Monetary Policy at a Crossroads: The Case for Flexible Fixed Income

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Director
Fixed Income Portfolio Strategist
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For professional investors only
Declining Interest Rates Have Driven Fixed Income Returns

Declining rates have driven attractive returns of over 8% annualized for the AGG index over this period – what can investors expect going forward?

Source: BlackRock, OECD, Bloomberg as at July 2013.
Monetary Policy and Fixed Income Investing

Source: Bloomberg; Realized inflation represented by CPI Urban Consumers % change year over year.

Treasury yield vs. Inflation

Hyper-inflation

Return of the Fed

Financial Repression

Source: Bloomberg; Realized inflation represented by CPI Urban Consumers % change year over year.
Prior periods of “financial repression” such as the 1940s and 1950s have been associated with low returns for traditional fixed income sectors.

BlackRock believes the current environment will prove equally as difficult for fixed income investors with the global central banks on hold for an extended period.

Today's Low Interest Rates Resemble Those From The 1940s & 1950s “Financial Repression” era

Interest Rates & Bond Returns, %

Source: Morningstar as of 6/30/12. Past performance does not guarantee or indicate future results. Interest Rates and Bond Returns represented by IA SBBI IT Govt Index from 1926 to 1975 and the Barclays US Aggregate Index from 1976 to 2012. For illustrative purposes only.
Monetary Policy Transmission Mechanism

Asset inflation creates wealth effect

Home affordability near all-time high levels

Source: Bloomberg, Federal Reserve, DB
LSAPs Have Limited Impact on the Real Economy

Continued slack in the labor market

Wage growth extraordinarily low

Source: Bloomberg
Note: We adjust the participation rate to the levels prevailing in January 2008 and consider shifts in the age composition of the labor pool. Those adjustments result in an estimated participation rate of 64.8% vs. the actual figure of 63.4% for a difference of 3.4M additional unemployed persons under the "adjusted" measure.
The Four Quadrants of Financial Repression and Real Rates

**Corporate**

<table>
<thead>
<tr>
<th>S&amp;P 500 levels since 2003</th>
<th>1Q13</th>
<th>YE 2003</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA per share</td>
<td>213.36</td>
<td>140.09</td>
<td>+52.3%</td>
</tr>
<tr>
<td>Book value per share</td>
<td>677.91</td>
<td>360.31</td>
<td>+88.2%</td>
</tr>
<tr>
<td>Net debt per share</td>
<td>415.65</td>
<td>990.45</td>
<td>-58.0%</td>
</tr>
</tbody>
</table>

**Household**

- Household liquid assets to liabilities
  - Long-term average

**Financial**

- US Banks Total Equity / Total Assets (%)

**Government**

- Defense spending
- Income Security

Source: Bloomberg; DB; DB; Barclays; DB
Long term Inflation Contained Keeps Fed On Hold

Irving Fisher’s Equation, Money Supply x Velocity of Money
= Price Level x Aggregate Demand = GDP

Velocity of Money = Price Level x Aggregate Demand divided by Money Supply

V - We Know Velocity Of Money is Dropping (Chart Below)
Q – We know that Q is rising (Retail and Auto Sales)
M – We Know that the Money Supply is Rising (QE, ZIRP)
P – Prices Paid and Inflation Are (Relatively) Falling vs. Other Variables

Source: Bloomberg
LSAPs and the Distortion of Interest Rates

Real rates across major economies

- US 10yr Real Rate
- Japan 5yr Real Rate
- German 10yr Real Rate
- UK 10yr Real Rate
- Australia 10yr Real Rate
- France 10yr Real Rate

Source: Bloomberg, DB
What was Risk-Free is Now Risky

Rates volatility elevated, especially compared to equities

![Graph showing rates volatility and probability of negative return]

- **US 10 Yr Rates Vol**
- **Probability of negative return**

Source: Bloomberg as at July 2013, BlackRock

Fed announces tapering
System Re-Boot: The Start of a New Investment Regime?

