

PIMCO CALIFORNIA MUNICIPAL INCOME FUND II  
Form N-CSR  
August 05, 2014

**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 811-21077**

**PIMCO California Municipal Income Fund II**  
**(Exact name of registrant as specified in charter)**

**1633 Broadway, New York, New York**  
**(Address of principal executive offices)**

**10019**  
**(Zip code)**

**Lawrence G. Altadonna - 1633 Broadway, New York, New York 10019**

**(Name and address of agent for service)**

**Registrant's telephone number, including area code: 212-739-3371**

**Date of fiscal year end: May 31, 2014**

**Date of reporting period: May 31, 2014**

Item 1. Report to Shareholders

PIMCO Municipal Income Fund II

PIMCO California Municipal Income Fund II

PIMCO New York Municipal Income Fund II

**Annual Report**

**May 31, 2014**

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Letter from Chairman of the Board & President

Hans W. Kertess

*Chairman*

Julian Sluyters

*President & CEO*

Dear Shareholder:

After three years of generally moderate growth, the US economy contracted toward the end of the 12-month fiscal reporting period ended May 31, 2014. The US taxable bond market posted a positive return. The overall municipal bond market overcame a weak start and outperformed the US taxable bond market during the reporting period.

For the fiscal twelve-month period ended May 31, 2014:

n PIMCO Municipal Income Fund II returned 5.22% on net asset value ( NAV ) and 7.76% on market price.

n PIMCO California Municipal Income Fund II returned 5.77% on NAV and -1.76% on market price.

n PIMCO New York Municipal Income Fund II returned 4.88% on NAV and 7.83% on market price.

**Twelve Months in Review**

After several years of positive growth, severe winter weather in parts of the United States constrained the US economy throughout the reporting period. Gross domestic product ( GDP ), the value of goods and services produced

in the country, the broadest measure of economic activity, expanded at an annual pace of 2.5% during the second quarter of 2013. Annual GDP growth then rose 4.1% during the third quarter, the best reading since the fourth quarter of 2011. Fourth quarter 2013 GDP then expanded at a 2.6% annual pace, but contracted at an annual pace of 2.9% during the first quarter of 2014.

The Federal Reserve (the Fed ) maintained an accommodative monetary stance during the reporting period. Announcements and actions related to the reduction of the Fed s monthly asset purchase program contributed to bond-yield volatility over the reporting period. The markets have also been scrutinizing Fed statements related to when interest rates would begin to rise. In April, the Fed repeated that it would not raise rates in the near future, saying that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable

time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.

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## Outlook

We remain positive on the US economic recovery and expect the first-quarter GDP decline to be followed by a meaningful bounce during the second quarter. Federal Reserve officials have tied the outlook for monetary policy to incoming economic data. Based on our forecasts for growth we believe that Fed asset purchases will end in the fourth quarter of 2014, with lift-off in the Fed funds rate possible in mid-2015.

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[us.allianzgi.com/edelivery](http://us.allianzgi.com/edelivery).

For specific information on the Funds and their performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds).

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Pacific Investment Management Company LLC (PIMCO), the Funds' sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess  
*Chairman of the Board of Trustees*

Julian Sluyters  
*President & Chief Executive Officer*

## Fund Insights

PIMCO Municipal Income Fund II

PIMCO California Municipal Income Fund II

PIMCO New York Municipal Income Fund II

May 31, 2014 (unaudited)

For the twelve-months ended May 31, 2014, PIMCO Municipal Income Fund II ( Municipal II ) returned 5.22% on net asset value ( NAV ) and 7.76% on market price.

For the twelve-months ended May 31, 2014, PIMCO California Municipal Income Fund II ( California Municipal II ) returned 5.77% on NAV and -1.76% on market price.

For the twelve-months ended May 31, 2014, PIMCO New York Municipal Income Fund II ( New York Municipal II ) returned 4.88% on NAV and 7.83% on market price.

After a challenging start, the municipal bond market rallied and generated a positive return during the 12-month reporting period ended May 31, 2014. The overall municipal market, as measured by the Barclays Municipal Bond Index (the Index ), posted negative returns during the first three months of the reporting period. Negatively impacting the municipal market were rising interest rates, as well as generally weak demand given concerns over the city of Detroit's bankruptcy filing and credit issues in Puerto Rico. However, the municipal bond market then strengthened and generated positive returns during seven of the last nine months of the reporting period. This turnaround was due to several factors, including improving fundamentals, attractive valuations and generally falling interest rates. In addition, investor demand improved, while new municipal supply fell sharply over the first five months of 2014. All told, the Index gained 3.05% during the 12-month reporting period. In comparison, the overall taxable fixed income market, as measured by the Barclays US Aggregate Index, returned 2.71%.

Municipal II's overweighting to the Revenue-Backed, High Yield Tobacco and Industrial Revenue sectors enhanced its results as all three sectors outperformed the Index. An overweight duration relative to the Index detracted from Municipal II's performance as municipal yields moved higher during the 12 months ended May 31, 2014. Municipal II's underweighting to the Transportation and Education sectors hindered results as they outperformed the Index.

California Municipal II's overweighting to the Revenue-Backed, High Yield Tobacco and Industrial Revenue sectors enhanced its results as all three sectors outperformed the Index. An overweight duration relative to the Index detracted from California Municipal II's performance as municipal yields moved higher during the 12 months ended May 31, 2014. California Municipal II's underweighting to the Transportation and Education sectors hindered results as they outperformed the Index.

New York Municipal II's overweighting to the Revenue-Backed, High Yield Tobacco, Industrial Revenue and Health Care sectors enhanced its results as all four sectors outperformed the Index. An overweight duration relative to the Index detracted from New York Municipal II's performance as municipal yields moved higher during the 12 months ended May 31, 2014. New York Municipal II's underweighting to the Transportation and Water and Sewer sectors hindered results as they outperformed the Index.



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**Performance & Statistics**

PIMCO Municipal Income Fund II

May 31, 2014 (unaudited)

| <b>Total Return<sup>(1)</sup>:</b>              | <b>Market Price</b> | <b>NAV</b> |
|---|---------------------|------------|
| 1 Year  | 7.76%               | 5.22%      |
| 5 Year  | 12.76%              | 13.77%     |
| 10 Year   | 6.16 %              | 5.38%      |
| Commencement of Operations (6/28/02) to 5/31/14 | 5.25%               | 5.46%      |

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 5/31/14

**Market Price/NAV:**

|                                   |         |
|-----------------------------------|---------|
| Market Price                      | \$12.25 |
| NAV                               | \$11.94 |
| Premium to NAV                    | 2.60%   |
| Market Price Yield <sup>(2)</sup> | 6.37%   |
| Leverage Ratio <sup>(3)</sup>     | 36.04%  |

**Moody's Rating\***

(as a % of total investments)

**Performance & Statistics**

PIMCO California Municipal Income Fund II

May 31, 2014 (unaudited)

| <b>Total Return<sup>(1)</sup>:</b>              | <b>Market Price</b> | <b>NAV</b> |
|---|---------------------|------------|
| 1 Year  | -1.76%              | 5.77%      |
| 5 Year  | 10.39%              | 13.01%     |
| 10 Year   | 4.32%               | 3.70%      |
| Commencement of Operations (6/28/02) to 5/31/14 | 3.62%               | 3.67%      |

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 5/31/14

**Market Price/NAV:**

|                                   |        |
|-----------------------------------|--------|
| Market Price                      | \$9.52 |
| NAV                               | \$8.61 |
| Premium to NAV                    | 10.57% |
| Market Price Yield <sup>(2)</sup> | 6.03%  |
| Leverage Ratio <sup>(3)</sup>     | 42.39% |

**Moody's Rating\***

(as a % of total investments)

**Performance & Statistics**

PIMCO New York Municipal Income Fund II

May 31, 2014 (unaudited)

| <b>Total Return<sup>(1)</sup>:</b>              | <b>Market Price</b> | <b>NAV</b> |
|---|---------------------|------------|
| 1 Year  | 7.83%               | 4.88%      |
| 5 Year  | 10.91%              | 10.83%     |
| 10 Year   | 6.15%               | 4.98%      |
| Commencement of Operations (6/28/02) to 5/31/14 | 4.99%               | 4.74%      |

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 5/31/14

**Market Price/NAV:**

|                                   |         |
|-----------------------------------|---------|
| Market Price                      | \$12.01 |
| NAV                               | \$10.98 |
| Premium to NAV                    | 9.38%   |
| Market Price Yield <sup>(2)</sup> | 6.62%   |
| Leverage Ratio <sup>(3)</sup>     | 41.98%  |

**Moody's Rating\***

(as a % of total investments)

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## Performance & Statistics

### PIMCO Municipal Income Funds II

May 31, 2014 (unaudited) (continued)

\* Bond ratings apply to the underlying holdings of the Funds and not the Funds themselves and are divided into categories ranging from highest to lowest credit quality, determined for purposes of this presentation by using ratings provided by Moody's Investors Service, Inc. (Moody's). The Funds use ratings provided by Moody's for this purpose, among other reasons, because of the access to background information and other materials provided by Moody's, as well as the Funds' consideration of industry practice. When a bond is not rated by Moody's, it is designated in the chart above as "NR" for not rated. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change periodically, even as frequently as daily. Ratings assigned by Moody's or another rating agency are not absolute standards of credit quality and do not evaluate market risk. Rating agencies may fail to make timely changes in credit ratings, and an issuer's current financial condition may be better or worse than a rating indicates. In formulating investment decisions for the Funds, Pacific Investment Management Company LLC, the sub-adviser to the Funds, develops its own analysis of the credit quality and risks associated with individual debt instruments, rather than relying exclusively on rating agencies or third-party research.

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Funds, market conditions, supply and demand for each Fund's shares, or changes in each Fund's dividends.

An investment in the Funds involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at May 31, 2014.

(3) Represents Floating Rate Notes issued in tender option bond transactions and Preferred Shares outstanding (collectively Leverage), as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus accrued liabilities (other than liabilities representing Leverage).

**Schedule of Investments**

PIMCO Municipal Income Fund II

May 31, 2014

| Principal Amount<br>(000s)               |  | Value       |
|--|--|-------------|
| <b>Municipal Bonds &amp; Notes 95.8%</b> |  |             |
| <b>Alabama 3.0%</b>                      |  |             |
| \$1,000                                  | Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev.,<br>Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | \$1,006,630 |
| 21,000                                   | Jefferson Cnty. Sewer Rev.,<br>zero coupon, 10/1/50, Ser. F (i)  | 12,122,040  |
| 16,000                                   | 6.50%, 10/1/53, Ser. D   | 18,196,640  |
| 2,000                                    | State Docks Department Rev., 6.00%, 10/1/40  | 2,280,160   |
|  |  | 33,605,470  |
| <b>Arizona 8.1%</b>                      |  |             |
| 3,500                                    | Health Facs. Auth. Rev., Banner Health,<br>5.00%, 1/1/35, Ser. A   | 3,662,890   |
| 2,860                                    | 5.50%, 1/1/38, Ser. D  | 3,060,486   |
| 29,700                                   | Pima Cnty. Industrial Dev. Auth. Rev.,<br>5.00%, 9/1/39  | 30,836,025  |
| 1,500                                    | Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A  | 1,580,640   |
| 1,750                                    | Pinal Cnty. Electric Dist. No. 3 Rev.,<br>5.25%, 7/1/36  | 1,928,885   |
| 3,700                                    | 5.25%, 7/1/41  | 4,044,396   |
| 10,000                                   | Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39,<br>Ser. A (h)   | 10,983,400  |
| 9,000                                    | Salt Verde Financial Corp. Rev.,<br>5.00%, 12/1/32   | 10,080,270  |
| 22,400                                   | 5.00%, 12/1/37   | 24,987,872  |
|  |  | 91,164,864  |
| <b>California 12.8%</b>                  |  |             |
| 5,000                                    | Bay Area Toll Auth. Rev.,<br>5.25%, 4/1/48, Ser. S-4   | 5,523,200   |
| 6,000                                    | San Francisco Bay Area, 5.00%, 10/1/29   | 6,660,840   |
| 1,430                                    | San Francisco Bay Area, 5.00%, 4/1/34, Ser. F-1  | 1,556,312   |
| 1,535                                    | Golden State Tobacco Securitization Corp. Rev., 5.75%, 6/1/47, Ser. A-1  | 1,289,200   |
| 2,000                                    | Hayward Unified School Dist., GO, 5.00%, 8/1/33  | 2,151,180   |
| 1,500                                    | Health Facs. Financing Auth. Rev.,<br>Scripps Health, 5.00%, 11/15/36, Ser. A  | 1,625,385   |
| 6,300                                    | Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)   | 6,552,693   |
| 3,000                                    | Sutter Health, 6.00%, 8/15/42, Ser. B  | 3,490,620   |
| 1,500                                    | Indian Wells Redev. Agcy., Tax Allocation, Whitewater Project, 4.75%, 9/1/34,<br>Ser. A (AMBAC)                                      | 1,467,435   |
| 2,000                                    | Los Angeles Community College Dist., GO, 5.00%, 8/1/32, Ser. A (FGIC-NPFGC)  | 2,220,340   |

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|       |  |           |
|-------|--|-----------|
| 4,000 | Los Angeles Department of Water & Power Rev., 5.00%, 7/1/39, Ser. A-1 (AMBAC)                                | 4,294,120 |
| 5,000 | Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC)  | 5,228,150 |
| 1,750 | M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B  | 2,334,903 |
| 2,000 | Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM)   | 2,190,440 |
| 2,875 | Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B                             | 3,370,650 |
| 3,000 | Newport Beach Rev., Hoag Memorial Hospital Presbyterian, 5.875%, 12/1/30 (Pre-refunded @ \$100, 12/1/21) (c) | 3,853,200 |
| 500   | Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C   | 524,020   |
| 2,000 | San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM)  | 2,195,200 |



**Schedule of Investments**

## PIMCO Municipal Income Fund II

May 31, 2014 (continued)

| Principal<br>Amount<br>(000s) |  | Value       |
|-------------------------------|--|-------------|
|                               | <b>California (continued)</b>  |             |
| \$3,300                       | San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A   | \$3,608,715 |
| 2,000                         | Santa Clara Cnty. Financing Auth. Rev., El Camino Hospital, 5.75%, 2/1/41,<br>Ser. A (AMBAC)   | 2,154,440   |
| 2,925                         | State, GO,<br>5.00%, 11/1/32   | 3,214,604   |
| 1,590                         | 5.00%, 6/1/37  | 1,705,259   |
| 5,200                         | 5.125%, 8/1/36   | 5,709,860   |
| 2,500                         | 5.25%, 3/1/38  | 2,723,475   |
| 5,945                         | 5.25%, 11/1/40   | 6,667,853   |
| 5,750                         | 5.50%, 3/1/40  | 6,538,497   |
| 9,500                         | 6.00%, 4/1/38  | 11,200,880  |
| 2,510                         | Statewide Communities Dev. Auth. Rev.,<br>California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(b)(d)(j)<br>(acquisition cost-\$2,510,000; purchased 6/22/07) | 2,775,734   |
| 710                           | California Baptist Univ., 6.50%, 11/1/21   | 836,756     |
| 1,000                         | Cottage Health, 5.00%, 11/1/40   | 1,081,830   |
| 4,890                         | Methodist Hospital Project, 6.625%, 8/1/29 (FHA)   | 5,821,154   |
| 17,415                        | Methodist Hospital Project, 6.75%, 2/1/38 (FHA)  | 20,687,627  |
| 5,690                         | Sutter Health, 6.00%, 8/15/42, Ser. A  | 6,620,543   |
| 1,000                         | Trinity Health, 5.00%, 12/1/41   | 1,062,850   |
| 4,725                         | Torrance Rev., Torrance Memorial Medical Center, 5.00%, 9/1/40, Ser. A   | 4,935,640   |
|                               |  | 143,873,605 |
|                               | <b>Colorado 1.5%</b>   |             |
| 5,800                         | Aurora Rev., Children's Hospital Assoc., 5.00%, 12/1/40  | 6,103,108   |
| 1,000                         | Denver Health & Hospital Auth. Rev., 5.625%, 12/1/40<br>Health Facs. Auth. Rev., Ser. A,   | 1,079,640   |
| 1,000                         | American Baptist Homes, 5.90%, 8/1/37  | 1,001,620   |
| 500                           | Evangelical Lutheran, 6.125%, 6/1/38 (Pre-refunded @ \$100, 6/1/14) (c)  | 500,000     |
| 6,045                         | Sisters of Charity of Leavenworth Health System, 5.00%, 1/1/40   | 6,443,728   |
| 1,430                         | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38   | 1,892,519   |
|                               |  | 17,020,615  |
|                               | <b>Connecticut 0.2%</b>  |             |
| 1,250                         | Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39,<br>Ser. A   | 1,454,913   |
| 1,000                         | State Health & Educational Fac. Auth. Rev., Hartford Healthcare, 5.00%, 7/1/41,<br>Ser. A  | 1,069,960   |
|                               |  | 2,524,873   |
|                               | <b>Florida 5.1%</b>  |             |

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|        |  |            |
|--------|--|------------|
| 1,000  | Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 7.00%, 4/1/39 | 1,145,960  |
|        | Broward Cnty. Airport System Rev.,   |            |
| 12,100 | 5.00%, 10/1/42, Ser. Q-1   | 13,118,336 |
| 600    | 5.375%, 10/1/29, Ser. O  | 688,710    |
| 8,500  | Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (h)             | 9,500,365  |
| 1,000  | Clearwater Water & Sewer Rev., 5.25%, 12/1/39, Ser. A                            | 1,064,630  |
| 340    | Dev. Finance Corp. Rev., Renaissance Charter School, 6.50%, 6/15/21, Ser. A      | 362,246    |
|        | Highlands Cnty. Health Facs. Auth. Rev., Adventist Health System,                |            |
| 3,000  | 5.625%, 11/15/37, Ser. B   | 3,364,140  |
| 3,000  | Leesburg Hospital Rev., Leesburg Regional Medical Center Project, 5.50%, 7/1/32  | 3,002,010  |
| 10,000 | Orlando-Orange Cnty. Expressway Auth. Rev., 5.00%, 7/1/40, Ser. A                | 10,701,200 |

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**Schedule of Investments**

## PIMCO Municipal Income Fund II

May 31, 2014 (continued)

| Principal Amount<br>(000s) |   | Value      |
|----------------------------|---|------------|
|                            | <b>Florida (continued)</b>  |            |
| \$500                      | Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/37   | \$483,860  |
| 7,900                      | State Board of Education, GO, 5.00%, 6/1/38, Ser. D (h)   | 8,742,851  |
| 5,000                      | Sumter Landing Community Dev. Dist. Rev., 4.75%, 10/1/35, Ser. A (NPFGC)  | 4,973,150  |
|                            |   | 57,147,458 |
|                            | <b>Georgia 0.4%</b>   |            |
| 1,500                      | Atlanta Airport Rev., 5.00%, 1/1/40, Ser. A   | 1,595,820  |
| 2,775                      | Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%,<br>7/1/37                                      | 2,785,823  |
|                            |   | 4,381,643  |
|                            | <b>Illinois 5.8%</b>  |            |
| 2,444                      | Chicago, Special Assessment, Lake Shore East,<br>6.625%, 12/1/22  | 2,472,497  |
| 5,438                      | 6.75%, 12/1/32  | 5,495,806  |
| 1,250                      | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/38, Ser. A (AGC)<br>Finance Auth. Rev.,   | 1,278,662  |
| 2,500                      | Christian Homes, Inc., 5.75%, 5/15/31, Ser. A   | 2,569,300  |
| 250                        | Leafs Hockey Club Project, 6.00%, 3/1/37, Ser. A (b)(e)   | 85,000     |
| 700                        | OSF Healthcare System, 7.125%, 11/15/37, Ser. A   | 833,595    |
| 2,000                      | Provena Health, 6.00%, 5/1/28, Ser. A   | 2,188,740  |
| 5,000                      | Univ. of Chicago, 5.50%, 7/1/37, Ser. B (h)   | 5,654,250  |
| 37,000                     | Sports Facs. Auth. Rev., 5.50%, 6/15/30 (AMBAC)<br>Village of Hillside, Tax Allocation, Mannheim Redev. Project,              | 38,397,860 |
| 3,495                      | 6.55%, 1/1/20   | 3,725,216  |
| 2,900                      | 7.00%, 1/1/28   | 2,978,938  |
|                            |   | 65,679,864 |
|                            | <b>Indiana 0.4%</b>   |            |
| 1,500                      | Finance Auth. Rev., Duke Energy Indiana, Inc., 6.00%, 8/1/39, Ser. B<br>Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., | 1,656,870  |
| 990                        | 5.80%, 9/1/47 (a)(b)(d)(j)<br>(acquisition cost-\$960,082; purchased 9/7/07)  | 968,487    |
| 1,900                      | 7.50%, 9/1/22   | 2,314,352  |
|                            |   | 4,939,709  |
|                            | <b>Iowa 2.3%</b>  |            |
|                            | Finance Auth. Rev.,   |            |
| 144                        | Deerfield Retirement Community, Inc., 2.00%, 5/15/56, Ser. B, PIK   | 1,442      |
| 4,500                      | Edgewater LLC Project, 6.75%, 11/15/42  | 4,681,440  |
| 6,000                      | Fertilizer Company Project, 5.25%, 12/1/25  | 6,264,360  |
| 5,000                      | Fertilizer Company Project, 5.50%, 12/1/22  | 5,236,450  |

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|        |   |            |
|--------|---|------------|
| 10,350 | Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B  | 9,554,809  |
|        |   | 25,738,501 |
|        | <b>Kansas 0.1%</b>  |            |
| 500    | Dev. Finance Auth. Rev., Adventist Health, 5.75%, 11/15/38  | 557,180    |
| 850    | Manhattan Rev., Meadowlark Hills Retirement, 5.00%, 5/15/36, Ser. A (b)                           | 821,406    |
|        |   | 1,378,586  |
|        | <b>Kentucky 0.1%</b>  |            |
| 1,000  | Economic Dev. Finance Auth. Rev., Owensboro Medical Healthcare Systems,<br>6.375%, 6/1/40, Ser. A | 1,119,600  |

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**Schedule of Investments**

## PIMCO Municipal Income Fund II

May 31, 2014 (continued)

| Principal Amount (000s) |   | Value      |
|-------------------------|---|------------|
|                         | <b>Louisiana 0.7%</b>   |            |
|                         | Local Gov t Environmental Facs. & Community Dev. Auth Rev.,                       |            |
| \$450                   | Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2                                 | \$519,341  |
| 750                     | Woman s Hospital Foundation, 5.875%, 10/1/40, Ser. A                              | 855,262    |
| 1,000                   | Woman s Hospital Foundation, 6.00%, 10/1/44, Ser. A                               | 1,146,800  |
|                         | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project,                       |            |
| 3,300                   | 5.50%, 5/15/47, Ser. B  | 3,469,059  |
| 2,000                   | 6.50%, 5/15/37  | 2,345,600  |
|                         |   | 8,336,062  |
|                         | <b>Maryland 0.7%</b>  |            |
|                         | Health & Higher Educational Facs. Auth. Rev.,                                     |            |
| 1,400                   | Charlestown Community, 6.25%, 1/1/41  | 1,522,290  |
| 2,380                   | Medstar Health, 5.00%, 8/15/41  | 2,521,324  |
| 4,050                   | Washington Cnty. Hospital, 6.00%, 1/1/43  | 4,167,572  |
|                         |   | 8,211,186  |
|                         | <b>Massachusetts 0.9%</b>   |            |
|                         | Dev. Finance Agcy. Rev.,  |            |
| 4,610                   | Adventcare Project, 6.75%, 10/15/37, Ser. A                                       | 4,807,354  |
| 570                     | Adventcare Project, 7.625%, 10/15/37  | 631,024    |
| 1,000                   | Foxborough Regional Charter School, 7.00%, 7/1/42, Ser. A                         | 1,123,140  |
| 2,900                   | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A                          | 3,269,431  |
|                         |   | 9,830,949  |
|                         | <b>Michigan 0.5%</b>  |            |
| 1,000                   | Detroit, GO, 5.25%, 11/1/35   | 1,069,430  |
|                         | Public Educational Facs. Auth. Rev., Bradford Academy, 6.50%, 9/1/37 (a)(b)(d)(j) |            |
| 800                     | (acquisition cost-\$800,000; purchased 9/21/07)                                   | 456,000    |
|                         | Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%,          |            |
| 3,000                   | 9/1/39 (Pre-refunded @ \$100, 9/1/18) (c)   | 3,912,660  |
|                         |   | 5,438,090  |
|                         | <b>Minnesota 0.3%</b>   |            |
| 2,640                   | North Oaks Rev., Presbyterian Homes North Oaks, 6.00%, 10/1/33                    | 2,759,170  |
| 400                     | St. Louis Park Rev., Nicollett Health Services, 5.75%, 7/1/39                     | 434,720    |
|                         |   | 3,193,890  |
|                         | <b>Mississippi 0.0%</b>   |            |
|                         | Dev. Bank Special Obligation Rev., Capital Projects and Equipment Acquisition,    |            |
| 40                      | 5.00%, 7/1/24, Ser. A-2 (AMBAC)   | 40,156     |
|                         | <b>Missouri 1.0%</b>  |            |
| 550                     | Lee s Summit, Tax Allocation, Summit Fair Project, 5.625%, 10/1/23                | 575,558    |
| 10,000                  | State Health & Educational Facs. Auth. Rev., CoxHealth, 5.00%, 11/15/44, Ser. A   | 10,674,600 |

|        |   |            |
|--------|---|------------|
|        |   | 11,250,158 |
|        | <b>Nevada 0.9%</b>  |            |
| 10,000 | Clark Cnty., GO, 4.75%, 11/1/35 (FGIC-NPFGC) (h)  | 10,489,200 |
|        | <b>New Hampshire 0.2%</b>   |            |
| 2,000  | Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A                       | 2,134,680  |
|        | <b>New Jersey 4.0%</b>  |            |
| 950    | Burlington Cnty. Bridge Commission Rev., The Evergreens Project, 5.625%, 1/1/38             | 928,729    |
| 4,000  | Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project,<br>5.75%, 10/1/21 | 4,421,120  |

