

PIMCO MUNICIPAL INCOME FUND III  
Form N-Q  
February 21, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS**  
**OF REGISTERED MANAGEMENT INVESTMENT COMPANY**

|   |  |
|---|--|
| <b>Investment Company Act File Number:</b>          | <b>811-21187</b>   |
| <b>Registrant Name:</b>                             | <b>PIMCO Municipal Income Fund III</b>                       |
| Address of Principal Executive Offices:             | 1633 Broadway<br>New York, NY 10019                          |
| Name and Address of Agent for Service:              | Lawrence G. Altadonna<br>1633 Broadway<br>New York, NY 10019 |
| Registrant's telephone number, including area code: | 212-739-3371   |
| Date of Fiscal Year End:                            | September 30, 2014   |
| Date of Reporting Period:                           | December 31, 2013  |

**Item 1. Schedule of Investments****Schedule of Investments****PIMCO Municipal Income Fund III**

December 31, 2013 (unaudited)

| Principal<br>Amount<br>(000s)              |  | Value*     |
|--|--|------------|
| <b>MUNICIPAL BONDS &amp; NOTES - 92.5%</b> |  |            |
| <b>Alabama - 8.5%</b>                      |  |            |
| \$ 500                                     | Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital,<br>6.00%, 6/1/39 (AGC)                                       | \$ 548,390 |
| 9,000                                      | Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev.,<br>Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | 8,471,250  |
| 50,000                                     | Jefferson Cnty. Sewer Rev.,<br>zero coupon, 10/1/50 (i)  | 22,760,500 |
| 12,000                                     | 6.50%, 10/1/53, Ser. D   | 11,334,120 |
| 1,000                                      | State Docks Department Rev., 6.00%, 10/1/40  | 1,096,590  |
|  |  | 44,210,850 |
| <b>Arizona - 6.6%</b>                      |  |            |
| 1,250                                      | Health Facs. Auth. Rev.,<br>Banner Health, 5.00%, 1/1/35, Ser. A   | 1,260,313  |
| 900  | Banner Health, 5.50%, 1/1/38, Ser. D   | 938,169    |
| 2,250                                      | Beatitudes Campus Project, 5.20%, 10/1/37  | 1,777,657  |
| 13,000                                     | Pima Cnty. Industrial Dev. Auth. Rev.,<br>5.00%, 9/1/39 (h)  | 13,018,460 |
| 750  | Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A  | 729,975    |
| 5,000                                      | Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%,<br>1/1/39, Ser. A (h)   | 5,187,350  |
| 11,600                                     | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37  | 11,222,420 |
|  |  | 34,134,344 |
| <b>California - 18.9%</b>                  |  |            |
| 12,000                                     | Bay Area Toll Auth. Rev.,<br>5.25%, 4/1/53, Ser. S-4   | 12,042,600 |
| 1,500                                      | San Francisco Bay Area, 5.00%, 10/1/29   | 1,583,190  |
| 500  | San Francisco Bay Area, 5.00%, 4/1/34, Ser. F-1  | 522,050    |
| 3,260                                      | San Francisco Bay Area, 5.00%, 10/1/42   | 3,268,998  |
| 2,630                                      | Golden State Tobacco Securitization Corp. Rev., Ser. A-1,<br>4.50%, 6/1/27   | 2,216,064  |
| 3,600                                      | 5.125%, 6/1/47   | 2,439,360  |

