

PIMCO CALIFORNIA MUNICIPAL INCOME FUND III
Form N-CSRS
August 26, 2016

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: 811-21188

PIMCO California Municipal Income Fund III

(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

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800 Boylston Street

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

Date of fiscal year end: December 31

Date of reporting period: June 30, 2016

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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.

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).

PIMCO Closed-End Funds

Semiannual Report

June 30, 2016

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

PIMCO California Municipal Income Fund III

PIMCO New York Municipal Income Fund

PIMCO New York Municipal Income Fund II

PIMCO New York Municipal Income Fund III

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Letter from the Chairman of the Board & President

Dear Shareholder,

The financial markets generated mixed results during the reporting period. Investor sentiment fluctuated as investors reacted to incoming economic data, shifting monetary policy, volatile commodity prices and numerous geopolitical issues.

Outside of the reporting period, PIMCO announced on July 19, 2016 that the firm's Managing Directors have appointed Emmanuel (Manny) Roman as PIMCO's next Chief Executive Officer. PIMCO's current CEO Douglas Hodge will assume a new role as Managing Director and Senior Advisor when Mr. Roman joins PIMCO on November 1st. The announcement of Mr. Roman as PIMCO's CEO is the culmination of a process undertaken by the firm to hire a senior executive who would add leadership and strategic insights combined with a deep appreciation of PIMCO's diversified global businesses, investment process and focus on superior investment performance and client service. Mr. Roman's appointment has the full support of the firm's leadership including Mr. Hodge, PIMCO's President Jay Jacobs, the firm's Executive Committee and its Managing Directors. Mr. Roman has nearly 30 years of experience in the investment industry, with expertise in fixed income and proven executive leadership, most recently as CEO of Man Group PLC, one of the world's largest publicly traded alternative asset managers and leader in liquid, high-alpha investment strategies.

For the six-month reporting period ended June 30, 2016

Despite a number of headwinds, the U.S. economy was resilient and continued to expand during the reporting period. That being said, the pace was far from robust. 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 0.9% annual pace during the fourth quarter of 2015. Economic activity then decelerated, as GDP grew at a 0.8% annual pace during the first quarter of 2016. Finally, the Commerce Department's initial reading released after the reporting period had ended showed that second quarter 2016 GDP grew at an annual pace of 1.2%.

At its meeting in December 2015, the Federal Reserve (Fed) took its initial step toward normalizing monetary policy. In particular, the Fed raised interest rates from a range between 0% and 0.25% to a range between 0.25% and 0.50%. However, since that time the Fed has remained on hold. In its official statement following the Fed's June 2016 meeting it said, "The Committee expects that economic conditions will evolve in a manner that will warrant only 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 municipal bond market generated solid results during the six months ended June 30, 2016. Despite negative headlines from the likes of Puerto Rico and within Illinois, the overall municipal market, as measured by the Barclays Municipal Bond Index, posted positive returns during all six months of the reporting period. The municipal market was supported by overall solid fundamentals, attractive valuations and generally strong investor demand. All told, the Barclays Municipal Bond Index gained 4.33% during the reporting period. In comparison, the overall taxable fixed income market, as measured by the Barclays U.S. Aggregate Bond Index, returned 5.31%.

Outlook

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PIMCO's baseline view is for a version of today's status quo to continue and evolve gradually for the next three to five years. More specifically, PIMCO foresees U.S. GDP growth at or slightly above trend of 1.5% to 2% per year, inflation fluctuating around the 2% Fed's target, the Fed gradually lifting the federal funds rate to the New Neutral range of 2% to 3% nominal and fiscal policy providing modest positive support to aggregate demand.

PIMCO's outlook for the municipal market remains positive due to improving overall credit fundamentals and the attractiveness of consistent tax-efficient income in a low rate and volatile environment. However, PIMCO acknowledges the potential for periods of volatility given negative credit headlines and the uncertainties surrounding the upcoming November elections. As it pertains to the PIMCO Municipal Closed-End Funds, in the current

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environment the potential exists for continued downward pressure on net income of the Funds. This is due to issuers exercising the call option on our higher yielding investments, or additional upward pressure on financing costs from further Fed policy rate increases.

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, 2016.

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 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 number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). Accordingly, changes in interest rates can be sudden, and there is no guarantee that Fund Management will anticipate such movement. As of the date of this report, interest rates in the U.S. are at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with rising interest rates. This is especially true since the Federal Reserve Board has concluded its quantitative easing program and, at its meeting on December 16, 2015, raised interest rates for the first time since 2006 from a target range of 0% to 0.25% to a target range of 0.25% to 0.50%. 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.

