

ANNUAL REPORT

**BLACKROCK®**

**BlackRock UK Equity Fund**

For the year ended 29 February 2016

## About the Fund

BlackRock UK Equity Fund (the “Fund”) is an authorised unit trust scheme and qualifies as a UCITS scheme under the Financial Conduct Authority’s Collective Investment Schemes Sourcebook (the “COLL Sourcebook”).

## About the Fund Managers



James Macpherson, Managing Director and portfolio manager, is co-head of UK Equities within the Fundamental Equity division of BlackRock’s Active Equity group, and a member of BlackRock’s Leadership Committee. Mr. Macpherson is responsible for managing a number of institutional portfolios and the BlackRock UK Equity Fund with a company research emphasis on the life assurance sector. Mr. Macpherson’s service with the firm dates back to 1985 when he joined SG Warburg & Co as a graduate trainee, and includes his years with Merrill Lynch Investment Managers, which merged with BlackRock in 2006. Mr. Macpherson was appointed a Managing Director in 1997 and Co-Head of UK Equities in 2000. Mr. Macpherson was educated at Trinity College, Oxford where he was an Exhibitioner and gained a BA (Honours) in politics, philosophy and economics in 1985.



Imran Sattar, CFA, Managing Director and portfolio manager, is a member of the UK Equity team within BlackRock’s Fundamental Equity division of BlackRock’s Active Equity group. He is responsible for covering the real estate sector. Mr. Sattar’s service with the firm dates back to 1997, including his years with Mercury Asset Management and Merrill Lynch Investment Managers (“MLIM”), which merged with BlackRock in 2006. At MLIM, Mr. Sattar specialised in managing portfolios for UK Specialist equity institutional clients. Mr. Sattar began his investment career with Mercury Asset Management in 1997, and initially worked in the Charities and Private Clients divisions before joining the UK Institutional team. Mr. Sattar earned a BSc degree, with first class honours, in mathematics and economics from the University of Warwick in 1997.



Roland Arnold, CFA, Director and portfolio manager, is a member of the UK Equity Team within the Fundamental Equity division of BlackRock’s Active Equity group. Mr. Arnold has been co-manager of the BlackRock UK Special Situations Fund since August 2012, and has managed UK Small & Mid Cap portfolios since 2006, most recently becoming co-manager of the Blackrock UK Smaller Companies Portfolio in March 2015. Mr. Arnold is also responsible for the analysis of the UK technology sector. Mr. Arnold’s service with the firm dates back to 2000, including his years with Merrill Lynch Investment Managers, which merged with BlackRock in 2006. Mr. Arnold earned a BA (Hons) in economics and management from Leeds University in 1998.



Nick McLeod-Clarke, Managing Director and portfolio manager, is a member of BlackRock’s UK Equity team in the Fundamental Equity division of BlackRock’s Active Equity group. Mr. McLeod-Clarke is responsible for managing a number of institutional portfolios with a company research emphasis on the pharmaceutical sector. Mr. McLeod-Clarke’s service with the firm dates back to 2001, including his years with Merrill Lynch Investment Managers (“MLIM”), which merged with BlackRock in 2006. Prior to joining MLIM in 2001, Mr. McLeod-Clarke was co-head of UK Equities at Morley Fund Management, and head of Institutional Funds-UK Equities at Scottish Widows Investment Partnership. Mr. McLeod-Clarke earned a BA in economics at University College Swansea in 1986, and an MSc in finance from the London Business School in 1999.

Copies of Manager’s Reports and Prospectus are available on request.

Dealing and Investor Services: 0800 44 55 22  
blackrock.co.uk

## Investment Objective & Policy

The Fund aims to maximise the total return to investors from a combination of capital growth and income by investing largely in the ordinary shares of United Kingdom companies in any and all economic sectors. The Fund may also invest in collective investment schemes.

The Fund was established on 12 October 1971. The Fund was previously known as Mercury UK Equity Fund. On 30 September 2000 the Fund changed its name to Merrill Lynch UK Equity Fund. It adopted its present name with effect from 28 April 2008.

## Risk and Reward Profile

Unit Class	Lower risk Typically lower rewards				Higher risk Typically higher rewards		
	←						→
I Income	1	2	3	4	<b>5</b>	6	7
I Accumulation	1	2	3	4	<b>5</b>	6	7
D Income	1	2	3	4	<b>5</b>	6	7
D Accumulation	1	2	3	4	<b>5</b>	6	7

- ▶ The risk indicator was calculated incorporating historical or simulated historical data and may not be a reliable indication of the future risk profile of each unit class.
- ▶ The risk category shown is not guaranteed and may change over time.
- ▶ The lowest category does not mean risk free.
- ▶ The use of derivatives will impact the value of the Fund and may expose the Fund to a higher degree of risk. Derivatives are highly sensitive to changes in the value of the asset on which they are based and can increase the size of losses and gains, resulting in greater fluctuations in the value of the Fund.
- ▶ During the year, the risk indicator for each unit class changed from level 6 to 5 due to a decline in market volatility.

For more information on this, please see the Fund’s Key Investor Information Documents (KIIDs), which are available at [www.blackrock.com](http://www.blackrock.com).

# BlackRock UK Equity Fund

This Annual Report covers the year ended 29 February 2016.

## Performance Table

	For the year to 29.2.2016	For the three years to 29.2.2016	For the five years to 29.2.2016
<b>TOTAL RETURN (with net income reinvested)</b>			
<b>Class I Income Units</b>			
BlackRock UK Equity Fund	<b>-4.6%</b>	+16.6%	+32.0%
FTSE All-Share Index <sup>#</sup>	<b>-7.3%</b>	+10.8%	+28.3%

All Fund figures quoted are based on bid-to-bid dealing prices (the price at which units are sold) and are calculated net of fees.

Performance returns are cumulative. All returns are in Sterling.

<sup>#</sup> Figures from Index Vendor.

All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and the return of your initial investment amount cannot be guaranteed. Changes in exchange rates may cause the value of an investment to fluctuate. Past performance is not a guide to future performance and should not be the sole factor of consideration when selecting a product.

# Investment Report

## Summary of Performance over the Period

Over the period from 1 March 2015 to 29 February 2016, the Fund returned -4.6%\*, outperforming its benchmark, the FTSE All-Share Index, which returned -7.3%. Over the six-month period to 29 February 2016, the Fund returned -0.6%\*, outperforming its benchmark, which returned -1.2%.

## Fund Manager's Commentary

The UK stock market fell as signs of slowing economic growth in China led to fears of a wider slowdown in global economic growth. Although the US Federal Reserve raised interest rates, expectations for further increases in 2016 subsequently reduced on renewed global economic growth concerns.

The Fund's significant outperformance was driven by RELX, Compass, British American Tobacco and Carnival, which delivered profit growth during a period where such growth has been scarce. Compass, for example, is a beneficiary of the trend towards outsourcing, and it saw strong sales growth in its US division while exercising capital discipline and paying a special dividend. Paddy Power and Auto Trader rose strongly, as their leading technology allows them to take advantage of structural changes in their respective markets. Paddy Power's performance further improved in advance of its merger with Betfair in February 2016. Underweight exposure to oil and mining also helped relative performance, as these sectors performed poorly.

Shire detracted after it launched a successful takeover offer for Baxalta as part of its strategy to further grow its rare diseases business. Hays and IMI reported disappointing results, while not owning Reckitt Benckiser, SABMiller and National Grid also negatively impacted relative performance, as they performed strongly. Capital & Counties Properties fell following central London property market weakness and fears that a vote to leave the European Union ("EU") may impact domestically-focused UK companies.

Fund activity included purchases in ARM, Unilever, Auto Trader and JUST EAT, with additions to Compass, Shire and RELX. ITV, easyJet, Diageo and Bovis were sold, while Aviva, Next and HSBC were reduced.

We expect the global economy to grow slowly, given modest domestic economic growth in the US, UK and Europe, and slowing Chinese growth, while the UK vote on EU membership may provide further volatility for the UK stock market and sterling. We highlight the advantages of fundamentally driven active management in navigating this uncertainty, and we seek those companies that can meet expectations for earnings growth and drive returns through self-help, with a clear strategy to deploy the cash flow they generate.

## March 2016

\* Performance figures quoted are based on bid-to-bid dealing prices (the price at which units are sold). Performance is calculated net of fees and reported for the Fund's class I Income Units.

