

# GLOBAL LONG/SHORT CREDIT FUND

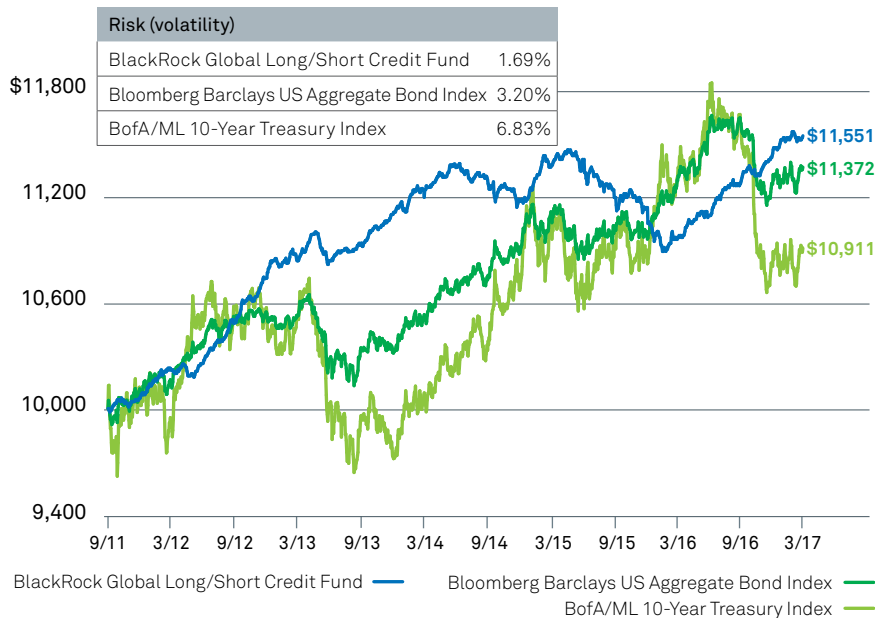
Institutional: BGCIX • A: BGCAX • C: BGCCX

## Performance Highlights

- ▶ The fund's Institutional and Investor A shares (without sales charge) returned 1.09% for the first quarter, outperforming the Barclays U.S. Aggregate Bond Index, which returned 0.82%.
- ▶ It was a strong quarter for the fund relative to traditional fixed income and global credit markets. Credit markets had a strong start to the year, though the rally slowed as political concerns grew globally.
- ▶ Fund performance was strong across regions. Drivers of returns included U.S. investment grade exposures and European financials, U.S. absolute return strategies in media and healthcare companies, bank loans and enhanced equipment trust certificates (EETCs), and Asian credit. Detractors were limited to hedges in equities and European crossover high yield.

## A HISTORY OF STRONG PERFORMANCE AND LOWER RISK

Hypothetical growth of \$10,000 investment from fund inception (9/30/11) through 3/31/17



Source: BlackRock, Morningstar, Bloomberg. Assumes a \$10,000 investment in Global Long/Short Credit, Inv. A without sales charge on the fund's inception date (9/30/11). Had a sales charge been included, performance would be lower. Volatility calculated using annualized standard deviation based on weekly market movements. Performance and volatility data since fund inception (9/30/11) through 3/31/17.

*Performance data quoted represents past performance and is no guarantee of future results. Investment returns and principal values may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. All returns assume reinvestment of dividends and capital gains. Current performance may be lower or higher than that shown. Refer to blackrock.com for most recent month-end performance.*

# BLACKROCK®

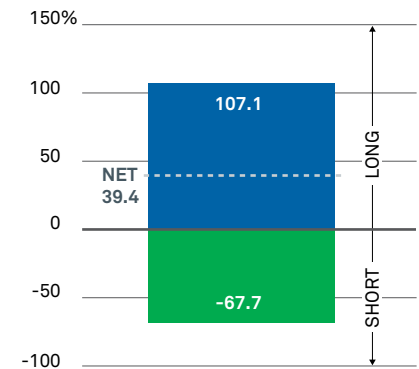
1Q 2017  
COMMENTARY

## Overall Morningstar Rating™



Institutional shares rated against 31 Long-Short Credit Funds as of 3/31/17, based on risk adjusted total return. Ratings are determined monthly and subject to change.<sup>1</sup>

## MARKET EXPOSURE



Number of credit issuers	547
Number of credit longs	980
Number of credit shorts	286

As of 3/31/17.  
Excludes interest rate and currency hedges.

