

PIMCO MUNICIPAL INCOME FUND II  
Form N-CSRS  
February 03, 2010

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)

1345 Avenue of the Americas, New York,  
(Address of principal executive offices)

New York 10105  
(Zip code)

Lawrence G. Altadonna - 1345 Avenue of the Americas, New York, New York 10105  
(Name and address of agent for service)

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

Date of fiscal year end: May  
31, 2010

Date of reporting period:  
November 30, 2009

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, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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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

Semi-Annual Report  
November 30, 2009

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**PIMCO Municipal Income Funds II Letter to Shareholders**

January 15, 2010

Dear Shareholder:

Please find enclosed the semi-annual report for PIMCO Municipal Income Fund II, PIMCO California Municipal Income Fund II and PIMCO New York Municipal Income Fund II (collectively, the Funds ) for the fiscal six-month period ended November 30, 2009.

Municipal securities delivered solid gains during the fiscal six-month period as improved liquidity and attractive yields relative to other fixed income asset classes bolstered demand for tax-advantaged bonds. The U.S. Federal Funds rate, the key target rate on loans between member banks, was held to the record-low target range of 0% - 0.25% during the reporting period. The Federal Reserve also engaged in quantitative easing, purchasing significant amounts of securities from banks in order to add to the supply of cash available for lending. These efforts to reflate the economy brought interest rates down to historic low levels during the reporting period and resulted in yields approaching zero on money market securities. This caused investors to migrate to riskier assets. Municipal securities benefited from this sentiment-powered tailwind as a significant portion of the period's outflows from money market funds moved into the bond market.

In this economic environment, the unmanaged Barclays Capital Municipal Bond Index returned 4.75% during the six-months ended November 30, 2009. This compared favorably to the 6.21% return for the broad market of bonds as represented by the unmanaged Barclays Capital U.S. Aggregate Index on a tax-equivalent basis. Taxable equivalent yields are used to compare the after-tax income effect from a tax exempt investment to the yields of taxable income-producing investments. The calculation assumes an investor is in the highest marginal tax bracket.

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 to call the Funds' shareholder servicing agent at (800) 254 - 5197. In addition, a wide range of information and resources is available on our Web site, [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.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.

Sincerely,

Hans W. Kertess  
*Chairman*

Brian S. Shlissel  
*President & Chief Executive Officer*

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## **PIMCO Municipal Income Fund II Fund Insights**

November 30, 2009 (unaudited)

For the fiscal six-month period ended November 30, 2009, PIMCO Municipal Income Fund II returned 17.33% on net asset value ( NAV ) and 13.79% on market price, compared with the 10.12% and 13.65% returns, respectively, for the Lipper Analytical General Municipal Debt Funds (Leveraged) Average.

High-quality municipal bond yields moved lower across the yield curve during the six-month reporting period as investors continued to put money to work in the municipal bond market.

Municipal-to-U.S. Treasury yield ratios moved lower as the market continued to normalize. The 10-year ratio decreased to 86% and the 30-year ratio decreased to 101% during the reporting period. However, both ratios were within historical average levels at the end of the six-month period.

Tobacco securitization exposure contributed positively to performance. This sector was one of the strongest performers during the reporting period as spreads moved in.

Exposure to corporate-backed municipals benefited performance during the period as this sector posted positive returns due to a strong rebound in the sector similar to what occurred in the taxable corporate market.

Significant exposure to health care contributed positively to performance during the period. Exposure to the water and sewer sector detracted from performance as this sector underperformed the general market during the six-month reporting period.

Exposure to longer-maturity zero-coupon municipals benefited performance as their longer durations outperformed with yields in longer maturities moving lower during the period. The unmanaged Barclays Capital Zero Coupon Index returned 8.57% during the six-month reporting period.

The municipal yield curve was roughly unchanged during the period although it experienced significant flows into shorter-maturity municipals. The 15- and 20-year maturity AAA General Obligation yields decreased 40 and 50 basis points, respectively, while the 30-year decreased 38 basis points. The two-year yield decreased 36 basis points during the same period. Significant exposure to longer-maturity municipals benefited performance as this portion of the yield curve outperformed due to its longer duration.

Long-maturity municipal bonds slightly underperformed the broader long-maturity taxable market, with the unmanaged Barclays Capital Long Municipal Bond Index returning 7.02%, compared to the unmanaged Barclays Capital Long Government/Credit Index which advanced 12.26%. However, long-maturity municipal bonds outperformed long-maturity U.S. Treasuries, with the unmanaged Barclays Capital Long U.S. Treasury Index returning 5.56% during the six-month reporting period.