# Performance Record

## Comparative Table

	I Income Units			I Accumulation Units		
	For the year to 29.2.2016	For the year to 28.2.2015	For the period from 1.8.2013* to 28.2.2014	For the year to 29.2.2016	For the year to 28.2.2015	For the period from 1.8.2013* to 28.2.2014
	Pence per unit	Pence per unit	Pence per unit	Pence per unit	Pence per unit	Pence per unit
<b>Change in net assets per unit</b>						
Opening net asset value per unit	1,688	1,629	1,523	5,489	5,154	4,759
Return before operating charges	(70.21)	112.1	134.8	(228.4)	361.4	420.3
Operating charges	(8.54)	(8.26)	(8.08)	(28.04)	(26.40)	(25.33)
Return after operating charges	(78.75)	103.8	126.7	(256.4)	335.0	395.0
Distributions on income units	(47.82)	(44.87)	(20.68)	N/A	N/A	N/A
<b>Closing net asset value per unit</b>	1,561	1,688	1,629	5,233	5,489	5,154
Retained distributions on accumulation units	N/A	N/A	N/A	156.6	142.8	64.72
After direct transaction costs of	(3.83)	(5.83)	(2.54)	(12.58)	(18.61)	(7.96)
<b>Performance</b>						
Return after charges <sup>1</sup>	(4.67)%	6.38%	8.32%	(4.67)%	6.50%	8.30%
<b>Other information</b>						
Closing net asset value (£000's)	243,882	292,455	376,374	188,070	237,015	350,047
Closing number of units	15,619,164	17,327,616	23,103,584	3,594,244	4,317,722	6,791,178
Operating charges <sup>2</sup>	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%
Direct transaction costs <sup>3</sup>	0.23%	0.37%	0.09%	0.23%	0.37%	0.09%
<b>Prices</b>	<b>Pence per unit</b>	<b>Pence per unit</b>	<b>Pence per unit</b>	<b>Pence per unit</b>	<b>Pence per unit</b>	<b>Pence per unit</b>
Highest offer unit price	1,763	1,713	1,651	5,734	5,520	5,176
Lowest bid unit price	1,438	1,438	1,477	4,769	4,636	4,625

\* As communicated in a letter to investors dated 28 May 2013, the Manager has changed the Fund's annual accounting date in order to consolidate the publication of the reports.

<sup>1</sup> The return after charges figures are based on the net asset value reported for financial statements purposes and are not the same as the performance returns figures quoted in the Performance Table and the Investment Report which are based on bid-to-bid dealing prices (the price at which units are sold).

<sup>2</sup> Operating charges were previously known as Ongoing Charges prior to the adoption of the new IMA SORP 2014. See note 1(a) for further details. Operating charges are annualised and exclude portfolio trade-related costs, except costs paid to the custodian/depositary and entry/exit charges paid to an underlying collective investment scheme (if any).

<sup>3</sup> Direct transaction costs are annualised and principally comprise commissions and taxes, attributable to the Fund's purchase and sale of equity instruments. See note 14 for further details.

## Comparative Table

	D Income Units			D Accumulation Units		
	For the year to 29.2.2016	For the year to 28.2.2015	For the period from 1.8.2013* to 28.2.2014	For the year to 29.2.2016	For the year to 28.2.2015	For the period from 1.8.2013* to 28.2.2014
	Pence per unit	Pence per unit	Pence per unit	Pence per unit	Pence per unit	Pence per unit
<b>Change in net assets per unit</b>						
Opening net asset value per unit	1,690	1,631	1,526	5,367	5,028	4,657
Return before operating charges	(70.21)	110.7	135.4	(223.3)	379.3	407.8
Operating charges	(15.28)	(12.88)	(11.98)	(48.41)	(40.28)	(36.83)
Return after operating charges	(85.49)	97.82	123.4	(271.7)	339.0	371.0
Distributions on income units	(40.69)	(38.80)	(18.43)	N/A	N/A	N/A
<b>Closing net asset value per unit</b>	1,564	1,690	1,631	5,095	5,367	5,028
Retained distributions on accumulation units	N/A	N/A	N/A	131.5	121.8	56.97
After direct transaction costs of	(3.83)	(5.83)	(2.54)	(12.28)	(18.23)	(7.82)
<b>Performance</b>						
Return after charges <sup>1</sup>	(5.06)%	6.00%	8.09%	(5.06)%	6.74%	7.97%
<b>Other information</b>						
Closing net asset value (£000's)	27	118	2,030	250	59	2
Closing number of units	1,714	6,995	124,459	4,911	1,101	47
Operating charges <sup>2</sup>	0.92%	0.81%	0.77%	0.92%	0.81%	0.77%
Direct transaction costs <sup>3</sup>	0.23%	0.37%	0.09%	0.23%	0.37%	0.09%
<b>Prices</b>	<b>Pence per unit</b>	<b>Pence per unit</b>	<b>Pence per unit</b>	<b>Pence per unit</b>	<b>Pence per unit</b>	<b>Pence per unit</b>
Highest offer unit price	1,764	1,712	1,651	5,601	5,398	5,079
Lowest bid unit price	1,438	1,439	1,478	4,645	4,539	4,544

\* As communicated in a letter to investors dated 28 May 2013, the Manager has changed the Fund's annual accounting date in order to consolidate the publication of the reports.

<sup>1</sup> The return after charges figures are based on the net asset value reported for financial statements purposes and are not the same as the performance returns figures quoted in the Performance Table and the Investment Report which are based on bid-to-bid dealing prices (the price at which units are sold).

<sup>2</sup> Operating charges were previously known as Ongoing Charges prior to the adoption of the new IMA SORP 2014. See note 1(a) for further details. Operating charges are annualised and exclude portfolio trade-related costs, except costs paid to the custodian/depositary and entry/exit charges paid to an underlying collective investment scheme (if any).

<sup>3</sup> Direct transaction costs are annualised and principally comprise commissions and taxes, attributable to the Fund's purchase and sale of equity instruments. See note 14 for further details.

## Distribution Tables

for the year ended 29 February 2016

### Final Distribution in Pence per Unit

Group 1 – Units purchased prior to 1 September 2015

Group 2 – Units purchased 1 September 2015 to 29 February 2016

	I Income Units		I Accumulation Units		D Income Units		D Accumulation Units	
	Group 1	Group 2	Group 1	Group 2	Group 1	Group 2	Group 1	Group 2
Net revenue (dividend)	16.4295	13.2206	54.4665	44.3285	13.3247	13.3247	42.7244	25.0114
Equalisation†	–	3.2089	–	10.1380	–	0.0000	–	17.7130
<b>Distribution payable 30.4.2016</b>	<b>16.4295</b>	<b>16.4295</b>	<b>54.4665</b>	<b>54.4665</b>	<b>13.3247</b>	<b>13.3247</b>	<b>42.7244</b>	<b>42.7244</b>
<b>Distribution paid 30.4.2015</b>	<b>14.7203</b>	<b>14.7203</b>	<b>47.4025</b>	<b>47.4025</b>	<b>11.4869</b>	<b>11.4869</b>	<b>35.4391</b>	<b>35.4391</b>

### Interim Distribution in Pence per Unit

Group 1 – Units purchased prior to 1 March 2015

Group 2 – Units purchased 1 March 2015 to 31 August 2015

	I Income Units		I Accumulation Units		D Income Units		D Accumulation Units	
	Group 1	Group 2	Group 1	Group 2	Group 1	Group 2	Group 1	Group 2
Net revenue (dividend)	31.3894	16.7225	102.0845	39.8864	27.3689	27.3689	88.7507	56.1900
Equalisation†	–	14.6669	–	62.1981	–	0.0000	–	32.5607
<b>Distribution paid 31.10.2015</b>	<b>31.3894</b>	<b>31.3894</b>	<b>102.0845</b>	<b>102.0845</b>	<b>27.3689</b>	<b>27.3689</b>	<b>88.7507</b>	<b>88.7507</b>
<b>Distribution paid 31.10.2014</b>	<b>30.1539</b>	<b>30.1539</b>	<b>95.4372</b>	<b>95.4372</b>	<b>27.3125</b>	<b>27.3125</b>	<b>86.3890</b>	<b>86.3890</b>

