

PIMCO MUNICIPAL INCOME FUND II

Form N-CSRS

August 28, 2017

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**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: 811-21076

**PIMCO Municipal Income Fund II**

**(Exact name of registrant as specified in charter)**

**1633 Broadway, New York, NY 10019**

**(Address of principal executive offices)**

**William G. Galipeau**

**Treasurer (Principal Financial & Accounting Officer)**

**650 Newport Center Drive**

**Newport Beach, CA 92660**

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

Copies to:

**David C. Sullivan**

**Ropes & Gray LLP**

**Prudential Tower**

**800 Boylston Street**

**Boston, MA 02199**

Registrant's telephone number, including area code: (844) 337-4626

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Date of fiscal year end: December 31

Date of reporting period: June 30, 2017

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ( OMB ) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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**Item 1. Reports to Shareholders.**

The following is a copy of the report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the 1940 Act ) (17 CFR 270.30e-1).

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**PIMCO Closed-End Funds**

# Semiannual Report

*June 30, 2017*

PIMCO Municipal Income Fund

PIMCO Municipal Income Fund II

PIMCO Municipal Income Fund III

PIMCO California Municipal Income Fund

PIMCO California Municipal Income Fund II

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PIMCO New York Municipal Income Fund

PIMCO New York Municipal Income Fund II

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### **Letter from the Chairman of the Board & President**

Dear Shareholder,

The global equity markets generated strong results during the reporting period against a backdrop of solid corporate profits and signs of improving global growth. Meanwhile, the global fixed income market generated strong results as U.S. monetary policy tightened, whereas many international central banks maintained accommodative monetary policies.

For the six-month reporting period ended June 30, 2017

The U.S. economy continued to expand at a relatively modest pace during the reporting period. Looking back, U.S. gross domestic product (GDP), which represents the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, expanded at a revised annual pace of 1.8% during the fourth quarter of 2016. GDP growth then moderated, growing at a revised annual pace of 1.2% for the first quarter of 2017. Finally, the Commerce Department's initial reading released after the reporting period had ended showed that second quarter 2017 GDP grew at an annual pace of 2.6%.

The Federal Reserve (Fed) continued to normalize monetary policy, with two interest rate hikes during the reporting period. The first occurrence was in March 2017, followed by a second rate hike in June 2017. The second move put the federal funds rate between 1.00% and 1.25%. In its official statement following the Fed's June meeting, the Fed said, "The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run." The Fed also indicated that it expects to begin reducing its balance sheet later this year.

Economic activity outside the U.S. generally improved during the reporting period. Nevertheless, a number of central banks, including the European Central Bank, Bank of England and Bank of Japan, maintained their highly accommodative monetary policies. However, toward the end of the reporting period, several central banks indicated that they may pare back their quantitative easing programs should growth improve and inflation increase.

The municipal (or muni) market posted positive returns during the first five months of the reporting period. The municipal market was supported by generally positive fundamentals, moderating supply and strong investor demand. The Bloomberg Barclays Municipal Bond Index gained 3.57% during the six months ended June 30, 2017. In comparison, the overall taxable fixed income market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, returned 2.27% over the same period.

### **Outlook**

PIMCO's baseline view is that the U.S. economy is likely to grow at about 2% per year, with inflation running close to the Fed's target of 2%. PIMCO's forecast for the federal funds rate at the end of its secular horizon is anchored in a "New Neutral" range of 2% to 3%, but with the risks skewed to the downside on rates. In PIMCO's view, of real concern for the U.S. outlook, as well as the global outlook, is the

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driving-without-a-spare-tire risk at this late stage of the business cycle. In the next recession, whenever it occurs, PIMCO believes the Fed and other central banks will have less room to cut rates than in past cycles. Some countries for example, the U.S., China, Germany will likely have some fiscal space to deploy in the next downturn, but with sovereign debt levels already elevated, fiscal policy is unlikely to fully offset the constraints on monetary policy in the next global downturn.

