

MFS CALIFORNIA MUNICIPAL FUND  
Form N-CSR  
January 22, 2019

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF**  
**REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-09537

**MFS CALIFORNIA MUNICIPAL FUND**

(Exact name of registrant as specified in charter)

**111 Huntington Avenue, Boston, Massachusetts 02199**

(Address of principal executive offices) (Zip code)

**Christopher R. Bohane**

**Massachusetts Financial Services Company**

**111 Huntington Avenue**

**Boston, Massachusetts 02199**

(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: November 30, 2018

**ITEM 1. REPORTS TO STOCKHOLDERS.**

Annual Report

November 30, 2018

## MFS® California Municipal Fund

Beginning on January 1, 2021, as permitted by regulations adopted by the U.S. Securities and Exchange Commission, paper copies of the fund's annual and semiannual shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports. Instead, the complete reports will be made available on the fund's Web site, and you will be notified by mail each time a report is posted and provided with a Web site link to access the report.

If you are already signed up to receive shareholder reports by email, you will not be affected by this change and you need not take any action. You may sign up to receive shareholder reports and other communications from the fund by email by contacting your financial intermediary (such as a broker-dealer or bank) or, if you hold your shares directly with the fund, by calling 1-800-637-2304 or by logging into your Investor Center account at [www.computershare.com/investor](http://www.computershare.com/investor).

Beginning on January 1, 2019, you may elect to receive all future reports in paper free of charge. Contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. If you invest directly with the fund, you can call 1-800-637-2304 to let the fund know that you wish to continue receiving paper copies of your shareholder reports. Your election to receive reports in paper will apply to all funds held in your account if you invest through your financial intermediary or all funds held with the MFS fund complex if you invest directly.

CCA-ANN

## MFS® California Municipal Fund

NYSE American Symbol: CCA

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## LETTER FROM THE EXECUTIVE CHAIRMAN

Dear Shareholders:

Higher bond yields, international trade friction, and geopolitical uncertainty have contributed to an uptick in market volatility in recent quarters a departure from the

low-volatility environment that prevailed for much of 2017. Against this more challenging backdrop, equity markets in the United States have outperformed most international markets on a relative basis, though returns have been modest year to date on an absolute basis. Global economic growth has become less synchronized over the past few months, with Europe, China, and some emerging markets having shown signs of slowing growth while U.S. growth has remained above average.

Although the U.S. Federal Reserve continues to gradually raise interest rates and shrink its balance sheet, monetary policy remains fairly accommodative around the world, with many central banks taking only tentative steps toward tighter policies.

U.S. tax reforms adopted in late 2017 have been welcomed by equity markets while emerging market economies have recently had to contend with tighter financial conditions as a result of firmer U.S. Treasury yields and a stronger dollar. With the Republicans losing control of the U.S. House of Representatives, further meaningful U.S. fiscal stimulus appears less likely. A partial U.S. government shutdown, beginning in late 2018, also added to political uncertainty. Globally, inflation remains largely subdued, but tight labor markets and moderate global demand have investors on the lookout for its potential reappearance. Increased U.S. protectionism is also a growing concern, as investors fear trade disputes could dampen business sentiment, leading to even slower global growth. While there has been progress on this front a NAFTA replacement has been agreed upon between the U.S., Mexico, and Canada; the free trade pact with Korea has been updated; and a negotiating framework with the European Union has been agreed upon tensions over trade with China remain quite high.

As a global investment manager with nearly a century of expertise, MFS® firmly believes active risk management offers downside mitigation and may help improve investment outcomes. We built our active investment platform with this belief in mind. Our long-term perspective influences nearly every aspect of our business, ensuring our investment decisions align with the investing time horizons of our clients.

Respectfully,

**Robert J. Manning**

Executive Chairman

MFS Investment Management

January 15, 2019

The opinions expressed in this letter are subject to change and may not be relied upon for investment advice. No forecasts can be guaranteed.

## PORTFOLIO COMPOSITION

### Portfolio structure (i)(j)

|   |           |
|---|-----------|
| <b>Top five industries (i)</b>                                  |           |
| General Obligations Schools                                     | 40.4%     |
| Healthcare Revenue Hospitals                                    | 25.8%     |
| Water & Sewer Utility Revenue                                   | 13.3%     |
| State & Local Agencies  | 13.2%     |
| Airport Revenue   | 11.5%     |
| <b>Composition including fixed income credit quality (a)(i)</b> |           |
| AAA   | 2.6%      |
| AA  | 76.4%     |
| A   | 44.8%     |
| BBB   | 31.4%     |
| BB  | 2.6%      |
| CC  | 0.3%      |
| C   | 2.9%      |
| D   | 1.2%      |
| Not Rated (j)   | (1.7)%    |
| Cash & Cash Equivalents (Less Liabilities)                      | (70.8)%   |
| Other   | 10.3%     |
| <b>Portfolio facts (i)</b>                                      |           |
| Average Duration (d)  | 12.1      |
| Average Effective Maturity (m)                                  | 16.5 yrs. |
| <b>Jurisdiction (i)</b>   |           |
| California  | 162.2%    |
| Puerto Rico   | 5.4%      |
| New York  | 1.8%      |
| Guam  | 1.4%      |
| U.S. Treasury Securities (j)                                    | (10.3)%   |

- (a) For all securities other than those specifically described below, ratings are assigned to underlying securities utilizing ratings from Moody's, Fitch, and Standard & Poor's rating agencies and applying the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). Securities rated BBB or higher are considered investment grade. All ratings are subject to change. Not Rated includes fixed income securities and fixed income derivatives, which have not been rated by any rating agency. The fund may or may not have held all of these instruments on this date. The fund is not rated by these agencies.
- (d) Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move. This calculation is based on net assets applicable to common shares as of November 30, 2018.

*Portfolio Composition continued*

- (i) For purposes of this presentation, the components include the value of securities, and reflect the impact of the equivalent exposure of derivative positions, if any. These amounts may be negative from time to time. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio's ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than value. The bond component will include any accrued interest amounts.
- (j) For the purpose of managing the fund's duration, the fund holds short treasury futures with a bond equivalent exposure of (10.3)%, which reduce the fund's interest rate exposure but not its credit exposure.
- (m) In determining each instrument's effective maturity for purposes of calculating the fund's dollar-weighted average effective maturity, MFS uses the instrument's stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument's stated maturity. This calculation is based on gross assets, which consists of net assets applicable to common shares plus the value of preferred shares, as of November 30, 2018.

Cash & Cash Equivalents includes any cash, investments in money market funds, short-term securities, and other assets less liabilities. Please see the Statement of Assets and Liabilities for additional information related to the fund's cash position and other assets and liabilities.

Cash & Cash Equivalents is negative due to the aggregate liquidation value of variable rate municipal term preferred shares.

Other includes equivalent exposure from currency derivatives and/or any offsets to derivative positions.

Percentages are based on net assets applicable to common shares as of November 30, 2018.

The portfolio is actively managed and current holdings may be different.

## MANAGEMENT REVIEW

### Summary of Results

MFS California Municipal Fund ( fund ) is a closed-end fund. The fund's investment objective is to seek high current income exempt from federal income tax and California personal income tax, but may also consider capital appreciation. The fund invests, under normal market conditions, at least 80% of its net assets, including assets attributable to preferred shares and borrowings for investment purposes, in debt securities the interest on which in the opinion of issuer counsel (or other reputable authority) is exempt from federal regular income tax and California personal income tax.

For the twelve months ended November 30, 2018, shares of the fund provided a total return of 0.10%, at net asset value and a total return of 11.94%, at market value. This compares with a return of 1.13% for the fund's benchmark, the Bloomberg Barclays Municipal Bond Index.

The performance commentary below is based on the net asset value performance of the fund which reflects the performance of the underlying pool of assets held by the fund. The total return at market value represents the return earned by owners of the shares of the fund which are traded publicly on the exchange.

### Market Environment

During the reporting period, the US Federal Reserve ( Fed ) raised interest rates by 100 basis points, bringing the total number of rate hikes to eight since the central bank began to normalize monetary policy in late 2015. Economic growth rates in the US, eurozone and Japan remained above trend despite a slowing in global growth, particularly toward the end of the period. Inflation remained contained, particularly outside the US. Late in the period, the European Central Bank announced that it would halt its asset purchase program at the end of 2018, but issued forward guidance that it does not expect to raise interest rates at least until after the summer of 2019. Both the Bank of England and the Bank of Canada raised rates several times during the period. The European political backdrop became a bit more volatile late in the period, spurred by concerns over cohesion in the eurozone after the election of an anti-establishment, Eurosceptic coalition government in Italy.

Bond yields rose in the US during the period but remained low by historical standards, while yields in many developed markets fell. Outside of emerging markets, where spreads and currencies came under pressure, credit spreads remained quite tight until the end of the period when thinner liquidity, lower oil prices and concerns over high degrees of corporate leverage emerged. Growing concern over increasing global trade friction appeared to have weighed on business sentiment during the period's second half, especially outside the US. Tighter financial conditions from rising US rates and a strong dollar, combined with trade uncertainty, helped expose structural weaknesses in several emerging markets in the second half of the period.

Volatility increased at the end of the period amid signs of slowing global economic growth and increasing trade tensions, which prompted a market setback shortly after US markets set record highs in September. It was the second such equity market decline during the reporting period. The correction came despite a third consecutive



*Management Review continued*

quarter of strong growth in US earnings per share. Strong earnings growth, combined with the market decline, brought US equity valuations down from elevated levels, earlier in the period, to multiples more in line with long-term averages. While the US economy maintained its strength, global economic growth became less synchronized during the period, with Europe and China showing signs of a modest slowdown and some emerging markets coming under stress.

10-Year US Treasury yields generally rose during the reporting period, driven by a number of factors, including the passage of a number of fiscal stimulus measures and indications that the Fed was likely to continue raising short-term interest rates. Municipal bond yields also rose during the period, although not as much as treasuries. The Fed raised interest rates four times during the reporting period, and signaled that further gradual increases in interest rates would be likely.

The rise in yields was most pronounced during the first half of the reporting period amid the passage of the Tax Cuts and Jobs Act, which cut individual and corporate tax rates and provided for a larger-than-expected fiscal spending package. This appeared to have led investors to increase expectations for better economic growth and a potential increase in inflationary pressures, which pushed bond yields higher. Subsequent to the increase in yields during the first half of the reporting period, bond yields remained largely range-bound, with solid US economic data putting upward pressure on yields while uncertainty regarding slowing global growth, coupled with concerns about escalating trade tensions and muted signs of inflation, pushed yields lower.

Against this backdrop, municipal bonds provided slightly positive total returns, with the yield generated by the asset class offsetting negative price returns for the period, amid the rise in municipal yields. Other notable events during the year included a strong recovery in bonds issued by Puerto Rico, which were boosted by ongoing progress in restructuring negotiations.

**Factors Affecting Performance**

Relative to the Bloomberg Barclays Municipal Bond Index, the fund's bond selection within the *health care, local government and education* sectors, particularly within BBB, A and AA bonds, held back performance.

The fund employs leverage which has been created through the issuance of variable rate municipal term preferred shares. To the extent that investments are purchased through the use of leverage, the fund's net asset value will increase or decrease at a greater rate than a comparable unleveraged fund. During the reporting period, the use of leverage had a negative impact on the fund's performance.

Conversely, the fund's out-of-benchmark exposure to both the C and D rated bond segments, and a greater-than-benchmark exposure to BBB rated securities, was a positive factor for relative performance.

Respectfully,

Portfolio Manager(s)

Michael Dawson and Geoffrey Schechter

*Management Review continued*

(r) Bonds rated BBB , Baa , or higher are considered investment grade; bonds rated BB , Ba , or below are considered non-investment grade. The source for bond quality ratings is Moody's Investors Service, Standard & Poor's and Fitch, Inc. and are applied using the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). For securities which are not rated by any of the three agencies, the security is considered Not Rated. The views expressed in this report are those of the portfolio manager(s) only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or an indication of trading intent on behalf of any MFS portfolio. References to specific securities are not recommendations of such securities, and may not be representative of any MFS portfolio's current or future investments.

## PERFORMANCE SUMMARY THROUGH 11/30/18

The following chart presents the fund's historical performance in comparison to its benchmark(s). Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a shareholder would pay on fund distributions or the sale of fund shares. Performance data shown represents past performance and is no guarantee of future results.

### Price Summary for MFS California Municipal Fund

|            | Net Asset Value     | Date                | Price   |
|------------|---------------------|---------------------|---------|
|            |                     | 11/30/18            | \$11.88 |
|            |                     | 11/30/17            | \$12.44 |
|            | NYSE American Price | 11/30/18            | \$9.95  |
| Year Ended |                     | 12/06/17 (high) (t) | \$11.76 |
| 11/30/18   |                     | 11/20/18 (low) (t)  | \$9.80  |
|            |                     | 11/30/17            | \$11.82 |

### Total Returns vs Benchmark(s)

|            |  |          |
|------------|--|----------|
| Year Ended | MFS California Municipal Fund at NYSE American Price (r) | (11.94)% |
| 11/30/18   | Net Asset Value (r)                                      | (0.10)%  |
|            | Bloomberg Barclays Municipal Bond Index (f)              | 1.13%    |

(f) Source: FactSet Research Systems Inc.

(r) Includes reinvestment of all distributions.

(t) For the period December 1, 2017 through November 30, 2018.

### Benchmark Definition(s)

Bloomberg Barclays Municipal Bond Index a market capitalization-weighted index that measures the performance of the tax-exempt bond market.

It is not possible to invest directly in an index.

### Notes to Performance Summary

The fund's shares may trade at a discount or premium to net asset value. When fund shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund's concurrent liquidation.

*Performance Summary continued*

The fund's monthly distributions may include a return of capital to shareholders to the extent that distributions are in excess of the fund's net investment income and net capital gains, determined in accordance with federal income tax regulations. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder's basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. Returns of shareholder capital may have the effect of reducing the fund's assets and increasing the fund's expense ratio.

Net asset values and performance results based on net asset value per share do not include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles and may differ from amounts reported in the Statement of Assets and Liabilities or the Financial Highlights.

A portion of the fund's monthly distributions may be subject to state, federal, and/or alternative minimum tax. Capital gains, if any, are subject to a capital gains tax.

From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

In accordance with Section 23(c) of the Investment Company Act of 1940, the fund hereby gives notice that it may from time to time repurchase common and/or preferred shares of the fund in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.

## PORTFOLIO MANAGERS PROFILES

| <b>Portfolio Manager</b> | <b>Primary Role</b> | <b>Since</b> | <b>Title and Five Year History</b>   |
|--------------------------|---------------------|--------------|--|
| Michael Dawson           | Portfolio Manager   | 2007         | Investment Officer of MFS; employed in the investment management area of MFS since 1998. |
| Geoffrey Schechter       | Portfolio Manager   | 2007         | Investment Officer of MFS; employed in the investment management area of MFS since 1993. |

## **DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN**

The fund offers a Dividend Reinvestment and Cash Purchase Plan (the Plan) that allows common shareholders to reinvest either all of the distributions paid by the fund or only the long-term capital gains. Generally, purchases are made at the market price unless that price exceeds the net asset value (the shares are trading at a premium). If the shares are trading at a premium, purchases will be made at a price of either the net asset value or 95% of the market price, whichever is greater. You can also buy shares on a quarterly basis in any amount \$100 and over. The Plan Agent will purchase shares under the Cash Purchase Plan on the 15th of January, April, July, and October or shortly thereafter.

If shares are registered in your own name, new shareholders will automatically participate in the Plan, unless you have indicated that you do not wish to participate. If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you may wish to request that your shares be re-registered in your own name so that you can participate. There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the fund. However, when shares are bought on the NYSE American or otherwise on the open market, each participant pays a pro rata share of the transaction expenses, including commissions. The tax status of dividends and capital gain distributions does not change whether received in cash or reinvested in additional shares the automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

If your shares are held directly with the Plan Agent, you may withdraw from the Plan at any time by going to the Plan Agent's website at [www.computershare.com/investor](http://www.computershare.com/investor), by calling 1-800-637-2304 any business day from 9 a.m. to 5 p.m. Eastern time or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078. Please have available the name of the fund and your account number. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the Plan, you can receive the value of the reinvested shares in one of three ways: your full shares will be held in your account, the Plan Agent will sell your shares and send the proceeds to you, or you may transfer your full shares to your investment professional who can hold or sell them. Additionally, the Plan Agent will sell your fractional shares and send the proceeds to you.

If you have any questions or for further information or a copy of the Plan, contact the Plan Agent Computershare Trust Company, N.A. (the Transfer Agent for the fund) at 1-800-637-2304, at the Plan Agent's website at [www.computershare.com/investor](http://www.computershare.com/investor), or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078.

