published in November 2010. As yet undecided.

Packaged Retail Investment Products (PRIPS)
Commission consultation published November 2010. As yet undecided.

Securities and infrastructure issues

European Market Infrastructure Regulation (EMIR)
Commission proposal for a Regulation published in September 2010. Application is likely by the end of 2012.

Markets in Financial Instruments Directive (MiFID)
Commission Consultation published in December 2010. As yet undecided.

Prudential issues

Corporate Governance
The Commission proposal is expected in mid 2011. As yet undecided.

Capital Requirements Directive (CRD) III & IV
To be confirmed.

Taxation issues

US Foreign Account Tax Compliance Act (FATCA)
FATCA has been passed. Further IRS guidance expected in Q1/Q2 2011.

Other issues

UK Bribery Act Royal Assent in 2010
Further Ministry of Justice guidance outstanding. Expected implementation in 2011.

Pensions Green Paper
Commission consultative Green Paper published in 2010. Review of Institutions for Occupational Retirement Provision Directive (IORPD) is scheduled for 2011. As yet undecided. ■

The next issue of Strategic Solutions will feature the second part of our Regulations Viewpoint and will present our views on the implications of additional legislative proposals, including changes to MiFID and the implications of FACTA.

Behind The Numbers

Richard Romer-Lee, Joint Managing Director at OBSR (a Morningstar company) talks to Alex Popplewell, Head of Retail Investment Communications at BlackRock about OBSR's approach to rating fund managers and assessing manager skill. He also goes on to discuss how individual investors are likely to be better served in the future.

Factbox | Richard Romer-Lee
Founded OBSR with Richard Downs in 1999. Their aim was to bring institutional quality fund manager research to the retail market, based on a holistic understanding of the key success factors driving fund managers and empowering them to deliver investment performance.

How does your research process take individual investor needs into account?

Richard Romer-Lee: Our job is to find enough good active managers to meet the needs of our adviser clients and their investing customers. Most individual investors feel that they don't have 'enough' money, so we favour proven fund managers who can deliver alpha as well as beta. We do this mostly through qualitative analysis, identifying who can add value above the index return.

We start our research with the fund manager's philosophy and objectives to see if they are sound and reasonable. We try and understand the team, their motivations, whether they are experienced. Are their interests aligned with investors? Are they operating in the right environment with the right access to resources – so can they deliver objectives using their philosophy? As consumers become more financially savvy, we expect fund managers to be held more to account in delivering what they promise. There is a constituency of investors who want capital protection as well as growth and thus use Absolute Return funds, such as the BlackRock UK Absolute Alpha. We also see the role for ETFs, for those who want to make precise, shorter-term asset allocation moves.

Has this process changed to reflect new technology?

Richard Romer-Lee: The essence of our qualitative research process has remained the same since we established it in 1994. However, technology has clearly had an impact. Investors now have access to a huge amount of information literally at their finger tips, so it is important to understand how they sift through this as it is how you use this information, rather than do you have access to it, that is important.

Technology has also helped the evolution of risk management systems to assist portfolio managers. Good analysts (who used to have an information advantage simply by working at a big firm) don't always make good fund managers, because they don't necessarily understand risk. So, we need to understand whether the right ideas are getting into portfolios in the right amounts, and whether the risk management tools at the manager's disposal are relevant and complementary. It is important to emphasise that risk management is not the same as risk avoidance. Certainly, in the early 1990s, a lot of big funds were taking very low relative risks and achieving low relative returns, with the fund houses seemingly more concerned with business risk rather than investment performance for their clients. Now there is much more research and information and it is easier to identify managers who achieve specific targets, such as "index plus 2%" or "cash plus 4%", with precision and skill.

So what is the key to identifying a successful manager?

Richard Romer-Lee: It is important to understand active managers, who we believe need a multitude of skills including understanding the markets, companies and finance. Many of them can be quirky! OBSR spend a lot of time talking to individual managers. We review any recommended team every three months in person, so we develop a deep understanding of their philosophy, how the team works, what their strategy is and how they execute it.

Our judgements are essential, but our interests are aligned with those of our clients – we are only as good as our recommendations, so if we don't get it right, we don't get paid. The analyst team here ask themselves, "If we were the appropriate client would we put our own money into this opportunity?"