The impact of global uncertainty on markets underscores the importance of thoughtful diversification and uncorrelated sources of return. Use our interactive chart at [glscchart.com](http://glscchart.com) to see how BlackRock Global Long/Short Credit Fund seeks to provide stability in a volatile market.

## Regional Highlights

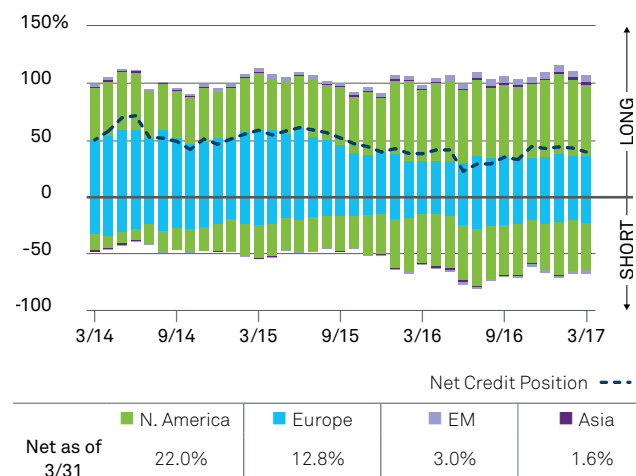
- ▶ The fund's European allocation was mostly unchanged and directional risk remained neutral given political and monetary policy uncertainty.
- ▶ In U.S. exposures, we reduced long positions and increased shorts, resulting in a lower net long U.S. exposure. Specifically, we reduced investment grade bonds and increased hedges during the quarter.
- ▶ We maintained the fund's Asian exposures with a slight increase to investment grade credit.

## Sector Highlights

- ▶ We continued to focus on alpha generation through absolute return, specifically in credits where there is a primary and/or secondary catalyst such as mergers and acquisitions (M&A). The main sector focuses during the quarter were healthcare/medical equipment, auto/auto finance, technology, telecom/cable, mining, pharmaceuticals, hospitals and media. Trades were focused on catalysts and themes including M&A/consolidation, regulatory changes, liability management exercises/balance sheet optimization, mis-pricings across asset classes, as well as opportunities between bonds and credit default swaps.
- ▶ Carry-driven strategies were increased slightly over the quarter via purchases of bank loans and EETCs. In bank loans, we focused on telecommunications, pharmaceutical and transportation companies.
- ▶ We made small reductions to directional high yield long positions, notably in higher quality paper where further upside has become limited. We also tactically rotated commodity-related exposures in the U.S., and telecom exposures in Europe. Lastly, we reduced our European crossover high yield hedge at the end of the quarter.
- ▶ Financials remained an area of focus against the global deflation backdrop. In the U.S., we added to bank capital securities and reduced exposure to senior and subordinated bank bonds following strong performance. In Europe, we continued to favor select financials, which helped performance, and we took profits on Spanish and Italian banks through sales of capital securities. We reduced exposure to French banks ahead of the elections, and increased exposure to U.S. dollar issues of select European banks.
- ▶ We tactically traded investment grade credit. Specifically, we increased low-beta (low market risk) exposures in telecom while reducing higher-beta exposures across autos and certain consumer-driven names. To manage market risk, we increased an investment grade credit index short position.

