

MFS CALIFORNIA MUNICIPAL FUND
Form N-CSRS
August 05, 2014
Table of Contents

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)

Susan S. Newton

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: May 31, 2014

Table of Contents

ITEM 1. REPORTS TO STOCKHOLDERS.

Table of Contents

SEMIANNUAL REPORT

May 31, 2014

MFS® CALIFORNIA MUNICIPAL FUND

CCA-SEM

Table of Contents

MFS® CALIFORNIA MUNICIPAL FUND

NYSE MKT Symbol: CCA

<u>Letter from the Chairman and CEO</u>	1
<u>Portfolio composition</u>	2
<u>Portfolio managers _ profiles</u>	4
<u>Other notes</u>	4
<u>Portfolio of investments</u>	5
<u>Statement of assets and liabilities</u>	13
<u>Statement of operations</u>	14
<u>Statements of changes in net assets</u>	15
<u>Statement of cash flows</u>	16
<u>Financial highlights</u>	17
<u>Notes to financial statements</u>	19
<u>Report of independent registered public accounting firm</u>	29
<u>Proxy voting policies and information</u>	30
<u>Quarterly portfolio disclosure</u>	30
<u>Further information</u>	30
<u>Contact information</u> back cover	

NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

Table of Contents

LETTER FROM THE CHAIRMAN AND CEO

Dear Shareholders:

After gaining momentum late last year, U.S. economic output contracted this winter, as severe weather curtailed activity. More recently, various indicators show that the

U.S. economy could be regaining traction.

Although Europe emerged from its recession almost a year ago, its pace of growth has been slow, and high unemployment persists, along with the risk of deflation. Asia remains vulnerable. China's economic growth has slowed, and Japan's early progress toward an economic turnaround continues to face obstacles, including the recent sales tax increase. Emerging markets have been more turbulent.

With so much uncertainty, global financial markets began 2014 with much greater volatility than last year's broad-based rally.

For equity investors, paying attention to company fundamentals has become more important. Bond investors have been attuned to heightened risks from possible interest rate increases.

As always at MFS®, active risk management is integral to how we manage your investments. We use a collaborative process, sharing insights across asset classes, regions and economic sectors. Our global team of investment professionals uses a multidiscipline, long-term, diversified investment approach.

We understand that these are challenging economic times. We believe that we can serve you best by applying proven principles, such as asset allocation and diversification, over the long term. We are confident that this approach can serve you well as you work with your financial advisors to reach your goals in the years ahead.

Respectfully,

Robert J. Manning

Chairman and Chief Executive Officer

MFS Investment Management

July 16, 2014

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

Table of Contents**PORTFOLIO COMPOSITION****Portfolio structure (i)(j)****Top five industries (i)**

General Obligations Schools	27.9%
Healthcare Revenue Hospitals	24.6%
Water & Sewer Utility Revenue	18.3%
State & Local Agencies	18.1%
General Obligations General Purpose	10.1%

Composition including fixed income credit quality (a)(i)

AAA	1.4%
AA	56.8%
A	78.5%
BBB	12.8%
BB	4.9%
B	4.1%
Not Rated (j)	1.4%
Cash & Other	(59.9)%

Portfolio facts (i)

Average Duration (d)	13.4
Average Effective Maturity (m)	16.9 yrs.

Jurisdiction (i)

California	163.4%
Puerto Rico	3.7%
New York	1.7%

- (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, including fixed income futures contracts, which have not been rated by any rating agency. The fund may not hold all of these instruments. 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.

Table of Contents

Portfolio Composition continued

- (i) For purposes of this presentation, the components include the market 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 market 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 (8.9)%, which reduce the fund's interest rate exposure but not its credit exposure.
 - (m) In determining an 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.
- From time to time Cash & Other may be negative due to the aggregate liquidation value of variable rate municipal term preferred shares, timing of cash receipts, and/or equivalent exposure from any derivative holdings.

Where the fund holds convertible bonds, these are treated as part of the equity portion of the portfolio.

