

PIMCO MUNICIPAL INCOME FUND III
Form N-CSR
December 09, 2008

**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)

1345 Avenue of the Americas, New York, NY 10105

(Address of principal executive offices) (Zip code)

Lawrence G. Altadonna

1345 Avenue of the Americas, New York, NY 10105

(Name and address of agent for service)

Registrant's telephone number, including area code: 212-739-3371

Date of fiscal year end: September 30, 2008

Date of reporting period: September 30, 2008

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.

ITEM 1. REPORT TO SHAREHOLDERS

PIMCO Municipal Income Fund III
PIMCO California Municipal Income Fund III
PIMCO New York Municipal Income Fund III

Annual Report
September 30, 2008

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PIMCO Municipal Income Funds III Letter to Shareholders

November 21, 2008

Dear Shareholder:

We are pleased to provide you with the annual report for PIMCO Municipal Income Fund III, PIMCO California Municipal Income Fund III and PIMCO New York Municipal Income Fund III (the Funds) for the fiscal year ended September 30, 2008.

The U.S. bond market weakened during the second half of the reporting period as sub-prime mortgage exposure led to instability among banking institutions and tight credit throughout the economy. In this environment, investors shunned all but the safest of U.S. government securities. The Lehman Brothers Municipal Bond Index returned (1.87)% for the twelve-month period, trailing the broad market return of 3.65% as represented by the Lehman Brothers Aggregate Bond Index. The Federal Reserve and U.S. Treasury Department moved aggressively during the period to stave off bank failures and to inject liquidity into the banking system. The central bank reduced the Federal Funds rate six times in the period, reducing the benchmark rate on loans between member banks from 4.75% to 2%.

For specific information on the Funds and their performance during the reporting period, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 331-1710. In addition, a wide range of information and resources is available on our Web site, www.allianzinvestors.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Funds investment manager, and Pacific Investment Management Company LLC, the Funds sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess
Chairman

Brian S. Shlissel
President & Chief Executive Officer

PIMCO Municipal Income Fund III Fund Insights

September 30, 2008 (unaudited)

For the 12-month period ended September 30, 2008, PIMCO Municipal Income Fund III (the Fund) returned (20.92)% on net asset value (NAV) and (21.07)% on market price, compared with (12.44)% and (19.30)%, respectively, for the Lipper Analytical General Municipal Debt Funds (Leveraged) average.

Municipal bond yields decreased in the shortest maturities inside of five years, while increasing in all other maturities during the 12-month period ended September 30, 2008.

Duration hedging strategies affected performance negatively in the Fund during the reporting period. Interest rates on Treasuries and London Inter-Bank Offered Rate (LIBOR) swaps moved significantly lower for the 12-month period across all maturities due to a dramatic flight to quality twice during the period, leading to municipal underperformance.

Municipal to Treasury yield ratios moved much higher during the period, ended at ratios never before experienced in the municipal bond market. The 10-year ratio increased to 110% and 30-year ratio increased to 122%.

Exposure to corporate backed munis affected performance negatively as the corporate sector experienced considerable uncertainty, especially toward the end of the period. Exposure to hospital bonds also hurt performance as this sector underperformed during the period.

Exposure to pre-refunded bonds was positive for performance as investors moved into this sector as they moved to the higher quality investments. Exposure to General Obligation bonds was slightly positive for performance as they outperformed for the period.

Tobacco securitization sector holdings detracted from performance due to the flight to quality with investors only choosing to purchase the highest quality munis, especially toward the end of the period.

Exposure to zero coupon municipals was negative for performance as the Lehman Zero Coupon Index returned (13.76)% for the 12-month period.

The municipal yield curve steepened significantly during the period. The 15-, 20-, and 30-year maturity AAA General Obligation yields increased by 87, 88, and 84 basis points, respectively, while the two-year yield decreased by 90 basis points. The Fund had significant exposure to the long end of the muni curve which hurt performance as the curve steepened.

Long municipals dramatically underperformed long Treasuries and the taxable debt sector during the period as we saw two extreme flights to quality in February and September. The Lehman Long Municipal Bond Index returned (9.55)% during the 12-month period while the Long Government/Credit and the Long Lehman Treasury Indices returned (0.37)% and 10.43%, respectively.

Municipal bond issuance remained at increased levels with April and June both seeing issuance over \$50 billion, which has never been experienced before. Auction rate issuers, as well as money market issuers, continue to refinance into longer-term debt due to rising interest costs. However, due to market turmoil towards the latter half of the third quarter, issuance has slowed from the pace set during the first two quarters. During the 12-month period, issuance totaled over \$456 billion.

PIMCO Municipal Income Fund III Performance & Statistics

September 30, 2008 (unaudited)

Total Return(1):	Market Price	Net Asset Value (NAV)
1 Year	(21.07)%	(20.92)%
5 Year	1.55%	1.09%
Commencement of Operations (10/31/02) to 9/30/08	1.32%	1.53%

Common Share Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 9/30/08

Market Price/NAV:

Market Price	\$11.17
NAV	\$10.81
Premium to NAV	3.33%
Market Price Yield(2)	7.52%

Moody s Ratings
(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) in the period covered. The calculation assumes that all of the Fund s income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average

annual total return.

The Fund's performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund distributions.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market yield and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

- (2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised from net investment income) payable to common shareholders by the market price per common share at September 30, 2008.

PIMCO California Municipal Income Fund III Fund Insights

September 30, 2008 (unaudited)

For the 12-month period ended September 30, 2008, PIMCO California Municipal Income Fund III (the Fund) returned (18.96)% on net asset value (NAV) and (21.60)% on market price, compared with (10.68)% and (16.14)%, respectively, for the Lipper Analytical California Municipal Debt Funds average.

Municipal bond yields decreased in the shortest maturities inside of five years, while increasing in all other maturities during the 12-month period ended September 30, 2008.

Duration hedging strategies affected performance negatively in the Fund during the reporting period. Interest rates on Treasuries and London Inter-Bank Offered Rate (LIBOR) swaps moved significantly lower for the 12-month period across all maturities due to a dramatic flight to quality twice during the period, leading to municipal underperformance.

Municipal to Treasury yield ratios moved much higher during the period, ended at ratios never before experienced in the municipal bond market. The 10-year ratio increased to 110% and 30-year ratio increased to 122%.

Exposure to hospital related bonds affected performance negatively as this sector underperformed during the period. Exposure to pre-refunded munis was positive for performance as investors moved into the sector seeking the highest quality asset toward the end of the period.

Tobacco securitization sector holdings detracted from performance due to the flight to quality with investors only choosing to purchase the highest quality munis, especially toward the end of the period.

Exposure to zero coupon municipals was negative for performance as the Lehman Zero Coupon Index returned (13.76)% for the 12-month period.

The municipal yield curve steepened significantly during the period. The 15-, 20-, and 30-year maturity AAA General Obligation yields increased by 87, 88, and 84 basis points, respectively, while the two-year yield decreased by 90 basis points.

Long municipals dramatically underperformed long Treasuries and the taxable debt sector during the period as we saw two extreme flights to quality in February and September. The Lehman Long Municipal Bond Index returned (9.55)% during the 12-month period while the Long Government/Credit and the Long Lehman Treasury Indices returned (0.37)% and 10.43%, respectively.

Municipal bonds within California underperformed the Lehman Municipal Bond Index during the 12-month period. Year-to-date, California continues to lead all other states in new issue volume. The state's issuance has decreased by 8.20% from the same period last year to \$48.2 billion.

The shape of the California State AAA insured municipal yield curve steepened significantly during the period in-line with the national market. Two-year maturity credits decreased by 75 basis points, 10-year maturities increased by 60 basis points, and 30-year maturities increased by 104 basis points. The Fund curves positioning affected performance negatively as a significant portion of the holdings were in the longer portion of the curve.

PIMCO California Municipal Income Fund III Performance & Statistics

September 30, 2008 (unaudited)

Total Return(1):	Market Price	Net Asset Value (NAV)
1 Year	(21.60)%	(18.96)%
5 Year	1.07%	2.52%
Commencement of Operations (10/31/02) to 9/30/08	0.20%	1.94%

Common Share Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 9/30/08

Market Price/NAV:

Market Price	\$10.54
NAV	\$11.13
Discount to NAV	(5.30)%
Market Price Yield(2)	6.83%

Moody's Ratings
(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) in the period covered. The calculation assumes that all of the Fund's income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average

annual total return.

The Fund's performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund distributions.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market yield and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

- (2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised from net investment income) payable to common shareholders by the market price per common share at September 30, 2008.

PIMCO New York Municipal Income Fund III Fund Insights

September 30, 2008 (unaudited)

For the 12-month period ended September 30, 2008, PIMCO New York Municipal Income Fund III (the Fund) returned (17.77)% on net asset value (NAV) and (22.55)% on market price, compared with (10.26)% and (16.98)%, respectively, for the Lipper Analytical New York Municipal Debt Funds average.

Municipal bond yields decreased in the shortest maturities inside of five years, while increasing in all other maturities during the 12-month period ended September 30, 2008.

Duration hedging strategies affected performance negatively in the Fund during the reporting period. Interest rates on Treasuries and London Inter-Bank Offered Rate (LIBOR) swaps moved significantly lower for the 12-month period across all maturities due to a dramatic flight to quality twice during the period, leading to municipal underperformance.

Municipal to Treasury yield ratios moved much higher during the period, ended at ratios never before experienced in the municipal bond market. The 10-year ratio increased to 110% and 30-year ratio increased to 122%.

Exposure to corporate backed munis affected performance negatively as the corporate sector experienced considerable uncertainty, especially toward the end of the period. Exposure to transportation related bonds also hurt performance as this sector underperformed during the period.

Exposure to pre-refunded munis was positive for performance as investors moved into the sector seeking the highest quality asset toward the end of the period. Exposure to special tax revenue bonds also helped performance during the period.

Tobacco securitization sector holdings detracted from performance due to the flight to quality with investors only choosing to purchase the highest quality munis, especially toward the end of the period.

Exposure to zero coupon municipals was negative for performance as the Lehman Zero Coupon Index returned (13.76)% for the 12-month period.

Long municipals dramatically underperformed long Treasuries and the taxable debt sector during the period as we saw two extreme flights to quality in February and September. The Lehman Long Municipal Bond Index returned (9.55)% during the 12-month period while the Long Government/Credit and the Long Lehman Treasury Indices returned (0.37)% and 10.43%, respectively.

Municipal bonds within New York outperformed the Lehman Municipal Bond Index for the 12-month period. Year-to-date, issuers in New York State have issued \$32.3 billion in bonds, 52% higher than the same period last year. New York ranks third among states in terms of issuance.

The shape of the New York Insured AAA municipal yield curve steepened during the period. Two-year maturity AAA credits decreased by 76 basis points, 10-year maturities increased by 52 basis points, and 30-year maturities increased by 94 basis points. The Fund curves positioning affected performance negatively as a significant portion of the holdings were in the longer portion of the curve.

Municipal bond issuance remained at increased levels with April and June both seeing issuance over \$50 billion, which has never been experienced before. Auction rate issuers, as well as money market issuers, continue to refinance into longer term debt due to rising interest costs. However, due to market turmoil towards the latter half of

the third quarter, issuance has slowed from the pace set during the first two quarters. During the 12-month period, issuance totaled over \$456 billion.

PIMCO New York Municipal Income Fund III Performance & Statistics

September 30, 2008 (unaudited)

Total Return(1):	Market Price	Net Asset Value (NAV)
1 Year	(22.55)%	(17.77)%
5 Year	(0.41)%	1.55%
Commencement of Operations (10/31/02) to 9/30/08	(0.99)%	2.00%

Common Share Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 9/30/08

Market Price/NAV:

Market Price	\$10.00
NAV	\$11.45
Discount to NAV	(12.66)%
Market Price Yield(2)	6.30%

Moody's Ratings
(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) in the period covered. The calculation assumes that all of the Fund's income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average

annual total return.

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- (2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised from net investment income) payable to common shareholders by the market price per common share at September 30, 2008.

