

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

Investment Company Act File Number: 811-21187

Registrant Name:

PIMCO Municipal Income Fund III

Address of Principal Executive Offices:

1633 Broadway

New York, NY 10019

Name and Address of Agent for Service:

Lawrence G. Altadonna

1633 Broadway

New York, NY 10019

Registrant's telephone number, including area code:

212-739-3371

Date of Fiscal Year End: September 30, 2013

Date of Reporting Period: December 31, 2012

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

December 31, 2012 (unaudited)

| Principal Amount (000s) | | Value* |
|--|---|------------|
| MUNICIPAL BONDS & NOTES - 97.0% | | |
| Alabama - 2.0% | | |
| \$ 500 | Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 (AGC) | \$ 579,265 |
| 9,000 | Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | 9,464,850 |
| 1,000 | State Docks Dept. Rev., 6.00%, 10/1/40 | 1,196,670 |
| | | 11,240,785 |
| Arizona - 6.6% | | |
| | Health Facs. Auth. Rev., | |
| 1,250 | Banner Health, 5.00%, 1/1/35, Ser. A | 1,341,700 |
| 900 | Banner Health, 5.50%, 1/1/38, Ser. D | 992,178 |
| 2,250 | Beatitudes Campus Project, 5.20%, 10/1/37 | 2,215,935 |
| | Pima Cnty. Industrial Dev. Auth. Rev., | |
| 13,000 | 5.00%, 9/1/39 (h) | 13,661,700 |
| 750 | Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A | 820,200 |
| 5,000 | Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (h) | 5,736,500 |
| 11,600 | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37 | 13,082,480 |
| | | 37,850,693 |
| California - 14.3% | | |
| | Bay Area Toll Auth. Rev., San Francisco Bay Area, | |
| 1,500 | 5.00%, 10/1/29 | 1,718,085 |
| 500 | 5.00%, 4/1/34, Ser. F-1 | 560,510 |
| 3,260 | 5.00%, 10/1/42 | 3,612,243 |
| | Golden State Tobacco Securitization Corp. Rev., Ser. A-1, | |
| 3,000 | 4.50%, 6/1/27 | 2,809,020 |
| 4,600 | 5.125%, 6/1/47 | 3,969,202 |
| 7,120 | 5.75%, 6/1/47 | 6,752,893 |
| | Health Facs. Financing Auth. Rev., | |
| 2,500 | Catholic Healthcare West, 6.00%, 7/1/39, Ser. A | 2,915,350 |
| 600 | Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC) | 652,362 |
| 1,500 | Sutter Health, 6.00%, 8/15/42, Ser. B | 1,781,760 |
| 3,350 | Indian Wells Redev. Agey., Tax Allocation, Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC) | 3,077,712 |
| 130 | Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC) | 141,922 |
| 2,000 | M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B | 2,756,080 |
| 1,580 | Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B | 1,873,896 |
| 1,250 | Palomar Pomerado Health, CP, 6.75%, 11/1/39 | 1,427,000 |
| 1,600 | San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A | 1,797,856 |
| | State, GO, | |
| 5,000 | 5.00%, 6/1/37 | 5,468,300 |
| 5,300 | 5.00%, 12/1/37 | 5,849,027 |
| 1,350 | 5.25%, 3/1/38 | 1,519,533 |
| 1,300 | 5.25%, 11/1/40 | 1,512,446 |
| 3,200 | 5.50%, 3/1/40 | 3,756,800 |
| 2,500 | 5.75%, 4/1/31 | 2,958,825 |

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| | | |
|-------|---|------------|
| 5,000 | 6.00%, 4/1/38 | 5,992,500 |
| | Statewide Communities Dev. Auth. Rev., | |
| 1,000 | American Baptist Homes West, 6.25%, 10/1/39 | 1,095,230 |
| 1,935 | California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(d) | 2,114,065 |
| 2,580 | Methodist Hospital Project, 6.625%, 8/1/29 (FHA) | 3,242,879 |
| 9,200 | Methodist Hospital Project, 6.75%, 2/1/38 (FHA) | 11,281,500 |
| 1,200 | Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1 | 1,069,680 |
| | | 81,706,676 |

