

PIMCO MUNICIPAL INCOME FUND III

Form N-CSRS

June 04, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number 811-21187
PIMCO Municipal Income Fund III**

(Exact name of registrant as specified in charter)

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, New York 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, 2009**

Date of reporting period: **March 31, 2009**

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

Semi-Annual Report
March 31, 2009

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PIMCO Municipal Income Funds III Letter to Shareholders

May 15, 2009

Dear Shareholder:

Please find enclosed the semi-annual report for the PIMCO Municipal Income Fund III, PIMCO California Municipal Income Fund III and PIMCO New York Municipal Income Fund III (the Funds) for the six months ended March 31, 2009.

The U.S. bond market provided positive returns during the fiscal six-month period, with municipal and high quality corporate bonds showing marked improvement as liquidity infusions improved credit market conditions and bolstered investor sentiment. In this environment, the Barclays Capital Municipal Bond Index returned a tax-advantaged 5.00% for the fiscal six-month period, outperforming the taxable, broad bond market return of 4.70% as represented by the Barclays Capital U.S. Aggregate Index. The Federal Reserve (the Fed) and U.S. Treasury Department moved aggressively during the fiscal six-month period to stave off bank failures and to inject liquidity into the banking system. The Fed reduced the Federal Funds rate three times during the fiscal six-month period, lowering the benchmark rate on loans between member banks from 2.00% to a target of 0% to 0.25%. In addition, the Fed pursued a policy of quantitative easing, buying securities from banks in order to add to the supply of cash available for lending.

On April 6, 2009, the Funds announced a change increasing the amount of Residual Interest Municipal Bonds (RIBs) in which a Fund may invest to 15% from 10% of their total assets. The change potentially allows the Funds to earn additional tax-free income. In addition, the use of RIBs, which results in a form of economic leverage, will allow the Funds to replace or increase leverage to some degree.

Please refer to the following pages for information on the Funds. 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 (866) 298-8462. 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 (PIMCO), 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

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PIMCO Municipal Income Fund III Fund Insights

March 31, 2009 (unaudited)

For the fiscal six-month period ended March 31, 2009, PIMCO Municipal Income Fund III (Muni III) declined 23.73% on net asset value (NAV) and 18.27% on market price, compared with the decrease of 3.33% and rise of 3.94%, respectively, for the Lipper Analytical General Municipal Debt Funds (Leveraged) average.

High-quality municipal bond yields decreased across the curve for the fiscal six-month period ended March 31, 2009. The market began to rebound at the end of 2008 and continued into the first quarter of 2009.

Duration hedging strategies detracted from performance during the fiscal six-month period. Interest rates for Treasuries and London Inter-bank Offered Rate (LIBOR) swaps moved significantly lower due to a flight-to-quality and uncertain economic conditions. This move lower was larger than the move in high-quality municipal yields, causing municipals to underperform. However these rates moved higher off their lows in the first quarter of 2009, helping to recoup some of the negative performance for the hedge from the last quarter of 2008.

Municipal-to-Treasury yield ratios moved higher, remaining at very high levels compared to historical averages during the fiscal six-month period. The 10-year ratio increased to 118% and 30-year ratio increased to 135%.

Tobacco securitization sector holdings detracted from performance as municipal investors avoided all but the highest quality, most liquid issues during the period. The sector lost in excess of 15% during the fiscal six-month period due to this flight-to-quality.

Exposures to healthcare related municipals detracted from Muni III s performance while exposure to the education sector contributed to performance during the fiscal six-month period.

Pre-refunded bond exposure contributed positively to performance as the sector performed well due to continued investor demand for the highest quality securities.

Exposure to zero coupon municipals detracted from performance as these securities underperformed coupon bonds during the period. The Barclays Capital Zero Coupon Index declined 1.46% for the fiscal six-month period.

The municipal yield curve saw a significant steepening during the fiscal six-month period as yields on the front end of the curve declined more than the longer end. The 15-, 20-, and 30-year maturity AAA General Obligation yields decreased by 105, 67, and 51 basis points, respectively while the two-year yield decreased by 155 basis points. Significant exposure in the long end of the yield curve detracted from Muni III s performance as that area underperformed during the period.

Compared to long taxable sectors, long municipals underperformed due to the Treasury rally with the Barclays Capital Long Municipal Bond Index returning 1.63%% while the Barclays Capital U.S. Long Government/Credit and the Barclays Capital U.S. Long Treasury Indices returned 6.10% and 12.45%, respectively.

Municipal bond issuance continued to trend lower during the fourth quarter of 2008, remaining consistent with the previous year for the first quarter in 2009. During the fiscal six-month period, the overall municipal bond issuance was \$35 billion, less than the same period in the prior year at \$155 billion.

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PIMCO Municipal Income Fund III Performance & Statistics

March 31, 2009 (unaudited)

| Total Return(1): | Market Price | Net Asset Value (NAV) |
|--|---------------------|--------------------------------|
| Six Months | (18.27)% | (23.73)% |
| 1 Year | (33.54)% | (35.31)% |
| 5 Year | (3.79)% | (5.49)% |
| Commencement of Operations (10/31/02) to 3/31/09 | (1.92)% | (2.79)% |

Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 3/31/09

Market Price/NAV:

| | |
|-----------------------|--------|
| Market Price | \$8.68 |
| NAV | \$7.85 |
| Premium to NAV | 10.57% |
| Market Price Yield(2) | 9.68% |

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

(1)

Past performance is no guarantee of future results. Total return is calculated by determining the percentage change in net asset value or market share price (as applicable) in the specified period. The calculation assumes that all 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 less than one year is not annualized. Total return for a period of more than one year represents the average annual total return.

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 onetime 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 payable to common shareholders by the market price per common share at March 31, 2009.

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PIMCO California Municipal Income Fund III Fund Insights

March 31, 2009 (unaudited)

For the fiscal six-month period ended March 31, 2009, PIMCO California Municipal Income Fund III (California Muni III) declined 30.58% on net asset value (NAV) and 23.40% on market price, compared with decreases of 3.84% and 3.60%, respectively, for the Lipper Analytical California Municipal Debt Funds average.

High-quality municipal bond yields decreased across the curve for the fiscal six-month period ended March 31, 2009. The market began to rebound at the end of 2008 and continued into the first quarter of 2009.

Duration hedging strategies detracted from performance during the fiscal six-month period. Interest rates for Treasuries and London Inter-bank Offered Rate (LIBOR) swaps moved significantly lower due to a flight-to-quality and uncertain economic conditions. This move lower was larger than the move in high-quality municipal yields causing municipals to underperform. However these rates moved higher off their lows in the first quarter of 2009, helping to recoup some of the negative performance for the hedge from the last quarter of 2008.

Municipal-to-Treasury yield ratios moved higher, remaining at very high levels compared to historical averages during the fiscal six-month period. The 10-year ratio increased to 118% and 30-year ratio increased to 135%.

Tobacco securitization sector holdings detracted from performance as municipal investors avoided all but the highest quality, most liquid issues during the period. The sector lost in excess of 15% during the fiscal six-month period due to this flight-to-quality.

Exposure to healthcare related municipals detracted from California Muni III s performance while exposure to the education sector contributed to performance during the fiscal six-month period.

Pre-refunded bond exposure contributed positively to performance as the sector performed well due to continued investor demand for the highest quality securities.

Exposure to zero coupon municipals detracted from performance as these securities underperformed coupon bonds during the period. The Barclays Capital Zero Coupon Index declined 1.46% for the fiscal six-month period.

Municipal bonds within California underperformed the Barclays Capital Municipal Bond Index returning 2.97% compared with 5.00% for during the fiscal six-month period. This underperformance reflected a worsening budget situation in the state due to the economic downturn, and the new issue in the first quarter which pushed yields higher. New issue supply in California for the first quarter of 2009 was 11% higher compared with the first quarter of 2008 at \$15 billion.

Long California municipals underperformed the Barclays Capital Long Municipal Bond Index declining 1.25% compared to a rise of 1.63%, respectively during the fiscal six-month period ended March 31, 2009. The California municipal curve also steepened with 30-year yields increasing 35 basis points while 5-year yields decreased 8 basis points. Positioning in longer-maturity California municipals detracted from California Muni III s performance due to this curve steepening.

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PIMCO California Municipal Income Fund III Performance & Statistics

March 31, 2009 (unaudited)

| Total Return(1): | Market Price | Net Asset Value (NAV) |
|--|---------------------|--------------------------------|
| Six Months | (23.40)% | (30.58)% |
| 1 Year | (39.99)% | (38.60)% |
| 5 Year | (5.61)% | (6.34)% |
| Commencement of Operations (10/31/02) to 3/31/09 | (3.90)% | (3.84)% |

Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 3/31/09

Market Price/NAV:

| | |
|-----------------------|--------|
| Market Price | \$7.71 |
| NAV | \$7.40 |
| Premium to NAV | 4.19% |
| Market Price Yield(2) | 9.34% |

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

(1)

Past performance is no guarantee of future results. Total return is calculated by determining the percentage change in net asset value or market share price (as applicable) in the specified period. The calculation assumes that all 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 less than one year is not annualized. Total return for a period of more than one year represents the average annual total return.

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 onetime 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 payable to common shareholders by the market price per common share at March 31, 2009.

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PIMCO New York Municipal Income Fund III Fund Insights

March 31, 2009 (unaudited)

For the fiscal six-month period ended March 31, 2009, PIMCO New York Municipal Income Fund III (New York Muni III) declined 29.78% on net asset value (NAV) and 18.10% on market price, compared with the decrease of 2.87% and rise of 0.46%, respectively, for the Lipper Analytical New York Municipal Debt Funds average.

High-quality municipal bond yields decreased across the curve for the fiscal six-month period ended March 31, 2009. The market began to rebound at the end of 2008 and continued into the first quarter of 2009.

Duration hedging strategies significantly detracted from performance during the fiscal six-month period. Interest rates for Treasuries and London Inter-bank Offered Rate (LIBOR) swaps moved significantly lower due to a flight to quality and uncertain economic conditions. This move lower was larger than the move in high-quality municipal yields causing municipals to underperform. However these rates moved higher off their lows in the first quarter of 2009, thus helping to recoup some of the negative performance for the hedge from the last quarter of 2008.

Municipal-to-Treasury yield ratios moved higher, remaining at very high levels compared to historical averages during the fiscal six-month period. The 10-year ratio increased to 118% and 30-year ratio increased to 135%.

Tobacco securitization sector holdings detracted from performance as municipal investors avoided all but the highest quality, most liquid issues during the period. The sector lost in excess of 15% during the fiscal six-month period due to this flight-to-quality.

Exposure to healthcare related municipals detracted from New York Muni III s performance while exposure to the education sector contributed to performance during the fiscal six-month period.

Pre-refunded bond exposure contributed positively to performance as the sector performed well due to continued investor demand for the highest quality securities.

Exposure to zero coupon municipals detracted from performance as these securities underperformed coupon bonds during the period. The Barclays Capital Zero Coupon Index declined 1.46% for the fiscal six-month period. .

Municipal bonds within New York slightly outperformed the Barclays Capital Municipal Bond Index returning 5.07% compared with 5.00% for the National Index during the period. New issue supply for New York during the first quarter of 2009 was \$9.7 billion, 7.5% lower than during the first quarter of 2008.

Long New York municipals outperformed the Barclays Capital Long Municipal Bond Index returning 2.59% compared to 1.63%, respectively. The New York curve also steepened during the fiscal six-month period ended March 31, 2009 with 30-year yields declining 29 basis points while 5-year yields decreased 74 basis points. Significant positions in the longer portions of the curve detracted from New York Muni III s performance as the curve steepened.

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PIMCO New York Municipal Income Fund III Performance & Statistics

March 31, 2009 (unaudited)

| Total Return(1): | Market Price | Net Asset Value (NAV) |
|--|---------------------|--------------------------------|
| Six Months | (18.10)% | (29.78)% |
| 1 Year | (34.47)% | (37.53)% |
| 5 Year | (6.29)% | (6.59)% |
| Commencement of Operations (10/31/02) to 3/31/09 | (3.95)% | (3.62)% |

Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 3/31/09

Market Price/NAV:

| | |
|-----------------------|--------|
| Market Price | \$7.87 |
| NAV | \$7.75 |
| Premium to NAV | 1.55% |
| Market Price Yield(2) | 8.01% |

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

(1)

Past performance is no guarantee of future results. Total return is calculated by determining the percentage change in net asset value or market share price (as applicable) in the specified period. The calculation assumes that all 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 less than one year is not annualized. Total return for a period of more than one year represents the average annual total return.

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 onetime 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 payable to common shareholders by the market price per common share at March 31, 2009.

