

PIMCO MUNICIPAL INCOME FUND III
Form N-CSRS
June 03, 2011

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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, 2011**

Date of reporting period: **March 31, 2011**

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, 100 F Street, NE, Washington DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Report to Shareholders

March 31, 2011

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

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Dear Shareholder:

Municipal bonds came under significant pressure during the six-month period ended March 31, 2011. Concern over the fiscal health of state and local issuers, the end of the federal government's Build America Bonds program and a two-year extension of the Bush-era income tax rates, among other factors, combined to send prices of municipal bonds lower.

The Six-Month Period in Review

During the six-month fiscal period ended March 31, 2011:

PIMCO Municipal Income Fund III declined 11.41% on net asset value (NAV) and 3.67% on market price.

PIMCO California Municipal Fund III fell 13.42% on NAV and 9.47% on market price.

PIMCO New York Municipal Income Fund III decreased 10.71% on NAV and 8.82% on market price.

In this environment, the Barclays Capital Municipal Bond Index fell a tax-advantaged 3.68% for the reporting period, while the Barclays Capital U.S. Treasury Bond Index declined 0.98%. The broad, taxable bond market, represented by the Barclays Capital U.S. Aggregate Index, decreased 0.88% for the six months ended March 31, 2011.

The federal government discontinued its Build America Bonds program on December 31, 2010. The program, part of the Obama administration's economic stimulus package, subsidized taxable municipal securities in an effort to attract investors. As the program wound down, many state and local governments flooded the market with new bonds. This temporary oversupply exceeded demand, causing prices to fall. As 2011 began, state and local governments issued fewer new bonds helping to stabilize the municipal bond market.

The Road Ahead and the Case for Municipals

The fiscal pressures faced by many states and cities are undeniable. In fiscal year 2012, they are grappling with an expected aggregate budget shortfall of \$134 billion. In addition, cities and states also have more in excess of \$1 trillion in unfunded pension and benefit liabilities which is driving many painful decisions to raise taxes and/or reduce spending. These difficult

Hans W. Kertess
Chairman

Brian S. Shlissel
President & CEO

measures may help explain why the number of municipal bonds defaults of late is lower than in recent periods. In 2010, Standard & Poor's, reports 110 bonds totalling \$2.7 billion defaulted. This represented a decline from 2009, when 151 bonds worth a total of \$2.9 billion defaulted. These numbers, in turn, should be considered within the overall context of the \$2.7 trillion municipal bond market. In fact, since 1970, only 0.09% of municipal bonds rated by Moody's Investors Service have defaulted. States are not allowed by law to file for bankruptcy; 49 are required to have balanced budgets. As for local governments, while bankruptcy filings are permitted in 26 states, this has happened only twice in 40 years. In each of these situations, the entities continued to pay interest on their debt while their respective cases were being worked out.

Going forward, we believe states and cities will continue adjusting to their fiscal challenges. In addition, despite the extension of the Bush-era tax cuts through the end of 2012, our expectation is that taxes will trend higher at all levels of government in the years ahead. For these reasons, municipal securities, despite their recent challenges, will remain solid, long-term investments for many people.

For specific information on the Funds and their performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, 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

PIMCO Municipal Income Funds III Fund Insights

March 31, 2011 (unaudited)

For the fiscal six-months ended March 31, 2011, PIMCO Municipal Income Fund III returned (11.41)% on net asset value (NAV) and (3.67)% on market price. The unmanaged Barclays Capital Long Municipal Bond Index returned (7.94)% during the reporting period.

For the fiscal six-months ended March 31, 2011, PIMCO California Municipal Income Fund III, returned (13.42)% on NAV and (9.47)% on market price. The unmanaged Barclays Capital Municipal Long California Bond Index returned (9.05)% during the reporting period.

For the fiscal six-months ended March 31, 2011, PIMCO New York Municipal Income Fund III, returned (10.71)% on NAV and (8.82)% on market price. The unmanaged Barclays Capital Municipal Long New York Bond Index returned (7.51)% during the reporting period.

It was a challenging period for certain segments of the fixed income sector. Yields across the Treasury curve moved sharply higher during the period, as two-year Treasuries rose from 0.42% to 0.80% and 10-year Treasuries increased from 2.53% to 3.47%. The rise in yields was attributable to a variety of factors, including mounting inflationary pressures due to higher oil and food prices. In addition, the economy continued to expand, manufacturing activity remained strong, and there were signs that the labor market was improving. For the six months ended March 31, 2011, the Barclays Capital U.S. Aggregate Index returned (0.88)%. Despite stabilizing somewhat toward the end of the period, the municipal market produced poor results. A confluence of events dragged down municipal bonds, including the rising interest rate environment, concerns regarding increased municipal defaults, a large increase in issuance of Build America Bonds at the end of 2010, and substantial redemptions from mutual fund shareholders. All told, the overall municipal market, as measured by the Barclays Capital Municipal Bond Index, returned (3.68)% during the six-month reporting period.

During the reporting period, the Funds exposure to the tobacco sector was a significant detractor from performance. During the fourth quarter of 2010, a number of municipal tobacco settlement trusts were downgraded to below investment grade status. This led to a sharp sell-off, which was exacerbated by forced selling into an illiquid market by mutual funds not permitted to hold non-investment grade securities. Exposure to the corporate-backed sector was also negative for performance as it underperformed the benchmark.

In contrast, exposure to the housing and power sectors was positive for performance as these sectors held up relatively well amid a weak environment in the overall municipal market. Higher credit quality biases were rewarded, as lower rated credits underperformed their higher quality counterparts as a result of concern for an increase in municipal defaults. Moreover, having a shorter duration than the benchmark was beneficial for performance, as municipal yields rose across the curve during the reporting period.

PIMCO Municipal Income Funds III Fund Performance & Statistics

March 31, 2011 (unaudited)

**Municipal III:
Total Return⁽¹⁾:**

| | Market Price | NAV |
|--|---------------------|------------|
| Six Month | (3.67)% | (11.41)% |
| 1 Year | 5.22% | (1.54)% |
| 5 Year | 0.62% | (2.90)% |
| Commencement of Operations (10/31/02) to 3/31/11 | 2.88% | 1.23% |

Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 3/31/11

Market Price/NAV:

| | |
|-----------------------------------|---------|
| Market Price | \$10.58 |
| NAV | \$8.71 |
| Premium to NAV | 21.47% |
| Market Price Yield ⁽²⁾ | 7.94% |

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

**California Municipal III:
Total Return⁽¹⁾:**

| | Market Price | NAV |
|--|---------------------|------------|
| Six Month | (9.47)% | (13.42)% |
| 1 Year | 6.14% | (3.15)% |
| 5 Year | (4.26)% | (4.92)% |
| Commencement of Operations (10/31/02) to 3/31/11 | 0.76% | (0.07)% |

Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 3/31/11

Market Price/NAV:

| | |
|-----------------------------------|--------|
| Market Price | \$9.03 |
| NAV | \$8.01 |
| Premium to NAV | 12.73% |
| Market Price Yield ⁽²⁾ | 7.97% |

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

PIMCO Municipal Income Funds III Fund Performance & Statistics

March 31, 2011 (unaudited) (continued)

New York Municipal III:

Total Return⁽¹⁾:

| | Market Price | NAV |
|--|---------------------|------------|
| Six Month | (8.82)% | (10.71)% |
| 1 Year | (0.49)% | (2.68)% |
| 5 Year | (4.82)% | (5.90)% |
| Commencement of Operations (10/31/02) to 3/31/11 | (0.29)% | (0.60)% |

Market Price/NAV Performance:

Commencement of Operations (10/31/02)
to 3/31/11

Market Price/NAV:

| | |
|-----------------------------------|--------|
| Market Price | \$8.62 |
| NAV | \$8.07 |
| Premium to NAV | 6.82% |
| Market Price Yield ⁽²⁾ | 7.31% |

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

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends, capital gain and return of capital distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. 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 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 Funds, market conditions, supply and demand for the Funds' shares, or changes in Funds' dividends.

An investment in the Funds involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes 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 traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to common shareholders by the market price per common share at March 31, 2011.

PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|--|--|--------------------------------|--------------|
| MUNICIPAL BONDS & NOTES 97.4% | | | |
| Alabama 1.3% | | | |
| \$ 5,000 | Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | Baa2/NR | \$ 4,184,650 |
| 500 | Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 (AGC) | Aa3/AA+ | 515,545 |
| 1,500 | Colbert Cnty. Northwest Health Care Auth. Rev., 5.75%, 6/1/27 | Ba1/NR | 1,346,865 |
| 1,000 | State Docks Department Rev., 6.00%, 10/1/40 | NR/BBB+ | 975,700 |
| | | | 7,022,760 |
| Alaska 1.3% | | | |
| 3,900 | Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A | Aaa/AAA | 3,814,902 |
| 1,000 | 5.25%, 6/1/32, Ser. C (NPFGC) | Aa2/AA+ | 997,390 |
| 3,100 | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A | Baa3/NR | 1,817,375 |
| | | | 6,629,667 |
| Arizona 5.0% | | | |
| 1,250 | Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A | NR/A+ | 1,105,800 |
| 900 | 5.50%, 1/1/38, Ser. D | NR/A+ | 855,261 |
| 2,250 | Beatitudes Campus Project, 5.20%, 10/1/37 | NR/NR | 1,581,638 |
| 1,500 | Maricopa Cnty. Pollution Control Corp. Rev., Palo Verde Project, 5.05%, 5/1/29, Ser. A (AMBAC) | Baa2/BBB- | 1,408,530 |
| 13,000 | Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39 (i) | Aa2/AA | 11,064,040 |
| 750 | Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A | Baa3/BBB- | 659,550 |
| 5,000 | Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (i) | Aa1/AA | 4,867,900 |
| 5,600 | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37 | A3/A | 4,654,776 |
| | | | 26,197,495 |

California 13.8%

| | | | |
|-------|---|----------|-----------|
| | Bay Area Toll Auth. Rev., San Francisco Bay Area, | | |
| 1,500 | 5.00%, 10/1/29 | A1/A+ | 1,468,110 |
| 500 | 5.00%, 4/1/34, Ser. F-1 | Aa3/AA | 476,370 |
| 3,260 | 5.00%, 10/1/42 | A1/A+ | 2,902,182 |
| | Golden State Tobacco Securitization Corp. Rev., Ser. A-1, | | |
| 2,000 | 5.00%, 6/1/33 | Baa3/BB+ | 1,337,300 |
| 4,600 | 5.125%, 6/1/47 | Baa3/BB+ | 2,763,818 |
| 2,120 | 5.75%, 6/1/47 | Baa3/BB+ | 1,417,602 |

PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|-------------------------------|---|--------------------------------|------------|
| California (continued) | | | |
| \$ 2,500 | Health Facs. Financing Auth. Rev., Catholic Healthcare West, 6.00%, 7/1/39, Ser. A Sutter Health, | A2/A | 2,499,725 |
| 600 | 5.00%, 11/15/42, Ser. A (IBC-NPFGC) | Aa3/AA- | 505,152 |
| 1,500 | 6.00%, 8/15/42, Ser. B | Aa3/AA- | 1,485,225 |
| 3,350 | Indian Wells Redev. Agcy., Tax Allocation, Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC) | A2/A | 2,513,036 |
| 130 | Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC) | Aa2/AA- | 126,543 |
| 1,660 | Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B (d) | NR/NR | 1,661,112 |
| 1,250 | Palomar Pomerado Health, CP, 6.75%, 11/1/39 | Baa3/NR | 1,205,550 |
| 500 | San Diego Cnty. Regional Airport Auth. Rev., 5.00%, 7/1/24, Ser. A | A2/A | 503,270 |
| | State, GO, | | |
| 2,500 | 4.50%, 8/1/30 | A1/A- | 2,154,850 |
| 3,000 | 4.50%, 10/1/36 | A1/A- | 2,413,020 |
| 895 | 4.50%, 12/1/36 (CIFG) | A1/A- | 714,264 |
| 3,000 | 5.00%, 12/1/31 (NPFGC) | A1/A- | 2,865,870 |
| 5,000 | 5.00%, 6/1/37 | A1/A- | 4,432,100 |
| 250 | 5.00%, 11/1/37 | A1/A- | 221,478 |
| 5,300 | 5.00%, 12/1/37 | A1/A- | 4,740,956 |
| 1,350 | 5.25%, 3/1/38 | A1/A- | 1,249,398 |
| 1,300 | 5.25%, 11/1/40 | A1/A- | 1,197,677 |
| 3,200 | 5.50%, 3/1/40 | A1/A- | 3,083,328 |
| 2,500 | 5.75%, 4/1/31 | A1/A- | 2,562,675 |
| 6,000 | 6.00%, 4/1/38 | A1/A- | 6,121,860 |
| | Statewide Communities Dev. Auth. Rev., | | |
| 1,000 | American Baptist Homes West, 6.25%, 10/1/39 | NR/BBB | 935,900 |
| 2,485 | California Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(c) Methodist Hospital Project (FHA), | NR/NR | 2,178,649 |
| 2,900 | 6.625%, 8/1/29 | Aa2/NR | 3,234,080 |
| 10,300 | 6.75%, 2/1/38 | Aa2/NR | 11,192,495 |
| 1,200 | Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1 | Baa3/BBB | 785,112 |
| 1,500 | Torrance Rev., Torrance Memorial Medical Center, 5.00%, 9/1/40, Ser. A | A2/A+ | 1,235,130 |
| 500 | Univ. Rev., 5.00%, 5/15/41, Ser. D (FGIC-NPFGC) | Aa2/AA- | 453,465 |

72,637,302

Colorado 2.4%

| | | | |
|-------|--|--------|------------|
| 9,955 | Colorado Springs Utilities Rev., 5.00%, 11/15/30, Ser. B (i) | Aa2/AA | 10,004,875 |
| 500 | Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34 | NR/NR | 342,915 |

PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|----------------------------------|---|--------------------------------|------------|
| Colorado (continued) | | | |
| \$ 500 | Health Facs. Auth. Rev., Evangelical Lutheran, 6.125%, 6/1/38, Ser. A | A3/A- | 500,305 |
| 1,500 | Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. Project, 5.875%, 6/1/37 (a)(c) | NR/CCC | 965,055 |
| 500 | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38 | A2/A | 498,365 |
| 500 | Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34 | Baa3/NR | 459,345 |
| | | | 12,770,860 |
| Connecticut 0.3% | | | |
| 1,250 | Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A | NR/NR | 1,288,462 |
| District of Columbia 2.0% | | | |
| 10,000 | Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (i) | Aa2/AA | 10,283,900 |
| Florida 3.5% | | | |
| 3,480 | Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34 | A3/A- | 3,019,004 |
| 500 | Broward Cnty. Airport Rev., 5.375%, 10/1/29, Ser. O | A1/A+ | 501,855 |
| 4,500 | Broward Cnty. Water & Sewer Rev., 5.25%, 10/1/34, Ser. A (i) | Aa2/AA | 4,530,420 |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B | A3/NR | 2,122,950 |
| 1,000 | Miami-Dade Cnty. Airport Rev., 5.50%, 10/1/36, Ser. A | A2/A- | 955,200 |
| 3,895 | Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/45 | NR/NR | 2,919,887 |
| 4,200 | State Board of Education, GO, 5.00%, 6/1/38, Ser. D (i) | Aa1/AAA | 4,193,532 |
| | | | 18,242,848 |
| Georgia 0.3% | | | |
| 1,750 | Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A | NR/NR | 1,046,815 |
| 400 | Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37 | NR/NR | 298,796 |
| | | | 1,345,611 |
| Hawaii 0.2% | | | |

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|-------|--|---------|-----------|
| 1,500 | Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A | A3/BBB+ | 1,308,135 |
| | Illinois 8.0% | | |
| | Chicago, GO, | | |
| 695 | 5.00%, 1/1/31, Ser. A (NPFGC) | Aa3/A+ | 634,771 |
| 5,000 | 5.00%, 1/1/34, Ser. C (i) | Aa3/A+ | 4,443,450 |
| 7,000 | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC) | Aa3/AA+ | 6,756,540 |

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PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|-----------------------------|---|-----------------------------|------------|
| Illinois (continued) | | | |
| \$ 1,175 | Finance Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22 | Baa1/NR | 1,121,702 |
| 1,000 | Leafs Hockey Club Project, Ser. A (e), 5.875%, 3/1/27 | NR/NR | 252,240 |
| 625 | 6.00%, 3/1/37 | NR/NR | 155,538 |
| 400 | OSF Healthcare System, 7.125%, 11/15/37, Ser. A | A3/A | 414,764 |
| 12,795 | Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC) | A1/A- | 12,221,400 |
| 1,000 | Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A | NR/BBB+ | 933,930 |
| 165 | Univ. of Chicago, 5.25%, 7/1/41, Ser. 05-A | Aa1/AA | 160,121 |
| 10,000 | 5.50%, 7/1/37, Ser. B (i) | Aa1/AA | 10,112,100 |
| 5,000 | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B | Aa3/AA- | 4,955,750 |
| | | | 42,162,306 |
| Indiana 1.3% | | | |
| 500 | Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC) | A1/NR | 451,845 |
| 2,000 | Finance Auth. Rev., U.S. Steel Corp., 6.00%, 12/1/26 | Ba2/BB | 1,952,280 |
| 1,000 | Portage, Tax Allocation, Ameriplex Project, 5.00%, 7/15/23 | NR/A | 938,700 |
| 775 | 5.00%, 1/15/27 | NR/A | 696,586 |
| 2,800 | Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 7.50%, 9/1/22 | NR/NR | 2,835,980 |
| | | | 6,875,391 |
| Iowa 1.7% | | | |
| 120 | Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, 5.50%, 11/15/27 | NR/NR | 83,815 |
| 575 | 5.50%, 11/15/37 | NR/NR | 362,687 |
| 11,010 | Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B | Baa3/BBB | 8,716,507 |
| | | | 9,163,009 |
| Kentucky 0.8% | | | |
| 1,000 | Economic Dev. Finance Auth. Rev., Catholic Healthcare Partners, 5.25%, 10/1/30 | A1/AA- | 954,230 |

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| | | | |
|-------|---|-----------|-----------|
| 2,000 | Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A | Baa2/NR | 1,875,780 |
| 1,250 | Ohio Cnty. Pollution Control Rev., Big Rivers Electric Corp., 6.00%, 7/15/31, Ser. A | Baa1/BBB- | 1,192,688 |
| | | | 4,022,698 |

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PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody's/S&P) | Value |
|----------------------------|---|--------------------------------|------------|
| Louisiana 1.0% | | | |
| \$ 400 | Local Gov't Environmental Facs. & Community Dev. Auth. Rev., Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2 | Ba2/BBB- | 399,000 |
| 1,500 | Woman's Hospital Foundation, Ser. A, 5.875%, 10/1/40 | A3/BBB+ | 1,405,545 |
| 1,000 | 6.00%, 10/1/44 | A3/BBB+ | 945,070 |
| 1,700 | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, 5.50%, 5/15/47, Ser. B | Baa1/NR | 1,386,605 |
| 1,345 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | Baa3/A- | 1,230,527 |
| | | | 5,366,747 |
| Maryland 0.8% | | | |
| 1,000 | Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B | Baa3/NR | 930,950 |
| 1,500 | Health & Higher Educational Facs. Auth. Rev., Calvert Health System, 5.50%, 7/1/36 | A3/NR | 1,495,800 |
| 700 | Charlestown Community, 6.25%, 1/1/41 | NR/NR | 667,296 |
| 1,000 | Lifebridge Health, 6.00%, 7/1/41 | A2/A | 991,620 |
| | | | 4,085,666 |
| Massachusetts 1.3% | | | |
| 300 | Dev. Finance Agcy. Rev., Adventcare Project, 7.625%, 10/15/37 | NR/NR | 286,416 |
| 750 | Linden Ponds, Inc. Fac., 5.75%, 11/15/35, Ser. A | NR/NR | 456,420 |
| 4,910 | Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H | Aa3/AA- | 4,733,682 |
| 1,600 | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A | Aa2/AA- | 1,605,088 |
| | | | 7,081,606 |
| Michigan 14.4% | | | |
| 500 | Conner Creek Academy East Rev., 5.25%, 11/1/36 | NR/BB+ | 364,795 |
| 1,500 | Detroit, GO, 5.25%, 11/1/35 | Aa3/AA | 1,443,870 |
| 9,320 | Detroit Sewer Rev., 5.00%, 7/1/32, Ser. A (AGM) | Aa3/AA+ | 8,140,554 |
| 30,000 | Detroit Water Rev. (NPFGC), 5.00%, 7/1/34, Ser. A | A1/A+ | 25,959,600 |
| 7,555 | 5.00%, 7/1/34, Ser. B | A2/A | 6,495,638 |
| 1,500 | Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39 | A1/A | 1,694,505 |