PIMCO's policy outlook for munis looks brighter for the next six to 12 months than it did earlier in the year. In PIMCO's view, the risk of trade wars with other countries has receded, and that has scaled back both PIMCO's view of the expected size of fiscal stimulus in the U.S. and its assessment of near-term inflation pressures. PIMCO has more confidence in its base case scenario of a less ambitious tax reform lite given the current failure of a repeal/replace of the Affordable Care Act. The upshot for munis is a tax reform backdrop that, while not without risk, should not fundamentally alter the long-term valuation paradigm for tax-efficient investors. PIMCO is a bit more positive on federal tax-exempt municipal bonds than their taxable alternatives, and high yield municipal spreads look compelling

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relative to high yield corporate spreads. PIMCO's views reflect municipal credit spreads' underperformance relative to the post-election rally in other U.S. credit asset classes.

In the following pages of this PIMCO Closed-End Funds Semiannual Report, please find specific details regarding investment performance and a discussion of factors that most affected the Funds' performance over the six months ended June 30, 2017.

Thank you for investing with us. We value your trust and will continue to work diligently to meet your investment needs. If you have questions regarding any of your PIMCO Closed-End Funds investments, please contact your financial advisor or call the Funds' shareholder servicing agent at (844) 33-PIMCO or (844) 337-4626. We also invite you to visit our website at [www.pimco.com](http://www.pimco.com) to learn more about our views.

Sincerely,

Hans W. Kertess  
Chairman of the Board of Trustees

Peter G. Strelow  
President

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**Important Information About the Funds**

We believe that bond funds have an important role to play in a well-diversified investment portfolio. It is important to note, however, that in an environment where interest rates trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by a Fund are likely to decrease in value. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). This risk may be particularly acute in the current market environment because market interest rates are currently near historically low levels. This, combined with recent economic recovery, the Federal Reserve Board's conclusion of its quantitative easing program, and increases in federal funds interest rates in 2015, 2016 and 2017, which had not occurred since 2006, could potentially increase the probability of an upward interest rate environment in the near future. To the extent the Federal Reserve Board continues to raise interest rates, there is a risk that rates across the financial system may rise. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to make markets in corporate bonds. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets, which could result in increased losses to a Fund. Bond funds and individual bonds with a longer duration (a measure of the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations. In addition, in the current low interest rate environment, the market price of the Funds' common shares may be particularly sensitive to changes in interest rates or the perception that there will be a change in interest rates.

Investing in the municipal bond market involves the risks of investing in debt securities generally and certain other risks. The amount of public information available about the municipal bonds in which a Fund may invest is generally less than that for corporate equities or bonds, and the investment performance of a Fund's investment in municipal bonds may therefore be more dependent on the analytical abilities of PIMCO than its investments in taxable bonds. The secondary market for municipal bonds also tends to be less well-developed or liquid than many other securities markets, which may adversely affect a Fund's ability to sell its bonds at attractive prices.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns, by litigation, legislation or political events, or by the bankruptcy of the issuer. Laws, referenda, ordinances or regulations enacted in the future by Congress or state legislatures or the applicable governmental entity could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipal issuers to levy taxes. Issuers of municipal securities

also might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, a Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, a Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.

A Fund that has substantial exposures to California municipal bonds may be affected significantly by economic, regulatory or political developments affecting the ability of California issuers to pay interest or repay principal. Certain issuers of California municipal bonds have experienced serious financial difficulties in the past and reoccurrence of these difficulties may impair the ability of certain California issuers to pay principal or interest on their obligations. Provisions of the California Constitution and State statutes that limit the taxing and spending authority of California governmental entities may impair the ability of California issuers to pay principal and/or interest on their obligations. While California's economy is broad, it does have major concentrations in high technology, aerospace and defense-related manufacturing, trade, entertainment, real estate and financial services, and may be sensitive to economic problems affecting those industries. Future California political and economic developments, constitutional amendments, legislative measures, executive orders, administrative regulations, litigation and voter initiatives could have an adverse effect on the debt obligations of California issuers.