Cash & Other can include cash, other assets less liabilities, offsets to derivative positions, and short-term securities.

Percentages are based on net assets as of 5/31/14.

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

Table of Contents

PORTFOLIO MANAGERS PROFILES

Portfolio Manager	Primary Role	Since	Title and Five Year History
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.

OTHER NOTES

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 liquidation.

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 have the effect of reducing the fund's assets and increasing the fund's expense ratio.

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.

Table of Contents**PORTFOLIO OF INVESTMENTS**

5/31/14 (unaudited)

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 - 166.6%

Issuer	Shares/Par	Value (\$)
Airport Revenue - 9.0%		
Los Angeles, CA, Department of Airports Rev. (Los Angeles International), C , BHAC, 5.25%, 5/15/38	\$ 750,000	\$ 823,196
Orange County, CA, Airport Rev., A , 5%, 7/01/31	190,000	212,504
San Diego County, CA, Regional Airport Authority Rev., A , 5%, 7/01/21	500,000	578,890
San Diego County, CA, Regional Airport Authority Rev., A , 5%, 7/01/43	500,000	542,875
San Francisco, CA, City & County Airports Commission, International Airport Rev., A , 5%, 5/01/30	285,000	314,301
San Francisco, CA, City & County Airports Commission, International Airport Rev., A , 5%, 5/01/31	150,000	163,152
San Jose, CA, Airport Rev., A-2 , 5.25%, 3/01/34	440,000	480,885
		\$ 3,115,803
General Obligations - General Purpose - 10.0%		
State of California, AMBAC, 6%, 2/01/17	\$ 1,000,000	\$ 1,142,190
State of California, 5%, 11/01/21	515,000	620,096
State of California, 5.25%, 4/01/35	455,000	515,392
State of California, 5.5%, 3/01/40	630,000	716,033
State of California, 5.25%, 11/01/40	415,000	465,203
		\$ 3,458,914
General Obligations - Schools - 27.6%		
Alhambra, CA, Unified School District, B , ASSD GTY, 5.25%, 8/01/28	\$ 500,000	\$ 576,075
Banning, CA, Unified School District (Election of 2006), B , ASSD GTY, 5.25%, 8/01/33	500,000	544,265
Beaumont, CA, Unified School District (Election of 2008), Capital Appreciation, C , AGM, 0%, 8/01/40	955,000	261,068
Chabot-Las Positas, CA, Community College (Election of 2004), B , AMBAC, 5%, 8/01/16 (c)	60,000	65,449
Folsom Cordova, CA, Unified School District (Election of 2012), A , 5%, 10/01/38	535,000	583,230
Huntington Beach, CA, Union High School District (Orange County), 5%, 8/01/21	235,000	286,879
Lake Tahoe, CA, Unified School District (Election of 2008), Capital Appreciation, AGM, 0%, 8/01/45	515,000	238,708
Montebello, CA, Unified School District (Election of 2004), A-1 , ASSD GTY, 5.25%, 8/01/34	355,000	397,036
Napa Valley, CA, Unified School District, 5%, 8/01/20	225,000	268,090
Peralta, CA, Community College District, AGM, 5%, 8/01/16	500,000	549,945

