

PIMCO MUNICIPAL INCOME FUND III

Form N-CSRS

August 28, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number: 811-21187

PIMCO Municipal Income Fund III

(Exact name of registrant as specified in charter)

1633 Broadway, New York, NY 10019

(Address of principal executive offices)

Trent W. Walker

Treasurer (Principal Financial & Accounting Officer)

650 Newport Center Drive

Newport Beach, CA 92660

(Name and address of agent for service)

Copies to:

David C. Sullivan

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199

Registrant's telephone number, including area code: (844) 337-4626

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Date of fiscal year end: December 31

Date of reporting period: June 30, 2018

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Table of Contents

Item 1. Reports to Shareholders.

The following is a copy of the report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the 1940 Act) (17 CFR 270.30e-1).

Table of Contents

PIMCO Closed-End Funds

**Semiannual
Report**

June 30, 2018

PIMCO Municipal Income Fund | PMF | NYSE

PIMCO Municipal Income Fund II | PML | NYSE

PIMCO Municipal Income Fund III | PMX | NYSE

PIMCO California Municipal Income Fund | PCQ | NYSE

PIMCO California Municipal Income Fund II | PCK | NYSE

PIMCO California Municipal Income Fund III | PZC | NYSE

PIMCO New York Municipal Income Fund | PNF | NYSE

PIMCO New York Municipal Income Fund II | PNI | NYSE

PIMCO New York Municipal Income Fund III | PYN | NYSE

Table of Contents**Table of Contents**

	Page
<u>Letter from the Chairman of the Board & President</u>	2
<u>Important Information About the Funds</u>	4
<u>Financial Highlights</u>	18
<u>Statements of Assets and Liabilities</u>	22
<u>Statements of Operations</u>	24
<u>Statements of Changes in Net Assets</u>	27
<u>Statements of Cash Flows</u>	32
<u>Notes to Financial Statements</u>	64
<u>Glossary</u>	78
<u>Investment Strategy Updates</u>	79
<u>Approval of Investment Management Agreement</u>	80

Fund	Fund Summary	Schedule of Investments
<u>PIMCO Municipal Income Fund</u>	9	34
<u>PIMCO Municipal Income Fund II</u>	10	39
<u>PIMCO Municipal Income Fund III</u>	11	44
<u>PIMCO California Municipal Income Fund</u>	12	49
<u>PIMCO California Municipal Income Fund II</u>	13	52
<u>PIMCO California Municipal Income Fund III</u>	14	55
<u>PIMCO New York Municipal Income Fund</u>	15	57
<u>PIMCO New York Municipal Income Fund II</u>	16	59
<u>PIMCO New York Municipal Income Fund III</u>	17	62

Table of Contents

Letter from the Chairman of the Board & President

Dear Shareholder,

Following is the PIMCO Closed-End Funds Semiannual Report, which covers the six-month reporting period ended June 30, 2018. On the subsequent pages you will find specific details regarding investment results and a discussion of factors that most affected performance over the reporting period.

For the six-month reporting period ended June 30, 2018

The U.S. economy continued to expand during the reporting period. Looking back, U.S. gross domestic product (GDP) expanded at a revised annual pace of 2.3% and 2.2% during the fourth quarter of 2017 and first quarter of 2018, respectively. The Commerce Department's initial reading released after the reporting period had ended showed that second-quarter 2018 GDP grew at an annual pace of 4.1%.

The Federal Reserve (Fed) continued to normalize monetary policy during the reporting period. After raising interest rates three times in 2017, the Fed again raised rates at its March 2018 meeting, pushing the federal funds rate to a range between 1.50% and 1.75%. Finally, at its meeting that concluded on June 13, 2018, the Fed raised rates to a range between 1.75% and 2.00%.

Economic activity outside the U.S. moderated somewhat during the reporting period. Against this backdrop, the European Central Bank (ECB), the Bank of Japan and the Bank of England largely maintained their highly accommodative monetary policies. Other central banks took a more hawkish stance, including the Bank of Canada, as it raised rates in January 2018. Meanwhile, in June 2018, the ECB indicated that it plans to end its quantitative easing program by the end of the year, but it did not expect to raise interest rates at least through the summer of 2019.

The U.S. Treasury yield curve flattened during the reporting period, as short-term rates moved up more than their longer-term counterparts. The increase in rates at the short end of the yield curve was mostly due to Fed interest rate hikes. The yield on the benchmark 10-year U.S. Treasury note was 2.85% at the end of the reporting period, up from 2.40% on December 31, 2017. U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Treasury Index, returned -1.08% over the six months ended June 30, 2018. Meanwhile the Bloomberg Barclays U.S. Aggregate Bond Index, a widely used index of U.S. investment grade bonds, returned -1.62% over the period. Riskier fixed income asset classes, including high yield corporate bonds and emerging market debt, generated mixed results versus the broad U.S. market. The ICE BofAML U.S. High Yield Index gained 0.08% over the reporting period, whereas emerging market external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned -5.23% over the reporting period. Emerging market local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned -6.44% over the period.