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A Fund that has substantial exposures to New York municipal bonds may be affected significantly by economic, regulatory or political developments affecting the ability of New York issuers to pay interest or repay principal. While New York's economy is broad, it does have concentrations in the financial services industry, and may be sensitive to economic problems affecting that industry. Certain issuers of New York municipal bonds have experienced serious financial difficulties in the past and reoccurrence of these difficulties may impair the ability of certain New York issuers to pay principal or interest on their obligations. The financial health of New York City affects that of the State, and when New York City experiences financial difficulty it may have an adverse effect on New York municipal bonds held by a Fund. The growth rate of New York has at times been somewhat slower than the nation overall. The economic and financial condition of New York also may be affected by various financial, social, economic and political factors.

The use of derivatives may subject the Funds to greater volatility than investments in traditional securities. The Funds may use derivative instruments for hedging purposes or as part of an investment strategy.

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Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, call risk, credit risk, management risk and the risk that a Fund could not close out a position when it would be most advantageous to do so. Certain derivative transactions may have a leveraging effect on a Fund. For example, a small investment in a derivative instrument may have a significant impact on a Fund's exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility in a Fund's net asset value (NAV). A Fund may engage in such transactions regardless of whether the Fund owns the asset, instrument or components of the index underlying a derivative instrument. A Fund may invest a significant portion of its assets in these types of instruments. If it does, a Fund's investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not directly own. The regulation of the derivatives markets has increased over the past several years, and additional future regulation of the derivatives markets may make derivatives more costly, may limit the availability or reduce the liquidity of derivatives, or may otherwise adversely affect the value or performance of derivatives. Any such adverse future developments could impair the effectiveness of a Fund's derivative transactions and cause a Fund to lose value. For instance, in December 2015, the SEC proposed new regulations applicable to a registered investment company's use of derivatives and related instruments. If adopted as proposed, these regulations could significantly limit or impact a Fund's ability to invest in derivatives and other instruments, limit a Fund's ability to employ certain strategies that use derivatives and/or adversely affect a Fund's performance, efficiency in implementing its strategy, liquidity and/or ability to pursue its investment objective.

A Fund's use of leverage creates the opportunity for increased income for the Fund's common shareholders, but also creates special risks. Leverage is a speculative technique that may expose a Fund to greater risk and increased costs. If shorter-term interest rates rise relative to the rate of return on a Fund's portfolio, the interest and other costs of leverage to the Fund could exceed the rate of return on the debt obligations and other investments held by the Fund, thereby reducing return to the Fund's common shareholders. In addition, fees and expenses of any form of leverage used by a Fund will be borne entirely by its common shareholders (and not by preferred shareholders, if any) and will reduce the investment return of the Fund's common shares. There can be no assurance that a Fund's use of leverage will result in a higher yield on its common shares, and it may result in losses. Leverage creates several major types of risks for a Fund's common shareholders, including: (1) the likelihood of greater volatility of net asset value and

market price of the Fund's common shares, and of the investment return to the Fund's common shareholders, than a comparable portfolio without leverage; (2) the possibility either that the Fund's common share dividends will fall if the interest and other costs of leverage rise, or that dividends paid on the Fund's common shares will fluctuate because such costs vary over time; and (3) the effects of leverage in a declining market or a rising interest rate environment, as leverage is likely to cause a greater decline in the net asset value of the Fund's common shares than if the Fund were not leveraged and may result in a greater decline in the market value of the Fund's common shares.

There is a risk that a Fund investing in a tender option bond program will not be considered the owner of a tender option bond for federal income tax purposes, and thus will not be entitled to treat such interest as exempt from federal income tax. Certain tender option bonds may be illiquid or may become illiquid as a result of, among other things, a credit rating downgrade, a payment default or a disqualification from tax-exempt status. A Fund's investment in the securities issued by a tender option bond trust may involve greater risk and volatility than an investment in a fixed rate bond, and the value of such securities may decrease significantly when market interest rates increase. Tender option bond trusts 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. A Fund may use a tender option bond program as a way of achieving leverage in its portfolio, in which case the Fund will be subject to leverage risk.

