

ADVANTAGE SMALL CAP GROWTH FUND*

BLACKROCK®

4Q 2018 COMMENTARY

Inst: PSGIX¹ • A: CSGEX • C: CGICX

- ▶ The fund posted returns of -21.34% (Institutional shares) and -21.37% (Investor A shares, without sales charge) for the fourth quarter of 2018.
- ▶ The fund outperformed a turbulent market during the quarter, led by strong stock selection. Fundamental-focused insights, notably quality measures, performed well amid rising equity-market volatility, particularly in the real estate and health care sectors. Sentiment-focused models, however, detracted, as prior trends began to reverse, and investor sentiment became increasingly defensive.
- ▶ At quarter-end, the fund remained largely sector neutral, with slight overweight exposures to health care and communication services companies, and slight underweights in materials and financials.

Contributors	Detractors
Fundamental stock selection, specifically quality insights, added value against a backdrop of elevated market volatility. Given the market environment, more traditional and defensive quality measures, including a preference for stocks with lower risk and strong balance-sheets, were rewarded, notably in health care. An evolving theme during the quarter was strength from signals that seek to identify quality management across companies. Specifically, text analyses that capture changes to disclosures and compare company press releases versus legal filings performed well in the financials sector.	Stock selection driven by capturing sentiment from informed market participants detracted from performance. This impacted returns during November in particular, as evidence emerged of significant de-risking from active managers, due to concerns around future earnings growth. As a result, insights that capture trends through text analyses of sell-side analyst reports and company executive commentaries declined. Given their sensitivity to the economic cycle, overweights in the industrials and consumer discretionary sectors were negatively impacted by these sentiment signals.

Portfolio Management

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TOP 10 EQUITY HOLDINGS

(% of Net Assets as of 12/31/18)

1. Eastgroup Properties, Inc.	1.5
2. Insperity	1.5
3. Comfort Systems Usa, Inc.	1.1
4. Applied Industrial Technologies Inc.	1.0
5. Five Below Inc	1.0
6. Texas Roadhouse Holdings Llc	1.0
7. Generac Holdings Inc	0.9
8. Planet Fitness Inc	0.9
9. Asbury Automotive Group Inc.	0.9
10. Proto Labs Inc	0.9

Invests at least 80% of its net assets in equity securities issued by U.S. small capitalization growth companies that the fund management team believes offer superior prospects for growth.

*Effective 2/15/17, the BlackRock Small Cap Growth Equity fund changed its name to BlackRock Advantage Small Cap Growth fund.

Further Insight

The fourth quarter was characterized by rising volatility, with global equities suffering precipitous falls. Although markets continued to be influenced by trade concerns, financial tightening and the impact on economic growth was the main focus. This manifested during earnings season, as attention shifted toward forward guidance with the expectation that the current cycle might have peaked. This caused a sharp decline in global equities during December, with U.S. stocks hit particularly hard by the government shutdown. Notably, small-cap stocks underperformed large caps, given domestic-growth sensitivity. However, a pause in further tariffs between the United States and China at the G20 summit, alongside a scheduled meeting in the New Year, was seen as a positive development.

% AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/18

	4Q18 (not annualized)	YTD (not annualized)	1 Year	3 Year	5 Years	10 Years	Since Inception ²
Institutional	-21.34	-5.04	-5.04	7.36	4.03	12.57	8.97
Investor A (Without Sales Charge) ²	-21.37	-5.29	-5.29	7.07	3.73	12.20	8.54
Investor A (With Sales Charge) ²	-25.50	-10.26	-10.26	5.16	2.62	11.60	8.31
Morningstar Small Growth Category Avg.	-20.82	-5.76	-5.76	8.47	5.12	13.36	—
Russell 2000 Growth ³	-21.65	-9.31	-9.31	7.24	5.13	13.52	—

Expenses for Institutional shares: Total 0.75%; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) 0.50%. For Investor A shares: Total 1.05%; Net, Including Investment Related Expenses 0.75%. Institutional and Investor A shares have contractual waivers with an end date of 1/31/19 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 sales charges, fees and other features. Returns with sales charge reflect deduction of current maximum initial sales charge of 5.25% 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: 0.50%; for Investor A shares: 0.75%.

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. Investing in small-cap companies may entail greater risk than large-cap companies, due to shorter operating histories, less seasoned management or lower trading volumes. 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. Performance may be attributable to unusually high IPO profits. There is no guarantee this level of performance will be repeated. IPO securities have no trading history and the price may be volatile.

The opinions expressed are those of the fund's portfolio management team as of December 31, 2018, 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.

¹ Fund inception: 9/14/93. ² The performance information for periods prior to the inception date of the Investor A share class (9/15/93) is based on the performance of the fund's Institutional shares, adjusted to reflect the fees and expenses applicable to the Investor A share class. See the fund prospectus for more details. ³ The Russell 2000 Growth Index represents performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.

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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