

HIGH YIELD BOND FUND



Institutional: **BHYIX** • A: **BHYAX** • C: **BHYCX** • R: **BHYRX**

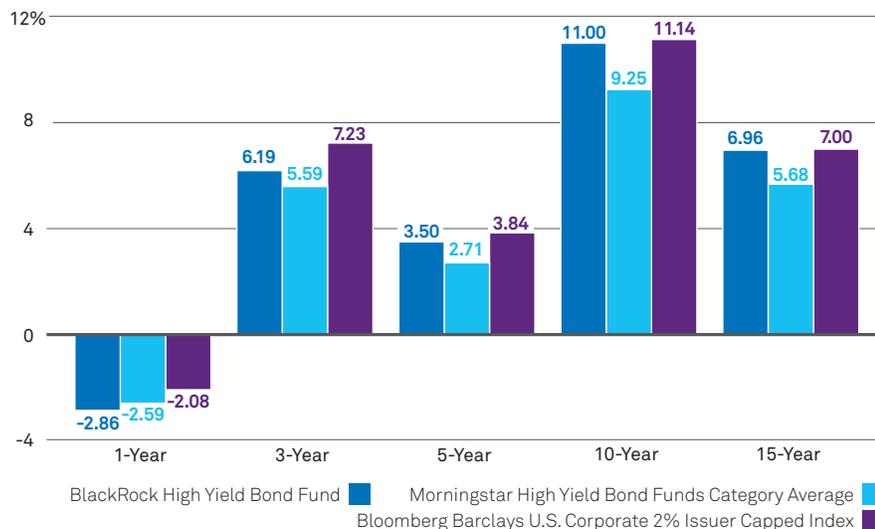
Performance highlights

- ▶ The fund's Institutional shares returned -5.27% and Investor A shares (without sales charge) returned -5.49% in the fourth quarter of 2018, while the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index returned -4.54%.
- ▶ The fund's out-of-benchmark allocations detracted from fourth-quarter performance, while security selection among high yield credits positively contributed.
- ▶ As market volatility increased in the fourth quarter, we were more reserved in our risk-taking, while maintaining a preference for issuers with minimal cyclicity, improving credit profiles and/or specific catalysts. The market's year-end "risk-repricing" resulted in a compelling re-entry point, but in an aging credit cycle with macro conditions more balanced, we believe it is wise to avoid assets with unbalanced risk-reward characteristics.

A history of outperformance

Average annual total returns as of December 31, 2018

Risk (10-yr. volatility)	
BlackRock High Yield Bond Fund	7.01%
Morningstar High Yield Bond Funds Category Average	7.23%
Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index	7.66%



Fund data represents Institutional share class. Volatility calculated using annualized standard deviation based on monthly returns.

Morningstar Analyst Rating™



Morningstar has awarded the fund a Silver medal. Fewer than 10% of U.S. open-end funds hold medalist ratings. (Last Rating 10/16/18)¹

Overall Morningstar Rating™



Institutional shares rated against 604 High Yield Bond funds as of 12/31/18, based on risk-adjusted total return. Ratings are determined monthly and subject to change. 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.²

Fund statistics as of 12/31

	Inst.	Inv. A
30-day SEC yield, Subsidized	6.32%	5.73%
30-day SEC yield, Unsubsidized	6.32%	5.70%
Size of fund	\$13.2B	
Number of issuers	766	
Effective duration ³	3.76 years	

30-day SEC Yield reflects the income earned by an investor in the fund during a 30-day period after deducting the fund's expenses. Unsubsidized SEC Yield represents what a fund's 30-day SEC Yield would have been had no fee waiver or expense reimbursement been in place during the period.

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 overview

The U.S. high yield market* sank -4.54% in the fourth quarter, marking a stark reversal from gains of +1.02% and +2.40% in the second and third quarters, respectively. The recent downturn was largely driven by an increase in uncertainty around global policy and economic growth, oil price volatility, and investor outflows. The sharp year-end selloff resulted in a negative annual return (-2.08%) for the asset class in 2018, last seen in 2015, at the height of the energy downturn and a global slowdown. Interestingly, 2018 was only the second negative performance year for high yield since 2009's global financial crisis.

