

BlackRock UK Dynamic A Acc

Morningstar Category Benchmark
MSCI UK Growth NR USD

Morningstar Qualitative Rating



► **Elite**
Superior
Standard
Inferior
Impaired

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Morningstar Analyst

Executive Summary

People: Mark Lyttleton has been at the group since 1992 and has spent over six years at the helm of this fund.

Parent: BlackRock is an independent asset management group that is recognized as one of the most prominent fixed-income managers globally. Its merger with MLIM strengthened it on the equity front.

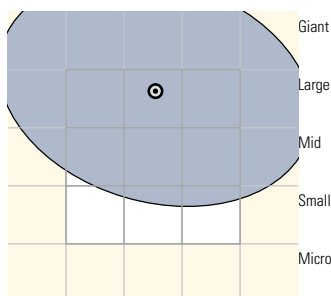
Process: Lyttleton looks to identify strong companies that operate in attractive industries. He then hopes to identify catalysts for revaluation.

Performance: Long-term performance is excellent, despite the blip in the second half of 2008.

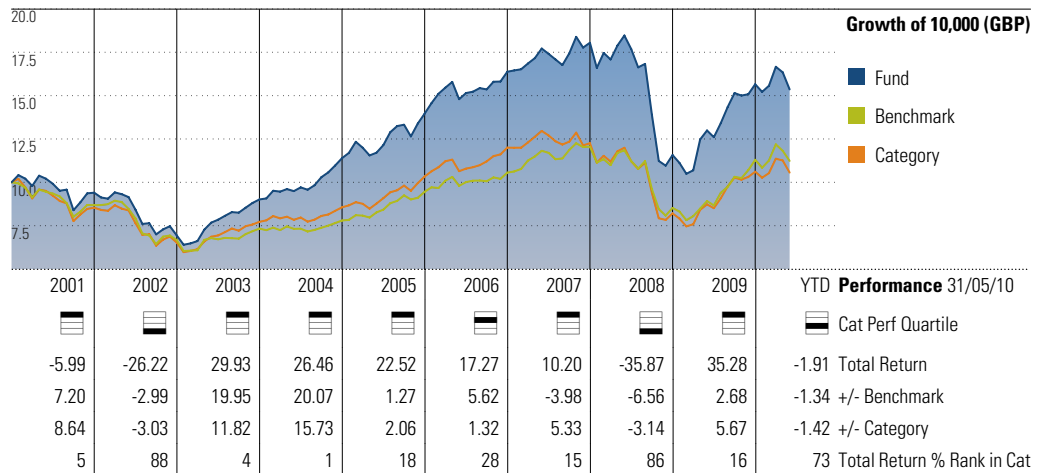
Price: At 1.66% the fund is priced in line with similar category peers.

Role in Portfolio: This fund is a suitable core holding for more adventurous UK investors who can handle the extra risk that comes from a relatively concentrated portfolio. It is likely to be only a niche player for Europe- or Asia-based investors.

Morningstar Style Box: Ownership Zone



● Centroid = weighted average of stock holdings
● Zone = 75% of fund's stock holdings
(as of 28/02/10)



Morningstar Opinion

12 Jan 2010 | Investors with a higher risk tolerance will find much to like at BlackRock UK Dynamic.

Mark Lyttleton has run this fund since Aug. 2003 after having impressed during his time in charge of BlackRock UK. Lyttleton still runs the UK fund, but the Dynamic fund acts as a punchier alternative that has historically taken on more risk and has also offered investors more rewards. More recently, we have seen the two portfolios become very similar; this is more a function of the current environment rather than a long-term trait and, as market volatility reduces and the manager starts to see more normalised market conditions, we would expect to see the fund's risk profile increase once more.

The similarities between both funds increased after a torturous end to 2008; Lyttleton started that year well as the booming oil price propelled this fund forward. However, it was a year of two halves and his overweight to energy companies came back to haunt in the second half. Since then, Lyttleton has reined the fund in a little; initially he moved closer to the benchmark in order to cope with the level of irrationality in the market, before taking on a more defensive bent as the economic outlook worsened. He by no means hid in defensives though, and as we would have expected from this strategy, the fund strongly outperformed throughout 2009.

Despite the 2008 blip, we are confident that more risk-

tolerant investors will be well rewarded here over the long term. Not only is Lyttleton an accomplished manager in his own right, he runs the fund with a sound process that is relatively style-agnostic. He looks to buy strong undervalued companies that operate in attractive industries in which they can benefit from pricing power. He then aims to identify catalysts that will lead to a revaluation.