5

Table of Contents*Portfolio of Investments (unaudited) continued*

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
General Obligations - Schools - continued		
Pittsburg, CA, Unified School District, B, AGM, 5.5%, 8/01/34	\$ 500,000	\$ 557,830
Pomona, CA, Unified School District, A, NATL, 6.55%, 8/01/29	1,000,000	1,313,500
San Diego, CA, Community College (Election of 2002), 5.25%, 8/01/33	125,000	141,470
San Diego, CA, Unified School District (Election of 2008), Capital Appreciation, G, 0%, 7/01/34	265,000	96,979
San Joaquin, CA, Delta Community College District (Election of 2004), B, Capital Appreciation, AGM, 0%, 8/01/18	400,000	369,904
San Jose, CA, Evergreen Community College District (Election of 2010), A, 5%, 8/01/41	265,000	292,393
Santee, CA, School District (Election of 2006), Capital Appreciation, D, ASSD GTY, 0%, 8/01/43	765,000	167,856
Vallejo City, CA, Unified School District, A, NATL, 5.9%, 8/01/25	500,000	558,820
Victor, CA, Elementary School District (Election of 2008), A, ASSD GTY, 5.125%, 8/01/34	500,000	557,490
Washington, CA, Yolo County Unified School District (New High School Project), 5%, 8/01/21	450,000	486,081
West Contra Costa, CA, Unified School District, A, NATL, 5.7%, 2/01/23	500,000	624,295
West Covina, CA, Unified School District, A, NATL, 5.8%, 2/01/21	500,000	598,415
		\$ 9,535,778
Healthcare Revenue - Hospitals - 24.3%		
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Sharp Healthcare), 6.25%, 8/01/39	\$ 505,000	\$ 588,118
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Sharp Healthcare), A, 5%, 8/01/26	110,000	125,111
California Health Facilities Financing Authority Rev. (Cedars-Sinai Medical Center), 5%, 11/15/34	250,000	261,853
California Health Facilities Financing Authority Rev. (Memorial Health Services), A, 5%, 10/01/33	295,000	328,282
California Health Facilities Financing Authority Rev. (Scripps Health), A, 5%, 11/15/32	525,000	587,171
California Health Facilities Financing Authority Rev. (Scripps Health), A, 5%, 11/15/40	255,000	276,229
California Health Facilities Financing Authority Rev. (Sutter Health), B, 5.875%, 8/15/31	500,000	585,960
California Municipal Finance Authority, COP (Community Hospitals of Central California), 5.25%, 2/01/27	250,000	258,495
California Statewide Communities Development Authority Rev. (Adventist), ASSD GTY, 5%, 3/01/37	500,000	523,600
California Statewide Communities Development Authority Rev. (Catholic Healthcare West), K, ASSD GTY, 5.5%, 7/01/41	1,000,000	1,085,460
California Statewide Communities Development Authority Rev. (Enloe Medical Center), A, CALHF, 5.5%, 8/15/23	500,000	570,970

Table of Contents

Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Healthcare Revenue - Hospitals - continued		
California Statewide Communities Development Authority Rev. (Huntington Memorial Hospital), 5%, 7/01/35	\$ 535,000	\$ 550,820
California Statewide Communities Development Authority Rev. (Kaiser Permanente), A, 5%, 4/01/42	455,000	491,637
California Statewide Communities Development Authority Rev. (Santa Ynez Valley Cottage Hospital), 5.25%, 11/01/30	260,000	292,739
California Statewide Communities Development Authority Rev. (Sutter Health), A, 5%, 8/15/32	610,000	688,592
California Statewide Communities Development Authority Rev. (Trinity Health Corp.), 5%, 12/01/41	450,000	477,986
Santa Clara County, CA, Financing Authority Rev. (El Camino Hospital), AMBAC, 5.125%, 2/01/41	400,000	416,580
Upland, CA, COP (San Antonio Community Hospital), 6.375%, 1/01/32	250,000	281,865
		\$ 8,391,468
Healthcare Revenue - Long Term Care - 2.1%		
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Episcopal Senior Communities), 6.125%, 7/01/41	\$ 150,000	\$ 164,339
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Eskaton Properties, Inc.), 5%, 11/15/35	230,000	235,032
California Statewide Communities Development Authority Rev. (Episcopal Communities & Services for Seniors Obligated Group), 5%, 5/15/47	315,000	321,826
		\$ 721,197
Industrial Revenue - Other - 1.6%		
Liberty, NY, Development Corp. Rev. (Goldman Sachs Headquarters), 5.25%, 10/01/35	\$ 485,000	\$ 566,800
Miscellaneous Revenue - Other - 2.9%		
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Jackson Lab), 5.75%, 7/01/15 (c)	\$ 385,000	\$ 415,839
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Jackson Lab), 5%, 7/01/37	400,000	425,372
California Infrastructure & Economic Development Bank Rev. (Walt Disney Family Museum), 5.25%, 2/01/33	160,000	171,403
		\$ 1,012,614
Port Revenue - 6.4%		
Alameda Corridor Transportation Authority, California Rev., A, AGM, 5%, 10/01/28	\$ 305,000	\$ 351,604
Long Beach, CA, Harbor Rev., A, FGIC, 6%, 5/15/17	675,000	778,748
Port of Oakland, CA, Rev., P, 5%, 5/01/33	1,000,000	1,074,200
		\$ 2,204,552

