

PIMCO CALIFORNIA MUNICIPAL INCOME FUND II  
Form N-CSR  
August 02, 2013  
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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 811-21077

**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, 2013**

**Date of reporting period: May 31, 2013**

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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, 2013**

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Letter from the Chairman

and President & CEO

Hans W. Kertess

*Chairman of the Board of Trustees*

Brian S. Shlissel

*President & Chief Executive Officer*

Dear Shareholder:

Despite periodic setbacks, the municipal bond market generated positive results during the fiscal 12-month reporting period ended May 31, 2013. In particular, longer-term, lower credit municipals were particularly favorable during the period as investors were drawn to higher yielding securities.

For the fiscal 12-month period ended May 31, 2013:

n PIMCO Municipal Income Fund II advanced 8.86% on net asset value ( NAV ) and 3.41% on market price.

n PIMCO California Municipal Income Fund II rose 12.22% on NAV and 11.41% on market price.

n PIMCO New York Municipal Income Fund II increased 6.60% on NAV and 4.14% on market price.

**Twelve Months in Review**

The US economy continued to grow during the fiscal 12-month reporting period, but the pace of the expansion was far from robust. Gross domestic product ( GDP ), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, grew at an annual pace of 1.3% during the second quarter of 2012. GDP growth accelerated to a 3.1% annual pace during the third quarter of 2012, before declining to a 0.4% annual pace during the fourth quarter of 2012. GDP growth rebounded to an 1.8% annual rate during the first quarter of 2013.

The Federal Reserve (the Fed ) initiated a number of actions to support the economy and reduce unemployment. In September 2012, the Fed introduced a third round of quantitative easing which entailed purchasing \$40 billion of

mortgage securities each month. Toward the end of 2012, the Fed revealed that it would continue

the purchase of \$40 billion mortgage securities each month, in addition to purchasing \$45 billion per month of longer-term Treasuries on an open-ended basis. At its meeting in December 2012, the Fed indicated that it expected to maintain the Fed Funds rate in the 0.0% to 0.25% range as long as the unemployment rate remains above 6.5%, provided that inflation remains well contained. The Fed maintained this stance at its meetings in January, March and May 2013.

US Treasury bond yields moved higher during the 12-months ended May 31, 2013. At the beginning of the fiscal period, the benchmark ten-year Treasury bond was yielding 1.59%, ending the period at 2.16%. In July 2012, the yield on the benchmark ten-year Treasury bond fell to a record low 1.43%. This downward trend reflected a variety of factors, such as Europe's ongoing sovereign debt crisis, uncertainties regarding fiscal policy and decelerating global economic growth. The benchmark ten-year Treasury bond moved sharply higher in May 2013, due to generally positive economic data and concerns that the Fed may begin to taper its quantitative easing program later in the year.

Overall, the municipal bond market was aided by solid demand and attractive yields. As the economy continued to expand, tax revenues increased, which supported many municipalities and helped to improve their fiscal situations. In addition, many municipalities initiated actions to reduce expenditures and address pension funding issues. That being said, the municipal bond market, along with the overall taxable fixed income market, weakened toward the end of the reporting period as Treasury yields increased sharply.

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**Outlook**

While unemployment remains well above the Fed's 6.5% target, there has been an increase in market volatility and rising Treasury yields. This was partially triggered by expectations that the Fed may begin tapering the amount of quantitative easing. Our belief is that the Fed will want more evidence that the economy is on solid footing prior to adjusting monetary policy. We expect tapering could be more of an issue in 2014. That being said, we may continue to experience

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periods of heightened volatility given incoming economic data and the market's attempts to anticipate future Fed actions.

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*

Brian S. Shlissel  
*President & Chief Executive Officer*

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### **Fund Insights**

PIMCO Municipal Income Fund II

PIMCO California Municipal Income Fund II

PIMCO New York Municipal Income Fund II

PIMCO Municipal Income Fund II advanced 8.86% on net asset value ( NAV ) and 3.41% on market price.

PIMCO California Municipal Income Fund II rose 12.22% on NAV and 11.41% on market price.

PIMCO New York Municipal Income Fund II increased 6.60% on NAV and 4.14% on market price.