To this end he is able to take advantage of one of the strongest UK equity teams we've come across so far. The highly experienced team of 20 additional managers and analysts has an average of 15 years' industry knowledge. It is headed by James Macpherson and Luke Chappell and contains four former heads of UK equities that were recruited from competitors. Lyttleton uses this team's core portfolio of between 30 and 40 stocks as a sense check for his own portfolio. If the holdings similarity drops toward 50% he questions his overall investment thesis to understand where his views are differing, and why.

Although this offering has recently moved closer to the more conservative UK fund we are not concerned. Lyttleton's reasoning is clear and it made sense to reduce risk in a market led by sentiment and not fundamentals. As a semblance of normality returns to markets, we anticipate the manager will once again move up the risk curve to where he is arguably more comfortable. The fund earns our Elite rating.

Morningstar Category	UK Large-Cap Growth Equity
IMA Sector	UK All Companies
Manager's Benchmark	100% FTSE AllSh TR GBP
Inception Date	31/10/2000
12 Month Yield %	1.42

ISIN	GB0000709062
Domicile	United Kingdom
Legal Status/UCITS	Unit Trust
Base Currency	GBP
Total Net Assets	GBP 1523.27 Mil

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Manager	Mark Lyttleton
Manager Start Date	04/08/03
Average Tenure	6.91
Avg Yrs Experience	17
Longest Tenure	6.91

Other Funds Managed
BlackRock UK
BlackRock Absolute Alpha

Number of Analysts	20 (mixture of fund managers and analysts)
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Management Company
BlackRock Fund Managers Limited

Total Assets Under Mgt	USD 3.2 Tri
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Expd Track Error	3-7%
Sector Constraints	None
Regional Constraints	None
Yield Requirement	None
Tactical Use of Cash	No
Hedging Policy	Unhedged
Manager's Benchmark	100% FTSE AllSh TR GBP

People

Mark Lyttleton joined Merrill Lynch Investment Managers (now BlackRock) as a graduate trainee in 1992. After two years at the firm he was given his first institutional fund. He took over the management here in Aug. 2003. Lyttleton is also responsible for BlackRock's UK and Absolute Alpha propositions. Assets under management in Absolute Alpha have grown rapidly since the fund's launch but we are not overly concerned about the strains on the manager's time due to the funds' synergies. Lyttleton is part of the group's wider UK Equities team headed by James Macpherson and Luke Chappell, which comprises

20 other managers and analysts. This team is highly experienced with an average of 15 years' industry knowledge. It also contains four former heads of UK equities that were recruited from competing investment houses. Research responsibilities are split by sector with each person accountable for around 25 stocks at any one time. As well as drawing from this well-resourced pool, Lyttleton also has access to various specialists across BlackRock's global operation. For example, he avoided much of the carnage in the financials sector thanks to the group's credit and bond teams, which were quick to spot the problems there. He will also talk to economists and strategists to strengthen his macro views.

Parent

BlackRock, Inc is an independent firm providing investment management, risk management, and advisory services. The firm has historically targeted institutional investors, but it has recently permeated the retail market, particularly through its acquisition of Merrill Lynch Investment Managers in 2006. The merger strengthened its reputation on the equity front while its acquisition of Barclays Global Investors in Dec. 2009 makes it the biggest player in the ETF market; the firm is one of the biggest asset managers globally with assets under management standing at USD 3.2 trillion (as of 30 Sept. 2009). We're glad to see BlackRock's reach to investors through its fairly detailed shareholder reports and fund

and market commentaries. We also like its incentive structure, which inhibits short-term performance-chasing. Senior portfolio managers' bonuses are based on one-, three-, and five-year performance, contrary to the common industry practice of focusing on 12-month returns. Additionally, analysts are rewarded based on the success of the contribution to managers' portfolios. This structure encourages analysts to communicate their investment ideas effectively. BlackRock invests considerably in risk management solutions, given its risk-conscious approach to investing. While this promotes a greater consistency of returns, limiting outsized bets makes it more difficult for managers of funds with hefty fees to outperform. Although we like this approach, we'd like it more if fees dropped.

Process: Investment Approach

Lyttleton's investment thesis is relatively simple: He looks to buy strong companies that operate in attractive industries in which they can take advantage of pricing powers. He does not feel it's worthwhile investing in good companies that operate in struggling areas of the market, as they will find it difficult to outperform relative to other sectors. He begins with a top-down assessment of industry and wider market dynamics before moving on to manager appraisal. Lyttleton wants to ensure that any prospective investments have strong enough management teams in place to take advantage of

the opportunities available to them. He then considers valuation relative to competitors and the wider market. Finally he aims to identify possible catalysts for upgrades. He looks for an event or a series of events that will lead to a revaluation. This stage brings the top-down, fundamental, and valuation work together with the manager using inputs from the UK Equity team. He uses the core UK portfolio as a sense-check for his own view and, if holdings similarity falls toward 50%, he further questions his thesis, which is always under re-evaluation. Lyttleton also talks to BlackRock's wider teams of analysts and strategists.

