

GLOBAL LONG/SHORT CREDIT FUND

BLACKROCK®

4Q 2018
COMMENTARY

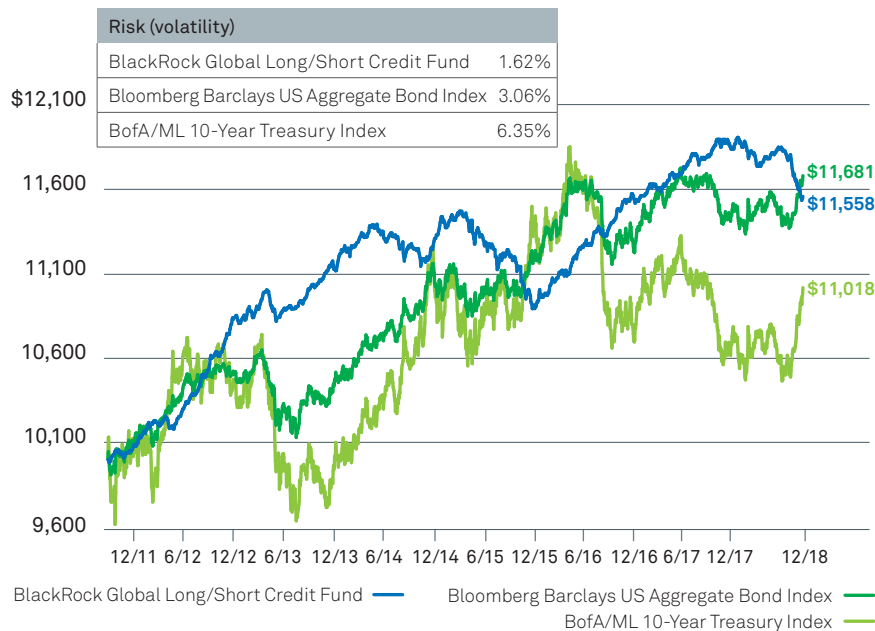
Institutional: **BGCIX** • A: **BGCAX** • C: **BGCCX**

Performance Highlights

- ▶ The fund's Institutional shares returned -2.34% and Investor A shares (without sales charge) returned -2.37% for the fourth quarter.
- ▶ Credit markets had a challenging quarter as a deterioration in risk sentiment and fears over economic momentum and slower earnings growth roiled markets. The fund underperformed the Bloomberg Barclays U.S. Aggregate Index as investors fled to quality assets amid the fire sale in equity and credit markets.
- ▶ The fund's global hedging strategies were the largest drivers of returns, while exposure to floating-rate paper in the form of bank loans and collateralized loan obligations (CLOs) in the carry (income) strategy was the largest detractor.

A HISTORY OF STRONG PERFORMANCE AND LOWER RISK

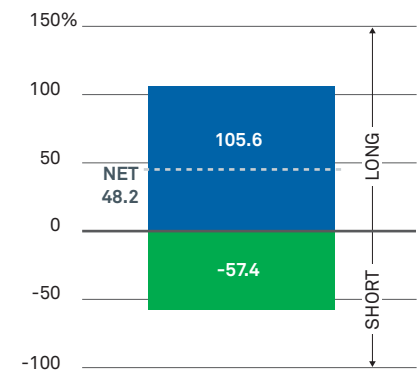
Growth of a hypothetical \$10,000 investment from fund inception (9/30/11) through 12/31/18



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 12/31/18.

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	911
Number of credit longs	1,964
Number of credit shorts	365

As of 12/31/18.
Excludes interest rate and currency hedges.

Regional Highlights

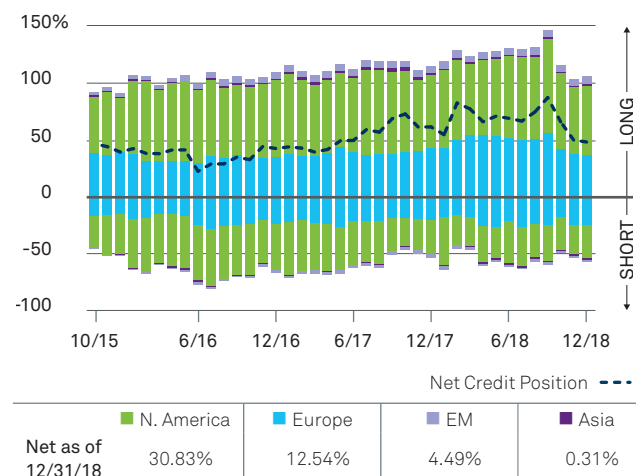
- ▶ Heading into fourth quarter, we reduced risk meaningfully in Europe and the U.S. The largest reduction in Europe came from investment grade corporate exposure, where we went from a net long position to a slight net short position.
- ▶ In the U.S., we reduced exposure to bank loans and CLOs in the carry strategy, while also decreasing exposure to investment grade corporates in relative value trades.

