

Strategic Municipal Opportunities Fund

A flexible strategy to complement your traditional muni bond allocation

Performance: The fund's interest rate hedges and overall short duration stance hindered performance in December, while overweight positions in long-duration credits such as housing and transportation bonds helped offset losses.

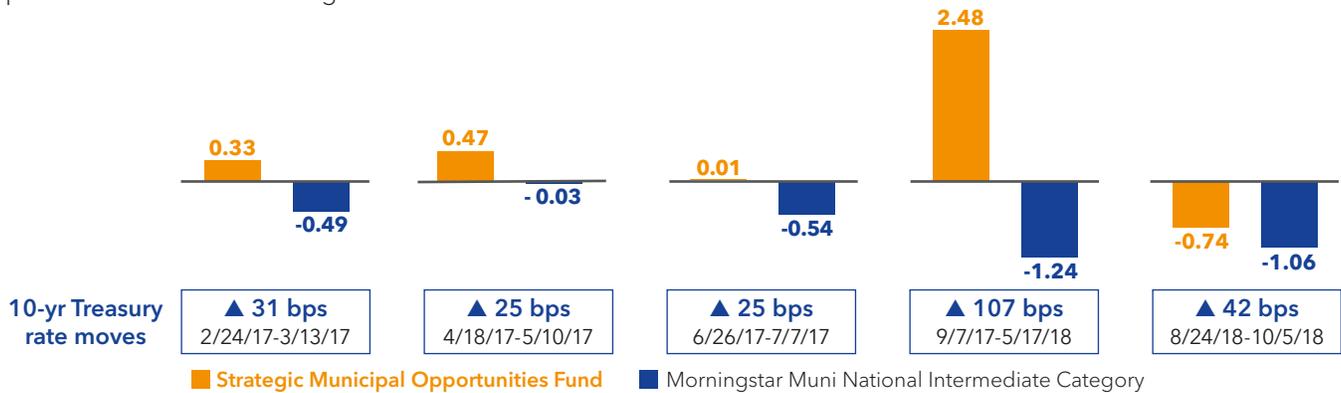
Positioning: We took advantage of attractive prices resulting from tax-loss selling pressure toward year end. We continue to employ a high quality bias, although we recently added to credits rated A and below investment grade.

▲ **Increased:** Maturities of 3-6 and 15-20 years, healthcare and transportation, A and below investment grade

▼ **Decreased:** Maturities of 6-10 years, state and local tax-backed, credits rated AA

Outperformance in rising rate environments

The fund's flexible strategy and ability to quickly adapt to changing markets resulted in outperformance versus its peers when rates were rising.



Source: Bloomberg, Morningstar Direct, BlackRock. Rate moves are basis point increases in the 10-year Treasury yield. One basis point is equal to 0.01%.

Strong outperformance

The fund has generated higher returns and higher yields than its category average.

	BlackRock Strategic Municipal Opportunities Fund	Morningstar Muni National Interm Category Average
Higher return (3-year)	3.32%	1.72%
Higher 30-day SEC yield (sub/unsub)	3.23% / 3.18%	2.24%
Higher tax equivalent yield (sub/unsub)	5.46% / 5.37%	3.78%
Higher Sharpe ratio (3-year)	0.63	0.21

Source: Morningstar. Data as of 12/31/18. 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. Tax equivalent yield represents the yield a taxable bond would have to earn in order to match, after taxes, the yield available on a tax-exempt municipal bond. Assumes a federal tax rate of 40.8% and does not account for any other taxes. Individuals' tax burden will vary. 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.

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.

The Overall Morningstar Rating of 5 stars pertains to the fund's Institutional shares, rated against 259 Municipal National Intermediate Bond funds as of 12/31/18. Ratings are based on risk-adjusted total return and a weighted average of performance figures associated with 3-, 5- and 10-year Morningstar rating metrics. Ratings are determined monthly and subject to change.¹

Active duration management

After interest rates moved lower earlier in the month, we reduced the fund's duration to provide downside protection in anticipation of rates moving higher.