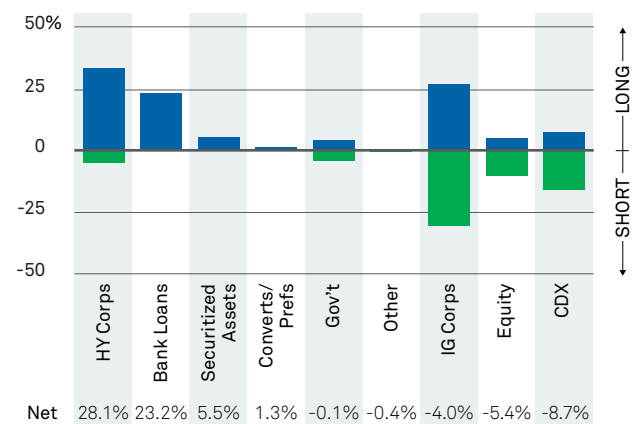
## REGIONAL POSITIONING

% of Notional, past three years



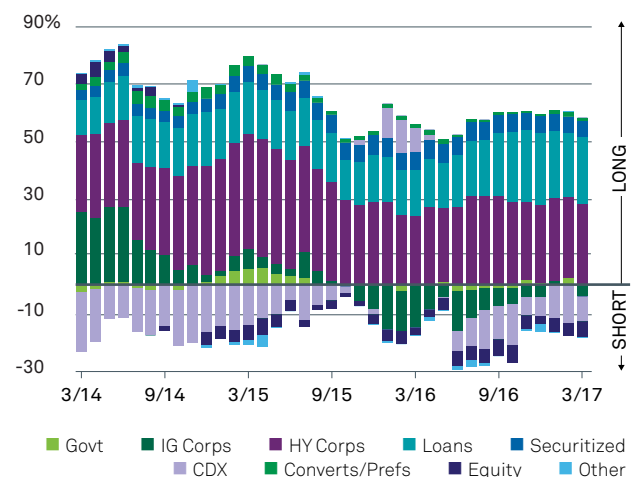
## SECTOR EXPOSURES

% of Notional, as of 3/31/17



## NET SECTOR POSITIONING

% of Notional, past three years



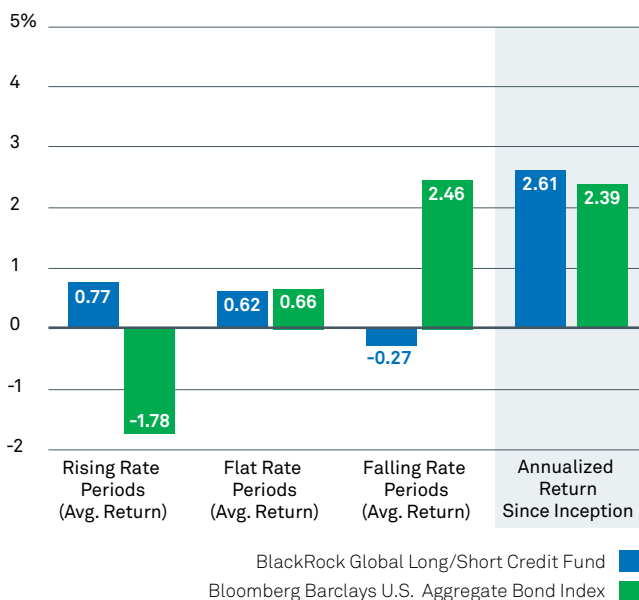
## Outlook

Credit fundamentals remain stable across high yield and investment grade companies, and while technicals continue to support asset prices, we believe further spread tightening is unlikely as the compression trade has largely played out. The beta trade for credit has evolved into a carry trade, with the potential for downside risk if sentiment deteriorates. Additionally, macroeconomic and political stories remain a focus for risk assets, particularly in European credit. We continue to believe that capitalizing on bottom-up credit dispersion with robust sector and security selection will drive returns as we move away from the credit beta trade. We believe

the market is going to start rewarding investors who have a relative value-based approach and the ability to be flexible, take long and short positions, and express trades across a range of asset classes and throughout the capital structure.

The fund remains positioned market neutral in Europe, with long positions in select financials and individual high yield bonds, and shorts in crossover high yield and equities. The fund's positioning in the U.S. reflects a combination of directional, carry and absolute return strategies. We are cautious with respect to high yield positioning, and in investment grade, we prefer financials to industrials.

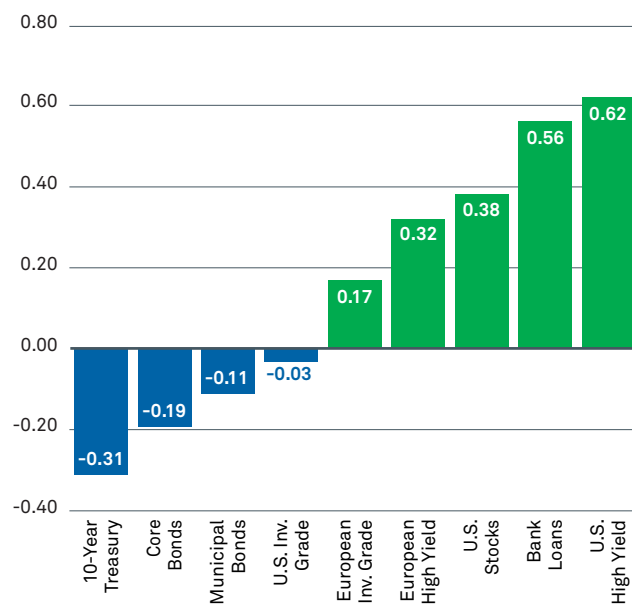
### CREDIT-DRIVEN RETURNS = REDUCED RATE RISK\*



The fund's long/short strategy with a focus on credit securities has resulted in a lower sensitivity to interest rate changes relative to traditional fixed income investments.