† Equalisation applies only to units purchased during the distribution period (Group 2 units). It is the average amount of revenue included in the purchase price of all Group 2 units and is refunded to holders of these units as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

## Portfolio Statement

at 29 February 2016

Holding or Nominal Value Investment	Market Value £000's	% of Total Net Assets
<b>EQUITIES – 99.39%; 2015 100.04%</b>		
<b>UNITED KINGDOM – 94.42%; 2015 97.06%</b>		
<b>Aerospace &amp; Defence – 0.14%; 2015 0.20%</b>		
291,318 Senior	595	0.14
<b>Banks – 8.30%; 2015 8.95%</b>		
2,834,091 Barclays	4,828	1.12
2,405,391 HSBC	11,042	2.55
24,535,281 Lloyds Banking	17,651	4.08
9,508 Shawbrook	26	0.01
700,256 Virgin Money	2,321	0.54
	<b>35,868</b>	<b>8.30</b>
<b>Beverages – 0.21%; 2015 1.07%</b>		
164,281 Fevertree Drinks	905	0.21
<b>Chemicals – 2.07%; 2015 2.35%</b>		
123,621 Elementis	283	0.07
170,124 Johnson Matthey	4,282	0.99
528,007 Scapa	1,042	0.24
180,165 Victrex	2,794	0.65
190,935 Zotefoams	524	0.12
	<b>8,925</b>	<b>2.07</b>
<b>Construction &amp; Materials – 0.53%; 2015 0.27%</b>		
57,779 Costain	198	0.05
211,644 Eurocell	370	0.09
97,879 Ibstock	192	0.04
15,896 Kier	210	0.05
195,727 Marshalls	565	0.13
21,751 Morgan Sindall	168	0.04
274,408 Panceltica*	–	0.00
209,056 Tyman	547	0.13
	<b>2,250</b>	<b>0.53</b>
<b>Electronic &amp; Electrical Equipment – 0.10%; 2015 0.23%</b>		
32,185 Gooch & Housego	276	0.06
39,138 Xaar	182	0.04
	<b>458</b>	<b>0.10</b>

# Portfolio Statement continued

<b>Holding or Nominal Value Investment</b>	<b>Market Value £000's</b>	<b>% of Total Net Assets</b>
<b>Financial Services – 5.46%; 2015 5.78%</b>		
2,360,219 3i	10,208	2.36
97,580 Fairfx	25	0.01
408,112 Hargreaves Lansdown	5,057	1.17
86,164 IMI	733	0.17
1,150,733 John Laing	2,353	0.54
96,360 Liontrust	242	0.06
103,480 Mattioli Woods	593	0.14
632,655 Park	482	0.11
80,537 Polar Capital	289	0.07
79,897 Provident Financial	2,560	0.59
30,071 Rathbone Brothers	679	0.16
172,781 Redde	343	0.08
	<b>23,564</b>	<b>5.46</b>
<b>Fixed Line Telecommunications – 2.21%; 2015 0.67%</b>		
1,707,124 BT	8,291	1.92
1,659,680 Cable & Wireless	1,253	0.29
	<b>9,544</b>	<b>2.21</b>
<b>Food &amp; Drug Retailers – 1.70%; 2015 0.58%</b>		
62,315 Clinigen	395	0.09
1,554,852 SSP	4,405	1.02
1,416,917 Tesco	2,549	0.59
	<b>7,349</b>	<b>1.70</b>
<b>Food Producers – 0.92%; 2015 0.00%</b>		
128,959 Unilever	<b>3,955</b>	<b>0.92</b>
<b>General Industrials – 0.47%; 2015 0.00%</b>		
533,298 DS Smith	<b>2,041</b>	<b>0.47</b>
<b>General Retailers – 4.87%; 2015 6.14%</b>		
968,226 AA	2,762	0.64
48,894 Carpetright	166	0.04
443,003 Crawshaw	319	0.07
119,696 CVS	901	0.21
658,354 Dixons Carphone	2,848	0.66
322,828 Dunelm	3,164	0.73
36,146 JD Sports Fashion	410	0.10
949,821 JUST EAT	3,777	0.87
1,071,262 Kingfisher	3,591	0.83

<b>Holding or Nominal Value Investment</b>	<b>Market Value £000's</b>	<b>% of Total Net Assets</b>
116,817 Mothercare	232	0.05
37,182 Next	2,519	0.58
274,186 Topps Tiles	400	0.09
	<b>21,089</b>	<b>4.87</b>
<b>Healthcare Equipment &amp; Services – 0.14%; 2015 0.16%</b>		
366,667 Advanced Medical Solutions	<b>626</b>	<b>0.14</b>
<b>Household Goods &amp; Home Construction – 0.15%; 2015 1.49%</b>		
228,782 McBride	406	0.09
20,150 Victoria	256	0.06
	<b>662</b>	<b>0.15</b>
<b>Industrial Engineering – 0.93%; 2015 1.36%</b>		
88,032 Bodycote	506	0.12
80,595 Hill & Smith	633	0.15
359,635 Severfield	189	0.04
85,717 Spirax-Sarco Engineering	2,664	0.62
	<b>3,992</b>	<b>0.93</b>
<b>Industrial Transportation – 0.09%; 2015 0.07%</b>		
16,255 James Fisher & Sons	157	0.04
123,542 Wincanton	199	0.05
	<b>356</b>	<b>0.09</b>
<b>Leisure Goods – 0.05%; 2015 0.00%</b>		
128,421 Photo-Me	<b>221</b>	<b>0.05</b>
<b>Life Insurance – 3.33%; 2015 5.67%</b>		
710,298 Aviva	3,071	0.71
1,341,552 Legal & General	3,013	0.70
668,940 Prudential	8,281	1.92
	<b>14,365</b>	<b>3.33</b>
<b>Media – 8.25%; 2015 5.45%</b>		
90,005 4imprint	1,035	0.24
1,038,021 Auto Trader	3,773	0.87
66,761 M&C Saatchi	194	0.04
1,889,656 RELX	23,413	5.42
86,916 Rightmove	3,294	0.76
342,925 Sky	3,570	0.83
279,999 YouGov	372	0.09
	<b>35,651</b>	<b>8.25</b>

# Portfolio Statement continued

<b>Holding or Nominal Value Investment</b>	<b>Market Value £000's</b>	<b>% of Total Net Assets</b>
<b>Mining – 2.30%; 2015 5.29%</b>		
138,730 BHP Billiton	1,010	0.23
160,503 Central Asia Metals	225	0.05
123,283 Petra Diamonds	116	0.03
451,556 Rio Tinto	8,584	1.99
20,267 Wolf Minerals	2	0.00
	<b>9,937</b>	<b>2.30</b>
<b>Mobile Telecommunications – 1.30%; 2015 1.93%</b>		
2,591,096 Vodafone	<b>5,638</b>	<b>1.30</b>
<b>Non-Life Insurance – 0.10%; 2015 1.12%</b>		
57,049 Novae	<b>445</b>	<b>0.10</b>
<b>Oil &amp; Gas Producers – 8.98%; 2015 11.09%</b>		
806,339 Amerisur Resources	222	0.05
2,146,210 BP	7,515	1.74
1,018,527 Cairn Energy	1,669	0.39
348,076 Faroe Petroleum	211	0.05
112,680 Parkmead	65	0.02
1,641,203 Royal Dutch Shell class 'B' shares	27,096	6.27
895,380 SOCO International	1,480	0.34
298,477 Tullow Oil	499	0.12
	<b>38,757</b>	<b>8.98</b>
<b>Oil Equipment, Services &amp; Distribution – 0.01%; 2015 0.05%</b>		
49,321 Plexus	<b>23</b>	<b>0.01</b>
<b>Personal Goods – 0.27%; 2015 0.21%</b>		
11,696 SuperGroup	155	0.04
33,927 Ted Baker	1,004	0.23
	<b>1,159</b>	<b>0.27</b>
<b>Pharmaceuticals &amp; Biotechnology – 11.24%; 2015 8.14%</b>		
44,937 Abcam	299	0.07
681,212 Allergy Therapeutics	177	0.04
537,323 AstraZeneca	22,328	5.17
160,841 BTG	1,011	0.23
59,708 Dechra Pharmaceuticals	699	0.16
604,218 GlaxoSmithKline	8,459	1.96
396,177 Shire	15,257	3.53
52,747 Skyepharma	202	0.05
888,580 Tissue Regenix	133	0.03
	<b>48,565</b>	<b>11.24</b>