## PORTFOLIO OF INVESTMENTS

11/30/18

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by broad-based asset classes.

### Municipal Bonds - 168.9%

| Issuer  | Shares/Par | Value (\$)   |
|---|------------|--------------|
| <b>Airport Revenue - 11.3%</b>  |            |              |
| California Municipal Finance Authority Rev. (LINXS APM Project), A, 5%, 12/31/2043                    | \$ 340,000 | \$ 364,922   |
| Los Angeles, CA, Department of Airports Rev. (Los Angeles International), D, 5%, 5/15/2037            | 195,000    | 221,471      |
| Los Angeles, CA, Department of Airports Rev. (Los Angeles International), D, 5%, 5/15/2038            | 195,000    | 220,804      |
| Orange County, CA, Airport Rev., A, 5%, 7/01/2031   | 190,000    | 193,553      |
| San Diego County, CA, Regional Airport Authority Rev., A, 5%, 7/01/2021                               | 500,000    | 525,160      |
| San Diego County, CA, Regional Airport Authority Rev., A, 5%, 7/01/2043                               | 500,000    | 544,895      |
| San Diego County, CA, Regional Airport Authority Rev., B, 5%, 7/01/2042                               | 335,000    | 368,195      |
| San Diego County, CA, Regional Airport Authority Rev., B, 5%, 7/01/2047                               | 335,000    | 366,788      |
| San Francisco, CA, City & County Airports Commission, International Airport Rev., A, 5%, 5/01/2030    | 285,000    | 306,213      |
| San Francisco, CA, City & County Airports Commission, International Airport Rev., A, 5%, 5/01/2031    | 150,000    | 160,911      |
| San Jose, CA, Airport Rev., A-2, 5.25%, 3/01/2034   | 440,000    | 468,486      |
|   |            | \$ 3,741,398 |
| <b>General Obligations - General Purpose - 5.5%</b>   |            |              |
| Commonwealth of Puerto Rico, A, NATL, 5.5%, 7/01/2020   | \$ 165,000 | \$ 168,863   |
| Commonwealth of Puerto Rico, Public Improvement, A-4, AGM, 5%, 7/01/2031                              | 40,000     | 41,042       |
| Puerto Rico Public Buildings Authority Rev., M-2, AAC, 10%, 7/01/2035                                 | 30,000     | 31,734       |
| State of California, 5.25%, 4/01/2035   | 455,000    | 496,137      |
| State of California, 5.5%, 3/01/2040  | 630,000    | 655,767      |
| State of California, 5.25%, 11/01/2040  | 415,000    | 438,995      |
|   |            | \$ 1,832,538 |
| <b>General Obligations - Schools - 40.0%</b>  |            |              |
| Alhambra, CA, Unified School District, B, ASSD GTY, 5.25%, 8/01/2028 (Prerefunded 8/01/2019)          | \$ 500,000 | \$ 512,025   |
| Beaumont, CA, Unified School District (Election of 2008), Capital Appreciation, C, AGM, 0%, 8/01/2040 | 955,000    | 379,192      |
| Beaumont, CA, Unified School District (Election of 2008), Capital Appreciation, C, AGM, 0%, 8/01/2044 | 1,000,000  | 331,160      |

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Portfolio of Investments - continued

| Issuer  | Shares/Par | Value (\$) |
|---|------------|------------|
| <b>Municipal Bonds - continued</b>  |            |            |
| <b>General Obligations - Schools - continued</b>  |            |            |
| Folsom Cordova, CA, Unified School District (Election of 2012), A, 5%, 10/01/2038   | \$ 535,000 | \$ 592,636 |
| Imperial County, CA, Community College District Rev., BAM, 4%, 8/01/2040  | 1,000,000  | 1,028,140  |
| Imperial County, CA, Community College District Rev., C, 3.375%, 8/01/2037  | 500,000    | 476,360    |
| Imperial County, CA, Community College District Rev., Capital Appreciation, C, BAM, 0%, 8/01/2034   | 750,000    | 406,732    |
| Imperial County, CA, Community College District Rev., Capital Appreciation, C, BAM, 0%, 8/01/2035   | 1,250,000  | 643,125    |
| Lake Tahoe, CA, Unified School District (Election of 2008), Convertible Capital Appreciation, AGM, 0% to 8/01/2032, 6.375% to 8/01/2045             | 515,000    | 353,048    |
| Los Angeles, CA, Community College District, 3%, 8/01/2039  | 455,000    | 404,240    |
| Marin County, CA, San Rafael City Elementary School District Rev., B, 4%, 8/01/2047   | 405,000    | 412,505    |
| Mendocino Lake, CA, Community College District Rev. (Election of 2006), Capital Appreciation, B, AGM, 0%, 8/01/2032                                 | 330,000    | 199,739    |
| Montebello, CA, Unified School District (Election of 2004), A-1, ASSD GTY, 5.25%, 8/01/2034 (Prerefunded 8/01/2019)                                 | 355,000    | 363,421    |
| Montebello, CA, Unified School District (Election of 2016), A, 4%, 8/01/2046  | 255,000    | 255,184    |
| Mount San Antonio, CA, Community College District Rev. (Election of 2008), Convertible Capital Appreciation, A, 0% to 8/01/2028, 6.25% to 8/01/2043 | 855,000    | 697,800    |
| Napa Valley, CA, Unified School District, 5%, 8/01/2020   | 225,000    | 236,819    |
| Oakland, CA, Unified School District Rev., AGM, 5%, 8/01/2028   | 170,000    | 195,694    |
| Oakland, CA, Unified School District Rev., AGM, 5%, 8/01/2030   | 170,000    | 194,573    |
| Oxnard, CA, School District (Ventura County), A, BAM, 5%, 8/01/2045   | 410,000    | 459,093    |
| Pomona, CA, Unified School District, A, NATL, 6.55%, 8/01/2029  | 1,000,000  | 1,230,580  |
| San Diego, CA, Community College (Election of 2002), 5.25%, 8/01/2033 (Prerefunded 8/01/2019)   | 125,000    | 128,006    |
| San Diego, CA, Unified School District (Election of 2008), Capital Appreciation, G, 0%, 7/01/2034   | 265,000    | 130,012    |
| San Diego, CA, Unified School District (Election of 2012), I, 4%, 7/01/2047   | 355,000    | 361,234    |
| San Jose, CA, Evergreen Community College District (Election of 2010), A, 5%, 8/01/2041   | 265,000    | 288,256    |
| San Mateo County, CA, Union High School District, E, 3%, 9/01/2041  | 560,000    | 485,279    |
| Santee, CA, School District (Election of 2006), Capital Appreciation, D, ASSD GTY, 0%, 8/01/2043  | 765,000    | 264,828    |
| Vallejo City, CA, Unified School District, A, NATL, 5.9%, 8/01/2025   | 500,000    | 573,045    |



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Portfolio of Investments continued

| Issuer   | Shares/Par | Value (\$)    |
|--|------------|---------------|
| <b>Municipal Bonds - continued</b>   |            |               |
| <b>General Obligations - Schools - continued</b>   |            |               |
| Victor, CA, Elementary School District (Election of 2008), A, ASSD GTY, 5.125%, 8/01/2034 (Prerefunded 8/01/2019)      | \$ 500,000 | \$ 511,450    |
| West Contra Costa, CA, Unified School District, A, NATL, 5.7%, 2/01/2023   | 500,000    | 574,755       |
| West Covina, CA, Unified School District, A, NATL, 5.8%, 2/01/2021   | 500,000    | 539,670       |
|  |            | \$ 13,228,601 |
| <b>Healthcare Revenue - Hospitals - 25.5%</b>  |            |               |
| ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Sharp Healthcare), A, 5%, 8/01/2026                            | \$ 110,000 | \$ 119,092    |
| ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Sharp Healthcare), B, 6.25%, 8/01/2039 (Prerefunded 8/01/2019) | 505,000    | 520,271       |
| California Health Facilities Financing Authority Rev. (Children's Hospital Los Angeles), A, 5%, 8/15/2042              | 450,000    | 489,802       |
| California Health Facilities Financing Authority Rev. (Memorial Health Services), A, 5%, 10/01/2033                    | 295,000    | 323,813       |
| California Health Facilities Financing Authority Rev. (Providence St. Joseph Health System), A, 3%, 10/01/2041         | 220,000    | 190,859       |
| California Health Facilities Financing Authority Rev. (Scripps Health), A, 5%, 11/15/2032                              | 525,000    | 567,845       |
| California Health Facilities Financing Authority Rev. (Scripps Health), A, 5%, 11/15/2040                              | 255,000    | 275,357       |
| California Health Facilities Financing Authority Rev. (Sutter Health), B, 5.875%, 8/15/2031 (Prerefunded 8/15/2020)    | 500,000    | 534,850       |
| California Health Facilities Financing Authority Rev. (Sutter Health), B, 5%, 11/15/2046                               | 535,000    | 583,910       |
| California Municipal Finance Authority Rev. (Community Medical Centers), A, 5%, 2/01/2036                              | 225,000    | 247,772       |
| California Municipal Finance Authority Rev. (Community Medical Centers), A, 5%, 2/01/2037                              | 150,000    | 164,588       |
| California Municipal Finance Authority Rev. (Community Medical Centers), A, 5%, 2/01/2042                              | 75,000     | 81,605        |
| California Municipal Finance Authority Rev. (Northbay Healthcare Group), 5%, 11/01/2028                                | 45,000     | 48,933        |
| California Municipal Finance Authority Rev. (Northbay Healthcare Group), 5%, 11/01/2029                                | 35,000     | 37,912        |
| California Municipal Finance Authority Rev. (Northbay Healthcare Group), 5%, 11/01/2030                                | 15,000     | 16,195        |
| California Municipal Finance Authority Rev. (Northbay Healthcare Group), 5%, 11/01/2044                                | 85,000     | 89,383        |
| California Municipal Finance Authority Rev. (NorthBay Healthcare Group), 5%, 11/01/2035                                | 65,000     | 69,277        |
| California Public Finance Authority Rev. (Henry Mayo Newhall Hospital), 5%, 10/15/2047                                 | 455,000    | 478,819       |

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Portfolio of Investments - continued

| Issuer  | Shares/Par | Value (\$)   |
|---|------------|--------------|
| <b>Municipal Bonds - continued</b>  |            |              |
| <b>Healthcare Revenue - Hospitals - continued</b>   |            |              |
| California Statewide Communities Development Authority Rev. (Enloe Medical Center), A , CALHF, 5.5%, 8/15/2023                            | \$ 500,000 | \$ 501,390   |
| California Statewide Communities Development Authority Rev. (Kaiser Permanente), A , 5%, 4/01/2042  | 455,000    | 483,228      |
| California Statewide Communities Development Authority Rev. (Loma Linda University Medical Center), A , 5.5%, 12/01/2054                  | 350,000    | 368,281      |
| California Statewide Communities Development Authority Rev. (Marin General Hospital), A , 5%, 8/01/2036                                   | 65,000     | 73,880       |
| California Statewide Communities Development Authority Rev. (Marin General Hospital), A , 5%, 8/01/2037                                   | 45,000     | 51,084       |
| California Statewide Communities Development Authority Rev. (Marin General Hospital), A , 5%, 8/01/2038                                   | 40,000     | 45,144       |
| California Statewide Communities Development Authority Rev. (Redlands Community Hospital), 5%, 10/01/2046                                 | 350,000    | 377,167      |
| California Statewide Communities Development Authority Rev. (Santa Ynez Valley Cottage Hospital), 5.25%, 11/01/2030                       | 260,000    | 274,882      |
| California Statewide Communities Development Authority Rev. (Sutter Health), A , 5%, 8/15/2032  | 610,000    | 661,990      |
| California Statewide Communities Development Authority Rev. (Trinity Health Corp.), 5%, 12/01/2041  | 450,000    | 486,950      |
| Upland, CA, COP (San Antonio Community Hospital), 6.375%, 1/01/2032 (Prerefunded 1/01/2021)   | 250,000    | 272,760      |
|   |            | \$ 8,437,039 |
| <b>Healthcare Revenue - Long Term Care - 6.6%</b>   |            |              |
| ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Episcopal Senior Communities), 6.125%, 7/01/2041                                  | \$ 150,000 | \$ 160,950   |
| ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Eskaton Properties, Inc.), 5%, 11/15/2035   | 230,000    | 244,041      |
| California Statewide Communities Development Authority Insured Rev. (Viamonte Senior Living 1 Project), A , 4%, 7/01/2038                 | 65,000     | 66,435       |
| California Statewide Communities Development Authority Insured Rev. (Viamonte Senior Living 1 Project), A , 4%, 7/01/2039                 | 70,000     | 71,354       |
| California Statewide Communities Development Authority Insured Rev. (Viamonte Senior Living 1 Project), A , 4%, 7/01/2040                 | 65,000     | 65,796       |
| California Statewide Communities Development Authority Insured Rev. (Viamonte Senior Living 1 Project), A , 4%, 7/01/2043                 | 150,000    | 151,189      |
| California Statewide Communities Development Authority Rev. (899 Charleston Project), A , 5.25%, 11/01/2044                               | 295,000    | 305,582      |
| California Statewide Communities Development Authority Rev. (Episcopal Communities & Services for Seniors Obligated Group), 5%, 5/15/2047 | 315,000    | 329,692      |
| California Statewide Communities Development Authority Rev. (Front Port Communities and Services), A , 4%, 4/01/2042                      | 115,000    | 115,565      |

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Portfolio of Investments continued

| Issuer  | Shares/Par | Value (\$)   |
|---|------------|--------------|
| <b>Municipal Bonds - continued</b>  |            |              |
| <b>Healthcare Revenue - Long Term Care - continued</b>  |            |              |
| California Statewide Communities Development Authority Rev. (Front Port Communities and Services), A, 5%, 4/01/2047                         | \$ 315,000 | \$ 343,000   |
| Los Angeles County, CA, Regional Financing Authority Rev. (Montecedro Inc. Project), A, CALHF, 5%, 11/15/2044                               | 300,000    | 325,731      |
|   |            | \$ 2,179,335 |
| <b>Industrial Revenue - Other - 1.8%</b>  |            |              |
| New York Liberty Development Corp. Rev. (Goldman Sachs Headquarters), 5.25%, 10/01/2035   | \$ 485,000 | \$ 583,256   |
| <b>Miscellaneous Revenue - Other - 4.5%</b>   |            |              |
| ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Jackson Lab), 5%, 7/01/2037   | \$ 400,000 | \$ 429,736   |
| California Infrastructure & Economic Development Bank Rev. (Academy of Motion Picture Arts and Sciences Obligated Group), A, 5%, 11/01/2030 | 235,000    | 262,727      |
| California Infrastructure & Economic Development Bank Rev. (Academy of Motion Picture Arts and Sciences Obligated Group), A, 5%, 11/01/2034 | 170,000    | 188,479      |
| California Infrastructure & Economic Development Bank Rev. (Academy of Motion Picture Arts and Sciences Obligated Group), A, 5%, 11/01/2035 | 170,000    | 187,903      |
| California Statewide Communities Development Authority Rev. (Buck Institute for Research on Aging), AGM, 5%, 11/15/2044                     | 385,000    | 421,729      |
|   |            | \$ 1,490,574 |
| <b>Port Revenue - 6.8%</b>  |            |              |
| Alameda, CA, Corridor Transportation Authority Second Subordinate Lien Rev., B, 5%, 10/01/2037  | \$ 470,000 | \$ 512,159   |
| Alameda, CA, Corridor Transportation Authority Second Subordinate Lien Rev., B, AGM, 5%, 10/01/2036   | 600,000    | 665,040      |
| Port of Oakland, CA, Rev., P, 5%, 5/01/2033   | 1,000,000  | 1,073,420    |
|   |            | \$ 2,250,619 |
| <b>Sales &amp; Excise Tax Revenue - 1.0%</b>  |            |              |
| California Economic Recovery, A, 5%, 7/01/2020 (Prerefunded 7/01/2019)  | \$ 250,000 | \$ 254,930   |
| Puerto Rico Sales Tax Financing Corp., Sales Tax Rev., Capital Appreciation, A, NATL, 0%, 8/01/2042   | 210,000    | 59,296       |
|   |            | \$ 314,226   |
| <b>Secondary Schools - 4.0%</b>   |            |              |
| California Municipal Finance Authority Charter School Lease Rev. (The Palmdale Aerospace Academy Project), A, 5%, 7/01/2038                 | \$ 130,000 | \$ 133,682   |

