The fund posted returns of 0.21% (Institutional shares) and 0.24% (Investor A shares, without sales charge) for the second quarter of 2017, while the S&P Limited Maturity Municipal Bond Index, returned 0.38%.

- We reduced low-yielding holdings maturing in three and four years, which detracted from returns. The fund’s AAA rated holdings, primarily pre-refunded securities, also detracted. Contributors included A and BBB rated securities and non-rated municipal note holdings (with underlying A and AA ratings).
- We reduced the fund’s duration (interest rate sensitivity) versus its benchmark. We purchased A and BBB security structures with wider yield spreads in primary and secondary markets. We also bought non-rated, one-year municipal notes with underlying bond ratings of A and AA. In addition, we increased exposure to floating rate notes as a hedge against Federal Reserve (Fed) rate hikes.

Contributors
We increased the fund’s positions in floating rate notes and non-rated notes that had underlying bond ratings of A and AA. The fund held overweight exposures to A rated securities, and bonds with maturities of 0–1 and 2–3 years. We also held overweight positions in tax-backed local, transportation, tobacco and utilities sectors. Within these sectors, our lower-rated portfolio holdings and specialty state holdings were especially beneficial, in terms of both price appreciation and additional yield.

Detractors
Detractors included our overweight exposure to AA rated securities and underweight position in bonds maturing in three and four years. Underweight positions in pre-refunded securities and school district general obligation (GO) bonds also detracted.

Further Insight
With the Fed raising rates, we pursued a defensive investment strategy while tactically repositioning the fund. We reduced exposure to low-yield, fixed-rate holdings which we expected to underperform as rates rose. We increased exposure to floating rate securities, providing a good hedge as the Fed increased rates. As municipalities issued annual operating financing notes, we tactically increased exposure to non-rated (underlying A and AA rated) issues. We utilized bond sales to purchase non-rated issues offering spreads of 40bps over the municipal market data (MMD) scale. We tactically invested in A and BB rated securities maturing in three and four years, that offered a spread over the AAA rated bonds.

Invests primarily in investment-grade municipal bonds or municipal notes having a maturity of less than 4 years.
The share classes have different sales charges, fees and other features.

Investment involves risk. Reliance upon information in this material is at the sole discretion of the reader.

Results. There is no guarantee that any forecasts made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment.

Exposure for Institutional shares: Total 0.52%; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) 0.36%. For Investor A shares: Total 0.71%; Net, Including Investment Related Expenses 0.61%. Institutional and Investor A shares have contractual waivers with an end date of 1/31/17 terminable upon 90 days’ notice. For certain share classes, BlackRock may voluntarily agree to waive certain fees and expenses in which the adviser may discontinue at any time without notice. Expenses stated as of the fund’s most recent prospectus. Data 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. Investment returns reflect total fund operating expenses, net of all fees, waivers and/or expense reimbursements. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index. Share classes have different fees and other features. Returns with sales charge reflect deduction of current maximum initial sales charge of 3% 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. Net Expenses Excluding Investment Related Expenses for Institutional shares: 0.36%; for Investor A shares: 0.61%.

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. 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. The fund may use derivatives to hedge its investments or to seek to enhance returns. Derivatives entail risks relating to liquidity, leverage and credit that may reduce returns and increase volatility. There may be less information on the financial condition of municipal issuers than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable.

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 forecasts made 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.

The share classes have different sales charges, fees and other features. 2 Fund inception: 11/2/79. 3 Performance for Investor A shares prior to their introduction (10/2/06) is based on the performance of Institutional shares adjusted to reflect the fees applicable to Investor A at time of such share class launch. This information may be considered when assessing the fund’s performance, but does not represent actual performance of this share class. 4 Lipper category is as of 06/30/17 and may not accurately represent the current composition of the portfolio. 5 The Standard & Poor’s Municipal Bond Index measures the U.S. municipal market performance of bonds issued by states or municipalities. All bonds in the index are exempt from U.S. federal income taxes or subject to the alternative minimum tax. 6 The S&P’s Limited-Maturity Municipal Bond Index consists of municipal bonds with maturities between 6 months and 4 years.

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.

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07/17 — Short-Term Municipal Fund