



# **Interim report**

BlackRock Continental European Fund

**For the six months ended 31 August 2018**

# Contents

General Information	2
About the Fund	3
Investment Objective & Policy	3
Fund Managers	3
Significant Events	3
Risk and Reward Profile	4
Performance Table	5
Classification of Investments	6
Investment Report	7
Performance Record	9
Portfolio Statement	10
Statement of Total Return	12
Statement of Change in Net Assets Attributable to Unitholders	12
Balance Sheet	13
Notes to Financial Statements	14
Supplementary Information	15

# General Information

## Manager & Registrar

BlackRock Fund Managers Limited  
12 Throgmorton Avenue, London EC2N 2DL

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

## Directors of the Manager

G D Bamping\* C L Carter M B Cook (appointed 2 May 2018) W I Cullen\* R A Damm R A R Hayes  
A M Lawrence L E Watkins (appointed 16 May 2018) M T Zemek\*

\* Non-executive Director.

## Trustee\* & Custodian

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

Authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority.

\* On 18 June 2018 the Trustee changed from BNY Mellon Trust & Depositary (UK) Limited to The Bank of New York Mellon (International) Limited.

## Investment Manager

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

Authorised and regulated by the FCA.

## Securities Lending Agent

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

Authorised and regulated by the FCA.

## Auditor

Ernst & Young LLP  
Atria One, 144 Morrison Street, Edinburgh EH3 8EX

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  
Telephone: 020 7743 3000  
Dealing and Investor Services: 0800 44 55 22  
blackrock.co.uk

**For your protection, telephone calls are usually recorded.**

## About the Fund

BlackRock Continental European Fund (the “Fund”) is a UCITS scheme under the COLL Sourcebook. The Fund was established on 8 November 1983. The Fund has previously been known as Mercury European Growth Fund then, with effect from 30 September 2000, Merrill Lynch European Growth Fund. On 1 October 2001 the Fund changed its name to Merrill Lynch Continental European Fund. The Fund changed its investment objective on 1 October 2006. The Fund adopted its present name with effect from 28 April 2008. The Fund’s FCA product reference number is 108389.

## Investment Objective & Policy

The aim of the Fund is to achieve long-term capital growth for investors. The Fund invests primarily in the shares of companies incorporated or listed in Europe excluding the UK. Typically, these will be larger companies. The Fund may also invest in collective investment schemes.

## Fund Managers

As at 31 August 2018, the Fund Managers of the Fund are Stefan Gries and Giles Rothbarth.

## Significant Events


## Changes in the Directors of the Manager

M B Cook was appointed as a Director effective 2 May 2018. L E Watkins was appointed as a Director effective 16 May 2018.

## Changes to the Trustee

On 18 June 2018 the Trustee changed from BNY Mellon Trust & Depositary (UK) Limited to The Bank of New York Mellon (International) Limited.

## Risk and Reward Profile

Unit Class	Lower risk Typically lower rewards					Higher risk Typically higher rewards	
							
A Income	1	2	3	4	5	6	7
A Accumulation	1	2	3	4	5	6	7
D Income	1	2	3	4	5	6	7
D Accumulation	1	2	3	4	5	6	7
X Accumulation	1	2	3	4	5	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 the Fund.
- 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. The impact to the Fund can be greater where derivatives are used in an extensive or complex way.

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).

## Performance Table

	For the six months to 31.8.2018	For the three years to 31.8.2018	For the five years to 31.8.2018
<b>TOTAL RETURN (with net income reinvested)</b>			
<b>Class D Accumulation Units</b>			
BlackRock Continental European Fund	<b>+9.2%</b>	+53.6%	+77.0%
FTSE World Europe ex UK Index†	<b>+3.6%</b>	+47.4%	+65.0%

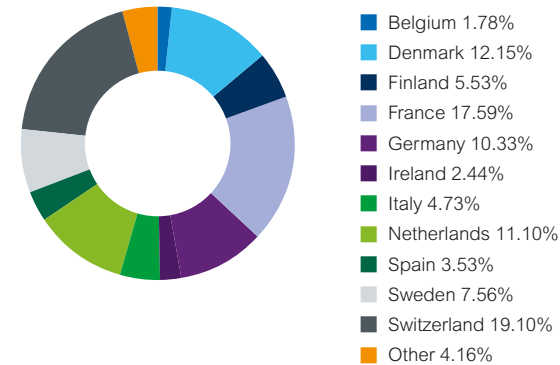
All Fund figures quoted are based on bid-to-bid dealing prices (the price at which units are sold) and not on the net asset value reported for financial statements purposes. Performance returns are cumulative and are calculated net of fees. All returns are in Sterling.  
† Figures from Index Vendor.