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Portfolio of Investments continued

| Issuer  | Shares/Par | Value (\$)   |
|---|------------|--------------|
| <b>Municipal Bonds - continued</b>  |            |              |
| <b>Secondary Schools - continued</b>  |            |              |
| California School Finance Authority, Charter School Rev. (Aspire Public Schools - Obligated Group), 5%, 8/01/2040                             | \$ 85,000  | \$ 89,212    |
| California School Finance Authority, Charter School Rev. (Aspire Public Schools - Obligated Group), 5%, 8/01/2045                             | 85,000     | 88,859       |
| California School Finance Authority, School Facility Rev. (Alliance For College-Ready Public Schools Projects), A, 5%, 7/01/2030              | 255,000    | 275,265      |
| California School Finance Authority, School Facility Rev. (Green Dot Public Schools California Projects), A, 5%, 8/01/2038                    | 130,000    | 138,442      |
| California School Finance Authority, School Facility Rev. (Green Dot Public Schools California Projects), A, 5%, 8/01/2048                    | 130,000    | 137,019      |
| California School Finance Authority, School Facility Rev. (Kipp LA Projects), A, 5%, 7/01/2037  | 85,000     | 91,693       |
| California School Finance Authority, School Facility Rev. (Kipp LA Projects), A, 5%, 7/01/2047  | 130,000    | 138,286      |
| California Statewide Communities Development Authority School Facility Rev. (Alliance for College-Ready Public Schools), A, 6.375%, 7/01/2047 | 230,000    | 246,102      |
|   |            | \$ 1,338,560 |
| <b>State &amp; Local Agencies - 13.1%</b>   |            |              |
| California Public Works Board Lease Rev. (Department of Corrections), E, AGM, 3%, 10/01/2036  | \$ 415,000 | \$ 384,547   |
| California Public Works Board Lease Rev. (Judicial Council Projects), A, 5%, 3/01/2028  | 380,000    | 418,547      |
| California Public Works Board Lease Rev. (New Stockton Courthouse), B, 5%, 10/01/2033   | 275,000    | 307,563      |
| Los Angeles County, CA, Facilities Lease Rev. (Vermont Corridor County Administration Building), A, 5%, 12/01/2043                            | 1,000,000  | 1,125,000    |
| Los Angeles County, CA, Schools Regionalized Business Service Corp., Pooled Financing, Capital Appreciation, A, AAC, 0%, 8/01/2023            | 1,220,000  | 1,071,294    |
| Los Angeles, CA, Municipal Improvement Corp. Lease Rev., B, ASSD GTY, 5.5%, 4/01/2030 (Prerefunded 4/01/2019)                                 | 390,000    | 395,016      |
| Ontario Public Finance Authority Lease Rev., AGM, 5%, 11/01/2042  | 160,000    | 178,888      |
| Sacramento County, CA, Public Facilities Project, COP, AAC, 4.75%, 10/01/2027   | 460,000    | 460,971      |
|   |            | \$ 4,341,826 |
| <b>Tax - Other - 1.6%</b>   |            |              |
| Puerto Rico Convention Center District Authority, Hotel Occupancy Tax Rev., A, AAC, 5%, 7/01/2031   | \$ 90,000  | \$ 90,047    |
| Puerto Rico Infrastructure Financing Authority Special Tax Rev., C, AAC, 5.5%, 7/01/2024  | 120,000    | 129,714      |
| Puerto Rico Infrastructure Financing Authority Special Tax Rev., C, AAC, 5.5%, 7/01/2026  | 80,000     | 87,606       |

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Portfolio of Investments continued

| Issuer   | Shares/Par | Value (\$)   |
|--|------------|--------------|
| <b>Municipal Bonds - continued</b>   |            |              |
| <b>Tax - Other - continued</b>   |            |              |
| Puerto Rico Infrastructure Financing Authority Special Tax Rev., C, AAC, 5.5%, 7/01/2027   | \$ 210,000 | \$ 230,748   |
|  |            | \$ 538,115   |
| <b>Tax Assessment - 5.7%</b>   |            |              |
| Huntington Park, CA, Public Financing Authority Rev., A, AGM, 5.25%, 9/01/2019   | \$ 500,000 | \$ 501,195   |
| North Natomas, CA, Community Facilities District Special Tax, 4-E, 5.25%, 9/01/2033  | 160,000    | 175,422      |
| Riverside County, CA, Jurupa Valley Redevelopment Project Rev., B, AGM, 5%, 10/01/2030   | 190,000    | 215,293      |
| Riverside County, CA, Jurupa Valley Redevelopment Project Rev., B, AGM, 5%, 10/01/2031   | 225,000    | 253,908      |
| Riverside County, CA, Redevelopment Agency, Tax Allocation, A, AGM, 5%, 10/01/2034   | 295,000    | 325,922      |
| San Francisco, CA, City & County Redevelopment Successor Agency, Community Facilities District No. 6 (Mission Bay South Public Improvements), A, 5%, 8/01/2033 | 130,000    | 139,313      |
| San Francisco, CA, City & County Redevelopment Successor Agency, Tax Allocation (Mission Bay South Redevelopment Project), A, 5%, 8/01/2043                    | 250,000    | 272,725      |
|  |            | \$ 1,883,778 |
| <b>Tobacco - 1.0%</b>  |            |              |
| Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., A, 5%, 6/01/2047  | \$ 335,000 | \$ 321,258   |
| <b>Toll Roads - 3.2%</b>   |            |              |
| Bay Area Toll Authority, California Toll Bridge Rev., S-7, 4%, 4/01/2033   | \$ 515,000 | \$ 545,091   |
| Bay Area Toll Authority, California Toll Bridge Rev., S-7, 4%, 4/01/2034   | 145,000    | 152,439      |
| Riverside County, CA, Transportation Commission, Toll Rev., A, 5.75%, 6/01/2044  | 320,000    | 347,744      |
|  |            | \$ 1,045,274 |
| <b>Transportation - Special Tax - 2.7%</b>   |            |              |
| Commonwealth of Puerto Rico Highway & Transportation Authority Rev., D, AGM, 5%, 7/01/2032   | \$ 55,000  | \$ 56,679    |
| Commonwealth of Puerto Rico Highway & Transportation Authority Rev., J, NATL, 5%, 7/01/2029  | 10,000     | 10,008       |
| Commonwealth of Puerto Rico Highway & Transportation Authority Rev., L, AAC, 5.25%, 7/01/2038  | 345,000    | 367,470      |

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Portfolio of Investments - continued

| Issuer  | Shares/Par | Value (\$)   |
|---|------------|--------------|
| <b>Municipal Bonds - continued</b>  |            |              |
| Transportation - Special Tax - continued  |            |              |
| Commonwealth of Puerto Rico Highway & Transportation Authority Rev., L , NATL, 5.25%, 7/01/2035   | \$ 30,000  | \$ 30,927    |
| Commonwealth of Puerto Rico Highway & Transportation Authority Rev., N , NATL, 5.25%, 7/01/2032   | 40,000     | 41,736       |
| Commonwealth of Puerto Rico Highway & Transportation Authority Rev., N , NATL, 5.25%, 7/01/2033   | 25,000     | 26,008       |
| Commonwealth of Puerto Rico Highway & Transportation Authority Unrefunded Rev., A , NATL, 5%, 7/01/2038   | 10,000     | 9,926        |
| San Francisco, CA, Municipal Transportation Agency Rev., B , 5%, 3/01/2037  | 335,000    | 361,585      |
|   |            | \$ 904,339   |
| <b>Universities - Colleges - 11.2%</b>  |            |              |
| California Educational Facilities Authority Rev. (Art Center College of Design), A , 5%, 12/01/2036   | \$ 285,000 | \$ 322,067   |
| California Educational Facilities Authority Rev. (Loma Linda University), A , 5%, 4/01/2036   | 75,000     | 84,058       |
| California Educational Facilities Authority Rev. (Loma Linda University), A , 5%, 4/01/2037   | 235,000    | 262,815      |
| California Educational Facilities Authority Rev. (Loyola Marymount University), B , 5%, 10/01/2038  | 95,000     | 107,317      |
| California Educational Facilities Authority Rev. (Stanford University), U-7 , 5%, 6/01/2046   | 235,000    | 294,239      |
| California Educational Facilities Authority Rev. (University of San Francisco), 6.125%, 10/01/2030 (Prerefunded 10/01/2021)   | 140,000    | 156,232      |
| California Educational Facilities Authority Rev. (University of San Francisco), 6.125%, 10/01/2030  | 145,000    | 162,023      |
| California Municipal Finance Authority Rev. (Azusa Pacific University Project), B , 5%, 4/01/2035   | 345,000    | 359,393      |
| California Public Works Board Lease Rev. (The Regents of the University of California), 5%, 12/01/2028 (Prerefunded 12/01/2021)   | 375,000    | 409,912      |
| California State University Rev., A , 5%, 11/01/2024  | 370,000    | 401,920      |
| California State University Rev., A , 5%, 11/01/2030  | 270,000    | 307,009      |
| Puerto Rico Industrial, Tourist, Educational, Medical & Environmental Control Facilities Financing Authority, Educational Facilities Rev. (University Plaza Project), NATL, 5%, 7/01/2033 | 75,000     | 75,007       |
| The Regents of the University of California, Limited Project Rev., O , 4%, 5/15/2048  | 750,000    | 754,087      |
|   |            | \$ 3,696,079 |
| <b>Universities - Dormitories - 0.8%</b>  |            |              |
| California Municipal Finance Authority, Student Housing Rev. (Bowles Hall Foundation) A , 5%, 6/01/2035   | \$ 25,000  | \$ 26,697    |

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Portfolio of Investments continued

| Issuer   | Shares/Par | Value (\$)   |
|--|------------|--------------|
| <b>Municipal Bonds - continued</b>   |            |              |
| <b>Universities - Dormitories - continued</b>  |            |              |
| California Statewide Communities Development Authority Rev. (Lancer Plaza Project), 5.875%, 11/01/2043   | \$ 230,000 | \$ 251,500   |
|  |            | \$ 278,197   |
| <b>Utilities - Cogeneration - 0.7%</b>   |            |              |
| California Pollution Control Financing Authority, Water Furnishing Rev. (Poseidon Resources Desalination Project), 5%, 11/21/2045              | \$ 150,000 | \$ 154,041   |
| California Pollution Control Financing Authority, Water Furnishing Rev. (San Diego County Water Desalination Project Pipeline), 5%, 11/21/2045 | 75,000     | 75,824       |
|  |            | \$ 229,865   |
| <b>Utilities - Municipal Owned - 5.7%</b>  |            |              |
| California Department of Water Resources, Power Supply Rev., L, 5%, 5/01/2019  | \$ 305,000 | \$ 309,237   |
| Guam Power Authority Rev., A, AGM, 5%, 10/01/2039  | 50,000     | 53,852       |
| Guam Power Authority Rev., A, AGM, 5%, 10/01/2044  | 55,000     | 59,014       |
| Northern California Power Agency, Capital Facilities Rev., A, 5.25%, 8/01/2024   | 390,000    | 404,465      |
| Puerto Rico Electric Power Authority Rev., DDD, AGM, 3.625%, 7/01/2023   | 10,000     | 9,811        |
| Puerto Rico Electric Power Authority Rev., DDD, AGM, 3.65%, 7/01/2024  | 55,000     | 53,585       |
| Puerto Rico Electric Power Authority Rev., SS, ASSD GTY, 4.375%, 7/01/2030   | 5,000      | 5,000        |
| Puerto Rico Electric Power Authority Rev., UU, ASSD GTY, 4.25%, 7/01/2027  | 40,000     | 40,008       |
| Puerto Rico Electric Power Authority Rev., V, NATL, 5.25%, 7/01/2033   | 35,000     | 36,411       |
| Puerto Rico Electric Power Authority Rev., VV, NATL, 5.25%, 7/01/2032  | 125,000    | 130,426      |
| Sacramento, CA, Municipal Utility District Electric Rev., X, 5%, 8/15/2025 (Prerefunded 8/15/2021)   | 95,000     | 102,653      |
| Sacramento, CA, Municipal Utility District Electric Rev., Unrefunded Balance, X, 5%, 8/15/2025   | 275,000    | 297,173      |
| Vernon, CA, Electric System Rev., A, 5.5%, 8/01/2041   | 370,000    | 394,006      |
|  |            | \$ 1,895,641 |
| <b>Utilities - Other - 3.1%</b>  |            |              |
| California M-S-R Energy Authority Gas Rev., A, 6.5%, 11/01/2039  | \$ 245,000 | \$ 335,185   |
| Southern California Public Power Authority (Natural Gas Project No. 1), A, 5%, 11/01/2033  | 585,000    | 683,350      |
|  |            | \$ 1,018,535 |

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Portfolio of Investments continued

| Issuer  | Shares/Par | Value (\$)           |
|---|------------|----------------------|
| <b>Municipal Bonds - continued</b>  |            |                      |
| Water & Sewer Utility Revenue - 13.1%   |            |                      |
| Atwater, CA, Public Financing Authority Wastewater Rev., ASSD GTY, 5%, 5/01/2034 (Prerefunded 5/01/2019)      | \$ 500,000 | \$ 507,045           |
| El Monte, CA, Water Authority Rev., A, BAM, 5%, 9/01/2048   | 750,000    | 843,082              |
| Escondido, CA, Joint Powers Financing Authority Rev. (Water System Financing), 5%, 9/01/2041                  | 460,000    | 491,018              |
| Guam Waterworks Authority Rev. (Water and Wastewater System), 5%, 7/01/2036                                   | 20,000     | 21,071               |
| Guam Waterworks Authority Rev. (Water and Wastewater System), 5%, 1/01/2046                                   | 105,000    | 108,960              |
| Guam Waterworks Authority Rev. (Water and Wastewater System), A, 5%, 7/01/2029                                | 105,000    | 111,577              |
| Guam Waterworks Authority Rev. (Water and Wastewater System), A, 5%, 7/01/2035                                | 105,000    | 109,551              |
| Madera, CA, Financing Authority, Irrigation Rev., 6.5%, 1/01/2040 (Prerefunded 1/01/2020)                     | 440,000    | 462,251              |
| Norco, CA, Financing Authority, Enterprise Rev., AGM, 5.625%, 10/01/2039                                      | 215,000    | 221,061              |
| Oxnard, CA, Financing Authority, Wastewater Rev., AGM, 5%, 6/01/2030  | 340,000    | 379,770              |
| Oxnard, CA, Financing Authority, Wastewater Rev., AGM, 5%, 6/01/2031  | 85,000     | 94,713               |
| Soquel Creek, CA, Water District, COP, 5%, 3/01/2043  | 370,000    | 402,242              |
| Tulare, CA, Sewer Rev., AGM, 5%, 11/15/2031   | 350,000    | 398,349              |
| Tulare, CA, Sewer Rev., AGM, 5%, 11/15/2035   | 170,000    | 190,859              |
|   |            | \$ 4,341,549         |
| <b>Total Municipal Bonds (Identified Cost, \$54,322,250)</b>  |            | <b>\$ 55,890,602</b> |
| <b>Investment Companies (h) - 3.3%</b>  |            |                      |
| Money Market Funds - 3.3%   |            |                      |
| MFS Institutional Money Market Portfolio, 2.31% (v)<br>(Identified Cost, \$1,105,887)                         | 1,106,006  | \$ 1,106,006         |
| <b>Other Assets, Less Liabilities - 1.6%</b>  |            |                      |
| Variable Rate Municipal Term Preferred Shares (VMTPS),<br>at liquidation value (issued by the fund) - (73.8)% |            | (24,425,000)         |
| <b>Net assets applicable to common shares - 100.0%</b>  |            | <b>\$ 33,090,367</b> |

(h) An affiliated issuer, which may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. At period end, the aggregate values of the fund's investments in affiliated issuers and in unaffiliated issuers were \$1,106,006 and \$55,890,602, respectively.

(v) Affiliated issuer that is available only to investment companies managed by MFS. The rate quoted for the MFS Institutional Money Market Portfolio is the annualized seven-day yield of the fund at period end.



*Portfolio of Investments continued*

The following abbreviations are used in this report and are defined:

|          |  |
|----------|--|
| AAC      | Ambac Assurance Corp.  |
| AGM      | Assured Guaranty Municipal                                     |
| ASSD GTY | Assured Guaranty Insurance Co.                                 |
| BAM      | Build America Mutual   |
| CALHF    | California Health Facility Construction Loan Insurance Program |
| COP      | Certificate of Participation                                   |
| NATL     | National Public Finance Guarantee Corp.                        |

**Derivative Contracts at 11/30/18**

**Futures Contracts**

| Description                    | Long/<br>Short | Currency | Contracts | Notional<br>Amount | Expiration<br>Date | Value/<br>Unrealized<br>Appreciation<br>(Depreciation) |
|--------------------------------|----------------|----------|-----------|--------------------|--------------------|--|
| <b>Liability Derivatives</b>   |                |          |           |                    |                    |  |
| <i>Interest Rate Futures</i>   |                |          |           |                    |                    |  |
| U.S. Treasury Note 10 yr       | Short          | USD      | 19        | \$2,269,609        | March - 2019       | \$(8,678)  |
| U.S. Treasury Ultra Bond 30 yr | Short          | USD      | 8         | 1,119,250          | March - 2019       | (5,530)  |
|                                |                |          |           |                    |                    | \$(14,208)   |

At November 30, 2018, the fund had cash collateral of \$38,350 to cover any collateral or margin obligations for certain derivative contracts. Restricted cash and/or deposits with brokers in the Statement of Assets and Liabilities are comprised of cash collateral.

