

Looking Ahead - What to Expect

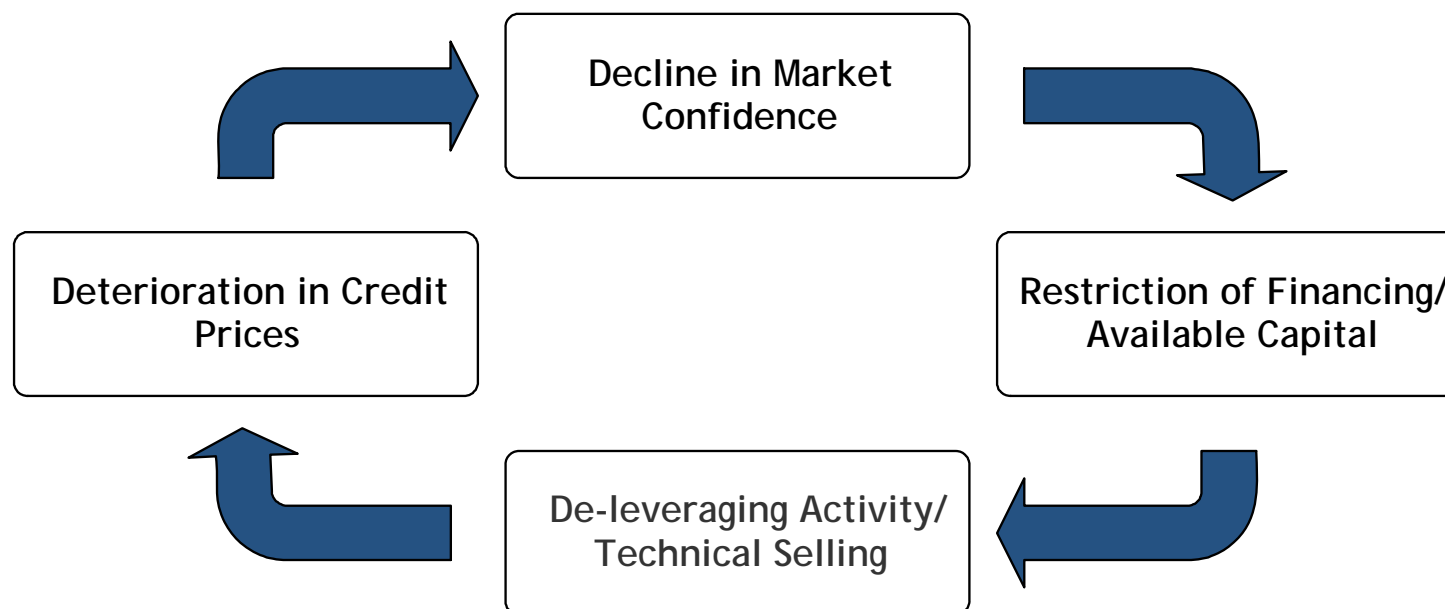
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Jeff Gary, High Yield
Portfolio Manager



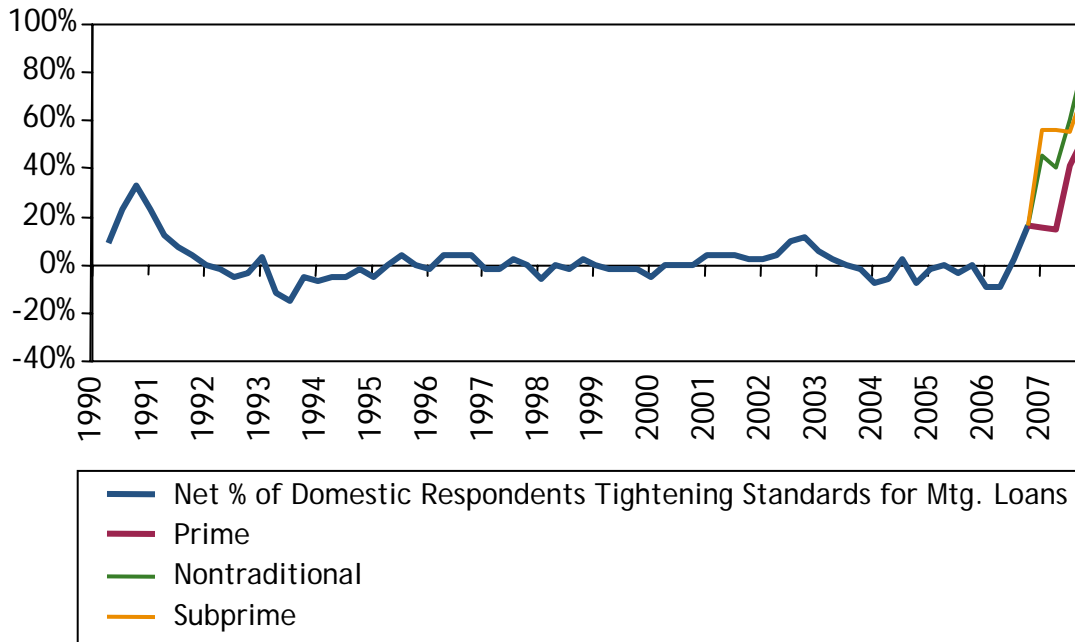
Deleveraging Cycle

De-leveraging Cycle Impairs Liquidity and Accentuates Price Declines



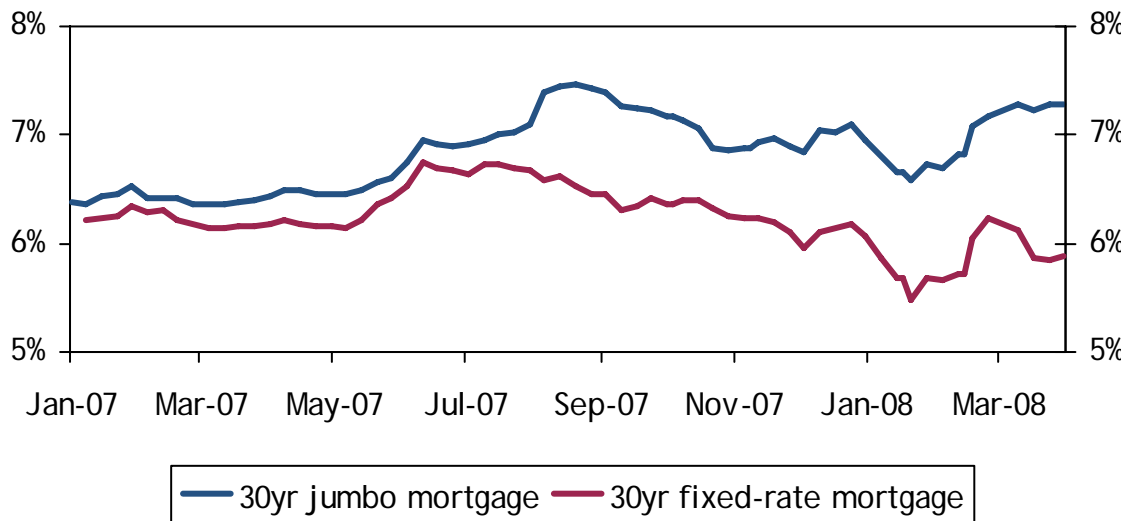
A cycle of de-leveraging has created remarkable stress and dislocations, even within high-quality fixed income asset classes.