Sector Highlights

- ▶ The fourth quarter was challenging for credit markets as volatility increased amid a number of negative headlines, as well as fears surrounding slowing global growth. To help mitigate the volatility, we began reducing risk globally in the portfolio early in the quarter.
- ▶ The largest reduction in risk came from our bank loan and CLO exposure in global carry strategies. While we continue to like bank loans for their stable income and their insulation from interest rates, we reduced our exposure on the heels of weakness in the asset class.
- ▶ Additionally, we reduced our exposure to investment grade corporates. In Europe, we were net long the asset class heading into the quarter, however, the fund ended the year slightly net short after a reduction in long positions.
- ▶ The fund's overall beta exposure continues to be a smaller portion of overall risk as we prefer to structure trades in the absolute return book. We remain diversified in terms of overall beta exposure with positions in global high yield, investment grade corporates, and European financials.
- ▶ The fund's absolute return strategies continue to perform well and we added to high conviction event trades throughout the quarter. This included adding short positions to a thematic trade built around the European Central Bank's (ECB) Corporate Sector Purchase Programme (CSPP) in which we are short a basket of investment grade corporates. Additionally, short positions in automotive names in both the U.S. and in Europe continue to perform well due to changing environmental and tax rules, along with increasing tensions between the U.S. and China.

