BLACKROCK

April 2011

FOR PROFESSIONAL INVESTORS ONLY

Fund Commentary

BLACKROCK GLOBAL FUNDS (BGF)

BGF New Energy
Review of First Quarter 2011


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Performance

The Fund returned 8.21% over the quarter, outperforming its benchmark by 3.41%.

In the first quarter, the New Energy sector began to feel, for the first time since the financial crisis, tailwinds at its back. In January, upbeat macro data and rising investor sentiment helped buoy the sector. In February and March, the return of triple digit oil prices, heightened concerns over energy security and the doubt cast over the future of the nuclear industry became the dominant drivers behind New Energy's continued rise.

As the quarter drew to a close, the battle for control of Libya raged on, with no imminent solution apparent. Oil prices have broken through the $120/bbl level (Brent) and were kept elevated as the bulk of Libyan supply remained off the market and investors deliberated the longevity of the situation as well as the rumbling unrest in Yemen and Syria.

Amidst the destruction of the Japanese earthquake and tsunami, the Fukushima nuclear plant was left in a precarious state. The world and energy policy makers alike looked on with trepidation as Japanese authorities went to all lengths to avoid a meltdown situation at one of the world's largest nuclear facilities. The nuclear industry, as a result, is on hold and if history is anything to go by, the slowdown is not likely to be short-lived and could well turn into a reversal. The Fund's exposure to the nuclear industry was limited to two companies for whom nuclear is but one element of their overarching business. As an approximation, around 1% of the portfolio was directly exposed to nuclear.

The uncertainty over the future of the nuclear industry combined with the return of triple digit oil prices and the continued unrest in the MENA region has put energy security and energy policy back on the political agenda. There now appears scope for renewed regulatory momentum for the sector as well as a widening of the commercial opportunity for New Energy companies. Both renewable energy and energy efficiency companies look poised to benefit and the Fund is well positioned, with over 75% of its investments exposed to these themes.

China currently leads the way in legislative support for New Energy as the release of their 12th Five Year Plan confirmed. China is targeting 15% of primary energy to be sourced from New Energy by 2020 (150GW in wind, 20GW in solar) and the plan also includes a target of reducing the carbon intensity of GDP by 17% by 2015. President Obama delivered his state of union address in January. On the face of it, the implications for the New Energy space were encouraging: the president stipulated that by 2025 80% of power should be generated from clean sources. Obama's use of the word clean is important, though: in its scope he includes natural gas, nuclear and 'clean' coal. The sector still awaits, therefore, an assertive piece of US legislation in support of New Energy.

In company news, Iberdrola Renovables was the subject of a bid by its parent company, Iberdrola, which proposed a merger of the spun-out company back into the umbrella organisation. The bid came at an offer of €2.98 a share but was subsequently sweetened to €3.08 a share, which represented a 20% premium to the average share prices of the last 6 months. At the end of the month, Iberdrola Renovables was the Fund's second largest holding, a 5.0% position

Renewables companies in general gathered momentum as investors quickly assessed the implications of the Fukushima situation for the nuclear industry. Vestas, Wacker Chemie and EDP Renovaveis were among the Fund's top performing positions over the quarter as a result. The Fund's biofuels exposure worked to its advantage amidst elevated oil prices. Archer Daniels Midland and Novozymes, the Denmark based enzyme producer, were strong performers over the period.

Ormat Technologies, the geothermal power producer, underperformed after publishing guidance that was below market expectations. The company's performance continues to be hurt by operational difficulties at a key project.

The Fund's very limited exposure to the nuclear industry was a detractor from performance. Shanghai Electric and Shaw Group both have portions of their businesses focused on the nuclear industry and shares of the two companies were marked lower following the Japanese disaster.

Portfolio Activity

The Fund initiated new positions in ABB, the world's largest supplier of transmission and distribution equipment, given our growing conviction in the importance of the power grid theme as well as in a UK based developer of renewable energy projects.

We took some profits in Aixtron, the German manufacturer of equipment used in the production of LEDs, after the stock's good run, recycling some of the capital into its peer, Veeco Instruments, based on relative performance and valuation.

Towards the end of the quarter, we added to select, core renewables holdings in the light of the nuclear industry's uncertain future. We also looked to take advantage of the volatility created by the events in Japan with measured trading around certain positions.

Outlook

There is a real and significant opportunity for renewable energy and energy efficiency to help offset any slowdown or reversal in nuclear power's renaissance. Recent events, both in Japan and the Middle East and North Africa (MENA) region, have put energy policy and energy security back on the political agenda. There now appears scope for renewed regulatory momentum in the sector. The BGF New Energy Fund is poised to benefit from this new reality with over 75% of its investments exposed to energy efficiency and renewables. What is more, the sector has been out of favour for so long that many of the Fund's holdings are trading on historically low earnings multiples. This may be a pivotal moment for the New Energy sector.

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* Data as at 31 March 2011.

† This tally of awards is correct to 31 December 2010 and does not include iShares ETF products.

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