Table of Contents

Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Sales & Excise Tax Revenue - 2.7%		
California Economic Recovery, A, 5%, 7/01/20	\$ 250,000	\$ 297,450
Los Angeles County, CA, Metropolitan Transportation Authority Sales Tax Rev., A, 5%, 7/01/20	250,000	303,210
Puerto Rico Sales Tax Financing Corp., Sales Tax Rev., C, 5%, 8/01/40	50,000	43,085
Puerto Rico Sales Tax Financing Corp., Sales Tax Rev., C, 5.25%, 8/01/40	330,000	295,116
		\$ 938,861
Single Family Housing - Other - 1.2%		
California Department of Veterans Affairs, Home Purchase Rev., A, 4.5%, 12/01/28	\$ 385,000	\$ 402,133
Single Family Housing - State - 3.3%		
California Housing Finance Agency Rev. (Home Mortgage), E, 4.75%, 2/01/30	\$ 305,000	\$ 306,040
California Housing Finance Agency Rev. (Home Mortgage), K, 5.3%, 8/01/23	190,000	195,770
California Housing Finance Agency Rev. (Home Mortgage), L, 5.45%, 8/01/33	555,000	572,666
California Housing Finance Agency Rev. (Home Mortgage), L, FNMA, 5.5%, 8/01/38	80,000	82,421
		\$ 1,156,897
State & Agency - Other - 1.4%		
Sacramento County, CA, Public Facilities Project, COP, AMBAC, 4.75%, 10/01/27	\$ 500,000	\$ 500,050
State & Local Agencies - 17.9%		
California Public Works Board Lease Rev. (Judicial Council Projects), A, 5%, 3/01/28	\$ 380,000	\$ 436,153
California Public Works Board Lease Rev. (New Stockton Courthouse), B, 5%, 10/01/33	275,000	308,699
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., FGIC, 5%, 6/01/35	255,000	263,112
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., BHAC, 5%, 6/01/38	1,000,000	1,028,110
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., Enhanced, A, FGIC, 5%, 6/01/38	1,000,000	1,020,080
Los Angeles County, CA, Schools Regionalized Business Service Corp., Pooled Financing, Capital Appreciation, A, AMBAC, 0%, 8/01/18	2,020,000	1,827,716
Los Angeles County, CA, Schools Regionalized Business Service Corp., Pooled Financing, Capital Appreciation, A, AMBAC, 0%, 8/01/23	1,220,000	850,377