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
MUNICIPAL BONDS & NOTES 97.5%			
Alabama 0.7%			
\$ 5,000	Birmingham Baptist Medical Centers Special Care Facs. Financing		
	Auth. Rev, 5.00%, 11/15/30, Ser. A	Baa1/NR	\$ 3,927,100
1,500	Colbert Cnty., Northwest Health Care Auth., Health Care Facs. Rev., 5.75%, 6/1/27	Baa3/NR	1,355,250
			5,282,350
Alaska 0.8%			
3,100	Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A	Baa3/NR	2,017,480
3,900	State Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A	Aaa/AAA	3,367,845
1,000	5.25%, 6/1/32, Ser. C (MBIA)	Aa2/AA	917,360
			6,302,685
Arizona 5.8%			
2,250	Health Facs. Auth. Rev., Beatitudes Project, 5.20%, 10/1/37	NR/NR	1,643,648
2,200	John C. Lincoln Health Network, 7.00%, 12/1/25, (Pre-refunded @ \$102, 12/1/10) (c)	NR/BBB	2,426,886
1,500	Maricopa Cnty. Pollution Control Corp., Pollution Control Rev., 5.05%, 5/1/29 (AMBAC)	Aa3/AA	1,209,270
16,000	Pima Cnty. Industrial Dev. Auth. Rev., Correctional Facs., 5.00%, 9/1/39	Aa2/AA	14,206,880
	Salt River Project Agricultural Improvement & Power Dist. Rev., Ser. A (i),		
5,000	5.00%, 1/1/35	Aa1/NR	4,720,700
16,000	5.00%, 1/1/37	Aa1/AA	15,054,560
5,600	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	Aa3/AA-	3,884,160
			43,146,104
Arkansas 0.1%			
7,000		Aa3/NR	740,950

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Arkansas Dev. Finance Auth. Rev., zero coupon, 7/1/46
(AMBAC)

California 10.1%

1,980	Chula Vista Community Facs. Dist., Special Tax, 5.25%, 9/1/30	NR/NR	1,642,608
25,735	Golden State Tobacco Securitization Corp. Rev., Ser. A-1, 6.25%, 6/1/33	Aaa/AAA	27,675,934
21,000	6.75%, 6/1/39, (Pre-refunded @ \$100, 6/1/13) (c) State, GO,	Aaa/AAA	23,479,470
400	5.00%, 6/1/37	A1/A+	362,148
840	5.00%, 11/1/37	A1/A+	760,208
14,460	5.00%, 11/1/37 (i)	A1/A+	13,086,445
5,800	5.00%, 12/1/37	A1/A+	5,248,478
3,060	Statewide Community Dev. Auth. Rev., Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(d)	NR/NR	2,991,364
			75,246,655

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
California (continued)			
Colorado 2.6%			
\$ 1,000	Aurora Single Tree Metropolitan Dist., GO, 5.50%, 11/15/31	NR/NR	\$ 829,310
9,955	Colorado Springs Rev., 5.00%, 11/15/30, Ser. B (i)	Aa2/NR	9,419,322
500	Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34	NR/NR	393,135
	El Paso Cnty., CP, Ser. B (AMBAC),		
1,725	5.00%, 12/1/23	Aa3/AA	1,578,858
1,500	5.00%, 12/1/27	Aa3/AA	1,329,135
1,000	Health Facs. Auth. Rev., American Baptist Homes, 5.90%, 8/1/37, Ser. A	NR/NR	802,240
1,500	Housing & Finance Auth. Rev., Evergreen Country Day School,		
	5.875%, 6/1/37 (a)(d)	NR/BB	1,239,900
4,000	Saddle Rock Metropolitan Dist., GO, 5.35%, 12/1/31 (Radian)	NR/BBB+	3,425,960
340	State School of Mines Auxiliary Facs. Rev., 5.00%, 12/1/37 (AMBAC)	Aa3/AA	315,418
			19,333,278
Florida 4.3%			
3,480	Brevard Cnty. Health Facs. Auth. Rev., 5.00%, 4/1/34	A2/A-	2,829,171
8,000	Highlands Cnty. Health Facs. Auth. Rev., Adventist Health System,		
	5.25%, 11/15/23, Ser. B, (Pre-refunded @ \$100, 11/15/12) (c)	A1/NR	8,484,800
2,500	Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital,		
	5.25%, 10/1/34, Ser. B	A3/NR	2,113,800
1,485	Julington Creek Plantation Community Dev. Dist., Special Assessment, 5.00%, 5/1/29 (MBIA)	A2/AA	1,299,553
1,000	Orange Cnty. Housing Finance Auth., Multifamily Rev., Palm Grove		
	Gardens, 5.25%, 1/1/28, Ser. G	Aaa/NR	900,820
3,895	Sarasota Cnty. Health Fac. Auth. Rev., 5.75%, 7/1/45	NR/NR	2,969,509
7,500	South Miami Health Facs. Auth., Hospital Rev., Baptist Health, 5.25%, 11/15/33, (Pre-refunded @ \$100, 2/1/13) (c)	Aaa/AA-	8,053,650
5,615	Tampa Water & Sewer Rev., 5.00%, 10/1/26, Ser. A	Aa2/AA	5,471,986
			32,123,289

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Georgia 0.7%			
1,750	Fulton Cnty. Rev., 5.125%, 7/1/42, Ser. A	NR/NR	1,238,615
4,000	Griffin Combined Public Utility Rev., 5.00%, 1/1/32 (AMBAC)	Aa3/AA	3,610,040
400	Medical Center Hospital Auth. Rev., 5.25%, 7/1/37	NR/NR	296,632
			5,145,287
Idaho 0.8%			
	State Building Auth., Building Rev., Ser. A (XLCA),		
1,000	5.00%, 9/1/33	NR/AA-	921,790
5,750	5.00%, 9/1/43	NR/AA-	5,166,720
			6,088,510

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Illinois 6.6%			
\$ 720	Chicago, GO, Ser. A (MBIA), 5.00%, 1/1/31	Aa3/AA	\$ 658,541
1,530	5.00%, 1/1/31, (Pre-refunded @ \$101, 1/1/11) (c)	Aa3/AA	1,614,288
1,600	Chicago, Lake Shore East, Special Assessment, 6.625%, 12/1/22	NR/NR	1,546,432
3,456	6.75%, 12/1/32	NR/NR	3,252,372
500	Chicago Board of Education School Reform, GO, zero coupon, 12/1/28, Ser. A (FGIC)	A1/AA-	139,485
3,000	Chicago Kingsbury Redev. Project, Tax Allocation, 6.57%, 2/15/13, Ser. A	NR/NR	3,002,730
7,000	Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC)	Aa3/AA+	6,472,690
4,780	Educational Facs. Auth. Rev., Univ. of Chicago, 5.00%, 7/1/33	Aa1/AA	4,483,066
165	5.25%, 7/1/41	Aa1/AA	158,755
65	5.25%, 7/1/41, (Pre-refunded @ \$101, 7/1/11) (c)	Aa1/AA	69,546
2,000	Finance Auth. Rev., Christian Homes, Inc., 5.75%, 5/15/31, Ser. A	NR/NR	1,612,200
1,500	Franciscan Communities, Inc., 5.50%, 5/15/37	NR/NR	1,181,985
1,000	Leafs Hockey Club, Ser. A, 5.875%, 3/1/27	NR/NR	785,620
625	6.00%, 3/1/37	NR/NR	472,881
12,795	Peoples Gas Light & Coke, 5.00%, 2/1/33 (AMBAC)	Aa3/AA	11,671,599
1,500	Sedgebrook, Inc., 6.00%, 11/15/37, Ser. A	NR/NR	1,256,475
1,050	Three Crowns Park Plaza, 5.875%, 2/15/38	NR/NR	860,192
1,175	Health Facs. Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22	Baa1/NR	1,130,009
2,400	Hillside, Tax Allocation, Mannheim Redev. Project, 6.55%, 1/1/20	NR/NR	2,282,568
1,600	7.00%, 1/1/28	NR/NR	1,480,736
4,283	Round Lake, Special Tax, 6.70%, 3/1/33, (Pre-refunded @ \$102, 3/1/13) (c)	NR/NR	4,807,411
600	Southwestern Dev. Auth. Rev., Comprehensive Mental Health Center, 6.625%, 6/1/37	NR/NR	514,788
			49,454,369

Indiana 2.9%

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1,375	Fort Wayne Pollution Control Rev., 6.20%, 10/15/25	Caa2/B-	783,489
7,535	Indiana Bond Bank Rev., 5.00%, 2/1/33, Ser. A (FSA) (i)	Aaa/AAA	7,006,872
5,000	Indianapolis Local Public Improvement Board, Tax Allocation, 5.00%, 2/1/29, Ser. G (MBIA)	A2/AA	4,689,900
2,500	Michigan City Area Wide School Building Corp., Rev. (FGIC), zero coupon, 1/15/21	NR/AA+	1,221,000
1,000	zero coupon, 7/15/21	NR/AA+	472,600
1,000	zero coupon, 1/15/22	NR/AA+	451,900

10 PIMCO Municipal Income Funds III Annual Report 9.30.08

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Indiana (continued)			
\$ 1,000	Plainfield Parks Facs. Corp. Lease Rent Rev., 5.00%, 1/15/22 (AMBAC)	Aa3/AA	\$ 973,430
1,000	Portage Industrial Economic Dev. Rev., Tax Allocation, 5.00%, 7/15/23	NR/BBB+	881,310
775	5.00%, 1/15/27	NR/BBB+	657,789
3,500	State Dev. Finance Auth., Pollution Control Rev., 5.00%, 3/1/30 (AMBAC)	Aa3/AAA	3,208,485
2,000	Vigo Cnty. Hospital Auth. Rev., 5.70%, 9/1/37 (a)(d)	NR/NR	1,594,620
			21,941,395
Iowa 1.9%			
1,000	Coralville, CP, 5.25%, 6/1/26, Ser. D Finance Auth. Rev.,	A2/NR	904,110
575	5.50%, 11/15/37	NR/NR	384,646
120	Deerfield Retirement Community, 5.50%, 11/15/27, Ser. A	NR/NR	86,616
3,715	Wedum Walnut Ridge LLC, 5.625%, 12/1/45, Ser. A	NR/NR	2,809,543
11,010	Tobacco Settlement Auth. of Iowa Rev., Ser. B, 5.60%, 6/1/34	Baa3/BBB	8,916,229
1,000	5.60%, 6/1/35, (Pre-refunded @ \$101, 6/1/11) (c)	NR/AAA	1,070,430
			14,171,574
Kentucky 0.1%			
1,000	Economic Dev. Finance Auth. Rev., Hospital Facs. Rev., Catholic Healthcare Partners, 5.25%, 10/1/30	A1/AA-	901,280
Louisiana 1.1%			
5,000	Public Facs. Auth. Rev., Ochsner Clinic Foundation, Ser. B, 5.50%, 5/15/32, (Pre-refunded @ \$100, 5/15/26) (c)	Aaa/NR	5,159,700
1,700	5.50%, 5/15/47	A3/NR	1,422,883
1,595	Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B	Baa3/BBB	1,369,706
			7,952,289
Maryland 0.2%			
1,500		A2/NR	1,378,290

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Health & Higher Educational Facs. Auth. Rev., Calvert Health
Systems,
5.50%, 7/1/36

Massachusetts 0.8%

1,000	Dev. Finance Agcy. Rev., 5.75%, 7/1/33, (Pre-refunded @ \$101, 7/1/13) Ser. C (c)	A3/A-	1,103,690
750	Linden Ponds, 5.75%, 11/15/35, Ser. A	NR/NR	585,870
4,910	State Housing Finance Agcy., Housing Rev., 5.125%, 6/1/43, Ser. H	Aa3/AA-	4,427,003
			6,116,563

Michigan 13.3%

500	Conner Creek Academy East Rev., 5.25%, 11/1/36	NR/BB+	379,750
33,040	Detroit Sewer Disposal System Rev., 5.00%, 7/1/32, Ser. A (FSA) (i)	Aaa/AAA	29,236,435

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Michigan (continued)			
\$ 35,000	Detroit Water Supply System Rev. (MBIA), 5.00%, 7/1/34, Ser. A	A2/AA	\$ 30,519,300
7,555	5.00%, 7/1/34, Ser. B	A2/AA	6,374,984
500	Star International Academy, CP, 6.125%, 3/1/37	NR/BB+	415,075
175	State Hospital Finance Auth. Rev., Detroit Medical Center, 5.25%, 8/15/23	Ba3/BB-	144,706
5,405	Oakwood Group, Ser. A, 5.75%, 4/1/32	A2/A	4,869,527
575	6.00%, 4/1/22	A2/A	576,340
20,000	Trinity Health Credit, 5.375%, 12/1/30	Aa2/AA	18,012,600
110	State Public Educational Facs. Auth. Rev., 7.00%, 10/1/36 (a)(b)	NR/NR	103,478
1,000	State Technological Univ. Rev., 5.00%, 10/1/33 (XLCA)	A1/BBB-	894,650
10,000	Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A	NR/BBB	7,578,100
			99,104,945
Minnesota 0.3%			
2,400	Upsala Independent School Dist. No. 487, GO, 5.00%, 2/1/28 (FGIC)	NR/AAA	2,529,480
Mississippi 0.5%			
3,000	Business Finance Corp., Pollution Control Rev., 5.875%, 4/1/22	Ba1/BBB	2,764,890
1,250	5.90%, 5/1/22	Ba1/BBB	1,154,337
			3,919,227
Missouri 1.7%			
1,350	St. Louis Cnty. Industrial Dev. Auth., Housing Dev. Rev., 5.20%, 1/20/36 (GNMA)	NR/AAA	1,200,177
1,500	St. Louis Industrial Dev. Auth. Rev. (GNMA), 5.125%, 12/20/29	NR/AAA	1,313,670
1,500	5.125%, 12/20/30	NR/AAA	1,303,485
7,500	State Health & Educational Facs. Auth., Health Facs. Rev., St. Anthony s Medical Center, 6.25%, 12/1/30, (Pre-refunded @ \$101, 12/1/10) (c)	A2/NR	8,143,950
250	Township of Jennings Rev., 5.00%, 11/1/23	NR/NR	215,365