High-yield bonds (commonly referred to as "junk bonds") typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in such markets. Thus, high yield investments increase the chance that a Fund will lose money on its investment. The Funds may also invest in bonds and other instruments that are not rated, but which PIMCO considers to be equivalent to high-yield investments. 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 obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the

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issuer might not make any interest or other payments. 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.

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**Important Information About the Funds (Cont.)**

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.

As the use of technology has become more prevalent in the course of business, the Funds have become potentially more susceptible to operational and information security risks resulting from breaches in cyber security. A breach in cyber security refers to both intentional and unintentional cyber events that may, among other things, cause a Fund to lose proprietary information, suffer data corruption and/or destruction or lose operational capacity, result in the unauthorized release or other misuse of confidential information, or otherwise disrupt normal business operations. Cyber security breaches may involve unauthorized access to a Fund's digital information systems (e.g., through hacking or malicious software coding), but may also result from outside attacks such as denial-of-service attacks (i.e., efforts to make network services unavailable to intended users). In addition, cyber security breaches involving a Fund's third party service providers (including but not limited to advisers, sub-advisers, administrators, transfer agents, custodians, distributors and other third parties), trading counterparties or issuers in which a Fund invests can also subject a Fund to many of the same risks associated with direct cyber security breaches. Moreover, cyber security breaches involving trading counterparties or issuers in which a Fund invests could adversely impact such counterparties or issuers and cause the Fund's investment to lose value.

Cyber security failures or breaches may result in financial losses to a Fund and its shareholders. These failures or breaches may also result in disruptions to business operations, potentially resulting in financial losses; interference with a Fund's ability to calculate its net asset value, process shareholder transactions or otherwise transact business with shareholders; impediments to trading; violations of applicable privacy and other laws; regulatory fines; penalties; reputational damage; reimbursement or other compensation costs; additional compliance and cyber security risk management costs and other adverse consequences. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future.

Like with operational risk in general, the Funds have established business continuity plans and risk management systems designed to reduce the risks associated with cyber security. However, there are

inherent limitations in these plans and systems, including that certain risks may not have been identified, in large part because different or unknown threats may emerge in the future. As such, there is no guarantee that such efforts will succeed, especially because the Funds do not directly control the cyber security systems of issuers in which a Fund may invest, trading counterparties or third party service providers to the Funds. There is also a risk that cyber security breaches may not be detected. The Funds and their shareholders could be negatively impacted as a result.

The common shares of the Funds trade on the New York Stock Exchange. As with any stock, the price of a Fund's common shares will fluctuate with market conditions and other factors. If you sell your common shares of a Fund, the price received may be more or less than your original investment. Shares of closed-end management investment companies frequently trade at a discount from their net asset value.

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The common shares of a Fund may trade at a price that is less than the initial offering price and/or the net asset value of such shares. Further, if a Fund's shares trade at a price that is more than the initial offering price and/or the net asset value of such shares, including at a substantial premium and/or for an extended period of time, there is no assurance that any such premium will be sustained for any period of time and will not decrease, or that the shares will not trade at a discount to net asset value thereafter.

The Funds may be subject to various risks, including, but not limited to, the following: asset allocation risk, credit risk, stressed securities risk, distressed and defaulted securities risk, corporate bond risk, market risk, issuer risk, liquidity risk, equity securities and related market risk, mortgage-related and other asset-backed securities risk, extension risk, prepayment risk, privately issued mortgage-related securities risk, mortgage market/ subprime risk, currency risk, redenomination risk, non-diversification risk, management risk, municipal bond risk, tender option bond risk, inflation-indexed security risk, senior debt risk, loans, participations and assignments risk, reinvestment risk, real estate risk, U.S. Government securities risk, foreign (non-U.S.) government securities risk, valuation risk, segregation and cover risk, focused investment risk, credit default swaps risk, event-linked securities risk, counterparty risk, preferred securities risk, confidential information access risk, other investment companies risk, private placements risk, inflation/deflation risk, regulatory risk, tax risk, recent economic conditions risk, market disruptions and geopolitical risk, potential conflicts of interest involving allocation of investment opportunities, repurchase agreements risk, securities lending risk, zero-coupon bond and payment-in-kind securities risk, portfolio turnover risk, smaller company risk, short sale risk and convertible securities risk. A description of certain of these risks is available in the Notes to Financial Statements of this Report.

