

PIMCO MUNICIPAL INCOME FUND III  
Form N-Q  
August 20, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM N-Q**

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

Investment Company Act File Number: 811-21187

Registrant Name:

**PIMCO Municipal Income Fund III**

Address of Principal Executive Offices:

1633 Broadway

New York, NY 10019

**Name and Address of Agent for Service:**

**Lawrence G. Altadonna**

**1633 Broadway**

**New York, NY 10019**

**Registrant's telephone number, including area code:**

**212-739-3371**

**Date of Fiscal Year End: September 30, 2013**

**Date of Reporting Period: June 30, 2013**

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

June 30, 2013 (unaudited)

Principal Amount (000s)		Value*
<b>MUNICIPAL BONDS &amp; NOTES - 91.5%</b>		
<b>Alabama - 2.0%</b>		
\$ 500	Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 (AGC)	\$ 561,950
9,000	Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A	9,001,440
1,000	State Docks Department Rev., 6.00%, 10/1/40	1,164,250
		10,727,640
<b>Arizona - 6.5%</b>		
	Health Facs. Auth. Rev.,	
1,250	Banner Health, 5.00%, 1/1/35, Ser. A	1,281,300
900	Banner Health, 5.50%, 1/1/38, Ser. D	966,123
2,250	Beatitudes Campus Project, 5.20%, 10/1/37	1,966,905
	Pima Cnty. Industrial Dev. Auth. Rev.,	
13,000	5.00%, 9/1/39 (h)	13,204,230
750	Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A	754,875
5,000	Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (h)	5,302,650
11,600	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	11,518,568
		34,994,651
<b>California - 14.6%</b>		
	Bay Area Toll Auth. Rev., San Francisco Bay Area,	
1,500	5.00%, 10/1/29	1,589,565
500	5.00%, 4/1/34, Ser. F-1	526,460
3,260	5.00%, 10/1/42	3,369,764
	Golden State Tobacco Securitization Corp. Rev., Ser. A-1,	
2,630	4.50%, 6/1/27	2,469,044
3,600	5.125%, 6/1/47	2,777,904
11,120	5.75%, 6/1/47	9,426,313
	Health Facs. Financing Auth. Rev.,	
2,500	Catholic Healthcare West, 6.00%, 7/1/39, Ser. A	2,833,875
600	Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)	602,178
1,500	Sutter Health, 6.00%, 8/15/42, Ser. B	1,719,105
3,350	Indian Wells Redev. Agey., Tax Allocation, Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC)	2,920,463
130	Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC)	136,466
2,000	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	2,370,400
1,500	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B	1,652,700
1,250	Palomar Pomerado Health, CP, 6.75%, 11/1/39	1,343,463
1,600	San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A	1,667,936
	State, GO,	
5,000	5.00%, 6/1/37	5,128,200
5,300	5.00%, 12/1/37	5,451,739
1,350	5.25%, 3/1/38	1,407,037
1,300	5.25%, 11/1/40	1,370,993

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3,200	5.50%, 3/1/40	3,462,528
2,500	5.75%, 4/1/31	2,809,625
5,000	6.00%, 4/1/38	5,686,850
	Statewide Communities Dev. Auth. Rev.,	
1,000	American Baptist Homes West, 6.25%, 10/1/39	1,079,030
1,935	California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(d)	2,025,926
2,580	Methodist Hospital Project, 6.625%, 8/1/29 (FHA)	3,024,044
9,200	Methodist Hospital Project, 6.75%, 2/1/38 (FHA)	10,617,076
1,200	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	995,628
		78,464,312

**Colorado - 0.7%**

	Health Facs. Auth. Rev., Ser. A,	
500	Evangelical Lutheran, 6.125%, 6/1/38 (Pre-refunded @ \$100 6/1/14) (c)	526,765
2,000	Sisters of Charity of Leavenworth Health System, 5.00%, 1/1/40	2,034,360
500	Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38	582,360
500	Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34	560,445
		3,703,930

**Connecticut - 0.3%**

1,250	Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A	1,367,400
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**District of Columbia - 2.0%**

10,000	Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h)	10,620,000
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**Florida - 5.8%**

3,480	Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34	3,536,794
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## Schedule of Investments

## PIMCO Municipal Income Fund III

June 30, 2013 (unaudited) (continued)

