

GLOBAL LONG/SHORT CREDIT FUND

BLACKROCK®

2Q 2017
COMMENTARY

Institutional: **BGCIX** • A: **BGCAX** • C: **BGCCX**

Performance Highlights

- ▶ The fund's Institutional shares returned 0.69% and Investor A shares (without sales charge) returned 0.59% for the second quarter.
- ▶ Despite heightened geopolitical risks, credit markets were broadly positive, with the Bloomberg Barclays U.S. Aggregate Bond Index rising 1.45% for the quarter. Spreads tightened modestly amid stronger investor demand.
- ▶ The fund's long positions in U.S. investment grade industrials were the largest contributor to performance, while long positions in European bank capital securities detracted from results.

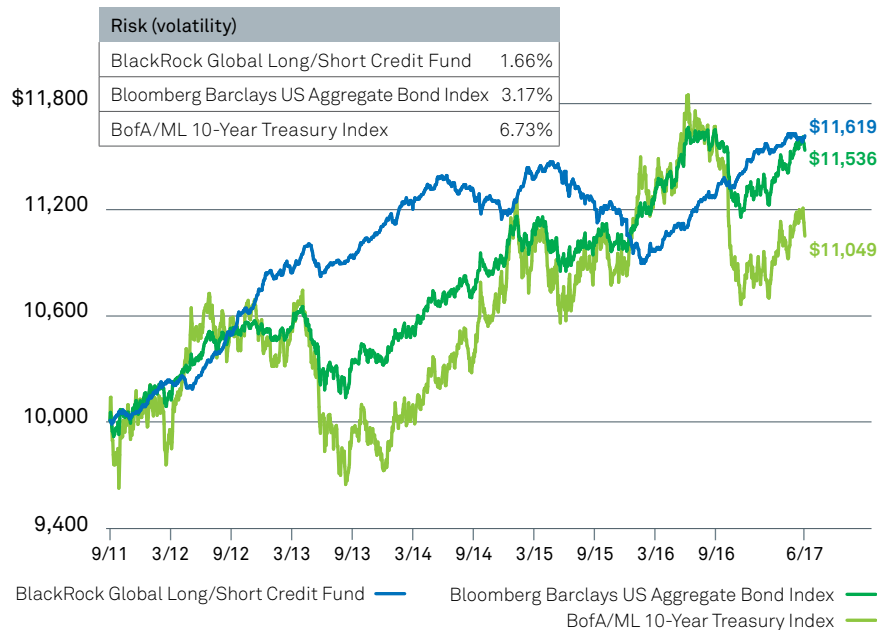
Overall Morningstar Rating™



Institutional shares rated against 35 Long-Short Credit Funds as of 6/30/17, based on risk adjusted total return. Ratings are determined monthly and subject to change.¹

A HISTORY OF STRONG PERFORMANCE AND LOWER RISK

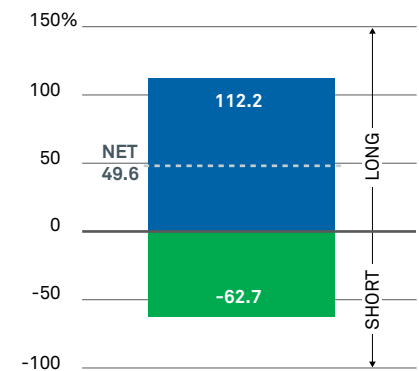
Growth of a hypothetical \$10,000 investment from fund inception (9/30/11) through 6/30/17



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 6/30/17.

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.

MARKET EXPOSURE



Number of credit issuers	544
Number of credit longs	1,012
Number of credit shorts	273

As of 6/30/17.
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 to see how BlackRock Global Long/Short Credit Fund seeks to provide stability in a volatile market.

Regional Highlights

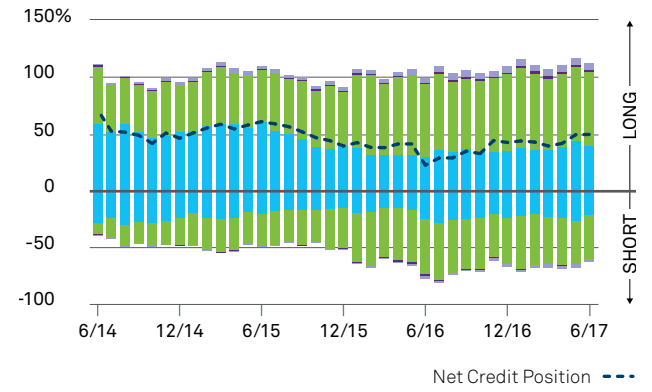
- ▶ The fund's allocation to Europe increased as we reduced short positions and increased longs. We reduced equity hedges in the form of options and futures and tactically increased exposure to investment grade corporates.
- ▶ In U.S. exposures, we increased long positions and decreased shorts, resulting in a higher net long U.S. exposure. Specifically, we decreased short positions in a broad market credit index and investment grade credit default swap (CDS), and slightly increased high yield exposure.

