BlackRock®

Q3 2011

FOR PROFESSIONAL INVESTORS ONLY

European Equity Team Market Barometer

Introduction

"Given the equity market turbulence over the last few weeks, we thought it would be a timely moment to publish a special August edition of our BlackRock European Equity Style Diversified Team Market Barometer"

Nigel Bolton, Head of European Equity Style Diversified Team.

Over the long term we continue to believe that the corporate earnings and cash generation of companies are the key drivers of equity returns. However, over the last few months, investor confidence and equity values have yet again been subject to the whim of political and economic factors.

For the last two and a half years, our investment thesis has been that earnings were driving the equity bull market. This bull market was underpinned by a global recovery supported by fiscal and monetary stimulus which brought us back from the abyss of the 2008 financial crisis. It was evident that the longer term issues of high private and public sector debt in the western world would eventually lead to slower economic activity as countries and households balanced their books. We had anticipated this deleveraging story to arise in the second half of 2012, but the political crises on both sides of the Atlantic have brought this situation forward. As a result, we are now witnessing a significant slowdown in global economic activity.

In the wake of extensive stimulus programs deployed during the recession, governments are left with little monetary and fiscal fire power and face an urgent need to accelerate austerity measures in order to reduce significant debt burdens, particularly in peripheral Europe and the US.

Given this backdrop, we believe the earnings-driven equity bull market of the last two years has ended and we are entering a challenging period for overall market earnings. Companies will implement cost cutting measures in order to maintain margins as a reaction to slowing demand for goods and services. European equities currently look attractively valued relative to other asset classes and to history. On that basis there is significant upside potential in Europe but this is likely to only be unlocked when the political situation in the region improves. In this lower growth environment company earnings growth will remain crucial to share price performance.

Over the last few weeks the market has adjusted swiftly to lower growth expectations and a second quarter results season which saw significant downgrades across a number of sectors. That said, the market frequently overshoots expectations. As active managers, our team aims to identify stocks that we believe have been excessively sold off during market corrections.

We recognise that the current environment differs greatly from anything seen by policy makers or investors in the last 60 years. The overall deleveraging process is applying downward pressure on end demand, and governments are severely constrained in their responses due to high debt levels. Markets are reflecting continued uncertainties and disappointment at the slow progress made by the European political leadership towards eurozone integration. It is possible, however, to take some comfort from the latest announcements from France and Germany, reaffirming their commitment to the euro.

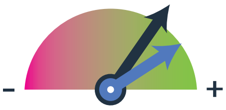
Stimulated by pressure in the bond markets, Europe is making very slow progress towards greater fiscal integration, but a number of significant political, social and economic hurdles will remain unresolved until this integration can be achieved. The uncertain timing of this integration will likely lead to further periods of market volatility before final resolution.

As European equity investors, our focus and analysis continues to favour quality companies with strong balance sheets and cash flows, with intrinsic growth, independent of overall economic growth. We believe that oversold markets can provide significant investment opportunities for active investors with a longer term perspective. In a lower growth environment, accurate stock picking will be essential to portfolio performance and our investment process is well suited to those conditions.

Key

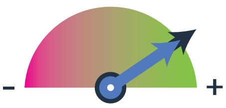
As a reminder there are 4 factors that we monitor and we have devised a schematic to clearly illustrate the current strength of each factor and how that has changed since last time. The blue arrow indicates our current view and the grey arrow indicates our last reading. 3 o'clock is the strongest, or most positive reading with 12 o'clock neutral and 9 o'clock the weakest or most negative reading.