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| | | | |
|--------|--|--------|------------|
| | State Hospital Finance Auth. Rev., | | |
| | Oakwood Group, Ser. A, | | |
| 5,405 | 5.75%, 4/1/32 | A2/A | 5,139,777 |
| 575 | 6.00%, 4/1/22 | A2/A | 581,095 |
| 20,000 | Trinity Health Credit, 5.375%, 12/1/30, Ser. C | Aa2/AA | 19,373,600 |

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PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|-----------------------------|---|--------------------------------|------------|
| Michigan (continued) | | | |
| \$ 10,000 | Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A | NR/BB | 6,754,100 |
| | | | 75,947,534 |
| Minnesota 0.0% | | | |
| 125 | Duluth Housing & Redev. Auth. Rev., 5.875%, 11/1/40, Ser. A | NR/BBB- | 106,844 |
| Mississippi 0.8% | | | |
| 3,000 | Business Finance Corp. Rev., System Energy Res., Inc. Project, 5.875%, 4/1/22 | Ba1/BBB | 2,927,760 |
| 1,250 | 5.90%, 5/1/22 | Ba1/BBB | 1,222,162 |
| | | | 4,149,922 |
| Missouri 0.1% | | | |
| 250 | Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23 | NR/NR | 214,675 |
| 500 | Manchester, Tax Allocation, Highway 141/Manchester Road Project, 6.875%, 11/1/39 | NR/NR | 488,065 |
| | | | 702,740 |
| Nevada 0.7% | | | |
| 4,000 | Clark Cnty., GO, 4.75%, 6/1/30 (AGM) | Aa1/AA+ | 3,848,760 |
| New Hampshire 0.4% | | | |
| 2,000 | Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A | Baa1/BBB+ | 1,910,720 |
| New Jersey 4.2% | | | |
| 1,000 | Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A | Baa3/BBB | 777,190 |
| 300 | Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14 | Ba1/NR | 300,669 |
| 4,500 | Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28 | Ba2/NR | 4,546,620 |
| 1,000 | Health Care Facs. Financing Auth. Rev., St. Peters Univ. Hospital, 5.75%, 7/1/37 | Baa3/BBB- | 843,330 |
| 1,150 | Trinitas Hospital, 5.25%, 7/1/30, Ser. A | Baa3/BBB- | 992,197 |

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| | | | |
|--------|--|----------|------------|
| | Tobacco Settlement Financing Corp. Rev., Ser. 1-A, | | |
| 1,600 | 4.75%, 6/1/34 | Baa3/BB+ | 979,968 |
| 22,645 | 5.00%, 6/1/41 | Baa3/BB- | 13,686,638 |
| | | | 22,126,612 |
| | New Mexico 0.2% | | |
| 1,000 | Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D | Baa3/BB+ | 953,210 |
| | New York 4.3% | | |
| 1,700 | Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37 | A1/A | 1,714,212 |
| 1,150 | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A | NR/NR | 1,030,158 |

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PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|-----------------------------|---|-----------------------------|------------|
| New York (continued) | | | |
| \$ 10,450 | New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC) | Aa3/AA+ | 11,242,319 |
| 4,900 | New York City Municipal Water Finance Auth. Water & Sewer Rev. (i), 5.00%, 6/15/37, Ser. D | Aa1/AAA | 4,787,692 |
| 4,000 | Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD | Aa2/AA+ | 3,790,400 |
| | | | 22,564,781 |
| North Carolina 0.2% | | | |
| 1,500 | Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC) | WR/A | 1,299,420 |
| Ohio 4.5% | | | |
| 15,375 | Air Quality Dev. Auth. Pollution Control Rev., Dayton Power, 4.80%, 1/1/34, Ser. B (FGIC) | Aa3/A | 14,244,322 |
| 500 | Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A | A1/AA- | 415,445 |
| 2,400 | Buckeye Tobacco Settlement Financing Auth. Rev., Ser. A-2, 5.875%, 6/1/30 | Baa3/BB- | 1,737,816 |
| 5,650 | 5.875%, 6/1/47 | Baa3/BB- | 3,760,358 |
| 500 | Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. 2009-A | A2/A | 515,340 |
| 2,500 | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30 | A1/AA- | 2,385,325 |
| 500 | Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A | Aa3/NR | 509,150 |
| 250 | State Rev., Ashland Univ. Project, 6.25%, 9/1/24 | Ba1/NR | 243,572 |
| | | | 23,811,328 |
| Oregon 0.2% | | | |
| 1,000 | Medford Hospital Facs. Auth. Rev., Asante Health Systems, 5.00%, 8/15/40, Ser. A (AGM) | Aa3/AA+ | 902,020 |
| Pennsylvania 2.7% | | | |
| 1,000 | Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39 | Aa3/A+ | 973,000 |
| 1,000 | West Penn Allegheny Health System, 5.375%, 11/15/40, Ser. A | B2/BB- | 683,070 |

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| | | | |
|-------|--|---------|-----------|
| | Cumberland Cnty. Municipal Auth. Rev., Messiah Village | | |
| | Project, Ser. A, | | |
| 750 | 5.625%, 7/1/28 | NR/BBB- | 651,638 |
| 670 | 6.00%, 7/1/35 | NR/BBB- | 575,630 |
| 1,000 | Dauphin Cnty. General Auth. Rev., Pinnacle Health System | | |
| | Project, 6.00%, 6/1/36, Ser. A | | |
| | | A2/A | 959,850 |
| 1,250 | Harrisburg Auth. Rev., Harrisburg Univ. of Science, | | |
| | 6.00%, 9/1/36, Ser. B | | |
| | | NR/NR | 1,044,550 |
| 100 | Luzerne Cnty. Industrial Dev. Auth. Rev. Pennsylvania American | | |
| | Water Co., 5.50%, 12/1/39 | | |
| | | A2/A | 95,556 |

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PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|---------------------------------|---|-----------------------------|------------|
| Pennsylvania (continued) | | | |
| \$ 6,200 | Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A | Baa3/BBB | 6,199,938 |
| 500 | Philadelphia Water Rev., 5.25%, 1/1/36, Ser. A | A1/A | 482,510 |
| 3,000 | Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D | A3/A- | 2,762,310 |
| | | | 14,428,052 |
| Puerto Rico 1.1% | | | |
| 2,400 | Sales Tax Financing Corp. Rev., 5.00%, 8/1/40, Ser. A (AGM) (i) | Aa3/AA+ | 2,190,360 |
| 3,000 | 5.375%, 8/1/38, Ser. C | A1/A+ | 2,741,880 |
| 1,000 | 5.50%, 8/1/42, Ser. A | A1/A+ | 916,520 |
| | | | 5,848,760 |
| South Carolina 1.3% | | | |
| 1,000 | Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39 | A2/A+ | 924,110 |
| 5,305 | Jobs-Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30, Ser. B | A3/A- | 4,972,589 |
| 800 | State Ports Auth. Rev., 5.25%, 7/1/40 | A1/A+ | 766,528 |
| | | | 6,663,227 |
| Tennessee 0.7% | | | |
| 1,250 | Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39 | NR/NR | 1,244,437 |
| 1,000 | Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38 | Baa1/BBB+ | 908,130 |
| 1,200 | Tennessee Energy Acquisition Corp. Rev., Ser. A, 5.25%, 9/1/21 | Ba3/B | 1,161,480 |
| 365 | 5.25%, 9/1/22 | Ba3/B | 356,722 |
| | | | 3,670,769 |
| Texas 9.1% | | | |
| 1,300 | Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC) | Aa3/AA+ | 1,272,206 |
| 10,115 | Denton Independent School Dist., GO, 5.00%, 8/15/33 (PSF-GTD) (i) | Aaa/AAA | 10,219,083 |

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| | | | |
|--------|---|---------|------------|
| 150 | Municipal Gas Acquisition & Supply Corp. I Rev., 5.25%, 12/15/26, Ser. A | A2/A | 137,979 |
| | North Harris Cnty. Regional Water Auth. Rev., | | |
| 5,500 | 5.25%, 12/15/33 | A1/A+ | 5,477,890 |
| 5,500 | 5.50%, 12/15/38 | A1/A+ | 5,483,995 |
| | North Texas Tollway Auth. Rev., | | |
| 10,800 | 5.625%, 1/1/33, Ser. A | A2/A- | 10,567,044 |
| 700 | 5.75%, 1/1/33, Ser. F | A3/BBB+ | 678,825 |
| 2,000 | 6.25%, 1/1/39, Ser. A | A2/A- | 2,011,940 |
| 2,000 | Sabine River Auth. Pollution Control Rev., 5.20%, 5/1/28, Ser. C | Ca/NR | 439,360 |

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PIMCO Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|--|--|-----------------------------|-------------|
| Texas (continued) | | | |
| \$ 3,000 | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29 | Aa2/AA- | 3,191,850 |
| 8,100 | Texas Municipal Gas Acquisition & Supply Corp. I Rev., 6.25%, 12/15/26, Ser. D | A2/A | 8,261,757 |
| | | | 47,741,929 |
| Virginia 0.3% | | | |
| 1,000 | Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A | Aa2/AA+ | 1,009,050 |
| 1,000 | James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A | NR/NR | 571,200 |
| | | | 1,580,250 |
| Washington 6.8% | | | |
| 500 | Health Care Facs. Auth. Rev., Kadlec Regional Medical Center, 5.50%, 12/1/39 | Baa2/NR | 409,830 |
| 1,000 | Seattle Cancer Care Alliance, 7.375%, 3/1/38 | A3/NR | 1,066,690 |
| 15,000 | King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (AGM) (i) | Aa2/AA+ | 14,834,400 |
| 19,260 | Tobacco Settlement Auth. Rev., 6.50%, 6/1/26 | Baa3/BBB | 19,411,384 |
| | | | 35,722,304 |
| Wisconsin 0.4% | | | |
| 1,000 | Health & Educational Facs. Auth. Rev., Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A | A3/NR | 920,260 |
| 1,000 | Prohealth Care, Inc., 6.625%, 2/15/39 | A1/A+ | 1,036,720 |
| | | | 1,956,980 |
| | Total Municipal Bonds & Notes (cost \$534,714,913) | | 512,420,625 |
| VARIABLE RATE NOTES (a)(c)(f)(g) 2.3% | | | |
| California 0.3% | | | |
| 1,675 | Los Angeles Community College Dist., GO, 13.66%, 8/1/33, Ser. 3096 | NR/AA | 1,485,055 |
| Florida 0.8% | | | |