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|        |  |            |
|--------|--|------------|
| 11,120 | 5.75%, 6/1/47  | 8,249,261  |
|        | Health Facs. Financing Auth. Rev.,   |            |
| 2,500  | Catholic Healthcare West, 6.00%, 7/1/39, Ser. A  | 2,686,775  |
| 600    | Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)   | 590,058    |
| 4,390  | Sutter Health, 5.00%, 8/15/52, Ser. A  | 4,160,491  |
| 1,500  | Sutter Health, 6.00%, 8/15/42, Ser. B  | 1,637,145  |
| 3,350  | Indian Wells Redev. Agcy., Tax Allocation, Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC)                         | 2,981,232  |
| 130    | Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC)  | 134,602    |
| 2,000  | M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B  | 2,366,960  |
| 1,500  | Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B                                     | 1,630,980  |
| 1,250  | Palomar Pomerado Health, CP, 6.75%, 11/1/39  | 1,266,600  |
| 1,600  | San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A   | 1,629,216  |
|        | State, GO,   |            |
| 5,000  | 5.00%, 6/1/37  | 5,105,000  |
| 5,300  | 5.00%, 12/1/37   | 5,426,299  |
| 1,350  | 5.25%, 3/1/38  | 1,394,671  |
| 1,300  | 5.25%, 11/1/40   | 1,382,602  |
| 3,200  | 5.50%, 3/1/40  | 3,428,960  |
| 2,500  | 5.75%, 4/1/31  | 2,773,550  |
| 5,000  | 6.00%, 4/1/38  | 5,550,850  |
|        | Statewide Communities Dev. Auth. Rev.,   |            |
| 1,000  | American Baptist Homes West, 6.25%, 10/1/39  | 1,019,140  |
| 1,635  | California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(b)(d)(j)<br>(acquisition cost - \$1,635,000; purchased 6/22/07) | 1,769,626  |
| 2,580  | Methodist Hospital Project, 6.625%, 8/1/29 (FHA)   | 2,967,800  |
| 9,200  | Methodist Hospital Project, 6.75%, 2/1/38 (FHA)  | 10,339,328 |
| 3,000  | Trinity Health, 5.00%, 12/1/41   | 2,964,270  |
| 6,200  | Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1                                    | 4,443,230  |
|        |  | 97,970,908 |

**Colorado - 0.7%**

|       |  |           |
|-------|--|-----------|
|       | Health Facs. Auth. Rev., Ser. A,   |           |
| 500   | Evangelical Lutheran, 6.125%, 6/1/38 (Pre-refunded @ \$100, 6/1/14) (c)            | 511,920   |
| 2,000 | Sisters of Charity of Leavenworth Health System, 5.00%, 1/1/40                     | 2,018,520 |
| 500   | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38                             | 586,950   |
| 500   | Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34 | 514,095   |
|       |  | 3,631,485 |

**Connecticut - 0.3%**

|       |   |           |
|-------|---|-----------|
| 1,250 | Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A | 1,356,813 |
|-------|---|-----------|

**District of Columbia - 2.0%**

|        |  |            |
|--------|--|------------|
| 10,000 | Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h) | 10,570,000 |
|--------|--|------------|

**Florida - 3.2%**

|       |  |           |
|-------|--|-----------|
| 3,480 | Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34 | 3,484,106 |
| 500   | Broward Cnty. Airport System Rev., 5.375%, 10/1/29, Ser. O                       | 537,815   |
| 4,500 | Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (h)             | 4,816,350 |
| 3,000 | Cape Coral Water & Sewer Rev., 5.00%, 10/1/41 (AGM)                              | 3,030,450 |
| 350   | Dev. Finance Corp. Rev., Renaissance Charter School, 6.50%, 6/15/21, Ser. A      | 355,128   |
| 4,200 | State Board of Education, GO, 5.00%, 6/1/38, Ser. D (h)                          | 4,371,276 |

16,595,125

**Georgia - 0.4%**

|       |   |           |
|-------|---|-----------|
|       | Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev., Lenbrook Project,     |           |
| 1,750 | 5.125%, 7/1/42, Ser. A  | 1,435,753 |
| 400   | Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37 | 345,792   |

1,781,545

**Hawaii - 0.3%**

|       |   |           |
|-------|---|-----------|
| 1,500 | Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A | 1,528,620 |
|-------|---|-----------|

**Illinois - 2.4%**

|       |  |           |
|-------|--|-----------|
|       | Finance Auth. Rev.,                                      |           |
| 1,000 | Leafs Hockey Club Project, 5.875%, 3/1/27, Ser. A (b)(e) | 340,000   |
| 625   | Leafs Hockey Club Project, 6.00%, 3/1/37, Ser. A (b)(e)  | 212,500   |
| 400   | OSF Healthcare System, 7.125%, 11/15/37, Ser. A          | 451,908   |
| 1,000 | Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A        | 1,028,180 |
| 5,000 | Univ. of Chicago, 5.50%, 7/1/37, Ser. B (h)              | 5,371,000 |
| 5,000 | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B     | 5,256,850 |