Source: Morningstar, Federal Reserve. From fund inception (9/30/11) to 3/31/17. Past performance is no guarantee of future results. Fund performance reflects Investor A shares (without sales charge). Rate period returns are an average of cumulative returns with periods represented by change in the 10-year Treasury yield. Since inception return of fund vs. the index is annualized, including reinvestment of dividends and capital gains. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

### LOW CORRELATION = BETTER DIVERSIFICATION†



Source: Morningstar. Past correlations are no guarantee of future correlations. Investor A share correlations calculated using weekly data since the fund's inception (9/30/11) through 3/31/17.

\* **Rising Rate Period:** A period of no more than 60 consecutive business days in which the 10-year Treasury rate rises at least 40 basis points ("bps"); includes 10/1/11 to 10/27/11, 1/31/12 to 3/19/12, 7/25/12 to 9/14/12, 11/16/12 to 2/13/13, 5/1/13 to 7/5/13, 10/23/13 to 12/31/13, 1/30/15 to 3/6/15, 4/3/15 to 6/10/15, 9/7/2016 to 11/30/2016. **Flat Rate Period:** A period of at least 30 and no more than 90 consecutive business days in which the 10-year Treasury rate maintains a variance within 15 bps and ends within 2 bps of starting rate; includes 11/17/11 to 3/6/12, 6/5/12 to 8/1/12, 10/10/12 to 12/14/12, 1/3/13 to 3/25/13, 6/25/13 to 8/12/13, 9/25/13 to 11/7/13, 1/30/14 to 4/29/14, 5/16/14 to 9/30/14, 10/22/14 to 12/8/14, 8/3/15 to 10/30/15, 11/4/15 to 12/31/15, 2/2/16 to 3/28/16, 3/30/16 to 5/31/16, 6/16/16 to 8/31/16, 12/9/16 to 1/31/17, 2/6/17 to 3/31/17. **Falling Rate Period:** A period of no more than 60 consecutive business days in which the 10-year Treasury rate declines at least 40 bps; includes 10/27/11 to 12/19/11, 3/19/12 to 6/1/12, 3/11/13 to 5/2/13, 9/5/13 to 10/23/13, 12/31/13 to 3/3/14, 9/18/14 to 10/15/14, 11/6/14 to 1/30/15, 6/30/15 to 8/24/15, 11/9/15 to 1/29/16.

† Asset classes represented by the following indexes: **10-year Treasury**, BofA/Merrill Lynch 10-Year Treasury Index, which measures the total return performance of U.S. Treasury bonds with outstanding par values at or above \$25 million and terms of ten years or more; **core bonds**, the Bloomberg Barclays U.S. Aggregate Bond Index, which comprises the total U.S. investment grade bond market; **municipal bonds**, Bloomberg Barclays U.S. Municipal Index, which covers the USD-denominated long-term tax exempt bond market and has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds; **U.S. investment grade**, the unmanaged Bloomberg Barclays U.S. Investment Grade Corporate Index, composed of publicly issued U.S. corporate and specified foreign debentures and secured notes that are USD-denominated, have at least one year to maturity and are rated investment grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch; **European investment grade**, the unmanaged Bloomberg Barclays European Aggregate Corporate Total Return USD Index, composed of fixed-rate treasury, government-related, corporate and securitized bonds from both developed- and emerging-market European issuers that have at least one year to maturity and are rated investment grade (Baa3/BBB- or higher); **European high yield**, the unmanaged Bloomberg Barclays Pan-European High Yield Total Return USD Index, composed of non-investment grade, fixed-rate corporate bonds with a maximum rating of Ba1/BB+/BB+ and at least one year to maturity, excluding emerging market debt; **U.S. stocks**, the S&P 500 index, which comprises large-capitalization U.S. equities; **Bank loans**, the S&P/LSTA U.S. Leveraged Loan 100 Index is designed to reflect the performance of the largest facilities in the leveraged loan market; **U.S. high yield**, the unmanaged Bloomberg Barclays U.S. Corporate High Yield Bond Index, composed of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds with a maximum rating of Ba1/BB+/BB+ and at least one year to maturity, excluding emerging market debt.

