

## CORE BOND FUND

BLACKROCK®

4Q  
2018  
COMMENTARYInst: BFM CX • A: BC B AX • C: BC BC X • Class R: BC BR X<sup>1</sup> • Class K: CC BB X

- ▶ The fund posted returns of 1.09% (Institutional shares) and 1.13% (Investor A shares, without sales charge) for the fourth quarter of 2018.
- ▶ The main driver of performance was the fund's duration (interest rate sensitivity). The main detractors were our securitized asset and corporate credit positions.
- ▶ We reduced our overweight in duration at the front-end of the yield curve, but added duration in longer-dated bonds. We added to high-quality, rate-sensitive sectors, including agency mortgages and municipals, and took profits in less liquid areas (such as securitized assets). We tactically traded corporate credit and emerging-market debt on market weakness, creating opportunity toward quarter end.

Contributors	Detractors
The main driver of performance was the fund's overweight in duration, as we moved exposure from shorter-dated to longer-dated Treasuries.	The main detractors from performance were our overweight exposures to U.S. investment grade credit, municipals and commercial mortgages.

## Further Insight

During the quarter, we reduced our overweight in duration, while moving exposure further out along the yield curve. Slowing economic growth and a near-neutral policy rate should keep U.S. interest rates range-bound in the near term. Given this view, we added to sectors that should benefit from more accommodative monetary policy, such as agency mortgages, municipals, and local-currency emerging-market debt. We continue to hold an overweight in investment grade credit for high-quality income. Despite broad market weakness, securitized assets held up noticeably well, so we used this opportunity to take profits in collateralized loan obligations and move from floating to fixed-rate exposure.

## Portfolio Management

Rick Rieder, Bob Miller,  
David Rogal

## TOP 10 HOLDINGS

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

1. United States Treasury	21.0
2. Federal National Mortgage	12.6
3. GNMA II	8.8
4. Federal Home Loan Mortgage Corporation -Gold	4.7
5. FHLM	3.2
6. Bank of America	1.2
7. JPMorgan Chase	1.1
8. Goldman Sachs Group Inc/The	1.1
9. Verizon	0.9
10. Mexico	0.7

Invests at least 80% of its assets in bonds and maintains an average portfolio duration that is within  $\pm 20\%$  of the duration of the benchmark. The fund may invest up to 25% of its assets in foreign issuers, of which 10% may be invested in emerging markets issuers. Up to 10% of the fund's assets may be exposed to non-U.S. currency risk.

## % 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 <sup>2</sup>
Institutional	1.09	-0.49	-0.49	1.78	2.46	4.55	5.07
Investor A (Without Sales Charge) <sup>3</sup>	1.13	-0.73	-0.73	1.50	2.16	4.24	4.69
Investor A (With Sales Charge) <sup>3</sup>	-2.91	-4.70	-4.70	0.13	1.33	3.82	4.52
Morningstar Intermediate-Term Bond Category Avg.	0.87	-0.50	-0.50	2.15	2.27	4.31	—
BBG Barc U.S. Aggregate Bond <sup>4</sup>	1.64	0.01	0.01	2.06	2.52	3.48	—

Expenses for Institutional shares: Total 0.66%; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) 0.52%. For Investor A shares: Total 0.96%; Net, Including Investment Related Expenses 0.77%. 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](http://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 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. Net Expenses Excluding Investment Related Expenses for Institutional shares: 0.43%; for Investor A shares: 0.68%.

**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. Principal of mortgage- or asset-backed securities normally may be prepaid at any time, reducing the yield and market value of those securities. Obligations of U.S. gov't agencies are supported by varying degrees of credit but generally are not backed by the full faith and credit of the U.S. gov't. 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. International investing involves special risks including, but not limited to political risks, currency fluctuations, illiquidity and volatility. These risks may be heightened for investments in emerging markets.

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 Class R shares are sold to a limited group of investors, including certain retirement plans. See prospectus for details. 2 Fund inception: 12/9/92. 3 The performance information for periods prior to the inception date of Investor A shares (1/31/96) 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. 4 The Barclays U.S. Aggregate Bond Index comprises the total U.S. investment-grade bond market.

**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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