**Schedule of Investments**

## PIMCO Municipal Income Fund II

May 31, 2014 (continued)

| Principal Amount<br>(000s) |  | Value       |
|----------------------------|--|-------------|
|                            | <b>New Jersey (continued)</b>  |             |
|                            | Economic Dev. Auth. Rev.,  |             |
| \$525                      | Arbor Glen, 6.00%, 5/15/28, Ser. A   | \$368,634   |
| 2,000                      | MSU Student Housing Project, 5.875%, 6/1/42                                | 2,188,000   |
|                            | Health Care Facs. Financing Auth. Rev.,                                    |             |
| 1,500                      | AHS Hospital Corp., 6.00%, 7/1/37  | 1,741,320   |
| 4,000                      | Robert Wood Johnson Univ. Hospital, 5.50%, 7/1/43, Ser. A                  | 4,420,680   |
| 1,500                      | St. Peters Univ. Hospital, 5.75%, 7/1/37                                   | 1,523,835   |
| 2,000                      | State Turnpike Auth. Rev., 5.25%, 1/1/40, Ser. E                           | 2,170,500   |
|                            | Tobacco Settlement Financing Corp. Rev., Ser. 1-A,                         |             |
| 3,300                      | 4.75%, 6/1/34  | 2,587,596   |
| 31,305                     | 5.00%, 6/1/41  | 24,605,730  |
|                            |  | 44,956,144  |
|                            | <b>New Mexico 0.2%</b>   |             |
| 2,000                      | Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D                   | 2,210,760   |
|                            | <b>New York 12.6%</b>  |             |
| 33,500                     | Hudson Yards Infrastructure Corp. Rev., 5.25%, 2/15/47, Ser. A             | 36,367,265  |
| 3,880                      | Metropolitan Transportation Auth. Rev., 5.00%, 11/15/36, Ser. D            | 4,205,649   |
|                            | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%,   |             |
| 1,100                      | 1/1/43, Ser. A   | 571,912     |
|                            | New York City Water & Sewer System Rev.,                                   |             |
| 2,830                      | 5.00%, 6/15/37, Ser. D (h)   | 2,931,795   |
| 4,000                      | Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD (h)                 | 4,225,080   |
| 2,000                      | Second Generation Resolutions, 5.00%, 6/15/39, Ser. GG-1                   | 2,194,280   |
|                            | New York Liberty Dev. Corp. Rev.,  |             |
| 10,000                     | 1 World Trade Center Project, 5.00%, 12/15/41                              | 10,725,200  |
| 54,000                     | 4 World Trade Center Project, 5.75%, 11/15/51                              | 60,327,720  |
| 1,000                      | Bank of America Tower at One Bryant Park Project, 5.125%, 1/15/44          | 1,065,860   |
| 2,500                      | Bank of America Tower at One Bryant Park Project, 5.625%, 7/15/47          | 2,756,475   |
| 1,250                      | Bank of America Tower at One Bryant Park Project, 6.375%, 7/15/49          | 1,380,700   |
| 1,505                      | Goldman Sachs Headquarters, 5.25%, 10/1/35                                 | 1,761,196   |
| 10,000                     | Goldman Sachs Headquarters, 5.25%, 10/1/35 (h)                             | 11,702,300  |
| 1,750                      | State Dormitory Auth. Rev., The New School, 5.50%, 7/1/40                  | 1,912,960   |
|                            |  | 142,128,392 |
|                            | <b>North Carolina 0.1%</b>   |             |
| 550                        | Medical Care Commission Rev., Salemtowne, 5.10%, 10/1/30                   | 551,513     |
|                            | <b>North Dakota 0.3%</b>   |             |
| 3,710                      | Stark Cnty. Healthcare Rev., Benedictine Living Communities, 6.75%, 1/1/33 | 3,929,595   |
|                            | <b>Ohio 5.2%</b>   |             |

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|        |   |            |
|--------|---|------------|
|        | Buckeye Tobacco Settlement Financing Auth. Rev., Ser. A-2,              |            |
| 10,000 | 5.875%, 6/1/47  | 8,199,500  |
| 33,740 | 6.50%, 6/1/47   | 29,785,335 |
| 3,900  | Hamilton Cnty. Sales Tax Rev., 5.00%, 12/1/30, Ser. A                   | 4,285,281  |
|        | Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, |            |
| 1,000  | 6.75%, 1/15/39, Ser. 2009-A (Pre-refunded @ \$100, 1/15/15) (c)         | 1,040,290  |
|        | Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A   |            |
| 1,000  | (Pre-refunded @ \$100, 11/15/14) (c)                                    | 1,027,260  |
| 3,000  | State Rev., Cleveland Clinic Health System, 5.50%, 1/1/39, Ser. B       | 3,350,940  |
| 10,000 | State Turnpike Commission Rev., 5.00%, 2/15/48, Ser. A-1                | 10,804,200 |
|        |   | 58,492,806 |



**Schedule of Investments**

## PIMCO Municipal Income Fund II

May 31, 2014 (continued)

| Principal Amount<br>(000s) |   | Value       |
|----------------------------|---|-------------|
|                            | <b>Oregon 0.2%</b>  |             |
| \$1,000                    | Clackamas Cnty. Hospital Fac. Auth. Rev., Legacy Health System, 5.50%, 7/15/35, Ser. A          | \$1,084,580 |
| 1,155                      | State Department of Administrative Services, CP, 5.25%, 5/1/39, Ser. A                          | 1,242,699   |
|                            |   | 2,327,279   |
|                            | <b>Pennsylvania 5.4%</b>  |             |
| 7,500                      | Berks Cnty. Municipal Auth. Rev., Reading Hospital Medical Center, 5.00%, 11/1/44, Ser. A       | 8,035,425   |
| 750                        | Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A, 5.625%, 7/1/28          | 779,085     |
| 670                        | 6.00%, 7/1/35   | 698,904     |
| 3,250                      | Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B (e)                   | 1,496,332   |
|                            | Higher Educational Facs. Auth. Rev.,  |             |
| 850                        | Edinboro Univ. Foundation, 6.00%, 7/1/43  | 894,480     |
| 400                        | Thomas Jefferson Univ., 5.00%, 3/1/40   | 423,260     |
| 500                        | Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39       | 553,250     |
| 8,465                      | Montgomery Cnty. Industrial Dev. Auth. Rev., New Regional Medical Center, 5.375%, 8/1/38 (FHA)  | 9,398,436   |
| 17,000                     | Philadelphia, GO, 5.25%, 12/15/32, Ser. A (AGM)   | 18,258,340  |
|                            | Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Health System, Ser. A, |             |
| 1,000                      | 5.625%, 7/1/36  | 1,021,080   |
| 7,000                      | 5.625%, 7/1/42  | 7,060,620   |
| 500                        | Philadelphia Water & Wastewater Rev., 5.25%, 1/1/36, Ser. A                                     | 537,995     |
| 10,000                     | Turnpike Commission Rev., 5.00%, 12/1/43, Ser. C  | 10,907,100  |
| 1,000                      | Westmoreland Cnty. Industrial Dev. Auth. Rev., Excelsa Health Project, 5.125%, 7/1/30           | 1,059,560   |
|                            |   | 61,123,867  |
|                            | <b>Rhode Island 5.0%</b>  |             |
| 56,200                     | Tobacco Settlement Financing Corp. Rev., 6.25%, 6/1/42, Ser. 2002-A                             | 56,214,050  |
|                            | <b>South Carolina 1.1%</b>  |             |
| 1,000                      | Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39                                 | 1,085,260   |
| 10,000                     | State Public Service Auth. Rev., 5.50%, 12/1/53, Ser. E   | 11,149,900  |
|                            |   | 12,235,160  |
|                            | <b>Tennessee 1.2%</b>   |             |
| 1,750                      | Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39     | 1,930,302   |
| 1,000                      |   | 1,121,190   |

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Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38, Ser. A

|                    |  |            |
|--------------------|--|------------|
| 500                | Sullivan Cnty. Health Educational & Housing Facs. Board Rev., Wellmont Health Systems Project, 5.25%, 9/1/36, Ser. C | 519,995    |
| 3,000              | Tennessee Energy Acquisition Corp. Rev., Ser. C, 5.00%, 2/1/23   | 3,405,420  |
| 6,000              | 5.00%, 2/1/27  | 6,750,060  |
|                    |  | 13,726,967 |
| <b>Texas 13.5%</b> |  |            |
| 130                | Aubrey Independent School Dist., GO, 5.50%, 2/15/33 (GTD-PSF)  | 130,761    |
| 6,500              | Brazos Cnty. Health Facs. Dev. Corp. Rev., 5.375%, 1/1/32  | 6,511,310  |
| 2,500              | Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC)   | 2,695,025  |
| 21,000             | Grand Parkway Transportation Corp. Rev., 5.00%, 4/1/53, Ser. B   | 22,451,310 |

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**Schedule of Investments**

## PIMCO Municipal Income Fund II

May 31, 2014 (continued)

| Principal Amount<br>(000s) |  | Value       |
|----------------------------|--|-------------|
|                            | <b>Texas (continued)</b>   |             |
|                            | Harris Cnty. Cultural Education Facs. Finance Corp. Rev., Texas Children's Hospital Project,                   |             |
| \$3,750                    | 5.25%, 10/1/29   | \$4,221,188 |
| 12,700                     | 5.50%, 10/1/39   | 14,132,306  |
| 700                        | HFDC of Central Texas, Inc. Rev., Village at Gleannloch Farms, 5.50%, 2/15/37, Ser. A                          | 671,062     |
| 10,300                     | North Harris Cnty. Regional Water Auth. Rev., 5.25%, 12/15/33  | 11,165,715  |
| 10,300                     | 5.50%, 12/15/38  | 11,214,537  |
| 5,750                      | North Texas Tollway Auth. Rev., 5.00%, 1/1/38  | 6,158,307   |
| 1,300                      | 5.50%, 9/1/41, Ser. A  | 1,490,931   |
| 5,000                      | 5.625%, 1/1/33, Ser. B   | 5,545,550   |
| 1,200                      | 5.75%, 1/1/33, Ser. F  | 1,335,600   |
| 250                        | San Juan Higher Education Finance Auth. Rev., 6.70%, 8/15/40, Ser. A   | 294,360     |
|                            | State, Mobility Fund, GO (h),  |             |
| 10,025                     | 4.75%, 4/1/35, Ser. A  | 10,290,061  |
| 17,500                     | 4.75%, 4/1/36  | 18,558,925  |
| 1,000                      | State Public Finance Auth. Charter School Finance Corp. Rev., 5.875%, 12/1/36, Ser. A                          | 1,088,050   |
| 3,000                      | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29 | 3,487,140   |
| 19,380                     | Texas Municipal Gas Acquisition & Supply Corp. I Rev., 6.25%, 12/15/26, Ser. D                                 | 23,751,934  |
| 5,000                      | Texas Municipal Gas Acquisition & Supply Corp. III Rev., 5.00%, 12/15/26                                       | 5,517,900   |
| 1,000                      | Wise Cnty. Rev., Parker Cnty. Junior College Dist., 8.00%, 8/15/34   | 1,176,720   |
|                            |  | 151,888,692 |
|                            | <b>Virginia 0.2%</b>   |             |
| 1,000                      | Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A                         | 1,138,780   |
| 412                        | James City Cnty. Economic Dev. Auth. Rev., United Methodist Home, Ser. A, 2.00%, 10/1/48 (e)                   | 10,900      |
| 1,273                      | 6.00%, 6/1/43  | 1,154,094   |
|                            |  | 2,303,774   |
|                            | <b>Washington 1.5%</b>   |             |
| 1,300                      | Health Care Facs. Auth. Rev., Multicare Health Systems, 6.00%, 8/15/39, Ser. B (AGC)                           | 1,527,344   |
| 1,000                      | Seattle Cancer Care Alliance, 7.375%, 3/1/38   | 1,208,680   |

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|        |   |               |
|--------|---|---------------|
| 13,000 | Virginia Mason Medical Center, 6.125%, 8/15/37, Ser. A  | 13,836,550    |
|        |   | 16,572,574    |
|        | <b>West Virginia 0.2%</b>   |               |
| 2,000  | Hospital Finance Auth. Rev., Highland Hospital, 9.125%, 10/1/41   | 2,016,380     |
|        | <b>Wisconsin 0.1%</b>   |               |
| 1,000  | Health & Educational Facs. Auth. Rev., Prohealth Care, Inc., 6.625%, 2/15/39  | 1,174,430     |
|        | Total Municipal Bonds & Notes (cost-\$988,744,527)  | 1,079,351,542 |
|        | <b>Variable Rate Notes 1.5%</b>   |               |
|        | <b>California 0.5%</b>  |               |
| 5,000  | Health Facs. Financing Auth. Rev., 8.07%, 11/15/36, Ser. 3193 (a)(b)(d)(f)(g)(j)<br>(acquisition cost -\$4,860,300; purchased 6/7/10) | 5,912,050     |

**Schedule of Investments**

PIMCO Municipal Income Fund II

May 31, 2014 (continued)

| Principal Amount<br>(000s) |  | Value                  |
|----------------------------|--|------------------------|
|                            | <b>Florida 0.2%</b>  |                        |
| \$1,830                    | Highlands Cnty. Health Facs. Auth. Rev., Adventist Health System, 5.00%,<br>11/15/31, Ser. C (g) | \$1,889,310            |
|                            | <b>Iowa 0.1%</b>   |                        |
| 769                        | Finance Auth. Rev., Deerfield Retirement Community, Inc., 2.70%, 11/15/46,<br>Ser. A (g)(i)      | 495,583                |
|                            | <b>Texas 0.5%</b>  |                        |
| 5,365                      | State, GO, 7.663%, 4/1/37, Ser. 3197 (a)(d)(f)(g)  | 6,020,925              |
|                            | <b>West Virginia 0.2%</b>  |                        |
| 2,000                      | Economic Dev. Auth. Rev., Appalachian Power, 5.375%, 12/1/38, Ser. A (g)                         | 2,179,700              |
|                            | <b>Total Variable Rate Notes (cost-\$14,967,655)</b>   | <b>16,497,568</b>      |
|                            | <b>Corporate Bonds &amp; Notes 0.1%</b>  |                        |
|                            | <b>Commercial Services 0.1%</b>  |                        |
| 900                        | ADT Corp., 4.125%, 6/15/23 (cost-\$805,149)  | 843,750                |
|                            | <b>Short-Term Investments 2.6%</b>   |                        |
|                            | <b>U.S. Government Agency Securities (k) 2.3%</b>  |                        |
|                            | Fannie Mae Discount Notes,   |                        |
| 1,800                      | 0.051%, 8/26/14  | 1,799,785              |
| 9,200                      | 0.056%, 9/8/14   | 9,198,608              |
|                            | Federal Home Loan Bank Discount Notes,   |                        |
| 1,300                      | 0.061%, 7/9/14   | 1,299,918              |
| 8,900                      | 0.079%, 10/8/14  | 8,897,528              |
| 1,900                      | 0.101%, 8/1/14   | 1,899,678              |
| 3,400                      | 0.132%, 7/25/14  | 3,399,337              |
|                            | <b>Total U.S. Government Agency Securities (cost-\$26,494,854)</b>                               | <b>26,494,854</b>      |
|                            | <b>U.S. Treasury Obligations 0.3%</b>  |                        |
| 1,300                      | U.S. Treasury Bills, 0.046%-0.056%, 10/23/14-10/30/14 (k)  | 1,299,720              |
|                            | U.S. Treasury Notes,   |                        |
| 800                        | 0.25%, 1/31/15   | 800,938                |
| 1,000                      | 0.50%, 8/15/14   | 1,000,957              |
|                            | <b>Total U.S. Treasury Obligations (cost-\$3,101,052)</b>  | <b>3,101,615</b>       |
|                            | <b>Total Short-Term Investments (cost-\$29,595,906)</b>  | <b>29,596,469</b>      |
|                            | <b>Total Investments (cost-\$1,034,113,237) 100.0%</b>   | <b>\$1,126,289,329</b> |

**Schedule of Investments**

PIMCO Municipal Income Fund II

May 31, 2014 (continued)

Industry classification of portfolio holdings as a percentage of total investments was as follows:

|   |        |
|---|--------|
| Revenue Bonds:                          |        |
| Health, Hospital & Nursing Home Revenue | 23.0%  |
| Miscellaneous Revenue                   | 7.9    |
| Industrial Revenue                      | 7.0    |
| Natural Gas Revenue                     | 7.0    |
| Highway Revenue Tolls                   | 6.9    |
| Tobacco Settlement Funded               | 6.7    |
| Miscellaneous Taxes                     | 6.6    |
| Water Revenue                           | 3.9    |
| Electric Power & Light Revenue          | 3.2    |
| Lease (Appropriation)                   | 2.7    |
| Sewer Revenue                           | 2.7    |
| Port, Airport & Marina Revenue          | 2.5    |
| College & University Revenue            | 2.3    |
| Sales Tax Revenue                       | 0.4    |
| Transit Revenue                         | 0.4    |
| Resource Recovery Revenue               | 0.2    |
| Fuel Sales Tax Revenue                  | 0.1    |
| Lease Revenue                           | 0.1    |
| <br>                                    |        |
| Total Revenue Bonds                     | 83.6%  |
| General Obligation                      | 11.4   |
| U.S. Government Agency Securities       | 2.3    |
| Special Assessment                      | 1.1    |
| Tax Allocation                          | 0.9    |
| Certificates of Participation           | 0.3    |
| U.S. Treasury Obligations               | 0.3    |
| Commercial Services                     | 0.1    |
| <br>                                    |        |
| Total Investments                       | 100.0% |

**Notes to Schedule of Investments:**

(a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$16,133,196, representing 1.4% of total investments.

(b) Illiquid.

- (c) Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding date (payment date).
- (d) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (e) In default.
- (f) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on May 31, 2014.
- (g) Variable Rate Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on May 31, 2014.
- (h) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (i) Step Bond Coupon is a fixed rate for an initial period then resets at a specific date and rate.
- (j) Restricted. The aggregate acquisition cost of such securities is \$9,130,382. The aggregate value is \$10,112,271, representing 0.9% of total investments.

**Schedule of Investments**

## PIMCO Municipal Income Fund II

May 31, 2014 (continued)

(k) Rates reflect the effective yields at purchase date.

(l) Floating Rate Notes The weighted average daily balance of Floating Rate Notes outstanding during the year ended May 31, 2014 was \$44,385,770 at a weighted average interest rate, including fees, of 0.71%.

(m) Fair Value Measurements-See Note 1(b) in the Notes to Financial Statements.

|   | Level 1<br>Quoted<br>Prices | Level 2<br>Other Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs | Value at<br>5/31/14 |
|---|-----------------------------|--|--|---------------------|
| <b>Investments in Securities Assets</b> |                             |  |  |                     |
| Municipal Bonds & Notes:                |                             |  |  |                     |
| Illinois                                | \$                          | \$65,594,864   | \$85,000   | \$65,679,864        |
| Iowa                                    |                             | 25,737,059   | 1,442  | 25,738,501          |
| Michigan                                |                             | 4,982,090  | 456,000  | 5,438,090           |
| Virginia                                |                             | 2,292,874  | 10,900   | 2,303,774           |
| All Other                               |                             | 980,191,313  |  | 980,191,313         |
| Variable Rate Notes                     |                             | 16,497,568   |  | 16,497,568          |
| Corporate Bonds & Notes                 |                             | 843,750  |  | 843,750             |
| Short-Term Investments                  |                             | 29,596,469   |  | 29,596,469          |
| <b>Totals</b>                           | \$                          | \$1,125,735,987                                      | \$553,342  | \$1,126,289,329     |

At May 31, 2014, there were no transfers between Levels 1 and 2.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the year ended May 31, 2014, was as follows:

|   | Beginning<br>Balance<br>5/31/2013 | Purchases | Sales | Net<br>Accrued<br>Discount<br>(Premiums) | Realized<br>Gain<br>(Loss) | Net<br>Change<br>in Unrealized<br>Appreciation/<br>Depreciation | Transfers<br>Into<br>Level 3 | Transfers<br>Out<br>of<br>Level<br>3 | Ending<br>Balance<br>5/31/2014 |
|---|-----------------------------------|-----------|-------|--|----------------------------|---|------------------------------|--------------------------------------|--------------------------------|
| <b>Investments In Securities Assets</b> |                                   |           |       |  |                            |   |                              |                                      |                                |
| Municipal Bonds & Notes:                |                                   |           |       |  |                            |   |                              |                                      |                                |
| Illinois                                | \$                                | \$        | \$    | \$                                       | \$                         | \$  | \$85,000                     | \$                                   | \$85,000                       |
| Iowa                                    |                                   | 3,007     |       |  |                            | (1,565)   |                              |                                      | 1,442                          |



|               |    |         |    |    |           |            |
|---------------|----|---------|----|----|-----------|------------|
| Michigan      |    |         |    |    | 456,000   | 456,000    |
| Virginia      |    |         |    |    | 10,900    | 10,900     |
| <b>Totals</b> | \$ | \$3,007 | \$ | \$ | \$(1,565) | \$ 553,342 |

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 at May 31, 2014.

|                                  | Ending Balance<br>at 5/31/14 | Valuation<br>Technique Used | Unobservable<br>Inputs   | Input Values   |
|----------------------------------|------------------------------|-----------------------------|--------------------------|----------------|
| <b>Investments in Securities</b> |                              |                             |                          |                |
| <b>Assets</b>                    |                              |                             |                          |                |
| Municipal Bonds & Notes          | \$553,342                    | Third-Party Pricing Vendor  | Projected Revenue Stream | \$1.00 \$57.00 |

The net change in unrealized appreciation/depreciation of Level 3 investments held at May 31, 2014, was \$(1,565).

Net change in unrealized appreciation/depreciation is reflected on the Statement of Operations.