The U.S. Consumer: Tightening Credit Conditions



Tighter lending standards

Loan officers have tightened standards to all-time high



High mortgage rates

Rates on some types of mortgages have risen as the Fed as eased policy

A result of financial market de-levering

Source: Federal Reserve, Federal Home Loan Mortgage Corporation (Freddie Mac)

Increased Borrowing Costs and Haircuts Force De-leveraging

Collective reduction in use of leverage across credit markets, as lenders became less willing to provide financing for long-term assets with short-term liabilities.

Typical Haircut* Levels by Asset Class
(Estimates)

| Product | Mar-07 | Mar-08 |
|------------|--------|--------|
| Treasury | 0% | 1% |
| Agency | 0% | 2% |
| Agency MBS | 3% | 5% |
| Corporates | 5% | 10% |
| AAA CMBS | 5% | 20% |
| High Yield | 5% | 20% |

**Haircut = the difference between the market value of the securities pledged as collateral and the amount lent, expressed as a percentage, where a 1% haircut would mean that the lender would advance 99% of the value of the securities.*

Haircuts, or the safety margin that liquidity providers insist on, have widened amid the widespread turmoil, doubling in the case of agency mortgage securities that carry an implicit government backing. In some cases, the haircuts have spiked far more.



What To Expect

What to Expect

Liquidity continues to be very low

- Balance sheets of financial institutions remain under extreme strain

Volatility remains high

- The unwinding of leverage continues to put pressure on the markets
- Structured finance deals continue to be unwound, forcing more asset sales into a weak market (a systemic “margin call”)

What to Expect *(Continued)*

Real Estate remains weak, arising from the combination of economic weakness and a tighter lending environment

Idiosyncratic risk will become a larger issue, as individual credit fundamentals come into play, particularly against the backdrop of a global slowdown

Fundamental Problems are just beginning

- Delinquencies/Defaults are starting to tick-up
- Home prices continue to fall, exacerbating the losses on default.
- Housing weakness will spill-over into the general economy, which will feed-back into the Housing Market...

Focus on Areas of the Market with Supply/Demand Imbalances

High Quality Fixed Income

Distressed Mortgages/Real Estate

Leveraged Finance

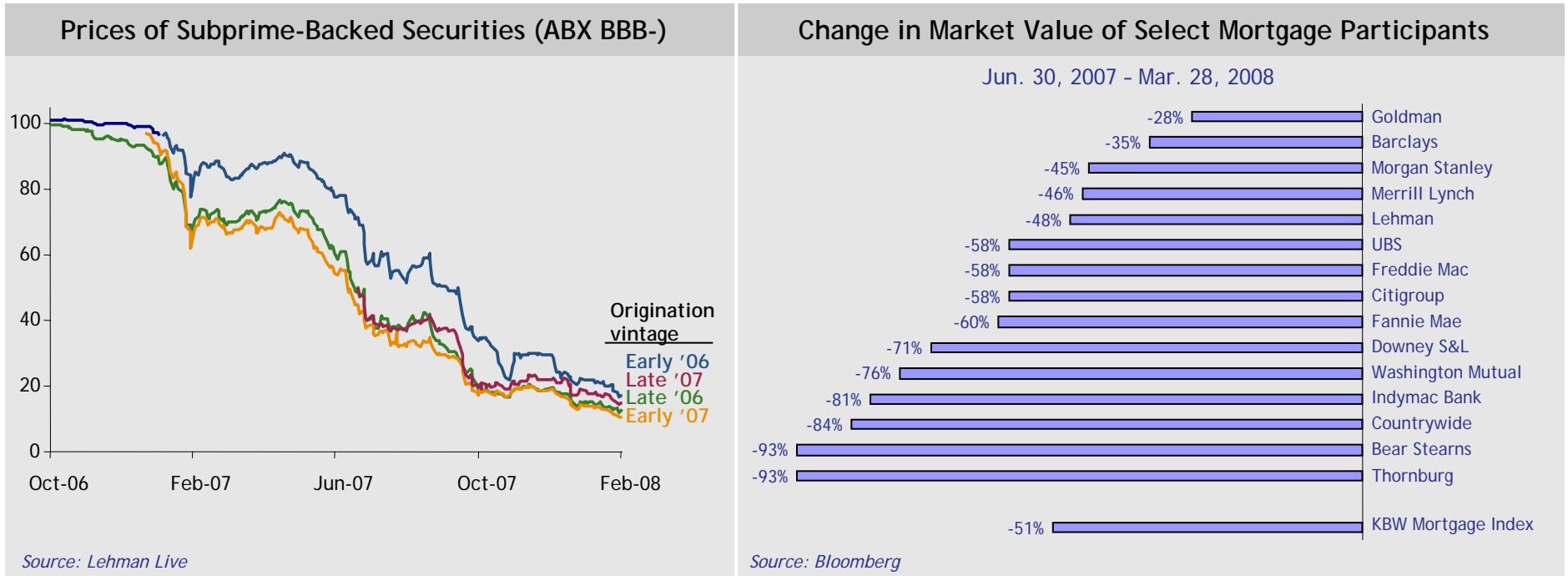


Distressed Mortgages / Real Estate

Dislocations in the Mortgage Market Are a Once-in-a-Generation Opportunity

The current mortgage market distress will likely be worse than the S&L debacle

- Market prices of some mortgage assets have fallen below 20 cents on the dollar - below a penny for certain second-liens
- Financial institutions have seen their capitalizations deteriorate substantially



We believe the current turmoil represents fundamental credit problems, not illiquidity or irrational panic

- Nationwide home prices declined in 2007 - unseen since Great Depression - and are still falling
- Delinquency rates are at all-time highs, with record volumes of non-performing loans

The situation could easily grow worse than current market expectations

- Borrowers' *ability to pay* will continue to be stressed by adjustable rate resets, plus the effects of a general recession
- As house prices continue to fall, we believe that borrowers' *willingness to pay* is diminishing as well