Discipline is crucial for managers, as is experience, and it helps to have had a bear market or two under your belt. One of the analysts who joined us in 2005 came to the senior members of the firm and said he really needed a bear market for two reasons: firstly, he had to work out which managers were good, because the rising tide was floating all the ships and it was becoming harder to differentiate between brains and a bull market; and secondly, he always emphasised that we had said that a bear market tends to shake out investors who lacked discipline, offering the chance to see who stuck to their style, who were true contrarians, which employers were enlightened, which shut funds, or moved managers, or fired them.

In 2007/2008 we looked at four new UK Special Situations funds. These were run by relatively young managers who had amazing CVs, very plausible philosophies, but mostly not much experience. To displace one of our established, preferred funds, they needed to be at least as good but, ultimately, to have had much more experience of different market conditions, before we were prepared to get excited. Since then, two of those funds have been shut, one has been merged with a different style fund, and one manager left to pursue opportunities in the hedge fund world. Although some pitches are massively persuasive, you need to have experience on the part of the managers and on the part of researchers.

Is there a quantitative trigger to downgrades or changes in rating?

Richard Romer-Lee: No. Changes in our conviction in the manager's ability to deliver are paramount. Our judgements are mostly qualitative, but they are informed by, rather than driven by, quantitative analysis. We feel it is not fair to judge a manager until we know what they are trying to do, and quantitative analysis really loses its validity if there isn't proper qualitative judgement made. Once we have done our qualitative assessment then the quant analysis can tell us a bit more about expectations – whether a fund is true to label or doing what you would expect it to do, so we can pick up on style drift, and regular dialogue allows us to know about whether and why a manager is having a bad run which is showing up in the statistics. So we like to make judgements based on what's happening on the ground.

When managers leave or companies have non-investment related dislocation, business issues, like take-overs for instance, we may suspend ratings, or we might recommend that, if a firm is having a strategic review, investors stay in the funds where trusted managers remain, on the basis of the situation being resolved swiftly. Of course, that judgement may need to be revisited depending on the nature of the strategic review and the implications that has for the portfolio managers involved. There are often some good individuals whose funds you should stick with. Our tendency is to base our judgements on long-term thinking about people's long-term savings. The danger with using too much quantitative analysis is that people are predictable until they become unpredictable.

When does your job get really hard?

Richard Romer-Lee: Sometimes the hardest job of all is to separate the brand of the portfolio manager from that of the firm. One good example of this was Anthony Bolton in the early 1990s, who came under a lot of pressure following the recession and had bad under-performance following sterling's exit from the ERM. His performance had been great but tailed off badly, but Fidelity stood by him and he stuck to his guns. There had clearly been some brand build around both Bolton and Fidelity, which allowed investors to sustain confidence in the fund manager.

Would that happen now?

Richard Romer-Lee: In those days, information was less readily available than it is now. FAs relied on the published performance numbers and face-to-face contact, and Anthony had got out there and talked to the investor base with a very clear message about the sustainability and consistency of his style and technique. Similarly, Neil Woodford in 2000 was in a difficult position with Martyn Arbib trying to sell Perpetual amid the TMT boom. Arbib rightly challenged Woodford's stance and technique, but Woodford was clear in his mind, resisted pressure, stuck to his guns, stood by investors, and his style of buying undervalued assets eventually prevailed. Ultimately Perpetual was supportive of his approach.

At BlackRock, you launched the UK Absolute Alpha product to take full advantage of UCITS III. Considerable resources and effort went into the groundwork with the regulators to allow a more sophisticated fund to be sold to less sophisticated investors, and if it had not been for that persistence and effort, this may never have become such a successful fund. It needs your managers to get out and become the face of BlackRock's retail business, it really can't be done by the marketers alone.

How has your background in institutional research helped in the retail market, and why join forces with Morningstar?

Richard Romer-Lee: There has been a blurring of institutional and retail as governments and corporations are pushing the onus of saving on to individual investors. We see this with a decline of DB pension schemes in favour of DC. I think there is a good crossover of expertise from looking at institutional mandates to looking at retail. I began my career with a year of general insurance advisory work and then moved into a business we had set up doing investment advisory: I just stuck my hand up, without knowing much about it, and spent a year advising on pensions, fund of funds, unit trust managers and investment bonds. We moved to Buck in 1994 to give good quality retail advice to the partners of a law firm without having any research. So we then took research from the institutional side of Buck and adapted it for a retail market. We built that up at Buck until 1999 and then did the management buy-out and created OBSR.