**See Notes to Financial Statements**

*Financial Statements***STATEMENT OF ASSETS AND LIABILITIES**

At 11/30/18

This statement represents your fund's balance sheet, which details the assets and liabilities comprising the total value of the fund.

|   |              |
|---|--------------|
| <b>Assets</b>   |              |
| Investments in unaffiliated issuers, at value (identified cost, \$54,322,250)                                       | \$55,890,602 |
| Investments in affiliated issuers, at value (identified cost, \$1,105,887)  | 1,106,006    |
| Deposits with brokers for   |              |
| Futures contracts   | 38,350       |
| Receivables for   |              |
| Interest  | 619,523      |
| Receivable from investment adviser  | 13,987       |
| Other assets  | 1,225        |
| Total assets  | \$57,669,693 |
| <b>Liabilities</b>  |              |
| Payables for  |              |
| Distributions on common shares  | \$173        |
| Daily variation margin on open futures contracts  | 5,919        |
| Interest expense  | 56,171       |
| Payable to affiliates   |              |
| Transfer agent and dividend disbursing costs  | 8            |
| Payable for independent Trustees' compensation  | 14           |
| Accrued expenses and other liabilities  | 92,041       |
| VMTPS, at liquidation value   | 24,425,000   |
| Total liabilities   | \$24,579,326 |
| Net assets applicable to common shares  | \$33,090,367 |
| <b>Net assets consist of</b>  |              |
| Paid-in capital - common shares   | \$31,686,463 |
| Total distributable earnings (loss)   | 1,403,904    |
| Net assets applicable to common shares  | \$33,090,367 |
| VMTPS, at liquidation value (977 shares issued and outstanding at \$25,000 per share)                               | 24,425,000   |
| Net assets including preferred shares   | \$57,515,367 |
| Common shares of beneficial interest issued and outstanding   | 2,786,275    |
| Net asset value per common share (net assets of \$33,090,367 / 2,786,275 shares of beneficial interest outstanding) | \$11.88      |

**See Notes to Financial Statements**

*Financial Statements***STATEMENT OF OPERATIONS**

Year ended 11/30/18

This statement describes how much your fund earned in investment income and accrued in expenses. It also describes any gains and/or losses generated by fund operations.

|   |               |
|---|---------------|
| <b>Net investment income (loss)</b>                                     |               |
| Income  |               |
| Interest  | \$2,507,559   |
| Dividends from affiliated issuers                                       | 20,050        |
| Other   | 460           |
| Total investment income   | \$2,528,069   |
| Expenses  |               |
| Management fee  | \$378,995     |
| Transfer agent and dividend disbursing costs                            | 6,536         |
| Administrative services fee   | 18,698        |
| Independent Trustees compensation                                       | 9,732         |
| Stock exchange fee  | 15,001        |
| Custodian fee   | 5,745         |
| Reimbursement of custodian expenses                                     | (2,665)       |
| Shareholder communications  | 20,778        |
| Audit and tax fees  | 82,543        |
| Legal fees  | 7,870         |
| Interest expense and fees and amortization of VMTPS debt issuance costs | 653,109       |
| Miscellaneous   | 70,311        |
| Total expenses  | \$1,266,653   |
| Reduction of expenses by investment adviser                             | (149,738)     |
| Net expenses  | \$1,116,915   |
| Net investment income (loss)  | \$1,411,154   |
| <b>Realized and unrealized gain (loss)</b>                              |               |
| Realized gain (loss) (identified cost basis)                            |               |
| Unaffiliated issuers  | \$114,305     |
| Affiliated issuers  | 53            |
| Futures contracts   | 180,911       |
| Net realized gain (loss)  | \$295,269     |
| Change in unrealized appreciation or depreciation                       |               |
| Unaffiliated issuers  | \$(1,918,317) |
| Affiliated issuers  | 162           |
| Futures contracts   | (47,670)      |
| Net unrealized gain (loss)  | \$(1,965,825) |
| Net realized and unrealized gain (loss)                                 | \$(1,670,556) |
| Change in net assets from operations                                    | \$(259,402)   |
| <b>See Notes to Financial Statements</b>                                |               |

*Financial Statements***STATEMENTS OF CHANGES IN NET ASSETS**

These statements describe the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

|   | <b>Year ended</b> |                 |
|---|-------------------|-----------------|
|   | <b>11/30/18</b>   | <b>11/30/17</b> |
| <b>Change in net assets</b>                   |                   |                 |
| <b>From operations</b>                        |                   |                 |
| Net investment income (loss)                  | \$1,411,154       | \$1,570,117     |
| Net realized gain (loss)                      | 295,269           | 88,890          |
| Net unrealized gain (loss)                    | (1,965,825)       | 996,972         |
| Change in net assets from operations          | \$(259,402)       | \$2,655,979     |
| Distributions to common shareholders (a)      | \$(1,315,122)     | \$(1,533,844)   |
| Total change in net assets                    | \$(1,574,524)     | \$1,122,135     |
| <b>Net assets applicable to common shares</b> |                   |                 |
| At beginning of period                        | 34,664,891        | 33,542,756      |
| At end of period (b)                          | \$33,090,367      | \$34,664,891    |

(a) Distributions from net investment income and from net realized gain are no longer required to be separately disclosed. See Note 2. For the year ended November 30, 2017, distributions from net investment income were \$1,533,844.

(b) Parenthetical disclosure of undistributed net investment income is no longer required. See Note 2. For the year ended November 30, 2017, end of period net assets included undistributed net investment income of \$66,182.

**See Notes to Financial Statements**

*Financial Statements***STATEMENT OF CASH FLOWS**

Year ended 11/30/18

This statement provides a summary of cash flows from investment activity for the fund.

|  |               |
|--|---------------|
| <b>Cash flows from operating activities:</b>   |               |
| Change in net assets from operations   | \$(259,402)   |
| <b>Adjustments to reconcile change in net assets from operations to net cash provided by operating activities:</b> |               |
| Purchase of investment securities  | (10,366,893)  |
| Proceeds from disposition of investment securities   | 10,824,686    |
| Purchases of short-term investments, net   | (670,337)     |
| Realized gain/loss on investments  | (114,305)     |
| Unrealized appreciation/depreciation on investments  | 1,918,155     |
| Net amortization/accretion of income   | (100,669)     |
| Amortization of VMTPS debt issuance costs  | 29,740        |
| Decrease in interest receivable  | 14,645        |
| Increase in accrued expenses and other liabilities   | 2,465         |
| Decrease in receivable for daily variation margin on open futures contracts  | 11,766        |
| Increase in payable for daily variation margin on open futures contracts   | 5,919         |
| Decrease in deposits with brokers  | 5,100         |
| Increase in other assets   | (1)           |
| Increase in payable for interest expense and fees  | 14,300        |
| Net cash provided by operating activities  | \$1,315,169   |
| <b>Cash flows from financing activities:</b>   |               |
| Cash distributions paid on common shares   | (1,315,169)   |
| Net cash used by financing activities  | \$(1,315,169) |
| <b>Cash:</b>   |               |
| Beginning of period  | \$            |
| End of period  | \$            |
| Supplemental disclosure of cash flow information:  |               |

Cash paid during the year ended November 30, 2018 for interest was \$609,069.

**See Notes to Financial Statements**

## Financial Statements

**FINANCIAL HIGHLIGHTS**

The financial highlights table is intended to help you understand the fund's financial performance for the past 5 years. Certain information reflects financial results for a single fund share. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the fund share class (assuming reinvestment of all distributions) held for the entire period.

| Common Shares   | Year ended |          |          |          |          |
|---|------------|----------|----------|----------|----------|
|   | 11/30/18   | 11/30/17 | 11/30/16 | 11/30/15 | 11/30/14 |
| Net asset value, beginning of period  | \$12.44    | \$12.04  | \$12.63  | \$12.55  | \$11.32  |
| <b>Income (loss) from investment operations</b>   |            |          |          |          |          |
| Net investment income (loss) (d)  | \$0.51(c)  | \$0.56   | \$0.62   | \$0.67   | \$0.64   |
| Net realized and unrealized gain (loss)   | (0.60)     | 0.39     | (0.62)   | 0.03     | 1.22     |
| Total from investment operations  | \$(0.09)   | \$0.95   | \$(0.00) | \$0.70   | \$1.86   |
| <b>Less distributions declared to common shareholders</b>   |            |          |          |          |          |
| From net investment income  | \$(0.47)   | \$(0.55) | \$(0.59) | \$(0.62) | \$(0.63) |
| Net asset value, end of period (x)  | \$11.88    | \$12.44  | \$12.04  | \$12.63  | \$12.55  |
| Market value, end of period   | \$9.95     | \$11.82  | \$11.36  | \$11.72  | \$10.91  |
| Total return at market value (%)  | (11.94)    | 9.02     | 1.57     | 13.45    | 18.45    |
| Total return at net asset value (%) (j)(r)(s)(x)  | (0.10)(c)  | 8.26     | (0.10)   | 6.28     | 17.48    |
| <b>Ratios (%) (to average net assets applicable to common shares) and Supplemental data:</b>  |            |          |          |          |          |
| Expenses before expense reductions (f)  | 3.74(c)    | 3.21     | 2.82     | 2.67     | 2.75     |
| Expenses after expense reductions (f)   | 3.30(c)    | 2.80     | 2.46     | 2.30     | 2.38     |
| Net investment income (loss)  | 4.16(c)    | 4.53     | 4.75     | 5.34     | 5.32     |
| Portfolio turnover  | 18         | 11       | 6        | 11       | 17       |
| Net assets at end of period (000 omitted)   | \$33,090   | \$34,665 | \$33,543 | \$35,201 | \$34,969 |
| <b>Supplemental Ratios (%):</b>   |            |          |          |          |          |
| Ratio of expenses to average net assets applicable to common shares after expense reductions and excluding interest expense and fees (f)(l)               | 1.37(c)    | 1.36     | 1.34     | 1.41     | 1.43     |
| Ratio of expenses to average net assets applicable to common and preferred shares after expense reductions and excluding interest expense and fees (f)(l) | 0.80(c)    | 0.80     | 0.80     | 0.83     | 0.83     |
| Net investment income available to common shares  | 4.16(c)    | 4.53     | 4.75     | 5.34     | 5.32     |

Financial Highlights continued

|  | Year ended |          |          |          |          |
|--|------------|----------|----------|----------|----------|
|  | 11/30/18   | 11/30/17 | 11/30/16 | 11/30/15 | 11/30/14 |
| <b>Senior Securities:</b>                                  |            |          |          |          |          |
| VMTPS  | 977        | 977      | 977      | 977      | 977      |
| Asset coverage per preferred share (k)                     | \$58,869   | \$60,451 | \$59,279 | \$61,030 | \$60,792 |
| Involuntary liquidation preference per preferred share (m) | \$25,000   | \$25,000 | \$25,000 | \$25,000 | \$25,000 |
| Average market value per preferred share (m)(u)            | \$25,000   | \$25,000 | \$25,000 | \$25,000 | \$25,000 |

- (c) Amount reflects a one-time reimbursement of expenses by the custodian (or former custodian) without which net investment income and performance would be lower and expenses would be higher. See Note 2 in the Notes to Financial Statements for additional information.
- (d) Per share data is based on average shares outstanding.
- (f) Ratios do not reflect reductions from fees paid indirectly, if applicable.
- (j) Total return at net asset value is calculated using the net asset value of the fund, not the publicly traded price and therefore may be different than the total return at market value.
- (k) Calculated by subtracting the fund's total liabilities (not including liquidation preference of preferred shares) from the fund's total assets and dividing this number by the total number of preferred shares outstanding.
- (l) Interest expense and fees relate to payments made to the holders of the floating rate certificates from trust assets, interest expense paid to shareholders of VMTPS, and amortization of VMTPS debt issuance costs, as applicable. For periods prior to November 30, 2016, the expense ratio includes amortization of VMTPS debt issuance costs.
- (m) Amount excludes accrued unpaid distributions on preferred shares.
- (r) Certain expenses have been reduced without which performance would have been lower.
- (s) From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.
- (u) Average market value represents the approximate fair value of each of the fund's preferred shares.
- (x) The net asset values and total returns at net asset value have been calculated on net assets which include adjustments made in accordance with U.S. generally accepted accounting principles required at period end for financial reporting purposes.

**See Notes to Financial Statements**

## NOTES TO FINANCIAL STATEMENTS

### (1) Business and Organization

MFS California Municipal Fund (the fund) is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as a diversified closed-end management investment company.

The fund is an investment company and accordingly follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946 Financial Services – Investment Companies.

### (2) Significant Accounting Policies

**General** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates. In the preparation of these financial statements, management has evaluated subsequent events occurring after the date of the fund's Statement of Assets and Liabilities through the date that the financial statements were issued. The fund invests primarily in municipal instruments, which generally trade in the over-the-counter market. The value of municipal instruments can be affected by changes in their actual or perceived credit quality. The credit quality of, and the ability to pay principal and interest when due by, an issuer of a municipal instrument depends on the credit quality of the entity supporting the municipal instrument, how essential any services supported by the municipal instrument are, the sufficiency of any revenues or taxes that support the municipal instrument, and/or the willingness or ability of the appropriate government entity to approve any appropriations necessary to support the municipal instrument. Many municipal instruments are supported by insurance which typically guarantees the timely payment of all principal and interest due on the underlying municipal instrument. The value of a municipal instrument can be volatile and significantly affected by adverse tax changes or court rulings, legislative or political changes, changes in specific or general market and economic conditions in the region or state where the instrument is issued, and the financial condition of municipal issuers and of municipal instrument insurers of which there are a limited number. Also, because many municipal instruments are issued to finance similar projects, conditions in certain industries can significantly affect the fund and the overall municipal market. If the Internal Revenue Service determines an issuer of a municipal instrument has not complied with the applicable tax requirements, interest from the security could become taxable, the security could decline in value, and distributions made by the fund could be taxable to shareholders. The fund invests in high-yield securities rated below investment grade. Investments in below investment grade quality securities can involve a substantially greater risk of default or can already be in default, and their values can decline significantly. Below investment grade quality securities tend to be more sensitive to adverse news about the issuer, or the market or economy in general, than higher quality debt instruments.



*Notes to Financial Statements continued*

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash ( ASU 2016-18 ). For entities that have restricted cash and are required to present a statement of cash flows, ASU 2016-18 changes the cash flow presentation for restricted cash. Management has evaluated the potential impacts of ASU 2016-18 and expects that the effects of the fund s adoption will be limited to the reclassification of restricted cash on the fund s Statement of Cash Flows and the addition of disclosures regarding the nature of the restrictions on restricted cash. ASU 2016-18 will be effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods.

In March 2017, the FASB issued Accounting Standards Update 2017-08, Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities ( ASU 2017-08 ). For entities that hold callable debt securities at a premium, ASU 2017-08 requires that the premium be amortized to the earliest call date. ASU 2017-08 will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management has evaluated the potential impacts of ASU 2017-08 and believes that adoption of ASU 2017-08 will not have a material effect on the fund s overall financial position or its overall results of operations.

In August 2018, the FASB issued Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820) Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement ( ASU 2018-13 ) which introduces new fair value disclosure requirements as well as eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 would be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years; however, management has elected to early adopt ASU 2018-13 effective with the current reporting period. The impact of the fund s adoption was limited to changes in the fund s financial statement disclosures regarding fair value, primarily those disclosures related to transfers between levels of the fair value hierarchy.

In August 2018, the Securities and Exchange Commission (SEC) released its Final Rule on Disclosure Update and Simplification (the Final Rule ) which is intended to simplify an issuer s disclosure compliance efforts by removing redundant or outdated disclosure requirements without significantly altering the mix of information provided to investors. Effective with the current reporting period, the fund adopted the Final Rule with the impacts being that the fund is no longer required to present the components of distributable earnings on the Statement of Assets and Liabilities or the sources of distributions to shareholders and the amount of undistributed net investment income on the Statements of Changes in Net Assets.

**Balance Sheet Offsetting** The fund s accounting policy with respect to balance sheet offsetting is that, absent an event of default by the counterparty or a termination of the agreement, the International Swaps and Derivatives Association (ISDA) Master Agreement, or similar agreement, does not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the fund and the applicable counterparty. The fund s right to setoff may be restricted or prohibited by the bankruptcy or insolvency laws of the particular jurisdiction to which a specific master netting agreement counterparty is

*Notes to Financial Statements continued*

subject. Balance sheet offsetting disclosures, to the extent applicable to the fund, have been included in the fund's Significant Accounting Policies note under the captions for each of the fund's in-scope financial instruments and transactions.

