

# California Municipal Opportunities Fund

# BlackRock®

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

## Commentary as of 12/31/20

- The fund posted returns of 3.02% (Institutional shares) and 2.96% (Investor A shares, without sales charge) for the fourth quarter of 2020.
- The fund's longer-dated securities and short-call bonds contributed to returns. The fund's hedging was successful too. A short position in U.S. Treasuries was profitable as rates rose for the 10- and 30-year maturities. On the margin, leverage (borrowed capital) provided higher income accrual and total returns as tax-exempt rates rallied. Securities from school districts, transportation, and utilities contributed.
- The fund held a quality bias, with an average rating of AA2/AA. The fund's duration (interest rate sensitivity) was around six years. In the fund, 11.2% of securities were exposed to alternative minimum tax. The fund had an overweight position in utilities (essential service revenue bonds) with high exposures to transportation and local school districts. A significant cash reserve was held, averaging 4%, which rose to 6% at quarter-end. Leverage was stable, at 5%.

Contributors	Detractors
<p>The strong performance of municipal bonds contributed. Longer-dated duration exposure helped as municipal bond prices rallied. The fund's hedging was helpful as short U.S. Treasuries benefited from rising taxable rates. Essential service revenue bonds, transportation, and utilities fared well as retail investors favored revenue bonds for income-flow certainty. High yield exposure (17%) was beneficial as credit spreads tightened. Two rather different structures performed well: long maturity (duration) bonds, and bonds subject to short calls, which provide income at lower U.S. dollar prices.</p>	<p>The fund's cash reserve position represented an opportunity loss, as longer-maturity bonds performed well in the rally. Cash reserves were an opportunity loss in two ways: firstly, longer-dated assets would have had stronger total returns during the rally, and secondly, higher-yielding assets would have increased income accrual for shareholders.</p>

## Further insight

Counterintuitively, municipal credit has held up very well during the pandemic. The California state economy delivered surprisingly strong revenue results. The Democrats' victory in the election provides a strong technical backdrop for the asset class – higher taxes and the potential for greater stimulus aid to municipalities. California state-specific mutual funds saw steady retail demand. Short-term borrowing costs for closed-ended leveraged products fell. The one downside is that valuations, both relative to taxable securities and absolute yields, are high by any historical comparison. For now, investor demand for tax-free income is strong, as it has often been in the past, when the temptation is to “chase performance.”

## ★★★★ Morningstar Overall™

Institutional shares rated against 62 Muni California Intermediate Funds, as of 12/31/20, 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 (%)

Fremont Calif Uni Sch Dist Ala 4 08/01/2046	2.38
Golden St Tob Securitization C 5 06/01/2047	2.27
Los Angeles Calif Dept Wtr & P 5 07/01/2041	2.10
Tob 5 91412haz6 Unvhgr 144a	1.71
Tob 4 677765dw6 Ohlhgr 144a	1.70
Tob 5 79768hfm5 Sfoutl 144a	1.69
San Francisco Calif City & Cnt 5.25 05/01/2042	1.58
Southern Calif Pub Pwr Auth Re 5 07/01/2030	1.55
Santa Monica Calif Cmnty Colle 4 08/01/2044	1.48
Tob 5 27677saw3 Easwtr 144a	1.46

## Investment approach

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

## Average annual total returns (%) as of 12/31/20

	4Q20 (not annualized)	YTD (not annualized)	1 Year	3 Year	5 Years	10 Years	Since Inception <sup>1</sup>
<b>Institutional</b>	3.02	1.46	1.46	3.02	3.32	5.18	5.56
<b>Investor A (Without Sales Charge)</b>	2.96	1.21	1.21	2.76	3.07	4.93	5.30
<b>Investor A (With Sales Charge)</b>	-1.42	-3.09	-3.09	1.29	2.17	4.48	5.16
<b>Morningstar Muni California Intermediate Category Avg.</b>	1.56	3.67	3.67	3.46	2.86	3.88	—
<b>S&amp;P Municipal Bond<sup>1</sup></b>	1.72	4.95	4.95	4.49	3.83	4.66	—
<b>S&amp;P Custom California Municipal Bond<sup>2</sup></b>	2.00	5.80	5.80	5.11	4.53	—	—

Expenses for Institutional shares: Total **0.59%**; Net, Including Investment Related Expenses (dividend expense, interest expense, acquired fund fees and expenses and certain other fund expenses) **0.57%**. For Investor A shares: Total **0.84%**; Net, Including Investment Related Expenses **0.82%**. Institutional and Investor A shares have contractual waivers with an end date of 09/30/2021 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: **0.43%**; 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, 2020, 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.

**1** 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. **2** 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: 62 in the last 3 years, 57 in the last 5 years and 49 in the last 10 years. With respect to these Muni California Intermediate funds, the fund received a Morningstar Rating of 3, 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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