

PIMCO MUNICIPAL INCOME FUND III

Form N-CSRS

May 29, 2015

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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)

William G. Galipeau

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: September 30

Date of reporting period: March 31, 2015

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.

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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).

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Your Global Investment Authority

PIMCO Closed-End Funds

Semiannual Report

March 31, 2015

PIMCO Municipal Income Fund III

PIMCO California Municipal Income Fund III

PIMCO New York Municipal Income Fund III

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Letter from the Chairman of the Board & President

Dear Shareholder:

Despite periods of volatility, municipal bonds produced solid results during the fiscal six months ended March 31, 2015. Even though the U.S. economy continued to expand and the unemployment rate declined, Treasury yields moved lower during the reporting period. Investor demand for municipal securities was positive overall amid generally strengthening fundamentals and improving state balance sheets. Against this backdrop, the overall municipal bond market, as measured by the Barclays Municipal Bond Index, gained 2.40% during the reporting period. The index posted positive returns during five of the six months of the period.

For the six-month reporting period ended March 31, 2015

In contrast to other developed countries that experienced weak growth or fell into recession, the U.S. economy was resilient during the reporting period. Looking back, U.S. gross domestic product (GDP), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, expanded at a 5.0% annual pace during the third quarter of 2014 – its strongest growth rate since the third quarter of 2003. GDP then expanded at an annual pace of 2.2% during the fourth quarter of 2014. Decelerating growth was partially attributed to an upturn in imports and moderating federal government spending. According to the Commerce Department’s initial estimate released on April 29, 2015, GDP expanded at an annual pace of 0.2% for the first quarter of 2015. Moderating growth was due to several factors, including slower consumer spending, as it grew a modest 1.9% during the first quarter of 2015, versus 4.4% for the fourth quarter of 2014.

Federal Reserve (Fed) monetary policy remained accommodative during the reporting period. However, the central bank appeared to be moving closer to raising interest rates for the first time since 2006. As expected, following its meeting in October 2014, the Fed announced that it had concluded its asset purchase program. Then, at its March 2015 meeting, the Fed eliminated the word “patient” from its official statement regarding when it may start raising rates. In terms of when it would begin tightening monetary policy, the Fed said that it “anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.

Outlook

PIMCO’s baseline view is that the U.S. is on track for solid growth in the range of 2.5% to 3% in 2015. This outlook reflects the firm’s expectation for robust consumption growth, supported by a strengthening labor market and a boost to real income from low commodity prices. However, against this positive outlook for

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consumption, PIMCO is weighing the potential negatives of sluggish export growth held back by the stronger U.S. dollar, as well as the likelihood that capital expenditure spending will be held back by a slowdown in investment in the energy sector. While PIMCO believes that headline inflation may briefly turn negative due to the year-over-year decline in oil prices, it expects core inflation to bottom out near current levels and to rebound later in 2015. In terms of the Fed, PIMCO believes that the central bank will likely commence a rate hike cycle later this year. That said, in PIMCO's view, this hiking cycle will differ from previous Fed rate hike cycles both in terms of pace—slower—and in terms of the destination—lower.

In the following pages of this PIMCO Closed-End Funds Semiannual Report, please find specific details regarding investment performance and a discussion of factors that most affected the Funds' performance over the six-month reporting period ended March 31, 2015.

Thank you for investing with us. We value your trust and will continue to work diligently to meet your investment needs. If you have questions regarding any of your PIMCO Closed-End Funds investments, please contact your financial advisor or call the Funds' shareholder servicing agent at (844) 33-PIMCO or (844) 337-4626. We also invite you to visit our website at pimco.com/investments to learn more about our views and global thought leadership.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess
Chairman of the Board of Trustees

Peter G. Strelow
President/Principal Executive Officer

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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 trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by a Fund are likely to decrease in value. A number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). Accordingly, changes in interest rates can be sudden, and there is no guarantee that Fund Management will anticipate such movement.

As of the date of this report, interest rates in the U.S. are at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with rising interest rates. This is especially true since the Federal Reserve Board has concluded its quantitative easing program. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to make markets in corporate bonds. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets, which could result in increased losses to a Fund. Bond funds and individual bonds with a longer duration (a measure of 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.

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, management risk and the risk that a Fund could not close out a position when it would be most advantageous to do so. 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 a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility in a Fund's net asset value. A Fund may engage in such transactions regardless of whether the Fund owns the asset, instrument or components of the index underlying a 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 directly 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 to the Fund of leverage 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

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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.

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. Regulators recently finalized rules implementing Section 619 (the Volcker Rule) and Section 941 (the Risk Retention Rules) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Both the Volcker Rule and the Risk Retention Rules apply to tender option bond programs and require that such programs be restructured. The results of these rules are not certain, and there can be no assurance that appropriate restructuring of existing trusts, will be possible. Because of the role that tender option bond programs play in the municipal bond market, it is possible that implementation of these rules may adversely impact the municipal bond market. For example, as a result of the implementation of these rules, the municipal bond market may experience reduced demand or liquidity and increased financing costs. 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 reduce leverage and 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 such markets. Thus, high-yield investments increase the chance that a Fund will lose money on its investment.

The Funds may hold defaulted securities that may involve special considerations including bankruptcy proceedings, other regulatory and legal restrictions affecting the Fund's ability to trade, and the availability of prices from independent pricing services or dealer quotations. Defaulted securities are often illiquid and may not be actively traded. Sale 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.

A Fund that concentrates its investments in 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

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Important Information About the Funds (Cont.)

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.

A Fund that concentrates its investments in 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 a 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 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 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 in addition to those described above. Some of these risks may include, but are not limited to, the following: asset allocation risk, credit risk, stressed securities risk, distressed and defaulted securities risk, corporate bond 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, foreign (non-U.S.) investment risk, emerging markets 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

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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 Common Share Average Annual Total Return table and Common Share Cumulative Return (if applicable) measure 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 a Fund's shares, or changes in a Fund's dividends. Performance shown is net of fees and expenses.

