

# California Municipals Fund

**A**n investment opportunity for California residents seeking monthly income exempt from Federal income tax and State of California personal income tax through a professionally managed portfolio of municipal bonds.



**Investment Minimums.** Investors are subject to a minimum initial investment requirement of \$1,000 and a minimum subsequent investment requirement of \$200. See "Purchase of Shares."

**Systematic Investment Plan.** The Fund offers shareholders a Systematic Investment Plan under which they may authorize the automatic placement of a purchase order each month or quarter for Fund shares in an amount not less than \$100. See "Purchase of Shares."

**Redemption of Shares.** Shares may be redeemed on each day the New York Stock Exchange, Inc. ("NYSE") is open for business. Class A shares are redeemable at net asset value and Class B Shares are redeemable at net asset value less any applicable CDSC. See "Redemption of Shares."

**Management of the Fund.** Shearson Lehman Advisors serves as the Fund's investment adviser. It is a member of the Asset Management Group of Shearson Lehman Brothers, a full-line investment firm serving U.S. and foreign securities and commodities markets. Shearson Lehman Brothers is a wholly owned subsidiary of American Express Company ("American Express"), which is principally engaged in the businesses of providing travel-related services, information services, investment services, international banking services and investors' diversified financial services. Shearson Lehman Advisors has aggregate assets under management in excess of \$42.7 billion.

The Boston Company Advisors, Inc. ("Boston Advisors") serves as the Fund's administrator. Boston Advisors is a wholly owned subsidiary of The Boston Company, Inc. ("TBC"), which in turn is a wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). Boston Advisors has aggregate assets under management in excess of \$83.4 billion. See "Management of the Fund."

**Exchange Privilege.** Shares of a Class may be exchanged for shares of the same class of certain other funds in the Shearson Lehman Brothers Group of Funds and certain money market funds. Certain exchanges may be subject to a sales charge differential. See "Exchange Privilege."

**Valuation of Shares.** Net asset value of each Class is quoted daily in the financial section of most newspapers and is also available from your Shearson Lehman Brothers Financial Consultant. See "Valuation of Shares."

**Dividends and Distributions.** Dividends from net investment income are declared daily and paid on the last business day of the Shearson Lehman Brothers statement month. Distributions of net realized long- and short-term capital gains, if any, are declared and paid annually after the end of the fiscal year in which they were earned. See "Dividends, Distributions and Taxes."

**Reinvestment of Dividends.** Dividends and distributions paid on shares of a Class will be reinvested automatically, unless otherwise specified by an investor, in additional shares of the same Class at current net asset value. Shares acquired by dividend and distribution reinvestments will not be subject to any sales charge or CDSC. Class B shares acquired through dividend and distribution reinvestments will become eligible for conversion to Class A shares on a pro-rata basis. See "Dividends, Distributions and Taxes" and "Variable Pricing System."

**Risk Factors and Special Considerations.** There can be no assurance that the Fund will achieve its investment objective. Assets of the Fund also may be invested in the municipal securities of non-California municipal issuers. Dividends paid by the Fund which are derived from interest attributable to California Municipal Securities will be excluded from gross income for Federal income tax purposes and exempt from California state personal income taxes (but not from California state franchise tax or California state corporate income tax). Dividends derived from interest on obligations of non-California municipal issuers will be exempt from Federal income taxes, but may be subject to California state personal income taxes. Dividends derived from certain municipal securities (including California Municipal Securities), however, may be a specific tax item for Federal alternative minimum tax purposes. The Fund may invest without limit in securities subject to the Federal alternative minimum tax. See "Investment Objective and Management Policies" and "Dividends, Distributions and Taxes."

The Fund is more susceptible to factors adversely affecting issuers of California municipal securities than is a municipal bond fund that does not emphasize these issuers. See "California Municipal Securities" in the Prospectus and "Special Considerations Relating to California Municipal Securities" in the Statement of Additional Information for further details about the risks of investing in California obligations.

The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), which means that the Fund is not limited by the 1940 Act in the proportion of its assets that it may invest in the obligations of a single issuer. The Fund's assumption of large positions in the obligations of a small number of issuers may cause the Fund's share price to fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market's assessment of the issuers. See "Investment Objective and Management Policies."

The Fund generally will invest at least 75% of its assets in securities rated investment-grade, and

may invest the remainder of its assets in securities rated as low as C by Moody's Investors Service, Inc. ("Moody's") or D by Standard & Poor's Corporation ("S&P"), or in unrated obligations of comparable quality. Securities in the fourth highest rating category, though considered to be investment-grade, have speculative characteristics. Securities rated as low as D are extremely speculative and are in actual default of interest and/or principal payments.

There are several risks in connection with the use of certain portfolio strategies by the Fund, such as the use of when-issued securities, municipal bond index futures contracts and put and call options on interest rate futures as hedging devices, municipal leases and securities lending. See "Investment Objective and Management Policies—Certain Portfolio Strategies."

**The Fund's Expenses.** The following expense table lists the costs and expenses an investor will incur either directly or indirectly as a shareholder of the Fund, based on the maximum sales charge or maximum CDSC that may be incurred at the time of purchase or redemption and an estimate of the Fund's operating expenses:

	Class A	Class B
<b>Shareholder Transaction Expenses</b>		
Maximum sales charge imposed on purchases (as a percentage of offering price)	4.50%	—
Maximum CDSC (as a percentage of redemption proceeds)	—	4.50%
<b>Annual Fund Operating Expenses</b> (as a percentage of average net assets)		
Management fees	.55%	.55%
12b-1 fees*	.15	.65
Other expenses**	.10	.10
<b>TOTAL FUND OPERATING EXPENSES</b>	<b>.80%</b>	<b>1.30%</b>

\* Upon conversion, Class B shares will no longer be subject to a distribution fee.

\*\* For Class A shares, expenses for the Fund's fiscal year ended February 28, 1993 have been restated to reflect current expenses of the Fund. For Class B shares "Other expenses" have been estimated based on expenses incurred with respect to the Class A shares.