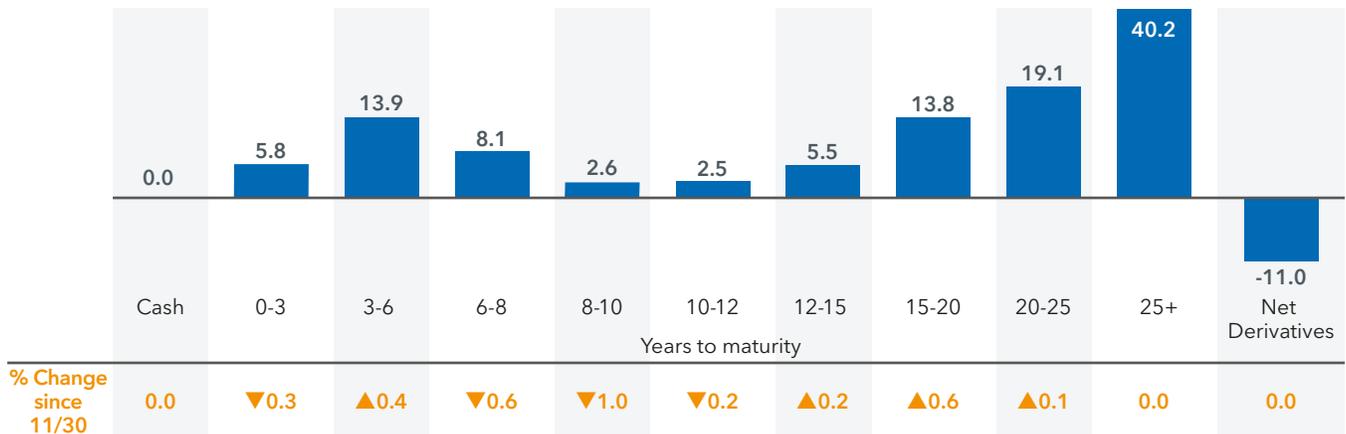


Monthly data since inception of the fund's strategy (1/27/14). Duration is a measure of sensitivity to interest rate movements. As a general rule, for every 1% change in interest rates, a bond's price will change approximately 1% in the opposite direction for every year of duration. Therefore, when interest rates rise, bonds with shorter duration fare better. When interest rates fall, bonds with longer duration tend to outperform.

Tactical yield curve positioning

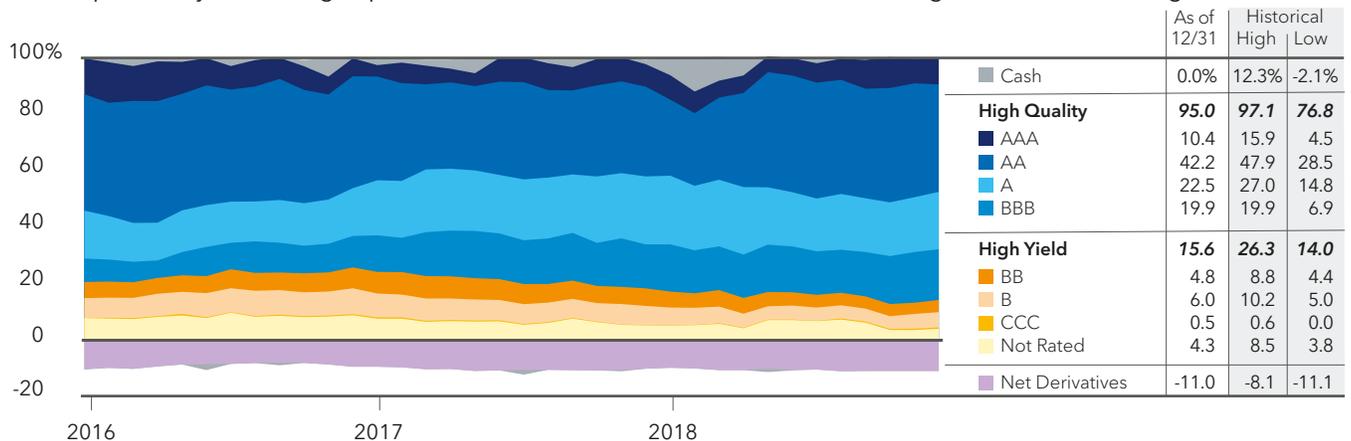
We maintain a barbell yield curve position. We recently shifted exposures slightly from terms of 6-10 years to the 3-6 and 15-20 parts of the curve.

% of notional value² as of 12/31/18



Dynamic credit quality allocation

We seek attractive opportunities across the credit quality spectrum. In December, we took advantage of wider credit spreads by increasing exposure to credits rated A and below investment grade, while reducing AA.



The fund itself has not been rated by an independent rating agency. Credit quality ratings on underlying securities of the fund are received from S&P, Moody's and Fitch and converted to the equivalent S&P major rating category. This breakdown is provided by BlackRock and takes the median rating of the three agencies when all three agencies rate a security; the lower of the two ratings if only two agencies rate a security and one rating if that is all that is provided. Unrated securities do not necessarily indicate low quality. Below investment-grade is represented by a rating of BB and below. Ratings and portfolio credit quality may change over time.



Peter Hayes

Head of BlackRock's
Municipal Bond Group

Market overview

Municipals posted gains in December as interest rates moved sharply lower and investors sought safer asset classes given expectations for slower economic growth in 2019.

Outlook

We maintain a constructive view on the municipal market, particularly in the seasonally favorable month of January, which has historically seen light gross issuance outstripped by elevated reinvestment income resulting from coupons, calls and maturities. More broadly, we think muni performance may be derived from both price and coupon return in 2019, driven by attractive relative valuations, expectations for net negative issuance, and an anticipated resurgence of strong demand from investors seeking tax havens.

