

PIMCO MUNICIPAL INCOME FUND III  
Form N-Q  
February 27, 2015

**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:	William G. Galipeau 650 Newport Center Drive Newport Beach, CA 92660
Registrant's telephone number, including area code:	(844) 337-4626
Date of Fiscal Year End:	September 30
Date of Reporting Period:	December 31, 2014



**Item 1. Schedule of Investments**

## Schedule of Investments

## PIMCO Municipal Income Fund III

December 31, 2014 (Unaudited)

	PRINCIPAL AMOUNT (000s)	MARKET VALUE (000s)
<b>INVESTMENTS IN SECURITIES 159.5%</b>		
<b>MUNICIPAL BONDS &amp; NOTES 155.5%</b>		
<b>ALABAMA 16.1%</b>		
<b>Alabama Docks Department State Revenue Bonds, Series 2010</b>		
6.000% due 10/01/2040	\$ 1,000	\$ 1,149
<b>Birmingham, Alabama Special Care Facilities Financing Authority Revenue Bonds, (AGC Insured), Series 2009</b>		
6.000% due 06/01/2039	500	581
<b>Birmingham-Baptist Medical Centers Special Care Facilities Financing Authority, Alabama Revenue Bonds, Series 2005</b>		
5.000% due 11/15/2030	9,000	9,259
<b>Jefferson County, Alabama Sewer Revenue Bonds, Series 2013</b>		
0.000% due 10/01/2050 (a)	53,000	32,950
6.500% due 10/01/2053	12,000	13,753
		57,692
<b>ARIZONA 10.7%</b>		
<b>Arizona Health Facilities Authority Revenue Bonds, Series 2007</b>		
5.200% due 10/01/2037	2,250	2,160
<b>Arizona Health Facilities Authority Revenue Bonds, Series 2008</b>		
5.000% due 01/01/2035	1,250	1,340
5.500% due 01/01/2038	900	989
<b>Industrial Development Authority of the County, Arizona of Pima Revenue Bonds, Series 2008</b>		
5.000% due 09/01/2039 (b)	13,000	14,049
<b>Industrial Development Authority of the County, Arizona of Pima Revenue Bonds, Series 2010</b>		
5.250% due 10/01/2040	750	827
<b>Salt River Project Agricultural Improvement &amp; Power District, Arizona Revenue Bonds, Series 2009</b>		
5.000% due 01/01/2039 (b)	5,000	5,556
<b>Salt Verde Financial Corp., Arizona Revenue Bonds, Series 2007</b>		

5.000% due 12/01/2037	11,600	13,405
		38,326
<b>CALIFORNIA 27.5%</b>		
<b>Bay Area Toll Authority, California Revenue Bonds, Series 2008</b>		
5.000% due 04/01/2034	500	566
<b>Bay Area Toll Authority, California Revenue Bonds, Series 2010</b>		
5.000% due 10/01/2029	1,500	1,726
5.000% due 10/01/2042	3,260	3,549
<b>Bay Area Toll Authority, California Revenue Bonds, Series 2013</b>		
5.250% due 04/01/2053	12,000	13,806
<b>California Health Facilities Financing Authority Revenue Bonds, (IBC/NPFGC Insured), Series 2007</b>		
5.000% due 11/15/2042	600	640
<b>California Health Facilities Financing Authority Revenue Bonds, Series 2009</b>		
6.000% due 07/01/2039	2,500	2,860
<b>California Health Facilities Financing Authority Revenue Bonds, Series 2011</b>		
6.000% due 08/15/2042	1,500	1,806
<b>California Health Facilities Financing Authority Revenue Bonds, Series 2013</b>		
5.000% due 08/15/2052	2,015	2,254
<b>California Municipal Finance Authority Revenue Bonds, Series 2011</b>		
7.750% due 04/01/2031	1,445	1,773
<b>California State General Obligation Bonds, Series 2007</b>		
5.000% due 06/01/2037	5,000	5,409
5.000% due 12/01/2037	5,300	5,821
<b>California State General Obligation Bonds, Series 2008</b>		
5.250% due 03/01/2038	1,350	1,469
<b>California State General Obligation Bonds, Series 2009</b>		
5.750% due 04/01/2031	2,500	2,938
6.000% due 04/01/2038	5,000	5,937
<b>California State General Obligation Bonds, Series 2010</b>		
5.250% due 11/01/2040	1,300	1,499
5.500% due 03/01/2040	3,200	3,680
<b>California Statewide Communities Development Authority Revenue Bonds, (FHA Insured), Series 2009</b>		
6.625% due 08/01/2029	2,580	3,150
6.750% due 02/01/2038	9,200	11,095
<b>California Statewide Communities Development Authority Revenue Bonds, Series 2007</b>		
5.750% due 11/01/2017	1,260	1,342
<b>California Statewide Communities Development Authority Revenue Bonds,</b>		

