

Fund Commentary

BlackRock Gold & General Fund

MAY 2009

FOR PROFESSIONAL INTERMEDIARIES ONLY



Fund managers

Graham Birch*

Evy Hambro

Portfolio performance

The BlackRock Gold & General Fund gained 13.7% during May, underperforming its benchmark, the FTSE Gold Mines index, which gained 19.8%. Over the course of the month, the gold price advanced 8.6% (in US dollar terms), to end the month at US\$959.80/oz. The month saw a strong rally in both commodities and equity markets, as investors became more confident of a potential recovery in the global economy. A generally weaker trend to the US dollar was also positive for gold prices during the month.

This month, we attended the Bank of America Merrill Lynch Metals and Mining Conference held in Barcelona. This is widely regarded as the premier annual gathering of mining company executives. There were a number of key takeaways from the gold companies presenting. Firstly, there appears to be much greater focus on margin expansion. This – or rather the lack of it – has hampered the performance of gold equities relative to bullion in recent years. Lately, however, gold companies are beginning to control their costs and, as evidenced by recent moves, are beginning to re-deliver that operational leverage. The gearing level displayed more recently (of around 3:1) is much more typical of the long-term relationship between gold equities and bullion. The second key takeaway was the discussion around global mine supply. The general consensus is that global output has peaked and will not grow for the foreseeable future. Pierre Lassonde, the ex-CEO of Newmont (among others), and a well-respected investor in the gold market, pointed out that the last large-scale gold mine discovered was in 1992. This obviously bodes well for higher prices in the long-term.

The World Gold Council released its Gold Demand Trends for the first quarter during May. The highlight of the report was the huge growth in identifiable investment – up 250% year-on-year – which more-than offset falls in other areas of demand. Exchange Traded Funds (ETFs) accounted for the bulk of this investment, although purchases of coins and ‘other retail investment’ were also strong. Jewellery consumption,

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meanwhile, fell 24% year-on-year, with India, the biggest consumer, falling by 50%. China and Hong Kong registered modest growth in jewellery demand.

In equity news, Barrick Gold – the world’s biggest gold producer – announced that it is to proceed with the development of the Pascua-Lama deposit. Situated on the Chile-Argentina border, Pascua-Lama is one of the largest undeveloped gold projects in the world. At full production the mine will produce over 750,000 ounces of gold and 35 million of silver per annum. Commissioning of the mine is expected in late 2012.

Looking to the portfolio, our holdings in silver miners, such as Fresnillo and Industrias Penoles, were strong sources of value over the month. These stocks gained on the back of the strength in the silver price, with the metal gaining 22.9% during May. Fresnillo also benefited from the latest MSCI World index rebalancing, which resulted in buying from index-trackers. On the negative side, our underweight position in Goldcorp detracted from relative performance, as the stock (which we cannot equal weight or overweight due to UCITS rules) rallied on better-than-expected results.

Portfolio activity

We continue to focus the portfolio on companies with growth opportunities and those with long life reserves. In addition, we continue to avoid companies that will require large amounts of cap-ex or have a highly leveraged balance sheet. Overall, the portfolio has limited exposure to companies that are not in production, are smaller cap and do not pay a dividend.

Strategy/Outlook

Whilst uncertainty remains in financial markets, investors may continue to look to gold as a safe-haven asset. However, in addition, investors are increasingly looking to gold as a potential hedge against inflation (particularly as a result of the quantitative easing currently being enacted in many countries) and any weakness in the US dollar. With jewellery demand also showing signs of improvement, there appears to be plenty of potentially supportive factors for the gold price going forward.

Long-term fundamentals remain tight, with little sign of any material increases in production. Company balance sheets remain in relatively good shape and have yet to see the full benefit of the declines in their input costs, in particular the oil and steel prices.

* Graham Birch is currently on sabbatical until the beginning of next year. Evy Hambro has worked closely with Graham for 15 years, and, as a result, we are confident of a seamless transition of all management responsibilities. The team’s stringent investment process and commitment to rigorous company specific research remains unchanged.

About BlackRock

Since its establishment in 1988, BlackRock has grown to become one of the world's leading asset managers entrusted with over US\$1.28 trillion of assets (as at 31.03.09). The firm provides an impressive breadth of investment solutions ranging across the equities, fixed income, money markets and alternatives arena.

BlackRock conducts business in over 60 countries. Our client base includes banks and insurance companies, third-party distributors, foundations, corporations, charities, independent financial advisors and individual investors.

BlackRock maintains a vigorous focus on delivering the highest level of service for our clients by striving to combine first-class investment performance with comprehensive choice, acknowledged credibility and unparalleled expertise. This impressive offering was recognised in 2008 with over 165 industry awards received globally.

In today's world, the increasing rate of change creates a distinct advantage for those who can spot opportunity early and react to it instantly. At BlackRock, our combination of experienced professionals, powerful technology and global perspective is a distinct advantage for achieving exactly this.

BlackRock is a firm that is prepared to navigate all market conditions, take measured risks and maximise investment opportunities for its clients throughout the world.

Opportunity favours the prepared mind.

The Fund has been compared against the FTSE Gold Mines Index rather than its general sector (Specialist), because of the diverse nature of the Funds contained within the sector such as global telecoms and healthcare funds. The index is measured on a capital only basis. The Annual Management Charge for this Fund increased from 1.5% to 1.75% effective 30 September 2005. Source: Index - Datastream. Performance prior to 30th November 2003 was measured on an offer to offer basis. The change from offer prices to bid prices was made following a reduction in several of the Fund's initial charges. Bid prices now provide a better measure of performance for the Fund. The fund data displayed is designed only to provide summary information. The number of shares quoted for each fund are indicative and actual numbers may fall outside of the ranges shown. Investment should be made on the basis of the relevant product booklet, together with the Prospectus and Simplified Prospectus which are available from the Managers. You should remember that the value of investments and the income from them may go down as well as up and are not guaranteed. You may not get back the amount you invest. Past performance is not a guide to future performance. Changes in rates of exchange may cause the value of your investment to fluctuate. Issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Services Authority). Registered office: 33 King William Street, London EC4R 9AS. Registered in England No. 2020394. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. The BlackRock name and logo are trade marks of, and used under licence from, BlackRock & Co., Inc.

Further Information

Telephone	Email	Website
International +44 (0)20 7743 3300 UK 08457 405 405	investor.services@blackrock.com broker.services@blackrock.co.uk	blackrock.com blackrock.co.uk

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