



**BLACKROCK  
INCOME STRATEGIES  
TRUST PLC**

HALF YEARLY  
FINANCIAL REPORT  
31 MARCH 2016

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# BlackRock Income Strategies Trust plc

The Company's investment objective is, over the medium term (5 to 7 years), to aim to preserve capital in real terms and to grow the dividend at least in line with inflation. The Company will target a total portfolio return of UK Consumer Price Index ("CPI") plus 4 per cent. per annum (before ongoing charges) over a 5 to 7 year cycle.

**aic**

The Association of  
Investment Companies

A MEMBER OF THE ASSOCIATION OF  
INVESTMENT COMPANIES

Details about the Company are available on the website at [blackrock.co.uk/bist](http://blackrock.co.uk/bist)

# Performance record

## FINANCIAL HIGHLIGHTS

	31 March 2016	30 September 2015	Change %
Net assets (£'000) <sup>1,2</sup>	361,246	374,832	-3.6
Net asset value per share (debt at fair value) <sup>1</sup>	126.50p	131.00p	-3.6
– with income reinvested	129.80p	131.00p	-0.9
Ordinary share price	121.00p	130.50p	-7.3
– with income reinvested	124.19p	130.50p	-4.8
(Discount)/premium to net asset value <sup>3</sup>	(3.10%)	0.90%	

	Six months ended 31 March 2016	Six months ended 31 March 2015	Change %
Net revenue return after taxation (£'000)	5,615	7,883	-28.8
Revenue return per share	2.05p	2.73p	-24.9
Dividends:			
First quarterly dividend	1.635p	1.500p	+9.0
Second quarterly dividend	1.635p	1.670p	-2.1
Total dividends declared in respect of the period	3.27p	3.17p	+3.2

1 Before provision for the first quarterly dividend of 1.635p per share, paid on 8 April 2016.

2 The change in net assets reflects the market movements during the period and share buybacks.

3 The discounts to NAV in the table above have been calculated based on the ex-dividend NAV of 124.87 pence per share and 129.33 pence per share as at 31 March 2016 and 30 September 2015 respectively, and not the Company's NAV per share as disclosed on the Company's balance sheet and in the table above. This is because accounting standards do not permit interim quarterly dividends to be reflected in the accounts until they have been paid. As the first quarterly dividend for 2016 and the third quarterly dividend for 2015 had gone ex-dividend in the Company's share price at 31 March 2016 and 30 September 2015 as disclosed in the table above, any share rating calculated based on this ex-dividend price also needs to be calculated using an ex-dividend NAV.

# Chairman's statement

for the six months ended 31 March 2016

## KEY DEVELOPMENTS

- ▶ **Reshaping of portfolio in light of market volatility and NAV performance**
- ▶ **Total dividends of 3.27 pence per share paid in respect of the six months under review (+3.2% increase in dividends compared to the same period last year vs +0% increase in CPI)**
- ▶ **Active management of capital base to execute zero discount policy**

## PERFORMANCE

The six months to 31 March have proved to be a challenging period for your Company and our resulting investment performance has been disappointing.

Concerns over slowing growth in China, uncertainty as to the strength and sustainability of US growth, uncertainty over the outcome of the forthcoming UK vote on whether or not to leave the European Union and the weakness of oil and other resource prices have all contributed to significant market volatility. Consistent with our multi-asset strategy, our Manager has actively managed the portfolio through these challenging times, materially changing the portfolio mix in pursuit of delivering against our stated investment objective.

The Company's NAV fell by 0.9% over the period under review and the share price fell by 4.8%. Although this total return performance is, of course, disappointing, it is important to recognise that our investment objective is deliberately set over a five to seven year period and that we should expect periods of under and over performance, given the relatively high equity exposure of the portfolio. Further details on key contributors to performance and on changes in portfolio composition over the period are set out in the Manager's report on pages 8 to 13.

Since the period end, the Company's cum income NAV (with debt at fair value) per share has fallen by 0.8% and the share price has fallen by 2.1% as at close of business on 10 June 2016.

## REVENUE RETURN AND DIVIDENDS

The Company's revenue return for the six months to 31 March 2016 amounted to 2.05 pence per share, compared to 2.73 pence per share for the comparable six month period to 31 March 2015. The decrease is primarily due to changes in portfolio composition as well as the timing of dividend flows from underlying holdings.

# Chairman's statement continued

for the six months ended 31 March 2016

Your Board recognises that maintaining our commitment to the dividend is especially important for many of our shareholders. A first quarterly dividend of 1.635 pence per share was paid on 8 April 2016 to shareholders on the register on 11 March 2016; the Board is pleased to declare a second interim quarterly dividend of 1.635 pence per share, payable on 22 July 2016 to shareholders on the register on 24 June 2016. Total dividends for the six months ending 31 March 2016 thus total 3.27 pence per share, a 3.2% increase on the prior year which compares to a zero increase in inflation (as measured by the Consumer Price Index) over the same period.

Over the full year the Manager is confident that the Company's current portfolio composition, coupled with the ability to use derivatives to generate income and to utilise reserves where necessary, will support an annual dividend in line with the Company's policy.

## **ZERO DISCOUNT POLICY**

The Board remains committed to a zero discount policy, which we believe will enhance the attractiveness of the Company to investors by increasing the liquidity of the shares and enhancing the Company's ability to grow over time (thereby reducing the ongoing charges per share). This policy is being implemented through active management of the Company's share capital via a combination of share buybacks at a narrow discount to NAV and the issue of new shares at a premium to NAV.

At the outset of this six month period, the shares were trading at almost a 3% premium to NAV. In order to manage the discount and to meet market demand, your Company issued 200,000 shares in October 2015. Subsequent trading conditions resulted in the Company's share rating moving from a premium to a discount. Accordingly, consistent with our zero discount policy, between 29 February and 31 March 2016 your Company bought back 1,730,000 shares (approximately 0.6% of issued share capital) at an average discount of 3.2% (based on the latest published cum income NAV (with debt at fair value) at the time of purchase).

As at the end of March, the discount to NAV was 3%, in part the result of the current uncertainty in the broader equity markets. Your Board will continue to monitor the discount and take the necessary measures, when appropriate, to support its stated zero discount policy. The Company's shares were trading at a discount of 4.3% as at close of business on 10 June 2016 (based on the cum income NAV with debt at fair value).

The Board has shareholder approval to implement tender offers at its discretion for up to 20% of issued share capital. The Board views this as a valuable additional mechanism to support the zero discount policy, although it has not been necessary to use it thus far.

## **OUTLOOK**

This has been a challenging period for your Company. However, we remain confident in our strategy and believe that the flexible and multi-asset approach to investing will enable the Company to achieve its investment objective.

**James M Long**

**Chairman**

13 June 2016

# Interim management report and responsibility statement

The Chairman's Statement on pages 3 to 5 and the Investment Managers' Report on pages 8 to 13 give details of the important events which have occurred during the period and their impact on the financial statements.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks faced by the Company can be divided into various areas as follows:

- ▶ Performance;
- ▶ Gearing;
- ▶ Income/dividend;
- ▶ Regulatory;
- ▶ Operational;
- ▶ Market; and
- ▶ Financial.

The Board reported on the principal risks and uncertainties faced by the Company in the Annual Report and Financial Statements for the year ended 30 September 2015. A detailed explanation can be found in the Strategic Report on pages 9 to 11 and in note 18 on pages 61 to 70 of the Annual Report and Financial Statements which are available on the website maintained by BlackRock at [blackrock.co.uk/bist](http://blackrock.co.uk/bist).

In the view of the Board, there have not been any changes to the fundamental nature of these risks since the previous report and these principal risks and uncertainties are equally applicable to the remaining six months of the financial year as they were to the six months under review.

## **GOING CONCERN**

The Directors, having considered the nature and liquidity of the portfolio, the Company's investment objective and the Company's projected income and expenditure, are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the date of approval of this report and is financially sound. The Company has a portfolio of investments which are considered to be mostly readily realisable and is able to meet all of its liabilities from its assets and income

generated from these assets. Ongoing charges (excluding interest costs and taxation) are approximately 0.7% of net assets. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

## **RELATED PARTY DISCLOSURE AND TRANSACTIONS WITH THE AIFM AND INVESTMENT MANAGER**

BlackRock Fund Managers Limited (BFM) was appointed as the Company's AIFM with effect from 27 February 2015. BFM has (with the Company's consent) delegated certain portfolio and risk management services, and other ancillary services to BlackRock Investment Management (UK) Limited (BIM (UK)). BFM and BIM (UK) are regarded as related parties under the Listing Rules. Details of the fees payable are set out in note 3 on page 28 and note 11 on pages 36 and 37. The related party transactions with the Directors are set out in note 10 on page 35.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

The Disclosure and Transparency Rules (DTR) of the UK Listing Authority require the Directors to confirm their responsibilities in relation to the preparation and publication of the Interim Management Report and Financial Statements. The Directors confirm to the best of their knowledge that:

- ▶ the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with applicable UK Accounting Standard FRS 104 'Interim Financial Reporting'; and
- ▶ the Interim Management Report, together with the Chairman's Statement and Investment Manager's Report, include a fair review of the information required by 4.2.7R and 4.2.8R of the FCA's Disclosure and Transparency Rules.

This half yearly financial report has been reviewed by the Company's auditor and their report is set out on pages 38 and 39.