Sector Highlights

- ▶ We continue to focus on absolute return strategies, particularly positions we expect will be driven by catalysts such as mergers and acquisitions, regulatory changes, liability management exercises, balance sheet optimization, or valuation differences across asset classes. We have been trading primarily within healthcare/ pharmaceuticals, hospitals and medical equipment, technology/semiconductors, telecommunications, and auto/auto finance.
- ▶ While the fund's carry strategies continue to be additive, we slightly reduced this exposure over the quarter. We tactically increased bank loan exposure, but reduced collateralized loan obligations (CLOs) and took profits in U.K. pubs. Additionally, we decreased the fund's allocation to securitized assets such as commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS).
- ▶ With respect to directional trades, we slightly increased positions in U.S. and European high yield bonds as the technical backdrop remains supportive. In the United States, we added to telecommunications, cable service providers, and more selectively, energy. In Europe, we focused on pharmaceuticals, media & entertainment, and machinery credits.
- ▶ Within investment grade financials, we reduced exposure to European bank capital securities as well as senior and subordinated financials given the elevated risk presented by several failing banks. We reduced financials exposure in the United States as well, taking profits on U.S. bank capital securities and reducing exposure to senior financials. Within U.S. industrials, we decreased positions in high-beta (high market risk) names in the wirelines and technology sectors, while slightly increasing exposure to low-beta credits, with a focus on healthcare and cable and satellite companies.