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.

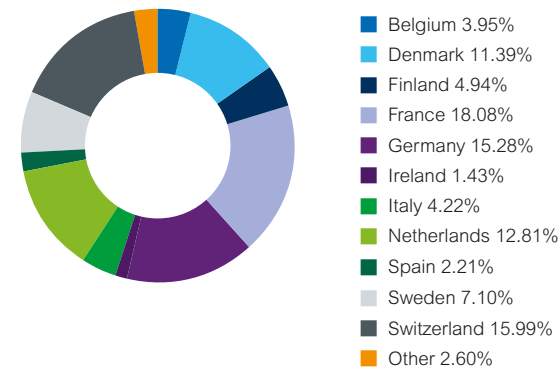
## Classification of Investments

The following charts provide an analysis of the equity portfolio weightings as at 31 August 2018 and 28 February 2018 by their respective geographical locations.

### 31 August 2018



### 28 February 2018



# Investment Report

## Summary of Performance over the Period

The Fund returned 9.2%\* over the six-months to 31 August 2018, outperforming its benchmark, the FTSE World Europe ex UK Index, which returned 3.6%.

## Market Review

The performance of European stocks was mixed over the period. French and German stocks gained, while stocks in Spain and Italy lagged. Political events influenced market sentiment, with Italian politics causing concerns in May. After the election victory of two anti-establishment parties, the Five Star Movement and the Northern League, investors worried about Italy's future in the European Union. In Spain, a vote of no confidence in Prime Minister Mariano Rajoy paved the way for his replacement, the more left wing Pedro Sanchez. Meanwhile, policymakers at the European Central Bank sounded a cautious note about the future path of monetary policy.

## Fund Performance and Activity

While economic performance has softened slightly in Europe, earnings growth has remained resilient. Stock selection, therefore, proved positive for returns. Earnings upgrades from large active holdings in Lonza and Safran helped drive outperformance. In addition, participating in the initial public offering for payments provider Adyen aided returns, as the offering saw exceptionally high demand with 40x coverage. This is a strongly growing company, which reported 67% year-on-year revenue growth in the second quarter.

The underweight allocation (less exposure than the index) to financials, particularly banks, also proved positive, as expectations for interest rate hikes were pushed out to the second half of 2019. A holding in Danske Bank, however, detracted from returns over the period. While Danske operates in superior markets for banking versus most Eurozone players, realising higher rates of loan growth with a stronger pricing discipline, it has been plagued by headlines surrounding investigations into money laundering in Estonia. Although the primary regulators have broadly resolved this issue and imposed only small fines, Danske has committed to donate the entire income from that division, which will be taken as a cost on this year's income statement.

Over the period, we added exposure to the healthcare sector, following our increased conviction in Lonza, where management upgraded growth guidance, and Novo Nordisk, where concerns on generic pricing have somewhat abated. We also added to technology, increasing a position in SAP, where we feel the uptake of its S/4HANA product could substantially improve its earnings profile.

We reduced exposure to the consumer sector, selling positions in Continental and Adidas, where fundamentals deteriorated. Exposure to financials was also reduced.

At the end of the period, the Fund was primarily overweight (more exposure than the index) industrials, with positions exposed to the improving cycle in aerospace & defence and niche businesses with structural growth opportunities. The largest underweight was towards financials, where we believe lower interest rates and high competition will continue to erode banking margins.

## Outlook

The apparent attractiveness of European shares has waned year to date. Political headlines have created negative sentiment towards the region, and politics remains a risk. However, we continue to see positive earnings growth and robust levels of consumer confidence in the region. We believe navigating risks and extreme valuations through active stock selection is increasingly important at this stage in the cycle. From a fundamental standpoint, we believe there are ample attractive investment opportunities within Europe that can deliver earnings growth and strong cash flow irrespective of the political environment.

## September 2018

\* 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 D Accumulation Units.

## Performance Record

### Net Asset Value

At 31 August 2018	Units in Issue	Net Asset Value £000's	Net Asset Value per Unit p
A Income	1,624,682	34,620	2,131
A Accumulation	7,587,987	196,521	2,590
D Income	3,792,770	81,746	2,155
D Accumulation	8,490,654	230,570	2,716
X Accumulation	4,384,855	6,589	150.3

### Distribution Payable for the period to 31 August 2018

Any income available will be distributed annually on 30 April.