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March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|--|--|--------------------------------|--------------|
| MUNICIPAL BONDS & NOTES 95.4% | | | |
| Alabama 0.8% | | | |
| \$ 5,000 | Birmingham Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | Baa1/NR | \$ 3,033,900 |
| 1,500 | Colbert Cnty., Northwest Health Care Facs. Auth., Health Care Fac. Rev., 5.75%, 6/1/27 | Baa3/NR | 1,191,540 |
| | | | 4,225,440 |
| Alaska 1.2% | | | |
| 3,100 | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A | Baa3/NR | 1,582,612 |
| 3,900 | State Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A | Aaa/AAA | 3,656,172 |
| 1,000 | 5.25%, 6/1/32, Ser. C (NPFGC) | Aa2/AA | 969,950 |
| | | | 6,208,734 |
| Arizona 4.7% | | | |
| 1,250 | Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A | NR/AA- | 1,055,900 |
| 900 | 5.50%, 1/1/38, Ser. D | NR/AA- | 807,390 |
| 2,250 | Beatitudes Campus Project, 5.20%, 10/1/37 | NR/NR | 1,252,463 |
| 1,500 | Maricopa Cnty. Pollution Control Corp. Rev., Palo Verde Project, 5.05%, 5/1/29, Ser. A (AMBAC) | Baa1/A | 1,177,140 |
| 13,000 | Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39 | Aa2/AA | 11,676,210 |
| 5,000 | Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (j) | Aa1/AA | 4,769,100 |
| 5,600 | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37 | A3/A | 3,279,640 |
| | | | 24,017,843 |

California 9.4%

| | | | |
|--------|--|---------|------------|
| 16,875 | Golden State Tobacco Securitization Corp. Rev., Ser. A-1, 6.25%, 6/1/33 | Aaa/AAA | 18,653,119 |
| 2,750 | 6.75%, 6/1/39, (Pre-refunded @ \$100, 6/1/13) (c) State, GO, | NR/AAA | 3,232,845 |
| 250 | 5.00%, 11/1/37 | A2/A | 215,267 |
| 5,300 | 5.00%, 12/1/37 | A2/A | 4,562,929 |
| 4,500 | 6.00%, 4/1/38 (e) | A2/A | 4,493,835 |
| 3,060 | Statewide Communities Dev. Auth. Rev., Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(d) | NR/NR | 2,612,261 |
| 2,900 | Methodist Hospital Project, (FHA), 6.625%, 8/1/29 | Aa2/AA | 2,994,888 |
| 10,300 | 6.75%, 2/1/38 | Aa2/AA | 10,646,801 |
| | | | 47,411,945 |

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March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|---------------------------|--|--------------------------------|---------------|
| | Colorado 3.0% | | |
| \$ 9,955 | Colorado Springs Utilities Rev., 5.00%, 11/15/30, Ser. B (j) | Aa2/AA | \$ 10,000,196 |
| 500 | Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34 | NR/NR | 291,325 |
| 1,500 | Housing & Finance Auth. Rev., Evergreen Country Day School, 5.875%, 6/1/37 (a)(d) | NR/BB | 1,031,595 |
| 500 | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38 | A1/A | 374,125 |
| 4,000 | Saddle Rock Metropolitan Dist., GO, 5.35%, 12/1/31 (Radian) | NR/BBB+ | 3,314,880 |
| | | | 15,012,121 |
| | District of Columbia 2.0% | | |
| 10,000 | Dist. Of Columbia Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (j) | Aa3/AA | 10,103,100 |
| | Florida 4.7% | | |
| 4,200 | Board of Education, GO, 5.00%, 6/1/38, Ser. D (j) | Aa1/AAA | 4,130,070 |
| 3,480 | Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34 | A3/A- | 2,483,537 |
| 4,500 | Broward Cnty. Rev., 5.25%, 10/1/34, Ser. A (j) | Aa3/AA | 4,388,895 |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital, 5.25%, 10/1/34, Ser. B | A3/NR | 1,896,725 |
| 1,485 | Julington Creek Plantation Community Dev. Dist., Special Assessment, 5.00%, 5/1/29, (NPFGC) | Baa1/AA- | 1,154,439 |
| 3,895 | Sarasota Cnty. Health Fac. Auth. Rev., 5.75%, 7/1/45 | NR/NR | 2,481,621 |
| 6,900 | State Board of Governors Rev., Florida Univ., 6.50%, 7/1/33 | Aa2/AA | 7,273,842 |
| | | | 23,809,129 |
| | Georgia 0.2% | | |
| 1,750 | Fulton Cnty. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A | NR/NR | 965,947 |
| 400 | Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37 | NR/NR | 243,020 |
| | | | 1,208,967 |
| | Idaho 1.2% | | |
| 1,000 | State Building Auth. Building Rev., Ser. A (XLCA), 5.00%, 9/1/33 | NR/AA- | 952,560 |
| 5,750 | 5.00%, 9/1/43 | NR/AA- | 5,324,443 |

6,277,003

Illinois 8.3%

| | | | |
|-------|--|---------|-----------|
| | Chicago, GO, (NPFGC) | | |
| 720 | 5.00%, 1/1/31, Ser. A | Aa3/AA- | 686,001 |
| 5,000 | 5.00%, 1/1/34, Ser. C (j) | Aa3/AA- | 4,909,100 |
| 500 | Chicago Board of Education School Reform, GO, zero coupon, 12/1/28, Ser. A (FGIC) | A1/AA | 150,100 |
| 7,000 | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC) | A1/AA+ | 6,645,170 |
| 4,780 | Educational Facs. Auth. Rev., Univ. of Chicago, Ser. A, 5.00%, 7/1/33 | Aa1/AA | 4,739,800 |
| 165 | 5.25%, 7/1/41 | Aa1/AA | 165,523 |

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

March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value |
|-----------------------------|--|--------------------------------|------------|
| Illinois (continued) | | | |
| \$ 1,000 | Finance Auth. Rev., Leafs Hockey Club, Ser. A, 5.875%, 3/1/27 | NR/NR | \$ 450,040 |
| 625 | 6.00%, 3/1/37 | NR/NR | 281,244 |
| 400 | OSF Healthcare Systems, 7.125%, 11/15/37, Ser. A | A2/A | 398,744 |
| 12,795 | Peoples Gas Light & Coke, 5.00%, 2/1/33 (AMBAC) | A1/A | 12,063,510 |
| 5,000 | Univ. of Chicago, 5.50%, 7/1/37, Ser. B (j) | Aa1/AA | 5,127,000 |
| 1,175 | Health Facs. Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22 | Baa1/NR | 1,040,533 |
| 5,000 | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B | Aa3/AA- | 5,114,450 |
| | | | 41,771,215 |
| Indiana 2.1% | | | |
| 1,375 | Fort Wayne Pollution Control Rev., General Motors Corp. Project, 6.20%, 10/15/25 | Caa3/C | 172,288 |
| 5,000 | Indianapolis Local Public Improvement Board, Tax Allocation, 5.00%, 2/1/29, Ser. G (NPFGC) | Baa1/AA | 5,006,550 |
| 1,000 | Plainfield Parks Facs. Corp. Lease Rent Rev., 5.00%, 1/15/22 (AMBAC) | Baa1/A | 1,016,050 |
| 1,000 | Portage Industrial Economic Dev. Rev., Ameriplex Project, Tax Allocation, 5.00%, 7/15/23 | NR/BBB+ | 711,550 |
| 775 | 5.00%, 1/15/27 | NR/BBB+ | 512,290 |
| 3,500 | State Dev. Finance Auth. Pollution Control Rev., 5.00%, 3/1/30 (AMBAC) | Aaa/A | 3,039,050 |
| | | | 10,457,778 |
| Iowa 1.4% | | | |
| 120 | Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, 5.50%, 11/15/27 | NR/NR | 74,836 |
| 575 | 5.50%, 11/15/37 | NR/NR | 327,002 |
| 11,010 | Tobacco Settlement Auth. of Iowa Rev., 5.60%, 6/1/34, Ser. B | Baa3/BBB | 6,574,952 |
| | | | 6,976,790 |

Kentucky 0.6%

Economic Dev. Finance Auth. Hospital Facs. Rev.,
Baptist Healthcare System, Ser. A,

| | | | |
|-------|--|--------|-----------|
| 1,000 | 5.375%, 8/15/24 | Aa3/NR | 1,017,030 |
| 1,300 | 5.625%, 8/15/27 | Aa3/NR | 1,303,445 |
| 1,000 | Catholic Healthcare Partners, 5.25%, 10/1/30 | A1/AA- | 891,040 |
| | | | 3,211,515 |

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

March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|---------------------------|--|--------------------------------|--------------|
| | Louisiana 0.4% | | |
| \$ 1,700 | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, 5.50%, 5/15/47, Ser. B | A3/NR | \$ 1,205,096 |
| 1,595 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | Baa3/BBB | 1,000,894 |
| | | | 2,205,990 |
| | Maryland 0.3% | | |
| 1,500 | Health & Higher Educational Facs. Auth. Rev., Calvert Health Systems, 5.50%, 7/1/36 | A2/NR | 1,307,430 |
| | Massachusetts 1.3% | | |
| 750 | Dev. Finance Agcy. Rev., Linden Ponds, Inc., 5.75%, 11/15/35, Ser. A | NR/NR | 424,987 |
| 1,600 | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A | A1/A+ | 1,597,584 |
| 4,910 | State Housing Finance Agcy., Housing Rev., 5.125%, 6/1/43, Ser. H | Aa3/AA- | 4,620,114 |
| | | | 6,642,685 |
| | Michigan 14.0% | | |
| 500 | Conner Creek Academy East Rev., 5.25%, 11/1/36 | NR/BB+ | 313,135 |
| 9,320 | Detroit Sewer Disposal System Rev., 5.00%, 7/1/32, Ser. A (FSA) | Aa3/AAA | 7,989,850 |
| 30,000 | Detroit Water Supply System Rev. (NPFGC), 5.00%, 7/1/34, Ser. A | A2/AA- | 25,133,100 |
| 7,555 | 5.00%, 7/1/34, Ser. B | A3/AA- | 6,239,070 |
| 1,500 | Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39 | A1/A | 1,599,840 |
| 175 | State Hospital Finance Auth. Rev., Detroit Medical Center, 5.25%, 8/15/23, Ser. A | Ba3/BB- | 130,427 |
| 5,405 | Oakwood Group, Ser. A, 5.75%, 4/1/32 | A2/A | 4,494,636 |
| 575 | 6.00%, 4/1/22 | A2/A | 540,477 |
| 20,000 | Trinity Health Credit, 5.375%, 12/1/30, Ser. C | Aa2/AA | 18,700,600 |
| 10,000 | Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A | NR/BBB | 5,550,900 |
| | | | 70,692,035 |

Mississippi 0.7%

Business Finance Corp. Pollution Control Rev.,
System Energy Resources, Inc.,

| | | | |
|-------|----------------|---------|-----------|
| 3,000 | 5.875%, 4/1/22 | Ba1/BBB | 2,550,960 |
| 1,250 | 5.90%, 5/1/22 | Ba1/BBB | 1,064,650 |
| | | | 3,615,610 |

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

March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|---------------------------|--|--------------------------------|--------------|
| | Missouri 0.3% | | |
| \$ 1,350 | St. Louis Cnty. Industrial Dev. Auth. Housing Dev. Rev., 5.20%, 1/20/36, Ser. A (GNMA) | NR/AAA | \$ 1,300,779 |
| 250 | Township of Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23 | NR/NR | 168,890 |
| | | | 1,469,669 |
| | Montana 1.6% | | |
| 11,250 | Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%, 3/1/31, Ser. A (AMBAC) | Baa1/A | 8,050,725 |
| | Nevada 0.7% | | |
| 4,000 | Clark Cnty., GO, 4.75%, 6/1/30 (FSA) | Aa1/AAA | 3,505,240 |
| | New Jersey 3.6% | | |
| 1,000 | Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A Economic Dev. Auth. Rev., | Baa3/BBB | 635,210 |
| 4,500 | Kapkowski Road Landfill Project, Special Assessment, 6.50%, 4/1/28 | Baa3/NR | 3,949,515 |
| 300 | Newark Airport, 7.00%, 10/1/14 | Ba1/NR | 269,403 |
| 1,085 | Pascack Valley Hospital Assoc., 6.625%, 7/1/36 (b)(f) | NR/D | 27,113 |
| 1,000 | St. Peters Univ. Hospital, 5.75%, 7/1/37 | Baa2/BBB- | 751,060 |
| 1,150 | Trinitas Hospital, 5.25%, 7/1/30, Ser. A | Baa3/BBB- | 788,544 |
| 22,645 | Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1A | Baa3/BBB | 11,765,436 |
| | | | 18,186,281 |
| | New Mexico 0.2% | | |
| 1,000 | Farmington Pollution Control Rev., 5.80%, 4/1/22 | Baa3/BB+ | 816,540 |
| | New York 4.3% | | |
| 1,700 | Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37 | A1/A | 1,457,359 |
| 1,150 | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A | NR/NR | 868,124 |