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| | | | |
|------------------------------------|--|--------|-----------------------|
| 5,000 | Greater Orlando Aviation Auth. Rev., 9.35%, 10/1/39, Ser. 3174 | NR/NR | 4,366,400 |
| | Texas 1.2% | | |
| 6,500 | JPMorgan Chase Putters/Drivers Trust, GO, 9.29%, 2/1/17, Ser. 3480 | NR/AA+ | 6,543,030 |
| | Total Variable Rate Notes (cost \$13,072,447) | | 12,394,485 |
| SHORT-TERM INVESTMENTS 0.3% | | | |
| | U.S. Treasury Obligations (h)(j) 0.3% | | |
| | U.S. Treasury Bills, | | |
| 1,491 | 0.139%-0.158%, 8/25/11-9/15/11 (cost \$1,490,096) | | 1,490,096 |
| | Total Investments (cost \$549,277,456) 100.0% | | \$ 526,305,206 |

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PIMCO California Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|---|--|--------------------------------|------------|
| CALIFORNIA MUNICIPAL BONDS & NOTES 95.0% | | | |
| | Assoc. of Bay Area Gov t Finance Auth. for Nonprofit Corps. Rev., Odd Fellows Home of California, Ser. A (CA Mtg. Ins.), 5.20%, 11/15/22 | NR/A- | \$ 982,850 |
| \$ 1,000 | | | |
| 11,725 | 5.35%, 11/15/32 | NR/A- | 10,363,141 |
| 1,250 | Bay Area Toll Auth. Rev., San Francisco Bay Area, 5.00%, 4/1/34, Ser. F-1 | Aa3/AA | 1,190,925 |
| 1,000 | Cathedral City Public Financing Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (NPFGC) | Baa1/A | 768,180 |
| 1,150 | Ceres Redev. Agcy., Tax Allocation, Project Area No. 1, 5.00%, 11/1/33 (NPFGC) | Baa1/A- | 913,042 |
| 2,000 | Chula Vista Rev., San Diego Gas & Electric, 5.875%, 2/15/34, Ser. B | Aa3/A+ | 2,060,500 |
| 550 | City & Cnty. of San Francisco, Capital Improvement Projects, CP, 5.25%, 4/1/31, Ser. A | A1/AA- | 549,318 |
| 1,415 | Contra Costa Cnty. Public Financing Auth., Tax Allocation, 5.625%, 8/1/33, Ser. A | NR/BBB+ | 1,191,133 |
| 3,775 | Cucamonga School Dist., CP, 5.20%, 6/1/27 Educational Facs. Auth. Rev. (i), | NR/AA- | 3,775,830 |
| 9,800 | Claremont McKenna College, 5.00%, 1/1/39 | Aa2/NR | 9,185,344 |
| 10,000 | Univ. of Southern California, 5.00%, 10/1/39, Ser. A | Aa1/AA+ | 9,747,900 |
| 1,695 | El Dorado Irrigation Dist. & El Dorado Water Agcy., CP, 5.75%, 8/1/39, Ser. A (AGC) | Aa3/AA+ | 1,694,847 |
| 2,750 | Golden State Tobacco Securitization Corp. Rev., 5.00%, 6/1/33, Ser. A-1 | Baa3/BB+ | 1,838,788 |
| 11,000 | 5.00%, 6/1/45 (AMBAC-TCRS) | A2/BBB+ | 8,834,760 |
| 4,000 | 5.00%, 6/1/45, Ser. A (FGIC-TCRS) | A2/BBB+ | 3,212,640 |
| 13,865 | 5.75%, 6/1/47, Ser. A-1 | Baa3/BB+ | 9,271,248 |
| 500 | Hartnell Community College Dist., GO, zero coupon, 8/1/34, Ser. 2002-D (b) | Aa2/AA- | 234,335 |
| | Health Facs. Financing Auth. Rev., Adventist Health System, Ser. A, 5.00%, 3/1/33 | NR/A | 427,730 |
| 500 | | | |
| 4,000 | 5.75%, 9/1/39 | NR/A | 3,750,520 |
| | Catholic Healthcare West, Ser. A, 6.00%, 7/1/34 | A2/A | 1,941,540 |
| 1,935 | | | |
| 4,000 | 6.00%, 7/1/39 | A2/A | 3,999,560 |
| 450 | Children s Hospital of Los Angeles, 5.25%, 7/1/38 (AGM) | Aa3/AA+ | 387,724 |
| 500 | Children s Hospital of Orange Cnty., 6.50%, 11/1/38, Ser. A | NR/A | 509,830 |
| 6,000 | Cottage Health System, 5.00%, 11/1/33, Ser. B (NPFGC) | Baa1/A+ | 5,166,600 |

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| | | | |
|-------|---|---------|-----------|
| 1,550 | Paradise VY Estates, 5.25%, 1/1/26 (CA Mtg. Ins.) | NR/A- | 1,549,876 |
| 1,300 | Scripps Health, 5.00%, 11/15/36, Ser. A | Aa3/AA- | 1,122,368 |

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PIMCO California Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|-------------------------|--|-----------------------------|-----------|
| \$ 500 | Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC) | Aa3/AA- | 420,960 |
| 1,200 | 6.00%, 8/15/42, Ser. B | Aa3/AA- | 1,188,180 |
| 3,000 | Infrastructure & Economic Dev. Bank Rev., Kaiser Hospital Assistance, 5.50%, 8/1/31, Ser. B | WR/A | 2,810,130 |
| 8,000 | 5.55%, 8/1/31, Ser. A | NR/A+ | 7,542,720 |
| 20 | Lancaster Financing Auth., Tax Allocation, 4.75%, 2/1/34 (NPFGC) | Baa1/BBB | 14,376 |
| 150 | Lancaster Redev. Agcy. Rev., Capital Improvements Projects, 5.90%, 12/1/35 | NR/A | 131,367 |
| 500 | Lancaster Redev. Agcy., Tax Allocation, 6.875%, 8/1/39 | NR/BBB+ | 492,880 |
| 5,600 | Long Beach Bond Finance Auth. Rev., Long Beach Natural Gas, 5.50%, 11/15/37, Ser. A | A2/A | 5,018,664 |
| 5,000 | Long Beach Unified School Dist., GO, 5.75%, 8/1/33, Ser. A | Aa2/AA- | 5,259,300 |
| 6,000 | Los Angeles Department of Water & Power Rev.(i), 4.75%, 7/1/30, Ser. A-2 (AGM) | Aa3/AA+ | 5,851,740 |
| 10,000 | 5.00%, 7/1/39, Ser. A | Aa3/AA- | 9,450,600 |
| 9,580 | Los Angeles Unified School Dist., GO, 4.75%, 1/1/28, Ser. A (NPFGC) | Aa2/AA- | 8,900,107 |
| 10,000 | 5.00%, 1/1/34, Ser. I (i) | Aa2/AA- | 9,342,500 |
| 550 | Malibu, City Hall Project, CP, 5.00%, 7/1/39, Ser. A | NR/AA+ | 512,242 |
| 1,000 | Manteca Financing Auth. Sewer Rev., 5.75%, 12/1/36 | Aa3/NR | 1,003,970 |
| 5,000 | Metropolitan Water Dist. of Southern California Rev., 5.00%, 7/1/37, Ser. A (i) | Aa1/AAA | 4,920,600 |
| 2,980 | Modesto Irrigation Dist., Capital Improvement Projects, CP, 5.00%, 7/1/33, Ser. A (NPFGC) | A2/A+ | 2,674,282 |
| 3,000 | Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM) | Aa3/AA+ | 2,909,520 |
| 200 | M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B | NR/A | 203,124 |
| 1,000 | Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B (d) | NR/NR | 1,000,670 |
| 5,000 | Oakland, GO, 5.00%, 1/15/33, Ser. A (NPFGC) | Aa2/AA- | 4,914,950 |
| 5,000 | Orange Unified School Dist., CP, 4.75%, 6/1/29 (NPFGC) | Aa3/A+ | 4,748,650 |
| 1,250 | Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C | NR/AA- | 1,101,588 |
| 1,250 | Pollution Control Financing Auth. Rev., American Water Capital Corp. Project, 5.25%, 8/1/40 (a)(c) | Baa2/BBB+ | 1,158,488 |
| 1,950 | Poway Unified School Dist., Special Tax, 5.125%, 9/1/28 | NR/BBB+ | 1,730,488 |
| 5,000 | Riverside, CP, 5.00%, 9/1/33 (AMBAC) | WR/A+ | 4,492,250 |
| 500 | Rocklin Unified School Dist. Community Facs. Dist., Special Tax, 5.00%, 9/1/29 (NPFGC) | Baa1/A- | 430,945 |
| 3,250 | Sacramento Municipal Utility Dist. Rev., | A1/A+ | 2,974,822 |

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| | | | |
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| | 5.00%, 8/15/33, Ser. R (NPFGC) | | |
| 6,250 | San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM) | Aa2/AA+ | 5,782,938 |
| 12,075 | San Diego Community College Dist., GO, 5.00%, 5/1/28, Ser. A (AGM) | Aa1/AA+ | 12,091,060 |
| 4,000 | San Diego Public Facs. Financing Auth. Rev., 5.25%, 5/15/39, Ser. A | Aa3/A+ | 3,840,920 |

