



Silver



Morningstar Overall (Inst)

INST: **BSIIX** • A: **BASIX** • C: **BSICX**

Strategic Income Opportunities Fund

A flexible fixed income strategy to complement your core bond allocation

Performance: The fund's strong performance in January was driven largely by U.S. and foreign credit and securitized asset positions as well as duration positioning, while there were no material detractors from performance.

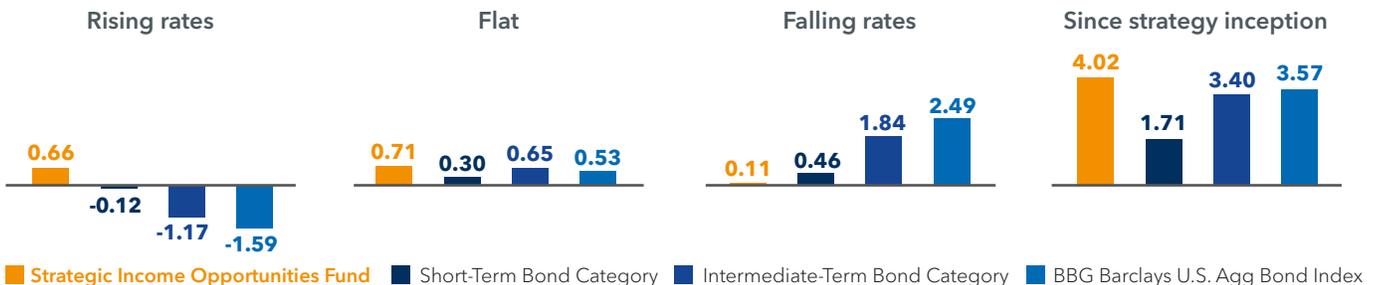
Positioning: We slightly added to duration as we continued rotating exposure into longer-dated bonds. We tactically added to higher quality corporate and securitized credits while reducing agency mortgages after strong performance.

▲ **Increased:** Investment grade credit, emerging markets

▼ **Decreased:** Agency mortgages, high yield credit

Positive returns in all rate environments¹

Whether rates were rising, falling or flat, the fund has delivered positive returns. In January, we tactically added to duration while relying on diversified exposures across government and corporate bonds to generate return.



Outperformance with less risk

The fund has outperformed nontraditional and intermediate-term bond fund averages with lower volatility over the past 5 years.

30-day SEC yield (sub/unsub): 3.44%/3.43%

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 over the period.

	BlackRock Strategic Income Opportunities Fund	Morningstar Nontraditional Bond Category Average	Morningstar Intermediate-Term Bond Category Average
Annualized return	2.53%	2.07%	2.23%
Annualized volatility	1.68%	2.11%	2.46%
Sharpe ratio	1.05	0.48	0.61

Source: Morningstar. Based on 5-year data as of 1/31/19. Volatility is measured by standard deviation of returns. Higher deviation represents higher volatility. Sharpe ratio uses a fund's monthly standard deviation and excess return (difference between the fund's return and the risk-free return of 90-day Treasury Bills) to determine reward per unit of risk.

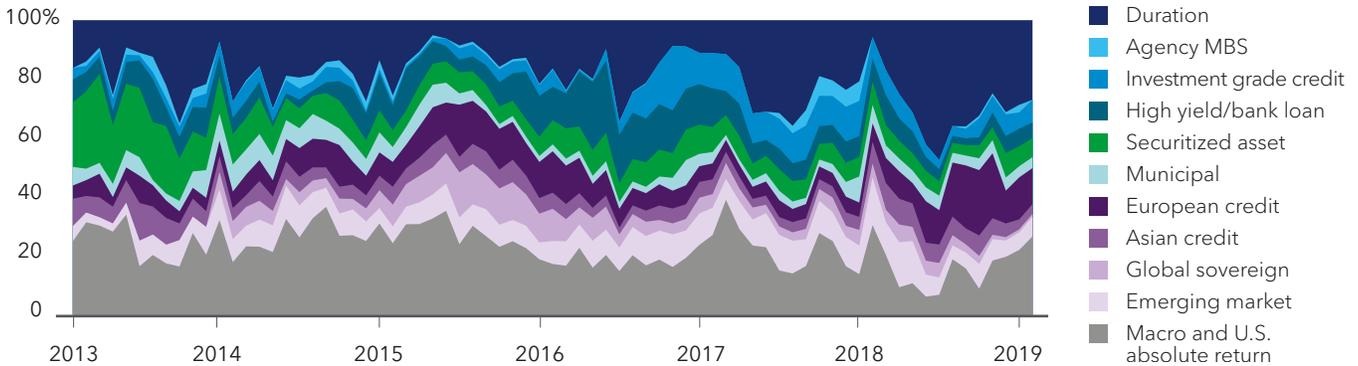
All data as of 1/31/19. **Fund data based on Institutional shares, which may not be available to all investors. Other share classes may vary.** Performance data quoted represents past performance and is no guarantee of future results. Investment returns and principal values may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. All returns assume reinvestment of all dividend and capital gain distributions. Current performance may be lower or higher than that shown. Refer to blackrock.com for recent performance.