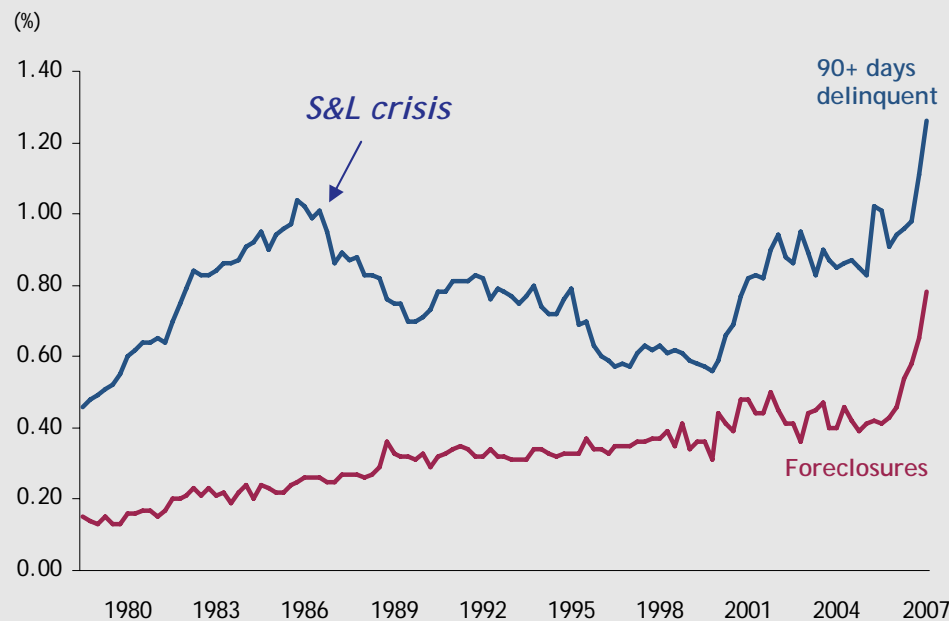
Underlying Borrower Performance Continues to Deteriorate

Serious delinquency and foreclosure rates have already exceeded previous historical highs

Delinquencies will continue to climb as more borrowers suffer from payment stress

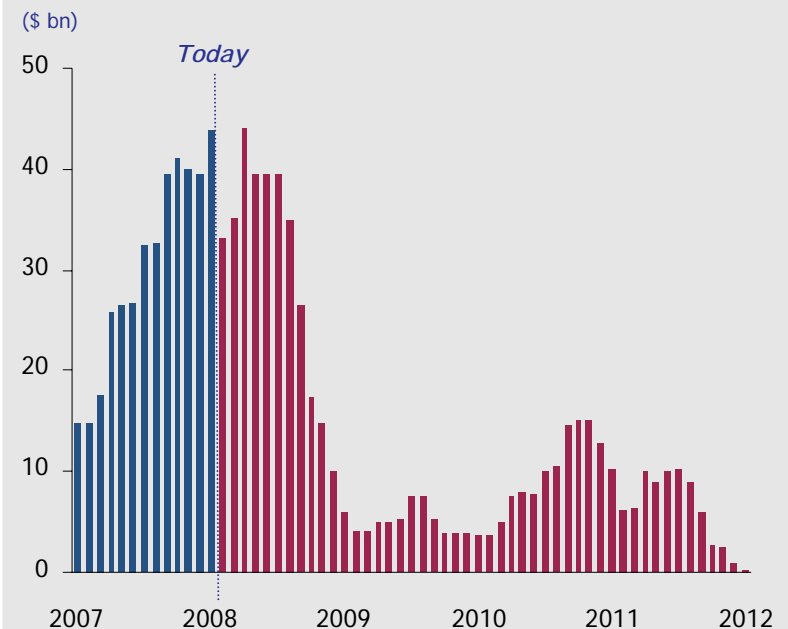
- Nearly \$400 billion in “teaser” rate sub prime loans will reset to higher rates in the next 12 months - unless borrowers are able to obtain a loan modification or refinance
- Many pay option ARMs will reach negative amortization limits
- The situation will only get worse with a general recession and rising unemployment

Delinquency and Foreclosure Rates on U.S. Mortgages



Data for all mortgages across prime and non-prime loans
Source: MBA National Delinquency Survey

Subprime Loans Scheduled to Reset by Month



Source: Loan Performance, Deutsche Bank, and BlackRock

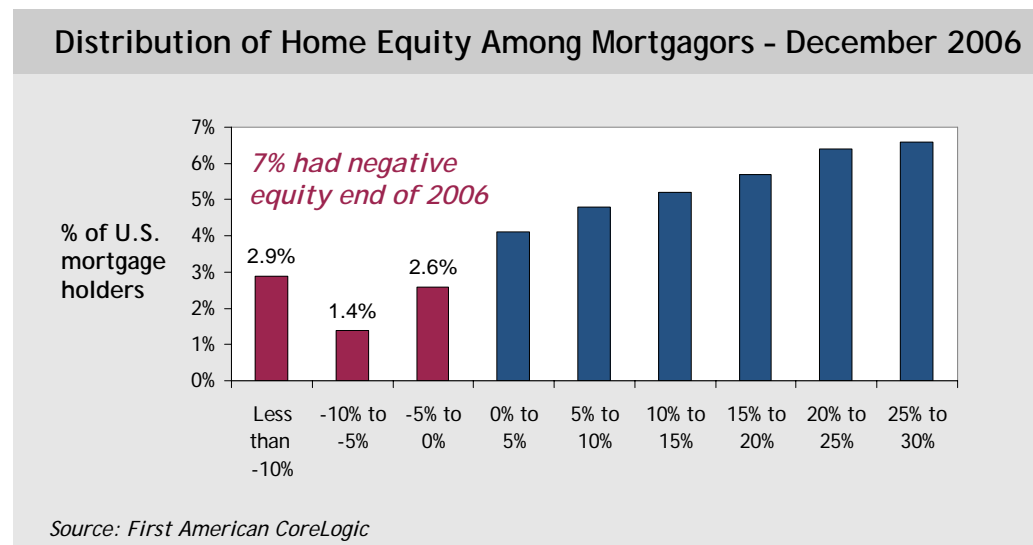
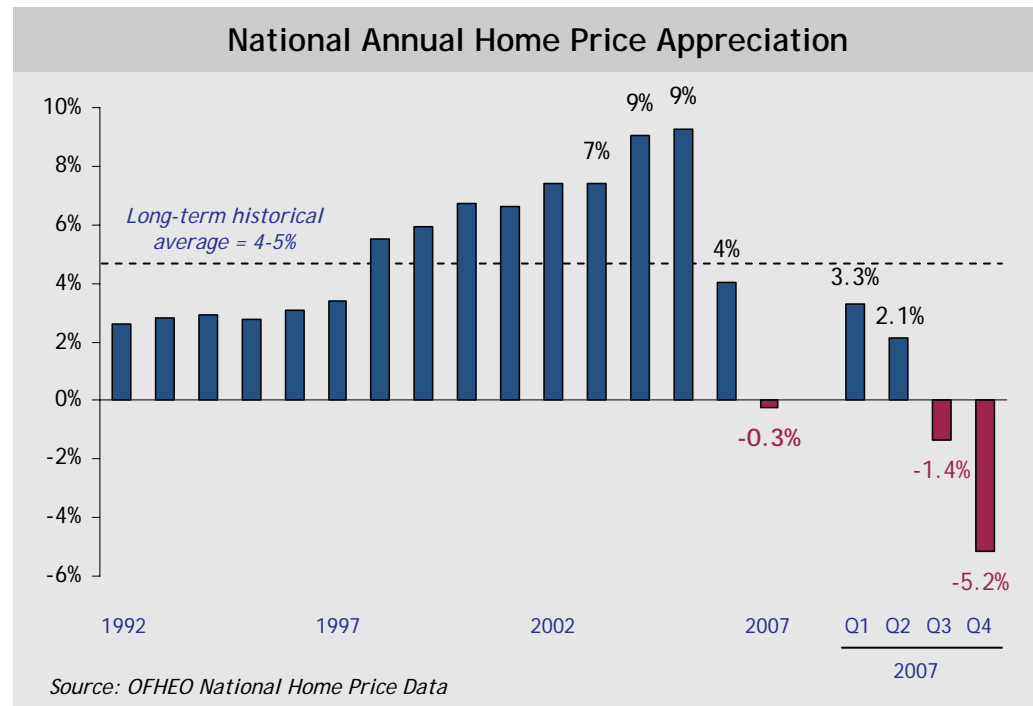
Home Prices Are Falling Rapidly, Creating Borrowers With Negative Equity