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PIMCO California Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|-------------------------|---|-----------------------------|------------|
| \$ 2,200 | San Diego Regional Building Auth. Rev., Cnty. Operations Center & Annex, 5.375%, 2/1/36, Ser. A | Aa3/AA+ | 2,151,160 |
| 1,500 | San Diego State Univ. Foundation Rev., 5.00%, 3/1/27, Ser. A (NPFGC) | Baa1/BBB | 1,500,060 |
| 1,500 | San Jose Rev., Convention Center Expansion, 6.50%, 5/1/36 (d) | A2/A- | 1,479,825 |
| 12,200 | San Marcos Public Facs. Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (FGIC-NPFGC) | A2/A- | 10,736,244 |
| 500 | Santa Clara Cnty. Financing Auth. Rev., 5.75%, 2/1/41, Ser. A (AMBAC) | A1/A+ | 472,120 |
| 1,200 | Santa Cruz Cnty. Redev. Agcy., Tax Allocation, Live Oak/Soquel Community, 7.00%, 9/1/36, Ser. A | A1/A | 1,225,836 |
| 4,425 | South Tahoe JT Powers Financing Auth. Rev., South Tahoe Redev. Project, 5.45%, 10/1/33, Ser. 1-A State, GO, | NR/BBB+ | 3,628,146 |
| 1,700 | 4.50%, 8/1/27 | A1/A- | 1,536,783 |
| 7,300 | 6.00%, 4/1/38 State Public Works Board Rev., | A1/A- | 7,448,263 |
| 2,000 | California State Univ., 6.00%, 11/1/34, Ser. J | Aa3/BBB+ | 1,997,380 |
| 2,050 | Univ. CA M.I.N.D. Inst., 5.00%, 4/1/28, Ser. A Statewide Communities Dev. Auth. Rev., | Aa2/AA- | 2,056,130 |
| 500 | American Baptist Homes West, 6.25%, 10/1/39 | NR/BBB | 467,950 |
| 1,300 | California Baptist Univ., 5.50%, 11/1/38, Ser. A Catholic Healthcare West, | NR/NR | 1,044,472 |
| 1,200 | 5.50%, 7/1/31, Ser. D | A2/A | 1,146,324 |
| 1,200 | 5.50%, 7/1/31, Ser. E | A2/A | 1,146,324 |
| 4,500 | Kaiser Permanente, 5.00%, 3/1/41, Ser. B | NR/A+ | 3,719,880 |
| 1,000 | Lancer Student Housing Project, 7.50%, 6/1/42 | NR/NR | 995,070 |
| 7,300 | Los Angeles Jewish Home, 5.50%, 11/15/33 (CA St. Mtg.) | NR/A- | 6,777,612 |
| 15,000 | Memorial Health Services, 5.50%, 10/1/33, Ser. A Methodist Hospital Project, (FHA), | WR/AA- | 15,033,450 |
| 2,000 | 6.625%, 8/1/29 | Aa2/NR | 2,230,400 |
| 7,200 | 6.75%, 2/1/38 | Aa2/NR | 7,823,880 |
| 3,100 | St. Joseph Health System, 5.75%, 7/1/47, Ser. A (FGIC) Sutter Health, | A1/AA- | 2,874,165 |
| 10,000 | 5.50%, 8/15/34, Ser. B (i) | Aa3/AA- | 9,423,100 |
| 1,800 | 6.00%, 8/15/42, Ser. A | Aa3/AA- | 1,782,270 |
| 3,505 | The Internext Group, CP, 5.375%, 4/1/30 Tobacco Securitization Agcy. Rev., | NR/BBB | 2,918,053 |
| 8,100 | Alameda Cnty., 5.875%, 6/1/35 | Baa3/NR | 6,363,927 |
| 7,000 | 6.00%, 6/1/42 | Baa3/NR | 5,159,070 |

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| | | | |
|-------|--|----------|-----------|
| 2,000 | Kern Cnty., 6.125%, 6/1/43, Ser. A | NR/BBB | 1,498,220 |
| 5,000 | Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1 | Baa3/BBB | 3,271,300 |

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PIMCO California Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody's/S&P) | Value |
|-------------------------|--|-----------------------------|-------------|
| \$ 2,000 | Torrance Rev., Torrance Memorial Medical Center, Ser. A, 5.00%, 9/1/40 | A2/A+ | 1,646,840 |
| 2,950 | 5.50%, 6/1/31 | A2/A+ | 2,818,401 |
| 1,000 | West Basin Municipal Water Dist., CP, 5.00%, 8/1/30, Ser. A (NPFGC) | Aa2/AA- | 991,370 |
| 2,000 | Western Municipal Water Dist. Facs. Auth. Rev., 5.00%, 10/1/39, Ser. B | NR/AA+ | 1,878,780 |
| 1,000 | Westlake Village, CP, 5.00%, 6/1/39 | NR/AA+ | 959,130 |
| 2,500 | William S. Hart Union High School Dist., Special Tax, 6.00%, 9/1/33, Ser. 2002-1 | NR/NR | 2,303,700 |
| 2,750 | Woodland Finance Auth. Rev., 5.00%, 3/1/32 (XLCA) | A1/NR | 2,754,703 |
| | Total California Municipal Bonds & Notes (cost \$329,223,264) | | 318,845,898 |

OTHER MUNICIPAL BONDS & NOTES 4.4%

| | | | |
|-------|--|----------|------------|
| | Indiana 1.1% | | |
| 5,000 | Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 5.75%, 9/1/42 (a)(c) | NR/NR | 3,740,050 |
| | New Jersey 0.2% | | |
| 1,000 | Tobacco Settlement Financing Corp. Rev., 4.75%, 6/1/34, Ser. 1-A | Baa3/BB+ | 612,480 |
| | New York 1.0% | | |
| 3,300 | New York City Municipal Water Finance Auth. Water & Sewer Rev., 5.00%, 6/15/37, Ser. D (i) | Aa1/AAA | 3,224,364 |
| | Puerto Rico 2.2% | | |
| 1,000 | Electric Power Auth. Rev., 5.25%, 7/1/40, Ser. XX | A3/BBB+ | 862,000 |
| 4,420 | Public Buildings Auth. Gov't Facs. Rev., 5.00%, 7/1/36, Ser. I (GTD) | A3/BBB | 3,702,988 |
| 3,000 | Sales Tax Financing Corp. Rev., 5.25%, 8/1/41, Ser. C | A1/A+ | 2,668,140 |
| | | | 7,233,128 |
| | Total Other Municipal Bonds & Notes (cost \$14,668,967) | | 14,810,022 |

CALIFORNIA VARIABLE RATE NOTES (a)(c)(f)(g) 0.3%

| | | | |
|-------|---|-------|---------|
| 1,000 | Los Angeles Community College Dist., GO, 13.66%, 8/1/33, Ser. 3096 (cost \$996,634) | NR/AA | 886,600 |
|-------|---|-------|---------|

SHORT-TERM INVESTMENTS 0.3%

U.S. Treasury Obligations (h)(j) 0.3%

| | | | |
|-------|---|--|-----------|
| 1,190 | U.S. Treasury Bills, 0.137%-0.139%, 8/25/11-9/15/11 (cost \$1,189,295) | | 1,189,295 |
|-------|---|--|-----------|

Total Investments (cost \$346,078,160) **100.0%** **\$ 335,731,815**

PIMCO New York Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|---|--|--------------------------------|------------|
| NEW YORK MUNICIPAL BONDS & NOTES 83.4% | | | |
| \$ 1,000 | Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.375%, 7/15/43 | Baa3/BBB- | \$ 977,800 |
| 1,500 | Chautauqua Cnty. Industrial Dev. Agcy. Rev., Dunkirk Power Project, 5.875%, 4/1/42 | Baa3/BB+ | 1,388,730 |
| 730 | Dutchess Cnty. Industrial Dev. Agcy. Rev., Elant Fishkill, Inc., 5.25%, 1/1/37, Ser. A | NR/NR | 475,945 |
| 800 | East Rochester Housing Auth. Rev., St. Mary s Residence Project, 5.375%, 12/20/22, Ser. A (GNMA) | NR/NR | 839,688 |
| 1,050 | Liberty Dev. Corp. Rev., 6.375%, 7/15/49 | NR/BBB- | 1,044,645 |
| 1,810 | Goldman Sachs Headquarters, 5.25%, 10/1/35 | A1/A | 1,730,758 |
| 2,400 | 5.50%, 10/1/37 | A1/A | 2,420,064 |
| 1,500 | Long Island Power Auth. Rev., 5.75%, 4/1/39, Ser. A | A3/A- | 1,516,245 |
| 6,220 | Metropolitan Transportation Auth. Rev., 5.00%, 11/15/32, Ser. A (FGIC-NPFGC) | A2/A | 5,823,288 |
| 500 | 5.00%, 11/15/34, Ser. B | NR/AA | 485,800 |
| 3,000 | Monroe Cnty. Industrial Dev. Corp. Rev., Unity Hospital Rochester Project, 5.50%, 8/15/40 (FHA) (i) | Aa2/AA- | 3,087,210 |
| 200 | Mortgage Agcy. Rev., 4.75%, 10/1/27, Ser. 128 | Aa1/NR | 194,582 |
| 500 | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A | NR/NR | 447,895 |
| 2,695 | New York City, GO, 5.00%, 3/1/33, Ser. I | Aa2/AA | 2,698,261 |
| 600 | New York City Industrial Dev. Agcy. Rev. (AGC), Queens Baseball Stadium, 6.50%, 1/1/46 | Aa3/AA+ | 633,858 |
| 2,200 | Yankee Stadium, 7.00%, 3/1/49 | Aa3/AA+ | 2,366,804 |
| | New York City Municipal Water Finance Auth. Water & Sewer Rev., Second Generation Resolutions, | | |
| 5,000 | 4.75%, 6/15/35, Ser. DD (i) | Aa2/AA+ | 4,738,000 |
| 1,500 | 5.00%, 6/15/39, Ser. GG-1 | Aa2/AA+ | 1,449,300 |
| 3,450 | New York City Trust for Cultural Res. Rev., Wildlife Conservation Society, 5.00%, 2/1/34 (FGIC-NPFGC) | Aa3/AA- | 3,353,676 |
| 1,000 | Niagara Falls Public Water Auth. Water & Sewer Rev., 5.00%, 7/15/34, Ser. A (NPFGC) | Baa1/BBB | 898,470 |
| 600 | Port Auth. of New York & New Jersey Rev., JFK International Air Terminal, 6.00%, 12/1/36 | Baa3/BBB- | 574,980 |
| 1,000 | State Dormitory Auth. Rev., 5.00%, 3/15/38, Ser. A | NR/AAA | 975,400 |

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| | | | |
|-------|---|----------|-----------|
| 2,250 | Jewish Board Family & Children, 5.00%, 7/1/33 (AMBAC) | WR/BBB | 1,943,325 |
| 2,000 | Kaleida Health Hospital, 5.05%, 2/15/25 (FHA) | NR/NR | 2,037,720 |
| 3,000 | Lutheran Medical Hospital, 5.00%, 8/1/31 (FHA-NPFGC) | Baa1/BBB | 2,751,240 |
| 3,085 | New York Univ., 5.25%, 7/1/48, Ser. A | Aa3/AA- | 3,010,806 |