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| | | | |
|--------|---|-----------|------------|
| 10,450 | New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 | Aa2/AAA | 11,229,570 |
| | New York City Municipal Water Finance Auth. Water & Sewer System Rev. (j), | | |
| 4,000 | 4.75%, 6/15/35, Ser. DD | Aa3/AA+ | 3,694,560 |
| 4,900 | 5.00%, 6/15/37, Ser. D | Aa2/AAA | 4,755,450 |
| | | | 22,005,063 |
| | North Carolina 1.7% | | |
| | Eastern Municipal Power Agcy. Power System Rev., | | |
| 2,000 | 5.125%, 1/1/23, Ser. D | Baa1/BBB+ | 1,935,640 |
| 2,000 | 5.125%, 1/1/26, Ser. D | Baa1/BBB+ | 1,882,960 |
| 3,795 | 5.375%, 1/1/17, Ser. C | Baa1/BBB+ | 3,849,193 |

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March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|-----------------------------------|--|--------------------------------|--------------|
| North Carolina (continued) | | | |
| \$ 1,500 | Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC) | Baa1/A | \$ 1,138,980 |
| | | | 8,806,773 |
| Ohio 3.9% | | | |
| 15,375 | Air Quality Dev. Auth. Pollution Control Rev., Dayton Power, 4.80%, 1/1/34, Ser. B (FGIC) | A2/A- | 13,699,586 |
| 5,000 | Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2 | Baa3/BBB | 2,746,950 |
| 500 | Cnty. of Montgomery Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A | Aa3/NR | 499,295 |
| 2,500 | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30 | A1/AA- | 2,265,025 |
| 500 | State Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. A | A2/A | 494,405 |
| | | | 19,705,261 |
| Pennsylvania 1.5% | | | |
| 750 | Cumberland Cnty. Auth. Retirement Community Rev., Messiah Village Project, Ser. A, 5.625%, 7/1/28 | NR/BBB- | 537,915 |
| 670 | 6.00%, 7/1/35 | NR/BBB- | 479,995 |
| 1,250 | Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B | NR/NR | 963,687 |
| 6,200 | Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A | Baa3/BBB | 5,486,814 |
| | | | 7,468,411 |
| South Carolina 0.9% | | | |
| 5,305 | Jobs-Economic Dev. Auth. Rev., Bon Secours, 5.625%, 11/15/30, Ser. B | A3/A- | 4,623,254 |
| Tennessee 0.2% | | | |
| 1,200 | State Energy Acquisition Corp. Rev., Ser. A, 5.25%, 9/1/21 | Ba1/BBB+ | 902,376 |

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| | | | |
|--------|---|----------|------------|
| 365 | 5.25%, 9/1/22 | Ba1/BBB+ | 270,071 |
| | | | 1,172,447 |
| | Texas 9.7% | | |
| 6,810 | Crowley Independent School Dist., GO, 4.75%, 8/1/35 (PSF-GTD) | Aaa/AAA | 6,523,367 |
| 1,300 | Dallas Water Rev., 5.25%, 8/15/38 | Aa2/AAA | 1,263,899 |
| 10,115 | Denton Independent School Dist., GO, 5.00%, 8/15/33 (PSF-GTD) (j) | Aaa/AAA | 10,154,752 |
| 465 | Judson Independent School Dist., GO, 5.00%, 2/1/30 (PSF-GTD) | Aaa/NR | 466,818 |
| 150 | Municipal Gas Acquisition & Supply Corp. I Rev., 5.25%, 12/15/26, Ser. A | A2/A | 88,361 |
| 8,100 | 6.25%, 12/15/26, Ser. D | A2/A | 5,483,538 |

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March 31, 2009 (unaudited)

| 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+ | \$ 5,098,225 |
| 5,500 | 5.50%, 12/15/38 | A3/A+ | 5,222,360 |
| 10,800 | North Texas Tollway Auth. Rev., 5.625%, 1/1/33, Ser. A | A2/A- | 10,342,404 |
| 700 | 5.75%, 1/1/33, Ser. F | A3/BBB+ | 632,219 |
| 2,000 | Sabine River Auth. Rev., 5.20%, 5/1/28, Ser. C | Caa1/CCC | 893,900 |
| 3,000 | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems, 6.25%, 11/15/29 | Aa2/AA- | 3,083,970 |
| | | | 49,253,813 |
| Virginia 0.1% | | | |
| 1,000 | James City Cnty. Economic Dev. Auth. Rev., 5.50%, 7/1/37, Ser. A | NR/NR | 554,460 |
| Washington 8.3% | | | |
| 6,375 | Chelan Cnty. Public Utility Dist. Rev., 5.125%, 7/1/33, Ser. C (AMBAC) | Aa2/AA | 6,396,229 |
| 1,000 | Health Care Facs. Auth. Rev., Seattle Cancer Care Alliance, 7.375%, 3/1/38 | A3/NR | 1,032,880 |
| 15,000 | King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (FSA) (j) | Aa3/AAA | 15,014,100 |
| 21,480 | Tobacco Settlement Auth. Tobacco Settlement Rev., 6.50%, 6/1/26 | Baa3/BBB | 19,550,451 |
| | | | 41,993,660 |
| Wisconsin 2.1% | | | |
| 560 | Badger Tobacco Asset Securitization Corp. Rev., 6.00%, 6/1/17 | Baa3/BBB | 616,504 |
| 10,000 | State Rev., 6.00%, 5/1/36, Ser. A (e) | A1/AA- | 10,150,500 |
| | | | 10,767,004 |
| | Total Municipal Bonds & Notes (cost \$532,788,524) | | 483,533,931 |
| CORPORATE BONDS & NOTES (i) 1.6% | | | |
| 5,500 | CIT Group, Inc., 5.80%, 7/28/11 | Baa2/BBB | 3,966,286 |

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| | | | |
|-------|---|-----------|-----------|
| 700 | International Lease Finance Corp., 1.469%, 5/24/10, FRN | Baa2/BBB+ | 500,740 |
| 5,000 | SLM Corp., 1.319%, 7/26/10, FRN | Baa2/BBB- | 3,549,470 |
| | Total Corporate Bonds & Notes (cost \$9,125,271) | | 8,016,496 |

SHORT-TERM INVESTMENTS 3.0%

Corporate Notes (i) 3.0%

| | | | |
|-------|---------------------------------|----------|-----------|
| | American General Finance Corp., | | |
| 1,900 | 1.785%, 10/2/09, FRN | Baa2/BB+ | 1,354,518 |
| 1,400 | 4.625%, 5/15/09 | Baa2/BB+ | 1,310,338 |
| | CIT Group, Inc., | | |
| 1,200 | 1.358%, 8/17/09, FRN | Baa2/BBB | 1,072,231 |
| 5,785 | 4.125%, 11/3/09 | Baa2/BBB | 5,269,771 |

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

March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|---|---|--------------------------------|-----------------------|
| Corporate Notes (continued) | | | |
| \$ 1,800 | Goldman Sachs Group, Inc., 1.318%, 11/16/09, FRN | A1/A | \$ 1,758,389 |
| 600 | International Lease Finance Corp., 1.494%, 1/15/10, FRN | Baa2/BBB+ | 473,722 |
| 4,000 | 4.75%, 7/1/09 | Baa2/BBB+ | 3,760,372 |
| | Total Corporate Notes (cost \$15,701,389) | | 14,999,341 |
| Variable Rate Demand Notes (g)(h) 0.0% | | | |
| Massachusetts 0.0% | | | |
| 200 | Health & Educational Facs. Auth. Rev., Museum, 0.25%, 4/1/09, Ser. A1 (cost \$200,000) | VMIG1/A-1+ | 200,000 |
| | Total Short-Term Investments (cost \$15,901,389) | | 15,199,341 |
| | Total Investments (cost \$557,815,184) 100.0% | | \$ 506,749,768 |

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

March 31, 2009 (unaudited)

| 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 | | |
| | Ser. A (CA Mtg. Ins.), | | |
| \$ 3,200 | 5.20%, 11/15/22 | NR/A | \$ 3,196,704 |
| 11,725 | 5.35%, 11/15/32 | NR/A | 10,508,180 |
| 1,000 | Cathedral City Public Financing Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A, (NPFGC) | Baa1/AA- | 750,470 |
| 1,150 | Ceres Redev. Agcy. Project Area No. 1, Tax Allocation, 5.00%, 11/1/33, (NPFGC) | Baa1/AA- | 834,866 |
| 1,415 | Contra Costa Cnty. Public Financing Auth., Tax Allocation, 5.625%, 8/1/33, Ser. A | NR/BBB | 1,123,100 |
| 3,775 | Cucamonga School Dist., CP, 5.20%, 6/1/27 | NR/A- | 3,085,949 |
| | Educational Facs. Auth. Rev., | | |
| 9,800 | Claremont McKenna College, 5.00%, 1/1/39 (j) | Aa2/NR | 9,562,154 |
| 5,000 | Pepperdine Univ., 5.00%, 9/1/33, Ser. A (NPFGC-FGIC) | Aa3/AA- | 4,723,800 |
| 10,000 | Univ. of Southern California, 5.00%, 10/1/39, Ser. A (j) | Aa1/AA+ | 9,755,500 |
| 1,695 | El Dorado Irrigation Dist. & El Dorado Water Agcy., CP, 5.75%, 8/1/39, Ser. A | Aa2/AAA | 1,680,423 |
| | Golden State Tobacco Securitization Corp. Rev., | | |
| 11,000 | 5.00%, 6/1/45 (AMBAC-TCRS) | A2/A | 8,030,880 |
| 4,000 | 5.00%, 6/1/45, Ser. A (FGIC-TCRS) | A2/A | 2,920,320 |
| 23,140 | 6.75%, 6/1/39, Ser. A-1, (Pre-refunded @ \$100, 6/1/13) (c) | NR/AAA | 27,202,921 |
| | Health Facs. Financing Auth. Rev., | | |
| 6,000 | Cottage Health System, 5.00%, 11/1/33, Ser. B (NPFGC) | Baa1/AA- | 4,783,800 |
| | Paradise VY Estates (CA Mtg. Ins)., | | |
| 2,000 | 5.125%, 1/1/22 | NR/A | 1,897,680 |
| 1,550 | 5.25%, 1/1/26 | NR/A | 1,403,014 |
| | Infrastructure & Economic Dev. Bank Rev., | | |
| | Kaiser Assistance Corp., | | |
| 3,000 | 5.50%, 8/1/31, Ser. B | A2/A | 2,639,100 |
| 8,000 | 5.55%, 8/1/31, Ser. A | NR/A+ | 7,323,440 |
| 20 | Lancaster Financing Auth., Tax Allocation, 4.75%, 2/1/34, (NPFGC) | Baa1/AA- | 16,924 |
| 5,600 | Long Beach Bond Finance Auth. Rev., 5.50%, 11/15/37, Ser. A | A2/A | 3,594,640 |
| | Los Angeles Department of Water & Power Rev. (j), | | |
| 6,000 | 4.75%, 7/1/30, Ser. A-2 (FSA) | Aa3/AAA | 5,766,660 |
| 10,000 | 5.00%, 7/1/39, Ser. A | Aa3/AA- | 9,637,000 |

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| | | | |
|--------|--|---------|-----------|
| 9,580 | Los Angeles Unified School Dist., GO, 4.75%, 1/1/28, Ser. A (NPFGC) | Aa3/AA- | 9,023,210 |
| 10,000 | 5.00%, 1/1/34, Ser. I (j) | Aa3/AA- | 9,417,600 |
| 5,000 | Metropolitan Water Dist. of Southern California Waterworks Rev., 5.00%, 7/1/37, Ser. A (j) | Aa2/AAA | 4,852,400 |
| 5,280 | Modesto Irrigation Dist., CP, 5.00%, 7/1/33, Ser. A (NPFGC) | A1/AA- | 4,477,968 |
| 5,000 | Oakland, GO, 5.00%, 1/15/33, Ser. A (NPFGC) | A1/AA- | 4,527,250 |
| 5,000 | Orange Cnty. Unified School Dist., CP, 4.75%, 6/1/29 (NPFGC) | A1/AA- | 4,581,900 |