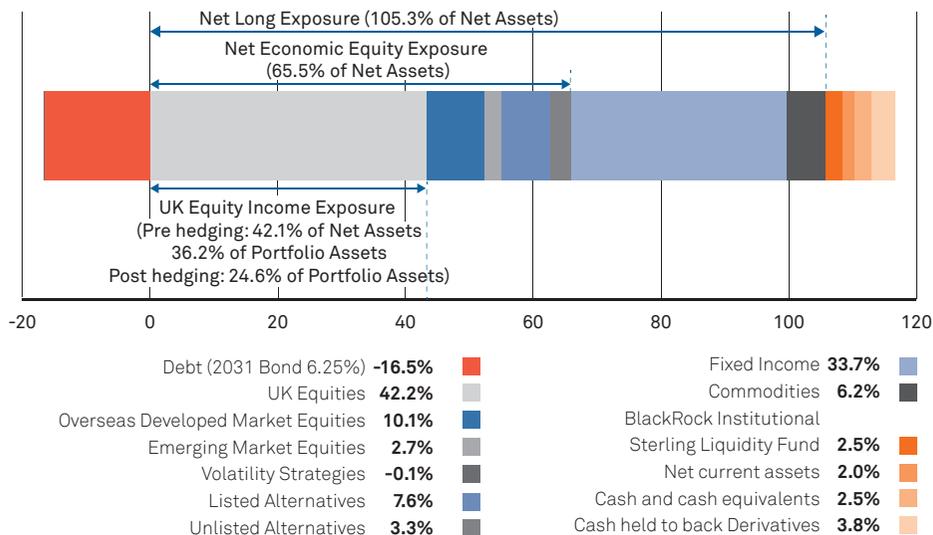
The half yearly financial report was approved by the Board on 13 June 2016 and the above responsibility statement was signed on its behalf by the Chairman.

**James M Long**

For and on behalf of the Board  
13 June 2016

# Investment manager's report

## PORTFOLIO ANALYSIS AS A % OF SHAREHOLDERS FUNDS



Source: BlackRock

- Further definitions in relation to financial terminology used in the above graph and elsewhere in this report are given in the glossary on pages 41 to 45.
- In total, Cash and Cash Equivalents and Cash held to back Derivatives in the above chart equate to 6.3% of the Company's net assets. In the investment listing on pages 17 to 21 of this report, these amounts are held in the Cash and Cash Equivalents total of 7.7% and the Forward Currency Contracts of -1.4%. The level of cash held is linked to the multi-asset nature of the Company's portfolio which means that the Company has the ability to obtain exposure to a range of investment strategies through derivative instruments. To the extent the Investment Manager has elected not to be geared through the use of such instruments, the Company will always hold a level of cash (or equivalent holding in an Institutional Cash Fund) on its balance sheet representative of the difference between the market value of the underlying shares to which the portfolio is exposed via the relevant derivative contract and the lower cost of using a derivative contract to gain exposure to these holdings. The Company is limited to any gearing through the use of derivative instruments such that net economic equity exposure will not exceed 120% of the Company's net assets.

The last six months have been exceptionally challenging for all active investment managers given the very different market dynamics between the final quarter of 2015 and the first quarter of this year, and we have been no exception. The Company's total return over the period has been a loss of 0.9%, which is clearly unsatisfactory. The frustration for us has been that although our generally cautious views about the global economy, and emerging markets in particular, have proven to be correct, we were wrong in our view that this would have limited impact on markets near-term given the ongoing support from central banks.

As such, we started 2016 with too much equity exposure – something which had worked well in the latter part of 2015. Our role as investment manager is to dynamically alter the shape of the Company and its sensitivities to different markets and risks. As such, we have already made some changes to our portfolio construction to reduce the volatility, and to better reflect the greater economic uncertainties, in particular by increasing our exposure to gold and US Treasuries, whilst cutting our equity holdings in markets where we believe the fundamentals have deteriorated (Europe and Japan). In doing so, we reduced the equity beta (the portfolio sensitivity to stock market changes) quite meaningfully.

We have been cautious about the outlook for emerging markets for some time, but we expected reasonably robust economic data from the US and improvements in Europe to provide the necessary support for developed market equities and credit. Whilst our view on emerging markets turned out to be correct, and weakness in China weighed heavily on the majority of emerging market bond and equity markets in 2015, our developed market exposures did hurt performance. Indeed, in 2016, European stocks have behaved more like emerging markets with double-digit losses across equity markets due to slowing growth and a weak banking sector. We have therefore cut our European equity exposure significantly.

To position the portfolio for a positive but more volatile outlook, we have taken some decisive measures to rebalance risks across our investments over recent months, most notably reducing UK equities from 43% to 25% of the portfolio, and increasing fixed income from 25% to 36% of the portfolio (changes to the portfolio between 30 September 2015 and 31 March 2016 are set out in more detail in the portfolio analysis graphs on page 11). We were not surprised that the US central bank raised rates in 2015 (we were actually slightly frustrated that they waited so long to do it) but it is clear that the path of rate hikes is somewhat uncertain making us slightly more comfortable holding interest rate sensitive assets in the portfolio. In fact, many central banks around the world are so concerned about growth they are adopting a 'negative interest rate policy'. The jury is certainly out on how effective this will be in stimulating growth and we have added to gold as a store of value. This has proved to be a profitable decision, and gold has been a key contributor to returns and a diversifier of risk in 2016.

# Investment manager's report continued

Turning to the UK, the UK referendum on membership of the European Union has been at the forefront of news following David Cameron's deal with EU leaders and the referendum date set for 23 June 2016. The uncertainty surrounding "Brexit" has caused sterling to weaken which benefited overseas earners, which are strongly represented in the UK market. Our UK equity position has added value over the period, despite being increasingly volatile. Stock selection from Mark Wharrier has been robust; the biggest contributor to performance came from the holding in car insurance specialist Admiral, which reported record profits and produced a dividend increase of 16%. John Laing, the infrastructure developer and investor, reported a strong set of full year 2015 results which included a significant increase in their asset value, continuing the strong growth track record seen before its IPO.

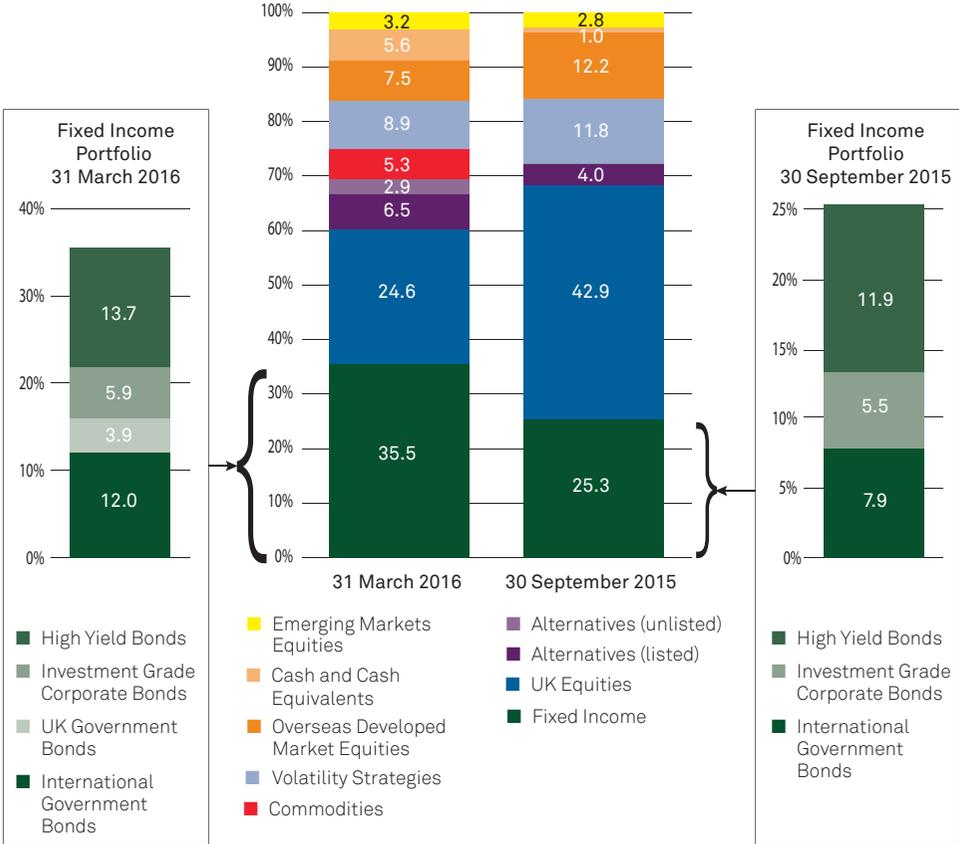
As noted above, we feel the more defensive positioning is appropriate given the headwinds that face both emerging markets and commodities and the potential for more elevated levels of volatility over the coming months. That means we continue to have very limited exposure to emerging markets, and our sensitivity to equities is reduced. In the short-term, this means that we have gained little from the sharp rebound in commodities and other China-related assets that we have witnessed in the last few weeks. As longer-term investors, however, we continue to believe that excess debt in China and oversupply across commodity markets will weigh on the medium term outlook.

In previous commentaries I've kicked off with a musical reference as a light-hearted way of conveying some of the dynamics at play in financial markets. This time, however, I felt that the impact market turbulence has had on the Company should be addressed immediately. Adding to the sombre tone is the fact that we have witnessed the passing of two icons of late 20th century music: David Bowie in January, and just recently Prince. Whilst I wouldn't call myself an avid fan of either, on reflection I'm struck by their willingness to "do something different" in an industry full of trend chasers and "me too's". Their undoubted creative genius didn't always result in commercial success, but the occasional failure didn't stop either of them in their long-term pursuit of pushing their art-form forward rather than relying on past glory.