(n) The following is a summary of the derivative instruments categorized by risk exposure:

The effect of derivatives on the Statement of Operations for the year ended May 31, 2014:

| Location  | Interest<br>Rate<br>Contracts |
|---|-------------------------------|
| <b>Net realized gain on:</b>                                  |                               |
| Swaps   | \$622,769                     |
| <b>Net change in unrealized appreciation/depreciation of:</b> |                               |
| Swaps   | \$(334,300)                   |

**Schedule of Investments**

PIMCO Municipal Income Fund II

May 31, 2014 (continued)

The average volume (measured at each fiscal quarter-end) of derivative activity during the year ended May 31, 2014:

|  |
|--|
| Interest Rate<br>Swap<br>Agreements(1) |
| \$27,200                               |

(1) Notional Amount (in thousands)

**Glossary:**

- AGC - insured by Assured Guaranty Corp.
- AGM - insured by Assured Guaranty Municipal Corp.
- AMBAC - insured by American Municipal Bond Assurance Corp.
- CP - Certificates of Participation
- FGIC - insured by Financial Guaranty Insurance Co.
- FHA - insured by Federal Housing Administration
- GO - General Obligation Bond
- GTD - Guaranteed
- IBC - Insurance Bond Certificate
- NPFGC - insured by National Public Finance Guarantee Corp.
- PIK - Payment-in-Kind
- PSF - Public School Fund

**Schedule of Investments**

PIMCO California Municipal Income Fund II

May 31, 2014

Principal

Amount

| (000s)  |   | Value       |
|---|---|-------------|
| <b>California Municipal Bonds &amp; Notes 87.5%</b> |   |             |
| \$2,000   | Alhambra Rev., Atherton Baptist Homes, 7.625%, 1/1/40, Ser. A                   | \$2,165,700 |
| 20,000  | Bay Area Toll Auth. Rev., San Francisco Bay Area, 5.00%, 4/1/39, Ser. F-1 (h)   | 21,404,600  |
|   | Chabot-Las Positas Community College Dist., GO, Ser. C,                         |             |
| 17,305  | zero coupon, 8/1/36 (AMBAC)   | 5,711,169   |
| 5,000   | zero coupon, 8/1/37 (AMBAC)   | 1,561,150   |
| 15,000  | zero coupon, 8/1/43 (AMBAC)   | 3,328,950   |
| 1,000   | Chula Vista Rev., San Diego Gas & Electric, 5.875%, 2/15/34, Ser. B             | 1,147,840   |
|   | City & Cnty. of San Francisco, Capital Improvement Projects, CP, 5.25%, 4/1/31, |             |
| 300   | Ser. A  | 335,532     |
| 8,920   | Coronado Community Dev. Agcy., Tax Allocation, 4.875%, 9/1/35 (AMBAC)           | 9,030,430   |
| 25,000  | Desert Community College Dist., GO, zero coupon, 8/1/46, Ser. C (AGM)           | 4,393,750   |
|   | El Dorado Irrigation Dist. & El Dorado Water Agcy., CP, 5.75%, 8/1/39, Ser. A   |             |
| 8,300   | (AGC) (Pre-refunded @ \$100, 8/ 1/14) (c)                                       | 8,374,202   |
|   | Fremont Community Facs. Dist. No. 1, Special Tax, Pacific Commons, 5.30%,       |             |
| 1,440   | 9/1/30  | 1,448,122   |
|   | Golden State Tobacco Securitization Corp. Rev.,                                 |             |
| 13,885  | 5.00%, 6/1/45 (AMBAC-TCRS)  | 13,960,951  |
| 3,500   | 5.00%, 6/1/45, Ser. A   | 3,519,145   |
| 6,000   | 5.00%, 6/1/45, Ser. A (FGIC-TCRS)   | 6,032,820   |
| 8,500   | 5.125%, 6/1/47, Ser. A-1  | 6,573,390   |
| 31,415  | 5.75%, 6/1/47, Ser. A-1   | 26,384,516  |
|   | Health Facs. Financing Auth. Rev.,  |             |
| 250   | Adventist Health System, 5.75%, 9/1/39, Ser. A                                  | 281,682     |
| 3,000   | Catholic Healthcare West, 6.00%, 7/1/39, Ser. A                                 | 3,362,160   |
| 1,000   | Children s Hospital of Los Angeles, 5.00%, 11/15/34, Ser. A                     | 1,041,930   |
| 500   | Children s Hospital of Orange Cnty., 6.50%, 11/1/38, Ser. A                     | 593,060     |
| 4,000   | Scripps Health, 5.00%, 11/15/40, Ser. A   | 4,335,720   |
| 3,700   | Stanford Hospital, 5.25%, 11/15/40, Ser. A-2                                    | 4,110,959   |
| 8,755   | Stanford Hospital Clinics, 5.00%, 8/15/51, Ser. A                               | 9,475,712   |
| 1,000   | Sutter Health, 5.00%, 8/15/35, Ser. D   | 1,104,030   |
| 4,220   | Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)                              | 4,389,264   |
| 12,195  | Sutter Health, 5.25%, 11/15/46, Ser. A (h)                                      | 12,755,238  |
| 4,500   | Imperial Irrigation Dist. Rev., 5.00%, 11/1/41, Ser. B                          | 4,723,470   |
|   | Infrastructure & Economic Dev. Bank Rev.,                                       |             |
| 175   | 5.25%, 2/1/38   | 186,226     |
| 10,000  | Independent System Operator Corp., 5.00%, 2/1/39                                | 10,763,100  |

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|        |  |            |
|--------|--|------------|
| 515    | Irvine Unified School Dist., Special Tax, 6.70%, 9/1/35                      | 562,261    |
|        | Lancaster Redev. Agcy., Tax Allocation,                                      |            |
| 425    | 6.875%, 8/1/39   | 492,350    |
| 575    | 6.875%, 8/1/39 (Pre-refunded @ \$100, 8/ 1/19) (c)                           | 737,403    |
| 500    | Long Beach Airport Rev., 5.00%, 6/1/40, Ser. A                               | 521,530    |
|        | Long Beach Bond Finance Auth. Rev., Long Beach Natural Gas, 5.50%, 11/15/37, |            |
| 7,500  | Ser. A   | 9,110,400  |
| 10,000 | Long Beach Unified School Dist., GO, 5.25%, 8/1/33, Ser. A (h)               | 11,199,400 |
|        | Los Angeles Department of Water & Power Rev.,                                |            |
| 15,000 | 4.75%, 7/1/30, Ser. A-2 (AGM) (h)  | 15,524,250 |
| 3,000  | 5.00%, 7/1/36, Ser. B  | 3,356,610  |
| 3,000  | 5.00%, 7/1/43, Ser. B (e)  | 3,358,170  |
| 11,000 | Los Angeles Unified School Dist., GO, 5.00%, 1/1/34, Ser. I                  | 12,181,180 |
| 7,175  | M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B                              | 9,573,100  |

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## Schedule of Investments

### PIMCO California Municipal Income Fund II

May 31, 2014 (continued)

Principal

Amount

| (000s)   |  | Value        |
|----------|--|--------------|
| \$10,000 | Manteca Redev. Agcy., Tax Allocation, 5.00%, 10/1/36 (AMBAC)   | \$10,037,400 |
| 5,000    | Metropolitan Water Dist. of Southern California Rev., 5.00%, 7/1/37, Ser. A (h)  | 5,481,200    |
| 1,130    | Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B   | 1,324,812    |
| 5,000    | Oakland Unified School Dist., Alameda Cnty., GO, 6.125%, 8/1/29, Ser. A  | 5,692,650    |
| 4,750    | Palomar Pomerado Health, CP, 6.75%, 11/1/39  | 4,999,280    |
| 10,000   | Placentia-Yorba Linda Unified School Dist., CP, 5.00%, 10/1/32 (NPFGC)   | 10,423,600   |
| 1,500    | Pollution Control Financing Auth. Rev., American Water Capital Corp. Project, 5.25%, 8/1/40 (a)(b)(d)(i) (acquisition cost-\$1,500,000; purchased 8/11/10) | 1,591,290    |
|          | Poway Unified School Dist., GO,  |              |
| 11,000   | zero coupon, 8/1/40  | 3,197,040    |
| 16,000   | zero coupon, 8/1/46  | 3,437,280    |
| 2,000    | Roseville Redev. Agcy., Tax Allocation, 5.00%, 9/1/32, Ser. B (NPFGC)  | 2,001,000    |
| 1,375    | Ross Valley School Dist., GO, 5.00%, 8/1/42, Ser. B  | 1,501,844    |
| 1,000    | San Diego Public Facs. Financing Auth. Sewer Rev., 5.25%, 5/15/39, Ser. A  | 1,111,950    |
| 4,000    | San Diego Public Facs. Financing Auth. Water Rev., 5.25%, 8/1/38, Ser. A   | 4,483,840    |
| 2,800    | San Diego Regional Building Auth. Rev., Cnty. Operations Center & Annex, 5.375%, 2/1/36, Ser. A  | 3,089,548    |
| 2,800    | San Diego Unified School Dist., GO, 4.75%, 7/1/27, Ser. D-2 (AGM)  | 2,961,224    |
| 1,000    | San Jose Hotel Tax Rev., Convention Center Expansion, 6.50%, 5/1/36  | 1,161,340    |
| 1,300    | San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A   | 1,421,615    |
| 1,260    | Santa Cruz Cnty., CP, 5.25%, 8/1/32  | 1,263,692    |
| 1,500    | Santa Cruz Cnty. Redev. Agcy., Tax Allocation, Live Oak/Soquel Community, 7.00%, 9/1/36, Ser. A  | 1,722,990    |
|          | State, GO,   |              |
| 2,500    | 5.00%, 9/1/31  | 2,722,750    |
| 7,000    | 5.00%, 11/1/43   | 7,723,100    |
| 10,000   | 6.00%, 4/1/38  | 11,790,400   |
|          | State Public Works Board Rev.,   |              |
| 3,000    | 5.75%, 10/1/30, Ser. G-1   | 3,476,670    |
| 2,000    | California State Univ., 6.00%, 11/1/34, Ser. J   | 2,352,000    |
| 2,000    | Judicial Council Projects, 5.00%, 12/1/29, Ser. D  | 2,249,460    |
| 2,500    | Judicial Council Projects, 5.00%, 3/1/38, Ser. A (b)   | 2,721,225    |
| 7,915    | Regents Univ., 5.00%, 3/1/33, Ser. A (Pre-refunded @ \$100, 3/1/18) (c)  | 9,166,520    |
|          | Statewide Communities Dev. Auth. Rev.,   |              |
| 3,760    | Bentley School, 7.00%, 7/1/40, Ser. A  | 4,156,680    |
| 1,520    | Catholic Healthcare West, 5.50%, 7/1/31, Ser. D  | 1,672,137    |
| 1,520    | Catholic Healthcare West, 5.50%, 7/1/31, Ser. E  | 1,672,137    |

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|       |   |            |
|-------|---|------------|
| 250   | Huntington Park Charter School Project, 5.15%, 7/1/30, Ser. A (b) | 246,762    |
| 1,250 | Huntington Park Charter School Project, 5.25%, 7/1/42, Ser. A (b) | 1,169,975  |
| 500   | International School of the Peninsula Project, 5.00%, 11/1/29     | 502,115    |
| 9,705 | Kaiser Permanente, 5.00%, 4/1/42, Ser. A                          | 10,493,240 |
| 1,000 | Lancer Student Housing Project, 7.50%, 6/1/42                     | 1,112,030  |
| 2,135 | Methodist Hospital Project, 6.625%, 8/1/29 (FHA)                  | 2,541,547  |
| 7,860 | Methodist Hospital Project, 6.75%, 2/1/38 (FHA)                   | 9,337,051  |
| 3,700 | St. Joseph Health System, 5.75%, 7/1/47, Ser. A-3 (FGIC)          | 4,100,932  |
| 5,490 | Sutter Health, 5.25%, 11/15/48, Ser. B                            | 5,824,561  |
| 5,600 | Sutter Health, 6.00%, 8/15/42, Ser. A                             | 6,515,824  |
| 4,500 | Univ. of California Irvine E. Campus, 5.375%, 5/15/38             | 4,838,085  |

**Schedule of Investments**

## PIMCO California Municipal Income Fund II

May 31, 2014 (continued)

Principal

Amount

| (000s)  |   | Value              |
|---------|---|--------------------|
| \$1,800 | Tobacco Securitization Agcy. Rev., Stanislaus Cnty., 5.875%, 6/1/43, Ser. A | \$1,800,054        |
| 3,100   | Torrance Rev., Torrance Memorial Medical Center, 5.00%, 9/1/40, Ser. A      | 3,238,198          |
| 3,000   | Township Health Care Dist, GO, 5.00%, 8/1/43, Ser. B                        | 3,232,680          |
| 1,700   | Turlock Irrigation Dist. Rev., 5.50%, 1/1/41                                | 1,859,460          |
| 1,000   | Tustin Unified School Dist., Special Tax, 6.00%, 9/1/40, Ser. 2006-1        | 1,058,450          |
|         | <b>Total California Municipal Bonds &amp; Notes (cost-\$365,223,580)</b>    | <b>413,589,110</b> |
|         | <b>California Variable Rate Notes (a)(d)(f)(g) 5.9%</b>                     |                    |
|         | Desert Community College Dist., GO, 8.05%, 8/1/32, Ser. 3016-1 (AGC) (b)(i) |                    |
| 6,035   | (acquisition cost-\$5,860,407; purchased 4/17/09)                           | 7,164,088          |
| 7,500   | JPMorgan Chase Putters/Drivers Trust Rev., 8.085%, 5/15/34, Ser. 3838       | 8,965,575          |
| 4,000   | Los Angeles Community College Dist., GO, 11.866%, 8/1/33, Ser. 3096         | 5,422,200          |
| 5,000   | San Diego Community College Dist., GO, 8.523%, 2/1/17                       | 6,307,100          |
|         | <b>Total California Variable Rate Notes (cost-\$22,302,284)</b>             | <b>27,858,963</b>  |
|         | <b>Other Municipal Bonds &amp; Notes 3.7%</b>                               |                    |
|         | <b>New Jersey 0.7%</b>  |                    |
|         | Tobacco Settlement Financing Corp. Rev., Ser. 1-A,                          |                    |
| 1,300   | 4.75%, 6/1/34   | 1,019,356          |
| 3,000   | 5.00%, 6/1/41   | 2,358,000          |
|         |   | 3,377,356          |
|         | <b>New York 0.7%</b>  |                    |
|         | New York Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.25%,        |                    |
| 1,250   | 10/1/35   | 1,462,787          |
| 1,900   | TSASC, Inc. Rev., 5.00%, 6/1/34, Ser. 1                                     | 1,609,908          |
|         |   | 3,072,695          |
|         | <b>Rhode Island 2.3%</b>  |                    |
| 11,000  | Tobacco Settlement Financing Corp. Rev., 6.25%, 6/1/42, Ser. 2002-A         | 11,002,750         |
|         | <b>Total Other Municipal Bonds &amp; Notes (cost-\$14,871,058)</b>          | <b>17,452,801</b>  |
|         | <b>Short-Term Investments 2.9%</b>  |                    |
|         | <b>U.S. Government Agency Securities (j) 1.9%</b>                           |                    |
|         | Federal Home Loan Bank Discount Notes,                                      |                    |
| 800     | 0.091%, 7/18/14   | 799,906            |
| 8,100   | 0.101%, 7/30/14   | 8,098,673          |
|         | <b>Total U.S. Government Agency Securities (cost-\$8,898,579)</b>           | <b>8,898,579</b>   |
|         | <b>U.S. Treasury Obligations 0.7%</b>                                       |                    |
|         | U.S. Treasury Notes,  |                    |
| 3,400   | 0.50%, 8/15/14  | 3,403,254          |
| 100     | 0.50%, 10/15/14   | 100,162            |

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|  |   |                      |
|--|---|----------------------|
| Total U.S. Treasury Obligations (cost-\$3,502,725)   |   | 3,503,416            |
| <b>Repurchase Agreements 0.3%</b>                    |   |                      |
| 1,300  | Citigroup Global Markets, Inc.,<br>dated 5/30/14, 0.10%, due 6/2/14,<br>proceeds \$1,300,011; collateralized by<br>U.S. Treasury Notes, 0.50%, due 10/15/14,<br>valued at \$1,327,999 including accrued interest (cost-\$1,300,000) | 1,300,000            |
| Total Short-Term Investments (cost-\$13,701,304)     |   | 13,701,995           |
| <b>Total Investments (cost-\$416,098,226) 100.0%</b> |   | <b>\$472,602,869</b> |

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**Schedule of Investments**

PIMCO California Municipal Income Fund II

May 31, 2014 (continued)

Industry classification of portfolio holdings as a percentage of total investments was as follows:

|   |               |
|---|---------------|
| <b>Revenue Bonds:</b>                   |               |
| Health, Hospital & Nursing Home Revenue | 18.8%         |
| Tobacco Settlement Funded               | 13.4          |
| Electric Power & Light Revenue          | 7.7           |
| Highway Revenue Tolls                   | 4.5           |
| Natural Gas Revenue                     | 4.2           |
| Water Revenue                           | 3.2           |
| Lease (Abatement)                       | 2.9           |
| Miscellaneous Revenue                   | 2.6           |
| College & University Revenue            | 2.5           |
| Port, Airport & Marina Revenue          | 2.0           |
| Local or Guaranteed Housing             | 1.0           |
| Private Schools                         | 1.0           |
| Lease Revenue                           | 0.3           |
| Hotel Occupancy Tax                     | 0.2           |
| Sewer Revenue                           | 0.2           |
| <b>Total Revenue Bonds</b>              | <b>64.5%</b>  |
| General Obligation                      | 21.4          |
| Certificates of Participation           | 5.4           |
| Tax Allocation                          | 5.1           |
| U.S. Government Agency Securities       | 1.9           |
| U.S. Treasury Obligations               | 0.7           |
| Special Tax                             | 0.7           |
| Repurchase Agreements                   | 0.3           |
| <b>Total Investments</b>                | <b>100.0%</b> |

**Notes to Schedule of Investments:**

(a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$29,450,253, representing 6.2% of total investments.

(b) Illiquid.

(c)

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Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding date (payment date).

- (d) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (e) When-issued or delayed-delivery. To be settled/delivered after May 31, 2014.
- (f) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on May 31, 2014.
- (g) Variable Rate Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on May 31, 2014.
- (h) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (i) Restricted. The aggregate acquisition cost of such securities is \$7,360,407. The aggregate value is \$8,755,378, representing 1.9% of total investments.
- (j) Rates reflect the effective yields at purchase date.
- (k) Floating Rate Notes The weighted average daily balance of Floating Rate Notes outstanding during the year ended May 31, 2014 was \$38,098,801 at a weighted average interest rate, including fees, of 0.70%.

**Schedule of Investments**

PIMCO California Municipal Income Fund II

May 31, 2014 (continued)

(l) Fair Value Measurements-See Note 1(b) in the Notes to Financial Statements.

|   | Level 1<br>Quoted<br>Prices | Level 2<br>Other<br>Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs | Value at<br>5/31/14 |
|---|-----------------------------|---|--|---------------------|
| <b>Investments in Securities Assets</b> |                             |   |  |                     |
| California Municipal Bonds & Notes      | \$                          | \$413,589,110   | \$   | \$413,589,110       |
| California Variable Rate Notes          |                             | 27,858,963  |  | 27,858,963          |
| Other Municipal Bonds & Notes           |                             | 17,452,801  |  | 17,452,801          |
| Short-Term Investments                  |                             | 13,701,995  |  | 13,701,995          |
| <b>Totals</b>                           | \$                          | \$472,602,869   | \$   | \$472,602,869       |

At May 31, 2014, there were no transfers between Levels 1 and 2.

(m) The following is a summary of the derivative instruments categorized by risk exposure:

The effect of derivatives on the Statement of Operations for the year ended May 31, 2014:

| Location  | Interest<br>Rate<br>Contracts |
|---|-------------------------------|
| <b>Net realized gain on:</b>                                  |                               |
| Swaps   | \$205,965                     |
| <b>Net change in unrealized appreciation/depreciation of:</b> |                               |
| Swaps   | \$(119,661)                   |

The average volume (measured at each fiscal quarter-end) of derivative activity during the year ended May 31, 2014:

|  | Interest Rate<br>Swap<br>Agreements(1) |
|--|--|
|  | \$10,600                               |

(1) Notional Amount (in thousands)

(n) The following tables present by counterparty, the Fund's derivative assets and liabilities net of related collateral held by the Fund at May 31, 2014 which has not been offset in the Statement of Assets and Liabilities, but would be available for offset to the extent of a default by the counterparty to the transaction.

Financial Assets and Derivative Assets, and Collateral Received at May 31, 2014:

| Counterparty                | Gross Amounts Not Offset in the Statement of Assets and Liabilities |                           | Net Amount |
|-----------------------------|---|---------------------------|------------|
|                             | Gross Financial Assets  | Instrument/<br>Derivative |            |
|                             | Presented in Statement of<br>Assets and Liabilities                 | Offset                    |            |
| <b>Repurchase Agreement</b> |   |                           |            |
| Citigroup                   | \$1,300,000   | \$(1,300,000)             | \$         |
| <b>Totals</b>               | <b>\$1,300,000</b>  | <b>\$(1,300,000)</b>      | <b>\$</b>  |

The actual collateral received is greater than the amount shown here due to over collateralization.