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

March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|---------------------------|---|--------------------------------|--------------|
| \$ 4,560 | Orange Cnty. Water Dist. Rev., CP, Ser. B, (NPFGC) | Aa2/AAA | \$ 4,315,356 |
| 965 | 5.00%, 8/15/34 | NR/AAA | 980,701 |
| 2,000 | Palm Desert Financing Auth., Tax Allocation, 5.00%, 4/1/25, Ser. A, (NPFGC) | Baa1/AA- | 1,627,160 |
| 1,410 | Pomona Public Financing Auth. Rev., 5.00%, 12/1/37, Ser. AF (NPFGC) | A3/AA- | 1,112,405 |
| 1,950 | Poway Unified School Dist. Community Facs. Dist. No. 6, Special Tax, 5.125%, 9/1/28 | NR/BBB | 1,485,159 |
| 5,000 | Riverside, CP, 5.00%, 9/1/33 (AMBAC) | Baa1/A+ | 4,386,900 |
| 500 | Rocklin Unified School Dist. Community Facs., Special Tax, 5.00%, 9/1/29, (NPFGC) | Baa1/AA- | 401,070 |
| 5,750 | Sacramento Municipal Utility Dist. Rev., 5.00%, 8/15/33, Ser. R (NPFGC) | A1/AA- | 5,358,712 |
| 6,250 | San Diego Cnty. Water Auth. Rev., CP, 5.00%, 5/1/38, Ser. A (FSA) | Aa3/AAA | 5,964,375 |
| 12,075 | San Diego Community College Dist., GO, 5.00%, 5/1/28, Ser. A (FSA) | Aa2/AAA | 11,942,779 |
| 2,200 | San Diego Regional Building Auth. Rev., Cnty. Operations Center & Annex, 5.375%, 2/1/36, Ser. A | A1/AA+ | 2,161,478 |
| 1,500 | San Diego State Univ. Foundation Auxiliary Organization Rev., 5.00%, 3/1/27, Ser. A, (NPFGC) | Baa1/AA- | 1,458,435 |
| 3,000 | San Jose Libraries & Parks, GO, 5.125%, 9/1/31 | Aa1/AAA | 3,027,240 |
| 13,200 | San Marcos Public Facs. Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (NPFGC) | A3/AA- | 10,103,280 |
| 1,200 | Santa Cruz Cnty. Redev. Agcy., Tax Allocation, 7.00%, 9/1/36, Ser. A | A2/A | 1,254,012 |
| 4,425 | South Tahoe JT Powers Financing Auth. Rev., 5.45%, 10/1/33, Ser. A | NR/BBB | 3,589,914 |
| 4,095 | State Department Veteran Affairs Home Purchase Rev., 5.35%, 12/1/27, Ser. A (AMBAC) | Aa2/AA- | 4,121,986 |
| 4,600 | State Public Works Board Lease Rev., Univ. CA M.I.N.D. Inst., 5.00%, 4/1/28, Ser. A | Aa2/AA- | 4,398,888 |
| 4,300 | State, GO, 6.00%, 4/1/38 (e) | A2/A | 4,294,109 |
| 1,200 | Statewide Communities Dev. Auth. Rev., Catholic Healthcare West, 5.50%, 7/1/31, Ser. D | A2/A | 1,112,784 |
| 1,200 | 5.50%, 7/1/31, Ser. E | A2/A | 1,112,772 |
| 3,505 | Interxnet Group, CP, 5.375%, 4/1/30 | NR/BBB | 2,374,462 |

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| | | | |
|--------|---|---------|------------|
| 7,300 | Jewish Home, 5.50%, 11/15/33 (CA St. Mtg.) | NR/A | 6,496,197 |
| 15,000 | Memorial Health Services, 5.50%, 10/1/33, Ser. A Methodist Hospital Project (FHA), | NR/A+ | 13,187,550 |
| 2,000 | 6.625%, 8/1/29 | Aa2/AA | 2,065,440 |
| 7,200 | 6.75%, 2/1/38 | Aa2/AA | 7,442,424 |
| 3,100 | St. Joseph, 5.75%, 7/1/47, Ser. A (FGIC) | Aa3/AA- | 2,891,339 |
| 10,000 | Sutter Health, 5.50%, 8/15/34, Ser. B Tobacco Securitization Agcy. Rev., Alameda Cnty., | Aa3/AA- | 9,254,000 |
| 8,100 | 5.875%, 6/1/35 | Baa3/NR | 5,090,526 |
| 7,000 | 6.00%, 6/1/42 | Baa3/NR | 4,252,010 |

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March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|---|--|--------------------------------|--------------|
| \$ 2,000 | Kern Cnty., 6.125%, 6/1/43, Ser. A | NR/BBB | \$ 1,230,860 |
| 5,000 | Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1 | Baa3/BBB | 2,597,600 |
| 2,950 | Torrance Medical Center Rev., 5.50%, 6/1/31, Ser. A | A1/A+ | 2,672,906 |
| 1,000 | West Basin Municipal Water Dist. Rev., CP, 5.00%, 8/1/30, Ser. A (NPFGC) | Aa3/AA- | 949,630 |
| 2,500 | William S. Hart Union High School Dist., Special Tax, 6.00%, 9/1/33 | NR/NR | 1,977,400 |
| 2,750 | Woodland Finance Auth. Lease Rev., 5.00%, 3/1/32 (XLCA) | A3/NR | 2,529,780 |
| | Total California Municipal Bonds & Notes (cost \$315,217,526) | | 296,539,492 |
| OTHER MUNICIPAL BONDS & NOTES 4.7% | | | |
| Indiana 1.0% | | | |
| 5,000 | Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 5.75%, 9/1/42 (a)(d) | NR/NR | 3,182,500 |
| New York 1.0% | | | |
| 3,300 | New York City Municipal Water Finance Auth. Water & Sewer System Rev., 5.00%, 6/15/37, Ser. D (j) | Aa2/AAA | 3,202,650 |
| Puerto Rico 2.3% | | | |
| 4,420 | Public Building Auth. Rev., Gov t Facs., 5.00%, 7/1/36, Ser. I (GTD) | Baa3/BBB- | 3,291,795 |
| 290 | 5.25%, 7/1/36, Ser. D | Baa3/BBB- | 225,020 |
| 23,200 | Sales Tax Financing Corp. Rev., Ser. A, zero coupon, 8/1/47 (AMBAC) | A1/A+ | 1,672,720 |
| 29,200 | zero coupon, 8/1/54 (AMBAC) | A1/A+ | 1,263,192 |
| 26,300 | zero coupon, 8/1/56 | A1/A+ | 903,931 |
| | | | 7,356,658 |
| South Dakota 0.4% | | | |
| 2,000 | Minnehaha Cnty. Health Facs. Rev., Bethany Lutheran, 5.50%, 12/1/35 | NR/NR | 1,163,720 |
| | Total Other Municipal Bonds & Notes (cost \$20,529,905) | | 14,905,528 |

CORPORATE BONDS & NOTES (i) 0.9%

| | | | |
|--|---|-----------|-----------|
| 3,700 | CIT Group, Inc., 5.80%, 7/28/11 | Baa2/BBB | 2,668,229 |
| 500 | International Lease Finance Corp., 1.469%, 5/24/10, FRN | Baa2/BBB+ | 357,671 |
| Total Corporate Bonds & Notes (cost \$3,174,178) | | | 3,025,900 |

SHORT-TERM INVESTMENTS 1.8%

Corporate Notes (i) 1.8%

| | | | |
|--|---|-----------|-----------|
| 1,300 | American General Finance Corp., 1.785%, 10/2/09, FRN | Baa2/BB+ | 926,775 |
| 900 | 4.625%, 5/15/09 | Baa2/BB+ | 842,361 |
| 4,100 | CIT Group, Inc., 4.125%, 11/3/09 | Baa2/BBB | 3,734,842 |
| 400 | International Lease Finance Corp., 1.494%, 1/15/10, FRN | Baa2/BBB+ | 315,814 |
| Total Corporate Notes (cost \$6,123,048) | | | 5,819,792 |

Total Investments (cost \$345,044,657) 100.0% **\$ 320,290,712**

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

March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|---|--|--------------------------------|------------|
| NEW YORK MUNICIPAL BONDS & NOTES 81.6% | | | |
| \$ 790 | Dutchess Cnty. Industrial Dev. Agcy. Rev., Elant Fishkill, Inc., 5.25%, 1/1/37, Ser. A | NR/NR | \$ 466,866 |
| 800 | East Rochester Housing Auth. Rev., St. Mary's Residence Project, 5.375%, 12/20/22 (GNMA) | NR/AAA | 816,408 |
| 1,060 | Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.25%, 10/1/35 | A1/A | 883,362 |
| 2,400 | 5.50%, 10/1/37 Long Island Power Auth. Rev., Electric System Rev., | A1/A | 2,057,448 |
| 1,000 | 5.00%, 9/1/27, Ser. C | A3/A- | 950,290 |
| 1,500 | 5.75%, 4/1/39, Ser. A | A3/A- | 1,504,515 |
| 6,220 | Metropolitan Transportation Auth. Rev., 5.00%, 11/15/32, Ser. A (NPFGC-FGIC) | A2/AA- | 5,699,697 |
| 2,750 | Mortgage Agcy. Rev., 4.75%, 10/1/27, Ser. 128 | Aa1/NR | 2,619,787 |
| 2,695 | New York City, GO, 5.00%, 3/1/33, Ser. I | Aa3/AA | 2,537,289 |
| 600 | New York City Industrial Dev. Agcy. Rev., Queens Baseball Stadium, 6.50%, 1/1/46 Yankee Stadium, | Aa2/AAA | 639,600 |
| 200 | 5.00%, 3/1/36, (NPFGC) | Baa1/AA- | 157,648 |
| 2,200 | 7.00%, 3/1/49 | Aa2/AAA | 2,364,120 |
| 5,000 | New York City Municipal Finance Auth. Water & Sewer System Rev., 4.75%, 6/15/35, Ser. DD (j) | Aa3/AA+ | 4,618,200 |
| 4,000 | New York City Trust for Cultural Res. Rev., Wildlife Conservation Society, 5.00%, 2/1/34 (NPFGC-FGIC) | Aa3/AA- | 3,943,760 |
| 1,000 | Niagara Falls Public Water Auth. Water & Sewer System Rev., 5.00%, 7/15/34, Ser. A (NPFGC) | Baa1/AA- | 962,440 |
| 1,000 | State Dormitory Auth. Rev., 5.00%, 3/15/38, Ser. A | NR/AAA | 968,760 |
| 2,250 | Jewish Board Family & Children, 5.00%, 7/1/33 (AMBAC) | Baa1/A | 1,900,845 |
| 2,000 | Kaleida Health Hospital, 5.05%, 2/15/25 (FHA) | NR/AAA | 1,888,980 |
| 1,040 | Long Island Univ., Ser. A (Radian), 5.00%, 9/1/23 | Baa3/BBB+ | 936,832 |
| 4,000 | 5.00%, 9/1/32 | Baa3/BBB+ | 3,329,200 |
| 3,000 | Lutheran Medical Hospital, 5.00%, 8/1/31 (FHA-NPFGC) | Baa1/AA- | 2,738,250 |
| 6,150 | North General Hospital, 5.00%, 2/15/25 | NR/AA- | 5,877,002 |
| 1,000 | School Dist. Financing, 5.00%, 10/1/30, Ser. D (NPFGC) | A2/AA- | 981,910 |
| 1,250 | Skidmore College, 5.00%, 7/1/28 (NPFGC-FGIC) | A1/NR | 1,259,075 |
| 3,740 | St. Barnabas Hospital, 5.00%, 2/1/31, Ser. A (AMBAC-FHA) | Baa1/A | 3,418,285 |

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| | | | |
|-------|--|---------|-----------|
| 1,200 | Teachers College, 5.50%, 3/1/39 | A1/NR | 1,172,400 |
| 620 | Winthrop Univ. Hospital Assoc., 5.50%, 7/1/32, Ser. A | Baa1/NR | 515,146 |
| 2,500 | Winthrop-Nassau Univ., 5.75%, 7/1/28 | Baa1/NR | 2,195,975 |
| 2,000 | State Environmental Facs. Corp. Rev., 4.75%, 6/15/32, Ser. B | Aa1/AA+ | 1,870,700 |
| 2,200 | State Urban Dev. Corp. Rev., 5.00%, 3/15/36, Ser. B-1 (j) | NR/AAA | 2,136,530 |
| 2,000 | Triborough Bridge & Tunnel Auth. Rev., 5.25%, 11/15/34, Ser. A-2 (j) | Aa2/AA- | 2,010,380 |
| 2,000 | Warren & Washington Cntys. Industrial Dev. Agcy. Rev., Glens Falls Hospital Project, 5.00%, 12/1/35, Ser. A (FSA) | Aa3/AAA | 1,936,900 |

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

March 31, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value |
|---|---|--------------------------------|--------------|
| \$ 1,250 | Westchester Cnty. Industrial Dev. Agcy. Continuing Care Retirement Rev., Kendal on Hudson Project, 6.50%, 1/1/34, Ser. A, (Pre-refunded @ \$100, 1/1/13) (c) | NR/NR | \$ 1,466,737 |
| | Total New York Municipal Bonds & Notes (cost \$69,043,689) | | 66,825,337 |
| NEW YORK VARIABLE RATE NOTES (g) 8.1% | | | |
| 5,000 | State Dormitory Auth. Rev., Rockefeller Univ., 5.00%, 7/1/32, Ser. A1 | Aa1/AAA | 5,002,600 |
| 1,750 | State Urban Dev. Corp. Rev., 9.029%, 3/15/35 (a)(d) | NR/AAA | 1,655,675 |
| | Total New York Variable Rate Notes (cost \$6,105,093) | | 6,658,275 |
| OTHER MUNICIPAL BONDS & NOTES 5.5% | | | |
| California 4.0% | | | |
| 2,760 | Golden State Tobacco Securitization Corp. Rev., 6.75%, 6/1/39, Ser. A-1, (Pre-refunded @ \$100, 6/1/13) (c) | NR/AAA | 3,244,601 |
| District of Columbia 0.2% | | | |
| 175 | Tobacco Settlement Financing Corp. Rev., 6.50%, 5/15/33 | Baa3/BBB | 112,736 |
| Puerto Rico 0.7% | | | |
| 580 | Children s Trust Fund Tobacco Settlement Rev., 5.625%, 5/15/43 | Baa3/BBB | 381,460 |
| 5,000 | Sales Tax Financing Corp. Rev., zero coupon, 8/1/54, Ser. A (AMBAC) | A1/A+ | 216,300 |
| | | | 597,760 |
| South Carolina 0.5% | | | |
| 370 | Tobacco Settlement Rev. Management Auth. Rev., 6.375%, 5/15/30, Ser. B | Baa3/BBB | 426,636 |
| Washington 0.1% | | | |
| 135 | Tobacco Settlement Auth. of Washington Rev., 6.625%, 6/1/32 | Baa3/BBB | 95,090 |
| | Total Other Municipal Bonds & Notes (cost \$4,155,693) | | 4,476,823 |
| CORPORATE BONDS & NOTES (i) 0.9% | | | |