12,660,438

**Indiana - 1.0%**

|       |   |           |
|-------|---|-----------|
|       | Portage, Tax Allocation, Ameriplex Project,                         |           |
| 1,000 | 5.00%, 7/15/23  | 1,001,160 |
| 775   | 5.00%, 1/15/27  | 750,479   |
| 2,800 | Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 7.50%, 9/1/22 | 3,290,952 |

5,042,591

**Iowa - 0.6%**

|       |   |           |
|-------|---|-----------|
|       | Finance Auth. Rev.,   |           |
| 120   | Deerfield Retirement Community, Inc., 5.50%, 11/15/27, Ser. A (e) | 60,091    |
| 575   | Deerfield Retirement Community, Inc., 5.50%, 11/15/37, Ser. A (e) | 287,207   |
| 3,000 | Fertilizer Company Project, 5.25%, 12/1/25                        | 2,674,020 |

3,021,318

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**Kentucky - 0.4%**

|       |  |           |
|-------|--|-----------|
| 2,000 | Economic Dev. Finance Auth. Rev., Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A | 2,091,060 |
|-------|--|-----------|

**Louisiana - 1.3%**

|       |   |           |
|-------|---|-----------|
|       | Local Gov t Environmental Facs. & Community Dev. Auth Rev., |           |
| 400   | Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2           | 431,164   |
| 1,500 | Woman s Hospital Foundation, 5.875%, 10/1/40, Ser. A        | 1,556,775 |
| 1,000 | Woman s Hospital Foundation, 6.00%, 10/1/44, Ser. A         | 1,042,000 |
|       | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, |           |
| 1,700 | 5.50%, 5/15/47, Ser. B                                      | 1,681,929 |
| 2,000 | 6.50%, 5/15/37  | 2,131,960 |
|       |   | 6,843,828 |

**Maryland - 0.8%**

|       |   |           |
|-------|---|-----------|
| 1,000 | Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B                         | 1,004,770 |
|       | Health & Higher Educational Facs. Auth. Rev.,                           |           |
| 1,500 | Calvert Health System, 5.50%, 7/1/36 (Pre-refunded @ \$100, 7/1/14) (c) | 1,538,985 |
| 700   | Charlestown Community, 6.25%, 1/1/41                                    | 728,049   |
| 1,000 | Lifebridge Health, 6.00%, 7/1/41  | 1,091,780 |
|       |   | 4,363,584 |

**Massachusetts - 1.4%**

|       |  |           |
|-------|--|-----------|
|       | Dev. Finance Agcy. Rev.,                                   |           |
| 295   | Adventcare Project, 7.625%, 10/15/37                       | 313,408   |
| 140   | Linden Ponds, Inc. Fac., zero coupon, 11/15/56, Ser. B (b) | 800       |
| 529   | Linden Ponds, Inc. Fac., 6.25%, 11/15/39, Ser. A-1         | 443,334   |
| 4,910 | Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H         | 4,910,098 |
| 1,600 | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A   | 1,726,592 |
|       |  | 7,394,232 |

**Michigan - 0.9%**

|       |   |           |
|-------|---|-----------|
| 1,500 | Detroit, GO, 5.25%, 11/1/35   | 1,428,765 |
| 1,500 | Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39 | 1,784,220 |
| 1,300 | State Univ. Rev., 6.173%, 2/15/50, Ser. A                                       | 1,353,001 |

4,565,986

**Missouri - 0.1%**

|     |  |         |
|-----|--|---------|
| 250 | Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23                     | 229,400 |
| 500 | Manchester, Tax Allocation, Highway 141/Manchester Road Project, 6.875%, 11/1/39 | 508,950 |

738,350

**New Hampshire - 0.4%**

|       |   |           |
|-------|---|-----------|
| 2,000 | Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A | 2,056,620 |
|-------|---|-----------|

