BLACKROCK

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FOR PROFESSIONAL INVESTORS ONLY

Fund Commentary

BLACKROCK GLOBAL FUNDS (BGF)

BGF World Energy
Review of First Quarter 2011

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Performance

The BGF World Energy Fund returned 12.10% in the first quarter; underperforming its benchmark, the MSCI World Energy Index, by 1.73%*. Meanwhile, crude oil (Brent) appreciated by 26.4%, ending the quarter at $116.9/barrel.

The spread between WTI and Brent spot prices remained wide throughout the quarter. Elevated stock levels and weak demand at Cushing, Oklahoma (the WTI delivery point), coupled with high storage costs at the facility weighed on the WTI spot price, which finished the period at $106.7/barrel having gained 16.8% over the quarter. Brent crude is currently offering a better reflection of overall oil market fundamentals, in our view.

Instability in the MENA region tightened what was already, in our view, a tightening oil market. In January, both OPEC and the International Energy Agency revised up their 2011 global oil demand forecasts, concurrently OPEC's spare capacity was estimated to have fallen below 5mb/d for the first time in two years. Unrest in Tunisia and Egypt, leading to the deposition of presidents Ben Ali and Mubarak, gave energy investors much to consider but it was not until civil war in Libya that uprising in the area had a tangible impact on oil market fundamentals. In January, Libya produced 1.6mb/d, approximately 1.8% of global supply. For most of February and March the oil market had to contend with the majority of that supply being offline. At the end of the quarter, the battle for control of Libya raged on, with no imminent solution apparent and oil prices were kept elevated as a result.

On 11 March, disaster struck Japan in the form of a 9.0 magnitude earthquake which was followed by a devastating tsunami. Amidst the destruction, the Fukushima nuclear plant, one of the world's largest, was left in a precarious state. The future tenability of nuclear power in Japan and across the world has as a result been brought into serious consideration. The net impact of the disaster on Japanese oil demand is likely to be positive: there is sufficient oil-fired power capacity to make up the nuclear shortfall and it has been estimated that its utilisation could add 200,000 bbl/d to incremental oil demand.

Uranium prices became victim to the uncertainty raised over the nuclear industry. Prices fell 30% to as low as $49/lb before recovering to $59/lb by the end of the month. The Fund had very limited exposure to the sector and our general underweight to uranium versus our benchmark delivered relative outperformance.

In company news, Marathon, an integrated oil company, announced its intention to divide its operations into standalone upstream and downstream businesses. Shale gas assets were the subject of some strategic M&A: BHP Billiton acquired Chesapeake's project in Fayetteville, Arkansas for US$4.75 billion and Anadarko signed a US$1.55 billion joint venture agreement with Korea National Oil Corp (KNOC) in return for a one third share of its Maverick Basin assets in Texas. Hyperdynamics, the West Africa focused explorer in which the Fund built its position by means of a private placement deal in October last year, completed a further equity raising to fund its project offshore Guinea. The deal was oversubscribed and all the over-allotment capacity used which meant that the company was able to raise US$144million, considerably more than the US$125 million initially projected.

In an important step in the evolution of the deepwater oil industry, US regulators approved in February their first deepwater permit in the Gulf of Mexico since the Macondo oil spill in April 2010

The Fund's limited exposure to uranium generated, on balance, outperformance in March and therefore over the quarter. The weakness seen in the Fund's single uranium holding was more than offset by the relative performance generated by its underweight to the sector as a whole. The Fund's underweight position to BP was also a source of outperformance as the ongoing dispute over the company's proposed deal with Rosneft weighed on its share price. The current oil price environment is proving constructive for our oil services positions. Halliburton and Rowan Companies were, for example, among the top performing holdings in the first quarter. Being underweight Exxon Mobil, the world's largest integrated, was a source of underperformance. Exxon shares performed strongly after robust results and hints of a more positive market view of their acquisition of gas producer XTO in 2009 became evident. Some of the positions that had delivered robust outperformance over the final quarter of 2010, were weighed by profit taking over the period and were sources of modest underperformance as a result.

Portfolio Activity

The Fund added two holdings that increase its exposure to European unconventional gas. Unlike in North America, there is as yet very little exploitation of unconventional gas basins in Europe. The Fund also initiated new positions in a Russian oil and gas name as well as a Texas based company offering both oil and natural gas exposure. In addition, the Fund participated in an equity raising by Hyperdynamics, the US listed, West Africa focused explorer. Furthermore, the Fund selectively took some profits in a number of its Exploration and Production holdings that have performed well in recent months, recycling capital into other compelling opportunities.

Outlook

The headline events of recent weeks have accelerated the tightening of an already tightening oil market. The outage of Libyan oil production and the argument that more oil-fired power capacity will be required in Japan to make up the nuclear shortfall have maintained the upwards pressure on oil prices. Unrest in Libya does not appear close to resolution. It is our view that full-scale production should not be expected of the country for some time. Not only does resolution appear unforthcoming but production forecasts for the country were predicated on significant levels of capital expenditure, which will certainly lag well behind any establishment of regime stability.

We continue to expect, therefore, a tightening oil price environment over the next 12-24 months. Contagion of unrest across the MENA region and evidence of broad-based demand destruction could require us to nuance our constructive outlook for energy equities. However, it is important to stress that the shortfall in Libyan supply can more than be made up by spare capacity in Saudi Arabia and elsewhere. By analyst estimations, we would need to see oil prices that are sustained in between the $120-$130/bbl range before broad demand destruction is likely. As a result, this continues to be a highly attractive environment for our investments, many of which are enjoying significant margin expansion and cash generation and yet are still trading on comparatively undemanding valuations.

* Reported Fund performance relative to its benchmark over the quarter was positively affected by the timing differential between pricing of the Fund and its benchmark.

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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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