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| | | | |
|-----|---|-----------|---------|
| 900 | CIT Group, Inc., 5.80%, 7/28/11 | Baa2/BBB | 649,029 |
| 100 | International Lease Finance Corp., 1.469%, 5/24/10, FRN | Baa2/BBB+ | 71,534 |
| | Total Corporate Bonds & Notes (cost \$754,479) | | 720,563 |

SHORT TERM INVESTMENTS 3.9%

Corporate Notes (i) 3.9%

| | | | |
|-------|---|-----------|----------------------|
| | American General Finance Corp., | | |
| 300 | 1.785%, 10/2/09, FRN | Baa2/BB+ | 213,871 |
| 200 | 4.625%, 5/15/09 | Baa2/BB+ | 187,191 |
| | CIT Group, Inc., | | |
| 200 | 1.358%, 8/17/09, FRN | Baa2/BBB | 178,705 |
| 1,900 | 4.125%, 11/3/09 | Baa2/BBB | 1,730,780 |
| 800 | Goldman Sachs Group, Inc., 1.318%, 11/16/09, FRN | A1/A | 781,507 |
| 100 | International Lease Finance Corp., 1.494%, 1/15/10, FRN | Baa2/BBB+ | 78,954 |
| | Total Corporate Notes (cost \$3,281,618) | | 3,171,008 |
| | Total Investments (cost \$83,340,572) 100.0% | | \$ 81,852,006 |

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PIMCO Municipal Income Funds III Notes to Schedules of Investments

March 31, 2009 (unaudited)

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$3,643,856, representing 0.72% of total investments in Municipal III; securities with an aggregate value of \$3,182,500, representing 0.99% of total investments in California Municipal III; securities with an aggregate value of \$1,655,675, representing 2.02% 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 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) Delayed-delivery security. To be delivered after March 31, 2009.
- (f) In default.
- (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 March 31, 2009.
- (h) Maturity date shown is date of next put.
- (i) All or partial amount segregated as collateral for reverse repurchase agreements.
- (j) 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.

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

FRN Floating Rate Note. The interest rate disclosed reflects the rate in effect on March 31, 2009.

FSA insured by Financial Security Assurance, Inc.

GNMA insured by Government National Mortgage Association

GO General Obligation Bond

GTD Guaranteed

NPFGC insured by National Public Finance Guarantee Corporation

NR Not Rated

PSF Public School Fund

Radian insured by Radian Guaranty, Inc.

T CRS Temporary Custodian Receipts

XLCA insured by XL Capital Assurance

See accompanying Notes to Financial Statements 3.31.09 PIMCO Municipal Income Funds III Semi-Annual Report 21

Table of Contents**PIMCO Municipal Income Funds III Statements of Assets and Liabilities**

March 31, 2009 (unaudited)

| | Municipal III | California Municipal III | New York Municipal III |
|---|----------------------|-----------------------------|---------------------------|
| Assets: | | | |
| Investments, at value (cost \$557,815,184, \$345,044,657 and \$83,340,572, respectively) | \$506,749,768 | \$320,290,712 | \$81,852,006 |
| Cash | | 495,511 | |
| Interest receivable | 8,585,511 | 5,394,539 | 1,067,591 |
| Receivable for investments sold | 6,238,864 | 4,426,040 | 359,424 |
| Prepaid expenses and other assets | 58,090 | 36,299 | 22,781 |
| Total Assets | 521,632,233 | 330,643,101 | 83,301,802 |
| Liabilities: | | | |
| Payable for floating rate notes | 46,273,004 | 32,574,249 | 4,933,333 |
| Payable for reverse repurchase agreements | 18,386,000 | 6,927,000 | 3,056,000 |
| Payable for investments purchased | 14,412,765 | 4,242,538 | |
| Dividends payable to common and preferred shareholders | 2,245,496 | 1,312,281 | 290,723 |
| Interest payable | 448,015 | 361,103 | 17,613 |
| Payable to custodian for cash overdraft | 378,161 | | 116,900 |
| Investment management fees payable | 222,490 | 144,755 | 37,850 |
| Interest payable for reverse repurchase agreements | 8,717 | 3,582 | 1,486 |
| Accrued expenses and other liabilities | 136,946 | 150,313 | 17,309 |
| Total Liabilities | 82,511,594 | 45,715,821 | 8,471,214 |
| Preferred shares (\$0.00001 par value and \$25,000 net asset and liquidation value per share applicable to an aggregate of 7,560, 5,000 and 1,280 shares issued and outstanding, respectively) | 189,000,000 | 125,000,000 | 32,000,000 |
| Net Assets Applicable to Common Shareholders | \$250,120,639 | \$159,927,280 | \$42,830,588 |

Composition of Net Assets Applicable to Common Shareholders:

Common Stock:

| | | | |
|---|----------------------|----------------------|---------------------|
| Par value (\$0.00001 per share) | \$318 | \$216 | \$55 |
| Paid-in-capital in excess of par | 451,704,145 | 306,378,512 | 78,254,120 |
| Undistributed net investment income | 3,786,784 | 2,017,337 | 740,253 |
| Accumulated net realized loss | (154,306,517) | (123,712,585) | (34,675,118) |
| Net unrealized depreciation of investments | (51,064,091) | (24,756,200) | (1,488,722) |
| Net Assets Applicable to Common Shareholders | \$250,120,639 | \$159,927,280 | \$42,830,588 |
| Common Shares Outstanding | 31,846,247 | 21,615,834 | 5,526,131 |
| Net Asset Value Per Common Share | \$7.85 | \$7.40 | \$7.75 |

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Table of Contents**PIMCO Municipal Income Funds III Statements of Operations**

Six months ended March 31, 2009 (unaudited)

| | Municipal III | California Municipal III | New York Municipal III |
|---|-------------------|-----------------------------|---------------------------|
| Investment Income: | | | |
| Interest | \$18,883,611 | \$11,596,420 | \$2,791,462 |
| Expenses: | | | |
| Investment management fees | 1,611,470 | 1,078,258 | 278,105 |
| Interest expense | 1,057,837 | 336,393 | 110,375 |
| Auction agent fees and commissions | 282,332 | 193,706 | 51,108 |
| Custodian and accounting agent fees | 80,822 | 43,890 | 26,945 |
| Shareholder communications | 57,455 | 31,982 | 10,239 |
| Legal fees | 50,545 | 36,313 | 7,280 |
| Audit and tax services | 46,901 | 36,459 | 19,946 |
| Trustees fees and expenses | 28,960 | 19,854 | 6,109 |
| Transfer agent fees | 17,551 | 16,313 | 15,899 |
| New York Stock Exchange listing fees | 10,256 | 8,497 | 8,502 |
| Insurance expense | 8,075 | 5,632 | 1,666 |
| Miscellaneous | 9,503 | 9,527 | 8,973 |
| Total expenses | 3,261,707 | 1,816,824 | 545,147 |
| Less: investment management fees waived | (148,665) | (99,844) | (25,749) |
| custody credits earned on cash balances | (1,562) | (1,022) | (266) |
| Net expenses | 3,111,480 | 1,715,958 | 519,132 |
| Net Investment Income | 15,772,131 | 9,880,462 | 2,272,330 |
| Realized and Change In Unrealized Gain (Loss): | | | |
| Net realized loss on: | | | |

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| | | | |
|--|-----------------------|-----------------------|-----------------------|
| Investments | (37,454,655) | (26,775,712) | (10,020,473) |
| Futures contracts | (1,086,759) | (268,871) | (76,826) |
| Swaps | (69,346,706) | (49,042,845) | (14,333,051) |
| Net change in unrealized appreciation/depreciation of: | | | |
| Investments | 8,921,079 | (8,558,014) | 2,931,274 |
| Futures contracts | (509,265) | (344,810) | (98,511) |
| Swaps | 5,896,675 | 3,985,072 | 1,141,808 |
| Net realized and change in unrealized loss on investments, futures contracts and swaps | (93,579,631) | (81,005,180) | (20,455,779) |
| Net Decrease in Net Assets Resulting from Investment Operations | (77,807,500) | (71,124,718) | (18,183,449) |
| Dividends on Preferred Shares from Net Investment Income | (2,644,499) | (1,792,582) | (462,859) |
| Net Decrease in Net Assets Applicable to Common Shareholders Resulting from Investment Operations | \$(80,451,999) | \$(72,917,300) | \$(18,646,308) |

See accompanying Notes to Financial Statements 3.31.09 PIMCO Municipal Income Funds III Semi-Annual Report **23**

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

| | Municipal III Six Months ended March 31, 2009 (unaudited) | Year ended September 30, 2008 |
|--|---|----------------------------------|
| Investment Operations: | | |
| Net Investment Income | \$15,772,131 | \$40,587,743 |
| Net realized loss on investments, futures contracts and swaps | (107,888,120) | (5,855,899) |
| Net change in unrealized appreciation/depreciation of investments, futures contracts and swaps | 14,308,489 | (116,630,202) |
| Net decrease in net assets resulting from investment operations | (77,807,500) | (81,898,358) |
| Dividends on Preferred Shares from Net Investment Income | (2,644,499) | (9,396,018) |
| Net decrease in net assets applicable to common shareholders resulting from investment operations | (80,451,999) | (91,294,376) |
| Dividends to Common Shareholders from Net Investment Income | (13,350,808) | (26,568,968) |
| Capital Share Transactions: | | |
| Reinvestment of dividends | 997,874 | 2,874,798 |
| Total decrease in net assets applicable to common shareholders | (92,804,933) | (114,988,546) |
| Net Assets Applicable to Common Shareholders: | | |
| Beginning of period | 342,925,572 | 457,914,118 |
| End of period (including undistributed net investment income of \$3,786,784 and \$4,009,960; \$2,017,337 and \$1,707,824; \$740,253 and \$669,514; respectively) | \$250,120,639 | \$342,925,572 |
| Common Shares Issued in Reinvestment of Dividends | 117,133 | 206,774 |

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

| California Municipal III | | New York Municipal III | |
|-------------------------------|--------------------|-------------------------------|--------------------|
| Six Months ended | Year ended | Six Months ended | Year ended |
| March 31, 2009 (unaudited) | September 30, 2008 | March 31, 2009 (unaudited) | September 30, 2008 |
| \$9,880,462 | \$24,842,170 | \$2,272,330 | \$6,126,964 |
| (76,087,428) | (6,131,433) | (24,430,350) | (2,384,765) |
| (4,917,752) | (69,147,582) | 3,974,571 | (15,899,883) |
| (71,124,718) | (50,436,845) | (18,183,449) | (12,157,684) |
| (1,792,582) | (6,269,965) | (462,859) | (1,631,983) |
| (72,917,300) | (56,706,810) | (18,646,308) | (13,789,667) |
| (7,778,367) | (15,524,827) | (1,738,732) | (3,476,109) |
| 187,048 | 709,712 | 64,297 | |
| (80,508,619) | (71,521,925) | (20,320,743) | (17,265,776) |
| 240,435,899 | 311,957,824 | 63,151,331 | 80,417,107 |
| \$159,927,280 | \$240,435,899 | \$42,830,588 | \$63,151,331 |
| 20,654 | 53,487 | 8,498 | |

Table of Contents**PIMCO Municipal Income Fund III Statement of Cash Flows**

Six Months ended March 31, 2009 (unaudited)

Increase in Cash from:**Cash Flows used for Operating Activities:**

Net decrease in net assets resulting from investment operations \$(77,807,500)

Adjustments to Reconcile Net Decrease in Net Assets Resulting from Investment Operations to Net Cash used for Operating Activities:

Purchases of long-term investments (374,069,724)

Proceeds from sales of long-term investments 422,358,678

Sales of short-term portfolio investments, net (12,989,596)

Net change in unrealized appreciation/depreciation of investments, futures contracts and swaps (14,308,489)

Net realized loss on investments, futures contracts and swaps 107,888,120

Net amortization on investments (1,755,961)

Decrease in interest receivable 3,971,982

Payments paid for futures contracts transactions 188,976

Decrease in deposits with brokers for futures collateral 1,905,000

Increase in prepaid expenses and other assets (33,722)

Decrease in proceeds payable from retirement of floating rate notes (7,019,500)

Increase in interest payable for reverse repurchase agreements 8,717

Increase in premium for swaps purchased (63,582,198)

Decrease in investment management fees payable (77,355)

Decrease in accrued expenses and other liabilities (65,479)

Net cash used for operating activities (15,388,051)**Cash Flows provided by Financing Activities:**

Increase in reverse repurchase agreements 18,386,000

Cash dividends paid (excluding reinvestment of dividends of \$997,874) (15,341,488)

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| | |
|--|--------------------|
| Payments to retire floating rate notes issued | 56,322,618 |
| Cash receipts on issuance of floating rate notes | 32,575,195 |
| Cash overdraft at custodian | 378,161 |
| Redemptions of preferred shares | (81,000,000) |
| Net cash provided by financing activities | 11,320,486 |
| Net decrease in cash | (4,067,565) |
| Cash at beginning of period | 4,067,565 |
| Cash at end of period | \$0 |

The Fund paid \$42,582 in cash for interest on reverse repurchase agreements.

