BlackRock Global Funds (BGF) Hedged Share Classes Explained

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- Investment involves risk, including the loss of principal. Past performance is not indicative of future results.
- BlackRock Emerging Markets Local Currency Bond Fund, BlackRock Euro Bond Fund, BlackRock Euro Short Duration Bond Fund, BlackRock Fixed Income Global Opportunities Fund, BlackRock Global Government Bond Fund, BlackRock Global Inflation Linked Bond Fund, BlackRock US Dollar Bond Fund, BlackRock US Government Mortgage Impact Fund and BlackRock World Bond Fund may use derivatives for hedging and extensively for investment purposes. Risks associated with derivatives include counterparty/credit, liquidity, valuation, volatility and market risks. The Funds' volatility may increase or decrease from its derivative usage and may suffer losses.
- Sub-funds of BlackRock Global Funds (except the Funds mentioned above) may use derivatives for hedging and for investment purposes. However, usage for investment purposes will not be extensive. The Funds may suffer losses from its derivatives usage.
- BlackRock Global Funds' **Class 3(G)**, **Class 4(G)** and **Class 5(G)** Shares pay dividends gross of expenses. **Class 6**, **Class 10** and **Class 11** Shares pay dividends gross of expenses and/or from capital at the Directors' discretion. **Class 8 Shares** pay dividends gross of expenses and/or from capital at the Directors' discretion and include interest rate differentials arising from share class currency hedging. Negative interest rate differentials may decrease the dividends paid. **Class 9 Shares** pay dividend gross of expenses and/or from capital at the Directors' discretion. Dividend payment on an annual basis must be at least equal to the Dividend Threshold Amount, and in the event of a shortfall, a material portion of any dividend payment may be made out of capital. The Dividend Threshold Amount may be reduced during the year and it is not an alternative to a savings account or fixed-interest paying investment. Paying dividends gross of expenses may result in more income being available for distribution; however, these shares may effectively pay dividends from capital – may amount to a partial return or withdrawal of an investor's original investment or capital gains. All declared dividends result in an immediate reduction in the NAV price of the share class on the ex-dividend date.
- The value of the Funds can be volatile and can go down substantially within a short period of time. It is possible that a certain amount of your investment could be lost.
- Investors should not make investment decisions based on this document alone. Investors should refer to the Prospectus and Key Facts Statement for details including risk factors.

Currency hedged share classes ("hedged share classes") are available on a selection of sub-funds within the BlackRock Global Funds (BGF) range. The hedged share classes aim to provide investors with a return more closely correlated to the base currency performance of the fund, by reducing the effect of exchange rate fluctuations between the base and hedged currency, adjusted for the relevant interest rate differential.

During times of market volatility, fluctuations in the short term exchange rate and the underlying security market can be more marked. It is important to note that the hedge is not perfect - it aims to reduce, not eliminate, currency risk and the mismatches between the base currency and invested positions of the fund and the hedged share class.

Hedged share classes aim to offer a number of advantages to investors:

- Convenience of dealing in currencies other than a fund's base currency
- Lessened exposure to movements between the dealing currency and the base currency of the fund throughout the life of the investment
- Returns more closely correlated with those of the equivalent base currency share class, adjusted for the relevant interest rate differential
- A broader investor universe, leading to increased diversification

Hedged share classes do not offer:

- Hedging of underlying currency positions within a fund
- Added value through active currency management
- Exactly the same returns as the equivalent base currency share class

Key considerations:

- Before investing in a hedged share class, investors should bear in mind that they are gaining exposure to the hedged currency. This currency may strengthen or weaken against other major world currencies in the future
- All gains/losses or expenses arising from the hedging transactions are borne separately by the investors of the respective hedged share class

How does the hedge operate?

The hedging strategy employs a currency overlay to hedge the Net Asset Value (NAV) of the relevant share class. This strategy is applied to funds with underlying assets in one or multiple currencies and is designed to reduce, but not eliminate, currency exposure between the base currency and the hedged currency.

- Purchases of a hedged share class are converted into the base currency of the fund at the spot rate
- As part of the same contract, the resultant base currency exposure is hedged at the forward foreign exchange (FX) rate
- The hedging transaction is rolled over at least on a monthly basis, crystallising any gain or loss on the hedge
- The gain or loss on the currency protection always forms part of the related hedged share class daily NAV calculation. However, it remains effectively uninvested in underlying fund assets until the profit or loss is realised, which occurs when the hedge is rolled over
- During the period of the hedge, the volatility in exchange rates and in underlying fund assets are monitored. In periods of high volatility, the forward FX transaction maybe rolled earlier, hence crystallising any gain or loss and reinvesting it into the underlying fund more rapidly than would otherwise have been the case. This process seeks to mitigate but will not eliminate deviation in returns between the hedged share class and the base currency share class

What is the impact on portfolio management?