<b>Holding or Nominal Value Investment</b>	<b>Market Value £000's</b>	<b>% of Total Net Assets</b>
<b>Real Estate Investment &amp; Services – 2.76%; 2015 2.76%</b>		
3,338,134 Capital & Counties Properties	10,782	2.49
12,542 CLS	182	0.04
121,784 Grainger Trust	266	0.06
90,173 MWB*	–	0.00
58,815 St. Modwen Properties	193	0.04
52,234 Unite	320	0.07
113,356 Urban & Civic	276	0.06
	<b>12,019</b>	<b>2.76</b>
<b>Real Estate Investment Trusts – 0.51%; 2015 0.75%</b>		
189,799 Hansteen	205	0.05
319,997 Regional REIT	325	0.08
230,372 Safestore	765	0.18
117,771 Workspace	854	0.20
	<b>2,149</b>	<b>0.51</b>
<b>Software &amp; Computer Services – 0.89%; 2015 0.98%</b>		
57,150 Accesso Technology	514	0.12
334,434 Earthport	59	0.01
25,230 EMIS	272	0.06
39,063 FDM	188	0.04
292,500 GB	736	0.17
117,128 Kainos	230	0.05
213,145 Kalibrate Technologies	215	0.05
79,870 NCC	231	0.05
277,093 Redcentric	516	0.12
119,978 Softcat	397	0.09
114,546 Tracsis	561	0.13
	<b>3,919</b>	<b>0.89</b>
<b>Support Services – 8.54%; 2015 11.35%</b>		
95,344 Acal	231	0.05
81,545 Ashtead	736	0.17
33,250 Diploma	234	0.05
399,684 Essentra	3,303	0.76
5,875,556 Hays	6,675	1.54
61,862 Howden Joinery	304	0.07
90,503 Intertek	2,625	0.61
493,534 Johnson Service	436	0.10
194,050 Lavendon	268	0.06
34,667 Northgate	139	0.03
311,998 Restore	930	0.22

# Portfolio Statement continued

<b>Holding or Nominal Value</b>	<b>Investment</b>	<b>Market Value £000's</b>	<b>% of Total Net Assets</b>
171,092	Robert Walters	510	0.12
102,507	RWS	205	0.05
25,000	SafeCharge International	63	0.01
111,099	Sanne	378	0.09
76,051	St. Ives	183	0.04
27,719	Vp	183	0.04
530,521	Wolseley	19,587	4.53
		<b>36,990</b>	<b>8.54</b>
<b>Technology, Hardware &amp; Equipment – 1.60%; 2015 0.03%</b>			
669,479	ARM	6,581	1.52
99,691	Laird	337	0.08
		<b>6,918</b>	<b>1.60</b>
<b>Tobacco – 8.77%; 2015 8.52%</b>			
701,387	British American Tobacco	27,372	6.33
281,938	Imperial Brands	10,544	2.44
		<b>37,916</b>	<b>8.77</b>
<b>Travel &amp; Leisure – 7.23%; 2015 4.40%</b>			
371,262	Cineworld	1,960	0.45
1,660,058	Compass	20,718	4.79
605,315	DP Poland	157	0.04
274,425	Everyman Media	241	0.06
87,544	Fuller, Smith & Turner class 'A' shares	937	0.22
713,317	Merlin Entertainments	3,238	0.75
414,640	Patisserie	1,527	0.35
194,352	TUI	2,076	0.48
26,531	Young & Co's Brewery (non-voting)	222	0.05
16,200	Young & Co's Brewery class 'A' shares	183	0.04
		<b>31,259</b>	<b>7.23</b>

<b>Holding or Nominal Value</b>	<b>Investment</b>	<b>Market Value £000's</b>	<b>% of Total Net Assets</b>
<b>BERMUDA – 0.00%; 2015 0.03%</b>			
<b>Support Services – 0.00%; 2015 0.03%</b>			
<b>GERMANY – 0.04%; 2015 0.06%</b>			
<b>Software &amp; Computer Services – 0.04%; 2015 0.06%</b>			
36,600	SQS Software Quality Systems	188	0.04
<b>IRELAND – 3.01%; 2015 0.98%</b>			
<b>Construction &amp; Materials – 1.77%; 2015 0.92%</b>			
419,760	CRH	7,648	1.77
<b>Support Services – 0.09%; 2015 0.06%</b>			
60,671	Grafton	406	0.09
<b>Travel &amp; Leisure – 1.15%; 2015 0.00%</b>			
46,055	Paddy Power Betfair	4,956	1.15
<b>KAZAKHSTAN – 0.00%; 2015 0.03%</b>			
<b>Oil &amp; Gas Producers – 0.00%; 2015 0.03%</b>			
<b>UNITED STATES OF AMERICA – 1.92%; 2015 1.88%</b>			
<b>Industrial Engineering – 0.04%; 2015 0.06%</b>			
138,610	Somero Enterprises	184	0.04
<b>Oil Equipment, Services &amp; Distribution – 0.00%; 2015 0.02%</b>			
<b>Travel &amp; Leisure – 1.88%; 2015 1.80%</b>			
228,591	Carnival	8,108	1.88
<b>Portfolio of investments</b>		<b>429,600</b>	<b>99.39</b>
<b>Short-term Money Market Funds – 0.10%; 2015 0.38%</b>			
433,297	Institutional Cash Series plc – Institutional Sterling Liquidity Fund**	433	0.10
Net other assets		2,196	0.51
<b>Total net assets</b>		<b>432,229</b>	<b>100.00</b>

Unless otherwise stated, all securities are either listed on a recognised exchange or traded on an eligible securities market.  
Note: comparative figures show percentages for each category of holding at 28 February 2015.

\* Delisted investment fair valued at zero.

\*\* Managed by a related party.

## Statement of Total Return

for the year ended 29 February 2016

	Notes	£000's	For the year to 29.2.2016 £000's	£000's	For the year to 28.2.2015 £000's
Income					
Net capital (losses)/gains	3		(37,259)		15,493
Revenue	4	16,989		22,095	
Expenses	5	(2,560)		(3,420)	
Net revenue before taxation		14,429		18,675	
Taxation	6	(23)		(3)	
Net revenue after taxation			14,406		18,672
Total return before distributions			(22,853)		34,165
Distributions	7		(14,406)		(18,672)
<b>Change in net assets attributable to unitholders from investment activities</b>			<b>(37,259)</b>		<b>15,493</b>

## Statement of Change in Net Assets Attributable to Unitholders

for the year ended 29 February 2016

	£000's	For the year to 29.2.2016 £000's	£000's	For the year to 28.2.2015 £000's
<b>Opening net assets attributable to unitholders</b>		529,647		728,453
Amounts receivable on issue of units	21,626		54,486	
Amounts payable on cancellation of units	(88,017)		(277,291)	
Stamp duty reserve tax		(66,391)		(222,805)
				(22)
Change in net assets attributable to unitholders from investment activities		(37,259)		15,493
Retained distribution on accumulation units		6,232		8,528
<b>Closing net assets attributable to unitholders</b>		<b>432,229</b>		<b>529,647</b>

## Balance Sheet

at 29 February 2016

	Notes	29.2.2016 £000's	28.2.2015 £000's
<b>Assets:</b>			
Fixed assets			
– Investment assets		429,600	529,855
Current assets			
– Debtors	8	3,257	18,861
– Cash and bank balances		2,406	817
– Cash equivalents	9	433	1,996
<b>Total assets</b>		<b>435,696</b>	<b>551,529</b>
<b>Liabilities:</b>			
Creditors			
– Distributions payable		(2,566)	(2,551)
– Other creditors	10	(901)	(19,331)
<b>Total liabilities</b>		<b>(3,467)</b>	<b>(21,882)</b>
<b>Net assets attributable to unitholders</b>		<b>432,229</b>	<b>529,647</b>

N C D Hall (Director)  
G D Bamping (Director)  
BlackRock Fund Managers Limited  
28 April 2016

# Notes to Financial Statements

for the year ended 29 February 2016

## 1. Accounting and Distribution Policies

### Accounting Policies

- (a) The financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds (the “SORP”) issued by the Investment Management Association (now known as the Investment Association) in May 2014. The SORP was revised in May 2014 to concur with Financial Reporting Standard 102, the new financial reporting standard applicable in the UK and Republic of Ireland. Amendments to FRS 102 ‘Fair value hierarchy disclosures’ effective for annual periods beginning on or after 1 January 2017 have been early adopted. These amendments improve the consistency of fair value disclosures for financial instruments with those required by EU-adopted IFRS.