Municipal bond issuance year-to-date through November 2009 was approximately 1% higher than the comparable period in 2008 due to a pickup in refundings and strong issuance of Build America Bonds.

**PIMCO Municipal Income Fund II Performance & Statistics**

November 30, 2009 (unaudited)

| <b>Total Return<sup>(1)</sup>:</b>               | <b>Market Price</b> | <b>NAV</b> |
|--|---------------------|------------|
| Six Months                                       | 13.79%              | 17.33%     |
| 1 Year   | 42.64%              | 33.14%     |
| 5 Year   | 0.64%               | (0.51)%    |
| Commencement of Operations (6/28/02) to 11/30/09 | 1.89%               | 2.02%      |

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 11/30/09

**Market Price/NAV:**

|                                   |         |
|-----------------------------------|---------|
| Market Price                      | \$10.46 |
| NAV                               | \$10.10 |
| Premium to NAV                    | 3.56%   |
| Market Price Yield <sup>(2)</sup> | 7.46%   |

**Moody's Ratings  
(as a % of total investments)**

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

Performance at market price will differ from its 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 Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market 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 onetime public offering and once

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issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to shareholders by the market price per share at November 30, 2009.

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## **PIMCO California Municipal Income Fund II** Fund Insights

November 30, 2009 (unaudited)

For the fiscal six-month period ended November 30, 2009, PIMCO California Municipal Income Fund II returned 8.24% on net asset value ( NAV ) and 3.76% on market price, compared with the 8.31% and 10.84% returns, respectively, for the Lipper California Municipal Debt Funds Average.

High-quality municipal bond yields moved lower across the yield curve during the six-month reporting period as investors continued to put money to work in the municipal bond market.

Municipal-to-U.S. Treasury yield ratios moved lower as the market continued to normalize. The 10-year ratio decreased to 86% and the 30-year ratio decreased to 101% during the reporting period. However, both ratios were within historical average levels at the end of the six-month period.

Tobacco securitization exposure contributed positively to performance. This sector was one of the strongest performers during the reporting period as spreads moved in.

Exposure to corporate-backed municipals benefited performance during the period as this sector posted positive returns due to a strong rebound in the sector similar to what occurred in the taxable corporate market.

Significant exposure to health care contributed positively to performance during the period. Exposure to the water and sewer sector detracted from performance as this sector underperformed the general market during the six-month reporting period.

An allocation to local general obligation municipal bonds detracted from performance as revenue bonds outperformed general obligations during the period, with investors moving out the risk spectrum.

Exposure to longer-maturity zero-coupon municipals benefited performance as their longer durations outperformed with yields in longer maturities moving lower during the period. The unmanaged Barclays Capital Zero Coupon Index returned 8.57% during the six-month reporting period.

Municipal bonds within California, as represented by the California component of the Barclays Capital Municipal Bond Index, underperformed the unmanaged Barclays Capital Municipal Bond Index ( National Index ), returning 4.51%, compared to 4.75% for the National Index during the six-month period. California was able to balance its budget, which helped spur a rebound in performance during the latter part of the period. However, this has abated somewhat due to ongoing deficit concerns. Year-to-date through November 2009, California issued \$69.8 billion in municipal bonds, 34% higher than the comparable period in 2008.

Long California municipal bonds, as represented by the Barclays Capital California Municipal Bond Long Index, underperformed the long-maturity unmanaged Barclays Capital Long Municipal Bond Index ( Long-Maturity National Index ) returning 5.85%, compared to a rise of 7.02% for the Long-Maturity National Index during the six-month reporting period. The California municipal bond yield curve also steepened during the reporting period with 30-year yields decreasing 7 basis points and two-year yields decreasing 89 basis points. Significant exposure to the longer-maturity municipal bonds benefited performance, as longer-duration municipal bonds outperformed as yields moved lower.

**PIMCO California Municipal Income Fund II Performance & Statistics**

November 30, 2009 (unaudited)

| <b>Total Return<sup>(1)</sup>:</b>               | <b>Market Price</b> | <b>NAV</b> |
|--|---------------------|------------|
| Six Months                                       | 3.76%               | 8.24%      |
| 1 Year   | 49.46%              | 15.73%     |
| 5 Year   | (2.34)%             | (4.74)%    |
| Commencement of Operations (6/28/02) to 11/30/09 | (0.44)%             | (1.37)%    |

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 11/30/09

**Market Price/NAV:**

|                                   |         |
|-----------------------------------|---------|
| Market Price                      | \$ 8.69 |
| NAV                               | \$ 7.68 |
| Premium to NAV                    | 13.15%  |
| Market Price Yield <sup>(2)</sup> | 7.88%   |

**Moody's Ratings  
(as a % of total investments)**

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

Performance at market price will differ from its 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 Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market 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 onetime public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to shareholders by the market price per share at November 30, 2009.

