

## Extended Commentary

BLACKROCK GLOBAL FUNDS (BGF)  
BGF World Agriculture Fund

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### Market & Portfolio Performance

The BGF World Agriculture Fund declined -18.4% in the third quarter, underperforming its benchmark, the iDAX Global Agribusiness index, which finished the period -18.7% lower\*.

It was a torrid quarter for global markets. Investors wrestled with a worsening eurozone sovereign debt crisis, weakening economic data, a landmark downgrade by S&P of US debt and nervously digested policy moves (or their conspicuous absence, in the case of the eurozone decision makers) to address the precarious environment.

Agricultural commodities, for much of the period, felt the benefit of some fundamental support. The reporting from the US Department of Agriculture (USDA) over July and August pointed towards hot and dry weather in the US hindering crop production. Stock builds were muted as a result and yield forecasts were lowered. The constructive tone was threatened on the final day of the period with a more bearish *Stocks and Grains Report*. Corn and wheat inventories were reported at higher than expected levels, which the market took as indicative of a near-term slowdown in demand, and agricultural commodities and equities were heavily sold off.

The USDA's latest findings were met with some scepticism, however: other signals from the livestock sector have not, for example, evidenced significant demand destruction. The production outlook across key commodities is still constrained and consensus suggests that there may be more downgrades to production estimates to come. Fundamentals continue to look supportive for the sector going into next year and crucially farm incomes are projected to be strong. The USDA reported an increase to forecast net farm income for 2011 of 31% year-on-year, which bodes well as the majority of companies in the portfolio provide farming inputs (seeds, fertilizers, agricultural equipment and so on).

Reflecting these healthy economics, much of the company reporting over the period offered encouraging results. Agco and Potash Corp upgraded full year guidance after their Q2 results and Monsanto recently provided strong seed pricing guidance for

2012. In a similar vein, potash pricing strength continues, with Russian producers reportedly increasing prices for export to Brazil by \$30/t.

The Fund's holding in Viterro contributed to outperformance as the agribusiness sector offered some resilience and the company could be well set to benefit from increased wheat supply and trading.

The Fund's underweight to nitrogen fertilisers was also a source of outperformance, especially in the closing stages of the period as the corn price came off aggressively (corn is a nitrogen intensive crop).

The Fund's underweight position in BRF Brasil Foods was a source of underperformance as the antitrust concerns that had weighed on the company's shares were lifted by a resolution reached with the Brazilian regulator early in the period.

Our industrial type holdings, such as Agco, generally underperformed as the sector suffered from the heightened macro-economic concerns.

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

### Transactions & Portfolio Activity

Early in the quarter, we repositioned the portfolio to have a more defensive stance, which offered some protection amidst the market weakness. We reduced our European exposure, selling out of K+S and trimming our holding in Yara for example, and later in the period we added to some of our agribusiness exposure as it offers a defensive element and select holdings were also looking attractive in valuation terms.

We added to high conviction holdings on weakness such as Potash Corp and Monsanto.

We participated in the IPO of PhosAgro, a Russian fertiliser company listing in London.

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## Market Outlook

The USDA's *Quarterly Grains Stock Report* ended the quarter with a bearish tone. However, fundamentals still look supportive: production disappointments, historically low grain inventory levels and improving farm incomes are maintaining the positive outlook for the sector. Global macro-economic issues continue to dominate the stock market, however, and the sector could remain under pressure as a result.

Over the longer term, rising profitability in the sector, as forecast by the USDA, should translate into increased spending on farm inputs which will benefit the companies held in the portfolio. As company earnings remain robust and fundamentals compelling, the market uncertainty may offer investors the opportunity to gain exposure to this sector at attractive levels.

Performance shown as at 30 September 2011 in USD on a NAV price basis with income reinvested. Performance figures are calculated net of annual fees. Fund benchmark: MSCI World (net). Source: BlackRock Datastream. This material is for distribution to Professional Clients and should not be relied upon by any other persons. All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed. Past performance is not a guide to future performance and should not be the sole factor of consideration when selecting a product. The Fund invests a large portion of assets which are denominated in other currencies; hence changes in the relevant exchange rate will affect the value of the investment. The Fund invests in a limited number of market sectors. Compared to investments which spread investment risk through investing in a variety of sectors, share price movements may have a greater effect on the overall value of this fund. The Fund typically invests in smaller company shares which can be more unpredictable and less liquid than those of larger company shares. The Fund invests in economies and markets which may be less developed. Compared to more established economies, the value of investments may be subject to greater volatility due to increased uncertainty as to how these markets operate. Reference to the names of each company mentioned in this communications is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies. BlackRock Global Funds (BGF) is an open-ended investment company established in Luxembourg which is available for sale in certain jurisdictions only. BGF is not available for sale in the U.S. or to U.S. persons. Product information concerning BGF should not be published in the U.S. It is recognised under Section 264 of the Financial Services and Markets Act 2000. BlackRock Investment Management (UK) Limited is the UK distributor of BGF. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available. A limited range of BGF sub-funds have a reporting fund status A sterling share class that seeks to comply with UK Reporting Fund Status requirements. Subscriptions in BGF are valid only if made on the basis of the current Prospectus, the most recent financial reports and the Simplified Prospectus which are available on our website. Prospectuses, Simplified Prospectuses and application forms may not be available to investors in certain jurisdictions where the Fund in question has not been authorised. Issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Services Authority). Registered office: 12 Throgmorton Avenue London EC2N 2DL. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. Issued in Switzerland by the representative office, BlackRock Asset Management Switzerland Limited, Claridenstrasse 25, PO Box 2118, CH-8022 Zurich, Switzerland, from where the Company's Prospectus, Simplified Prospectus, Articles of Association, Annual Report and Interim Report are available free of charge. Paying Agent in Switzerland is JPMorgan Chase Bank, National Association, Columbus, Zurich Branch Switzerland, Dreikönigstrasse 21, CH-8002 Zurich. For further information, the prospectus, simplified prospectuses, annual report and semi-annual report can be obtained free of charge in hardcopy form from the Austrian paying agent: Raiffeisen Zentralbank Österreich AG, A-1030 Vienna, Am Stadtpark 9. Issued in Hong Kong by BlackRock (Hong Kong) Limited. In Singapore, this information is issued by BlackRock (Singapore) Limited. The Fund is only available to institutional and accredited investors as permitted under the Singapore Securities and Futures Act and not to the retail public in Singapore. This factsheet is for information purposes only and does not constitute an offer of shares in the Fund in Singapore. For your protection, telephone calls are usually recorded. This is for distribution to Professional Intermediaries only. This material is for information purposes only and does not constitute an offer of shares in any of the BlackRock Global Funds. You should consider carefully whether the investment is suitable for you. BGF has been registered on the official list of the Financial Supervision Commission (Komisja Nadzoru Finansowego) for distribution in Poland. Issued in Poland by the representative office BlackRock Investment Management (UK) Limited, Oddzia w Polsce. Paying agent in Poland is Bank Handlowy w Warszawie SA, ul. Senatorska 16, 00-950 Warsaw, Poland.

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