

LOW DURATION BOND FUND

BLACKROCK®

4Q 2018 COMMENTARY

Inst: **BFMSX** • A: **BLDAX** • C: **BLDCX** • Class R: **BLDPX¹** • Class K: **CLDBX**

- ▶ The fund posted returns of 0.46% (Institutional shares) and 0.40% (Investor A shares, without sales charge) for the fourth quarter of 2018.
- ▶ The main contributors to the fund's performance were allocations to cash-equivalent paper and sovereign bonds. Corporate credit was the largest detractor from the fund's performance, followed by high yield, asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS). Our shorter duration (sensitivity to interest rates) also detracted.
- ▶ We increased the fund's corporate credit exposure to overweight in September, on the view that credit spreads would tighten by year-end. Specifically, we tactically added to the banking, energy and auto sectors. Within ABS, the allocation to AAA rated collateralized loan obligations (CLOs) was increased to benefit from elevated new supply in October.

Contributors	Detractors
The largest contributors to performance were the fund's allocations to cash-equivalent paper, such as banks' certificates of deposit and commercial paper. The allocation to sovereign bonds also contributed.	As credit spreads widened at the beginning of September, we increased the fund's exposure to investment grade corporates, expecting spreads to tighten by year-end. However, this allocation detracted from performance due to spread-widening during most of the quarter. This was triggered by the prevailing "risk-off" market sentiment and a flurry of negative idiosyncratic news in corporate bonds. The fund's shorter duration positioning in December also detracted from performance, as a strong bid for Treasuries prompted the rally in the U.S. rates.

Further Insight

Dovish speeches by the Federal Reserve Chair Jerome Powell acknowledged the most recent market volatility, so we shifted to a neutral duration positioning, believing that the level of rates was fairly priced. We remain constructive on corporate credit in the short term, after market dislocation in the fourth quarter. In the long term, we continue to expect continuous bouts of volatility in 2019. It's possible that spreads could end the year wider due to softer economic growth, as fiscal stimulus fades and corporate earnings fall. We continue to favor ABS and CMBS on the belief that economic fundamentals remain strong which should support the underlying collateral.

Overall Morningstar Rating®: Institutional



Rated against 472 Short-Term Bond 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

Thomas Musmanno, Scott MacLellan

TOP 10 HOLDINGS

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

1. United States Treasury	11.9
2. Federal National Mortgage	4.6
3. Italy	1.9
4. Shire Acquisitions Invest-ments Ireland Dac	1.3
5. JPMorgan Chase	1.3
6. Morgan Stanley	1.2
7. Bank of America	1.1
8. iSh. 1-3 Year Credit Bond	1.1
9. Ford Motor Credit	1.0
10. Federal Home Loan Mortgage Corporation -Gold	1.0

Invests primarily in investment grade bonds and maintains an average portfolio duration that is between 0-3 years.

% 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 ²
Institutional	0.46	1.11	1.11	1.65	1.46	3.49	3.84
Investor A (Without Sales Charge) ³	0.40	0.85	0.85	1.41	1.18	3.15	3.44
Investor A (With Sales Charge) ³	-1.86	-1.42	-1.42	0.64	0.72	2.92	3.35
Morningstar Short-Term Bond Category Avg.	0.45	0.92	0.92	1.66	1.25	2.65	—
BofA ML 1-3 Year Govt./Corp. ⁴	1.17	1.63	1.63	1.26	1.04	1.56	—

Expenses for Institutional shares: Total 0.42%; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) 0.40%. For Investor A shares: Total 0.78%; Net, Including Investment Related Expenses 0.65%. 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 2.25% 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: 0.40%; for Investor A shares: 0.65%.

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. International investing involves special risks including, but not limited to political risks, currency fluctuations, illiquidity and volatility. These risks may be heightened for investments in emerging markets. 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 Class R shares are sold to a limited group of investors, including certain retirement plans. See prospectus for details. ² Fund inception: 7/17/92. ³ The performance information for periods prior to the inception date of the Investor A share class (1/12/96) is based on the performance of the fund's Institutional shares, adjusted to reflect the fees and expenses applicable to the Investor A share class. See the fund prospectus for more details. ⁴ The unmanaged BofA Merrill Lynch 1-3 Year Corporate/Government Index comprises investment-grade corporate bonds and U.S. government agency and U.S. treasury securities with maturities between 1 and 3 years. †† 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 Short-Term Bond funds over the following time periods: 472 in the last 3 years, 405 in the last 5 years and 263 in the last 10 years. With respect to these Short-Term Bond funds, the fund received a Morningstar Rating of 3, 3 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.

FOR MORE INFORMATION OR TO RECEIVE UPDATES, VISIT: blackrock.com

©2019 BlackRock, Inc. All Rights Reserved. BLACKROCK is a registered trademark of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

Prepared by BlackRock Investments, LLC, member FINRA.

Not FDIC Insured • May Lose Value • No Bank Guarantee

01/19 — Low Duration Bond Fund

BLACKROCK®

USRMH0219U-733513-2/2