**New Jersey - 4.6%**

|        |  |            |
|--------|--|------------|
| 4,500  | Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%,<br>4/1/28   | 4,930,425  |
| 300    | Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14                      | 300,177    |
| 2,000  | Health Care Facs. Financing Auth. Rev.,<br>Robert Wood Johnson Univ. Hospital, 5.50%, 7/1/43 | 2,071,740  |
| 1,000  | St. Peters Univ. Hospital, 5.75%, 7/1/37   | 938,840    |
| 1,600  | Tobacco Settlement Financing Corp. Rev., Ser. 1-A,<br>4.75%, 6/1/34                          | 1,137,328  |
| 20,745 | 5.00%, 6/1/41  | 14,656,342 |

24,034,852

**New Mexico - 0.2%**

|       |  |           |
|-------|--|-----------|
| 1,000 | Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D | 1,025,070 |
|-------|--|-----------|

**New York - 12.2%**

|        |  |            |
|--------|--|------------|
| 9,800  | Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.25%, 7/15/40              | 10,300,976 |
| 5,000  | Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A                             | 5,304,850  |
| 1,700  | Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37                        | 1,807,423  |
| 3,000  | Metropolitan Transportation Auth. Rev., 5.00%, 11/15/36, Ser. D                            | 3,040,710  |
| 1,150  | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43,<br>Ser. A | 597,586    |
| 10,450 | New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC)              | 11,903,386 |
| 4,900  | New York City Water & Sewer System Rev. (h),<br>5.00%, 6/15/37, Ser. D                     | 5,054,693  |
| 4,000  | Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD                                     | 4,045,560  |
| 10,000 | New York Liberty Dev. Corp. Rev.,<br>1 World Trade Center Project, 5.00%, 12/15/41         | 10,150,400 |
| 11,255 | 4 World Trade Center Project, 5.00%, 11/15/44  | 11,254,325 |

63,459,909

**North Carolina - 1.5%**

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|       |   |           |
|-------|---|-----------|
|       | Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC) |           |
| 1,500 | (Pre-refunded @ \$100, 7/1/14) (c)  | 1,534,965 |
| 6,000 | New Hanover Cnty. Rev., New Hanover Regional Medical Center, 5.00%, 10/1/28             | 6,249,480 |
|       |   | 7,784,445 |

**Ohio - 3.5%**

|        |   |            |
|--------|---|------------|
| 500    | Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A             | 498,580    |
| 10,350 | Buckeye Tobacco Settlement Financing Auth. Rev., 6.50%, 6/1/47, Ser. A-2                | 8,369,320  |
| 3,500  | Hamilton Cnty. Healthcare Rev., Christ Hospital Project, 5.00%, 6/1/42                  | 3,273,585  |
|        | Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, |            |
| 500    | Ser. 2009-A (Pre-refunded @ \$100, 1/15/15) (c)   | 533,355    |
|        | Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A                   |            |
| 500    | (Pre-refunded @ \$100, 11/15/14) (c)  | 525,930    |
| 5,000  | State Turnpike Commission Rev., 5.00%, 2/15/48, Ser. A-1                                | 4,927,250  |
|        |   | 18,128,020 |

**Pennsylvania - 4.0%**

|       |  |            |
|-------|--|------------|
| 1,000 | Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39                  | 1,050,610  |
| 6,600 | Berks Cnty. Municipal Auth. Rev., Reading Hospital Medical Center, 5.00%, 11/1/44, Ser. A                      | 6,470,376  |
| 750   | Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A, 5.625%, 7/1/28                         | 754,560    |
| 670   | 6.00%, 7/1/35  | 677,323    |
| 1,000 | Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A                        | 1,066,250  |
| 1,250 | Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B (e)                                  | 624,100    |
| 100   | Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39                      | 106,300    |
| 1,645 | Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Health System, 5.625%, 7/1/42, Ser. A | 1,353,506  |
| 500   | Philadelphia Water & Wastewater Rev., 5.25%, 1/1/36, Ser. A  | 517,935    |
|       | Turnpike Commission Rev.,  |            |
| 5,000 | 5.00%, 12/1/43, Ser. C   | 4,969,050  |
| 3,000 | 5.125%, 12/1/40, Ser. D  | 3,012,720  |
|       |  | 20,602,730 |

**South Carolina - 4.3%**

|        |   |            |
|--------|---|------------|
| 1,000  | Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39 | 1,023,420  |
| 800    | State Ports Auth. Rev., 5.25%, 7/1/40                           | 819,856    |
|        | State Public Service Auth. Rev.,                                |            |
| 15,000 | 5.50%, 12/1/53, Ser. E  | 15,204,900 |
| 5,000  | Sanatee Cooper, 5.125%, 12/1/43, Ser. B                         | 5,036,450  |
|        |   | 22,084,626 |