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500	Univ. Place Transportation Dev. Dist., Special Assessment, 5.00%, 3/1/32	NR/NR	407,820
			12,584,467
	Montana 1.3%		
11,250	Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%, 3/1/31 (AMBAC)	Aa3/AA	9,651,037

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PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
New Hampshire 0.6%			
\$ 1,500	Manchester Water Works Rev. (FGIC), 5.00%, 12/1/28	Aa3/AA	\$ 1,409,190
3,250	5.00%, 12/1/34	Aa3/AA	2,987,823
			4,397,013
New Jersey 5.8%			
1,000	Camden Cnty., Improvement Auth. Rev., 5.00%, 2/15/35, Ser. A	Baa3/BBB	775,580
4,500	Economic Dev. Auth. Rev., Kapkowski Road Landfill, Special Assessment, 6.50%, 4/1/28	Baa3/NR	4,440,690
300	Newark Airport, 7.00%, 10/1/14	Ba1/NR	300,930
450	Seashore Gardens, 5.375%, 11/1/36 Financing Auth. Rev.,	NR/NR	339,444
2,500	Middlesex Cnty. Pollution Control Auth. Rev., 5.75%, 9/15/32	Baa2/BBB-	2,313,650
2,000	South Port Corp., 5.10%, 1/1/33 Health Care Facs. Financing Auth. Rev.,	NR/A	1,865,540
1,159	Pascack Valley Hospital, 6.625%, 7/1/36 (e)(k)	NR/D	149,999
2,000	Somerset Medical Center, 5.50%, 7/1/33	Ba2/NR	1,571,280
1,000	St. Peters Univ. Hospital, 5.75%, 7/1/37	Baa2/BBB-	879,420
1,150	Trinitas Hospital, 5.25%, 7/1/30, Ser. A	Baa3/BBB-	894,850
1,500	State Educational Facs. Auth. Rev., Fairfield Dickinson Univ., 6.00%, 7/1/25, Ser. D	NR/NR	1,466,715
22,645	Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1A	Baa3/BBB	14,374,367
525	6.00%, 6/1/37, (Pre-refunded @ \$100, 6/1/12) (c)	Aaa/AAA	575,001
950	6.125%, 6/1/24	Aaa/AAA	995,923
230	6.125%, 6/1/42, (Pre-refunded @ \$100, 6/1/12) (c)	Aaa/AAA	252,890
350	6.25%, 6/1/43, (Pre-refunded @ \$100, 6/1/13) (c)	Aaa/AAA	391,842
10,750	6.75%, 6/1/39, (Pre-refunded @ \$100, 6/1/13) (c)	Aaa/AAA	12,116,755
			43,704,876
New Mexico 0.1%			
1,000	Farmington Pollution Control Rev., 5.80%, 4/1/22	Baa3/BB+	884,350
New York 1.5%			
1,150		NR/NR	1,088,038

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	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A		
	New York City Municipal Water Finance Auth., Water & Sewer System Rev.,		
8,180	5.00%, 6/15/37, Ser. D (i)	Aa2/AAA	7,637,011
500	5.00%, 6/15/39, Ser. A	Aa2/AAA	465,895
2,000	State Environmental Facs. Corp. Rev., 5.00%, 6/15/28	Aaa/AAA	1,941,300
			11,132,244

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
North Carolina 1.4%			
\$ 2,000	Eastern Municipal Power Agcy., Power System Rev., 5.125%, 1/1/23, Ser. D	Baa1/BBB+	\$ 1,794,280
2,000	5.125%, 1/1/26, Ser. D	Baa1/BBB+	1,755,480
3,795	5.375%, 1/1/17, Ser. C	Baa1/BBB+	3,818,225
1,500	Medical Care Commission Rev., Carolina Villiage, 6.00%, 4/1/38	NR/NR	1,269,840
1,500	Cleveland Cnty., 5.00%, 7/1/35 (AMBAC)	Aa3/AA	1,310,175
1,000	Village at Brookwood, 5.25%, 1/1/32	NR/NR	760,300
			10,708,300
Ohio 1.4%			
5,000	Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2	Baa3/BBB	3,786,450
2,500	Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30	A1/AA-	2,291,450
5,000	Ohio Air Quality Dev. Auth. Rev., Dayton Power & Light Co., 4.80%, 1/1/34, Ser. B (FGIC) (i)	Aaa/NR	4,195,000
			10,272,900
Pennsylvania 4.6%			
11,300	Allegheny Cnty. Hospital Dev. Auth. Rev., 5.375%, 11/15/40, Ser. A	Ba3/BB	7,794,175
4,350	9.25%, 11/15/30, Ser. B, (Pre-refunded @ \$102, 11/15/10) (c)	Ba3/AAA	5,010,417
750	Cumberland Cnty. Auth., Retirement Community Rev., Messiah Village, Ser A, 5.625%, 7/1/28	NR/BBB-	651,262
670	6.00%, 7/1/35	NR/BBB-	591,597
1,500	Wesley Affiliated Services, 7.25%, 1/1/35, Ser. A, (Pre-refunded @ \$101, 1/1/13) (c)	NR/NR	1,739,355
3,250	Delaware River JT Toll Bridge, Commission Bridge Rev., 5.00%, 7/1/28	A2/A-	3,010,670
1,250	Harrisburg Auth. Rev., 6.00%, 9/1/36	NR/NR	1,107,913
3,000	Lehigh Cnty. General Purpose Auth. Rev., St. Luke s Bethlehem Hospital, 5.375%, 8/15/33, (Pre-refunded @ \$100, 8/15/13) (c)	Baa1/AAA	3,263,580
6,200	Philadelphia Hospitals & Higher Education Facs. Auth. Hospital Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser.	Baa3/BBB	5,459,224

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	A		
5,000	Philadelphia School Dist., GO, 5.125%, 6/1/34, Ser. D, (Pre-refunded @ \$100, 6/1/14) (FGIC) (c)	A1/A+	5,408,400
			34,036,593
	Puerto Rico 0.1%		
460	Electric Power Auth. Power Rev., 5.125%, 7/1/29, Ser. NN, (Pre-refunded @ \$100, 7/1/13) (c)	A3/BBB+	494,472

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PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
	South Carolina 1.8%		
\$ 7,500	Florence Cnty. Rev., McLeod Regional Medical Center, 5.00%, 11/1/31, Ser. A (FSA)	Aaa/AAA	\$ 6,567,300
5,305	Jobs-Economic Dev. Auth. Rev., Bon Secours, 5.625%, 11/15/30	A3/A-	4,839,858
1,395	5.625%, 11/15/30, (Pre-refunded @ \$100, 11/15/12) (c)	A3/A-	1,521,638
750	Woodlands at Furman, 6.00%, 11/15/37, Ser. A	NR/NR	615,247
			13,544,043
	South Dakota 0.2%		
1,705	Minnehaha Cnty. Health Facs. Rev., Bethany Lutheran, 5.375%, 12/1/27	NR/NR	1,393,241
	Tennessee 0.2%		
1,250	Knox Cnty. Health Educational & Housing Facs. Board Rev., Catholic Healthcare Partners, 5.25%, 10/1/30	A1/AA-	1,126,600
	Texas 13.0%		
1,300	Comal Cnty. Health Facs. Dev. Rev., McKenna Memorial Hospital Project, 6.25%, 2/1/32, (Pre-refunded @ \$100, 2/1/13) (c)	NR/AAA	1,447,862
6,810	Crowley Independent School Dist., GO, 4.75%, 8/1/35 (PSF-GTD) (i)	Aaa/AAA	5,942,338
5,745	Denton Independent School Dist., GO (PSF-GTD), zero coupon, 8/15/26, (Pre-refunded @ \$44.73, 8/15/12) (c)	Aaa/AAA	2,234,345
255	zero coupon, 8/15/26	Aaa/AAA	91,815
5,745	zero coupon, 8/15/27, (Pre-refunded @ \$42.17, 8/15/12) (c)	Aaa/AAA	2,106,462
255	zero coupon, 8/15/27	Aaa/AAA	86,465
4,785	zero coupon, 8/15/28, (Pre-refunded @ \$39.75, 8/15/12) (c)	Aaa/AAA	1,653,792
215	zero coupon, 8/15/28	Aaa/AAA	68,639
5,745	zero coupon, 8/15/29, (Pre-refunded @ \$37.46, 8/15/12) (c)	Aaa/AAA	1,871,204
255	zero coupon, 8/15/29	Aaa/AAA	76,635
1,915	zero coupon, 8/15/30, (Pre-refunded @ \$35.30, 8/15/12) (c)	Aaa/AAA	587,694
85	zero coupon, 8/15/30	Aaa/AAA	24,042
7,660	zero coupon, 8/15/31, (Pre-refunded @ \$33.25, 8/15/12) (c)	Aaa/AAA	2,214,582
340	zero coupon, 8/15/31	Aaa/AAA	90,559
10,115	5.00%, 8/15/33 (i)	Aaa/NR	9,498,491
12,855	El Paso, GO, 4.75%, 8/15/33 (FSA)(i)	Aaa/AAA	11,512,810

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5,000	Houston Water & Sewer System Rev., 5.00%, 12/1/30, Ser. A, (Pre-refunded @ \$100, 12/1/12) (FSA) (c)	Aaa/AAA	5,317,750
465	Judson Independent School Dist., GO, 5.00%, 2/1/30 (PSF-GTD)	Aaa/NR	441,011
11,950	Mansfield Independent Sch. Dist., GO, 5.00%, 2/15/28, (PSF-GTD) (i) Mesquite Independent School Dist. No. 1, GO, Ser. A (PSF-GTD),	Aaa/AAA	11,434,716
1,365	zero coupon, 8/15/16	NR/AAA	947,870
1,000	zero coupon, 8/15/18	NR/AAA	614,300
1,000	zero coupon, 8/15/19	NR/AAA	567,610
1,000	zero coupon, 8/15/20	NR/AAA	515,900

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PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Texas (continued)			
\$ 5,500	North Harris Cnty. Regional Water Auth. Rev., 5.25%, 12/15/33	A3/A+	\$ 4,878,115
5,500	5.50%, 12/15/38	A3/A+	4,997,630
11,800	North Texas Tollway Auth. Rev., 5.625%, 1/1/33, Ser. A	A2/A-	10,756,172
2,105	Northwest Harris Cnty. Municipal Utility Dist. No. 16, GO, 5.30%, 10/1/29 (Radian)	NR/BBB+	2,124,787
2,000	Sabine River Auth. Rev., 5.20%, 5/1/28	Caa1/CCC	1,384,260
11,115	Univ. Rev., 5.00%, 8/15/33, Ser. B, (Pre-refunded @ \$100, 8/15/13) (c)(i)	Aaa/AAA	11,651,743
2,500	Willacy Cnty. Rev., 6.875%, 9/1/28, Ser. A-1	NR/NR	2,236,725
			97,376,324
Utah 0.4%			
1,750	Cnty. of Weber, IHC Health Services Rev., 5.00%, 8/15/30	NR/NR	1,494,868
750	Spanish Fork City Rev., 5.70%, 11/15/36	NR/NR	614,295
720	Utah Cnty. Lincoln Academy Charter School Rev., GO, 5.875%, 6/15/37, Ser. A (a)(d)	NR/NR	604,814
			2,713,977
Virginia 0.1%			
1,000	James City Cnty. Economic Dev. Auth. Rev., 5.50%, 7/1/37, Ser. A	NR/NR	742,180
Washington 9.6%			
6,375	Chelan Cnty. Public Utility Dist. Rev., 5.125%, 7/1/33, Ser. C (AMBAC)	Aa2/AA	6,103,106
15,000	King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (FSA)(i)	Aaa/AAA	14,162,100
17,375	Port Tacoma GO, 5.00%, 12/1/33, (Pre-refunded @ \$100, 12/1/13) (AMBAC) (c)	Aa3/AA	18,680,037
10,000	Seattle Drain & Wastewater Rev., 5.00%, 7/1/32 (FGIC)	Aa2/AA+	9,055,000
3,400	State Housing Finance Commission Rev., Skyline at First Hill, 5.625%, 1/1/38, Ser. A	NR/NR	2,658,120
21,505	Tobacco Settlement Auth., Tobacco Settlement Rev., 6.50%, 6/1/26	Baa3/BBB	20,744,368
			71,402,731

Wisconsin 0.1%

560	Badger Tobacco Asset Securitization Corp. Rev., 6.00%, 6/1/17	Baa3/BBB	552,154
700	Milwaukee Redev. Auth. Rev., 5.65%, 8/1/37, Ser. A	NR/NR	565,264