The acquisition of OBSR by Morningstar provides a fantastic opportunity to build upon the success that OBSR has to date and to bring its research and consulting services to a much broader audience. We will also be able to draw on Morningstar's considerable data and technology capabilities, as well as participating in a global research and consulting business. Morningstar's experience in the United States in particular should stand us in great stead as the UK and European savings markets develop.

Do you test your ratings to see how they have done?

Richard Romer-Lee: Yes, we monitor all of our recommendations and review funds and their performance every quarter. We do maintain a track record of our AAA, AA and A rated managers, aggregating equally weighted performance against index benchmarks. So far we've worked out we are ahead in most asset categories, although with a more patchy record in the US, which Morningstar will no doubt help us with. We have developed a product based on this methodology which has been delivered to investors by several larger distributor clients, so they are monitoring us to ensure their customers get the performance we deliver.

What changes do you see in the individual investor market in the future?

Richard Romer-Lee: We see, increasingly, that the retail market is going to divide into B2B and B2C, which is a very exciting prospect. Investors are being encouraged to look after themselves, and thanks to the internet they can now do so. There is beginning to be a move away from asking an expert who knows, to finding out for yourself.

Some businesses are going to find the Retail Distribution Review (RDR) very difficult in the UK, and Europe will follow in due course. I think RDR should be welcomed. There are some successful firms with adaptive business models, but we hope that we won't lose too many participants so competition remains reasonably strong in the advisory industry. RDR is really good news as long as sufficient choices remain, whether through independent or restricted advisory businesses. But I feel that service is vital. Most firms lose business, not so much from bad investment judgements, as from providing a poor service. Sometimes they forget we are in the financial services industry not the financial sales industry. *Find out more about OBSR ratings at www.obsrfundratings.co.uk* ■

Fund Directory

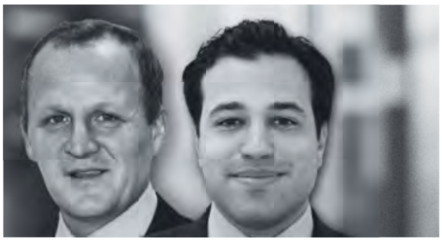
Equities

Mark Lyttleton
Nick Osborne
Fund Managers

BlackRock UK Absolute Alpha Fund

- S&P AA rated and OBSR A rated.
- A pioneering authorised unit trust that uses the wider investment powers of UCITS III regulations in seeking a positive absolute return, regardless of market conditions.
- The Fund was the first equity Absolute Return Fund to be rated by S&P.
- The Fund is co-managed by the highly acclaimed fund managers Mark Lyttleton and Nick Osborne.
- Mark has been investing in UK equities for over 18 years and Nick has been with BlackRock since 1999.
- The managers are backed by the broader BlackRock UK Equity Team, which is one of the largest and more experienced active UK equity fund management teams.
- Benefits from using BlackRock's leading risk management systems, with over 12 stress tests applied daily, which help the fund managers appropriately scale the derivative exposures within the Fund.

Equities



Nick McLeod-Clarke
Adam Avigdori
Fund Managers

BlackRock UK Income Fund

- Nick McLeod-Clarke is Citywire AAA rated.
- A solid performing alternative in the UK Equity Income sector, which is able to quickly adapt to changes across the UK stock market. The Fund is first or second quartile over one, three, five and ten years to 31 December 2010.[1]
- S&P AA rated and OBSR A rated. The fund has also recently been recognised as the Best UK Equity Income Fund in the sector at the Investment Week Fund Manager of the Year Awards 2010.
- Conviction investing: This relies on developing a high degree of confidence in investment ideas. The portfolio will typically hold between 25-40 shares.
- A total return approach: The Fund aims to provide an above average and growing income without sacrificing the benefits of long-term capital growth.

[1]as at end Dec 2010; Source: Morningstar; basis: accumulation units, dealing bid-to-bid prices, net of expenses.

Equities

Richard Plackett
Fund Manager

BlackRock UK Special Situations Fund

- Richard Plackett is Citywire AAA rated.
- Strong performance – the Fund is first quartile over three, six and nine months, and one, two, three, five and ten years to 31 December 2010.[1]
- S&P AA rated and OBSR AAA rated.
- The Fund has the flexibility to invest across the entire UK stock market, but holds a bias towards mid and small-caps. No stock is held just because it is a large part of the FTSE All-Share index. Currently the fund has 60% invested in small and mid cap stocks.
- Richard Plackett has 22 years' investment experience and is head of the BlackRock UK Small/Mid-Cap team.