Household debt/income off its highs

- 1990s avg: 0.85
- Q3-2012: 1.09

Spread of S&P 500 index & gold – Future cash flows versus a hedge against the state

- End of a Golden Era?
- Systemic risk has abated:
  - US growth solid
  - China and Europe avoid hard landing

Source: Federal Reserve, Bloomberg
The Great Re-Leveraging: A Permanent Economic Impact of QE

Corporate arbitrage: Cost of equity vs. Baa corporate yields

Credit growth funded at historically inexpensive levels

When QE goes away, its impact will remain

Source: Barclays, DB, Citi
Move Down the Capital Structure

Disequilibrium will be eradicated as:
1. Bottom of the capital stack appreciates
2. Cost of financing increases
3. BOTH

Implications for fixed income investors:
1. High yield bond market better relative value than investment grade
2. Opportunities in structured markets including: ABS, CMBS, CLOs

S&P 500 index – FCF discounted using IG/HY YTW *

Source: Bloomberg * As of 10/23/13.
Snapshot of the High Yield Bond Market

Valuations attractive relative to default activity

Borrowers have extended maturity profiles and refinanced their capital structures

Implications of the Divergence in Global Monetary Policy

- **Fed**
  - Potential tapering of QE3

- **ECB, BoE**
  - Declining ECB balance sheet but precedence set with forward guidance
  - BoE: Carney sets scene with conditional guidance

- **BoJ**
  - Bazooka

- **Emerging Markets**
  - Declining current account surpluses and currency protection
Euro Rate Policy Normalization Behind the US

Improved financial conditions support recovery

Austerity has improved current account deficits

Bank deleveraging limits growth potential

<table>
<thead>
<tr>
<th>Country</th>
<th>TE/TA</th>
<th>Equity/Assets</th>
<th>TA/TE</th>
<th>Assets/Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>7.0%</td>
<td>11.3%</td>
<td>14.2x</td>
<td>8.9x</td>
</tr>
<tr>
<td>UK</td>
<td>4.9%</td>
<td>5.6%</td>
<td>20.4x</td>
<td>17.8x</td>
</tr>
<tr>
<td>Italy</td>
<td>7.0%</td>
<td>5.5%</td>
<td>14.2x</td>
<td>18.2x</td>
</tr>
<tr>
<td>Canada</td>
<td>4.4%</td>
<td>5.3%</td>
<td>22.6x</td>
<td>19.0x</td>
</tr>
<tr>
<td>France</td>
<td>4.4%</td>
<td>5.1%</td>
<td>22.8x</td>
<td>19.8x</td>
</tr>
<tr>
<td>Germany</td>
<td>3.9%</td>
<td>4.2%</td>
<td>25.4x</td>
<td>23.9x</td>
</tr>
<tr>
<td>Japan</td>
<td>-</td>
<td>4.1%</td>
<td>-</td>
<td>24.5x</td>
</tr>
</tbody>
</table>

Source: IMF, Barclays, DB

Deflationary forces likely lead to further accommodation
ECB Support Creates Opportunity to Hold Risk in the Peripherals

Peripheral debt has remained resilient

Aided by reduced policy uncertainty

Attractive value and ripe to benefit from further policy support

Source: DB; Barclays
Emerging Market Debt is a Story of Bifurcation Across the Region

Many EM currencies reached their weakest levels

Some countries better positioned than others

FX reserves are much higher than in 1997 ($bn)

EM market subject to investor flows

Source: JPM, Barclays; DB, DB
BlackRock’s flexible fixed income strategy is designed to:

- Generate consistent, attractive risk-adjusted returns across all market environments
- Retain the general risk profile of conservative fixed income investments

The platform:

<table>
<thead>
<tr>
<th>Flexible Fixed Income Platform</th>
<th>Fixed Income Global Opportunities (FIGO) (UCITS)</th>
<th>US Mutual Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$928m</td>
<td>$7.8bn</td>
</tr>
</tbody>
</table>

The strategy seeks the following objectives:

- **Flexible generation of fixed income alpha**
  - Invests in diversified portfolio of fixed income alpha sources
  - Sector allocation flexibility and wide duration band of -2 to +7 years
  - Target performance return: 3 month LIBOR + 4-6% (net of fees)

- **Broad diversification, lower absolute risk and correlation**
  - Seeks to provide lower absolute risk through diversified alpha and risk exposures
  - Results in less correlation to traditional fixed income indices

- **Downside protection through dynamic risk budgeting**
  - Unique process aims to hedge tail risk and control volatility to generate better risk-adjusted returns

Data as of 8/31/2013
The manager cannot guarantee that the intended target rate will be achieved. In addition, over time the target rate is subject to change. See page 15 for correlation benefits of the strategy.
FIGO is a diversified solution designed to perform in all rate environments

Flexible fixed income utilizes an expanded opportunity set well beyond interest rate risk

Risk allocation for Barclays Global Aggregate Index (EUR hedged)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration</td>
<td>5.85</td>
</tr>
<tr>
<td>Yield*</td>
<td>2.05%</td>
</tr>
<tr>
<td>Risk</td>
<td>429 bps</td>
</tr>
</tbody>
</table>

89% of the portfolio is concentrated in interest rates (i.e. duration risk)

Risk allocation for BlackRock FIGO Portfolio

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration</td>
<td>1.19</td>
</tr>
<tr>
<td>Yield*</td>
<td>3.83%</td>
</tr>
<tr>
<td>Risk</td>
<td>310 bps</td>
</tr>
</tbody>
</table>

Flexibility translates into attractive returns with lower overall risk

* Yield to Worst. All data as of 30 September 2013.
Source: BlackRock Solutions (BRS); Ex-ante value-at-risk (1 standard deviation) based on the BRS Portfolio Risk model average contribution to risk
Unique process integrates macro, sector and security selection insights

Process employs best ideas across BlackRock’s global fixed income platform to:
- Establish the macro investment regime
- Budget risk to the highest quality alpha sources that can provide diversified risk-adjusted returns

**Portfolio Management**
Daily investment and risk dashboard review helps the team monitor and understand risk/reward trade-offs

1. **Regime identification**
   - Lead PMs analyze level and trajectory of global economic growth and form macro view

2. **Asset allocation**
   - Lead PMs determine asset allocation based on economic regime and expected risk-adjusted returns

3. **Security selection**
   - Lead PMs direct sub-sector risk allocation with input from the sector

**Risk Management**
Team leverages RQA and BlackRock’s proprietary Aladdin® system for risk and scenario analysis, attribution, and hedging
Flexible duration management is critical to generating return and controlling risk across different interest rate environments

Active duration management guides interest rate and credit exposure

Typical duration range spans the normal duration bands for most core and short duration funds

Flexible duration management in action

US Mutual Fund Duration (Daily data: March 2010 – September 2013)

Source: BlackRock Solutions, Barclays as of 9/30/13

Data shown is for a representative account for illustrative purposes only. The representative account is the BlackRock vehicle with longest tenure running the strategy (a US-domiciled mutual fund). Strategy inception date March 2010
Flexibility in managing sector allocations enables the strategy to navigate the changing markets

Seeks to generate returns in rising and falling rate environments

- Ability to invest in broad fixed income sectors and credit qualities within its risk budget

US Mutual Fund historical risk decomposition

Source: BlackRock Solutions, Barclays as of 9/30/13
Data shown is for a representative account for illustrative purposes only. The representative account is the BlackRock vehicle with longest tenure running the strategy (a US-domiciled mutual fund). Strategy inception date March 2010
The strategy has generated stronger returns relative to core fixed income with lower volatility and low correlations.

Favorable return profile

<table>
<thead>
<tr>
<th>Statistics¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ann return</td>
</tr>
<tr>
<td>US Mutual Fund</td>
</tr>
<tr>
<td>Barclays US Agg Index</td>
</tr>
</tbody>
</table>

Low correlation with major indices²

<table>
<thead>
<tr>
<th>Correlation to US Mutual Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays US Agg Index</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
</tr>
<tr>
<td>10-Year Treasury</td>
</tr>
</tbody>
</table>

Favorable risk profile³

Data shown is for a representative account for illustrative purposes only. The representative account is the BlackRock vehicle with longest tenure running the strategy (a US-domiciled mutual fund). Strategy inception date March 2010.