**Tennessee - 0.5%**

|       |   |           |
|-------|---|-----------|
| 1,250 | Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project,<br>6.625%, 10/1/39                | 1,308,238 |
| 1,000 | Johnson City Health & Educational Facs. Board Rev., Mountain States Health<br>Alliance, 6.00%, 7/1/38, Ser. A | 1,058,210 |
|       |   | 2,366,448 |

**Texas - 9.6%**

|        |   |            |
|--------|---|------------|
| 1,300  | Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC)  | 1,347,788  |
| 4,500  | Grand Parkway Transportation Corp. Rev., 5.00%, 4/1/53, Ser. B                                    | 4,378,995  |
| 2,000  | Municipal Gas Acquisition & Supply Corp. III Rev., 5.00%, 12/15/26                                | 2,017,160  |
|        | North Harris Cnty. Regional Water Auth. Rev.,   |            |
| 5,500  | 5.25%, 12/15/33   | 5,775,165  |
| 5,500  | 5.50%, 12/15/38   | 5,795,845  |
|        | North Texas Tollway Auth. Rev.,   |            |
| 3,000  | 5.00%, 1/1/38   | 3,021,060  |
| 600    | 5.50%, 9/1/41, Ser. A   | 637,248    |
| 10,800 | 5.625%, 1/1/33, Ser. A  | 11,314,944 |
| 700    | 5.75%, 1/1/33, Ser. F   | 733,943    |
|        | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care<br>Systems Project, |            |
| 3,000  | 6.25%, 11/15/29   | 3,334,350  |
|        | Texas Municipal Gas Acquisition & Supply Corp. I Rev.,  |            |
| 150    | 5.25%, 12/15/26, Ser. A   | 154,692    |
| 9,600  | 6.25%, 12/15/26, Ser. D   | 10,959,936 |
| 500    | Wise Cnty. Rev., Parker Cnty. Junior College Dist., 8.00%, 8/15/34                                | 550,705    |
|        |   | 50,021,831 |

**Virginia - 0.3%**

|       |   |           |
|-------|---|-----------|
| 1,000 | Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser.<br>A       | 1,078,650 |
| 201   | James City Cnty. Economic Dev. Auth. Rev., United Methodist Home, Ser. A,<br>2.00%, 10/1/48 (e) | 5,317     |
| 621   | 6.00%, 6/1/43   | 504,940   |
|       |   | 1,588,907 |

**Washington - 0.3%**

|  |                               |  |
|--|-------------------------------|--|
|  | Health Care Facs. Auth. Rev., |  |
|--|-------------------------------|--|



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|  |   |             |
|--|---|-------------|
| 500  | Kadlec Regional Medical Center, 5.50%, 12/1/39  | 467,935     |
| 1,000  | Seattle Cancer Care Alliance, 7.375%, 3/1/38  | 1,176,550   |
|  |   | 1,644,485   |
| <b>West Virginia - 0.2%</b>                        |   |             |
| 1,000  | Hospital Finance Auth. Rev., Highland Hospital, 9.125%, 10/1/41                           | 1,185,210   |
| <b>Wisconsin - 1.1%</b>                            |   |             |
|  | Health & Educational Facs. Auth. Rev.,  |             |
| 1,000  | Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A   | 1,013,770   |
| 1,000  | Prohealth Care, Inc., 6.625%, 2/15/39   | 1,089,300   |
| 3,500  | Univ. of Wisconsin Hospitals & Clinics Auth. Rev., 5.00%, 4/1/38, Ser. A                  | 3,438,925   |
|  |   | 5,541,995   |
| Total Municipal Bonds & Notes (cost-\$469,249,910) |   | 480,026,225 |
| <b>VARIABLE RATE NOTES - 2.8%</b>                  |   |             |
| <b>California - 0.4%</b>                           |   |             |
|  | Los Angeles Community College Dist., GO, 11.866%, 8/1/33, Ser. 3096<br>(a)(b)(d)(f)(g)(j) |             |
| 1,675  | (acquisition cost - \$1,669,305; purchased 8/27/09)                                       | 1,914,022   |
| <b>Florida - 1.0%</b>                              |   |             |
|  | Greater Orlando Aviation Auth. Rev., 8.10%, 10/1/39, Ser. 3174 (a)(b)(d)(f)(g)(j)         |             |
| 5,000  | (acquisition cost - \$4,929,498; purchased 4/5/10 - 1/18/11)                              | 5,213,600   |
| <b>Texas - 1.4%</b>                                |   |             |
|  | JPMorgan Chase Putters/Drivers Trust, GO, 8.031%, 2/1/17, Ser. 3480<br>(a)(b)(d)(f)(g)(j) |             |
| 6,500  | (acquisition cost - \$6,467,825; purchased 6/15/09)                                       | 7,391,150   |
| Total Variable Rate Notes (cost-\$13,084,078)      |   | 14,518,772  |