### Operating Charges

Unit Class	1.3.2018 to 31.8.2018	1.3.2017 to 28.2.2018
A Income	1.69%	1.69%
A Accumulation	1.69%	1.69%
D Income	0.93%	0.94%
D Accumulation	0.93%	0.94%
X Accumulation	0.03%	0.04%

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).

## Portfolio Statement (unaudited)

at 31 August 2018

Holding or Nominal Value Investment	Market Value £000's	% of Total Net Assets
<b>EQUITIES – 95.84%; 28.2.2018 97.40%</b>		
<b>Belgium – 1.78%; 28.2.2018 3.95%</b>		
179,213 KBC	9,815	1.78
<b>Denmark – 12.15%; 28.2.2018 11.39%</b>		
87,215 Christian Hansen	6,857	1.25
676,861 Danske Bank	15,525	2.82
241,134 DSV	17,399	3.16
711,486 Novo Nordisk class 'B' shares	27,081	4.92
	<b>66,862</b>	<b>12.15</b>
<b>Finland – 5.53%; 28.2.2018 4.94%</b>		
315,876 KONE class 'B' shares	13,264	2.41
1,055,361 Wartsila <sup>o</sup>	17,148	3.12
	<b>30,412</b>	<b>5.53</b>
<b>France – 17.59%; 28.2.2018 18.08%</b>		
188,646 Eiffage	16,401	2.98
22,822 Kering	9,659	1.76
491,744 Maisons du Monde	11,030	2.01
108,519 Rémy Cointreau <sup>o</sup>	11,742	2.13
282,925 Safran	28,329	5.15
181,174 Thales	19,580	3.56
	<b>96,741</b>	<b>17.59</b>
<b>Germany – 10.33%; 28.2.2018 15.28%</b>		
266,586 Fresenius Medical Care	21,015	3.82
582,204 Infineon Technologies	11,471	2.09
261,829 SAP	24,291	4.42
	<b>56,777</b>	<b>10.33</b>
<b>Ireland – 2.44%; 28.2.2018 1.43%</b>		
355,523 Kingspan	13,410	2.44
<b>Italy – 4.73%; 28.2.2018 4.22%</b>		
54,126 DiaSorin <sup>o</sup>	4,531	0.83
138,810 Ferrari <sup>o</sup>	14,154	2.57
795,951 FinecoBank	7,320	1.33
	<b>26,005</b>	<b>4.73</b>
<b>Netherlands – 11.10%; 28.2.2018 12.81%</b>		
4,201 Adyen	2,272	0.41
119,821 ASML	18,876	3.43
182,059 IMCD	10,658	1.94
745,441 RELX	12,778	2.32
370,601 Unilever	16,486	3.00
	<b>61,070</b>	<b>11.10</b>

## Portfolio Statement (unaudited) continued

Holding or Nominal Value Investment	Market Value £000's	% of Total Net Assets
<b>Spain – 3.53%; 28.2.2018 2.21%</b>		
337,340 Grifols preference shares	5,551	1.01
595,488 Inditex <sup>o</sup>	13,849	2.52
	<b>19,400</b>	<b>3.53</b>
<b>Sweden – 7.56%; 28.2.2018 7.10%</b>		
562,504 Assa Abloy	8,859	1.61
434,925 Hexagon series 'B' shares	19,964	3.63
954,717 Volvo series 'B' shares <sup>o</sup>	12,736	2.32
	<b>41,559</b>	<b>7.56</b>
<b>Switzerland – 19.10%; 28.2.2018 15.99%</b>		
98,299 Compagnie Financiere Richemont	6,683	1.21
138,127 Julius Baer	5,667	1.03
131,903 Lonza	32,812	5.97
16,070 Partners	9,732	1.77
222,605 Sika	25,526	4.64
578,713 STMicroelectronics	9,232	1.68
24,847 Straumann <sup>o</sup>	15,413	2.80
	<b>105,065</b>	<b>19.10</b>
<b>DERIVATIVES – 0.00%; 28.2.2018 (0.06)%</b>		
<b>Futures – 0.00%; 28.2.2018 (0.06)%</b>		
<b>Portfolio of investments</b>	<b>527,116</b>	<b>95.84</b>
<b>CASH EQUIVALENTS – 3.21%; 28.2.2018 2.23%</b>		
<b>Short-term Money Market Funds – 3.21%; 28.2.2018 2.23%</b>		
17,679,586 Institutional Cash Series plc – Institutional Sterling Liquidity Fund*	17,680	3.21
Net other assets	5,250	0.95
<b>Total net assets</b>	<b>550,046</b>	<b>100.00</b>

Unless otherwise stated, all securities are either listed on a recognised exchange or traded on an eligible securities market.