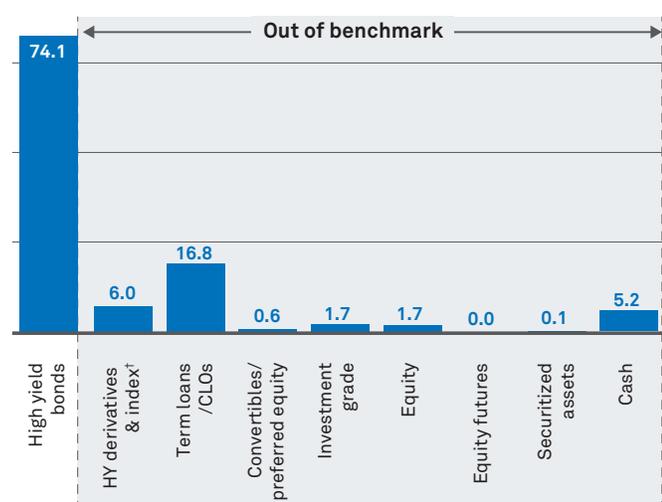
* High yield market represented by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index

Equity markets generally underperformed high yield in the fourth quarter, while investment grade fixed income outperformed as investors sought more stable assets amid heightened uncertainty. Within high yield, higher quality issues rated BB outperformed Bs and CCCs during the quarter. Performance was negative across all sectors, particularly in energy (-9.77%), telecom (-6.21%) and retailers (-5.83%).

Risk premiums on high yield bonds widened 210 basis points (2.10%) in the fourth quarter, pushing the spread above Treasuries to 526 basis points (5.26%) by period end. As of December 31, the high yield market had a yield-to-worst of 8.0% and a weighted average price of \$92.6.

Asset allocation

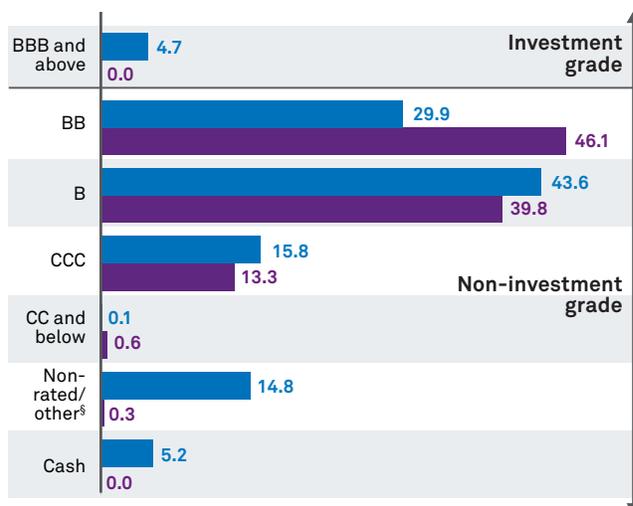
% of Notional



† Includes stocks and equity index total return swaps. Fund totals may exceed 100% due to derivatives positions.

Credit quality‡

% of Market value



BlackRock High Yield Bond Fund
Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index
§ "Other" includes derivatives and non-fixed income instruments.

Portfolio activity

In the fund, risk taking was more moderate in the fourth quarter as market volatility spiked and high yield bonds sold off. Our high-conviction positions and sector themes remained generally unchanged, although we increased allocations to cash and high yield index products for liquidity purposes in anticipation of investor outflows.

We increased exposure to select names in building materials and restaurants, and we reduced exposure to the cable & satellite and chemicals sectors. At the issuer level, HD Supply (building materials) was among the larger position increases.

The fund maintained a preference for B-rated high yield credits and remained underweight in low-coupon BB credits as well as higher-yielding (10%+) issuers rated CCC and below with potentially greater downside risk later in the credit cycle.