**Glossary:**

- AGC - insured by Assured Guaranty Corp.
- AGM - insured by Assured Guaranty Municipal Corp.
- AMBAC - insured by American Municipal Bond Assurance Corp.
- CP - Certificates of Participation
- FGIC - insured by Financial Guaranty Insurance Co.
- FHA - insured by Federal Housing Administration
- GO - General Obligation Bond
- IBC - Insurance Bond Certificate
- NPFGC - insured by National Public Finance Guarantee Corp.
- TCRS - Temporary Custodian Receipts

**Schedule of Investments**

## PIMCO New York Municipal Income Fund II

May 31, 2014

| Principal Amount<br>(000s)                        |  | Value       |
|---|--|-------------|
| <b>New York Municipal Bonds &amp; Notes 88.6%</b> |  |             |
| \$1,000   | Chautauqua Cnty. Industrial Dev. Agcy. Rev., Dunkirk Power Project, 5.875%,<br>4/1/42              | \$1,085,610 |
| 150   | Erie Cnty. Industrial Dev. Agcy. Rev., Orchard Park, Inc. Project, 6.00%, 11/15/36,<br>Ser. A      | 152,135     |
| 9,000   | Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A                                     | 10,291,500  |
| 500   | Long Island Power Auth. Rev., 5.00%, 9/1/34, Ser. A (AMBAC)  | 502,780     |
| 2,000   | Metropolitan Transportation Auth. Rev.,<br>5.00%, 11/15/30, Ser. D                                 | 2,242,560   |
| 2,000   | 5.00%, 11/15/34, Ser. B  | 2,215,500   |
| 3,000   | 5.00%, 11/15/43, Ser. B  | 3,233,070   |
| 5,000   | 5.50%, 11/15/39, Ser. A  | 5,605,200   |
| 3,500   | Monroe Cnty. Industrial Dev. Corp. Rev.,<br>Unity Hospital Rochester Project, 5.50%, 8/15/40 (FHA) | 3,968,090   |
| 1,750   | University of Rochester, 5.00%, 7/1/43, Ser. A   | 1,916,897   |
| 2,400   | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43,<br>Ser. A         | 1,247,808   |
| 2,000   | New York City, GO, 5.00%, 8/1/31, Ser. D-1   | 2,273,540   |
| 1,500   | New York City Health & Hospital Corp. Rev., 5.00%, 2/15/30, Ser. A                                 | 1,641,990   |
| 1,415   | New York City Industrial Dev. Agcy. Rev.,<br>Liberty Interactive Corp., 5.00%, 9/1/35              | 1,426,419   |
| 1,500   | Pilot Queens Baseball Stadium, 6.50%, 1/1/46 (AGC)   | 1,748,640   |
| 1,500   | United Jewish Appeal Federation Project, 5.00%, 7/1/27, Ser. A                                     | 1,504,365   |
| 750   | Yankee Stadium, 5.00%, 3/1/31 (FGIC)   | 767,663     |
| 1,900   | Yankee Stadium, 5.00%, 3/1/36 (NPFGC)  | 1,938,190   |
| 4,900   | Yankee Stadium, 7.00%, 3/1/49 (AGC)  | 5,938,555   |
| 5   | New York City Transitional Finance Auth. Rev.,<br>5.00%, 11/1/27, Ser. B                           | 5,016       |
| 4,850   | 5.00%, 5/1/39, Ser. F-1  | 5,366,282   |
| 5,000   | 5.25%, 1/15/39, Ser. S-3   | 5,512,950   |
| 1,000   | New York City Water & Sewer System Rev.,<br>5.00%, 6/15/47, Ser. CC                                | 1,095,800   |
| 1,000   | 5.25%, 6/15/40, Ser. EE  | 1,107,770   |
| 500   | Second Generation Resolutions, 5.00%, 6/15/39, Ser. GG-1   | 548,570     |
| 3,000   | New York Liberty Dev. Corp. Rev.,<br>1 World Trade Center Project, 5.00%, 12/15/41                 | 3,217,560   |
| 10,000  | 4 World Trade Center Project, 5.75%, 11/15/51  | 11,171,800  |
| 1,500   | Bank of America Tower at One Bryant Park Project, 5.125%, 1/15/44                                  | 1,598,790   |
| 1,400   | Bank of America Tower at One Bryant Park Project, 5.625%, 7/15/47                                  | 1,543,626   |

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|       |   |           |
|-------|---|-----------|
| 1,300 | Bank of America Tower at One Bryant Park Project, 6.375%, 7/15/49                           | 1,435,928 |
| 2,230 | Goldman Sachs Headquarters, 5.25%, 10/1/35  | 2,609,613 |
| 4,120 | Goldman Sachs Headquarters, 5.25%, 10/1/35 (g)  | 4,821,348 |
| 3,500 | Goldman Sachs Headquarters, 5.50%, 10/1/37  | 4,237,100 |
| 1,000 | Onondaga Cnty. Rev., Syracuse Univ. Project, 5.00%, 12/1/36                                 | 1,091,210 |
| 1,400 | Port Auth. of New York & New Jersey Rev., JFK International Air Terminal,<br>6.00%, 12/1/36 | 1,568,882 |
| 3,000 | State Dormitory Auth. Rev.,<br>5.00%, 3/15/38, Ser. A                                       | 3,289,050 |
| 2,500 | 5.00%, 7/1/42, Ser. A   | 2,734,125 |
| 7,490 | 5.50%, 5/15/31, Ser. A (AMBAC)  | 9,447,811 |
| 2,600 | Catholic Health of Long Island, 5.10%, 7/1/34   | 2,609,594 |
| 1,500 | Fordham Univ., 5.50%, 7/1/36, Ser. A  | 1,676,565 |

**Schedule of Investments**

## PIMCO New York Municipal Income Fund II

May 31, 2014 (continued)

| Principal Amount<br>(000s) |   | Value              |
|----------------------------|---|--------------------|
| \$2,750                    | Memorial Sloan-Kettering Cancer Center, 5.00%, 7/1/35, Ser. 1   | \$2,911,067        |
| 2,000                      | Memorial Sloan-Kettering Cancer Center, 5.00%, 7/1/36, Ser. A-1   | 2,156,300          |
| 2,000                      | Mount Sinai Hospital, 5.00%, 7/1/31, Ser. A   | 2,185,220          |
| 2,100                      | New York Univ., 5.00%, 7/1/38, Ser. A   | 2,285,997          |
| 1,000                      | New York Univ. Hospital Center, 5.625%, 7/1/37, Ser. B  | 1,072,270          |
| 600                        | North Shore-Long Island Jewish Health System, 5.50%, 5/1/37, Ser. A   | 649,728            |
| 5,000                      | Rochester General Hospital, 5.00%, 12/1/35 (Radian) (Pre-refunded @ \$100, 12/1/15) (c)                           | 5,343,250          |
| 3,000                      | Teachers College, 5.50%, 3/1/39   | 3,246,240          |
| 1,000                      | The New School, 5.50%, 7/1/40   | 1,093,120          |
| 5,000                      | State Environmental Facs. Corp. Rev., 5.125%, 6/15/38, Ser. A   | 5,644,500          |
|                            | State Thruway Auth. Rev.,   |                    |
| 1,000                      | 4.75%, 1/1/29, Ser. G (AGM)   | 1,038,230          |
| 3,800                      | 5.00%, 1/1/42, Ser. I   | 4,084,658          |
| 6,000                      | State Urban Dev. Corp. Rev., 5.00%, 3/15/36, Ser. B-1 (g)   | 6,626,100          |
| 5,000                      | Triborough Bridge & Tunnel Auth. Rev., 5.25%, 11/15/34, Ser. A-2 (g)  | 5,599,850          |
| 3,435                      | Troy Capital Res. Corp. Rev., Rensselaer Polytechnic Institute Project, 5.125%, 9/1/40, Ser. A                    | 3,671,809          |
|                            | TSASC, Inc. Rev., Ser. 1,   |                    |
| 5,000                      | 5.00%, 6/1/26   | 4,937,900          |
| 5,000                      | 5.00%, 6/1/34   | 4,236,600          |
| 1,000                      | 5.125%, 6/1/42  | 831,560            |
| 1,815                      | Ulster Cnty. Industrial Dev. Agcy. Rev., 6.00%, 9/15/37, Ser. A (b)   | 1,495,687          |
| 2,000                      | Warren & Washington Cntys. Industrial Dev. Agcy. Rev., Glens Falls Hospital Project, 5.00%, 12/1/35, Ser. A (AGM) | 2,001,980          |
| 1,490                      | Westchester Cnty. Healthcare Corp. Rev., 6.125%, 11/1/37, Ser. C-2  | 1,678,127          |
| 1,000                      | Westchester Cnty. Local Dev. Corp. Rev., 5.50%, 5/1/42, Ser. A  | 1,074,220          |
| 1,000                      | Yonkers Economic Dev. Corp. Rev., Charter School of Educational Excellence Project, 6.00%, 10/15/30, Ser. A       | 1,047,210          |
| 600                        | Yonkers Industrial Dev. Agcy. Rev., Sarah Lawrence College Project, 6.00%, 6/1/41, Ser. A                         | 661,794            |
|                            | <b>Total New York Municipal Bonds &amp; Notes (cost-\$168,826,458)</b>  | <b>181,963,319</b> |
|                            | <b>Other Municipal Bonds &amp; Notes 4.8%</b>   |                    |
|                            | <b>Florida 0.5%</b>   |                    |
| 1,000                      | Clearwater Water & Sewer Rev., 5.25%, 12/1/39, Ser. A   | 1,064,630          |
|                            | <b>Louisiana 0.6%</b>   |                    |
| 1,000                      | East Baton Rouge Sewerage Commission Rev., 5.25%, 2/1/39, Ser. A  | 1,109,960          |
|                            | <b>Ohio 3.2%</b>  |                    |
| 7,450                      | Buckeye Tobacco Settlement Financing Auth. Rev., 6.50%, 6/1/47, Ser. A-2  | 6,576,786          |

|  |   |           |
|--|---|-----------|
| <b>U. S. Virgin Islands 0.5%</b>                       |   |           |
| 1,000  | Public Finance Auth. Rev., 6.00%, 10/1/39, Ser. A   | 1,043,790 |
| Total Other Municipal Bonds & Notes (cost-\$9,866,259) |   | 9,795,166 |
| <b>New York Variable Rate Notes 2.9%</b>               |   |           |
| 5,000  | JPMorgan Chase Putters/Drivers Trust Rev., 8.031%, 7/1/33, Ser. 3382 (a)(d)(e)(f)<br>(cost-\$4,885,484) | 5,990,050 |



**Schedule of Investments**

## PIMCO New York Municipal Income Fund II

May 31, 2014 (continued)

| Principal<br>Amount<br>(000s)                              |   | Value                |
|--|---|----------------------|
| <b>Short-Term Investments 3.7%</b>                         |   |                      |
| <b>U.S. Government Agency Securities (h) 2.3%</b>          |   |                      |
| \$1,300  | Fannie Mae Discount Notes, 0.066%, 9/3/14   | \$1,299,779          |
| 1,800  | Federal Home Loan Bank Discount Notes, 0.101%, 8/1/14   | 1,799,695            |
| 1,600  | Freddie Mac Discount Notes, 0.056%, 9/2/14  | 1,599,773            |
| Total U.S. Government Agency Securities (cost-\$4,699,247) |   | 4,699,247            |
| <b>U.S. Treasury Obligations 1.0%</b>                      |   |                      |
| U.S. Treasury Notes,                                       |   |                      |
| 262  | 0.25%, 8/31/14  | 262,138              |
| 1,800  | 0.50%, 10/15/14   | 1,802,918            |
| Total U.S. Treasury Obligations (cost-\$2,064,552)         |   | 2,065,056            |
| <b>Repurchase Agreements 0.4%</b>                          |   |                      |
| 900  | Citigroup Global Markets, Inc.,<br>dated 5/30/14, 0.10%, due 6/2/14,<br>proceeds \$900,008; collateralized by<br>U.S. Treasury Notes, 0.50%, due 10/15/14,<br>valued at \$919,075 including accrued interest (cost-\$900,000) | 900,000              |
| Total Short-Term Investments (cost-\$7,663,799)            |   | 7,664,303            |
| <b>Total Investments (cost-\$191,242,000) 100.0%</b>       |   | <b>\$205,412,838</b> |

Industry classification of portfolio holdings as a percentage of total investments was as follows:

| Revenue Bonds:                          |       |
|---|-------|
| Health, Hospital & Nursing Home Revenue | 14.2% |
| College & University Revenue            | 12.4  |
| Industrial Revenue                      | 11.0  |
| Miscellaneous Revenue                   | 8.2   |
| Tobacco Settlement Funded               | 8.1   |
| Income Tax Revenue                      | 7.4   |
| Transit Revenue                         | 6.5   |
| Highway Revenue Tolls                   | 5.2   |
| Miscellaneous Taxes                     | 5.0   |
| Water Revenue                           | 4.6   |
| Lease (Abatement)                       | 4.6   |
| Recreational Revenue                    | 4.2   |
| Port, Airport & Marina Revenue          | 2.3   |
| Economic Development Revenue            | 0.7   |
| Sewer Revenue                           | 0.5   |

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|                                   |        |
|-----------------------------------|--------|
| Electric Power & Light Revenue    | 0.3    |
| Total Revenue Bonds               | 95.2%  |
| U.S. Government Agency Securities | 2.3    |
| General Obligation                | 1.1    |
| U.S. Treasury Obligations         | 1.0    |
| Repurchase Agreements             | 0.4    |
| Total Investments                 | 100.0% |

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## Schedule of Investments

PIMCO New York Municipal Income Fund II

May 31, 2014 (continued)

### Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Security with a value of \$5,990,050, representing 2.9% of total investments.
- (b) Illiquid.
- (c) Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding date (payment date).
- (d) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (e) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on May 31, 2014.
- (f) Variable Rate Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on May 31, 2014.
- (g) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (h) Rates reflect the effective yields at purchase date.
- (i) Floating Rate Notes The weighted average daily balance of Floating Rate Notes outstanding during the year ended May 31, 2014 was \$8,250,305 at a weighted average interest rate, including fees, of 0.80%.
- (j) Fair Value Measurements-See Note 1(b) in the Notes to Financial Statements.

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|   | Level 1<br>Quoted<br>Prices | Level 2<br>Other Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs | Value at<br>5/31/14 |
|---|-----------------------------|--|--|---------------------|
| <b>Investments in Securities Assets</b> |                             |  |  |                     |
| New York Municipal Bonds & Notes        | \$                          | \$ 181,963,319                                       | \$   | \$ 181,963,319      |
| Other Municipal Bonds & Notes           |                             | 9,795,166  |  | 9,795,166           |
| New York Variable Rate Notes            |                             | 5,990,050  |  | 5,990,050           |
| Short-Term Investments                  |                             | 7,664,303  |  | 7,664,303           |
| <b>Totals</b>                           | \$                          | \$ 205,412,838                                       | \$   | \$ 205,412,838      |

At May 31, 2014, there were no transfers between Levels 1 and 2.

(k) The following is a summary of the derivative instruments categorized by risk exposure:  
The effect of derivatives on the Statement of Operations for the year ended May 31, 2014:

| Location  | Interest<br>Rate<br>Contracts |
|---|-------------------------------|
| <b>Net realized gain on:</b>                                  |                               |
| Swaps   | \$144,467                     |
| <b>Net change in unrealized appreciation/depreciation of:</b> |                               |
| Swaps   | \$(89,478)                    |

The average volume (measured at each fiscal quarter-end) of derivative activity during the year ended May 31, 2014:

|  | Interest<br>Rate Swap<br>Agreements(1) |
|--|--|
|  | \$7,200                                |

(1) Notional Amount (in thousands)

**Schedule of Investments**

PIMCO New York Municipal Income Fund II

May 31, 2014 (continued)

(1) The following tables present by counterparty, the Fund's derivative assets and liabilities net of related collateral held by the Fund at May 31, 2014 which has not been offset in the Statement of Assets and Liabilities, but would be available for offset to the extent of a default by the counterparty to the transaction.

Financial Assets and Derivative Assets, and Collateral Received at May 31, 2014:

| Counterparty                | Gross Amounts Not Offset in the Statement of Assets and Liabilities |   | Net Amount |
|-----------------------------|---|---|------------|
|                             | Assets and Liabilities  | Financial Instrument/ Derivative Offset |            |
| <b>Repurchase Agreement</b> |   |   |            |
| Citigroup                   | \$900,000   | \$(900,000)                             | \$         |
| <b>Totals</b>               | <b>\$900,000</b>  | <b>\$(900,000)</b>                      | <b>\$</b>  |

The actual collateral received is greater than the amount shown here due to overcollateralization.

**Glossary:**

|        |  |
|--------|--|
| AGC    | - insured by Assured Guaranty Corp.                  |
| AGM    | - insured by Assured Guaranty Municipal Corp.        |
| AMBAC  | - insured by American Municipal Bond Assurance Corp. |
| FGIC   | - insured by Financial Guaranty Insurance Co.        |
| FHA    | - insured by Federal Housing Administration          |
| GO     | - General Obligation Bond                            |
| NPFGC  | - insured by National Public Finance Guarantee Corp. |
| Radian | - insured by Radian Guaranty, Inc.                   |

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**Statements of Assets and Liabilities**

## PIMCO Municipal Income Funds II

May 31, 2014

|   | Municipal II         | California<br>Municipal II | New York<br>Municipal II |
|---|----------------------|----------------------------|--------------------------|
| <b>Assets:</b>  |                      |                            |                          |
| Investments, at value (cost-\$1,034,113,237,<br>\$416,098,226 and \$191,242,000, respectively)  | \$1,126,289,329      | \$472,602,869              | \$205,412,838            |
| Cash  | 533,716              | 538,495                    | 529,027                  |
| Interest receivable   | 18,423,154           | 6,746,777                  | 2,958,510                |
| Receivable for investments sold   | 1,152,350            |                            |                          |
| Prepaid expenses and other assets   | 52,587               | 46,422                     | 23,231                   |
| <b>Total Assets</b>   | <b>1,146,451,136</b> | <b>479,934,563</b>         | <b>208,923,606</b>       |
| <b>Liabilities:</b>   |                      |                            |                          |
| Payable for floating rate notes issued  | 44,317,277           | 38,098,801                 | 8,186,394                |
| Payable for investments purchased   |                      | 3,347,340                  |                          |
| Dividends payable to common and preferred<br>shareholders   | 3,978,349            | 1,706,992                  | 728,393                  |
| Investment management fees payable  | 602,006              | 239,301                    | 109,485                  |
| Interest payable  | 69,041               | 34,258                     | 7,253                    |
| Accrued expenses and other liabilities  | 396,717              | 218,577                    | 372,024                  |
| <b>Total Liabilities</b>  | <b>49,363,390</b>    | <b>43,645,269</b>          | <b>9,403,549</b>         |
| <b>Preferred Shares (\$0.00001 par value and \$25,000<br/>liquidation preference per share applicable to an<br/>aggregate of 14,680, 6,520 and 3,160 shares issued<br/>and outstanding, respectively)</b> | <b>367,000,000</b>   | <b>163,000,000</b>         | <b>79,000,000</b>        |
| <b>Net Assets Applicable to Common Shareholders</b>   | <b>\$730,087,746</b> | <b>\$273,289,294</b>       | <b>\$120,520,057</b>     |
| <b>Composition of Net Assets Applicable to<br/>Common Shareholders:</b>   |                      |                            |                          |
| Common Shares:  |                      |                            |                          |
| Par value (\$0.00001 per share)   | \$611                | \$317                      | \$110                    |
| Paid-in-capital in excess of par  | 808,756,893          | 410,321,297                | 148,435,008              |
| Undistributed (dividends in excess of) net investment<br>income   | 24,160,410           | (1,706,992)                | 1,140,077                |
| Accumulated net realized loss   | (195,000,505)        | (191,851,739)              | (43,213,661)             |
| Net unrealized appreciation   | 92,170,337           | 56,526,411                 | 14,158,523               |
| <b>Net Assets Applicable to Common Shareholders</b>   | <b>\$730,087,746</b> | <b>\$273,289,294</b>       | <b>\$120,520,057</b>     |
| Common Shares Issued and Outstanding  | 61,139,523           | 31,723,041                 | 10,980,906               |
| <b>Net Asset Value Per Common Share</b>   | <b>\$11.94</b>       | <b>\$8.61</b>              | <b>\$10.98</b>           |

See accompanying Notes to Financial Statements | May 31, 2014 | Annual Report 31

**Statements of Operations**

## PIMCO Municipal Income Funds II

Year ended May 31, 2014

|  | Municipal II        | California<br>Municipal II | New York<br>Municipal II |
|--|---------------------|----------------------------|--------------------------|
| <b>Investment Income:</b>  |                     |                            |                          |
| Interest   | \$57,325,385        | \$24,929,386               | \$9,829,802              |
| Miscellaneous  | 90,000              |                            |                          |
| <b>Total Investment Income</b>   | <b>57,415,385</b>   | <b>24,929,386</b>          | <b>9,829,802</b>         |
| <b>Expenses:</b>   |                     |                            |                          |
| Investment management  | 6,812,730           | 2,693,680                  | 1,239,209                |
| Auction agent and commissions  | 582,265             | 275,917                    | 131,810                  |
| Interest   | 315,818             | 265,961                    | 66,001                   |
| Custodian and accounting agent   | 152,596             | 92,647                     | 65,854                   |
| Audit and tax services   | 139,511             | 68,685                     | 64,668                   |
| Trustees   | 55,138              | 20,409                     | 9,175                    |
| Shareholder communications   | 53,165              | 34,758                     | 19,275                   |
| New York Stock Exchange listing  | 47,557              | 24,641                     | 20,804                   |
| Insurance  | 25,282              | 13,069                     | 8,530                    |
| Transfer agent   | 23,606              | 26,026                     | 32,671                   |
| Legal  | 13,445              | 17,131                     | 11,860                   |
| Miscellaneous  | 14,994              | 12,460                     | 11,216                   |
| <b>Total Expenses</b>  | <b>8,236,107</b>    | <b>3,545,384</b>           | <b>1,681,073</b>         |
| <b>Net Investment Income</b>   | <b>49,179,278</b>   | <b>21,384,002</b>          | <b>8,148,729</b>         |
| <b>Realized and Change In Unrealized Gain (Loss):</b>  |                     |                            |                          |
| Net realized gain (loss) on:   |                     |                            |                          |
| Investments  | (3,791,952)         | (3,313,696)                | (453,677)                |
| Swaps  | 622,769             | 205,965                    | 144,467                  |
| Net change in unrealized appreciation/depreciation of:   |                     |                            |                          |
| Investments  | (11,659,833)        | (4,674,339)                | (2,675,606)              |
| Swaps  | (334,300)           | (119,661)                  | (89,478)                 |
| <b>Net realized and change in unrealized loss</b>  | <b>(15,163,316)</b> | <b>(7,901,731)</b>         | <b>(3,074,294)</b>       |
| <b>Net Increase in Net Assets Resulting from Investment Operations</b>                                   | <b>34,015,962</b>   | <b>13,482,271</b>          | <b>5,074,435</b>         |
| <b>Dividends on Preferred Shares from Net investment income</b>  | <b>(425,517)</b>    | <b>(190,698)</b>           | <b>(91,824)</b>          |
| <b>Net Increase in Net Assets Applicable to Common Shareholders Resulting from Investment Operations</b> | <b>\$33,590,445</b> | <b>\$13,291,573</b>        | <b>\$4,982,611</b>       |

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**Statements of Changes in Net Assets Applicable to Common Shareholders**

## PIMCO Municipal Income Funds II

|   | Municipal II               |                            |
|---|----------------------------|----------------------------|
|   | Year ended<br>May 31, 2014 | Year ended<br>May 31, 2013 |
| <b>Investment Operations:</b>   |                            |                            |
| Net investment income   | \$49,179,278               | \$50,453,284               |
| Net realized gain (loss)  | (3,169,183)                | 4,106,105                  |
| Net change in unrealized appreciation/depreciation  | (11,994,133)               | 9,719,063                  |
| Net increase in net assets resulting from investment operations                                   | 34,015,962                 | 64,278,452                 |
| <b>Dividends on Preferred Shares from Net Investment Income</b>                                   | (425,517)                  | (901,014)                  |
| Net increase in net assets applicable to common shareholders resulting from investment operations | 33,590,445                 | 63,377,438                 |
| <b>Dividends to Common Shareholders from:</b>   |                            |                            |
| Net investment income   | (47,596,445)               | (47,407,514)               |
| Return of capital   |                            |                            |
| Total dividends and distributions to common shareholders  | (47,596,445)               | (47,407,514)               |
| <b>Common Share Transactions:</b>   |                            |                            |
| Reinvestment of dividends   | 2,726,193                  | 3,236,891                  |
| Total increase (decrease) in net assets applicable to common shareholders                         | (11,279,807)               | 19,206,815                 |
| <b>Net Assets Applicable to Common Shareholders:</b>  |                            |                            |
| Beginning of year   | 741,367,553                | 722,160,738                |
| End of year*  | \$730,087,746              | \$741,367,553              |
| *Including undistributed (dividends in excess of) net investment income of:                       | \$24,160,410               | \$22,643,835               |
| <b>Common Shares Issued in Reinvestment of Dividends</b>  | 242,896                    | 257,784                    |

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**Statements of Changes in Net Assets Applicable to Common Shareholders**

## PIMCO Municipal Income Funds II

| California Municipal II    |                            | New York Municipal II      |                            |
|----------------------------|----------------------------|----------------------------|----------------------------|
| Year ended<br>May 31, 2014 | Year ended<br>May 31, 2013 | Year ended<br>May 31, 2014 | Year ended<br>May 31, 2013 |
| \$21,384,002               | \$21,709,832               | \$8,148,729                | \$8,604,979                |
| (3,107,731)                | 3,108,299                  | (309,210)                  | 292,763                    |
| (4,794,000)                | 7,700,006                  | (2,765,084)                | (612,931)                  |
| 13,482,271                 | 32,518,137                 | 5,074,435                  | 8,284,811                  |
| (190,698)                  | (402,646)                  | (91,824)                   | (194,449)                  |
| 13,291,573                 | 32,115,491                 | 4,982,611                  | 8,090,362                  |
| (20,949,262)               | (21,313,126)               | (8,711,074)                | (8,669,854)                |
| (2,252,817)                | (2,354,016)                |                            |                            |
| (23,202,079)               | (23,667,142)               | (8,711,074)                | (8,669,854)                |
| 1,018,865                  | 1,162,949                  | 563,362                    | 597,357                    |
| (8,891,641)                | 9,611,298                  | (3,165,101)                | 17,865                     |
| 282,180,935                | 272,569,637                | 123,685,158                | 123,667,293                |
| \$273,289,294              | \$282,180,935              | \$120,520,057              | \$123,685,158              |
| \$(1,706,992)              | \$(2,098,678)              | \$1,140,077                | \$1,873,593                |
| 112,714                    | 113,525                    | 53,584                     | 47,813                     |

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## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

#### 1. Organization and Significant Accounting Policies

PIMCO Municipal Income Fund II ( Municipal II ), PIMCO California Municipal Income Fund II ( California Municipal II ) and PIMCO New York Municipal Income Fund II ( New York Municipal II ), (each a Fund and collectively the Funds or PIMCO Municipal Income Funds II ), were organized as Massachusetts business trusts on March 29, 2002. Prior to commencing operations on June 28, 2002, the Funds had no operations other than matters relating to their organization and registration as non-diversified, closed-end management investment companies registered under the Investment Company Act of 1940 as amended, and the rules and regulations thereunder. Allianz Global Investors Fund Management LLC ( AGIFM or the Investment Manager ) and Pacific Investment Management Company LLC ( PIMCO or the Sub-Adviser ) serve as the Funds investment manager and sub-adviser, respectively, and are both indirect, wholly-owned subsidiaries of Allianz Asset Management of America L.P. ( AAM ). AAM is an indirect, wholly-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. Each Fund has authorized an unlimited amount of common shares with \$0.00001 par value.