Principal Amount (000s)		Value*
	<b>Broward Cnty. Airport System Rev.,</b>	
\$ 6,125	5.00%, 10/1/42, Ser. Q-1	\$ 6,326,022
500	5.375%, 10/1/29, Ser. O	545,700
4,500	Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (h)	4,910,130
3,000	Cape Coral Water & Sewer Rev., 5.00%, 10/1/41 (AGM)	3,114,720
350	Dev. Finance Corp. Rev., Renaissance Charter School, 6.50%, 6/15/21, Ser. A	371,126
2,500	Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B (Pre-refunded @ \$100, 10/1/13) (c)	2,530,775
5,000	Palm Beach Cnty. Solid Waste Auth. Rev., 5.00%, 10/1/31	5,362,450
4,200	State Board of Education, GO, 5.00%, 6/1/38, Ser. D (h)	4,562,880
		31,260,597
<b>Georgia - 0.3%</b>		
1,750	Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A	1,523,533
400	Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37	359,296
		1,882,829
<b>Hawaii - 0.3%</b>		
1,500	Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A	1,561,755
<b>Illinois - 2.7%</b>		
1,250	Chicago, GO, 5.00%, 1/1/34, Ser. C	1,267,975
	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	463,404
1,000	Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A	1,081,990
5,000	Univ. of Chicago, 5.50%, 7/1/37, Ser. B (h)	5,595,450
5,000	State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B	5,432,050
		14,393,369
<b>Indiana - 1.0%</b>		
	Portage, Tax Allocation, Ameriplex Project,	
1,000	5.00%, 7/15/23	1,004,730
775	5.00%, 1/15/27	758,585
2,800	Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 7.50%, 9/1/22	3,443,524
		5,206,839
<b>Iowa - 0.1%</b>		
	Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A,	
120	5.50%, 11/15/27	75,131
575	5.50%, 11/15/37	356,230

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431,361

**Kentucky - 0.6%**

2,000	Economic Dev. Finance Auth. Rev., Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A	2,205,560
1,250	Ohio Cnty. Pollution Control Rev., Big Rivers Electric Corp. Project, 6.00%, 7/15/31, Ser. A	1,203,775

3,409,335

**Louisiana - 1.3%**

	Local Gov t Environmental Facs. & Community Dev. Auth Rev.,	
400	Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2	429,048
1,500	Woman s Hospital Foundation, 5.875%, 10/1/40, Ser. A	1,673,265
1,000	Woman s Hospital Foundation, 6.00%, 10/1/44, Ser. A	1,120,630
	Public Facs. Auth. Rev., Ochsner Clinic Foundation Project,	
1,700	5.50%, 5/15/47, Ser. B	1,757,188
2,000	6.50%, 5/15/37	2,305,340

7,285,471

**Maryland - 0.8%**

1,000	Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B	1,085,300
	Health & Higher Educational Facs. Auth. Rev.,	
1,500	Calvert Health System, 5.50%, 7/1/36	1,520,250
700	Charlestown Community, 6.25%, 1/1/41	761,425
1,000	Lifebridge Health, 6.00%, 7/1/41	1,122,610

4,489,585

**Massachusetts - 1.4%**

	Dev. Finance Agcy. Rev.,	
300	Adventcare Project, 7.625%, 10/15/37	325,074
140	Linden Ponds, Inc. Fac., zero coupon, 11/15/56, Ser. B (b)	861
529	Linden Ponds, Inc. Fac., 6.25%, 11/15/39, Ser. A-1	460,363
4,910	Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H	4,911,473

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

June 30, 2013 (unaudited) (continued)

Principal Amount (000s)		Value*
\$ 1,600	State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A	\$ 1,783,360
		7,481,131
<b>Michigan - 8.5%</b>		
1,500	Detroit, GO, 5.25%, 11/1/35	1,501,695
9,320	Detroit Sewage Disposal System Rev., 5.00%, 7/1/32, Ser. A (AGM)	8,998,553
5,000	Detroit Water and Sewage Dept. Rev., 5.25%, 7/1/39, Ser. A	4,794,850
16,000	Detroit Water Supply System Rev., 5.00%, 7/1/34, Ser. A (NPFGC)	15,475,040
7,555	5.00%, 7/1/34, Ser. B (NPFGC)	7,178,157
5,000	5.25%, 7/1/41, Ser. A	4,794,950
1,500	Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39	1,839,225
1,300	State Univ. Rev., 6.173%, 2/15/50, Ser. A	1,478,100
		46,060,570
<b>Missouri - 0.1%</b>		
250	Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23	234,455
500	Manchester, Tax Allocation, Highway 141/Manchester Road Project, 6.875%, 11/1/39	510,320
		744,775
<b>New Hampshire - 0.4%</b>		
2,000	Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A	2,152,520
<b>New Jersey - 8.1%</b>		
1,000	Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A	1,025,000
4,500	Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28	5,022,720
300	Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14	300,891
1,000	Health Care Facs. Financing Auth. Rev., St. Peters Univ. Hospital, 5.75%, 7/1/37	1,027,010
1,600	Tobacco Settlement Financing Corp. Rev., Ser. 1-A, 4.75%, 6/1/34	1,282,208
20,745	5.00%, 6/1/41	16,580,026
18,000	Transportation Trust Fund Auth. Rev., 5.00%, 6/15/42, Ser. B	18,656,460
		43,894,315
<b>New Mexico - 0.2%</b>		
1,000	Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D	1,065,820
<b>New York - 12.9%</b>		
9,800	Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.25%, 7/15/40	11,014,710
5,000	Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A	5,372,300
1,700	Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37	1,877,055
3,000	Metropolitan Transportation Auth. Rev., 5.00%, 11/15/36, Ser. D	3,095,010

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4,000	5.00%, 11/15/43, Ser. B	4,084,160
1,150	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	638,250
10,450	New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC)	12,236,846
	New York City Water & Sewer System Rev. (h),	
4,900	5.00%, 6/15/37, Ser. D	4,989,082
4,000	Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD	4,167,880
	New York Liberty Dev. Corp. Rev.,	
10,000	1 World Trade Center Project, 5.00%, 12/15/41	10,412,200
11,255	4 World Trade Center Project, 5.00%, 11/15/44	11,384,770
		69,272,263

**North Carolina - 1.5%**

1,500	Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC) (Pre-refunded @ \$100, 7/1/14) (c)	1,571,640
6,000	New Hanover Cnty. Rev., New Hanover Regional Medical Center, 5.00%, 10/1/28	6,395,760
		7,967,400

**Ohio - 3.2%**

500	Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A	517,995
	Buckeye Tobacco Settlement Financing Auth. Rev., Ser. A-2,	
2,350	5.875%, 6/1/47	1,901,855
8,000	6.50%, 6/1/47	7,064,560
3,500	Hamilton Cnty. Healthcare Rev., Christ Hospital Project, 5.00%, 6/1/42	3,168,375
500	Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. 2009-A (Pre-refunded @ \$100, 1/15/15) (c)	547,675
3,500	JobsOhio Beverage System Rev., 5.00%, 1/1/38, Ser. A	3,625,790
500	Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A (Pre-refunded @ \$100, 11/15/14) (c)	540,975
		17,367,225

**Pennsylvania - 2.7%**

1,000	Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39	1,090,750
4,000	Berks Cnty. Municipal Auth. Rev., Reading Hospital Medical Center, 5.00%, 11/1/44, Ser. A	4,106,000



## Schedule of Investments

## PIMCO Municipal Income Fund III

June 30, 2013 (unaudited) (continued)

Principal Amount (000s)		Value*
	Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A,	
\$ 750	5.625%, 7/1/28	\$ 764,520
670	6.00%, 7/1/35	686,509
1,000	Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A	1,086,770
1,250	Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B (e)	750,000
100	Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39	104,831
	Philadelphia Water & Wastewater Rev.,	
2,000	5.00%, 11/1/28	2,183,620
500	5.25%, 1/1/36, Ser. A	530,050
3,000	Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D	3,079,770
		14,382,820
<b>South Carolina - 0.3%</b>		
1,000	Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39	1,043,780
800	State Ports Auth. Rev., 5.25%, 7/1/40	850,952
		1,894,732
<b>Tennessee - 0.4%</b>		
1,250	Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39	1,330,800
1,000	Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38, Ser. A	1,065,090
		2,395,890
<b>Texas - 8.4%</b>		
1,300	Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC)	1,375,049
2,000	Municipal Gas Acquisition & Supply Corp. III Rev., 5.00%, 12/15/26	2,042,240
	North Harris Cnty. Regional Water Auth. Rev.,	
5,500	5.25%, 12/15/33	5,883,570
5,500	5.50%, 12/15/38	5,928,175
	North Texas Tollway Auth. Rev.,	
3,000	5.00%, 1/1/38	3,104,160
600	5.50%, 9/1/41, Ser. A	644,808
10,800	5.625%, 1/1/33, Ser. A	11,756,124
700	5.75%, 1/1/33, Ser. F	759,521
3,000	Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29	3,390,930
	Texas Municipal Gas Acquisition & Supply Corp. I Rev.,	
150	5.25%, 12/15/26, Ser. A	158,305
8,100	6.25%, 12/15/26, Ser. D	9,411,471
500	Wise Cnty. Rev., Parker Cnty. Junior College Dist., 8.00%, 8/15/34	558,360
		45,012,713
<b>Virginia - 0.3%</b>		
1,000	Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A	1,101,300

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	James City Cnty. Economic Dev. Auth. Rev., United Methodist Home, Ser. A,	
201	2.00%, 10/1/48	5,317
621	6.00%, 6/1/43	522,819
		1,629,436
<b>Washington - 3.5%</b>		
	Health Care Facs. Auth. Rev.,	
500	Kadlec Regional Medical Center, 5.50%, 12/1/39	507,565
1,000	Seattle Cancer Care Alliance, 7.375%, 3/1/38	1,212,250
17,000	Tobacco Settlement Auth. of Washington Rev., 6.50%, 6/1/26	17,108,800
		18,828,615
<b>West Virginia - 0.2%</b>		
1,000	Hospital Finance Auth. Rev., Highland Hospital, 9.125%, 10/1/41	1,214,040
<b>Wisconsin - 0.4%</b>		
	Health & Educational Facs. Auth. Rev.,	
1,000	Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A	1,064,460
1,000	Prohealth Care, Inc., 6.625%, 2/15/39	1,114,860
		2,179,320
	Total Municipal Bonds & Notes (cost-\$469,944,986)	493,342,659
<b>VARIABLE RATE NOTES - 2.9%</b>		
<b>California - 0.4%</b>		
1,675	Los Angeles Community College Dist., GO, 14.018%, 8/1/33, Ser. 3096 (a)(d)(f)(g)	2,129,578
<b>Florida - 1.0%</b>		
5,000	Greater Orlando Aviation Auth. Rev., 9.549%, 10/1/39, Ser. 3174 (a)(d)(f)(g)	5,569,750
<b>Texas - 1.5%</b>		
6,500	JPMorgan Chase Putters/Drivers Trust, GO, 9.48%, 2/1/17, Ser. 3480 (a)(d)(f)(g)	7,787,520

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

June 30, 2013 (unaudited) (continued)

Principal Amount (000s)	Value*
Total Variable Rate Notes (cost-\$13,081,726)	\$ 15,486,848

**SHORT-TERM INVESTMENTS - 5.6%****U.S. Treasury Obligations - 5.0%**

U.S. Treasury Notes,		
\$ 11,900	0.25%, 4/30/14	11,908,140
3,300	0.25%, 5/31/14	3,302,128
1,000	1.875%, 4/30/14	1,014,160
10,500	2.25%, 5/31/14	10,697,904
Total U.S. Treasury Obligations (cost-\$26,929,500)		26,922,332

**Repurchase Agreements - 0.6%**

3,100	Citigroup Global Markets, Inc., dated 6/28/13, 0.20%, due 7/1/13, proceeds \$3,100,052; collateralized by U.S. Treasury Notes, 0.625%, due 9/30/17, valued at \$3,172,190 including accrued interest (cost-\$3,100,000)	3,100,000
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Total Short-Term Investments (cost-\$30,029,500)	30,022,332
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<b>Total Investments</b> (cost-\$513,056,212) (i)- <b>100.0%</b>	<b>\$ 538,851,839</b>
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Industry classification of portfolio holdings as a percentage of total investments at June 30, 2013 was as follows:

<b>Revenue Bonds:</b>	
Health, Hospital & Nursing Home Revenue	19.1%
Tobacco Settlement Funded	11.1
Water Revenue	10.6
Miscellaneous Revenue	6.6
Sewer Revenue	4.9
Natural Gas Revenue	4.8
Port, Airport & Marina Revenue	4.8
Recreational Revenue	4.4
Highway Revenue Tolls	3.4
College & University Revenue	2.8
Industrial Revenue	2.6
Lease (Appropriation)	2.5
Electric Power & Light Revenue	1.6
Transit Revenue	1.4
Local or Guaranteed Housing	1.1
Miscellaneous Taxes	1.0
Resource Recovery Revenue	1.0
Tax Increment/Allocation Revenue	0.1
Total Revenue Bonds	83.8%
General Obligation	8.2

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U.S. Treasury Obligations	5.0
Tax Allocation	1.2
Special Assessment	0.9
Repurchase Agreements	0.6
Certificates of Participation	0.3
<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 \$17,512,774, representing 3.3% 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 June 30, 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

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in effect on June 30, 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) At June 30, 2013, the cost basis of portfolio securities for federal income tax purposes was \$483,809,059. Gross unrealized appreciation was \$34,783,951; gross unrealized depreciation was \$8,231,197; and net unrealized appreciation was \$26,552,754. The difference between book and tax cost was attributable to Inverse Floater transactions.

### **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.

**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 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 uses 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.

The valuation techniques used by the Fund to measure fair value during the nine months ended June 30, 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.

A summary of the inputs used at June 30, 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 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Value at 6/30/2013
<b>Investments in Securities - Assets</b>				
Municipal Bonds & Notes	\$	\$ 493,342,659	\$	\$ 493,342,659
Variable Rate Notes		15,486,848		15,486,848
Short-Term Investments		30,022,332		30,022,332

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<b>Totals</b>	\$	\$ 538,851,839	\$	\$ 538,851,839
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At June 30, 2013, there were no transfers between Levels 1 and 2.



**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: August 20, 2013

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

Date: August 20, 2013

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: August 20, 2013

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

Date: August 20, 2013