1,117,418

Total Municipal Bonds & Notes (cost \$786,547,445) 728,161,286

VARIABLE RATE NOTES (g) 2.2%

Florida 0.6%

6,385	State Turnpike Auth. Rev., 1.71%, 7/1/31, Ser. 1450 (a)(d)(f)	Aa2/NR	4,554,548
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PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
	New York 1.3%		
\$ 11,650	Liberty Dev. Corp. Rev., 3.00%, 10/1/35, Ser. 1451 (a)(d)(f)	Aa3/NR	\$ 1,561,100
10,000	State Dormitory Auth. Rev., Univ. & College Improvement., 1.43%, 3/15/35, Ser. 1216 (a)(d)(f)	NR/AAA	7,867,600
			9,428,700
	Ohio 0.3%		
3,460	State Air Quality Dev. Auth. Rev., 2.971%, 1/1/34 (FGIC) (a)(d)(f)	A2/NR	1,801,414
	Pennsylvania 0.0%		
350	Washington Cnty. Redev. Auth., Tax Allocation, 5.45%, 7/1/35, Ser. A	NR/NR	280,014
	Total Variable Rate Notes (cost \$34,855,956)		16,064,676
	SHORT-TERM INVESTMENTS 0.3%		
	Municipal Bonds & Notes 0.1%		
	California 0.1%		
1,000	Alameda Public Financing Auth. Rev., 7.00%, 6/1/09	NR/NR	791,480
	U.S. Treasury Bills (j) 0.2%		
1,750	0.62%-1.00%, 10/16/08-12/11/08		1,748,666
	Total Short-Term Investments (cost \$2,747,056)		2,540,146
	Total Investments (cost \$824,150,457) 100.0%		\$ 746,766,108

PIMCO California Municipal Income Fund III Schedule of Investments
September 30, 2008

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
CALIFORNIA MUNICIPAL BONDS & NOTES 92.6%			
	Assoc. of Bay Area Gov't Finance Auth. Rev., Odd Fellows Home (CA Mtg. Ins.),		
\$ 3,200	5.20%, 11/15/22	NR/A+	\$ 3,137,152
11,725	5.35%, 11/15/32	NR/A+	11,249,199
	Burbank Public Finance Auth., Tax Allocation, San Fernando Redev. Project,		
1,135	5.50%, 12/1/28	NR/BBB	1,018,322
1,000	5.50%, 12/1/33	NR/BBB	890,540
2,000	Butte-Glenn Community College Dist., GO, Ser. A (MBIA), 5.00%, 8/1/26	A1/NR	1,887,200
2,000	Capistrano Unified School Dist., Community Fac. Dist., Special Tax, 6.00%, 9/1/32, (Pre-refunded @ \$100, 9/1/13) (c)	NR/NR	2,238,100
500	Carson Public Financing Auth., Special Assessment, 5.00%, 9/2/31, Ser. B	NR/NR	392,825
1,000	Cathedral City Public Financing Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (MBIA)	A2/AA	894,800
1,150	Ceres Redev. Agcy., Tax Allocation, 5.00%, 11/1/33 (MBIA)	A2/AA	1,021,131
2,825	Ceres Unified School Dist., GO (FGIC), zero coupon, 8/1/28	NR/A	800,831
2,940	zero coupon, 8/1/29	NR/A	777,365
	Chula Vista Community Facs. Dist., Special Tax, Eastlake Woods,		
675	6.15%, 9/1/26	NR/NR	630,524
1,620	6.20%, 9/1/33	NR/NR	1,486,107
	Otay Ranch Village,		
1,920	5.125%, 9/1/36	NR/NR	1,508,179
1,600	5.75%, 9/1/33	NR/NR	1,387,536
1,000	City of Carlsbad, Special Assessment, 6.00%, 9/2/34	NR/NR	917,080
	Contra Costa Cnty. Public Financing Auth., Tax Allocation, Ser. A,		
1,415	5.625%, 8/1/33	NR/BBB	1,324,327
1,585	5.625%, 8/1/33, (Pre-refunded @ \$100, 8/1/13) (c)	NR/BBB	1,744,419
3,775	Cucamonga School Dist., CP, 5.20%, 6/1/27	NR/A-	3,417,054
	Educational Facs. Auth. Rev.,		
2,455	Loyola Marymount Univ., zero coupon, 10/1/34, Ser. A (MBIA)	A2/NR	483,414
5,000	Pepperdine Univ., 5.00%, 9/1/33, Ser. A (FGIC)	Aa3/NR	4,574,150

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1,250	Fremont Community Dist., Special Tax, 5.30%, 9/1/30	NR/NR	1,094,438
5,000	6.30%, 9/1/31	NR/NR	4,607,200
9,500	Fresno School Unified Dist., GO, 6.00%, 8/1/26, Ser. A (MBIA)	A2/AA	9,564,980
4,380	Glendale Electric Works Rev., 5.00%, 2/1/27 (MBIA)	Aa3/AA	4,246,760
10,000	Golden State Tobacco Securitization Corp. Rev., 5.00%, 6/1/33, Ser. A-1	Baa3/BBB	6,965,200
10,000	5.00%, 6/1/35, Ser. A (FGIC)	A2/A	8,437,600

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PIMCO California Municipal Income Fund III Schedule of Investments
September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
\$ 10,000	5.00%, 6/1/35, Ser. A (FGIC) (i)	A2/A	\$ 8,437,600
4,000	5.00%, 6/1/45, Ser. A (FGIC-TCRS) (i)	A2/AAA	3,202,480
9,000	5.00%, 6/1/45 (AMBAC-TCRS) (i)	Aa3/AAA	7,119,630
16,795	6.25%, 6/1/33, Ser. A-1	Aaa/AAA	18,061,679
38,490	6.75%, 6/1/39, Ser. A-1, (Pre-refunded @ \$100, 6/1/13) (c) Health Facs. Finance Auth. Rev.,	Aaa/AAA	43,034,514
6,000	Cottage Health System, 5.00%, 11/1/33, Ser. B (MBIA) Paradise VY Estates (CA Mtg. Ins.),	A2/AA	5,447,040
2,000	5.125%, 1/1/22	NR/A+	1,939,080
1,550	5.25%, 1/1/26	NR/A+	1,485,396
7,750	Infrastructure & Economic Dev. Bank Rev., Bay Area Toll Bridges, 5.00%, 7/1/36, (Pre-refunded @ \$100, 1/1/28) (AMBAC) (c) Kaiser Assistance Corp.,	Aaa/AAA	7,525,560
3,000	5.50%, 8/1/31, Ser. B	A2/A	2,752,380
8,000	5.55%, 8/1/31, Ser. A	NR/A+	7,388,240
20	Lancaster Financing Auth., Tax Allocation, 4.75%, 2/1/34 (MBIA)	A2/AA	16,537
825	Lee Lake Water Dist. Community Facs. Dist. No. 2, Montecito Ranch, Special Tax, 6.125%, 9/1/32	NR/NR	768,784
6,000	Los Angeles Department of Water & Power Rev. (i), 4.75%, 7/1/30, Ser. A-2 (FSA)	Aa1/NR	5,206,260
10,000	5.00%, 7/1/30, Ser. A	Aa3/AA-	9,293,500
20,000	5.00%, 7/1/35, Ser. A (FSA)	Aaa/AAA	18,342,600
5,280	Modesto Irrigation Dist., CP, 5.00%, 7/1/33, Ser. A (MBIA)	A2/AA	4,831,094
4,585	Moreno Valley Unified School Dist. Community Facs. Dist., Special Tax, 5.20%, 9/1/36	NR/NR	3,528,249
5,000	Oakland, GO, 5.00%, 1/15/33, Ser. A (MBIA)	A1/AA	4,445,300
1,545	Oakland Redev. Agcy., Tax Allocation, 5.25%, 9/1/33, (Pre-refunded @ \$100, 3/1/13) (c)	NR/A	1,674,286
5,000	Orange Cnty. Community Facs. Dist., Ladera Ranch, Special Tax, 5.55%, 8/15/33, Ser. A	NR/NR	4,445,800
5,000	Orange Cnty. Unified School Dist., CP, 4.75%, 6/1/29 (MBIA)	A1/AA	4,326,300
1,000	Orange Cnty. Water Dist. Rev., CP, Ser. B (MBIA), 5.00%, 8/15/28	Aa2/AA+	933,130
5,525	5.00%, 8/15/34	Aa2/AA+	5,083,556
2,000		A2/AA	1,876,740

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	Palm Desert Financing Auth., Tax Allocation, 5.00%, 4/1/25 (MBIA)		
1,410	Pomona Public Financing Auth. Rev., 5.00%, 12/1/37, Ser. AF (MBIA)	A2/AA	1,231,522
	Poway Unified School Dist. Community Facs. Dist. No. 6, Special Tax,		
1,950	5.125%, 9/1/28 Area A,	NR/BBB	1,701,960
1,285	6.05%, 9/1/25	NR/NR	1,259,634
2,100	6.125%, 9/1/33	NR/NR	2,025,870
1,700	Area B, 5.125%, 9/1/28	NR/NR	1,430,873

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PIMCO California Municipal Income Fund III Schedule of Investments
September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
\$ 5,000	Riverside, CP, 5.00%, 9/1/33 (AMBAC)	Aa3/AA	\$ 4,506,700
500	Rocklin Unified School Dist. Community Facs., Special Tax, 5.00%, 9/1/29 (MBIA)	A2/AA	460,985
1,315	Sacramento City Financing Auth. Rev., North Natomas Community Facs. Dist. No. 2, 6.25%, 9/1/23, Ser. A	NR/NR	1,209,208
7,520	Sacramento Cnty. Water Financing Auth. Rev., 5.00%, 6/1/34, (Pre-refunded @ \$100, 6/1/13) (AMBAC) (c)	Aa3/AA	8,101,522
8,000	Sacramento Muni Utility Dist. Rev., 5.00%, 8/15/33, Ser. R (MBIA)	A1/AA	7,211,040
12,075	San Diego Community College Dist., GO, 5.00%, 5/1/28, Ser. A (FSA) (i)	Aaa/AAA	11,780,008
	San Diego Community Facs. Dist. No. 3, Special Tax, Ser. A (a),		
890	5.60%, 9/1/21	NR/NR	839,199
580	5.70%, 9/1/26	NR/NR	509,559
1,700	5.75%, 9/1/36	NR/NR	1,437,163
	San Diego Unified School Dist., GO, Ser. E (FSA),		
11,000	5.00%, 7/1/26	Aaa/AAA	11,587,070
8,425	5.00%, 7/1/28	Aaa/AAA	8,874,642
1,500	San Diego Univ. Foundation Auxiliary Organization, Rev., 5.00%, 3/1/27, Ser. A (MBIA)	A2/AA	1,347,435
3,000	San Jose, Libraries & Parks, GO, 5.125%, 9/1/31	Aa1/AAA	3,013,140
15,700	San Marcos Public Facs. Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (FGIC)	A3/A-	13,450,190
	Santa Ana Unified School Dist., GO, Ser. B (FGIC),		
2,515	zero coupon, 8/1/26	NR/A+	839,582
3,520	zero coupon, 8/1/28	NR/A+	1,036,922
2,500	zero coupon, 8/1/30	NR/A+	642,825
3,780	zero coupon, 8/1/31	NR/A+	921,451
3,770	zero coupon, 8/1/32	NR/A+	863,896
	Santa Margarita Water Dist., Special Tax,		
1,820	6.25%, 9/1/29	NR/NR	1,847,901
4,090	6.25%, 9/1/29, (Pre-refunded @ \$102, 9/1/09) (c)	NR/NR	4,305,257
3,550	Santa Monica Community College Dist., GO, zero coupon, 8/1/27, Ser. C (MBIA)	Aa2/AA	1,078,668
4,425	South Tahoe JT Powers Financing Auth. Rev., 5.45%, 10/1/33	NR/BBB	3,900,726
12,310		Aa3/AA	13,249,499

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	Southern CA Public Power Auth., Power Project Rev., Ser. A, 5.00%, 7/1/33, (Pre-refunded @ \$100, 7/1/13) (AMBAC) (a)(c)(i)		
4,095	State Department Veteran Affairs Home Purchase Rev., 5.35%, 12/1/27, Ser. A (AMBAC)	Aa2/AA	3,928,866
500	State Muni Finance Auth. Rev., 7.00%, 10/1/39, Ser. A State Public Works Board Lease Rev.,	NR/NR	468,365
1,105	Patton, 5.375%, 4/1/28	A2/A	1,048,115
4,600	Univ. CA M.I.N.D. Inst., 5.00%, 4/1/28, Ser. A State, GO,	Aa2/AA-	4,342,768
265	5.00%, 6/1/37	A1/A+	239,923
10,300	5.00%, 11/1/37(i)	A1/A+	9,321,603