The municipal bond market generated positive results during the fiscal 12-month reporting period ended May 31, 2013. The overall municipal market, as measured by the Barclays Municipal Bond Index (the Index ), posted positive returns during five of the first six months of the period. During this time, many states benefited from positive year-over-year tax receipts and new issuance was not sufficient to meet robust investor demand. The Index declined in December 2012, as investor sentiment weakened due to uncertainties related to the fiscal cliff and future tax-favored status of municipal bonds. The Index again rallied in January and February 2013, as municipal bonds maintained their tax-exempt status and solid demand resumed. However, there was another sell-off in March, as new supply increased sharply, demand waned and Treasury yields moved higher. After another rally in April, the market declined in May amid sharply rising Treasury yields. All told, during the 12-month period, the Index returned 3.05%. In comparison, the overall taxable fixed income

market, as measured by the Barclays US Aggregate Bond Index, gained 0.91% during the same period.

A shorter duration than the benchmark contributed positively to the performance of Municipal II as municipal yields moved higher across the yield curve during the 12-month reporting period. Conversely, duration positioning detracted from the performance of New York Municipal Income II and California Municipal Income II.

Each of the Funds benefited from an overweighting to the Industrial Revenue and Tobacco sectors given their outperformance versus the Index. Municipal Income II and California Municipal II were rewarded for their overweighting to revenue-backed municipal bonds as they outperformed the Index. Municipal II and New York Municipal II held overweight positions in the Health Care sector, which was beneficial as the sector outperformed the Index.

An underweight exposure to the Transportation sector detracted from the returns of all three Funds as this sector outperformed in comparison to the Index. Municipal II s and California Municipal II s underweighting to the Education sector was detrimental given its outperformance versus the Index. New York Municipal II s exposure to the Water and Sewer Utility sector detracted from results during the reporting period.



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**Fund Performance and Statistics**

PIMCO Municipal Income Funds II

May 31, 2013 (unaudited)

**Municipal Income II**

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
1 Year	3.41%	8.86%
5 Year	4.47%	4.91%
10 Year	4.97%	5.08%
Commencement of Operations (6/28/02) to 5/31/13	5.02%	5.47%

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 5/31/13

**Market Price/NAV:**

Market Price	\$12.19
NAV	\$12.17
Premium to NAV	0.16%
Market Price Yield <sup>(2)</sup>	6.40%
Leverage Ratio <sup>(3)</sup>	35.68%

**Moody's Rating**

(as a % of total investments)

**California Municipal Income II**

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
1 Year	11.41%	12.22%
5 Year	2.48%	1.45%
10 Year	4.09%	2.99%
Commencement of Operations (6/28/02) to 5/31/13	4.13%	3.47%

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 5/31/13

**Market Price/NAV:**

Market Price	\$10.51
NAV	\$8.93
Premium to NAV	17.69%
Market Price Yield <sup>(2)</sup>	6.43%
Leverage Ratio <sup>(3)</sup>	41.61%

**Moody's Rating**

(as a % of total investments)

**Table of Contents****Fund Performance and Statistics**

## PIMCO Municipal Income Funds II

May 31, 2013 (unaudited) (continued)

**New York Municipal Income II**

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
1 Year	4.14%	6.60%
5 Year	3.70%	3.82%
10 Year	4.80%	4.51%
Commencement of Operations (6/28/02) to 5/31/13	4.73%	4.72%

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 5/31/13

**Market Price/NAV:**

Market Price	\$12.01
NAV	\$11.32
Premium to NAV	6.10%
Market Price Yield <sup>(2)</sup>	6.62%
Leverage Ratio <sup>(3)</sup>	41.35%

**Moody's Rating**

(as a % of total investments)

(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.

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, 2013.

(3) Represents Floating Rate Note 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).