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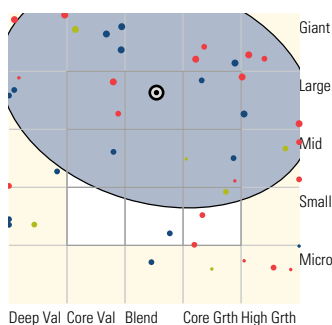
MSCI UK Growth NR USD

Value Measures	Fund	Rel Cat
Price/Prospective	12.01	1.09
Earnings		
Price/Sales	0.76	0.94
Price/Book	1.39	0.85
Price/Cash Flow	2.91	0.65
Dividend Yield	-	-

Growth Measures	Fund	Rel Cat
Long-Term Earnings	23.96	2.80
Historical Earnings	-11.63	2.20
Sales	-21.89	1.10
Cash Flow	-39.27	3.23
Book Value	-6.34	0.37

Average Market Cap	GBP 13765.20 Mil
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Morningstar Holdings Based Style Map



● Centroid = weighted average of stock holdings
 ● Zone = 75% of fund's stock holdings
 (as of 28/02/10)

Top 5 Regions	% Equity
United Kingdom	98.32
Africa	1.51
United States	0.16

Top 5 Countries	% Equity
United Kingdom	98.32
South Africa	1.51
United States	0.16

Market Maturity	% Equity
Developed Country	98.49
Emerging Markets	1.51
Not Classified	0.00

Process: Portfolio Positioning

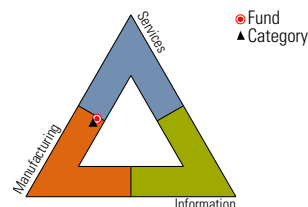
Although this fund falls into the Morningstar UK Large-Cap Growth Equity category, Lyttleton is not a staunch growth investor. In fact the fund has shifted to the blend column of the Morningstar Style Box over 2009 as Lyttleton cut back his exposure to the high-growth areas of energy and industrial materials. As at the end of November the fund owned large-value names in the health-care space as well as the likes of Vodafone and BP. These complement companies with stronger growth characteristics like Tullow Oil and BHP Billiton. This portfolio has seen a number of changes over the last 12 to 18 months and now it is much more closely aligned with

Asset Allocation	% Assets	long %	short %	net %
Stocks	97.92	0.00	97.92	
Bonds	0.00	0.00	0.00	
Cash	2.13	0.05	2.08	
Other	0.00	0.00	0.00	

Top Holdings	% Assets
HSBC Holdings PLC	7.31
Vodafone Group PLC	4.73
BP Plc	4.39
Rio Tinto PLC	4.29
Royal Dutch Shell PLC B	4.19
GlaxoSmithKline PLC	4.07
BHP Billiton PLC	3.40
British American Tobacco PLC	3.19
AstraZeneca PLC	3.15
Tullow Oil PLC	3.10
Imperial Tobacco Group PLC	3.04
Tesco PLC	2.96
Compass Group PLC	2.72
BG Group PLC	2.51
Inmarsat PLC	2.48
BAE Systems PLC	2.42
Barclays PLC	2.42
Lloyds Banking Group PLC	2.33
Amec Plc	2.03
Wm Morrison Supermarkets PLC	1.92
Total Equity/Bond Holdings	50/0
Assets in Top 10 Holdings %	41.83

Lyttleton's UK fund--which has typically been lower risk. The increase in similarity is understandable: The current state of markets, and the terrible performance during the second half of 2008 that was caused by excess risk, led to a large aforementioned reorganisation and in February the fund took on a defensive appearance. By the end of November, however, it had a more balanced look as Lyttleton has reduced some of his underweights. In particular he has added to banking and real estate stocks to up his financials exposure by investing some of the cash that had built up earlier in the year. Other activity has seen an increase in the fund's exposure to cyclical stocks, and Lyttleton hasn't been shy of supporting recent rights issues.