The municipal (or muni) market produced choppy results during the reporting period. After declining over the first two months, the muni market posted positive returns during three of the last four months of the reporting period. While munis were negatively impacted by rising interest rates, their losses were tempered by overall positive investor demand and moderating supply. All told, the Bloomberg Barclays Municipal Bond Index returned -0.25% during the six months ended June 30, 2018.

2 PIMCO CLOSED-END FUNDS

Table of Contents

Thank you for the assets you have placed with us. We deeply value your trust, and will continue to work diligently to meet your broad investment needs. For any questions regarding your PIMCO Closed-End Funds investments, please contact your financial advisor, or call the Funds shareholder servicing agent at (844) 33-PIMCO. We also invite you to visit our website at pimco.com to learn more about our global viewpoints.

Sincerely,

Hans W. Kertess
Chairman of the Board of Trustees

Peter G. StreLOW
President

Past performance is no guarantee of future results.

SEMIANNUAL REPORT JUNE 30, 2018 **3**

Table of Contents

Important Information About the Funds

We believe that bond funds have an important role to play in a well-diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities and other instruments held by a Fund are likely to decrease in value. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). In addition, changes in interest rates can be sudden and unpredictable, and there is no guarantee that Fund management will anticipate such movement accurately. A Fund may lose money as a result of movement in interest rates.

As of the date of this report, interest rates in the U.S. and many parts of the world, including certain European countries, are at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program in October 2014 and has begun, and may continue, to raise interest rates. To the extent the Federal Reserve Board continues to raise interest rates, there is a risk that rates across the financial system may rise. Further, while bond markets have steadily grown over the past three decades, dealer inventories of corporate bonds are near historic lows in relation to market size. As a result, there has been a significant reduction in the ability of dealers to make markets. Bond funds and individual bonds with a longer duration (a measure used to determine the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations. In addition, in the current low interest rate environment, the market price of the Funds' common shares may be particularly sensitive to changes in interest rates or the perception that there will be a change in interest rates. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets or negatively impact a Fund's performance or cause a Fund to incur losses. Additionally, the United States presidential administration's enforcement of tariffs on goods from other countries, with a focus on China, has contributed to international trade tensions and may impact portfolio securities.

Investing in the municipal bond market involves the risks of investing in debt securities generally and certain other risks. The amount of public information available about the municipal bonds in which a Fund may invest is generally less than that for corporate equities or bonds, and the investment performance of a Fund's investment in municipal bonds may therefore be more dependent on the analytical abilities of PIMCO than its investments in taxable bonds. The secondary market for municipal bonds also tends to be less well-developed or liquid than many other securities markets, which may adversely affect a Fund's ability to sell its bonds at attractive prices.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns, by litigation, legislation or political events, or by the bankruptcy of the issuer. Laws, referenda, ordinances or regulations enacted in the future by Congress or state legislatures or the applicable governmental entity could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipal issuers to levy taxes. Issuers of municipal securities also might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, a Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, a Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.

A Fund that has substantial exposures to California municipal bonds may be affected significantly by economic, regulatory or political developments affecting the ability of California issuers to pay interest or repay principal. Certain issuers of California municipal bonds have experienced serious financial difficulties in the past and reoccurrence of these difficulties may impair the ability of certain California issuers to pay principal or interest on their obligations. Provisions of the California Constitution and State statutes that limit the taxing and spending authority of California governmental entities may impair the ability of California issuers to pay principal and/or interest on their obligations. While California's economy is broad, it does have major concentrations in high technology, aerospace and defense-related manufacturing, trade, entertainment, real estate and financial services, and may be sensitive to economic problems affecting those industries. Future California political and economic developments, constitutional amendments, legislative measures, executive orders, administrative regulations, litigation and voter initiatives could have an adverse effect on the debt obligations of California issuers.

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A Fund that has substantial exposures to New York municipal bonds may be affected significantly by economic, regulatory or political developments affecting the ability of New York issuers to pay interest or repay principal. While New York's economy is broad, it does have concentrations in the financial services industry, and may be sensitive to economic problems affecting that industry. Certain issuers of New York municipal bonds have experienced serious financial difficulties in the past and reoccurrence of these difficulties may impair the ability of certain New York issuers to pay principal or interest on their obligations. The financial health of New York City affects that of the

4 PIMCO CLOSED-END FUNDS

Table of Contents

State, and when New York City experiences financial difficulty it may have an adverse effect on New York municipal bonds held by a Fund. The growth rate of New York has at times been somewhat slower than the nation overall. The economic and financial condition of New York also may be affected by various financial, social, economic and political factors.

The use of derivatives may subject the Funds to greater volatility than investments in traditional securities. The Funds may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, call risk, credit risk, leverage risk, management risk and the risk that a Fund may not be able to close out a position when it would be most advantageous to do so. Changes in regulation relating to a Fund's use of derivatives and related instruments could potentially limit or impact a Fund's ability to invest in derivatives, limit a Fund's ability to employ certain strategies that use derivatives and/or adversely affect the value or performance of derivatives and the Fund. Certain derivative transactions may have a leveraging effect on a Fund. For example, a small investment in a derivative instrument may have a significant impact on a Fund's exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in an asset, instrument or component of the index underlying a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility in a Fund's net asset value (NAV). A Fund may engage in such transactions regardless of whether the Fund owns the asset, instrument or components of the index underlying the derivative instrument. A Fund may invest a significant portion of its assets in these types of instruments. If it does, a Fund's investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not own.

A Fund's use of leverage creates the opportunity for increased income for the Fund's common shareholders, but also creates special risks. Leverage is a speculative technique that may expose a Fund to greater risk and increased costs. If shorter-term interest rates rise relative to the rate of return on a Fund's portfolio, the interest and other costs of leverage to the Fund could exceed the rate of return on the debt obligations and other investments held by the Fund, thereby reducing return to the Fund's common shareholders. In addition, fees and expenses of any form of leverage used by a Fund will be borne entirely by its common shareholders (and not by preferred shareholders, if any) and will reduce the investment return of the Fund's common shares. There can be no assurance that a Fund's use of leverage will result in a higher yield on its common shares, and it may result in losses. Leverage creates several major types of risks for a Fund's common shareholders,

including: (1) the likelihood of greater volatility of net asset value and market price of the Fund's common shares, and of the investment return to the Fund's common shareholders, than a comparable portfolio without leverage; (2) the possibility either that the Fund's common share dividends will fall if the interest and other costs of leverage rise, or that dividends paid on the Fund's common shares will fluctuate because such costs vary over time; and (3) the effects of leverage in a declining market or a rising interest rate environment, as leverage is likely to cause a greater decline in the net asset value of the Fund's common shares than if the Fund were not leveraged and may result in a greater decline in the market value of the Fund's common shares. Moreover, to make payments of interest and other loan costs, a Fund may be forced to sell portfolio securities when it is not otherwise advantageous to do so.

There is a risk that a Fund investing in a tender option bond program will not be considered the owner of a tender option bond for federal income tax purposes, and thus will not be entitled to treat such interest as exempt from federal income tax. Certain tender option bonds may be illiquid or may become illiquid as a result of, among other things, a credit rating downgrade, a payment default or a disqualification from tax-exempt status. A Fund's investment in the securities issued by a tender option bond trust may involve greater risk and volatility than an investment in a fixed rate bond, and the value of such securities may decrease significantly when market interest rates increase. Tender option bond trusts could be terminated due to market, credit or other events beyond the Funds' control, which could require the Funds to dispose of portfolio investments at inopportune times and prices. A Fund may use a tender option bond program as a way of achieving leverage in its portfolio, in which case the Fund will be subject to leverage risk.

High-yield bonds (commonly referred to as junk bonds) typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in markets for lower-rated bonds. Thus, high yield investments increase the chance that a Fund will lose money. PIMCO does not rely solely on credit ratings, and develops its own analysis of issuer credit quality. A Fund may purchase

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unrated securities (which are not rated by a rating agency) if PIMCO determines that the security is of comparable quality to a rated security that a Fund may purchase. Unrated securities may be less liquid than comparable rated securities and involve the risk that PIMCO may not accurately evaluate the security's comparative credit quality, which could result in a Fund's portfolio having a higher level of credit and/or high yield risk than PIMCO has estimated or desires for the Fund, and could negatively impact the Fund's performance and/or

SEMIANNUAL REPORT JUNE 30, 2018 **5**

Table of Contents

Important Information About the Funds (Cont.)

returns. Certain Funds may invest a substantial portion of their assets in unrated securities and therefore may be particularly subject to the associated risks. Analysis of the creditworthiness of issuers of high yield securities may be more complex than for issuers of higher-quality debt obligations. To the extent that a Fund invests in high yield and/or unrated securities, the Fund's success in achieving its investment objectives may depend more heavily on the portfolio manager's creditworthiness analysis than if the Fund invested exclusively in higher-quality and rated securities. The Funds may hold defaulted securities that may involve special considerations including bankruptcy proceedings, other regulatory and legal restrictions affecting the Funds' ability to trade, and the availability of prices from independent pricing services or dealer quotations. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Defaulted securities are often illiquid and may not be actively traded. Sales of securities in bankrupt companies at an acceptable price may be difficult and differences compared to the value of the securities used by the Funds could be material. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio.

Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When a Fund holds variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the NAV of the Funds' shares.

Municipal obligations issued by the Commonwealth of Puerto Rico or its political subdivisions, agencies, instrumentalities, or public corporations may be affected by economic, market, political, and social conditions in Puerto Rico. Puerto Rico currently is experiencing significant fiscal and economic challenges, including substantial debt service obligations, high levels of unemployment, underfunded public retirement systems, the severe impact of two hurricanes, and persistent government budget deficits. These challenges may negatively affect the value of a Fund's investments in Puerto Rico municipal securities. Major ratings agencies have downgraded the general obligation debt of Puerto Rico to below investment grade and continue to maintain a negative outlook for this debt, which increases the likelihood that the rating will be lowered further. In both August 2015 and January 2016, Puerto Rico defaulted on its debt by failing to make full payment due on its outstanding

bonds, and there can be no assurance that Puerto Rico will be able to satisfy its future debt obligations. Further downgrades or defaults may place additional strain on the Puerto Rico economy and may negatively affect the value, liquidity, and volatility of the Fund's investments in Puerto Rico municipal securities. Legislation, including legislation that would allow Puerto Rico to restructure its municipal debt obligations, thus increasing the risk that Puerto Rico may never pay off municipal indebtedness, or may pay only a small fraction of the amount owed, could also impact the value of a Fund's investments in Puerto Rico municipal securities.

These challenges and uncertainties have been exacerbated by Hurricane Maria and the resulting natural disaster in Puerto Rico. In September 2017, Hurricane Maria struck Puerto Rico, causing major damage across the Commonwealth, including damage to its water, power, and telecommunications infrastructure. The length of time needed to rebuild Puerto Rico's infrastructure is unclear, but could amount to years, during which the Commonwealth is likely to be in an uncertain economic state. The full extent of the natural disaster's impact on Puerto Rico's economy and foreign investment in Puerto Rico is difficult to estimate.

As the use of technology has become more prevalent in the course of business, the Funds have become potentially more susceptible to operational and information security risks resulting from breaches in cyber security. A breach in cyber security refers to both intentional and unintentional cyber events that may, among other things, cause a Fund to lose proprietary information, suffer data corruption and/or destruction or lose operational capacity, result in the unauthorized release or other misuse of confidential information, or otherwise disrupt normal business operations. Cyber security breaches may involve unauthorized access to a Fund's digital information systems (e.g., through hacking or malicious software coding), but may also result from outside attacks such as denial-of-service attacks (i.e., efforts to make network services unavailable to

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intended users). In addition, cyber security breaches involving a Fund's third party service providers (including but not limited to advisers, sub-advisers, administrators, transfer agents, custodians, distributors and other third parties), trading counterparties or issuers in which a Fund invests can also subject a Fund to many of the same risks associated with direct cyber security breaches. Moreover, cyber security breaches involving trading counterparties or issuers in which a Fund invests could adversely impact such counterparties or issuers and cause the Fund's investment to lose value.

Cyber security failures or breaches may result in financial losses to a Fund and its shareholders. These failures or breaches may also result in disruptions to business operations, potentially resulting in financial losses; interference with a Fund's ability to calculate its net asset value,

6 PIMCO CLOSED-END FUNDS

Table of Contents

process shareholder transactions or otherwise transact business with shareholders; impediments to trading; violations of applicable privacy and other laws; regulatory fines; penalties; reputational damage; reimbursement or other compensation costs; additional compliance and cyber security risk management costs and other adverse consequences. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future.

Like with operational risk in general, the Funds have established business continuity plans and risk management systems designed to reduce the risks associated with cyber security. However, there are inherent limitations in these plans and systems, including that certain risks may not have been identified, in large part because different or unknown threats may emerge in the future. As such, there is no guarantee that such efforts will succeed, especially because the Funds do not directly control the cyber security systems of issuers in which a Fund may invest, trading counterparties or third party service providers to the Funds. There is also a risk that cyber security breaches may not be detected. The Funds and their shareholders could be negatively impacted as a result.

The common shares of the Funds trade on the New York Stock Exchange. As with any stock, the price of a Fund's common shares will fluctuate with market conditions and other factors. If you sell your common shares of a Fund, the price received may be more or less than your original investment. Shares of closed-end management investment companies frequently trade at a discount from their net asset value.

The common shares of a Fund may trade at a price that is less than the initial offering price and/or the net asset value of such shares. Further, if a Fund's shares trade at a price that is more than the initial offering price and/or the net asset value of such shares, including at a substantial premium and/or for an extended period of time, there is no assurance that any such premium will be sustained for any period of time and will not decrease, or that the shares will not trade at a discount to net asset value thereafter.

The Funds may be subject to various risks, including, but not limited to, the following: asset allocation risk, credit risk, stressed securities risk, distressed and defaulted securities risk, corporate bond risk, high yield risk, market risk, issuer risk, liquidity risk, equity securities and related market risk, mortgage-related and other asset-backed securities risk, extension risk, prepayment risk, privately issued mortgage-related securities risk, mortgage market/ subprime risk, currency risk, redenomination risk, non-diversification risk, management risk, municipal bond risk, tender option bond risk, inflation-indexed security risk, senior debt risk, loans, participations and assignments risk, reinvestment risk, real estate risk, U.S. Government securities risk, foreign (non-U.S.) government securities risk, valuation risk,

segregation and cover risk, focused investment risk, credit default swaps risk, event-linked securities risk, counterparty risk, preferred securities risk, confidential information access risk, other investment companies risk, private placements risk, inflation/deflation risk, regulatory risk, tax risk, recent economic conditions risk, market disruptions and geopolitical risk, potential conflicts of interest involving allocation of investment opportunities, repurchase agreements risk, securities lending risk, zero-coupon bond and payment-in-kind securities risk, portfolio turnover risk, smaller company risk, short sale risk and convertible securities risk. A description of certain of these risks is available in the Notes to Financial Statements of this Report.

On each Fund Summary page in this Shareholder Report, the Average Annual Total Return table measures performance assuming that all dividend and capital gain distributions were reinvested. Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions. Total return for a period of more than one year represents the average annual total return. Performance at market price will differ from results at NAV. Although market price returns tend to reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about a Fund, market conditions, supply and demand for the Fund's shares, or changes in the Fund's dividends. Performance shown is net of fees and expenses.

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The following table discloses the commencement of operations and diversification status of each Fund:

Fund Name	Commencement of Operations	Diversification Status
PIMCO Municipal Income Fund	06/29/01	Diversified
PIMCO Municipal Income Fund II	06/28/02	Diversified
PIMCO Municipal Income Fund III	10/31/02	Diversified
PIMCO California Municipal Income Fund	06/29/01	Diversified
PIMCO California Municipal Income Fund II	06/28/02	Diversified
PIMCO California Municipal Income Fund III	10/31/02	Diversified
PIMCO New York Municipal Income Fund	06/29/01	Non-diversified
PIMCO New York Municipal Income Fund II	06/28/02	Non-diversified
PIMCO New York Municipal Income Fund III	10/31/02	Non-diversified

An investment in a Fund is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Funds.

The Trustees are responsible generally for overseeing the management of the Funds. The Trustees authorize the Funds to enter into service agreements with the Investment Manager and other service providers in order to provide, and in some cases authorize service providers to

Table of Contents

Important Information About the Funds (Cont.)

procure through other parties, necessary or desirable services on behalf of the Funds. Shareholders are not parties to or third-party beneficiaries of such service agreements. Neither a Fund's original or any subsequent prospectus or Statement of Additional Information (SAI), any press release or shareholder report, any contracts filed as exhibits to a Fund's registration statement, nor any other communications, disclosure documents or regulatory filings from or on behalf of a Fund creates a contract between or among any shareholders of a Fund, on the one hand, and the Fund, a service provider to the Fund, and/or the Trustees or officers of the Fund, on the other hand. The Trustees (or the Funds and their officers, service providers or other delegates acting under authority of the Trustees) may amend its most recent or use a new prospectus or SAI with respect to a Fund, adopt and disclose new or amended policies and other changes in press releases and shareholder reports and/or amend, file and/or issue any other communications, disclosure documents or regulatory filings, and may amend or enter into any contracts to which a Fund is a party, and interpret the investment objective(s), policies, restrictions and contractual provisions applicable to any Fund, without shareholder input or approval, except in circumstances in which shareholder approval is specifically required by law (such as changes to fundamental investment policies) or where a shareholder approval requirement was specifically disclosed in a Fund's prospectus, SAI or shareholder report and is otherwise still in effect.

PIMCO has adopted written proxy voting policies and procedures (Proxy Policy) as required by Rule 106(4)-6 under the Investment Advisers Act of 1940. The Proxy Policy has been adopted by the Funds as the policies and procedures that PIMCO will use when voting proxies on behalf of the Funds. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of each Fund, and information about how each Fund voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Funds at (844) 33-PIMCO (844-337-4626), on the Funds' website at www.pimco.com, and on the Securities and Exchange Commission's (SEC) website at <http://www.sec.gov>.

Each Fund files a complete schedule of its portfolio holdings with the SEC for the first and third quarters of its fiscal year on Form N-Q. A copy of each Fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and is available without charge, upon request by calling the Funds at (844) 33-PIMCO (844-337-4626) and on the Funds' website at www.pimco.com.

Updated portfolio holdings information about a Fund will be available at www.pimco.com approximately 15 calendar days after such Fund's most recent fiscal quarter end, and will remain accessible until such Fund files

a Form N-Q or a shareholder report for the period which includes the date of the information. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

The SEC adopted a rule that generally allows funds to deliver shareholder reports to investors by providing access to such reports online free of charge and by mailing a notice that the report is electronically available. Pursuant to the rule, investors may still elect to receive a complete shareholder report in the mail. PIMCO is evaluating how to make the electronic delivery option available to shareholders in the future.

8 PIMCO CLOSED-END FUNDS

Table of Contents**PIMCO Municipal Income Fund**Symbol on NYSE - **PMF**Allocation Breakdown as of 06/30/2018 [§]

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	24.2%
Highway Revenue Tolls	8.3%
Ad Valorem Property Tax	7.9%
Natural Gas Revenue	6.2%
Miscellaneous Revenue	6.1%
Tobacco Settlement Funded	6.0%
Electric Power & Light Revenue	4.3%
College & University Revenue	4.3%
Water Revenue	3.8%
Industrial Revenue	3.6%
Sales Tax Revenue	3.5%
Special Assessment	3.3%
Port, Airport & Marina Revenue	2.9%
Miscellaneous Taxes	2.7%
Sewer Revenue	2.6%
General Fund	2.3%
Income Tax Revenue	2.2%
Appropriations	1.5%
Nuclear Revenue	1.1%
Other	2.7%
Short-Term Instruments	0.5%
% of Investments, at value.	

[§] Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.
Fund Information (as of June 30, 2018)⁽¹⁾

Market Price	\$13.17
NAV	\$12.59
Premium/(Discount) to NAV	4.61%
Market Price Distribution Rate ⁽²⁾	5.44%
NAV Distribution Rate ⁽²⁾	5.69%
Total Effective Leverage ⁽³⁾	47%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2018

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/29/01)
Market Price	4.22%	1.95%	7.49%	5.49%	6.25%
NAV	0.65%	3.81%	7.90%	7.94%	6.82%

All Fund returns are net of fees and expenses.

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* Cumulative return

- (1) Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Returns shown do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the sale of Fund shares. Total return, market price, NAV, market price distribution rate, and NAV distribution rate will fluctuate with changes in market conditions. Performance current to the most recent month-end is available at www.pimco.com or via (844) 33-PIMCO. Performance is calculated assuming all dividends and distributions are reinvested at prices obtained under the Fund's dividend reinvestment plan. Performance does not reflect any brokerage commissions in connection with the purchase or sale of Fund shares.
- (2) Distribution rates are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or Market Price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the estimated composition of distributions. Please visit www.pimco.com for most recent Section 19 Notice, if applicable. Final determination of a distribution's tax character will be made on Form 1099 DIV sent to shareholders each January.
- (3) Represents total effective leverage outstanding, as a percentage of total managed assets. Total effective leverage consists of preferred shares, reverse repurchase agreements and other borrowings, credit default swap notional and floating rate notes issued in tender option bond transactions, as applicable (collectively Total Effective Leverage). The Fund may engage in other transactions not included in Total Effective Leverage disclosed above that may give rise to a form of leverage, including certain derivative transactions. For the purpose of calculating Total Effective Leverage outstanding as a percentage of total managed assets, total managed assets refer to total assets (including assets attributable to Total Effective Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Total Effective Leverage).

Investment Objective and Strategy Overview

PIMCO Municipal Income Fund's investment objective is to seek to provide current income exempt from federal income tax.

Fund Insights at NAV

The following affected performance during the reporting period:

- » The Fund's duration exposure detracted from performance, as municipal yields moved higher.
- » Exposure to the tobacco sector contributed to performance, as the sector outperformed the general municipal market.
- » Select exposure to the special tax sector contributed to performance.
- » Exposure to the healthcare sector contributed to performance, as the sector outperformed the general municipal market.
- » Exposure to the electric utility sector detracted from performance, as the sector underperformed the general municipal market.

Table of Contents**PIMCO Municipal Income Fund II**Symbol on NYSE - **PML**Allocation Breakdown as of 06/30/2018 [§]

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	22.3%
Highway Revenue Tolls	8.4%
Tobacco Settlement Funded	7.7%
Ad Valorem Property Tax	7.7%
Natural Gas Revenue	6.1%
Industrial Revenue	5.0%
Electric Power & Light Revenue	4.8%
College & University Revenue	4.7%
Miscellaneous Taxes	4.4%
Water Revenue	4.3%
Sewer Revenue	3.5%
Sales Tax Revenue	3.3%
Miscellaneous Revenue	3.3%
Lease (Appropriation)	2.8%
Income Tax Revenue	2.0%
General Fund	1.9%
Appropriations	1.3%
Port, Airport & Marina Revenue	1.1%
Transit Revenue	1.0%
Other	4.3%
Short-Term Instruments	0.1%
% of Investments, at value.	

[§] Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.
Fund Information (as of June 30, 2018)⁽¹⁾

Market Price	\$13.09
NAV	\$11.84
Premium/(Discount) to NAV	10.56%
Market Price Distribution Rate ⁽²⁾	5.96%
NAV Distribution Rate ⁽²⁾	6.59%
Total Effective Leverage ⁽³⁾	48%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2018

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/28/02)
Market Price	2.55%	6.09%	9.07%	6.90%	6.02%
NAV	0.89%	3.91%	7.63%	6.01%	5.70%

All Fund returns are net of fees and expenses.

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* Cumulative return

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- (2) Distribution rates are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or Market Price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the estimated composition of distributions. Please visit www.pimco.com for most recent Section 19 Notice, if applicable. Final determination of a distribution's tax character will be made on Form 1099 DIV sent to shareholders each January.
- (3) Represents total effective leverage outstanding, as a percentage of total managed assets. Total effective leverage consists of preferred shares, reverse repurchase agreements and other borrowings, credit default swap notional and floating rate notes issued in tender option bond transactions, as applicable (collectively Total Effective Leverage). The Fund may engage in other transactions not included in Total Effective Leverage disclosed above that may give rise to a form of leverage, including certain derivative transactions. For the purpose of calculating Total Effective Leverage outstanding as a percentage of total managed assets, total managed assets refer to total assets (including assets attributable to Total Effective Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Total Effective Leverage).

Investment Objective and Strategy Overview

PIMCO Municipal Income Fund II's investment objective is to seek to provide current income exempt from federal income tax.

Fund Insights at NAV

The following affected performance during the reporting period:

- » The Fund's duration exposure detracted from performance, as municipal yields moved higher.
- » Exposure to the tobacco sector contributed to performance, as the sector outperformed the general municipal market.
- » Select exposure to the special tax sector contributed to performance.
- » Select exposure to the pre-refunded sector contributed to performance.
- » Exposure to the electric utility sector detracted from performance, as the sector underperformed the general municipal market.

10 PIMCO CLOSED-END FUNDS

Table of Contents**PIMCO Municipal Income Fund III**Symbol on NYSE - **PMX**Allocation Breakdown as of 06/30/2018 [§]

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	21.1%
Tobacco Settlement Funded	9.0%
Highway Revenue Tolls	6.8%
Natural Gas Revenue	5.9%
Ad Valorem Property Tax	5.8%
College & University Revenue	5.8%
Water Revenue	5.4%
Electric Power & Light Revenue	4.0%
Sewer Revenue	3.7%
General Fund	3.5%
Industrial Revenue	3.2%
Recreational Revenue	3.2%
Sales Tax Revenue	2.9%
Income Tax Revenue	2.8%
Miscellaneous Revenue	2.7%
Appropriations	2.0%
Lease (Appropriation)	1.9%
Port, Airport & Marina Revenue	1.5%
Water Revenue	1.5%
Transit Revenue	1.3%
Nuclear Revenue	1.1%
Other	3.8%
Short-Term Instruments	1.1%
% of Investments, at value.	

[§] Allocation Breakdown and % of Investments exclude securities sold short and financial derivative instruments, if any.
Fund Information (as of June 30, 2018)⁽¹⁾

Market Price	\$11.56
NAV	\$10.79
Premium/(Discount) to NAV	7.14%
Market Price Distribution Rate ⁽²⁾	5.79%
NAV Distribution Rate ⁽²⁾	6.20%
Total Effective Leverage ⁽³⁾	48%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2018

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (10/31/02)
Market Price	2.94%	4.77%	8.05%	5.74%	5.47%
NAV	0.63%	4.10%	8.68%	5.85%	5.54%

All Fund returns are net of fees and expenses.

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* Cumulative return

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- (2) Distribution rates are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or Market Price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the estimated composition of distributions. Please visit www.pimco.com for most recent Section 19 Notice, if applicable. Final determination of a distribution's tax character will be made on Form 1099 DIV sent to shareholders each January.
- (3) Represents total effective leverage outstanding, as a percentage of total managed assets. Total effective leverage consists of preferred shares, reverse repurchase agreements and other borrowings, credit default swap notional and floating rate notes issued in tender option bond transactions, as applicable (collectively Total Effective Leverage). The Fund may engage in other transactions not included in Total Effective Leverage disclosed above that may give rise to a form of leverage, including certain derivative transactions. For the purpose of calculating Total Effective Leverage outstanding as a percentage of total managed assets, total managed assets refer to total assets (including assets attributable to Total Effective Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Total Effective Leverage).

Investment Objective and Strategy Overview

PIMCO Municipal Income Fund III's investment objective is to seek to provide current income exempt from federal income tax.

Fund Insights at NAV

The following affected performance during the reporting period:

- » The Fund's duration exposure detracted from performance, as municipal yields moved higher.
- » Exposure to the tobacco sector contributed to performance, as the sector outperformed the general municipal market.
- » Exposure to the industrial revenue sector contributed to performance, as the sector outperformed the general municipal market.
- » Exposure to the electric utility sector detracted from performance, as the sector underperformed the general municipal market.
- » A modest allocation to U.S. Virgin Islands domiciled securities contributed to performance.

Table of Contents**PIMCO California Municipal Income Fund**Symbol on NYSE - **PCQ**Allocation Breakdown as of 06/30/2018 [§]

Municipal Bonds & Notes	
Health, Hospital & Nursing Home Revenue	23.2%
Ad Valorem Property Tax	20.3%
Tobacco Settlement Funded	10.2%
College & University Revenue	10.0%
Electric Power & Light Revenue	8.2%
Lease (Abatement)	7.3%
Natural Gas Revenue	5.4%
Water Revenue	4.1%
Local or Guaranteed Housing	3.0%
Transit Revenue	2.9%
Port, Airport & Marina Revenue	1.0%
Special Assessment	1.0%
Other	3.4%
% of Investments, at value.	

[§] Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.
Fund Information (as of June 30, 2018)⁽¹⁾

Market Price	\$16.96
NAV	\$13.66
Premium/(Discount) to NAV	24.16%
Market Price Distribution Rate ⁽²⁾	5.45%
NAV Distribution Rate ⁽²⁾	6.76%
Total Effective Leverage ⁽³⁾	51%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2018

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/29/01)
Market Price	1.25%	6.37%	10.42%	8.21%	7.51%
NAV	(0.50)%	2.85%	7.37%	7.55%	6.70%

All Fund returns are net of fees and expenses.

* Cumulative return

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- (2) Distribution rates are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or Market Price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the estimated composition of distributions. Please visit www.pimco.com for most recent Section 19 Notice, if applicable. Final determination of a distribution's tax character will be made on Form 1099 DIV sent to shareholders each January.
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Investment Objective and Strategy Overview

PIMCO California Municipal Income Fund's investment objective is to seek to provide current income exempt from federal and California income tax.

Fund Insights at NAV

The following affected performance during the reporting period:

- » The Fund's duration exposure detracted from performance, as municipal yields moved higher.
- » Exposure to the tobacco sector contributed to performance, as the sector outperformed the general municipal market.
- » Exposure to the lease-backed sector contributed to performance, as the sector outperformed the general municipal market.
- » Select exposure to the pre-refunded sector contributed to performance.
- » Select exposure to the healthcare sector detracted from performance.

12 PIMCO CLOSED-END FUNDS

Table of Contents**PIMCO California Municipal Income Fund II**Symbol on NYSE - **PCK**Allocation Breakdown as of 06/30/2018 [§]

Municipal Bonds & Notes	
Ad Valorem Property Tax	22.5%
Health, Hospital & Nursing Home Revenue	19.7%
College & University Revenue	10.0%
Tobacco Settlement Funded	9.3%
Electric Power & Light Revenue	8.7%
Natural Gas Revenue	7.2%
Tax Increment/Allocation Revenue	4.6%
General Fund	3.0%
Lease (Abatement)	2.7%
Local or Guaranteed Housing	2.5%
Port, Airport & Marina Revenue	2.1%
Water Revenue	1.5%
Highway Revenue Tolls	1.5%
Special Tax	1.3%
Special Assessment	1.0%
Other	2.3%
Short-Term Instruments	0.1%
% of Investments, at value.	

[§] Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.Fund Information (as of June 30, 2018)⁽¹⁾

Market Price	\$8.30
NAV	\$8.42
Premium/(Discount) to NAV	(1.43)%
Market Price Distribution Rate ⁽²⁾	5.06%
NAV Distribution Rate ⁽²⁾	4.99%
Total Effective Leverage ⁽³⁾	46%

Average Annual Total Return⁽¹⁾ for the period ended June 30, 2018

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (06/28/02)
Market Price	(16.30)%	(13.73)%	3.25%	2.61%	3.46%
NAV	(0.66)%				