

HIGH YIELD MUNICIPAL FUND

BLACKROCK®

2Q
COMMENTARY
2019Inst: MAYHX¹ • A: MDYHX • C: MCYHX

- ▶ The fund posted returns of 2.71% (Institutional shares) and 2.76% (Investor A shares, without sales charge) for the second quarter of 2019.
- ▶ The fund underperformed its benchmark very modestly, as strong contributions from long-dated investment grade holdings offset a high level of cash reserves and a drag from portfolio hedges using Treasury futures.
- ▶ Robust cashflows necessitated a fairly aggressive approach to sourcing new investment opportunities against a fairly sparse backdrop. Progress was most pronounced in the education, corporate and tax-backed sectors, where pockets of value remained.

Contributors	Detractors
Strong performance generated by the fund's investment grade holdings amid the broader rate rally lifted valuations across the board. Concentrations in longer-dated securities proved particularly beneficial, due to their heightened sensitivity to interest-rate fluctuations. Additional benefits were evident in longstanding sector exposures to transportation and corporate-related credits, along with some of our more recent acquisitions in Puerto Rican debt.	In addition to the aforementioned performance drag created by hedges and cash reserves, the most notable detractor relative to the benchmark was the fund's significant underweight in unrated and BB rated securities. Importantly, however, above-market-weight exposure to the investment grade spectrum compensated for the shortfall elsewhere, producing results comparable to that of the fund's benchmark.

Further Insight

Risk appetite is unabated as investors are hard-pressed to stay fully invested against a backdrop of limited supply and plentiful cash. Efforts to further reduce cash reserves will characterize the bulk of activity in the coming quarter, especially if markets give up some of the gains achieved in the year to date. Given the limited scope of opportunity in high yield, the fund's up-in-quality bias is unlikely to change materially. The one exception is Puerto Rico, where progress toward restructuring the island's debt structure continues apace, offering what we believe to be some of the more attractive total return plays for the remainder of the year.

Overall Morningstar Rating®:
Institutional

Rated against 155 High Yield Muni Funds, as of 6/30/19, 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.^{††}

Portfolio Management

Theodore Jaeckel, Walter O'Connor

TOP 10 HOLDINGS

(% of Net Assets as of 6/30/19)

1. Driver 3.338 Nyshgr 64990ey35	2.1
2. Arkansas St Dev Fin Auth Indl 4.5 09/01/2049	1.4
3. South Carolina St Pub Svcs Aut 5 12/01/2050	1.2
4. Tob 4 6500358f8 Nysdev 144a	1.2
5. Tob 4.3 64972b8m0 Nychsg 144a	1.1
6. Golden St Tob Securitization C 5 06/01/2047	1.1
7. Puerto Rico Sales Tax Fing Co (rst 5 07/01/2058)	0.9
8. Tobacco Settlement Fing Corp N 5 06/01/2046	0.9
9. Buckeye Ohio Tob Settlement 5.875 06/01/2047	0.8
10. Tarrant Cnty Tex Cultural Ed F 5 07/01/2048	0.8

Invests at least 80% of its assets in municipal bonds. Although the fund may invest in municipal bonds in any rating category, presently, portfolio management intends to invest at least 65% of the fund's net assets in medium- to low-quality bonds.

% AVERAGE ANNUAL TOTAL RETURNS AS OF 6/30/19

	2Q19 (not annualized)	YTD (not annualized)	1 Year	3 Year	5 Years	10 Years
Institutional ¹	2.71	6.52	7.36	3.87	5.99	8.04
Investor A (Without Sales Charge)	2.76	6.39	7.09	3.64	5.73	7.76
Investor A (With Sales Charge)	-1.61	1.87	2.54	2.15	4.81	7.29
Morningstar High Yield Muni Category Avg.	2.59	6.07	6.59	3.45	4.99	6.82
S&P Municipal Bond ⁴	2.12	4.94	6.39	2.53	3.66	4.87
S&P Custom High Yield Municipal Bond ⁵	2.92	7.04	7.93	5.75	6.78	—

Expenses for Institutional shares: Total 0.71%; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) 0.68%. For Investor A shares: Total 0.97%; Net, Including Investment Related Expenses 0.93%. Institutional and Investor A shares have contractual waivers with an end date of 10/31/2019 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 4.25% 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: 0.54%; for Investor A shares: 0.79%.

Important Risks: The fund is actively managed and its characteristics will vary. 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. Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities. 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 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 June 30, 2019, 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 The share classes have different sales charges, fees and other features. ² The Standard & Poor's Municipal Bond Index measures the U.S. municipal market performance of bonds issued by states or municipalities and are exempt from federal income and alternative minimum tax. ³ The Standard & Poor's Custom High-Yield Municipal Bond Index consists of bonds in the S&P Municipal Bond Index that are not rated or are rated below investment grade. ^{††} 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. The fund was rated against the following numbers of U.S.-domiciled High Yield Muni funds over the following time periods: 155 in the last 3 years, 134 in the last 5 years and 87 in the last 10 years. With respect to these High Yield Muni funds, the fund received a Morningstar Rating of 4, 4 and 4 stars for the 3-, 5- and 10-year periods, respectively. Other classes may have different performance characteristics.

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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07/19 — High Yield Municipal Fund

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