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PIMCO California Municipal Income Fund III Schedule of Investments
September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
\$ 4,000	5.00%, 12/1/37 Statewide Community Dev. Auth. Rev.,	A1/A+	\$ 3,619,640
1,150	Baptist Univ., 5.50%, 11/1/38, Ser. A	NR/NR	945,680
2,500	Berkeley Montessori School, 7.25%, 10/1/33 Catholic Healthcare West,	NR/NR	2,427,150
1,200	5.50%, 7/1/31, Ser. D	A2/A	1,091,976
1,200	5.50%, 7/1/31, Ser. E	A2/A	1,091,964
15,000	Health Facs., Memorial Health Services, 5.50%, 10/1/33, Ser. A	NR/A+	13,339,800
1,250	Huntington Park Chapter School, 5.25%, 7/1/42, Ser. A	NR/NR	952,525
3,505	Internext Group, CP, 5.375%, 4/1/30	NR/BBB	2,906,767
7,300	Jewish Home, 5.50%, 11/15/33 (CA St. Mtg.)	NR/A+	7,124,800
10,000	Sutter Health, 5.50%, 8/15/34, Ser. B	Aa3/AA-	9,471,900
2,500	Valleycare Health, 5.125%, 7/15/31, Ser. A	NR/NR	1,929,925
975	Windrush School, 5.50%, 7/1/37	NR/NR	766,048
2,000	Tamalpais Union High School Dist., GO, 5.00%, 8/1/26 (MBIA)	A2/AA+	1,946,940
2,000	Temecula Public Financing Auth. Community Facs. Dist., Crowne Hill, Special Tax, 6.00%, 9/1/33, Ser. A Tobacco Securitization Agcy. Rev., Alameda Cnty.,	NR/NR	1,842,680
8,100	5.875%, 6/1/35	Baa3/NR	6,732,072
7,000	6.00%, 6/1/42	Baa3/NR	5,756,380
4,860	Gold Cnty., zero coupon, 6/1/33	NR/BBB	646,088
2,000	Kern Cnty., 6.125%, 6/1/43, Ser. A	NR/BBB	1,674,740
5,000	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	Baa3/BBB	3,548,450
2,950	Torrance Medical Center Rev., 5.50%, 6/1/31, Ser. A	A1/A+	2,757,926
5,500	Univ. Rev., 4.75%, 5/15/35, Ser. 1119 (FSA)(i)	NR/AAA	4,838,130
1,000	West Basin Municipal Water Dist. Rev., CP, 5.00%, 8/1/30, Ser. A (MBIA)	Aa3/AA	923,560
2,500	William S. Hart Union High School Dist., Special Tax, 6.00%, 9/1/33	NR/NR	2,233,225
2,750	Woodland Finance Auth., Lease Rev., 5.00%, 3/1/32 (XLCA)	A3/BBB-	2,386,641
	Total California Municipal Bonds & Notes (cost \$489,281,132)		458,831,262

OTHER MUNICIPAL BONDS & NOTES 4.4%

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Florida 0.8%			
4,720	Sarasota Cnty. Health Fac. Auth. Rev., 5.625%, 7/1/27	NR/NR	3,893,811
Indiana 0.8%			
5,000	Vigo Cnty. Hospital Auth. Rev., 5.70%, 9/1/37 (a)(d)	NR/NR	3,986,550
Pennsylvania 0.7%			
1,000	Allegheny Cnty. Hospital Dev. Auth. Rev., Ser. A, 5.00%, 11/15/28	Ba3/BB	706,170
4,000	5.375%, 11/15/40	Ba3/BB	2,759,000
			3,465,170

PIMCO California Municipal Income Fund III Schedule of Investments

September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
	Puerto Rico 1.8%		
\$ 315	Electric Power Auth. Power Rev., 5.125%, 7/1/29, Ser. NN, (Pre-refunded @ \$100, 7/1/13) (c)	A3/BBB+	\$ 338,606
4,420	Public Building Auth. Rev., Gov't Facs., 5.00%, 7/1/36, Ser. I (GTD)	Baa3/BBB-	3,814,018
290	5.25%, 7/1/36, Ser. D	Baa3/BBB-	260,388
23,200	Sales Tax Financing Corp. Rev., Ser. A, zero coupon, 8/1/47 (AMBAC)	Aa3/AA	2,017,472
29,200	zero coupon, 8/1/54 (AMBAC)	Aa3/AA	1,536,504
26,300	zero coupon, 8/1/56	A1/A+	1,183,500
			9,150,488
	South Dakota 0.3%		
2,000	Minnehaha Cnty. Health Facs. Rev., Bethany Lutheran, 5.50%, 12/1/35	NR/NR	1,561,460
	Total Other Municipal Bonds & Notes (cost \$29,174,164)		22,057,479
	CALIFORNIA VARIABLE RATE NOTE (a)(d)(f)(g) 0.1%		
1,745	Los Angeles Unified School Dist., GO, 24.429%, 1/1/23 (MBIA) (cost \$1,694,479)	NR/AA	645,877
	OTHER VARIABLE RATE NOTES (g) 1.0%		
	New York 0.2%		
1,090	New York City Municipal Water Finance Auth., Water & Sewer System Rev., 2.11%, 6/15/37, Ser. 1226 (a)(d)(f)	Aa2/NR	873,017
	Puerto Rico 0.8%		
3,800	Public Finance Corp. Rev., 5.75%, 8/1/27, Ser. A	Ba1/BBB-	3,841,990
	Total Other Variable Rate Notes (cost \$5,037,756)		4,715,007
	SHORT-TERM INVESTMENTS 1.9%		
	Municipal Bonds & Notes 0.2%		
	California 0.2%		
1,000	Alameda Public Financing Auth. Rev., 7.00%, 6/1/09	NR/NR	791,480

California Variable Rate Demand Note (a)(g)(h) 1.6%

7,835	Los Angeles Unified School District, GO, zero coupon, 10/2/08 (MBIA)	NR/A-1	7,835,000
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U.S. Treasury Bill (j) 0.1%

750	1.00%, 10/16/08		749,688
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	Total Short-Term Investments (cost \$9,583,077)		9,376,168
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	Total Investments (cost \$534,770,608) 100.0%		\$ 495,625,793
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PIMCO New York Municipal Income Fund III Schedule of Investments
September 30, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
NEW YORK MUNICIPAL BONDS & NOTES 86.6%			
\$ 790	Dutchess Cnty. Industrial Dev. Agcy. Rev., 5.25%, 1/1/37 East Rochester Housing Auth. Rev.,	NR/NR	\$ 593,653
2,800	St. Mary s Residence Project, 5.375%, 12/20/22 (GNMA)	NR/AAA	2,784,628
1,400	Woodland Project, 5.50%, 8/1/33	NR/NR	1,120,938
1,300	Erie Cnty. Industrial Dev. Agcy., Orchard Park Rev., 6.00%, 11/15/36	NR/NR	1,063,634
1,060	Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.25%, 10/1/35	Aa3/AA-	876,408
2,990	5.25%, 10/1/35 (i)	Aa3/AA-	2,472,132
900	5.50%, 10/1/37	Aa3/AA-	769,941
1,000	Long Island Power Auth., Electric System Rev., 5.00%, 9/1/27, Ser. C	A3/A-	908,630
1,200	Metropolitan Transportation Auth. Rev., 5.00%, 11/15/26, Ser. B	A2/A	1,102,236
6,220	5.00%, 11/15/32, Ser. A (FGIC) (i)	A2/A	5,629,287
100	Monroe Tobacco Asset Securitization Corp. Rev., 6.375%, 6/1/35, (Pre-refunded @ \$101, 6/1/10) (c)	Aaa/AAA	107,273
2,750	Mortgage Agcy. Rev., 4.75%, 10/1/27, Ser. 128	Aa1/NR	2,428,855
1,300	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	NR/NR	1,229,956
2,000	Nassau Cnty. Tobacco Settlement Corp., Rev., 6.60%, 7/15/39, (Pre-refunded @ \$101, 7/15/09) (c)	Aaa/AAA	2,085,940
7,195	New York City, GO Ser. I, 5.00%, 3/1/33	Aa3/AA	6,588,174
235	5.375%, 3/1/27	Aa3/AAA	230,281
800	New York City Industrial Dev. Agcy. Rev., Liberty Interactive Corp., 5.00%, 9/1/35 Yankee Stadium,	Ba2/BB+	617,552
2,000	5.00%, 3/1/31 (FGIC)	Baa3/BBB-	1,771,660
200	5.00%, 3/1/36 (MBIA)	A2/AA	174,076
3,000	New York City Municipal Water Finance Auth., Water & Sewer System Rev., 5.00%, 6/15/32, Ser. A	Aa2/AAA	2,832,750
5,000	New York City Trust for Cultural Res. Rev., 5.00%, 2/1/34 (FGIC) (i)	Aa3/AA-	4,670,550
2,995	New York Cntys. Tobacco Trust II Rev., 5.625%, 6/1/35	Ba1/BBB	2,717,364
1,000	Niagara Falls Public Water Auth., Water & Sewer System Rev., 5.00%, 7/15/34, Ser. A (MBIA)	A2/AA	900,330
1,855	Sachem Central School Dist. of Holbrook, GO,	A1/AA+	1,995,349

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	5.00%, 6/15/30 (MBIA)		
	State Dormitory Auth. Rev.,		
1,400	Catholic Health of Long Island, 5.10%, 7/1/34	Baa1/BBB	1,168,580
2,250	Jewish Board Family & Children, 5.00%, 7/1/33 (AMBAC)	Aa3/AA	2,136,555
2,000	Kaleida Health Hospital, 5.05%, 2/15/25 (FHA)	NR/AAA	1,824,440
3,250	Lenox Hill Hospital, 5.50%, 7/1/30	Ba1/NR	2,951,195

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PIMCO New York Municipal Income Fund III Schedule of Investments
September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
\$ 2,040	Long Island Univ., Ser. A (Radian), 5.00%, 9/1/23	A3/BBB+	\$ 1,836,306
\$ 4,000	5.00%, 9/1/32	A3/BBB+	3,434,920
3,000	Lutheran Medical Hospital, 5.00%, 8/1/31 (FHA-MBIA)	A2/AA	2,843,400
	Mount St. Mary College (Radian), 5.00%, 7/1/27	NR/BBB+	1,807,240
2,000	5.00%, 7/1/32	NR/BBB+	1,769,700
1,000	New York Univ., 5.00%, 7/1/31, Ser. 2 (AMBAC)	Aa3/AA	959,260
1,000	New York Univ. Hospital, 5.625%, 7/1/37, Ser. B	Ba2/BB	900,530
6,150	North General Hospital, 5.00%, 2/15/25	NR/AA-	5,884,504
1,000	North Shore L.I. Jewish Group, 5.50%, 5/1/33, (Pre-refunded @ \$100, 5/1/13) (c)	Aaa/NR	1,094,960
7,000	Rockefeller Univ., 5.00%, 7/1/32 (i)	Aaa/AAA	6,690,320
1,000	School Dist. Financing, 5.00%, 10/1/30, Ser. D (MBIA)	A2/AA	926,930
1,250	Skidmore College, 5.00%, 7/1/28 (FGIC)	A1/NR	1,179,238
3,740	St. Barnabas Hospital, 5.00%, 2/1/31, Ser. A (AMBAC-FHA)	Aa3/AA	3,348,123
1,400	State Personal Income Tax, 5.00%, 3/15/32, (Pre-refunded @ \$100, 3/15/13) (c)	Aa3/AAA	1,497,734
1,250	Student Housing Corp., 5.125%, 7/1/34, (Pre-refunded @ \$100, 7/1/14) (FGIC) (c)	NR/NR	1,345,375
1,500	Teachers College, 5.00%, 7/1/32 (MBIA)	A1/NR	1,447,350
2,500	Winthrop-Nassau Univ., 5.75%, 7/1/28	Baa1/NR	2,330,775
620	Winthrop Univ. Hospital Assoc., 5.50%, 7/1/32, Ser. A	Baa1/NR	543,405
2,000	Yeshiva Univ., 5.125%, 7/1/34 (AMBAC)	Aa2/NR	1,953,720
	State Environmental Facs Corp. Rev., (i) 4.75%, 7/15/28	Aaa/AAA	5,149,460
5,575	4.75%, 7/15/33	Aaa/AAA	8,005,717
8,855	State Urban Dev. Corp. Rev., Personal Income Tax, 5.00%, 3/15/33, Ser. C-1, (Pre-refunded @ \$100, 3/15/13) (c)	Aa3/AAA	2,028,573
	Triborough Bridge & Tunnel Auth. Rev., 5.00%, 11/15/32 (MBIA) (i)	Aa3/AA	3,749,600
4,000	5.00%, 11/15/37, Ser. A	Aa2/AA-	934,620
1,000	Ulster Cnty. Industrial Dev. Agcy. Rev., 6.00%, 9/15/37, Ser. A	NR/NR	828,864
960	Warren & Washington Cntys. Industrial Dev. Agcy. Rev., Glens Falls Hospital, 5.00%, 12/1/35, Ser. A (FSA)	Aaa/AAA	1,862,340
2,000	Westchester Cnty. Industrial Dev. Agcy. Continuing Care Retirement Rev., Kendal on Hudson, 6.50%, 1/1/34,	NR/NR	1,404,500
1,250			

(Pre-refunded @ \$100, 1/1/13) (c)

Total New York Municipal Bonds & Notes
(cost \$127,299,712)