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PIMCO New York Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody's/S&P) | Value |
|-------------------------|--|-----------------------------|------------|
| \$ 2,750 | North General Hospital, 5.00%, 2/15/25 | NR/AA- | 2,701,298 |
| 700 | North Shore-Long Island Jewish Health System, 5.50%, 5/1/37, Ser. A | Baa1/A- | 668,297 |
| 250 | NYU Hospitals Center, 6.00%, 7/1/40, Ser. A | Baa1/BBB+ | 246,580 |
| 3,740 | St. Barnabas Hospital, 5.00%, 2/1/31, Ser. A (AMBAC-FHA) | WR/NR | 3,743,516 |
| 1,200 | Teachers College, 5.50%, 3/1/39 | A1/NR | 1,191,468 |
| 500 | The New School, 5.50%, 7/1/40 | A3/A- | 492,800 |
| 620 | Winthrop Univ. Hospital Assoc., 5.50%, 7/1/32, Ser. A | Baa1/NR | 597,395 |
| 2,500 | Winthrop-Nassau Univ., 5.75%, 7/1/28 | Baa1/NR | 2,505,975 |
| 2,000 | State Environmental Facs. Corp. Rev., 4.75%, 6/15/32, Ser. B | Aa1/AA+ | 1,970,960 |
| | State Urban Dev. Corp. Rev., | | |
| 2,400 | 5.00%, 3/15/35, Ser. B | NR/AAA | 2,373,504 |
| 2,200 | 5.00%, 3/15/36, Ser. B-1 (i) | NR/AAA | 2,156,902 |
| 2,000 | Triborough Bridge & Tunnel Auth. Rev., 5.25%, 11/15/34, Ser. A-2 (i) | Aa2/AA- | 2,023,640 |
| 1,100 | TSACS, Inc. Rev., 5.125%, 6/1/42, Ser. 1 | NR/BBB- | 732,589 |
| 2,000 | Warren & Washington Cntys. Industrial Dev. Agcy. Rev., | | |
| | Glens Falls Hospital Project, 5.00%, 12/1/35, Ser. A (AGM) | Aa3/AA+ | 1,896,740 |
| 600 | Westchester Cnty. Healthcare Corp. Rev., 6.125%, 11/1/37, Ser. C-2 | A3/BBB | 577,536 |
| 100 | Yonkers Economic Dev. Corp. Rev., 6.00%, 10/15/30, Ser. A | NR/BB+ | 90,422 |
| | Total New York Municipal Bonds & Notes (cost \$71,849,445) | | 71,834,112 |

OTHER MUNICIPAL BONDS & NOTES 10.8%**District of Columbia 0.2%**

| | | | |
|-----|---|----------|---------|
| 175 | Tobacco Settlement Financing Corp. Rev., 6.50%, 5/15/33 | Baa3/BBB | 169,216 |
|-----|---|----------|---------|

Ohio 1.0%

| | | | |
|-------|---|----------|---------|
| 1,250 | Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2 | Baa3/BB- | 831,937 |
|-------|---|----------|---------|

Puerto Rico 8.4%

| | | | |
|-------|---|----------|-----------|
| 580 | Children's Trust Fund Rev., 5.625%, 5/15/43 | Baa3/BBB | 446,322 |
| 2,000 | Electric Power Auth. Rev., 5.25%, 7/1/40, Ser. XX | A3/BBB+ | 1,724,000 |
| | Sales Tax Financing Corp. Rev., | | |
| 4,000 | 5.00%, 8/1/40, Ser. A (AGM) (i) | Aa3/AA+ | 3,650,600 |
| 1,000 | 5.375%, 8/1/38, Ser. C | A1/A+ | 913,960 |

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| | | | |
|-----|---|---------|-----------|
| 500 | 5.75%, 8/1/37, Ser. A | A1/A+ | 482,870 |
| | | | 7,217,752 |
| | South Carolina 0.5% | | |
| 370 | Tobacco Settlement Rev. Management Auth. Rev., 6.375%, 5/15/30, Ser. B | WR/BBB | 435,642 |
| | U.S. Virgin Islands 0.6% | | |
| 500 | Public Finance Auth. Rev., 6.00%, 10/1/39, Ser. A | Baa3/NR | 482,175 |

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PIMCO New York Municipal Income Fund III Schedule of Investments

March 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|----------------------------|--|--------------------------------|----------------------|
| | Washington 0.1% | | |
| \$ 135 | Tobacco Settlement Auth. Rev., 6.625%, 6/1/32 | Baa3/BBB | 132,502 |
| | Total Other Municipal Bonds & Notes (cost \$9,838,011) | | 9,269,224 |
| | NEW YORK VARIABLE RATE NOTES (g) 5.8% | | |
| 5,000 | State Dormitory Auth. Rev., Rockefeller Univ., 5.00%, 7/1/32, Ser. A-1 (cost \$4,330,275) | Aa1/AAA | 5,017,500 |
| | Total Investments (cost \$86,017,731) 100.0% | | \$ 86,120,836 |

Notes to Schedules of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$15,538,189 representing 3.0% of total investments for Municipal Income III and \$5,785,138, representing 1.7% of total investments for California Municipal III.
- (b) Step Bond Coupon is a fixed rate for an initial period then resets at a specific date and rate.
- (c) 144A 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.
- (d) When-issued. To be settled after March 31, 2011.
- (e) In default.
- (f) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on March 31, 2011.
- (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, 2011.
- (h) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.
- (i) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which each Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (j) Rates reflect the effective yields at purchase date.

Glossary:

AGC insured by Assured Guaranty Corp.

AGM insured by Assured Guaranty Municipal Corp.

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
GNMA insured by Government National Mortgage Association
GO General Obligation Bond
GTD Guaranteed
IBC Insurance Bond Certificate
NPFGC insured by National Public Finance Guarantee Corp.
NR Not Rated
PSF Public School Fund
TCRS Temporary Custodian Receipts
WR Withdrawn Rating
XLCA insured by XL Capital Assurance

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PIMCO Municipal Income Funds III Statements of Assets and Liabilities

March 31, 2011 (unaudited)

| | Municipal III | California Municipal III | New York Municipal III |
|--|---------------|-----------------------------|---------------------------|
| Assets: | | | |
| Investments, at value (cost \$549,277,456, \$346,078,160 and \$86,017,731, respectively) | \$526,305,206 | \$335,731,815 | \$86,120,836 |
| Cash | | 3,670,372 | |
| Interest receivable | 9,519,065 | 5,635,608 | 1,135,714 |
| Swap premiums paid | 28,440 | 44,240 | 1,580 |
| Prepaid expenses and other assets | 112,684 | 53,319 | 31,104 |
| Total Assets | 535,965,395 | 345,135,354 | 87,289,234 |
| Liabilities: | | | |
| Payable for floating rate notes issued | 59,869,224 | 40,288,688 | 8,932,500 |
| Dividends payable to common and preferred shareholders | 2,262,570 | 1,315,731 | 294,914 |
| Payable for investments purchased | 1,660,000 | 2,470,855 | 545,610 |
| Swap premiums received | 428,250 | 280,500 | 70,820 |
| Unrealized depreciation of swaps | 688,177 | 426,123 | 104,598 |
| Payable to custodian for cash overdraft | 816,969 | | 27,709 |
| Investment management fees payable | 261,431 | 166,504 | 42,973 |
| Interest payable | 105,723 | 67,214 | 10,495 |
| Accrued expenses and other liabilities | 151,351 | 169,586 | 63,895 |
| Total Liabilities | 66,243,695 | 45,185,201 | 10,093,514 |
| Preferred Shares (\$0.00001 par value and \$25,000 liquidation preference per share applicable to an aggregate of 7,560, 5,000 and 1,280 shares issued and outstanding, respectively) | 189,000,000 | 125,000,000 | 32,000,000 |

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| | | | |
|---|---------------|---------------|--------------|
| Net Assets Applicable to Common Shareholders | \$280,721,700 | \$174,950,153 | \$45,195,720 |
| Composition of Net Assets Applicable to Common Shareholders: | | | |
| Common Shares: | | | |
| Par value (\$0.00001 per share) | \$322 | \$218 | \$56 |
| Paid-in-capital in excess of par | 455,480,374 | 308,260,906 | 78,883,259 |
| Undistributed net investment income | 4,331,924 | 3,640,574 | 1,089,132 |
| Accumulated net realized loss on investments | (155,431,199) | (126,174,416) | (34,775,068) |
| Net unrealized depreciation of investments and swaps | (23,659,721) | (10,777,129) | (1,659) |
| Net Assets Applicable to Common Shareholders | \$280,721,700 | \$174,950,153 | \$45,195,720 |
| Common Shares Issued and Outstanding | 32,224,054 | 21,827,887 | 5,598,296 |
| Net Asset Value Per Common Share | \$8.71 | \$8.01 | \$8.07 |

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PIMCO Municipal Income Funds III Statements of Operations

Six Months ended March 31, 2011 (unaudited)

| | Municipal III | California Municipal III | New York Municipal III |
|---|-------------------|-----------------------------|---------------------------|
| Investment Income: | | | |
| Interest | \$16,148,507 | \$9,769,184 | \$2,336,554 |
| Expenses: | | | |
| Investment management fees | 1,575,683 | 1,009,581 | 257,489 |
| Interest expense | 225,403 | 133,573 | 32,357 |
| Auction agent fees and commissions | 154,825 | 99,405 | 27,119 |
| Custodian and accounting agent fees | 58,411 | 39,864 | 26,540 |
| Audit and tax services | 35,854 | 29,120 | 20,020 |
| Shareholder communications | 32,446 | 20,160 | 10,010 |
| Trustees' fees and expenses | 23,114 | 15,106 | 3,640 |
| Transfer agent fees | 18,928 | 17,472 | 17,472 |
| New York Stock Exchange listing fees | 11,510 | 9,499 | 9,400 |
| Insurance expense | 7,296 | 4,838 | 1,532 |
| Legal fees | 6,920 | 4,690 | 2,322 |
| Miscellaneous | 6,533 | 5,987 | 6,169 |
| Total Expenses | 2,156,923 | 1,389,295 | 414,070 |
| Less: custody credits earned on cash balances | (171) | (370) | (150) |
| Net Expenses | 2,156,752 | 1,388,925 | 413,920 |
| Net Investment Income | 13,991,755 | 8,380,259 | 1,922,634 |
| Realized and Change In Unrealized Gain (Loss): | | | |
| Net realized gain (loss) on: | | | |
| Investments | 599,105 | (5,121,055) | (184,471) |

