

# CALIFORNIA MUNICIPAL OPPORTUNITIES FUND

# BLACKROCK®

## 4Q 2018 COMMENTARY

Inst: MACMX<sup>1</sup> • A: MECMX • C: MFCMX

- ▶ The fund posted returns of 0.05% (Institutional shares) and -0.02% (Investor A shares, without sales charge) for the fourth quarter of 2018.
- ▶ Rates declined significantly over the quarter, and the yield curve flattened. Hedging detracted the most from returns. The fund's longer duration (sensitivity to interest rates) and lower cash reserves were beneficial, as rates fell. Quality securities (rated AAA and AA) outperformed lower-rated investment grade. Within credit, all sectors delivered strong returns.
- ▶ The fund held a bias toward quality assets, with an average rating of AA3/AA. Its duration (sensitivity to interest rates) was lower than the benchmark, due to a hedge. Within the fund, 4.8% of securities were exposed to alternative minimum tax. The fund held overweight positions in local counties, school districts and utilities – also in pre-refunded securities. Our emphasis was on income accrual, and the fund was fully invested. The fund's leverage (borrowed capital) stood at 8%, represented by tender option bonds.

Contributors	Detractors
The fund had a fully invested posture, with cash reserves pared down to 1%. The fund's duration was longer, and income accrual was higher. This positioning was beneficial – longer-duration securities appreciated the most as rates fell. The fund's increased leverage also contributed, providing additional duration and yield. Elsewhere, all credit sectors delivered strong results.	The fund's hedge was the main detractor, explaining underperformance over the quarter.

## Further Insight

Volatility in U.S. equities created a flight to safety in high-quality debt markets. U.S. Treasuries were the chief beneficiaries – the 10-year Treasury rallied from a high of 3.25% to 2.65%. The fund's fully invested posture and additional leverage was counteracted by the hedge employed to manage interest rate risk. The hedge had a positive effect in 2018 overall, but hurt performance as rates fell. Cash flows into California tax-exempt funds turned negative in the final quarter, leading to an underperformance of tax-exempt securities compared with taxable Treasuries. California municipals underperformed other states due to a calendar of sizeable primary issuance. Limited liquidity in the secondary market from the dealer community exacerbated price moves at year end.

## Overall Morningstar Rating®: Institutional



Rated against 60 Muni California Intermediate 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.<sup>††</sup>

## Portfolio Management

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

## TOP 10 HOLDINGS

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

1. Los Angeles Calif Uni Sch Dist 5.25 07/01/2042	2.9
2. California St 08/01/2037	2.1
3. Los Angeles Calif Dept Wtr & P 5 07/01/2041	2.0
4. San Mateo Cnty Calif Cmnty Col 5 09/01/2045	1.9
5. Tob 5 91412haz6 Unvhgr 144a	1.9
6. Tob 5 79768hfm5 Sfoutl 144a	1.9
7. Tob 5.25 79766dkh1 Sfoapt 144a	1.8
8. Tob 5 27677saw3 Easwtr 144a	1.6
9. Tob 5 13077dex6 Cashgr 144a	1.6
10. Los Angeles Calif Dept Arpts Arpt 5 05/15/2040	1.5

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

## % 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 <sup>2</sup>
Institutional <sup>1</sup>	0.05	1.26	1.26	2.93	5.15	5.86	5.67
Investor A (Without Sales Charge) <sup>2</sup>	-0.02	1.00	1.00	2.68	4.91	5.63	5.41
Investor A (With Sales Charge) <sup>2</sup>	-4.27	-3.29	-3.29	1.20	4.01	5.17	5.26
Morningstar Muni California Intermediate Category Avg.	1.10	0.84	0.84	1.53	2.95	4.17	—
S&P Municipal Bond <sup>3</sup>	1.52	1.36	1.36	2.34	3.88	5.11	—
S&P Custom California Municipal Bond <sup>4</sup>	1.48	0.85	0.85	2.73	5.11	—	—

Expenses for Institutional shares: Total 0.58%; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) 0.55%. For Investor A shares: Total 0.82%; Net, Including Investment Related Expenses 0.80%. Institutional and Investor A shares have contractual waivers with an end date of 9/30/19 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](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: 0.69%.

**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 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: 9/30/85. **2** The performance information for periods prior to the inception date of the Investor A share class (10/2/06) 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. **3** The Standard & Poor's 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. **4** The Standard & Poor's 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. †† 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: 60 in the last 3 years, 56 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 5, 5 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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01/19 — California Municipal Opportunities Fund

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