**Investment Valuations** Debt instruments and floating rate loans, including restricted debt instruments, are generally valued at an evaluated or composite bid as provided by a third-party pricing service. Short-term instruments with a maturity at issuance of 60 days or less may be valued at amortized cost, which approximates market value. Futures contracts are generally valued at last posted settlement price on their primary exchange as provided by a third-party pricing service. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation on their primary exchange as provided by a third-party pricing service. Open-end investment companies are generally valued at net asset value per share. Securities and other assets generally valued on the basis of information from a third-party pricing service may also be valued at a broker/dealer bid quotation. In determining values, third-party pricing services can utilize both transaction data and market information such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, and other market data.

The Board of Trustees has delegated primary responsibility for determining or causing to be determined the value of the fund's investments (including any fair valuation) to the adviser pursuant to valuation policies and procedures approved by the Board. If the adviser determines that reliable market quotations are not readily available, investments are valued at fair value as determined in good faith by the adviser in accordance with such procedures under the oversight of the Board of Trustees. Under the fund's valuation policies and procedures, market quotations are not considered to be readily available for most types of debt instruments and floating rate loans and many types of derivatives. These investments are generally valued at fair value based on information from third-party pricing services. In addition, investments may be valued at fair value if the adviser determines that an investment's value has been materially affected by events occurring after the close of the exchange or market on which the investment is principally traded (such as foreign exchange or market) and prior to the determination of the fund's net asset value, or after the halting of trading of a specific security where trading does not resume prior to the close of the exchange or market on which the security is principally traded. The adviser generally relies on third-party pricing services or other information (such as the correlation with price movements of similar securities in the same or other markets; the type, cost and investment characteristics of the security; the business and financial condition of the issuer; and trading and other market data) to assist in determining whether to fair value and at what value to fair value an investment. The value of an investment for purposes of calculating the fund's net asset value can differ depending on the source and method used to determine value. When fair valuation is used, the value of an investment used to determine the fund's net asset value may differ from quoted or published prices for the same investment. There can be no assurance that the fund could obtain the fair value assigned to an investment if it were to sell the investment at the same time at which the fund determines its net asset value per share.

Various inputs are used in determining the value of the fund's assets or liabilities. These inputs are categorized into three broad levels. In certain cases, the inputs used to

Notes to Financial Statements continued

measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, and credit risk). Level 3 includes unobservable inputs, which may include the adviser's own assumptions in determining the fair value of investments. Other financial instruments are derivative instruments, such as futures contracts. The following is a summary of the levels used as of November 30, 2018 in valuing the fund's assets or liabilities:

| Financial Instruments | Level 1     | Level 2      | Level 3 | Total        |
|-----------------------|-------------|--------------|---------|--------------|
| Municipal Bonds       | \$          | \$55,890,602 | \$      | \$55,890,602 |
| Mutual Funds          | 1,106,006   |              |         | 1,106,006    |
| Total                 | \$1,106,006 | \$55,890,602 | \$      | \$56,996,608 |

**Other Financial Instruments**

|                   |             |            |    |    |            |
|-------------------|-------------|------------|----|----|------------|
| Futures Contracts | Liabilities | \$(14,208) | \$ | \$ | \$(14,208) |
|-------------------|-------------|------------|----|----|------------|

For further information regarding security characteristics, see the Portfolio of Investments.

**Derivatives** The fund uses derivatives primarily to increase or decrease exposure to a particular market or segment of the market, or security, to increase or decrease interest rate exposure, or as alternatives to direct investments. Derivatives are used for hedging or non-hedging purposes. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. When the fund uses derivatives as an investment to increase market exposure, or for hedging purposes, gains and losses from derivative instruments may be substantially greater than the derivative's original cost.

The derivative instruments used by the fund during the period were futures contracts. Depending on the type of derivative, the fund may exit a derivative position by entering into an offsetting transaction with a counterparty or exchange, negotiating an agreement with the derivative counterparty, or novating the position to a third party. The fund may be unable to promptly close out a futures position in instances where the daily fluctuation in the price for that type of future exceeds the daily limit set by the exchange. The fund's period end derivatives, as presented in the Portfolio of Investments and the associated Derivative Contract tables, generally are indicative of the volume of its derivative activity during the period.

The following table presents, by major type of derivative contract, the fair value, on a gross basis, of the asset and liability components of derivatives held by the fund at November 30, 2018 as reported in the Statement of Assets and Liabilities:

| Risk          | Derivative Contracts  | Fair Value (a)    |                       |
|---------------|-----------------------|-------------------|-----------------------|
|               |                       | Asset Derivatives | Liability Derivatives |
| Interest Rate | Interest Rate Futures |                   | \$(14,208)            |

Notes to Financial Statements continued

(a) Values presented in this table for futures contracts correspond to the values reported in the fund's Portfolio of Investments. Only the current day net variation margin for futures contracts is separately reported within the fund's Statement of Assets and Liabilities. The following table presents, by major type of derivative contract, the realized gain (loss) on derivatives held by the fund for the year ended November 30, 2018 as reported in the Statement of Operations:

| Risk          | Futures Contracts |
|---------------|-------------------|
| Interest Rate | \$180,911         |

The following table presents, by major type of derivative contract, the change in unrealized appreciation or depreciation on derivatives held by the fund for the year ended November 30, 2018 as reported in the Statement of Operations:

| Risk          | Futures Contracts |
|---------------|-------------------|
| Interest Rate | \$(47,670)        |

Derivative counterparty credit risk is managed through formal evaluation of the creditworthiness of all potential counterparties. On certain, but not all, uncleared derivatives, the fund attempts to reduce its exposure to counterparty credit risk whenever possible by entering into an ISDA Master Agreement on a bilateral basis. The ISDA Master Agreement gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a specified deterioration in the credit quality of the other party. Upon an event of default or a termination of the ISDA Master Agreement, the non-defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each agreement to one net amount payable by one party to the other. This right to close out and net payments across all transactions traded under the ISDA Master Agreement could result in a reduction of the fund's credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any.

Collateral and margin requirements differ by type of derivative. For cleared derivatives (e.g., futures contracts, cleared swaps, and exchange-traded options), margin requirements are set by the clearing broker and the clearing house and collateral, in the form of cash or securities, is posted by the fund directly with the clearing broker. Collateral terms are counterparty agreement specific for uncleared derivatives (e.g., forward foreign currency exchange contracts, uncleared swap agreements, and uncleared options) and collateral, in the form of cash and securities, is held in segregated accounts with the fund's custodian in connection with these agreements. For derivatives traded under an ISDA Master Agreement, which contains a collateral support annex, the collateral requirements are netted across all transactions traded under such counterparty-specific agreement and one amount is posted from one party to the other to collateralize such obligations. Cash that has been segregated or delivered to cover the fund's collateral or margin obligations under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities as restricted cash for uncleared derivatives and/or deposits with brokers for cleared derivatives. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments. The fund may be required to make payments of interest on

*Notes to Financial Statements continued*

uncovered collateral or margin obligations with the broker. Any such payments are included in Interest expense and fees and amortization of VMTPS debt issuance costs in the Statement of Operations.

**Futures Contracts** The fund entered into futures contracts which may be used to hedge against or obtain broad market exposure, interest rate exposure, or to manage duration. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the fund is required to deposit with the broker, either in cash or securities, an initial margin in an amount equal to a specified percentage of the notional amount of the contract. Subsequent payments (variation margin) are made or received by the fund each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gain or loss by the fund until the contract is closed or expires at which point the gain or loss on futures contracts is realized.

The fund bears the risk of interest rates or securities prices moving unexpectedly, in which case, the fund may not achieve the anticipated benefits of the futures contracts and may realize a loss. While futures contracts may present less counterparty risk to the fund since the contracts are exchange traded and the exchange's clearinghouse guarantees payments to the broker, there is still counterparty credit risk due to the insolvency of the broker. The fund's maximum risk of loss due to counterparty credit risk is equal to the margin posted by the fund to the broker plus any gains or minus any losses on the outstanding futures contracts.

**Statement of Cash Flows** Information on financial transactions which have been settled through the receipt or disbursement of cash is presented in the Statement of Cash Flows. The cash amount shown in the Statement of Cash Flows is the amount included within the fund's Statement of Assets and Liabilities and includes cash on hand at its custodian bank and does not include any short-term investments.

**Indemnifications** Under the fund's organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the fund. Additionally, in the normal course of business, the fund enters into agreements with service providers that may contain indemnification clauses. The fund's maximum exposure under these agreements is unknown as this would involve future claims that may be made against the fund that have not yet occurred.

**Investment Transactions and Income** Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with U.S. generally accepted accounting principles. Interest payments received in additional securities are recorded on the ex-interest date in an amount equal to the value of the security on such date.

The fund may receive proceeds from litigation settlements. Any proceeds received from litigation involving portfolio holdings are reflected in the Statement of Operations in realized gain/loss if the security has been disposed of by the fund or in unrealized

Notes to Financial Statements continued

gain/loss if the security is still held by the fund. Any other proceeds from litigation not related to portfolio holdings are reflected as other income in the Statement of Operations.

**Reimbursement of Expenses by Custodian** The fund's custodian (or former custodian), State Street Bank and Trust Company, reimbursed its asset servicing clients for expense amounts that it billed in error during the period 1998 through 2015. The amount of this one-time reimbursement attributable to the fund is reflected as Reimbursement of custodian expenses in the Statement of Operations.

**Tax Matters and Distributions** The fund intends to qualify as a regulated investment company, as defined under Subchapter M of the Internal Revenue Code, and to distribute all of its taxable and tax-exempt income, including realized capital gains. As a result, no provision for federal income tax is required. The fund's federal tax returns, when filed, will remain subject to examination by the Internal Revenue Service for a three year period. Management has analyzed the fund's tax positions taken on federal and state tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability.

Distributions to shareholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments have no impact on net assets or net asset value per share. Temporary differences which arise from recognizing certain items of income, expense, gain or loss in different periods for financial statement and tax purposes will reverse at some time in the future. Distributions in excess of net investment income or net realized gains are temporary overdistributions for financial statement purposes resulting from differences in the recognition or classification of income or distributions for financial statement and tax purposes.

Book/tax differences primarily relate to expiration of capital loss carryforwards, amortization and accretion of debt securities, derivative transactions, and non-deductible expenses that result from the treatment of VMTPS as equity for tax purposes.

The tax character of distributions declared to shareholders for the last two fiscal years is as follows:

|  | Year ended<br>11/30/18 | Year ended<br>11/30/17 |
|--|------------------------|------------------------|
| Ordinary income (including any short-term capital gains) | \$17,734               | \$1,800                |
| Tax-exempt income  | 1,920,444              | 2,006,492              |
| Total distributions                                      | \$1,938,178            | \$2,008,292            |

*Notes to Financial Statements continued*

The federal tax cost and the tax basis components of distributable earnings were as follows:

| <b>As of 11/30/18</b>                      |              |
|--|--------------|
| Cost of investments                        | \$54,871,135 |
| Gross appreciation                         | 2,462,083    |
| Gross depreciation                         | (350,818)    |
| Net unrealized appreciation (depreciation) | \$2,111,265  |
| Undistributed ordinary income              | 27,777       |
| Undistributed tax-exempt income            | 88,302       |
| Capital loss carryforwards                 | (725,457)    |
| Post-October capital loss deferral         | (41,640)     |
| Other temporary differences                | (56,343)     |

Under the Regulated Investment Company Modernization Act of 2010 (the Act), net capital losses recognized for fund fiscal years beginning after November 30, 2011 may be carried forward indefinitely, and their character is retained as short-term and/or long-term losses (post-enactment losses). Previously, net capital losses were carried forward for eight years and treated as short-term losses (pre-enactment losses). As a transition rule, the Act requires that all post-enactment net capital losses be used before pre-enactment net capital losses.

As of November 30, 2018, the fund had capital loss carryforwards available to offset future realized gains. Such pre-enactment losses expire as follows:

|          |             |
|----------|-------------|
| 11/30/19 | \$(725,457) |
|----------|-------------|

### (3) Transactions with Affiliates

**Investment Adviser** The fund has an investment advisory agreement with MFS to provide overall investment management and related administrative services and facilities to the fund. The management fee is computed daily and paid monthly at an annual rate of 0.65% of the fund's average daily net assets (including the value of preferred shares).

The investment adviser has agreed in writing to pay a portion of the fund's total annual operating expenses, excluding interest expense on VMTPS, amortization of debt issuance costs on VMTPS, taxes, extraordinary expenses, brokerage and transaction costs, other interest expense, and investment-related expenses, such that total fund operating expenses do not exceed 0.80% annually of the fund's average daily net assets (including the value of preferred shares). This written agreement will continue until modified by the fund's Board of Trustees, but such agreement will continue at least until November 30, 2019. For the year ended November 30, 2018, this reduction amounted to \$149,738, which is included in the reduction of total expenses in the Statement of Operations.

**Transfer Agent** The fund engages Computershare Trust Company, N.A. (Computershare) as the sole transfer agent for the fund's common shares. MFS Service Center, Inc. (MFSC) monitors and supervises the activities of Computershare for an agreed upon fee approved by the Board of Trustees. For the year ended November 30, 2018, these fees paid to MFSC amounted to \$121.

*Notes to Financial Statements continued*

**Administrator** MFS provides certain financial, legal, shareholder communications, compliance, and other administrative services to the fund. Under an administrative services agreement, the fund reimburses MFS the costs incurred to provide these services. The fund is charged an annual fixed amount of \$17,500 plus a fee based on average daily net assets (including the value of preferred shares). The administrative services fee incurred for the year ended November 30, 2018 was equivalent to an annual effective rate of 0.0321% of the fund's average daily net assets (including the value of preferred shares).

**Trustees and Officers Compensation** The fund pays compensation to independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The fund does not pay compensation directly to Trustees or officers of the fund who are also officers of the investment adviser, all of whom receive remuneration for their services to the fund from MFS. Certain officers and Trustees of the fund are officers or directors of MFS and MFSC.

**Other** This fund and certain other funds managed by MFS (the funds) have entered into a service agreement (the ISO Agreement) which provides for payment of fees solely by the funds to Tarantino LLC in return for the provision of services of an Independent Senior Officer (ISO) for the funds. Frank L. Tarantino serves as the ISO and is an officer of the funds and the sole member of Tarantino LLC. The funds can terminate the ISO Agreement with Tarantino LLC at any time under the terms of the ISO Agreement. For the year ended November 30, 2018, the fee paid by the fund under this agreement was \$58 and is included in Miscellaneous expense in the Statement of Operations. MFS has agreed to bear all expenses associated with office space, other administrative support, and supplies provided to the ISO.

The fund invests in the MFS Institutional Money Market Portfolio which is managed by MFS and seeks current income consistent with preservation of capital and liquidity. This money market fund does not pay a management fee to MFS.

**(4) Portfolio Securities**

For the year ended November 30, 2018, purchases and sales of investments, other than short-term obligations, aggregated \$10,077,521 and \$10,535,329, respectively.

**(5) Shares of Beneficial Interest**

The fund's Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest. The fund reserves the right to repurchase shares of beneficial interest of the fund subject to Trustee approval. During the years ended November 30, 2018 and November 30, 2017, the fund did not repurchase any shares and there were no other transactions in fund shares.

**(6) Line of Credit**

The fund and certain other funds managed by MFS participate in a \$1.25 billion unsecured committed line of credit, subject to a \$1 billion sublimit, provided by a syndication of banks under a credit agreement. Borrowings may be made for temporary financing needs. Interest is charged to each fund, based on its borrowings, generally at a rate equal to the higher of the Overnight Bank Funding rate or daily one month LIBOR plus an agreed upon spread. A commitment fee, based on the average



Notes to Financial Statements continued

daily, unused portion of the committed line of credit, is allocated among the participating funds. In addition, the fund and other funds managed by MFS have established unsecured uncommitted borrowing arrangements with certain banks for temporary financing needs. Interest is charged to each fund, based on its borrowings, at a rate equal to the Overnight Bank Funding rate plus an agreed upon spread. For the year ended November 30, 2018, the fund's commitment fee and interest expense were \$205 and \$0, respectively, and are included in Interest expense and fees and amortization of VMTPS debt issuance costs in the Statement of Operations.