[1]as at end Dec 2010; Source: Morningstar; basis: accumulation units, dealing bid-to-bid prices, net of expenses

Fund Directory

Equities

Ralph Cox
Fund Manager

BlackRock UK Smaller Companies Fund

- Strong performance – the Fund is ranked in the first quartile over three, six and nine months and first or second quartile over one, two, three, five and ten years to 31 December 2010.[1]
- S&P AA and OBSR A rated.
- Investing in smaller companies, the flexibility retained within the Fund allows the fund managers to hold either a growth or value bias, depending on the prevailing environment. In this way, we aim to outperform the stockmarket in all economic and market conditions.
- In our view, smaller company shares have the potential to generate strong returns. Smaller companies are not as widely researched as their larger counterparts, a fact which means there are opportunities to uncover companies at an early stage of their development, before they are fully appreciated by the wider market place.

[1]as at end Dec 2010; Source: Morningstar; basis: accumulation units, dealing bid-to-bid prices, net of expenses

Equities

Vincent Devlin
Fund Manager

BlackRock Continental European Fund

- Vincent Devlin is Citywire AAA rated.
- Strong performance – the Fund is first quartile over three, six and nine months, and one, two, three, five and ten years to 31 December 2010.[1]

  S&P AA rated and OBSR AA rated.
- Fund manager Vincent Devlin has over 16 years' experience in the investment industry and is backed by BlackRock's European Equity Style Diversified team.
- The Fund is a concentrated but diversified portfolio of 35–65 European companies.
- Flexible investment style and extensive research platform allows Vincent to adapt the portfolio to take advantage of changing market conditions by investing in companies that may take the form of growth, turnaround or value stocks.

[1]as at end Dec 2010; Source: Morningstar; basis: accumulation units, dealing bid-to-bid prices, net of expenses

Equities

Alister Hibbert
Fund Manager

BlackRock European Dynamic Fund

- Alister Hibbert is Citywire AAA rated.
- Strong performance – the Fund is first quartile over three, six and nine months, and one, two, three, five and ten years to 31 December 2010.[1]
- S&P AA rated and OBSR AA rated.
- Aims to achieve long-term capital growth by investing primarily in the shares of companies incorporated or listed in Europe excluding the UK which exhibit either growth or value characteristics.
- With a focused portfolio of 35–65 stocks, the Fund has the flexibility to move up and down the market capitalisation scale to find attractive investment opportunities.
- Experienced fund manager – Alister Hibbert is part of BlackRock's European Equity Style Diversified Team and boasts over 15 years' investment experience.

[1]as at end Dec 2010; Source: Morningstar; basis: accumulation units, dealing bid-to-bid prices, net of expenses

Fund Directory

Commodities

Evy Hambro
Fund Manager

BlackRock Gold & General Fund

- The Fund has an excellent long-term track record both in absolute terms and relative to its benchmark.
- Highly rated by independent analysts, the Fund has received maximum AAA ratings from both Standard & Poor's and OBSR, as well as an Elite Qualitative rating from Morningstar.
- The Fund can help to provide diversification within the context of a larger investment portfolio. Gold tends to be a 'safe haven' asset and, during periods of capital market volatility or political uncertainty, and US dollar weakness, its physical attributes become more highly valued.

Fixed Income

Paul Shuttleworth
Fund Manager

BlackRock Corporate Bond Fund

- Strong performance – the Fund is ranked in the first or second quartiles over three, six and nine months and first quartile over one, two, three and five years to 31 December 2010.[1]
- The Fund's unconstrained investment process allows clients to benefit from opportunities in credit or in macro strategies globally, using cash, bonds and derivatives to gain exposure.
- A diversified portfolio of the team's best ideas. Investing in a corporate bond fund with global flexibilities allows investors to build yield and gain advantage from a range of alpha strategies.
- The Fund is managed by Paul Shuttleworth, who has over 24 years' of investment experience, and is backed by the Sterling Fixed Income team.
- Robust risk management is integral to the Fixed Income team's process.