## % AVERAGE ANNUAL TOTAL RETURNS AS OF 3/31/17

	1Q17 (not annualized)	YTD (not annualized)	1 Year	3 Years	5 Years	10 Years	Since Inception <sup>2</sup>
Institutional	1.09	1.09	5.46	1.13	2.70	-	2.86
Investor A (Without Sales Charge)	1.09	1.09	5.27	0.87	2.46	-	2.61
Investor A (With Sales Charge)	-2.95	-2.95	1.06	-0.49	1.62	-	1.86
Lipper Alternative Credit Focus Funds Avg. <sup>3</sup>	1.59	1.59	6.69	1.54	2.27	3.49	-
Morningstar Long-Short Credit Funds Avg.	1.06	1.06	5.99	0.77	1.72	3.58	-
BofA ML 3-Month U.S. Treasury Bill Index <sup>4</sup>	0.10	0.10	0.36	0.17	0.14	0.68	-

Investment returns reflect total fund operating expenses, net of all fees, waivers and/or expense reimbursements. Fund expenses, as stated in the fund's most recent prospectus, for Institutional/Investor A shares: Total, **2.09%/2.30%**; Net, including investment-related expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses), **2.09%/2.30%**. Institutional and Investor A shares have contractual waivers with an end date of 11/30/17 terminable upon 90 days' notice. Performance data quoted represents past performance and does not guarantee future results. Investment returns and principal values may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. All returns assume reinvestment of dividends and capital gain distributions. Refer to [blackrock.com](http://blackrock.com) for most recent month-end performance. Share classes have different sales charges, fees and other features. Returns with sales charge reflect deduction of current maximum initial sales charge of 4% for Investor A shares. Institutional shares have no front- or back-end load. Institutional shares have limited availability and may be purchased at various minimums. See prospectus for details. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

Net, excluding investment related expenses for Institutional/Investor A shares: 1.10%/1.31%.

Want to know more?  [blackrock.com/glsc](http://blackrock.com/glsc)

**Important Risks:** The fund is actively managed and its characteristics will vary. Holdings shown should not be deemed as a recommendation to buy or sell securities. Stock and bond values fluctuate in price so the value of your investment can go down depending on market conditions. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. International investing involves special risks including, but not limited to currency fluctuations, illiquidity and volatility. These risks may be heightened for investments in emerging markets. Short-selling entails special risks. If the fund makes short sales in securities that increase in value, the fund will lose value. Any loss on short positions may or may not be offset by investing short-sale proceeds in other investments. Investing in alternative strategies such as a long/short strategy, presents the opportunity for significant losses, including the loss of your total investment.

The opinions expressed are those of the fund's portfolio management team as of March 31, 2017, and may change as subsequent conditions vary. Information and opinions are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. There is no guarantee that any of these views will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment. Investment involves risk. Reliance upon information in this material is at the sole discretion of the reader.

<sup>1</sup> The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Rating metrics. For each fund with a 3-year history, a Morningstar Rating<sup>TM</sup> is calculated based on risk-adjusted returns that account for variations in a fund's monthly performance (including sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The fund was rated against the following numbers of US-domiciled Long-Short Credit Funds: 31 in the last 3 years and 17 in the last 5 years. With respect to these Long-Short Credit Funds, the fund received a Morningstar Rating of 3 for the 3-year period and 4 for the 5-year period. Ratings are for Institutional share class. Other classes may have different performance characteristics. <sup>2</sup> Fund Inception: 9/30/11. <sup>3</sup> Lipper category is as of 3/31/17 and may not accurately represent the current composition of the portfolio. <sup>4</sup> The BofA Merrill Lynch 3-Month U.S. Treasury Bill Index is an unmanaged market index of U.S. Treasury securities maturing in 90 days that assumes reinvestment of all income.

**You should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus and, if available, the summary prospectus contain this and other information about the fund and are available, along with information on other BlackRock funds, by calling 800-882-0052 or from your financial professional. The prospectus should be read carefully before investing. Unless otherwise noted, all information contained herein is as of the date of publication of this commentary.**

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