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On each Fund Summary page in this Shareholder Report, the Average Annual Total Return table measures performance assuming that all dividend and capital gain distributions were reinvested. Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions. 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 tend to reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about a Fund, market conditions, supply and demand for the Fund's shares, or changes in the Fund's dividends. Performance shown is net of fees and expenses.

The following table discloses the commencement of operations and diversification status of each Fund:

<b>Fund Name</b>	<b>Commencement of Operations</b>	<b>Diversification Status</b>
PIMCO Municipal Income Fund	06/29/01	Diversified
PIMCO Municipal Income Fund II	06/28/02	Diversified
PIMCO Municipal Income Fund III	10/31/02	Diversified
PIMCO California Municipal Income Fund	06/29/01	Diversified
PIMCO California Municipal Income Fund II	06/28/02	Diversified
PIMCO California Municipal Income Fund III	10/31/02	Diversified
PIMCO New York Municipal Income Fund	06/29/01	Non-diversified
PIMCO New York Municipal Income Fund II	06/28/02	Non-diversified
PIMCO New York Municipal Income Fund III	10/31/02	Non-diversified

PIMCO has adopted written proxy voting policies and procedures ( Proxy Policy ) as required by Rule 10b(4)-6 under the Investment Advisers Act of 1940. The Proxy Policy has been adopted by the Funds as the policies and procedures that PIMCO will use when voting proxies on behalf of the Funds. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of each Fund, and information about how each Fund voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Funds at (844) 33-PIMCO (844-337-4626), on the Funds' website at [www.pimco.com](http://www.pimco.com), and on the Securities and Exchange Commission's ( SEC ) website at <http://www.sec.gov>.

An investment in a Fund is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Funds.

The Trustees are responsible generally for overseeing the management of the Funds. The Trustees authorize the Funds to enter into service agreements with the Investment Manager and other service providers

in order to provide, and in some cases authorize service providers to procure through other parties, necessary or desirable services on behalf of the Funds. Shareholders are not parties to or third-party beneficiaries of such service agreements. Neither a Fund's original or any subsequent prospectus or Statement of Additional Information (SAI), any press release or shareholder report, any contracts filed as exhibits to a Fund's registration statement, nor any other communications, disclosure documents or regulatory filings from or on behalf of a Fund creates a contract between or among any shareholders of a Fund, on the one hand, and the Fund, a service provider to the Fund, and/or the Trustees or officers of the Fund, on the other hand. The Trustees (or the Funds and their officers, service providers or other delegates acting under authority of the Trustees) may amend its most recent or use a new prospectus or SAI with respect to a Fund, adopt and disclose new or amended policies and other changes in press releases and shareholder reports and/or amend, file and/or issue any other communications, disclosure documents or regulatory filings, and may amend or enter into any contracts to which a Fund is a party, and interpret the investment objective(s), policies, restrictions and contractual provisions applicable to any Fund, without shareholder input or approval, except in circumstances in which shareholder approval is specifically required by law (such as changes to fundamental investment policies) or where a shareholder approval requirement was specifically disclosed in a Fund's prospectus, SAI or shareholder report and is otherwise still in effect.

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Each Fund files a complete schedule of its portfolio holdings with the SEC for the first and third quarters of its fiscal year on Form N-Q. A copy of each Fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and is available without charge, upon request by calling the Funds at (844) 33-PIMCO (844-337-4626) and on the Funds' website at [www.pimco.com](http://www.pimco.com).

