

PIMCO MUNICIPAL INCOME FUND III  
Form N-CSR  
December 05, 2005

ITEM 1. REPORT TO SHAREHOLDERS

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

Annual Report  
September 30, 2005

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**PIMCO Municipal Income Funds III Letter to Shareholders**

November 18, 2005

Dear Shareholder:

We are pleased to provide you with the annual report for PIMCO Municipal Income Fund III, PIMCO California Municipal Income Fund III and PIMCO New York Municipal Income Fund III ( PIMCO Municipal Income Funds III or the Funds ) for the year ended September 30, 2005.

During the reporting period, interest rates on the short-end of the municipal yield curve rose as the Federal Reserve (the Fed ) continued its interest rate tightening cycle. The Fed increased the federal funds rate by a total of two percentage points to 3.75% during the period. Yields on longer-term municipal bonds declined during the period, boosting their performance relative to short-term issues.

Please refer to the following pages for specific information for each of the PIMCO Municipal Income Funds III. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds transfer agent at (800) 331-1710. Also, note that a wide range of information and resources can be accessed through our web site [www.allianzinvestors.com](http://www.allianzinvestors.com).

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

We remain dedicated to serving your investment needs.

Sincerely,

Robert E. Connor  
*Chairman*

Brian S. Shlissel  
*President & Chief Executive Officer*

**PIMCO Municipal Income Fund III Performance & Statistics**

September 30, 2005 (unaudited)

<b>Symbol:</b> PMX	<b>Primary Investments:</b> Municipal fixed-income securities, the interest from which is exempt from federal income tax.	<b>Inception Date:</b> October 31, 2002
<b>Objective:</b> To provide income exempt from federal income tax.		<b>Total Net Assets<sup>(1)</sup>:</b> \$727.5 million
		<b>Portfolio Manager:</b> Mark McCray

<b>Total Return<sup>(2)</sup>:</b> 1 Year Commencement of Operations (10/31/02) to 9/30/05	<b>Market Price</b> 15.95% 8.06%	<b>Net Asset Value ( NAV )</b> 9.43% 7.74%
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<b>Common Share Market Price / NAV Performance:</b> Commencement of Operations (10/31/02) to 9/30/05	<b>Market Price / NAV:</b>	
Market Price	Market Price	\$15.49
NAV	NAV	\$14.68
	Premium to NAV	5.52%
	Market Price Yield <sup>(3)</sup>	6.44%

(1) Inclusive of net assets attributable to Preferred Shares outstanding.

(2) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all income dividends have been reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

An investment in the Fund involves risk, including the loss of principal. Total return, price, 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. A portion of the income generated by the Fund may be subject to federal, state and local taxes, and may at times be subject to the alternative minimum tax. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

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- (3) Market Price Yield is determined by dividing the annualized current monthly per share dividend to common shareholders by the market price per common share at September 30, 2005.

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**PIMCO California Municipal Income Fund III Performance & Statistics**

September 30, 2005 (unaudited)

**Symbol:**

PZC

**Primary Investments:**

Municipal fixed-income securities, the interest from which is exempt from federal and California state income tax.

**Inception Date:**

October 31, 2002

**Objective:**

To provide current income exempt from federal and California state income tax.

**Total Net Assets<sup>(1)</sup>:**

\$501.0 million

**Portfolio Manager:**

Mark McCray

**Total Return<sup>(2)</sup>:**

1 Year  
Commencement of Operations (10/31/02) to 9/30/05

**Market Price**

17<sup>9</sup>/<sub>16</sub>  
7.0%

**Net Asset Value**

( NAV )  
11.94 %  
7.90 %

**Common Share Market Price / NAV Performance:**

Commencement of Operations (10/31/02) to 9/30/05  
Market Price  
NAV

**Market Price / NAV:**

Market Price	\$15.11
NAV	\$14.80
Premium to NAV	2.09%
Market Price Yield <sup>(3)</sup>	6.35%

(1) Inclusive of net assets attributable to Preferred Shares outstanding.

(2) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all income dividends have been reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

An investment in the Fund involves risk, including the loss of principal. Total return, price, 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. A portion of the income generated by the Fund may be subject to federal, state and local taxes, and may at times be subject to the alternative minimum tax. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

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- (3) Market Price Yield is determined by dividing the annualized current monthly per share dividend to common shareholders by the market price per common share at September 30, 2005.

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**PIMCO New York Municipal Income Fund III Performance & Statistics**

September 30, 2005 (unaudited)

**Symbol:**

PYN

**Primary Investments:**

Municipal fixed-income securities, the interest from which is exempt from federal, New York state and New York City income tax.

**Inception Date:**

October 31, 2002

**Objective:**

To provide current income exempt from federal, New York state and New York City income tax.

**Total Net Assets<sup>(1)</sup>:**

\$129.0 million

**Portfolio Manager:**

Mark McCray

**Total Return<sup>(2)</sup>:**

1 Year  
Commencement of Operations (10/31/02) to 9/30/05

**Market Price**

19.65%  
9.08%

**Net Asset Value ( NAV )**

11.25%  
8.29%

**Common Share Market Price / NAV Performance:**

Commencement of Operations (10/31/02) to 9/30/05  
Market Price  
NAV

**Market Price / NAV:**

Market Price	\$16.04
NAV	\$15.03
Premium to NAV	6.72%
Market Price Yield <sup>(3)</sup>	5.99%

(1) Inclusive of net assets attributable to Preferred Shares outstanding.

(2) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all income dividends have been reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

An investment in the Fund involves risk, including the loss of principal. Total return, price, 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. A portion of the income generated by the Fund may be subject to federal, state and local taxes, and may at times be subject to the alternative minimum tax. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.



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- (3) Market Price Yield is determined by dividing the annualized current monthly per share dividend to common shareholders by the market price per common share at September 30, 2005.

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

September 30, 2005

Principal

Amount

(000)

Credit Rating

(Moody s/S&P)\* Value

**MUNICIPAL BONDS & NOTES 92.2%**