## **PIMCO New York Municipal Income Fund II Fund Insights**

November 30, 2009 (unaudited)

For the fiscal six-month period ended November 30, 2009, PIMCO New York Municipal Income Fund II returned 12.48% on net asset value ( NAV ) and 9.74% on market price, compared with the 8.82% and 11.72% declines, respectively, for the Lipper New York Municipal Debt Funds Average.

High-quality municipal bond yields moved lower across the yield curve during the six-month reporting period as investors continued to put money to work in the municipal bond market.

Municipal-to-U.S. Treasury yield ratios moved lower as the market continued to normalize. The 10-year ratio decreased to 86% and the 30-year ratio decreased to 101% during the reporting period. However, both ratios were within historical average levels at the end of the six-month period.

Tobacco securitization exposure contributed positively to performance. This sector was one of the strongest performers during the reporting period as spreads moved in.

Exposure to corporate-backed municipals benefited performance during the period as this sector posted positive returns due to a strong rebound in the sector similar to what occurred in the taxable corporate market.

Significant exposure to health care contributed positively to performance during the period. Exposure to the water and sewer sector detracted from performance as this sector underperformed the general market during the six-month reporting period.

Exposure to longer-maturity zero-coupon municipals benefited performance as their longer durations outperformed with yields in longer maturities moving lower during the period. The unmanaged Barclays Capital Zero Coupon Index returned 8.57% during the six-month reporting period.

Municipal bonds within New York, as represented by the New York component of the Barclays Capital Municipal Bond Index, marginally outperformed the unmanaged Barclays Capital Municipal Bond Index ( National Index ) returning 4.96%, compared to 4.75% for the National Index during the six-month reporting period. Year-to-date through November 2009, New York State bond issuance aggregated \$38 billion, in-line with the comparable period in 2008. New York ranked second in total municipal bond issuance at the end of November 2009.

Long New York municipal bonds, as represented by the Barclays Capital New York Municipal Bond Long Index, slightly underperformed the unmanaged Barclays Capital Long Municipal Bond Index ( Long-Maturity National Index ) returning 6.87%, compared to a rise of 7.02% for the Long-Maturity National Index during the six-month reporting period. The New York municipal bond yield curve steepened marginally during the reporting period with 30-year yields decreasing 37 basis points and two-year yields decreasing 71 basis points. New York Municipal II also held significant positions in the longer portions of the municipal bond yield curve, which benefited performance as longer-duration municipal bonds outperformed and yields moved lower.

**PIMCO New York Municipal Income Fund II Performance & Statistics**

November 30, 2009 (unaudited)

| <b>Total Return<sup>(1)</sup>:</b>               | <b>Market Price</b> | <b>NAV</b> |
|--|---------------------|------------|
| Six Months                                       | 9.74%               | 12.48%     |
| 1 Year   | 44.56%              | 26.29%     |
| 5 Year   | 0.92%               | 0.51%      |
| Commencement of Operations (6/28/02) to 11/30/09 | 2.13%               | 2.12%      |

**Market Price/NAV Performance:**

Commencement of Operations (6/28/02) to 11/30/09

**Market Price/NAV:**

|                                   |          |
|-----------------------------------|----------|
| Market Price                      | \$ 10.84 |
| NAV                               | \$ 10.33 |
| Premium to NAV                    | 4.94%    |
| Market Price Yield <sup>(2)</sup> | 7.33%    |

**Moody's Ratings  
(as a % of total investments)**

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

Performance at market price will differ from its 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 Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading

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purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a onetime public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to shareholders by the market price per share at November 30, 2009.