\* Managed by a related party.

<sup>o</sup> All or a portion of this investment represents a security on loan.

## Statement of Total Return (unaudited)

for the six months ended 31 August 2018

	£000's	31.8.2018 £000's	£000's	31.8.2017 £000's
Income				
Net capital gains		43,095		91,031
Revenue	8,043		13,104	
Expenses	(3,508)		(4,198)	
Interest payable and similar charges	(3)		(2)	
Net revenue before taxation	4,532		8,904	
Taxation	(724)		1,049	
Net revenue after taxation		3,808		9,953
<b>Change in net assets attributable to unitholders from investment activities</b>		<b>46,903</b>		<b>100,984</b>

## Statement of Change in Net Assets Attributable to Unitholders

(unaudited) for the six months ended 31 August 2018

	£000's	31.8.2018 £000's	£000's	31.8.2017 £000's
<b>Opening net assets attributable to unitholders</b>		575,078		623,027
Amounts receivable on issue of units	26,315		90,361	
Amounts payable on cancellation of units	(98,250)		(153,443)	
		(71,935)		(63,082)
Change in net assets attributable to unitholders from investment activities		46,903		100,984
<b>Closing net assets attributable to unitholders</b>		<b>550,046</b>		<b>660,929</b>

The above statement shows the comparative closing net assets at 31 August 2017 whereas the current accounting period commenced 1 March 2018.

## Balance Sheet (unaudited)

at 31 August 2018

	31.8.2018 £000's	28.2.2018 £000's
<b>Assets:</b>		
Fixed assets		
– Investment assets	527,116	560,177
Current assets		
– Debtors	6,014	3,916
– Cash and bank balances	2,831	3,944
– Cash equivalents	17,680	12,798
<b>Total assets</b>	<b>553,641</b>	<b>580,835</b>
<b>Liabilities:</b>		
Investment liabilities	–	(371)
Creditors		
– Distributions payable	–	(1,361)
– Other creditors	(3,595)	(4,025)
<b>Total liabilities</b>	<b>(3,595)</b>	<b>(5,757)</b>
<b>Net assets attributable to unitholders</b>	<b>550,046</b>	<b>575,078</b>

G D Bamping (Director)  
M T Zemek (Director)  
BlackRock Fund Managers Limited  
30 October 2018

## Notes to Financial Statements (unaudited)

for the six months ended 31 August 2018

### Accounting Policies

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 and amended in June 2017.

The accounting policies applied are consistent with those of the financial statements for the year ended 28 February 2018 and are described in those annual financial statements.



## Supplementary Information

### Efficient Portfolio Management Techniques

The Manager may, on behalf of the Fund and subject to the conditions and within the limits laid down by the FCA and the Prospectus, employ techniques and instruments relating to transferable securities, including investments in Over-the-Counter Financial Derivative Instruments ("OTC FDIs") provided that such techniques and instruments are used for efficient portfolio management purposes or to provide protection against exchange rate risk or for direct investment purposes, where applicable.

In addition to the investments in OTC FDIs, the Fund may employ other techniques and instruments relating to transferable securities and money market instruments, subject to the conditions set out in the Prospectus, as amended from time to time, and the ESMA Guidelines, such as repurchase / reverse repurchase transactions ("repo transactions") and securities lending.

### Securities Lending

Securities lending transactions entered into by the Fund are subject to a written legal agreement between the Fund and the Securities Lending Agent, BlackRock Advisors (UK) Limited, a related party to the Fund, and separately between the Securities Lending Agent and the approved borrowing counterparty. Collateral received in exchange for securities lent is transferred under a title transfer arrangement and is delivered to and held in an account with a tri-party collateral manager in the name of The Bank of New York Mellon (International) Limited ("the Trustee") on behalf of the Fund. Collateral received is segregated from the assets belonging to the Fund's Trustee or the Lending Agent.

The following table details the value of securities on loan as a proportion of the Fund's total lendable assets and NAV as at 31 August 2018 and the income earned for the period ended 31 August 2018. Total lendable assets represents the aggregate value of assets forming part of the Fund's securities lending programme. This excludes any assets held by the Fund that are not considered lendable due to any market, regulatory, investment or other restriction.