Data as of 9/30/13. Calculated using Institutional share class; performance returns based on the timeframe from March 31 2010. Past performance is no guarantee of future results.

¹ Source: Morningstar, Barclays Aggregate, Bloomberg

² Source: Morningstar Direct. Past correlations are no guarantee of future correlations. Correlation calculations use weekly returns. As measured by annualized standard deviation based on weekly market movements. Diversification does not ensure a profit or protect against a loss. Indices represented include the Barclays US Aggregate Bond Index, S&P 500 Index, and BofAML US Treasuries Current 10-Year Total Return. Index returns are for illustrative purposes only.

³ Rolling 30-week volatility
Why BlackRock for flexible fixed income?

The scale and complexity of global flexible fixed income investing demands the investment platform, infrastructure and multi-faceted risk management capability unique to BlackRock.

**Unbiased focus on best global FI investment opportunities**

Leverages the deep resources and specialized insights from our global FI platform

**Distinct investment approach enhances decision making**

Relies on the reach of our unique platform and sophisticated risk tools

**US Mutual Fund track record illustrates our flexible investing skill**

Generated stronger returns relative to core fixed income with lower volatility and low correlations (5.9% net total return with 2.5% volatility as of 9/30/13)

Data shown is for a representative account for illustrative purposes only. The representative account is the BlackRock vehicle with longest tenure running the strategy (a US-domiciled mutual fund). Strategy inception date March 2010.

Data as of 9/30/13. Calculated using Institutional share class annualized returns; performance returns based on the timeframe from March 31, 2010, the first full month after the investment strategy changed (investment strategy change effective date 03/05/10). Volatility calculated using standard deviation. Past performance is no guarantee of future results.
Appendix
# BGF Fixed Income Global Opportunities Fund Summary

<table>
<thead>
<tr>
<th>Investment Objective</th>
<th>Provide an attractive level of total return for fixed income assets given the market environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible Investments</td>
<td>Broad range of global fixed income instruments and derivatives, including all sectors in the BarCap Aggregate as well as high yield, EMD and non-USD</td>
</tr>
<tr>
<td>Target Sharpe Ratio</td>
<td>&gt;1</td>
</tr>
</tbody>
</table>
| Constraints          | • Duration Band: -2 to +7 years; typical range is 1-4 years  
                       | • No sector constraints |
| Expense Ratio¹       | Class A: 1.00%  Class D: 0.50% |
| Strategy Inception²  | 31 January 2007 |
| AUM                  | $938MM |
| Number of Holdings   | 443 |
| Liquidity            | Daily |
| Key highlights       | • Duration management flexibility can protect investors in a rising interest rate environment  
                       | • Broad flexibility to invest across the global FI universe without limitations while leveraging the best ideas in BlackRock Fixed Income |

Info as of 9/30/13 and subject to change.

1 Net operating expenses exclude investment interest expenses, acquired fund fees, if any, and certain other fund expenses net of all waivers and reimbursements. BlackRock has agreed contractually to waive or reimburse certain fees and expenses until 5/1/12. Contractual waivers terminable upon 90 days notice by the fund’s independent trustees or majority vote of outstanding fund securities.

2 Strategy inception for the unconstrained strategy.
### Historical sector breakdown of US Mutual Fund

#### Annual recap of thematic positioning

**2010**
Took advantage of a much more supportive environment (increasing monetary policy support) to hold a higher allocation to credit and maintain a longer duration positioning.

**2011**
Shifted the portfolio to a mode of capital preservation, primarily by reducing credit risk, as market risks escalated combined with the conclusion of QE2.

**2012**
Actively added credit risk back to the portfolio while reducing duration risk to take advantage of supportive European and US central bank policy and improving global economic growth.