The transition to the revised SORP on 1 March 2015 has not resulted in any restatement to the financial position or financial performance previously reported as at 28 February 2015. Certain presentational amendments have been required which have no impact on the total return or Net Asset Value (“NAV”) in either the current or prior accounting period. These amendments are listed below.

### Nature of Change In Presentation

#### iCash Equivalents

Investments in money market funds held in the base currency of the Fund are now classified as “Cash equivalents” on the Balance Sheet.

### Reasons for Changes in Presentation

#### Cash Equivalents

Under FRS 102 section 7 “Cash equivalents” are defined as “short term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value”. An investment normally qualifies as a cash equivalent when it has a short maturity. Investments in the Institutional Cash Series plc meet this definition and classifying them as cash equivalents more accurately reflects the economic substance of these transactions. The change had no impact on the NAV of the Fund.

This has resulted in a reclassification which decreased the value of “Investment assets” and increased the value of “Cash equivalents” on the Balance Sheet. Please see “Cash equivalents” in the Balance Sheet which shows the full amount of this reclassification. Related balances in the relevant notes have also been updated to reflect the reclassification.

### Change in Valuation Point

As permitted by Section 6.8.2(5a) of the COLL Sourcebook, the financial statements for the year ended 29 February 2016 have been prepared as at the Fund’s valuation point at 12 noon on the last business day of the accounting period. This aligns the valuation point for financial statements purposes with the valuation point used for dealing purposes. The comparative figures as at 28 February 2015 have been prepared as at close of business on the last business day of the accounting period.

- (b) Dividends on quoted ordinary shares and preference shares are recognised when the securities are quoted ex-dividend. Where such securities are not quoted, dividends are recognised when they are declared.

All distributions from Collective Investment Schemes (“CIS”) are recognised when the securities are quoted ex-dividend. All distributions from holdings in CIS are treated as revenue with the exception of the equalisation element, which is treated as capital.

All revenue is recognised as a gross amount that takes account of any withholding taxes but excludes any other taxes such as attributable tax credits.

Revenue from securities lending is accounted for net of associated costs and is recognised on an accruals basis.

Bank interest is recognised on an accruals basis.

- (c) Ordinary stock dividends are recognised wholly as revenue and are based on the market value of the shares on the date they are quoted ex-dividend. Where an enhancement is offered, the amount by which the market value of the shares (on the date they are quoted ex-dividend) exceeds the cash dividend is taken to capital.
- (d) The underlying circumstances behind both special dividends and share buy backs are reviewed on a case by case basis in determining whether the amount is revenue or capital in nature. Amounts recognised as revenue form part of the distribution. Any tax treatment will follow the accounting treatment of the principal amount.
- (e) Underwriting commission is wholly recognised as revenue when the issue takes place, except where the Fund is required to take up some or all of the shares underwritten, in which case an appropriate proportion of the commission received is deducted from the cost of those shares.
- (f) All expenses, except those relating to the purchase and sale of investments are charged against revenue. All expenses are recognised on an accruals basis.
- (g) Provision for corporation tax is made at the current rate on the excess of taxable revenue over allowable expenses. Provision is made on all material timing differences arising from the different treatment of items for accounting and tax purposes. A deferred tax asset is recognised only to the extent that it is considered more likely than not that there will be taxable profits in the future against which the asset can be offset.
- (h) The investments of the Fund have been valued at market value, defined as fair value, which is usually bid value at 12 noon on the last business day of the accounting period. In the case of an investment which is not quoted, listed or dealt in on a recognised market, or in respect of which a listed, traded or dealt price or quotation is not available at the time of valuation, the fair value of such investment shall be estimated with care and in good faith by a competent professional person, body, firm or corporation including the Manager’s pricing committee, and such fair value shall be determined on the basis of the probable realisation value of the investment. The Manager shall be entitled to adopt an alternative method of valuing any particular asset or liability if it considers that the methods of valuation set out above do not provide a fair valuation of a particular asset or liability.

## Notes to Financial Statements continued

Investments in single priced Collective Investment Schemes have been valued at market values, defined as fair value, which is usually the latest available price at the Fund's 12 noon valuation point on the last business day of the accounting period.

- (i) Any transactions in foreign currencies are translated into Sterling at the rates of exchange ruling on the date of any such transaction. Assets and liabilities in foreign currencies are translated into Sterling at the exchange rates ruling at 12 noon on the last business day of the accounting period. Revenue items in foreign currencies are translated into Sterling at the exchange rate when the revenue is received.
- (j) Where appropriate, certain permitted financial instruments such as derivatives are used for both hedging and for the purpose of achieving the investment objective and policy of the Fund. Where such financial instruments are used to protect or enhance revenue, the revenue and expenses derived therefrom are included in "Revenue" in the Statement of Total Return. Where such financial instruments are used to protect or enhance capital, the gains and losses derived therefrom are included in "Net capital gains" in the Statement of Total Return.
- (k) Cash and bank balances consist of deposits held on call with banks and cash held with clearing brokers and counterparties. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Distribution Policies

- (l) The ordinary element of stock dividends is treated as revenue and forms part of the distribution.
- (m) All of the net revenue available for distribution at the final accounting period end will be distributed to unitholders with the balance attributable to accumulation unitholders retained within the Fund. In order to conduct a controlled dividend flow to unitholders, interim distributions may be made at the Manager's discretion, up to a maximum of the distributable revenue available for the period. Should expenses and taxation together exceed revenue, there will be no distribution and the shortfall will be met from capital.

## 2. Financial Instruments and Risks

The Fund's investment activities expose it to the various types of risk which are associated with the financial instruments and markets in which it invests. The following information is not intended to be a comprehensive summary of all risks and investors should refer to the Prospectus for a more detailed discussion of the risks inherent in investing in the Fund.

### Risk management framework

The Manager has delegated the day-to-day administration of the investment programme to the Investment Manager. The Investment Manager is also responsible for ensuring that the Fund is managed within the terms of its investment guidelines and limits set out in the Prospectus. The Manager reserves to itself the investment performance, product risk monitoring and oversight and the responsibility for the monitoring and oversight of regulatory and operational risk for the Fund.

The Manager has appointed a risk manager who has responsibility for the daily risk management process with assistance from key risk management personnel of the Investment Manager, including members of the Risk and Quantitative Analysis Group ("RQA Group") which is a centralised group which performs an independent risk management function. The RQA Group independently identifies, measures and monitors investment risk. The RQA Group tracks the actual risk management practices being deployed across the different funds. By breaking down the components of the process, the RQA Group has the ability to determine if the appropriate risk management processes are in place for the Fund. This captures the risk management tools employed, how the levels of risk are controlled, ensuring risk/return is considered in portfolio construction and reviewing outcomes.

The risk profile of the Fund is set out as follows:

### a) Market risk

Market risk arises mainly from uncertainty about future values of financial instruments influenced by other price, currency and interest rate movements. It represents the potential loss the Fund may suffer through holding market positions in the face of market movements. The Fund is exposed to market risk by virtue of its investments in equities.

A key metric the RQA Group uses to measure market risk is VaR which encompasses price, currency and interest rate risk. VaR is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR analysis reflects the interdependencies between risk variables, unlike a traditional sensitivity analysis.

The VaR calculations are based on an adjusted historical simulation model with a confidence level of 99%, a holding period of one day and a historical observation period of not less than one year (250 days). A VaR number is defined at a specified probability and a specified time horizon. A 99% one day VaR means that the expectation is that 99% of the time over a one day period the Fund will lose less than this number in percentage terms. Therefore, higher VaR numbers indicate higher risk.

It is noted that the use of the VaR methodology has limitations, namely that the use of historical market data as a basis for estimating future events does not encompass all possible scenarios, particularly those that are of an extreme nature and that the use of a specified confidence level (e.g. 99%) does not take into account losses that occur beyond this level. There is some probability that the loss could be greater than the VaR amounts. These limitations and the nature of the VaR measure mean that the Fund can neither guarantee that losses will not exceed the VaR amounts indicated, nor that losses in excess of the VaR amounts, will not occur more frequently.