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| | | | |
|--|----------------|----------------|---------------|
| Swaps | (1,036,365) | (399,540) | (172,590) |
| Net change in unrealized appreciation/depreciation of: Investments | (49,767,727) | (30,054,236) | (6,953,188) |
| Swaps | (688,177) | (426,123) | (104,598) |
| Net realized and change in unrealized loss on investments and swaps | (50,893,164) | (36,000,954) | (7,414,847) |
| Net Decrease in Net Assets Resulting from Investment Operations | (36,901,409) | (27,620,695) | (5,492,213) |
| Dividends on Preferred Shares from Net Investment Income | (398,285) | (261,917) | (67,145) |
| Net Decrease in Net Assets Applicable to Common Shareholders Resulting from Investment Operations | \$(37,299,694) | \$(27,882,612) | \$(5,559,358) |

See accompanying Notes to Financial Statements ĩ 3.31.11 ĩ PIMCO Municipal Income Funds III Semi-Annual Report 25

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

| | Municipal III | |
|--|--|----------------------------------|
| | Six Months ended March 31, 2011 (unaudited) | Year ended September 30, 2010 |
| Investment Operations: | | |
| Net investment income | \$13,991,755 | \$27,628,585 |
| Net realized gain (loss) on investments and swaps | (437,260) | 8,381 |
| Net change in unrealized appreciation/depreciation of investments and swaps | (50,455,904) | 4,194,047 |
| Net increase (decrease) in net assets resulting from investment operations | (36,901,409) | 31,831,013 |
| Dividends on Preferred Shares from Net Investment Income | (398,285) | (797,851) |
| Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations | (37,299,694) | 31,033,162 |
| Dividends to Common Shareholders from Net Investment Income | (13,519,325) | (26,934,450) |
| Common Share Transactions: | | |
| Reinvestment of dividends | 700,920 | 1,819,762 |
| Total increase (decrease) in net assets applicable to common shareholders | (50,118,099) | 5,918,474 |
| Net Assets Applicable to Common Shareholders: | | |
| Beginning of period | 330,839,799 | 324,921,325 |
| End of period (including undistributed net investment income of \$4,331,924 and \$4,257,779; \$3,640,574 and \$3,372,730; \$1,089,132 and \$994,886; respectively) | \$280,721,700 | \$330,839,799 |
| Common Shares Issued in Reinvestment of Dividends | 69,811 | 175,126 |

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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 March 31, 2011 (unaudited) | Year ended September 30, 2010 | Six Months ended March 31, 2011 (unaudited) | Year ended September 30, 2010 |
| \$8,380,259 | \$16,631,668 | \$1,922,634 | \$3,692,800 |
| (5,520,595) | 34,880 | (357,061) | 51,846 |
| (30,480,359) | 1,712,656 | (7,057,786) | 1,471,822 |
| (27,620,695) | 18,379,204 | (5,492,213) | 5,216,468 |
| (261,917) | (524,271) | (67,145) | (137,098) |
| (27,882,612) | 17,854,933 | (5,559,358) | 5,079,370 |
| (7,850,498) | (15,648,624) | (1,761,243) | (3,507,521) |
| 366,042 | 938,286 | 116,545 | 300,354 |
| (35,367,068) | 3,144,595 | (7,204,056) | 1,872,203 |
| 210,317,221 | 207,172,626 | 52,399,776 | 50,527,573 |
| \$174,950,153 | \$210,317,221 | \$45,195,720 | \$52,399,776 |
| 41,427 | 101,572 | 13,624 | 33,283 |

See accompanying Notes to Financial Statements ĩ 3.31.11 ĩ PIMCO Municipal Income Funds III Semi-Annual Report 27

PIMCO Municipal Income Fund III Statements of Cash Flows

Six Months ended March 31, 2011 (unaudited)

| | Municipal III | California Municipal III | New York Municipal III |
|--|-------------------|-----------------------------|---------------------------|
| Increase in Cash from: | | | |
| Cash Flows provided by (used for) Operating Activities: | | | |
| Net decrease in net assets resulting from investment operations | \$(36,901,409) | \$(27,620,695) | \$(5,492,213) |
| Adjustments to reconcile net decrease in net assets resulting from investment operations to net cash provided by (used for) operating activities: | | | |
| Purchases of long-term investments | (51,970,428) | (29,435,967) | (7,171,231) |
| Proceeds from sales of long-term investments | 51,591,766 | 24,823,612 | 4,443,912 |
| Purchases of short-term portfolio investments, net | (1,490,071) | (1,189,296) | |
| Net change in unrealized appreciation/depreciation of investments and swaps | 50,450,646 | 29,720,701 | 7,063,172 |
| Net realized loss on investments and swaps | 437,260 | 6,278,759 | 351,675 |
| Net amortization on investments | (139,287) | (209,542) | (30,665) |
| Increase in interest receivable | (181,164) | (223,241) | (63,351) |
| Increase in prepaid expenses and other assets | (71,699) | (19,775) | (19,506) |
| Increase in payable for investments purchased | 910,000 | 2,470,855 | 545,610 |
| Periodic and termination payments of swaps, net | (636,555) | (163,280) | (103,350) |
| Decrease in investment management fees payable | (15,451) | (12,141) | (2,023) |
| Decrease in accrued expenses and other liabilities | (31,533) | (26,423) | (14,573) |
| Net cash provided by (used for) operating activities | 11,952,075 | 4,393,567 | (492,543) |
| Cash Flows provided by (used for) Financing Activities: | | | |
| Cash dividends paid (excluding reinvestment of dividends of \$700,920, \$366,042 and \$116,545, respectively) | (10,961,981) | (6,437,584) | (1,418,056) |
| Cash receipts on issuance of floating rate notes | | 6,665,012 | 2,000,100 |

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| | | | |
|---|---------------------|--------------------|----------------|
| Decrease in payable to custodian for cash overdraft | (990,094) | (950,623) | (89,501) |
| Net cash provided by (used for) financing activities | (11,952,075) | (723,195) | 492,543 |
| Net increase in cash | | 3,670,372 | |
| Cash at beginning of period | | | |
| Cash at end of period | \$ | \$3,670,372 | \$ |

28 PIMCO Municipal Income Funds III Semi-Annual Report ĩ 3.31.11 ĩ **See accompanying Notes to Financial Statements**

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (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**), each a **Fund** and 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 shares 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. There is no guarantee that the Funds will meet their stated objectives. 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 each Fund's 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 that 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 occurred.

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 mean between the last quoted bid and ask price. 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. Securities purchased on a when-issued basis are marked to market daily until settlement at the forward settlement date. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Funds to value securities may differ from the value that would be realized if the securities were sold and these differences could be material to the Funds' financial statements. Each Fund's net asset value (NAV) 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 Measurements

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 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 each Fund's own assumptions in determining the fair value of investments)

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

1. Organization and Significant Accounting Policies (continued)

An investment asset's or liability's level within the fair value hierarchy is based on the lowest level input, individually or in aggregate, that is significant to fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation technique used.

The valuation techniques used by the Funds to measure fair value during the six months ended March 31, 2011 maximized the use of observable inputs and minimized the use of unobservable inputs.

The inputs or methodology used for valuing securities is not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Funds generally use to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with Generally Accepted Accounting Principles (GAAP).

Municipal Bonds & Notes and Variable Rate Notes Municipal bonds & notes and variable rate notes are valued by independent pricing services based on pricing models that take into account, among other factors, information received from market makers and broker-dealers, current trades, bid-want lists, offerings, market movements, the callability of the bond, state of issuance, benchmark yield curves, and bond insurance. To the extent that these inputs are observable, the values of municipal bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

U.S. Treasury Obligations U.S. Treasury obligations are valued by independent pricing services based on pricing models that evaluate the mean between the most recently quoted bid and ask price. The models also take into consideration data received from active market makers and broker-dealers, yield curves, and the spread over comparable U.S. Treasury issues. The spreads change daily in response to market conditions and are generally obtained from the new issue market and broker-dealer sources. To the extent that these inputs are observable, the values of U.S. Treasury obligations are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Interest Rate Swaps Interest rate swaps are valued by independent pricing services using pricing models that are based on real-time intraday snapshots of relevant interest rate curves that are built using the most actively traded securities for a given maturity. The pricing models also incorporate cash and money market rates. In addition, market data pertaining to interest rate swaps is monitored regularly to ensure that interest rates are properly depicting the current market rate. To the extent that these inputs are observable, the values of interest rate swaps are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

The Funds' policy is to recognize transfers between levels at the end of the reporting period.

A summary of the inputs used at March 31, 2011 in valuing each Fund's assets and liabilities is listed below:

Municipal III:

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| | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Value at 3/31/11 |
|--|----------------------------|--|--|---------------------|
| Investments in Securities Assets | | | | |
| Municipal Bonds & Notes | | \$ 512,420,625 | | \$ 512,420,625 |
| Variable Rate Notes | | 12,394,485 | | 12,394,485 |
| Short-Term Investments | | 1,490,096 | | 1,490,096 |
| Total Investments in Securities Assets | | \$ 526,305,206 | | \$ 526,305,206 |
| Other Financial Instruments* Liabilities | | | | |
| Interest Rate Contracts | | \$ (688,177) | | \$ (688,177) |
| Total Investments | | \$ 525,617,029 | | \$ 525,617,029 |

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

1. Organization and Significant Accounting Policies (continued)California Municipal III:

| | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Value at 3/31/11 |
|---|----------------------------|--|--|-----------------------|
| Investments in Securities Assets | | | | |
| California Municipal Bonds & Notes | | \$ 318,845,898 | | \$ 318,845,898 |
| Other Municipal Bonds & Notes | | 14,810,022 | | 14,810,022 |
| California Variable Rate Notes | | 886,600 | | 886,600 |
| Short-Term Investments | | 1,189,295 | | 1,189,295 |
| Total Investments in Securities Assets | | \$ 335,731,815 | | \$ 335,731,815 |
| Other Financial Instruments* Liabilities | | | | |
| Interest Rate Contracts | | \$ (426,123) | | \$ (426,123) |
| Total Investments | | \$ 335,305,692 | | \$ 335,305,692 |

New York Municipal III:

| | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Value at 3/31/11 |
|---|----------------------------|---|--|---------------------|
| Investments in Securities Assets | | | | |
| New York Municipal Bonds & Notes | | \$ 71,834,112 | | \$ 71,834,112 |
| Other Municipal Bonds & Notes | | 9,269,224 | | 9,269,224 |
| New York Variable Rate Notes | | 5,017,500 | | 5,017,500 |

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| | | | |
|--|--------------------|---------------|---------------|
| Total Investments in Securities | Assets | \$ 86,120,836 | \$ 86,120,836 |
| Other Financial Instruments* | Liabilities | | |
| Interest Rate Contracts | | \$ (104,598) | \$ (104,598) |
| Total Investments | | \$ 86,016,238 | \$ 86,016,238 |

* Other financial instruments are derivatives not reflected in the Schedules of Investments, such as swap agreements, which are valued at the unrealized appreciation (depreciation) of the instrument.