Nationwide home prices declined in 2007, for the first time since the Great Depression

- 5.2% annualized decline in Q4 2007
- 25%+ declines since 2005 in certain metropolitan areas, e.g., Stockton, Calif., Cape Coral - Fort Myers, Fla.

Home price declines will leave many borrowers with negative equity, sapping their willingness to pay

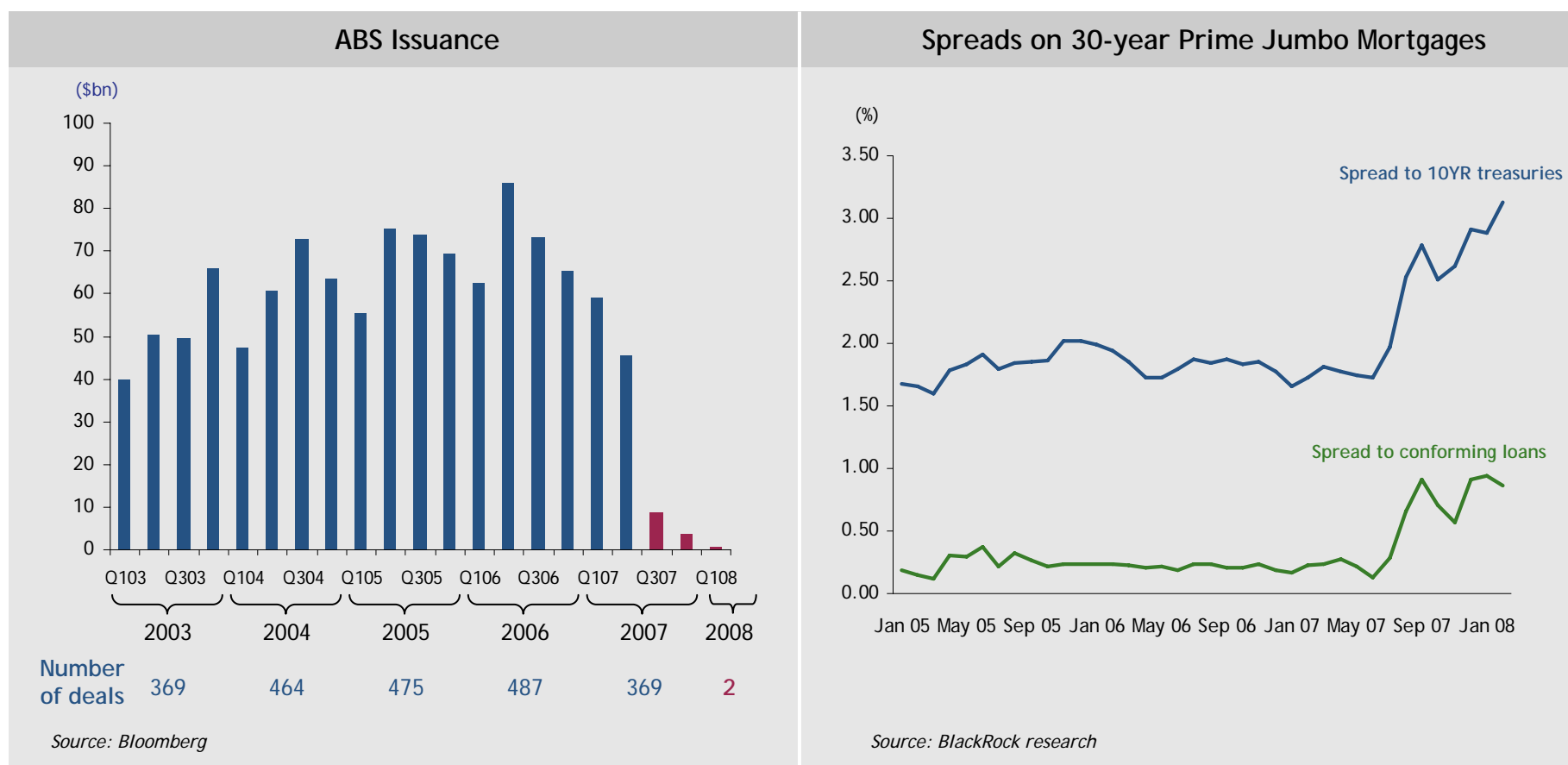
- By the end of 2006, 7% of borrowers already had negative equity
- Goldman Sachs' chief U.S. economist estimates that if home prices fall 15%:
 - 21% of borrowers will have negative equity
 - \$2.6 trillion in mortgages will be "under water"



Dry-Up in Mortgage Credit May Depress the Housing Market for Some Time

The private-label securitization market has been virtually non-existent since last August