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Table of Contents**PIMCO California Municipal Income Fund III Statement of Cash Flows**

Six Months ended March 31, 2009 (unaudited)

Increase in Cash from:**Cash Flows used for Operating Activities:**

| | |
|---|----------------|
| Net decrease in net assets resulting from investment operations | \$(71,124,718) |
|---|----------------|

Adjustments to Reconcile Net Decrease in Net Assets Resulting from Investment Operations to Net Cash Provided by Operating Activities:

| | |
|------------------------------------|---------------|
| Purchases of long-term investments | (119,431,347) |
|------------------------------------|---------------|

| | |
|--|-------------|
| Proceeds from sales of long-term investments | 215,924,477 |
|--|-------------|

| | |
|--|-----------|
| Purchases of short-term portfolio investments, net | 3,191,369 |
|--|-----------|

| | |
|--|-----------|
| Net change in unrealized appreciation/depreciation of investments, futures contracts and swaps | 4,917,752 |
|--|-----------|

| | |
|---|------------|
| Net realized loss on investments, futures contracts and swaps | 76,087,428 |
|---|------------|

| | |
|---------------------------------|-----------|
| Net amortization on investments | (954,945) |
|---------------------------------|-----------|

| | |
|---------------------------------|-----------|
| Decrease in interest receivable | 1,921,203 |
|---------------------------------|-----------|

| | |
|--|---------|
| Payments paid for futures contracts transactions | 594,913 |
|--|---------|

| | |
|--|-----------|
| Decrease in deposits with brokers for futures collateral | 1,420,000 |
|--|-----------|

| | |
|---|----------|
| Increase in prepaid expenses and other assets | (21,480) |
|---|----------|

| | |
|---|-------------|
| Decrease in proceeds payable from retirement of floating rate notes | (5,640,000) |
|---|-------------|

| | |
|--|-------|
| Increase in interest payable for reverse repurchase agreements | 3,582 |
|--|-------|

| | |
|---|--------------|
| Increase in premium for swaps purchased | (45,147,097) |
|---|--------------|

| | |
|--|----------|
| Decrease in investment management fees payable | (59,543) |
|--|----------|

| | |
|--|----------|
| Decrease in accrued expenses and other liabilities | (71,360) |
|--|----------|

| | |
|--|-------------------|
| Net cash provided by operating activities | 61,610,234 |
|--|-------------------|

Cash Flows used for Financing Activities:

| | |
|---|-----------|
| Increase in reverse repurchase agreements | 6,927,000 |
|---|-----------|

| | |
|--|-------------|
| Cash dividends paid (excluding reinvestment of dividends of \$187,048) | (9,738,841) |
|--|-------------|

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| | |
|--|---------------------|
| Payments to retire floating rate notes issued | (30,813,533) |
| Cash receipts on issuance of floating rate notes | 30,499,795 |
| Redemptions of preferred shares | (60,000,000) |
| Net cash used for financing activities | (63,125,579) |
| Net decrease in cash | (1,515,345) |
| Cash at beginning of period | 2,010,856 |
| Cash at end of period | \$495,511 |

The Fund paid \$19,791 in cash for interest on reverse repurchase agreements.

See accompanying Notes to Financial Statements 3.31.09 PIMCO Municipal Income Funds III Semi-Annual
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Table of Contents**PIMCO New York Municipal Income Fund III Statement of Cash Flows**

Six Months ended March 31, 2009 (unaudited)

Increase in Cash from:**Cash Flows used for Operating Activities:**

| | |
|---|----------------|
| Net decrease in net assets resulting from investment operations | \$(18,183,449) |
|---|----------------|

Adjustments to Reconcile Net Decrease in Net Assets Resulting from Investments**Operations to Net Cash Provided by Operating Activities:**

| | |
|------------------------------------|--------------|
| Purchases of long-term investments | (19,884,774) |
|------------------------------------|--------------|

| | |
|--|------------|
| Proceeds from sales of long-term investments | 52,842,417 |
|--|------------|

| | |
|---|-----------|
| Sale of short-term portfolio investments, net | (702,121) |
|---|-----------|

| | |
|--|-------------|
| Net change in unrealized appreciation/depreciation of investments, futures contracts and swaps | (3,974,571) |
|--|-------------|

| | |
|---|------------|
| Net realized loss on investments, futures contracts and swaps | 24,430,350 |
|---|------------|

| | |
|---------------------------------|-----------|
| Net amortization on investments | (180,202) |
|---------------------------------|-----------|

| | |
|---------------------------------|---------|
| Decrease in interest receivable | 600,658 |
|---------------------------------|---------|

| | |
|--|---------|
| Payments paid for futures contracts transactions | 169,975 |
|--|---------|

| | |
|--|---------|
| Decrease in deposits with brokers for futures contracts collateral | 450,000 |
|--|---------|

| | |
|---|----------|
| Increase in prepaid expenses and other assets | (16,484) |
|---|----------|

| | |
|---|-----------|
| Decrease in proceeds payable from retirement of floating rate notes | (802,000) |
|---|-----------|

| | |
|--|-------|
| Increase in interest payable for reverse repurchase agreements | 1,486 |
|--|-------|

| | |
|---|--------------|
| Increase in premium for swaps purchased | (13,216,833) |
|---|--------------|

| | |
|--|----------|
| Decrease in investment management fees payable | (15,516) |
|--|----------|

| | |
|--|----------|
| Decrease in accrued expenses and other liabilities | (41,790) |
|--|----------|

| | |
|--|-------------------|
| Net cash provided by operating activities | 21,477,146 |
|--|-------------------|

Cash Flows used for Financing Activities:

| | |
|---|-----------|
| Increase in reverse repurchase agreements | 3,056,000 |
|---|-----------|

| | |
|---|-------------|
| Cash dividends paid (excluding reinvestment of dividends of \$64,297) | (2,147,191) |
|---|-------------|

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| | |
|--|---------------------|
| Payments to retire floating rate notes issued | (12,601,497) |
| Cash receipts on issuance of floating rate notes | 4,934,842 |
| Cash overdraft at custodian | 116,900 |
| Redemption of preferred shares | (15,000,000) |
| Net cash used for financing activities | (21,640,946) |
| | |
| Net decrease in cash | (163,800) |
| Cash at beginning of period | 163,800 |
| Cash at end of period | \$0 |

The Fund paid \$8,530 in cash for interest on reverse repurchase agreements.

28 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.09 **See accompanying Notes to Financial Statements**

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PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2009 (unaudited)

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, wholly-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 per share of 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 investing in 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.

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 March 31, 2009. The Funds' federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

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, on the basis of quotes obtained from a quotation reporting system, established market makers, or

independent pricing services.

Portfolio securities and other financial instruments for which market quotations are not readily available or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The 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. 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 value. 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.

Table of Contents**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

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 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) Fair Value Measurement

Effective October 1, 2008, the Funds adopted FASB Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosure about the use of the fair value measurements. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1 quoted prices in active markets for identical investments that the Funds have the ability to access

Level 2 valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) or quotes from inactive exchanges

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

The valuation techniques used by the Funds to measure fair value during the six months ended March 31, 2009 maximized the use of observable inputs and minimized the use of unobservable inputs.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of March 31, 2009 in valuing each Fund's investments carried at value:

| Valuation Inputs | Municipal Income III Investments in Securities | California Municipal III Investments in Securities | New York Municipal III Investments in Securities |
|--|---|---|---|
| Level 1 Quoted Prices | \$ | \$ | \$ |
| Level 2 Other Significant Observable Inputs | 506,749,768 | 320,290,712 | 81,852,006 |
| Level 3 Significant Unobservable Inputs | | | |

| | | | |
|-------|---------------|---------------|--------------|
| Total | \$506,749,768 | \$320,290,712 | \$81,852,006 |
|-------|---------------|---------------|--------------|

A roll forward of fair value measurements using significant unobservable inputs (Level 3) as of March 31, 2009, were as follows:

Municipal Income III:

| | Investments in Securities |
|--|--------------------------------------|
| Beginning balance, 10/01/08 | \$149,999 |
| Net paydowns | (74,760) |
| Total realized gain (loss) | 2,337 |
| Total change in unrealized gain (loss) | (50,463) |
| Transfers in and/or out of Level 3 | (27,113) |
| Ending balance, 3/31/09 | \$0 |

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PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157, when the volume and level of activity for the asset or liability have significantly decreased as well as guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for fiscal years and interim periods ending after June 15, 2009. The Funds' management is currently evaluating the impact the adoption of FSP 157-4 will have on the Funds' financial statement disclosures.

(c) Disclosures about Credit Derivatives

The Funds have adopted FASB Staff Positions No. 133-1 and FIN 45-4 *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FAS Interpretation No. 45*; and *Clarification of the Effective Date of FASB Statement No. 161* (FSP), which required 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 reporting periods after November 15, 2008. FSP applies to certain credit derivatives, hybrid instruments that have embedded credit derivatives (for example, credit-linked notes), and certain guarantees and it requires additional disclosures regarding credit derivatives with sold protection. Fund management has determined that FSP has no material impact on the Funds' financial statements.

See also *Swap Agreements* Note 1(h) for description of the nature of each credit derivative, maximum potential amount of future payments (undiscounted) the Fund could be required to make under the credit derivatives with sold protection and fair value of each credit derivative at March 31, 2009. Potential losses related to hybrid instruments that have embedded credit derivatives are limited to the initial cost of investments.

In March 2008, FASB issued *Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). was issued and 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. Fund management is currently evaluating the impact the adoption of SFAS 161 will have on the Fund's financial statement disclosures.

(d) 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 an identified cost basis. Interest income adjusted for the accretion of discounts and amortization of premiums is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income over the lives of the respective securities using the effective interest method.

(e) 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.

(f) 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.

(g) Futures Contracts

The Funds may enter into 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 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

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PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

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.

(h) Swap Agreements

The Funds may enter into swap agreements. Swap agreements are privately negotiated agreements between the Funds and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. The Funds may enter into credit default, cross- currency, interest rate, total return, variance and other forms of swap agreements in order to manage their exposure to credit, currency and interest rate risk. In connection with these agreements, securities may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Payments received or made at the beginning of the measurement period are reflected as such on the Statements of Assets and Liabilities and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront payments are recorded as realized gains or losses on the Statements of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statements of Operations. Net periodic payments received or paid by the Funds are included as part of realized gains or losses on the Statement of Operations.

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

Interest Rate Swap Agreements Interest rate swap agreements involve the exchange by the Funds with another party of their respective commitments to pay or receive interest with respect to the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or cap, (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or floor, (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the counterparty may terminate the swap transaction in whole at zero cost by a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swap, under which two parties can exchange variable interest rates based on different money markets.

(i) Reverse Repurchase Agreements

The Funds may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Funds sell securities to a bank or broker-dealer and agree to repurchase the securities at a mutually agreed date and price. Generally, the effect of such a transaction is that the Funds can recover and reinvest all or most of the cash invested in the portfolio securities involved during the term of the reverse repurchase agreement and still be entitled to the returns associated with those portfolio securities. Such transactions are advantageous if the interest cost to the Funds of the reverse repurchase transaction is less than the returns it obtains on investments purchased with the cash. Unless the Funds covers their positions in reverse repurchase agreements (by segregating liquid assets at least equal in amount to the forward purchase commitment), their obligations under the agreements will be subject to the Funds' limitations on borrowings. Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities that the Fund are obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Funds' use of the proceeds of the agreement may be restricted pending determination by the other party, or its trustee or receiver, whether to enforce the Funds' obligation to repurchase the securities.

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

The Funds may invest in RIBs and RITEs, (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

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PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2009 (unaudited)

1. Organization and Significant Accounting Policies (continued)

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 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 municipal bond into a special purpose 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 by an index or auction process typically every 7 to 35 days. 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 in 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.

(k) When-Issued/Delayed-Delivery Transactions

The Funds may purchase or sell securities on a when-issued or delayed-delivery basis. The transactions involve a commitment to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery purchases are outstanding, the Funds will set aside and maintain until the settlement date in a designated account, liquid assets in an amount sufficient to meet the purchase price. When purchasing a security on a delayed-delivery basis, the Funds assume the rights and risks of ownership of the security, including the risk of price and yield fluctuations. Consequently, such fluctuations are taken into account when determining the net asset value. The Funds may dispose of or renegotiate a delayed-delivery transaction after it is entered into, and may sell when-issued securities before they are delivered, which may result in a realized gain or loss. When a security on a delayed-delivery basis is sold, the Funds do not participate in future gains and losses with respect to the security.