Under normal market conditions, Municipal II invests substantially all of its assets in a portfolio of municipal bonds, the interest from which is exempt from U.S. federal income taxes. Under normal market conditions, California Municipal II invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal and California state income taxes. Under normal market conditions, New York Municipal II invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal, New York State and New York City income taxes. There can be no assurance that the Funds will meet their stated

objectives. The Funds will generally seek to avoid investing in bonds generating interest income which could potentially subject individuals to alternative minimum tax. The issuers abilities to meet their obligations may be affected by economic and political developments in a specific state or region.

The preparation of the Funds financial statements in accordance with accounting principles generally accepted in the United States of America requires the Funds management to make estimates and assumptions that affect the reported amounts and disclosures in each Fund s financial statements. Actual results could differ from those estimates.

In the normal course of business, the Funds enter into contracts that contain a variety of representations that provide general indemnifications. The Funds maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred.

The following is a summary of significant accounting policies consistently followed by the Funds:

##### (a) Valuation of Investments

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or

independent pricing services. The Funds' investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price.

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## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

#### 1. Organization and Significant Accounting Policies (continued)

Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Securities purchased on a when-issued or delayed-delivery basis are marked to market daily until settlement at the forward settlement date.

The Board of Trustees (the Board) has adopted procedures for valuing portfolio securities and other financial instruments in circumstances where market quotes are not readily available, and has delegated the responsibility for applying the valuation methods to the Investment Manager and Sub-Adviser. The Funds' Valuation Committee was established by the Board to oversee the implementation of the Funds' valuation methods and to make fair value determinations on behalf of the Board, as instructed. The Sub-Adviser monitors the continued appropriateness of methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Sub-Adviser determines that a valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will be convened to consider the matter and take any appropriate action in accordance with procedures set forth by the Board. The Board shall review the appropriateness of the valuation methods and these methods may be amended or supplemented from time to time by the Valuation Committee.

Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing premium or discount based on their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Funds to value investments may differ from the value that would be realized if the investments were sold, and these differences could be material to the Funds' financial statements. Each Fund's net asset value (NAV) is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

#### (b) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.* the exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy are described below:

- n Level 1 quoted prices in active markets for identical investments that the Funds have the ability to access
- n Level 2 valuations based on other significant observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates or other market corroborated inputs
- n Level 3 valuations based on significant unobservable inputs (including the Sub-Adviser's or Valuation Committee's own assumptions and securities whose price was determined by using a single broker's quote)

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The valuation techniques used by the Funds to measure fair value during the year ended May 31, 2014 were intended to maximize the use of observable inputs and to minimize the use of unobservable inputs.

The Funds' policy is to recognize transfers between levels at the end of the reporting period. An investment asset's or liability's level within the fair value hierarchy is based on the lowest level input, individually or in aggregate,

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## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

#### 1. Organization and Significant Accounting Policies (continued)

that is significant to the fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation techniques used. Investments categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Funds generally use to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with Generally Accepted Accounting Principles ( GAAP ).

**U.S. Treasury Obligations** U.S. Treasury obligations are valued by independent pricing services based on pricing models that evaluate the mean between the most recently quoted bid and ask price. The models also take into consideration data received from active market makers and broker-dealers, yield curves, and the spread over comparable U.S. Treasury issues. The spreads change daily in response to market conditions and are generally obtained from the new issue market and broker-dealer sources. To the extent that these inputs are observable, the values of U.S. Treasury obligations are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

**Government Sponsored Enterprise and Mortgage-Backed Securities** Government sponsored enterprise and mortgage-backed securities are valued by independent pricing

services using pricing models based on inputs that include issuer type, coupon, cash flows, mortgage prepayment projection tables and Adjustable Rate Mortgage evaluations that incorporate index data, periodic life caps and the next coupon reset date. To the extent that these inputs are observable, the values of government sponsored enterprise and mortgage-backed securities are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

**Municipal Bonds & Notes and Variable Rate Notes** Municipal bonds & notes and variable rate notes are valued by independent pricing services based on pricing models that take into account, among other factors, information received from market makers and broker-dealers, current trades, bid-want lists, offerings, market movements, the callability of the bond, state of issuance, benchmark yield curves, and bond or note insurance. To the extent that these inputs are observable, the values of municipal bonds & notes and variable rate notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

**Corporate Bonds & Notes** Corporate bonds & notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, live trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread

curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on broker-dealer quotations from relevant market



## Notes to Financial Statements

PIMCO Municipal Income Funds II

May 31, 2014

### 1. Organization and Significant Accounting Policies (continued)

makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of corporate bonds & notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

#### (c) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Securities purchased and sold on a when-issued or delayed-delivery basis maybe settled a month or more after the trade date. Realized gains and losses on investments are determined on an identified cost basis. Interest income adjusted for the accretion of discount and amortization of premiums is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income. Consent fees relating to corporate actions are recorded as miscellaneous income upon receipt.

#### (d) Federal Income Taxes

The Funds intend to distribute all of their taxable income and to comply with the other requirements of Subchapter M of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

Accounting for uncertainty in income taxes establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of

the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. In accordance with provisions set forth under U.S. GAAP, the Investment Manager has reviewed the Funds' tax positions for all open tax years. As of May 31, 2014, the Funds have recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions they have taken. The Funds' federal income tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

#### (e) Dividends and Distributions - Common Shares

The Funds declare dividends from net investment income to common shareholders monthly. Distributions of net realized capital gains, if any, are paid at least annually. The Funds record dividends and distributions on the ex-dividend date. The amount of dividends from net investment income and distributions from net realized capital gains is determined in accordance with federal income tax regulations, which may differ from GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in

nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions to shareholders from return of capital.

**(f) Inverse Floating Rate Transactions    Residual Interest Municipal Bonds ( RIBs ) / Residual Interest Tax Exempt Bonds ( RITEs )**

The Funds invest in RIBs and RITEs ( Inverse Floaters ), whose interest rates bear an inverse

## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

#### 1. Organization and Significant Accounting Policies (continued)

relationship to the interest rate on another security or the value of an index. In inverse floating rate transactions, the Funds sell a fixed rate municipal bond ( Fixed Rate Bond ) to a broker who places the Fixed Rate Bond in a special purpose trust ( Trust ) from which floating rate bonds ( Floating Rate Notes ) and Inverse Floaters are issued. The Funds simultaneously or within a short period of time, purchase the Inverse Floaters from the broker. The Inverse Floaters held by the Funds provide the Funds with the right to: (1) cause the holders of the Floating Rate Notes to tender their notes at par, and (2) cause the broker to transfer the Fixed-Rate Bond held by the Trust to the Funds, thereby collapsing the Trust. The Funds account for the transaction described above as a secured borrowing by including the Fixed Rate Bond in their Schedules of Investments, and account for the Floating Rate Notes as a liability under the caption Payable for Floating Rate Notes issued in the Funds Statements of Assets and Liabilities. The Floating Rate Notes have interest rates that generally reset weekly and their holders have the option to tender their notes to the broker for redemption at par at each reset date.

The Funds may also invest in Inverse Floaters without transferring a fixed rate municipal bond into a Trust, which are not accounted for as secured borrowings. The Funds may also invest in Inverse Floaters for the purpose of increasing leverage.

The Inverse Floaters are created by dividing the income stream provided by the underlying bonds to create two securities, one short-term and one long-term. The interest rate on the short-term component is reset by an index or auction process typically every 7 to 35 days. After income is paid on the short-term securities at current rates, the residual income

from the underlying bond(s) goes to the long-term securities. Therefore, rising short-term rates result in lower income for the long-term component and vice versa. The longer-term bonds may be more volatile and less liquid than other municipal bonds of comparable maturity. Investments in Inverse Floaters typically will involve greater risk than investments in Fixed Rate Bonds.

The Funds restrictions on borrowings do not apply to the secured borrowings deemed to have occurred for accounting purposes. Inverse Floaters held by the Funds are exempt from registration under Rule 144A of the Securities Act of 1933.

In addition to general market risks, the Funds investments in Inverse Floaters may involve greater risk and volatility than an investment in a fixed rate bond, and the value of Inverse Floaters may decrease significantly when market interest rates increase. Inverse Floaters have varying degrees of liquidity, and the market for these securities may be volatile. These securities tend to underperform the market for fixed rate bonds in a rising interest rate environment, but tend to outperform the market for fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, Inverse Floaters typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Trusts in which Inverse Floaters may be held could be terminated due to market, credit or other events beyond the Funds control, which could require the Funds to reduce

leverage and dispose of portfolio investments at inopportune times and prices.

**(g) Repurchase Agreements**

The Funds are parties to Master Repurchase Agreements ( Master Repo Agreements ) with select counterparties. The Master Repo Agreements maintain provisions for initiation,

## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

#### 1. Organization and Significant Accounting Policies (continued)

income payments, events of default, and maintenance of collateral.

The Funds enter into transactions, under the terms of the Master Repo Agreements, with their custodian bank or securities brokerage firms whereby they purchase securities under agreements to resell such securities at an agreed upon price and date ( repurchase agreements ). The Funds, through their custodian, take possession of securities collateralizing the repurchase agreement. Such agreements are carried at the contract amount in the financial statements, which is considered to represent fair value. Collateral pledged (the securities received), which consists primarily of U.S. government obligations and asset-backed securities, is held by the custodian bank for the benefit of the Funds until maturity of the repurchase agreement. Provisions of the repurchase agreements and the procedures adopted by the Funds require that the market value of the collateral, including accrued interest thereon, be sufficient in the event of default by the counterparty. If the counterparty defaults under the Master Repo Agreements and the value of the collateral declines or if the counterparty enters an insolvency proceeding, realization of the collateral by the Funds may be delayed or limited.

##### (h) When-Issued/Delayed-Delivery Transactions

When-issued or delayed-delivery transactions involve a commitment to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery purchases are outstanding, the Funds will set aside and maintain until the settlement date in a designated account, liquid assets in an amount sufficient to meet the purchase price. When purchasing a security on

a delayed-delivery basis, the Funds assume the rights and risks of ownership of the security, including the risk of price and yield fluctuations; consequently, such fluctuations are taken into account when determining the NAV. The Funds may dispose of or renegotiate a delayed-delivery transaction after it is entered into, and may sell when-issued securities before they are delivered, which may result in a realized gain or loss. When a security is sold on a delayed-delivery basis, the Funds do not participate in future gains and losses with respect to the security.

##### (i) U.S. Government Agencies or Government-Sponsored Enterprises

Securities issued by U.S. Government agencies or government-sponsored enterprises may not be guaranteed by the U.S. Treasury. The Government National Mortgage Association ( GNMA or Ginnie Mae ), a wholly-owned U.S. Government corporation, is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA and backed by pools of mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Government-related guarantors not backed by the full faith and credit of the U.S. Government include the Federal National Mortgage Association ( FNMA or Fannie Mae ) and the Federal Home Loan Mortgage Corporation ( FHLMC or Freddie Mac ). Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC guarantees the

timely payment of interest and ultimate collection of principal, but its participation certificates are not backed by the full faith and credit of the U.S. Government.

## Notes to Financial Statements

PIMCO Municipal Income Funds II

May 31, 2014

### 1. Organization and Significant Accounting Policies (continued)

#### (j) Restricted Securities

The Funds are permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expenses, and prompt sale at an acceptable price may be difficult.

#### (k) Interest Expense

Interest expense primarily relates to the Funds' participation in Floating Rate Notes held by third parties in conjunction with Inverse Floater transactions.

#### (l) Custody Credits on Cash Balances

The Funds may benefit from an expense offset arrangement with their custodian bank, whereby uninvested cash balances may earn credits that reduce monthly custodian and accounting agent expenses. Had these cash balances been invested in income-producing securities, they would have generated income for the Funds. Cash overdraft charges, if any, are included in custodian and accounting agent fees.

### 2. Principal Risks

In the normal course of business, the Funds trade financial instruments and enter into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Funds are also exposed to other risks such as, but not limited to, interest rate, credit and leverage risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the values of certain fixed income

securities held by the Funds are likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is used primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.* yield) movements. Interest rate changes can be sudden and unpredictable, and the Funds may lose money as a result of movements in interest rates. The Funds may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended.

Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When a Fund holds variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the NAV of the Funds' shares.

The Funds are exposed to credit risk, which is the risk of losing money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are



## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

## 2. Principal Risks (continued)

subject to varying degrees of credit risk, which are often reflected in credit ratings.

The market values of securities may decline due to general market conditions (market risk) which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, adverse changes to credit markets or adverse investor sentiment. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity-related investments generally have greater market price volatility than fixed income securities. Credit ratings downgrades may also negatively affect securities held by the Funds. Even when markets perform well, there is no assurance that the investments held by the Funds will increase in value along with the broader market. In addition, market risk includes the risk that geopolitical events will disrupt the economy on a national or global level.

The Funds are exposed to counterparty risk, or the risk that an institution or other entity with which the Funds have unsettled or open transactions will default. The potential loss to the Funds could exceed the value of the financial assets recorded in the Funds' financial statements. Financial assets, which potentially expose the Funds to counterparty risk, consist principally of cash due from counterparties and investments. The Sub-Adviser seeks to minimize the Funds' counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Funds have received

payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Funds are exposed to risks associated with leverage. Leverage may cause the value of the Funds' shares to be more volatile than if the Funds did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the Funds' portfolio securities. The Funds may engage in transactions or purchase instruments that give rise to forms of leverage. In addition, to the extent the Funds employ leverage, dividend and interest costs may not be recovered by any appreciation of the securities purchased with the leverage proceeds and could exceed the Funds' investment returns, resulting in greater losses.

The Funds may hold defaulted securities that may involve special considerations including bankruptcy proceedings, other regulatory and legal restrictions affecting the Funds' ability to trade, and the availability of prices from independent pricing services or dealer quotations. Defaulted securities are often illiquid and may not be actively traded. Sale of securities in bankrupt companies at an acceptable price may be difficult and differences compared to the value of the securities used by the Funds could be material.

A Fund may incur additional expenses to the extent it is required to seek recovery upon a portfolio security's default in the payment of principal or interest. In any bankruptcy proceeding relating to a defaulted investment, a Fund may lose

its entire investment or may be required to accept cash or securities with a value substantially less than its original investment.

The Funds are party to International Swaps and Derivatives Association, Inc. Master Agreements ( ISDA Master Agreements ) with select

## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

## 2. Principal Risks (continued)

counterparties that govern transactions, over-the-counter derivatives and foreign exchange contracts entered into by the Funds and those counterparties. The ISDA Master Agreements contain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements of the Funds.

The considerations and factors surrounding the settlement of certain purchases and sales made on a delayed-delivery basis are governed by Master Securities Forward Transaction Agreements ( Master Forward Agreements ) between the Funds and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral.

## 3. Financial Derivative Instruments

Disclosure about derivatives and hedging activities requires qualitative disclosure regarding objectives and strategies for using derivatives, quantitative disclosure about fair value amounts of gains and losses on derivatives, and disclosure about credit-risk-related contingent features in derivative agreements. The disclosure requirements distinguish between derivatives, which are accounted for as hedges , and those that do not qualify for such accounting. Although the Funds at times use derivatives for hedging purposes, the Funds reflect derivatives at fair value and recognize changes in fair value through the Funds Statements of Operations, and such derivatives do not qualify for hedge accounting treatment.

### (a) Swap Agreements

Swap agreements are bilaterally negotiated agreements between the Funds and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market or event-linked returns at specified, future intervals. Swap agreements may be privately negotiated in the over-the-counter market ( OTC swaps ) or may be executed in a multilateral or other trade facility platform, such as a registered commodities exchange ( centrally cleared swaps ). The Funds may enter into credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements in order, among other things, to manage their exposure to credit, currency and interest rate risk. In connection with these agreements, securities or cash may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

OTC swap payments received or made at the beginning of the measurement period, if any, are reflected as such on the Funds Statements of Assets and Liabilities and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront payments

are recorded as realized gains or losses on the Funds' Statements of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Funds' Statements of Operations. Net periodic payments received or paid by the Funds are included as part of realized gains or losses on the Funds' Statements of Operations. Changes in market value, if any, are reflected as a component of

## Notes to Financial Statements

PIMCO Municipal Income Funds II

May 31, 2014

### 3. Financial Derivative Instruments

(continued)

net changes in unrealized appreciation/depreciation on the Funds' Statements of Operations. Daily changes in valuation of centrally cleared swaps, if any, are recorded as a receivable or payable, as applicable, for variation margin on centrally cleared swaps on the Funds' Statements of Assets and Liabilities.

Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognized on the Funds' Statements of Assets and Liabilities. Such risks include the possibility that there will be no liquid market for these agreements, that the counterparties to the agreements may default on their obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

**Interest Rate Swap Agreements** Interest rate swap agreements involve the exchange by the Funds with a counterparty of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments, with respect to the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or cap, (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or floor, (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding

given minimum or maximum levels, (iv) callable interest rate swaps, under which the counterparty may terminate the swap transaction in whole at zero cost by a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different money markets.

### 4. Investment Manager/Sub-Adviser

Each Fund has an Investment Management Agreement (each an Agreement) with the Investment Manager. Subject to the supervision of each Fund's Board, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds' investment activities, business affairs and administrative matters. Pursuant to each Agreement, the Investment Manager receives an annual fee, payable monthly, at an annual rate of 0.65% of each Fund's average daily net assets, inclusive of net assets attributable to any Preferred Shares that were outstanding.

The Investment Manager has retained the Sub-Adviser to manage the Funds' investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds' investment decisions. The Investment Manager, not the Funds, pays a portion of the fees it receives as Investment Manager to the Sub-Adviser in

return for its services.

Please see Note 8 for a discussion of recently approved changes to the Funds' investment management and sub-advisory arrangements.

## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

## 5. Investments in Securities

For the year ended May 31, 2014, purchases and sales of investments, other than short-term securities were:

|           | Municipal II   | California<br>Municipal II | New York<br>Municipal II |
|-----------|----------------|----------------------------|--------------------------|
| Purchases | \$ 167,608,382 | \$ 62,001,350              | \$ 10,063,228            |
| Sales     | 169,754,499    | 65,445,717                 | 15,953,239               |

## 6. Income Tax Information

The tax character of dividends paid was:

|                         | Year Ended May 31, 2014 |                      |                      | Year Ended May 31, 2013 |                      |                      |
|-------------------------|-------------------------|----------------------|----------------------|-------------------------|----------------------|----------------------|
|                         | Ordinary<br>Income      | Tax Exempt<br>Income | Return of<br>Capital | Ordinary<br>Income      | Tax Exempt<br>Income | Return of<br>Capital |
| Municipal II            | \$ 854,779              | \$ 47,167,183        | \$                   | \$ 458,232              | \$ 47,850,296        | \$                   |
| California Municipal II | 748,147                 | 20,391,813           | 2,252,817            | 583,738                 | 21,132,034           | 2,354,016            |
| New York Municipal II   | 155,141                 | 8,647,757            |                      | 76,412                  | 8,787,891            |                      |

At May 31, 2014, the components of distributable earnings were:

|                         | Tax Exempt<br>Income | Capital Loss<br>Carryforwards(1) | Post-October<br>Capital Loss(2) |           |
|-------------------------|----------------------|----------------------------------|---------------------------------|-----------|
|                         |                      |                                  | Short-Term                      | Long-Term |
| Municipal II            | \$ 24,160,410        | \$ 194,203,049                   | \$ 1,608,493                    | \$        |
| California Municipal II |                      | 190,703,638                      | 840,314                         | 272,213   |
| New York Municipal II   | 1,303,231            | 42,879,886                       | 18,080                          | 346,305   |

(1) Capital loss carryforwards available as a reduction, to the extent provided in the regulations, of any future net realized gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

(2) Capital losses realized during the period November 1, 2013 through May 31, 2014 which the Funds elected to defer to the following taxable year pursuant to income tax regulations.

Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses for an unlimited period. Capital losses that are carried forward will retain their character as either short-term or long-term capital losses.

At May 31, 2014, capital loss carryforward amounts were:

|                         | 2015         | 2016      | 2017         | 2018           | No Expiration(3) |           |
|-------------------------|--------------|-----------|--------------|----------------|------------------|-----------|
|                         |              |           |              |                | Short-Term       | Long-Term |
| Municipal II            | \$ 7,912,932 | \$        | \$ 7,955,461 | \$ 164,801,603 | \$ 13,533,053    | \$        |
| California Municipal II | 5,531,398    | 4,849,597 | 18,401,113   | 157,995,404    | 2,619,281        | 1,306,845 |
| New York Municipal II   | 51,848       | 1,171,157 | 2,961,908    | 34,379,048     | 4,315,925        |           |

(3) Carryforward amounts are subject to the provisions of the Regulated Investment Company Modernization Act of 2010.

For the year ended May 31, 2014, Municipal II had capital loss carryforwards which expired in the amount of \$4,473,237.



**Notes to Financial Statements**

## PIMCO Municipal Income Funds II

May 31, 2014

**6. Income Tax Information (continued)**

For the year ended May 31, 2014, permanent book-tax adjustments were:

|                              | Undistributed<br>Net Investment<br>Income | Accumulated<br>Net Realized<br>Gain(Loss) | Paid-in<br>Capital |
|------------------------------|---|---|--------------------|
| Municipal II (a)(b)(c)       | \$ 359,259                                | \$ 4,113,978                              | \$ (4,473,237)     |
| California Municipal II (b)  | 147,644                                   | (147,644)                                 |                    |
| New York Municipal II (a)(b) | 83,807                                    | (83,807)                                  |                    |

These permanent book-tax differences were primarily attributable to:

(a) Different treatment of Inverse Floaters

(b) Different Treatment of swap payments

(c) Expiring Capital Loss Carryforwards

Net investment income, net realized gains or losses and net assets were not affected by these adjustments.

At May 31, 2014, the aggregate cost basis and the net unrealized appreciation of investments for federal income tax purposes were:

|                         | Federal Tax<br>Cost Basis | Unrealized<br>Appreciation | Unrealized<br>Depreciation | Net<br>Unrealized<br>Appreciation |
|-------------------------|---------------------------|----------------------------|----------------------------|-----------------------------------|
| Municipal II            | \$ 988,460,225            | \$ 99,746,802              | \$ 6,476,335               | \$ 93,270,467                     |
| California Municipal II | 378,053,142               | 56,550,681                 | 192,314                    | 56,358,367                        |
| New York Municipal II   | 182,925,150               | 16,248,849                 | 2,227,997                  | 14,020,852                        |

Differences between book and tax cost basis were attributable to Inverse Floater transactions and wash sale deferrals.

**7. Auction-Rate Preferred Shares**

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Municipal II has 2,936 shares of Preferred Shares Series A, 2,936 shares of Preferred Shares Series B, 2,936 shares of Preferred Shares Series C, 2,936 shares of Preferred Shares Series D, and 2,936 shares of Preferred Shares Series E outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

California Municipal II has 1,304 shares of Preferred Shares Series A, 1,304 shares of Preferred Shares Series B, 1,304 shares of Preferred Shares Series C, 1,304 shares of Preferred Shares Series D, and 1,304 shares of

Preferred Shares Series E outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

New York Municipal II has 1,580 shares of Preferred Shares Series A and 1,580 shares of Preferred Shares Series B outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

Dividends are accumulated daily at an annual rate that is typically re-set every seven days. Distributions of net realized capital gains, if any, are paid annually.

## Notes to Financial Statements

### PIMCO Municipal Income Funds II

May 31, 2014

#### 7. Auction-Rate Preferred Shares (continued)

For the year ended May 31, 2014, the annualized dividend rates ranged from:

|                                 | High   | Low    | At May 31, 2014 |
|---------------------------------|--------|--------|-----------------|
| <u>Municipal II:</u>            |        |        |                 |
| Series A                        | 0.246% | 0.066% | 0.131%          |
| Series B                        | 0.246% | 0.066% | 0.131%          |
| Series C                        | 0.246% | 0.066% | 0.131%          |
| Series D                        | 0.246% | 0.066% | 0.131%          |
| Series E                        | 0.246% | 0.066% | 0.131%          |
| <u>California Municipal II:</u> |        |        |                 |
| Series A                        | 0.246% | 0.066% | 0.131%          |
| Series B                        | 0.246% | 0.066% | 0.131%          |
| Series C                        | 0.246% | 0.066% | 0.131%          |
| Series D                        | 0.246% | 0.066% | 0.131%          |
| Series E                        | 0.246% | 0.066% | 0.131%          |
| <u>New York Municipal II:</u>   |        |        |                 |
| Series A                        | 0.246% | 0.066% | 0.131%          |
| Series B                        | 0.246% | 0.066% | 0.131%          |

The Funds are subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring or paying any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation preference plus any accumulated, unpaid dividends.