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PIMCO Municipal Income Fund II

May 31, 2013

Principal Amount (000s)		Value
<b>Municipal Bonds &amp; Notes 98.5%</b>		
<b>Alabama 1.3%</b>		
	Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev.,	
\$ 10,000	Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A	\$ 10,400,700
	Montgomery BMC Special Care Facs. Financing Auth. Rev.,	
1,235	5.00%, 11/15/29, Ser. B (NPFGC)	1,238,149
2,000	State Docks Department Rev., 6.00%, 10/1/40	2,374,500
		14,013,349
<b>Arizona 6.8%</b>		
	Health Facs. Auth. Rev., Banner Health,	
3,500	5.00%, 1/1/35, Ser. A	3,683,680
2,860	5.50%, 1/1/38, Ser. D	3,150,433
	Pima Cnty. Industrial Dev. Auth. Rev.,	
29,700	5.00%, 9/1/39	30,942,648
1,500	Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A	1,636,800
	Pinal Cnty. Electric Dist. No. 3 Rev.,	
1,750	5.25%, 7/1/36	1,899,590
3,700	5.25%, 7/1/41	3,974,022
	Salt River Project Agricultural Improvement & Power Dist. Rev.,	
10,000	5.00%, 1/1/39, Ser. A (h)	11,198,800
17,900	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	19,642,207
		76,128,180
<b>California 15.4%</b>		
	Bay Area Toll Auth. Rev., San Francisco Bay Area,	
6,000	5.00%, 10/1/29	6,838,380
1,430	5.00%, 4/1/34, Ser. F-1	1,590,031
	Foothill-Eastern Transportation Corridor Agcy. Rev., 5.875%, 1/15/26	
1,565	(IBC-NPFGC)	1,602,341
	Golden State Tobacco Securitization Corp. Rev.,	
2,000	5.00%, 6/1/45, Ser. A	2,079,020
10,000	5.30%, 6/1/37, Ser. A-2	9,393,500
20,035	5.75%, 6/1/47, Ser. A-1	18,816,872
2,000	Hayward Unified School Dist., GO, 5.00%, 8/1/33	2,121,360
	Health Facs. Financing Auth. Rev.,	
1,500	Scripps Health, 5.00%, 11/15/36, Ser. A	1,624,275

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6,300	Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)	6,633,270
2,000	Sutter Health, 5.00%, 8/15/52, Ser. A	2,122,940
3,000	Sutter Health, 6.00%, 8/15/42, Ser. B	3,567,660
	Indian Wells Redev. Agcy., Tax Allocation, Whitewater Project,	
1,500	4.75%, 9/1/34, Ser. A (AMBAC)	1,395,465
2,000	Los Angeles Community College Dist., GO, 5.00%, 8/1/32, Ser. A (FGIC-NPFGC)	2,224,540
4,000	Los Angeles Department of Water & Power Rev., 5.00%, 7/1/39, Ser. A-1 (AMBAC)	4,304,440
5,000	Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC)	5,334,500
1,750	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	2,310,508
2,000	Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM)	2,201,720
2,985	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B	3,510,748
3,000	Newport Beach Rev., Hoag Memorial Hospital Presbyterian, 5.875%, 12/1/30	3,614,700

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## PIMCO Municipal Income Fund II

May 31, 2013 (continued)

Principal Amount (000s)		Value
<b>California (continued)</b>		
\$ 500	Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C	\$ 542,630
2,000	San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM)	2,202,240
3,300	San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A	3,589,806
	Santa Clara Cnty. Financing Auth. Rev., El Camino Hospital,	
2,000	5.75%, 2/1/41, Ser. A (AMBAC)	2,190,360
	State, GO,	
2,925	5.00%, 11/1/32	3,208,988
1,590	5.00%, 6/1/37	1,713,050
5,200	5.125%, 8/1/36	5,742,308
2,500	5.25%, 3/1/38	2,759,425
5,945	5.25%, 11/1/40	6,655,368
5,750	5.50%, 3/1/40	6,674,140
9,500	6.00%, 4/1/38	11,302,150
	Statewide Communities Dev. Auth. Rev.,	
2,970	California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(d)	3,216,569
785	California Baptist Univ., 6.50%, 11/1/21	922,665
1,000	Cottage Health, 5.00%, 11/1/40	1,080,140
4,890	Methodist Hospital Project, 6.625%, 8/1/29 (FHA)	5,940,617
17,415	Methodist Hospital Project, 6.75%, 2/1/38 (FHA)	20,768,258
5,690	Sutter Health, 6.00%, 8/15/42, Ser. A	6,766,662
4,725	Torrance Rev., Torrance Memorial Medical Center, 5.00%, 9/1/40, Ser. A	5,062,082
		171,623,728
<b>Colorado</b>	<b>1.8</b>	