Sector Delta



Sector Weightings	% Equity	Rel Cat
Information	12.43	1.08
Software	1.20	1.67
Hardware	0.00	0.00
Media	2.58	0.65
Telecommunication	8.64	1.28
Service	42.82	1.05
Healthcare	7.43	0.84
Consumer Services	10.08	1.20
Business Services	4.94	0.90
Financial Services	20.38	1.12
Manufacturing	44.75	0.94
Consumer Goods	8.39	0.75
Industrial Materials	17.64	1.01
Energy	18.72	1.16
Utilities	0.00	0.00

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Trailing (GBP)	Total Rtn %	+/- Bmark	+/- Cat	%Rnk in Cat
3 Mo	-1.35	-1.18	-1.60	85
6 Mo	1.83	-3.07	-0.76	60
1 Yr	18.23	-7.71	-3.00	80
3 Yr Annualised	-4.65	-2.98	-0.38	59
5 Yr Annualised	5.58	-0.75	-0.01	48

MPT Stats	3 Yr	Rel Cat	5 Yr	Rel Cat
R-Squared	82.82	1.00	80.46	1.01
Beta	1.12	1.10	1.10	1.08
Alpha	-1.75	0.88	-0.40	1.05

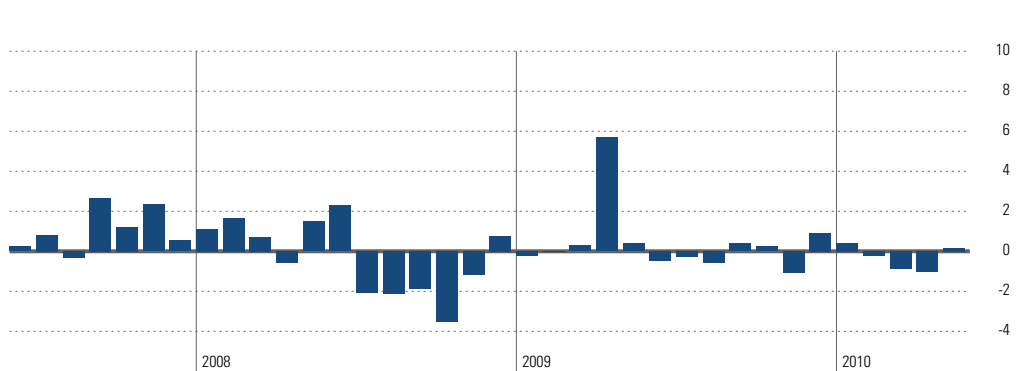
Volatility & Risk Adj Returns	3 Yr	Rel Cat	5 Yr	Rel Cat
Std Deviation	23.08	1.09	19.13	1.07
Mean	-0.17	1.00	0.61	1.03
Sharpe Ratio	-0.24	0.96	0.17	1.00
Information Ratio	-0.30	1.07	-0.09	1.13
Treynor Ratio	-7.28	0.98	1.38	0.93

Performance Analysis

Lyttleton has been in charge here for six and a half years now, having taken up the mantle in Aug. 2003. Over that period he has beaten his average Morningstar UK Large-Cap Growth Equity peer by 4.5 percentage points per annum. The level of outperformance would have been even more impressive were it not for a disastrous second half of 2008 when the manager's overweight to oil stocks came back to haunt him. Prior to this the fund had dropped out of the top quintile over only one calendar year, and

even then it still outperformed peers. Although 2008 cost investors 35.9%, it is pleasing to see that Lyttleton did not get spooked into tinkering with the process that had worked so well previously. He did take some risk off the table, which proved the correct move, but he was also not afraid to follow his conviction and the fund by no means hid in defensives. Excess cash was deployed in April and performance in 2009 was much more akin to what we are used to seeing from Lyttleton. Over the course of 2009 the fund was in the top quartile, strongly outperforming category peers.

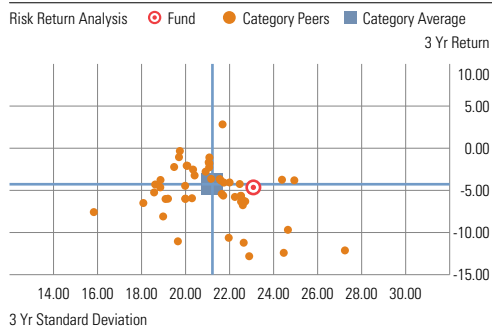
Monthly Return vs Morningstar Category (GBP)



Risk & Return

This fund is a higher-risk alternative to Lyttleton's UK fund and is run as a relatively concentrated best ideas offering. As such it can suffer from higher-than-average volatility as the manager invests with conviction. Over the past three years its standard deviation stands over 10% above the category. The fund also displays a high downside

capture ratio, indicating that it has historically underperformed peers in falling markets. This was certainly true at the end of 2008 when the high oil weighting hurt significantly. However, the upside capture ratio is also high, which indicates that when times are good the fund should outperform; which explains the strong longer-term performance.



Morningstar Rating™ (Rel Cat)	Morningstar Return	Morningstar Risk	Morningstar Rating™
3 Year	Bel avg	High	★★
5 Year	Avg	High	★★★
Overall	Avg	High	★★★

Price

At 1.66% the fund is priced in line with similar category peers.

Max. Initial Sales Charge %	5.00
Max. Annual Management Fee %	1.50
Total Expense Ratio %	1.66