Colorado - 0.8%

| | | |
|-------|--|-----------|
| 500 | Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34 | 385,240 |
| | Health Facs. Auth. Rev., Ser. A, | |
| 500 | Evangelical Lutheran, 6.125%, 6/1/38 (Pre-refunded @ \$100, 6/1/14) (c) | 540,675 |
| 2,000 | Sisters of Charity of Leavenworth Health System, 5.00%, 1/1/40 | 2,176,860 |
| 500 | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38 | 700,270 |
| 500 | Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34 | 589,360 |
| | | 4,392,405 |

Connecticut - 0.3%

| | | |
|-------|---|-----------|
| 1,250 | Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A | 1,432,437 |
|-------|---|-----------|

District of Columbia - 2.1%

| | | |
|--------|--|------------|
| 10,000 | Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h) | 11,913,200 |
|--------|--|------------|

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2012 (unaudited) (continued)

| Principal Amount (000s) | | Value* |
|----------------------------|--|--------------|
| Florida - 5.0% | | |
| \$ 3,480 | Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34 | \$ 3,655,914 |
| | Broward Cnty. Airport System Rev., | |
| 4,000 | 5.00%, 10/1/42, Ser. Q-1 | 4,459,960 |
| 500 | 5.375%, 10/1/29, Ser. O | 580,575 |
| 4,500 | Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (h) | 5,321,565 |
| 3,000 | Cape Coral Water & Sewer Rev., 5.00%, 10/1/41 (AGM) | 3,372,270 |
| 350 | Dev. Finance Corp. Rev., Renaissance Charter School, 6.50%, 6/15/21, Ser. A | 396,889 |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B | 2,545,100 |
| 3,895 | Sarasota Cnty. Health Facs. Auth. Rev., Sarasota-Manatee Jewish Housing Council, Inc. Project, 5.75%, 7/1/45 | 3,435,429 |
| 4,200 | State Board of Education, GO, 5.00%, 6/1/38, Ser. D (h) | 4,837,854 |
| | | 28,605,556 |
| Georgia - 0.4% | | |
| 1,750 | Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A | 1,709,662 |
| 400 | Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37 | 399,452 |
| | | 2,109,114 |
| Hawaii - 0.3% | | |
| 1,500 | Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A | 1,662,840 |
| Illinois - 5.7% | | |
| 5,000 | Chicago, GO, 5.00%, 1/1/34, Ser. C (h) | 5,427,550 |
| | Finance Auth. Rev., | |
| 1,000 | Leafs Hockey Club Project, 5.875%, 3/1/27, Ser. A (b)(e) | 343,040 |
| 625 | Leafs Hockey Club Project, 6.00%, 3/1/37, Ser. A (b)(e) | 210,900 |
| 400 | OSF Healthcare System, 7.125%, 11/15/37, Ser. A | 491,540 |
| 12,795 | Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC) | 12,810,482 |
| 1,000 | Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A | 1,129,320 |
| 165 | Univ. of Chicago, 5.25%, 7/1/41, Ser. 05-A | 165,157 |
| 5,000 | Univ. of Chicago, 5.50%, 7/1/37, Ser. B (h) | 5,983,450 |
| 5,000 | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B | 5,704,850 |
| | | 32,266,289 |
| Indiana - 1.1% | | |
| 500 | Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC) | 500,435 |
| | Portage, Tax Allocation, Ameriplex Project, | |
| 1,000 | 5.00%, 7/15/23 | 1,027,970 |
| 775 | 5.00%, 1/15/27 | 789,283 |
| 2,800 | Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 7.50%, 9/1/22 | 3,661,980 |
| | | 5,979,668 |
| Iowa - 0.1% | | |

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| | | |
|-------------------------|--|-----------|
| | Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, | |
| 120 | 5.50%, 11/15/27 | 111,249 |
| 575 | 5.50%, 11/15/37 | 507,087 |
| | | 618,336 |
| Kentucky - 0.6% | | |
| 2,000 | Economic Dev. Finance Auth. Rev., Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A | 2,382,360 |
| 1,250 | Ohio Cnty. Pollution Control Rev., Big Rivers Electric Corp. Project, 6.00%, 7/15/31, Ser. A | 1,297,437 |
| | | 3,679,797 |
| Louisiana - 1.6% | | |
| | Local Gov t Environmental Facs. & Community Dev. Auth Rev., | |
| 400 | Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2 | 468,940 |
| 1,500 | Woman s Hospital Foundation, 5.875%, 10/1/40, Ser. A | 1,708,035 |
| 1,000 | Woman s Hospital Foundation, 6.00%, 10/1/44, Ser. A | 1,143,400 |
| | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, | |
| 1,700 | 5.50%, 5/15/47, Ser. B | 1,811,605 |
| 2,000 | 6.50%, 5/15/37 | 2,436,560 |
| 1,345 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | 1,377,778 |
| | | 8,946,318 |
| Maryland - 0.8% | | |
| 1,000 | Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B | 1,137,990 |
| | Health & Higher Educational Facs. Auth. Rev., | |
| 1,500 | Calvert Health System, 5.50%, 7/1/36 | 1,551,195 |
| 700 | Charlestown Community, 6.25%, 1/1/41 | 804,762 |
| 1,000 | Lifebridge Health, 6.00%, 7/1/41 | 1,159,180 |
| | | 4,653,127 |

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PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2012 (unaudited) (continued)

| Principal Amount (000s) | | Value* |
|-----------------------------|--|------------|
| Massachusetts - 1.3% | | |
| | Dev. Finance Agcy. Rev., | |
| \$ 300 | Adventcare Project, 7.625%, 10/15/37 | \$ 342,324 |
| 140 | Linden Ponds, Inc. Fac., zero coupon, 11/15/56, Ser. B (b) | 1,986 |
| 28 | Linden Ponds, Inc. Fac., 5.50%, 11/15/46, Ser. A-2 (b) | 19,014 |
| 529 | Linden Ponds, Inc. Fac., 6.25%, 11/15/39, Ser. A-1 | 409,655 |
| 4,910 | Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H | 4,913,486 |
| 1,600 | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A | 1,870,976 |
| | | 7,557,441 |
| Michigan - 8.8% | | |
| 1,500 | Detroit, GO, 5.25%, 11/1/35 | 1,645,950 |
| 9,320 | Detroit Sewage Disposal System Rev., 5.00%, 7/1/32, Ser. A (AGM) | 9,440,414 |
| 5,000 | Detroit Water and Sewerage Dept. Rev., 5.25%, 7/1/39, Ser. A | 5,395,300 |
| | Detroit Water Supply System Rev., | |
| 16,000 | 5.00%, 7/1/34, Ser. A (NPFGC) | 16,271,680 |
| 7,555 | 5.00%, 7/1/34, Ser. B (NPFGC) | 7,598,366 |
| 5,000 | 5.25%, 7/1/41, Ser. A | 5,375,400 |
| 500 | Global Preparatory Academy Rev., 5.25%, 11/1/36 | 402,650 |
| 1,500 | Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39 | 1,915,920 |
| 575 | State Hospital Finance Auth. Rev., Oakwood Group, 6.00%, 4/1/22, Ser. A (Pre-refunded @ \$100, 4/1/13) (c) | 583,039 |
| 1,300 | State Univ. Rev., 6.173%, 2/15/50, Ser. A | 1,588,678 |
| | | 50,217,397 |
| Minnesota - 0.0% | | |
| 125 | Duluth Housing & Redev. Auth. Rev., 5.875%, 11/1/40, Ser. A | 128,578 |
| Missouri - 0.1% | | |
| 250 | Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23 | 247,553 |
| 500 | Manchester, Tax Allocation, Highway 141/Manchester Road Project, 6.875%, 11/1/39 | 536,575 |
| | | 784,128 |
| New Hampshire - 0.4% | | |
| 2,000 | Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A | 2,272,860 |
| New Jersey - 8.3% | | |
| 1,000 | Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A | 1,035,020 |
| 4,500 | Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28 | 5,490,225 |
| 300 | Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14 | 300,951 |
| 1,000 | Health Care Facs. Financing Auth. Rev., St. Peters Univ. Hospital, 5.75%, 7/1/37 | 1,070,760 |
| | Tobacco Settlement Financing Corp. Rev., Ser. 1-A, | |
| 1,600 | 4.75%, 6/1/34 | 1,418,736 |
| 19,745 | 5.00%, 6/1/41 | 17,964,791 |
| 18,000 | Transportation Trust Fund Auth. Rev., 5.00%, 6/15/42, Ser. B | 20,028,960 |

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47,309,443

New Mexico - 0.2%

| | | |
|-------|--|-----------|
| 1,000 | Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D | 1,120,060 |
|-------|--|-----------|

New York - 12.3%

| | | |
|--------|--|------------|
| 9,800 | Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.25%, 7/15/40 | 11,433,464 |
| 5,000 | Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A | 5,932,100 |
| 1,700 | Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37 | 2,091,969 |
| 3,000 | Metropolitan Transportation Auth. Rev., 5.00%, 11/15/36, Ser. D | 3,362,130 |
| 1,150 | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A | 750,249 |
| 10,450 | New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC) | 12,581,800 |
| 4,900 | New York City Municipal Water Finance Auth. Rev., 5.00%, 6/15/37, Ser. D (h) | 5,283,474 |
| 4,000 | New York City Municipal Water Finance Auth. Water & Sewer Rev., Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD (h) | 4,422,680 |
| | New York Liberty Dev. Corp. Rev., | |
| 10,000 | 1 World Trade Center Project, 5.00%, 12/15/41 | 11,374,000 |
| 11,255 | 4 World Trade Center Project, 5.00%, 11/15/44 | 12,641,053 |

69,872,919

North Carolina - 1.4%

| | | |
|-------|---|-----------|
| 1,500 | Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC) | 1,524,765 |
| 6,000 | New Hanover Cnty. Rev., New Hanover Regional Medical Center, 5.00%, 10/1/28 | 6,624,900 |

8,149,665

Ohio - 3.4%

| | | |
|-------|---|-----------|
| 500 | Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A | 540,755 |
| | Buckeye Tobacco Settlement Financing Auth. Rev., Ser. A-2, | |
| 2,350 | 5.875%, 6/1/47 | 2,110,582 |
| 7,290 | 6.00%, 6/1/42 | 6,751,488 |
| 5,000 | 6.50%, 6/1/47 | 4,878,900 |
| 3,500 | Hamilton Cnty. Rev., Christ Hospital Project, 5.00%, 6/1/42 | 3,774,890 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2012 (unaudited) (continued)

| Principal Amount (000s) | | Value* |
|------------------------------|--|------------|
| \$ 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) | \$ 563,925 |
| 500 | Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A (Pre-refunded @ \$100, 11/15/14) (c) | 554,955 |
| | | 19,175,495 |
| Pennsylvania - 2.7% | | |
| 1,000 | Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39 | 1,126,970 |
| 4,000 | Berks Cnty. Municipal Auth. Rev., Reading Hospital Medical Center, 5.00%, 11/1/44, Ser. A | 4,426,680 |
| | Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A, | |
| 750 | 5.625%, 7/1/28 | 795,135 |
| 670 | 6.00%, 7/1/35 | 714,059 |
| 1,000 | Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A | 1,131,940 |
| 1,250 | Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B (e) | 986,188 |
| 100 | Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39 | 111,461 |
| | Philadelphia Water & Sewer Rev., | |
| 2,000 | 5.00%, 11/1/28 | 2,369,920 |
| 500 | 5.25%, 1/1/36, Ser. A | 557,790 |
| 3,000 | Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D | 3,254,610 |
| | | 15,474,753 |
| Puerto Rico - 1.0% | | |
| | Sales Tax Financing Corp. Rev., | |
| 2,400 | 5.00%, 8/1/40, Ser. A (AGM) (h) | 2,537,448 |
| 3,000 | 5.375%, 8/1/38, Ser. C | 3,091,050 |
| | | 5,628,498 |
| South Carolina - 1.3% | | |
| 1,000 | Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39 | 1,105,350 |
| 5,305 | Jobs-Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30, Ser. B | 5,324,894 |
| 800 | State Ports Auth. Rev., 5.25%, 7/1/40 | 895,472 |
| | | 7,325,716 |
| Tennessee - 0.5% | | |
| 1,250 | Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39 | 1,419,987 |
| 1,000 | Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38, Ser. A | 1,201,430 |
| | | 2,621,417 |
| Texas - 9.0% | | |
| 1,300 | Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC) | 1,456,858 |
| 3,000 | Harris Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor College of Medicine, 5.00%, 11/15/37 | 3,380,520 |
| 2,000 | Municipal Gas Acquisition & Supply Corp. III Rev., 5.00%, 12/15/26 | 2,197,220 |
| | North Harris Cnty. Regional Water Auth. Rev., | |

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| | | |
|--|--|------------|
| 5,500 | 5.25%, 12/15/33 | 6,106,100 |
| 5,500 | 5.50%, 12/15/38 | 6,120,180 |
| North Texas Tollway Auth. Rev., | | |
| 3,000 | 5.00%, 1/1/38 | 3,274,200 |
| 600 | 5.50%, 9/1/41, Ser. A | 715,626 |
| 10,800 | 5.625%, 1/1/33, Ser. A | 12,174,516 |
| 700 | 5.75%, 1/1/33, Ser. F | 777,315 |
| 2,000 | Sabine River Auth. Pollution Control Rev., TXU Energy, 5.20%, 5/1/28, Ser. C | 195,500 |
| 3,000 | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29 | 3,613,590 |
| Texas Municipal Gas Acquisition & Supply Corp. I Rev., | | |
| 150 | 5.25%, 12/15/26, Ser. A | 175,867 |
| 8,100 | 6.25%, 12/15/26, Ser. D | 10,375,452 |
| 500 | Wise Cnty. Rev., Parker Cnty. Junior College Dist., 8.00%, 8/15/34 | 581,075 |
| | | 51,144,019 |

Virginia - 0.3%

| | | |
|-------|--|-----------|
| 1,000 | Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A | 1,145,060 |
| 1,000 | James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A | 750,560 |
| | | 1,895,620 |

Washington - 3.7%

| | | |
|-------------------------------|--|------------|
| Health Care Facs. Auth. Rev., | | |
| 500 | Kadlec Regional Medical Center, 5.50%, 12/1/39 | 548,625 |
| 1,000 | Seattle Cancer Care Alliance, 7.375%, 3/1/38 | 1,228,490 |
| 18,680 | Tobacco Settlement Auth. of Washington Rev., 6.50%, 6/1/26 | 19,435,606 |
| | | 21,212,721 |

West Virginia - 0.2%

| | | |
|-------|---|-----------|
| 1,000 | Hospital Finance Auth. Rev., Highland Hospital, 9.125%, 10/1/41 | 1,269,860 |
|-------|---|-----------|

Wisconsin - 0.4%

Health & Educational Facs. Auth. Rev.,

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2012 (unaudited) (continued)

| Principal Amount (000s) | | Value* |
|--|---|-----------------------|
| \$ 1,000 | Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A | \$ 1,114,390 |
| 1,000 | Prohealth Care, Inc., 6.625%, 2/15/39 | 1,180,260 |
| | | 2,294,650 |
| | Total Municipal Bonds & Notes (cost-\$492,352,742) | 552,512,481 |
| VARIABLE RATE NOTES (a)(d)(f)(g) - 3.0% | | |
| California - 0.4% | | |
| 1,675 | Los Angeles Community College Dist., GO, 11.731%, 8/1/33, Ser. 3096 | 2,367,964 |
| Florida - 1.1% | | |
| 5,000 | Greater Orlando Aviation Auth. Rev., 8.037%, 10/1/39, Ser. 3174 | 6,259,600 |
| Texas - 1.5% | | |
| 6,500 | JPMorgan Chase Putters/Drivers Trust, GO, 7.98%, 2/1/17, Ser. 3480 | 8,670,090 |
| | Total Variable Rate Notes (cost-\$13,079,496) | 17,297,654 |
| | Total Investments (cost-\$505,432,238) (i)- 100.0% | \$ 569,810,135 |

Industry classification of portfolio holdings as a percentage of total investments at December 31, 2012 was as follows:

| | |
|---|-------|
| Revenue Bonds: | |
| Health, Hospital & Nursing Home Revenue | 20.1% |
| Tobacco Settlement Funded | 12.0 |
| Water Revenue | 10.6 |
| Natural Gas Revenue | 7.5 |
| Miscellaneous Revenue | 6.1 |
| Sewer Revenue | 5.1 |
| Port, Airport & Marina Revenue | 4.6 |
| Recreational Revenue | 4.3 |
| College & University Revenue | 3.5 |
| Highway Revenue Tolls | 3.4 |
| Industrial Revenue | 2.7 |
| Lease (Appropriation) | 2.4 |
| Local or Guaranteed Housing | 1.7 |
| Electric Power & Lighting Revenue | 1.6 |
| Miscellaneous Taxes | 1.0 |
| Sales Tax Revenue | 1.0 |
| Transit Revenue | 0.7 |
| Ad Valorem Property Tax | 0.1 |
| Tax Increment/ Allocation Revenue | 0.0 |

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| | |
|-------------------------------|--------|
| Total Revenue Bonds | 88.4% |
| General Obligation | 9.1 |
| Tax Allocation | 1.2 |
| Special Assessments | 1.0 |
| Certificates of Participation | 0.3 |
| Total Investments | 100.0% |

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), an affiliate of the Investment Manager. 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 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Fund to value securities may differ from the value that would be realized if the securities 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 \$19,411,719, representing 3.4% 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) 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, 2012.

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- (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, 2012.
- (h) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (i) At December 31, 2012, the cost basis of portfolio securities for federal income tax purposes was \$472,452,185. Gross unrealized appreciation was \$69,703,407; gross unrealized depreciation was \$4,599,672; and net unrealized appreciation was \$65,103,735. The difference between book and tax cost was attributable to inverse floater transactions.

Glossary:

AGC - insured by Assured Guaranty Corp.

AGM - insured by Assured Guaranty Municipal Corp.

AMBAC - insured by American Municipal Bond Assurance Corp.

CP - Certificates of Participation

FHA - insured by Federal Housing Administration

GO - General Obligation Bond

IBC - Insurance Bond Certificate

NPFGC - insured by National Public Finance Guarantee Corp.

Fair Value Measurements

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

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

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

Level 3 valuations based on significant unobservable inputs (including the Sub-Adviser's or Valuation Committee's own assumptions and 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 Fund generally uses to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with Generally Accepted Accounting Principles.

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 three months ended December 31, 2012 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 a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation techniques used. Investments categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments.

A summary of the inputs used at December 31, 2012 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 12/31/12 |
|---|----------------------------|--|--|----------------------|
| Investments in Securities - Assets | | | | |
| Municipal Bonds & Notes | \$ | \$ 552,512,481 | \$ | \$ 552,512,481 |
| Variable Rate Notes | | 17,297,654 | | 17,297,654 |
| Totals | \$ | \$ 569,810,135 | \$ | \$ 569,810,135 |

At December 31, 2012, there were no transfers between Levels 1 and 2.

Item 2. Controls and Procedures

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

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

Item 3. Exhibits

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

Signatures

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

Registrant: PIMCO Municipal Income Fund III

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

Date: February 20, 2013

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

Date: February 20, 2013

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

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

Date: February 20, 2013

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

Date: February 20, 2013