

PIMCO MUNICIPAL INCOME FUND III  
Form N-Q  
February 24, 2012

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**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, 41 <sup>st</sup> Floor,<br>New York, NY 10019                         |
| Name and Address of Agent for Service:              | Lawrence G. Altadonna<br>1633 Broadway, 41 <sup>st</sup> Floor<br>New York, NY 10019 |
| Registrant's telephone number, including area code: | 212-739-3371   |

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Date of Fiscal Year End:

September 30, 2012

Date of Reporting Period:

December 31, 2011

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q 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 the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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

December 31, 2011 (unaudited)

| Principal<br>Amount<br>(000s)            |  | Value*       |
|--|--|--------------|
| <b>MUNICIPAL BONDS &amp; NOTES 97.2%</b> |  |              |
| <b>Alabama 2.1%</b>                      |  |              |
| \$9,000                                  | Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev.,<br>Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | \$ 8,151,480 |
| 500                                      | Birmingham Special Care Facs. Financing Auth. Rev.,<br>Childrens Hospital, 6.00%, 6/1/39 (AGC)                                       | 550,070      |
| 1,500                                    | Colbert Cnty. Northwest Health Care Auth. Rev., 5.75%, 6/1/27  | 1,440,705    |
| 1,000                                    | State Docks Department Rev., 6.00%, 10/1/40  | 1,066,360    |
|  |  | 11,208,615   |
| <b>Alaska 0.4%</b>                       |  |              |
| 3,100                                    | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A  | 2,145,696    |
| <b>Arizona 6.4%</b>                      |  |              |
|  | Health Facs. Auth. Rev.,<br>Banner Health,   |              |
| 1,250                                    | 5.00%, 1/1/35, Ser. A  | 1,264,812    |
| 900                                      | 5.50%, 1/1/38, Ser. D  | 945,342      |
| 2,250                                    | Beatitudes Campus Project, 5.20%, 10/1/37  | 1,706,828    |
|  | Pima Cnty. Industrial Dev. Auth. Rev.,   |              |
| 13,000                                   | 5.00%, 9/1/39 (f)  | 13,150,150   |
| 750                                      | Tuscon Electric Power Co., 5.25%, 10/1/40, Ser. A  | 754,635      |
| 5,000                                    | Salt River Project Agricultural Improvement & Power Dist. Rev.,<br>5.00%, 1/1/39, Ser. A (f)   | 5,355,700    |
| 11,600                                   | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37  | 10,713,296   |
|  |  | 33,890,763   |
| <b>California 12.9%</b>                  |  |              |
|  | Bay Area Toll Auth. Rev., San Francisco Bay Area,  |              |
| 1,500                                    | 5.00%, 10/1/29   | 1,633,860    |
| 500                                      | 5.00%, 4/1/34, Ser. F-1  | 527,335      |
| 3,260                                    | 5.00%, 10/1/42   | 3,431,835    |
|  | Golden State Tobacco Securitization Corp. Rev., Ser. A-1,  |              |
| 2,000                                    | 5.00%, 6/1/33  | 1,399,160    |
| 4,600                                    | 5.125%, 6/1/47   | 3,004,306    |
| 2,120                                    | 5.75%, 6/1/47  | 1,537,996    |
|  | Health Facs. Financing Auth. Rev.,   |              |
| 2,500                                    | Catholic Healthcare West, 6.00%, 7/1/39, Ser. A  | 2,691,725    |
|  | Sutter Health,   |              |
| 600                                      | 5.00%, 11/15/42, Ser. A (IBC-NPFGC)  | 601,248      |
| 1,500                                    | 6.00%, 8/15/42, Ser. B   | 1,663,590    |

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|       |   |           |
|-------|---|-----------|
| 3,350 | Indian Wells Redev. Agcy., Tax Allocation,<br>Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC) | 2,860,498 |
| 130   | Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC)                             | 136,395   |
| 1,660 | Municipal Finance Auth. Rev., Azusa Pacific Univ. Project,<br>7.75%, 4/1/31, Ser. B             | 1,796,203 |
| 1,250 | Palomar Pomerado Health, CP, 6.75%, 11/1/39   | 1,302,962 |
| 1,600 | San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A<br>State, GO,                        | 1,685,792 |
| 5,000 | 5.00%, 6/1/37   | 5,104,150 |
| 5,300 | 5.00%, 12/1/37  | 5,419,303 |
| 1,350 | 5.25%, 3/1/38   | 1,402,353 |
| 1,300 | 5.25%, 11/1/40  | 1,366,404 |