A Fund that invests in the municipal bond market is subject to certain risks. The amount of public information available about the municipal bonds held by a Fund is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of PIMCO than would be a stock fund or taxable bond fund. 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 and as governmental cost burdens are reallocated among federal, state and local governments. In addition, laws enacted in the future by Congress or state legislatures or referenda 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 might seek protection under the bankruptcy

laws. In the event of bankruptcy of such an issuer, a Fund investing in the issuer's securities 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, in some instances, 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 concentrates its investments in 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.

A Fund that concentrates its investments in 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 a 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

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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. Changes in regulation relating to a registered investment company's use of derivatives and related instruments could potentially limit or impact a Fund's ability to invest in derivatives, limit a Fund's ability to employ certain strategies that use derivatives and adversely affect the value or performance of derivatives and a Fund. For instance, in December 2015, the SEC proposed new regulations applicable to a mutual fund'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 adversely affect a Fund's performance, efficiency in implementing its strategy, liquidity and ability to pursue its investment objectives.

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 to the Fund of leverage 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 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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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

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Important Information About the Funds (Cont.)

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 risks through breaches in cyber security. A breach in cyber security refers to both intentional and unintentional cyber events that may cause a Fund to lose proprietary information, suffer data corruption, or lose operational capacity. 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 of a Fund's third party service providers (including but not limited to advisers, sub-advisers, administrators, transfer agents, custodians, distributors and other third parties) or issuers that a Fund invests in can also subject a Fund to many of the same risks associated with direct cyber security breaches. 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; or additional compliance costs. 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 risk management systems designed to reduce the risks associated with cyber security. However, there is no guarantee that such efforts will succeed, especially since the Funds do not directly control the cyber security systems of issuers or third party service providers. 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. 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 in addition to those described above. Some of these risks may include, but are 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.

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

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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.

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

Fund Name	Commencement of Operations	Diversification Status
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

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 shareholder 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 the 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.

PIMCO has adopted written proxy voting policies and procedures (Proxy Policy) as required by Rule 206(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, and on the Securities and Exchange Commission's (SEC) website at <http://www.sec.gov>.

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.

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Updated portfolio holdings information about a Fund will be available at 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

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	19.9%
Highway Revenue Tolls	10.2%
Tobacco Settlement Funded	8.7%
Ad Valorem Property Tax	8.3%
Natural Gas Revenue	6.5%
Miscellaneous Revenue	5.5%
Industrial Revenue	4.8%
Electric Power & Light Revenue	4.7%
College & University Revenue	4.3%
Port, Airport & Marina Revenue	3.9%
Special Assessment	3.6%
Water Revenue	3.4%
Miscellaneous Taxes	3.2%
Sewer Revenue	2.6%
General Fund	2.3%
Nuclear Revenue	2.2%
Transit Revenue	1.1%
Other	2.8%
Short-Term Instruments	2.0%

% of Investments, at value as of 06/30/2016. Financial derivative instruments, if any, are excluded.

Fund Information (as of June 30, 2016)⁽¹⁾

Market Price	\$17.23
NAV	\$13.91
Premium/(Discount) to NAV	23.87%
Market Price Distribution Yield ⁽²⁾	5.66%
NAV Distribution Yield ⁽²⁾	7.01%
Total Effective Leverage ⁽³⁾	36%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2016

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/29/01)
Market Price	15.09%	33.80%	13.04%	7.70%	8.20%
NAV	8.75%	16.98%	12.38%	7.91%	7.60%

All Fund returns are net of fees and expenses.

* 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,

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visit 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, 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 composition of distributions. Please visit 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 primary investment objective is to seek current income exempt from federal income tax.

Fund Insights at NAV

Following are key factors impacting the Fund's performance during the reporting period:

- » The Fund's long-duration positioning contributed to absolute performance, as municipal bond yields moved lower.
- » An overweight to revenue-backed municipal bond securities contributed to performance, as the segment outperformed the general municipal bond market.
- » Exposure to the municipal tobacco sector contributed to performance, as the segment outperformed the general municipal bond market.
- » An overweight to the industrial revenue sector contributed to performance, as the higher-beta segment outperformed the general municipal bond market.
- » Underweights to the education and health care sectors detracted from performance, as they both outperformed the general municipal bond market.