Updated portfolio holdings information about a Fund will be available at [www.pimco.com](http://www.pimco.com) approximately 15 calendar days after such Fund's most recent fiscal quarter end, and will remain accessible until such Fund files a Form N-Q or a shareholder report for the period which includes the date of the information. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

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**PIMCO Municipal Income Fund**

Symbol on NYSE - **PMF**

Allocation Breakdown as of 06/30/2017 <sup>§</sup>

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	22.7%
Tobacco Settlement Funded	9.9%
Ad Valorem Property Tax	8.3%
Highway Revenue Tolls	8.2%
Miscellaneous Revenue	6.8%
Natural Gas Revenue	6.2%
Electric Power & Light Revenue	4.5%
Special Assessment	3.8%
College & University Revenue	3.8%
Water Revenue	3.4%
Port, Airport & Marina Revenue	3.2%
Miscellaneous Taxes	3.2%
Industrial Revenue	3.1%
Sewer Revenue	2.4%
General Fund	2.0%
Nuclear Revenue	2.0%
Sales Tax Revenue	1.1%
Other	4.9%
Short-Term Instruments	0.5%
% of Investments, at value.	

<sup>§</sup> Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.

Fund Information (as of June 30, 2017)<sup>(1)</sup>

Market Price	\$13.66
NAV	\$12.83
Premium/(Discount) to NAV	6.47%
Market Price Distribution Yield <sup>(2)</sup>	5.24%
NAV Distribution Yield <sup>(2)</sup>	5.58%
Total Effective Leverage <sup>(3)</sup>	40%

Average Annual Total Return<sup>(1)</sup> for the period ended June 30, 2017

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/29/01)
Market Price	(2.31)%	(15.71)%	4.55%	5.81%	6.52%
NAV	6.28%	(1.44)%	7.24%	7.01%	7.01%

All Fund returns are net of fees and expenses.

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\* Cumulative return

- (1) Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Total return, market price, NAV, market price distribution yield, and NAV distribution yield will fluctuate with changes in market conditions. For performance current to the most recent month-end, visit [www.pimco.com](http://www.pimco.com) or call (844) 33-PIMCO.
- (2) Distribution yields are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or market price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the estimated composition of distributions. Please visit [www.pimco.com](http://www.pimco.com) for most recent Section 19 Notice, if applicable. Final determination of a distribution's tax character will be made on Form 1099 DIV sent to shareholders each January.
- (3) Represents total effective leverage outstanding, as a percentage of total managed assets. Total effective leverage consists of preferred shares, reverse repurchase agreements and other borrowings, credit default swap notional and floating rate notes issued in tender option bond transactions, as applicable (collectively "Total Effective Leverage"). The Fund may engage in other transactions not included in Total Effective Leverage disclosed above that may give rise to a form of leverage, including certain derivative transactions. For the purpose of calculating Total Effective Leverage outstanding as a percentage of total managed assets, total managed assets refer to total assets (including assets attributable to Total Effective Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Total Effective Leverage).

### Investment Objective and Strategy Overview

PIMCO Municipal Income Fund's investment objective is to seek to provide current income exempt from federal income tax.

### Fund Insights at NAV

The following affected performance during the reporting period:

- » Duration exposure contributed to performance, as municipal yields moved lower.
- » Exposure to the revenue-backed sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the tobacco sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the industrial revenue sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the health care sector contributed to performance, as the sector outperformed the general municipal bond market.

## Edgar Filing: PIMCO MUNICIPAL INCOME FUND II - Form N-CSRS

- » A modest allocation to Virgin Islands-domiciled securities detracted from performance.

### **8 PIMCO CLOSED-END FUNDS**

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**PIMCO Municipal Income Fund II**

Symbol on NYSE - **PML**

Allocation Breakdown as of 06/30/2017 §

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	23.5%
Tobacco Settlement Funded	12.2%
Highway Revenue Tolls	8.1%
Natural Gas Revenue	7.8%
Ad Valorem Property Tax	5.9%
Miscellaneous Taxes	5.2%
Industrial Revenue	4.8%
Miscellaneous Revenue	4.0%
Electric Power & Light Revenue	3.7%
Water Revenue	3.1%
College & University Revenue	3.0%
Sewer Revenue	3.0%
Lease (Appropriation)	2.5%
General Fund	2.3%
Port, Airport & Marina Revenue	1.7%
Sales Tax Revenue	1.1%
Other	7.0%
Short-Term Instruments	1.1%
% of Investments, at value.	

§ Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.

**Fund Information (as of June 30, 2017)<sup>(1)</sup>**

Market Price	\$13.14
NAV	\$12.16
Premium/(Discount) to NAV	8.06%
Market Price Distribution Yield <sup>(2)</sup>	5.94%
NAV Distribution Yield <sup>(2)</sup>	6.41%
Total Effective Leverage <sup>(3)</sup>	38%

**Average Annual Total Return<sup>(1)</sup> for the period ended June 30, 2017**

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/28/02)
Market Price	11.02%	0.26%	6.90%	5.89%	6.01%
NAV	6.36%	(0.49)%	7.23%	5.02%	5.82%

All Fund returns are net of fees and expenses.

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\* Cumulative return

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- (2) Distribution yields are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or market price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the estimated composition of distributions. Please visit [www.pimco.com](http://www.pimco.com) for most recent Section 19 Notice, if applicable. Final determination of a distribution's tax character will be made on Form 1099 DIV sent to shareholders each January.
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## Investment Objective and Strategy Overview

PIMCO Municipal Income Fund II's investment objective is to seek to provide current income exempt from federal income tax.

## Fund Insights at NAV

The following affected performance during the reporting period:

- » The Fund's duration exposure contributed to performance, as the municipal bond yield curve moved lower.
- » Exposure to the revenue-backed sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the tobacco sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the industrial revenue sector contributed to performance, as the sector outperformed the general municipal bond market.
- » A modest allocation to Virgin Islands-domiciled securities detracted from performance.

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**PIMCO Municipal Income Fund III**

Symbol on NYSE - **PMX**

Allocation Breakdown as of 06/30/2017 <sup>§</sup>

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	20.4%
Tobacco Settlement Funded	11.9%
Highway Revenue Tolls	8.2%
Natural Gas Revenue	7.4%
Water Revenue	5.9%
Ad Valorem Property Tax	4.3%
Sewer Revenue	4.1%
Miscellaneous Revenue	4.0%
General Fund	4.0%
Lease (Appropriation)	4.0%
Recreational Revenue	3.8%
Nuclear Revenue	3.7%
Electric Power & Light Revenue	3.0%
Port, Airport & Marina Revenue	3.0%
Industrial Revenue	2.5%
College & University Revenue	2.2%
Appropriations	1.2%
Miscellaneous Taxes	1.0%
Other	4.3%
Short-Term Instruments	1.1%
% of Investments, at value.	

<sup>§</sup> Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.

Fund Information (as of June 30, 2017)<sup>(1)</sup>

Market Price	\$11.72
NAV	\$11.02
Premium/(Discount) to NAV	6.35%
Market Price Distribution Yield <sup>(2)</sup>	5.71%
NAV Distribution Yield <sup>(2)</sup>	6.07%
Total Effective Leverage <sup>(3)</sup>	39%

Average Annual Total Return<sup>(1)</sup> for the period ended June 30, 2017

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (10/31/02)
Market Price	6.30%	(3.07)%	5.79%	4.91%	5.52%
NAV	6.57%	(0.43)%	8.26%	4.95%	5.64%

All Fund returns are net of fees and expenses.

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\* Cumulative return

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- (2) Distribution yields are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or market price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the estimated composition of distributions. Please visit [www.pimco.com](http://www.pimco.com) for most recent Section 19 Notice, if applicable. Final determination of a distribution's tax character will be made on Form 1099 DIV sent to shareholders each January.
- (3) Represents total effective leverage outstanding, as a percentage of total managed assets. Total effective leverage consists of preferred shares, reverse repurchase agreements and other borrowings, credit default swap notional and floating rate notes issued in tender option bond transactions, as applicable (collectively "Total Effective Leverage"). The Fund may engage in other transactions not included in Total Effective Leverage disclosed above that may give rise to a form of leverage, including certain derivative transactions. For the purpose of calculating Total Effective Leverage outstanding as a percentage of total managed assets, total managed assets refer to total assets (including assets attributable to Total Effective Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Total Effective Leverage).