The following table discloses the commencement of operations of each Fund:

Name of Fund	Commencement of Operations
PIMCO Municipal Income Fund III	10/31/02
PIMCO California Municipal Income Fund III	10/31/02
PIMCO New York Municipal Income Fund III	10/31/02

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.

PIMCO has adopted written proxy voting policies and procedures (Proxy Policy) as required by Rule 206(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/investments, 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/investments. Updated portfolio holdings information about a Fund will be available at www.pimco.com/closedendfunds 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.

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PIMCO Municipal Income Fund III

Symbol on NYSE - **PMX**

Allocation Breakdown

California	17.3%
New York	13.1%
Texas	11.1%
Alabama	10.5%
Ohio	6.9%
Arizona	5.8%
South Carolina	5.0%
Other	30.3%

% of Investments, at value as of 03/31/15

Fund Information (as of March 31, 2015)⁽¹⁾

Market Price	\$11.56
NAV	\$11.12
Premium/Discount	3.96%
Market Price Distribution Yield ⁽²⁾	6.47%
NAV Distribution Yield ⁽²⁾	6.72%
Leverage Ratio ⁽³⁾	37.50%

Average Annual Total Return for the period ended March 31, 2015

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (10/31/2002)
Market Price	11.63%	11.86%	9.18%	5.28%	5.19%
NAV	6.73%	17.93%	11.56%	4.97%	5.51%

All Fund returns are net of fees and expenses.

* 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. Total return, market price, NAV, market price distribution yield, and NAV distribution yield will fluctuate with changes in market conditions. For performance current to the most recent month-end, visit www.pimco.com or call (844) 33-PIMCO.
- (2) Distribution yields 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, 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 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 leverage outstanding, as a percentage of total managed assets. Leverage may include preferred shares, tender option bond transactions, reverse repurchase agreements, and other borrowings (collectively Leverage). Total managed assets refer to total assets (including assets attributable to Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Leverage).

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Portfolio Insights

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

- » The municipal bond market generated a positive return during the six-month reporting period ended March 31, 2015. The overall municipal market, as measured by the Barclays Municipal Bond Index (the Index), posted positive returns during five of the six months of the reporting period. Supporting the municipal market during those months were generally improving fundamentals, attractive valuations and falling longer-term interest rates. In addition, investor demand was largely solid. The municipal market's only setback occurred in February 2015, as interest rates moved higher and negatively impacted bond prices. However, this proved to be a temporary setback as the Index again rallied in March. The Index gained 2.40% during the six months ended March 31, 2015. In comparison, the overall taxable fixed income market, as measured by the Barclays U.S. Aggregate Bond Index, gained 3.43%.

- » The Fund's overweight effective duration position relative to the Index contributed to performance as municipal yields moved lower across the curve.

- » The Fund's overweight exposure in the Revenue-Backed sector was beneficial to results as the sector outperformed the Index.

- » The Fund's overweight exposures in the Tobacco and Industrial Revenue sectors contributed to performance as the sectors outperformed the Index.

- » The Fund's underweight exposure to the Transportation sector detracted from results as it outperformed the Index.

- » The Fund's select exposure to the Lease-Backed sector detracted from results versus the Index.

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PIMCO California Municipal Income Fund III

Symbol on NYSE - **PZC**

Allocation Breakdown

California	93.9%
Short-Term Instruments	3.8%
Indiana	1.3%
New York	0.8%
New Jersey	0.2%

% of Investments, at value as of 03/31/15
Fund Information (as of March 31, 2015)⁽¹⁾

Market Price	\$10.89
NAV	\$10.26
Premium/(Discount) to NAV	6.14%
Market Price Distribution Yield ⁽²⁾	6.61%
NAV Distribution Yield ⁽²⁾	7.02%
Leverage Ratio ⁽³⁾	40.55%

Average Annual Total Return for the period ended March 31, 2015

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (10/31/02)
Market Price	8.40%	17.21%	11.39%	4.55%	4.47%
NAV	6.07%	15.70%	10.87%	3.73%	4.46%

All Fund returns are net of fees and expenses.

*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. Total return, market price, NAV, market price distribution yield, and NAV distribution yield will fluctuate with changes in market conditions. For performance current to the most recent month-end, visit www.pimco.com or call (844) 33-PIMCO.
- (2) Distribution yields 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, 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 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 leverage outstanding, as a percentage of total managed assets. Leverage may include preferred shares, tender option bond transactions, reverse repurchase agreements, and other borrowings (collectively Leverage). Total managed assets refer to total assets (including assets attributable to Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Leverage).

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Portfolio Insights

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

- » The municipal bond market generated a positive return during the six-month reporting period ended March 31, 2015. The overall municipal market, as measured by the Barclays Municipal Bond Index (the Index), posted positive returns during five of the six months of the reporting period. Supporting the municipal market during those months were generally improving fundamentals, attractive valuations and falling longer-term interest rates. In addition, investor demand was largely solid. The municipal market's only setback occurred in February 2015, as interest rates moved higher and negatively impacted bond prices. However, this proved to be a temporary setback as the Index again rallied in March. The Index gained 2.40% during the six months ended March 31, 2015. In comparison, the overall taxable fixed income market, as measured by the Barclays U.S. Aggregate Bond Index, gained 3.43%.

- » The Fund's overweight effective duration position relative to the Index contributed to performance as municipal yields moved lower across the curve.

- » The Fund's overweight exposure in the Revenue-Backed sector was beneficial to results as the sector outperformed the Index.

- » The Fund's overweight exposures in the Tobacco and Health Care sectors contributed to performance as the sectors outperformed the Index.

- » The Fund's underweight exposures to the Transportation and Water and Sewer sectors detracted from results as they outperformed the Index.

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PIMCO New York Municipal Income Fund III

Symbol on NYSE - **PYN**

Allocation Breakdown

New York	94.3%
Short-Term Instruments	3.2%
Ohio	1.9%
U.S. Virgin Islands	0.6%

% of Investments, at value as of 03/31/15

Fund Information (as of March 31, 2015)⁽¹⁾

Market Price	\$10.03
NAV	\$9.64
Premium/(Discount) to NAV	4.05%
Market Price Distribution Yield ⁽²⁾	6.28%
NAV Distribution Yield ⁽²⁾	6.54%
Leverage Ratio ⁽³⁾	40.34%

Average Annual Total Return for the period ended March 31, 2015

	6 Month*	1 Year	5 Year	10 Year	Commencement of Operations (10/31/02)
Market Price	9.20%	15.88%	8.72%	3.05%	3.26%
NAV	5.65%	16.92%	8.95%	2.03%	3.32%

All Fund returns are net of fees and expenses.

*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. Total return, market price, NAV, market price distribution yield, and NAV distribution yield will fluctuate with changes in market conditions. For performance current to the most recent month-end, visit www.pimco.com or call (844) 33-PIMCO.
- (2) Distribution yields 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, 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 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 leverage outstanding, as a percentage of total managed assets. Leverage may include preferred shares, tender option bond transactions, reverse repurchase agreements, and other borrowings (collectively "Leverage"). Total managed assets refer to total assets (including assets attributable to Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Leverage).

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Portfolio Insights

- » PIMCO New York Municipal Income Fund III's primary investment objective is to seek current income exempt from federal, New York State and New York City income tax.

- » The municipal bond market generated a positive return during the six-month reporting period ended March 31, 2015. The overall municipal market, as measured by the Barclays Municipal Bond Index (the Index), posted positive returns during five of the six months of the reporting period. Supporting the municipal market during those months were generally improving fundamentals, attractive valuations and falling longer-term interest rates. In addition, investor demand was largely solid. The municipal market's only setback occurred in February 2015, as interest rates moved higher and negatively impacted bond prices. However, this proved to be a temporary setback as the Index again rallied in March. The Index gained 2.40% during the six months ended March 31, 2015. In comparison, the overall taxable fixed income market, as measured by the Barclays U.S. Aggregate Bond Index, gained 3.43%.

- » The Fund's overweight effective duration position relative to the Index contributed to performance as municipal yields moved lower across the curve.

- » The Fund's overweight exposure in the Revenue-Backed sector was beneficial for results as the sector outperformed the Index.

- » The Fund's overweight exposures in the Tobacco and Industrial Revenue sectors contributed to performance as the sectors outperformed the Index.

- » The Fund's select exposure to the Special Tax sector detracted from results versus the Index.

- » The Fund's underweight exposures to the Water and Sewer and Transportation sectors detracted from results as they outperformed the Index.

Table of Contents**Financial Highlights**

Selected Per Common Share Data for the Year or Period Ended:	Net Asset Value Beginning of Year or Period	Net Investment Income (a)	Net Realized/ Unrealized/ Gain (Loss)	Net Increase (Decrease) from Investment Operations	Distributions on Preferred Shares from Net Investment Income	Net Increase (Decrease) in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	Distributions to Common Shareholders from Net Investment Income
PIMCO Municipal Income Fund III							
03/31/2015+	\$ 10.78	\$ 0.38	\$ 0.33	\$ 0.71	\$ (0.00) [^]	\$ 0.71	\$ (0.37)
09/30/2014	9.58	0.75	1.25	2.00	(0.01)	1.99	(0.79)
09/30/2013	11.02	0.75	(1.34)	(0.59)	(0.01)	(0.60)	(0.84)
09/30/2012	9.69	0.83	1.35	2.18	(0.01)	2.17	(0.84)
09/30/2011	10.29	0.87	(0.61)	0.26	(0.02)	0.24	(0.84)
09/30/2010	10.16	0.86	0.13	0.99	(0.02)	0.97	(0.84)
PIMCO California Municipal Income Fund III							
03/31/2015+	\$ 10.02	\$ 0.34	\$ 0.26	\$ 0.60	\$ (0.00) [^]	\$ 0.60	\$ (0.36)
09/30/2014	9.09	0.69	0.97	1.66	(0.01)	1.65	(0.72)
09/30/2013	10.23	0.79	(1.20)	(0.41)	(0.01)	(0.42)	(0.72)
09/30/2012	9.08	0.81	1.07	1.88	(0.01)	1.87	(0.72)
09/30/2011	9.65	0.77	(0.60)	0.17	(0.02)	0.15	(0.72)
09/30/2010	9.55	0.76	0.08	0.84	(0.02)	0.82	(0.72)
PIMCO New York Municipal Income Fund III							
03/31/2015+	\$ 9.43	\$ 0.29	\$ 0.24	\$ 0.53	\$ (0.00) [^]	\$ 0.53	\$ (0.32)
09/30/2014	8.51	0.56	1.00	1.56	(0.01)	1.55	(0.63)
09/30/2013	9.65	0.62	(1.12)	(0.50)	(0.01)	(0.51)	(0.63)
09/30/2012	8.82	0.77	0.70	1.47	(0.01)	1.46	(0.63)
09/30/2011	9.38	0.69	(0.60)	0.09	(0.02)	0.07	(0.63)
09/30/2010	9.10	0.66	0.27	0.93	(0.02)	0.91	(0.63)

+ Unaudited

* Annualized

[^] Reflects an amount rounding to less than one cent.

(a) Per share amounts based on average number of common shares outstanding during the year or period.

(b) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year or period reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Funds' dividend reinvestment plan. Total investment return does not reflect brokerage commissions in connection with the purchase or sale of Fund shares.

(c) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.

(d) Interest expense primarily relates to participation in borrowing and financing transactions, see Note 5 in the Notes to Financial Statements for more information.

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See Accompanying Notes

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Net Asset Value End of Year or Period	Market Price End of Year or Period	Total Investment Return (b)	Net Assets Applicable to Common Shareholders End of Year or Period (000s)	Ratio of Expenses to Average Net Assets (c)(d)	Ratio of Expenses to Average Net Assets Excluding Waivers (c)	Ratio of Expenses to Average Net Assets Excluding Interest Expense (c)	Ratio of Expenses to Average Net Assets Excluding Interest Expense and Waivers (c)	Ratio of Net Investment Income to Average Net Assets	Preferred Shares	Asset Coverage Per Share	Portfolio Turnover Rate
\$ 11.12	\$ 11.56	11.63%	\$ 362,559	1.24%*	1.24%*	1.17%*	1.17%*	7.01%*	\$ 72,957		1%
10.78	10.71	10.69	351,139	1.29	1.29	1.23	1.23	7.47	71,447		15
9.58	10.45	(15.39)	311,231	1.27	1.27	1.20	1.20	7.04	66,168		20
11.02	13.31	33.20	357,139	1.27	1.33	1.17	1.23	8.00	72,239		25
9.69	10.75	2.01	313,021	1.44	1.46	1.28	1.30	9.39	66,404		14
10.29	11.45	9.90	330,840	1.40	1.41	1.26	1.27	8.78	68,760		7
\$ 10.26	\$ 10.89	8.40%	\$ 226,848	1.40%*	1.40%*	1.21%*	1.21%*	6.60%*	\$ 70,369		9%
10.02	10.40	19.73	221,415	1.37	1.37	1.26	1.26	7.29	69,282		11
9.09	9.36	(13.98)	200,245	1.35	1.35	1.25	1.25	7.93	65,409		25
10.23	11.68	31.62	224,596	1.34	1.40	1.20	1.26	8.40	69,918		10
9.08	9.53	(0.47)	198,748	1.48	1.50	1.32	1.34	9.01	64,749		11
9.65	10.39	11.94	210,317	1.45	1.46	1.31	1.32	8.39	67,061		3
\$ 9.64	\$ 10.03	9.20%	\$ 54,642	1.57%*	1.57%*	1.50%*	1.50%*	5.98%*	\$ 67,689		7%
9.43	9.49	9.47	53,369	1.66	1.66	1.60	1.60	6.31	66,695		24
8.51	9.30	(6.83)	48,007	1.65	1.65	1.56	1.56	6.72	62,505		17
9.65	10.66	26.56	54,327	1.64	1.70	1.50	1.56	8.42	67,441		16
8.82	9.00	(1.27)	49,490	1.73	1.75	1.58	1.60	8.07	63,663		9
9.38	9.81	8.98	52,400	1.66	1.67	1.56	1.57	7.39	65,936		12

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Table of Contents**Statements of Assets and Liabilities**

(Unaudited)

March 31, 2015

(Amounts in thousands, except per share amounts)	PIMCO Municipal Income Fund III	PIMCO California Municipal Income Fund III	PIMCO New York Municipal Income Fund III
Assets:			
<i>Investments, at value</i>			
Investments in securities*	\$ 573,448	\$ 393,446	\$ 91,486
Cash	365	594	547
Receivable for investments sold	60	35	0
Interest receivable	8,802	5,237	1,168
Other assets	5	3	1
	582,680	399,315	93,202
Liabilities:			
<i>Borrowings & Other Financing Transactions</i>			
Payable for tender option bond floating rate certificates	\$ 28,512	\$ 29,711	\$ 4,945
Payable for investments purchased	0	15,939	1,151
Distributions payable to common shareholders	2,032	1,327	298
Distributions payable to preferred shareholders	2	2	0
Accrued management fees	319	206	61
Other liabilities	256	282	105
	31,121	47,467	6,560
Preferred Shares (\$0.00001 par value and \$25,000 liquidation preference per share applicable to an aggregate of 7,560, 5,000 and 1,280 shares issued and outstanding, respectively)	189,000	125,000	32,000
Net Assets Applicable to Common Shareholders	\$ 362,559	\$ 226,848	\$ 54,642
Composition of Net Assets Applicable to Common Shareholders:			
Common Shares:			
Par value (\$0.00001 per share)	\$ 0	\$ 0	\$ 0
Paid in capital in excess of par	435,778	290,795	75,797
Undistributed (overdistributed) net investment income	(687)	5,742	1,203
Accumulated net realized (loss)	(142,663)	(110,951)	(31,033)
Net unrealized appreciation	70,131	41,262	8,675
	\$ 362,559	\$ 226,848	\$ 54,642
Common Shares Issued and Outstanding	32,616	22,112	5,667
Net Asset Value Per Common Share	\$ 11.12	\$ 10.26	\$ 9.64
Cost of Investments in securities	\$ 503,418	\$ 352,227	\$ 82,808
* Includes repurchase agreements of:	\$ 0	\$ 8,300	\$ 2,400

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

Table of Contents**Statements of Operations**

Six Months Ended March 31, 2015 (Unaudited)

(Amounts in thousands)	PIMCO Municipal Income Fund III	PIMCO California Municipal Income Fund III	PIMCO New York Municipal Income Fund III
Investment Income:			
Interest	\$ 14,776	\$ 9,009	\$ 2,042
Total Income	14,776	9,009	2,042
Expenses:			
Management fees	1,926	1,251	370
Auction agent fees and commissions	149	100	29
Trustee fees and related expenses	19	12	3
Interest expense	132	217	20
Auction rate preferred shares related expenses	2	2	2
Total Expenses	2,228	1,582	424
Net Investment Income	12,548	7,427	1,618
Net Realized Gain:			
Investments in securities	108	678	80
Net Realized Gain	108	678	80
Net Change in Unrealized Appreciation:			
Investments in securities	10,625	5,108	1,280
Net Change in Unrealized Appreciation	10,625	5,108	1,280
Net Gain	10,733	5,786	1,360
Net Increase in Net Assets Resulting from Operations	23,281	13,213	2,978
Distributions on Preferred Shares from Net Investment Income	(104)	(70)	(17)
Net Increase in Net Assets Applicable to Common Shareholders Resulting from Operations	\$ 23,177	\$ 13,143	\$ 2,961

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Table of Contents**Statements of Changes in Net Assets**

(Amounts in thousands)	PIMCO Municipal Income Fund III	
	Six Months Ended March 31, 2015 (Unaudited)	Year Ended September 30, 2014
Increase in Net Assets from:		
Operations:		
Net investment income	\$ 12,548	\$ 24,526
Net realized gain (loss)	108	(2,929)
Net change in unrealized appreciation	10,625	43,465
Net increase in net assets resulting from operations	23,281	65,062
Distributions on Preferred Shares from Net Investment Income	(104)	(212)
Net increase in net assets applicable to common shareholders resulting from operations	23,177	64,850
Distributions to Common Shareholders From Net Investment Income	(12,186)	(25,829)
Common Share Transactions**:		
Issued as reinvestment of distributions	429	887
Total Increase in Net Assets	11,420	39,908
Net Assets Applicable to Common Shareholders:		
Beginning of period	351,139	311,231
End of period*	\$ 362,559	\$ 351,139
* Including undistributed (overdistributed) net investment income of:	\$ (687)	\$ (945)
** Common Share Transactions:		
Share issued as reinvestment of distributions	39	87

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See Accompanying Notes

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Six Months Ended March 31, 2015 (Unaudited)	PIMCO California Municipal Income Fund III		PIMCO New York Municipal Income Fund III	
	Year Ended September 30, 2014		Six Months Ended March 31, 2015 (Unaudited)	Year Ended September 30, 2014
\$ 7,427	\$ 15,281	\$ 1,618	\$ 3,160	
678	(1,900)	80	192	
5,108	23,299	1,280	5,481	
13,213	36,680	2,978	8,833	
(70)	(144)	(17)	(37)	
13,143	36,536	2,961	8,796	
(7,957)	(15,888)	(1,784)	(3,560)	
247	522	96	126	
5,433	21,170	1,273	5,362	
221,415	200,245	53,369	48,007	
\$ 226,848	\$ 221,415	\$ 54,642	\$ 53,369	
\$ 5,742	\$ 6,342	\$ 1,203	\$ 1,386	
23	55	10	14	

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

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 158.2%		
MUNICIPAL BONDS & NOTES 157.1%		
ALABAMA 16.6%		
Alabama Docks Department State Revenue Bonds, Series 2010		
6.000% due 10/01/2040	\$ 1,000	\$ 1,165
Birmingham, Alabama Special Care Facilities Financing Authority Revenue Bonds, (AGC Insured), Series 2009		
6.000% due 06/01/2039	500	583
Birmingham-Baptist Medical Centers Special Care Facilities Financing Authority, Alabama Revenue Bonds, Series 2005		
5.000% due 11/15/2030	9,000	9,195
Jefferson County, Alabama Sewer Revenue Bonds, Series 2013		
0.000% due 10/01/2050 (a)	53,000	34,184
6.500% due 10/01/2053	13,000	15,141
		60,268
ARIZONA 9.2%		
Arizona Health Facilities Authority Revenue Bonds, Series 2007		
5.200% due 10/01/2037	2,250	2,230
Arizona Health Facilities Authority Revenue Bonds, Series 2008		
5.000% due 01/01/2035	1,250	1,349
5.500% due 01/01/2038	900	989
Industrial Development Authority of the County, Arizona of Pima Revenue Bonds, Series 2010		
5.250% due 10/01/2040	750	840
Pima County, Arizona Industrial Development Authority Revenue Bonds, Series 2008		
5.000% due 09/01/2039 (b)	13,000	14,117
Salt Verde Financial Corp., Arizona Revenue Bonds, Series 2007		
5.000% due 12/01/2037	11,600	13,682
		33,207
CALIFORNIA 27.4%		
Bay Area Toll Authority, California Revenue Bonds, Series 2008		
5.000% due 04/01/2034	500	561
Bay Area Toll Authority, California Revenue Bonds, Series 2010		
5.000% due 10/01/2029	1,500	1,747
5.000% due 10/01/2042	3,260	3,714
Bay Area Toll Authority, California Revenue Bonds, Series 2013		
5.250% due 04/01/2053	12,000	13,732
	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
California Health Facilities Financing Authority Revenue Bonds, (IBC/NPFGC Insured), Series 2007		
5.000% due 11/15/2042	\$ 600	\$ 638
California Health Facilities Financing Authority Revenue Bonds, Series 2009		
6.000% due 07/01/2039	2,500	2,915
California Health Facilities Financing Authority Revenue Bonds, Series 2011		
6.000% due 08/15/2042	1,500	1,799

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California Health Facilities Financing Authority Revenue Bonds, Series 2013		
5.000% due 08/15/2052	2,015	2,292
California Municipal Finance Authority Revenue Bonds, Series 2011		
7.750% due 04/01/2031	1,385	1,780
California State General Obligation Bonds, Series 2007		
5.000% due 06/01/2037	5,000	5,398
5.000% due 12/01/2037	5,300	5,818
California State General Obligation Bonds, Series 2008		
5.250% due 03/01/2038	1,350	1,497
California State General Obligation Bonds, Series 2009		
5.750% due 04/01/2031	2,500	2,925
6.000% due 04/01/2038	5,000	5,946
California State General Obligation Bonds, Series 2010		
5.250% due 11/01/2040	1,300	1,525
5.500% due 03/01/2040	3,200	3,751
California Statewide Communities Development Authority Revenue Bonds, (FHA Insured), Series 2009		
6.625% due 08/01/2029	2,580	3,119
6.750% due 02/01/2038	9,200	11,126
California Statewide Communities Development Authority Revenue Bonds, Series 2007		
5.750% due 11/01/2017	1,260	1,334
California Statewide Communities Development Authority Revenue Bonds, Series 2010		
6.250% due 10/01/2039	1,000	1,128
California Statewide Communities Development Authority Revenue Bonds, Series 2011		
5.000% due 12/01/2041	3,000	3,331
Golden State, California Tobacco Securitization Corp. Revenue Bonds, Series 2007		
4.500% due 06/01/2027	2,445	2,376
5.125% due 06/01/2047	3,600	2,782
5.750% due 06/01/2047	1,120	948
Indian Wells Redevelopment Agency, California Tax Allocation Bonds, (AMBAC Insured), Series 2006		
4.750% due 09/01/2034	3,350	3,412

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	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Los Angeles Community College District, California General Obligation Bonds, Series 2009		
11.906% due 08/01/2033 (c)	\$ 1,675	\$ 2,339
Los Angeles Unified School District, California General Obligation Bonds, (AMBAC Insured), Series 2005		
5.000% due 07/01/2030	130	131
M-S-R Energy Authority, California Revenue Bonds, Series 2009		
6.500% due 11/01/2039	2,000	2,782
Palomar Health, California Certificates of Participation Bonds, Series 2009		
6.750% due 11/01/2039	1,250	1,390
San Marcos Unified School District, California General Obligation Bonds, Series 2011		
5.000% due 08/01/2038	1,600	1,816
Tobacco Securitization Authority of Southern California Revenue Bonds, Series 2006		
5.000% due 06/01/2037	6,200	5,303
		99,355
COLORADO 1.0%		
Colorado Health Facilities Authority Revenue Bonds, Series 2010		
5.000% due 01/01/2040	2,000	2,197
Public Authority for Colorado Energy Revenue Bonds, Series 2008		
6.500% due 11/15/2038	500	691
Regional Transportation District, Colorado Revenue Bonds, Series 2010		
6.000% due 01/15/2034	500	575
		3,463
CONNECTICUT 0.4%		
Harbor Point Infrastructure Improvement District, Connecticut Tax Allocation Bonds, Series 2010		
7.875% due 04/01/2039	1,250	1,490
DISTRICT OF COLUMBIA 3.1%		
District of Columbia Water & Sewer Authority Revenue Bonds, Series 2009		
5.5000% due 10/01/2039 (b)	10,000	11,360
FLORIDA 6.5%		
Brevard County, Florida Health Facilities Authority Revenue Bonds, Series 2005		
5.000% due 04/01/2034	3,480	3,642
Broward County, Florida Airport System Revenue Bonds, Series 2009		
5.375% due 10/01/2029	500	576
	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Broward County, Florida Water & Sewer Utility Revenue Bonds, Series 2009		
5.250% 10/01/2034 due (b)	\$ 4,500	\$ 5,092
Cape Coral, Florida Water & Sewer Revenue Bonds, (AGM Insured), Series 2011		
5.000% due 10/01/2041	3,000	3,335
Florida Development Finance Corp. Revenue Notes, Series 2011		
6.500% due 06/15/2021	330	357

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Florida State General Obligation Bonds, Series 2009		
5.000% due 06/01/2038 due (b)	4,200	4,683
Greater Orlando Aviation Authority, Florida Revenue Bonds, Series 2010		
8.120% due 10/01/2039 (c)	5,000	5,972
		23,657

GEORGIA 0.6%

Fulton County, Georgia Residential Care Facilities for the Elderly Authority Revenue Bonds, Series 2006		
5.125% due 07/01/2042	1,750	1,763
Medical Center Hospital Authority, Georgia Revenue Bonds, Series 2007		
5.250% due 07/01/2037	400	405
		2,168

HAWAII 0.5%

Hawaii Pacific Health Revenue Bonds, Series 2010		
5.500% due 07/01/2040	1,500	1,737

ILLINOIS 3.6%

Illinois Finance Authority Revenue Bonds, Series 2007		
5.875% due 03/01/2027 ^	1,000	80
6.000% due 03/01/2037 ^	625	50
Illinois Finance Authority Revenue Bonds, Series 2009		
5.500% due 07/01/2037 (b)	5,000	5,720
7.125% due 11/15/2037	400	482
Illinois Finance Authority Revenue Bonds, Series 2010		
6.000% due 08/15/2038	1,000	1,118
Illinois State Toll Highway Authority Revenue Bonds, Series 2008		
5.500% due 01/01/2033	5,000	5,566
		13,016

INDIANA 1.5%

Portage, Indiana Tax Allocation Bonds, Series 2006		
5.000% due 07/15/2023	1,000	1,026
5.000% due 01/15/2027	775	791

See Accompanying Notes

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Table of Contents**Schedule of Investments PIMCO Municipal Income Fund III (Cont.)**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Vigo County, Indiana Hospital Authority Revenue Bonds, Series 2011		
7.500% due 09/01/2022	\$ 2,800	\$ 3,433
		5,250
IOWA 1.0%		
Iowa Finance Authority Revenue Bonds, Series 2013		
5.250% due 12/01/2025	3,000	3,363
Iowa Finance Authority Revenue Bonds, Series 2014		
2.000% due 05/15/2056 ^	76	1
2.700% due 11/15/2046 ^	403	164
		3,528
KENTUCKY 0.6%		
Kentucky Economic Development Finance Authority Revenue Bonds, Series 2010		
6.375% due 06/01/2040	2,000	2,313
LOUISIANA 2.1%		
Louisiana Local Government Environmental Facilities & Community Development Authority Revenue Bonds, Series 2010		
5.875% due 10/01/2040	1,500	1,785
6.000% due 10/01/2044	1,000	1,195
6.500% due 11/01/2035	400	483
Louisiana Public Facilities Authority Revenue Bonds, Series 2007		
5.500% due 05/15/2047	1,700	1,784
Louisiana Public Facilities Authority Revenue Bonds, Series 2011		
6.500% due 05/15/2037	2,000	2,365
		7,612
MARYLAND 2.3%		
Maryland Economic Development Corp. Revenue Bonds, Series 2010		
5.750% due 06/01/2035	1,000	1,077
Maryland Health & Higher Educational Facilities Authority Revenue Bonds, Series 2010		
6.250% due 01/01/2041	700	792
Maryland Health & Higher Educational Facilities Authority Revenue Bonds, Series 2011		
6.000% due 07/01/2041	1,000	1,205
Maryland Health & Higher Educational Facilities Authority Revenue Bonds, Series 2014		
5.000% due 07/01/2039	3,725	4,138
Maryland Health & Higher Educational Facilities Authority Revenue Bonds, Series 2015		
5.000% due 07/01/2045	1,000	1,123
		8,335
	PRINCIPAL AMOUNT	MARKET VALUE

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	(000S)	(000S)
MASSACHUSETTS 2.1%		
Massachusetts Development Finance Agency Revenue Bonds, Series 2010		
7.625% due 10/15/2037	\$ 290	\$ 324
Massachusetts Development Finance Agency Revenue Bonds, Series 2011		
0.000% due 11/15/2056	140	1
6.250% due 11/15/2039	529	513
Massachusetts Housing Finance Agency Revenue Bonds, Series 2003		
5.125% due 06/01/2043	4,910	4,912
Massachusetts State College Building Authority Revenue Bonds, Series 2009		
5.500% due 05/01/2039	1,600	1,854
		7,604
MICHIGAN 1.4%		
Detroit, Michigan General Obligation Bonds, Series 2010		
5.250% due 11/01/2035	1,500	1,634
Michigan State University Revenue Bonds, (BABs), Series 2010		
6.173% due 02/15/2050	1,300	1,630
Royal Oak Hospital Finance Authority, Michigan Revenue Bonds, Series 2009		
8.250% due 09/01/2039	1,500	1,866
		5,130
MISSOURI 0.2%		
Jennings, Missouri Revenue Bonds, Series 2006		
5.000% due 11/01/2023	250	249
Manchester, Missouri Tax Allocation Bonds, Series 2010		
6.875% due 11/01/2039	500	532
		781
NEVADA 1.5%		
Salt River Project Agricultural Improvement & Power District, Arizona Revenue Bonds, Series 2009		
5.000% due 01/01/2039 (b)	5,000	5,556
NEW HAMPSHIRE 0.6%		
New Hampshire Business Finance Authority Revenue Bonds, Series 2009		
6.125% due 10/01/2039	2,000	2,264
NEW JERSEY 5.5%		
New Jersey Economic Development Authority Special Assessment Bonds, Series 2002		
6.500% due 04/01/2028	4,500	5,652

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See Accompanying Notes

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	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
New Jersey Health Care Facilities Financing Authority Revenue Bonds, Series 2007		
5.750% due 07/01/2037	\$ 1,000	\$ 1,048
New Jersey Health Care Facilities Financing Authority Revenue Bonds, Series 2013		
5.500% due 07/01/2043	2,000	2,339
Tobacco Settlement Financing Corp., New Jersey Revenue Bonds, Series 2007		
4.750% due 06/01/2034	1,600	1,223
5.000% due 06/01/2041	12,745	9,792
		20,054
NEW MEXICO 0.3%		
Farmington, New Mexico Revenue Bonds, Series 2010		
5.900% due 06/01/2040	1,000	1,117
NEW YORK 20.7%		
Brooklyn Arena Local Development Corp., New York Revenue Bonds, Series 2009		
6.250% due 07/15/2040	9,800	11,558
Hudson Yards Infrastructure Corp., New York Revenue Bonds, Series 2011		
5.750% due 02/15/2047	5,000	5,772
Metropolitan Transportation Authority, New York Revenue Bonds, Series 2011		
5.000% due 11/15/2036	3,000	3,402
Nassau County, New York Industrial Development Agency Revenue Bonds, Series 2014		
2.000% due 01/01/2049	311	25
6.700% due 01/01/2049	863	874
New York City, New York Industrial Development Agency Revenue Bonds, (AGC Insured), Series 2009		
7.000% due 03/01/2049	10,450	12,441
New York City, New York Water & Sewer System Revenue Bonds, Series 2005		
5.000% due 06/15/2037 (b)	4,900	4,938
New York City, New York Water & Sewer System Revenue Bonds, Series 2007		
4.750% due 06/15/2035 (b)	4,000	4,284
New York Liberty Development Corp. Revenue Bonds, Series 2007		
5.500% due 10/01/2037	1,700	2,119
New York Liberty Development Corp. Revenue Bonds, Series 2011		
5.000% due 12/15/2041	10,000	11,361
5.000% due 11/15/2044	11,255	12,497
New York Liberty Development Corp. Revenue Bonds, Series 2014		
5.000% due 11/15/2044	3,000	3,161
	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
New York State Dormitory Authority Revenue Bonds, Series 2015		
5.000% due 03/15/2028	\$ 2,000	\$ 2,416
		74,848
NORTH CAROLINA 1.9%		
New Hanover County, North Carolina Revenue Bonds, Series 2011		
5.000% due 10/01/2028	6,000	6,945

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OHIO 10.9%

Allen County, Ohio Revenue Bonds, Series 2010		
5.000% due 06/01/2038	500	554
Buckeye Tobacco Settlement Financing Authority, Ohio Revenue Bonds, Series 2007		
5.875% due 06/01/2047	5,800	4,774
6.500% due 06/01/2047	30,350	27,012
Hamilton County, Ohio Revenue Bonds, Series 2012		
5.000% due 06/01/2042	1,500	1,644
Ohio State Turnpike Commission Revenue Bonds, Series 2013		
5.000% due 02/15/2048	5,000	5,515
		39,499

PENNSYLVANIA 6.5%

Allegheny County, Pennsylvania Hospital Development Authority Revenue Bonds, Series 2009		
5.625% due 08/15/2039	1,000	1,155
Berks County, Pennsylvania Municipal Authority Revenue Bonds, Series 2012		
5.000% due 11/01/2044	6,600	7,255
Capital Region Water, Pennsylvania Revenue Bonds, Series 2007		
6.000% due 09/01/2036 ^	1,250	599
Cumberland County, Pennsylvania Municipal Authority Revenue Bonds, Series 2008		
5.625% due 07/01/2028	1,000	1,103
6.000% due 07/01/2035	670	734
Dauphin County, Pennsylvania General Authority Revenue Bonds, Series 2009		
6.000% due 06/01/2036	1,000	1,170
Luzerne County, Pennsylvania Industrial Development Authority Revenue Bonds, Series 2009		
5.500% due 12/01/2039	100	114
Pennsylvania Turnpike Commission Revenue Bonds, Series 2009		
5.125% due 12/01/2040	3,000	3,297

See Accompanying Notes

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	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Pennsylvania Turnpike Commission Revenue Bonds, Series 2013		
5.000% due 12/01/2043	\$ 5,000	\$ 5,628
Philadelphia Hospitals & Higher Education Facilities Authority, Pennsylvania Revenue Bonds, Series 2012		
5.625% due 07/01/2042	1,645	1,761
Philadelphia, Pennsylvania Water & Wastewater Revenue Bonds, Series 2009		
5.250% due 01/01/2036	500	555
		23,371
SOUTH CAROLINA 7.9%		
Greenwood County, South Carolina Revenue Bonds, Series 2009		
5.375% due 10/01/2039	1,000	1,137
South Carolina State Ports Authority Revenue Bonds, Series 2010		
5.250% due 07/01/2040	800	906
South Carolina State Public Service Authority Revenue Bonds, Series 2013		
5.125% due 12/01/2043	5,000	5,682
5.500% due 12/01/2053	15,000	17,248
South Carolina State Public Service Authority Revenue Bonds, Series 2014		
5.500% due 12/01/2054	3,000	3,492
		28,465
TENNESSEE 0.7%		
Claiborne County, Tennessee Industrial Development Board Revenue Bonds, Series 2009		
6.625% due 10/01/2039	1,250	1,428
Johnson City Health & Educational Facilities Board, Tennessee Revenue Bonds, Series 2010		
6.000% due 07/01/2038	1,000	1,145
		2,573
TEXAS 17.5%		
Central Texas Turnpike System Revenue Bonds, Series 2015		
5.000% due 08/15/2037	1,000	1,139
Dallas, Texas Revenue Bonds, (AGC Insured), Series 2009		
5.250% due 08/15/2038	1,300	1,465
Grand Parkway Transportation Corp., Texas Revenue Bonds, Series 2013		
5.000% due 04/01/2053	4,500	4,982
JPMorgan Chase Putters/Drivers Trust, Texas General Obligation Notes, Series 2009		
8.070% due 02/01/2017 (c)	6,500	8,224
	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
North Harris County, Texas Regional Water Authority Revenue Bonds, Series 2008		
5.250% due 12/15/2033	\$ 5,500	\$ 6,197
5.500% due 12/15/2038	5,500	6,272
North Texas Tollway Authority Revenue Bonds, Series 2008		
5.625% due 01/01/2033	10,800	11,944
5.750% due 01/01/2033	700	775

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North Texas Tollway Authority Revenue Bonds, Series 2011		
5.000% due 01/01/2038	3,000	3,258
5.500% due 09/01/2041	600	719
Tarrant County, Texas Cultural Education Facilities Finance Corp. Revenue Bonds, Series 2009		
6.250% due 11/15/2029	3,000	3,500
Texas Municipal Gas Acquisition & Supply Corp. Revenue Bonds, Series 2006		
5.250% due 12/15/2026	150	179
Texas Municipal Gas Acquisition & Supply Corp. Revenue Bonds, Series 2008		
6.250% due 12/15/2026	9,600	11,896
Texas Municipal Gas Acquisition & Supply Corp. Revenue Bonds, Series 2012		
5.000% due 12/15/2026	2,000	2,276
Wise County, Texas Revenue Bonds, Series 2011		
8.000% due 08/15/2034	500	594
		63,420

VIRGINIA 0.5%

Fairfax County, Virginia Industrial Development Authority Revenue Bonds, Series 2009		
5.500% due 05/15/2035	1,000	1,149
James City County, Virginia Economic Development Authority Revenue Bonds, Series 2013		
2.000% due 10/01/2048 ^	201	6
6.000% due 06/01/2043	621	593
		1,748

WASHINGTON 0.5%

Washington Health Care Facilities Authority Revenue Bonds, Series 2009		
7.375% due 03/01/2038	1,000	1,234
Washington Health Care Facilities Authority Revenue Bonds, Series 2010		
5.500% due 12/01/2039	500	610
		1,844

WEST VIRGINIA 0.3%

West Virginia Hospital Finance Authority Revenue Bonds, Series 2011		
9.125% due 10/01/2041	975	1,092

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March 31, 2015

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
WISCONSIN 1.7%		
University of Wisconsin Hospitals & Clinics Authority Revenue Bonds, Series 2013		
5.000% due 04/01/2038	\$ 3,500	\$ 3,912
Wisconsin Health & Educational Facilities Authority Revenue Bonds, Series 2009		
6.625% due 02/15/2039	1,000	1,208
Wisconsin Health & Educational Facilities Authority Revenue Bonds, Series 2010		
5.625% due 04/15/2039	1,000	1,158
		6,278
Total Municipal Bonds & Notes (Cost \$499,318)		569,348
SHORT-TERM INSTRUMENTS 1.1%		
SHORT-TERM NOTES 1.1%		
Fannie Mae		
0.071% due 04/27/2015	2,800	2,800
	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Federal Home Loan Bank		
0.045% due 04/08/2015	\$ 1,300	\$ 1,300
		4,100
Total Short-Term Instruments (Cost \$4,100)		4,100
Total Investments in Securities (Cost \$503,418)		
Total Investments 158.2% (Cost \$503,418)		573,448
		\$ 573,448
Preferred Shares (52.1%)		
		(189,000)
Other Assets and Liabilities, net (6.1%)		
		(21,889)
Net Assets Applicable to Common Shareholders 100.0%		\$ 362,559

NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*):

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

^ Security is in default.

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- (a) Security becomes interest bearing at a future date.
- (b) Represents an underlying municipal bond transferred to a tender option bond trust established in a tender option bond transaction in which the Fund sold, or caused the sale of, the underlying municipal bond and purchased the residual interest certificate. The security serves as collateral in a financing transaction. See Note 5(a) in the Notes to Financial Statements for more information.
- (c) Represents an investment in a tender option bond residual interest certificate purchased in a secondary market transaction. The interest rate shown bears an inverse relationship to the interest rate on a tender option bond floating rate certificate. The interest rate disclosed reflects the rate in effect on March 31, 2015.

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of March 31, 2015 in valuing the Fund's assets and liabilities:

Category and Subcategory