8 PIMCO CLOSED-END FUNDS

PIMCO Municipal Income Fund II

Symbol on NYSE - **PML**

Allocation Breakdown

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	20.7%
Tobacco Settlement Funded	11.6%
Highway Revenue Tolls	8.1%
Industrial Revenue	7.9%
Natural Gas Revenue	7.6%
Miscellaneous Taxes	6.1%
Ad Valorem Property Tax	5.9%
Electric Power & Light Revenue	5.5%
Water Revenue	3.6%
Sewer Revenue	3.5%
College & University Revenue	2.7%
Lease (Appropriation)	2.7%
General Fund	2.6%
Port, Airport & Marina Revenue	2.2%
Miscellaneous Revenue	2.0%
Transit Revenue	1.5%
Nuclear Revenue	1.0%
Special Assessment	1.0%
Other	3.2%
Short-Term Instruments	0.6%

% of Investments, at value as of 06/30/2016. Financial derivative instruments, if any, are excluded.

Fund Information (as of June 30, 2016)⁽¹⁾

Market Price	\$13.96
NAV	\$13.02
Premium/(Discount) to NAV	7.22%
Market Price Distribution Yield ⁽²⁾	5.59%
NAV Distribution Yield ⁽²⁾	5.99%
Total Effective Leverage ⁽³⁾	33%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2016

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/28/02)
Market Price	15.05%	29.45%	12.98%	6.46%	6.44%
NAV	8.38%	15.95%	11.82%	5.91%	6.28%

All Fund returns are net of fees and expenses.

* Cumulative return

(1)

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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 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, 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 composition of distributions. Please visit 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 II's primary investment objective is to seek current income exempt from federal income tax.

Fund Insights at NAV

Following are key factors impacting the Fund's performance during the reporting period:

- » The Fund's long-duration positioning contributed to absolute performance, as municipal bond yields moved lower.
- » An overweight to revenue-backed municipal bond securities contributed to performance, as the segment outperformed the general municipal bond market.
- » Exposure to the municipal tobacco sector contributed to performance, as the segment outperformed the general municipal bond market.
- » An overweight to the industrial revenue sector contributed to performance, as the higher-beta segment outperformed the general municipal bond market.
- » Underweights to the health care and education sectors detracted from performance, as they both outperformed the general municipal bond market.

PIMCO Municipal Income Fund III

Symbol on NYSE - **PMX**

Allocation Breakdown

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	17.0%
Sewer Revenue	11.3%
Tobacco Settlement Funded	10.4%
Highway Revenue Tolls	9.1%
Natural Gas Revenue	5.8%
Electric Power & Light Revenue	4.9%
Water Revenue	4.4%
Industrial Revenue	4.3%
Nuclear Revenue	4.0%
Recreational Revenue	4.0%
General Fund	3.9%
Ad Valorem Property Tax	3.8%
Lease (Appropriation)	3.5%
Port, Airport & Marina Revenue	2.3%
Miscellaneous Revenue	2.2%
College & University Revenue	2.2%
Miscellaneous Taxes	1.8%
Tax Increment/Allocation Revenue	1.2%
Local or Guaranteed Housing	1.0%
Special Assessment	1.0%
Other	1.2%
Short-Term Instruments	0.7%

% of Investments, at value as of 06/30/2016. Financial derivative instruments, if any, are excluded.

Fund Information (as of June 30, 2016)⁽¹⁾

Market Price	\$12.88
NAV	\$11.80
Premium/(Discount) to NAV	9.15%
Market Price Distribution Yield ⁽²⁾	5.80%
NAV Distribution Yield ⁽²⁾	6.34%
Total Effective Leverage ⁽³⁾	36%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2016

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (10/31/02)
Market Price	15.52%	29.17%	11.70%	6.25%	6.18%
NAV	9.55%	17.84%	12.81%	5.78%	6.10%

All Fund returns are net of fees and expenses.

* 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, 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 composition of distributions. Please visit 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 primary investment objective is to seek current income exempt from federal income tax.

Fund Insights at NAV

Following are key factors impacting the Fund's performance during the reporting period:

- » The Fund's long-duration positioning contributed to absolute performance, as municipal bond yields moved lower.
- » An overweight to revenue-backed municipal bond securities contributed to performance, as the segment outperformed the general municipal bond market.
- » Exposure to the municipal tobacco sector contributed to performance, as the segment outperformed the general municipal bond market.
- » An overweight to the industrial revenue sector contributed to performance, as the higher-beta segment outperformed the general municipal bond market.
- » Underweights to the education and health care sectors detracted from performance, as they both outperformed the general municipal bond market.