119,509,831

PIMCO New York Municipal Income Fund III Schedule of Investments
September 30, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
OTHER MUNICIPAL BONDS & NOTES 11.4%			
California 2.9%			
\$ 3,560	Golden State Tobacco Securitization Corp. Rev., 6.75%, 6/1/39, Ser. A-1, (Pre-refunded @ \$100, 6/1/13) (c)	Aaa/AAA	\$ 3,980,329
District of Columbia 0.1%			
175	Tobacco Settlement Financing Corp. Rev., 6.50%, 5/15/33	Baa3/BBB	156,641
Indiana 1.7%			
1,000	Vigo Cnty. Hospital Auth. Rev. (a)(d), 5.70%, 9/1/37	NR/NR	797,310
2,000	5.75%, 9/1/42	NR/NR	1,573,620
			2,370,930
Puerto Rico 6.0%			
2,400	Aqueduct & Sewer Auth. Rev., 6.00%, 7/1/38, Ser. A	Baa3/BBB-	2,315,976
1,700	Children's Trust Fund Tobacco Settlement Rev., 5.50%, 5/15/39	Baa3/BBB	1,481,448
580	5.625%, 5/15/43	Baa3/BBB	504,386
210	Electric Power Auth. Power Rev., 5.125%, 7/1/29, Ser. NN, (Pre-refunded @ \$100, 7/1/13) (c)	A3/BBB+	225,737
4,000	Public Building Auth. Rev., Gov't Facs., 5.00%, 7/1/36, Ser. I (GTD)	Baa3/BBB-	3,451,600
5,000	Sales Tax Financing Corp. Rev., zero coupon, 8/1/54, Ser. A (AMBAC)	Aa3/AA	263,100
			8,242,247
Rhode Island 0.3%			
500	Tobacco Settlement Financing Corp. Rev., 6.125%, 6/1/32, Ser. A	Baa3/BBB	444,455
South Carolina 0.3%			
370	Tobacco Settlement Rev. Management Auth. Rev., 6.375%, 5/15/30, Ser. B	Baa3/BBB	390,298
Washington 0.1%			
135	Tobacco Settlement Auth. Rev., 6.625%, 6/1/32	Baa3/BBB	127,684

Total Other Municipal Bonds & Notes (cost \$16,119,995)			15,712,584
NEW YORK VARIABLE RATE NOTE (a)(d)(g) 0.3%			
700	State Urban Dev. Corp. Rev., 1.967%, 3/15/35 (cost \$757,713)	NR/AAA	451,220
NEW YORK VARIABLE RATE DEMAND NOTES (g)(h) 1.7%			
City of New York NY, GO,			
1,465	2.80%, 11/3/08 (FSA)	VMIG1/A-1+	1,465,000
900	3.50%, 11/3/08	VMIG1/A-1+	900,000
Total New York Variable Rate Demand Notes (cost \$2,365,000)			2,365,000
Total Investments (cost \$146,542,420) 100.0%			\$ 138,038,635

PIMCO Municipal Income Funds III Notes to Schedules of Investments

September 30, 2008

* Unaudited

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$22,318,838, representing 2.99% of total investments in Municipal III; securities with an aggregate value of \$29,375,864, representing 5.93% of total investments in California Municipal III; securities with an aggregate value of \$2,822,150, representing 2.04% of total investments in New York Municipal III.
- (b) Illiquid security.
- (c) Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding date (payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate).
- (d) 144A Security Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (e) Fair Valued Security security with an aggregate value of \$149,999, representing 0.02% of total investments in Municipal III.
- (f) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on September 30, 2008.
- (g) Variable Rate Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on September 30, 2008.
- (h) Maturity date shown is date of next put.
- (i) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Funds acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (j) All or partial amount segregated as collateral for swap contracts.
- (k) Security in default.

Glossary:

AMBAC insured by American Municipal Bond Assurance Corp.

CA Mtg. Ins. insured by California Mortgage Insurance

CA St. Mtg. insured by California State Mortgage

CP Certificates of Participation

FGIC insured by Financial Guaranty Insurance Co.

FHA insured by Federal Housing Administration

FSA insured by Financial Security Assurance, Inc.

GNMA insured by Government National Mortgage Association

GO General Obligation Bond

GTD Guaranteed

MBIA insured by Municipal Bond Investors Assurance

NR Not Rated

PSF Public School Fund

Radian insured by Radian Guaranty, Inc.

TCRS Temporary Custodian Receipts
XLCA insured by XL Capital Assurance

26 PIMCO Municipal Income Funds III Annual Report 9.30.08 **See accompanying Notes to Financial Statements**

PIMCO Municipal Income Funds III Statements of Assets and Liabilities
September 30, 2008

	Municipal III	California Municipal III	New York Municipal III
Assets:			
Investments, at value (cost \$824,150,457, \$534,770,608 and \$146,542,420, respectively)	\$746,766,108	\$495,625,793	\$138,038,635
Cash	4,067,565	2,010,856	163,800
Interest receivable	12,617,682	7,534,594	1,835,608
Premium for swaps purchased	5,764,508	3,895,748	1,116,218
Deposits with brokers for futures contracts collateral	1,905,000	1,420,000	450,000
Receivable for variation margin on futures contracts	1,785,000	1,208,594	345,312
Prepaid expenses and other assets	133,330	739,618	40,365
Total Assets	773,039,193	512,435,203	141,989,938
Liabilities:			
Payable for floating rate notes	122,778,152	72,874,411	29,010,325
Payable for investments purchased	20,878,652	1,906,688	3,461
Proceeds payable from retirement of floating rate notes	7,019,500	5,640,000	802,000
Dividends payable to common and preferred shareholders	2,589,551	1,667,221	300,620
Interest payable	508,114	592,145	184,971
Investment management fees payable	299,845	204,298	53,366
Unrealized depreciation of swaps	5,896,675	3,985,072	1,141,808
Accrued expenses and other liabilities	143,132	129,469	342,056
Total Liabilities	160,113,621	86,999,304	31,838,607
	270,000,000	185,000,000	47,000,000

Preferred shares (\$0.00001 par value and \$25,000 net asset and liquidation value per share applicable to an aggregate of 10,800, 7,400 and 1,880 shares issued and outstanding, respectively)

Net Assets Applicable to Common Shareholders	\$342,925,572	\$240,435,899	\$63,151,331
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Composition of Net Assets Applicable to Common Shareholders:

Common Stock:

Par value (\$0.00001 per share)	\$317	\$216	\$55
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Paid-in-capital in excess of par	450,706,272	306,191,464	78,189,823
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Undistributed net investment income	4,009,960	1,707,824	669,514
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Accumulated net realized loss	(29,029,315)	(24,350,716)	(6,900,302)
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Net unrealized depreciation of investments, futures contracts and swaps	(82,761,662)	(43,112,889)	(8,807,759)
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Net Assets Applicable to Common Shareholders	\$342,925,572	\$240,435,899	\$63,151,331
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Common Shares Outstanding	31,729,114	21,595,180	5,517,633
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Net Asset Value Per Common Share	\$10.81	\$11.13	\$11.45
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See accompanying Notes to Financial Statements 9.30.08 PIMCO Municipal Income Funds III Annual Report 27

PIMCO Municipal Income Funds III Statements of Operations

Year ended September 30, 2008

	Municipal III	California Municipal III	New York Municipal III
Investment Income:			
Interest	\$51,272,697	\$32,828,798	\$8,418,371
Expenses:			
Interest expense	5,420,965	4,497,771	1,275,870
Investment management fees	4,564,331	3,094,546	800,957
Auction agent fees and commissions	703,325	474,640	123,900
Custodian and accounting agent fees	456,558	191,330	67,171
Audit and tax services	75,107	61,048	40,688
Trustees' fees and expenses	64,247	48,554	24,369
Shareholder communications	56,509	40,601	11,539
Transfer agent fees	34,420	35,033	33,571
Legal fees	28,492	22,381	14,973
New York Stock Exchange listing fees	25,188	21,163	20,962
Insurance expense	11,059	7,835	2,406
Miscellaneous	12,997	11,998	11,268
Total expenses	11,453,198	8,506,900	2,427,674
Less: investment management fees waived	(733,062)	(497,163)	(128,631)
custody credits earned on cash balances	(35,182)	(23,109)	(7,636)
Net expenses	10,684,954	7,986,628	2,291,407
Net Investment Income	40,587,743	24,842,170	6,126,964

Realized and Change In Unrealized Gain (Loss)

Net realized gain (loss) on:

Investments	9,737,988	4,133,822	377,209
Futures contracts	(16,930,807)	(11,183,508)	(2,997,797)
Options written	1,336,920	918,253	235,823
Net change in unrealized appreciation/depreciation of:			
Investments	(111,322,831)	(65,631,188)	(14,861,172)
Futures contracts	589,304	468,678	103,097
Swaps	(5,896,675)	(3,985,072)	(1,141,808)
Net realized and change in unrealized loss on investments, futures contracts, options written and swaps	(122,486,101)	(75,279,015)	(18,284,648)
Net Decrease in Net Assets Resulting from Investment Operations	(81,898,358)	(50,436,845)	(12,157,684)
Dividends on Preferred Shares from Net Investment Income	(9,396,018)	(6,269,965)	(1,631,983)
Net Decrease in Net Assets Applicable to Shareholders Resulting from Investment Operations	\$(91,294,376)	\$(56,706,810)	\$(13,789,667)

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**PIMCO Municipal Income Funds III Statements of Changes in Net Assets
Applicable to Common Shareholders**

	Municipal III	
	Year ended September 30, 2008	Year ended September 30, 2007
Investment Operations:		
Net investment income	\$40,587,743	\$36,929,364
Net realized gain (loss) on investments, futures contracts and options written	(5,855,899)	4,167,656
Net change in unrealized appreciation/depreciation of investments, futures contracts, options written and swaps	(116,630,202)	(16,790,726)
Net increase (decrease) in net assets resulting from investment operations	(81,898,358)	24,306,294
Dividends on Preferred Shares from Net Investment Income	(9,396,018)	(9,548,808)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(91,294,376)	14,757,486
Dividends to Common Shareholders from Net Investment Income	(26,568,968)	(26,397,297)
Capital Share Transactions:		
Reinvestment of dividends	2,874,798	3,042,593
Total decrease in net assets applicable to common shareholders	(114,988,546)	(8,597,218)
Net Assets Applicable to Common Shareholders:		
Beginning of year	457,914,118	466,511,336
End of year (including undistributed (dividends in excess of) net investment income of \$4,009,960 and \$(612,794); \$1,707,824 and \$(1,366,248); \$669,514 and \$(318,262), respectively)	\$342,925,572	\$457,914,118
Common Shares Issued in Reinvestment of Dividends	206,774	202,633

PIMCO Municipal Income Funds III Statements of Changes in Net Assets
Applicable to Common Shareholders (continued)

California Municipal III		New York Municipal III	
Year ended September 30, 2008	Year ended September 30, 2007	Year ended September 30, 2008	Year ended September 30, 2007
\$24,842,170	\$23,096,778	\$6,126,964	\$5,690,778
(6,131,433)	1,814,644	(2,384,765)	1,013,886
(69,147,582)	(7,584,274)	(15,899,883)	(3,634,317)
(50,436,845)	17,327,148	(12,157,684)	3,070,347
(6,269,965)	(6,244,266)	(1,631,983)	(1,607,055)
(56,706,810)	11,082,882	(13,789,667)	1,463,292
(15,524,827)	(18,727,275)	(3,476,109)	(4,316,067)
709,712	1,365,933		433,794
(71,521,925)	(6,278,460)	(17,265,776)	(2,418,981)
311,957,824	318,236,284	80,417,107	82,836,088
\$240,435,899	\$311,957,824	\$63,151,331	\$80,417,107
53,487	86,683		28,231

See accompanying Notes to Financial Statements 9.30.08 PIMCO Municipal Income Funds III Annual Report **31**

PIMCO Municipal Income Fund III Statement of Cash Flows

Year ended September 30, 2008

Cash Flows provided by Operating Activities:	
Purchases of long-term investments	\$(116,947,731)
Proceeds from sales of long-term investments	204,698,831
Increase in deposits with brokers for futures collateral	(1,905,000)
Interest received	40,035,935
Net cash used for swap transactions	(5,764,508)
Operating expenses paid	(5,507,648)
Net cash used for futures transactions	(18,126,503)
Net cash provided by options written	1,336,920
Net decrease in short-term investments	6,078,283
Net cash provided by operating activities	103,898,579
Cash Flows used for Financing Activities:	
Cash dividends paid (excluding reinvestment of \$2,874,798)	(32,844,420)
Payments to retire floating rate notes	(104,242,945)
Cash receipts on issuance of floating rate notes	34,624,666
Net cash used for financing activities*	(102,462,699)
Net increase in cash	1,435,880
Cash at beginning of year	2,631,685
Cash at end of year	4,067,565
Reconciliation of Net Decrease in Net Assets Resulting from Investment Operations to Net Cash Provided by Operating Activities:	
Net decrease in net assets resulting from investment operations	(81,898,358)

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Increase in deposits with brokers for futures contracts collateral	(1,905,000)
Decrease in receivable for investments sold	60,000
Increase in payable for investments purchased	19,703,510
Increase in proceeds payable from retirement of floating rate notes	7,019,500
Increase in interest receivable	(1,173,869)
Increase in premium for swaps purchased	(5,764,508)
Decrease in prepaid expenses and other assets	6,883
Increase in investment management fees payable	1,783
Increase in net unrealized depreciation of swaps	5,896,675
Increase in net receivable for variation margin on futures contracts	(1,785,000)
Decrease in accrued expenses and other liabilities	(252,325)
Net decrease in investments	163,989,288
Net cash provided by operating activities	\$103,898,579

* **Supplemental Disclosure**

Non-cash financing activity not included consists of interest expense on floating rate notes issued of \$5,420,965.

