



Fund Watch

May 2010

BlackRock funds

For the year ending 31 March 2010

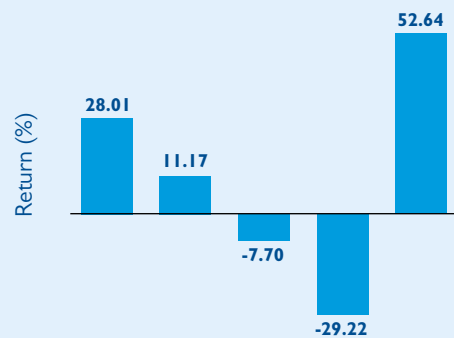
Global overview

The rally in global markets at the start of the review period coincided with the first tentative signs of economic recovery. In relation to US economic data, the general theme was gradual improvement, albeit from very weak levels. Meanwhile, concerns emerged in the UK regarding the rapidly deteriorating public finances. The third quarter of 2009 saw a continuation of the positive sentiment among market participants, driven by more tangible evidence of economic recovery, which the stock markets had started to anticipate in the previous quarter. Most equity markets continued to rally with the occasional pause for breath. This positive trend continued through to year end, as equity markets continued their rally, particularly in emerging markets. The first quarter of 2010 was another strong period for 'risk' assets, such as equities, commodities and corporate bonds. Evidence of economic recovery continued, although fears of a double-dip recession never quite disappeared completely. There were also some exceptions to the positive sentiment as markets were unsettled about sovereign credit risks in southern Europe, with Greece being the main focus of attention.

US equities

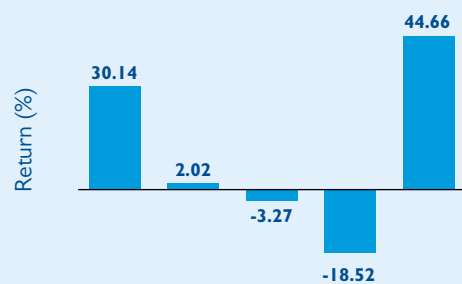
During April, May and June 2009, US equities rallied as investors turned much more optimistic on the outlook for the economy and the timing and nature of recovery. The worst part of the crisis in the banking sector seems to have passed and the economy had shown evidence of reaching low point, if not actually yet recovering. However, serious imbalances, difficult credit conditions, rising unemployment and high personal debt remained problems for the economy. US stocks made further gains through to the end of 2009, with tangible evidence of economic recovery and of a revival in the outlook for company profits boosting confidence. The US continued to pursue unprecedented monetary and fiscal stimulus, while the US corporate sector surprised many investors by the aggressive manner in which it had cut costs and maintained profits. However, cautious commentators continued to point to the ballooning national debt and the high unemployment rate, which were both seen as headwinds for the US economy.

UK Equity Index Fund



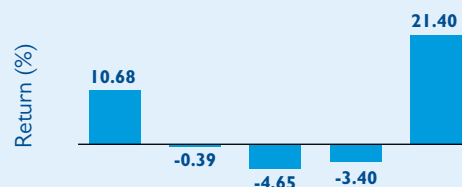
2006 2007 2008 2009 2010
Source: BlackRock. Fund returns are gross of fees.

World (ex-UK) Index Fund



2006 2007 2008 2009 2010
Source: BlackRock. Fund returns are gross of fees.

Corporate Bond Over 15 Years Fund



2006 2007 2008 2009 2010
Source: BlackRock. Fund returns are gross of fees.

With the US out of recession and continuing to benefit from loose monetary policy and a comparatively weak US dollar, the stock market made further gains in early 2010. The corporate earnings season, in which companies reported profits for the final quarter of 2009 and the full year, was generally stronger than expected.

UK equities

The UK stock market rose during the second quarter of 2009 but underperformed other European markets. Interest rates remained close to zero and the Bank of England continued its aggressive quantitative easing to inject liquidity into the banking system, and, it hoped, into the wider economy. However, the recession in the UK had been especially severe and there was little sign of recovery. Meanwhile, the government finances were in a poor state, preventing any meaningful fiscal stimulus – indeed the budget in April was the opposite with taxes actually being increased. Nevertheless, UK equities made good progress during the latter half of 2009. Interest rates remained close to zero and the Bank of England continued its aggressive quantitative easing. However, on the fiscal side it was increasingly clear that the public finances were in a poor state and the political agenda shifted from “investment” in public services and “stimulus” to restoring the country’s finances. Against that background, some cautious commentators and investors questioned the durability and strength of UK economic outlook. Early in 2010, the UK stock market continued to be supported by loose monetary policy and by sterling’s weakness, which offered the UK corporate sector a competitive advantage. On the other hand, the UK had only emerged from recession in a very shaky manner and the poor state of the UK public finances had become a significant concern for investors. In addition, the UK government bond market was nervous about the possibility of a hung Parliament after the election, fearing that it could lead to inaction in dealing with the fiscal deficit.

UK corporate bonds

During the second quarter of 2010, economic data and sentiment towards corporate bonds improved, with demand for the asset class remaining high. New issues continued to be oversubscribed as investment managers invested new cash flows. Corporate bonds continued their rally through the summer months, on further improvements in economic data that suggested the recession was over; positive surprises in company earnings and ongoing high demand. Against this backdrop, financials were again the best performing sector, having performed well earlier in the year. Overall, 2009 was an exceptionally good year for corporate bonds. Consistent with a more positive economic outlook, company earnings showed a marked improvement while non-financial firms accumulated cash and reduced borrowing – these were all positive developments for corporate bond markets. As we moved into 2010, corporate bonds continued to perform well. Whilst concerns over the macro-economic

environment remained, especially in the UK, corporate bonds were still supported by robust fundamentals. In particular, the non-financial corporate sector had built up cash holdings and reduced borrowing. Moreover, evidence suggested that the rate of defaults and downgrades in the corporate sector may have peaked, reducing the risk associated with holding corporate bonds.

Performance Commentary

Over the period the UK Equity Index fund was the best performing fund, with a return of 52.64%, followed by World (ex UK) with a return of 44.6%, and our Corporate Bond Over 15 years Index fund with a return of 21.4%.

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This Fund performance data is not a guide to future returns and may not necessarily be repeated.

Please note as each individual fund performs differently, the graphs depicted are not represented to the same scale. The information and graphs set out in Fund Watch are provided entirely by BlackRock Advisors (UK) Limited.

The BlackRock Funds were introduced for investment in the IBM pension plans from and including 6 March 2006. They were not available for investment for some of the period shown and earlier periods are included for information only.