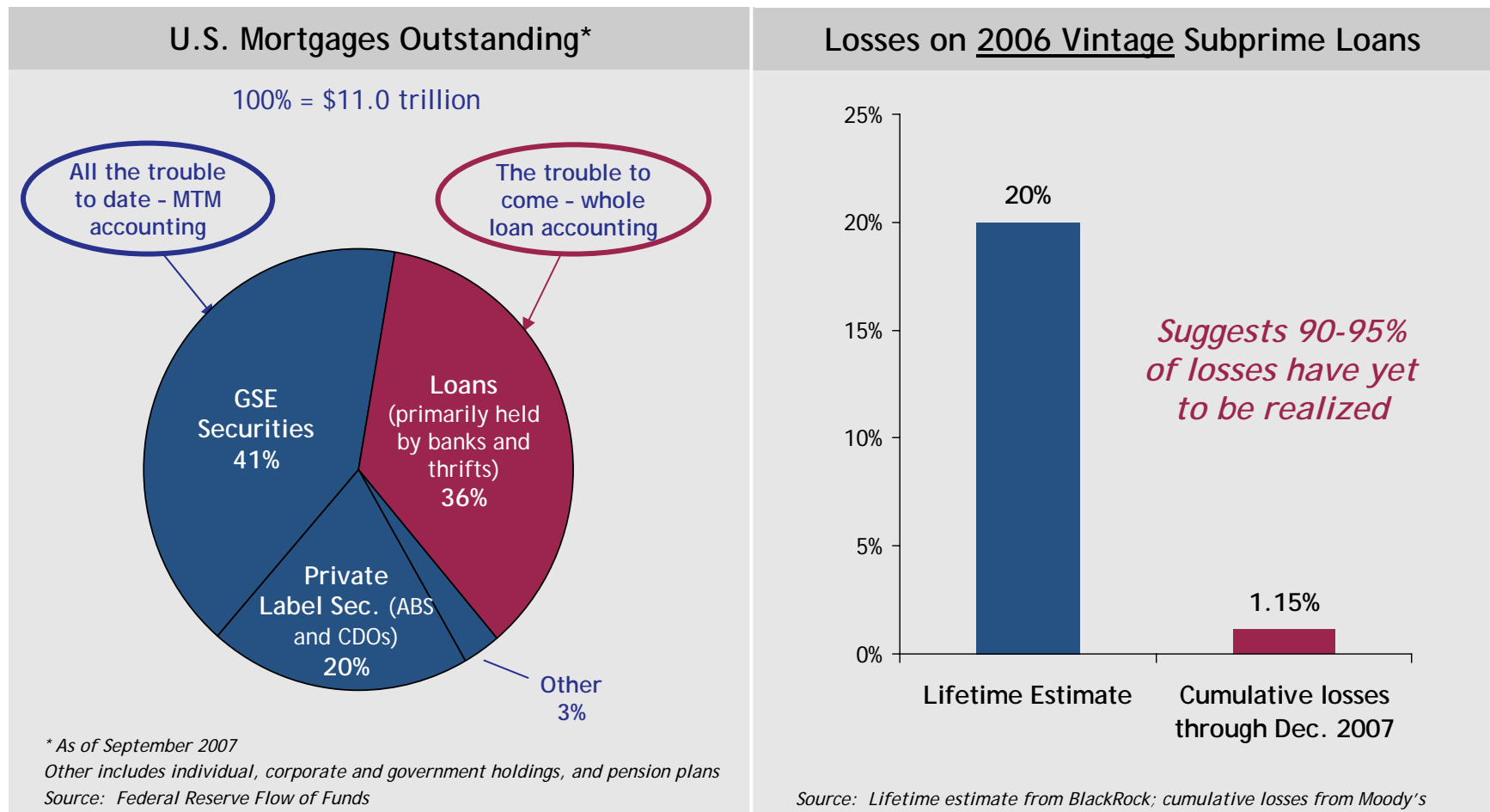
- Leading method of funding jumbo, Alt-A, and sub prime products - meaning many borrowers are unable to get loans to buy or refinance homes
- For the most creditworthy borrowers who are able to get loans, the cost of financing continues to rise



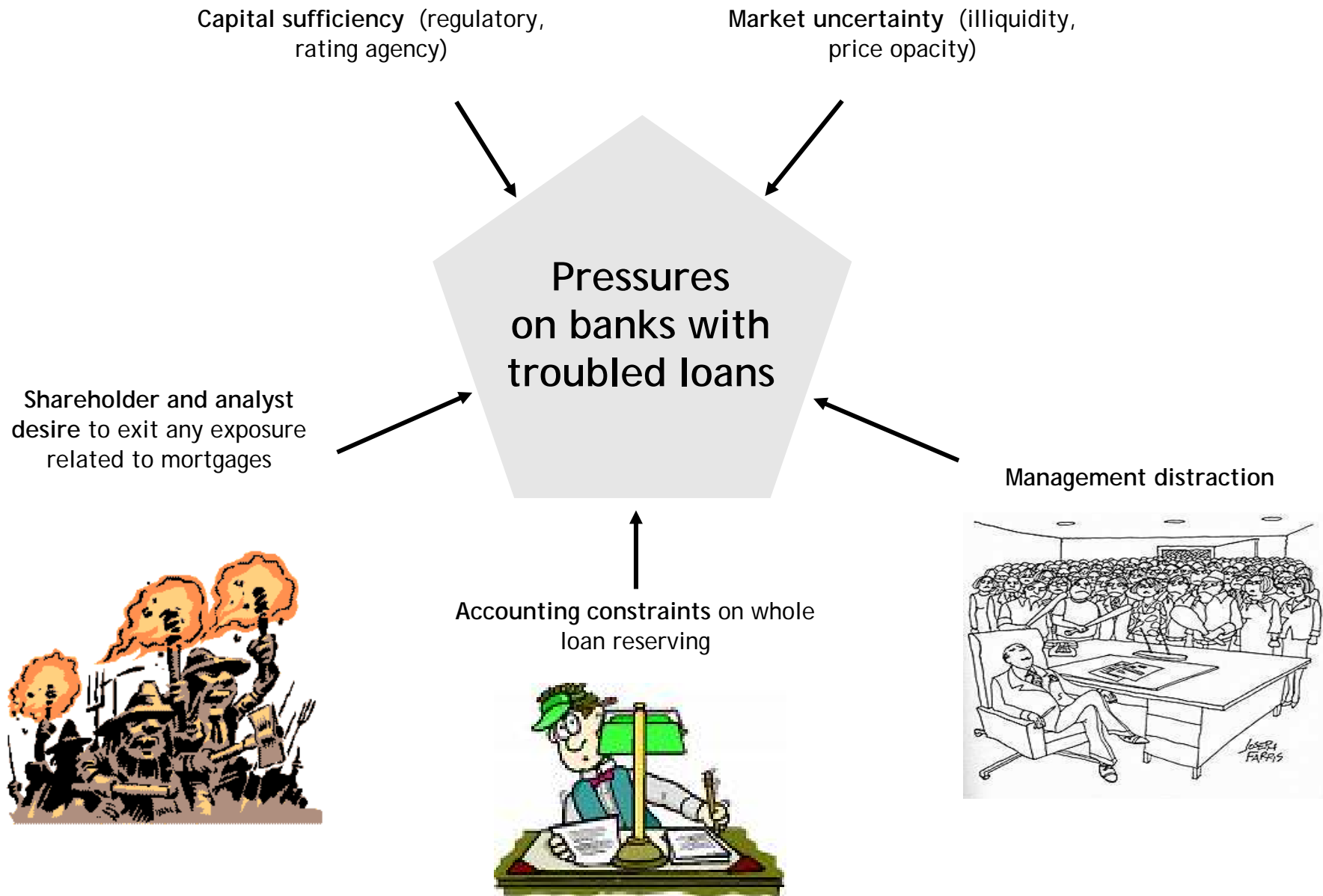
The Trouble in Whole Loans Is Yet to Come