**(7) Investments in Affiliated Issuers**

An affiliated issuer may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. For the purposes of this report, the fund assumes the following to be affiliated issuers:

| Affiliated Issuers                       | Beginning<br>Shares/Par<br>Amount | Acquisitions<br>Shares/Par<br>Amount | Dispositions<br>Shares/Par<br>Amount | Ending<br>Shares/Par<br>Amount |
|--|-----------------------------------|--------------------------------------|--------------------------------------|--------------------------------|
| MFS Institutional Money Market Portfolio | 435,550                           | 12,226,849                           | (11,556,393)                         | 1,106,006                      |

| Affiliated Issuers                       | Realized<br>Gain (Loss) | Change in<br>Unrealized<br>Appreciation/<br>Depreciation | Capital Gain<br>Distributions | Dividend<br>Income | Ending<br>Value |
|--|-------------------------|--|-------------------------------|--------------------|-----------------|
| MFS Institutional Money Market Portfolio | \$53                    | \$162  | \$                            | \$20,050           | \$1,106,006     |

**(8) Preferred Shares**

The fund has 977 shares issued and outstanding of VMTPS. The outstanding VMTPS are redeemable at the option of the fund in whole or in part at the liquidation preference of \$25,000 per share, plus accumulated and unpaid dividends, but generally solely for the purpose of decreasing the leverage of the fund. The VMTPS are subject to a mandatory term redemption date of October 31, 2021, as extended, unless further extended through negotiation with the private holders of the VMTPS. There is no assurance that the term of the VMTPS will be extended or that the VMTPS will be replaced with any other preferred shares or other form of leverage upon the redemption of the VMTPS. Two months prior to the term redemption date of the VMTPS, the fund is required to begin to segregate liquid assets with the fund's custodian to fund the redemption. Dividends on the VMTPS are cumulative and are reset weekly to a fixed spread against the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index. During the year ended November 30, 2018, the VMTPS dividend rates ranged from 2.09% to 2.96%. For the year ended November 30, 2018, the average dividend rate was 2.52%.

In the fund's Statement of Assets and Liabilities, the VMTPS aggregate liquidation preference is shown as a liability since they have a stated mandatory redemption date. Dividends paid to the VMTPS are treated as interest expense and recorded as incurred. For the year ended November 30, 2018, interest expense related to the dividends paid to VMTPS amounted to \$623,056 and is included in Interest expense and fees and amortization of VMTPS debt issuance costs in the Statement of Operations. Costs

*Notes to Financial Statements continued*

directly related to the issuance of the VMTPS are considered debt issuance costs. Debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability and are being amortized into interest expense over the life of the VMTPS. The period-end carrying value for the VMTPS in the fund's Statement of Assets and Liabilities is its liquidation value less any unamortized debt issuance costs, which approximates its fair value. Its fair value would be considered level 2 under the fair value hierarchy.

Under the terms of a purchase agreement between the fund and the investor in the VMTPS, the fund is subject to various investment restrictions. These investment-related requirements are in various respects more restrictive than those to which the fund is otherwise subject in accordance with its investment objectives and policies. In addition, the fund is subject to certain restrictions on its investments imposed by guidelines of the rating agencies that rate the VMTPS, which guidelines may be changed by the applicable rating agency, in its sole discretion, from time to time. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the fund by the Investment Company Act of 1940 (the "1940 Act").

The fund is required to maintain certain asset coverage with respect to the VMTPS as defined in the fund's governing documents and the 1940 Act. One of a number of asset coverage-related requirements is that the fund is not permitted to declare or pay common share dividends unless immediately thereafter the fund has a minimum asset coverage ratio of 200% with respect to the VMTPS after deducting the amount of such common share dividends.

The 1940 Act requires that the preferred shareholders of the fund, voting as a separate class, have the right to elect at least two trustees at all times, and elect a majority of the trustees at any time when dividends on the preferred shares are unpaid for two full years. Unless otherwise required by law or under the terms of the preferred shares, each preferred share is entitled to one vote and preferred shareholders will vote together with common shareholders as a single class.

Leverage involves risks and special considerations for the fund's common shareholders. To the extent that investments are purchased by the fund with proceeds from the issuance of preferred shares, the fund's net asset value will increase or decrease at a greater rate than a comparable unleveraged fund. Changes in the value of the fund's portfolio will be borne entirely by the common shareholders. It is possible that the fund will be required to sell assets at a time when it may be disadvantageous to do so in order to redeem preferred shares to comply with asset coverage or other restrictions including those imposed by the 1940 Act and the rating agencies that rate the preferred shares. There is no assurance that the fund's leveraging strategy will be successful.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Trustees of MFS California Municipal Fund

### Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of MFS California Municipal Fund (the Fund ), including the portfolio of investments, as of November 30, 2018, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the financial statements ). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund at November 30, 2018, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ( PCAOB ) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2018, by correspondence with the custodian and others. Our audits also included evaluating the

*Report of Independent Registered Public Accounting Firm continued*

accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the auditor of one or more MFS investment companies since 1993.

Boston, Massachusetts

January 15, 2019

## RESULTS OF SHAREHOLDER MEETING

(unaudited)

At the annual meeting of shareholders of MFS California Municipal Fund, which was held on October 4, 2018, the following actions were taken:

**Item 1:** To elect the following individuals as Trustees, elected by the holders of common and preferred shares together:

| Nominee            | Number of Shares |                    |
|--------------------|------------------|--------------------|
|                    | For              | Withheld Authority |
| John A. Caroselli  | 2,122,195.000    | 102,728.000        |
| Clarence Otis, Jr. | 2,110,538.000    | 114,385.000        |
| Robin A. Stelmach  | 2,119,864.000    | 105,059.000        |

**Item 2:** To elect the following individuals as Trustees, elected by the holders of preferred shares only:

| Nominee           | Number of Shares |                    |
|-------------------|------------------|--------------------|
|                   | For              | Withheld Authority |
| John P. Kavanaugh | 977              | 0                  |
| Laurie J. Thomsen | 977              | 0                  |

## TRUSTEES AND OFFICERS IDENTIFICATION AND BACKGROUND

The Trustees and Officers of the Trust, as of January 1, 2019, are listed below, together with their principal occupations during the past five years. (Their titles may have varied during that period.) The address of each Trustee and Officer is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

| Name, Age  | Position(s)<br>Held<br>with Fund | Trustee/<br>Officer  |                  | Number<br>of MFS<br>Funds<br>overseen<br>by the<br>Trustee | Principal<br>Occupations<br>During<br>the Past<br>Five Years   | Other<br>Directorships<br>During the<br>Past Five<br>Years <sup>(j)</sup> |
|--|----------------------------------|----------------------|------------------|--|--|---|
|  |                                  | Since <sup>(h)</sup> | Term<br>Expiring |  |  |   |
| <b>INTERESTED TRUSTEES</b>                       |                                  |                      |                  |  |  |   |
| Robert J. Manning <sup>(k)</sup><br><br>(age 55) | Trustee                          | February 2004        | 2019             | 135  | Massachusetts Financial Services Company, Executive Chairman (since January 2017); Director; Chairman of the Board; Chief Executive Officer (until 2015); Co-Chief Executive Officer (2015-2016)   | N/A   |
| Robin A. Stelmach <sup>(k)</sup><br><br>(age 57) | Trustee                          | January 2014         | 2021             | 135  | Massachusetts Financial Services Company, Vice Chair (since January 2017); Chief Operating Officer and Executive Vice President (until January 2017)   | N/A   |
| <b>INDEPENDENT TRUSTEES</b>                      |                                  |                      |                  |  |  |   |
| John P. Kavanaugh<br><br>(age 64)                | Trustee and Chair<br>of Trustees | January 2009         | 2019             | 135  | Private investor   | N/A   |
| Steven E. Buller<br><br>(age 67)                 | Trustee                          | February 2014        | 2020             | 135  | Financial Accounting Standards Advisory Council, Chairman (2014-2015); Public Company Accounting Oversight Board, Standing Advisory Group, Member (until 2014); BlackRock, Inc. (investment management), Managing Director (until 2014), BlackRock Finco UK (investment management), Director (until 2014) | N/A   |

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Trustees and Officers continued

| Name, Age                        | Position(s)<br>Held<br>with Fund | Trustee/<br>Officer  |                  | Number<br>of MFS<br>Funds<br>overseen<br>by the<br>Trustee | Principal<br>Occupations<br>During<br>the Past<br>Five Years  | Other<br>Directorships<br>During the<br>Past Five<br>Years <sup>(i)</sup>                                     |
|----------------------------------|----------------------------------|----------------------|------------------|--|---|---|
|                                  |                                  | Since <sup>(h)</sup> | Term<br>Expiring |  |   |   |
| John A. Caroselli<br>(age 64)    | Trustee                          | March 2017           | 2021             | 135  | JC Global Advisors, LLC<br>(management consulting),<br>President (since 2015); First<br>Capital Corporation (commercial<br>finance), Executive Vice<br>President (until 2015)   | N/A   |
| Maureen R. Goldfarb<br>(age 63)  | Trustee                          | January 2009         | 2019             | 135  | Private investor  | N/A   |
| Michael Hegarty<br>(age 74)      | Trustee                          | December 2004        | 2020             | 135  | Private investor  | Rouse Properties Inc.,<br>Director (until 2016);<br>Capmark Financial<br>Group Inc., Director<br>(until 2015) |
| Peter D. Jones<br>(age 63)       | Trustee                          | January 2019         | 2020             | 135  | Franklin Templeton Distributors,<br>Inc. (investment management),<br>President (until 2015); Franklin<br>Templeton Institutional, LLC<br>(investment management),<br>Chairman (until 2015)  | N/A   |
| James W. Kilman, Jr.<br>(age 57) | Trustee                          | January 2019         | 2021             | 135  | KielStrand Capital LLC (family<br>office and merchant bank), Chief<br>Executive Officer (since 2016);<br>Morgan Stanley & Co. (financial<br>services), Vice Chairman of<br>Investment Banking, Co-Head of<br>Diversified Financials Coverage<br>Financial Institutions Investment<br>Banking Group (until 2016) | alpha-En Corporation,<br>Director (since 2016)  |

Trustees and Officers continued

| Name, Age                      | Position(s) Held | Trustee/Officer |               | Number of MFS Funds overseen by the Trustee | Principal Occupations During the Past Five Years  | Other Directorships During the Past Five Years (i)  |
|--------------------------------|------------------|-----------------|---------------|---|---|---|
|                                |                  | Since (h)       | Term Expiring |   |   |   |
| Clarence Otis, Jr.<br>(age 62) | Trustee          | March 2017      | 2021          | 135   | Darden Restaurants, Inc., Chief Executive Officer (until 2014)  | VF Corporation, Director; Verizon Communications, Inc., Director; The Travelers Companies, Director; Federal Reserve Bank of Atlanta, Director (until 2015) |
| Maryanne L. Roepke<br>(age 62) | Trustee          | May 2014        | 2019          | 135   | American Century Investments (investment management), Senior Vice President and Chief Compliance Officer (until 2014) | N/A   |
| Laurie J. Thomsen<br>(age 61)  | Trustee          | March 2005      | 2019          | 135   | Private investor  | The Travelers Companies, Director; Dycom Industries, Inc., Director (since 2015)  |

| Name, Age OFFICERS                    | Position(s) Held                        | Trustee/Officer |               | Number of MFS Funds for which the Person is an Officer | Principal Occupations During the Past Five Years  |
|---------------------------------------|---|-----------------|---------------|--|---|
|                                       |   | Since (h)       | Term Expiring |  |   |
| Christopher R. Bohane (k)<br>(age 44) | Assistant Secretary and Assistant Clerk | July 2005       | N/A           | 135  | Massachusetts Financial Services Company, Vice President and Assistant General Counsel  |
| Kino Clark (k)<br>(age 50)            | Assistant Treasurer                     | January 2012    | N/A           | 135  | Massachusetts Financial Services Company, Vice President  |
| John W. Clark, Jr. (k)<br>(age 51)    | Assistant Treasurer                     | April 2017      | N/A           | 135  | Massachusetts Financial Services Company, Vice President (since March 2017); Deutsche Bank (financial services), Department Head Treasurer's Office (until February 2017) |



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Trustees and Officers continued

| Name, Age                                      | Position(s) Held                        | Trustee/Officer Since <sup>(h)</sup> | Term Expiring | Number of MFS Funds for which the Person is an Officer | Principal Occupations During the Past Five Years  |
|--|---|--------------------------------------|---------------|--|---|
| Thomas H. Connors <sup>(k)</sup><br>(age 59)   | Assistant Secretary and Assistant Clerk | September 2012                       | N/A           | 135  | Massachusetts Financial Services Company, Vice President and Senior Counsel   |
| Ethan D. Corey <sup>(k)</sup><br>(age 55)      | Assistant Secretary and Assistant Clerk | July 2005                            | N/A           | 135  | Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel   |
| David L. DiLorenzo <sup>(k)</sup><br>(age 50)  | President                               | July 2005                            | N/A           | 135  | Massachusetts Financial Services Company, Senior Vice President   |
| Heidi W. Hardin <sup>(k)</sup><br>(age 51)     | Secretary and Clerk                     | April 2017                           | N/A           | 135  | Massachusetts Financial Services Company, Executive Vice President and General Counsel (since March 2017); Harris Associates (investment management), General Counsel (from September 2015 to January 2017); Janus Capital Management LLC (investment management), Senior Vice President and General Counsel (until September 2015) |
| Brian E. Langenfeld <sup>(k)</sup><br>(age 45) | Assistant Secretary and Assistant Clerk | June 2006                            | N/A           | 135  | Massachusetts Financial Services Company, Vice President and Senior Counsel   |
| Amanda S. Mooradian <sup>(k)</sup><br>(age 39) | Assistant Secretary and Assistant Clerk | September 2018                       | N/A           | 135  | Massachusetts Financial Services Company, Assistant Vice President and Counsel  |
| Susan A. Pereira <sup>(k)</sup><br>(age 48)    | Assistant Secretary and Assistant Clerk | July 2005                            | N/A           | 135  | Massachusetts Financial Services Company, Vice President and Senior Counsel   |
| Kasey L. Phillips <sup>(k)</sup><br>(age 48)   | Assistant Treasurer                     | September 2012                       | N/A           | 135  | Massachusetts Financial Services Company, Vice President  |

Trustees and Officers continued

| Name, Age                                     | Position(s) Held                                       | Trustee/Officer Since <sup>(h)</sup> | Term Expiring | Number of MFS Funds for which the Person is an Officer | Principal Occupations During the Past Five Years  |
|---|--|--------------------------------------|---------------|--|---|
| Matthew A. Stowe <sup>(k)</sup><br>(age 44)   | Assistant Secretary and Assistant Clerk                | October 2014                         | N/A           | 135  | Massachusetts Financial Services Company, Vice President and Assistant General Counsel  |
| Frank L. Tarantino<br>(age 74)                | Independent  | June 2004                            | N/A           | 135  | Tarantino LLC (provider of compliance services), Principal  |
| Richard S. Weitzel <sup>(k)</sup><br>(age 48) | Senior Officer Assistant Secretary and Assistant Clerk | October 2007                         | N/A           | 135  | Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel   |
| Martin J. Wolin <sup>(k)</sup><br>(age 51)    | Chief Compliance Officer                               | July 2015                            | N/A           | 135  | Massachusetts Financial Services Company, Senior Vice President and Chief Compliance Officer (since July 2015); Mercer (financial service provider), Chief Risk and Compliance Officer, North America and Latin America (until June 2015) |
| James O. Yost <sup>(k)</sup><br>(age 58)      | Treasurer  | September 1990                       | N/A           | 135  | Massachusetts Financial Services Company, Senior Vice President   |

(h) Date first appointed to serve as Trustee/officer of an MFS Fund. Each Trustee has served continuously since appointment unless indicated otherwise. For the period from December 15, 2004 until February 22, 2005, Mr. Manning served as Advisory Trustee. From January 2012 through December 2016, Messrs. DiLorenzo and Yost served as Treasurer and Deputy Treasurer of the Funds, respectively.

(j) Directorships or trusteeships of companies required to report to the Securities and Exchange Commission (i.e., public companies).

(k) Interested person of the Trust within the meaning of the Investment Company Act of 1940 (referred to as the 1940 Act), which is the principal federal law governing investment companies like the fund, as a result of a position with MFS. The address of MFS is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

The Trust holds annual shareholder meetings for the purpose of electing Trustees, and Trustees are elected for fixed terms. Two Trustees, each holding a term of one year, are elected annually by holders of the Trust's preferred shares. The remaining Trustees are currently divided into three classes, each having a term of three years which term expires on the date of the third annual meeting following the election to office of the Trustee's class. Each year the term of one class expires. Each Trustee and officer will

*Trustees and Officers continued*

serve until next elected or his or her earlier death, resignation, retirement or removal. Under the terms of the Board's retirement policy, an Independent Trustee shall retire at the end of the calendar year in which he or she reaches the earlier of 75 years of age or 15 years of service on the Board (or, in the case of any Independent Trustee who joined the Board prior to 2015, 20 years of service on the Board).