**YTD 2013**
Maintained total credit position, rotating out of high yield and into securitized sectors. In May began aggressively reducing credit and duration risk to protect against tapering volatility.

**Data shown is for a representative account for illustrative purposes only. The representative account is the BlackRock vehicle with longest tenure running the strategy (a US-domiciled mutual fund). Strategy inception date March 2010**
**Examples of active positioning in the strategy to capture opportunities and manage for risk**

### Q2 2012

**Market event: Credit markets sell-off in May 2012**

**Fund strategy:**
- **Extended duration** proactively
- **Rotated into areas** with more liquidity and reduced higher credit beta
- **Added hedges** to the portfolio: short the Euro, short the Aussie Dollar and short European sovereign debt (Spain and France)

### Q1 2013

**Market event: Treasury sell-off in January and March 2013**

**Fund strategy:**
- **Reduced duration** to between 0 and 1.5 years
- **Rotated into areas** of the credit market that provided greater value: **Collateralized loan obligations (CLOs)**, junior tranches of the CMBS market, **local currency EMD** and **Asian** corporate credit

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**Returns**

<table>
<thead>
<tr>
<th></th>
<th>US Mutual Fund</th>
<th>Barclays US Agg</th>
<th>High Yield Index</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance</strong></td>
<td>2Q12 0.57%</td>
<td>1.47</td>
<td>2.06% 2.77</td>
</tr>
<tr>
<td><strong>Volatility</strong></td>
<td>1Q13 1.11%</td>
<td>1.37</td>
<td>-0.12% 2.26</td>
</tr>
</tbody>
</table>

Volatility data based on daily returns. Past performance is no guarantee of future results. Index returns are for illustrative purposes only. You cannot invest directly in an index. Data shown is for a representative account for illustrative purposes only. The representative account is the BlackRock vehicle with longest tenure running the strategy (a US-domiciled mutual fund). Strategy inception date March 2010.
FIGO is a strategy built for today’s fixed income market

A flexible multi-sector approach to fixed income can serve as an attractive complement and help diversify a broader fixed income portfolio

Source: Bloomberg as at 30 September 2013. Correlations of different fixed income strategies with equities and developed government bonds are represented using the Euro Stoxx 50 Index and the German Bund markets as representative proxies.
## Monthly Performance

### US Mutual Fund Net total returns (as of 9/30/13)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>YTD</th>
<th>1-year</th>
<th>3-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.01</td>
<td>1.51</td>
<td>-0.5</td>
</tr>
<tr>
<td>2011</td>
<td>0.90</td>
<td>0.12</td>
<td>-0.08</td>
</tr>
<tr>
<td>2012</td>
<td>2.08</td>
<td>1.03</td>
<td>0.6</td>
</tr>
<tr>
<td>2013</td>
<td>0.83</td>
<td>0.22</td>
<td>0.05</td>
</tr>
</tbody>
</table>