We expect up to \$1 trillion of bank-held loans to become non-performing across their jumbo, Alt-A and subprime holdings

Under the accounting rules of held-for-investment whole loans (vs. securities held for sale or trading), loss reserves do not reflect the full lifetime expectation - resulting in a long, painful flow of mounting losses in the current environment



Banks Will Be Under Severe Pressure to Sell



Market Update

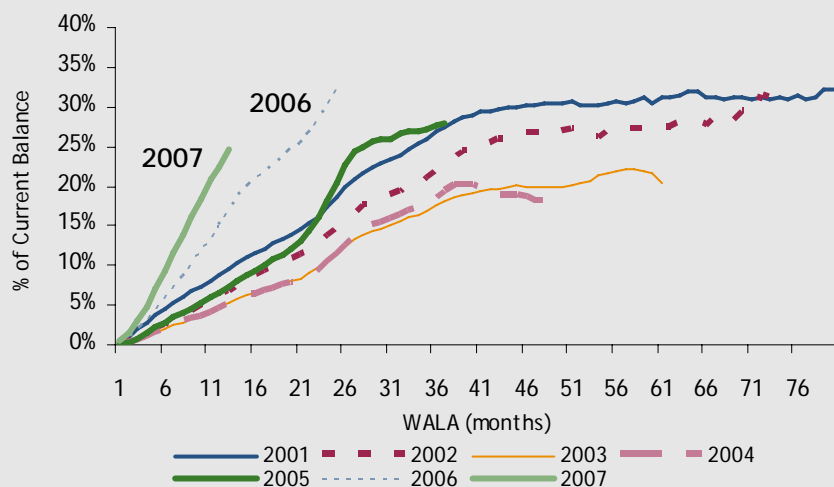
2006 and 2007 vintage subprime RMBS delinquencies continue to increase, but the rate of increase has slowed

- Rating agencies continue to downgrade bonds in the sector, focusing now on 2004 and 2005 vintage bonds
- Bonds in the higher parts of the capital structure are trading at attractive levels
- As pool delinquencies are increasing, servicer risk is becoming more important

The housing market continues to decline

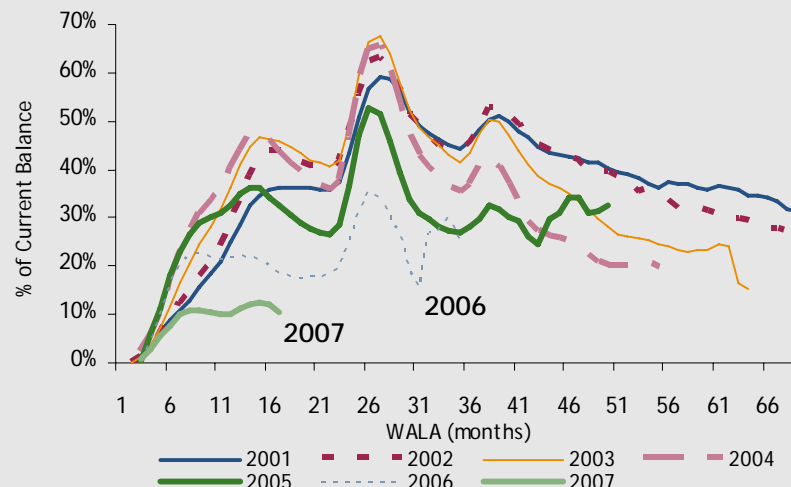
- As the economy enters a recession, the Alt-A and subprime borrowers will be increasingly stressed in their ability to make payments on their mortgages
- Although several mortgage assistance plans are in the works, the timing and implementation are key in having an impact on the market
- The Fed's rate cuts will mitigate some of the payment shocks subprime borrowers will experience in 2008

HEL ABS (ARM) 60+ Delinquency by Deal Vintage



Source: JPMorgan as of March 2008

HEL ABS CPR (ARMs) by Deal Vintage





Leveraged Finance

Leveraged Loan Market-Executive Summary

Current market dynamics have created a compelling opportunity in the leveraged finance market

In recent years, the growth of the loan market was fueled by record M&A activity

Collateralized Loan Obligations (“CLOs”) emerged as one of the principal buyers of these loans but virtually ceased overnight during the summer of 2007

Leveraged Loan Market-Executive Summary (continued)

US\$123 billion of committed loans waiting to be syndicated with no significant demand emerging to replace the CLO bid¹

Banks are under pressure to reduce exposure and avoid further write-downs

Loans are senior secured obligations at the top of the capital structure and should outperform unsecured and subordinated debt in a credit downturn

¹ Supply estimates regarding the leveraged finance market are for illustrative purposes and based upon a mix of publicly- and privately-available market data, as well as BlackRock contact with market participants, including investment banks, underwriters, lenders, broker-dealers and other asset management companies. Supply estimates are necessarily subject to change.

Leveraged Loan Market-Executive Summary (continued)

Moody's expects the U.S. loan default rate to increase to approximately 3.0% by the end of 2008 from the February 2008 level of 1.16%²

- Current spreads have priced in approximately a 10% default rate³

Supply continues to exceed demand. As a provider of liquidity in the market we believe there is a significant opportunity to earn attractive risk-adjusted returns³

² Moody's Investors Service

³ UBS Investment Research, "CDO Insight" January 23, 2008; calculated implied default rate of 9.95% given a spread level of 519 basis points, loss given default of 70%, and historical excess spreads of 221 basis points.

³ There can be no assurance that the Fund will achieve its investment objective or generate any positive returns.