(l) Custody Credits 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.

(m) 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 it is incurred.

2. Investment Manager/Sub-Adviser

The Funds have Investment Management Agreements (collectively the Agreements) with the Investment Manager. Subject to the supervision of each Fund's Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, each Fund's investment activities, business affairs and administrative matters. Pursuant to the Agreements, the Investment Manager receives an annual fee, payable on a monthly basis, at an annual rate of 0.65% of each Fund's average daily net assets, inclusive of net assets attributable to any preferred shares that may be outstanding. In order to reduce each Fund's expenses, the Investment Manager has contractually agreed to waive a portion of its investment management fees for each Fund at the annual rate of 0.10% of each Fund's average daily net assets, inclusive of net assets attributable to any preferred shares that may be outstanding through October 31, 2008. On November 1, 2008, the contractual fee waiver was reduced to 0.05% of each Fund's average daily net assets, including net assets attributable to any preferred shares that may be outstanding through October 31, 2009. For the fiscal year

Table of Contents**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2009 (unaudited)

2. Investment Manager/Sub-Adviser (continued)

ended March 31, 2009, each Fund paid investment management fees at an annualized effective rate of 0.59% 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 each Fund's investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all 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 six months ended March 31, 2009, 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 | \$367,603,837 | \$121,767,197 | \$19,881,313 |
| Sales | 428,523,644 | 220,351,671 | 53,201,841 |

The weighted average daily balance of reverse repurchase agreements outstanding during the six months ended March 31, 2009 for Municipal III, California III and New York III was \$17,422,188, \$7,573,542 and \$3,201,146 at a weighted average interest rate of 1.10%, 1.16% and 1.17%, respectively. The total market value of underlying collateral (refer to the Schedules of Investments for positions segregated as collateral for reverse repurchase agreement) for open reverse repurchase agreements was \$23,015,837, \$8,845,692 and \$3,891,571, respectively. Open reverse repurchase agreements at March 31, 2009 were:

Municipal III:

| Counterparty | Rate | Trade Date | Maturity Date | Principal & Interest | Principal |
|----------------------------|-------|------------|------------------|-------------------------|-------------|
| Barclays Bank | 0.95% | 3/12/09 | 4/9/09 | \$6,957,670 | \$6,954,000 |
| | 0.95% | 3/16/09 | 4/16/09 | 10,603,475 | 10,599,000 |
| Credit Suisse First Boston | 0.95% | 3/6/09 | 4/6/09 | 833,572 | 833,000 |

\$18,386,000

California Municipal III:

| Counterparty | Rate | Trade Date | Maturity Date | Principal & Interest | Principal |
|----------------------------|-------|------------|---------------|----------------------|-------------|
| Barclays Bank | 0.95% | 3/12/09 | 4/9/09 | \$4,793,528 | \$4,791,000 |
| | 0.95% | 3/16/09 | 4/16/09 | 1,560,659 | 1,560,000 |
| Credit Suisse First Boston | 0.95% | 3/6/09 | 4/6/09 | 576,395 | 576,000 |
| | | | | | \$6,927,000 |

Table of Contents**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2009 (unaudited)

3. Investments in Securities (continued)New York Municipal III:

| Counterparty | Rate | Trade Date | Maturity Date | Principal & Interest | Principal |
|---------------|-------|------------|---------------|----------------------|-------------|
| Barclays Bank | 0.95% | 3/12/09 | 4/9/09 | \$1,854,978 | \$1,854,000 |
| | 0.95% | 3/16/09 | 4/16/09 | 1,202,508 | 1,202,000 |
| | | | | | \$3,056,000 |

Municipal III, California III and New York III received \$936,208, \$409,809 and \$198,926, respectively, in U.S. government agency securities as collateral for open reverse repurchase agreements.

4. Income Tax Information

The cost of investments for federal income tax purposes and gross unrealized appreciation and gross unrealized depreciation of investments at March 31, 2009 were:

| | Cost of Investments | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Net Unrealized Depreciation |
|--------------------------|---------------------|-------------------------------|-------------------------------|-----------------------------|
| Municipal III | \$510,966,865 | \$11,912,615 | \$(62,481,219) | \$(50,568,604) |
| California Municipal III | 312,464,575 | 9,789,181 | (34,638,093) | (24,848,912) |
| New York Municipal III | 78,405,780 | 2,656,706 | (4,147,754) | (1,491,048) |

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

5. Auction-Rate Preferred Shares

Municipal III has outstanding 1,512 shares of Preferred Shares Series A, 1,512 shares of Preferred Shares Series B, 1,512 shares of Preferred Shares Series C, 1,512 shares of Preferred Shares Series D and 1,512 shares of Preferred Shares Series E, each with a net asset and liquidation value of \$25,000 per share plus any accumulated, unpaid dividends.

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California Municipal III has outstanding 2,500 shares of Preferred Shares Series A and 2,500 shares of Preferred Shares Series B, each with a net asset and liquidation value of \$25,000 per share plus any accumulated, unpaid dividends.

New York Municipal III has outstanding 1,280 shares of Preferred Shares Series A with a net asset and liquidation value of \$25,000 per share plus any accumulated, unpaid 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.

3.31.09 PIMCO Municipal Income Funds III Semi-Annual Report **35**

Table of Contents**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2009 (unaudited)

5. Auction-Rate Preferred Shares (continued)

For the six months ended March 31, 2009, the annualized dividend rates for each Fund ranged from:

| | High | Low | At March 31, 2009 |
|---|---------|--------|-------------------|
| <u>Municipal III:</u> | | | |
| Series A | 8.499% | 0.640% | 0.685% |
| Series B | 8.652% | 0.640% | 0.746% |
| Series C | 12.261% | 0.625% | 0.746% |
| Series D | 11.728% | 0.594% | 0.746% |
| Series E | 10.205% | 0.594% | 0.746% |
| <u>California Municipal III:</u> | | | |
| Series A | 8.652% | 0.640% | 0.746% |
| Series B | 11.728% | 0.594% | 0.746% |
| <u>New York Municipal III:</u> | | | |
| Series A | 8.499% | 0.685% | 0.685% |

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

Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds have 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 have 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 automatically 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 without any change. 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.

During the six months ended March 31, 2009, the Funds redeemed a portion of their ARPS. The redemptions were intended to increase asset coverage for each Fund's ARPS above the 200% Level (subject to future market conditions), permitting the Funds to pay previously declared common share dividends and: to declare and pay future common share dividends. The Funds redeemed, at the full liquidation preference of \$25,000 per share plus accumulated but unpaid dividends, up to each series' respective dates of redemption.

| | Municipal III (a) | California Municipal III (b) | New York Municipal III (c) |
|---------------------------------------|-------------------|---------------------------------|-------------------------------|
| Beginning balance, September 30, 2008 | \$270,000,000 | \$185,000,000 | \$47,000,000 |
| Redemption | (81,000,000) | (60,000,000) | (15,000,000) |
| Ending balance, March 31, 2009 | \$189,000,000 | \$125,000,000 | \$32,000,000 |

(a) Redeemed January 5, 2009 - January 9, 2009

(b) Redeemed January 7, 2009 and January 9, 2009

(c) Redeemed January 6, 2009.

Table of Contents**PIMCO Municipal Income Funds III Notes to Financial Statements**

March 31, 2009 (unaudited)

6. Subsequent Common Dividend Declarations

On April 1, 2009, the following dividends were declared to common shareholders payable May 1, 2009 to shareholders of record on April 13, 2009:

| | |
|--------------------------|---------------------------|
| Municipal III | \$0.07 per common share |
| California Municipal III | \$0.06 per common share |
| New York Municipal III | \$0.0525 per common share |

On May 1, 2009, the following dividends were declared to common shareholders payable June 1, 2009 to shareholders of record on May 11, 2009:

| | |
|--------------------------|---------------------------|
| Municipal III | \$0.07 per common share |
| California Municipal III | \$0.06 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 SEC 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 alleged that any inappropriate activity took place with respect to the Funds.

Since February 2004, the Investment Manager, the Sub-Adviser and certain of their 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, the Sub-Adviser, or their 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.

8 Portfolio Manager Change

Effective December 11, 2008, Mr. John Cummings assumed primary responsibility for the day-to-day portfolio management of each of the Funds. Mr. Cummings is an Executive Vice President at PIMCO. He joined PIMCO in

2002, and previously was at Goldman Sachs as an institutional trader, responsible for a number of municipal sectors including industrials, airlines, utilities, healthcare and high-yield. Mr. Cummings has over 20 years of investment experience and earned an MBA and undergraduate degree from Rutgers University.

9. Subsequent Event-Change to the Funds Investment Policies and Related Risks

Effective April 6, 2009, each Fund's investment policy has been revised to increase the amount of Residual Interest Municipal Bonds (RIBs) in which each Fund may invest to 15% from 10% of its total assets. The Board of Trustees approved the changes based on the recommendation of the Funds' Investment Manager and Sub-Adviser that this limit increase in RIBs would be in the best interest of the Funds and the Funds' shareholders. In addition, this change potentially allows the Funds to earn additional tax-free income. In addition, the use of RIBs, which results in a form of economic leverage, will allow the Funds to replace or increase leverage to some degree.

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PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2009 (unaudited)

9. Subsequent Event Change to the Funds Investment Policies and Related Risks (continued)

In addition to general market risks, the Funds' investments in RIBs may involve greater risk and volatility than an investment in a fixed rate bond, and the value of RIBs may decrease significantly when market interest rates increase. RIBs have varying degrees of liquidity, and the market for these securities may be volatile. These securities tend to underperform the market for fixed rate bonds in a rising interest rate environment, but tend to outperform the market for fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, RIBs typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Trusts in which RIBs may be held could be terminated due to market, credit or other events beyond the Funds' control, which could require a Fund to reduce leverage and dispose of portfolio investments at inopportune times and prices.

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Table of Contents**PIMCO Municipal Income Funds III Financial Highlights**

For a share of common stock outstanding throughout each period:

| | Six Months ended March 31, 2009 (unaudited) | 2008 | Year ended September 30, | | | |
|--|---|-----------|--------------------------|-----------|-----------|-----------|
| | | | 2007 | 2006 | 2005 | |
| Asset value, beginning of period | \$10.81 | \$14.53 | \$14.90 | \$14.68 | \$14.36 | \$14.36 |
| Investment Operations: | | | | | | |
| Investment income | 0.49 | 1.29 | 1.17 | 1.12 | 1.14 | 1.14 |
| Realized and change in unrealized (loss) on investments, futures contracts, options written and swaps | (2.95) | (3.87) | (0.40) | 0.26 | 0.36 | 0.36 |
| Income from investment operations | (2.46) | (2.58) | 0.77 | 1.38 | 1.50 | 1.50 |
| Income from Preferred Shares from Investment Income | (0.08) | (0.30) | (0.30) | (0.27) | (0.18) | (0.18) |
| Increase (decrease) in net assets applicable to common shareholders resulting from investment operations | (2.54) | (2.88) | 0.47 | 1.11 | 1.32 | 1.32 |
| Income to Common Shareholders from Net Investment Income | (0.42) | (0.84) | (0.84) | (0.89) | (1.00) | (1.00) |
| Asset value, end of period | \$7.85 | \$10.81 | \$14.53 | \$14.90 | \$14.68 | \$14.68 |
| Net price, end of period | \$8.68 | \$11.17 | \$15.05 | \$15.70 | \$15.49 | \$15.49 |
| Investment Return (1) | (18.27)% | (21.07)% | 1.38% | 7.69% | 15.95% | 15.95% |
| LIABILITIES/SUPPLEMENTAL DATA: | | | | | | |
| Assets applicable to common shareholders, end of period (000) | \$250,121 | \$342,926 | \$457,914 | \$466,511 | \$457,487 | \$445,600 |
| Ratio of expenses to average net assets, including interest expense (2)(3)(4)(5) | 2.37%# | 2.48% | 2.73% | 2.71% | 1.97% | 1.97% |
| Ratio of expenses to average net assets, excluding interest expense (2)(3)(5) | 1.56%# | 1.23% | 1.10% | 1.06% | 1.03% | 1.03% |
| Ratio of net investment income to average net assets (2)(5) | 11.98%# | 9.39% | 7.90% | 7.71% | 7.74% | 7.74% |

| | | | | | | |
|-------------------------------------|----------|----------|----------|----------|----------|--------|
| Preferred shares asset coverage per | \$58,082 | \$56,709 | \$67,378 | \$68,179 | \$67,352 | \$66,2 |
| Portfolio turnover | 66% | 17% | 10% | 15% | 3% | |

Annualized.

