

PIMCO MUNICIPAL INCOME FUND III

Form N-CSRS

May 29, 2013

[Table of Contents](#)

**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 811-21187

**PIMCO Municipal Income Fund III**

(Exact name of registrant as specified in charter)

1633 Broadway, New York, New York 10019

(Address of principal executive offices) (Zip code)

**Lawrence G. Altadonna 1633 Broadway, New York, New York 10019**

(Name and address of agent for service)

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

**Date of fiscal year end: September 30, 2013**

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

**Table of Contents**

Item 1. REPORT TO SHAREHOLDERS

Semi-Annual Report

March 31, 2013

PIMCO Municipal Income Fund III

PIMCO California Municipal Income Fund III

PIMCO New York Municipal Income Fund III

**Table of Contents**

**Contents**

<u>Letter to Shareholders</u>	2-3
<u>Fund Insights</u>	4
<u>Performance &amp; Statistics</u>	5-6
<u>Schedules of Investments</u>	7-24
<u>Statements of Assets and Liabilities</u>	25
<u>Statements of Operations</u>	26
<u>Statements of Changes in Net Assets</u>	28-29
<u>Notes to Financial Statements</u>	30-37
<u>Financial Highlights</u>	38-40
<u>Annual Shareholder Meeting Results/Proxy Voting</u>	
<u>Policies &amp; Procedures</u>	41

3.31.13	PIMCO Municipal Income Funds III Semi-Annual Report	1
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**Table of Contents**

Hans W. Kertess

*Chairman*

Brian S. Shlissel

*President & CEO*

Dear Shareholder:

Municipal bonds performed well during the six-month reporting period ended March 31, 2013. Yields remained attractive relative to US Treasury bonds as US Treasuries lost some of their appeal as a safe haven investment amid signs of an improving economy. An increase in federal tax rates for top-earning US households also supported municipal securities during the period.

**Six-Month Period in Review**

For the fiscal six-month period ended March 31, 2013:

PIMCO Municipal Income Fund III returned 4.28% on net asset value ( NAV ) and -4.10% on market price.

PIMCO California Municipal Income Fund III returned 3.94% on NAV and -1.94% on market price.

PIMCO New York Municipal Income Fund III returned 1.80% on NAV and -1.87% on market price. The Barclays Municipal Bond Index returned a tax-advantaged 0.96% while the broad taxable bond market, as represented by the Barclays US Aggregate Bond Index, returned 0.09% during the reporting period.

As the fiscal reporting period began, US gross domestic product ( GDP ), the value of goods and services produced in the country, the broadest measure of US economic activity and the principal indicator of economic performance, was growing at a 3.1% annual rate. GDP growth slowed to a 0.4% annual pace during the fourth quarter of 2012, which the government indicated was due to the drop in defense spending. Economic data released early in 2013 suggests economic growth will remain modest.

The Federal Reserve (the Fed ) maintained an accommodative monetary policy, and indicated interest rates are expected to remain low until the US unemployment rate falls to 6.5%. At March 31, 2013, unemployment stood at 7.6%.

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According to The Securities Industry and Financial Markets Association (SIMFA), municipal issuance volume trended lower during the six-month period ended March 31, 2013. In October 2012, issuance was \$34.6 billion, by February 2013, issuance had declined to \$23.7 billion. However, SIMFA reported that issuance during January and February 2013 reflected a strong year-on-year increase over the comparable months in 2012.

### 2 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13

**Table of Contents**

US Treasury bond interest rates edged higher during the six-month period, with the yield on the benchmark 10-year Treasury bond rising from 1.65% to 1.87%. Since municipal bonds tend to track comparable US Treasury bonds, their yields moved accordingly.

**The Road Ahead**

The Washington standoff regarding taxes and spending was partially resolved in the early hours of 2013, when Congress approved legislation which raised taxes on income, capital gains and dividends for households earning in excess of \$450,000. However there are still unresolved issues as well as

new areas of concern, such as the Obama administration's proposal to cap the amount of municipal bond interest deductible from taxes. According to the National League of Cities ( NLC ), if a cap is implemented it may force municipalities to pull back projects or pass certain costs onto residents in order to go forward with much needed infrastructure projects.

The fiscal situation at state and local levels remains challenging. The National Association of State Budget Officers reported that in aggregate, state tax collections are projected to pass pre-recession levels for the first time during 2013. However, revenues in 21 states will remain lower than in 2008. Meanwhile, the NLC indicated that general fund revenues for the 19,000 cities and towns it represents declined in 2012, the sixth consecutive year-over-year decline.

For specific information on the Funds and their performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds).

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Pacific Investment Management Company LLC ( PIMCO ), the Funds' sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess

Chairman of the Board of Trustees

Brian S. Shlissel

President & Chief Executive Officer

Receive this report electronically and eliminate paper mailings. To enroll, go to [us.allianzgi.com/edelivery](http://us.allianzgi.com/edelivery).

**Table of Contents**

**PIMCO Municipal Income Funds III Fund Insights**

March 31, 2013 (unaudited)

For the six-month period ended March 31, 2013, PIMCO Municipal Income III returned 4.28% on net asset value ( NAV ) and -4.10% on market price.

For the six-month period ended March 31, 2013, PIMCO California Municipal Income III returned 3.94% on NAV and -1.94% on market price.

For the six-month period ended March 31, 2013, PIMCO New York Municipal Income III returned 1.80% on NAV and -1.87% on market price.

The municipal bond market generated mixed results during the fiscal six-month reporting period ended March 31, 2013. The overall municipal market, as measured by the Barclays Municipal Bond Index (the Index ), advanced during the first two months of the period. During this time, many states continued to benefit from both positive year-over-year tax receipts and technical drivers as new supply was not sufficient to meet investor demand. The Index declined in December 2012, as investor sentiment weakened due to uncertainties surrounding the fiscal cliff and the future tax-exempt status of municipal bonds. In January and February 2013, the Index registered positive returns, as the uncertainty of the tax status of municipal bonds subsided and demand resumed, albeit at a slower pace than in 2012. The Index, a measure of the broad municipal market, observed negative returns in March, primarily driven by seasonal technical factors, as investors rotated out of the asset class during tax season during a period of higher new issue supply and rising Treasury rates. During the six-month reporting period, the Index returned 0.96%. In comparison, the overall taxable fixed income market, as measured by the Barclays US Aggregate Bond Index, gained 0.09%.

An underweight duration relative to the benchmark contributed to performance of all three Funds as municipal yields moved higher during the six-months ended March 31, 2013. The Funds' overweighting to the Industrial Revenue sector contributed to performance as this segment outperformed the Index. Municipal Income III's overweight to revenue-backed municipal bonds was additive given the outperformance of revenue bonds versus the broad market index. New York Municipal Income III's overweight to the Healthcare sector and California Municipal Income III's overweight to the Tobacco sector contributed to performance as these higher beta sectors generally outperformed the Index as credit spreads compressed during the six-month period.

Each Funds' underweighting to the Transportation sector detracted from performance as this sector outperformed in comparison to the Index. Municipal Income III's and California Municipal Income III's underweight to the Lease-Backed sector detracted from performance as this segment outperformed the Index. New York Municipal Income III's underweight to Education sector detracted from performance during the period.



**Table of Contents****PIMCO Municipal Income Funds III Performance & Statistics**

March 31, 2013 (unaudited)

**Municipal III:**

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	4.10%	4.28%
1 Year	11.99%	15.12%
5 Year	5.28%	5.16%
10 Year	5.84%	5.00%
Commencement of Operations (10/31/02) to 3/31/13	5.33%	4.98%

**Market Price/NAV Performance:**

Commencement of Operations (10/31/02) to 3/31/13

**Market Price/NAV:**

Market Price	\$12.33
NAV	\$11.07
Premium to NAV	11.38%
Market Price Yield <sup>(2)</sup>	6.81%
Leverage Ratio <sup>(3)</sup>	37.97%

**Moody's Ratings**

(as a % of total investments)

**California Municipal III:**

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
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Six Month	1.94%	3.94%
1 Year	13.91%	12.58%
5 Year	3.21%	3.20%
10 Year	4.59%	4.03%
Commencement of Operations (10/31/02) to 3/31/13	4.05%	3.85%

**Market Price/NAV Performance:**

Commencement of Operations (10/31/02) to 3/31/13

**Market Price/NAV:**

Market Price	\$11.08
NAV	\$10.27
Premium to NAV	7.89%
Market Price Yield <sup>(2)</sup>	6.50%
Leverage Ratio <sup>(3)</sup>	41.26%

**Moody's Ratings**

(as a % of total investments)

**Table of Contents****PIMCO Municipal Income Funds III Performance & Statistics**

March 31, 2013 (unaudited)

**New York Municipal III:**

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	1.87%	1.80%
1 Year	12.40%	10.43%
5 Year	2.18%	0.36%
10 Year	3.46%	2.48%
Commencement of Operations (10/31/02) to 3/31/13	2.65%	2.45%

**Market Price/NAV Performance:**

Commencement of Operations (10/31/02) to 3/31/13

**Market Price/NAV:**

Market Price	\$10.14
NAV	\$9.51
Premium to NAV	6.62%
Market Price Yield <sup>(2)</sup>	6.21%
Leverage Ratio <sup>(3)</sup>	42.08%

**Moody's Ratings**

(as a % of total investments)

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

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Funds, market conditions, supply and demand for each Fund's shares, or changes in each Fund's dividends.

An investment in the Funds involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at March 31, 2013.

(3) Represents Floating Rate Notes issued in tender option bond transactions and Preferred Shares (collectively Leverage ) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

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

March 31, 2013 (unaudited)

Principal Amount (000s)		Value
<b>MUNICIPAL BONDS &amp; NOTES 96.9%</b>		
<b>Alabama 1.9%</b>		
\$ 500	Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 (AGC)	\$ 569,900
9,000	Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A	9,414,720
1,000	State Docks Department Rev., 6.00%, 10/1/40	1,190,480
		11,175,100
<b>Arizona 6.6%</b>		
	Health Facs. Auth. Rev.,	
1,250	Banner Health, 5.00%, 1/1/35, Ser. A	1,326,750
900	Banner Health, 5.50%, 1/1/38, Ser. D	1,000,449
2,250	Beatitudes Campus Project, 5.20%, 10/1/37	2,207,227
	Pima Cnty. Industrial Dev. Auth. Rev.,	
13,000	5.00%, 9/1/39 (i)	13,621,270
750	Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A	818,813
	Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39,	
5,000	Ser. A (i)	5,644,850
11,600	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	12,996,988
		37,616,347
<b>California 14.0%</b>		
	Bay Area Toll Auth. Rev., San Francisco Bay Area,	
1,500	5.00%, 10/1/29	1,710,810
500	5.00%, 4/1/34, Ser. F-1	558,350
3,260	5.00%, 10/1/42	3,600,246
	Golden State Tobacco Securitization Corp. Rev., Ser. A-1,	
3,000	4.50%, 6/1/27	2,893,170
3,600	5.125%, 6/1/47	3,182,148
7,120	5.75%, 6/1/47	6,842,106
	Health Facs. Financing Auth. Rev.,	
2,500	Catholic Healthcare West, 6.00%, 7/1/39, Ser. A	2,960,000
600	Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)	636,378
1,500	Sutter Health, 6.00%, 8/15/42, Ser. B	1,806,375
3,350	Indian Wells Redev. Agcy., Tax Allocation, Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC)	3,119,687

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130	Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC)	139,942
2,000	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	2,724,340
1,500	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B	1,769,100
1,250	Palomar Pomerado Health, CP, 6.75%, 11/1/39	1,405,513
1,600	San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A	1,761,072
	State, GO,	
5,000	5.00%, 6/1/37	5,412,700
5,300	5.00%, 12/1/37	5,786,593

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report 7

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

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>California (continued)</b>		
\$ 1,350	5.25%, 3/1/38	\$ 1,500,093
1,300	5.25%, 11/1/40	1,466,842
3,200	5.50%, 3/1/40	3,745,984
2,500	5.75%, 4/1/31	2,942,100
5,000	6.00%, 4/1/38	5,922,750
Statewide Communities Dev. Auth. Rev.,		
1,000	American Baptist Homes West, 6.25%, 10/1/39	1,136,140
1,935	California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(d)	2,103,113
2,580	Methodist Hospital Project, 6.625%, 8/1/29 (FHA)	3,170,356
9,200	Methodist Hospital Project, 6.75%, 2/1/38 (FHA)	11,097,868
1,200	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	1,088,988
		80,482,764
<b>Colorado 0.8%</b>		
500	Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34	378,865
Health Facs. Auth. Rev., Ser. A,		
500	Evangelical Lutheran, 6.125%, 6/1/38 (Pre-refunded @ \$100 6/1/14) (c)	533,850
2,000	Sisters of Charity of Leavenworth Health System, 5.00%, 1/1/40	2,152,580
500	Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38	679,365
500	Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34	577,980
		4,322,640
<b>Connecticut 0.3%</b>		
Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser.		
1,250	A	1,425,900
<b>District of Columbia 2.0%</b>		
10,000	Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (i)	11,626,000
<b>Florida 6.3%</b>		
3,480	Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34	3,622,158
Broward Cnty. Airport System Rev.,		
6,125	5.00%, 10/1/42, Ser. Q-1	6,680,721
500	5.375%, 10/1/29, Ser. O	568,020
4,500	Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (i)	5,247,225
3,000	Cape Coral Water & Sewer Rev., 5.00%, 10/1/41 (AGM)	3,314,280

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350	Dev. Finance Corp. Rev., Renaissance Charter School, 6.50%, 6/15/21, Ser. A	405,857
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)	2,562,225
5,000	Palm Beach Cnty. Solid Waste Auth. Rev., 5.00%, 10/1/31	5,749,000
3,895	Sarasota Cnty. Health Facs. Auth. Rev., Sarasota-Manatee Jewish Housing Council, Inc. Project, 5.75%, 7/1/45	3,436,013
4,200	State Board of Education, GO, 5.00%, 6/1/38, Ser. D (i)	4,794,930
		36,380,429

8 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13



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

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
	<b>Georgia 0.4%</b>	
\$ 1,750	Fulton Cnty. Residential Care Facs. For the Elderly Auth. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A	\$ 1,709,663
400	Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37	399,420
		2,109,083
	<b>Hawaii 0.3%</b>	
1,500	Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A	1,634,295
	<b>Illinois 5.6%</b>	
5,000	Chicago, GO, 5.00%, 1/1/34, Ser. C (i) Finance Auth. Rev.,	5,378,900
1,000	Leafs Hockey Club Project, 5.875%, 3/1/27, Ser. A (b)(f)	340,000
625	Leafs Hockey Club Project, 6.00%, 3/1/37, Ser. A (b)(f)	212,500
400	OSF Healthcare System, 7.125%, 11/15/37, Ser. A	484,344
12,795	Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC)	12,820,718
1,000	Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A	1,135,700
165	Univ. of Chicago, 5.25%, 7/1/41, Ser. 05-A	165,145
5,000	Univ. of Chicago, 5.50%, 7/1/37, Ser. B (i)	5,888,850
5,000	State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B	5,683,750
		32,109,907
	<b>Indiana 1.0%</b>	
500	Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC) Portage, Tax Allocation, Ameriplex Project,	501,190
1,000	5.00%, 7/15/23	1,025,470
775	5.00%, 1/15/27	787,834
2,800	Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 7.50%, 9/1/22	3,631,180
		5,945,674
	<b>Iowa 0.1%</b>	
120	Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, 5.50%, 11/15/27	103,781
575	5.50%, 11/15/37	460,753

564,534

<b>Kentucky 0.6%</b>		
2,000	Economic Dev. Finance Auth. Rev., Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A	2,375,260
1,250	Ohio Cnty. Pollution Control Rev., Big Rivers Electric Corp. Project, 6.00%, 7/15/31, Ser. A	1,249,862
		3,625,122
<b>Louisiana 1.6%</b>		
	Local Gov t Environmental Facs. & Community Dev. Auth Rev.,	
400	Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2	476,612
1,500	Woman s Hospital Foundation, 5.875%, 10/1/40, Ser. A	1,728,795
1,000	Woman s Hospital Foundation, 6.00%, 10/1/44, Ser. A	1,155,710

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

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Louisiana (continued)</b>		
	Public Facs. Auth. Rev., Ochsner Clinic Foundation Project,	
\$ 1,700	5.50%, 5/15/47, Ser. B	\$ 1,803,768
2,000	6.50%, 5/15/37	2,420,660
1,345	Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B	1,363,628
		8,949,173
<b>Maryland 0.8%</b>		
1,000	Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B	1,133,320
	Health & Higher Educational Facs. Auth. Rev.,	
1,500	Calvert Health System, 5.50%, 7/1/36	1,539,645
700	Charlestown Community, 6.25%, 1/1/41	801,948
1,000	Lifebridge Health, 6.00%, 7/1/41	1,183,140
		4,658,053
<b>Massachusetts 1.3%</b>		
	Dev. Finance Agcy. Rev.,	
300	Adventcare Project, 7.625%, 10/15/37	341,256
140	Linden Ponds, Inc. Fac., zero coupon, 11/15/56, Ser. B (b)	1,014
28	Linden Ponds, Inc. Fac., 5.50%, 11/15/46, Ser. A-2 (b)	22,180
529	Linden Ponds, Inc. Fac., 6.25%, 11/15/39, Ser. A-1	475,394
4,910	Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H	4,912,995
1,600	State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A	1,866,112
		7,618,951
<b>Michigan 8.7%</b>		
1,500	Detroit, GO, 5.25%, 11/1/35	1,620,465
9,320	Detroit Sewage Disposal System Rev., 5.00%, 7/1/32, Ser. A (AGM)	9,386,545
5,000	Detroit Water and Sewerage Dept. Rev., 5.25%, 7/1/39, Ser. A	5,434,400
	Detroit Water Supply System Rev.,	
16,000	5.00%, 7/1/34, Ser. A (NPFGC)	16,064,640
7,555	5.00%, 7/1/34, Ser. B (NPFGC)	7,573,132
5,000	5.25%, 7/1/41, Ser. A	5,376,750
500	Global Preparatory Academy Rev., 5.25%, 11/1/36	402,585
1,500	Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39	1,880,340
425		425,000

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	State Hospital Finance Auth. Rev., Oakwood Group, 6.00%, 4/1/22, Ser. A (Pre-refunded @ \$100, 4/1/13) (c)	
1,300	State Univ. Rev., 6.173%, 2/15/50, Ser. A	1,585,818
		49,749,675
	<b>Minnesota 0.0%</b>	
125	Duluth Housing & Redev. Auth. Rev., 5.875%, 11/1/40, Ser. A	128,411
	<b>Missouri 0.1%</b>	
250	Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23	247,200
500	Manchester, Tax Allocation, Highway 141/Manchester Road Project, 6.875%, 11/1/39	530,415
		777,615

10 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13

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

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
	<b>New Hampshire 0.4%</b>	
\$ 2,000	Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A	\$ 2,253,140
	<b>New Jersey 8.3%</b>	
1,000	Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A	1,033,250
4,500	Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28	5,473,755
300	Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14	300,879
1,000	Health Care Facs. Financing Auth. Rev., St. Peters Univ. Hospital, 5.75%, 7/1/37	1,081,980
1,600	Tobacco Settlement Financing Corp. Rev., Ser. 1-A, 4.75%, 6/1/34	1,423,408
20,745	5.00%, 6/1/41	18,772,773
18,000	Transportation Trust Fund Auth. Rev., 5.00%, 6/15/42, Ser. B	19,495,440
		47,581,485
	<b>New Mexico 0.2%</b>	
1,000	Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D	1,115,920
	<b>New York 12.9%</b>	
9,800	Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.25%, 7/15/40	11,741,184
5,000	Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A	5,827,350
1,700	Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37	2,053,770
3,000	Metropolitan Transportation Auth. Rev., 5.00%, 11/15/36, Ser. D	3,346,320
4,000	5.00%, 11/15/43, Ser. B (e)	4,385,800
1,150	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	768,453
10,450	New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC)	12,768,123
4,900	New York City Municipal Water Finance Auth. Water & Sewer Rev. (i), 5.00%, 6/15/37, Ser. D	5,258,631
4,000	Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD	4,366,600
10,000	New York Liberty Dev. Corp. Rev., 1 World Trade Center Project, 5.00%, 12/15/41	11,147,900
11,255	4 World Trade Center Project, 5.00%, 11/15/44	12,378,024
		74,042,155

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<b>North Carolina 1.4%</b>		
1,500	Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC)	1,517,220
6,000	New Hanover Cnty. Rev., New Hanover Regional Medical Center, 5.00%, 10/1/28	6,527,640
		8,044,860
<b>Ohio 4.3%</b>		
500	Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A	542,505
	Buckeye Tobacco Settlement Financing Auth. Rev., Ser. A-2,	
2,350	5.875%, 6/1/47	2,116,786
7,290	6.00%, 6/1/42	6,587,536
7,000	6.50%, 6/1/47	6,830,530
3,500	Hamilton Cnty. Healthcare Rev., Christ Hospital Project, 5.00%, 6/1/42	3,708,180

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report **11**

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

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Ohio (continued)</b>		
\$ 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)	\$ 556,835
3,500	JobsOhio Beverage System Rev., 5.00%, 1/1/38, Ser. A	3,887,380
500	Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A (Pre-refunded @ \$100, 11/15/14) (c)	548,115
		24,777,867
<b>Pennsylvania 2.7%</b>		
1,000	Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39	1,109,450
4,000	Berks Cnty. Municipal Auth. Rev., Reading Hospital Medical Center, 5.00%, 11/1/44, Ser. A	4,339,920
750	Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A, 5.625%, 7/1/28	793,275
670	6.00%, 7/1/35	712,250
1,000	Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A	1,117,450
1,250	Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B (f)	909,938
100	Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39	109,731
500	Philadelphia Water & Sewer Rev., 5.25%, 1/1/36, Ser. A	554,200
2,000	Philadelphia Water & Wastewater Rev., 5.00%, 11/1/28	2,309,180
3,000	Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D	3,248,340
		15,203,734
<b>South Carolina 0.3%</b>		
1,000	Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39	1,088,690
800	State Ports Auth. Rev., 5.25%, 7/1/40	884,544
		1,973,234
<b>Tennessee 0.5%</b>		
1,250	Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39	1,412,413

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1,000	Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38, Ser. A	1,167,750
		2,580,163
	<b>Texas 8.9%</b>	
1,300	Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC)	1,435,798
3,000	Harris Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor College of Medicine, 5.00%, 11/15/37	3,336,150
2,000	Municipal Gas Acquisition & Supply Corp. III Rev., 5.00%, 12/15/26	2,184,600
	North Harris Cnty. Regional Water Auth. Rev.,	
5,500	5.25%, 12/15/33	6,149,825
5,500	5.50%, 12/15/38	6,172,320
	North Texas Tollway Auth. Rev.,	
3,000	5.00%, 1/1/38	3,262,470
600	5.50%, 9/1/41, Ser. A	700,560
10,800	5.625%, 1/1/33, Ser. A	12,228,300
700	5.75%, 1/1/33, Ser. F	776,657

12 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13



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

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Texas (continued)</b>		
\$ 2,000	Sabine River Auth. Pollution Control Rev., TXU Energy, 5.20%, 5/1/28, Ser. C	\$ 125,000
3,000	Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29	3,539,490
150	Texas Municipal Gas Acquisition & Supply Corp. I Rev., 5.25%, 12/15/26, Ser. A	176,574
8,100	6.25%, 12/15/26, Ser. D	10,486,746
500	Wise Cnty. Rev., Parker Cnty. Junior College Dist., 8.00%, 8/15/34	598,840
		51,173,330
<b>Virginia 0.3%</b>		
1,000	Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A	1,134,540
1,000	James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A	550,000
		1,684,540
<b>Washington 3.7%</b>		
500	Health Care Facs. Auth. Rev., Kadlec Regional Medical Center, 5.50%, 12/1/39	538,440
1,000	Seattle Cancer Care Alliance, 7.375%, 3/1/38	1,266,940
18,680	Tobacco Settlement Auth. of Washington Rev., 6.50%, 6/1/26	19,340,151
		21,145,531
<b>West Virginia 0.2%</b>		
1,000	Hospital Finance Auth. Rev., Highland Hospital, 9.125%, 10/1/41	1,280,540
<b>Wisconsin 0.4%</b>		
1,000	Health & Educational Facs. Auth. Rev., Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A	1,113,650
1,000	Prohealth Care, Inc., 6.625%, 2/15/39	1,160,940
		2,274,590
	Total Municipal Bonds & Notes (cost-\$500,210,862)	556,030,762

<b>VARIABLE RATE NOTES (a)(d)(g)(h) 2.9%</b>		
<b>California 0.4%</b>		
1,675	Los Angeles Community College Dist., GO, 11.746%, 8/1/33, Ser. 3096	2,317,949
<b>Florida 1.0%</b>		
5,000	Greater Orlando Aviation Auth. Rev., 8.04%, 10/1/39, Ser. 3174	6,098,850
<b>Texas 1.5%</b>		
6,500	JPMorgan Chase Putters/Drivers Trust, GO, 7.974%, 2/1/17, Ser. 3480	8,409,700
Total Variable Rate Notes (cost-\$13,080,592)		16,826,499
<b>U.S. TREASURY OBLIGATIONS 0.1%</b>		
233	U.S. Treasury Notes, 1.25%, 3/15/14 (cost-\$235,398)	235,430

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report **13**

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

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
	<b>Repurchase Agreements 0.1%</b>	
\$ 500	Citigroup Global Markets, Inc., dated 3/28/13, 0.24%, due 4/1/13, proceeds \$500,013; collateralized by Freddie Mac, 1.02%, due 10/16/17, valued at \$511,382 including accrued interest (cost-\$500,000)	\$ 500,000
	<b>Total Investments (cost-\$514,026,852) 100.0%</b>	<b>\$ 573,592,691</b>

Industry classification of portfolio holdings as a percentage of total investments at March 31, 2013 was as follows:

Revenue Bonds:		
Health, Hospital & Nursing Home Revenue		18.9%
Tobacco Settlement Funded		12.3
Water Revenue		10.5
Natural Gas Revenue		7.4
Miscellaneous Revenue		6.6
Sewer Revenue		5.0
Port, Airport & Marina Revenue		4.8
Recreational Revenue		4.4
College & University Revenue		3.4
Highway Revenue Tolls		3.4
Industrial Revenue		2.6
Lease (Appropriation)		2.4
Local or Guaranteed Housing		1.7
Electric Power & Light Revenue		1.5
Transit Revenue		1.5
Miscellaneous Taxes		1.0
Resource Recovery Revenue		1.0
Ad Valorem Property Tax		0.1
Tax Increment/Allocation Revenue		0.0
Total Revenue Bonds		88.5%
General Obligation		8.9
Tax Allocation		1.2
Special Assessment		1.0
Certificates of Participation		0.2
Repurchase Agreements		0.1
U.S. Treasury Obligations		0.1
Total Investments		100.0%

**14** PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13

**Table of Contents**

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

March 31, 2013 (unaudited) (continued)

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$18,929,612, 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) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate).
  
- (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) When-issued or delayed-delivery. To be settled/delivered after March 31, 2013.
  
- (f) In default.
  
- (g) 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 March 31, 2013.
  
- (h) 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 March 31, 2013.
  
- (i) 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.
  
- (j)

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Floating Rate Notes for the six months ended March 31, 2013: The weighted average daily balance of Floating Rate Notes outstanding during the six months ended March 31, 2013 was \$32,048,691 at a weighted average interest rate, including fees, of 0.67%.

(k) Fair Value Measurements See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 3/31/13
<b>Investments in Securities Assets</b>				
Municipal Bonds & Notes		\$ 556,030,762		\$ 556,030,762
Variable Rate Notes		16,826,499		16,826,499
U.S. Treasury Obligations		235,430		235,430
Repurchase Agreements		500,000		500,000
<b>Totals</b>		\$ 573,592,691		\$ 573,592,691

At March 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.

See accompanying Notes to Financial Statements 3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report

**Table of Contents****PIMCO California Municipal Income Fund III Schedule of Investments**

March 31, 2013 (unaudited)

Principal Amount (000s)		Value
<b>CALIFORNIA MUNICIPAL BONDS &amp; NOTES 96.2%</b>		
\$ 1,250	Bay Area Toll Auth. Rev., San Francisco Bay Area, 5.00%, 4/1/34, Ser. F-1	\$ 1,395,875
1,000	Cathedral City Public Financing Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (NPFGC)	983,640
1,150	Ceres Redev. Agcy., Tax Allocation, Project Area No. 1, 5.00%, 11/1/33 (NPFGC)	1,154,807
2,000	Chula Vista Rev., San Diego Gas & Electric, 5.875%, 2/15/34, Ser. B	2,391,980
550	City & Cnty. of San Francisco, Capital Improvement Projects, CP, 5.25%, 4/1/31, Ser. A	601,326
1,415	Contra Costa Cnty. Public Financing Auth., Tax Allocation, 5.625%, 8/1/33, Ser. A	1,415,141
9,800	Educational Facs. Auth. Rev. (g), Claremont McKenna College, 5.00%, 1/1/39	10,740,016
10,000	Univ. of Southern California, 5.00%, 10/1/39, Ser. A	11,397,200
1,695	El Dorado Irrigation Dist. & El Dorado Water Agcy., CP, 5.75%, 8/1/39, Ser. A (AGC)	1,790,462
11,000	Golden State Tobacco Securitization Corp. Rev., 5.00%, 6/1/45 (AMBAC-TCRS)	11,477,730
4,000	5.00%, 6/1/45, Ser. A (FGIC-TCRS)	4,173,720
21,865	5.75%, 6/1/47, Ser. A-1	21,011,609
4,000	Health Facs. Financing Auth. Rev., Adventist Health System, 5.75%, 9/1/39, Ser. A	4,649,760
1,935	Catholic Healthcare West, 6.00%, 7/1/34, Ser. A	2,033,762
4,000	Catholic Healthcare West, 6.00%, 7/1/39, Ser. A	4,736,000
450	Children s Hospital of Los Angeles, 5.25%, 7/1/38 (AGM)	468,095
500	Children s Hospital of Orange Cnty., 6.50%, 11/1/38, Ser. A	603,745
6,000	Cottage Health System, 5.00%, 11/1/33, Ser. B (NPFGC)	6,076,020
1,300	Scripps Health, 5.00%, 11/15/36, Ser. A	1,423,071
2,900	Stanford Hospital, 5.25%, 11/15/40, Ser. A-2	3,276,884
1,000	Sutter Health, 5.00%, 8/15/35, Ser. D	1,107,940
5,000	Sutter Health, 5.00%, 8/15/38, Ser. A	5,526,050
500	Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)	530,315
1,200	Sutter Health, 6.00%, 8/15/42, Ser. B	1,445,100
500	Lancaster Redev. Agcy., Tax Allocation, 6.875%, 8/1/39	561,795
150	Lancaster Redev. Agcy. Rev., Capital Improvements Projects, 5.90%, 12/1/35	162,864
5,020	Long Beach Airport Rev., 5.00%, 6/1/40, Ser. A	5,326,421
5,600	Long Beach Bond Finance Auth. Rev., Long Beach Natural Gas, 5.50%, 11/15/37, Ser. A	6,827,632
5,000	Long Beach Unified School Dist., GO, 5.75%, 8/1/33, Ser. A	5,811,900
5,000	Los Angeles Cnty. Public Works Financing Auth. Rev., 5.00%, 8/1/42	5,516,850
	Los Angeles Department of Airports Rev.,	

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6,950	5.00%, 5/15/40, Ser. A	7,749,667
2,000	5.00%, 5/15/40, Ser. D	2,230,120
	Los Angeles Department of Water & Power Rev.,	
6,000	4.75%, 7/1/30, Ser. A-2 (AGM) (g)	6,296,700
10,000	5.00%, 7/1/39, Ser. A (g)	10,981,300
1,400	5.00%, 7/1/43, Ser. B	1,572,802

16 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13



**Table of Contents****PIMCO California Municipal Income Fund III Schedule of Investments**

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
	Los Angeles Unified School Dist., GO,	
\$ 9,580	4.75%, 1/1/28, Ser. A (NPFGC) (Pre-refunded @ \$100 7/1/13) (c)	\$ 9,686,721
10,000	5.00%, 1/1/34, Ser. I (g)	11,325,400
1,700	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	2,315,689
550	Malibu, City Hall Project, CP, 5.00%, 7/1/39, Ser. A	591,096
1,000	Manteca Financing Auth. Sewer Rev., 5.75%, 12/1/36	1,159,640
5,000	Metropolitan Water Dist. of Southern California Rev., 5.00%, 7/1/37, Ser. A (g)	5,508,700
2,980	Modesto Irrigation Dist., Capital Improvement Projects, CP, 5.00%, 7/1/33, Ser. A (NPFGC) (Pre-refunded @ \$100, 7/1/13) (c)	3,015,015
3,000	Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM)	3,264,000
905	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B	1,067,357
1,250	Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C	1,337,225
1,250	Pollution Control Financing Auth. Rev., American Water Capital Corp. Project, 5.25%, 8/1/40 (a)(d)	1,344,212
1,920	Poway Unified School Dist., Special Tax, 5.125%, 9/1/28	1,982,938
5,000	Riverside, CP, 5.00%, 9/1/33 (AMBAC) (Pre-refunded @ \$100, 9/1/13) (c)	5,098,800
500	Rocklin Unified School Dist. Community Facs. Dist., Special Tax, 5.00%, 9/1/29 (NPFGC)	502,070
995	Sacramento Municipal Utility Dist. Rev., Ser. R, 5.00%, 8/15/33 (NPFGC)	1,008,214
2,255	5.00%, 8/15/33 (NPFGC) (Pre-refunded @ \$100 8/15/13) (c)	2,294,733
6,250	San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM)	6,859,250
12,075	San Diego Community College Dist., GO, 5.00%, 5/1/28, Ser. A (AGM) (Pre-refunded @ \$100, 5/1/13) (c)	12,120,402
4,000	San Diego Public Facs. Financing Auth. Sewer Rev., 5.25%, 5/15/39, Ser. A	4,612,880
2,200	San Diego Regional Building Auth. Rev., Cnty. Operations Center & Annex, 5.375%, 2/1/36, Ser. A	2,534,510
1,000	San Francisco Public Utilities Commission Water Rev., 5.00%, 11/1/43	1,124,870
1,500	San Jose Hotel Tax Rev., Convention Center Expansion, 6.50%, 5/1/36	1,806,015
12,200	San Marcos Public Facs. Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (FGIC-NPFGC)	12,308,336
1,000	San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A	1,100,670
500	Santa Clara Cnty. Financing Auth. Rev., El Camino Hospital, 5.75%, 2/1/41, Ser. A (AMBAC)	552,400
1,200	Santa Cruz Cnty. Redev. Agcy., Tax Allocation, Live Oak/Soquel Community, 7.00%, 9/1/36, Ser. A	1,423,368
4,425	South Tahoe JT Powers Financing Auth. Rev., South Tahoe Redev. Project, 5.45%, 10/1/33, Ser. 1-A	4,355,262
7,300	State, GO, 6.00%, 4/1/38	8,647,215

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	State Public Works Board Rev.,	
2,000	California State Univ., 6.00%, 11/1/34, Ser. J	2,382,000
2,500	Judicial Council Projects, 5.00%, 3/1/38, Ser. A (b)	2,715,625
2,050	Univ. CA M.I.N.D. Inst., 5.00%, 4/1/28, Ser. A	2,055,678
	Statewide Communities Dev. Auth. Rev.,	
500	American Baptist Homes West, 6.25%, 10/1/39	568,070

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report 17

**Table of Contents****PIMCO California Municipal Income Fund III Schedule of Investments**

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
\$ 1,300	California Baptist Univ., 5.50%, 11/1/38, Ser. A	\$ 1,391,169
460	California Baptist Univ., 6.50%, 11/1/21	542,059
1,015	Catholic Healthcare West, 5.50%, 7/1/31, Ser. D	1,130,791
1,015	Catholic Healthcare West, 5.50%, 7/1/31, Ser. E	1,125,625
4,500	Kaiser Permanente, 5.00%, 3/1/41, Ser. B	4,794,300
1,000	Lancer Student Housing Project, 7.50%, 6/1/42	1,141,300
7,300	Los Angeles Jewish Home, 5.50%, 11/15/33 (CA Mtg. Ins.)	7,461,549
15,000	Memorial Health Services, 5.50%, 10/1/33, Ser. A (Pre-refunded @ \$100 4/1/13) (c)	15,000,000
1,780	Methodist Hospital Project, 6.625%, 8/1/29 (FHA)	2,187,300
6,430	Methodist Hospital Project, 6.75%, 2/1/38 (FHA)	7,756,445
3,100	St. Joseph Health System, 5.75%, 7/1/47, Ser. A (FGIC)	3,493,049
1,800	Sutter Health, 6.00%, 8/15/42, Ser. A	2,167,650
3,505	The Internext Group, CP, 5.375%, 4/1/30	3,514,849
11,000	Trinity Health, 5.00%, 12/1/41	12,197,130
2,000	Univ. of California Irvine E. Campus, 5.375%, 5/15/38	2,196,180
	Tobacco Securitization Agcy. Rev.,	
8,100	Alameda Cnty., 5.875%, 6/1/35	8,142,363
7,000	Alameda Cnty., 6.00%, 6/1/42	7,032,340
2,000	Kern Cnty., 6.125%, 6/1/43, Ser. A	2,000,160
5,000	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	4,537,450
2,950	Torrance Rev., Torrance Memorial Medical Center, 5.50%, 6/1/31, Ser. A	2,956,608
5,000	Univ. of California Rev., 5.00%, 5/15/42, Ser. G	5,547,950
	West Basin Municipal Water Dist., CP, Ser. A,	
350	5.00%, 8/1/30 (NPFGC)	352,856
650	5.00%, 8/1/30 (NPFGC) (Pre-refunded @ \$100 8/1/13) (c)	660,238
2,000	Western Municipal Water Dist. Facs. Auth. Rev., 5.00%, 10/1/39, Ser. B	2,176,560
1,000	Westlake Village, CP, 5.00%, 6/1/39	1,040,520
2,750	Woodland Finance Auth. Rev., 5.00%, 3/1/32 (XCLA)	2,799,500
	<b>Total California Municipal Bonds &amp; Notes (cost-\$335,847,925)</b>	<b>373,462,601</b>
<b>OTHER MUNICIPAL BONDS &amp; NOTES 3.1%</b>		
<b>Indiana 1.4%</b>		
5,000	Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 5.75%, 9/1/42 (a)(d)	5,212,800
<b>New Jersey 0.2%</b>		
1,000	Tobacco Settlement Financing Corp. Rev., 4.75%, 6/1/34, Ser. 1-A	889,630

**New York 0.9%**

3,300	New York City Municipal Water Finance Auth. Water & Sewer Rev., 5.00%, 6/15/37, Ser. D (g)	3,541,527
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**Ohio 0.6%**

2,000	American Municipal Power, Inc. Rev., Fremont Energy Center Project, 5.00%, 2/15/42, Ser. B	2,174,440
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Total Other Municipal Bonds & Notes (cost-\$8,793,720)	11,818,397
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**18** PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13

**Table of Contents****PIMCO California Municipal Income Fund III Schedule of Investments**

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>CALIFORNIA VARIABLE RATE NOTES (a)(d)(e)(f) 0.4%</b>		
\$ 1,000	Los Angeles Community College Dist., GO, 11.746%, 8/1/33, Ser. 3096 (cost-\$996,688)	\$ 1,383,850
<b>SHORT-TERM INVESTMENTS 0.3%</b>		
<b>U.S. Government Agency Securities (h) 0.3%</b>		
300	Federal Home Loan Bank Discount Notes, 0.104%, 4/5/13	299,997
1,000	Freddie Mac Discount Notes, 0.162%, 1/15/14	998,715
	Total U.S. Government Agency Securities (cost-\$1,298,712)	1,298,712
<b>U.S. Treasury Obligations 0.0%</b>		
100	U.S. Treasury Bills, 0.068%, 4/18/13 (h) (cost-\$99,997)	99,997
	Total Short-Term Investments (cost-\$1,398,709)	1,398,709
	<b>Total Investments (cost-\$347,037,042) 100.0%</b>	<b>\$ 388,063,557</b>

Industry classification of portfolio holdings as a percentage of total investments at March 31, 2013 was as follows:

Revenue Bonds:	
Health, Hospital & Nursing Home Revenue	25.2%
Tobacco Settlement Funded	15.3
College & University Revenue	8.7
Electric Power & Light Revenue	5.9
Lease (Abatement)	4.2
Port, Airport & Marina Revenue	3.9
Water Revenue	3.9
Natural Gas Revenue	3.0
Sewer Revenue	1.5
Tax Increment/Allocation Revenue	1.1
Local or Guaranteed Housing	0.7
Hotel Occupancy Tax	0.5
Highway Revenue Tolls	0.4
Total Revenue Bonds	74.3%
General Obligation	14.1

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Certificates of Participation	6.1
Tax Allocation	4.6
Special Tax	0.6
U.S. Government Agency Securities	0.3
U.S. Treasury Obligations	0.0
<b>Total Investments</b>	<b>100.0%</b>

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report **19**

**Table of Contents**

**PIMCO California Municipal Income Fund III Notes to Schedule of Investments**

March 31, 2013 (unaudited) (continued)

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$7,940,862, representing 2.0% 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) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate).
- (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) 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 March 31, 2013.
- (f) 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 March 31, 2013.
- (g) 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.
- (h) Rates reflect the effective yields at purchase date.
- (i) Floating Rate Notes for the six months ended March 31, 2013: The weighted average daily balance of Floating Rate Notes outstanding during the six months ended March 31, 2013 was \$33,623,688 at a weighted average interest rate, including fees, of 0.68%.
- (j) Fair Value Measurements See Note 1(b) in the Notes to Financial Statements.

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	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 3/31/13
<b>Investments in Securities Assets</b>				
California Municipal Bonds & Notes		\$ 373,462,601		\$ 373,462,601
Other Municipal Bonds & Notes		11,818,397		11,818,397
California Variable Rate Notes		1,383,850		1,383,850
Short-Term Investments		1,398,709		1,398,709
<b>Totals</b>		\$ 388,063,557		\$ 388,063,557

At March 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.
CA Mtg. Ins.	- insured by California Mortgage Insurance
CP	- Certificates of Participation
FGIC	- insured by Financial Guaranty Insurance Co.
FHA	- insured by Federal Housing Administration
GO	- General Obligation Bond
IBC	- Insurance Bond Certificate
NPFGC	- insured by National Public Finance Guarantee Corp.
TCRS	- Temporary Custodian Receipts
XLCA	- insured by XL Capital Assurance

20 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13 See accompanying Notes to Financial Statements



**Table of Contents****PIMCO New York Municipal Income Fund III Schedule of Investments**

March 31, 2013 (unaudited)

Principal Amount (000s)		Value
<b>NEW YORK MUNICIPAL BONDS &amp; NOTES 93.0%</b>		
\$ 1,000	Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.375%, 7/15/43	\$ 1,198,910
1,500	Chautauqua Cnty. Industrial Dev. Agcy. Rev., Dunkirk Power Project, 5.875%, 4/1/42	1,687,470
730	Dutchess Cnty. Industrial Dev. Agcy. Rev., Elant Fishkill, Inc., 5.25%, 1/1/37, Ser. A	643,495
800	East Rochester Housing Auth. Rev., St. Mary's Residence Project, 5.375%, 12/20/22, Ser. A (GNMA)	826,616
4,000	Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A	4,661,880
	Liberty Dev. Corp. Rev.,	
1,050	Bank of America Tower at One Bryant Park Project, 6.375%, 7/15/49	1,246,843
1,810	Goldman Sachs Headquarters, 5.25%, 10/1/35	2,119,800
2,400	Goldman Sachs Headquarters, 5.50%, 10/1/37	2,899,440
1,500	Long Island Power Auth. Rev., 5.75%, 4/1/39, Ser. A	1,739,940
	Metropolitan Transportation Auth. Rev.,	
5,220	5.00%, 11/15/32, Ser. A (FGIC-NPFGC)	5,304,042
500	5.00%, 11/15/34, Ser. B	559,910
4,000	5.00%, 11/15/43, Ser. B (d)	4,385,800
3,000	Monroe Cnty. Industrial Dev. Corp. Rev., Unity Hospital Rochester Project, 5.50%, 8/15/40 (FHA) (g)	3,411,570
500	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	334,110
600	New York City Industrial Dev. Agcy. Rev., Pilot Queens Baseball Stadium, 6.50%, 1/1/46 (AGC)	687,186
2,200	Yankee Stadium, 7.00%, 3/1/49 (AGC)	2,688,026
	New York City Municipal Water Finance Auth. Water & Sewer Rev., Second Generation Resolutions,	
5,000	4.75%, 6/15/35, Ser. DD (g)	5,458,250
1,500	5.00%, 6/15/39, Ser. GG-1	1,692,945
2,000	New York City Transitional Finance Auth. Rev., 5.00%, 5/1/39, Ser. F-1	2,259,760
	New York City Trust for Cultural Res. Rev.,	
2,000	Wildlife Conservation Society, 5.00%, 8/1/33, Ser. A	2,354,840
3,450	Wildlife Conservation Society, 5.00%, 2/1/34 (FGIC-NPFGC) (Pre-refunded @ \$100 2/1/14) (b)	3,586,585
4,000	New York Liberty Dev. Corp. Rev., 4 World Trade Center Project, 5.75%, 11/15/51	4,683,800
1,000	Niagara Falls Public Water Auth. Water & Sewer Rev., 5.00%, 7/15/34, Ser. A (NPFGC)	1,008,710
400	Onondaga Cnty. Rev., Syracuse Univ. Project, 5.00%, 12/1/36	450,848
600	Port Auth. of New York & New Jersey Rev., JFK International Air Terminal, 6.00%, 12/1/36	709,734
	State Dormitory Auth. Rev.,	
1,000	5.00%, 3/15/38, Ser. A	1,117,470

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2,350	5.00%, 7/1/42, Ser. A	2,642,034
2,250	Jewish Board Family & Children, 5.00%, 7/1/33 (AMBAC)	2,253,285
250	NYU Hospitals Center, 6.00%, 7/1/40, Ser. A	294,928
3,740	St. Barnabas Hospital, 5.00%, 2/1/31, Ser. A (AMBAC-FHA)	3,749,275
1,200	Teachers College, 5.50%, 3/1/39	1,305,732

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report **21**

**Table of Contents****PIMCO New York Municipal Income Fund III Schedule of Investments**

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
\$ 500	The New School, 5.50%, 7/1/40	\$ 561,430
620	Winthrop Univ. Hospital Assoc., 5.50%, 7/1/32, Ser. A (Pre-refunded @ \$100 7/1/13) (b)	627,961
2,500	Winthrop-Nassau Univ., 5.75%, 7/1/28 (Pre-refunded @ \$100 7/1/13) (b)	2,533,625
750	State Environmental Facs. Corp. Rev., 4.75%, 6/15/32, Ser. B	827,888
1,600	State Thruway Auth. Rev., 5.00%, 1/1/42, Ser. I	1,756,608
2,400	State Urban Dev. Corp. Rev., 5.00%, 3/15/35, Ser. B	2,575,248
2,200	5.00%, 3/15/36, Ser. B-1 (g)	2,464,814
2,000	Triborough Bridge & Tunnel Auth. Rev., 5.25%, 11/15/34, Ser. A-2 (g)	2,327,480
1,400	Troy Capital Res. Corp. Rev., Rensselaer Polytechnic Institute Project, 5.125%, 9/1/40, Ser. A	1,527,288
2,000	TSACS, Inc. Rev., Ser. 1, 5.00%, 6/1/26	1,975,200
100	5.00%, 6/1/34	90,765
2,000	Warren & Washington Cntys. Industrial Dev. Agcy. Rev., Glens Falls Hospital Project, 5.00%, 12/1/35, Ser. A (AGM)	2,022,100
600	Westchester Cnty. Healthcare Corp. Rev., 6.125%, 11/1/37, Ser. C-2	702,276
100	Yonkers Economic Dev. Corp. Rev., Charter School of Educational Excellence Project, 6.00%, 10/15/30, Ser. A	105,505
	<b>Total New York Municipal Bonds &amp; Notes (cost-\$80,586,544)</b>	<b>88,061,422</b>
<b>OTHER MUNICIPAL BONDS &amp; NOTES 2.7%</b>		
<b>District of Columbia 0.2%</b>		
175	Tobacco Settlement Financing Corp. Rev., 6.50%, 5/15/33	208,296
<b>Ohio 1.8%</b>		
1,250	Buckeye Tobacco Settlement Financing Auth. Rev., Ser. A-2, 5.875%, 6/1/47	1,125,950
600	6.50%, 6/1/47	585,474
		1,711,424
<b>U. S. Virgin Islands 0.6%</b>		
500	Public Finance Auth. Rev., 6.00%, 10/1/39, Ser. A	552,785

<b>Washington 0.1%</b>		
135	Tobacco Settlement Auth. of Washington Rev., 6.625%, 6/1/32	137,862
Total Other Municipal Bonds & Notes (cost-\$2,281,057)		2,610,367
<b>U.S. TREASURY OBLIGATIONS 2.2%</b>		
<b>U.S. Treasury Notes 2.2%</b>		
100	0.125%, 12/31/13	100,004
100	0.25%, 11/30/13	100,082
992	1.25%, 2/15/14	1,001,572
408	1.25%, 3/15/14	412,255
500	1.875%, 2/28/14	507,871
Total U.S. Treasury Obligations (cost-\$2,121,537)		2,121,784

22 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13

**Table of Contents****PIMCO New York Municipal Income Fund III Schedule of Investments**

March 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>NEW YORK VARIABLE RATE NOTES (a)(c)(e)(f) 0.7%</b>		
\$ 500	JPMorgan Chase Putters/Drivers Trust Rev., Unity Hospital Rochester Project, 8.864%, 8/15/18, Ser. 3829 (FHA) (cost-\$453,564)	\$ 636,170
<b>SHORT-TERM INVESTMENTS 1.4%</b>		
<b>U.S. Government Agency Securities (h) 1.3%</b>		
1,200	Freddie Mac Discount Notes, 0.162%, 1/14/14 2/4/14 (cost-\$1,198,427)	1,198,427
<b>Repurchase Agreements 0.1%</b>		
100	Citigroup Global Markets, Inc., dated 3/28/13, 0.24%, due 4/1/13, proceeds \$100,003; collateralized by Freddie Mac, 1.02%, due 10/16/17, valued at \$102,477 including accrued interest (cost-\$100,000)	100,000
Total Short-Term Investments (cost-\$1,298,427)		1,298,427
<b>Total Investments (cost-\$86,741,129) 100.0%</b>		<b>\$ 94,728,170</b>

Industry classification of portfolio holdings as a percentage of total investments at March 31, 2013 was as follows:

Revenue Bonds:

Health, Hospital & Nursing Home Revenue	19.0%
Industrial Revenue	11.1
Transit Revenue	10.8
Water Revenue	9.5
Income Tax Revenue	8.9
Recreational Revenue	7.9
College & University Revenue	6.9
Miscellaneous Revenue	6.1
Miscellaneous Taxes	4.9
Tobacco Settlement Funded	4.4
Highway Revenue Tolls	4.3
Electric Power & Light Revenue	1.8
Port, Airport & Marina Revenue	0.8
Total Revenue Bonds	96.4%
U.S. Treasury Obligations	2.2
U.S. Government Agency Securities	1.3
Repurchase Agreements	0.1

Total Investments

100.0%

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report **23**

**Table of Contents**

**PIMCO New York Municipal Income Fund III Notes to Schedule of Investments**

March 31, 2013 (unaudited) (continued)

- (a) Private Placement Restricted as to resale and may not have a readily available market. Security with a value of \$636,170, representing 0.7% of total investments.
- (b) 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) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate).
- (c) 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.
- (d) When-issued or delayed-delivery. To be settled/delivered after March 31, 2013.
- (e) 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 March 31, 2013.
- (f) 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 March 31, 2013.
- (g) 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.
- (h) Rates reflect the effective yields at purchase date.
- (i) Floating Rate Notes for the six months ended March 31, 2013: The weighted average daily balance of Floating Rate Notes outstanding during the six months ended March 31, 2013 was \$8,812,360 at a weighted average interest rate, including fees, of 0.68%.

(j) Fair Value Measurements See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 3/31/13
<b>Investments in Securities Assets</b>				
New York Municipal Bonds & Notes		\$ 88,061,422		\$ 88,061,422
Other Municipal Bonds & Notes		2,610,367		2,610,367
U.S. Treasury Obligations		2,121,784		2,121,784
New York Variable Rate Notes		636,170		636,170
Short-Term Investments		1,298,427		1,298,427
<b>Totals</b>		\$ 94,728,170		\$ 94,728,170

At March 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.
FGIC	- insured by Financial Guaranty Insurance Co.
FHA	- insured by Federal Housing Administration
GNMA	- insured by Government National Mortgage Association
NPFGC	- insured by National Public Finance Guarantee Corp.

24 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13 See accompanying Notes to Financial Statement



**Table of Contents****PIMCO Municipal Income Funds III Statements of Assets and Liabilities**

March 31, 2013 (unaudited)

	Municipal III	California Municipal III	New York Municipal III
<b>Assets:</b>			
Investments, at value (cost-\$514,026,852, \$347,037,042 and \$86,741,129, respectively)	\$573,592,691	\$388,063,557	\$94,728,170
Cash	575,376	23,997	588,451
Interest receivable	8,966,142	5,916,616	1,078,311
Receivable for investments sold	3,175,423	50,000	1,031,808
Prepaid expenses and other assets	69,541	46,466	34,112
<b>Total Assets</b>	<b>586,379,173</b>	<b>394,100,636</b>	<b>97,460,852</b>
<b>Liabilities:</b>			
Payable for Floating Rate Notes issued	30,921,219	33,623,688	6,933,000
Payable for investments purchased	4,375,320	7,825,484	4,375,320
Dividends payable to common and preferred shareholders	2,277,356	1,324,301	296,933
Investment management fees payable	302,789	193,543	47,337
Interest payable	55,428	61,565	8,532
Accrued expenses and other liabilities	222,221	251,939	206,851
<b>Total Liabilities</b>	<b>38,154,333</b>	<b>43,280,520</b>	<b>11,867,973</b>
<b>Preferred Shares (\$0.00001 par value and \$25,000 liquidation preference per share applicable to an aggregate of 7,560, 5,000 and 1,280 shares issued and outstanding, respectively)</b>	<b>189,000,000</b>	<b>125,000,000</b>	<b>32,000,000</b>
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$359,224,840</b>	<b>\$225,820,116</b>	<b>\$53,592,879</b>
<b>Composition of Net Assets Applicable to Common Shareholders:</b>			
Common Shares:			
Par value (\$0.00001 per share)	\$324	\$220	\$56
Paid-in-capital in excess of par	457,887,501	309,335,563	79,232,185
Undistributed net investment income	2,507,853	7,332,537	1,954,377
Accumulated net realized loss	(160,738,386)	(131,859,315)	(35,579,666)
Net unrealized appreciation	59,567,548	41,011,111	7,985,927
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$359,224,840</b>	<b>\$225,820,116</b>	<b>\$53,592,879</b>
Common Shares Issued and Outstanding	32,443,472	21,990,812	5,636,701
<b>Net Asset Value Per Common Share</b>	<b>\$11.07</b>	<b>\$10.27</b>	<b>\$9.51</b>

See accompanying Notes to Financial Statements 3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report

**Table of Contents****PIMCO Municipal Income Funds III Statements of Operations**

Six Months ended March 31, 2013 (unaudited)

	Municipal III	California Municipal III	New York Municipal III
<b>Investment Income:</b>			
Interest	\$14,757,713	\$11,024,733	\$2,262,848
<b>Expenses:</b>			
Investment management	1,790,569	1,142,382	280,818
Auction agent and commissions	149,797	97,987	25,459
Interest	108,220	115,480	30,405
Custodian and accounting agent	51,151	37,767	22,735
Audit and tax services	39,874	33,388	24,405
Shareholder communications	26,973	15,486	10,881
Trustees	20,912	13,027	3,036
Transfer agent	12,532	11,776	12,440
Legal	12,191	5,475	2,571
New York Stock Exchange listing	11,224	9,297	9,203
Insurance	8,434	6,356	3,431
Miscellaneous	5,531	5,187	5,082
Total Expenses	2,237,408	1,493,608	430,466
Less: custody credits earned on cash balances	(828)	(381)	(53)
Net Expenses	2,236,580	1,493,227	430,413
<b>Net Investment Income</b>	<b>12,521,133</b>	<b>9,531,506</b>	<b>1,832,435</b>
<b>Realized and Change in Unrealized Gain (Loss):</b>			
Net realized gain on investments	863,469	228,554	118,954
Net change in unrealized appreciation/depreciation of investments	2,025,173	(910,228)	(930,201)
Net realized and change in unrealized gain (loss)	2,888,642	(681,674)	(811,247)
<b>Net Increase in Net Assets Resulting from Investment Operations</b>	<b>15,409,775</b>	<b>8,849,832</b>	<b>1,021,188</b>
<b>Dividends on Preferred Shares from Net Investment Income</b>	<b>(211,972)</b>	<b>(148,686)</b>	<b>(38,736)</b>
<b>Net Increase in Net Assets Applicable to Common Shareholders Resulting from Investment Operations</b>	<b>\$15,197,803</b>	<b>\$8,701,146</b>	<b>\$982,452</b>

26 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13 See accompanying Notes to Financial Statements

**Table of Contents**

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3.31.13	PIMCO Municipal Income Funds III Semi-Annual Report	27
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**Table of Contents****PIMCO Municipal Income Funds III Statements of Changes in Net Assets****Applicable to Common Shareholders**

	Municipal III	
	Six Months ended March 31, 2013 (unaudited)	Year ended September 30, 2012
<b>Investment Operations:</b>		
Net investment income	\$12,521,133	\$26,851,939
Net realized gain (loss)	863,469	(3,387,164)
Net change in unrealized appreciation/depreciation	2,025,173	47,169,941
Net increase in net assets resulting from investment operations	15,409,775	70,634,716
<b>Dividends on Preferred Shares from Net Investment Income</b>	(211,972)	(459,781)
Net increase in net assets applicable to common shareholders resulting from investment operations	15,197,803	70,174,935
<b>Dividends to Common Shareholders from Net Investment Income</b>	(13,618,853)	(27,184,685)
<b>Common Share Transactions:</b>		
Reinvestment of dividends	506,950	1,127,973
Total increase (decrease) in net assets applicable to common shareholders	2,085,900	44,118,223
<b>Net Assets Applicable to Common Shareholders:</b>		
Beginning of period	357,138,940	313,020,717
End of period*	\$359,224,840	\$357,138,940
*Including undistributed net investment income of:	\$2,507,853	\$3,817,545
<b>Common Shares Issued in reinvestment of dividends</b>	41,347	101,480

28 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13 See accompanying Notes to Financial Statements

**Table of Contents****PIMCO Municipal Income Funds III Statements of Changes in Net Assets****Applicable to Common Shareholders** (continued)

California Municipal III		New York Municipal III	
Six Months ended March 31, 2013 (unaudited)	Year ended September 30, 2012	Six Months ended March 31, 2013 (unaudited)	Year ended September 30, 2012
\$9,531,506	\$17,843,450	\$1,832,435	\$4,353,193
228,554	(3,446,529)	118,954	(105,183)
(910,228)	26,851,541	(930,201)	4,046,722
8,849,832	41,248,462	1,021,188	8,294,732
(148,686)	(303,346)	(38,736)	(78,584)
8,701,146	40,945,116	982,452	8,216,148
(7,910,851)	(15,785,355)	(1,774,810)	(3,543,427)
433,731	687,943	58,134	164,219
1,224,026	25,847,704	(734,224)	4,836,940
224,596,090	198,748,386	54,327,103	49,490,163
\$225,820,116	\$224,596,090	\$53,592,879	\$54,327,103
\$7,332,537	\$5,860,568	\$1,954,377	\$1,935,488
39,684	70,417	5,716	17,760

See accompanying Notes to Financial Statements 3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report

**Table of Contents****PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2013 (unaudited)

**1. Organization and Significant Accounting Policies**

PIMCO Municipal Income Fund III ( Municipal III ), PIMCO California Municipal Income Fund III ( California Municipal III ) and PIMCO New York Municipal Income Fund III ( New York Municipal III ), (each a Fund and collectively referred to as the Funds or PIMCO Municipal Income Funds III ), were organized as Massachusetts business trusts on August 20, 2002. Prior to commencing operations on October 31, 2002, the Funds had no operations other than matters relating to their organization and registration as non-diversified, closed-end management investment companies registered under the Investment Company Act of 1940 and the rules and regulations thereunder, as amended. Allianz Global Investors Fund Management LLC (the Investment Manager ) and Pacific Investment Management Company LLC ( PIMCO or the Sub-Adviser ) serve as the Funds investment manager and sub-adviser, respectively, and are indirect, wholly-owned subsidiaries of Allianz Asset Management of America L.P. ( AAM ). AAM is an indirect, wholly-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. Each Fund has authorized an unlimited amount of common shares with \$0.00001 par value.

Under normal market conditions, Municipal III invests substantially all of its assets in a portfolio of municipal bonds, the interest from which is exempt from U.S. federal income taxes. Under normal market conditions, California Municipal III invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal and California state income taxes. Under normal market conditions, New York Municipal III invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal, New York State and New York City income taxes. There can be no assurance that the Funds will meet their stated objectives. The Funds will generally seek to avoid investing in bonds generating interest income which could potentially subject individuals to alternative minimum tax. The issuers abilities to meet their obligations may be affected by economic and political developments in a specific state or region.

The preparation of the Funds financial statements in accordance with accounting principles generally accepted in the United States of America requires the Funds management to make estimates and assumptions that affect the reported amounts and disclosures in each Fund s financial statements. Actual results could differ from those estimates.

In the normal course of business, the Funds enter into contracts that contain a variety of representations that provide general indemnifications. The Funds maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred.

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-11, Disclosures About Offsetting Assets and Liabilities , which requires enhanced disclosures that will enable users to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments are effective for fiscal years beginning on or after January 1, 2013. Funds management is currently evaluating the effect that the guidance may have on the Funds financial statements.

The following is a summary of significant accounting policies consistently followed by the Funds:

**(a) Valuation 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 Funds' 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. Securities purchased on a when-issued or delayed-delivery basis are marked to market daily until settlement at the forward settlement date.

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 the Investment Manager and Sub-Adviser. The Funds' Valuation Committee was established by the Board to oversee the implementation of the Funds' valuation methods and to make fair value

**30** PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13

**Table of Contents****PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2013 (unaudited)

**1. Organization and Significant Accounting Policies (continued)**

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 Funds to value investments may differ from the value that would be realized if the investments were sold, and these differences could be material to the Funds' financial statements. Each 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.

**(b) 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 Funds have 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 single broker quotes in determining the fair value of 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 Funds 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 (GAAP).

**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 Funds to measure fair value during the six months ended March 31, 2013 were intended to maximize the use of observable inputs and to minimize the use of unobservable inputs.

The Funds' 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

**Table of Contents**

**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2013 (unaudited)

**1. Organization and Significant Accounting Policies (continued)**

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.

**(c) Investment Transactions and Investment Income**

Investment transactions are accounted for on the trade date. Securities purchased and sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date. Realized gains and losses on investments are determined on an identified cost basis. Interest income adjusted for the accretion of discount and amortization of premiums is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income.

**(d) Federal Income Taxes**

The Funds intend to distribute all of their taxable income and to comply with the other requirements of Subchapter M of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

Accounting for uncertainty in income taxes establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. Funds management has determined that its evaluation of the positions taken in the tax returns has resulted in no material impact to the Funds financial statements at March 31, 2013. The Funds federal income tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

**(e) Dividends and Distributions – Common Shares**

The Funds declare dividends from net investment income to common shareholders monthly. Distributions of net realized capital gains, if any, are paid at least annually. The Funds record dividends and distributions on the ex-dividend date. The amount of dividends from net investment income and distributions from net realized capital gains is determined in accordance with federal income tax regulations, which may differ from GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions to shareholders from return of capital.

**(f) Inverse Floating Rate Transactions Residual Interest Municipal Bonds ( RIBs ) / Residual Interest Tax Exempt Bonds ( RITEs )**

The Funds invest in RIBs and RITEs ( Inverse Floaters ), whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. In inverse floating rate transactions, the Funds sell a fixed rate municipal bond ( Fixed Rate Bond ) to a broker who places the Fixed Rate Bond in a special purpose trust ( Trust ) from which floating rate bonds ( Floating Rate Notes ) and Inverse Floaters are issued. The Funds simultaneously or within a short period of time, purchase the Inverse Floaters from the broker. The Inverse Floaters held by the Funds provide the Funds with the right to: (1) cause the holders of the Floating Rate Notes to tender their notes at par, and (2) cause the broker to transfer the Fixed-Rate Bond held by the Trust to the Funds, thereby collapsing the Trust. The Funds account for the transaction described above as a secured borrowing by including the Fixed Rate Bond in their Schedules of Investments, and account for the Floating Rate Notes as a liability under the caption Payable for Floating Rate Notes issued in the Funds Statements of Assets and Liabilities. The Floating Rate Notes have interest rates that generally reset weekly and their holders have the option to tender their notes to the broker for redemption at par at each reset date.

The Funds may also invest in Inverse Floaters without transferring a fixed rate municipal bond into a Trust, which are not accounted for as secured borrowings. The Funds may also invest in Inverse Floaters for the purpose of increasing leverage.

**32** PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13

**Table of Contents**

**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2013 (unaudited)

**1. Organization and Significant Accounting Policies (continued)**

The Inverse Floaters are created by dividing the income stream provided by the underlying bonds to create two securities, one short-term and one long-term. The interest rate on the short-term component is reset by an index or auction process typically every 7 to 35 days. After income is paid on the short-term securities at current rates, the residual income from the underlying bond(s) goes to the long-term securities. Therefore, rising short-term rates result in lower income for the long-term component and vice versa. The longer-term bonds may be more volatile and less liquid than other municipal bonds of comparable maturity. Investments in Inverse Floaters typically will involve greater risk than in an investment in Fixed Rate Bonds.

The Funds' restrictions on borrowings do not apply to the secured borrowings deemed to have occurred for accounting purposes. Inverse Floaters held by the Funds are exempt from registration under Rule 144A of the Securities Act of 1933.

In addition to general market risks, the Funds' investments in Inverse Floaters may involve greater risk and volatility than an investment in a fixed rate bond, and the value of Inverse Floaters may decrease significantly when market interest rates increase. Inverse Floaters have varying degrees of liquidity, and the market for these securities may be volatile. These securities tend to underperform the market for fixed rate bonds in a rising interest rate environment, but tend to outperform the market for fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, Inverse Floaters typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Trusts in which Inverse Floaters may be held 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.

**(g) Repurchase Agreements**

The Funds enter into transactions with their custodian bank or securities brokerage firms whereby they purchase securities under agreements to resell such securities at an agreed upon price and date ( repurchase agreements ). The Funds, through their custodian, take possession of securities collateralizing the repurchase agreement. Such agreements are carried at the contract amount in the financial statements, which is considered to represent fair value. Collateral pledged (the securities received), which consists primarily of U.S. government obligations and asset-backed securities, is held by the custodian bank for the benefit of the Funds until maturity of the repurchase agreement. Provisions of the repurchase agreements and the procedures adopted by the Funds require that the market value of the collateral, including accrued interest thereon, be sufficient in the event of default by the counterparty. If the counterparty defaults and the value of the collateral declines or if the counterparty enters an insolvency proceeding, realization of the collateral by the Funds may be delayed or limited.

**(h) When-Issued/Delayed-Delivery Transactions**

When-issued or delayed-delivery transactions involve a commitment to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery purchases are outstanding, the Funds will set aside and maintain until the settlement date in a designated account, liquid assets in an amount sufficient to meet the purchase price. When purchasing a security on a delayed-delivery basis, the Funds assume the rights and risks of ownership of the security, including the risk of price and yield fluctuations; consequently, such fluctuations are taken into account when determining the net asset value. The Funds may dispose of or renegotiate a delayed-delivery transaction after it is entered into, and may sell when-issued securities before they are delivered, which may result in a realized gain or loss. When a security is sold on delayed-delivery basis, the Funds do not participate in future gains and losses with respect to the security.

**(i) U.S. Government Agencies or Government-Sponsored Enterprises**

Securities issued by U.S. Government agencies or government-sponsored enterprises may not be guaranteed by the U.S. Treasury. The Government National Mortgage Association ( GNMA or Ginnie Mae ), a wholly-owned U.S. Government corporation, is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA and backed by pools of mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Government-related guarantors not backed by the full faith and credit of the U.S. Government include the Federal National Mortgage

**Table of Contents**

**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2013 (unaudited)

**1. Organization and Significant Accounting Policies (continued)**

Association ( FNMA or Fannie Mae ) and the Federal Home Loan Mortgage Corporation ( FHLMC or Freddie Mac ) Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but its participation certificates are not backed by the full faith and credit of the U.S. Government.

**(j) Interest Expense**

Interest expense primarily relates to the Funds' participation in Floating Rate Notes held by third parties in conjunction with Inverse Floater transactions.

**(k) Custody Credits on Cash Balances**

The Funds may benefit from an expense offset arrangement with their custodian bank, whereby uninvested cash balances may earn credits that reduce monthly custodian and accounting agent expenses. Had these cash balances been invested in income-producing securities, they would have generated income for the Funds. Cash overdraft charges, if any, are included in custodian and accounting agent fees.

**2. Principal Risks**

In the normal course of business, the Funds trade financial instruments and enter into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Funds are also exposed to other risks such as, but not limited to, interest rate, credit and leverage risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the values of certain fixed income securities held by the Funds are likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is used primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.* yield) movements.

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 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.

The Funds are exposed to credit risk, which is the risk of losing money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

The market values of securities may decline due to general market conditions (market risk) which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity-related investments generally have greater market price volatility than fixed income securities.

The Funds are exposed to counterparty risk, or the risk that an institution or other entity with which the Funds have unsettled or open transactions will default. The potential loss to the Funds could exceed the value of the financial assets recorded in the Funds financial statements. Financial assets, which potentially expose the Funds to counterparty risk, consist principally of cash due from counterparties and investments. The Sub-Adviser seeks to minimize the Funds

**34** PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13

**Table of Contents**

**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2013 (unaudited)

**2. Principal Risks** (continued)

counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Funds have received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Funds are exposed to risks associated with leverage. Leverage may cause the value of the Funds' shares to be more volatile than if the Funds did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the Funds' portfolio securities. The Funds may engage in transactions or purchase instruments that give rise to forms of leverage. In addition, to the extent the Funds employ leverage, interest costs may not be recovered by any appreciation of the securities purchased with the leverage proceeds and could exceed the Funds' investment returns, resulting in greater losses.

The Funds are party to International Swaps and Derivatives Association, Inc. Master Agreements ( ISDA Master Agreements ) with select counterparties that govern transactions, over-the-counter derivatives and foreign exchange contracts entered into by the Funds and those counterparties. The ISDA Master Agreements contain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements of the Funds.

The considerations and factors surrounding the settlement of certain purchases and sales made on a delayed-delivery basis are governed by Master Securities Forward Transaction Agreements ( Master Forward Agreements ) between the Funds and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral.

The Funds are also a party to Master Repurchase Agreements ( Master Repo Agreements ) with select counterparties. The Master Repo Agreements maintain provisions for initiation, income payments, events of default, and maintenance of collateral.

**3. Investment Manager/Sub-Adviser**

Each Fund has an Investment Management Agreement (each an Agreement ) with the Investment Manager. Subject to the supervision of each Fund's Board, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds' investment activities, business affairs and administrative matters. Pursuant to each Agreement, the Investment Manager receives an annual fee, payable monthly, at an annual rate of 0.65% of each Funds' average daily net assets, inclusive of net assets attributable to any Preferred Shares that were outstanding.



The Investment Manager has retained the Sub-Adviser to manage the Funds' investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds' investment decisions. The Investment Manager, not the Funds, pays a portion of the fees it receives as Investment Manager to the Sub-Adviser in return for its services.

#### 4. Investments in Securities

For the six months ended March 31, 2013, purchases and sales of investments, other than short-term securities were:

	Municipal III	California Municipal III	New York Municipal III
Purchases	\$ 42,382,529	\$ 25,626,676	\$ 9,893,674
Sales	38,233,482	17,045,021	8,001,432

**Table of Contents****PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2013 (unaudited)

**5. Income Tax Information**

At March 31, 2013, the aggregate cost basis and the net unrealized appreciation of investments for federal income tax purposes were:

	Federal Tax Cost Basis	Unrealized Appreciation	Unrealized Depreciation	Net Unrealized Appreciation
Municipal III	\$ 482,246,800	\$ 65,394,492	\$ 5,105,422	\$ 60,289,070
California Municipal III	313,387,619	41,423,066	549,642	40,873,424
New York Municipal III	79,811,277	8,057,271	235,450	7,821,821

Differences between book and tax cost basis were attributable to Inverse Floaters transactions.

**6. Auction-Rate Preferred Shares**

Municipal III has 1,512 shares of Preferred Shares Series A, 1,512 shares of Preferred Shares Series B, 1,512 shares of Preferred Shares Series C, 1,512 shares of Preferred Shares Series D and 1,512 shares of Preferred Shares Series E outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

California Municipal III has 2,500 shares of Preferred Shares Series A and 2,500 shares of Preferred Shares Series B outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

New York Municipal III has 1,280 shares of Preferred Shares Series A outstanding, with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

Dividends are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures (or through default procedures in the event of failed auctions). Distributions of net realized capital gains, if any, are paid annually.

For the six months ended March 31, 2013, the annualized dividend rates ranged from:

	High	Low	At March 31, 2013
Municipal III: Series A	0.320%	0.131%	0.197%

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Series B	0.320%	0.131%	0.197%
Series C	0.320%	0.131%	0.197%
Series D	0.320%	0.131%	0.197%
Series E	0.320%	0.144%	0.197%
California Municipal III:			
Series A	0.320%	0.147%	0.197%
Series B	0.320%	0.164%	0.197%
New York Municipal III:			
Series A	0.320%	0.164%	0.197%

The Funds are subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring or paying any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation preference plus any accumulated, unpaid dividends.

Preferred shareholders, who are entitled to one vote per share, generally vote together with the common shareholders but vote separately as a class to elect two Trustees and on any matters affecting the rights of the Preferred Shares.

Since mid-February 2008, holders of auction-rate preferred shares ( ARPS ) issued by the Funds have been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation s

**Table of Contents****PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2013 (unaudited)

**6. Auction-Rate Preferred Shares (continued)**

closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and the ARPS holders have continued to receive dividends at the defined maximum rate equal to the higher of the 30-day AA Composite Commercial Paper Rate multiplied by 110% or the Taxable Equivalent of the Short-Term Municipal Obligations Rate—defined as 90% of the quotient of (A) the per annum rate expressed on an interest equivalent basis equal to the S&P 7-day Index divided by (B) 1.00 minus the Marginal Tax Rate (expressed as a decimal) multiplied by 110% (which is a function of short-term interest rates and typically higher than the rate that would have otherwise been set through a successful auction). If the Funds ARPS auctions continue to fail and the maximum rate payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Funds common shareholders could be adversely affected. In the Fall of 2012, S&P Evaluation Services has announced that it would discontinue providing the S&P Weekly High Grade Municipal Bond Index (formerly, the Kenny S&P 30-Day High Grade Municipal Bond Index) (the Prior Index) effective January 1, 2013. The Funds Boards approved the use of the Securities Industry and Financial Markets Associations (SIFMA) Municipal Swap Index in replacement of the Prior Index to calculate ARPS dividend rates on and after January 1, 2013, as well as corresponding amendments to the Funds bylaws.

**7. Subsequent Events**

In preparing these financial statements, the Fund's management has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

On April 1, 2013, the following dividends were declared to common shareholders payable May 1, 2013 to shareholders of record on April 11, 2013.

Municipal III	\$0.07 per common share
California Municipal III	\$0.06 per common share
New York Municipal III	\$0.0525 per common share

On May 1, 2013, the following dividends were declared to common shareholders payable June 3, 2013 to shareholders of record on May 13, 2013.

Municipal III	\$0.07 per common share
California Municipal III	\$0.06 per common share

New York Municipal III \$0.0525 per common share

There were no other subsequent events that require recognition or disclosure.

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report **37**

**Table of Contents****PIMCO Municipal Income Fund III Financial Highlights**

For a common share outstanding throughout each period:

	Six Months ended March 31, 2013 (unaudited)	2012	2011	Year ended September 30, 2010		2009
Net asset value, beginning of period	\$11.02	\$9.69	\$10.29	\$10.16		\$10.81
<b>Investment Operations:</b>						
Net investment income	0.39	0.83	0.87	0.86		0.96
Net realized and change in unrealized gain (loss)	0.09	1.35	(0.61)	0.13		(0.67)
Total from investment operations	0.48	2.18	0.26	0.99		0.29
<b>Dividends on Preferred Shares from Net Investment Income</b>	(0.01)	(0.01)	(0.02)	(0.02)		(0.10)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	0.47	2.17	0.24	0.97		0.19
<b>Dividends to Common Shareholders from Net Investment Income</b>	(0.42)	(0.84)	(0.84)	(0.84)		(0.84)
Net asset value, end of period	\$11.07	\$11.02	\$9.69	\$10.29		\$10.16
Market price, end of period	\$12.33	\$13.31	\$10.75	\$11.45		\$11.29
<b>Total Investment Return (1)</b>	(4.10)%	33.20%	2.01%	9.90%		11.02%
<b>RATIOS/SUPPLEMENTAL DATA:</b>						
Net assets, applicable to common shareholders, end of period (000s)	\$359,225	\$357,139	\$313,021	\$330,840		\$324,921
Ratio of expenses to average net assets, including interest expense (2)(3)(4)	1.23%(6)	1.27%(5)	1.44%(5)	1.40%(5)		1.92%(5)
Ratio of expenses to average net assets, excluding interest expense (2)(3)	1.17%(6)	1.17%(5)	1.28%(5)	1.26%(5)		1.44%(5)
Ratio of net investment income to average net assets	6.91%(6)	8.00%(5)	9.39%(5)	8.78%(5)		11.23%(5)

(2)

Preferred shares asset coverage per share	\$72,515	\$72,239	\$66,404	\$68,760	\$67,977
Portfolio turnover rate	7%	25%	14%	7%	58%

(1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares. Total investment return for a period less than one year is not annualized.

(2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.

(3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(k) in Notes to Financial Statements).

(4) Interest expense relates to the liability for Floating Rate Notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.

(5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.06%, 0.02%, 0.01%, 0.10% and 0.17% for the years ended September 30, 2012, September 30, 2011, September 30, 2010, September 30, 2009 and September 30, 2008, respectively.

(6) Annualized.

**38** PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13 **See accompanying Notes to Financial Statement**

**Table of Contents****PIMCO California Municipal Income Fund III Financial Highlights**

For a common share outstanding throughout each period:

	Six Months ended March 31, 2013 (unaudited)	2012	2011	Year ended September 30,	
				2010	2009
Net asset value, beginning of period	\$10.23	\$9.08	\$9.65	\$9.55	\$11.13
<b>Investment Operations:</b>					
Net investment income	0.44	0.81	0.77	0.76	0.88
Net realized and change in unrealized gain (loss)	(0.03)	1.07	(0.60)	0.08	(1.64)
Total from investment operations	0.41	1.88	0.17	0.84	(0.76)
<b>Dividends on Preferred Shares from Net Investment Income</b>					
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(0.01)	(0.01)	(0.02)	(0.02)	(0.10)
	0.40	1.87	0.15	0.82	(0.86)
<b>Dividends to Common Shareholders from Net Investment Income</b>	(0.36)	(0.72)	(0.72)	(0.72)	(0.72)
Net asset value, end of period	\$10.27	\$10.23	\$9.08	\$9.65	\$9.55
Market price, end of period	\$11.08	\$11.68	\$9.53	\$10.39	\$10.03
<b>Total Investment Return (1)</b>	(1.94)%	31.62%	(0.47)%	11.94%	3.95%
<b>RATIOS/SUPPLEMENTAL DATA:</b>					
Net assets, applicable to common shareholders, end of period (000s)	\$225,820	\$224,596	\$198,748	\$210,317	\$207,173
Ratio of expenses to average net assets, including interest expense (2)(3)(4)	1.32%(6)	1.34%(5)	1.48%(5)	1.45%(5)	1.77%(5)
Ratio of expenses to average net assets, excluding interest expense (2)(3)	1.22%(6)	1.20%(5)	1.32%(5)	1.31%(5)	1.48%(5)
Ratio of net investment income to average net assets (2)	8.40%(6)	8.40%(5)	9.01%(5)	8.39%(5)	10.82%(5)



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Preferred shares asset coverage per share	\$70,162	\$69,918	\$64,749	\$67,061	\$66,432
Portfolio turnover rate	4%	10%	11%	3%	48%

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares. Total investment return for a period less than one year is not annualized.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(k) in Notes to Financial Statements).
- (4) Interest expense relates to the liability for Floating Rate Notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.
- (5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.06%, 0.02%, 0.01%, 0.10% and 0.17% for the years ended September 30, 2012, September 30, 2011, September 30, 2010, September 30, 2009 and September 30, 2008, respectively.
- (6) Annualized.

See accompanying Notes to Financial Statements 3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report

**Table of Contents****PIMCO New York Municipal Income Fund III Financial Highlights**

For a common share outstanding throughout each period:

	Six Months ended March 31, 2013 (unaudited)	2012	2011	Year ended September 30,		
				2010	2009	2008
Net asset value, beginning of period	\$9.65	\$8.82	\$9.38	\$9.10	\$11.45	\$14.00
<b>Investment Operations:</b>						
Net investment income	0.33	0.77	0.69	0.66	0.78	1.00
Net realized and change in unrealized gain (loss)	(0.14)	0.70	(0.60)	0.27	(2.40)	(3.00)
Total from investment operations	0.19	1.47	0.09	0.93	(1.62)	(2.00)
<b>Dividends on Preferred Shares from Net Investment Income</b>						
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(0.01)	(0.01)	(0.02)	(0.02)	(0.10)	(0.00)
	0.18	1.46	0.07	0.91	(1.72)	(2.00)
<b>Dividends to Common Shareholders from Net Investment Income</b>	(0.32)	(0.63)	(0.63)	(0.63)	(0.63)	(0.00)
Net asset value, end of period	\$9.51	\$9.65	\$8.82	\$9.38	\$9.10	\$11.00
Market price, end of period	\$10.14	\$10.66	\$9.00	\$9.81	\$9.65	\$10.00
<b>Total Investment Return (1)</b>	(1.87)%	26.56%	(1.27)%	8.98%	4.19%	(22.00)%
<b>RATIOS/SUPPLEMENTAL DATA:</b>						
Net assets, applicable to common shareholders, end of period (000s)	\$53,593	\$54,327	\$49,490	\$52,400	\$50,528	\$63,000
Ratio of expenses to average net assets, including interest expense (2)(3)(4)	1.58%(6)	1.64%(5)	1.73%(5)	1.66%(5)	2.30%(5)	3.00%
Ratio of expenses to average net assets, excluding interest expense (2)(3)	1.47%(6)	1.50%(5)	1.58%(5)	1.56%(5)	1.74%(5)	1.00%
Ratio of net investment income to average net assets	6.73%(6)	8.42%(5)	8.07%(5)	7.39%(5)	9.42%(5)	8.00%

(2)

Preferred shares asset coverage per share	\$66,868	\$67,441	\$63,663	\$65,936	\$64,474	\$58,
Portfolio turnover rate	9%	16%	9%	12%	33%	

(1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares. Total investment return for a period less than one year is not annualized.

(2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.

(3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(k) in Notes to Financial Statements).

(4) Interest expense relates to the liability for Floating Rate Notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.

(5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.06%, 0.02%, 0.01%, 0.10% and 0.17% for the years ended September 30, 2012, September 30, 2011, September 30, 2010, September 30, 2009 and September 30, 2008, respectively.

(6) Annualized.

**40** PIMCO Municipal Income Funds III Semi-Annual Report 3.31.13 **See accompanying Notes to Financial Statement**

**Table of Contents****PIMCO Municipal Income Funds III****Annual Shareholder Meeting Results/Proxy Voting****Policies & Procedures (unaudited)****Annual Shareholder Meeting Results:**

The Funds held their joint annual meetings of shareholders on December 19, 2012. Common/Preferred shareholders voted as indicated below:

	Affirmative	Withheld Authority
<b>Municipal III</b>		
Re-election of Hans W. Kertess Class I to serve until the annual meeting for the 2015-2016 fiscal year	27,799,497	939,216
Re-election of William B. Ogden, IV Class I to serve until the annual meeting for the 2015-2016 fiscal year	27,774,029	964,684
Re-election of Alan Rappaport* Class I to serve until the annual meeting for the 2015-2016 fiscal year	5,939	99
<b>California Municipal III</b>		
Re-election of Hans W. Kertess Class I to serve until the annual meeting for the 2015-2016 fiscal year	17,206,487	596,964
Re-election of William B. Ogden, IV Class I to serve until the annual meeting for the 2015-2016 fiscal year	17,243,283	533,168
Re-election of Alan Rappaport* Class I to serve until the annual meeting for the 2015-2016 fiscal year	3,608	173
<b>New York Municipal III</b>		
Re-election of Hans W. Kertess Class I to serve until the annual meeting for the 2015-2016 fiscal year	4,315,551	298,730
Re-election of William B. Ogden, IV Class I to serve until the annual meeting for the 2015-2016 fiscal year	4,315,551	298,730
Re-election of Alan Rappaport* Class I to serve until the annual meeting for the 2015-2016 fiscal year	1,149	

The other members of the Board of Trustees at the time of the meeting, namely, Ms. Deborah A. DeCotis and Messrs. Bradford K. Gallagher, James A. Jacobson\*, and John C. Maney, continued to serve as Trustees.

\* Preferred Shares Trustee  
Interested Trustee

**Proxy Voting Policies & Procedures:**

A description of the policies and procedures that the Funds have adopted to determine how to vote proxies relating to portfolio securities and information about how the Funds voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Funds shareholder servicing agent at (800) 254-5197; (ii) on the Funds website at [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds); and (iii) on the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov).

3.31.13 PIMCO Municipal Income Funds III Semi-Annual Report **41**

**Table of Contents**

**Trustees**

Hans W. Kertess  
Chairman of the Board of Trustees

Deborah A. DeCotis

Bradford K. Gallagher

James A. Jacobson

John C. Maney

William B. Ogden, IV

Alan Rappaport

**Fund Officers**

Brian S. Shlissel  
President & Chief Executive Officer

Lawrence G. Altadonna  
Treasurer, Principal Financial & Accounting Officer

Thomas J. Fuccillo  
Vice President, Secretary & Chief Legal Officer

Scott Whisten  
Assistant Treasurer

Richard J. Cochran  
Assistant Treasurer

Orhan Dzemaili  
Assistant Treasurer

Youse E. Guia  
Chief Compliance Officer

Lagan Srivastava  
Assistant Secretary

**Investment Manager**

Allianz Global Investors Fund Management LLC

1633 Broadway

New York, NY 10019

**Sub-Adviser**

Pacific Investment Management Company LLC

840 Newport Center Drive

Newport Beach, CA 92660

**Custodian & Accounting Agent**

State Street Bank & Trust Co.

225 Franklin Street

Boston, MA 02110

**Transfer Agent, Dividend Paying Agent and Registrar**

American Stock Transfer & Trust Company, LLC

6201 15<sup>th</sup> Avenue

Brooklyn, NY 11219

**Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP

300 Madison Avenue

New York, NY 10017

**Legal Counsel**

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199

*This report, including the financial information herein, is transmitted to the shareholders of PIMCO Municipal Income Fund III, PIMCO California Municipal Income Fund III and PIMCO New York Municipal Income Fund III for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Funds or any securities mentioned in this report.*

*The financial information included herein is taken from the records of the Funds without examination by an independent registered public accounting firm, who did not express an opinion herein.*

*Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Funds may purchase their common shares in the open market.*

*The Funds file their complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of their fiscal year on Form N-Q. Each Fund s Form N-Q is available on the SEC s website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Funds website at [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds).*

*Information on the Funds is available at [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds) or by calling the Funds shareholder servicing agent at (800) 254-5197.*

**Table of Contents**

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Allianz Global Investors Distributors LLC

AGI-2013-04-03-6447



**Table of Contents**

ITEM 2. CODE OF ETHICS

Not required in this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

Not required in this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not required in this filing

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

Not required in this filing

ITEM 6. SCHEDULE OF INVESTMENTS

(a) The registrant's Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED COMPANIES

None

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board of Trustees since the Fund last provided disclosure in response to this item.

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### ITEM 11. CONTROLS AND PROCEDURES

- (a) The registrant's President 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 second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

### ITEM 12. EXHIBITS

(a) (1) Not required in this filing.

(a) (2) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(a) (3) Not applicable

(b) Exhibit 99.906 Cert. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**Table of Contents**

**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.

(Registrant) PIMCO Municipal Income Fund III

By /s/ Brian S. Shlissel  
Brian S. Shlissel, President & Chief Executive Officer  
Date: May 29, 2013

By /s/ Lawrence G. Altadonna  
Lawrence G. Altadonna, Treasurer, Principal Financial & Accounting Officer  
Date: May 29, 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 and Chief Executive Officer  
Date: May 29, 2013

By /s/ Lawrence G. Altadonna  
Lawrence G. Altadonna, Treasurer, Principal Financial & Accounting Officer  
Date: May 29, 2013