

U.S. GOVERNMENT BOND FUND

BLACKROCK®

1Q 2019 COMMENTARY

Inst: PNIGX • A: CIGAX • C: BIGCX • Class R: BGBRX¹

- ▶ The fund posted returns of 2.26% (Institutional shares) and 2.10% (Investor A shares, without sales charge) for the first quarter of 2019.
- ▶ The main drivers of outperformance were selection-based strategies within 30-year agency mortgage-backed securities (MBS) and rates-based strategies, such as duration (sensitivity to interest rates) and yield-curve positioning. Out-of-benchmark allocations to agency commercial mortgage-backed securities (CMBS), agency collateralized mortgage obligations (CMOs), and collateralized loan obligations (CLOs) helped too. The main detractors from performance were global rates and currency-related strategies, and allocation-based strategies within 30-year agency MBS.
- ▶ The fund was positioned slightly underweight in agency MBS relative to the benchmark, preferring higher-coupon MBS to lower coupons. The fund continued to hold a core allocation to agency CMOs and CMBS, which benefit the convexity (the rate at which duration changes in response to interest rate movements) and “carry” profile of the fund. The fund had a neutral duration and was positioned to reflect our view that the yield curve could steepen modestly.

Contributors	Detractors
The largest contributor to performance was the fund's security selection within 30-year agency MBS, driven by strong performance of the fund's holdings in specified pools. Rates-based strategies such as duration and curve positioning also drove performance, along with out-of-benchmark allocations in securitized assets such as CMBS, agency CMOs, and CLOs.	The largest detractor from performance was the fund's global rates and currency-related strategies. Allocation-based strategies within 30-year agency MBS also detracted, driven by an underweight position versus the benchmark.

Further Insight

The fund remains underweight agency MBS relative to the benchmark, favoring higher coupons over lower coupons. The fund continues to hold a core allocation to CMBS and agency CMOs, which benefit the carry and convexity profile of the fund. We also added to agency last cashflow (LCF) CMBS during the quarter. Outside the United States, the fund has an allocation to local-currency emerging-market sovereign debt in Asian, Latin American, and central European countries. The fund also holds a modest and tactical long-duration position in short-dated Canadian debt, as we anticipate that the Bank of Canada will continue its dovish messaging in the near term. The fund has an overall neutral stance on duration with a modest steepening bias.

Portfolio Management

Bob Miller, Matthew Kraeger, Siddharth Mehta

TOP 10 HOLDINGS

(% of Net Assets as of 3/31/19)

1. United States Treasury	59.9
2. Federal National Mortgage	14.8
3. GNMA II	9.0
4. FHLM	6.1
5. Federal Home Loan Mortgage Corporation -Gold	1.7
6. GNMA I	1.2
7. Drslf_13-28a-A1l	1.0
8. Fnma_17-69 Ha	0.9
9. Federal Home Loan Banks	0.8
10. Wfcm_19-C49-A5	0.7

Invests primarily in the highest rated government and agency bonds and maintains an average portfolio duration within $\pm 20\%$ of the Barclays Intermediate Government Index.

% AVERAGE ANNUAL TOTAL RETURNS AS OF 3/31/19

	1Q19 (not annualized)	YTD (not annualized)	1 Year	3 Year	5 Years	10 Years	Since Inception ²
Institutional	2.26	2.26	3.97	1.24	2.11	2.79	4.61
Investor A (Without Sales Charge) ³	2.10	2.10	3.71	0.98	1.83	2.46	4.23
Investor A (With Sales Charge) ³	-1.99	-1.99	-0.44	-0.39	1.00	2.04	4.07
Morningstar Intermediate Government Category Avg.	2.05	2.05	3.77	0.98	1.86	2.53	—
BBG Barclays U.S. Govt./Mortgage ⁴	2.13	2.13	4.30	1.37	2.36	2.75	—

Expenses for Institutional shares: Total 1.02%; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) 0.77%. For Investor A shares: Total 1.29%; Net, Including Investment Related Expenses 1.02%. Institutional and Investor A shares have contractual waivers with an end date of 1/31/20 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% 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: 0.45%; for Investor A shares: 0.70%.

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. 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 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. 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 March 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. 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 Class R shares are sold to a limited group of investors, including certain retirement plans. See prospectus for details. ² Fund inception: 4/20/92. ³ The performance information for periods prior to the inception date (5/11/92) of Investor A shares is based on the Fund's Institutional Shares, adjusted to reflect the fees and expenses applicable to such share class. See the fund prospectus for more details. ⁴ The Barclays U.S. Government/Mortgage Index measures the performance of U.S. government bonds and mortgage-related securities; the Barclays U.S. Agency Index, which includes native currency agency debentures from issuers such as Fannie Mae (FNMA), Freddie Mac (FHLMC) and Federal Home Loan Bank; and the Barclays U.S. MBS Index, which includes U.S. agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), FNMA and FHLMC.

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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04/19 — U.S. Government Bond Fund

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