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**PIMCO Municipal Income Fund II Schedule of Investments**

November 30, 2009 (unaudited)

| Principal Amount<br>(000)                |   | Credit Rating<br>(Moody s/S&P) | Value        |
|--|---|--------------------------------|--------------|
| <b>MUNICIPAL BONDS &amp; NOTES 99.0%</b> |   |                                |              |
| <b>Alabama 1.1%</b>                      |   |                                |              |
| \$ 10,000                                | Birmingham Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | Baa2/NR                        | \$ 8,109,900 |
| 1,235                                    | Montgomery BMC Special Care Facs. Financing Auth. Rev., 5.00%, 11/15/29, Ser. B (NPFGC)   | A3/A                           | 1,118,305    |
| 2,650                                    | Tuscaloosa Educational Building Auth. Rev., Stillman College Project, 5.00%, 6/1/26, Ser. A                                       | NR/BBB-                        | 2,160,889    |
|  |   |                                | 11,389,094   |
| <b>Alaska 0.7%</b>                       |   |                                |              |
| 3,550                                    | State Housing Finance Corp. Rev., 5.25%, 6/1/32, Ser. C (NPFGC)   | Aa2/AA                         | 3,568,496    |
| 5,900                                    | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A   | Baa3/NR                        | 3,790,042    |
|  |   |                                | 7,358,538    |
| <b>Arizona 9.1%</b>                      |   |                                |              |
| 3,500                                    | Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A   | NR/A+                          | 3,345,755    |
| 2,860                                    | 5.50%, 1/1/38, Ser. D   | NR/A+                          | 2,893,319    |
| 29,700                                   | Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39  | Aa2/AA                         | 27,990,171   |
|  | Salt River Project Agricultural Improvement & Power Dist. Rev., Ser. A (j),   |                                |              |
| 41,100                                   | 5.00%, 1/1/37   | Aa1/AA                         | 42,048,999   |
| 10,000                                   | 5.00%, 1/1/39   | Aa1/AA                         | 10,308,700   |
| 10,500                                   | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37   | A3/A                           | 8,632,680    |
|  |   |                                | 95,219,624   |
| <b>Arkansas 0.2%</b>                     |   |                                |              |
| 13,000                                   | Dev. Finance Auth. Rev., Arkansas Cancer Research Center Project, zero coupon, 7/1/46 (AMBAC)                                     | Aa3/NR                         | 1,907,360    |
| <b>California 5.4%</b>                   |   |                                |              |
| 6,000                                    | Golden State Tobacco Securitization Corp. Rev., 5.00%, 6/1/33, Ser. A-1   | Baa3/BBB                       | 4,514,580    |
| 2,500                                    | Los Angeles Department of Water & Power Rev., 5.00%, 7/1/39, Ser. A-1 (AMBAC)   | Aa3/AA-                        | 2,510,850    |
| 1,365                                    | Lynwood Utility Auth. Rev., 5.00%, 6/1/29, Ser. A   | Aa3/AAA                        | 1,366,024    |
| 2,000                                    | Montebello Unified School Dist., GO, 5.00%, 8/1/33 (FSA)  | Aa3/AAA                        | 1,991,620    |
| 2,000                                    | San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. A (FSA)  | Aa3/AAA                        | 1,920,820    |
| 2,000                                    | Santa Clara Cnty. Financing Auth. Rev., 5.75%, 2/1/41, Ser. A (AMBAC)   | A1/A+                          | 2,069,900    |
| 10,500                                   | State, GO, 6.00%, 4/1/38  | Baa1/A                         | 10,663,800   |
| 4,305                                    | Statewide Communities Dev. Auth. Rev., Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(d)   | NR/NR                          | 3,679,397    |
|  | Methodist Hospital Project (FHA),   |                                |              |
| 5,500                                    | 6.625%, 8/1/29  | Aa2/AA                         | 6,191,240    |
| 19,500                                   | 6.75%, 2/1/38   | Aa2/AA                         | 21,802,365   |
|  |   |                                | 56,710,596   |

**PIMCO Municipal Income Fund II**    **Schedule of Investments**

November 30, 2009 (unaudited)

| Principal Amount<br>(000) |  | Credit Rating<br>(Moody s/S&P) | Value         |
|---------------------------|--|--------------------------------|---------------|
|                           | <b>Colorado 4.1%</b>   |                                |               |
| \$ 11,250                 | Denver City & Cnty. Airport Rev., 5.00%, 11/15/25, Ser. B (FSA)  | Aa3/AAA                        | \$ 11,312,437 |
|                           | Health Facs. Auth. Rev., Ser. A,                                 |                                |               |
| 1,000                     | American Baptist Homes, 5.90%, 8/1/37                            | NR/NR                          | 753,220       |
| 9,500                     | Catholic Health Initiatives, 5.50%, 3/1/32                       | NR/AA                          | 10,064,395    |
| 500                       | Evangelical Lutheran, 6.125%, 6/1/38                             | A3/A-                          | 494,350       |
| 18,305                    | Exempla, Inc., 5.625%, 1/1/33                                    | A1/A-                          | 17,899,361    |
| 2,000                     | Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. |                                |               |