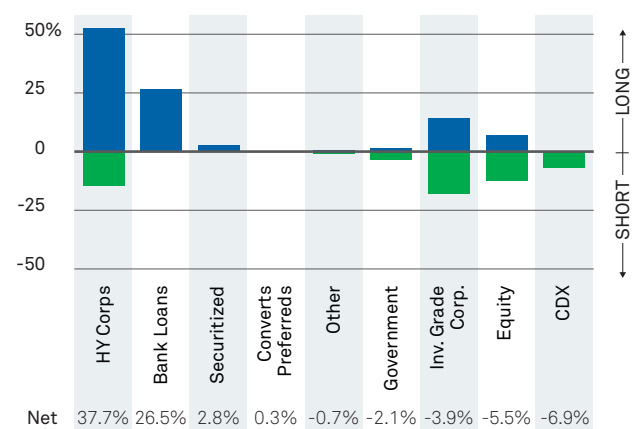
REGIONAL POSITIONING

% of Notional, past three years



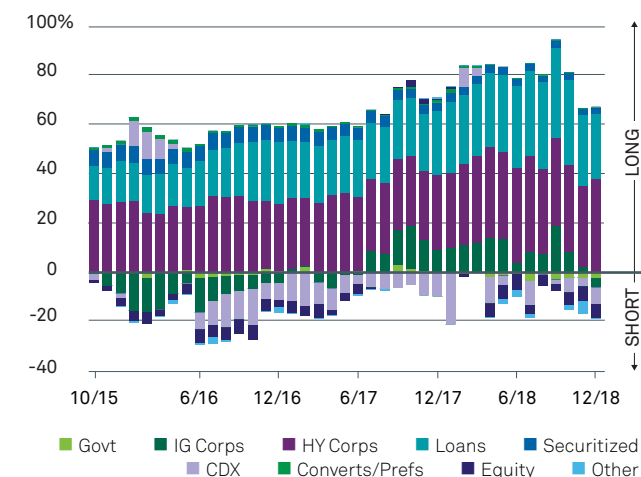
SECTOR EXPOSURES

% of Notional, as of 12/31/18



NET SECTOR POSITIONING

% of Notional, past three years

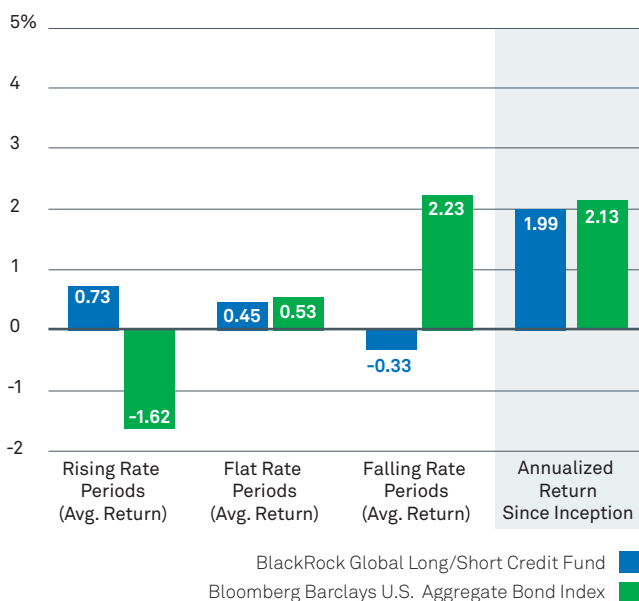


Outlook

Entering 2019, there are several potential risks that the team continues to monitor closely. Slowing growth, the ending of Quantitative Easing globally, Brexit, the U.S.-China trade war, the Italian fiscal situation, and potential political changes in emerging market countries are all risks we were familiar with in 2018 that have carried into 2019. Immediate attention is on market performance in January and whether or not this fire sale in risk assets continues. However, we believe the significant repricing of risk markets will likely prove to be an overreaction to a growth slowdown, rather than the start of a recession and a large pick-up in default rates.

That being said, Q1 is likely to remain quite volatile as growth slows, central banks continue to drain liquidity, and investors continue to re-position for a more challenging financial market environment. Given the expectation for low single-digit returns in credit markets and continued volatility, the fund is well positioned to take advantage of the changing opportunity set. The fund's ability to go long and short and deploy capital in a number of strategies (traditional, absolute, income, and hedge) globally, affords us the ability to tactically navigate this new market environment.

CREDIT-DRIVEN RETURNS = REDUCED RATE RISK*

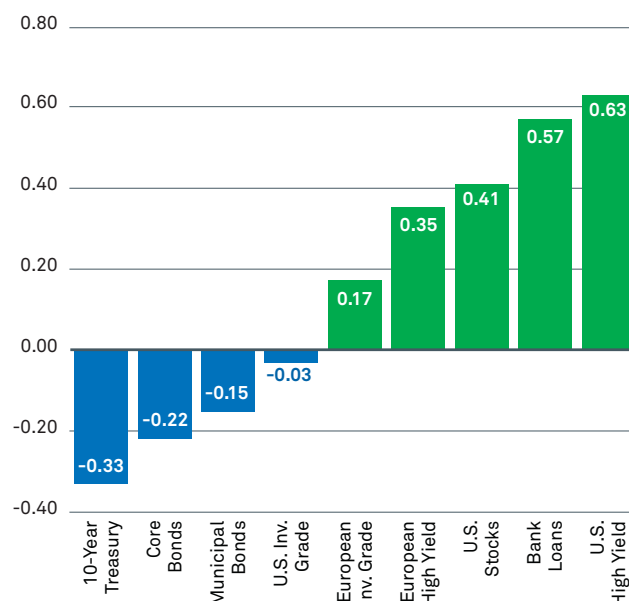


The fund's long/short strategy with a focus on credit securities has resulted in a lower sensitivity to interest rate changes relative to traditional fixed income investments.

Source: Morningstar, Federal Reserve. From fund inception (9/30/11) to 12/31/18.

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 12/31/18.

* **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, 9/7/16 to 11/30/16, 9/7/17 to 10/26/17, 11/6/2017 to 1/30/18, 8/20/18 to 10/10/18. **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 3 bps of starting rate; includes 11/17/11 to 3/6/12, 6/5/12 to 8/11/12, 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, 6/22/17 to 8/30/17, 9/29/17 to 11/28/17, 2/2/18 to 4/17/18, 5/30/18 to 7/19/18, 7/31/18 to 9/12/18, 9/25/18 to 11/15/18. **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, 6/10/15 to 8/24/15, 11/9/15 to 1/29/16, 3/13/17 to 5/31/17, 11/8/18 to 12/31/18.

† 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 12/31/18

	4Q18 (not annualized)	YTD (not annualized)	1 Year	3 Years	5 Years	10 Years	Since Inception ¹
Institutional	-2.34	-1.78	-1.78	1.72	1.01	-	2.24
Investor A (Without Sales Charge)	-2.37	-1.99	-1.99	1.47	0.77	-	1.99
Investor A (With Sales Charge)	-6.28	-5.91	-5.91	0.10	-0.05	-	1.41
Lipper Alternative Credit Focus Funds Avg. ²	-1.60	-1.43	-1.43	3.09	1.77	4.62	-
Morningstar Long-Short Credit Funds Avg.	-2.75	-1.64	-1.64	2.95	1.82	6.02	-
ICE BofA ML 3-Mo. U.S. Treas. Bill Index ³	0.56	1.87	1.87	1.02	0.63	0.38	-

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, **2.00%/2.25%**; Net, including investment-related expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses), **2.00%/2.25%**. Institutional and Investor A shares have contractual waivers with an end date of 11/30/18 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: 1.05%/1.30%.

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 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 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 Fund Inception: 9/30/11. ² Lipper category is as of 12/31/18 and may not accurately represent the current composition of the portfolio. ³ The ICE 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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