

FLOATING RATE INCOME FUND

BLACKROCK®

4Q 2018 COMMENTARY

Inst: BFRIX¹ • A: BFRAX • C: BFRCX • Class K: BFRKX

- ▶ The fund posted returns of -3.60% (Institutional shares) and -3.67% (Investor A shares, without sales charge) for the fourth quarter of 2018.
- ▶ The fund underperformed its benchmark during the quarter, in part due to its tactical allocation to liquid assets (exchange-traded funds [ETFs], total return swaps), as these underperformed the broader bank-loan market. This was largely offset by more conservative positioning across the credit-rating spectrum.
- ▶ The fund's risk levels were in line with our view of a more muted return environment for bank loans. The ratings mix was relatively unchanged (focused on BB/B rated loans), along with our preference for businesses with little cyclical.

Contributors	Detractors
The fund's underweight to CCC rated and below assets contributed positively to performance, as the lower-quality segment of the bank-loan market underperformed during the fourth quarter. Lower-quality underperformance also helped the fund's underweight position in retailers and positioning in the broader consumer cyclicals space (leisure, automotive). Elsewhere, security selection within media & entertainment added value.	Tactical allocations to liquid products (ETFs, total return swaps) detracted from performance, as these underperformed the broader bank-loan market. By sector, positioning within independent energy, manufacturing and wireless hurt returns.

Further Insight

At quarter-end, the fund remained focused on industries and companies with stable business profiles and consistent cash flows. It avoided areas of the market with secular concerns and/or deteriorating fundamental trends. By sector, the most significant overweight positions were technology, consumer cyclical services, and health care. The largest underweight positions were in retail, leisure, and automotive names. By credit rating, the fund retained the majority of its assets in BB/B rated issues. As a major theme, we maintained the fund's underweight position in the lower-quality segment of the market and less-liquid loans. Lastly, we maintained an allocation to index products, including ETFs and total return swaps.

Overall Morningstar Rating®: Institutional



Rated against 213 Bank Loan Funds, as of 12/31/18, 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

James Keenan, CFA, Carly Wilson, Mitchell S. Garfin, CFA, David Delbos, Josh Tarnow, Matthew Maxwell, Abigail Apistolos

TOP 10 HOLDINGS

(% of Net Assets as of 12/31/18)

1. Powershares Senior Loan Portfolio	1.5
2. Financial & Risk U.S. Holdings Inc (refinitiv)	1.5
3. Ss&c Technologies Inc	1.3
4. First Data	1.0
5. Asurion Llc	1.0
6. Verscend Holding Corp	0.9
7. Djo Finance Llc	0.9
8. Kronos Incorporated	0.9
9. Mitchell International Inc	0.9
10. Solera Llc	0.8

A portfolio of non-investment grade floating rate loans, focused on companies that can provide investors a high level of floating rate income. Employs a research intensive, credit-focused investment style seeking high-quality loans with attractive risk-adjusted returns.

% AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/18

	4Q18 (not annualized)	YTD (not annualized)	1 Year	3 Year	5 Years	10 Years	Since Inception ¹
Institutional ²	-3.60	-0.49	-0.49	3.65	2.70	7.40	4.81
Investor A (Without Sales Charge)	-3.67	-0.79	-0.79	3.36	2.39	7.13	4.72
Investor A (With Sales Charge)	-6.08	-3.27	-3.27	2.49	1.87	6.86	4.63
Morningstar Bank Loan Category Avg.	-3.35	-0.26	-0.26	3.89	2.28	7.19	—
S&P/LSTA Leveraged Loan ³	-3.45	0.44	0.44	4.83	3.05	8.57	—

Expenses for Institutional shares: Total 0.68%; 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 1.00%; Net, Including Investment Related Expenses 1.00%. Institutional and Investor A shares have contractual waivers with an end date of 12/31/18 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 2.5% 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: 0.67%; for Investor A shares: 0.99%.

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. Holdings shown should not be deemed as a recommendation to buy or sell securities. Corporate loan values fluctuate in price so your investment can go down depending on market conditions. Corporate loans may be illiquid, affecting the fund's ability to realize net asset value in the event of a liquidation of assets. The fund may invest in non-U.S. borrowers, which involves risks including fluctuation in foreign exchange rates, political and economic developments. Corporate loans in the fund's portfolio typically are not rated or rated non-investment-grade (below Baa by Moody's or BBB by Standard & Poor's). These corporate loans generally involve greater risks to principal and income. 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 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. 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 Fund inception: 11/3/89. Inception date reflects the inception date of BlackRock Senior Floating Rate Fund. ² The performance information for periods prior to the inception date of the Institutional shares (5/18/11) shows the performance of the fund's Investor A shares. The performance of the Institutional share class would be substantially similar to Investor A shares because the Institutional share class and Investor A shares invest in the same portfolio of securities and performance would only differ to the extent that the Institutional share class and Investor A shares have different expenses. See the fund prospectus for more details. ³ The S&P/LSTA Leveraged Loan Index is a market-weighted index that tracks the performance of institutional leveraged loans by monitoring spreads and interest payments to gauge the overall health of the institutional loan markets. †† 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 Bank Loan funds over the following time periods: 213 in the last 3 years, 196 in the last 5 years and 81 in the last 10 years. With respect to these Bank Loan funds, the fund received a Morningstar Rating of 3, 4 and 3 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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01/19 — Floating Rate Income Fund

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