Morningstar has awarded the fund a Silver medal. Fewer than 10% of U.S. open-end funds hold medalist ratings. (Last rating 3/6/18).² The Overall Morningstar Rating of 4 stars pertains to the fund's Institutional shares, rated against 280 Nontraditional Bond Funds as of 1/31/19. Ratings are based on risk-adjusted total return and a weighted average of performance figures associated with Morningstar's 3-, 5- and 10-year rating metrics. Ratings are determined monthly and subject to change.³

Tactical risk taking as bond markets change

We adapt the fund's risk strategies as markets change over time. We tactically added to high-quality corporate and securitized credit on attractive valuations and reduced lower quality credit and agency mortgages.

Composition of risk



Asset allocation

In January, we sought diversified income from positions in securitized assets, investment grade credit, and emerging markets while hedging riskier exposures with duration across the yield curve.

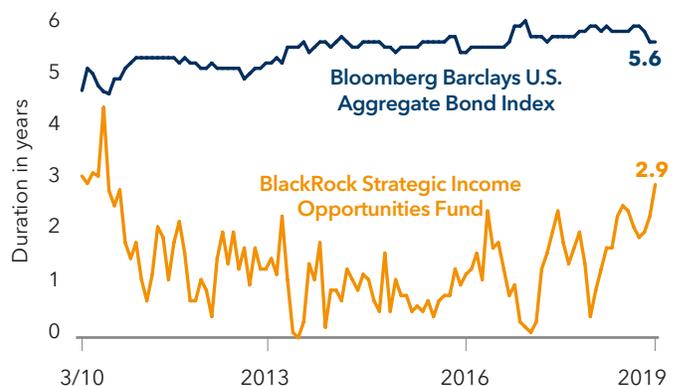
Sector	% as of 1/31*	Change since last month	Duration contrib. (years)
US Treasuries	2.8	▼ 4.4	0.08
US interest rate derivatives	26.4	▲ 15.1	1.04
US Agency/MBS	8.3	▼ 8.2	-0.49
Non-US Sovereign	-2.0	▲ 1.9	-0.09
Non-US Credit	4.6	▼ 0.9	0.10
Investment Grade Credit	10.7	▲ 2.4	0.82
High Yield Credit	5.3	▼ 0.8	0.07
Bank Loans	3.0	▲ 0.2	0.00
Municipal Bonds	6.8	▲ 0.2	0.57
Emerging market debt	9.4	▲ 1.4	0.44
Non-Agency MBS	5.3	▼ 0.3	0.18
Commercial MBS	4.3	▲ 0.4	0.14
Asset-backed	3.4	▲ 0.3	0.05
CLOs	5.9	▲ 0.3	0.02
Other	1.7	▲ 1.2	0.01
Cash/Cash Equivalents	18.9	▲ 2.9	0.00
Net Derivatives	-14.7	▼ 11.5	0.00
Total	100.0		2.92

*Values may not equal 100% due to rounding. Asset class exposure shown as a percent of market value. Hedging strategies shown as a percent of notional value and include only short derivative positions. **Non-U.S. Sovereign** includes the effect of interest rate derivatives. **Credit** allocations include the notional value of CDX overlay positions. **Other** category includes equity-related securities, convertibles and other non-classified securities. The fund's exposure to equities is limited to 10% of assets. **Cash/Cash Equivalents** may include long or short positions pending settlement as well as the market value of traditional bonds and swaps (such as Eurodollar futures) with a maturity date of less than one year. **Net Derivatives** reflects the approximate notional value of long derivative positions less short derivative positions held in the fund; derivatives typically include, but are not limited to, futures, options and swap contracts.