In a way this has echoes of what we are seeking to achieve: our differentiated approach to managing the Company (moving away from following a benchmark and instead focusing on an outcome) means that we are no longer one of the trend chasers but are instead focused on the long-term goals of our shareholders. This relies on us continually adapting the portfolio to the evolving environment, being willing to explore new ideas and markets, and

never relying on past success. We won't always get it right (and the start of 2016 is a case in point), but I would hope our shareholders would see this in a long-term context, where our hard work, creativity, and diligence should lead to a better financial outcome than simply being a "me too" investor.

**PORTFOLIO COMPOSITION AS AT 31 MARCH 2016<sup>1</sup>**



<sup>1</sup> All percentages reflect the value of each sector as a percentage of total investments as adjusted for the gross market exposure of derivative positions held to hedge each strategy.

# Investment manager's report continued

## **UK EQUITIES 24.6%**

The portfolio's UK equity holdings are predominantly made up of an allocation to BlackRock's UK Equity Income strategy managed by Mark Wharrier. This portfolio is designed to generate a premium dividend yield to the UK market, dividend growth in excess of inflation over time and a total return exceeding that of the FTSE All-Share Index. Over the period, we have reduced the allocation to UK equities through hedging strategies, where we sell futures to reduce the exposure to the market. To reduce the allocation further, we have sold some UK equities to fund exposures across other asset classes such as overseas equities and alternatives. Despite the smaller allocation, we still view UK equities as a critical source of income and growth going forward.

## **OVERSEAS DEVELOPED MARKET EQUITIES 7.5%**

Our developed market equity exposure has shifted to reflect a more globally diversified exposure with a preference for the US as well as specific macro-economic themes such as the expectation for oil prices to remain low. We have removed tilts to European equities over recent months due to concerns over weakening economic data and political uncertainty. The aggregate allocation has been reduced to fund positions within fixed income and alternatives. Whilst we believe equities have long term growth potential, we are concerned about volatility increasing and have therefore elected to reduce exposure across the portfolio.

## **EMERGING MARKETS EQUITIES 3.2%**

We remain cautious on the outlook for emerging markets. The key factor driving this research view is the expectation for China to be a source of concern for investors over the medium term. We have a small and diversified exposure to select emerging market equities but will wait for greater clarity on the ability of Chinese policy makers to assist sustainable economic growth.

## **VOLATILITY STRATEGIES 8.9%**

Volatility strategies focus on the direction of market volatility within asset classes such as equities. This makes them different to buying an index on equities or bonds where we are rewarded for price movements. We hold equity market strategies that typically look to generate returns by trading a number of aspects of equity market volatility. We have reduced exposure to these strategies in recent months as we expect moves in volatility to be more violent given the range of uncertainties across Europe, emerging markets and the US over the coming months. In addition to equity related 'volatility strategies', within this category we also include commodities related strategies that seek to exploit inefficiencies that exist between the spot price of commodities and the price of related

futures contracts. All of the volatility strategies are held to provide long-term total returns.

### **FIXED INCOME 35.5%**

To further diversify the sources of income within the portfolio, we have added to fixed income over the period. We have increased exposure to high yield, through an actively managed portfolio of securities. We have increased exposure to government bonds across the UK and the US where yields are low but diversification benefits exist, particularly as we believe rate hikes will be limited. We have also added to Australian bonds, which should be supported by a more challenging economic backdrop due to weakness in Chinese demand. To reduce exposure to European 'risk assets' we have cut our Portuguese bond holdings. We continue to avoid emerging market debt.

### **ALTERNATIVES 9.4%**

To complement our exposure to traditional sources of income and growth, we have continued to build exposure to alternative investments. These holdings are a combination of listed alternatives where we hold exposure to private equity and credit markets, as well as unlisted alternatives that provide exposure to mortgages and venture capital. Given that expectations for growth and income across traditional asset classes are muted, we will continue to seek attractive opportunities within alternative investments.

### **COMMODITIES 5.3%**

We have initiated a position in gold. While it is hard to argue the benefits of a long-term allocation to an asset class that yields 0%, the tactical benefits can be significant. In 2016 a tactical opportunity for gold presented itself as the market became increasingly risk averse, and many central banks began adopting a negative interest rate policy. This combination of rising fear and supportive policy has provided the necessary conditions for the recent rally in gold prices.

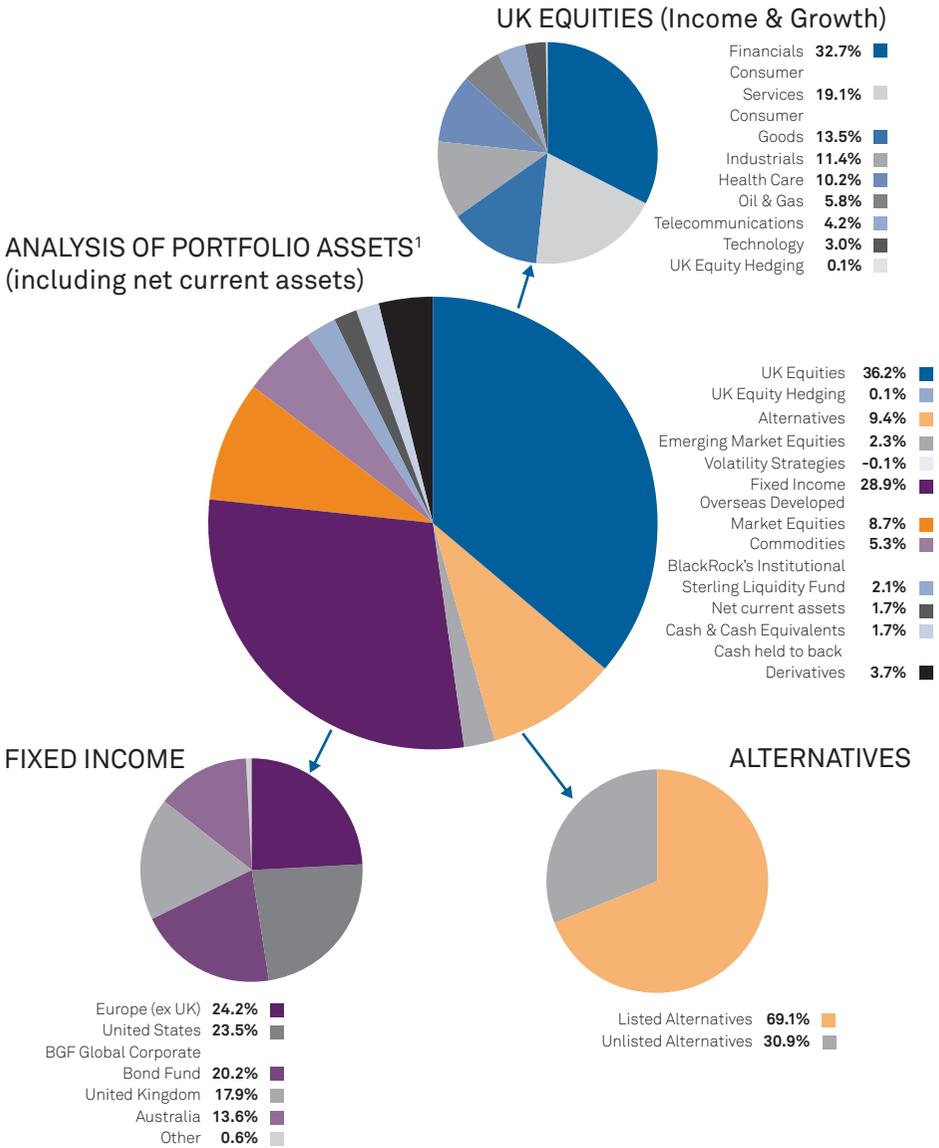
### **GEARING AND CASH**

Gross gearing in the portfolio is 16.7%, implemented through the 6.25% Bonds maturing in 2031 which the Company issued 14 years ago. The Company was not geared through the use of derivatives as at the date of publication of this report but we will consider increasing exposure when suitable opportunities arise.

**Adam Ryan**  
**BlackRock Investment Management (UK) Limited**  
13 June 2016

# Portfolio analysis

as at 31 March 2016



Source: BlackRock

<sup>1</sup> 24.4% of portfolio assets are invested in BlackRock managed funds, and any fees levied at the underlying fund level are rebated in full. This gives the Company access to these strategies for no additional cost over and above the management fee of 40 basis points. Further details are given in note 11.

# Performance

## TEN LARGEST EQUITY INVESTMENTS

**iShares Gold Trust: 5.7%** (2015: Nil) The iShares Gold Trust seeks to reflect generally the performance of the price of gold. The fund is managed by BlackRock.

**BSF Impact World Equity Fund: 3.6%** (2015: Nil) seeks to achieve exposure to equity securities with a measurable positive societal impact. The Fund will seek to achieve this investment objective by taking long and synthetic long exposures. The Fund will seek to gain at least 80% of its investment exposure directly through equities and equity-related securities (including derivatives) of, or giving exposure to, companies domiciled in or exercising the predominant part of their economic activity in developed markets. The fund is managed by BlackRock.

**BlackRock Throgmorton Trust plc: 2.5%** (2015: 2.5%) is an investment trust company with an investment objective to provide shareholders with capital growth and an attractive total return by investing primarily in UK smaller companies and mid-capitalisation companies listed on the main market of the London Stock Exchange. The company's benchmark is the Numis Smaller Companies excluding AIM (excluding Investment Companies) Index. The company has a contracts for difference portfolio of approximately 30% of net assets. The fund is managed by BlackRock.