**SHORT-TERM INVESTMENTS - 4.7%****U.S. Treasury Obligations - 2.3%**

|   |  |            |
|---|--|------------|
| 100   | U.S. Treasury Bills, 0.097%, 5/29/14 (k) | 99,961     |
| 11,800  | U.S. Treasury Notes, 0.50%, 8/15/14      | 11,828,579 |
| Total U.S. Treasury Obligations (cost-\$11,926,933) |  | 11,928,540 |

**U.S. Government Agency Securities - 2.0%**

|        |  |            |
|--------|--|------------|
| 10,200 | Freddie Mac Discount Notes, 0.122%, 7/1/14 (k) (cost-\$10,193,846) | 10,193,846 |
|--------|--|------------|

**Repurchase Agreements - 0.4%**

|       |   |           |
|-------|---|-----------|
| 2,300 | Citigroup Global Markets, Inc.,<br>dated 12/31/13, 0.01%, due 1/2/14, proceeds \$2,300,002; collateralized by U.S.<br>Treasury Notes, 0.75%, due 12/31/17, valued at \$2,351,313 including accrued<br>interest (cost-\$2,300,000) | 2,300,000 |
|-------|---|-----------|

|  |  |            |
|--|--|------------|
| Total Short-Term Investments (cost-\$24,420,779) |  | 24,422,386 |
|--|--|------------|

|  |  |                       |
|--|--|-----------------------|
| <b>Total Investments (cost-\$506,754,767) (1)-100.0%</b> |  | <b>\$ 518,967,383</b> |
|--|--|-----------------------|

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

December 31, 2013 (unaudited)

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

|   |               |
|---|---------------|
| Revenue Bonds:                          |               |
| Health, Hospital & Nursing Home Revenue | 21.6%         |
| Sewer Revenue                           | 8.6           |
| Highway Revenue Tolls                   | 8.5           |
| Tobacco Settlement Funded               | 8.0           |
| Water Revenue                           | 5.6           |
| Natural Gas Revenue                     | 5.3           |
| Recreational Revenue                    | 4.4           |
| Electric Power & Light Revenue          | 4.3           |
| Port, Airport & Marina Revenue          | 3.6           |
| Miscellaneous Revenue                   | 3.5           |
| Industrial Revenue                      | 3.2           |
| College & University Revenue            | 2.8           |
| Lease (Appropriation)                   | 2.5           |
| Local or Guaranteed Housing             | 1.1           |
| Miscellaneous Taxes                     | 1.0           |
| Transit Revenue                         | 0.7           |
| Tax Increment/Allocation Revenue        | 0.0           |
| <b>Total Revenue Bonds</b>              | <b>84.7%</b>  |
| General Obligation                      | 8.1           |
| U.S. Treasury Obligations               | 2.3           |
| U.S. Government Agency Securities       | 2.0           |
| Tax Allocation                          | 1.3           |
| Special Assessment                      | 1.0           |
| Repurchase Agreements                   | 0.4           |
| Certificates of Participation           | 0.2           |
| <b>Total Investments</b>                | <b>100.0%</b> |

**Notes to Schedule of Investments:**

- \* Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services. The Fund's investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics.