Preferred shareholders, who are entitled to one vote per share, generally vote together with the common shareholders but vote separately as a class to elect two Trustees and on certain matters adversely affecting the rights of the Preferred Shares.

Since mid-February 2008, holders of auction-rate preferred shares ( ARPS ) issued by the Funds have been directly impacted by lack of liquidity, which has similarly affected ARPS holders in many of the nation's closed-end

funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and the ARPS holders have continued to receive dividends at the defined

maximum rate equal to the higher of the 30-day AA Composite Commercial Paper Rate multiplied by a minimum of 110% or the Taxable Equivalent of the Short-Term Municipal Obligations Rate-defined as 90% of the quotient of (A) the per annum rate expressed on an interest equivalent basis equal to the S&P Municipal Bond 7-day High Grade Rate Index divided by (B) 1.00 minus the Marginal Tax Rate (expressed as a decimal) multiplied by a

**7. Auction-Rate Preferred Shares (continued)**

minimum of 110% (which is a function of short-term interest rates). As of May 31, 2014 the current multiplier for calculating the maximum rate is 110%. If the Funds' ARPS auctions continue to fail and the maximum rate

payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Funds' common shareholders could be adversely affected.

**8. Subsequent Events**

In preparing these financial statements, the Funds' management has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

On June 2, 2014, the following dividends were declared to common shareholders payable July 1, 2014 to shareholders of record on June 12, 2014.

|                         |                            |
|-------------------------|----------------------------|
| Municipal II            | \$0.065 per common share   |
| California Municipal II | \$0.05375 per common share |
| New York Municipal II   | \$0.06625 per common share |

On July 1, 2014, the following dividends were declared to common shareholders payable August 1, 2014 to shareholders of record on July 11, 2014.

|                         |                            |
|-------------------------|----------------------------|
| Municipal II            | \$0.065 per common share   |
| California Municipal II | \$0.05375 per common share |
| New York Municipal II   | \$0.06625 per common share |

At a special meeting of shareholders held on July 10, 2014 (following an earlier adjournment), each Fund's shareholders approved a new investment management agreement (the Agreement) between the Fund and PIMCO, pursuant to which PIMCO will replace AGIFM as the investment manager to the Funds. Under the Agreement, PIMCO will continue to provide the day-to-day portfolio management services it currently provides to the Funds as their sub-adviser and will also assume responsibility for the supervisory and administrative services currently provided by AGIFM to the Funds as their investment manager. The same investment professionals that are currently responsible for managing the Funds' portfolios will continue to do so following the proposed transition, and PIMCO personnel will replace AGIFM personnel as Fund officers and in other roles to provide and oversee the administrative, accounting/financial reporting, compliance, legal, marketing, transfer

agency, shareholder servicing and other services required for the daily operations of the Funds. The Agreement will become effective at a date and time mutually agreeable to the Funds, PIMCO and AGIFM (the Transition Date) in order to effect an efficient transition for the Funds and their shareholders. The Transition Date will be announced at a later date.

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Although the management fee rate to be paid to PIMCO by each Fund under the Agreement is higher than the management fee rate imposed under the corresponding current agreement, the unified fee arrangement under the Agreement covers the Funds' portfolio management and administrative services covered under the current agreement and also requires PIMCO, at its expense, to procure most other supervisory and administrative services required by the Funds that are currently paid for or incurred by the Funds directly outside of the current agreements.

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**Financial Highlights**

## PIMCO Municipal Income Fund II

For a common share outstanding throughout each year:

|   | 2014      | 2013                    | Year ended May 31,<br>2012 | 2011                 | 2010                    |
|---|-----------|-------------------------|----------------------------|----------------------|-------------------------|
| Net asset value, beginning of year  | \$12.17   | \$11.91                 | \$10.12                    | \$10.77              | \$8.97                  |
| <b>Investment Operations:</b>   |           |                         |                            |                      |                         |
| Net investment income   | 0.81      | 0.82                    | 0.88                       | 0.91                 | 0.88                    |
| Net realized and change in unrealized gain (loss)   | (0.25)    | 0.23                    | 1.70                       | (0.75)               | 1.73                    |
| Total from investment operations  | 0.56      | 1.05                    | 2.58                       | 0.16                 | 2.61                    |
| <b>Dividends on Preferred Shares from Net Investment Income</b>                                   | (0.01)    | (0.01)                  | (0.01)                     | (0.03)               | (0.03)                  |
| Net increase in net assets applicable to common shareholders resulting from investment operations | 0.55      | 1.04                    | 2.57                       | 0.13                 | 2.58                    |
| <b>Dividends to Common Shareholders from Net Investment Income</b>                                | (0.78)    | (0.78)                  | (0.78)                     | (0.78)               | (0.78)                  |
| Net asset value, end of year  | \$11.94   | \$12.17                 | \$11.91                    | \$10.12              | \$10.77                 |
| Market price, end of year   | \$12.25   | \$12.19                 | \$12.54                    | \$10.45              | \$11.12                 |
| <b>Total Investment Return</b> <sup>(1)</sup>   | 7.76%     | 3.41%                   | 28.70%                     | 1.30%                | 25.49%                  |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>  |           |                         |                            |                      |                         |
| Net assets, applicable to common shareholders, end of year (000s)                                 | \$730,088 | \$741,368               | \$722,161                  | \$610,800            | \$645,589               |
| Ratio of expenses to average net assets, including interest expense <sup>(2)(3)</sup>             | 1.21%     | 1.16% <sup>(4)(5)</sup> | 1.19% <sup>(4)(5)</sup>    | 1.37% <sup>(4)</sup> | 1.38% <sup>(4)(5)</sup> |
| Ratio of expenses to average net assets, excluding interest expense <sup>(2)</sup>                | 1.16%     | 1.11% <sup>(4)(5)</sup> | 1.11% <sup>(4)(5)</sup>    | 1.24% <sup>(4)</sup> | 1.24% <sup>(4)(5)</sup> |
| Ratio of net investment income to average net assets <sup>(2)</sup>                               | 7.22%     | 6.74% <sup>(5)</sup>    | 8.04% <sup>(5)</sup>       | 8.80%                | 8.77% <sup>(5)</sup>    |
| Preferred shares asset coverage per share   | \$74,733  | \$75,501                | \$74,192                   | \$66,606             | \$68,974                |
| Portfolio turnover rate   | 16%       | 16%                     | 26%                        | 21%                  | 6%                      |

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Interest expense relates to the liability for Floating Rate Notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.
- (4) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(I) in Notes to Financial Statements).
- (5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.006%, 0.07% and 0.004% for the years ended May 31, 2013, May 31, 2012 and May 31, 2010, respectively.

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**Financial Highlights**

## PIMCO California Municipal Income Fund II

For a common share outstanding throughout each year:

|   | 2014      | 2013                    | Year ended May 31,<br>2012 | 2011                 | 2010                    |
|---|-----------|-------------------------|----------------------------|----------------------|-------------------------|
| Net asset value, beginning of year  | \$8.93    | \$8.65                  | \$7.38                     | \$8.11               | \$7.48                  |
| <b>Investment Operations:</b>   |           |                         |                            |                      |                         |
| Net investment income   | 0.68      | 0.69                    | 0.71                       | 0.74                 | 0.76                    |
| Net realized and change in unrealized gain (loss)   | (0.26)    | 0.35                    | 1.32                       | (0.70)               | 0.67                    |
| Total from investment operations  | 0.42      | 1.04                    | 2.03                       | 0.04                 | 1.43                    |
| <b>Dividends on Preferred Shares from Net Investment Income</b>                                   | (0.01)    | (0.01)                  | (0.01)                     | (0.02)               | (0.03)                  |
| Net increase in net assets applicable to common shareholders resulting from investment operations | 0.41      | 1.03                    | 2.02                       | 0.02                 | 1.40                    |
| <b>Dividends and Distributions to Common Shareholders from:</b>                                   |           |                         |                            |                      |                         |
| Net investment income   | (0.66)    | (0.68)                  | (0.70)                     | (0.75)               | (0.77)                  |
| Return of capital   | (0.07)    | (0.07)                  | (0.05)                     |                      |                         |
| <b>Total dividends and distributions to shareholders</b>  | (0.73)    | (0.75)                  | (0.75)                     | (0.75)               | (0.77)                  |
| Net asset value, end of year  | \$8.61    | \$8.93                  | \$8.65                     | \$7.38               | \$8.11                  |
| Market price, end of year   | \$9.52    | \$10.51                 | \$10.15                    | \$9.21               | \$9.33                  |
| <b>Total Investment Return</b> <sup>(1)</sup>   | (1.76)%   | 11.41%                  | 19.59%                     | 7.53%                | 16.44%                  |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>  |           |                         |                            |                      |                         |
| Net assets, applicable to common shareholders, end of year (000s)                                 | \$273,289 | \$282,181               | \$272,570                  | \$231,486            | \$252,816               |
| Ratio of expenses to average net assets, including interest expense <sup>(2)(3)</sup>             | 1.41%     | 1.34% <sup>(4)(5)</sup> | 1.44% <sup>(4)(5)</sup>    | 1.55% <sup>(4)</sup> | 1.56% <sup>(4)(5)</sup> |
| Ratio of expenses to average net assets, excluding interest expense <sup>(2)</sup>                | 1.30%     | 1.23% <sup>(4)(5)</sup> | 1.24% <sup>(4)(5)</sup>    | 1.37% <sup>(4)</sup> | 1.33% <sup>(4)(5)</sup> |
| Ratio of net investment income to average net assets <sup>(2)</sup>                               | 8.51%     | 7.65% <sup>(5)</sup>    | 8.99% <sup>(5)</sup>       | 9.73%                | 9.78% <sup>(5)</sup>    |
|   | \$66,915  | \$68,279                | \$66,804                   | \$60,503             | \$63,773                |

|   |     |     |     |     |    |
|---|-----|-----|-----|-----|----|
| Preferred shares asset coverage per share |     |     |     |     |    |
| Portfolio turnover rate                   | 14% | 13% | 25% | 15% | 9% |

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Interest expense relates to the liability for Floating Rate Notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.
- (4) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(I) in Notes to Financial Statements).
- (5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.006%, 0.08% and 0.004% for the years ended May 31, 2013, May 31, 2012 and May 31, 2010, respectively.

See accompanying Notes to Financial Statements | May 31, 2014 | Annual Report **51**

**Financial Highlights**

## PIMCO New York Municipal Income Fund II

For a common share outstanding throughout each year:

|   | 2014      | 2013                    | Year ended May 31,<br>2012 | 2011                 | 2010                    |
|---|-----------|-------------------------|----------------------------|----------------------|-------------------------|
| Net asset value, beginning of year  | \$11.32   | \$11.37                 | \$10.10                    | \$10.90              | \$9.56                  |
| <b>Investment Operations:</b>   |           |                         |                            |                      |                         |
| Net investment income   | 0.75      | 0.79                    | 0.85                       | 0.88                 | 0.98                    |
| Net realized and change in unrealized gain (loss)   | (0.28)    | (0.02)                  | 1.24                       | (0.85)               | 1.19                    |
| Total from investment operations  | 0.47      | 0.77                    | 2.09                       | 0.03                 | 2.17                    |
| <b>Dividends on Preferred Shares from Net Investment Income</b>                                   |           |                         |                            |                      |                         |
|   | (0.01)    | (0.02)                  | (0.02)                     | (0.03)               | (0.03)                  |
| Net increase in net assets applicable to common shareholders resulting from investment operations | 0.46      | 0.75                    | 2.07                       | 0.00                 | 2.14                    |
| <b>Dividends to Common Shareholders from Net Investment Income</b>                                |           |                         |                            |                      |                         |
|   | (0.80)    | (0.80)                  | (0.80)                     | (0.80)               | (0.80)                  |
| Net asset value, end of year  | \$10.98   | \$11.32                 | \$11.37                    | \$10.10              | \$10.90                 |
| Market price, end of year   | \$12.01   | \$12.01                 | \$12.29                    | \$10.92              | \$11.42                 |
| <b>Total Investment Return</b> <sup>(1)</sup>   | 7.83%     | 4.14%                   | 20.97%                     | 3.03%                | 19.92%                  |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>  |           |                         |                            |                      |                         |
| Net assets, applicable to common shareholders, end of year (000s)                                 | \$120,520 | \$123,685               | \$123,667                  | \$109,256            | \$117,161               |
| Ratio of expenses to average net assets, including interest expense <sup>(2)(3)</sup>             | 1.51%     | 1.42% <sup>(4)(5)</sup> | 1.45% <sup>(4)(5)</sup>    | 1.55% <sup>(4)</sup> | 1.53% <sup>(4)(5)</sup> |
| Ratio of expenses to average net assets, excluding interest expense <sup>(2)</sup>                | 1.45%     | 1.33% <sup>(4)(5)</sup> | 1.36% <sup>(4)(5)</sup>    | 1.44% <sup>(4)</sup> | 1.43% <sup>(4)(5)</sup> |
| Ratio of net investment income to average net assets <sup>(2)</sup>                               | 7.30%     | 6.78% <sup>(5)</sup>    | 7.86% <sup>(5)</sup>       | 8.46%                | 9.51% <sup>(5)</sup>    |
| Preferred shares asset coverage per share   | \$63,139  | \$64,140                | \$64,135                   | \$59,574             | \$62,073                |
| Portfolio turnover rate   | 5%        | 25%                     | 18%                        | 7%                   | 5%                      |

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Interest expense relates to the liability for Floating Rate Notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.
- (4) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(I) in Notes to Financial Statements).
- (5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.006%, 0.08% and 0.004% for the years ended May 31, 2013, May 31, 2012 and May 31, 2010, respectively.

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**Report of Independent Registered Public Accounting Firm**

PIMCO Municipal Income Funds II

**To the Shareholders and Board of Trustees of**

**PIMCO Municipal Income Fund II,**

**PIMCO California Municipal Income Fund II and**

**PIMCO New York Municipal Income Fund II**

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of PIMCO Municipal Income Fund II, PIMCO California Municipal Income Fund II and PIMCO New York Municipal Income Fund II (collectively hereafter referred to as the Funds ) at May 31, 2014, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements ) are the responsibility of the Funds management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at May 31, 2014 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York

July 23, 2014

## Tax Information

### PIMCO Municipal Income Funds II (unaudited)

As required by the Internal Revenue Code, shareholders must be notified regarding certain tax attributes of distributions made by each Fund.

For the year ended May 31, 2014, the Funds designate the following percentages of the ordinary income dividends (or such greater percentages that constitute the maximum amount allowable pursuant to code sections 103(a) and 852(b)(5), as exempt-interest dividends which are exempt from federal income tax other than the alternative minimum tax.

|                         |        |
|-------------------------|--------|
| Municipal II            | 98.22% |
| California Municipal II | 96.46% |
| New York Municipal II   | 98.24% |

Since the Funds' tax year is not the calendar year, another notification will be sent with respect to calendar year 2014. In January 2015, shareholders will be advised on IRS Form 1099-DIV as to the federal tax status of the dividends and distributions received during calendar year 2014. The amount that will be reported will be the amount to use on the shareholder's 2014 federal income tax return and may differ from the amount which must be reported in connection with the Funds' tax year ended May 31, 2014. Shareholders are advised to consult their tax advisers as to the federal, state and local tax status of the dividend income received from the Funds. In January 2014, an allocation of interest income by state will be provided which may be of value in reducing a shareholder's state and local tax liability, if any.

## Annual Shareholder Meeting Results/Corporate Change

PIMCO Municipal Income Funds II (unaudited)

### Annual Shareholder Meeting Results:

The Funds held their annual meetings of shareholders on December 18, 2013. Common/Preferred shareholders voted as indicated below:

|  | Affirmative | Withheld Authority |
|--|-------------|--------------------|
| <b><u>Municipal II</u></b>   |             |                    |
| Re-election of Deborah A. DeCotis Class II to serve until the Annual Meeting for the 2016-2017 fiscal year | 51,489,961  | 4,273,544          |
| Re-election of James A. Jacobson* Class II to serve until the Annual Meeting for the 2016-2017 fiscal year | 11,484      | 354                |
| <b><u>California Municipal II</u></b>  |             |                    |
| Re-election of Deborah A. DeCotis Class II to serve until the Annual Meeting for the 2016-2017 fiscal year | 25,105,447  | 1,809,442          |
| Re-election of James A. Jacobson* Class II to serve until the Annual Meeting for the 2016-2017 fiscal year | 3,971       | 274                |
| <b><u>New York Municipal II</u></b>  |             |                    |
| Re-election of Deborah A. DeCotis Class II to serve until the Annual Meeting for the 2016-2017 fiscal year | 9,324,548   | 562,894            |
| Re-election of James A. Jacobson* Class II to serve until the Annual Meeting for the 2016-2017 fiscal year | 2,445       | 58                 |

The other members of the Board of Trustees at the time of the meeting, namely, Messrs. Bradford K. Gallagher, Hans W. Kertess\*, William B. Ogden, IV, John C. Maney, and Alan Rappaport continued to serve as Trustees of the Funds.

\* Preferred Shares Trustee  
Interested Trustee

### Corporate Change:

On March 14, 2014, Julian Sluyters became President and Chief Executive Officer of each Fund.

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**Matters Relating to the Trustees Consideration of the Investment Management Agreement****PIMCO Municipal Income Funds II**

At a meeting of the Board of Trustees of each Fund (the Board or the Trustees ) on December 10, 2013, the Board received a preliminary presentation from PIMCO regarding the proposed transition of the Funds investment management and administrative services from AGIFM to PIMCO and agreed that PIMCO should prepare materials regarding the proposed investment management agreement between PIMCO and the Funds (the Proposed Agreement ) and related arrangements for formal consideration at the Board s next regularly scheduled meeting. On February 4, 2014, the Board held a special in-person meeting with members of PIMCO s senior management and other PIMCO personnel proposed to serve as officers of the Funds to discuss the proposed transition. On February 25, 2014, the non-interested Trustees (the Independent Trustees ) met separately via conference call with their counsel to discuss materials provided by PIMCO regarding the Proposed Agreement and related arrangements, and representatives from PIMCO attended a portion of that meeting to respond to questions from the Independent Trustees and to field requests for supplemental information regarding the proposed arrangements. The Board then held an in-person meeting with management on March 10-11, 2014 to consider approval of the Proposed Agreement and related arrangements (the meetings of the Board discussed herein collectively referred to as the Meetings ). Following careful consideration of the matter as described in more detail herein, the Board of each Fund, including all of the Independent Trustees, approved the Proposed Agreement for the Fund for an initial one-year term, subject to approval of the Proposed Agreement for the Fund by its shareholders. The information, material factors and conclusions that formed the basis for the Board s approvals for each Fund are described below. As noted, the Independent Trustees were assisted in their

evaluation of the Proposed Agreement by independent legal counsel, from whom they received separate legal advice and with whom they met separately from Fund management during the Meetings.

In connection with their deliberations regarding the approval of the Proposed 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. As described below, the Trustees considered the nature, quality and extent of the various investment management, administrative and other services to be provided to each Fund by PIMCO under the Proposed Agreement.

In connection with the Meetings, the Trustees received and relied upon materials provided by PIMCO (or AGIFM, as applicable) which included, among other items: (i) information provided by Lipper Inc. ( Lipper ), an independent third party, on the total return investment performance (based on net assets) of the Funds for various time periods, the investment performance of a group of funds with investment classifications/objectives comparable to those of the Funds identified by Lipper (the Lipper performance universe ) and the performance of an applicable benchmark index, (ii) information provided by Lipper on the Funds management fees under the investment management agreement between each Fund and AGIFM (the Current Agreements ) and other expenses and the management fees and other expenses of comparable funds identified by Lipper, (iii) information provided by PIMCO on the Funds proposed management fee rates and total expense ratios under the Proposed Agreement in comparison to data provided by Lipper on the management fees and total expense ratios of comparable funds identified by Lipper, (iv) information on the aggregate management fees and total expenses paid by



**Matters Relating to the Trustees Consideration of the Investment Management Agreement (continued)**

PIMCO Municipal Income Funds II

each Fund under its Current Agreement during calendar year 2013 and the *pro forma* aggregate management fees and total expenses that would have been paid by each Fund under the Proposed Agreement during calendar year 2013, (v) information regarding the investment performance and fees for other funds managed by PIMCO with similar investment strategies to those of the Funds, (vi) the estimated profitability to AGIFM as investment manager to the Funds for the one-year period ended December 31, 2012, and to PIMCO as sub-adviser to the Funds for the one-year periods ended December 31, 2012 and 2013, (vii) estimates of what the profitability to PIMCO would have been under the Proposed Agreement for the one-year period ended December 31, 2013 and what the profitability to PIMCO under the Proposed Agreement is estimated to be for the calendar years ending December 31, 2014, 2015 and 2016, (viii) information provided by PIMCO on each Fund's risk-adjusted returns, total returns and yield over various time periods, (ix) descriptions of various functions and services to be performed or procured by PIMCO for the Funds under the Proposed Agreement, such as portfolio management, compliance monitoring, portfolio trading, custody, transfer agency, dividend disbursement, recordkeeping, tax, legal, audit, valuation and other administrative and shareholder services and (x) information regarding the overall organization of PIMCO, including information regarding senior management, portfolio managers and other personnel who will provide investment management, administrative and other services to the Funds under the Proposed Agreement.

The Trustees' conclusions as to the approval of the Proposed Agreement for each Fund were based on a comprehensive consideration of all information provided to the Trustees and were 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, attributing different weights to various factors.

As part of their review, the Trustees examined PIMCO's ability to provide high quality investment management and other services to the Funds. Among other information, the Trustees considered the investment philosophy and research and decision-making processes of PIMCO; the experience of key advisory personnel of PIMCO responsible for portfolio management of the Funds; the ability of PIMCO to attract and retain capable personnel; and the capability of the senior management and staff of PIMCO. In addition, the Trustees reviewed the quality of PIMCO's services with respect to regulatory compliance and compliance with the investment policies of the Funds and conditions that might affect PIMCO's ability to provide high quality services to the Funds in the future under the Proposed Agreement, including PIMCO's financial condition and operational stability. The Trustees took into account their familiarity and experience with PIMCO as the sub-adviser and portfolio manager for each Fund to date, and noted that the same investment professionals who are currently responsible for managing each Fund's portfolio will continue to do so following the proposed transition. They further noted that each Fund will continue to have the same investment objective(s) and policies following the proposed transition.

The Trustees also considered the nature of certain supervisory and administrative services that PIMCO would be responsible for providing to the Funds under the Proposed Agreement. The Trustees noted PIMCO's belief that a number of operational and administrative efficiencies are expected to result from the arrangements under the Proposed Agreement. The Trustees considered PIMCO's representation that it could offer the Funds an integrated set of high-quality investment



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**Matters Relating to the Trustees Consideration of the Investment Management Agreement** (continued)

## PIMCO Municipal Income Funds II

management, administrative and distribution/aftermarket support services under a single platform, which PIMCO believes will allow for greater efficiencies and enhanced coordination among various investment management and administrative functions. The Trustees also took into account that the fund administration group at PIMCO, then comprised of approximately 140 professionals worldwide, provided administrative services for approximately \$860 billion in assets under management globally (as of October 31, 2013), including over 150 PIMCO open-end funds and ETFs which, like the Funds, are U.S. registered investment companies, and that PIMCO has substantial prior experience in the administration of U.S. registered closed-end funds. The Trustees also considered PIMCO's representation that the PIMCO fund administration group is well integrated with all critical functions related to the PIMCO funds business, including portfolio management, compliance, legal, accounting and tax, account management, marketing, shareholder communications/services and technology, and noted PIMCO's belief that the Funds and their shareholders will benefit by having all such services provided under one roof by the highly experienced team at PIMCO. Moreover, the Trustees noted that the proposed PIMCO-only management structure for the Funds aligns with the two pillar approach adopted by Allianz SE with respect to other PIMCO and Allianz Global Investors products globally, and considered PIMCO's view that the change will facilitate clearer branding and marketing of the Funds and will help to avoid potential confusion among intermediaries, analysts and investors as to whether the Funds are PIMCO and/or Allianz Global Investors products. Based on the foregoing, the Trustees concluded that PIMCO's investment process, research capabilities and philosophy were well suited to each Fund given its investment objective and policies, and that PIMCO would be able to provide high quality supervisory and administrative services to the Funds and meet any reasonably foreseeable obligations under the Proposed Agreement.