- (1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of each period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank. (See Note 1(l) in Notes to Financial Statements).
- (4) Interest expense relates to the liability for floating rate notes issued in connection with inverse floater transactions and reverse repurchase agreement transactions.
- (5) During the periods indicated above, the Investment Manager waived a portion of its investment management fee. (See Note 2 in Notes to Financial Statements). The effect of such waiver relative to the average net assets of common shareholders was 0.11% (annualized), 0.17%, 0.24%, 0.24%, 0.24% and 0.24%, for the six months ended March 31, 2009, the years ended September 30, 2008, September 30, 2007, September 30, 2006, September 30, 2005 and September 30, 2004, respectively.

See accompanying Notes to Financial Statements 3.31.09 PIMCO Municipal Income Funds III Semi-Annual Report **39**

Table of Contents**PIMCO California Municipal Income Funds III Financial Highlights**

For a share of common stock outstanding throughout each period:

| | Six Months ended March 31, 2009 (unaudited) | 2008 | Year ended September 30, | | | |
|--|---|-----------|--------------------------|-----------|-----------|-----------|
| | | | 2007 | 2006 | 2005 | |
| Net asset value, beginning of period | \$11.13 | \$14.48 | \$14.83 | \$14.80 | \$14.12 | \$13.12 |
| Investment Operations: | | | | | | |
| Investment income | 0.45 | 1.15 | 1.07 | 1.11 | 1.14 | 1.14 |
| Realized and change in unrealized (loss) on investments, futures contracts, options written and swaps | (3.74) | (3.49) | (0.26) | 0.13 | 0.65 | 0.65 |
| Income from investment operations | (3.29) | (2.34) | 0.81 | 1.24 | 1.79 | 1.79 |
| Income on Preferred Shares | | | | | | |
| Net Investment Income | (0.08) | (0.29) | (0.29) | (0.25) | (0.15) | (0.15) |
| Increase (decrease) in net assets attributable to common shareholders resulting from investment operations | (3.37) | (2.63) | 0.52 | 0.99 | 1.64 | 1.64 |
| Income to Common Shareholders | | | | | | |
| Net Investment Income | (0.36) | (0.72) | (0.87) | (0.96) | (0.96) | (0.96) |
| Net asset value, end of period | \$7.40 | \$11.13 | \$14.48 | \$14.83 | \$14.80 | \$14.80 |
| Net asset price, end of period | \$7.71 | \$10.54 | \$14.20 | \$16.94 | \$15.11 | \$13.12 |
| Investment Return (1) | (23.40)% | (21.60)% | (11.38)% | 19.43% | 17.48% | 8.43% |
| FINANCIAL RATIOS/SUPPLEMENTAL DATA: | | | | | | |
| Assets applicable to common shareholders, end of period (000) | \$159,927 | \$240,436 | \$311,958 | \$318,236 | \$315,963 | \$300,800 |
| Ratio of expenses to average net assets, including interest expense (2)(3)(4)(5) | 1.97%# | 2.75% | 2.94% | 2.69% | 1.94% | 1.94% |
| Ratio of expenses to average net assets, excluding interest expense (2)(3)(5) | 1.59%# | 1.21% | 1.16% | 1.06% | 1.05% | 1.05% |
| Ratio of net investment income to average net assets (2)(5) | 11.36%# | 8.53% | 7.26% | 7.56% | 7.82% | 8.43% |

| | | | | | | |
|-------------------------------|----------|----------|----------|----------|----------|--------|
| red shares asset coverage per | \$56,982 | \$57,426 | \$67,140 | \$67,993 | \$67,692 | \$65,6 |
| lio turnover | 33% | 8% | 7% | 7% | 5% | |

Annualized.

- (1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of each period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank. (See Note 1(l) in Notes to Financial Statements).
- (4) Interest expense relates to the liability for floating rate notes issued in connection with inverse floater transactions and reverse repurchase agreement transactions.
- (5) During the periods indicated above, the Investment Manager waived a portion of its investment management fee. (See Note 2 in Notes to Financial Statements). The effect of such waiver relative to the average net assets of common shareholders was 0.11% (annualized), 0.17, 0.24%, 0.24%, 0.24% and 0.24%, for the six months ended March 31, 2009, the years ended September 30, 2008, September 30, 2007, September 30, 2006, September 30, 2005 and September 30, 2004, respectively.

40 PIMCO Municipal Income Funds III Semi-Annual Report 3.31.09 **See accompanying Notes to Financial Statements**

Table of Contents**PIMCO New York Municipal Income Funds III Financial Highlights**

For a share of common stock outstanding throughout each period:

| | Six Months ended March 31, 2009 (unaudited) | 2008 | Year ended September 30, | | 2005 | 2004 |
|--|---|----------|--------------------------|----------|----------|----------|
| | | 2007 | 2006 | | | |
| Net asset value, beginning of period | \$11.45 | \$14.57 | \$15.09 | \$15.03 | \$14.41 | \$14.14 |
| Investment Operations: | | | | | | |
| Net investment income | 0.41 | 1.11 | 1.03 | 1.07 | 1.13 | 1.19 |
| Net realized and change in unrealized gain (loss) on investments, futures contracts, options written and swaps | (3.71) | (3.30) | (0.48) | 0.13 | 0.61 | 0.12 |
| Total from investment operations | (3.30) | (2.19) | 0.55 | 1.20 | 1.74 | 1.31 |
| Dividends on Preferred Shares from Net Investment Income | | | | | | |
| | (0.08) | (0.30) | (0.29) | (0.26) | (0.16) | (0.08) |
| Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations | (3.38) | (2.49) | 0.26 | 0.94 | 1.58 | 1.23 |
| Dividends to Common Shareholders from Net Investment Income | | | | | | |
| | (0.32) | (0.63) | (0.78) | (0.88) | (0.96) | (0.96) |
| Net asset value, end of period | \$7.75 | \$11.45 | \$14.57 | \$15.09 | \$15.03 | \$14.41 |
| Market price, end of period | \$7.87 | \$10.00 | \$13.57 | \$16.45 | \$16.04 | \$14.30 |
| Total Investment Return (1) | (18.10)% | (22.55)% | (13.12)% | 8.73% | 19.65% | 11.93% |
| RATIOS/SUPPLEMENTAL DATA: | | | | | | |
| Net assets applicable to common shareholders, end of period (000) | \$42,831 | \$63,151 | \$80,417 | \$82,836 | \$82,043 | \$78,465 |
| Ratio of expenses to average net assets, including interest expense (2)(3)(4)(5) | 2.28%# | 3.02% | 3.18% | 2.89% | 2.36% | 1.73% |
| Ratio of expenses to average net assets, excluding interest expense (2)(3)(5) | 1.79%# | 1.34% | 1.31% | 1.16% | 1.24% | 1.19% |
| Ratio of net investment income to average net assets (2)(5) | 9.97%# | 8.04% | 6.89% | 7.23% | 7.54% | 8.23% |

| | | | | | | |
|---|----------|----------|----------|----------|----------|----------|
| Preferred shares asset coverage per share | \$58,461 | \$58,583 | \$67,749 | \$69,042 | \$68,627 | \$66,732 |
| Portfolio turnover | 20% | 7% | 12% | 8% | 4% | 12% |

Annualized.

- (1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of each period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank. (See Note 1(l) in Notes to Financial Statements).
- (4) Interest expense relates to the liability for floating rate notes issued in connection with inverse floater transactions and reverse repurchase agreement transactions.
- (5) During the periods indicated above, the Investment Manager waived a portion of its investment management fee. (See Note 2 in Notes to Financial Statements). The effect of such waiver relative to the average net assets of common shareholders was 0.11% (annualized), 0.17%, 0.24%, 0.24%, 0.24% and 0.24%, for the six months ended March 31, 2009, the years ended September 30, 2008, September 30, 2007, September 30, 2006, September 30, 2005 and September 30, 2004, respectively.

See accompanying Notes to Financial Statements 3.31.09 PIMCO Municipal Income Funds III Semi-Annual Report **41**

Table of Contents**PIMCO Municipal Income Funds III
Annual Shareholder Meetings Results/Proxy Voting Policies & Procedures
(unaudited)**

The Funds held their annual meeting of shareholders on December 23, 2008. Common/Preferred shareholders voted as indicated below:

| | Affirmative | Withheld Authority |
|--|-------------|-----------------------|
| <u>Municipal III</u> | | |
| Re-election of Paul Belica-Class III to serve until 2011 | 27,813,504 | 1,822,566 |
| Re-election of John C. Maney-Class III to serve until 2011 | 27,842,150 | 1,793,920 |
| Election of Diana L. Taylor*-Class II to serve until 2010 | 8,681 | 525 |
| <u>California Municipal III</u> | | |
| Re-election of Paul Belica-Class III to serve until 2011 | 18,691,747 | 1,095,351 |
| Re-election of John C. Maney-Class III to serve until 2011 | 18,705,836 | 1,081,262 |
| Election of Diana L. Taylor*-Class II to serve until 2010 | 5,651 | 112 |
| <u>New York Municipal III</u> | | |
| Re-election of Paul Belica-Class III to serve until 2011 | 4,594,295 | 441,191 |
| Re-election of John C. Maney-Class III to serve until 2011 | 4,600,079 | 435,407 |
| Election of Diana L. Taylor*-Class II to serve until 2010 | 1,626 | 76 |

Messrs. Hans W. Kertess*, Robert E. Connor William B. Ogden, IV and R. Peter Sullivan III continue to serve as Trustees of the Funds.

* Preferred Shares Trustee; Diana L. Taylor was appointed to serve as a Preferred Shares Trustee to fill a vacancy resulting from the death of John J. Dalessandro in September 2008.

Proxy Voting Policies & Procedures:

A description of the policies and procedures that the Funds have adopted to determine how to vote proxies relating to portfolio securities and information about how the Funds voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Funds shareholder servicing agent at (866) 298-8462; (ii) on the Funds website at www.allianzinvestors.com/closedendfunds; and (iii) on the Securities and Exchange Commission website at www.sec.gov

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Trustees and Fund Officers

Hans W. Kertess
Trustee, Chairman of the Board of Trustees

Paul Belica
Trustee

Robert E. Connor
Trustee

John C. Maney
Trustee

William B. Ogden, IV
Trustee

R. Peter Sullivan III
Trustee

Diana L. Taylor
Trustee

Brian S. Shlissel
President & Chief Executive Officer

Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Thomas J. Fuccillo
Vice President, Secretary & Chief Legal Officer

Scott Whisten
Assistant Treasurer

Richard J. Cochran
Assistant Treasurer

Youse E. Guia
Chief Compliance Officer

Kathleen A. Chapman
Assistant Secretary

Lagan Srivastava
Assistant Secretary

Investment Manager

Allianz Global Investors Fund Management LLC
1345 Avenue of the Americas
New York, NY 10105

Sub-Adviser

Pacific Investment Management Company LLC
840 Newport Center Drive
Newport Beach, CA 92660

Custodian & Accounting Agent

State Street Bank & Trust Co.
225 Franklin Street
Boston, MA 02110

Transfer Agent, Dividend Paying Agent and Registrar

PNC Global Investment Servicing
P.O. Box 43027
Providence, RI 02940-3027

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017

Legal Counsel

Ropes & Gray LLP
One International Place
Boston, MA 02110-2624

This report, including the financial information herein, is transmitted to the shareholders of PIMCO Municipal Income Fund III, PIMCO California Municipal Income Fund III and PIMCO New York Income Fund III for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Funds or any securities mentioned in this report.

The financial information included herein is taken from the records of the Funds without examination by an independent registered public accounting firm, who did not express an opinion.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Funds may purchase shares of their common stock in the open market.

The Funds file their complete schedules of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarter of their fiscal year on Form N-Q. The Funds' Form N-Q s are available on the SEC s website at www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Funds' website at www.allianzinvestors.com/closedendfunds.

On January 9, 2009, the Funds submitted CEO annual certifications to the New York Stock Exchange (NYSE) on which the Funds' principal executive officer certified that he was not aware, as of the date, of any violation by the Funds of the NYSE s Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Funds' principal executive and principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to, among other things, the Funds' disclosure controls and procedures and internal control over financial reporting, as applicable.

Information on the Funds is available at www.allianzinvestors.com/closedendfunds or by calling the Funds shareholder servicing agent at (866) 298-8462.

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ITEM 2. CODE OF ETHICS

Not required in this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

Not required in this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not required in this filing

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

Not required in this filing

ITEM 6. SCHEDULE OF INVESTMENTS

Schedule of Investments is included as part of the Report to Shareholders filed under Item 1 of this form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END
MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT
COMPANY AND AFFILIATED COMPANIES: NONE

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ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board of Trustees since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant's President and Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Act (17 CFR 270.30a-3(c))), as amended are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant's internal controls (over financial reporting as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's control over financial reporting.

ITEM 12. EXHIBITS

(a) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 99.906 Cert. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Signature

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

(Registrant) PIMCO Municipal Income Fund
III

By /s/ Brian S. Shlissel
President & Chief Executive Officer

Date June 4, 2009

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

Date June 4, 2009

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

By /s/ Brian S. Shlissel
President & Chief Executive Officer

Date June 4, 2009

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

Date June 4, 2009