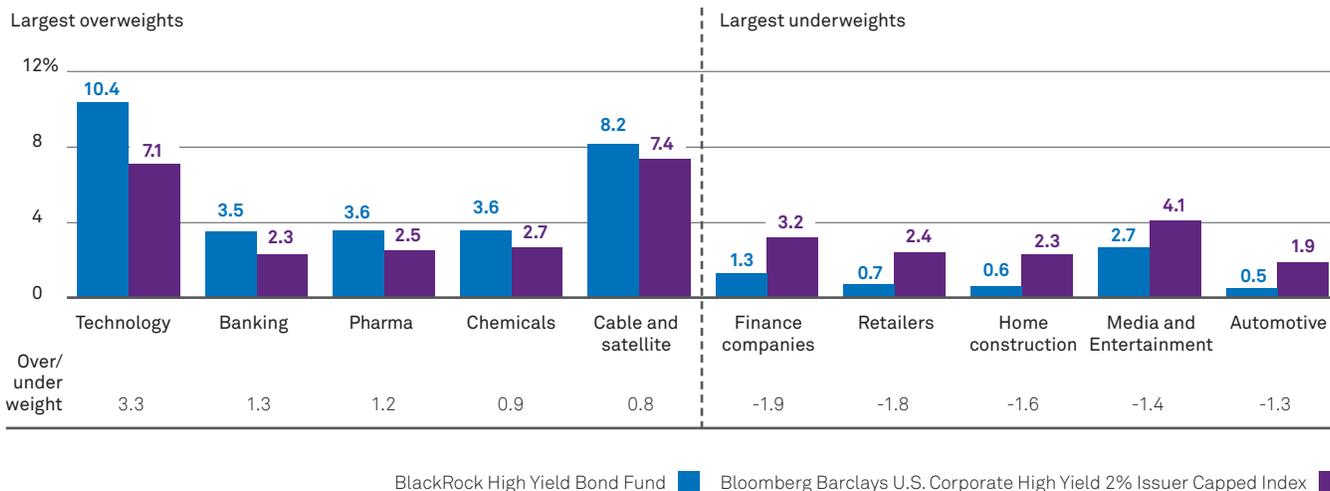
Outside of the benchmark, the fund continued to hold equity and equity-like investments. The fund also holds term loans and collateralized loan obligation securities, which we find attractive relative to higher-quality, low-coupon high yield bonds as well as short-duration high yield assets.

‡ BlackRock receives credit quality ratings on underlying securities of the fund from the three major reporting agencies—S&P, Moody's and Fitch. The credit quality breakdown is provided by BlackRock by taking the median rating of the three agencies when all three agencies rate a security. BlackRock will use the lower of the two ratings if only two agencies rate a security, and BlackRock will use one rating if that is all that is provided. Securities that are not rated by any of the three agencies are reflected as such in the breakdown. Below-investment-grade is represented by a rating of BB and below. BlackRock converts all ratings to the equivalent S&P major rating category for purposes of the category shown. Ratings and portfolio credit quality may change over time. Unrated securities do not necessarily indicate low quality. The fund itself has not been rated by an independent rating agency. Cash and cash-like products may be utilized, from time to time, as a temporary holding for cash management purposes.

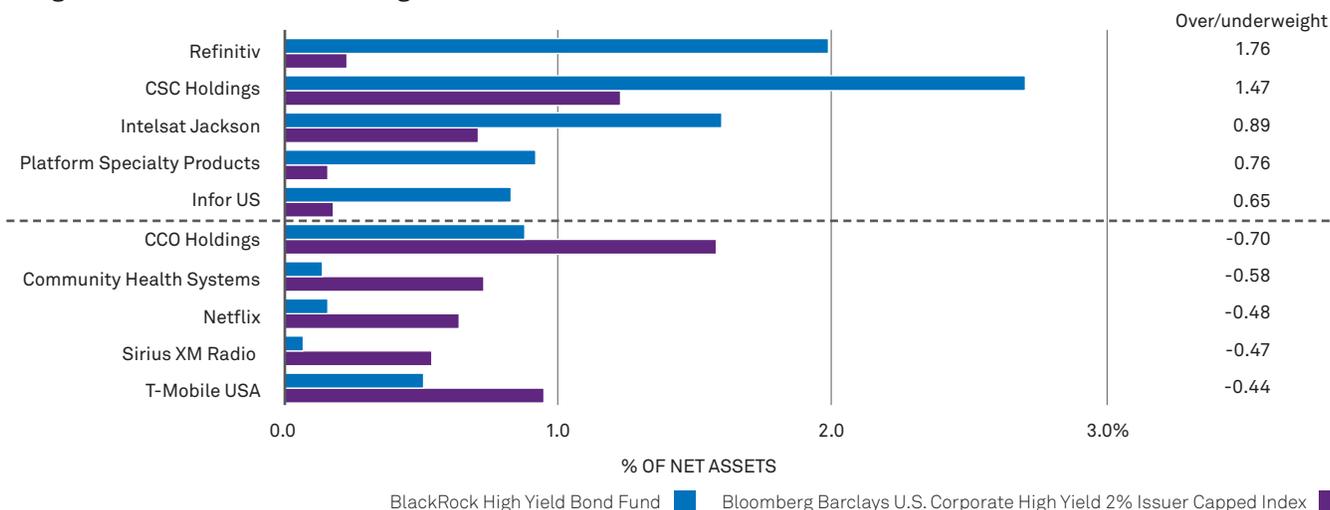
All data as of 12/31/18.