<b>Series 2010</b>		
6.250% due 10/01/2039	1,000	1,129
<b>California Statewide Communities Development Authority</b>		
<b>Revenue Bonds,</b>		
<b>Series 2011</b>		
5.000% due 12/01/2041	3,000	3,332
<b>Golden State, California Tobacco Securitization Corp.</b>		
<b>Revenue Bonds, Series 2007</b>		
4.500% due 06/01/2027	2,445	2,313
5.125% due 06/01/2047	3,600	2,717
5.750% due 06/01/2047	1,120	926

<b>Indian Wells Redevelopment Agency, California Tax Allocation Bonds, (AMBAC Insured), Series 2006</b>		
4.750% due 09/01/2034	3,350	3,426
<b>Los Angeles Community College District, California General Obligation Bonds, Series 2009</b>		
14.038% due 08/01/2033 (c)	1,675	2,370
<b>Los Angeles Unified School District, California General Obligation Bonds, (AMBAC Insured), Series 2005</b>		
5.000% due 07/01/2030	130	133
<b>M-S-R Energy Authority, California Revenue Bonds, Series 2009</b>		
6.500% due 11/01/2039	2,000	2,720
<b>Palomar Health, California Certificates of Participation Bonds, Series 2009</b>		
6.750% due 11/01/2039	1,250	1,339
<b>San Marcos Unified School District, California General Obligation Bonds, Series 2011</b>		
5.000% due 08/01/2038	1,600	1,779
<b>Tobacco Securitization Authority of Southern California Revenue Bonds, Series 2006</b>		
5.000% due 06/01/2037	6,200	5,035
		98,539
<b>COLORADO 1.0%</b>		
<b>Colorado Health Facilities Authority Revenue Bonds, Series 2010</b>		
5.000% due 01/01/2040	2,000	2,202
<b>Public Authority for Colorado Energy Revenue Bonds, Series 2008</b>		
6.500% due 11/15/2038	500	686
<b>Regional Transportation District, Colorado Revenue Bonds, Series 2010</b>		
6.000% due 01/15/2034	500	568
		3,456
<b>CONNECTICUT 0.4%</b>		
<b>Harbor Point Infrastructure Improvement District, Connecticut Tax Allocation Bonds, Series 2010</b>		
7.875% due 04/01/2039	1,250	1,498
<b>DISTRICT OF COLUMBIA 3.2%</b>		
<b>District of Columbia Water &amp; Sewer Authority Revenue Bonds, Series 2009</b>		
5.500% due 10/01/2039 (b)	10,000	11,277

**FLORIDA 6.6%****Brevard County, Florida Health Facilities Authority Revenue Bonds, Series 2005**

5.000% due 04/01/2034 3,480 3,675

**Broward County, Florida Airport System Revenue Bonds, Series 2009**

5.375% due 10/01/2029 500 578

**Broward County, Florida Water & Sewer Utility Revenue Bonds, Series 2009**

5.250% due 10/01/2034 (b) 4,500 5,069

**Cape Coral, Florida Water & Sewer Revenue Bonds, (AGM Insured), Series 2011**

5.000% due 10/01/2041 3,000 3,332

**Florida Development Finance Corp. Revenue Notes, Series 2011**

6.500% due 06/15/2021 330 356

**Florida State General Obligation Bonds, Series 2009**

5.000% due 06/01/2038 (b) 4,200 4,677

**Greater Orlando Aviation Authority, Florida Revenue Bonds, Series 2010**

9.549% due 10/01/2039 (c) 5,000 5,929

23,616

**GEORGIA 0.6%****Fulton County, Georgia Residential Care Facilities for the Elderly Authority Revenue Bonds, Series 2006**