### US Mutual Fund Sharpe ratio (as of 9/30/13)

<table>
<thead>
<tr>
<th></th>
<th>YTD</th>
<th>1-year</th>
<th>3-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1.56</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1.61</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Net total return (US Mutual Fund / BGF Fixed Income Global Opportunities)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.01</td>
<td>1.51</td>
<td>-0.5</td>
<td>2.54</td>
<td>2.59</td>
<td>1.4</td>
<td>1.23</td>
<td>1.26</td>
<td>-0.54</td>
<td>0.05</td>
<td>13.38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>0.90</td>
<td>0.12</td>
<td>-0.08</td>
<td>0.71</td>
<td>0.29</td>
<td>-0.57</td>
<td>0.43</td>
<td>-1.76</td>
<td>-1.14</td>
<td>1.01</td>
<td>-0.97</td>
<td>0.37</td>
<td>-0.73</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>2.08</td>
<td>1.03</td>
<td>0.6</td>
<td>0.26</td>
<td>-0.31</td>
<td>0.61</td>
<td>1.24</td>
<td>0.69</td>
<td>1.29</td>
<td>0.80</td>
<td>0.56</td>
<td>0.64</td>
<td>9.92</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>0.83</td>
<td>0.22</td>
<td>0.05</td>
<td>1.29</td>
<td>0.01</td>
<td>-1.92 / -1.74</td>
<td>0.40 / 0.24</td>
<td>-0.43 / -0.56</td>
<td>0.88 / 0.56</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Data shown is for the BlackRock SIO Mutual Fund – Institutional Share Class. Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Refer to website at www.blackrock.com to obtain performance data current to the most recent month-end. Total/net annual operating expenses as stated in this fund’s most recent prospectus are: 0.93%/0.65% for Institutional shares. The fund’s net operating expenses exclude investment interest expenses, acquired fund fees, if any, and certain other fund expenses. BlackRock has contractually agreed to waive or reimburse certain fees and expenses until May 1, 2013. BlackRock has also voluntarily agreed to waive certain fees and expenses. BlackRock may discontinue these voluntary waivers at any time without notice.

Performance displayed for an investment in the USD Class A2 shares of the BGF Fixed Income Global Opportunities Fund since inception on 01/31/2007. Performance is shown net to the investor, i.e., after all fees and expenses as of 09/30/2013. Past performance is not a guarantee of future results. Performance of individual shareholders may differ from the performance listed below due to fee and timing differences.

Data shown is for a representative account for illustrative purposes only. The representative account is the BlackRock vehicle with longest tenure running the strategy (a US-domiciled mutual fund). Strategy inception date March 2010.
BGF Fixed Income Global Opportunities Fund
EUR Hedged Retail Share Class Performance - Net

Net returns¹

<table>
<thead>
<tr>
<th>Fund/Metric</th>
<th>YTD</th>
<th>1 yr</th>
<th>3 yr (Ann)</th>
<th>5 yr (Ann)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BGF Fixed Income Global Opportunities</td>
<td>-0.11</td>
<td>1.63</td>
<td>3.52</td>
<td>5.26</td>
</tr>
<tr>
<td>(EUR Hedged)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBA Libor 3 month</td>
<td>0.22</td>
<td>0.32</td>
<td>0.36</td>
<td>0.74</td>
</tr>
<tr>
<td>Barclays Global Agg (EUR Hedged)</td>
<td>-0.54</td>
<td>0.26</td>
<td>3.07</td>
<td>4.99</td>
</tr>
</tbody>
</table>

Performance displayed for an investment in the EUR Class A2 shares of the BGF Fixed Income Global Opportunities Fund since inception on 31/01/2007. Performance is shown net to the investor, i.e., after all fees and expenses as of 30 September 2013, on a bid-to-bid price basis with income re-invested. Past performance is not a guarantee of future results. Performance of individual shareholders may differ from the performance listed below due to fee and timing differences.
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The fund invests in high yielding bonds. Companies who issue higher yield bonds typically have an increased risk of defaulting on repayments. In the event of default, the value of your investment may reduce. Economic conditions and interest rate levels may also impact significantly the values of high yield bonds.

The fund invests in fixed interest securities such as corporate or government bonds which pay a fixed or variable rate of interest (also known as the ‘coupon’) and behave similarly to a loan. These securities are therefore exposed to changes in interest rates which will affect the value of any securities held.

The fund may invest in structured credit products such as asset backed securities (‘ABS’) which pool together mortgages and other debts into single or multiple series credit products which are then passed on to investors, normally in return for interest payments based on the cash flows from the underlying assets. These securities have similar characteristics to corporate bonds but carry greater risk as the details of the underlying loans is unknown, although loans with similar terms are typically packaged together. The stability of returns from ABS are not only dependent on changes in interest-rates but also changes in the repayments of the underlying loans as a result of changes in economic conditions or the circumstances of the holder of the loan. These securities can therefore be more sensitive to economic events, may be subject to severe price movements and can be more difficult and/or more expensive to sell in difficult markets.
Important Notes (2)

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