**MAS Mortgage Holdings\*: 2.2%** (2015: Nil) seeks to generate income through investments in UK residential mortgages. The fund is managed by BlackRock.

**British American Tobacco: 2.2%** (2015: 2.5%) is one of the world's leading tobacco groups, with more than 200 brands in the portfolio selling in approximately 180 markets worldwide.

**Lloyds Banking Group: 2.1%** (2015: 2.0%) is a UK-based financial services company, providing a range of banking and financial services to individual and business customers.

**Funding Circle SME Income Fund: 2.1%** (2015: Nil) provides access to a diversified portfolio of loans originated through Funding Circle's global geographies in the UK, USA, Germany, Spain and the Netherlands. The Fund buys up to 35% of loans originated through the Funding Circle marketplace. The target Net Asset Value total return is 8-9% per annum, and the annual target dividend yield is 6-7 pence per share.

**AstraZeneca: 2.0%** (2015: 2.4%) is a global pharmaceutical company, operating in the research, development, manufacture and marketing of pharmaceutical products.

**BGF Emerging Markets Equity Income Fund: 1.8%** (2015: 1.5%) is a diversified portfolio of predominantly emerging market equities selected for their ability to generate income from dividends. The fund can also hold developed market securities that have significant business operations in emerging markets. The fund is managed by BlackRock.

**Unilever: 1.8%** (2015: 1.3%) is a global consumer products group with strong market positions in emerging markets and a growing bias towards personal care.

# Performance continued

## **LARGEST FIXED INCOME INVESTMENTS (INCLUDED WITHIN TOP TEN OVERALL PORTFOLIO HOLDINGS)**

**BGF Global Corporate Bond Fund: 6.3%** (2015: 5.8%) aims to maximise returns through a combination of capital growth and income from the Fund's assets. The Fund invests globally, and at least 70% of its total assets are held in fixed income securities. These include bonds and money market instruments. At least 70% of the Fund's total assets will be issued by companies and will be investment grade at the time of purchase. The fund is managed by BlackRock.

**Australia 4.2% 21 April 2026: 4.2%** (2015: Nil) is a debt security issued by the Australian Government, used to access Australian government bonds.

**UK Government 2% 7 Sep 2025: 4.1%** (2015: Nil) is a debt security issued by the United Kingdom Government, used to access UK government bonds.

**US Treasury 0.375% 15 Jul 2025: 3.9%** (2015: Nil) is a debt security issued by the United States of America Government, used to access US government bonds.

**Blackstone GSO Loan Financing: 2.2%** (2015: 2.4%) is a United Kingdom-based closed-ended investment company. The company's investment objective is to provide shareholders with stable and growing income returns, and to grow the capital value of the investment portfolio by exposure predominately to floating rate senior secured loans directly and indirectly through collateralized loan obligation income notes. The Company invests in sectors, such as healthcare and pharma; business services; chemical, plastic and rubber; capital equipment; construction and building; broadcast and subscription; retail; beverage, food and tobacco; hotel, gaming and leisure, and banking and finance.

All percentages reflect the value of the holding as a percentage of total investments. Percentages in brackets represent the value of the holding as at 30 September 2015. Together, the ten largest equity investments represent 26.0% of the Company's portfolio (ten largest investments at 30 September 2015: 24.5%).

\* Unquoted holding.

# Portfolio valuation

as at 31 March 2016

Company	Sector	Market value	Market value as a % of net assets	Gross market exposure <sup>1</sup>
<b>Equities</b>		<b>£'000</b>		<b>£'000</b>
<b>UK Equities</b>				
Blackrock Throgmorton Trust*	Financials	9,907	2.7	9,907
British American Tobacco	Consumer Goods	8,578	2.4	8,578
Lloyds Banking Group	Financials	8,433	2.3	8,433
AstraZeneca	Health Care	7,727	2.1	7,727
Unilever	Consumer Goods	7,147	2.0	7,147
BT Group	Telecommunications	6,362	1.8	6,362
Royal Dutch Shell 'B'	Oil & Gas	5,591	1.5	5,591
RELX	Consumer Services	5,534	1.5	5,534
Wolseley	Industrials	4,932	1.4	4,932
Aviva	Financials	4,773	1.3	4,773
Sky	Consumer Services	4,703	1.3	4,703
Carnival	Consumer Services	4,353	1.2	4,353
GlaxoSmithKline	Health Care	4,334	1.2	4,334
Legal & General Group	Financials	4,277	1.2	4,277
Intercontinental Hotels Group	Consumer Services	3,760	1.0	3,760
HSBC Holdings	Financials	3,579	1.0	3,579
Imperial Brands	Consumer Goods	3,558	1.0	3,558
Rentokil Initial	Industrials	3,481	1.0	3,481
Shire	Health Care	3,432	1.0	3,432
Admiral Group	Financials	3,423	0.9	3,423
Remaining 19 UK Equity investments		44,583	12.3	44,583
<b>Total</b>		<b>152,467</b>	<b>42.1</b>	<b>152,467</b>
<b>UK Equity Hedges</b>		<b>162</b>	<b>0.1</b>	<b>(48,763)</b>
<b>Total</b>		<b>152,629</b>	<b>42.2</b>	<b>103,704</b>

# Portfolio valuation continued

as at 31 March 2016

Company	Sector	Market value	Market value as a % of net assets	Gross market exposure <sup>1</sup>
<b>Equities</b>		£'000		£'000
<b>Overseas Developed Market Equities</b>				
BSF Impact World Equity Fund*		14,180	3.9	14,180
Scottish Mortgage Investment Trust	Financials	4,947	1.4	4,947
Sanofi	Health Care	3,691	1.0	3,691
Altria Group	Consumer Goods	3,439	1.0	3,439
Compagnie Financiere Richemont	Consumer Goods	1,661	0.4	1,661
Accenture 'A'	Industrials	247	0.1	247
Pitney Bowes	Technology	241	0.1	241
Fedex	Industrials	239	0.1	239
lenergizer	Industrials	235	0.1	235
Fluor	Industrials	233	0.1	233
Remaining 46 Overseas Developed Market Equity investments		9,339	2.5	9,339
Overseas Developed Market Hedges		(1,977)	(0.6)	(6,649)
<b>Total</b>		<b>36,475</b>	<b>10.1</b>	<b>31,803</b>
<b>Emerging Market Equities</b>				
BGF Emerging Markets Equity Income* Fund		7,130	2.0	7,130
BGF ASEAN Leaders Fund*		2,160	0.6	2,160
Emerging Market Hedges		234	0.1	3,980
<b>Total</b>		<b>9,524</b>	<b>2.7</b>	<b>13,270</b>
<b>Total Equities</b>		<b>198,628</b>	<b>55.0</b>	<b>148,777</b>

Company	Market value	Market value as a % of net assets	Gross market exposure <sup>1</sup>
<b>Volatility Strategies</b>	<b>£'000</b>		<b>£'000</b>
<b>Equity Volatility Premium Strategies</b>			
CBOE SPX Call Option 18/05/16 23	179	0.0	755
CBOE SPX Call Option 18/05/16 30	(151)	0.0	(695)
<b>Commodity Strategies</b>			
TRS - Goldman Sachs Volatility Carry Basket	(297)	(0.1)	4,846
TRS - ML Commodity Volatility Carry Strategy	113	0.0	4,941
USD SGD Put Option	11	0.0	1,350
USD SGD Put Option	(3)	0.0	254
<b>Other</b>			
Euro Stoxx Utilities Index Put Options @ 235	(161)	0.0	2,453
EUR CZK Call Option	2	0.0	167
EUR CZK Call Option	6	0.0	670
TRS - BAML Vortex Strategy	464	0.1	10,060
TRS - Deutsche Bank V2X/VIX Strategy	(536)	(0.1)	15,187
<b>Total Volatility Strategies</b>	<b>(373)</b>	<b>(0.1)</b>	<b>39,988</b>

Company	Market value	Market value as a % of net assets	Gross market exposure <sup>1</sup>
<b>Fixed Income</b>	<b>£'000</b>		<b>£'000</b>
International Government Bonds	50,574	14.0	50,574
Hedging Strategies (Euro and USD put options)	-	-	(30,755)
<b>Total</b>	<b>50,574</b>	<b>14.0</b>	<b>19,819</b>
UK Government Bonds	16,194	4.5	16,194
Investment Grade Corporate Bonds	24,874	6.9	24,874
High Yield Bonds	29,963	8.3	57,786
<b>Total Fixed Income</b>	<b>121,605</b>	<b>33.7</b>	<b>118,673</b>

# Portfolio valuation continued

as at 31 March 2016

Company	Market value	Market value as a % of net assets	Gross market exposure <sup>1</sup>
<b>Alternatives</b>	£'000		£'000
<b>Listed Alternatives</b>			
Funding Circle SME Income Fund	8,263	2.3	8,263
Foresight Solar Fund	4,663	1.3	4,663
iShares UK Property*	4,517	1.3	4,517
JP Morgan Global Convertibles Income Fund	3,656	1.0	3,656
NB Distressed Debt Investment Fund	3,195	0.9	3,195
Woodford Patient Capital Trust	3,022	0.8	3,022
<b>Total</b>	<b>27,316</b>	<b>7.6</b>	<b>27,316</b>
<b>Unlisted Alternatives</b>			
MAS Mortgage Holdings*	8,774	2.4	8,774
Forward Partners	3,417	0.9	3,417
<b>Total</b>	<b>12,191</b>	<b>3.3</b>	<b>12,191</b>
<b>Total Alternatives</b>	<b>39,507</b>	<b>10.9</b>	<b>39,507</b>

Company	Market value	Market value as a % of net assets	Gross market exposure <sup>1</sup>
<b>Commodities</b>	£'000		£'000
iShares Gold Trust*	22,536	6.2	22,536
Gold Call Option 26/04/16 1300	(58)	0.0	(2,438)
<b>Total Commodities</b>	<b>22,478</b>	<b>6.2</b>	<b>20,098</b>

	Market value	Market value as a % of net assets
	£'000	
<b>Total Forward Currency Contracts</b>	<b>(5,037)</b>	<b>(1.4)</b>
<b>BlackRock's Institutional Sterling Liquidity Fund</b>	<b>9,011</b>	<b>2.5</b>
<b>Add: Forward Currency contracts</b>	<b>5,037</b>	<b>1.4</b>
<b>Add: Derivatives</b>	<b>1,660</b>	<b>0.4</b>
<b>Total investments</b>	<b>392,516</b>	<b>108.6</b>
<b>Cash and cash equivalents</b>	<b>27,820</b>	<b>7.7</b>
<b>Net other liabilities</b>	<b>(59,090)</b>	<b>(16.3)</b>
<b>Net assets</b>	<b>361,246</b>	<b>100.0</b>

1 Gross market exposure is the market value of the underlying shares to which the portfolio is exposed via the contract.

\* Denotes a BlackRock managed product.