In assessing the reasonableness of each Fund's proposed unified management fee rate under the Proposed Agreement, the Trustees considered, among other information, (i) each Fund's current and proposed contractual management fee rate, (ii) each Fund's total expense ratio under its Current Agreement and under the Proposed Agreement calculated on average net assets and on average managed assets, taking into account the effects of the Fund's leverage outstanding for calendar year 2013, and (iii) the aggregate management fees and estimated total expenses paid by each Fund under its Current Agreement during calendar year 2013 and estimates of the *pro forma* aggregate management fees and total expenses that would have been paid by each Fund under the Proposed Agreement if it had been in place during calendar year 2013. In this regard, the Trustees noted that, although the proposed management fee rate to be paid to PIMCO by each Fund under the Proposed Agreement is higher than the management fee rate imposed under the corresponding Current Agreement, the proposed unified fee arrangement under the Proposed Agreement covers the Fund's portfolio management and administrative services covered under the Current Agreement and also requires PIMCO, at its expense, to procure most other supervisory and administrative services required by the Funds that are currently paid for or incurred by the Funds directly outside of the Current Agreements (such fees and expenses, Operating Expenses).

In addition, the Trustees took into account PIMCO's explanation that, in determining the proposed unified management fee rate to be paid to PIMCO by each Fund under the Proposed Agreement, PIMCO reviewed the Fund's total expenses, including its current contractual management fee and other

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**Matters Relating to the Trustees Consideration of the Investment Management Agreement (continued)**

PIMCO Municipal Income Funds II

expenses currently borne by the Fund outside of the applicable Current Agreement, and the Fund's leverage outstanding during calendar year 2013, and proposed a management fee rate that PIMCO estimated would result in the Fund's total expenses paid by common shareholders being lower under the Proposed Agreement than under the corresponding Current Agreement (based on calendar year 2013 expenses). The Trustees noted that PIMCO estimated that the proposed new arrangement would result in an overall savings to common shareholders of each Fund under ordinary circumstances. The Trustees further considered PIMCO's explanation that, in developing the proposed unified fee structure for each Fund, PIMCO, after discussions with the Board, determined a 20% reduction to the Fund's actual Operating Expenses for calendar year 2013, converted that amount to basis points and rounded to the next lowest half or whole basis point in arriving at a proposed unified fee rate for the Fund. The Board considered PIMCO's statement that the proposed unified fee rates are designed to allow the Funds and their common shareholders to share up front in operational efficiencies PIMCO will attempt to realize with respect to the Funds' Operating Expenses as a result of the proposed transition.

The Trustees also took into account other expected benefits to shareholders of the proposed unified fee structure under the Proposed Agreement. In this regard, the Trustees noted PIMCO's view that the proposed new unified fee structure would be beneficial for common shareholders because it provides a management fee (including Operating Expenses) structure that is essentially fixed as a percentage of managed assets, making it more predictable under ordinary circumstances in comparison to the current fee and expense structure, under which the Funds' Operating Expenses (including certain third-party fees and expenses) not covered by the Current

Agreements can vary over time. The Trustees also considered that the proposed unified fee structure generally insulates the Funds and common shareholders from increases in applicable third-party and certain other expenses because PIMCO, rather than the Funds, would bear the risk of such increases (though the Trustees also noted that PIMCO would benefit from any reductions in such expenses).

The Trustees also considered the management fees charged by PIMCO to other funds with similar strategies to those of the Funds, including open-end funds advised by PIMCO. The Trustees noted that the management fees proposed to be paid by the Funds are generally higher than the fees paid by the open-end funds offered for comparison, but were advised by PIMCO that there are additional portfolio management challenges in managing closed-end funds such as the Funds, such as those associated with the use of leverage and attempting to meet a regular dividend. The Trustees were advised that PIMCO does not manage any institutional or separate accounts which have an investment strategy or return profile bearing any reasonable similarity to the Funds.

The Trustees also took into account that each of the Funds has preferred shares outstanding, which increases the amount of management fees payable by the Funds under both the Current Agreements and the Proposed Agreement (because each Fund's fees are calculated, and under the Proposed Agreement would continue to be calculated, based on the Fund's net assets, including any assets attributable to preferred shares outstanding). The Trustees took into account that, under both the Current Agreements and the Proposed Agreement, PIMCO has a financial incentive for the Funds to have preferred shares outstanding, which may create a conflict of interest between PIMCO, on the one hand, and the Funds



**Matters Relating to the Trustees Consideration of the Investment Management Agreement** (continued)

PIMCO Municipal Income Funds II

common shareholders, on the other. The Trustees further noted that this incentive will be greater under the Proposed Agreement in comparison to the Current Agreements because the contractual management fee rates under the Proposed Agreement are higher for each Fund than under its Current Agreement, and the total fees paid to PIMCO under the Proposed Agreement will therefore vary more with increases and decreases in applicable leverage incurred by a Fund than under the Current Agreements. In this regard, the Trustees considered information provided by PIMCO and related presentations as to why each Fund's use of leverage continues to be appropriate and in the best interests of the respective Fund under current market conditions. The Trustees also considered PIMCO's representation that it will use leverage for the Funds solely as it determines to be in the best interests of the Funds from an investment perspective and without regard to the level of compensation PIMCO receives.

With respect to each Fund, the Trustees reviewed, among other information, comparative information showing the proposed unified fee rate of the Fund under the Proposed Agreement, calculated both on average net assets and on average managed assets, against its Lipper expense group and the Fund's estimated total expense ratio (excluding interest expense) calculated on average net assets and average managed assets under the Proposed Agreement against its Lipper expense group. It was noted that the total expense ratio comparisons reflect the effect of expense waivers/reimbursements (although none were proposed for the Funds). The Trustees noted that only leveraged closed-end funds were considered for inclusion in the Lipper expense groups presented for comparison with the Funds.

The Trustees noted that, for each Fund the proposed unified fee rate for the Fund was

above the median management fee of the other funds in its expense group provided by Lipper, considered both calculated on average net assets and on average managed assets. However, in this regard, the Trustees took into account that each Fund's proposed unified management fee rate covers substantially all of the Fund's Operating Expenses and therefore would tend to be higher than the management fee rates of other funds in the expense groups provided by Lipper, which generally do not have a unified fee structure and bear Operating Expenses separately in addition to the management fee. The Trustees determined that a review of each Fund's total expense ratio with the total expense ratios of peer funds would generally provide more meaningful comparisons than considering contractual management fee rates in isolation.

The Trustees also reviewed, among other information, comparative information showing the total return performance of common shares of each Fund (based on net asset value) against its Lipper performance universe for the one-year, three-year, five-year and ten-year periods ended December 31, 2013. Fund-specific performance results for the Funds reviewed by the Trustees are discussed below.

The following summarizes comparative performance and fee and expense information considered for each Fund. The comparative performance information was prepared and provided by Lipper and was not independently verified by the Trustees. Due to the passage of time, these performance results may differ from the performance results for more recent periods.

The comparative expense information reviewed by the Trustees was based on information provided by PIMCO with respect to the Funds and information provided by Lipper with respect to the other funds in the expense



**Matters Relating to the Trustees Consideration of the Investment Management Agreement (continued)**

PIMCO Municipal Income Funds II

groups. The total expense ratio information for each Fund discussed below was estimated by PIMCO assuming that the Proposed Agreement had been in effect for the 2013 calendar year, taking into account the effects of the Fund's leverage outstanding for calendar year 2013. The fee and expense information was prepared and provided by Lipper or PIMCO (as noted) and was not independently verified by the Trustees.

**Municipal Income II**

With respect to the Fund's common share total return performance (based on net asset value) relative to its respective Lipper performance universe, the Trustees noted that the Fund had third quintile performance for the one-year period, first quintile performance for the three-year and five-year periods and fifth quintile performance for the ten-year period ended December 31, 2013.

The Trustees noted that the expense group for the Fund provided by Lipper consisted of a total of nine closed-end funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the group ranged from \$277.2 million to \$748.6 million, and that none of the funds in the group were larger in assets size than the Fund. With respect to the Fund's estimated total expense ratio (excluding interest expense) calculated on average net assets, the Trustees noted that the Fund's estimated total expense ratio was above the median total expense ratio of the group of funds presented for comparison.

**California Municipal Income II**

With respect to the Fund's common share total return performance (based on net asset value) relative to its respective Lipper performance universe, the Trustees noted that the Fund had fifth quintile performance for the one-year period, first quintile performance for the three-

year and five-year periods and fifth quintile performance for the ten-year period ended December 31, 2013.

The Trustees noted that the expense group for the Fund provided by Lipper consisted of a total of seven closed-end funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the group ranged from \$33.1 million to \$481.0 million, and that two of the funds in the group were larger in asset size than the Fund. With respect to the Fund's estimated total expense ratio (excluding interest expense) calculated on average net assets, the Trustees noted that the Fund's estimated total expense ratio was above the median total expense ratio of the group of funds presented for comparison.

**New York Municipal Income II**

With respect to the Fund's common share total return performance (based on net asset value) relative to its respective Lipper performance universe, the Trustees noted that the Fund had fifth quintile performance for the one-year period, first quintile performance for the three-year and five-year periods and fifth quintile performance for the ten-year period ended December 31, 2013.

The Trustees noted that the expense group for the Fund provided by Lipper consisted of a total of six closed-end funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the group ranged from \$69.1 million to \$275.7 million, and that two of the funds in the group were larger in asset size



than the Fund. With respect to the Fund's estimated total expense ratio (excluding interest expense) calculated on average net assets, the Trustees noted that the Fund's estimated total expense ratio was above the median total expense ratio of the group of funds presented for comparison.

**Matters Relating to the Trustees Consideration of the Investment Management Agreement (continued)**

PIMCO Municipal Income Funds II

In addition to their review of Fund performance based on net asset value, the Trustees also considered the market value performance of each Fund's common shares and related share price premium and/or discount information based on the materials provided by Lipper and PIMCO.

The Trustees also considered profitability analyses provided by PIMCO, which included the estimated profitability to AGIFM as investment manager to the Funds for the one-year period ended December 31, 2012 (such estimate having been prepared by AGIFM); estimated profitability to PIMCO as sub-adviser to the Funds for the one-year periods ended December 31, 2012 and 2013; *pro forma* estimated profitability to PIMCO for the one-year period ended December 31, 2013 assuming the Proposed Agreement had been in effect; and *pro forma* estimated profitability to PIMCO under the Proposed Agreement for the calendar years ending December 31, 2014, 2015 and 2016. PIMCO provided profitability estimates under the Proposed Agreement reflecting a range of assumptions as to the allocation of internal expenses to its management of the Funds versus other types of products and services, and also estimated profitability both reflecting and not reflecting ongoing shareholder servicing and support payments PIMCO has made or will make to third parties with respect to the Funds. Based on the profitability analyses provided by PIMCO, the Trustees determined, taking into account the various assumptions made, that such profitability did not appear to be excessive.

The Trustees also took into account that, as closed-end Funds, the Funds do not currently intend to raise additional assets, so the assets of the Funds will grow (if at all) principally through the investment performance of each Fund. Therefore, the Trustees did not consider potential economies of scale as a principal factor in assessing the fee rates payable by each

Fund under the Proposed Agreement, although they did take into account that the proposed unified fee rates reflect estimated reductions in Operating Expenses designed to allow the Funds to share up front in operational efficiencies PIMCO will attempt to realize as a result of the proposed transition.

Additionally, the Trustees considered so-called "fall-out benefits" to PIMCO, such as reputational value derived from serving as investment manager to the Funds and research, statistical and quotation services PIMCO may receive from broker-dealers executing the Funds' portfolio transactions on an agency basis.

After reviewing these and other factors described herein, the Trustees concluded, with respect to each Fund, within the context of their overall conclusions regarding the Proposed Agreement and based upon the information provided and related representations made by PIMCO, that they were satisfied with PIMCO's responses and efforts relating to the investment management and performance of the Fund. They also concluded that they were satisfied with PIMCO's information and responses as to its resources and capabilities to serve as investment manager and administrator of each Fund under the Proposed Agreement following the transition. The Trustees also concluded that the fees payable by each Fund under the Proposed Agreement represent reasonable compensation in light of the nature, extent and quality of services to be provided or procured by PIMCO under the Proposed Agreement. Based on their evaluation of factors that they deemed to be material, including those factors described above, the Trustees, including the Independent Trustees, unanimously concluded that the approval of the Proposed Agreement was in the interests of each Fund and its shareholders, and determined to recommend the same for approval by shareholders.



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**Matters Relating to the Trustees Consideration of the Investment Management Agreement** (continued)

PIMCO Municipal Income Funds II

*Consideration of the Continuation of the Current Investment Management and Portfolio Management Agreements*

The Investment Company Act of 1940, as amended, requires that both the full Board of Trustees and a majority of the Independent Trustees, voting separately, approve each Fund's Management Agreement with the Investment Manager (the Advisory Agreements) and Portfolio Management Agreement between the Investment Manager and the Sub-Adviser (the Sub-Advisory Agreements, and, together with the Advisory Agreements, the Current Agreements). As discussed under Consideration of the Proposed Investment Management Agreement above, the Trustees approved the Proposed Agreement between each Fund and PIMCO on March 10-11, 2014, which, as it was subsequently approved by shareholders of each Fund, will become effective for each Fund at a date and time mutually agreeable to the Funds, PIMCO and AGIFM in order to effect an efficient transition for the Funds and their shareholders. When the Proposed Agreement takes effect with respect to a Fund, PIMCO will replace AGIFM as the investment manager of such Fund and PIMCO will no longer serve as the Fund's sub-adviser, and the Current Agreements with respect to such Fund will terminate. However, the current terms of the Current Agreements terminate before the Proposed Agreement is expected to take effect, and, therefore, the Trustees were also asked to approve the continuance of the Current Agreements for an additional term (which will expire upon the effectiveness of the Proposed Agreement). Accordingly, the Trustees met in person on June 23-24, 2014 (the contract review meeting) for the specific purpose of considering whether to approve the continuation of the Advisory Agreements and the Sub-Advisory Agreements. The Independent Trustees were assisted in their evaluation of the Current Agreements by independent legal counsel, from whom they received separate

legal advice and with whom they met separately from Fund management during the contract review meetings.

In connection with their deliberations regarding the continuation of the Current Agreements, 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. As described below, the Trustees considered the nature, quality, and extent of the various investment management, administrative and other services performed by the Investment Manager or the Sub-Adviser under the applicable Agreement.

In connection with their contract review meeting, the Trustees relied upon materials provided by the Investment Manager and the Sub-Adviser for the contract review meeting or for prior meetings which included, among other items: (i) information provided by Lipper Inc. (Lipper), an independent third party, on the total return investment performance (based on net assets) of the Funds for various time periods, the investment performance of a group of funds with investment classifications/objectives comparable to those of the Funds identified by Lipper (the Lipper performance universe) and the performance of an applicable benchmark index, (ii) information provided by Lipper on the Funds' management fees and other expenses and the management fees and other expenses of comparable funds identified by Lipper, (iii) information regarding the investment performance and fees for other funds managed by the Sub-Adviser with similar investment strategies to those of the Funds, (iv) the estimated profitability to the Investment Manager from its relationship with the Funds for the one-year period ended December 31, 2013, (v) descriptions of various functions performed by the Investment Manager and the Sub-Adviser for the Funds, such as portfolio management, compliance monitoring and



**Matters Relating to the Trustees Consideration of the Investment Management Agreement (continued)**

PIMCO Municipal Income Funds II

portfolio trading practices, and (vi) information regarding the overall organization of the Investment Manager and the Sub-Adviser, including information regarding senior management, portfolio managers and other personnel providing investment management, administrative and other services to the Funds.

The Trustees' conclusions as to the continuation of the Current Agreements were based on a comprehensive consideration of all information provided to the Trustees and were 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, attributing different weights to various factors.

In addition, it was noted that the Trustees considered matters bearing on the Funds and their advisory arrangements at their meetings throughout the year, including a review of performance data at each regular meeting.

As part of their review, the Trustees examined the Investment Manager's and the Sub-Adviser's abilities to provide high-quality investment management and other services to the Funds. Among other information, the Trustees considered the investment philosophy and research and decision-making processes of the Sub-Adviser; the experience of key advisory personnel of the Sub-Adviser responsible for portfolio management of the Funds; the ability of the Investment Manager and the Sub-Adviser to attract and retain capable personnel; and the capability of the senior management and staff of the Investment Manager and the Sub-Adviser. In addition, the Trustees reviewed the quality of the Investment Manager's and the Sub-Adviser's services with respect to regulatory compliance and compliance with the investment policies of the Funds; the nature and quality of certain administrative services

the Investment Manager is responsible for providing to the Funds; and conditions that might affect the Investment Manager's or the Sub-Adviser's ability to provide high-quality services to the Funds in the future under the Current Agreements, including each organization's respective financial condition and operational stability. Based on the foregoing, the Trustees concluded that the Sub-Adviser's investment process, research capabilities and philosophy were well suited to the Fund given its investment objective and policies, and that the Investment Manager and the Sub-Adviser would be able to continue to meet any reasonably foreseeable obligations under the Current Agreements.

In assessing the reasonableness of each Fund's fees under the Current Agreements, the Trustees considered, among other information, the Fund's management fee and its total expense ratio as a percentage of average net assets attributable to common shares and as a percentage of total managed assets (including assets attributable to common shares and leverage outstanding combined), and the management fee and total expense ratios of a peer expense group of funds based on information provided by Lipper. The Fund-specific fee and expense results discussed below were prepared and provided by Lipper and were not independently verified by the Trustees.

The Trustees specifically took note of how each Fund compared to its Lipper peers as to performance, management fee expense and total net expenses. The Trustees noted that while the Funds are not currently charged a separate administration fee (recognizing that their management fees include a component for administrative services), it was not clear in all cases whether the peer funds in the Lipper category were separately charged such a fee by their investment managers, so that the total expense ratio (rather than any individual



**Matters Relating to the Trustees Consideration of the Investment Management Agreement (continued)**

**PIMCO Municipal Income Funds II**

expense component) represented the most relevant comparison. It was noted that the total expense ratio comparisons reflect the effect of expense waivers/reimbursements (although none exist for the Funds).

**Municipal Income II**

The Trustees noted that the expense group for the Fund provided by Lipper consisted of a total of nine closed-end funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the group ranged from \$277.2 million to \$748.6 million, and that none of the funds in the group were larger in assets size than the Fund. The Trustees noted that the Fund's management fee was above the median management fee of the other funds in its expense group provided by Lipper calculated both on common share assets and on common share and leveraged assets combined. With respect to the Fund's total expense ratio (excluding interest expense) calculated on average net assets, the Trustees noted that the Fund's estimated total expense ratio was above the median total expense ratio of the group of funds presented for comparison.

**California Municipal Income II**

The Trustees noted that the expense group for the Fund provided by Lipper consisted of a total of seven closed-end funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the group ranged from \$33.1 million to \$481.0 million, and that two of the funds in the group were larger in asset size than the Fund. The Trustees noted that the Fund's management fee was above the median management fee of the other funds in its expense group provided by Lipper calculated both on common share assets and on common share and leveraged assets combined. With respect to the Fund's total expense ratio (excluding interest expense)

calculated on average net assets, the Trustees noted that the Fund's estimated total expense ratio was above the median total expense ratio of the group of funds presented for comparison.

**New York Municipal Income II**

The Trustees noted that the expense group for the Fund provided by Lipper consisted of a total of six closed-end funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the group ranged from \$69.1 million to \$275.7 million, and that two of the funds in the group were larger in asset size than the Fund. The Trustees noted that the Fund's management fee was above the median management fee of the other funds in its expense group provided by Lipper calculated both on common share assets and on common share and leveraged assets combined. With respect to the Fund's total expense ratio (excluding interest expense) calculated on average net assets, the Trustees noted that the Fund's estimated total expense ratio was below the median total expense ratio of the group of funds presented for comparison.

Fund-specific performance results for the one-year, three-year, five-year and ten-year periods ended December 31, 2013 reviewed by the Trustees are discussed under "Consideration of the Proposed Investment Management Agreement" above.

In addition to their review of Fund performance based on net asset value, the Trustees also considered the market value performance of each Fund's common shares and related share price premium and/or discount information based on the materials provided by Lipper and management.



The Trustees also considered the management fees charged by PIMCO to other funds with

**Matters Relating to the Trustees Consideration of the Investment Management Agreement (continued)**

PIMCO Municipal Income Funds II

similar strategies to those of the Funds, including open-end funds advised by PIMCO. The Trustees noted that the management fees paid by the Funds are generally higher than the fees paid by the open-end funds offered for comparison, but were advised by PIMCO that there are additional portfolio management challenges in managing closed-end funds such as the Funds, such as those associated with the use of leverage and attempting to meet a regular dividend. The Trustees were advised that PIMCO does not manage any institutional or separate accounts which have an investment strategy or return profile bearing any reasonable similarity to the Funds.

The Trustees also took into account that the Funds have preferred shares outstanding, which increases the amount of management fees payable by the Funds under the Current Agreements (because each Fund's fees are calculated based on the Fund's net assets, including any assets attributable to preferred shares outstanding). The Trustees took into account that the Investment Manager and the Sub-Adviser have a financial incentive for the Funds to have preferred shares outstanding, which may create a conflict of interest between the Investment Manager and the Sub-Adviser, on the one hand, and the Funds' common shareholders, on the other. In this regard, the Trustees considered information provided by the Investment Manager and the Sub-Adviser and related presentations as to why the Funds' use of leverage continues to be appropriate and in the best interests of the Funds under current market conditions. The Trustees also considered PIMCO's representation that it will use leverage for the Funds solely as it determines to be in the best interests of the Funds from an investment perspective and without regard to the level of compensation the Investment Manager or the Sub-Adviser receive.

Based on a profitability analysis provided by the Investment Manager, the Trustees also considered the estimated profitability to the Investment Manager from its relationship with each Fund and determined that such profitability did not appear to be excessive.

The Trustees also took into account that, as closed-end investment companies, the Funds do not currently intend to raise additional assets, so the assets of the Funds will grow (if at all) principally through the investment performance of each Fund. Therefore, the Trustees did not consider potential economies of scale as a principal factor in assessing the fee rates payable under the Current Agreements.

Additionally, the Trustees considered so-called "fall-out benefits" to the Investment Manager and the Sub-Adviser, such as reputational value derived from serving as Investment Manager and Sub-Adviser to the Funds and research, statistical and quotation services the Investment Manager and Sub-Adviser may receive from broker-dealers executing the Funds' portfolio transactions on an agency basis.

After reviewing these and other factors described herein, the Trustees concluded, with respect to each Fund, within the context of their overall conclusions regarding the Current Agreements and based on the information provided and related representations made by management, that they were satisfied with the Investment Manager's and the Sub-Adviser's responses and efforts relating to the investment performance of the Fund. The Trustees also concluded that the fees payable under each Current Agreement represent reasonable compensation in light of the nature, extent and quality of services provided by the Investment Manager or Sub-Adviser, as the case may be. Based on their evaluation of factors that they deemed to be material, including those factors described above, the Trustees, including the Independent Trustees, unanimously concluded



**Matters Relating to the Trustees Consideration of the Investment Management Agreement** (continued)

PIMCO Municipal Income Funds II

that the continuation of the Current Agreements was in the interests of each Fund and its shareholders, and should be approved.

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## **Privacy Policy/Proxy Voting Policies & Procedures (unaudited)**

### **PIMCO Municipal Income Funds II**

#### **Our Commitment to You**

We consider customer privacy to be a fundamental aspect of our relationship with shareholders and are committed to maintaining the confidentiality, integrity and security of our current, prospective and former shareholders' personal information. To ensure our shareholders' privacy, we have developed policies that are designed to protect this confidentiality, while allowing shareholders' needs to be served.

