

California Municipal Opportunities Fund

BlackRock

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

Commentary as of 12/31/23

- The fund posted returns of 6.40% (Institutional shares) and 6.34% (Investor A shares, without sales charge) for the fourth quarter of 2023.
- The fund underperformed its benchmark during the quarter. Overall rates declined significantly and longer duration (higher sensitivity to interest rate movements), longer maturity credit performed best. The fund had a shorter duration exposure, which detracted from performance. Investment grade bonds outperformed high yield, especially high yield issues that fell below the “de minimis” tax threshold and discount structures.
- The fund had a quality bias during the quarter. The cash reserve was reduced to 5.0%, duration of 5.66 years was below 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 exposures to the corporate-backed and utilities sector.

Contributors	Detractors
Long duration, long maturity bonds benefited returns, with the historic fall in rates helping the longest duration exposures to perform the best. Securities that were more defensively structured, of which the fund held a sizeable proportion, were positive, albeit less so. Lower coupon investment grade structures rebounded from sub-de minimis levels and were again favored by retail-based buyers. The utilities sector delivered above-benchmark returns, and while an overweight exposure to prepaid gas bonds generated a positive return, it trailed the benchmark.	The fund’s cash reserves, which began at 7.2% and were reduced to 5.0% by quarter-end, weighed on returns. Zero duration was a negative for performance as prices for longer maturity bonds declined significantly. Lower duration “cushion bonds” also hampered returns. Higher coupon, shorter calls, where price volatility was muted as rates increased earlier in the quarter, detracted. A more aggressive posture would have delivered a stronger return. Hedging via short U.S. Treasury futures was also negative, as rates declined.

Further insight

The California municipal market benefited from the strongest two-month decline in rates in several decades. Despite declining revenues at the state and local level, demand for California municipal bonds accelerated as performance improved for the overall debt market. As powerful as the past quarter was, markets will still need to contend with the following concerns: can the Federal Reserve satisfy market expectations for interest rate cuts, mutual fund outflows continue, and how will municipal credit fare if the economy experiences a recession? Funds like ours need to maintain a degree of liquidity in cash reserves, though recent performance indicates that market back-ups should be used to extend duration and risk to get closer to the benchmark.

★★★★ Morningstar Overall™

Institutional shares rated against 59 Muni California Intermediate Funds, as of 12/31/23, 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	2.39
California Cmnty Choice Fing A 5 02/01/2054	2.33
Ventura Cnty Calif 5.15 07/01/2024	2.25
San Francisco Calif City & Cnt 5 10/01/2043	1.99
Tob 5 544532ec4 Losutl 144a	1.78
Eastern Mun Wtr Fing Auth Cali 5 07/01/2047	1.68
San Francisco Calif City & Cnt 5 05/01/2047	1.59
East Bay Calif Mun Util Dist W 5 06/01/2042	1.42
San Francisco Calif City & Cnt 5.25 05/01/2042	1.39
San Francisco Calif City & Cnt 5 05/01/2046	1.36

Investment approach

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

Average annual total returns (%) as of 12/31/23

	4Q23 (not annualized)	YTD (not annualized)	1 Year	3 Year	5 Years	10 Years
Institutional	6.40	5.27	5.27	0.41	1.80	3.46
Investor A (Without Sales Charge)	6.34	5.01	5.01	0.17	1.55	3.22
Investor A (With Sales Charge)	1.82	0.55	0.55	-1.27	0.67	2.77
BBG Municipal Bond¹	7.18	6.03	6.03	-0.26	2.24	3.06
BBG Custom California Municipal Bond²	8.49	6.86	6.86	-0.85	2.33	3.71

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](https://www.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 December 31, 2023, 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. ^{††} 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 5, 3 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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