

SHORT-TERM MUNICIPAL FUND

BLACKROCK®

4Q
2018
COMMENTARY

Inst: MALMX • A: MELMX • C: MFLMX • Class K: MPLMX

- ▶ The fund posted returns of 0.55% (Institutional shares) and 0.59% (Investor A shares, without sales charge) for the fourth quarter of 2018.
- ▶ We increased exposure to credit, which contributed to returns. Our overweight positions in corporates, health care, and school districts benefited performance. However, the fund's positioning on the yield curve detracted. Other detractors included the fund's underweight exposures to pre-refunded securities and tax-backed states.
- ▶ We reduced the fund's duration (sensitivity to interest rates) versus the benchmark by selling underperforming maturities. The fund had underweight allocations to pre-refunded securities. We added corporate bonds in A and BBB rated security structures in primary and secondary markets. The fund held overweight allocations to tax-backed local securities, school districts, health care, and corporates. Exposure to floating-rate notes via variable-rate demand notes was overweight, as a hedge against Federal Reserve (Fed) rate hikes.

Contributors	Detractors
Contributors included an overweight position in A and BBB rated securities, and overweight exposure to securities with maturities of 0–1 and 2–3 years. The fund's overweight in tax-backed locals, school districts, health care, and corporates was beneficial.	Detractors included an underweight position in AAA rated and rated pre-refunded securities. The fund's underweight exposure to the tax-backed states sector and underweight in securities maturing in 3–4 years detracted too.

Further Insight

As the Fed continued to normalize rates, we maintained a defensive strategy while tactically repositioning the fund. We reduced holdings expected to underperform the market when rates rose. We maintained an elevated exposure to floating-rate securities, which provide a hedge to increasing rates. We pursued one-year local operating financing notes with A–AA underlying ratings – these offered spreads over AAA rated bonds. We utilized new bond issuance and secondary bid-wanted activity to invest in credit issues rated A and BBB in the 2–4-year part of curve; these also offered a spread over the AAA rated bonds. The investment strategy is designed around positioning the fund to benefit from a limited number of additional Fed rate hikes.

Portfolio Management

Marie Sheehan,
William A. Henderson Jr.,
Kevin Schiatta

TOP 10 HOLDINGS

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

1. Connecticut St 04/15/2021	5	2.2
2. New Jersey St Transn Tr Fd Aut 5 06/15/2020		2.2
3. Central Plains Energy Proj Neb 5 08/01/2039		1.6
4. Connecticut St 04/15/2020	5	1.6
5. Grant Cnty Wash Pub Util Dist 2 01/01/2044		1.6
6. New Jersey Economic Dev Auth R 5 06/15/2021		1.5
7. New Jersey Economic Dev Auth R 5 03/01/2022		1.1
8. New Jersey Economic Dev Auth R 5 06/15/2020		1.1
9. Pennsylvania St 07/01/2020	5	1.0
10. Pennsylvania St 06/01/2022	5	1.0

Invests primarily in investment-grade municipal bonds or municipal notes having a maturity of less than 4 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 ¹
Institutional	0.55	1.44	1.44	0.78	0.58	1.01	3.82
Investor A (Without Sales Charge) ²	0.59	1.30	1.30	0.53	0.34	0.76	3.56
Investor A (With Sales Charge) ²	-2.43	-1.74	-1.74	-0.49	-0.27	0.45	3.48
Morningstar Muni National Short Category Avg.	0.72	1.18	1.18	0.90	1.01	1.83	—
S&P Municipal Bond ³	1.52	1.36	1.36	2.34	3.88	5.11	—
S&P Limited Maturity Municipal Bond ⁴	0.88	1.76	1.76	1.08	1.00	1.59	—

Expenses for Institutional shares: Total 0.49%; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) 0.36%. For Investor A shares: Total 0.68%; Net, Including Investment Related Expenses 0.61%. Institutional and Investor A shares have contractual waivers with an end date of 10/31/19 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 3% 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: 0.36%; for Investor A shares: 0.61%.

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. 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. 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 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: 11/2/79. ² The performance information for periods prior to the inception date (10/2/06) 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 Standard & Poor's Municipal Bond Index measures the U.S. municipal market performance of bonds issued by states or municipalities. All bonds in the index are exempt from U.S. federal income taxes or subject to the alternative minimum tax. ⁴ The S&P's Limited-Maturity Municipal Bond Index consists of municipal bonds with maturities between 6 months and 4 years.

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 — Short-Term Municipal Fund

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