# Income statement

## for the six months ended 31 March 2016

	Notes	Revenue £'000			Capital £'000			Total £'000		
		Six months ended		Year ended	Six months ended		Year ended	Six months ended		Year ended
		31.03.16 (unaudited)	31.03.15 (unaudited)	30.09.15 (audited)	31.03.16 (unaudited)	31.03.15 (unaudited)	30.09.15 (audited)	31.03.16 (unaudited)	31.03.15 (unaudited)	30.09.15 (audited)
Gains/(losses) on investments held at fair value through profit or loss	2	-	-	-	2,525	6,524	2,525	6,524	(33,380)	
(Losses)/gains on foreign exchange		-	-	-	(8,830)	(1,438)	(8,830)	(1,438)	4,306	
Income from investments held at fair value through profit or loss	2	6,977	9,315	23,024	-	-	6,977	9,315	23,024	
Other income	2	17	72	96	-	-	17	72	96	
<b>Total income</b>		6,994	9,387	23,120	(6,305)	5,086	689	14,473	(5,954)	
Expenses										
Investment management fee	3	(262)	(343)	(624)	(486)	(639)	(748)	(982)	(1,783)	
Operating expenses	4	(403)	(478)	(957)	(16)	(2)	(419)	(480)	(981)	
<b>Total operating expenses</b>		(665)	(821)	(1,581)	(502)	(641)	(1,167)	(1,462)	(2,764)	
<b>Net profit/(loss) on ordinary activities before finance costs and taxation</b>		6,329	8,566	21,539	(6,807)	4,445	(478)	13,011	(8,718)	
Finance costs		(699)	(732)	(1,410)	(1,298)	(1,342)	(1,997)	(2,074)	(4,026)	
<b>Net profit/(loss) on ordinary activities before taxation</b>		5,630	7,834	20,129	(8,105)	3,103	(2,475)	10,937	(12,744)	
Taxation		(15)	49	34	-	-	(15)	49	34	
<b>Net profit/(loss) on ordinary activities after taxation</b>		5,615	7,883	20,163	(8,105)	3,103	(2,490)	10,986	(12,710)	
<b>Return per ordinary share</b>	6	2.05p	2.73p	7.07p	(2.95p)	1.08p	(0.90p)	3.81p	(4.45p)	

The total column of this statement represents the Company's Profit and Loss Account. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above statement derive from continuing operations and no operations were acquired or discontinued during the period. All income is attributable to the equity holders of BlackRock Income Strategies Trust plc.

The Company does not have any other comprehensive income. The net profit/(loss) for the period disclosed above represents the Company's total comprehensive income.

# Statement of changes in equity

## for the six months ended 31 March 2016

	Called up share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>For the six months ended 31 March 2016 (unaudited)</b>					
At 30 September 2015	72,778	15,563	249,811	36,680	374,832
Total comprehensive income:			(8,105)	5,615	(2,490)
(Loss)/profit for the period	–	–	–	–	270
Transactions with owners, recorded directly to equity:			(2,106)	–	(2,106)
Ordinary shares issued from treasury	–	–	(8)	–	(8)
Ordinary shares purchased into treasury	–	–	–	(9,252)	(9,252)
Tender mechanism costs	–	–	–	–	–
Dividends paid (a)	–	–	–	–	–
At 31 March 2016	72,778	15,563	239,862	33,043	361,246
<b>For the six months ended 31 March 2015 (unaudited)</b>					
At 30 September 2014	72,778	15,563	302,990	35,534	426,865
Total comprehensive income:			3,103	7,883	10,986
Profit for the period	–	–	(1,237)	–	(1,237)
Transactions with owners, recorded directly to equity:			–	(9,893)	(9,893)
Ordinary shares purchased into treasury	–	–	–	–	–
Dividends paid (b)	–	–	–	–	–
At 31 March 2015	72,778	15,563	304,856	33,524	426,721
<b>For the year ended 30 September 2015 (audited)</b>					
At 30 September 2014	72,778	15,563	302,990	35,534	426,865
Total comprehensive income:			(32,873)	20,163	(12,710)
(Loss)/profit for the year	–	–	(20,256)	–	(20,256)
Transactions with owners, recorded directly to equity:			(50)	–	(50)
Ordinary shares purchased into treasury	–	–	–	(19,017)	(19,017)
Tender offer costs	–	–	–	–	–
Dividends paid (c)	–	–	–	–	–
At 30 September 2015	72,778	15,563	249,811	36,680	374,832

(a) Third quarterly interim dividend of 1.67p per share for the year ended 30 September 2015, paid on 9 October 2015. Final dividend of 1.70p per share for the year ended 30 September 2015, paid on 29 January 2016.

(b) Third quarterly interim dividend of 1.53p per share for the year ended 30 September 2014, paid on 10 October 2014. Final dividend of 1.895p per share for the year ended 30 September 2014, paid on 30 January 2015.

(c) Third quarterly interim dividend of 1.53p per share for the year ended 30 September 2014, paid on 10 October 2014. Final dividend of 1.895p per share for the year ended 30 September 2014, paid on 30 January 2015. First quarterly interim dividend of 1.50p per share for the year ended 30 September 2015, paid on 10 April 2015. Second quarterly interim dividend of 1.67p per share for the year ended 30 September 2015, paid on 10 July 2015.

The transaction costs incurred on the acquisition and disposal of investments are included within the capital reserves and amounted to £284,000 for the six months ended 31 March 2016 (six months ended 31 March 2015: £987,000; year ended 30 September 2015: £1,486,000).

# Balance sheet

as at 31 March 2016

	Notes	31 March 2016	31 March 2015	30 September 2015
		£'000 (unaudited)	£'000 (unaudited)	£'000 (audited)
<b>Fixed assets</b>				
Investments held at fair value through profit or loss		392,516	365,513	411,230
<b>Current assets</b>				
Debtors		7,936	25,531	4,546
Derivative financial instruments		5,333	1,305	3,374
Collateral pledged with brokers		9,235	–	17,524
Cash and cash equivalents		27,820	98,627	14,678
		50,324	125,463	40,122
<b>Creditors – amounts falling due within one year</b>				
Collateral received from brokers		(2,000)	–	(884)
Derivative financial instruments		(6,993)	(1,400)	(9,569)
Other creditors		(13,008)	(3,289)	(6,488)
		(22,001)	(4,689)	(16,941)
<b>Net current assets</b>		28,323	120,774	23,181
<b>Total assets</b>		420,839	486,287	434,411
<b>Creditors – amounts falling due after more than one year</b>	8	(59,593)	(59,566)	(59,579)
<b>Net assets</b>		361,246	426,721	374,832
<b>Capital and reserves</b>				
Called up share capital	7	72,778	72,778	72,778
Capital redemption reserve		15,563	15,563	15,563
Capital reserves		239,862	304,856	249,811
Revenue reserve		33,043	33,524	36,680
<b>Total shareholders' funds</b>	6	361,246	426,721	374,832
<b>Net asset value per ordinary share (debenture at par value)</b>	6	132.37p	147.96p	136.58p
<b>Net asset value per ordinary share (debenture at fair value)</b>	6	126.50p	142.08p	131.00p

# Statement of cash flows

for the six months ended 31 March 2016

	Six months ended 31 March 2016	Six months ended 31 March 2015	Year ended 30 September 2015
	£'000 (unaudited)	£'000 (unaudited)	£'000 (audited)
<b>Operating activities</b>			
(Loss)/profit before taxation	(2,475)	10,937	(12,744)
Finance costs	1,997	2,074	4,026
(Gains)/losses on investment	(2,525)	(6,524)	33,380
Net movement on foreign exchange	8,830	1,438	(4,320)
Sales of investments	237,426	445,899	602,681
Purchase of investments	(221,073)	(335,692)	(550,639)
(Increase)/decrease in debtors	(5,941)	(1,815)	2,525
Increase in other creditors	9,370	2,035	585
Net movement in collateral balances	9,405	–	(16,640)
Taxation withheld	17	49	–
<b>Net cash generated from operating activities</b>	<b>35,031</b>	<b>118,401</b>	<b>58,854</b>
<b>Financing activities</b>			
Shares issued from treasury	270	–	–
Shares purchased to be held in treasury	(2,106)	(1,237)	(20,256)
Tender mechanism costs	(8)	–	(50)
Interest paid	(1,963)	(2,034)	(3,987)
Outflow from repayment of revolving loan facility	–	(19,962)	(19,962)
Dividends paid	(9,252)	(9,893)	(19,017)
<b>Net cash used in financing activities</b>	<b>(13,059)</b>	<b>(33,126)</b>	<b>(63,272)</b>
<b>Increase/(decrease) in cash</b>	<b>21,972</b>	<b>85,275</b>	<b>(4,418)</b>
Cash and cash equivalents at the beginning of the period/year	14,678	14,790	14,790
Effect of foreign exchange rate changes	(8,830)	(1,438)	4,306
<b>Cash and cash equivalents at the end of period/year</b>	<b>27,820</b>	<b>98,627</b>	<b>14,678</b>
<b>Comprised of:</b>			
Cash at bank	27,820	98,627	14,678
	<b>27,820</b>	<b>98,627</b>	<b>14,678</b>

# Notes to the financial statements

for the six months ended 31 March 2016

## **1. PRINCIPAL ACTIVITY AND BASIS OF PREPARATION**

The principal activity of the Company is that of an investment trust company within the meaning of section 1158 of the Corporation Tax Act 2010.