Messrs. Buller, Hegarty, Kilman and Otis and Ms. Roepke are members of the Trust's Audit Committee.

Each of the Interested Trustees and certain Officers hold comparable officer positions with certain affiliates of MFS.

**Investment Adviser**

Massachusetts Financial Services Company

111 Huntington Avenue

Boston, MA 02199-7618

**Portfolio Manager(s)**

Michael Dawson  
Geoffrey Schechter

**Custodian**

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111-2900

**Independent Registered Public Accounting Firm**

Ernst & Young LLP  
200 Clarendon Street  
Boston, MA 02116

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## BOARD REVIEW OF INVESTMENT ADVISORY AGREEMENT

The Investment Company Act of 1940 requires that both the full Board of Trustees and a majority of the non-interested ( independent ) Trustees, voting separately, annually approve the continuation of the Fund s investment advisory agreement with MFS. The Trustees consider matters bearing on the Fund and its advisory arrangements at their meetings throughout the year, including a review of performance data at each regular meeting. In addition, the independent Trustees met several times over the course of three months beginning in May and ending in July, 2018 ( contract review meetings ) for the specific purpose of considering whether to approve the continuation of the investment advisory agreement for the Fund and the other investment companies that the Board oversees (the MFS Funds ). The independent Trustees were assisted in their evaluation of the Fund s investment advisory agreement by independent legal counsel, from whom they received separate legal advice and with whom they met separately from MFS during various contract review meetings. The independent Trustees were also assisted in this process by the MFS Funds Independent Senior Officer, a senior officer appointed by and reporting to the independent Trustees.

In connection with their deliberations regarding the continuation of the investment advisory agreement, the Trustees, including the independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. The investment advisory agreement for the Fund was considered separately, although the Trustees also took into account the common interests of all MFS Funds in their review. As described below, the Trustees considered the nature, quality, and extent of the various investment advisory, administrative, and shareholder services performed by MFS under the existing investment advisory agreement and other arrangements with the Fund.

In connection with their contract review meetings, the Trustees received and relied upon materials that included, among other items: (i) information provided by Broadridge Financial Solutions, Inc. ( Broadridge ), an independent third party, on the investment performance (based on net asset value) of the Fund for various time periods ended December 31, 2017 and the investment performance (based on net asset value) of a group of funds with substantially similar investment classifications/objectives (the Broadridge performance universe ), (ii) information provided by Broadridge on the Fund s advisory fees and other expenses and the advisory fees and other expenses of comparable funds identified by Broadridge (the Broadridge expense group ), (iii) information provided by MFS on the advisory fees of portfolios of other clients of MFS, including institutional separate accounts and other clients, (iv) information as to whether and to what extent applicable expense waivers, reimbursements or fee breakpoints are observed for the Fund, (v) information regarding MFS financial results and financial condition, including MFS and certain of its affiliates estimated profitability from services performed for the Fund and the MFS Funds as a whole, and compared to MFS institutional business, (vi) MFS views regarding the outlook for the mutual fund industry and the strategic business plans of MFS, (vii) descriptions of various functions performed by MFS for the Funds, such as compliance monitoring and portfolio trading practices, and (viii) information regarding the overall organization of MFS, including information about MFS senior management and other personnel

*Board Review of Investment Advisory Agreement continued*

providing investment advisory, administrative and other services to the Fund and the other MFS Funds. The comparative performance, fee and expense information prepared and provided by Broadridge was not independently verified and the independent Trustees did not independently verify any information provided to them by MFS.

The Trustees' conclusion as to the continuation of the investment advisory agreement was based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors. It is also important to recognize that the fee arrangements for the Fund and other MFS Funds are the result of years of review and discussion between the independent Trustees and MFS, that certain aspects of such arrangements may receive greater scrutiny in some years than in others, and that the Trustees' conclusions may be based, in part, on their consideration of these same arrangements during the course of the year and in prior years.

Based on information provided by Broadridge and MFS, the Trustees reviewed the Fund's total return investment performance as well as the Broadridge performance universe over various time periods. The Trustees placed particular emphasis on the total return performance of the Fund's common shares in comparison to the performance of funds in its Broadridge performance universe over the three-year period ended December 31, 2017, which the Trustees believed was a long enough period to reflect differing market conditions. The total return performance of the Fund's common shares ranked 7th out of a total of 17 funds in the Broadridge performance universe for this three-year period (a ranking of first place out of the total number of funds in the performance universe indicating the best performer and a ranking of last place out of the total number of funds in the performance universe indicating the worst performer). The total return performance of the Fund's common shares ranked 7th out of a total of 17 funds for the one-year period and 8th out of a total of 17 funds for the five-year period ended December 31, 2017. Given the size of the Broadridge performance universe and information previously provided by MFS regarding differences between the Fund and other funds in its Broadridge performance universe, the Trustees also reviewed the Fund's performance in comparison to the Bloomberg Barclays Municipal Bond Index. The Fund outperformed the Bloomberg Barclays Municipal Bond Index for each of the one-, three- and five-year periods ended December 31, 2017 (one-year: 8.0% total return for the Fund versus 5.4% total return for the benchmark; three-year: 4.8% total return for the Fund versus 3.0% total return for the benchmark; five-year: 5.1% total return for the Fund versus 3.0% total return for the benchmark). Because of the passage of time, these performance results may differ from the performance results for more recent periods, including those shown elsewhere in this report.

In the course of their deliberations, the Trustees took into account information provided by MFS in connection with the contract review meetings, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding the Fund's performance. After reviewing these and

*Board Review of Investment Advisory Agreement continued*

related factors, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that they were satisfied with MFS' responses and efforts relating to investment performance.

In assessing the reasonableness of the Fund's advisory fee, the Trustees considered, among other information, the Fund's advisory fee and the total expense ratio of the Fund's common shares as a percentage of average daily net assets (including the value of preferred shares) and the advisory fee and total expense ratios of peer groups of funds based on information provided by Broadridge. The Trustees considered that MFS currently observes an expense limitation for the Fund, which may not be changed without the Trustees' approval. The Trustees also considered that, according to the data provided by Broadridge (which takes into account any fee reductions or expense limitations that were in effect during the Fund's last fiscal year), the Fund's effective advisory fee rate was lower than the Broadridge expense group median and the Fund's total expense ratio was higher than the Broadridge expense group median.

The Trustees also considered the advisory fees charged by MFS to any institutional separate accounts advised by MFS (separate accounts) and unaffiliated investment companies for which MFS serves as subadviser (subadvised funds) that have comparable investment strategies to the Fund, if any. In comparing these fees, the Trustees considered information provided by MFS as to the generally broader scope of services provided by MFS to the Fund, as well as the more extensive regulatory burdens imposed on MFS in managing the Fund, in comparison to separate accounts and subadvised funds.

The Trustees considered that, as a closed-end fund, the Fund is unlikely to experience meaningful asset growth. As a result, the Trustees did not view the potential for realization of economies of scale as the Fund's assets grow to be a material factor in their deliberations. The Trustees noted that they would consider economies of scale in the future in the event the Fund experiences significant asset growth, such as through a material increase in the market value of the Fund's portfolio securities.

The Trustees also considered information prepared by MFS relating to MFS' costs and profits with respect to the Fund, the MFS Funds considered as a group, and other investment companies and accounts advised by MFS, as well as MFS' methodologies used to determine and allocate its costs to the MFS Funds, the Fund and other accounts and products for purposes of estimating profitability.

After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that the advisory fees charged to the Fund represent reasonable compensation in light of the services being provided by MFS to the Fund.

In addition, the Trustees considered MFS' resources and related efforts to continue to retain, attract and motivate capable personnel to serve the Fund. The Trustees also considered current and developing conditions in the financial services industry, including the presence of large and well-capitalized companies which are spending, and appear to be prepared to continue to spend, substantial sums to engage personnel and to provide services to competing investment companies. In this regard, the Trustees also considered the financial resources of MFS and its ultimate parent, Sun Life

*Board Review of Investment Advisory Agreement continued*

Financial Inc. The Trustees also considered the advantages and possible disadvantages to the Fund of having an adviser that also serves other investment companies as well as other accounts.

The Trustees also considered the nature, quality, cost, and extent of administrative services provided to the Fund by MFS under agreements other than the investment advisory agreement. The Trustees also considered the nature, extent and quality of certain other services MFS performs or arranges for on the Fund's behalf, which may include securities lending programs, directed expense payment programs, class action recovery programs, and MFS' interaction with third-party service providers, principally custodians and sub-custodians. The Trustees concluded that the various non-advisory services provided by MFS and its affiliates on behalf of the Fund were satisfactory.

The Trustees considered so-called "fall-out benefits" to MFS such as reputational value derived from serving as investment manager to the MFS Funds. The Trustees also considered that, effective January 3, 2018, MFS had discontinued its historic practice of obtaining investment research from portfolio brokerage commissions paid by certain MFS Funds and would thereafter voluntarily reimburse a Fund, if applicable, for the costs of external research acquired through the use of the Fund's portfolio brokerage commissions.

Based on their evaluation of factors that they deemed to be material, including those factors described above, the Board of Trustees, including the independent Trustees, concluded that the Fund's investment advisory agreement with MFS should be continued for an additional one-year period, commencing August 1, 2018.

#### PROXY VOTING POLICIES AND INFORMATION

MFS votes proxies on behalf of the fund pursuant to proxy voting policies and procedures that are available without charge, upon request, by calling 1-800-225-2606, by visiting [mfs.com/proxyvoting](http://mfs.com/proxyvoting), or by visiting the SEC's Web site at <http://www.sec.gov>.

Information regarding how the fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available by August 31 of each year without charge by visiting [mfs.com/proxyvoting](http://mfs.com/proxyvoting), or by visiting the SEC's Web site at <http://www.sec.gov>.

#### QUARTERLY PORTFOLIO DISCLOSURE

The fund files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov>. A shareholder can obtain the portfolio holdings report for the first and third quarters of the fund's fiscal year at [mfs.com/closedendfunds](http://mfs.com/closedendfunds) by choosing the fund's name and then selecting the Resources tab and clicking on Prospectus and Reports.

#### FURTHER INFORMATION

From time to time, MFS may post important information about the fund or the MFS funds on the MFS web site ([mfs.com](http://mfs.com)). This information is available at <https://www.mfs.com/en-us/what-we-do/announcements.html> or at [mfs.com/closedendfunds](http://mfs.com/closedendfunds) by choosing the fund's name.

Additional information about the fund (e.g. performance, dividends and the fund's price history) is also available by clicking on the fund's name under Closed-End Funds in the Products section of [mfs.com](http://mfs.com).

#### INFORMATION ABOUT FUND CONTRACTS AND LEGAL CLAIMS

The fund has entered into contractual arrangements with an investment adviser, administrator, transfer agent, and custodian who each provide services to the fund. Unless expressly stated otherwise, shareholders are not parties to, or intended beneficiaries of these contractual arrangements, and these contractual arrangements are not intended to create any shareholder right to enforce them against the service providers or to seek any remedy under them against the service providers, either directly or on behalf of the fund.

Under the Trust's By-Laws, any claims asserted against or on behalf of the MFS Funds, including claims against Trustees and Officers, must be brought in state and federal courts located within the Commonwealth of Massachusetts.

#### FEDERAL TAX INFORMATION (unaudited)

The fund will notify shareholders of amounts for use in preparing 2018 income tax forms in January 2019. The following information is provided pursuant to provisions of the Internal Revenue Code.

Of the dividends paid from net investment income during the fiscal year, 99.09% is designated as exempt interest dividends for federal income tax purposes. If the fund has earned income on private activity bonds, a portion of the dividends paid may be considered a tax preference item for purposes of computing a shareholder's alternative minimum tax.



**FACTS**

**WHAT DOES MFS DO WITH YOUR PERSONAL INFORMATION?**

**Why?**

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

**What?**

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and account balances
- Account transactions and transaction history
- Checking account information and wire transfer instructions

When you are *no longer* our customer, we continue to share your information as described in this notice.

**How?**

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons MFS chooses to share; and whether you can limit this sharing.

| Reasons we can share your personal information   | Does MFS share? | Can you limit this sharing? |
|--|-----------------|-----------------------------|
| <b>For our everyday business purposes</b><br>such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus | Yes             | No                          |
| <b>For our marketing purposes</b><br>to offer our products and services to you   | No              | We don't share              |
| <b>For joint marketing with other financial companies</b>  | No              | We don't share              |
| <b>For our affiliates' everyday business purposes</b><br>information about your transactions and experiences   | No              | We don't share              |
| <b>For our affiliates' everyday business purposes</b><br>information about your creditworthiness   | No              | We don't share              |

For nonaffiliates to market to you

No

We don't share

**Questions?**

Call **800-225-2606** or go to **mfs.com**.

## Who we are

**Who is providing this notice?** MFS Funds, MFS Investment Management, MFS Institutional Advisors, Inc., and MFS Heritage Trust Company.

## What we do

**How does MFS protect my personal information?** To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include procedural, electronic, and physical safeguards for the protection of the personal information we collect about you.

**How does MFS collect my personal information?** We collect your personal information, for example, when you

open an account or provide account information

direct us to buy securities or direct us to sell your securities

make a wire transfer

We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.

**Why can't I limit all sharing?** Federal law gives you the right to limit only

sharing for affiliates everyday business purposes information about your creditworthiness

affiliates from using your information to market to you

sharing for nonaffiliates to market to you

State laws and individual companies may give you additional rights to limit sharing.

## Definitions

**Affiliates** Companies related by common ownership or control. They can be financial and nonfinancial companies.

*MFS does not share personal information with affiliates, except for everyday business purposes as described on page one of this notice.*

**Nonaffiliates** Companies not related by common ownership or control. They can be financial and nonfinancial companies.

**Joint marketing**

*MFS does not share with nonaffiliates so they can market to you.*  
A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

*MFS doesn't jointly market.*

**Other important information**

If you own an MFS product or receive an MFS service in the name of a third party such as a bank or broker-dealer, their privacy policy may apply to you instead of ours.

## **CONTACT US**

### **TRANSFER AGENT, REGISTRAR, AND**

### **DIVIDEND DISBURSING AGENT**

#### **CALL**

1-800-637-2304

9 a.m. to 5 p.m. Eastern time

#### **WRITE**

Computershare Trust Company, N.A.

P.O. Box 43078

Providence, RI 02940-3078

NYSE American Symbol: **CCA**

**ITEM 2. CODE OF ETHICS.**

The Registrant has adopted a Code of Ethics (the Code ) pursuant to Section 406 of the Sarbanes-Oxley Act and as defined in Form N-CSR that applies to the Registrant s principal executive officer and principal financial and accounting officer. During the period covered by this report, the Registrant has not amended any provision in the Code that relates to an element of the Code s definition enumerated in paragraph (b) of Item 2 of this Form N-CSR. During the period covered by this report, the Registrant did not grant a waiver, including an implicit waiver, from any provision of the Code.

A copy of the Code is filed as an exhibit to this Form N-CSR.

**ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.**

Messrs. Steven E. Buller and Clarence Otis, Jr. and Ms. Maryanne L. Roepke, members of the Audit Committee, have been determined by the Board of Trustees in their reasonable business judgment to meet the definition of audit committee financial expert as such term is defined in Form N-CSR. In addition, Messrs. Buller and Otis and Ms. Roepke are independent members of the Audit Committee (as such term has been defined by the Securities and Exchange Commission in regulations implementing Section 407 of the Sarbanes-Oxley Act of 2002). The Securities and Exchange Commission has stated that the designation of a person as an audit committee financial expert pursuant to this Item 3 on the Form N-CSR does not impose on such a person any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the Audit Committee and the Board of Trustees in the absence of such designation or identification.

**ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

**Items 4(a) through 4(d) and 4(g):**

The Board of Trustees has appointed Ernst & Young LLP ( E&Y ) to serve as independent accountants to the Registrant (hereinafter the Registrant or the Fund ). The tables below set forth the audit fees billed to the Fund as well as fees for non-audit services provided to the Fund and/or to the Fund s investment adviser, Massachusetts Financial Services Company ( MFS ), and to various entities either controlling, controlled by, or under common control with MFS that provide ongoing services to the Fund ( MFS Related Entities ).