Positioning

We continue to employ a neutral duration stance after rates rallied lower, by tactically using hedges to adjust overall duration and capitalize on interest rate volatility. We maintain a barbell yield curve strategy with concentrated exposures in maturities of 3-6 years and 20+ years, where we believe fair valuation has been restored. We put cash to work ahead of January, which is typically a

Diversification benefits of the fund

	Correlation to fund	Annualized volatility
BlackRock Strategic Municipal Opportunities	-	3.03
S&P 500 Index	0.07	10.87
S&P Muni Bond Index	0.88	2.81
S&P Muni Bond High Yield Index	0.80	3.58

Source: Morningstar, as of 12/31/18. Monthly data since strategy inception (1/27/14). Fund data based on Institutional shares. Past correlations are no guarantee of future correlations. Annualized volatility is the standard deviation of returns. S&P 500 Index comprises large-capitalization U.S. equities. S&P Municipal Bond Index measures the performance of bonds issued by U.S. states or municipalities that are exempt from federal income tax and alternative minimum tax.

favorable month. The technical backdrop appears poised to improve. Forward supply expectations remain manageable, while recent strong performance should help facilitate a resurgence in demand.

The fund's overweight to 20+ year maturities proved beneficial in December as the municipal yield curve flattened, although interest rate hedges and an underweight to the belly of the curve (10-18 years) hindered performance.

With respect to quality, the fund's overweight to credits rated BBB helped performance in December. We took advantage of opportunities to add exposure to A and below investment grade credits at attractive prices resulting from general market and high yield municipal mutual funds selling bonds to cover their shareholder redemptions. As of month end, approximately 16% of the fund's net assets were high yield bonds.

From a sector perspective, longer-duration credits, such as housing and transportation bonds, proved beneficial, while an overweight to tobacco and an underweight to school districts hindered performance in December. We increased exposure to healthcare, while decreasing exposure to state and local tax-backed credits. We continue to prefer revenue bonds over general obligation bonds as the latter can be vulnerable to political risk stemming from state and local budget negotiations.

Selective sector allocation

% of notional value²

Sector	As of 12/31	Change since last month
Transportation	18.1	▲ 0.5
State Tax-Backed	15.0	▼ 2.0
Health	14.7	▲ 1.2
Utilities	14.5	0.0
Housing	11.3	▼ 0.2
Local Tax-Backed	9.8	▼ 0.9
Education	7.7	0.0
Corporate Muni	6.4	▼ 0.3
Tobacco	5.1	▲ 0.3
Other Industries	4.2	▲ 0.5
School Districts	3.8	▲ 0.2
Other	1.1	▲ 0.1
PreRefunded/Escrow	0.1	▼ 0.2
Cash	0.0	0.0
Derivatives	-11.0	0.0

Average annual total returns (%) as of 12/31/18

	1 Month (not annualized)	YTD (not annualized)	1 Year	3 Years	5 Years	10 Years	Inception ³
Institutional	-0.13	1.26	1.26	3.32	4.59	5.62	5.26
Investor A (Without Sales Charge) ⁴	-0.15	0.95	0.95	3.06	4.36	5.38	5.00
Investor A (With Sales Charge) ⁴	-4.39	-3.34	-3.34	1.58	3.46	4.92	4.85
Morningstar Municipal National Intermediate Funds Avg.	0.95	0.78	0.78	1.72	3.05	4.24	-
S&P Municipal Bond Index ⁵	1.14	1.36	1.36	2.34	3.88	5.11	-

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 shares/Investor A shares: Total **0.82%/0.96%**; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses): **0.77%/0.91%**. Institutional and Investor A shares have contractual waivers with an end date of 9/30/19, terminable upon 90 days' notice. The fund's annual total returns prior to January 27, 2014 reflect a different investment strategy. 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 dividend and capital gain distributions. Current performance may be lower or higher than that shown. Refer to blackrock.com for current month-end performance. 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 the deduction of current maximum initial sales charge of 4.25% for Investor A shares. **Institutional shares have no front- or back-end load, have limited availability and may be purchased at various minimums. See prospectus for details.**

Net, excluding investment-related expenses for Institutional/Investor A shares: 0.58%/0.78%.

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. 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. 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. 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 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.

1 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 Municipal National Intermediate Bond fund category, the fund received a Morningstar Rating of 5 stars for the 3-year period, rated against 259 funds; 5 stars for the 5-year period, rated against 228 funds; and 4 stars for the 10-year period, rated against 151 funds. Ratings are for Institutional share class. Other classes may have different performance characteristics. **2** Notional value accounts for a fund's use of derivatives, including but not limited to futures, options, and swaps. This value captures the fund exposures as if the derivative was replaced with the underlying asset and the corresponding financing or lending, such that all exposures sum to the net asset value. For non-derivatives, the market value and the notional value are identical. **3** Fund inception: 11/26/86. **4** The performance information for periods prior to the inception date of the Investor A share class (10/2/06) is based on the fund's Institutional shares, adjusted to reflect the fees and expenses applicable to the Investor A share class. See the fund's prospectus for more details. **5** The Standard & Poor's Municipal Bond Index measures U.S. municipal market performance of bonds issued by states or municipalities and exempt from federal income and alternative minimum tax.

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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Lit. No. SMO-COM-0119

OE41840T-0119

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