PIMCO California Municipal Income Fund III Statement of Cash Flows
Year ended September 30, 2008

Cash Flows provided by Operating Activities:	
Purchases of long-term investments	\$(41,514,446)
Proceeds from sales of long-term investments	128,716,303
Increase in deposits with brokers for futures collateral	(1,420,000)
Interest received	26,731,997
Net cash used for swap transactions	(3,895,748)
Operating expenses paid	(3,625,762)
Net cash provided by options written	918,253
Net cash used for futures transactions	(11,923,424)
Net increase in short-term investments	(1,960,552)
Net cash provided by operating activities	92,026,621
Cash Flows used for Financing Activities:	
Cash dividends paid (excluding reinvestment of \$709,712)	(20,784,107)
Payments to retire floating rate notes	(86,589,476)
Cash receipts on issuance of floating rate notes	15,225,000
Net cash used for financing activities*	(92,148,583)
Net decrease in cash	(121,962)
Cash at beginning of year	2,132,818
Cash at end of year	2,010,856
Reconciliation of Net Decrease in Net Assets Resulting from Investment Operations to Net Cash Provided by Operating Activities:	
Net decrease in net assets resulting from investment operations	(50,436,845)

Increase in deposits with brokers for futures contracts collateral	(1,420,000)
Increase in payable for investments purchased	1,906,688
Increase in proceeds payable from retirement of floating rate notes	5,640,000
Increase in interest receivable	(136,693)
Increase in premium for swaps purchased	(3,895,748)
Decrease in prepaid expenses and other assets	4,799
Increase in investment management fees payable	1,015
Increase in net unrealized depreciation of swaps	3,985,072
Increase in net receivable for variation margin on futures contracts	(1,208,594)
Decrease in accrued expenses and other liabilities	(142,719)
Net decrease in investments	137,729,646
Net cash provided by operating activities	\$92,026,621

*** Supplemental Disclosure**

Non-cash financing activity not included consists of interest expense on floating rate notes issued of \$4,497,771.

See accompanying Notes to Financial Statements 9.30.08 PIMCO Municipal Income Funds III Annual Report 33

PIMCO New York Municipal Income Fund III Statement of Cash Flows
Year ended September 30, 2008

Cash Flows provided by Operating Activities:	
Purchases of long-term investments	\$(10,747,957)
Proceeds from sales of long-term investments	20,322,793
Increase in deposits with brokers for futures collateral	(450,000)
Interest received	6,673,143
Net cash used for swap transactions	(1,116,218)
Operating expenses paid	(1,050,798)
Net cash used for futures transactions	(3,240,012)
Net cash provided by options written	235,823
Net decrease in short-term investments	3,131,762
Net cash provided by operating activities	13,758,536
Cash Flows used for Financing Activities:	
Cash dividends paid	(5,125,734)
Payments to retire floating rate notes	(20,037,667)
Cash receipts on issuance of floating rate notes	10,225,000
Net cash used for financing activities*	(14,938,401)
Net decrease in cash	(1,179,865)
Cash at beginning of year	1,343,665
Cash at end of year	163,800
Reconciliation of Net Decrease in Net Assets Resulting from Investment Operations to Net Cash Provided by Operating Activities:	
Net decrease in net assets resulting from investment operations	(12,157,684)

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Increase in deposits with brokers for futures contracts collateral	(450,000)
Decrease in receivable for investments sold	60,000
Increase in payable for investments purchased	3,461
Increase in proceeds payable from retirement of floating rate notes	802,000
Increase in interest receivable	(229,104)
Increase in premium for swaps purchased	(1,116,218)
Decrease in prepaid expenses and other assets	886
Increase in investment management fees payable	1,314
Increase in net unrealized depreciation on swaps	1,141,808
Increase in net receivable for variation margin on futures contracts	(345,312)
Decrease in accrued expenses and other liabilities	(37,461)
Net decrease in investments	26,084,846
Net cash provided by operating activities	\$13,758,536

* **Supplemental Disclosure**

Non-cash financing activity not included consists of interest expense on floating rate notes issued of \$1,275,870.

PIMCO Municipal Income Funds III Notes to Financial Statements
September 30, 2008

1. Organization and Significant Accounting Policies

PIMCO Municipal Income Fund III (Municipal III), PIMCO California Municipal Income Fund III (California Municipal III) and PIMCO New York Municipal Income Fund III (New York Municipal III), collectively referred to as the Funds or PIMCO Municipal Income Funds III , were organized as Massachusetts business trusts on August 20, 2002. Prior to commencing operations on October 31, 2002, the Funds had no operations other than matters relating to their organization and registration as non-diversified, closed-end management investment companies registered under the Investment Company Act of 1940 and the rules and regulations thereunder, as amended. Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the investment manager and is an indirect, wholly-owned subsidiary of Allianz Global Investors of America L.P. (Allianz Global). Allianz Global is an indirect, majority-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. Each Fund has an unlimited amount of \$0.00001 par value common stock authorized.

Under normal market conditions, Municipal III invests substantially all of its assets in a portfolio of municipal bonds, the interest from which is exempt from federal income taxes. Under normal market conditions, California Municipal III invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal and California state income taxes. Under normal market conditions, New York Municipal III invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal, New York State and New York City income taxes. The Funds will generally seek to avoid bonds generating interest income which could potentially subject individuals to alternative minimum tax. The issuers' abilities to meet their obligations may be affected by economic and political developments in a specific state or region.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

In the normal course of business the Funds enter into contracts that contain a variety of representations which provide general indemnifications. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet been asserted. However, the Funds expect the risk of any loss to be remote.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (the Interpretation). The Interpretation establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. The Funds' management has determined that its evaluation of the Interpretation has resulted in no material impact to the Funds' financial statements at September 30, 2008. The Funds' federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

In September 2006, FASB issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements , which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial

statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, the Funds are in the process of reviewing SFAS 157 against their current valuation policies to determine the effect the adoption of this standard will have on the Funds.

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires enhanced disclosures about a fund's derivative and hedging activities. The Funds' management is currently evaluating the impact the adoption of SFAS 161 will have on the Funds' financial statement disclosures.

In September 2008, FASB issued a FASB Staff Position No. 133-1 and FIN 45-4 Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP). FSP requires enhanced transparency of the effect of credit derivatives and guarantees on an issuer's financial position, financial performance and cash flows. FSP is effective for fiscal years ending after November 15, 2008. FSP applies to certain credit derivatives, hybrid instruments that have embedded credit

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2008

1. Organization and Significant Accounting Policies (continued)

derivatives (for example, credit-linked notes), and certain guarantees and it requires additional disclosures regarding credit derivatives with sold protection. Management is currently evaluating the impact of this new requirement.

The following is a summary of significant accounting policies consistently followed by the Funds:

(a) Valuation of Investments

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

Portfolio securities and other financial instruments for which market quotations are not readily available or if a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The Funds' investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Prices obtained from independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Exchange traded options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Securities purchased on a when-issued or delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Funds to value securities may differ from the value that would be realized if the securities were sold and these differences could be material to the financial statements. Each Fund's net asset value is normally determined daily as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

(b) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Securities purchased and sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date. Realized gains and losses on investments are determined on the identified cost basis. Interest income is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized to interest income over the lives of the respective securities using the effective interest method.

(c) Federal Income Taxes

The Funds intend to distribute all of their taxable income and to comply with the other requirements of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

(d) Dividends and Distributions Common Stock

The Funds declare dividends from net investment income monthly to common shareholders. Distributions of net realized capital gains, if any, are paid at least annually. The Funds record dividends and distributions to their shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes; they are reported as dividends and/or distributions of paid-in-capital in excess of par.

(e) Futures Contracts

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date. Upon entering into such a contract, the Funds are required to pledge to the broker an amount of cash or securities, equal to the minimum initial margin requirements of the exchange. Pursuant to the contracts, the Funds agree to receive from or pay to the broker an amount of cash or securities equal to the daily fluctuation in the value of the

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2008

1. Organization and Significant Accounting Policies (continued)

contracts. Such receipts or payments are known as variation margin and are recorded by the Funds as unrealized appreciation or depreciation. When the contracts are closed, the Funds record a realized gain or loss equal to the difference between the value of the contracts at the time they were opened and the value at the time they were closed. Any unrealized appreciation or depreciation recorded is simultaneously reversed. The use of futures transactions involves the risk of an imperfect correlation in the movements in the price of futures contracts, interest rates and the underlying hedged assets, and the possible inability of counterparties to meet the terms of their contracts.

(f) Option Transactions

The Funds may purchase and write (sell) put and call options on securities for hedging purposes, risk management purposes or as part of their investment strategies. The risk associated with purchasing an option is that the Funds pay a premium whether or not the option is exercised. Additionally, the Funds bear the risk of loss of premium and change in market value should the counterparty not perform under the contract. Put and call options purchased are accounted for in the same manner as portfolio securities. The cost of securities acquired through the exercise of call options is increased by the premiums paid. The proceeds from securities sold through the exercise of put options are decreased by the premiums paid.

When an option is written, the premium received is recorded as an asset with an equal liability which is subsequently marked to market to reflect the current market value of the option written. These liabilities are reflected as options written in the Statements of Assets and Liabilities. Premiums received from writing options which expire unexercised are recorded on the expiration date as a realized gain. The difference between the premium received and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or if the premium is less than the amount paid for the closing purchased transactions, as a realized loss. If a call option written by the Funds is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether there has been a realized gain or loss. If a put option written by the Funds is exercised, the premium reduces the cost basis of the security. In writing an option, the Funds bear the market risk of an unfavorable change in the price of the security underlying the written option. Exercise of a written option could result in the Funds purchasing a security at a price different from the current market value.

(g) Interest Rate Swaps

The Funds may enter into interest rate swap contracts (swaps) for investment purposes, to manage their interest rate risk or to add leverage.

Interest rate swap agreements involve the exchange by the Funds with a counterparty of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. Net periodic payments received (paid) by the Funds are included as part of realized gain (loss) and net periodic payments accrued, but not yet received (paid) are included in change in the unrealized appreciation/depreciation on the Statements of Operations.

Swaps are marked to market daily based upon quotations from brokers or market makers and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Funds Statements of Operations.

Entering into swaps involves, to varying degrees, elements of credit, market and documentation risk in excess of the amounts recognized on the Statements of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreements, and that there may be unfavorable changes in net interest rates.

(h) Inverse Floating Rate Transactions Residual Interest Municipal Bonds (RIBs) / Residual Interest Tax Exempt Bonds (RITEs)

The Funds invest in RIBs and RITEs collectively, (Inverse Floaters) whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. In inverse floating rate transactions, the Funds sell a fixed rate municipal bond (Fixed Rate Bond) to a broker who places the Fixed Rate Bond in a special purpose trust (Trust) from which floating rate bonds (Floating Rate Notes) and Inverse Floaters are issued. The Funds simultaneously or within a short period of time purchase the Inverse Floaters from the broker. The Inverse Floaters held by the Funds provide the Funds with the right to: (1) cause the holders of the Floating Rate Notes to tender their notes at par, and (2) cause the broker to transfer the Fixed Rate Bond held by the Trust to the Funds, thereby collapsing the Trust. Pursuant to Statement of Financial Accounting Standards No. 140 (FASB Statement No. 140), the Funds account for the transaction described

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2008

1. Organization and Significant Accounting Policies (continued)

above as a secured borrowing by including the Fixed Rate Bond in their Schedules of Investments, and account for the Floating Rate Notes as a liability under the caption Payable for floating rate notes in the Funds Statements of Assets and Liabilities. The Floating Rate Notes have interest rates that generally reset weekly and their holders have the option to tender their notes to the broker for redemption at par at each reset date.

The Funds may also invest in Inverse Floaters without transferring a Fixed Rate Bond into a Trust, which are not accounted for as secured borrowings.

Inverse Floaters are created by dividing the income stream provided by the underlying bonds to create two securities, one short-term and one long-term. The interest rate on the short-term component is reset typically every 7 to 35 days by an index or auction process. After income is paid on the short-term securities at current rates, the residual income from the underlying bond(s) goes to the long-term securities. Therefore, rising short-term rates result in lower income for the long-term component and vice versa. The longer-term bonds may be more volatile and less liquid than other municipal bonds of comparable maturity. Investments in Inverse Floaters typically will involve greater risk than an investment in Fixed Rate Bonds. The Funds may also invest in Inverse Floaters for the purpose of increasing leverage.

The Funds restrictions on borrowings do not apply to the secured borrowings deemed to have occurred for accounting purposes pursuant to FASB Statement No. 140. Inverse Floaters held by the Funds are exempt from registration under Rule 144A of the Securities Act of 1933.

(i) Interest Expense

Interest expense relates to the Funds liability in connection with floating rate notes held by third parties in conjunction with Inverse Floater transactions. Interest expense is recorded as incurred.

(j) Custody Credits Earned on Cash Balances

The Funds benefit from an expense offset arrangement with their custodian bank whereby uninvested cash balances earn credits which reduce monthly custodian and accounting agent expenses. Had these cash balances been invested in income producing securities, they would have generated income for the Funds.