The Company is applying for the first time, for the year ending 30 September 2016, FRS102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', which forms part of revised Generally Accepted Accounting Practice (New UK GAAP) issued by the Financial Reporting Council (FRC) in 2012 and 2013 and which came into effect for accounting periods beginning on or after 1 January 2015. The last financial statements prepared under the previous UK GAAP were for the year ended 30 September 2015.

The condensed set of financial statements has been prepared on a going concern basis in accordance with FRS 102 and FRS 104 'Interim Financial Reporting' issued by the FRC in March 2015 and the revised Statement of Recommended Practice – 'Financial Statements of Investments Trusts Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies (AIC) in November 2014.

As a result of the first time adoption of 'New UK GAAP' and the revised SORP, comparative amounts and presentation formats have been amended where required. The changes to accounting policies relate to the composition of cash and cash equivalents, change in the presentation of cash flows (see below) and fair value hierarchy of financial instruments (see note 9). There were no adjustments to either the Company's Income Statement for the financial year ended 30 September 2015 or the total equity as at 1 October 2014 and 30 September 2015 between UK GAAP as previously reported and FRS 102 as a result of changes to accounting policies.

The Company's Statement of Cash Flows reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition, the Statement of Cash Flows reconciles to cash and cash equivalents, whereas under previous UK GAAP the Statement of Cash Flows reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash in hand and demand deposits, short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' and the bank overdraft which forms an integral part of the Company's cash management policy, whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'.

The accounting policies applied for the financial statements with regard to measurement and classification are as set out in the Company's Annual Report and Financial Statements for the year ended 30 September 2015. This reflects the Company's application of Sections 11 and 12 of FRS 102, in relation to financial instruments, in full.

References to prior individual Financial Reporting Statements (FRS) should now be taken as references to FRS 102 and FRS 104.

## 2. INCOME

	Six months ended 31 March 2016	Six months ended 31 March 2015	Year ended 30 September 2015
	£'000 (unaudited)	£'000 (unaudited)	£'000 (audited)
<b>Investment Income:</b>			
UK listed dividends	3,131	6,549	10,619
Overseas listed dividends	1,039	1,355	3,522
Fixed interest income	1,354	1,043	2,566
Derivative income	1,453	368	6,317
	6,977	9,315	23,024
<b>Other income:</b>			
Interest	17	53	77
Underwriting commission	–	19	19
	17	72	96
<b>Total Income</b>	<b>6,994</b>	<b>9,387</b>	<b>23,120</b>

Dividends and interest received during the period amounted to £3,488,000 and £1,318,000 (six months ended 31 March 2015: £6,550,000 and £817,000; year ended 30 September 2015: £14,319,000 and £2,441,000) respectively.

### Gains/(losses) on investments held at fair value through profit or loss

	Six months ended 31 March 2016	Six months ended 31 March 2015	Year ended 30 September 2015
	£'000 (unaudited)	£'000 (unaudited)	£'000 (audited)
Realised (losses)/gains on sales	(25,696)	39,101	27,953
Movement in investment holding gains/(losses)	28,221	(32,577)	(61,333)
<b>Total</b>	<b>2,525</b>	<b>6,524</b>	<b>(33,380)</b>

# Notes to the financial statements continued

for the six months ended 31 March 2016

## 3. INVESTMENT MANAGEMENT FEE

	Six months ended 31 March 2016 (unaudited)		Six months ended 31 March 2015 (unaudited)		Year ended 30 September 2015 (audited)		
	Revenue £'000	Capital £'000	Revenue £'000	Capital £'000	Revenue £'000	Capital £'000	
Investment management fee – BlackRock	262	486	56	116	337	636	
Investment management fee – F&C	–	–	287	523	287	523	
<b>Total</b>	262	486	343	639	624	1,159	
							1,783

The investment management fee, which is levied at a rate of 0.4% per annum of the Company's total assets less current liabilities (excluding loans) is allocated 35% to the revenue column and 65% to the capital column of the Income Statement.

BlackRock waived the management fees payable to the Company up to the level of transition and restructuring costs, which were estimated to be in the region of £762,000. The fees in the above table that are shown as accrued to BlackRock have been credited to a payables account on the Company's balance sheet, offsetting amounts debited to the same account in respect of transition costs. As at 31 March 2016, £44,000 of transition costs were still outstanding. Adjustments to the waived total costs of £762,000 will be made as and when these accruals are cleared.

The Company also receives a rebate on the management fees levied on its underlying investments in other BlackRock managed funds in the normal course of business to ensure that no double counting occurs. These are recognised on an accruals basis and are treated as reduction in management fee expense and allocated between revenue and capital in accordance with the Company's policy for allocation of management fees. Additional information is given in note 11.

#### 4. OPERATING EXPENSES

	Six months ended 31 March 2016	Six months ended 31 March 2015	Year ended 30 September 2015
	£'000 (unaudited)	£'000 (unaudited)	£'000 (audited)
Custody fees	18	(2)	12
Depository fees	26	19	47
Amounts paid to the auditors	28	29	48
Registrar's fees	42	47	98
Directors' emoluments – fees for services to the Company	83	150	232
Marketing fees	68	45	107
Other administration costs	138	190	413
	403	478	957
Transaction costs to capital	16	2	24
<b>Total</b>	<b>419</b>	<b>480</b>	<b>981</b>

#### 5. DIVIDEND

In accordance with FRS 102 Section 32 'Events After the End of the Reporting Period', the interim dividend payable on ordinary shares has not been included as a liability in the financial statements, as interim dividends are only recognised when they have been paid.

The Board has declared a first interim dividend of 1.635p per share (2015: 1.500p per share), which was paid on 8 April 2016 to shareholders on the register as at 11 March 2016; the ex-dividend date was 10 March 2016. The total cost of this dividend, based on 273,887,282 shares in issue was £4,478,000 (2015: £4,326,000).

The Board has declared a second interim dividend of 1.635p per share (2015: 1.670p per share), which will be paid on 22 July 2016 to shareholders on the register as at 24 June 2016; the ex-dividend date will be 23 June 2016. The total cost of this dividend, based on 272,357,282 shares in issue (as at close of business on 10 June 2016) is £4,453,000 (2015: £4,816,000).

# Notes to the financial statements continued

for the six months ended 31 March 2016

## 6. RETURN AND NET ASSET VALUE PER ORDINARY SHARE

Revenue and capital returns per share are shown below and have been calculated using the following:

	Six months ended 31 March 2016	Six months ended 31 March 2015	Year ended 30 September 2015
	(unaudited)	(unaudited)	(audited)
Net revenue profit attributable to ordinary shareholders (£'000)	5,615	7,883	20,163
Net capital (loss)/profit attributable to ordinary shareholders (£'000)	(8,105)	3,103	(32,873)
Total (loss)/profit (£'000)	(2,490)	10,986	(12,710)
Equity shareholders' funds (£'000)	361,246	426,721	374,832
The weighted average number of ordinary shares in issue during each period, on which the return per ordinary share was calculated, was:	274,440,234	288,566,128	285,283,310
The actual number of ordinary shares in issue at the end of the period, on which the net asset value was calculated, was:	272,907,282	288,412,282	274,437,282
Revenue return per ordinary share	2.05p	2.73p	7.07p
Capital return per ordinary share	(2.95p)	1.08p	(11.52p)
Total return per share	(0.90p)	3.81p	(4.45p)
Net asset value per share (debt at par value)	132.37p	147.96p	136.58p
Net asset value per share (debt at fair value)	126.50p	142.08p	131.00p

## 7. CALLED UP SHARE CAPITAL AND SHARES HELD IN TREASURY

	Number of ordinary shares in issue	Number of treasury shares in issue	Total	Nominal value £'000
Allotted, called up and fully paid share capital comprised:				
Ordinary shares of 25p each:				
At 30 September 2015	274,437,282	16,675,000	291,112,282	72,778
Shares issued from treasury	200,000	(200,000)	–	–
Shares bought back and held in treasury	(1,730,000)	1,730,000	–	–
At 31 March 2016	272,907,282	18,205,000	291,112,282	72,778

Subsequent to the period end 550,000 shares were bought back into treasury at a cost of £665,000.