The one day VaR as at 29 February 2016 and 28 February 2015 based on a 99% confidence level was 3.77% and 2.01% respectively.

During the year the VaR model used by the RQA Group changed from a parametric model to an adjusted historical simulation model to measure more appropriately the Fund's exposure to market risk. The previous model used a holding period of one month (20 days). The comparative VaR as of 28 February 2015 has been updated in line with the new model.

## **i) Market risk arising from foreign currency risk**

### **Exposure to foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

### **Management of foreign currency risk**

The net assets of the Fund are denominated mainly in Sterling, therefore the Balance Sheet and Statement of Total Return are unlikely to be directly affected by currency movements.

## **ii) Market risk arising from other price risk**

### **Exposure to other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Fund is exposed to other price risk arising from its investments. The exposure of the Fund to other price risk is the market value of the investments held as shown in the portfolio statement of the Fund.

### **Management of other price risk**

The Investment Manager manages the Fund's other price risk on a daily basis in accordance with the Fund's investment objective.

By diversifying the portfolio, where this is appropriate and consistent with the Fund's objectives, the risk that a price change of a particular investment will have a material impact on the net asset value of the Fund is minimised. The investment concentrations within the portfolio are disclosed in the portfolio statement by investment type.

## **iii) Market risk arising from interest rate risk**

### **Exposure to interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to interest rate risk on its cash and bank balances held at The Bank of New York Mellon (International) Limited and its cash equivalent holdings. Cash held on deposit at The Bank of New York (International) Limited receives/incurs interest at the prevailing daily rate which may be negative depending on the currency in which the cash is held.

At 29 February 2016 and 28 February 2015, no interest bearing investments were held by the Fund, hence no interest rate risk exposure table has been presented.

## **Management of interest rate risk**

Interest rate risk exposure is managed by constantly monitoring the position for deviations outside of a pre-determined tolerance level and, when necessary, rebalancing back to the original desired parameters.

## **b) Counterparty credit risk**

### **Exposure to counterparty credit risk**

Counterparty credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund is exposed to counterparty credit risk from the parties with which they trade and will bear the risk of settlement default.

### **Management of counterparty credit risk**

Counterparty credit risk is monitored and managed by BlackRock's RQA Counterparty & Concentration Risk Team. The team is headed by BlackRock's Chief Credit Officer who reports directly to the Global Head of RQA. Credit authority resides with the Chief Credit Officer and selected team members to whom specific credit authority has been delegated. As such, counterparty approvals may be granted by the Chief Credit Officer or by identified RQA Credit Risk Officers who have been formally delegated authority by the Chief Credit Officer as deemed appropriate.

BlackRock's RQA Counterparty & Concentration Risk Team completes a formal review of each new counterparty, monitors and reviews all approved counterparties on an ongoing basis and maintains an active oversight of counterparty exposures.

The Manager maintains a list of approved counterparties. This list is regularly monitored and revised for changes based on the counterparty's creditworthiness, market reputation and expectations of future financial performance. Transactions will only be opened with financial intermediaries on the approved counterparties list.

### **i) Trustee and Custodian**

The Fund's Trustee is BNY Mellon Trust & Depositary (UK) Limited (the "Trustee"). The Trustee has delegated the function of custodian of the property of the Fund to The Bank of New York Mellon (International) Limited (the "Custodian").

Substantially all of the investments other than financial derivative instruments of the Fund are held by the Custodian at year end. Investments are segregated from the assets of the Custodian's, with ownership rights remaining with the Fund. Bankruptcy or insolvency of the Custodian may cause the Fund's rights with respect to its investments held by the Custodian to be delayed or limited. The maximum exposure to this risk is the amount of long investments disclosed in the portfolio statement.

The Fund will be exposed to the credit risk of the Custodian, or any depositary used by the Trustee regarding cash balances held in accounts with same. In the event of insolvency or bankruptcy of the Custodian or any depositary used by the Trustee, the Fund will be treated as a general creditor of the Trustee.

### **Management of counterparty credit risk related to the Trustee and Custodian**

To mitigate the Fund's credit risk with respect to the Trustee, the Investment Manager of the Fund employs specific procedures to ensure that the Trustee employed is a reputable institution and that the associated credit risk is acceptable to the Fund. The Fund only transacts with counterparties that are regulated entities subject to prudential supervision, or with high credit-ratings assigned by international credit-rating agencies.

The long term credit rating of the parent company of the Trustee and Custodian, The Bank of New York Mellon Corporation as at 29 February 2016 was A+ (28 February 2015: A+) (Standard & Poor's rating).

### **ii) Counterparties**

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Counterparty credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

### **Management of counterparty credit risk related to Counterparties**

The Manager monitors the credit rating and financial position of the brokers used to further mitigate this risk.

### **iii) Securities Lending**

The Fund engages in security lending activities which expose the Fund to counterparty credit risk. The maximum exposure to the Fund is equal to the value of the securities loaned in accordance with the notes to the financial statements.

### **Management of counterparty credit risk related to securities lending**

To mitigate this risk, the Fund receives securities as collateral (financial instruments) equal to a certain percentage of the value of the securities loaned and BlackRock provides the Fund with indemnification against borrower default as disclosed in the notes to the financial statements.

## **c) Liquidity risk**

### **Exposure to liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulties in meeting its obligations associated with financial liabilities.

Liquidity risk to the Fund arises from the redemption requests of investors and the liquidity of the underlying investments the Fund is invested in. The Fund's unitholders may redeem their units on the close of any daily dealing deadline for cash equal to a proportionate share of the Fund's Net Asset Value. The Fund is therefore potentially exposed to the liquidity risk of meeting the unitholders' redemptions and may need to sell assets at prevailing market prices to meet liquidity demands.

The Fund invests primarily in companies incorporated or listed in the United Kingdom, which is typically considered to be a territory operating with high levels of liquidity. From time to time, however, market liquidity may be affected by economic events.

All non-derivative financial liabilities including distributions payable held by the Fund as at 29 February 2016 and 28 February 2015, based on contractual maturities, fall due within one to three months.

### **Management of liquidity risk**

Liquidity risk is minimised by holding sufficient liquid investments which can be readily realised to meet liquidity demands.

At times of excessive redemptions the Manager may decide to defer redemptions at any valuation point to the next valuation point where the requested aggregate redemptions exceed 10 per cent of the Fund's value. This will therefore allow the Manager to protect the interests of continuing unitholders by allowing the Manager to match the sale of scheme property to the level of redemptions. This should reduce the impact of dilution on the Fund. All unitholders who have sought to redeem units at any valuation point at which redemptions are deferred will be treated consistently and any redemption requests received in the meantime will not be processed until the redemption requests that have been deferred to the subsequent valuation points have been processed.

The Fund's liquidity risk is managed on a daily basis by the Investment Manager in accordance with established policies and procedures in place. The portfolio managers review daily forward looking cash reports which project cash obligations. These reports allow them to manage their cash obligations.

**d) Valuation of financial instruments**

The Fund classifies financial instruments measured at fair value using a fair value hierarchy. The fair value hierarchy has the following categories:

**Level 1 – Quoted prices for identical instruments in active markets**

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Fund does not adjust the quoted price for these instruments.

**Level 2 – Valuation techniques using observable inputs**

This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Valuation techniques used for non-standardised financial instruments such as OTC derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity determined inputs.

**Level 3 – Valuation techniques using significant unobservable inputs**

This category includes all instruments where the valuation techniques used include inputs not based on market data and these inputs could have a significant impact on the instrument's valuation.

This category also includes instruments that are valued based on quoted prices for similar instruments where significant entity determined adjustments or assumptions are required to reflect differences between the instruments and instruments for which there is no active market.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes 'observable' inputs requires significant judgement by the Investment Manager. The Investment Manager considers observable inputs to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below is an analysis of the Fund's investment assets and investment liabilities measured at fair value at the Balance Sheet date.

