

PIMCO CALIFORNIA MUNICIPAL INCOME FUND III
Form N-Q
May 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

| | |
|---|--|
| Investment Company Act File Number: | 811-21188 |
| Registrant Name: | PIMCO California Municipal Income Fund III |
| Address of Principal Executive Offices: | 1633 Broadway New York, NY 10019 |
| Name and Address of Agent for Service: | Trent W. Walker 650 Newport Center Drive Newport Beach, CA 92660 |
| Registrant's telephone number, including area code: | (844) 337-4626 |
| Date of Fiscal Year End: | December 31 |
| Date of Reporting Period: | March 31, 2018 |

Item 1. Schedule of Investments

Schedule of Investments

PIMCO California Municipal Income Fund III

March 31, 2018 (Unaudited)

(AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF SHARES, CONTRACTS AND UNITS, IF ANY)

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|--|-------------------------------|---------------------------|
| INVESTMENTS IN SECURITIES 192.8% ☐ | | |
| MUNICIPAL BONDS & NOTES 191.4% | | |
| CALIFORNIA 184.5% | | |
| Bay Area Toll Authority, California Revenue Bonds, Series 2008 | | |
| 5.000% due 04/01/2034 | \$ 1,250 | \$ 1,250 |
| Bay Area Toll Authority, California Revenue Bonds, Series 2013 | | |
| 5.250% due 04/01/2048 | 8,000 | 9,251 |
| California County Tobacco Securitization Agency Revenue Bonds, Series 2002 | | |
| 5.875% due 06/01/2035 | 8,100 | 8,176 |
| 6.000% due 06/01/2042 | 7,000 | 7,062 |
| California County Tobacco Securitization Agency Revenue Bonds, Series 2006 | | |
| 5.600% due 06/01/2036 | 2,000 | 2,027 |
| California Educational Facilities Authority Revenue Bonds, Series 2009 | | |
| 5.000% due 01/01/2039 (b) | 9,800 | 10,058 |
| 5.000% due 10/01/2039 (b) | 10,000 | 10,177 |
| California Health Facilities Financing Authority Revenue Bonds, Series 2008 | | |
| 5.000% due 08/15/2038 | 5,000 | 5,066 |
| 5.250% due 11/15/2040 | 4,550 | 5,109 |
| California Health Facilities Financing Authority Revenue Bonds, Series 2009 | | |
| 5.750% due 09/01/2039 | 4,000 | 4,224 |
| 6.000% due 07/01/2039 | 4,000 | 4,216 |
| 6.500% due 11/01/2038 | 500 | 540 |
| California Health Facilities Financing Authority Revenue Bonds, Series 2010 | | |
| 5.000% due 11/15/2036 | 1,300 | 1,368 |
| California Health Facilities Financing Authority Revenue Bonds, Series 2011 | | |
| 5.000% due 08/15/2035 | 1,000 | 1,101 |
| 6.000% due 08/15/2042 | 1,200 | 1,310 |