## 8. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Six months ended 31 March 2016	Six months ended 31 March 2015	Year ended 30 September 2015
	£'000 (unaudited)	£'000 (unaudited)	£'000 (audited)
6.25 % Bonds 2031	59,593	59,566	59,579

The fair value of the 6.25% Bonds using the last available quoted offer price from the London Stock Exchange as at 31 March 2016 was 126.02p per bond, a total of £75,609,000 (31 March 2015: 127.51p per bond, a total of £76,506,000; 30 September 2015: 124.84p per bond, a total of £74,904,000).

## 9. VALUATION OF FINANCIAL INSTRUMENTS

The Company has early adopted the amendments to FRS 102 'Fair value hierarchy disclosure' effective for annual periods beginning on or after 1 January 2017. These amendments improve the consistency of fair value disclosure for financial instruments compared with those required by EU adopted IFRS.

# Notes to the financial statements continued

## for the six months ended 31 March 2016

### **9. VALUATION OF FINANCIAL INSTRUMENTS** continued

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

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

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 Company 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 over-the-counter 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 specific 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 includes instruments that are valued based on quoted prices for similar instruments where significant unobservable 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 judgement, considering factors specific to the asset or liability.

The determination of what constitutes “observable” requires significant judgement by the investment manager. The investment manager considers observable data 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 Company’s financial instruments measured at fair value at the balance sheet date.

Financial assets/(liabilities) at fair value through profit or loss at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equity investments	250,061	–	12,191	262,252
Fixed interest instruments	121,253	–	–	121,253
Options – Financial assets	–	3,043	–	3,043
Options – Financial liabilities	–	(3,670)	–	(3,670)
Forward – currency contracts – Financial assets	–	5,836	–	5,836
Forward – currency contracts – Financial liabilities	–	(10,873)	–	(10,873)
Futures – Financial assets	–	146	–	146
Futures – Financial liabilities	–	(530)	–	(530)
Total return swaps	–	(1,001)	–	(1,001)
Credit default swap	–	–	352	352
BlackRock's Institutional Sterling Liquidity Fund	9,011	–	–	9,011
<b>Total</b>	<b>380,325</b>	<b>(7,049)</b>	<b>12,543</b>	<b>385,819</b>

# Notes to the financial statements continued

for the six months ended 31 March 2016

## 9. VALUATION OF FINANCIAL INSTRUMENTS continued

	Level 1	Level 2	Level 3	Total
Financial assets/(liabilities) at fair value through profit or loss at 31 March 2015	£'000	£'000	£'000	£'000
Equity investments	267,754	–	–	267,754
Fixed interest instruments	57,759	–	–	57,759
Options – Financial assets	–	1,305	–	1,305
Options – Financial liabilities	–	(1,268)	–	(1,268)
Forward – currency contracts – Financial assets	–	69	–	69
Forward – currency contracts – Financial liabilities	–	(1,903)	–	(1,903)
Total return swaps	–	(132)	–	(132)
BlackRock's Institutional Sterling Liquidity Fund	40,000	–	–	40,000
<b>Total</b>	<b>365,513</b>	<b>(1,929)</b>	<b>–</b>	<b>363,584</b>

	Level 1	Level 2	Level 3	Total
Financial assets/(liabilities) at fair value through profit or loss at 30 September 2015	£'000	£'000	£'000	£'000
Equity investments	269,239	–	–	269,239
Fixed interest instruments	84,354	–	–	84,354
Options – Financial assets	–	2,759	–	2,759
Options – Financial liabilities	–	(3,810)	–	(3,810)
Forward – currency contracts – Financial assets	–	418	–	418
Forward – currency contracts – Financial liabilities	–	(2,588)	–	(2,588)
Futures – Financial assets	–	305	–	305
Futures – Financial liabilities	–	(877)	–	(877)
Total return swaps	–	(4,251)	–	(4,251)
Credit default swap	–	–	(321)	(321)
BlackRock's Institutional Sterling Liquidity Fund	57,637	–	–	57,637
<b>Total</b>	<b>411,230</b>	<b>(8,044)</b>	<b>(321)</b>	<b>402,865</b>

There were no transfers between levels for financial assets and financial liabilities during the period recorded at fair value as at 31 March 2016, 30 September 2015 and 31 March 2015.

As at 31 March 2016, the Level 3 investments were comprised of two Equity investments and a Credit Default Swap.

The Forward Partners investment of £3,417,000 (30 September 2015 and 31 March 2015: £nil) is valued using an independent external valuer and the MAS Mortgage Holdings investment of £8,774,000 (30 September 2015 and 31 March 2015: £nil) is valued using a model which reflects the mortgage market in general including default rates.

The iTraxx Xover Credit Default Swap investment of £352,000 (30 September 2015: £321,000, 31 March 2015: £nil) is valued using a model which reflects the prices of vanilla iTraxx Xover contracts and defaults in the particular Series held.

None of the valuation methods have changed in the period. (30 September 2015 and 31 March 2015: No changes)

## 10. RELATED PARTY DISCLOSURE

The Board consists of six non-executive Directors, five of whom are considered to be independent by the Board. None of the Directors has a service contract with the Company. The Chairman receives an annual fee of £41,250, the Audit Committee Chairman receives £28,250, the Senior Independent Director receives £26,250 and each of the other Directors receive an annual fee of £24,250.

At the period end members of the Board held ordinary shares in the Company as set out below:

	Ordinary shares 31 March 2016	Ordinary shares 30 September 2015
James Long (Chairman from 26 February 2015)	37,879	29,802
Jim Grover	27,500	27,500
Lynn Ruddick <sup>1</sup> – beneficial	165,598	165,482
– non-beneficial	7,052	6,874
Ian Russell (Audit Committee Chairman from 26 February 2015)	27,500	27,500
Julian Sinclair	36,200	36,200
Jimmy West (Senior Independent Director)	63,400	63,400

<sup>1</sup> Lynn Ruddick's holding includes 63,290 shares held by her husband, Mr Dewar.

# Notes to the financial statements continued

## for the six months ended 31 March 2016

### **11. TRANSACTIONS WITH THE AIFM AND MANAGER**

BlackRock Fund Managers Limited (“BFM”) was appointed as the Company’s AIFM with effect from 27 February 2015. BFM has (with the Company’s consent) delegated certain portfolio and risk management services, and other ancillary services, to BIM (UK). Details of the fees payable to BIM (UK) and to BFM with effect from 27 February 2015 are set out in note 3 on page 28.

The investment management fees due to the Investment Manager for the six months ended 31 March 2016 amounted to £748,000 (six months ended 31 March 2015: £982,000; year ended 30 September 2015: £1,783,000).

In addition to the above services, BlackRock provides the Company with marketing services. The total fees paid or payable for these services for the six month period ended 31 March 2016 amounted to £57,000, excluding VAT (six months ended 31 March 2015: £37,000 and year ended 30 September 2015: £89,000). Marketing fees of £134,000 excluding VAT were outstanding at 31 March 2016 (31 March 2015: £19,000, 30 September 2015: £89,000).

The Company also has investments in several funds managed by BlackRock and details of the amounts invested as at 31 March 2016, 31 March 2015 and 30 September 2015 are set out in the table below. As disclosed in note 3 on page 28, management fees may be levied on some of these investments. To the extent that any such management fees have been charged in respect of these holdings, the Company is rebated these management fees on a regular basis to ensure that no double charging occurs. For the period from 1 October 2015 to 31 March 2016, fees of £155,000 were levied in respect of the iShares UK Property, iShares Gold Trust, BGF Emerging Markets Equity Income Fund, BGF Global Equity Income Fund, BlackRock Throgmorton Trust plc and MAS Mortgage Holdings Limited and were rebated in full to the Company.

	Value 31 March 2016	Value 31 March 2015	Value 30 September 2015
Fund	£'000	£'000	£'000
BGF ASEAN Leaders Fund	2,160	10,081	1,760
BGF Asian Dragon Fund	–	4,996	4,076
BGF Emerging Markets Equity Income Fund	7,130	14,941	6,372
BGF Global Corporate Bond Fund	24,539	24,404	23,782
BGF Global Equity Income Fund	–	24,249	22,881
BlackRock's Institutional Sterling Liquidity Fund	9,011	40,000	57,637
BlackRock Throgmorton Trust	9,907	–	10,315
BSF Impact World Equity Fund	14,180	–	–
iShares Gold Trust	22,536	–	–
iShares UK Property Fund	4,517	–	4,997
MAS Mortgage Holdings	8,774	–	–

## 12. CONTINGENT ASSETS/LIABILITIES

There were no contingent liabilities or assets at 31 March 2016, 31 March 2015 or 30 September 2015.

## 13. PUBLICATION OF NON STATUTORY ACCOUNTS

The financial information contained in this half yearly report does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The financial information for the six months ended 31 March 2016 and 31 March 2015 has not been audited.

The information for the year ended 30 September 2015 has been extracted from the latest published audited financial statements, which have been filed with the Registrar of Companies. The report of the auditor on those accounts contained no qualification or statement under sections 498(2) or (3) of the Companies Act 2006.

## 14. ANNUAL RESULTS

The Board expects to announce the annual results for the year ending 30 September 2016, as prepared under New UK GAAP, in December 2016. Copies of the annual results announcement can be obtained from the Secretary on 0207 743 3000. The Annual Report and Financial Statements should be available by late December 2016 with the Annual General Meeting being held in February 2017.

# Independent auditor's review report

to BlackRock Income Strategies Trust plc

## **INTRODUCTION**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2016 which comprises the Income Statement, Statement of Changes in Equity, Balance Sheet, Statements of Cash Flow, and related notes 1 to 14. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

## **DIRECTORS' RESPONSIBILITIES**

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with Financial Reporting Council's Standard, FRS 104 "Interim Financial Reporting".