	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
<b>29 February 2016</b>				
Investment assets	429,600	–	–	<b>429,600</b>
Investment liabilities	–	–	–	–
<b>28 February 2015</b>				
Investment assets	529,855	–	–	<b>529,855</b>
Investment liabilities	–	–	–	–

**e) Global exposure**

The Manager is required by the COLL Sourcebook to employ a risk management process in respect of the Fund which enables it to accurately monitor and manage the global exposure from financial derivative instruments ("FDI").

The Manager uses a methodology known as the Commitment Approach in order to measure the global exposure of the Fund. The Commitment Approach is a methodology that aggregates the underlying market or notional values of FDI to determine the degree of global exposure of the Fund to derivative instruments.

In accordance with the COLL Sourcebook global exposure for a fund utilising the Commitment Approach must not exceed 100% of the Fund's NAV. The calculation of global exposure represents only one element of the Fund's risk management process and in that respect the Manager will continue to report VaR as a market risk measure to the Board of Directors.

The Fund did not hold any FDI at the year end.

## Notes to Financial Statements continued

### 3. Net Capital (Losses)/Gains

	For the year to 29.2.2016 £000's	For the year to 28.2.2015 £000's
The net capital (losses)/gains comprise:		
(Losses)/gains on non derivative securities	(37,229)	15,542
Currency losses	(7)	(22)
Custodian transaction costs	(23)	(27)
<b>Net capital (losses)/gains</b>	<b>(37,259)</b>	<b>15,493</b>

### 4. Revenue

	For the year to 29.2.2016 £000's	For the year to 28.2.2015 £000's
Interest from UK bank deposits	2	4
Overseas dividends	1,172	1,323
Revenue from short-term money market funds	27	42
Securities lending revenue	25	29
Stock dividends	154	499
UK dividends	15,565	20,128
UK REIT dividends	42	70
Underwriting commission	2	-
<b>Total revenue</b>	<b>16,989</b>	<b>22,095</b>

### 5. Expenses

	For the year to 29.2.2016 £000's	For the year to 28.2.2015 £000's
Payable to the Manager or associates of the Manager:		
– Manager's charge	2,484	3,320
	2,484	3,320
Other expenses:		
– Audit fee	7	7
– Safe custody fees	12	16
– Trustee's fees	57	77
	76	100
<b>Total expenses</b>	<b>2,560</b>	<b>3,420</b>

### 6. Taxation

#### (a) Analysis of current tax charge

	For the year to 29.2.2016 £000's	For the year to 28.2.2015 £000's
Irrecoverable overseas tax	23	3
<b>Total current tax charge [see note 6(b)]</b>	<b>23</b>	<b>3</b>

#### (b) Factors affecting the current tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an authorised unit trust. The differences are explained below:

	For the year to 29.2.2016 £000's	For the year to 28.2.2015 £000's
Net revenue before taxation	14,429	18,675
Corporation tax at 20% (28 February 2015: 20%)	2,886	3,735
Effects of:		
Excess expenses for which no tax relief taken	508	655
Franked investment revenue at 20%	(3,113)	(4,026)
Irrecoverable overseas tax	23	3
Non taxable overseas dividends	(250)	(265)
Non taxable stock dividends	(31)	(99)
<b>Total current tax charge [see note 6(a)]</b>	<b>23</b>	<b>3</b>

At 29 February 2016, the Fund had surplus management expenses of £000 130,220 (28 February 2015: £000 127,682). It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and, therefore, a deferred tax asset of £000 26,044 (28 February 2015: £000 25,536) has not been recognised.

## 7. Distributions

	For the year to 29.2.2016 £000's	For the year to 28.2.2015 £000's
Interim distribution	9,220	12,324
Final distribution	4,526	4,599
	13,746	16,923
Add: Amounts deducted on cancellation of units	771	1,990
Less: Amounts received on issue of units	(111)	(241)
<b>Distributions</b>	<b>14,406</b>	<b>18,672</b>

Details of the interim and final distributions per unit are set out in the tables on page 7.

## 8. Debtors

	29.2.2016 £000's	28.2.2015 £000's
Accrued revenue	2,298	1,734
Amounts receivable for issue of units	1	–
Overseas tax recoverable	11	46
Sales awaiting settlement	947	17,081
<b>Total debtors</b>	<b>3,257</b>	<b>18,861</b>

## 9. Cash Equivalents

	29.2.2016 £000's	28.2.2015 £000's
Investments in short-term money market funds	433	1,996
<b>Total cash equivalents</b>	<b>433</b>	<b>1,996</b>

## 10. Other Creditors

	29.2.2016 £000's	28.2.2015 £000's
Accrued Audit fee	7	7
Accrued FCA fee	1	1
Accrued Manager's charge	358	762
Accrued Safe custody fees	3	4
Accrued Trustee's fee	9	18
Amounts payable for cancellation of units	44	18,198
Custodian transaction costs	5	7
Purchases awaiting settlement	474	334
<b>Total other creditors</b>	<b>901</b>	<b>19,331</b>

## 11. Contingent Assets and Liabilities

There were no contingent assets or liabilities at the Balance Sheet date (28 February 2015: £Nil).

## 12. Efficient Portfolio Management Techniques

The Fund may subject to the conditions and within the limits laid down by the Financial Conduct Authority and the Prospectus, engage in securities lending and employ techniques and instruments relating to transferable securities for efficient portfolio management purposes.

The securities lending agent appointed pursuant to the securities lending agreement is BlackRock Advisors (UK) Limited which is a related party to the Fund.

The Fund benefits from a borrower default indemnity provided by BlackRock Inc. The indemnity allows for full replacement of securities lent. BlackRock Inc. bears all operational costs directly related to securities loan transactions as well as the cost of indemnification against borrower default.

During the year the Fund engaged in securities lending. The Fund receives either cash collateral or securities as collateral for a value in excess of the market value of the securities loaned. As at the 29 February 2016 the collateral consists of securities admitted to or dealt on a regulated market.

The collateral is registered and held in the name of BlackRock Advisors (UK) Limited on behalf of the Fund in any or all of the following collateral agents and central securities depositaries: Bank of New York Mellon and JP Morgan, depending on the type of collateral the counterparty needs to give as per the schedule in order to cover the required value of exposure.

The Investment Manager monitors the fair value of the securities loaned and additional collateral is obtained, if necessary.

## Notes to Financial Statements continued

Securities lending revenue is split between the Fund and the securities lending agent in the ratio 62.5:37.5 in favour of the Fund, with all operational costs borne out of the securities lending agent's share.

The securities lending revenue earned during the year, the value of securities on loan at the year end and the value of collateral held at the year end for the Fund are shown below:

	29.2.2016 £000's	28.2.2015 £000's
Revenue earned during the year	25	29
Value of securities on loan at the year end	33,494	11,826
Value of collateral held on behalf of the Fund at the year end	37,222	13,124

The Fund's securities lending borrowing counterparties are Bank of New York Mellon, Citigroup and JP Morgan Chase Securities Plc.

### 13. Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The following entities were related parties of the Fund during the year ended 29 February 2016:

Manager/Registrar:	BlackRock Fund Managers Limited
Investment Manager:	BlackRock Investment Management (UK) Limited
Securities lending agent:	BlackRock Advisors (UK) Limited

The ultimate holding company of the Manager, Investment Manager and securities lending agent is BlackRock Inc. ("BlackRock"), a company incorporated in Delaware, USA. PNC Financial Services Group Inc. ("PNC") is a substantial shareholder in BlackRock Inc. PNC did not provide any services to the Fund during the years ended 29 February 2016 and 28 February 2015.

The Manager acts as either principal or agent for the Trustee in respect of all transactions of units of the Fund. The aggregate monies received through issue and paid through cancellation of units are disclosed in the Statement of Change in Net Assets Attributable to Unitholders and note 7. Any amounts due to or from the Manager at the year end are disclosed in notes 8 and 10. Management fees and registration fees paid to BlackRock Fund Managers Limited are shown in note 5. The balances due at the year end in respect of these fees are shown in note 10. Securities lending revenue earned by the Fund is disclosed in notes 4 and 12.

For holdings in Institutional Cash Series plc ("ICS"), there will be no initial charges or redemption charges payable on investments in the Fund, however, duties and charges may apply. ICS will be subject to fees and expenses which may include fixed management fees, performance fees, administration fees and custodial fees.