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

December 31, 2011 (unaudited) (continued)

Principal

Amount

| (000s)  |   | Value*       |
|---------|---|--------------|
|         | <b>California (continued)</b>   |              |
| \$3,200 | 5.50%, 3/1/40   | \$ 3,450,208 |
| 2,500   | 5.75%, 4/1/31   | 2,814,250    |
| 5,000   | 6.00%, 4/1/38   | 5,646,250    |
|         | Statewide Communities Dev. Auth. Rev.,                                    |              |
| 1,000   | American Baptist Homes West, 6.25%, 10/1/39                               | 1,012,710    |
| 2,205   | California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(c)                   | 2,215,606    |
|         | Methodist Hospital Project (FHA),   |              |
| 2,900   | 6.625%, 8/1/29  | 3,512,567    |
| 10,300  | 6.75%, 2/1/38   | 12,046,365   |
| 1,200   | Tobacco Securitization Auth. of Southern California Rev.,                 |              |
|         | 5.00%, 6/1/37, Ser. A-1   | 854,208      |
|         |   | 69,117,279   |
|         | <b>Colorado 0.6%</b>  |              |
| 500     | Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34                        | 381,050      |
| 500     | Health Facs. Auth. Rev., Evangelical Lutheran, 6.125%, 6/1/38, Ser. A     | 505,690      |
| 1,500   | Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. Project, |              |
|         | 5.875%, 6/1/37 (a)(c)   | 992,085      |
| 500     | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38                    | 548,030      |
| 500     | Regional Transportation Dist. Rev.,                                       |              |
|         | Denver Transportation Partners, 6.00%, 1/15/34                            | 514,430      |
|         |   | 2,941,285    |
|         | <b>Connecticut 0.3%</b>   |              |
| 1,250   | Harbor Point Infrastructure Improvement Dist.,                            |              |
|         | Tax Allocation, 7.875%, 4/1/39, Ser. A                                    | 1,367,287    |
|         | <b>District of Columbia 2.1%</b>  |              |
| 10,000  | Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (f)                      | 11,089,500   |
|         | <b>Florida 4.2%</b>   |              |
| 3,480   | Brevard Cnty. Health Facs. Auth. Rev.,                                    |              |
|         | Health First, Inc. Project, 5.00%, 4/1/34                                 | 3,487,621    |
| 500     | Broward Cnty. Airport System Rev., 5.375%, 10/1/29, Ser. O                | 544,295      |
| 4,500   | Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (f)      | 4,901,175    |
| 3,000   | Cape Coral Water & Sewer Rev., 5.00%, 10/1/41 (AGM)                       | 3,124,230    |
| 350     | Dev. Finance Corp. Rev., Renaissance Charter School,                      |              |
|         | 6.50%, 6/15/21, Ser. A  | 354,911      |
| 2,500   | Hillsborough Cnty. Industrial Dev. Auth. Rev.,                            |              |
|         | Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B                    | 2,499,800    |

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|       |   |            |
|-------|---|------------|
| 3,895 | Sarasota Cnty. Health Facs. Auth. Rev.,<br>Sarasota-Manatee Jewish Housing Council, Inc. Project, 5.75%, 7/1/45 | 3,230,201  |
| 4,200 | State Board of Education, GO, 5.00%, 6/1/38, Ser. D (f)   | 4,524,492  |
|       |   | 22,666,725 |
|       | <b>Georgia 0.3%</b>   |            |
| 1,750 | Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev.,<br>Lenbrook Project, 5.125%, 7/1/42, Ser. A     | 1,190,245  |
| 400   | Medical Center Hospital Auth. Rev.,<br>Spring Harbor Green Island Project, 5.25%, 7/1/37                        | 331,256    |
|       |   | 1,521,501  |

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

December 31, 2011 (unaudited) (continued)

Principal

Amount

| (000s)  |   | Value*       |
|---------|---|--------------|
|         | <b>Hawaii 0.3%</b>  |              |
| \$1,500 | Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A                   | \$ 1,524,390 |
|         | <b>Illinois 5.8%</b>  |              |
| 5,000   | Chicago, GO, 5.00%, 1/1/34, Ser. C (f)                              | 5,115,350    |
|         | Finance Auth. Rev.,   |              |
|         | Leafs Hockey Club Project, Ser. A (g),                              |              |
| 1,000   | 5.875%, 3/1/27  | 258,390      |
| 625     | 6.00%, 3/1/37   | 157,250      |
| 400     | OSF Healthcare System, 7.125%, 11/15/37, Ser. A                     | 451,516      |
| 12,795  | Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC)                 | 12,903,501   |
| 1,000   | Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A                   | 1,027,690    |
|         | Univ. of Chicago,   |              |
| 165     | 5.25%, 7/1/41, Ser. 05-A  | 165,987      |
| 5,000   | 5.50%, 7/1/37, Ser. B (f)   | 5,514,950    |
| 5,000   | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B                | 5,395,900    |
|         |   | 30,990,534   |
|         | <b>Indiana 1.0%</b>   |              |
| 500     | Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC)              | 500,115      |
|         | Portage, Tax Allocation, Ameriplex Project,                         |              |
| 1,000   | 5.00%, 7/15/23  | 990,490      |
| 775     | 5.00%, 1/15/27  | 742,582      |
| 2,800   | Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 7.50%, 9/1/22 | 3,269,840    |
|         |   | 5,503,027    |
|         | <b>Iowa 1.8%</b>  |              |
|         | Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A,   |              |
| 120     | 5.50%, 11/15/27   | 91,958       |
| 575     | 5.50%, 11/15/37   | 401,885      |
| 11,010  | Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B                | 9,063,983    |
|         |   | 9,557,826    |
|         | <b>Kentucky 0.8%</b>  |              |
|         | Economic Dev. Finance Auth. Rev.,                                   |              |
| 1,000   | Catholic Healthcare Partners, 5.25%, 10/1/30                        | 1,006,770    |
| 2,000   | Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A        | 2,110,880    |
| 1,250   | Ohio Cnty. Pollution Control Rev.,                                  |              |
|         | Big Rivers Electric Corp. Project, 6.00%, 7/15/31, Ser. A           | 1,304,162    |

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4,421,812

**Louisiana 1.5%**

|       |   |           |
|-------|---|-----------|
|       | Local Gov t Environmental Facs. & Community Dev. Auth. Rev.,          |           |
| 400   | Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2                     | 425,324   |
|       | Woman s Hospital Foundation, Ser. A,                                  |           |
| 1,500 | 5.875%, 10/1/40   | 1,531,170 |
| 1,000 | 6.00%, 10/1/44  | 1,025,850 |
|       | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project,           |           |
| 1,700 | 5.50%, 5/15/47, Ser. B  | 1,702,210 |
| 2,000 | 6.50%, 5/15/37  | 2,158,300 |
| 1,345 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | 1,348,255 |
|       |   | 8,191,109 |



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

December 31, 2011 (unaudited) (continued)

| Principal Amount (000s) |  | Value*       |
|-------------------------|--|--------------|
|                         | <b>Maryland 0.8%</b>   |              |
| \$1,000                 | Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B                              | \$ 1,007,890 |
|                         | Health & Higher Educational Facs. Auth. Rev.,                                |              |
| 1,500                   | Calvert Health System, 5.50%, 7/1/36   | 1,537,785    |
| 700                     | Charlestown Community, 6.25%, 1/1/41   | 741,930      |
| 1,000                   | Lifebridge Health, 6.00%, 7/1/41   | 1,073,260    |
|                         |  | 4,360,865    |
|                         | <b>Massachusetts 1.4%</b>  |              |
|                         | Dev. Finance Agcy. Rev.,   |              |
| 300                     | Adventcare Project, 7.625%, 10/15/37   | 309,912      |
|                         | Linden Ponds, Inc. Fac.,   |              |
| 140                     | zero coupon, 11/15/56, Ser. B  | 1,463        |
| 28                      | 5.50%, 11/15/46, Ser. A-2  | 18,570       |
| 529                     | 6.25%, 11/15/39, Ser. A-1  | 399,897      |
| 4,910                   | Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H                           | 4,928,069    |
| 1,600                   | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A                     | 1,755,200    |
|                         |  | 7,413,111    |
|                         | <b>Michigan 14.6%</b>  |              |
| 500                     | Conner Creek Academy East Rev., 5.25%, 11/1/36                               | 360,520      |
| 1,500                   | Detroit, GO, 5.25%, 11/1/35  | 1,560,015    |
| 9,320                   | Detroit Sewage Disposal System Rev., 5.00%, 7/1/32, Ser. A (AGM)             | 9,382,351    |
|                         | Detroit Water Supply System Rev.,  |              |
| 16,000                  | 5.00%, 7/1/34, Ser. A (NPFGC)  | 15,978,400   |
| 7,555                   | 5.00%, 7/1/34, Ser. B (NPFGC)  | 7,375,569    |
| 10,000                  | 5.25%, 7/1/41, Ser. A  | 10,059,300   |
| 1,500                   | Royal Oak Hospital Finance Auth. Rev.,                                       |              |
|                         | William Beaumont Hospital, 8.25%, 9/1/39                                     | 1,794,540    |
|                         | State Hospital Finance Auth. Rev.,   |              |
| 575                     | Oakwood Group, 6.00%, 4/1/22, Ser. A   | 605,895      |
|                         | Trinity Health,  |              |
| 18,310                  | 5.375%, 12/1/30  | 18,498,410   |
| 1,690                   | 5.375%, 12/1/30 (Pre-refunded @ 100, 12/1/12) (b)                            | 1,767,503    |
| 15,000                  | Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A                 | 10,787,250   |
|                         |  | 78,169,753   |
|                         | <b>Minnesota 0.0%</b>  |              |
| 125                     | Duluth Housing & Redev. Auth. Rev., 5.875%, 11/1/40, Ser. A                  | 115,631      |
|                         | <b>Mississippi 0.2%</b>  |              |
| 1,250                   | Business Finance Corp. Rev., System Energy Res., Inc. Project, 5.90%, 5/1/22 | 1,255,338    |

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**Missouri 0.1%**

|     |   |         |
|-----|---|---------|
| 250 | Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23                        | 227,288 |
| 500 | Manchester, Tax Allocation, Highway 141/Manchester Road Project,<br>6.875%, 11/1/39 | 515,305 |
|     |   | 742,593 |

**New Hampshire 0.4%**

|       |   |           |
|-------|---|-----------|
| 2,000 | Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A | 2,042,360 |
|-------|---|-----------|

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

December 31, 2011 (unaudited) (continued)

| Principal Amount (000s)    |   | Value*     |
|----------------------------|---|------------|
| <b>New Jersey 6.1%</b>     |   |            |
| \$ 1,000                   | Camden Cnty. Improvement Auth. Rev.,<br>Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A   | \$ 890,650 |
| 300                        | Economic Dev. Auth. Rev., Newark Airport Marriott Hotel,<br>7.00%, 10/1/14                    | 300,756    |
| 4,500                      | Economic Dev. Auth., Special Assessment,<br>Kapkowski Road Landfill Project, 6.50%, 4/1/28    | 4,818,645  |
| 1,000                      | Health Care Facs. Financing Auth. Rev.,<br>St. Peters Univ. Hospital, 5.75%, 7/1/37           | 1,004,280  |
| 1,600                      | Tobacco Settlement Financing Corp. Rev., Ser. 1-A,<br>4.75%, 6/1/34                           | 1,150,352  |
| 22,645                     | 5.00%, 6/1/41   | 16,332,933 |
| 8,000                      | Transportation Trust Fund Auth. Rev., 5.00%, 6/15/42, Ser. B                                  | 8,292,320  |
|                            |   | 32,789,936 |
| <b>New Mexico 0.2%</b>     |   |            |
| 1,000                      | Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D                                      | 1,025,220  |
| <b>New York 11.7%</b>      |   |            |
| 9,800                      | Brooklyn Arena Local Dev. Corp. Rev.,<br>Barclays Center Project, 6.25%, 7/15/40              | 10,245,802 |
| 5,000                      | Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A<br>Liberty Dev. Corp. Rev.,    | 5,408,300  |
| 10,000                     | 1 World Trade Center Project, 5.00%, 12/15/41   | 10,720,300 |
| 8,555                      | 4 World Trade Center Project, 5.00%, 11/15/44   | 8,714,636  |
| 1,700                      | Goldman Sachs Headquarters, 5.50%, 10/1/37  | 1,784,167  |
| 3,000                      | Metropolitan Transportation Auth. Rev., 5.00%, 11/15/36, Ser. D                               | 3,130,380  |
| 1,150                      | Nassau Cnty. Industrial Dev. Agcy. Rev.,<br>Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A    | 915,630    |
| 10,450                     | New York City Industrial Dev. Agcy. Rev.,<br>Yankee Stadium, 7.00%, 3/1/49 (AGC)              | 11,984,165 |
| 4,900                      | New York City Municipal Water Finance Auth. Water & Sewer Rev. (f),<br>5.00%, 6/15/37, Ser. D | 5,187,042  |
| 4,000                      | Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD  | 4,169,320  |
|                            |   | 62,259,742 |
| <b>North Carolina 1.5%</b> |   |            |
| 1,500                      | Medical Care Commission Rev., Cleveland Cnty. Healthcare,<br>5.00%, 7/1/35, Ser. A (AMBAC)    | 1,499,985  |
| 6,000                      | New Hanover Cnty. Rev., New Hanover Regional Medical Center,<br>5.00%, 10/1/28                | 6,301,680  |
|                            |   | 7,801,665  |
| <b>Ohio 1.2%</b>           |   |            |

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|       |  |           |
|-------|--|-----------|
| 500   | Allen Cnty. Catholic Healthcare Rev.,<br>Allen Hospital, 5.00%, 6/1/38, Ser. A | 508,560   |
| 2,400 | Buckeye Tobacco Settlement Financing Auth. Rev.,<br>5.875%, 6/1/30, Ser. A-2   | 1,786,536 |
|       | Higher Educational Fac. Commission Rev.,                                       |           |
| 250   | Ashland Univ. Project, 6.25%, 9/1/24   | 256,180   |

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

December 31, 2011 (unaudited) (continued)

| Principal Amount<br>(000s) |   | Value*     |
|----------------------------|---|------------|
|                            | <b>Ohio (continued)</b>   |            |
| \$500                      | Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. 2009-A              | \$ 531,505 |
| 2,500                      | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30        | 2,522,250  |
| 500                        | Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A   | 524,170    |
|                            |   | 6,129,201  |
|                            | <b>Pennsylvania 2.8%</b>  |            |
|                            | Allegheny Cnty. Hospital Dev. Auth. Rev.,                               |            |
| 1,000                      | Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39                     | 1,070,440  |
| 1,000                      | West Penn Allegheny Health System, 5.375%, 11/15/40, Ser. A             | 803,790    |
|                            | Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A, |            |
| 750                        | 5.625%, 7/1/28  | 708,810    |
| 670                        | 6.00%, 7/1/35   | 633,773    |
| 1,000                      | Dauphin Cnty. General Auth. Rev.,                                       |            |
|                            | Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A                   | 1,048,600  |
| 1,250                      | Harrisburg Auth. Rev., Harrisburg Univ. of Science,                     |            |
|                            | 6.00%, 9/1/36, Ser. B   | 1,013,212  |
| 100                        | Luzerne Cnty. Industrial Dev. Auth. Rev.,                               |            |
|                            | Pennsylvania American Water Co., 5.50%, 12/1/39                         | 107,481    |
| 5,885                      | Philadelphia Hospitals & Higher Education Facs. Auth. Rev.,             |            |
|                            | Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A                         | 5,890,179  |
| 500                        | Philadelphia Water and Sewer Rev., 5.25%, 1/1/36, Ser. A                | 527,175    |
| 3,000                      | Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D                       | 3,077,280  |
|                            |   | 14,880,740 |
|                            | <b>Puerto Rico 1.1%</b>   |            |
|                            | Sales Tax Financing Corp. Rev.,   |            |
| 2,400                      | 5.00%, 8/1/40, Ser. A (AGM) (f)   | 2,465,664  |
| 3,000                      | 5.375%, 8/1/38, Ser. C  | 3,152,220  |
|                            |   | 5,617,884  |
|                            | <b>South Carolina 1.4%</b>  |            |
| 1,000                      | Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39         | 1,031,510  |
| 5,305                      | Jobs-Economic Dev. Auth. Rev.,  |            |
|                            | Bon Secours Health System, 5.625%, 11/15/30, Ser. B                     | 5,353,169  |
| 800                        | State Ports Auth. Rev., 5.25%, 7/1/40                                   | 854,744    |
|                            |   | 7,239,423  |
|                            | <b>Tennessee 0.4%</b>   |            |
| 1,250                      | Claiborne Cnty. Industrial Dev. Board Rev.,                             |            |
|                            | Lincoln Memorial Univ. Project, 6.625%, 10/1/39                         | 1,333,475  |
| 1,000                      | Johnson City Health & Educational Facs. Board Rev.,                     |            |
|                            | Mountain States Health Alliance, 6.00%, 7/1/38, Ser. A                  | 1,034,230  |

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|  |           |
|--|-----------|
|  | 2,367,705 |
|--|-----------|

**Texas 8.0%**

|       |  |           |
|-------|--|-----------|
| 1,300 | Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC) | 1,388,946 |
|       | North Harris Cnty. Regional Water Auth. Rev.,          |           |
| 5,500 | 5.25%, 12/15/33  | 5,892,480 |
| 5,500 | 5.50%, 12/15/38  | 5,930,100 |

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

December 31, 2011 (unaudited) (continued)

Principal

Amount

| (000s)  |   | Value*       |
|---------|---|--------------|
|         | <b>Texas (continued)</b>  |              |
|         | North Texas Tollway Auth. Rev.,   |              |
| \$3,000 | 5.00%, 1/1/38   | \$ 3,052,140 |
| 600     | 5.50%, 9/1/41, Ser. A   | 662,358      |
| 10,800  | 5.625%, 1/1/33, Ser. A  | 11,548,440   |
| 700     | 5.75%, 1/1/33, Ser. F   | 733,516      |
| 2,000   | Sabine River Auth. Pollution Control Rev., 5.20%, 5/1/28, Ser. C  | 320,220      |
| 3,000   | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev.,<br>Baylor Health Care Systems Project, 6.25%, 11/15/29 | 3,409,050    |
|         | Texas Municipal Gas Acquisition & Supply Corp. I Rev.,  |              |
| 150     | 5.25%, 12/15/26, Ser. A   | 148,922      |
| 8,100   | 6.25%, 12/15/26, Ser. D   | 8,825,760    |
| 500     | Wise Cnty. Rev., Parker Cnty. Junior College Dist., 8.00%, 8/15/34  | 531,980      |
|         |   | 42,443,912   |
|         | <b>Virginia 0.3%</b>  |              |
| 1,000   | Fairfax Cnty. Industrial Dev. Auth. Rev.,<br>Inova Health Systems, 5.50%, 5/15/35, Ser. A                         | 1,094,110    |
| 1,000   | James City Cnty. Economic Dev. Auth. Rev.,<br>United Methodist Homes, 5.50%, 7/1/37, Ser. A                       | 639,120      |
|         |   | 1,733,230    |
|         | <b>Washington 3.9%</b>  |              |
|         | Health Care Facs. Auth. Rev.,   |              |
| 500     | Kadlec Regional Medical Center, 5.50%, 12/1/39  | 489,500      |
| 1,000   | Seattle Cancer Care Alliance, 7.375%, 3/1/38  | 1,127,210    |
| 19,000  | Tobacco Settlement Auth. Rev., 6.50%, 6/1/26  | 19,362,900   |
|         |   | 20,979,610   |
|         | <b>West Virginia 0.2%</b>   |              |
| 1,000   | Hospital Finance Auth. Rev., Highland Hospital, 9.125%, 10/1/41   | 1,092,440    |
|         | <b>Wisconsin 0.4%</b>   |              |
|         | Health & Educational Facs. Auth. Rev.,  |              |
| 1,000   | Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A   | 1,032,960    |
| 1,000   | Prohealth Care, Inc., 6.625%, 2/15/39   | 1,103,720    |
|         |   | 2,136,680    |
|         | Total Municipal Bonds & Notes (cost \$502,298,828)  | 518,734,388  |

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**VARIABLE RATE NOTES** (a)(c)(d)(e) 2.8%

| <b>California 0.4%</b>  |   |                       |
|---|---|-----------------------|
| 1,675   | Los Angeles Community College Dist., GO, 11.71%, 8/1/33, Ser. 3096  | 1,986,047             |
| <b>Florida 1.0%</b>   |   |                       |
| 5,000   | Greater Orlando Aviation Auth. Rev., 8.01%, 10/1/39, Ser. 3174      | 5,366,400             |
| <b>Texas 1.4%</b>   |   |                       |
| 6,500   | JPMorgan Chase Putters/Drivers Trust, GO, 8.017%, 2/1/17, Ser. 3480 | 7,840,430             |
| Total Variable Rate Notes (cost \$13,075,330)                   |   | 15,192,877            |
| <b>Total Investments</b> (cost \$515,374,158) (h) <b>100.0%</b> |   | <b>\$ 533,927,265</b> |



**Notes to Schedule of Investments:**

\* Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services.

Portfolio securities and other financial instruments for which market quotations are not readily available, or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. 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. 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 \$18,400,568, representing 3.4% of total investments.
- (b) Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding date (payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate).
- (c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (d) 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, 2011.
- (e) 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, 2011.
- (f) 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/each Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (g) In default.
- (h) At December 31, 2011, the cost basis of portfolio securities for federal income tax purposes was \$482,394,105. Gross unrealized appreciation was \$33,461,883, gross unrealized depreciation was \$14,115,883 and net unrealized appreciation was \$19,346,000. The difference between book and tax cost was attributable to inverse floater transactions.

**Glossary:**

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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 (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) or quotes from inactive exchanges

Level 3 valuations based on significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

An investment asset's or liability's level within the fair value hierarchy is based on the lowest level input, individually or in the aggregate, that is significant to 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 technique used.

The valuation techniques used by the Fund to measure fair value during the three months ended December 31, 2011 maximized the use of observable inputs and minimized the use of unobservable inputs.

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 and 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 or note, state of issuance, benchmark yield curves, and bond or note insurance. To the extent that these inputs are observable, the values of municipal bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

The Fund's policy is to recognize transfers between levels at the end of the reporting period.

A summary of the inputs used at December 31, 2011 in valuing the Fund's assets and liabilities is listed below (refer to the Schedule of Investments for detailed information on Investments in Securities):

|   | Level 1<br>Quoted Prices | Level 2<br>Other Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs | Value at<br>12/31/11 |
|---|--------------------------|--|--|----------------------|
| <b>Investments in Securities Assets</b> |                          |  |  |                      |
| Municipal Bonds & Notes                 |                          | \$ 518,734,388                                       |  | \$ 518,734,388       |
| Variable Rate Notes                     |                          | 15,192,877   |  | 15,192,877           |
| <b>Total Investments</b>                |                          | \$ 533,927,265                                       |  | \$ 533,927,265       |

There were no significant transfers between Levels 1 and 2 during the three months ended December 31, 2011.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the three months ended December 31, 2011, was as follows:

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|                                  | Beginning<br>Balance<br>9/30/11 | Purchases | Sales        | Accrued<br>Discounts<br>(Premiums) | Net<br>Realized<br>Gain (Loss) | Net Change<br>in Unrealized<br>Appreciation/<br>Depreciation | Transfers<br>into<br>Level<br>3 | Transfers<br>out of<br>Level 3* | Ending<br>Balance<br>12/31/11 |
|----------------------------------|---------------------------------|-----------|--------------|------------------------------------|--------------------------------|--|---------------------------------|---------------------------------|-------------------------------|
| <b>Investments in Securities</b> | <b>Assets</b>                   |           |              |                                    |                                |  |                                 |                                 |                               |
| Municipal Bonds &<br>Notes:      |                                 |           |              |                                    |                                |  |                                 |                                 |                               |
| California                       | \$ 2,313,600                    |           | \$ (205,000) |                                    |                                | \$ 107,006   |                                 | \$ (2,215,606)                  |                               |

\* Transferred out of Level 3 into Level 2 because sufficient observable inputs were available.

**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  
President & Chief Executive Officer

Date: February 24, 2012

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

Date: February 24, 2012

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  
President & Chief Executive Officer

Date: February 24, 2012

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

Date: February 24, 2012