Table of Contents

Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
State & Local Agencies - continued		
Los Angeles, CA, Municipal Improvement Corp. Lease Rev., B, ASSD GTY, 5.5%, 4/01/30	\$ 390,000	\$ 441,718
		\$ 6,175,965
Tax Assessment - 9.6%		
Fontana, CA, Public Finance Authority, Tax Allocation Rev. (Sub Lien North Fontana Redevelopment), A, AMBAC, 5%, 10/01/29	\$ 1,000,000	\$ 1,014,660
Huntington Park, CA, Public Financing Authority Rev., A, AGM, 5.25%, 9/01/19	500,000	514,230
Irvine, CA, Limited Obligation Improvement (Reassessment District #12-1), 4%, 9/02/22	115,000	125,802
Irvine, CA, Limited Obligation Improvement (Reassessment District #12-1), 5%, 9/02/23	60,000	68,846
North Natomas, CA, Community Facilities District Special Tax, 4-E, 5.25%, 9/01/33	160,000	173,258
San Diego, CA, Redevelopment Agency, Tax Allocation (Centre City), A, AMBAC, 5.25%, 9/01/25	500,000	519,445
San Dieguito, CA, Public Facilities Authority, A, AMBAC, 5%, 8/01/32	500,000	511,065
San Francisco, CA, City & County Redevelopment Successor Agency Tax Allocation (Mission Bay South Public Improvements), A, 5%, 8/01/43	250,000	264,690
San Francisco, CA, City & County Redevelopment Successor Agency, Community Facilities District No. 6 (Mission Bay South Public Improvements), A, 5%, 8/01/33	130,000	137,298
		\$ 3,329,294
Tobacco - 4.0%		
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., A-1, 5.125%, 6/01/47	\$ 1,000,000	\$ 770,190
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., A-1, 5.75%, 6/01/47	715,000	598,133
		\$ 1,368,323
Toll Roads - 1.0%		
Riverside County, CA, Transportation Commission, Toll Rev., A, 5.75%, 6/01/44	\$ 320,000	\$ 354,048
Transportation - Special Tax - 2.5%		
Commonwealth of Puerto Rico Highway & Transportation Authority, Highway Rev., Y, AGM, 5.5%, 7/01/16 (c)	\$ 450,000	\$ 498,866
San Francisco, CA, Municipal Transportation Agency Rev., B, 5%, 3/01/37	335,000	367,374
		\$ 866,240

Table of Contents

Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Universities - Colleges - 7.2%		
California Educational Facilities Authority Rev. (Dominican University of California), 5%, 12/01/25	\$ 120,000	\$ 124,463
California Educational Facilities Authority Rev. (University of San Francisco), 6.125%, 10/01/30	285,000	343,579
California Public Works Board Lease Rev. (The Regents of the University of California), 5%, 12/01/21 (c)	375,000	460,223
California State University Rev., A, 5%, 11/01/24	370,000	436,027
California Statewide Communities Development Authority Rev. (Lancer Plaza Project), 5.875%, 11/01/43	230,000	230,067
University Enterprises, Inc. (Auxiliary Organization), A, FGIC, 4.375%, 10/01/30	500,000	502,115
University of California Regents Medical Center Pooled Rev. J, 5%, 5/15/19	325,000	382,948
		\$ 2,479,422
Universities - Secondary Schools - 0.7%		
California Statewide Communities Development Authority, School Facility Rev. (Alliance for College-Ready Public Schools), A, 6.375%, 7/01/47	\$ 230,000	\$ 245,815
Utilities - Cogeneration - 0.7%		
California Pollution Control Financing Authority, Water Furnishing Rev. (Poseidon Resources Desalination Project), 5%, 11/21/45	\$ 150,000	\$ 152,889
California Pollution Control Financing Authority, Water Furnishing Rev. (San Diego County Water Desalination Project Pipeline), 5%, 11/21/45	75,000	76,128
		\$ 229,017
Utilities - Municipal Owned - 9.6%		
California Department of Water Resources, Power Supply Rev., L, 5%, 5/01/19	\$ 805,000	\$ 952,911
California Department of Water Resources, Power Supply Rev., N, 5%, 5/01/20	205,000	246,578
Northern California Power Agency, Capital Facilities Rev., A, 5.25%, 8/01/24	390,000	437,280
Sacramento, CA, Municipal Utility District Rev., U, AGM, 5%, 8/15/19	750,000	860,993
Sacramento, CA, Municipal Utility District Rev., X, 5%, 8/15/25	370,000	428,194
Vernon, CA, Electric System Rev., A, 5.5%, 8/01/41	370,000	398,938
		\$ 3,324,894
Utilities - Other - 2.8%		
California M-S-R Energy Authority Gas Rev., A, 6.5%, 11/01/39	\$ 245,000	\$ 325,505
Southern California Public Power Authority (Natural Gas Project No. 1), A, 5%, 11/01/33	585,000	647,496
		\$ 973,001