The investment management of the funds offering hedged share classes is not affected. This is because it is the NAV of the relevant share class which is hedged, not the underlying assets. This process is cheaper and simpler than implementing a “line-by-line” hedge on the underlying securities, and less distracting for the portfolio manager.

What does it mean for fund returns?

Broadly speaking, the expected returns of the currency hedged share class reflect the interest rate differential between the base currency and the hedged currency. This may result in a positive or negative effect, depending on prevailing rates. This is illustrated with the following examples:

Example 1: AUD Hedged Shares on USD Base Currency	
USD Total Return	**10.00%**
USD Interest Rate	0.50%
AUD Interest Rate	1.00%
Interest Rate Differential	**+0.50%**
AUD Total Return	10.50%

Example 2: HKD Hedged Shares on USD Base Currency	
USD Total Return	**10.00%**
USD Interest Rate	0.50%
HKD Interest Rate	0.15%
Interest Rate Differential	**-0.35%**
HKD Total Return	9.65%

These examples are for illustrative purposes only. Interest rates are likely to change.

Other factors which may impact returns

There are other factors which may impact returns, and result in the hedge not being perfect. These include:

- any unrealised profit/loss on the currency forward remains uninvested until the hedge is rolled over and any profit or loss is crystallised
- transaction costs which will erode a small portion of the overall return
- short term interest rate changes
- the timing of the market value hedge adjustments relative to the fund’s valuation point
- intra-day volatility of the value of the base currency assets in relation to the existing hedge
- the hedge may not always be at 100%, to avoid transaction costs of minor adjustments

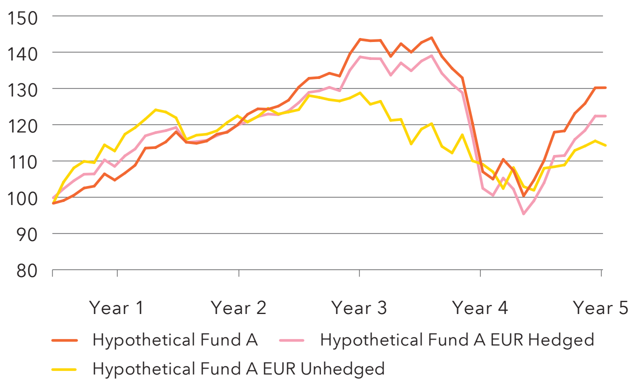
While the fund or its authorised agent may attempt to hedge currency risks, there can be no guarantee that it will be successful in doing so and it may result in mismatches between the currency position of the fund and the hedged share class. The hedging strategies may be entered into whether the base currency is declining or increasing in value relative to the relevant currency of the hedged share class and so, where such hedging is undertaken, it may substantially protect investors in the relevant class against a decrease in the value of the base currency relative to the hedged share class currency, but it may also preclude investors from benefiting from an increase in the value of the base currency.

All gains/losses or expenses arising from hedging transactions are borne separately by the investors of the respective hedged share class. Given that there is no segregation of liabilities between share classes, there is a remote risk that, under certain circumstances, currency hedging transactions in relation to one share class could result in liabilities which might affect the NAV of the other share classes of the same fund.

How will the hedged share class behave relative to the base currency share class?

As an example only, here is the performance of Hypothetical Fund A share class in base currency (USD) versus the unhedged EUR share price and the hedged EUR share price:

Hypothetical Fund Hedged Share versus Base Currency Share



The above is a hypothetical example and does not represent the return of any specific investment.

This illustration shows that even during periods of high market volatility, hedged share class investors can receive a return more closely correlated to that of the base currency share class. However, there can be no guarantee that it will be successful.

During periods of extreme volatility, there can be a greater mismatch between the invested position of the fund and that of the hedged share class as a result of any unrealised profits or losses in the hedged share class. As mentioned above, the process of rolling and re-setting the hedge crystallises any unrealised profits or losses but, if intra-period volatility is sufficiently high, the difference in invested position can have a noticeable impact on relative returns of the two share classes.

It should also be noted that hedged share classes in non-major currencies may be affected by the potential limited capacity of the relevant currency market which, together with other related factors, could further affect the volatility of the hedged share class.

For more information

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