As at 29 February 2016 and 28 February 2015, none of the unitholders:

- (i) are funds managed by the BlackRock Group or are affiliates of BlackRock Inc. or
- (ii) are investors, other than those included in (i) above, who held 51% or more of the voting units in issue in the Fund and are as a result, considered to be related parties to the Fund.

### 14. Portfolio Transaction Costs

For the year ended 29 February 2016

Purchases (excluding derivatives)	Transaction Value £000's	Direct Transaction Costs			
		Commissions £000's	%	Taxes £000's	%
Equity instruments	175,272	155	0.09	779	0.44
<b>Total purchases</b>	<b>175,272</b>	<b>155</b>		<b>779</b>	
<b>Total purchases including transaction costs</b>	<b>176,206</b>				

Sales (excluding derivatives)	Transaction Value £000's	Direct Transaction Costs			
		Commissions £000's	%	Taxes £000's	%
Equity instruments	239,390	219	0.09	1	0.00
<b>Total sales</b>	<b>239,390</b>	<b>219</b>		<b>1</b>	
<b>Total sales net of transaction costs</b>	<b>239,170</b>				

<b>Total transaction costs</b>	<b>374</b>	<b>780</b>
<b>Total transaction costs as a % of average net assets</b>	<b>0.08%</b>	<b>0.15%</b>

## Notes to Financial Statements continued

For the year ended 28 February 2015

Purchases (excluding derivatives)	Direct Transaction Costs				
	Transaction Value £000's	Commissions £000's	%	Taxes £000's	%
Equity instruments	334,786	363	0.11	1,542	0.46
<b>Total purchases</b>	<b>334,786</b>	<b>363</b>		<b>1,542</b>	
<b>Total purchases including transaction costs</b>	<b>336,691</b>				

Sales (excluding derivatives)	Direct Transaction Costs				
	Transaction Value £000's	Commissions £000's	%	Taxes £000's	%
Equity instruments	531,958	515	0.10	3	0.00
<b>Total sales</b>	<b>531,958</b>	<b>515</b>		<b>3</b>	
<b>Total sales net of transaction costs</b>	<b>531,440</b>				

<b>Total transaction costs</b>	<b>878</b>	<b>1,545</b>
<b>Total transaction costs as a % of average net assets</b>	<b>0.13%</b>	<b>0.24%</b>

The above analysis covers direct transaction costs incurred by the Fund during the period. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

Transactions in money market instruments to manage the Fund's daily liquidity position are excluded from the analysis.

Separately identifiable direct transaction costs (such as commissions and taxes) are attributable to the Fund's purchase and sale of equity instruments. Additionally for equity shares there is a dealing spread cost (the difference between the buying and selling prices) which will be incurred on purchase and sale transactions.

At the Balance Sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.19% (28 February 2015 – 0.19%).

## 15. Units in Issue

The movement in units in issue for the year ended 29 February 2016 is as follows:

	I Income Units	I Accumulation Units	D Income Units	D Accumulation Units
Balance at the beginning of the year	17,327,616	4,317,722	6,995	1,101
Issued during the year	1,289,683	–	26,240	–
Cancelled during the year	(5,391,701)	–	(17,040)	–
Converted during the year	2,393,566	(723,478)	(14,481)	3,810
<b>Balance at the end of the year</b>	<b>15,619,164</b>	<b>3,594,244</b>	<b>1,714</b>	<b>4,911</b>

Revenue is allocated each day pro rata to the capital value of assets attributable to each class and taxation is computed by reference to the net revenue after expenses attributable to each class. The distribution per unit class is given in the distribution table. All unit classes have the same rights on winding up.

## 16. Post Balance Sheet Events

There have been no significant events subsequent to the year end, which, in the opinion of the Manager, may have had an impact on the financial statements for the year ended 29 February 2016.

# Statement of Manager's and Trustee's Responsibilities

The Manager is required by the rules of the Sourcebook to prepare the financial statements for each financial year. These financial statements must be prepared in accordance with generally accepted accounting standards in the United Kingdom to give a true and fair view of the state of affairs of the Fund at the year end and of the net revenue for the year.

The financial statements should comply with the disclosure requirements of the Statement of Recommended Practice (the "SORP") for Authorised Funds issued by the Investment Management Association (subsequently The Investment Association) and must comply with any relevant provisions of the Trust Deed.

The Manager is responsible for keeping such accounting records as are necessary to enable it to ensure that the financial statements comply with the Sourcebook, the SORP and the Trust Deed.

The Trustee is responsible for the safekeeping of all the property of the Scheme (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the Scheme is managed in accordance with the Sourcebook, the Fund's Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the Fund; the application of revenue of the Scheme; and the investment and borrowing powers of the Fund.

## Report of the Trustee

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Fund, it is our opinion, based on the information available to us and the explanations provided, that, in all material respects, the Manager:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's revenue in accordance with the Sourcebook, the Trust Deed and Prospectus, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Fund.

BNY Mellon Trust & Depositary  
(UK) Limited

London  
28 April 2016



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## Independent Auditor's Report to the Unitholders of BlackRock UK Equity Fund

We have audited the financial statements of BlackRock UK Equity Fund (the "Fund") for the year ended 29 February 2016 which comprise the Statement of Total Return and the Statement of Changes in Net Assets Attributable to Unitholders together with the Balance Sheet, the accounting policies of the Fund, the related notes and the Distribution Tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the unitholders of the Fund, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Manager and Auditor

As explained more fully in the Manager's responsibilities statement set out on page 35, the Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- ▶ whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed;
- ▶ the reasonableness of significant accounting estimates made by the Manager; and
- ▶ the overall presentation of the financial statements.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on the financial statements**

In our opinion:

- ▶ The financial statements give a true and fair view of the financial position of the Fund as at 29 February 2016 and of the net revenue and the net capital losses on the scheme property of the Fund for the year then ended; and
- ▶ The financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

#### **Opinion on other matters prescribed by the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority**

In our opinion:

- ▶ the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority and the Trust Deed;
- ▶ the information given in the Manager's report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- ▶ there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records; and
- ▶ we have received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit

Ernst & Young LLP  
Statutory Auditor

Edinburgh  
28 April 2016

## General Information

#### **Manager & Registrar**

BlackRock Fund Managers Limited  
12 Throgmorton Avenue, London EC2N 2DL  
Telephone: 020 7743 3000 Dealing and Investor Services: 0800 44 55 22

Member of The Investment Association (formerly the Investment Management Association) and authorised and regulated by the Financial Conduct Authority.

#### **Directors of the Manager**

G D Bamping\* RA Damm N C D Hall\* R A R Hayes A M Lawrence AJ Stenning E E Tracey  
M T Zemek\* (appointed 2 June 2015)

\* Non-executive Director.

#### **Trustee**

BNY Mellon Trust & Depositary (UK) Limited  
160 Queen Victoria Street, London EC4V 4LA

Authorised and regulated by the Financial Conduct Authority.

#### **Investment Manager**

BlackRock Investment Management (UK) Limited  
12 Throgmorton Avenue, London EC2N 2DL

Authorised and regulated by the Financial Conduct Authority.

#### **Auditor**

Ernst & Young LLP  
1 More London Place, London SE1 2AF

#### **Custodian**

The Bank of New York Mellon (International) Limited  
1 Canada Square, London E14 5AL

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

BlackRock's proxy voting agent is ISS (Institutional Shareholder Services).

#### **This Report relates to the packaged products of and is issued by:**

BlackRock Fund Managers Limited  
12 Throgmorton Avenue, London EC2N 2DL  
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Dealing and Investor Services: 0800 44 55 22  
blackrock.co.uk

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# BLACKROCK®

## **ABOUT US**

BlackRock is a premier provider of asset management, risk management, and advisory services to institutional, intermediary, and individual clients worldwide. As of 31 March 2016, the firm manages £3.29 trillion across asset classes in separate accounts, mutual funds, other pooled investment vehicles, and the industry-leading iShares® exchange-traded funds.

Through BlackRock Solutions®, the firm offers risk management and advisory services that combine capital markets expertise with proprietary-developed analytics, systems, and technology. Through BlackRock Solutions®, the Firm provides risk management and enterprise investment services for over 200 clients.

BlackRock serves clients in North and South America, Europe, Asia, Australia, Africa, and the Middle East. Headquartered in New York, the firm maintains offices in over 30 countries around the world.

**For more information**

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