	Correlation to fund	Annualized volatility
Strategic Income Opportunities Fund	-	1.68%
Bloomberg Barclays U.S. Aggregate Bond Index	0.24	2.76%

Source: Morningstar. Monthly data based on Institutional shares since strategy inception (March 2010) through 1/31/19. Annualized volatility is the standard deviation of returns. Past correlations are no guarantee of future correlations.

Flexible duration for all rate scenarios



Monthly data since inception of the fund's strategy in March 2010. As a general rule, for every 1% change in interest rates, a bond's price will change approximately 1% in the opposite direction for every year of duration. Therefore, when interest rates rise, bonds with shorter duration fare better. When interest rates fall, bonds with longer duration tend to outperform.

Diversified sources of return keep volatility low

Since strategy inception, the fund has drawn upon a variety of sources to generate return.



Data is since strategy inception (3/31/10) through 1/31/19. Subject to change. Diversification does not ensure a profit or protect against a loss.

Market movements

After a difficult end to the year, financial markets rebounded in January on a dramatic shift in policy stance from the Federal Reserve. The Fed embraced a philosophy of “patience” and “flexibility,” indicating a pause on further rate hikes to observe the lagged effects of prior tightening on growth, inflation, and the interest rate-sensitive sectors of the economy. Based on this shift, we expect the U.S. dollar to ease in strength, while risk assets can benefit from interest rates remaining relatively stable. In this environment, we believe investors can use duration as a hedge and seek return targets with less risk than one year ago.

Duration positioning

The pause in Fed rate hikes suggests Treasury rates will be relatively stable from here and duration can again act as an important ballast to riskier exposures. As such, we increased the fund’s duration to 2.9 years in January. We now hold most exposure further out the curve as longer-dated Treasuries now offer modestly additional yield with the benefit of more potential price appreciation should we see another risk-off move. Market inflation expectations have increased, mostly due to a rebound in energy prices, but we continue to believe that inflation will stay moderate in the medium term. Given this view, we slightly reduced inflation protection (in breakeven form) on the front end of the curve.

We reduced the fund’s modest short position in German rates as dovish European Central Bank rhetoric limits the upward pressure on rates in the medium term. We hold exposure to European financials, with a preference for high-quality assets at the top of the capital structure.

“ The breadth and depth of our global fixed income platform allows us to find opportunities as we seek to make a little bit of money a lot of times. ”



Rick Rieder
BlackRock’s Global Chief Investment Officer of Fixed Income

Sector positioning

In January, we added exposure to attractively yielding assets in investment grade credit, municipals and high-quality securitized assets. It is important to be cognizant of the effects of a slowing growth regime on lower quality bonds, but a supportive Fed and renewed interest in fixed income saw these assets rebound during the month. We prefer to own select credit positions in areas like high yield credit rather than broad index exposure.

After taking profits in securitized assets into year end, we added back some exposure to high-quality areas of commercial mortgages and collateralized loan obligations. Emerging markets could benefit from a potentially weaker U.S. dollar this year, particularly with respect to local currency-denominated debt. We hold tactical positions in China, Argentina and Mexico.

Average annual total returns (%) as of 1/31/19

	1 Month (not annualized)	YTD (not annualized)	1 year	3 years	5 years	10 years	Since Inception*
Institutional	1.30	1.30	-0.54	3.30	2.53	5.93	4.02
Investor A without/with sales charge	1.28 / -2.77	1.28 / -2.77	-0.92 / -4.88	2.97 / 1.58	2.21 / 1.38	5.62 / 5.19	3.73 / 3.35
Morningstar Nontraditional Bond Funds Avg.	1.79	1.79	-0.19	3.84	2.07	4.91	-

* Fund inception: 2/5/08.