Table of Contents

Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Water & Sewer Utility Revenue - 18.1%		
Atwater, CA, Public Financing Authority Wastewater Rev., ASSD GTY, 5%, 5/01/34	\$ 500,000	\$ 510,000
California Department of Water Resources Rev. (Central Valley Project Water System), AE, 5%, 12/01/28	500,000	571,315
California Department of Water Resources Rev. (Central Valley Project Water System), AM, 5%, 12/01/24	500,000	612,280
Chino Basin, CA, Regional Financing Authority Rev. (Inland Empire Utilities Agency), A, AMBAC, 5%, 11/01/38	1,000,000	1,087,320
Commonwealth of Puerto Rico Aqueduct & Sewer Authority Rev., A, 6%, 7/01/44	500,000	398,530
Escondido CA, Joint Powers Financing Authority Rev. (Water System Financing), 5%, 9/01/41	460,000	491,285
Los Angeles, CA, Department of Water & Power Waterworks Rev., C, NATL, 5%, 7/01/14 (c)	500,000	501,835
Madera, CA, Irrigation Financing Authority Rev., 6.5%, 1/01/40	440,000	515,794
Norco, CA, Financing Authority Enterprise Rev., AGM, 5.625%, 10/01/39	215,000	236,132
Ontario, CA, Public Financing Authority Water Rev., 4%, 7/01/18	250,000	277,860
Sonoma County, CA, Water Agency Rev., A, AGM, 5%, 7/01/36	600,000	642,354
Soquel Creek, CA, Water District, COP, 5%, 3/01/43	370,000	402,453
		\$ 6,247,158
Total Municipal Bonds (Identified Cost, \$53,947,330)		\$ 57,598,244
Money Market Funds - 1.7%		
MFS Institutional Money Market Portfolio, 0.07%, at Cost and Net Asset Value (v)	592,851	\$ 592,851
Total Investments (Identified Cost, \$54,540,181)		\$ 58,191,095
Other Assets, Less Liabilities - 2.3%		809,707
VMTPS, at liquidation value (issued by the fund) - (70.6)%		(24,425,000)
Net assets applicable to common shares - 100.0%		\$ 34,575,802

(c) Refunded bond.

(v) Underlying affiliated fund 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.

Table of Contents

Portfolio of Investments (unaudited) continued

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

COP Certificate of Participation
 VMTPS Variable Rate Municipal Term Preferred Shares

Insurers

AGM	Assured Guaranty Municipal
AMBAC	AMBAC Indemnity Corp.
ASSD GTY	Assured Guaranty Insurance Co.
BHAC	Berkshire Hathaway Assurance Corp.
CALHF	California Housing Finance Agency
FGIC	Financial Guaranty Insurance Co.
FNMA	Federal National Mortgage Assn.
NATL	National Public Finance Guarantee Corp.

Derivative Contracts at 5/31/14

Futures Contracts at 5/31/14

Description	Currency	Contracts	Value	Expiration Date	Unrealized Appreciation (Depreciation)
Asset Derivatives					
<i>Interest Rate Futures</i>					
U.S. Treasury Note 10 yr (Short)	USD	20	\$2,510,313	September - 2014	\$3,670
U.S. Treasury Bond 30 yr (Short)	USD	4	549,875	September - 2014	1,111
					\$4,781

At May 31, 2014, the fund had cash collateral of \$34,400 to cover any commitments for certain derivative contracts. Cash collateral is comprised of Deposits with brokers on the Statement of Assets and Liabilities.

See Notes to Financial Statements

Table of Contents*Financial Statements***STATEMENT OF ASSETS AND LIABILITIES**

At 5/31/14 (unaudited)

