

U.S. Government Bond Fund

BlackRock®

Inst: **PNIGX** A: **CIGAX** C: **BIGCX** R: **BGBRX¹**

Commentary as of 06/30/21

- The fund posted returns of 0.98% (Institutional shares) and 1.00% (Investor A shares, without sales charge) for the second quarter of 2021.
- The key drivers of the fund's outperformance relative to the benchmark were selection-based strategies in 30-year agency mortgage-backed securities (MBS), off-benchmark allocations to commercial mortgage-backed securities (CMBS), and interest rate swap strategies. Detractors included duration (interest rate sensitivity), yield-curve positioning, and allocations to 30-year MBS, to a lesser extent.
- In agency MBS, the fund holds a neutral allocation, but we prefer production-coupon 30-year conventional to-be-announced securities versus mortgage pools. We marginally increased allocations to emerging market sovereign bonds, along with positions in select single-asset, single borrower securities and CMBS.

Contributors	Detractors
Selection-based strategies in agency MBS contributed to performance. The fund maintained an up-in-coupon bias toward production coupons and held a tactical long position in higher coupons. Off-benchmark positions in CMBS were also positive, as the sector continued to benefit from the solid domestic economic restart. Finally, interest rate positions held in the strategy were beneficial.	Duration and curve-related positioning was the main detractor, as we maintained an underweight duration exposure relative to the benchmark and a tactical curve-steepening position between five-year and 30-year U.S. Treasuries, which was closed in mid-June. Allocation related strategies in agency MBS also detracted, with the sector lagging versus other high-quality "spread" assets.

Further insight

We continue to hold the view that U.S. economic growth will be well supported and above trend in the third quarter, before moderating at the end of 2021. We also believe that inflation will be elevated before easing slightly in 2022. Because of this, we hold an underweight duration exposure relative to the benchmark, but are more neutral on yield-curve exposures. We anticipate higher degrees of sensitivity around incoming data, particularly in the 2-5-year points. We continue to like off-benchmark allocations to CMBS, but have sold some of the longer "spread" duration exposures to move into agency MBS. It has lagged, but is well supported from a technical perspective.

★★★★ Morningstar Overall™

Institutional shares rated against 224 Intermediate Government Funds, as of 6/30/21, 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

Bob Miller, Matthew Kraeger, Siddharth Mehta

Top 10 holdings (%)

United States Treasury	61.93
Uniform Mbs	11.28
Federal National Mortgage	11.22
GNMA II	10.64
FHLM	7.52
China Peoples Republic Of (gov-ernment)	3.11
GNMA I	1.00
DrsIf_13-28a-A1I	0.83
Federal Home Loan Banks	0.69
Federal Home Loan Mortgage Cor-poration -Gold	0.67

Investment approach

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 6/30/21

	2Q21 (not annualized)	YTD (not annualized)	1 Year	3 Year	5 Years	10 Years	Since Inception ²
Institutional	0.98	-1.37	-0.87	4.45	2.33	2.73	4.58
Investor A (Without Sales Charge)²	1.00	-1.40	-1.11	4.22	2.09	2.44	4.22
Investor A (With Sales Charge)²	-3.04	-5.34	-5.07	2.81	1.26	2.02	4.07
Morningstar Intermediate Government Category Avg.	0.67	-1.42	-1.19	3.89	1.85	2.30	—
BBG Barclays U.S. Govt./Mortgage³	1.14	-1.79	-2.01	4.33	2.25	2.72	—

Expenses for Institutional shares: Total **0.77%**; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) **0.57%**. For Investor A shares: Total **1.03%**; Net, Including Investment Related Expenses **0.82%**. Institutional and Investor A shares have contractual waivers with an end date of 01/31/2022 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 June 30, 2021, 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 Class R shares are sold to a limited group of investors, including certain retirement plans. See prospectus for details. **2** 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. **3** 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. **4** 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 Intermediate Government funds over the following time periods: 224 in the last 3 years, 203 in the last 5 years and 177 in the last 10 years. With respect to these Intermediate Government 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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