Industry exposures

% of Market value



Largest issuer over/underweights



Outlook

We maintain a constructive view on high yield in 2019. The recent increase in volatility creates a compelling re-entry point, and we see potential for the market to produce a mid-to-high single-digit return this year given the overall starting point. That said, investors are not likely to be rewarded with the same magnitude for taking on more equity like risks as was the case in 2016 and 2017. Amid rising uncertainty, return momentum will likely ebb and flow, but we expect firm market technicals and sound fundamentals to prevail.

U.S. rates will remain a key focus in 2019, particularly as expectations for Fed rate hikes have eased. Further, uncertainty around the pace of global growth is likely to keep equity volatility elevated. We find the lower risk profile of

high yield compelling versus equities, and high yield offers exposure to the sturdy domestic economy and healthy corporate earnings without a meaningful sacrifice of compensation. This argument is slightly more pronounced today given recent spread widening.

In these later stages of both the economic and credit cycles, we believe that focusing on credit names with less cyclicality, strong balance sheets, and healthy liquidity profiles will be necessary for achieving strong risk-adjusted results. Further, we would reiterate the importance of active management as discerning sector and/or issuer themes is critical to generating performance and avoiding adverse portfolio outcomes.

% 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 ⁴
Institutional	-5.27	-2.86	-2.86	6.19	3.50	11.00	6.98
Investor A (Without Sales Charge)	-5.49	-3.32	-3.32	5.80	3.15	10.62	6.58
Investor A (With Sales Charge)	-9.27	-7.19	-7.19	4.37	2.31	10.17	6.37
Lipper High Yield Funds Avg. ⁵	-4.54	-2.84	-2.84	5.49	2.65	9.25	-
Morningstar High Yield Bond Funds Avg.	-4.33	-2.59	-2.59	5.59	2.71	9.25	-
Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index ⁶	-4.54	-2.08	-2.08	7.23	3.84	11.14	6.80

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, **0.63%/0.99%**; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses), **0.63%/0.94%**. Institutional and Investor A shares have contractual waivers with an end date of 1/31/19 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 Expenses, Excluding Investment Related Expenses, for Institutional/Investor A shares: 0.61%/0.92%.

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. Investments in non-investment-grade debt securities ("high-yield" or "junk" bonds) may be subject to greater market fluctuations and risk of default or loss of income and principal than securities in higher rating categories. The principal on mortgage- or asset-backed securities normally may be prepaid at any time, which reduces the yield and market value of those securities. Obligations of U.S. gov't agencies and authorities are supported by varying degrees of credit but generally are not backed by the full faith and credit of the U.S. gov't. 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 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.

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 The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the manager research analysts of Morningstar. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Analysts use this five pillar evaluation to determine how they believe funds are likely to perform over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weighting of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflect an Analyst's conviction in a fund's prospects for outperformance. Analyst Ratings are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf>. The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected. **2** The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category 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. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. With respect to U.S.-domiciled funds in the High Yield Bond fund category, the fund received a Morningstar Rating of 4 stars for the 3-year period, rated against 604 funds; 4 stars for the 5-year period, rated against 507 funds; and 5 stars for the 10-year period, rated against 329 funds. Ratings are for Institutional share class. Other classes may have different performance characteristics. **3** Effective Duration measures the sensitivity of the price of a bond with embedded options to changes in interest rates, taking into account the likelihood of the bond being called, put and/or sunk prior to its final maturity date. BlackRock uses a proprietary duration model which employs certain assumptions and may differ from other fund complexes. Effective Duration is measured at the portfolio level and adjusted for leverage, hedging transactions and non-bond holdings, including derivatives. **4** Fund inception: 11/19/98. **5** Lipper category is as of 12/31/18 and may not accurately represent the current composition of the portfolio. **6** Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index measures the performance of high yield corporate bonds, with a maximum allocation of 2% to any one issuer.

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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