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

Assets	
Investments-	
Non-affiliated issuers, at value (identified cost, \$53,947,330)	\$57,598,244
Underlying affiliated funds, at cost and value	592,851
Total investments, at value (identified cost, \$54,540,181)	\$58,191,095
Deposits with brokers	34,400
Receivables for	
Daily variation margin on open futures contracts	3,063
Investments sold	461,389
Interest	744,473
Deferred VMTPS offering costs	38,658
Receivable from investment adviser	8,125
Other assets	9,070
Total assets	\$59,490,273
Liabilities	
Payables for	
Distributions on common shares	\$201
Investments purchased	412,157
Interest expense	27,649
Payable to affiliates	
Transfer agent and dividend disbursing costs	13
Payable for independent Trustees' compensation	44
Accrued expenses and other liabilities	49,407
VMTPS, at liquidation value	24,425,000
Total liabilities	\$24,914,471
Net assets applicable to common shares	\$34,575,802
Net assets consist of	
Paid-in capital - common shares	\$40,351,445
Unrealized appreciation (depreciation) on investments	3,655,695
Accumulated net realized gain (loss) on investments	(9,517,946)
Undistributed net investment income	86,608
Net assets applicable to common shares	\$34,575,802
VMTPS, at liquidation value (977 shares of Series 2016/9 issued and outstanding at \$25,000 per share)	24,425,000
Net assets including VMTPS	\$59,000,802
Common shares of beneficial interest issued and outstanding	2,786,238
Net asset value per common share (net assets of \$34,575,802 / 2,786,238 shares of beneficial interest outstanding)	\$12.41

See Notes to Financial Statements

Table of Contents*Financial Statements***STATEMENT OF OPERATIONS**

Six months ended 5/31/14 (unaudited)

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.

Net investment income	
Income	
Interest	\$1,299,003
Dividends from underlying affiliated funds	339
Total investment income	\$1,299,342
Expenses	
Management fee	\$185,085
Transfer agent and dividend disbursing costs	2,994
Administrative services fee	9,136
Independent Trustees compensation	5,139
Stock exchange fee	7,480
Custodian fee	5,313
Shareholder communications	9,146
Audit and tax fees	38,483
Legal fees	1,695
Amortization of VMTPS offering costs	8,387
Interest expense	159,388
Miscellaneous	25,274
Total expenses	\$457,520
Reduction of expenses by investment adviser	(61,848)
Net expenses	\$395,672
Net investment income	\$903,670
Realized and unrealized gain (loss) on investments	
Realized gain (loss) (identified cost basis)	
Investments	\$(74,003)
Futures contracts	(83,474)
Net realized gain (loss) on investments	\$(157,477)
Change in unrealized appreciation (depreciation)	
Investments	\$3,164,450
Futures contracts	(2,325)
Net unrealized gain (loss) on investments	\$3,162,125
Net realized and unrealized gain (loss) on investments	\$3,004,648
Change in net assets from operations	\$3,908,318

See Notes to Financial Statements

Table of Contents*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.

	Six months ended 5/31/14 (unaudited)	Year ended 11/30/13
Change in net assets		
From operations		
Net investment income	\$903,670	\$1,836,979
Net realized gain (loss) on investments	(157,477)	(95,743)
Net unrealized gain (loss) on investments	3,162,125	(4,783,686)
Change in net assets from operations	\$3,908,318	\$(3,042,450)
Distributions declared to shareholders		
From net investment income	\$(886,024)	\$(1,713,536)
Total change in net assets	\$3,022,294	\$(4,755,986)
Net assets applicable to common shares		
At beginning of period	31,553,508	36,309,494
At end of period (including undistributed net investment income of \$86,608 and \$68,962, respectively)	\$34,575,802	\$31,553,508
See Notes to Financial Statements		

Table of Contents*Financial Statements***STATEMENT OF CASH FLOWS**

Six months ended 5/31/14 (unaudited)

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

Cash flows from operating activities:	
Change in net assets from operations	\$3,908,318
Adjustments to reconcile change in net assets from operations to net cash provided by operating activities:	
Purchase of investment securities	(3,362,209)
Proceeds from disposition of investment securities	3,671,037
Payments for futures contracts	(83,474)
Purchases of short-term investments, net	(208,557)
Realized gain/loss on investments	74,003
Realized gain/loss on futures contracts	83,474
Unrealized appreciation/depreciation on investments	(3,164,450)
Net amortization/accretion of income	(6,920)
Amortization of VMTPS offering costs	8,387
Decrease in interest and dividends receivable	12,397
Decrease in accrued expenses and other liabilities	(35,289)
Increase in receivable for daily variation margin on open futures contracts	(875)
Increase in receivable from investment adviser	(8,125)
Decrease in restricted cash	5,100
Increase in other assets	(7,857)
Increase in payable for interest expense	1,280
Net cash provided by operating activities	\$886,240
Cash flows from financing activities:	
Cash distributions paid on common shares	(886,240)
Net cash used by financing activities	\$(886,240)
Cash:	
Beginning of period	\$
End of period	\$
Supplemental disclosure of cash flow information:	