For the fiscal years ended November 30, 2018 and 2017, audit fees billed to the Fund by E&Y were as follows:

|                                | <b>Audit Fees</b> |             |
|--------------------------------|-------------------|-------------|
|                                | <b>2018</b>       | <b>2017</b> |
| <b>Fees billed by E&amp;Y:</b> |                   |             |
| MFS California Municipal Fund  | 59,606            | 58,340      |

## Edgar Filing: MFS CALIFORNIA MUNICIPAL FUND - Form N-CSR

For the fiscal years ended November 30, 2018 and 2017, fees billed by E&Y for audit-related, tax and other services provided to the Fund and for audit-related, tax and other services provided to MFS and MFS Related Entities were as follows:

|                                  | Audit-Related Fees <sup>1</sup> |        | Tax Fees <sup>2</sup> |        | All Other Fees <sup>3</sup> |       |
|----------------------------------|---------------------------------|--------|-----------------------|--------|-----------------------------|-------|
|                                  | 2018                            | 2017   | 2018                  | 2017   | 2018                        | 2017  |
| <b>Fees billed by E&amp;Y:</b>   |                                 |        |                       |        |                             |       |
| To MFS California Municipal Fund | 11,608                          | 11,358 | 10,324                | 10,102 | 1,010                       | 1,012 |

|   | Audit-Related Fees <sup>1</sup> |           | Tax Fees <sup>2</sup> |      | All Other Fees <sup>3</sup> |         |
|---|---------------------------------|-----------|-----------------------|------|-----------------------------|---------|
|   | 2018                            | 2017      | 2018                  | 2017 | 2018                        | 2017    |
| <b>Fees billed by E&amp;Y:</b>                                    |                                 |           |                       |      |                             |         |
| To MFS and MFS Related Entities of MFS California Municipal Fund* | 1,728,076                       | 1,603,983 | 0                     | 0    | 103,950                     | 101,450 |

|   | Aggregate Fees for Non-audit Services |           |
|---|---------------------------------------|-----------|
|   | 2018                                  | 2017      |
| <b>Fees Billed by E&amp;Y:</b>  |                                       |           |
| To MFS California Municipal Fund, MFS and MFS Related Entities <sup>#</sup> | 2,134,868                             | 1,859,905 |

\* This amount reflects the fees billed to MFS and MFS Related Entities for non-audit services relating directly to the operations and financial reporting of the Fund (portions of which services also related to the operations and financial reporting of other funds within the MFS Funds complex).

# This amount reflects the aggregate fees billed by E&Y for non-audit services rendered to the Fund and for non-audit services rendered to MFS and the MFS Related Entities.

<sup>1</sup> The fees included under **Audit-Related Fees** are fees related to assurance and related services that are reasonably related to the performance of the audit or review of financial statements, but not reported under **Audit Fees**, including accounting consultations, agreed-upon procedure reports, attestation reports, comfort letters and internal control reviews.

<sup>2</sup> The fees included under **Tax Fees** are fees associated with tax compliance, tax advice and tax planning, including services relating to the filing or amendment of federal, state or local income tax returns, regulated investment company qualification reviews and tax distribution and analysis.

<sup>3</sup> The fees included under **All Other Fees** are fees for products and services provided by E&Y other than those reported under **Audit Fees**, **Audit-Related Fees** and **Tax Fees**, including fees for services related to review of internal controls and review of Rule 38a-1 compliance program.

### Item 4(e)(1):

Set forth below are the policies and procedures established by the Audit Committee of the Board of Trustees relating to the pre-approval of audit and non-audit related services:

To the extent required by applicable law, pre-approval by the Audit Committee of the Board is needed for all audit and permissible non-audit services rendered to the Fund and all permissible non-audit services rendered to MFS or MFS Related Entities if the services relate directly to the operations and financial reporting of the Registrant. Pre-approval is currently on an engagement-by-engagement basis. In the event pre-approval of such services is necessary between regular meetings of the Audit Committee and it is not practical to wait to seek pre-approval at the next regular meeting of the Audit Committee, pre-approval of such services may be referred to the Chair of the Audit Committee for approval; provided that the Chair may not pre-approve any individual engagement for such

services exceeding \$50,000 or multiple engagements for such services in the aggregate exceeding \$100,000 between such regular meetings of the Audit Committee. Any engagement pre-approved by the Chair between regular meetings of the Audit Committee shall be presented for ratification by the entire Audit Committee at its next regularly scheduled meeting.

**Item 4(e)(2):**

None, or 0%, of the services relating to the Audit-Related Fees, Tax Fees and All Other Fees paid by the Fund and MFS and MFS Related Entities relating directly to the operations and financial reporting of the Registrant disclosed above were approved by the audit committee pursuant to paragraphs (c)(7)(i)(C) of Rule 2-01 of Regulation S-X (which permits audit committee approval after the start of the engagement with respect to services other than audit, review or attest services, if certain conditions are satisfied).

**Item 4(f):**

Not applicable.

**Item 4(h):**

The Registrant's Audit Committee has considered whether the provision by a Registrant's independent registered public accounting firm of non-audit services to MFS and MFS Related Entities that were not pre-approved by the Committee (because such services were provided prior to the effectiveness of SEC rules requiring pre-approval or because such services did not relate directly to the operations and financial reporting of the Registrant) was compatible with maintaining the independence of the independent registered public accounting firm as the Registrant's principal auditors.

**ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.**

The Registrant has an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Effective January 1, 2019, the members of the Audit Committee are Messrs. Steven E. Buller, Clarence Otis, Jr., James W. Kilman, Jr., and Michael Hegarty and Ms. Maryanne L. Roepke.

**ITEM 6. SCHEDULE OF INVESTMENTS**

A schedule of investments of the Registrant is included as part of the report to shareholders of the Registrant under Item 1 of this Form N-CSR.

**ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.**

A copy of the proxy voting policies and procedures are attached hereto as EX-99.PROXYPOL.



**ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.**

**Portfolio Manager(s)**

Information regarding the portfolio manager(s) of the MFS California Municipal Fund (the Fund) is set forth below. Each portfolio manager is primarily responsible for the day-to-day management of the Fund.

| <b>Portfolio Manager</b> | <b>Primary Role</b> | <b>Since</b> | <b>Title and Five Year History</b>  |
|--------------------------|---------------------|--------------|---|
| Michael Dawson           | Portfolio Manager   | 2007         | Investment Officer of MFS; employed in the investment area of MFS since 1998. |
| Geoffrey Schechter       | Portfolio Manager   | 2007         | Investment Officer of MFS; employed in the investment area of MFS since 1993. |

**Compensation**

MFS philosophy is to align portfolio manager compensation with the goal to provide shareholders with long-term value through a collaborative investment process. Therefore, MFS uses long-term investment performance as well as contribution to the overall investment process and collaborative culture as key factors in determining portfolio manager compensation. In addition, MFS seeks to maintain total compensation programs that are competitive in the asset management industry in each geographic market where it has employees. MFS uses competitive compensation data to ensure that compensation practices are aligned with its goals of attracting, retaining, and motivating the highest-quality professionals.

MFS reviews portfolio manager compensation annually. In determining portfolio manager compensation, MFS uses quantitative means and qualitative means to help ensure a sustainable investment process. As of December 31, 2017, portfolio manager total cash compensation is a combination of base salary and performance bonus:

*Base Salary* Base salary generally represents a smaller percentage of portfolio manager total cash compensation than performance bonus.

*Performance Bonus* Generally, the performance bonus represents more than a majority of portfolio manager total cash compensation.

The performance bonus is based on a combination of quantitative and qualitative factors, generally with more weight given to the former and less weight given to the latter.

The quantitative portion is primarily based on the pre-tax performance of accounts managed by the portfolio manager over a range of fixed-length time periods, intended to provide the ability to assess performance over time periods consistent with a full market cycle and a strategy's investment horizon. The fixed-length time periods include the portfolio manager's full tenure on each fund and, when available, ten-, five-, and three-year periods. For portfolio managers who have served for less than three years, shorter-term periods, including the one-year period, will also be considered, as will performance in previous roles, if any, held at the firm. Emphasis is generally placed on longer performance periods when multiple performance periods are available. Performance is evaluated across the full set of strategies and portfolios managed by a given portfolio manager, relative to appropriate peer group universes and/or representative indices (benchmarks). As of December 31, 2017, the following benchmarks were used to measure the following portfolio manager's performance for the Fund:

| <b>Fund</b>                   | <b>Portfolio Manager</b> | <b>Benchmark(s)</b>                     |
|-------------------------------|--------------------------|---|
| MFS California Municipal Fund | Michael Dawson           | Bloomberg Barclays Municipal Bond Index |
|                               | Geoffrey Schechter       | Bloomberg Barclays Municipal Bond Index |

Benchmarks may include versions and components of indices, custom indices, and linked indices that combine performance of different indices for different portions of the time period, where appropriate.

The qualitative portion is based on the results of an annual internal peer review process (where portfolio managers are evaluated by other portfolio managers, analysts, and traders) and management's assessment of overall portfolio manager contribution to the MFS investment process and the client experience (distinct from fund and other account performance).

The performance bonus is generally a combination of cash and a deferred cash award. A deferred cash award is issued for a cash value and becomes payable over a three-year vesting period if the portfolio manager remains in the continuous employ of MFS or its affiliates. During the vesting period, the value of the unfunded deferred cash award will fluctuate as though the portfolio manager had invested the cash value of the award in an MFS Fund(s) selected by the portfolio manager.

*MFS Equity Plan* Portfolio managers also typically benefit from the opportunity to participate in the MFS Equity Plan. Equity interests are awarded by management, on a discretionary basis, taking into account tenure at MFS, contribution to the investment process, and other factors.

Finally, portfolio managers also participate in benefit plans (including a defined contribution plan and health and other insurance plans) and programs available generally to other employees of MFS. The percentage such benefits represent of any portfolio manager's compensation depends upon the length of the individual's tenure at MFS and salary level, as well as other factors.

**Ownership of Fund Shares**

The following table shows the dollar range of equity securities of the Fund beneficially owned by the Fund's portfolio manager(s) as of the Fund's fiscal year ended November 30, 2018. The following dollar ranges apply:

- N. None
- A. \$1 - \$10,000
- B. \$10,001 - \$50,000
- C. \$50,001 - \$100,000
- D. \$100,001 - \$500,000
- E. \$500,001 - \$1,000,000
- F. Over \$1,000,000

| Name of Portfolio Manager | Dollar Range of Equity Securities in Fund |
|---------------------------|---|
| Michael Dawson            | N   |
| Geoffrey Schechter        | N   |

**Other Accounts**

In addition to the Fund, each portfolio manager of the Fund is named as a portfolio manager of certain other accounts managed or sub-advised by MFS or an affiliate. The number and assets of these accounts were as follows as of the Fund's fiscal year ended November 30, 2018:

| Name               | Registered Investment Companies* |                 | Other Pooled Investment Vehicles |                  | Other Accounts     |              |
|--------------------|----------------------------------|-----------------|----------------------------------|------------------|--------------------|--------------|
|                    | Number of Accounts               | Total Assets    | Number of Accounts               | Total Assets     | Number of Accounts | Total Assets |
| Michael Dawson     | 17                               | \$ 2.8 billion  | 0                                | N/A              | 0                  | N/A          |
| Geoffrey Schechter | 14                               | \$ 18.7 billion | 4                                | \$ 629.9 million | 0                  | N/A          |

\* Includes the Fund.

Advisory fees are not based upon performance of any of the accounts identified in the table above.

**Potential Conflicts of Interest**

MFS seeks to identify potential conflicts of interest resulting from a portfolio manager's management of both the Fund and other accounts, and has adopted policies and procedures designed to address such potential conflicts.

The management of multiple funds and accounts (including proprietary accounts) gives rise to conflicts of interest if the funds and accounts have different objectives and strategies, benchmarks, time horizons and fees as a portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. In certain instances, there are securities which are suitable for the Fund's portfolio as well as for accounts of MFS or its subsidiaries with similar investment objectives. MFS' trade allocation policies may give rise to conflicts of interest if the Fund's orders do not get fully executed or are delayed in getting executed due to being aggregated with those of other accounts of MFS or its subsidiaries. A portfolio manager may execute transactions for another fund or account that may adversely affect the value of the Fund's investments. Investments selected for funds or accounts other than the Fund may outperform investments selected for the Fund.

When two or more clients are simultaneously engaged in the purchase or sale of the same security, the securities are allocated among clients in a manner believed by MFS to be fair and equitable to each. Allocations may be based on many factors and may not always be pro rata based on assets managed. The allocation methodology could have a detrimental effect on the price or volume of the security as far as the Fund is concerned.

MFS and/or a portfolio manager may have a financial incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor accounts other than the Fund, for instance, those that pay a higher advisory fee and/or have a performance adjustment and/or include an investment by the portfolio manager.

**ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.**

**MFS California Municipal Fund**

| <b>Period</b>     | <b>(a)<br/>Total number<br/>of Shares<br/>Purchased</b> | <b>(b)<br/>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>(c)<br/>Total Number<br/>of Shares<br/>Purchased<br/>as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>(d)<br/>Maximum<br/>Number (or<br/>Approximate<br/>Dollar Value) of<br/>Shares that May<br/>Yet Be Purchased<br/>under the<br/>Plans<br/>or Programs</b> |
|-------------------|---|---|---|---|
| 12/01/17-12/31/17 | 0   | N/A   | 0   | 278,627   |
| 1/01/18-1/31/18   | 0   | N/A   | 0   | 278,627   |
| 2/01/18-2/28/18   | 0   | N/A   | 0   | 278,627   |
| 3/01/18-3/31/18   | 0   | N/A   | 0   | 278,627   |
| 4/01/18-4/30/18   | 0   | N/A   | 0   | 278,627   |
| 5/01/18-5/31/18   | 0   | N/A   | 0   | 278,627   |
| 6/01/18-6/30/18   | 0   | N/A   | 0   | 278,627   |
| 7/01/18-7/31/18   | 0   | N/A   | 0   | 278,627   |
| 8/01/18-8/31/18   | 0   | N/A   | 0   | 278,627   |
| 9/01/18-9/30/18   | 0   | N/A   | 0   | 278,627   |
| 10/1/18-10/31/18  | 0   | N/A   | 0   | 278,627   |
| 11/1/18-11/30/18  | 0   | N/A   | 0   | 278,627   |
| <b>Total</b>      | <b>0</b>  |   | <b>0</b>  |   |

Note: The Board approved procedures to repurchase shares and reviews the results periodically. The notification to shareholders of the program is part of the semi-annual and annual reports sent to shareholders. These annual programs begin on October 1st of each year. The programs conform to the conditions of Rule 10b-18 of the Securities Exchange Act of 1934 and limit the aggregate number of shares that may be purchased in each annual period (October 1 through the following September 30) to 10% of the Registrant's outstanding shares as of the first day of the plan year (October 1). The aggregate number of shares available for purchase for the October 1, 2018 plan year is 278,627.

**ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

There were no material changes to the procedures by which shareholders may send recommendations to the Board for nominees to the Registrant's Board since the Registrant last provided disclosure as to such procedures in response to the requirements of Item 407 (c)(2)(iv) of Regulation S-K or this Item.

**ITEM 11. CONTROLS AND PROCEDURES.**

- (a) Based upon their evaluation of the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the Act)) as conducted within 90 days of the filing date of this Form N-CSR, the registrant's principal financial officer and principal executive officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.
  
- (b) There were no changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter covered by the report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**ITEM 12. DISCLOSURE OF SECURITIES LENDING ACTIVITIES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.**

During the fiscal year ended November 30, 2018, there were no fees or income related to securities lending activities of the Registrant.

**ITEM 13. EXHIBITS.**

- (a)
  - (1) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit: Attached hereto as EX-99.COE.
  - (2) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2): Attached hereto as EX-99.302CERT.
  - (3) Any written solicitation to purchase securities under Rule 23c-1 under the Act (17 CFR 270.23c-1) sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons. Not applicable.
  - (4) Change in the registrant's independent public accountant. Not applicable.
  
- (b) If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the Act (17 CFR 270.30a-2(b)), Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed filed for the purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference. Attached hereto as EX-99.906CERT.
  
- (c) Proxy Voting Policies and Procedures pursuant to Item 7 of Form N-CSR. Attached hereto as EX-99.PROXYPOL.

**Notice**

A copy of the Agreement and Declaration of Trust, as amended, of the Registrant is on file with the Secretary of State of the Commonwealth of Massachusetts and notice is hereby given that this instrument is executed on behalf of the Registrant by an officer of the Registrant as an officer and not individually and the obligations of or arising out of this instrument are not binding upon any of the Trustees or shareholders individually, but are binding only upon the assets and property of the respective constituent series of the Registrant.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: MFS CALIFORNIA MUNICIPAL FUND

By (Signature and Title)\* DAVID L. DILORENZO  
David L. DiLorenzo, President

Date: January 15, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* DAVID L. DILORENZO  
David L. DiLorenzo, President  
(Principal Executive Officer)

Date: January 15, 2019

By (Signature and Title)\* JAMES O. YOST  
James O. Yost, Treasurer  
(Principal Financial Officer  
and Accounting Officer)

Date: January 15, 2019

\* Print name and title of each signing officer under his or her signature.