Total returns (annualized) as of 12/31/18 for Institutional shares: 1 yr, -0.46%; 5 yrs, 2.30%; 10 yrs, 6.01%; since inception, 3.93%; for Investor A shares without/with sales charge: 1 yr, -0.85%/-4.81%; 5 yrs, 1.98%/1.15%; 10 yrs, 5.70%/5.27%; since inception, 3.64%/3.26%.

Investment returns reflect total fund operating expenses, net of all fees, waivers and/or expense reimbursements. Expenses, as stated in the fund's most recent prospectus, for Institutional/Investor A shares: Total, **0.91%/1.23%**; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses): **0.90%/1.19%**. Institutional and Investor A have contractual waivers with an end date of 4/30/19 terminable upon 90 days' notice. 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. Share classes have different sales charges, fees and other features. Returns with sales charge reflect the deduction of current maximum initial sales charge of 4.00% for Investor A shares. **Institutional shares have no front- or back-end load, limited availability and may be purchased at various minimums. See prospectus for details.**

Net expenses, Excluding Investment Related Expenses: 0.61%/0.90%.

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. 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 the 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. 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 currency fluctuations, illiquidity and volatility. These risks may be heightened for investments in emerging markets. 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. 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.

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

1 Source: Morningstar as of 1/31/19. Data since 3/31/2010, when Rick Rieder was named PM of the fund and the investment strategy changed. Performance is category, fund or index average in given time frames. Rising, Flat and Falling rate periods are calculated using a proprietary methodology that chooses periods based on specific parameters BlackRock deems sufficient to categorize periods as rising, flat and falling. **Rising Rates:** Counts period if <= 60 day period with at least a 40 bp increase in 10-year Treasury rate from start date to end date: 12/31/2010 to 02/08/2011, 09/22/2011 to 10/27/2011, 01/31/2012 to 03/19/2012, 07/25/2012 to 09/14/2012, 11/16/2012 to 02/13/2013, 05/01/2013 to 07/05/2013, 10/23/2013 to 12/31/2013, 01/30/2015 to 03/06/2015, 04/03/2015 to 06/10/2015, 9/7/16 to 11/30/16, 09/07/2017 to 10/26/2017, 11/6/2017 to 1/30/2018, 4/5/2018 to 6/29/2018, 9/7/18 to 10/10/18. **Flat Rates:** Ending date 10-year Treasury rate must be within +/- 2 bps of start date; period must be at least 30 and no more than 90 business days; variance of rate in the periods must be +/- 15 bps from start date rate on each date over the period (ensures minimal volatility over the period as a whole): 11/17/2011 to 03/06/2012, 06/05/2012 to 08/01/2012, 10/10/2012 to 12/14/2012, 01/03/2013 to 03/25/2013, 06/25/2013 to 08/12/2013, 09/25/2013 to 11/07/2013, 01/30/2014 to 04/29/2014, 05/16/2014 to 09/30/2014, 10/22/2014 to 12/08/2014, 08/03/2015 to 10/30/2015, 11/04/2015 to 12/31/2015, 02/02/2016 to 03/28/2016, 03/30/2016 to 05/31/16, 06/16/16 to 08/31/16, 12/9/16 to 1/31/17, 02/06/17 to 03/31/17, 04/18/17 to 06/21/17, 06/22/17 to 08/30/17, 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 Rates:** Counts period if <= 60 day period with at least a 40 bp decline in 10-year Treasury rate from start date to end date: 02/08/2011 to 03/16/2011, 04/08/2011 to 06/24/2011, 07/01/2011 to 09/22/2011, 10/27/2011 to 12/19/2011, 03/19/2012 to 06/01/2012, 03/11/2013 to 05/02/2013, 09/05/2013 to 10/23/2013, 12/31/2013 to 03/03/14, 09/18/14 to 10/15/14, 11/06/14 to 02/02/15, 06/10/15 to 08/24/15, 11/09/15 to 01/29/16, 03/13/17 to 05/31/17, 11/8/18 to 12/31/18. **2** 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. **3** 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 Nontraditional Bond fund category, the fund received a Morningstar Rating of 3 stars for the 3-year period, rated against 280 funds; 4 stars for the 5-year period, rated against 177 funds; and 4 stars for the 10-year period, rated against 65 funds. Ratings are for Institutional share class. 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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