5.125% due 07/01/2042 1,750 1,759

**Medical Center Hospital Authority, Georgia Revenue Bonds, Series 2007**

5.250% due 07/01/2037 400 404

2,163

**HAWAII 0.5%****Hawaii Pacific Health Revenue Bonds, Series 2010**

5.500% due 07/01/2040 1,500 1,681

**ILLINOIS 3.7%****Illinois Finance Authority Revenue Bonds, Series 2007**

5.875% due 03/01/2027 1,000 200

6.000% due 03/01/2037 ^ 625 125

**Illinois Finance Authority Revenue Bonds, Series 2009**

5.500% due 07/01/2037 (b) 5,000 5,767

7.125% due 11/15/2037 400 482

**Illinois Finance Authority Revenue Bonds, Series 2010**

6.000% due 08/15/2038 1,000 1,116

**Illinois State Toll Highway Authority Revenue Bonds, Series 2008**

5.500% due 01/01/2033 5,000 5,576



13,266

**INDIANA 1.5%**

**Portage, Indiana Tax Allocation Bonds, Series 2006**

5.000% due 07/15/2023	1,000	1,030
5.000% due 01/15/2027	775	794

<b>Vigo County, Indiana Hospital Authority Revenue Bonds, Series 2011</b>		
7.500% due 09/01/2022	2,800	3,437
		5,261
<b>IOWA 1.0%</b>		
<b>Iowa Finance Authority Revenue Bonds, Series 2013</b>		
5.250% due 12/01/2025	3,000	3,257
<b>Iowa Finance Authority Revenue Bonds, Series 2014</b>		
2.000% due 05/15/2056 ^	76	1
2.700% due 11/15/2046 ^	403	165
		3,423
<b>KENTUCKY 0.6%</b>		
<b>Kentucky Economic Development Finance Authority Revenue Bonds, Series 2010</b>		
6.375% due 06/01/2040	2,000	2,311
<b>LOUISIANA 2.1%</b>		
<b>Louisiana Local Government Environmental Facilities &amp; Community Development Authority Revenue Bonds, Series 2010</b>		
5.875% due 10/01/2040	1,500	1,735
6.000% due 10/01/2044	1,000	1,162
6.500% due 11/01/2035	400	481
<b>Louisiana Public Facilities Authority Revenue Bonds, Series 2007</b>		
5.500% due 05/15/2047	1,700	1,788
<b>Louisiana Public Facilities Authority Revenue Bonds, Series 2011</b>		
6.500% due 05/15/2037	2,000	2,359
		7,525
<b>MARYLAND 2.0%</b>		
<b>Maryland Economic Development Corp. Revenue Bonds, Series 2010</b>		
5.750% due 06/01/2035	1,000	1,074
<b>Maryland Health &amp; Higher Educational Facilities Authority Revenue Bonds, Series 2010</b>		
6.250% due 01/01/2041	700	790
<b>Maryland Health &amp; Higher Educational Facilities Authority Revenue Bonds, Series 2011</b>		
6.000% due 07/01/2041	1,000	1,169

<b>Maryland Health &amp; Higher Educational Facilities Authority</b>		
<b>Revenue Bonds,</b>		
<b>Series 2014</b>		
5.000% due 07/01/2039	3,725	4,141
		7,174
<b>MASSACHUSETTS 2.1%</b>		
<b>Massachusetts Development Finance Agency Revenue</b>		
<b>Bonds, Series 2010</b>		
7.625% due 10/15/2037	290	323
<b>Massachusetts Development Finance Agency Revenue</b>		
<b>Bonds, Series 2011</b>		
0.000% due 11/15/2056	140	1
6.250% due 11/15/2039	529	453
<b>Massachusetts Housing Finance Agency Revenue Bonds,</b>		
<b>Series 2003</b>		
5.125% due 06/01/2043	4,910	4,911
<b>Massachusetts State College Building Authority Revenue</b>		
<b>Bonds, Series 2009</b>		
5.500% due 05/01/2039	1,600	1,843
		7,531
<b>MICHIGAN 1.4%</b>		
<b>Detroit, Michigan General Obligation Bonds, Series 2010</b>		
5.250% due 11/01/2035	1,500	1,640
<b>Michigan State University Revenue Bonds, (BABs), Series</b>		
<b>2010</b>		
6.173% due 02/15/2050	1,300	1,577
<b>Royal Oak Hospital Finance Authority, Michigan Revenue</b>		
<b>Bonds, Series 2009</b>		
8.250% due 09/01/2039	1,500	1,888
		5,105
<b>MISSOURI 0.2%</b>		
<b>Jennings, Missouri Revenue Bonds, Series 2006</b>		
5.000% due 11/01/2023	250	248
<b>Manchester, Missouri Tax Allocation Bonds, Series 2010</b>		
6.875% due 11/01/2039	500	533
		781
<b>NEW HAMPSHIRE 0.6%</b>		
<b>New Hampshire Business Finance Authority Revenue</b>		
<b>Bonds, Series 2009</b>		
6.125% due 10/01/2039	2,000	2,263
<b>NEW JERSEY 5.5%</b>		

<b>New Jersey Economic Development Authority Special Assessment Bonds, Series 2002</b>		
6.500% due 04/01/2028	4,500	5,605
<b>New Jersey Health Care Facilities Financing Authority Revenue Bonds, Series 2007</b>		
5.750% due 07/01/2037	1,000	1,026

<b>New Jersey Health Care Facilities Financing Authority</b>		
<b>Revenue Bonds, Series 2013</b>		
5.500% due 07/01/2043	2,000	2,338
<b>Tobacco Settlement Financing Corp., New Jersey Revenue</b>		
<b>Bonds, Series 2007</b>		
4.750% due 06/01/2034	1,600	1,199
5.000% due 06/01/2041	12,745	9,620
		19,788
<b>NEW MEXICO 0.3%</b>		
<b>Farmington, New Mexico Revenue Bonds, Series 2010</b>		
5.900% due 06/01/2040	1,000	1,115
<b>NEW YORK 20.2%</b>		
<b>Brooklyn Arena Local Development Corp., New York</b>		
<b>Revenue Bonds, Series 2009</b>		
6.250% due 07/15/2040	9,800	11,525
<b>Hudson Yards Infrastructure Corp., New York Revenue</b>		
<b>Bonds, Series 2011</b>		
5.750% due 02/15/2047	5,000	5,780
<b>Metropolitan Transportation Authority, New York Revenue</b>		
<b>Bonds, Series 2011</b>		
5.000% due 11/15/2036	3,000	3,375
<b>Nassau County, New York Industrial Development Agency</b>		
<b>Revenue Bonds,</b>		
<b>Series 2014</b>		
2.000% due 01/01/2049	311	24
6.700% due 01/01/2049	863	872
<b>New York City, New York Industrial Development Agency</b>		
<b>Revenue Bonds, (AGC Insured), Series 2009</b>		
7.000% due 03/01/2049	10,450	12,657
<b>New York City, New York Water &amp; Sewer System Revenue</b>		
<b>Bonds, Series 2005</b>		
5.000% due 06/15/2037 (b)	4,900	5,002
<b>New York City, New York Water &amp; Sewer System Revenue</b>		
<b>Bonds, Series 2007</b>		
4.750% due 06/15/2035 (b)	4,000	4,278
<b>New York Liberty Development Corp. Revenue Bonds, Series</b>		
<b>2007</b>		
5.500% due 10/01/2037	1,700	2,110
<b>New York Liberty Development Corp. Revenue Bonds, Series</b>		
<b>2011</b>		
5.000% due 12/15/2041	10,000	11,211
5.000% due 11/15/2044	11,255	12,486
<b>New York Liberty Development Corp. Revenue Bonds, Series</b>		
<b>2014</b>		
5.000% due 11/15/2044	3,000	3,111

		72,431
<b>NORTH CAROLINA 1.9%</b>		
<b>New Hanover County, North Carolina Revenue Bonds, Series 2011</b>		
5.000% due 10/01/2028	6,000	6,774
<b>OHIO 10.4%</b>		
<b>Allen County, Ohio Revenue Bonds, Series 2010</b>		
5.000% due 06/01/2038	500	547
<b>Buckeye Tobacco Settlement Financing Authority, Ohio Revenue Bonds, Series 2007</b>		
5.875% due 06/01/2047	2,800	2,286
6.500% due 06/01/2047	30,350	26,673
<b>Hamilton County, Ohio Revenue Bonds, Series 2012</b>		
5.000% due 06/01/2042	1,500	1,617
<b>Ohio Higher Educational Facility Commission Revenue Bonds, Series 2009</b>		
6.750% due 01/15/2039	500	501
<b>Ohio State Turnpike Commission Revenue Bonds, Series 2013</b>		
5.000% due 02/15/2048	5,000	5,522
		37,146
<b>PENNSYLVANIA 6.5%</b>		
<b>Allegheny County, Pennsylvania Hospital Development Authority Revenue Bonds, Series 2009</b>		
5.625% due 08/15/2039	1,000	1,135
<b>Berks County, Pennsylvania Municipal Authority Revenue Bonds, Series 2012</b>		
5.000% due 11/01/2044	6,600	7,230
<b>Capital Region Water, Pennsylvania Revenue Bonds, Series 2007</b>		
6.000% due 09/01/2036 ^	1,250	596
<b>Cumberland County, Pennsylvania Municipal Authority Revenue Bonds, Series 2008</b>		
5.625% due 07/01/2028	1,000	1,106
6.000% due 07/01/2035	670	736
<b>Dauphin County, Pennsylvania General Authority Revenue Bonds, Series 2009</b>		
6.000% due 06/01/2036	1,000	1,181
<b>Luzerne County, Pennsylvania Industrial Development Authority Revenue Bonds, Series 2009</b>		
5.500% due 12/01/2039	100	110
<b>Pennsylvania Turnpike Commission Revenue Bonds, Series 2009</b>		
5.125% due 12/01/2040	3,000	3,297
<b>Pennsylvania Turnpike Commission Revenue Bonds, Series 2013</b>		

5.000% due 12/01/2043	5,000	5,586
<b>Philadelphia Hospitals &amp; Higher Education Facilities Authority, Pennsylvania Revenue Bonds, Series 2012</b>		
5.625% due 07/01/2042	1,645	1,757

<b>Philadelphia, Pennsylvania Water &amp; Wastewater Revenue Bonds, Series 2009</b>		
5.250% due 01/01/2036	500	555
		23,289
<b>SOUTH CAROLINA 7.9%</b>		
<b>Greenwood County, South Carolina Revenue Bonds, Series 2009</b>		
5.375% due 10/01/2039	1,000	1,105
<b>South Carolina State Ports Authority Revenue Bonds, Series 2010</b>		
5.250% due 07/01/2040	800	888
<b>South Carolina State Public Service Authority Revenue Bonds, Series 2013</b>		
5.125% due 12/01/2043	5,000	5,649
5.500% due 12/01/2053	15,000	17,240
<b>South Carolina State Public Service Authority Revenue Bonds, Series 2014</b>		
5.500% due 12/01/2054	3,000	3,433
		28,315
<b>TENNESSEE 0.7%</b>		
<b>Claiborne County, Tennessee Industrial Development Board Revenue Bonds, Series 2009</b>		
6.625% due 10/01/2039	1,250	1,386
<b>Johnson City Health &amp; Educational Facilities Board, Tennessee Revenue Bonds, Series 2010</b>		
6.000% due 07/01/2038	1,000	1,143
		2,529
<b>TEXAS 17.3%</b>		
<b>Dallas, Texas Revenue Bonds, (AGC Insured), Series 2009</b>		
5.250% due 08/15/2038	1,300	1,426
<b>Grand Parkway Transportation Corp., Texas Revenue Bonds, Series 2013</b>		
5.000% due 04/01/2053	4,500	4,983
<b>JPMorgan Chase Putters/Drivers Trust, Texas General Obligation Notes, Series 2009</b>		
8.051% due 02/01/2017 (c)	6,500	8,308
<b>North Harris County, Texas Regional Water Authority Revenue Bonds, Series 2008</b>		
5.250% due 12/15/2033	5,500	6,126
5.500% due 12/15/2038	5,500	6,186
<b>North Texas Tollway Authority Revenue Bonds, Series 2008</b>		



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5.625% due 01/01/2033	10,800	11,854
5.750% due 01/01/2033	700	769
<b>North Texas Tollway Authority Revenue Bonds, Series 2011</b>		
5.000% due 01/01/2038	3,000	3,268
5.500% due 09/01/2041	600	704
<b>Tarrant County, Texas Cultural Education Facilities Finance Corp. Revenue Bonds, Series 2009</b>		
6.250% due 11/15/2029	3,000	3,512
<b>Texas Municipal Gas Acquisition &amp; Supply Corp. Revenue Bonds, Series 2006</b>		
5.250% due 12/15/2026	150	175
<b>Texas Municipal Gas Acquisition &amp; Supply Corp. Revenue Bonds, Series 2008</b>		
6.250% due 12/15/2026	9,600	11,956
<b>Texas Municipal Gas Acquisition &amp; Supply Corp. Revenue Bonds, Series 2012</b>		
5.000% due 12/15/2026	2,000	2,248
<b>Wise County, Texas Revenue Bonds, Series 2011</b>		
8.000% due 08/15/2034	500	593
		62,108

**VIRGINIA 0.5%**

<b>Fairfax County, Virginia Industrial Development Authority Revenue Bonds, Series 2009</b>		
5.500% due 05/15/2035	1,000	1,151
<b>James City County, Virginia Economic Development Authority Revenue Bonds, Series 2013</b>		
2.000% due 10/01/2048 ^	201	6
6.000% due 06/01/2043	621	591
		1,748

**WASHINGTON 0.5%**

<b>Washington Health Care Facilities Authority Revenue Bonds, Series 2009</b>		
7.375% due 03/01/2038	1,000	1,252
<b>Washington Health Care Facilities Authority Revenue Bonds, Series 2010</b>		
5.500% due 12/01/2039	500	609
		1,861

**WEST VIRGINIA 0.3%**

<b>West Virginia Hospital Finance Authority Revenue Bonds, Series 2011</b>		
9.125% due 10/01/2041	975	1,081

**WISCONSIN 1.7%**

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<b>University of Wisconsin Hospitals &amp; Clinics Authority</b>		
<b>Revenue Bonds, Series 2013</b>		
5.000% due 04/01/2038	3,500	3,928
<b>Wisconsin Health &amp; Educational Facilities Authority</b>		
<b>Revenue Bonds, Series 2009</b>		
6.625% due 02/15/2039	1,000	1,180

<b>Wisconsin Health &amp; Educational Facilities Authority Revenue Bonds, Series 2010</b>		
5.625% due 04/15/2039	1,000	1,117
		6,225
Total Municipal Bonds & Notes		
(Cost \$490,905)		557,298
<b>SHORT-TERM INSTRUMENTS 4.0%</b>		
<b>REPURCHASE AGREEMENTS (d) 0.8%</b>		2,800
<b>SHORT-TERM NOTES 3.2%</b>		
<b>Fannie Mae</b>		
0.071% due 04/27/2015	2,800	2,799
0.107% due 03/16/2015	2,500	2,499
<b>Federal Home Loan Bank</b>		
0.091% due 03/13/2015	6,400	6,399
		11,697
Total Short-Term Instruments		
		14,497
(Cost \$14,497)		
Total Investments in Securities		
		571,795
(Cost \$505,402)		
<b>Total Investments 159.5%</b>	<b>\$</b>	<b>571,795</b>
(Cost \$505,402)		
<b>Preferred Shares (52.7%)</b>		<b>(189,000)</b>
<b>Other Assets and Liabilities, net (6.8%)</b>		<b>(24,324)</b>
<b>Net Assets Applicable to Common Shareholders 100.0%</b>	<b>\$</b>	<b>358,471</b>

Notes to Schedule of Investments (amounts in thousands\*):

\* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) Security becomes interest bearing at a future date.

(b) 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.

(c) 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, 2014.

Borrowings and Other Financing Transactions

(d) Repurchase Agreements:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral Received at Value	Repurchase Agreement at Value	Repurchase Agreement Proceeds to be Received
AL	0.140%	12/31/2014	01/02/2015	\$ 2,800	U.S. Treasury Notes 2.500% due 05/15/2024	\$ (2,866)	\$ 2,800	\$ 2,800
<b>Total Repurchase Agreements</b>						<b>\$ (2,866)</b>	<b>\$ 2,800</b>	<b>\$ 2,800</b>

(1) Includes accrued interest.

Fair Value Measurements

The following is a summary of the fair valuations according to the inputs used as of December 31, 2014 in valuing the Fund's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2014
<b>Investments in Securities, at Value</b>				
Municipal Bonds & Notes				

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Alabama	\$0	\$ 57,692	\$ 0	\$ 57,692
Arizona	0	38,326	0	38,326
California	0	98,539	0	98,539
Colorado	0	3,456	0	3,456
Connecticut	0	1,498	0	1,498
District of Columbia	0	11,277	0	11,277
Florida	0	23,616	0	23,616
Georgia	0	2,163	0	2,163
Hawaii	0	1,681	0	1,681
Illinois	0	13,266	0	13,266
Indiana	0	5,261	0	5,261
Iowa	0	3,423	0	3,423
Kentucky	0	2,311	0	2,311
Louisiana	0	7,525	0	7,525
Maryland	0	7,174	0	7,174
Massachusetts	0	7,531	0	7,531
Michigan	0	5,105	0	5,105
Missouri	0	781	0	781
New Hampshire	0	2,263	0	2,263
New Jersey	0	19,788	0	19,788
New Mexico	0	1,115	0	1,115
New York	0	72,407	24	72,431
North Carolina	0	6,774	0	6,774
Ohio	0	37,146	0	37,146
Pennsylvania	0	23,289	0	23,289
South Carolina	0	28,315	0	28,315
Tennessee	0	2,529	0	2,529
Texas	0	62,108	0	62,108
Virginia	0	1,748	0	1,748
Washington	0	1,861	0	1,861
West Virginia	0	1,081	0	1,081
Wisconsin	0	6,225	0	6,225
<b>Short-Term Instruments</b>				
Repurchase Agreements	0	2,800	0	2,800
Short-Term Notes	0	11,697	0	11,697
<b>Total Investments</b>	<b>\$ 0</b>	<b>\$ 571,771</b>	<b>\$ 24</b>	<b>\$ 571,795</b>

**There were no significant transfers between Level 1, 2, and 3 during the period ended December 31, 2014.**

**See Accompanying Notes**

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## Notes to Financial Statements

### 1. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

**(a) Investment Valuation Policies** The Net Asset Value ( NAV ) of the Fund 's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the NYSE Close ) on each day that the New York Stock Exchange ( NYSE ) is open (each a Business Day ). Information that becomes known to the Fund or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

For purposes of calculating the NAV, portfolio securities and other financial derivative instruments are valued on each Business Day using valuation methods as adopted by the Board of Trustees (the Board ) of the Fund. The Board has formed a Valuation Committee whose function is to monitor the valuation of portfolio securities and other financial derivative instruments and, as required by the Fund 's valuation policies, determine in good faith the fair value of portfolio holdings after consideration of all relevant factors, including recommendations provided by the investment manager (the Manager ). The Board has delegated responsibility for applying the valuation methods to the Manager. The Manager monitors the continual appropriateness of methods applied and determines if adjustments should be made in light of market factor changes and events affecting issuers.

Where market quotes are readily available, fair market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services. Where market quotes are not readily available, portfolio securities and other financial derivative instruments are valued at fair value, as determined in good faith by the Board, its Valuation Committee, or the Manager pursuant to instructions from the Board or its Valuation Committee. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, or broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Fund 's securities or financial derivative instruments. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Manager, PIMCO, the responsibility for monitoring significant events that may materially affect the values of the Fund 's securities or financial derivative instruments and for determining whether the value of the applicable securities or financial derivative instruments should be re-evaluated in light of such significant events.

The Board has adopted methods for valuing securities and other financial derivative instruments that may require fair valuation under particular circumstances. The Manger monitors the continual appropriateness of fair valuation methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Manager determines that a fair valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will take any appropriate action in accordance with procedures set forth by the Board. The Board reviews the appropriateness of the valuation methods from time to time and these methods may be amended or supplemented from time to time by the Valuation Committee.

In circumstances in which daily market quotes are not readily available, investments may be valued pursuant to guidelines established by the Board. In the event that the security or asset cannot be valued pursuant to the established guidelines, the value of the security or other financial derivative instrument will be determined in good faith by the Valuation Committee of the Board, generally based upon recommendations provided by PIMCO. These methods may require subjective determinations about the value of a security. While the Fund 's policy is intended to result in a calculation of the Fund 's NAV that fairly reflects security values as of the time of pricing, the Fund cannot guarantee that values determined by the Board or persons acting at their direction would accurately reflect the price that the Fund could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced

or distressed sale). The prices used by the Fund may differ from the value that would be realized if the securities were sold.

**(b) Fair Value Hierarchy** U.S. GAAP describes fair market value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, and 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

Level 1 Inputs using (unadjusted) quoted prices in active markets or exchanges for identical assets and liabilities.

Level 2 Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.

Level 3 Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

Assets or liabilities categorized as Level 2 or 3 as of period end have been transferred between Levels 2 and 3 since the prior period due to changes in the valuation method utilized in valuing the investments. Transfers from Level 3 to Level 2 are a result of the availability of current and reliable market-based data provided by third-party pricing services or other valuation techniques which utilize significant observable inputs. In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers in and out of Level 3, if material, are disclosed in the Notes to Schedule of Investments for the Fund.

In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers in and out of Level 3, if material, are disclosed in the Notes to Schedule of Investments for the Fund.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to total realized and unrealized gains or losses, purchases and sales, and transfers in or out of the Level 3 category during the period. The end of period timing recognition is used for the transfers between Levels of the Fund's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets or liabilities categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, and if material, a Level 3 reconciliation and details of significant unobservable inputs, have been included in the Notes to Schedule of Investments for the Fund.

### **(c) Valuation Techniques and the Fair Value Hierarchy**

**Level 1 and Level 2 trading assets and trading liabilities, at fair market value** The valuation methods (or techniques ) and significant inputs used in determining the fair market values of portfolio securities or financial derivative instruments categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

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Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued by pricing service providers that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The service providers' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.



Short-term investments having a maturity of 60 days or less and repurchase agreements are generally valued at amortized cost which approximates fair market value. These investments are categorized as Level 2 of the fair value hierarchy.

**Level 3 trading assets and trading liabilities, at fair value** When a fair valuation method is applied by PIMCO that uses significant unobservable inputs, securities will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy.

## 2. FEDERAL INCOME TAX MATTERS

The Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the Code) and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

In accordance with U.S. GAAP, the Manager has reviewed the Fund's tax positions for all open tax years. As of December 31, 2014, the Fund has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Fund files U.S. tax returns. While the statute of limitations remains open to examine the Fund's U.S. tax returns filed for the fiscal years from 2011-2013, no examinations are in progress or anticipated at this time. The Fund is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

As of December 31, 2014, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

<b>Federal Tax Cost</b>	<b>Aggregate Gross Unrealized Appreciation</b>	<b>Aggregate Gross Unrealized (Depreciation)</b>	<b>Net Unrealized Appreciation/ Appreciation (1)</b>
\$ 505,402	\$ 69,861	\$ (3,468)	\$ 66,393

*(1) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) are typically attributable to wash sale loss deferrals, straddle loss deferrals, swap contracts, sale-buyback transactions, and accelerated recognition of unrealized gain on certain futures and forward contracts for federal income tax purposes.*

**Glossary: (abbreviations that may be used in the preceding statements)**

(Unaudited)

Counterparty Abbreviations:

SAL Citigroup Global Markets,  
Inc.

Currency Abbreviations:

USD (or \$) United States Dollar

Municipal Bond or Agency

Abbreviations:

AGC	Assured Guaranty Corp.	AMBAC	American Municipal Bond Assurance Corp.	IBC	Insured Bond Certificate
AGM	Assured Guaranty Municipal	FHA	Federal Housing Administration	NPFGC	National Public Finance Guarantee Corp.

Other Abbreviations:

BABs Build America Bonds

**Item 2. Controls and Procedures**

(a) The registrant's President, Principal 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 separate certification for each principal executive officer and principal financial & accounting officer of the registrant as required by Rule 30a-2 under the 1940 Act is attached as Exhibit 99.CERT.

**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/ Peter G. Strelow  
Peter G. Strelow  
President, Principal Executive Officer

Date: February 27, 2015

By: /s/ William G. Galipeau  
William G. Galipeau, Treasurer,  
Principal Financial & Accounting Officer

Date: February 27, 2015

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/ Peter G. Strelow  
Peter G. Strelow,  
President, Principal Executive Officer

Date: February 27, 2015

By: /s/ William G. Galipeau  
William G. Galipeau, Treasurer,  
Principal Financial & Accounting Officer

Date: February 27, 2015