Cash paid during the six months ended May 31, 2014 for interest was \$158,108.

See Notes to Financial Statements

Table of Contents*Financial Statements***FINANCIAL HIGHLIGHTS**

The financial highlights table is intended to help you understand the fund's financial performance for the semiannual period and the past 5 fiscal years. Certain information reflects financial results for a single fund share. The total returns in the table represent the rate by which 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	Six months	Years ended 11/30				
	ended 5/31/14	2013	2012	2011	2010	2009
	(unaudited)					
Net asset value, beginning of period	\$11.32	\$13.03	\$10.71	\$10.48	\$10.66	\$9.35
Income (loss) from investment operations						
Net investment income (d)	\$0.32	\$0.66	\$0.70	\$0.79	\$0.86	\$0.86
Net realized and unrealized gain (loss) on investments	1.09	(1.75)	1.92	0.26	(0.18)	1.26
Distributions declared to shareholders of ARPS			(0.02)	(0.03)	(0.04)	(0.06)
Total from investment operations	\$1.41	\$(1.09)	\$2.60	\$1.02	\$0.64	\$2.06
Less distributions declared to shareholders						
From net investment income	\$(0.32)	\$(0.62)	\$(0.72)	\$(0.79)	\$(0.82)	\$(0.75)
Net increase resulting from tender and repurchase of ARPS	\$	\$	\$0.44	\$	\$	\$
Net asset value, end of period (x)	\$12.41	\$11.32	\$13.03	\$10.71	\$10.48	\$10.66
Market value, end of period	\$11.11	\$9.76	\$12.71	\$10.99	\$10.75	\$10.72
Total return at market value (%) (p)	17.28(n)	(18.83)	22.84	10.44	7.87	37.90
Total return at net asset value (%) (j)(r)(s)(x)	12.95(n)	(8.17)	29.22(y)	10.40	5.75	23.05
Ratios (%) (to average net assets applicable to common shares) and Supplemental data:						
Expenses before expense reductions (f)(p)	2.81(a)	2.70	2.40	2.01	1.86	2.25
Expenses after expense reductions (f)(p)	2.43(a)	2.42	1.94	1.49	1.44	1.49
Net investment income (p)	5.54(a)	5.47	5.88	7.78	7.85	8.41
Portfolio turnover	7(n)	12	19	40	21	20
Net assets at end of period (000 omitted)	\$34,576	\$31,554	\$36,309	\$29,845	\$29,178	\$29,638

Table of Contents*Financial Highlights continued*

	Six months ended 5/31/14	2013	Years ended 11/30			2009
			2012	2011	2010	
(unaudited)						
Supplemental Ratios (%):						
Ratio of expenses to average net assets applicable to common shares after expense reductions and excluding interest expense and fees (f)(l)(p)	1.45(a)	1.43	1.40	N/A	N/A	N/A
Ratio of expenses to average net assets applicable to common shares, ARPS, and VMTPS after expense reductions and excluding interest expense and fees (f)(l)(p)	0.83(a)	0.83	0.81	0.80	0.80	0.80
Net investment income available to common shares	5.54	5.47	5.73	7.51	7.52	7.83
Senior Securities:						
ARPS				978	978	978
VMTPS	977	977	977			
Total preferred shares outstanding	977	977	977	978	978	978
Asset coverage per preferred share (k)	\$60,390	\$57,296	\$62,164	\$55,516	\$54,834	\$55,305
Involuntary liquidation preference per preferred share (m)	\$25,000	\$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	\$25,000