Current Loan Market Environment

Assumptions about the bank loan market have changed since last summer

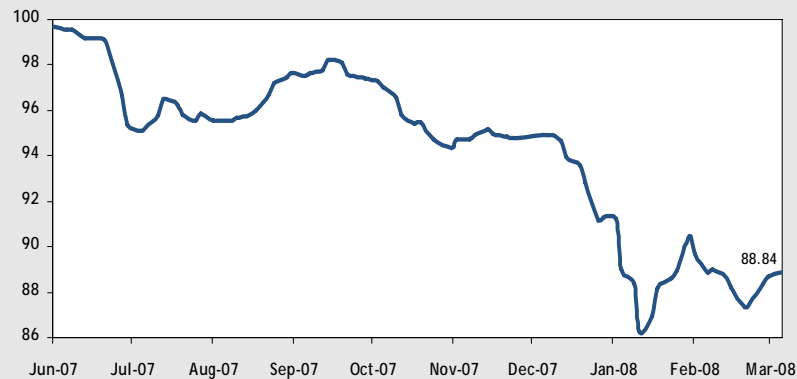
Price volatility has almost doubled

Spreads have widened significantly

Recently loan prices have steeply declined and are at lowest historical price levels

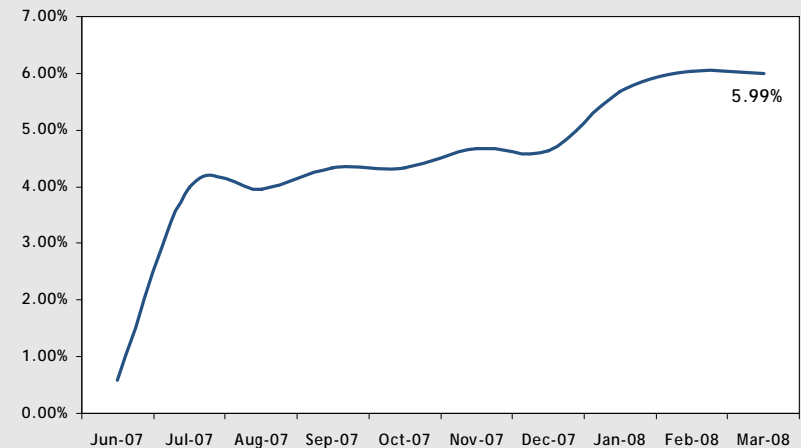
Why did this happen...

Average Bid for Flow Names
June 2007 - March 2008



Source: Standard & Poor's Loan Stats Weekly Supplemental,
04.01.2008

Annualized Rolling 12-month Loan Volatility¹
June 2007 - March 2008



Source: S&P/LSTA Leveraged Loan Index, March 2008
Review

Leveraged Buyout Capital Raised

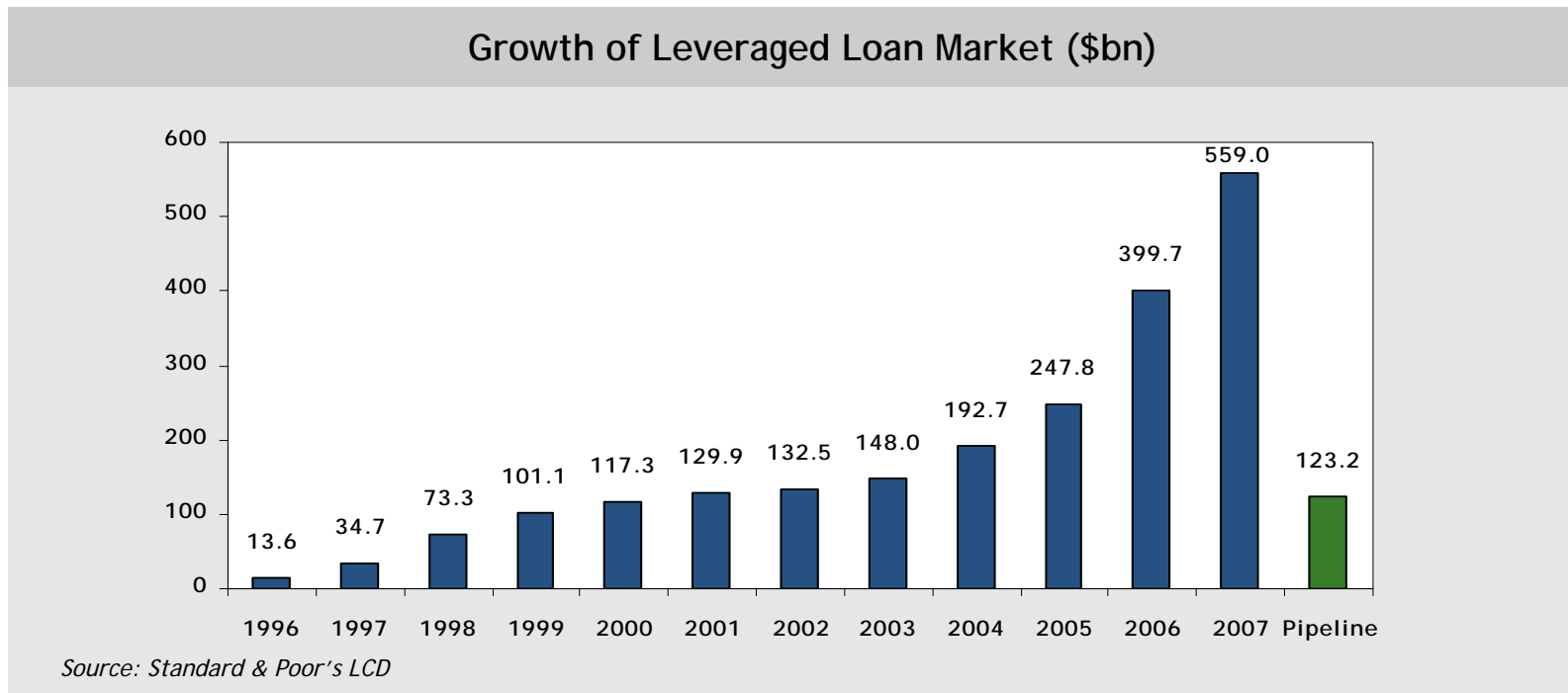
Larger pools of capital allowed sponsors to go after larger public companies

Issuance was fueled by record M&A activity, proliferation of CLOs, and underwriters refinancing loans in a strong demand environment

With an estimated US\$123 billion of LBO underwritings in the pipeline, many financial institutions are over-extended and facing significant losses on their loan portfolios