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

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

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

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$16,288,398, representing 3.1% of total investments.
- (b) Illiquid.
- (c) Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding date (payment date).
- (d) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (e) In default.
- (f) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on December 31, 2013.
- (g)

Variable Rate Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on December 31, 2013.

- (h) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (i) Step Bond Coupon is a fixed rate for an initial period then resets at a specific date and rate.
- (j) Restricted. The aggregate acquisition cost of such securities is \$14,701,628. The aggregate value is \$16,288,398, representing 3.1% of total investments.
- (k) Rates reflect the effective yields at purchase date.
- (l) At December 31, 2013, the cost basis of portfolio securities for federal income tax purposes was \$477,507,614. Gross unrealized appreciation was \$23,659,552; gross unrealized depreciation was \$10,677,431; and net unrealized appreciation was \$12,982,121. The difference between book and tax cost was attributable to Inverse Floater transactions.

## Fair Value Measurements

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

Level 1 quoted prices in active markets for identical investments that the Fund has the ability to access

Level 2 valuations based on other significant observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates or other market corroborated inputs

Level 3 valuations based on significant unobservable inputs (including the Sub-Adviser's or Valuation Committee's own assumptions and securities whose price was determined by using a single broker's quote) The valuation techniques used by the Fund to measure fair value during the three months ended December 31, 2013 were intended to maximize the use of observable inputs and to minimize the use of unobservable inputs.

The Fund's policy is to recognize transfers between levels at the end of the reporting period. An investment asset's or liability's level within the fair value hierarchy is based on the lowest level input, individually or in aggregate, that is significant to the fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation techniques used. Investments categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments.

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

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

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

**Government Sponsored Enterprise and Mortgage-Backed Securities** Government sponsored enterprise and mortgage-backed securities are valued by independent pricing services using pricing models based on inputs that include issuer type, coupon, cash flows, mortgage prepayment projection tables and Adjustable Rate Mortgage

evaluations that incorporate index data, periodic and life caps and the next coupon reset date. To the extent that these inputs are observable, the values of government sponsored enterprise and mortgage-backed securities are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

A summary of the inputs used at December 31, 2013 in valuing the Fund's assets and liabilities is listed below (refer to the Schedule of Investments for more detailed information on Investments in Securities):

|   | Level 1 -<br>Quoted Prices | Level 2 -<br>Other Significant<br>Observable<br>Inputs | Level 3 -<br>Significant<br>Unobservable<br>Inputs | Value at<br>12/31/13  |
|---|----------------------------|--|--|-----------------------|
| <b>Investments in Securities - Assets</b> |                            |  |  |                       |
| Municipal Bonds & Notes                   | \$                         | \$ 480,026,225   | \$   | \$ 480,026,225        |
| Variable Rate Notes                       |                            | 14,518,772   |  | 14,518,772            |
| Short-Term Investments                    |                            | 24,422,386   |  | 24,422,386            |
| <b>Totals</b>                             | <b>\$</b>                  | <b>\$ 518,967,383</b>                                  | <b>\$</b>  | <b>\$ 518,967,383</b> |

At December 31, 2013, there were no transfers between Levels 1 and 2.

**Glossary:**

AGC - insured by Assured Guaranty Corp.

AGM - insured by Assured Guaranty Municipal Corp.

AMBAC - insured by American Municipal Bond Assurance Corp.

CP - Certificates of Participation

FHA - insured by Federal Housing Administration

GO - General Obligation Bond

IBC - Insurance Bond Certificate

NPFGC - insured by National Public Finance Guarantee Corp.



**Item 2. Controls and Procedures**

(a) The registrant's President & Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a-3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits**

(a) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PIMCO Municipal Income Fund III

By: /s/ Brian S. Shlissel  
Brian S. Shlissel, President & Chief Executive Officer

Date: February 21, 2014

By: /s/ Lawrence G. Altadonna  
Lawrence G. Altadonna, Treasurer, Principal Financial & Accounting Officer

Date: February 21, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Brian S. Shlissel  
Brian S. Shlissel, President & Chief Executive Officer

Date: February 21, 2014

By: /s/ Lawrence G. Altadonna  
Lawrence G. Altadonna, Treasurer, Principal Financial & Accounting Officer

Date: February 21, 2014