BLACKROCK

31 OCTOBER 2012

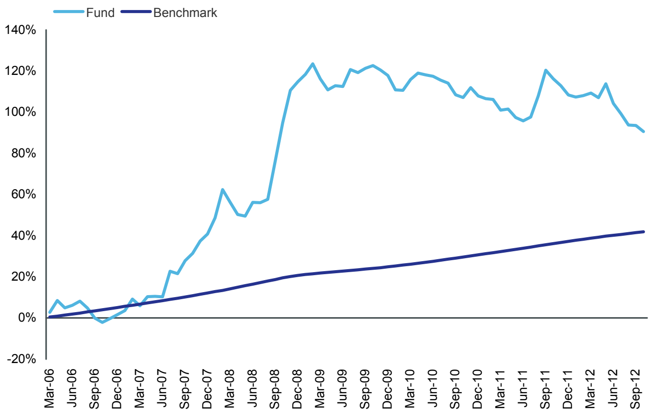
BlackRock Asset Allocation Alpha Fund

Investment Performance (%)

	Fund Inception	1 Mth	3 Mths	CYTD	1 Yr	3 Yrs	5 Yrs	Inc
BlackRock Asset Allocation Alpha Fund (D Class) (Net of Fees)	29 May 2006	-1.61	-4.60	-9.29	-12.73	-5.94	4.88	7.01
UBS Bank Bill Index (Gross of Fees)		0.30	0.91	3.41	4.23	4.57	5.06	5.37
Outperformance (Net of Fees)		-1.91	-5.51	-12.70	-16.96	-10.51	-0.18	1.64
BlackRock Asset Allocation Alpha Fund (C Class) (Net of Fees)	12 May 2008	-1.65	-4.69	-9.59	-13.08	-6.34	-	2.35
UBS Bank Bill Index (Gross of Fees)		0.30	0.91	3.41	4.23	4.57	-	4.77
Outperformance (Net of Fees)		-1.95	-5.60	-13.00	-17.31	-10.91	0.00	-2.42
BlackRock Asset Allocation Alpha Fund (Gross of Fees)	28 February 2006	-1.51	-4.34	-8.54	-11.86	-5.05	7.72	10.16
UBS Bank Bill Index (Gross of Fees)		0.30	0.91	3.41	4.23	4.57	5.06	5.39
Outperformance (Gross of Fees)		-1.81	-5.25	-11.95	-16.09	-9.62	2.66	4.77

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses.

Cumulative Performance (Gross)



Market Review

The global economy continues to chug along at a pace below trend growth (significantly so in the case of the major developed economies) with the leading indicators giving an ambiguous signal of the outlook.

There are, however, some reasons for guarded optimism about the growth outlook in 2013:

The US economy strengthened at the margin in Q3 and appears well placed to grow at a slightly faster pace in 2013 if the Congress and the President elect can come to some agreement on the fiscal cliff which does not involve a short term draconian tightening of fiscal policy;

Chinese economic growth appears to have troughed with a number of leading indicators pointing to a modest acceleration in growth; and

Policy makers have been quite active globally with a huge range of measures designed to stimulate economic growth which should provide some lift to the global economy.

Of course, any nascent optimism needs to be tempered due to the restraint on global growth caused by the combined effects of ongoing private sector deleveraging and fiscal policy tightening in the US and Europe. The IMF expects fiscal drag to increase next year in the G20 by 0.3 percent of GDP with increases in drag in the US, UK and Japan only partially offset by a modest diminution in drag in Europe.

This is significant as the IMF is also estimating that the multiplier effects of fiscal tightening might be significantly larger in an environment where there is considerable economic slack, the efficacy of monetary policy is compromised by the zero bound for interest rates and fiscal policy is being tightened in a synchronised fashion across many countries.

In addition, this year continues to be dominated by political developments and the actions of central banks. For example:

The US Federal Reserve, the European Central Bank and the Bank of England have been extremely active in responding to disappointing economic growth. Even the Bank of Japan appears to be doing more to stimulate growth than they have done in the past; and

The US has been heavily influenced by the uncertainty generated by the tiny window for the newly elected President and Congress to deal with the fiscal cliff; and

Europe has been dominated by political fall-out at a country and regional level as they grapple with the biggest crisis of the Euro's short life; and

The leadership transition in China appears to have affected the responsiveness of the Authorities to the slowdown.

The biggest short term issue for the outlook is the fiscal cliff. One of the current areas of weakness in the US economy is business investment which presumably reflects uncertainty about the economic outlook as a result of the looming fiscal cliff. It is completely unclear how the fiscal cliff will be resolved. Not even the insiders would know as it will depend, at least in part, on the outcome of the elections.

Our assessment remains that the potential for the US economy to go over the cliff remains under-appreciated by many market participants. Moreover, once the election is out of the way it may take a market riot to motivate the politicians to come to a long overdue agreement on fiscal policy involving a combination of tax increases and spending restraint.