Amid the liquidity crisis, U.S. loans have sold at a steeper larger discount

Loan pipeline represents approximately 22% of existing loan market



Credit Environment

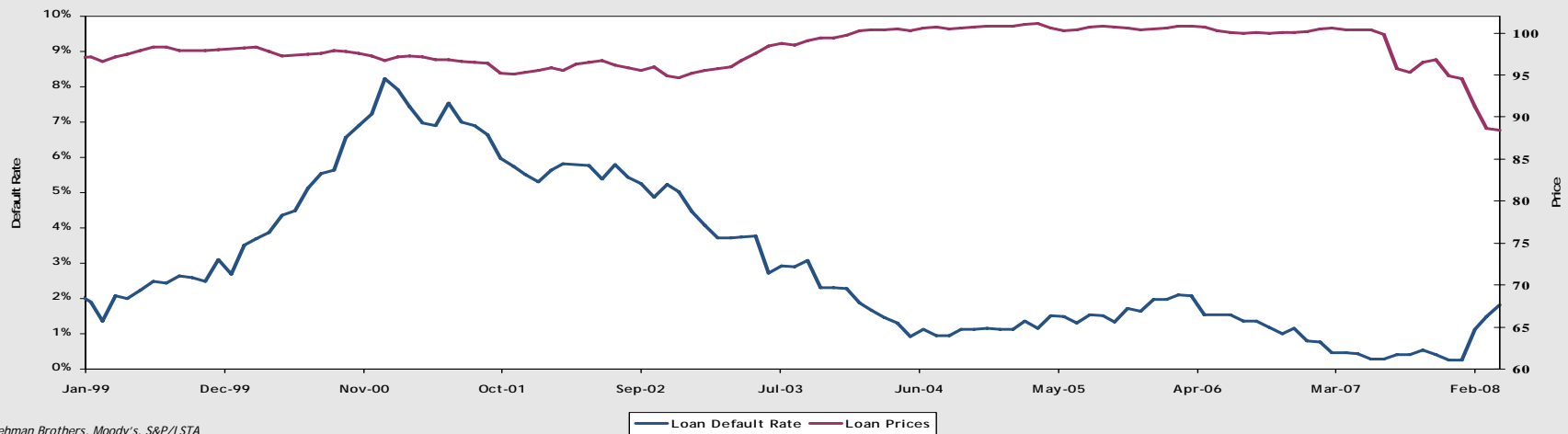
Finding opportunity in a rising default environment

- Moody's predicts the U.S. loan default rate will increase to approximately 3.0% by the end of 2008 from the February 2008 level of 1.16%¹
 - Current spreads have priced in approximately a 10% default rate²
- Even with defaults significantly above 2007 levels, loans should produce attractive returns

Trading at significant discounts, loan prices are close to historical recoveries on defaulted loans

- Historical recoveries on defaulted loans exceed 70%, bond recoveries are much lower at approximately 42%³

Leveraged Loan Default Rate as % of Loans vs. Loan Prices



Source: Lehman Brothers, Moody's, S&P/LSTA

¹ Moody's Investors Service ²UBS Investment Research, "CDO Insight" January 23, 2008; calculated implied default rate of 9.95% given a spread level of 519 basis points, loss given default of 70%, and historical excess spreads of 221 basis points. ³ S&P/LSTA Leveraged Loan Index January 2008 Review

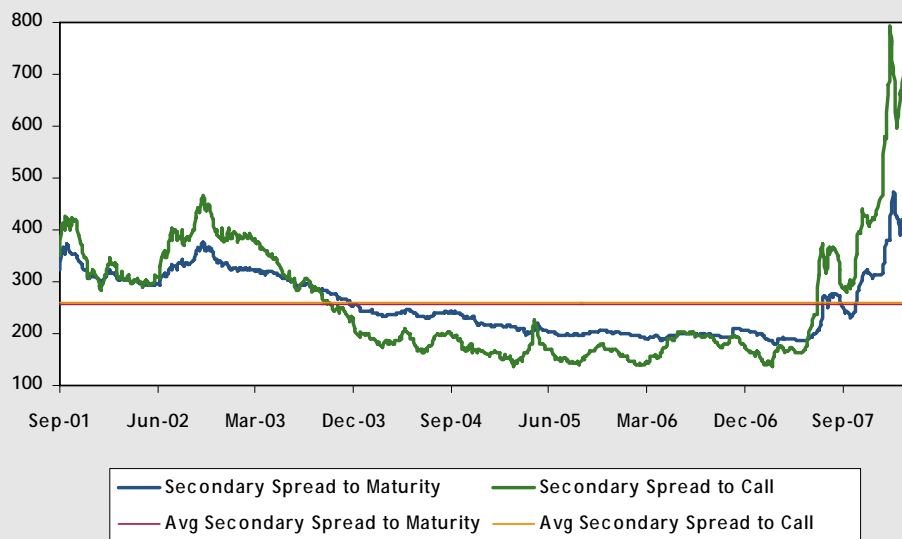
Compelling Relative Value

On a valuation basis, loans are currently cheap

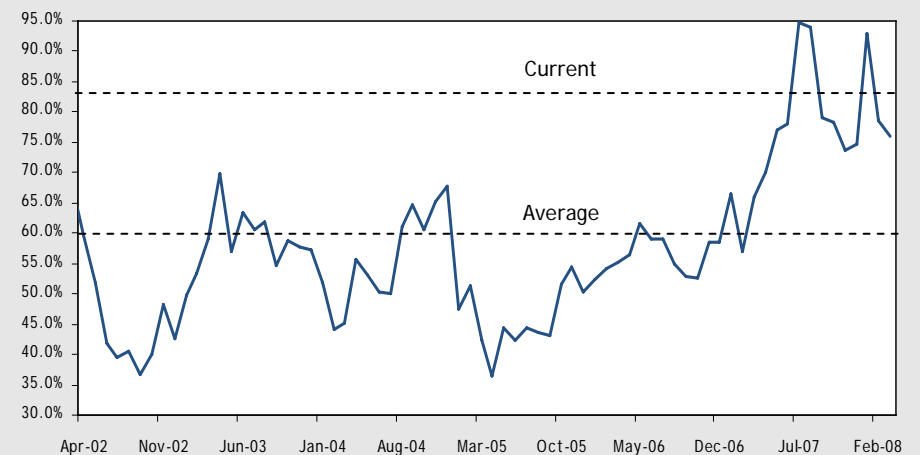
On a spread to call basis, loans are yielding close to 700 basis points above LIBOR

Historically loan spreads have been approximately half of high yield spreads, today they are 77%

Secondary Spread to Maturity¹ versus
Secondary Spread to Call²
Selected Large Institutional Flow Loans



Loan Spreads as a Percentage of High Yield³



Source: Bloomberg, S&P Loan Stats Weekly Supplement 04.01.2008, S&P LCD, Merrill Lynch High Yield Index

¹Discounted spread is a spread to maturity based on the bid level and stated amortization schedule

²Loan Spreads are spreads to 18-month call if average bid is par or higher, 2 years if average bid is 98 but less than par and 3 years if the average bid is less than 98

³Loan Spreads are Spread to Maturity, HY Spreads are Spread to Worst till 8/12/04, Option-Adjusted Spreads thereafter, reverse swapped