REGIONAL POSITIONING

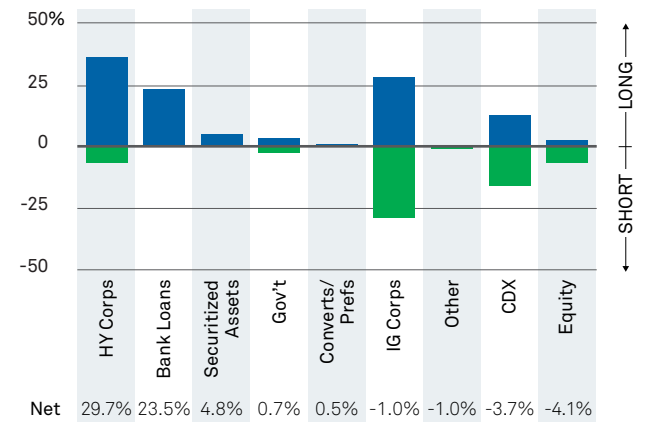
% of Notional, past three years



Net as of 6/30	N. America	Europe	EM	Asia
	27.5%	17.5%	3.6%	0.9%

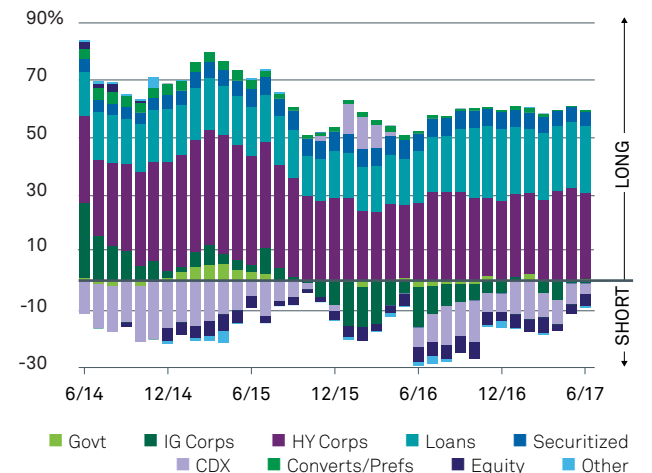
SECTOR EXPOSURES

% of Notional, as of 6/30/17



NET SECTOR POSITIONING

% of Notional, past three years

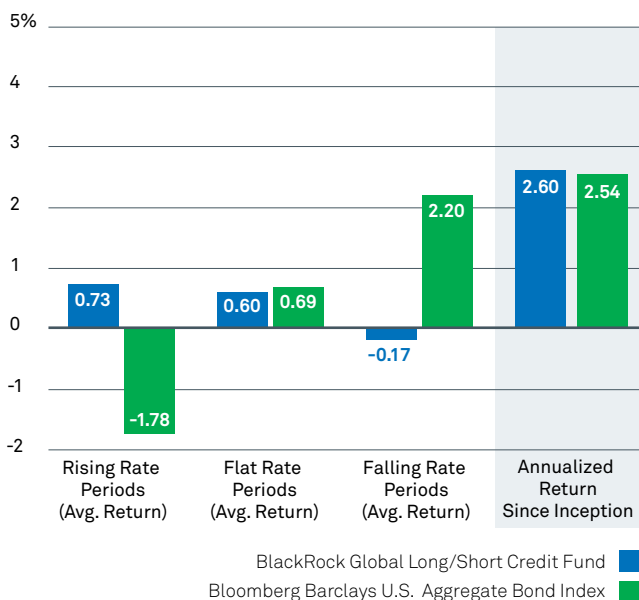


Outlook

As we enter the second half of 2017, we remain focused on geopolitical risks and the potential for further tightening in monetary policy. A globally synchronized move toward tightening – target interest rate increases and a reduction of government bond buying programs – could increase volatility, which may be negative for risk assets, but could also create attractive buying opportunities. We believe the fundamental health of credit issuers is strong, particularly in light of the continued repricing/refinancing wave that began earlier this year. We see little room for spreads to tighten further and we expect income to be an increasingly larger component of total return going forward.

We continue to maintain a market-neutral position in Europe given concerns over the political landscape, as well as the market's potential reaction to changes in monetary policy. In the United States, we continue to build up the fund's absolute return strategies which are designed to benefit from an increasing dispersion in credit performance as volatility picks up. From a directional standpoint, we favor high yield over loans, and within investment grade, we continue to favor financials versus industrials.

CREDIT-DRIVEN RETURNS = REDUCED RATE RISK*

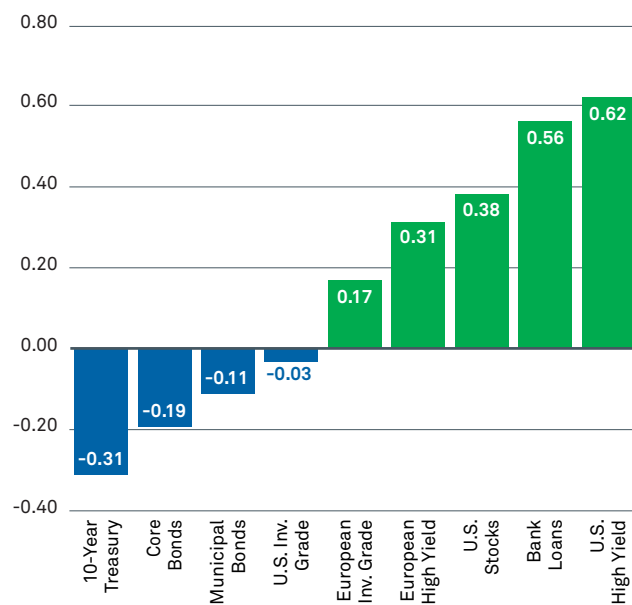


The fund's long/short strategy with a focus on credit securities has resulted in a lower sensitivity to interest rate changes relative to traditional fixed income investments.

Source: Morningstar, Federal Reserve. From fund inception (9/30/11) to 6/30/17.

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 6/30/17.

* **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 10/11 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, 4/18/17 to 6/21/17. **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, 3/13/17 to 5/31/17.

† 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 6/30/17

	2Q17 (not annualized)	YTD (not annualized)	1 Year	3 Years	5 Years	10 Years	Since Inception ²
Institutional	0.69	1.78	5.00	0.93	2.75	-	2.85
Investor A (Without Sales Charge)	0.59	1.69	4.70	0.69	2.51	-	2.60
Investor A (With Sales Charge)	-3.44	-2.38	0.51	-0.67	1.67	-	1.88
Lipper Alternative Credit Focus Funds Avg. ³	1.28	2.91	6.09	1.55	2.47	3.62	-
Morningstar Long-Short Credit Funds Avg.	1.17	2.22	5.35	0.99	2.20	3.56	-
BofA ML 3-Month U.S. Treasury Bill Index ⁴	0.20	0.31	0.49	0.23	0.17	0.58	-

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 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

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 June 30, 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.

¹ 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 RatingTM is calculated based on risk-adjusted returns that account for variations in a fund's monthly performance (excluding 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: 35 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. ² Fund Inception: 9/30/11. ³ Lipper category is as of 6/30/17 and may not accurately represent the current composition of the portfolio. ⁴ 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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