| | | |
|--|--------|--------|
| California Health Facilities Financing Authority Revenue Bonds, Series 2012 | | |
| 5.000% due 08/15/2051 | 5,205 | 5,704 |
| California Health Facilities Financing Authority Revenue Bonds, Series 2015 | | |
| 5.000% due 08/15/2054 | 3,000 | 3,325 |
| California Health Facilities Financing Authority Revenue Bonds, Series 2016 | | |
| 4.000% due 08/15/2039 (b) | 6,500 | 6,806 |
| 5.000% due 11/15/2046 (b) | 9,500 | 10,740 |
| 5.000% due 08/15/2055 | 5,000 | 5,632 |
| California Health Facilities Financing Authority Revenue Bonds, Series 2017 | | |
| 5.000% due 11/15/2038 | 1,500 | 1,726 |
| California Infrastructure & Economic Development Bank Revenue Bonds, Series 2013 | | |
| 5.000% due 02/01/2039 | 10,000 | 10,930 |
| California Municipal Finance Authority Revenue Bonds, Series 2011 | | |
| 7.750% due 04/01/2031 | 760 | 865 |
| California Municipal Finance Authority Revenue Bonds, Series 2017 | | |
| 4.000% due 01/01/2043 (b) | 2,900 | 3,046 |
| 5.000% due 01/01/2042 | 1,750 | 1,980 |
| California Pollution Control Financing Authority Revenue Bonds, Series 2010 | | |
| 5.250% due 08/01/2040 | 1,250 | 1,338 |
| California Pollution Control Financing Authority Revenue Bonds, Series 2012 | | |
| 5.000% due 07/01/2037 | 990 | 996 |
| 5.000% due 11/21/2045 | 985 | 1,001 |
| California Public Finance Authority Revenue Bonds, Series 2017 | | |
| 4.000% due 08/01/2047 (b) | 4,200 | 4,299 |
| California State General Obligation Bonds, Series 2009 | | |
| 6.000% due 04/01/2038 | 7,300 | 7,613 |
| California State General Obligation Bonds, Series 2013 | | |
| 5.000% due 11/01/2043 | 5,000 | 5,559 |
| California State Public Works Board Revenue Bonds, Series 2009 | | |
| 6.000% due 11/01/2034 | 2,000 | 2,137 |
| California State Public Works Board Revenue Bonds, Series 2013 | | |
| 5.000% due 03/01/2038 | 2,500 | 2,758 |
| California State University Revenue Bonds, Series 2011 | | |
| 5.000% due 11/01/2042 | 9,200 | 10,028 |
| California State University Revenue Bonds, Series 2015 | | |
| 5.000% due 11/01/2047 | 6,750 | 7,693 |
| California Statewide Communities Development Authority Revenue Bonds, (FGIC Insured), Series 2007 | | |
| 5.750% due 07/01/2047 | 3,100 | 3,133 |

California Statewide Communities Development Authority

Revenue Bonds, (FHA Insured), Series 2009

| | | |
|-----------------------|-------|-------|
| 6.625% due 08/01/2029 | 1,780 | 1,895 |
| 6.750% due 02/01/2038 | 6,430 | 6,858 |

California Statewide Communities Development Authority

Revenue Bonds, Series 2010

| | | |
|-----------------------|-----|-------|
| 6.250% due 10/01/2039 | 500 | 529 |
| 7.500% due 06/01/2042 | 965 | 1,028 |

California Statewide Communities Development Authority

Revenue Bonds, Series 2011

| | | |
|-----------------------|--------|--------|
| 5.000% due 12/01/2041 | 11,000 | 12,118 |
| 6.000% due 08/15/2042 | 1,800 | 1,965 |

| | | |
|--|--------|--------|
| California Statewide Communities Development Authority Revenue Bonds, Series 2012 | | |
| 5.000% due 04/01/2042 | 11,220 | 12,307 |
| 5.375% due 05/15/2038 | 2,000 | 2,143 |
| California Statewide Communities Development Authority Revenue Bonds, Series 2014 | | |
| 5.500% due 12/01/2054 | 2,500 | 2,720 |
| California Statewide Communities Development Authority Revenue Bonds, Series 2016 | | |
| 4.000% due 08/15/2051 | 200 | 203 |
| 5.000% due 12/01/2036 | 1,100 | 1,181 |
| 5.000% due 06/01/2046 | 1,000 | 1,056 |
| 5.000% due 12/01/2046 | 3,100 | 3,283 |
| California Statewide Communities Development Authority Revenue Notes, Series 2011 | | |
| 6.500% due 11/01/2021 | 240 | 262 |
| Chaffey Joint Union High School District, California General Obligation Bonds, Series 2017 | | |
| 4.000% due 08/01/2047 (b) | 4,500 | 4,708 |
| Chula Vista, California Revenue Bonds, Series 2004 | | |
| 5.875% due 02/15/2034 | 2,000 | 2,092 |
| Desert Community College District, California General Obligation Bonds, Series 2016 | | |
| 5.000% due 08/01/2037 (b) | 5,645 | 6,538 |
| Eastern Municipal Water District Financing Authority, California Revenue Bonds, Series 2017 | | |
| 5.000% due 07/01/2047 (b) | 5,500 | 6,363 |
| Fremont Community Facilities District No. 1, California Special Tax Bonds, Series 2015 | | |
| 5.000% due 09/01/2045 | 1,400 | 1,533 |
| Golden State, California Tobacco Securitization Corp. Revenue Bonds, Series 2007 | | |
| 5.750% due 06/01/2047 | 14,275 | 14,359 |
| Hayward Unified School District, California General Obligation Bonds, Series 2015 | | |
| 5.000% due 08/01/2038 | 5,000 | 5,500 |
| Imperial Irrigation District Electric System, California Revenue Bonds, Series 2016 | | |
| 5.000% due 11/01/2041 (b) | 4,000 | 4,556 |
| Imperial Irrigation District Electric System, California Revenue Bonds, Series 2017 | | |
| 4.000% due 11/01/2041 (b) | 3,000 | 3,116 |
| Lancaster Redevelopment Agency, California Tax Allocation Bonds, Series 2009 | | |
| 6.875% due 08/01/2039 | 500 | 534 |
| Long Beach Unified School District, California General Obligation Bonds, Series 2009 | | |
| 5.750% due 08/01/2033 | 5,000 | 5,274 |

| | | |
|---|--------|--------|
| Long Beach Unified School District, California General Obligation Bonds, Series 2017 | | |
| 4.000% due 08/01/2043 (b) | 4,500 | 4,728 |
| Long Beach, California Airport System Revenue Bonds, Series 2010 | | |
| 5.000% due 06/01/2040 | 2,120 | 2,251 |
| Los Angeles Community College District, California General Obligation Bonds, Series 2009 | | |
| 0.000% due 08/01/2033 (c) | 1,000 | 1,035 |
| Los Angeles Department of Water & Power, California Revenue Bonds, Series 2009 | | |
| 5.000% due 07/01/2039 (b) | 10,000 | 10,247 |
| Los Angeles Department of Water & Power, California Revenue Bonds, Series 2012 | | |
| 5.000% due 07/01/2037 | 2,000 | 2,211 |
| 5.000% due 07/01/2043 | 2,115 | 2,327 |
| Los Angeles Department of Water & Power, California Revenue Bonds, Series 2014 | | |
| 5.000% due 07/01/2043 | 1,000 | 1,114 |
| Los Angeles Unified School District, California General Obligation Bonds, Series 2009 | | |
| 5.000% due 01/01/2034 (b) | 10,000 | 10,397 |
| M-S-R Energy Authority, California Revenue Bonds, Series 2009 | | |
| 6.500% due 11/01/2039 | 9,825 | 13,834 |
| 7.000% due 11/01/2034 | 2,285 | 3,245 |
| Malibu, California Certificates of Participation Bonds, Series 2009 | | |
| 5.000% due 07/01/2039 | 550 | 574 |
| Manteca Financing Authority, California Revenue Bonds, Series 2009 | | |
| 5.750% due 12/01/2036 | 1,000 | 1,066 |
| Montebello Unified School District, California General Obligation Bonds, (AGM Insured), Series 2008 | | |
| 5.000% due 08/01/2033 | 3,000 | 3,035 |
| Oakland Redevelopment Agency Successor Agency, California Tax Allocation Bonds, (AGM Insured), Series 2015 | | |
| 5.000% due 09/01/2036 | 800 | 884 |
| Peralta Community College District, California General Obligation Bonds, Series 2009 | | |
| 5.000% due 08/01/2039 | 1,250 | 1,307 |
| Regents of the University of California Medical Center Pooled Revenue Bonds, Series 2013 | | |
| 5.000% due 05/15/2043 | 5,000 | 5,607 |
| River Islands Public Financing Authority, California Special Tax Bonds, Series 2015 | | |
| 5.500% due 09/01/2045 | 3,000 | 3,210 |
| Sacramento Area Flood Control Agency, California Special Assessment Bonds, Series 2016 | | |
| 5.000% due 10/01/2041 (b) | 2,200 | 2,537 |
| 5.000% due 10/01/2047 (b) | 1,500 | 1,720 |

| | | |
|---|-------|-------|
| Sacramento Municipal Utility District, California Revenue Bonds, Series 2013 | | |
| 5.000% due 08/15/2037 | 3,000 | 3,341 |
| San Diego County, California Regional Airport Authority Revenue Bonds, Series 2013 | | |
| 5.000% due 07/01/2043 | 1,325 | 1,472 |
| San Diego County, California Water Authority Certificates of Participation Bonds, (AGM Insured), Series 2008 | | |
| 5.000% due 05/01/2038 | 6,250 | 6,268 |
| San Diego Public Facilities Financing Authority Sewer, California Revenue Bonds, Series 2009 | | |
| 5.250% due 05/15/2039 | 4,000 | 4,166 |
| San Diego Regional Building Authority, California Revenue Bonds, Series 2009 | | |
| 5.375% due 02/01/2036 | 2,200 | 2,271 |
| San Diego Unified School District, California General Obligation Bonds, Series 2017 | | |
| 5.000% due 07/01/2047 (b) | 3,000 | 3,144 |
| San Francisco Bay Area Rapid Transit District, California General Obligation Bonds, Series 2017 | | |
| 4.000% due 08/01/2042 (b) | 4,500 | 4,762 |
| San Francisco, California City & County Certificates of Participation Bonds, Series 2009 | | |
| 5.250% due 04/01/2031 | 550 | 570 |

| | | |
|---|-------|---------|
| San Francisco, California City & County Redevelopment Agency Special Tax Bonds, Series 2013 | | |
| 5.000% due 08/01/2028 | 1,505 | 1,669 |
| San Joaquin County Transportation Authority, California Revenue Bonds, Series 2017 | | |
| 4.000% due 03/01/2041 (b) | 1,800 | 1,885 |
| 5.000% due 03/01/2041 (b) | 8,200 | 9,474 |
| San Jose, California Hotel Tax Revenue Bonds, Series 2011 | | |
| 6.500% due 05/01/2036 | 1,500 | 1,700 |
| San Marcos Redevelopment Agency Successor Agency, California Tax Allocation Bonds, Series 2015 | | |
| 5.000% due 10/01/2034 | 885 | 1,006 |
| San Marcos Unified School District, California General Obligation Bonds, Series 2011 | | |
| 5.000% due 08/01/2038 | 1,000 | 1,106 |
| San Mateo County, California Community College District General Obligation Bonds, (NPFGC Insured), Series 2006 | | |
| 0.000% due 09/01/2034 (a) | 2,530 | 1,467 |
| Santa Cruz County, California Redevelopment Agency Tax Allocation Bonds, Series 2009 | | |
| 7.000% due 09/01/2036 | 1,200 | 1,289 |
| University of California Revenue Bonds, Series 2016 | | |
| 4.000% due 05/15/2046 | 2,525 | 2,613 |
| Washington Township Health Care District, California General Obligation Bonds, Series 2013 | | |
| 5.000% due 08/01/2043 | 2,500 | 2,788 |
| Western Municipal Water District Facilities Authority, California Revenue Bonds, Series 2009 | | |
| 5.000% due 10/01/2039 | 2,000 | 2,101 |
| | | 394,786 |
| ILLINOIS 5.1% | | |
| Chicago, Illinois General Obligation Bonds, Series 2007 | | |
| 5.500% due 01/01/2035 | 3,000 | 3,189 |
| Chicago, Illinois General Obligation Bonds, Series 2015 | | |
| 5.250% due 01/01/2028 | 3,700 | 3,953 |
| 5.500% due 01/01/2033 | 2,500 | 2,663 |
| Illinois State General Obligation Notes, Series 2017 | | |
| 5.000% due 11/01/2025 | 1,000 | 1,046 |
| | | 10,851 |
| NEW JERSEY 0.5% | | |
| Tobacco Settlement Financing Corp., New Jersey Revenue Bonds, Series 2007 | | |
| 4.750% due 06/01/2034 | 1,000 | 1,000 |

| | | |
|---|-----------|------------------|
| PUERTO RICO 1.0% | | |
| Puerto Rico Electric Power Authority Revenue Bonds, (AGM Insured), Series 2007 | | |
| 5.250% due 07/01/2031 ^ | 1,000 | 1,065 |
| Puerto Rico Highway & Transportation Authority Revenue Bonds, (AGC Insured), Series 2005 | | |
| 5.250% due 07/01/2041 | 1,000 | 1,073 |
| | | 2,138 |
| U.S. VIRGIN ISLANDS 0.3% | | |
| Virgin Islands Public Finance Authority, U.S. Virgin Islands Revenue Bonds, Series 2010 | | |
| 5.000% due 10/01/2029 | 1,000 | 745 |
| Total Municipal Bonds & Notes | | 409,520 |
| (Cost \$384,905) | | |
| SHORT-TERM INSTRUMENTS 1.4% | | |
| REPURCHASE AGREEMENTS (d) 1.4% | | |
| | | 2,986 |
| Total Short-Term Instruments | | 2,986 |
| (Cost \$2,986) | | |
| Total Investments in Securities | | 412,506 |
| (Cost \$387,891) | | |
| Total Investments 192.8% | \$ | 412,506 |
| (Cost \$387,891) | | |
| Total Preferred Share (58.4)% | | (125,000) |
| Other Assets and Liabilities, net (34.4)% | | (73,572) |
| Net Assets Applicable to Common Shareholders 100.0% | \$ | 213,934 |

Notes to Schedule of Investments:

- * A zero balance may reflect actual amounts rounding to less than one thousand.
- ✘ The geographical classification of foreign (non-U.S.) securities in this report are classified by the country of incorporation of a holding. In certain instances, a security's country of incorporation may be different from its country of economic exposure.

^ Security is in default.

(a) Zero coupon security.

(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, Tender Option Bond Transactions, 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, 2018.

Borrowings and Other Financing Transactions

(d) Repurchase Agreements:

| Counterparty | Lending Rate | Settlement Date | Maturity Date | Principal Amount | Collateralized By | Repurchase Agreement | | |
|------------------------------------|--------------|-----------------|---------------|------------------|---|-----------------------------------|---------------------------------------|-------------------------------|
| | | | | | | Collateral Agreements, (Received) | Repurchase Proceeds at Value Received | to be Received ⁽¹⁾ |
| FICC | 1.250% | 03/29/2018 | 04/02/2018 | \$ 586 | U.S. Treasury Notes 2.000% due 04/30/2024 | \$ (601) | \$ 586 | \$ 586 |
| SAL | 1.910 | 03/29/2018 | 04/02/2018 | 2,400 | U.S. Treasury Notes 1.750% due 05/31/2022 | (2,453) | 2,400 | 2,401 |
| Total Repurchase Agreements | | | | | | \$ (3,054) | \$ 2,986 | \$ 2,987 |

⁽¹⁾ *Includes accrued interest.*

Fair Value Measurements

The following is a summary of the fair valuations according to the inputs used as of March 31, 2018 in valuing the Fund's assets and liabilities:

| Category and Subcategory | Level 1 | Level 2 | Level 3 | Fair Value at 03/31/2018 |
|--|---------|------------|---------|-----------------------------|
| Investments in Securities, at Value | | | | |
| Municipal Bonds & Notes | | | | |
| California | \$ 0 | \$ 394,786 | \$ 0 | \$ 394,786 |
| Illinois | 0 | 10,851 | 0 | 10,851 |
| New Jersey | 0 | 1,000 | 0 | 1,000 |
| Puerto Rico | 0 | 2,138 | 0 | 2,138 |
| U.S. Virgin Islands | 0 | 745 | 0 | 745 |
| Short-Term Instruments | | | | |
| Repurchase Agreements | 0 | 2,986 | 0 | 2,986 |
| Total Investments | \$ 0 | \$ 412,506 | \$ 0 | \$ 412,506 |

There were no significant transfers among Levels 1, 2, or 3 during the period ended March 31, 2018.

See Accompanying Notes

Notes to Financial Statements

1. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The net asset value (NAV) of the Fund 's shares is determined by dividing the total value of portfolio investments and other assets attributable to that Fund less any liabilities by the total number of shares outstanding of the Fund.

On each day that the New York Stock Exchange (NYSE) is open, Fund shares are ordinarily valued as of the close of regular trading (NYSE Close). Information that becomes known to the Fund or its agents after the time as of which NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day. The Fund reserves the right to change the time as of which its NAV is calculated if the Fund closes earlier, or as permitted by the U.S. Securities and Exchange Commission (SEC).

For purposes of calculating a NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from established market makers or prices (including evaluated prices) supplied by the Fund 's approved pricing services, quotation reporting systems and other third-party sources (together, Pricing Services). The Fund will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. If market value pricing is used, a foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by Pacific Investment Management Company LLC (PIMCO or the Manager) to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services. The Fund 's investments in open-end management investment companies, other than exchange-traded funds (ETFs), are valued at the NAVs of such investments.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to PIMCO the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board (Valuation Oversight Committee), generally based on recommendations provided by the Manager. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, indicative market quotations (Broker Quotes), Pricing Services prices), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Fund 's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Manager the responsibility for monitoring significant events that may materially affect the values of the Fund 's securities or

assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When the Fund uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board or persons acting at their direction believe reflects fair value. Fair valuation may require subjective determinations about the value of a security. While the Fund's policy is intended to result in a calculation of the Fund's NAV that fairly reflects security values as of the time of pricing, the Fund cannot ensure that fair values determined by the Board or persons acting at their direction would accurately reflect the price that the Fund could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Fund may differ from the value that would be realized if the securities were sold.

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

Level 1 Quoted prices in active markets or exchanges for identical assets and liabilities.

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

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

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

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

(c) Valuation Techniques and the Fair Value Hierarchy

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

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

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

Short-term debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost value of such short-term debt instruments is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. These securities are categorized as Level 2 or Level 3 of the fair value hierarchy depending on the source of the base price.

2. FEDERAL INCOME TAX MATTERS

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

The Fund may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Manager has reviewed the Fund's tax positions for all open tax years. As of March 31, 2018, the Fund has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Fund files U.S. federal, state, and local tax returns as required. The Fund's tax returns are subject to examination by relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return but which can be extended to six years in certain circumstances. Tax returns for open years have incorporated no uncertain tax positions that require a provision for income taxes.

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

(Unaudited)

Counterparty Abbreviations:

| | | | |
|------|-----------------------------------|-----|--------------------------------|
| FICC | Fixed Income Clearing Corporation | SAL | Citigroup Global Markets, Inc. |
|------|-----------------------------------|-----|--------------------------------|

Currency Abbreviations:

| | |
|-------------|----------------------|
| USD (or \$) | United States Dollar |
|-------------|----------------------|

Exchange Abbreviations:

| | |
|-----|------------------|
| OTC | Over the Counter |
|-----|------------------|

Municipal Bond or Agency

Abbreviations:

| | | | | | |
|-----|----------------------------|------|----------------------------------|-------|---|
| AGC | Assured Guaranty Corp. | FGIC | Financial Guaranty Insurance Co. | NPFGC | National Public Finance Guarantee Corp. |
| AGM | Assured Guaranty Municipal | FHA | Federal Housing Administration | | |

Other Abbreviations:

| | |
|-----|-----------------|
| TBA | To-Be-Announced |
|-----|-----------------|

Item 2. Controls and Procedures

- (a) The principal executive officer and principal financial & accounting officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 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 report.

- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits

A separate certification for each principal executive officer and principal financial & accounting officer of the registrant as required by Rule 30a-2 under the 1940 Act is attached as Exhibit 99.CERT.

Signatures

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

PIMCO California Municipal Income Fund III

By: /s/ Peter G. Strelow
Peter G. Strelow
President (Principal Executive Officer)

Date: May 29, 2018

By: /s/ Trent W. Walker
Trent W. Walker
Treasurer (Principal Financial & Accounting Officer)

Date: May 29, 2018

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

By: /s/ Peter G. Strelow
Peter G. Strelow
President (Principal Executive Officer)

Date: May 29, 2018

By: /s/ Trent W. Walker
Trent W. Walker
Treasurer (Principal Financial & Accounting Officer)

Date: May 29, 2018