Securities on loan		
% of lendable assets	% of NAV	Income earned £000's
4.93	4.37	29

The total income earned from securities lending transactions is split between the relevant Fund and the Securities Lending Agent. The Fund receives 62.5% while the Securities Lending Agent receives 37.5% of such income, with all operational costs borne out of the Securities Lending Agent's share.

All securities on loan have an open maturity tenor as they are callable or terminable on a daily basis.

The following table details the value of securities on loan (individually identified in the Fund's portfolio statement) and associated collateral received analysed by counterparty as at 31 August 2018.

Counterparty	Counterparty's country of establishment	Securities Lending	
		Amount on loan	Collateral received
		£000's	£000's
Barclays Capital Securities Limited	UK	623	666
Credit Suisse AG	Switzerland	3,919	4,146
Credit Suisse Securities (Europe) Limited	UK	13,084	13,973
Goldman Sachs International	UK	907	973
HSBC Bank Plc	UK	238	263
J.P. Morgan Securities Plc	UK	5,278	5,788
<b>Total</b>		<b>24,049</b>	<b>25,809</b>

### Collateral

The following table provides an analysis by currency of the underlying non-cash collateral received by way of title transfer collateral arrangement by the Fund, in respect of securities lending transactions, as at 31 August 2018.

Currency	Non-cash collateral received
	£000's
CAD	433
CHF	317
CNY	1,927
EUR	11,365
GBP	3,909
HKD	201
JPY	1,460
NOK	54
SEK	77
SGD	165
USD	5,901
<b>Total</b>	<b>25,809</b>

The Fund is the legal owner of inbound collateral and can sell the assets in the case of default.

Non-cash collateral received by way of title transfer collateral arrangement in relation to securities lending transactions, cannot be sold, re-invested or pledged.

## Supplementary Information continued

The following table provides an analysis of the type, quality and maturity tenor of non-cash collateral received by the Fund by way of title transfer collateral arrangement in respect of securities lending transactions as at 31 August 2018.

Collateral type and quality	Maturity Tenor				Total
	31 - 90 days	91 - 365 days	More than 365 days	Open transactions	
	£000's	£000's	£000's	£000's	£000's
<b>Collateral received</b>					
<b>Fixed Income</b>					
Investment grade	1,249	322	13,826	–	15,397
<b>Equities</b>					
Recognised equity index	–	–	–	10,412	10,412
<b>Total</b>	<b>1,249</b>	<b>322</b>	<b>13,826</b>	<b>10,412</b>	<b>25,809</b>

Investment grade securities are those issued by an entity with a minimum investment grade credit rating from at least one globally recognised credit rating agency; Standard & Poor's, Moody's or Fitch.

A recognised equity index contains at least 20 equities where no single equity represents more than 20% of the total index and no five equities combined represent more than 60% of the total index.

The maturity tenor analysis for fixed income securities received as collateral is based on the respective contractual maturity date, while for equity securities received as collateral are presented as open transactions as they are not subject to a contractual maturity date.

As at 31 August 2018, all non-cash collateral received by the Fund in respect of securities lending transactions is held by the Fund's Trustee (or through its delegates).

The following table lists the ten largest issuers by value of non-cash collateral received by the Fund by way of title transfer collateral arrangement across securities lending transactions as at 31 August 2018.

Issuer	Value	% of the Fund's NAV
	£000's	
UK Government	2,988	0.54
Republic of France	2,842	0.52
Republic of Austria	2,747	0.50
US Treasury	2,666	0.48
Kingdom of Netherlands	2,130	0.39
Federal Republic of Germany	1,479	0.27
British American Tobacco	400	0.07
Intesa Sanpaolo	315	0.06
Industrial and Commercial Bank of China	263	0.05
Canada Government	260	0.05
Other issuers	9,719	1.76
<b>Total</b>	<b>25,809</b>	<b>4.69</b>

## About us

BlackRock is a premier provider of asset management, risk management, and advisory services to institutional, intermediary, and individual clients worldwide. As of 30 September 2018, the firm manages £4.94 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.

## Want to know more?



[blackrock.co.uk](https://blackrock.co.uk)



[enquiry@ukclientservices.blackrock.com](mailto:enquiry@ukclientservices.blackrock.com)



0800 44 55 22

**BLACKROCK®**