2. Investment Manager/Sub-Adviser

The Funds have Investment Management Agreements (collectively the Agreements) with the Investment Manager. Subject to the supervision of the Funds Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds investment activities, business affairs and administrative matters. Pursuant to the Agreements, the Funds pay the Investment Manager an annual fee, payable on a monthly basis, at an annual rate of 0.65% of each Funds average daily net assets, inclusive of net assets attributable to any preferred shares that may be outstanding. In order to reduce each Funds expenses, the Investment Manager has contractually agreed to waive a portion of its investment management fees for each Fund at the annual rate of 0.15% of each Funds average daily net assets, including net assets attributable to any preferred shares that may be outstanding through October 31, 2007. On November 1, 2007, the contractual fee waiver was reduced to 0.10% of each Funds average daily net assets inclusive of net assets attributable to any preferred shares that may be outstanding through October 31, 2008, and for a declining amount thereafter through October 31, 2009. For the fiscal year ended September 30, 2008, each Fund paid investment management fees at an annualized effective rate of 0.55% of each Fund s average daily net assets inclusive

of net assets attributable to any preferred shares that may be outstanding.

The Investment Manager has retained its affiliate, Pacific Investment Management Company LLC (the Sub-Adviser), to manage the Funds' investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds' investment decisions. The Investment Manager, not the Funds, pays a portion of the fees it receives to the Sub-Adviser in return for its services.

3. Investments in Securities

For the year ended September 30, 2008, purchases and sales of investments, other than short-term securities and U.S. government obligations, were:

	Municipal III	California Municipal III	New York Municipal III
Purchases	\$143,670,741	\$49,061,134	\$11,553,418
Sales	205,002,131	129,310,824	20,562,043

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2008

3. Investments in Securities (continued)

(a) Futures contracts outstanding at September 30, 2008:

Fund	Type	Contracts	Market Value (000)	Expiration Date	Unrealized Appreciation
Municipal III:	Short: U.S. Treasury Bond Futures	(672)	\$(78,740)	12/19/08	\$509,265
California Municipal III:	Short: U.S. Treasury Bond Futures	(455)	\$(53,313)	12/19/08	\$344,810
New York Municipal III:	Short: U.S. Treasury Bond Futures	(130)	\$(15,232)	12/19/08	\$98,511

Municipal III, California Municipal III and New York Municipal III pledged \$1,905,000, \$1,420,000 and \$450,000, respectively, in cash as collateral for futures contracts.

(b) Transactions in options written for the year ended September 30, 2008:

	Contracts	Premiums
<u>Municipal III:</u>		
Options outstanding, September 30, 2007		\$
Options written	1,873	1,336,920
Options expired	(1,873)	(1,336,920)
Options outstanding, September 30, 2008		\$
<u>California Municipal III:</u>		
Options outstanding, September 30, 2007		\$
Options written	1,285	918,253
Options expired	(1,285)	(918,253)
Options outstanding, September 30, 2008		\$

New York Municipal III:

Options outstanding, September 30, 2007		\$
Options written	330	235,823
Options expired	(330)	(235,823)
Options outstanding, September 30, 2008		\$

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2008

3. Investments in Securities (continued)

(c) Interest rate swap agreements outstanding at September 30, 2008:

Swap Counterparty	Notional Amount (000)	Termination Date	Payments Made by Fund	Rate Type Payments Received by Fund	Unrealized Depreciation
<u>Municipal III:</u>					
Morgan Stanley	\$115,600	12/18/2033	5.00%	3-Month USD-LIBOR	\$(4,337,177)
Royal Bank of Scotland	44,500	12/18/2033	5.00%	3-Month USD-LIBOR	(1,559,498)
					(5,896,675)
<u>California Municipal III:</u>					
Morgan Stanley	\$78,100	12/18/2033	5.00%	3-Month USD-LIBOR	\$(2,930,221)
Royal Bank of Scotland	30,100	12/18/2033	5.00%	3-Month USD-LIBOR	(1,054,851)
					(3,985,072)
<u>New York Municipal III:</u>					
Morgan Stanley	\$22,400	12/18/2033	5.00%	3-Month USD-LIBOR	\$(840,422)
Royal Bank of Scotland	8,600	12/18/2033	5.00%	3-Month USD-LIBOR	(301,386)
					\$(1,141,808)

LIBOR London Inter-Bank Offered Rate

Municipal III, California Municipal III and New York Municipal III received \$1,600,000, \$1,500,000 and \$100,000 principal value, respectively, in U.S. Treasury Bills as collateral for swaps.

4. Income Tax InformationMunicipal III:

The tax character of dividends paid were:

Year ended

Year ended

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	September 30, 2008	September 30, 2007
Ordinary Income	\$1,385,853	\$1,486,090
Tax Exempt Income	\$34,579,133	\$34,460,015

At September 30, 2008, the tax character of distributable earnings of \$4,009,960 was comprised entirely of tax-exempt income.

In accordance with U.S. Treasury regulations, Municipal III elected to defer realized capital losses of \$2,005,016 arising after October 31, 2007. Such losses are treated for tax purposes as arising on October 1, 2008.

At September 30, 2008, Municipal III had a capital loss carryforward of \$26,396,480 (\$14,905,572 of which will expire in 2013, \$9,012,699 of which will expire in 2014 and \$2,478,209 of which will expire in 2016), available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

For the year ended September 30, 2008, permanent book-tax differences were primarily attributable to the differing treatment of inverse floater transactions. These adjustments were to decrease undistributed net investment income and decrease accumulated net realized loss by \$3.

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2008

4. Income Tax Information (continued)California Municipal III:

The tax character of dividends paid were:

	Year ended September 30, 2008	Year ended September 30, 2007
Ordinary Income	\$900,179	\$1,020,966
Tax Exempt Income	\$20,894,613	\$23,950,575

At September 30, 2008, the tax character of distributable earnings of \$1,707,824 was comprised entirely of tax-exempt income.

In accordance with U.S. Treasury regulations, California Municipal III elected to defer realized capital losses of \$1,361,711 arising after October 31, 2007. Such losses are treated for tax purposes as arising on October 1, 2008.

At September 30, 2008, California Municipal III had a capital loss carryforward of \$21,624,581 (\$522,414 of which will expire in 2012, \$11,508,959 of which will expire in 2013, \$8,216,646 of which will expire in 2014 and \$1,376,562 of which will expire in 2016), available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

For the year ended September 30, 2008, permanent book-tax differences were primarily attributable to the differing treatment of inverse floater transactions. These adjustments were to increase undistributed net investment income and increase accumulated net realized loss by \$26,694.

New York Municipal III:

The tax character of dividends paid were:

	Year ended September 30, 2008	Year ended September 30, 2007
Ordinary Income	\$142,888	\$154,375
Tax Exempt Income	\$4,965,204	\$5,768,747

At September 30, 2008, the tax character of distributable earnings of \$669,514 was comprised entirely of tax-exempt income.

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In accordance with U.S. Treasury regulations, New York Municipal III elected to defer realized capital losses of \$1,937,791 arising after October 31, 2007. Such losses are treated for tax purposes as arising on October 1, 2008.

At September 30, 2008, New York Municipal III had a capital loss carryforward of \$4,215,121 (\$2,183,511 of which will expire in 2013, \$1,605,360 of which will expire in 2014 and \$426,250 of which will expire in 2016), available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

For the year ended September 30, 2008, permanent book-tax differences were primarily attributable to the differing treatment of inverse floater transactions. These adjustments were to decrease undistributed net investment income and decrease accumulated net realized loss by \$31,096.

The cost of investments for federal income tax purposes and gross unrealized appreciation and gross unrealized depreciation of investments for the Funds at September 30, 2008 were:

	Cost of Investments	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Depreciation
Municipal III	\$701,570,602	\$13,972,628	\$(91,465,433)	\$(77,492,805)
California Municipal III	463,947,635	10,580,074	(51,072,314)	(40,492,240)
New York Municipal III	117,188,822	1,713,770	(10,127,112)	(8,413,342)

The difference between book and tax depreciation is primarily attributable to inverse floater transactions.

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2008

4. Income Tax Information (continued)**5. Auction-Rate Preferred Shares**

Municipal III has issued 2,160 shares of Preferred Shares Series A, 2,160 shares of Preferred Shares Series B, 2,160 shares of Preferred Shares Series C, 2,160 shares of Preferred Shares Series D and 2,160 shares of Preferred Shares Series E, each with a net asset and liquidation value of \$25,000 per share plus accrued dividends.

California Municipal III has issued 3,700 shares of Preferred Shares Series A and 3,700 shares of Preferred Shares Series B, each with a net asset and liquidation value of \$25,000 per share plus accrued dividends.

New York Municipal III has issued 1,880 shares of Preferred Shares Series A with a net asset and liquidation value of \$25,000 per share plus accrued dividends.

Dividends are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures. Distributions of net realized capital gains, if any, are paid annually.

For the year ended September 30, 2008, the annualized dividend rates ranged from:

	High	Low	At September 30, 2008
<u>Municipal III:</u>			
Series A	11.347%	2.400%	8.499%
Series B	12.565%	2.000%	12.565%
Series C	12.261%	1.000%	12.261%
Series D	11.728%	2.000%	11.728%
Series E	10.205%	2.483%	10.205%
<u>California Municipal III:</u>			
Series A	12.565%	2.350%	12.565%
Series B	11.728%	2.459%	11.728%
<u>New York Municipal III:</u>			
Series A	11.347%	2.448%	8.499%

The Funds are subject to certain limitations and restrictions while preferred shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of preferred shares at their liquidation value.

Preferred shares, which are entitled to one vote per share, generally vote with the common shareholders but vote separately as a class to elect two Trustees and on any matters affecting the rights of the preferred shares.

Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds has been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation s

closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds has consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or alter the credit quality of the ARPS, and ARPS holders have continued to receive dividends at the defined maximum rate as the higher of the 30-day AA Composite Commercial Paper Rate multiplied by 110% or the Taxable Equivalent of the Short-Term Municipal Obligations Rate-defined as 90% of the quotient of (A) the per annum rate expressed on an interest equivalent basis equal to the Kenny S&P 30-day High Grade Index divided by (B) 1.00 minus the Marginal Tax Rate (expressed as a decimal) multiplied by 110% (which is a function of short-term interest rates and typically higher than the rate that would have otherwise been set through a successful auction).

These developments with respect to ARPS have not affected the management or investment policies of the Funds, and the Funds outstanding common shares continue to trade on the NYSE. If the Funds ARPS auctions continue to fail and the maximum rate payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Funds common shareholders could be adversely affected.

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2008

5. Auction-Rate Preferred Shares (continued)

6. Subsequent Common Dividend Declarations

On October 1, 2008, the following dividends were declared to common shareholders payable November 3, 2008 to shareholders of record on October 11, 2008:

Municipal III	\$0.070 per common share
California Municipal III	\$0.060 per common share
New York Municipal III	\$0.0525 per common share

On November 3, 2008, the following dividends were declared to common shareholders payable December 1, 2008 to shareholders of record on November 13, 2008:

Municipal III	\$0.070 per common share
California Municipal III	\$0.060 per common share
New York Municipal III	\$0.0525 per common share

7. Legal Proceedings

In June and September 2004, the Investment Manager and certain of its affiliates (including PEA Capital LLC (PEA), Allianz Global Investors Distributors LLC and Allianz Global Investors of America, L.P.), agreed to settle, without admitting or denying the allegations, claims brought by the Securities and Exchange Commission (the Commission) and the New Jersey Attorney General alleging violations of federal and state securities laws with respect to certain open-end funds for which the Investment Manager serves as investment adviser. The settlements related to an alleged market timing arrangement in certain open-end funds formerly sub-advised by PEA. The Investment Manager and its affiliates agreed to pay a total of \$68 million to settle the claims. In addition to monetary payments, the settling parties agreed to undertake certain corporate governance, compliance and disclosure reforms related to market timing and consented to cease and desist orders and censures. Subsequent to these events, PEA deregistered as an investment adviser and dissolved. None of the settlements allege that any inappropriate activity took place with respect to the Funds.

Since February 2004, the Investment Manager, the Sub-Adviser and certain of its affiliates and their employees have been named as defendants in a number of pending lawsuits concerning market timing , which allege the same or similar conduct underlying the regulatory settlements discussed above. The market timing lawsuits have been consolidated in a multi-district litigation proceeding in the U.S. District Court for the District of Maryland. Any potential resolution of these matters may include, but not be limited to judgments or settlements for damages against the Investment Manager or its affiliates or related injunctions.

The Investment Manager and the Sub-Adviser believe that these matters are not likely to have a material adverse effect on the Funds or on their ability to perform their respective investment advisory activities relating to the Funds.

The foregoing speaks only as of the date hereof.

PIMCO Municipal Income Fund III Financial Highlights

For a share of common stock outstanding throughout each year:

		Year ended September 30,				
	2008	2007	2006	2005	2004	
Net asset value, beginning of year	\$14.53	\$14.90	\$14.68	\$14.36	\$14.05	
Investment Operations:						
Net investment income	1.29	1.17	1.12	1.14		