#### **Obtaining Personal Information**

In the course of providing shareholders with products and services, we may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder's brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on our internet web sites.

#### **Respecting Your Privacy**

As a matter of policy, we do not disclose any personal or account information provided by shareholders or gathered by us to non-affiliated third parties, except as required for our everyday business purposes, such as to process transactions or service a shareholder's account, or as otherwise permitted by law. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, and gathering shareholder proxies. We may also retain non-affiliated financial services providers, such as broker-dealers, to market our shares or products and we may enter into joint-marketing arrangements with them and other financial companies. We may also retain marketing and research service firms to conduct research on shareholder satisfaction. These companies may have access to a shareholder's personal and

account information, but are permitted to use this information solely to provide the specific service or as otherwise permitted by law. We may also provide a shareholder's personal and account information to their respective brokerage or financial advisory firm, Custodian, and/or to their financial advisor or consultant.

#### **Sharing Information with Third Parties**

We reserve the right to disclose or report personal information to non-affiliated third parties, in limited circumstances, where we believe in good faith that disclosure is required under law to cooperate with regulators or law enforcement authorities, to protect our rights or property or upon reasonable request by any Fund in which a shareholder has chosen to invest. In addition, we may disclose information about a shareholder or shareholder's accounts to a non-affiliated third party only if we receive a shareholder's written request or consent.

#### **Sharing Information with Affiliates**

We may share shareholder information with our affiliates in connection with our affiliates' everyday business purposes, such as servicing a shareholder's account, but our affiliates may not use this information to market products and services to you except in conformance with applicable laws or regulations. The information we share includes information about our experiences and transactions with a shareholder and may include, for example, a shareholder's

participation in one of the Funds or in other investment programs, a shareholder's ownership of certain types of accounts (such as IRAs), or other data about a shareholder's transactions or accounts. Our affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

**Privacy Policy/Proxy Voting Policies & Procedures** (unaudited) (continued)

PIMCO Municipal Income Funds II

**Procedures to Safeguard Private Information**

We take seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, we have also implemented procedures that are designed to restrict access to a shareholder's non-public personal information only to internal personnel who need to know that information in order to provide products or services to such shareholders. In addition, we have physical, electronic and procedural safeguards in place to guard a shareholder's non-public personal information.

**Disposal of Confidential Records**

We will dispose of records, if any, that are knowingly derived from data received from a consumer reporting agency regarding a shareholder that is an individual in a manner

that ensures the confidentiality of the data is maintained. Such records include, among other things, copies of consumer reports and notes of conversations with individuals at consumer reporting agencies.

**Proxy Voting Policies & Procedures:**

A description of the policies and procedures that the Funds adopted to determine how to vote proxies relating to portfolio securities and information about how the Funds voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Funds shareholder servicing agent at (800) 254-5197; (ii) on the Funds' website at [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds); and (iii) on the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov).

## **Dividend Reinvestment Plan** (unaudited)

### PIMCO Municipal Income Funds II

Each Fund has adopted a Dividend Reinvestment Plan (the **Plan**) which allows common shareholders to reinvest Fund distributions in additional common shares of the Fund. American Stock Transfer & Trust Company, LLC (the **Plan Agent**) serves as agent for common shareholders in administering the Plan. It is important to note that participation in the Plan and automatic reinvestment of Fund distributions does not ensure a profit, nor does it protect against losses in a declining market.

**Automatic enrollment/voluntary participation** Under the Plan, common shareholders whose shares are registered with the Plan Agent ( **registered shareholders** ) are automatically enrolled as participants in the Plan and will have all Fund distributions of income, capital gains and returns of capital (together, **distributions** ) reinvested by the Plan Agent in additional common shares of the Fund, unless the shareholder elects to receive cash. Registered shareholders who elect not to participate in the Plan will receive all distributions in cash paid by check and mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, to the nominee) by the Plan Agent. Participation in the Plan is voluntary. Participants may terminate or resume their enrollment in the Plan at any time without penalty by notifying the Plan Agent online at [www.amstock.com](http://www.amstock.com), by calling (800) 254-5197, by writing to the Plan Agent, American Stock Transfer & Trust Company, LLC, at P.O. Box 922, Wall Street Station, New York, NY 10269-0560, or, as applicable, by completing and returning the transaction form attached to a Plan statement. A proper notification will be effective immediately and apply to the Fund's next distribution if received by the Plan Agent at least three (3) days prior to the record date for the distribution; otherwise, a notification will be effective shortly following the Fund's next distribution and will apply to the Fund's next succeeding distribution thereafter. If you

withdraw from the Plan and so request, the Plan Agent will arrange for the sale of your shares and send you the proceeds, minus a transaction fee and brokerage commissions.

**How shares are purchased under the Plan** For each Fund distribution, the Plan Agent will acquire common shares for participants either (i) through receipt of newly issued common shares from the Fund ( **newly issued shares** ) or (ii) by purchasing common shares of the Fund on the open market ( **open market purchases** ). If, on a distribution payment date, the net asset value per common shares of the Fund ( **NAV** ) is equal to or less than the market price per common shares plus estimated brokerage commissions (often referred to as a **market premium** ), the Plan Agent will invest the distribution amount on behalf of participants in newly issued shares at a price equal to the greater of (i) NAV or (ii) 95% of the market price per common share on the payment date. If the NAV is greater than the market price per common shares plus estimated brokerage commissions (often referred to as a **market discount** ) on a distribution payment date, the Plan agent will instead attempt to invest the distribution amount through open market purchases. If the Plan Agent is unable to invest the full distribution amount in open market purchases, or if the market discount shifts to a market premium during the purchase period, the Plan Agent will invest any un-invested portion of the distribution in newly issued shares at a price equal to the greater of (i) NAV or (ii) 95% of the market price per share as of the last business day immediately prior to the purchase date (which, in either case, may be a price greater or lesser than the NAV per common shares on the distribution payment date). No interest will be paid on distributions awaiting reinvestment. Under the Plan, the market price of common shares on a particular date is the last sales price on the exchange where the shares are listed on that date or, if there is no sale on the exchange on that date, the mean between the closing bid





**Dividend Reinvestment Plan** (unaudited) (continued)

PIMCO Municipal Income Funds II

and asked quotations for the shares on the exchange on that date. The NAV per common share on a particular date is the amount calculated on that date (normally at the close of regular trading on the New York Stock Exchange) in accordance with the Fund's then current policies.

**Fees and expenses** No brokerage charges are imposed on reinvestments in newly issued shares under the Plan. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. There are currently no direct service charges imposed on participants in the Plan, although the Funds reserve the right to amend the Plan to include such charges. The Plan Agent imposes a transaction fee (in addition to brokerage commissions that are incurred) if it arranges for the sale of your common shares held under the Plan.

**Shares held through nominees** In the case of a registered shareholder such as a broker, bank or other nominee (together, a nominee) that holds common shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of common shares certified by the nominee/record shareholder as representing the total amount registered in such shareholder's name and held for the account of beneficial owners who are to participate in the Plan. If your common shares are held through a nominee and are not registered with the Plan Agent,

neither you nor the nominee will be participants in or have distributions reinvested under the Plan. If you are a beneficial owner of common shares and wish to participate in the Plan, and your nominee is unable or unwilling to become a registered shareholder and a Plan participant on your behalf, you may request that your nominee arrange to have all or a portion of your shares re-registered with the Plan Agent in your name so that you may be enrolled as a participant in the Plan. Please contact your nominee for details or for other possible alternatives. Participants whose shares are registered with the Plan Agent in the name of one nominee firm may not be able to transfer the shares to another firm and continue to participate in the Plan.

**Tax consequences** Automatically reinvested dividends and distributions are taxed in the same manner as cash dividends and distributions—i.e., automatic reinvestment in additional shares does not relieve shareholders of, or defer the need to pay, any income tax that may be payable (or that is required to be withheld) on Fund dividends and distributions. The Fund and the Plan Agent reserve the right to amend or terminate the Plan. Additional information about the Plan, as well as a copy of the full Plan itself, may be obtained from the Plan Agent, American Stock Transfer & Trust Company, LLC, at P.O. Box 922, Wall Street Station, New York, NY 10269-0560; telephone number: (800) 254-5197; web site: [www.amstock.com](http://www.amstock.com).

**Board of Trustees** (unaudited)

PIMCO Municipal Income Funds II

**Name, Year of Birth, Position(s) Held with Funds, Length of Service, Other Trusteeships/Directorships Held by Trustee ; Number of Portfolios in Fund Complex/Outside Fund Complexes Currently Overseen by Trustee**

**Principal Occupation(s) During Past 5 Years:**

The address of each trustee is 1633 Broadway, New York, NY 10019.

**Hans W. Kertess**

President, H. Kertess & Co., a financial advisory company. Formerly, Managing Director, Royal Bank of Canada Capital Markets.

Year of Birth: 1939

Chairman of the Board of Trustees since: 2008

Trustee since: 2002

Term of office: Expected to stand for re-election at annual meeting of shareholders for the 2015-2016 fiscal year.

Trustee/Director of 63 funds in Fund Complex;

Trustee/Director of no funds outside of Fund Complex

**Deborah A. DeCotis**

Advisory Director, Morgan Stanley & Co., Inc. (since 1996); Co-Chair Special Projects Committee, Memorial Sloan Kettering (since 2005); Member Circle Financial Group (since 2010); Trustee, Stanford University (since 2010), and Member Council on Foreign Relations (since 2013). Formerly, Director, Helena Rubenstein Foundation (1997-2012).

Year of Birth: 1952

Trustee since: 2011

Term of office: Expected to stand for re-election at annual meeting of shareholders for the 2016-2017 fiscal year.

Trustee/Director of 81 funds in Fund Complex

Trustee/Director of no funds outside of Fund Complex

**Bradford K. Gallagher**

Retired. Chairman and Trustee, Atlantic Maritime Heritage Foundation (since 2007); Founder, Spyglass Investments LLC, a private investment vehicle (since 2001); and Founder, President and CEO, Cypress Holding Company and Cypress Tree Investment Management Company (since 1995). Formerly, Chairman and Trustee, The Common Fund (2005-2014); and Partner, New Technology Ventures Capital Management LLC, a venture capital fund (2011-2013).

Year of Birth: 1944

Trustee since: 2010

Term of office: Expected to stand for re-election at annual meeting of shareholders for the 2014-2015 fiscal year.

Trustee/Director of 63 funds in Fund Complex

Trustee/Director of no funds outside of Fund Complex  
Formerly, Chairman and Trustee, The Common Fund (since 2005); Chairman and Trustee of Grail Advisors ETF Trust (2009-2010) and Trustee of Nicholas-Applegate Institutional Funds (2007-2010)

**James A. Jacobson**

Year of Birth: 1945

Trustee since: 2009

Term of office: Expected to stand for re-election at annual meeting of shareholders for the 2016-2017 fiscal year.

Trustee/Director of 63 funds in Fund Complex

Trustee/Director of 17 funds in Alpine Mutual Funds Complex

**William B. Ogden, IV**

Year of Birth: 1945

Trustee since: 2006

Term of office: Expected to stand for re-election at annual meeting of shareholders for the 2015-2016 fiscal year.

Trustee/Director of 63 funds in Fund Complex;

Trustee/Director of no funds outside of Fund Complex

Retired. Formerly, Vice Chairman and Managing Director, Spear, Leeds & Kellogg Specialists, LLC, a specialist firm on the New York Stock Exchange.

Asset Management Industry Consultant. Formerly, Managing Director, Investment Banking Division of Citigroup Global Markets Inc.

**Board of Trustees** (unaudited) (continued)

PIMCO Municipal Income Funds II

**Name, Year of Birth, Position(s) Held with Funds, Length of Service, Other Trusteeships/Directorships Held by Trustee; Number of Portfolios in Fund Complex/Outside Fund Complexes Currently Overseen by Trustee**

**Alan Rappaport**

Year of Birth: 1953

Trustee since: 2010

Term of office: Expected to stand for re-election at annual meeting of shareholders for the 2015-2016 fiscal year.

Trustee/Director of 63 funds in Fund Complex

Trustee/Director of no funds outside of Fund Complex

**John C. Maney**

Year of Birth: 1959

Trustee since: 2006

Term of office: Expected to stand for re-election at annual meeting of shareholders for the 2014-2015 fiscal year.

Trustee/Director of 81 funds in Fund Complex

Trustee/Director of no funds outside the Fund Complex

**Principal Occupation(s) During Past 5 Years:**

Advisory Director (formerly Vice Chairman) (since 2009), Roundtable Investment Partners; Chairman (formerly President), Private Bank of Bank of America; Vice Chairman, US Trust (2001-2008); Adjunct Professor, New York University Stern School of Business (since 2011); Lecturer, Stanford University Graduate School of Business (since 2013); Trustee, American Museum of Natural History (since 2005) and Trustee, NYU Langone Medical Center (since 2007).

Member of the Management Board and a Managing Director of Allianz Global Investors Fund Management LLC; Managing Director of Allianz Asset Management of America L.P. (since January 2005) and a member of the Management Board and Chief Operating Officer of Allianz Asset Management of America L.P. (since November 2006).

Mr. Maney is an interested person of each Fund, as defined in Section 2(a)(19) of the 1940 Act, due to his affiliation with Allianz Asset Management of America L.P. and its affiliates.

**Fund Officers** (unaudited)

PIMCO Municipal Income Funds II

| <b>Name, Year of Birth, Position(s) Held with Funds.</b>  | <b>Principal Occupation(s) During Past 5 Years:</b>   |
|---|---|
| <p><b>Julian Sluyters</b><br/>                     Year of Birth: 1960<br/>                     President &amp; Chief Executive Officer since: 2014</p>                     | <p>Chairman of the Management Board of Allianz Global Investors Fund Management LLC (since 2013); Chief Operating Officer, Managing Director, and member of the Executive Committee of Allianz Global Investors U.S. Holdings LLC (since 2012); Trustee of 18 funds in the Fund Complex; President and Chief Executive Officer of 81 funds in the Fund Complex. Formerly, President and Chief Executive Officer, Old Mutual Capital Inc. (2008-2012).</p> |
| <p><b>Lawrence G. Altadonna</b><br/>                     Year of Birth: 1966<br/>                     Treasurer, Principal Financial and Accounting Officer since: 2002</p> | <p>Director, Director of Fund Administration of Allianz Global Investors Fund Management LLC; Treasurer, Principal Financial and Accounting Officer of 81 funds in the Fund Complex and of The Korea Fund, Inc. Formerly, Assistant Treasurer of 51 funds in the Fund Complex (2005-2010).</p>  |
| <p><b>Thomas J. Fuccillo</b><br/>                     Year of Birth: 1968<br/>                     Vice President, Secretary &amp; Chief Legal Officer since: 2004</p>      | <p>Managing Director, Chief Legal Officer and Secretary of Allianz Global Investors Fund Management LLC and Allianz Global Investors Distributors LLC; Managing Director and Chief Regulatory Counsel of Allianz Global Investors U.S. Holdings LLC; Vice President, Secretary and Chief Legal Officer of 81 funds in the Fund Complex; and Secretary and Chief Legal Officer of The Korea Fund, Inc.</p>   |
| <p><b>Scott Whisten</b><br/>                     Year of Birth: 1971<br/>                     Assistant Treasurer since: 2007</p>   | <p>Director of Allianz Global Investors Fund Management LLC; and Assistant Treasurer of 81 funds in the Fund Complex.</p>   |
| <p><b>Orhan Dzemaili</b><br/>                     Year of Birth: 1974<br/>                     Assistant Treasurer since: 2011</p>  | <p>Director of Allianz Global Investors Fund Management LLC; and Assistant Treasurer of 81 funds in the Fund Complex.</p>   |
| <p><b>Richard J. Cochran</b><br/>                     Year of Birth: 1961<br/>                     Assistant Treasurer since: 2008</p>                                      | <p>Vice President of Allianz Global Investors Fund Management LLC; Assistant Treasurer of 81 funds in the Fund Complex and of The Korea Fund, Inc.</p>  |
| <p><b>Thomas L. Harter, CFA</b></p>   | <p>Director of Allianz Global Investors U.S. Holdings LLC; and Chief Compliance Officer of 79 funds in</p>  |

Year of Birth: 1975

Chief Compliance Officer since: 2013

**Lagan Srivastava**

Year of Birth: 1977

Assistant Secretary since: 2006

*Officers hold office at the pleasure of the Board and until their successors are appointed and qualified or until their earlier resignation or removal.*

the Fund Complex and of The Korea Fund, Inc. Formerly, Vice President and Compliance Manager (2005-2012).

Vice President of Allianz Global Investors U.S. Holdings LLC; Assistant Secretary of 81 funds in the Fund Complex and of The Korea Fund, Inc.

**Trustees**

Hans W. Kertess

*Chairman of the Board of Trustees*

Deborah A. DeCotis

Bradford K. Gallagher

James A. Jacobson

John C. Maney

William B. Ogden, IV

Alan Rappaport

**Fund Officers**

Julian Sluyters

*President & Chief Executive Officer*

Lawrence G. Altadonna

*Treasurer, Principal Financial & Accounting Officer*

Thomas J. Fuccillo

*Vice President, Secretary & Chief Legal Officer*

Scott Whisten

*Assistant Treasurer*

Richard J. Cochran

*Assistant Treasurer*

Orhan Dzemaili

*Assistant Treasurer*

Thomas L. Harter

*Chief Compliance Officer*

Lagan Srivastava



*Assistant Secretary*

**Investment Manager**

Allianz Global Investors Fund Management LLC

1633 Broadway

New York, NY 10019

**Sub-Adviser**

Pacific Investment Management Company LLC

650 Newport Center Drive

Newport Beach, CA 92660

**Custodian & Accounting Agent**

State Street Bank & Trust Co.

225 Franklin Street

Boston, MA 02110

**Transfer Agent, Dividend Paying Agent and Registrar**

American Stock Transfer & Trust Company, LLC

6201 15th Avenue

Brooklyn, NY 11219

**Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP

300 Madison Avenue

New York, NY 10017

**Legal Counsel**

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199

*This report, including the financial information herein, is transmitted to the shareholders of PIMCO Municipal Income Fund II, PIMCO California Municipal Income Fund II and PIMCO New York Municipal Income Fund II for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Funds or any securities mentioned in this report.*

*Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Funds may purchase their common shares in the open market.*

*The Funds file their complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of their fiscal year on Form N-Q. Each Fund s Form N-Q is available on the SEC s website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Funds website at [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds).*

*Information on the Funds is available at [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds) or by calling the Funds shareholder servicing agent at (800) 254-5197.*

[us.allianzgi.com](http://us.allianzgi.com)

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AGI-2014-06-04-9845

## ITEM 2. CODE OF ETHICS

- (a) As of the end of the period covered by this report, the registrant has adopted a code of ethics (the Section 406 Standards for Investment Companies Ethical Standards for Principal Executive and Financial Officers ) that applies to the registrant's Principal Executive Officer and Principal Financial Officer; the registrant's Principal Financial Officer also serves as the Principal Accounting Officer. The registrant undertakes to provide a copy of such code of ethics to any person upon request, without charge, by calling 1-800-254-5197. The code of ethics are included as an Exhibit 99.CODE ETH hereto.
- (b) During the period covered by this report, there were not any amendments to a provision of the code of ethics adopted in 2 (a) above.
- (c) During the period covered by this report, there were not any waivers or implicit waivers to a provision of the code of ethics adopted in 2(a) above.

## ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

The registrant's Board has determined that James A. Jacobson, a member of the Board's Audit Oversight Committee is an audit committee financial expert, and that he is independent, for purposes of this Item.

## ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

- a) Audit fees. The aggregate fees billed for each of the last two fiscal years (the Reporting Periods ) for professional services rendered by the Registrant's principal accountant (the Auditor ) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$40,197 in 2013 and \$47,380 in 2014.
- b) Audit-Related Fees. The aggregate fees billed in the Reporting Periods for assurance and related services by the principal accountant that are reasonably related to the performance of the audit registrant's financial statements and are not reported under paragraph (e) of this Item were \$8,333 in 2013 and \$8,583 in 2014. These services consist of accounting consultations, agreed upon procedure reports (inclusive of annual review of basic maintenance testing associated with the Preferred Shares), attestation reports and comfort letters.
- c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax service and tax planning ( Tax Services ) were \$11,120 in 2013 and \$11,450 in 2014 These services consisted of review or preparation of U.S. federal, state, local and excise tax returns and calculation of excise tax distributions.
- d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor to the Registrant.

- e) 1. Audit Committee Pre-Approval Policies and Procedures. The Registrant's Audit Committee has established policies and procedures for pre-approval of all audit and permissible non-audit services by the Auditor for the Registrant, as well as the Auditor's engagements related directly to the operations and financial reporting of the Registrant. The Registrant's policy is stated below.

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PIMCO California Municipal Income Fund II (the Fund )

#### AUDIT OVERSIGHT COMMITTEE POLICY FOR PRE-APPROVAL OF SERVICES PROVIDED BY THE INDEPENDENT ACCOUNTANTS

The Fund's Audit Oversight Committee ( Committee ) is charged with the oversight of the Fund's financial reporting policies and practices and their internal controls. As part of this responsibility, the Committee must pre-approve any independent accounting firm's engagement to render audit and/or permissible non-audit services, as required by law. In evaluating a proposed engagement by the independent accountants, the Committee will assess the effect that the engagement might reasonably be expected to have on the accountant's independence. The Committee's evaluation will be based on:

- a review of the nature of the professional services expected to be provided,
- the fees to be charged in connection with the services expected to be provided,
- a review of the safeguards put into place by the accounting firm to safeguard independence, and
- periodic meetings with the accounting firm.

#### POLICY FOR AUDIT AND NON-AUDIT SERVICES TO BE PROVIDED TO THE FUND

On an annual basis, the Fund's Committee will review and pre-approve the scope of the audit of the Fund and proposed audit fees and permitted non-audit (including audit-related) services that may be performed by the Fund's independent accountants. At least annually, the Committee will receive a report of all audit and non-audit services that were rendered in the previous calendar year pursuant to this Policy. In addition to the Committee's pre-approval of services pursuant to this Policy, the engagement of the independent accounting firm for any permitted non-audit service provided to the Fund will also require the separate written pre-approval of the President of the Fund, who will confirm, independently, that the accounting firm's engagement will not adversely affect the firm's independence. All non-audit services performed by the independent accounting firm will be disclosed, as required, in filings with the Securities and Exchange Commission.

#### AUDIT SERVICES

The categories of audit services and related fees to be reviewed and pre-approved annually by the Committee are:

- Annual Fund financial statement audits
- Seed audits (related to new product filings, as required)
- SEC and regulatory filings and consents
- Semiannual financial statement reviews

## AUDIT-RELATED SERVICES

The following categories of audit-related services are considered to be consistent with the role of the Fund's independent accountants and services falling under one of these categories will be pre-approved by the Committee on an annual basis if the Committee deems those services to be consistent with the accounting firm's independence:

Accounting consultations

Fund merger support services

Agreed upon procedure reports (inclusive of quarterly review of Basic Maintenance testing associated with issuance of Preferred Shares and semiannual report review)

Other attestation reports

Comfort letters

Other internal control reports

Individual audit-related services that fall within one of these categories and are not presented to the Committee as part of the annual pre-approval process described above, may be pre-approved, if deemed consistent with the accounting firm's independence, by the Committee Chair (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed \$250,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

## TAX SERVICES

The following categories of tax services are considered to be consistent with the role of the Fund's independent accountants and services falling under one of these categories will be pre-approved by the Committee on an annual basis if the Committee deems those services to be consistent with the accounting firm's independence:

Tax compliance services related to the filing or amendment of the following:

Federal, state and local income tax compliance; and, sales and use tax compliance

Timely RIC qualification reviews

Tax distribution analysis and planning

Tax authority examination services

Tax appeals support services

Accounting methods studies

Fund merger support service

Other tax consulting services and related projects

Individual tax services that fall within one of these categories and are not presented to the Committee as part of the annual pre-approval process described above, may be pre-approved, if deemed consistent with the accounting firm's independence, by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed \$250,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

#### PROSCRIBED SERVICES

The Fund's independent accountants will not render services in the following categories of non-audit services: