

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

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

**FORM N-Q**

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

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

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

December 31, 2013 (unaudited)

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

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

**Colorado - 0.7%**

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

**Connecticut - 0.3%**

1,250	Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A	1,356,813
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**District of Columbia - 2.0%**

10,000	Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h)	10,570,000
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**Florida - 3.2%**

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

16,595,125

**Georgia - 0.4%**

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

1,781,545

**Hawaii - 0.3%**

1,500	Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A	1,528,620
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**Illinois - 2.4%**

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

12,660,438

**Indiana - 1.0%**

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

5,042,591

**Iowa - 0.6%**

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

3,021,318

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**Kentucky - 0.4%**

2,000	Economic Dev. Finance Auth. Rev., Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A	2,091,060
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**Louisiana - 1.3%**

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

**Maryland - 0.8%**

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

**Massachusetts - 1.4%**

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

**Michigan - 0.9%**

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

4,565,986

**Missouri - 0.1%**

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

738,350

**New Hampshire - 0.4%**

2,000	Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A	2,056,620
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**New Jersey - 4.6%**

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

24,034,852

**New Mexico - 0.2%**

1,000	Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D	1,025,070
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**New York - 12.2%**

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

63,459,909

**North Carolina - 1.5%**

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

**Ohio - 3.5%**

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

**Pennsylvania - 4.0%**

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

**South Carolina - 4.3%**

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

**Tennessee - 0.5%**

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

**Texas - 9.6%**

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

**Virginia - 0.3%**

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

**Washington - 0.3%**

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

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

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

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

10,200	Freddie Mac Discount Notes, 0.122%, 7/1/14 (k) (cost-\$10,193,846)	10,193,846
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**Repurchase Agreements - 0.4%**

2,300	Citigroup Global Markets, Inc., dated 12/31/13, 0.01%, due 1/2/14, proceeds \$2,300,002; collateralized by U.S. Treasury Notes, 0.75%, due 12/31/17, valued at \$2,351,313 including accrued interest (cost-\$2,300,000)	2,300,000
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Total Short-Term Investments (cost-\$24,420,779)		24,422,386
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<b>Total Investments (cost-\$506,754,767) (1)-100.0%</b>		<b>\$ 518,967,383</b>
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**Schedule of Investments****PIMCO Municipal Income Fund III**

December 31, 2013 (unaudited)

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

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

**Notes to Schedule of Investments:**

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

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

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

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

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

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

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

## Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

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

**Glossary:**

AGC - insured by Assured Guaranty Corp.

AGM - insured by Assured Guaranty Municipal Corp.

AMBAC - insured by American Municipal Bond Assurance Corp.

CP - Certificates of Participation

FHA - insured by Federal Housing Administration

GO - General Obligation Bond

IBC - Insurance Bond Certificate

NPFGC - insured by National Public Finance Guarantee Corp.



**Item 2. Controls and Procedures**

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

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

**Item 3. Exhibits**

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

Signatures

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

PIMCO Municipal Income Fund III

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

Date: February 21, 2014

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

Date: February 21, 2014

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

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

Date: February 21, 2014

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

Date: February 21, 2014