10 PIMCO CLOSED-END FUNDS

PIMCO California Municipal Income Fund

Symbol on NYSE - **PCQ**

Allocation Breakdown

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	24.3%
Ad Valorem Property Tax	14.5%
Tobacco Settlement Funded	10.0%
College & University Revenue	10.0%
Lease (Abatement)	8.8%
Natural Gas Revenue	7.8%
Water Revenue	7.2%
Electric Power & Light Revenue	5.1%
General Fund	3.6%
Local or Guaranteed Housing	2.4%
Highway Revenue Tolls	2.4%
Tax Increment/Allocation Revenue	1.5%
Port, Airport & Marina Revenue	1.2%
Other	0.4%
Short-Term Instruments	0.8%

% of Investments, at value as of 06/30/2016. Financial derivative instruments, if any, are excluded.

Fund Information (as of June 30, 2016)⁽¹⁾

Market Price	\$16.93
NAV	\$15.27
Premium/(Discount) to NAV	10.87%
Market Price Distribution Yield ⁽²⁾	5.46%
NAV Distribution Yield ⁽²⁾	6.05%
Total Effective Leverage ⁽³⁾	39%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2016

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/29/01)
Market Price	11.05%	26.00%	12.82%	7.96%	7.69%
NAV	7.83%	16.08%	12.28%	7.95%	7.49%

All Fund returns are net of fees and expenses.

* 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 or call (844) 33-PIMCO.

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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, 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 composition of distributions. Please visit 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 California Municipal Income Fund's primary investment objective is to seek current income exempt from federal and California income tax.

Fund Insights at NAV

Following are key factors impacting the Fund's performance during the reporting period:

- » The Fund's long-duration positioning contributed to absolute performance, as municipal bond yields moved lower.
- » An overweight to revenue-backed municipal bond securities contributed to performance, as the segment outperformed the general municipal bond market.
- » Exposure to the municipal tobacco sector contributed to performance, as the segment outperformed the general municipal bond market.
- » An overweight to the industrial revenue sector contributed to performance, as the higher-beta segment outperformed the general municipal bond market.
- » Underweights to the transportation and education sectors detracted from performance, as they both outperformed the general municipal bond market.

PIMCO California Municipal Income Fund II

Symbol on NYSE - **PCK**

Allocation Breakdown

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	25.1%
Ad Valorem Property Tax	22.7%
Tobacco Settlement Funded	11.0%
Natural Gas Revenue	7.8%
College & University Revenue	6.9%
Electric Power & Light Revenue	5.3%
Tax Increment/Allocation Revenue	5.3%
General Fund	3.1%
Lease (Abatement)	3.0%
Port, Airport & Marina Revenue	2.1%
Special Tax	1.4%
Highway Revenue Tolls	1.3%
Water Revenue	1.2%
Local or Guaranteed Housing	1.1%
Private Schools	1.0%
Other	1.4%
Short-Term Instruments	0.3%

% of Investments, at value as of 06/30/2016. Financial derivative instruments, if any, are excluded.

Fund Information (as of June 30, 2016)⁽¹⁾

Market Price	\$11.05
NAV	\$9.45
Premium/(Discount) to NAV	16.93%
Market Price Distribution Yield ⁽²⁾	5.84%
NAV Distribution Yield ⁽²⁾	6.83%
Total Effective Leverage ⁽³⁾	39%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2016

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/28/02)
Market Price	14.74%	26.29%	11.78%	4.88%	5.24%
NAV	9.39%	18.55%	13.69%	4.25%	4.94%

All Fund returns are net of fees and expenses.

* Cumulative return

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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 or call (844) 33-PIMCO.

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Investment Objective and Strategy Overview

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

Fund Insights at NAV

Following are key factors impacting the Fund's performance during the reporting period:

- » The Fund's long-duration positioning contributed to absolute performance, as municipal bond yields moved lower.
- » An overweight to revenue-backed municipal bond securities contributed to performance, as the segment outperformed the general municipal bond market.
- » Exposure to the municipal tobacco sector contributed to performance, as the segment outperformed the general municipal bond market.
- » An overweight to the industrial revenue sector contributed to performance, as the higher-beta segment outperformed the general municipal bond market.
- » Underweights to the transportation and education sectors detracted from performance, as they both outperformed the general municipal bond market.

12 PIMCO CLOSED-END FUNDS

PIMCO California Municipal Income Fund III

Symbol on NYSE - **PZC**

Allocation Breakdown

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	26.4%
Ad Valorem Property Tax	16.7%
College & University Revenue	13.8%
Tobacco Settlement Funded	9.3%
Electric Power & Light Revenue	8.4%
Natural Gas Revenue	5.8%
Water Revenue	4.7%
Highway Revenue Tolls	3.4%
Lease (Abatement)	2.3%
General Fund	2.1%