## **OUR RESPONSIBILITY**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## **SCOPE OF REVIEW**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and

applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2016 is not prepared, in all material respects, in accordance with Financial Reporting Council's Standard, FRS 104 "Half-Yearly Financial Reports" and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**ERNST & YOUNG LLP**

London

13 June 2016

# Directors, management and other service providers

## Directors

James M Long (Chairman)  
Jim Grover  
Lynn Ruddick  
Ian Russell (Chairman of the Audit Committee)  
Julian Sinclair  
Jimmy West (Senior Independent Director)

## Registered Office

(Registered in Scotland, No. 3721)  
Exchange Place One  
1 Semple Street  
Edinburgh EH3 8BL

## Alternative Investment Fund Manager

BlackRock Fund Managers Limited<sup>1</sup>  
12 Throgmorton Avenue  
London EC2N 2DL

## Investment Manager & Secretary

BlackRock Investment Management (UK) Limited<sup>1</sup>  
12 Throgmorton Avenue  
London EC2N 2DL  
Telephone: 020 7743 3000

## Depository

BNY Mellon Trust & Depository (UK) Limited<sup>1</sup>  
BNY Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

## Registrars

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Registrars' Shareholder Helpline:  
03 30 303 1184

## Auditor

Ernst & Young LLP  
Chartered Accountants and Statutory Auditors  
25 Churchill Place  
Canary Wharf  
London E14 5EY

## Stockbrokers

Cenkos Securities plc<sup>1</sup>  
6.7.8 Tokenhouse Yard  
London EC2R 7AS

## Solicitors

Dickson Minto WS  
16 Charlotte Square  
Edinburgh EH2 4DF

## Savings Plan and NISA Administrator

BlackRock Investment Management (UK) Limited<sup>1</sup>  
Freepost RLTZ-KHUH-KZSB  
PO Box 9036  
Chelmsford CM99 2XD  
Telephone: 0800 44 55 22

<sup>1</sup> Authorised and regulated by the Financial Conduct Authority.

# Glossary

## **ALTERNATIVE ASSETS**

Alternative investments include real estate, hedge funds, private equity and commodities. They are bought in order to enhance expected return and diversify a portfolio. Alternative assets are usually unquoted and therefore less liquid than equities and bonds.

## **ALTERNATIVE INVESTMENT FUND MANAGER**

An Alternative Fund Manager is a term defined under the Alternative Investment Fund Managers Directive (AIFMD), a European financial directive which came into force in July 2011, and which was introduced in the aftermath of the 2008 credit crisis, to improve regulation of the management of pools of “alternative” assets such as hedge funds, real estate or private equity. The AIFMD applies to hedge fund managers, private equity fund managers, real estate fund managers, and managers of other alternative investments operating within, or marketing to investors in, the European Union. Nearly all financial vehicles, including UK listed investment trusts such as BlackRock Income Strategies Trust plc, fall into the technical definition of Alternative Investment Funds (AIFs) which have to be registered and managed by an AIF Manager (AIFM). The Company’s AIFM is BlackRock Fund Managers Limited.

## **BETA**

The Beta of a portfolio is a number describing the relation of the portfolio’s returns with those of the financial market as a whole. A portfolio has a Beta of zero if its returns change independently of changes in the market’s returns. A positive Beta means that the portfolio’s returns have a degree of correlation to the market’s returns. A negative Beta means that the portfolio’s returns are negatively correlated to the market’s returns.

## **CORRELATION**

In portfolio management terms, correlation is a statistical measure of how two securities move in relation to each other. Correlation is computed into what is known as the correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation co-efficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.

# Glossary continued

## **CONSUMER PRICE INDEX (CPI)**

The main measure of UK inflation. It forms the basis for the Government's inflation target.

## **DISCOUNT**

Investment trust shares frequently trade at a discount to NAV. This occurs when the share price is less than the NAV. In this circumstance, the price that an investor pays or receives for a share would be less than the value attributable to it by reference to the underlying assets. The discount is the difference between the share price (based on mid-market share prices) and the NAV, expressed as a percentage of the NAV. For example, if the share price was 90 pence and the NAV 100 pence, the discount would be 10%.

## **DIVIDEND YIELD**

The annual dividend on a share divided by the share price.

## **DURATION**

The (Macaulay) duration is a measure of the average time until a bond's cash flows occur, and of the sensitivity of its price to interest rate changes. Technically speaking, the Macaulay duration is the sum of the time weighted discounted payments (coupons and principal) of a bond. Another way to think about duration is the average time period over which you will receive your payments. Hence, if two bonds have the same maturity, the bond with the higher coupon will have a shorter duration (the average time of repayment is less heavily weighted to the repayment of capital (principal) at maturity).

## **GEARING**

When an investor has more than a 100% exposure to a market, or part of a market, typically resulting from the use of debt or derivatives (futures and options).

## **GROSS AND NET EXPOSURE**

Market exposure gained through total return swaps, swaptions or other derivative instruments refers to the gross market value of the underlying securities to which the investor is exposed through the relevant instrument. Gross exposure refers to the total exposure the investor has through both long and short positions added together. For example, an investor who has 110% long market exposure through derivative instruments and 20% short market exposure through derivative instruments has gross market exposure of 130%. Net exposure refers to the exposure the investor has through long positions less any short positions. For example, an investor who has 110% long market exposure through derivative instruments and 20% short market exposure through derivative instruments has net market exposure of 90%; this method of measurement is

looking at the net directional market exposure and takes into account the fact that long and short positions theoretically offset one another when the market moves in a particular direction.

## **LEVERAGE**

Leverage is defined in the AIFM Directive as “any method by which the AIFM increases the exposure of an AIF it manages whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means”. Leverage is measured in terms of ‘exposure’ and is expressed as a ratio of net asset value:  $\text{Leverage ratio} = \frac{\text{exposure}}{\text{net asset value}}$ .

The Directive sets out two methodologies for calculating exposure. These are the Gross Method and the Commitment Method. The process for calculating exposure under each methodology is largely the same, except that, where certain conditions are met, the Commitment Method enables instruments to be netted off to reflect ‘netting’ or ‘hedging’ arrangements and the entity’s exposure is effectively reduced.

## **NET ASSET VALUE PER SHARE (“NAV”)**

This is the value of the Company’s assets attributable to one ordinary share. It is calculated by dividing ‘equity shareholders’ funds’ by the total number of ordinary shares in issue. For example, as at 30 September 2015 equity shareholders’ funds were worth £374,832,000 and there were 274,437,282 ordinary shares in issue (excluding treasury shares); the undiluted NAV (with debt at par) was therefore 136.58 pence per ordinary share. Equity shareholders’ funds are calculated by deducting from the Company’s total assets its current and long-term liabilities and any provision for liabilities and charges.

## **OPTION**

An option is a contract which gives the buyer the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price on or before a specified date. The seller has the corresponding obligation to fulfil the transaction – that is to sell or buy – if the buyer ‘exercises’ the option. The buyer pays a premium to the seller for this right. An option that conveys to the owner the right to buy something at a specific price is referred to as a call; an option that conveys the right of the owner to sell something at a specific price is referred to as a put.

# Glossary continued

## **PREMIUM**

A premium occurs when the share price is more than the NAV and investors would therefore be paying more than the value attributable to the shares by reference to the underlying assets. For example, if the share price (based on mid-market share prices) was 100 pence and the NAV 90 pence, the premium would be 11.1%. Discounts and premia are mainly the consequence of supply and demand for the shares on the stock market.

## **SHORT AND LONG EXPOSURES**

Derivative instruments enable an investor to benefit from the price of a stock falling as well as rising. This enables the investor to benefit from negative as well as positive views on individual stocks. Entering into a derivative contract that results in a profit where the share price movement falls is referred to as taking a short position. Entering into a derivative instrument that results in a profit if the price of the stock rises is referred to as taking a long position.

## **SWAPTION**

A swaption is an option on a swap (usually an interest rate swap) which provides the purchaser the right to either pay or receive a fixed rate. A buyer of a swaption who has the right to pay fixed and receive floating is said to have purchased a “payers swaption”. Alternatively, the right to exercise into a swap whereby the buyer receives fixed and pays floating is known as a “receivers swaption”.

## **TOTAL RETURN**

The income on an asset together with its capital appreciation, expressed as a proportion of the asset's initial price.

## **TOTAL RETURN SWAP**

A swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset, referred to as the reference asset, is usually an equity index, loans, or bonds. This is owned by the party receiving the set rate payment. Total return swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without actually having to own it. These swaps are a useful investment instrument because they enable the investor to obtain significant market exposure with a minimal cash outlay.

## **VALUE AT RISK (VAR)**

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 a confidence level of 99% with a holding period of not greater than 1 day and a historical observation period of not less than 2 years (500 days). A VaR number is defined at a specified probability and a specified time horizon. A 99% 1 day VaR means that the expectation is that 99% of the time over a 1 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 VaR methodology has limitations, namely assumptions that risk factor returns are normally distributed and 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 Company 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.

## **VOLATILITY**

Volatility refers to the amount of uncertainty or risk about the size of changes in a security's value. A higher volatility means that a security's value can potentially be spread out over a larger range of values. This means that the price of the security can change dramatically over a short time period in either direction. A lower volatility means that a security's value does not fluctuate dramatically, but changes in value at a steady pace over a period of time. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. A full glossary of definitions is available at [blackrock.com/institutions/en-gb/resources/education/glossary](http://blackrock.com/institutions/en-gb/resources/education/glossary).



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