

# California Municipal Opportunities Fund



Inst: **MACMX** A: **MECMX** C: **MFCMX** K: **MKCMX**

## Commentary as of 03/31/24

- The fund posted returns of 0.81% (Institutional shares) and 0.67% (Investor A shares, without sales charge) for the first quarter of 2024.
- The fund outperformed its benchmark as it benefited from its longer duration exposure (higher interest rate sensitivity) at the beginning of the quarter. A higher overall yield was beneficial, with a greater degree of total return coming from income rather than price appreciation. Off-benchmark positions in non-investment grade securities were helpful, as was the holding in Puerto Rico Electric Power Authority (PREPA) securities.
- The fund had a quality bias during the quarter. The cash reserve was lowered to 5%, duration of 5.66 years compared with the benchmark's 6.50 years, and 11.2% of securities were exposed to alternative minimum tax bonds. The fund maintained 2.2% leverage (borrowed capital) from tender option bonds, and had overweight positions in the corporate-backed and utilities sectors.

Contributors	Detractors
Overall, the quarter was mildly positive. Early in the quarter, long duration, long maturity debt rallied and we took the opportunity to trim exposure in this area. The holding in PREPA securities was beneficial as the restructuring proceedings progressed in court. A higher current distribution yield income contributed as price appreciation was limited. Overweight positions in the utilities and corporate-backed sectors, predominantly prepaid gas securities, delivered above-benchmark returns.	The negatively convex nature (where duration lengthens as rates rise) of a portion of the fund's holdings detracted. These securities tend to be more defensive and appreciate at a slower pace than longer duration credit. However, this was a very minor negative as these structures fared well later in the quarter. The fund is categorized as being intermediate duration, state-specific, while its benchmark is a long duration, general market index. In periods of small price changes this matters less, as it did this quarter.

## Further insight

Market activity was limited during the quarter. Supply/demand technical factors have been very supportive as new issue supply has got off to a slow start and investor demand has been more than sufficient. This has resulted in the historically "tight" (unattractive) relative value of tax-exempt yields to taxable alternatives. A unique challenge for the sector is the movement to refund taxable Build America Bonds with tax-exempt debt, due to this rich relationship of tax-exempt paper. The University of California was among the first deals to attempt this type of re-financing. If this continues, it could increase supply to a point where relative yields return to a more historically normal ratio. Overall, investors have actively bought nominal yields that provide a better income than has been available in recent years. California credits, in general, remain solid and fit the quality profile of retail investors seeking tax-exempt income.

## ★★★★★ Morningstar Overall™

Institutional shares rated against 59 Muni California Intermediate Funds, as of 3/31/24, 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

Theodore Jaeckel, Peter Hayes, Walter O'Connor, James Pruskowski, Michael Kalinoski

## Top 10 holdings (%)

California Cmnty Choice Fing A 5.25 11/01/2054	2.38
Ventura Cnty Calif 5.15 07/01/2024	2.26
California Cmnty Choice Fing A 5 02/01/2054	2.25
San Francisco Calif City & Cnt 5 10/01/2043	1.98
Tob 5 544532ec4 Losutl 144a	1.71
California Cmnty Choice Fing A 5 05/01/2054	1.66
Eastern Mun Wtr Fing Auth Cali 5 07/01/2047	1.63
San Francisco Calif City & Cnt 5 05/01/2047	1.59
University Calif Revs 5 05/15/2043	1.54
East Bay Calif Mun Util Dist W 5 06/01/2042	1.40

## Investment approach

Invests flexibly in California municipal bonds; seeks tax-advantaged income in diverse interest rate environments.

## Average annual total returns (%) as of 3/31/24

	1Q24 (not annualized)	YTD (not annualized)	1 Year	3 Year	5 Years	10 Years
<b>Institutional</b>	0.81	0.81	4.38	0.03	1.49	3.00
<b>Investor A (Without Sales Charge)</b>	0.67	0.67	4.04	-0.24	1.23	2.75
<b>Investor A (With Sales Charge)</b>	-3.61	-3.61	-0.38	-1.68	0.35	2.30
<b>BBG Municipal Bond<sup>1</sup></b>	-0.09	-0.09	3.34	-0.20	1.66	2.69
<b>BBG Custom California Municipal Bond<sup>2</sup></b>	-0.14	-0.14	3.66	-0.67	1.65	3.20

Expenses for Institutional shares: Total **0.65%**; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) **0.61%**. For Investor A shares: Total **0.88%**; Net, Including Investment Related Expenses **0.85%**. Institutional and Investor A shares have contractual waivers with an end date of 06/30/2025 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](http://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 4.25% 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: **0.44%**; for Investor A shares: **0.68%**.

**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. Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities. The fund may invest up to 50% in non-investment-grade/high-yield bonds. 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 public corporations. The market for municipal bonds may be less liquid than taxable bonds. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions are taxable. Concentrating in a single state is subject to greater risk of adverse economic conditions and regulatory changes.

The opinions expressed are those of the fund's portfolio management team as of March 31, 2024, 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.

BlackRock provides compensation in connection with obtaining or using third-party ratings and rankings.

**1** The BBG Municipal Bond Index measures the U.S. municipal market performance of bonds issued by states or municipalities and are exempt from federal income and alternative minimum tax. The state level municipal bond indices consist of bonds that have been issued by municipalities or municipal authorities within the 50 states, the District of Columbia, Puerto Rico and the US Virgin Islands. **2** The BBG Custom California Municipal Bond Index measures the performance of municipal bonds issued in California. All bonds in the index are exempt from U.S. federal income taxes or subject to the alternative minimum tax. **3** 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 Muni California Intermediate funds over the following time periods: 59 in the last 3 years, 59 in the last 5 years and 46 in the last 10 years. With respect to these Muni California Intermediate funds, the fund received a Morningstar Rating of 4, 4 and 5 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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