Global Inflation-Linked Bond Portfolio

Third Quarter 2009

BLACKROCK

In the third quarter, Inflation-linked bonds rallied around the globe. Real yields rallied up to 50 basis points in Europe and the US and by about 25 basis point in the UK. Interestingly, real yields did not outperform nominal government bond yields in the US or the UK; breakeven inflation in these markets was on balance unchanged to slightly lower. In Europe, breakeven inflation was wider by about 10-15 basis points.

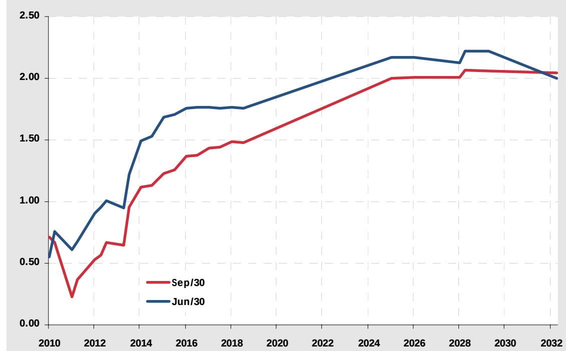
The fact that ILBs mainly kept up with their nominal counterparts is significant. First, energy and commodity prices finished the quarter slightly lower than the 2nd quarter close. Additionally, underlying inflation showed signs of slowing in most of the major domestic markets. All else equal, the aforementioned dynamics would suggest that breakeven inflation would finish the quarter weaker.

We suspect that recent ILB performance reflects very strong demand for inflation protection from both retail and institutional investors. In addition, issuance in fiscal 2009 was unchanged in the US and lower in Europe, which exaggerated the supply/demand imbalance. We expect issuance in the US and Europe to rise in fiscal 2010 and to remain robust in the UK.

The UMC Global Inflation-Linked Bond portfolio returned 3.91% for the third quarter, outperforming the Barclays Capital Global Inflation Linked Bond Index by 35 basis points. The portfolio benefited from a long European and US nominal duration position over part of the quarter. Our real curve flattening positions in the US and Europe were on balance negative contributors to performance.

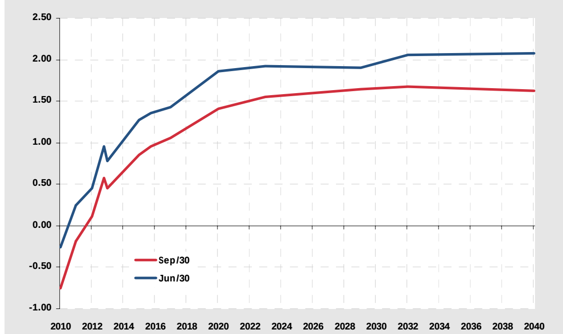
Inflation markets have recovered a lot of ground that was lost in the 2nd half of 2008. However, the recovery has been very fast. In our estimation, it has probably been too much, too soon. Thus, we favor relatively defensive positions; we continue to like real curve flatteners and to opportunistically be short breakeven inflation. That said, the demand for ILBs remains extremely strong and we respect that this technical could potentially remain a support for ILBs for the next several quarters.

US Real Rates



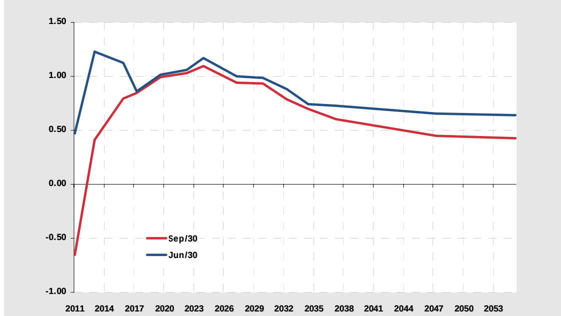
Source: Bloomberg, BlackRock

Europe Real Rates



Source: Bloomberg, BlackRock

UK Real Rates



Source: Bloomberg, BlackRock