Multi-Asset

Sunil Krishnan
Fund Manager

BlackRock Active Managed Portfolio Fund

- The Fund is S&P A rated.
- Aims to achieve long-term capital growth by investing in a global portfolio of equities as well as fixed income securities, collective investment schemes and money market instruments.
- Investment may be made in any economic sector, although under normal conditions there will be an emphasis on the UK.

[1] as at end Dec 2010; Source: BlackRock, bid to bid, net income reinvested, in sterling and net of fees.

Fund Directory

➔ *Multi-Asset*

Colin Graham
Fund Manager

BlackRock Balanced Growth Portfolio Fund

- Aims to achieve long-term total return, either through capital growth and/or income generation depending on market conditions.
- May invest in any economic sector, although under normal conditions there will be an emphasis on the UK. Investment may be made in a global portfolio of equities and fixed income securities as well as collective investment schemes, cash in sterling or other currencies and money market instruments.

➔ *Multi-Asset*

Philip Brides
Andrew Warwick
Fund Managers

BlackRock Balanced Income Portfolio Fund

- Aims to provide an above-average and growing income without sacrificing long-term capital growth by investing primarily in the UK.
- Employs a conservative strategy in terms of asset distribution and individual stock selection.
- Portfolio managers Philip Brides, Director and Andrew Warwick, CFA, Director are members of BlackRock's Multi-Asset Portfolio Strategies (MAPS) group.

➔ *Multi-Asset*

Adam Ryan
Fund Manager

BlackRock Cautious Portfolio Fund

- Aims to deliver a total return over the medium term, in the form of capital growth and income, that exceeds the Bank of England's Base Interest Rate.
- The Fund will invest principally in fixed interest stocks, UK and overseas equities, units in collective investment schemes, cash and near cash, money market instruments and deposits.
- Fund manager Adam Ryan is lead portfolio manager of the Diversified Growth Strategy within the BlackRock Multi-Asset Client Solutions (BMACS) group and a member of the BMACS management team.

Fund Directory

➲ *Investment Trusts*

Richard Plackett
Mike Prentis
Fund Managers

The Throgmorton Trust PLC

- Richard Plackett is Citywire AAA rated.
- Managed by two of BlackRock's highly regarded Fund managers, Richard Plackett and Mike Prentis, who are members of BlackRock's UK Small/Mid Cap team. The team, led by Richard, comprises four portfolio managers, all of whom conduct research and contribute investment ideas.
- The UK Small/Mid-Cap team operates as a separate unit within the UK equity division which is able to benefit from the wider resources of the UK large-cap teams. Further backing comes from our other equity teams, including the European Specialist team and the Natural Resources team.
- The Throgmorton Trust plc aims to provide shareholders with capital growth and an attractive total return from investment predominantly in UK smaller companies which are listed on the main market of the London Stock Exchange or traded on AIM.

➲ *Investment Trusts*

Mike Prentis
Fund Manager

BlackRock Smaller Companies Trust plc

- Managed by Mike Prentis, a Director, who is a highly regarded member of BlackRock's UK Small/Mid-Cap team. The team, led by Richard Plackett, comprises four portfolio managers, all of whom conduct research and contribute investment ideas.
- The UK Small/Mid-Cap team operates as a separate unit within the UK equity division which is able to benefit from the wider resources of the UK large-cap teams. Further backing comes from our other equity teams, including the European Specialist team and the Natural Resources team.
- The BlackRock Smaller Companies Trust plc looks to achieve capital growth, through investment mainly in smaller UK quoted companies.

➲ *Investment Trusts*

Evy Hambro
Fund Manager

BlackRock World Mining Trust plc

- Launched in December 1993, the BlackRock World Mining Trust aims to maximise total real returns to shareholders though a worldwide portfolio of mining and metal securities.
- Up to 10% of the assets may be invested in physical metals.
- Managed by Evy Hambro, co-head of BlackRock's Natural Resources Team and who is also the fund manager for the BlackRock Gold and General Fund.
- The Natural Resources team is widely acknowledged as being a leading global investor in natural resources.

For more information on the following funds, or any other BlackRock products, please visit blackrock.co.uk, call +44(0) 8457 405 405 or email broker.services@blackrock.com

Equities
BlackRock Emerging Markets Fund, BlackRock Latin American Investment Trust plc, The Eastern European Trust plc, BlackRock New Energy Investment Trust plc.

Bonds
BlackRock Global Bond Fund

Important information

For more information

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