### Investment Objective and Strategy Overview

PIMCO Municipal Income Fund III's investment objective is to seek to provide current income exempt from federal income tax.

### Fund Insights at NAV

The following affected performance during the reporting period:

- » Duration positioning contributed to performance, as the municipal bond yield curve moved lower.
- » Exposure to the revenue-backed sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the tobacco sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the water and sewer sector contributed to performance, as the sector outperformed the general municipal bond market.
- » A modest allocation to Virgin Islands-domiciled securities detracted from performance.

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**PIMCO California Municipal Income Fund**

Symbol on NYSE - **PCQ**

Allocation Breakdown as of 06/30/2017 <sup>§</sup>

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	25.0%
Ad Valorem Property Tax	17.0%
Tobacco Settlement Funded	8.8%
Lease (Abatement)	8.0%
Electric Power & Light Revenue	7.7%
College & University Revenue	7.5%
Water Revenue	5.8%
Natural Gas Revenue	5.8%
Transit Revenue	3.1%
Local or Guaranteed Housing	2.1%
Highway Revenue Tolls	2.1%
General Fund	1.6%
Tax Increment/Allocation Revenue	1.3%
Special Assessment	1.1%
Port, Airport & Marina Revenue	1.1%
Other	1.2%
Short-Term Instruments	0.8%
% of Investments, at value.	

<sup>§</sup> Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.  
Fund Information (as of June 30, 2017)<sup>(1)</sup>

Market Price	\$16.92
NAV	\$14.19
Premium/(Discount) to NAV	19.24%
Market Price Distribution Yield <sup>(2)</sup>	5.46%
NAV Distribution Yield <sup>(2)</sup>	6.51%
Total Effective Leverage <sup>(3)</sup>	47%

Average Annual Total Return<sup>(1)</sup> for the period ended June 30, 2017

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/29/01)
Market Price	11.13%	6.03%	8.38%	7.59%	7.59%
NAV	6.03%	(0.90)%	7.35%	7.06%	6.94%

All Fund returns are net of fees and expenses.

\* Cumulative return



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### Investment Objective and Strategy Overview

PIMCO California Municipal Income Fund's investment objective is to seek to provide current income exempt from federal and California income tax.

### Fund Insights at NAV

The following affected performance during the reporting period:

- » The Fund's duration exposure contributed to performance, as municipal bond yields moved lower.
- » Exposure to the revenue-backed sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the health care sector contributed to performance, as the sector outperformed the general municipal bond market.
- » Exposure to the tobacco sector contributed to performance, as the sector outperformed the general municipal bond market.

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**PIMCO California Municipal Income Fund II**

Symbol on NYSE - **PCK**

Allocation Breakdown as of 06/30/2017 <sup>§</sup>

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	20.8%
Ad Valorem Property Tax	18.1%
Tobacco Settlement Funded	10.9%
College & University Revenue	9.0%
Natural Gas Revenue	7.4%
Electric Power & Light Revenue	6.9%
Highway Revenue Tolls	5.0%
Tax Increment/Allocation Revenue	4.8%
Lease (Abatement)	2.9%
General Fund	2.8%
Water Revenue	2.0%
Port, Airport & Marina Revenue	2.0%
Local or Guaranteed Housing	1.4%
Special Tax	1.3%
Special Assessment	1.1%
Other	2.8%
Short-Term Instruments	0.8%
% of Investments, at value.	

<sup>§</sup> Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.  
Fund Information (as of June 30, 2017)<sup>(1)</sup>

Market Price	\$10.16
NAV	\$8.65
Premium/(Discount) to NAV	17.46%
Market Price Distribution Yield <sup>(2)</sup>	5.59%
NAV Distribution Yield <sup>(2)</sup>	6.56%
Total Effective Leverage <sup>(3)</sup>	43%

Average Annual Total Return<sup>(1)</sup> for the period ended June 30, 2017

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/28/02)
Market Price	13.80%	(2.39)%	7.03%	3.84%	4.72%
NAV	6.58%	(2.36)%	8.19%	3.17%	4.43%

All Fund returns are net of fees and expenses.

\* Cumulative return

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