The US reporting season has also been a significant disappointment with profits missing expectations and earnings per share falling marginally from a year ago – albeit at high levels. In the absence of an (unlikely) significant acceleration in revenue growth, it seems that the equity analysts' consensus for double digit earnings growth next year is much too high. The PE rating of the market has already been significantly upgraded this year and the upside for the equity market may become more problematic if earnings cannot grow.

In Europe, the policy announcements of recent months by the ECB and European politicians has been followed by a predictable period of inaction and backsliding as the market pressure has abated. Spain is yet to apply for a bail-out. Greece is yet to agree to the austerity and labour market reforms that would deliver the next tranche of external support. And the banking union, which is pivotal to the survival of the Euro, as it breaks the nexus between banks and sovereigns, has been deferred until later next year as Germany and other northern European countries balk at including legacy assets of troubled banks in the scheme.

In the meantime, European economic growth continues to languish under the weight of fiscal austerity and tight financial conditions as banks continue to deleverage. A chronically weak economy will continue to place incredible strains on the political fabric of Europe, with the periphery resisting austerity and structural reforms and the core resisting fiscal transfers.

One clear global bright spot is the apparent stabilisation of economic growth in China with reasonable prospects of a modest acceleration in growth over coming quarters. The leadership transition is still playing out but the recent leading and coincident indicators are reassuring.

Strategy Commentary and Outlook

The fund returned -1.61% net of fees for the month of October vs a benchmark return of +0.3%. There were negative contributions from the Equity/ Cash risk book (primarily due to a long position in S&P 500 put options) and the Bond/Cash risk book (primarily due to a long position in US Treasuries). Other risk books such as FX and commodity made small negative contributions to performance.

Current positioning at month end

In the directional risk strategies, the Fund's positions include:

- Equity/Cash – long equity volatility index, short US equities
- Bond/Cash – long sovereign risk protection in Australia
- Commodity/Cash – square
- Commodity/Commodity – long crude oil near contracts vs far contracts

In the relative value risk strategies, the Fund's positions include:

- Bond/Bond – square
- Equity/Equity – square
- FX – long Brazilian Real vs Japanese Yen; long US dollar vs Japanese Yen and Great Britain Pound.

About the Fund

Investment Objective

To maximise total returns by implementing a diverse range of global tactical asset allocation strategies within a flexible but disciplined risk management framework.

The Fund aims to provide investors the benefits of an active asset allocation process which could either be combined with specialist sector funds or used as a total return fund.

The Fund targets a return of 12 percentage points above the UBS Bank Bill Index over rolling 3 year periods, gross of fees. There is no guarantee that we will achieve this target. Most, if not all, of the Fund's returns are likely to be in the form of income rather than capital gains.

Fund Strategy

The Fund implements tactical asset allocation strategies. The strategies adopted are thematic, concentrating on exploiting trends, likely developments and mis-pricing in global asset markets.

The strategies adopted encompass equity, cash, fixed interest, property, commodity and currency markets. Trades executed to implement these strategies may be based on an expectation of the direction of a particular market or focus on relative values between and within regions, asset classes, sectors, currencies and instruments or some combination thereof.

In selecting appropriate trades for the Fund, particular emphasis is placed on being able to execute strategies in a targeted, cost efficient and risk controlled manner. Futures, swaps and options are extensively used in this process although at times physical instruments and securities may be held. The Fund's benchmark is the UBS Bank Bill Index in Australian Dollars (AUD).

However, in aiming to add value the Fund will take currency positions away from this AUD denominated benchmark. Any asset class or sector exposures are opportunistic, reflecting the themes and strategies being pursued. Exposures to asset classes, sectors, currencies and instruments will involve "net short" or "net long" positions and at times these will be substantial.

Should be considered by investors who …

- Seek a Fund which offers the potential for high absolute returns.
- Seek exposure to asset allocation strategies which are typically overlooked in an increasingly sector specialised world.
- Have a long-term investment horizon and a tolerance for significant volatility in investment returns in the short-term.

Fund Details

BlackRock Asset Allocation Alpha Fund	
Fund Size	310 mil
Buy/Sell Spread	0.10%/0.10%
BlackRock Asset Allocation Alpha Fund (C Class)	
APIR	MAL0036AU
Management Fee	1.40% p.a. plus 20% of outperformance
BlackRock Asset Allocation Alpha Fund (D Class)	
APIR	MAL0030AU
Management Fee	1.00% p.a. plus 20% of outperformance

Portfolio Risk by Strategy

Strategy	Marginal Contribution %
Bond/Bond	0.0
Bond/Cash	0.1
Cash Bucket	0.2
Commodity/FX	0.0
Commodity	0.0
Commodity/ Commodity	9.1
Currency	-2.4
Equity/Cash	93.4
Equity/Bond	0.0
Equity/Equity	1.2
Unassigned	-1.6

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