1. Corporate Earnings Outlook



We started 2011 expecting healthy mid-teens earnings growth over the year. In our last Barometer we noted the growing negative impact of weaker economic activity and higher raw material costs on margins and earnings. This pressure intensified during Q2 and resulted in the weakest quarterly earnings reports since Q4 2008. Consensus earnings growth numbers have fallen from 15% in January to 13% in June and have since fallen to 9%[1]. Over the last six weeks, 2012 earnings forecasts have also suffered substantial cuts from 15% to 8%. We believe risk remains on the downside for earnings as the global growth outlook for 2012 is increasingly murky. Easing raw material costs will provide some relief on margins for many companies, but the end demand environment remains precarious. We have continued to be extremely vigilant with our company research, ensuring that we avoid companies with negative earnings surprises; this vigilance helped us to correctly expect some of the negative shocks in Q2 results. Third quarter results are likely to be equally disappointing. On the whole, however, corporate balance sheets remain strong and we continue to expect more merger and acquisition (M&A) activity over the next year.

2. Valuation

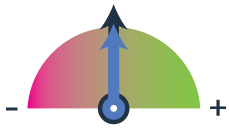


Europe contains numerous companies with good business models where valuations are currently exceptionally attractive for long term investors. Price-to-earnings ratios (P/E) are now less than 9x next year's earnings and relative to bonds, equities are at the low end of their 20-year range, with many companies' equities still yielding more than their corporate bonds. Dividends will become an increasingly attractive part of the total return to equity investors in a growth-challenged world and European equities offer some of the highest yields available to equity investors. The region also contains numerous quality companies with good long-term business models where valuations are currently exceptionally attractive.

3. Investor Positioning

Global asset allocators increased their European equity weightings from Q3 2010, but there have been substantial net outflows over the last few months as investors have flocked to perceived 'safe' assets. Until we see further progress on the euro crisis, it is difficult to see large scale investor flows returning any time soon. A return of investor confidence will be predicated on a resolution to the debt crisis across Europe, which unfortunately will be driven in part by political will.

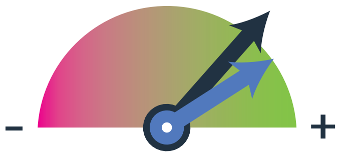
4. Macro Factors



This is the area of highest uncertainty and has been the key driver of changes to investors' risk premium this year.

Fundamentally, we are facing a global slowdown in the western world and the jury's out as to whether emerging markets can decouple to the same extent that they did in 2009. The latest evidence from China and other emerging markets shows the first signs of a deteriorating growth environment. Although government debt sustainability remains very important for the long term, there is a desperate need for growth stimulus in the short term. Without it, the danger of a debt trap increases, as well as the possibility of global recession. There is ongoing concern that the politicians in the Eurozone, UK and USA fail to understand that danger.

Overall Outlook



Last time we said

> "The events of Q1 mean that we are slightly less positive than at the turn of the year. Some indicators are pointing to a slowdown in 2012 as the rise in the oil price, strength of the euro, tighter fiscal budgets and increase in euro rates means that growth expectations for 2012 will have to be tempered. However, we believe this is more likely a mid cycle slowdown rather than another recession."

The global economic slowdown and worsening political crisis in the Eurozone and USA has been much more severe than we had anticipated. We have revised down our expectations to account for this more challenging environment. That said, corporate balance sheets remain very strong; we continue to find quality growth and defensive companies on very cheap valuations. European equities have sold off significantly in recent weeks, and whilst we are conscious of the risks currently pervading the region, we are also aware of the buying opportunity that this represents for investors prepared to ride out short term volatility.

1 Bloomberg, as at 19 August 2011

About BlackRock's European Equity Style Diversified Team

The European Equity Style Diversified team manages over €12.5 billion* in European Equities. The Team is headed by Nigel Bolton who has over 25 years of experience and consists of 13 other investment professionals who are dedicated to finding the best ideas across the European equity universe. The team's rigorous fundamental research utilises BlackRock's vast global resources to deliver the best stock ideas into concentrated portfolios designed to maximise alpha for an appropriate level of risk.

*As at 31 March 2011

For more information: Tel: Int. +44 (0)20 7743 3300 Email: investor.services@blackrock.com Website: blackrockinternational.com
Tel: UK 08457 405 405 Email: broker.services@blackrock.co.uk Website: blackrock.co.uk

BLACKROCK®

12441BR Aug11