There were no significant transfers between Levels 1 and 2 during the six months ended March 31, 2011.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for Municipal III for the six months ended March 31, 2011, was as follows:

Municipal III:

| | Net | Net | Net Change | Transfer | Transfer | Ending |
|----------------------------------|-----------|------------|-----------------|-------------------------------|----------|---------|
| | Beginning | Purchases | Accrued | in | into | of |
| | Balance | (Sales) | Discounts | Unrealized | Level | Level |
| | 9/30/10 | Settlement | (Premiums) | Appreciation/ Depreciation | 3 | 3 |
| | | | Gain (Loss) | | | |
| | | | | | | Balance |
| | | | | | | 3/31/11 |
| Investments in Securities | | | | | | |
| Assets | | | | | | |
| Municipal Bonds & Notes: | | | | | | |
| New Jersey | \$ 16,045 | | \$ (1,036,209)* | \$ 1,020,164* | | |
| Total Investments | \$ 16,045 | | \$ (1,036,209)* | \$ 1,020,164* | | |

* Security deemed worthless and removed from the Municipal III's Schedule of Investments.

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

1. Organization and Significant Accounting Policies (continued)

(c) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Securities purchased and sold on a when-issued 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 discount and amortization of premium 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.

(d) Federal Income Taxes

The Funds intend to distribute all of their taxable income and to comply with the other requirements of Subchapter M 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.

Accounting for uncertainty in income taxes 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. Funds management has determined that its evaluation has resulted in no material impact to the Funds financial statements at March 31, 2011. The Funds federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

(e) Dividends and Distributions – Common Shares

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 respective 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 GAAP. 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 to shareholders from return of capital.

(f) 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 upon 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 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. To the extent the Funds do not cover their positions in reverse repurchase agreements (by segregating liquid assets at least equal in amount to the forward purchase commitment), the Funds uncovered 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 Funds are obligated to repurchase under the agreements 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 their trustee or receiver, whether to enforce the Funds' obligation to repurchase the securities.

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

The Funds 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 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. 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 issued in the

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

1. Organization and Significant Accounting Policies (continued)

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. The Funds may also invest in Inverse Floaters for the purpose of increasing leverage.

The 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 restrictions on borrowings do not apply to the secured borrowings deemed to have occurred for accounting purposes. Inverse Floaters held by the Funds are exempt from registration under Rule 144A of the Securities Act of 1933.

In addition to general market risks, the Funds investments in Inverse Floaters may involve greater risk and volatility than an investment in a fixed rate bond, and the value of Inverse Floaters may decrease significantly when market interest rates increase. Inverse Floaters 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, Inverse Floaters 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 Inverse Floaters may be held could be terminated due to market, credit or other events beyond the Funds control, which could require the Funds to reduce leverage and dispose of portfolio investments at inopportune times and prices.

(h) When-Issued/Delayed-Delivery Transactions

When-issued or delayed-delivery 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 is sold on a delayed-delivery basis, the Funds do not participate in future gains and losses with respect to the security.

(i) Custody Credits on Cash Balances

The Funds benefit from an expense offset arrangement with their custodian bank, whereby uninvested cash balances earn credits that 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. Cash overdraft charges, if any, are included in custodian and accounting agent fees.

(j) Interest Expense

Interest expense primarily relates to the Funds' participation in floating rate notes held by third parties in conjunction with Inverse Floater transactions and reverse repurchase agreement transactions. Interest expense on reverse repurchase agreements is recorded as it is incurred.

2. Principal Risks

In the normal course of business, the Funds trade financial instruments and enter into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Funds are also exposed to other risks such as, but not limited to, interest rate and credit risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Funds are likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

2. Principal Risks (continued)

with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is used primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.* yield) movements.

Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When the Funds hold variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the NAV of the Funds' shares.

The Funds are exposed to credit risk, which is the risk of losing money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

The Funds are exposed to counterparty risk, or the risk that an institution or other entity with which the Funds have unsettled or open transactions will default. The potential loss to the Funds could exceed the value of the financial assets recorded in the Funds' financial statements. Financial assets, which potentially expose the Funds to counterparty risk, consist principally of cash due from counterparties and investments. The Funds' Sub-Adviser, Pacific Investment Management Company LLC (the Sub-Adviser), an affiliate of the Investment Manager, seeks to minimize the Funds' counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Funds have received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Funds are party to International Swaps and Derivatives Association, Inc. Master Agreements (ISDA Master Agreements) with select counterparties that govern transactions, over-the-counter derivatives and foreign exchange contracts entered into by the Funds and those counterparties. The ISDA Master Agreements contain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements of the Funds.

3. Financial Derivative Instruments

Disclosure about derivatives and hedging activities requires qualitative disclosure regarding objectives and strategies for using derivatives, quantitative disclosure about fair value amounts of gains and losses on derivatives, and disclosure about credit-risk-related contingent features in derivative agreements. The disclosure requirements distinguish between derivatives which are accounted for as hedges and those that do not qualify for such accounting. Although the Funds sometimes use derivatives for hedging purposes, the Funds reflect derivatives at fair value and recognize changes in fair value through the Funds' Statements of Operations, and such derivatives do not qualify for hedge accounting treatment.

(a) 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 enter into credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements in order to manage its 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 Funds' 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 Funds' 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 Funds' Statements of

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

3. Financial Derivative Instruments (continued)

Operations. Net periodic payments received or paid by the Funds are included as part of realized gains or losses on the Funds' Statements 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 Funds' 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 a counterparty of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments, with respect to 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 swaps, under which two parties can exchange variable interest rates based on different money markets.

The following is a summary of the fair valuation of the Funds' derivatives categorized by risk exposure.

The effect of derivatives on the Statements of Assets and Liabilities at March 31, 2011:

Municipal III:

| Location | Interest Rate Contracts |
|----------------------------------|----------------------------|
| Liability derivatives: | |
| Unrealized depreciation of swaps | \$(688,177) |

California Municipal III:

| Location | Interest Rate Contracts |
|----------|----------------------------|
|----------|----------------------------|

Liability derivatives:

Unrealized depreciation of swaps \$(426,123)

New York Municipal III:

| Location | Interest Rate Contracts |
|----------|----------------------------|
|----------|----------------------------|

Liability derivatives:

Unrealized depreciation of swaps \$(104,598)

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

3. Financial Derivative Instruments (continued)

The effect of derivatives on the Statements of Operations for the six months ended March 31, 2011:

Municipal III:

| Location | Interest Rate Contracts |
|---|----------------------------|
| Net realized loss on: | |
| Swaps | \$(1,036,365) |
| Net change in unrealized appreciation/depreciation of: | |
| Swaps | \$(688,177) |

California Municipal III:

| Location | Interest Rate Contracts |
|---|----------------------------|
| Net realized loss on: | |
| Swaps | \$(399,540) |
| Net change in unrealized appreciation/depreciation of: | |
| Swaps | \$(426,123) |

New York Municipal III:

| Location | Interest Rate Contracts |
|------------------------------|----------------------------|
| Net realized loss on: | |
| Swaps | \$(172,590) |

Net change in unrealized appreciation/depreciation of:

| | |
|-------|-------------|
| Swaps | \$(104,598) |
|-------|-------------|

The average volume of derivative activity during the six months ended March 31, 2011:

| | Interest Rate Swap Agreements* |
|--------------------------|--------------------------------------|
| Municipal III | \$12,100 |
| California Municipal III | 7,367 |
| New York Municipal III | 1,933 |

* Notional amount (in thousands)

4. Investment Manager/Sub-Adviser

Each Fund has an Investment Management Agreement (each an Agreement) with the Investment Manager. Subject to the supervision of the Funds' Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds' investment activities, business affairs and administrative matters. Pursuant to each Agreement, the Investment Manager receives an annual fee, payable monthly, at an annual rate of 0.65% of each Fund's average daily net assets, inclusive of daily net assets attributable to any Preferred Shares that were outstanding.

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

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

5. Investments in Securities

Purchases and sales of investments, other than short-term securities, for the six months ended March 31, 2011:

| | Municipal III | California Municipal III | New York Municipal III |
|-----------|---------------|-----------------------------|---------------------------|
| Purchases | \$51,970,428 | \$29,435,967 | \$7,171,231 |
| Sales | 51,529,265 | 24,823,612 | 4,443,912 |

(a) Interest rate swap agreements outstanding at March 31, 2011:

Municipal III:

| Swap Counterparty | Notional Amount (000s) | Termination Date | Payments Made | Rate Type | Market Value | Upfront | |
|-------------------|------------------------------|---------------------|------------------|----------------------|-----------------|----------------------------|----------------------------|
| | | | | Payments Received | | Premiums Paid(Received) | Unrealized Depreciation |
| Bank of America | \$ 16,500 | 6/20/42 | 4.75% | 3-Month USD-LIBOR | \$ (494,540) | \$ (152,850) | \$ (341,690) |
| Citigroup | 16,200 | 6/20/42 | 4.75% | 3-Month USD-LIBOR | (485,548) | (275,400) | (210,148) |
| Goldman Sachs | 3,600 | 6/20/42 | 4.75% | 3-Month USD-LIBOR | (107,899) | 28,440 | (136,339) |
| | | | | | \$ (1,087,987) | \$ (399,810) | \$ (688,177) |

California Municipal III:

| Swap Counterparty | Notional Amount (000s) | Termination Date | Payments Made | Rate Type | Market Value | Upfront | |
|-------------------|------------------------------|---------------------|------------------|----------------------|-----------------|----------------------------|----------------------------|
| | | | | Payments Received | | Premiums Paid(Received) | Unrealized Depreciation |
| Citigroup | \$ 16,500 | 6/20/42 | 4.75% | 3-Month USD-LIBOR | \$ (494,539) | \$ (280,500) | \$ (214,039) |
| Goldman Sachs | 5,600 | 6/20/42 | 4.75% | 3-Month USD-LIBOR | (167,844) | 44,240 | (212,084) |
| | | | | | \$ (662,383) | \$ (236,260) | \$ (426,123) |

New York Municipal III:

| Rate Type | Upfront |
|-----------|---------|
|-----------|---------|

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| Swap Counterparty | Notional Amount (000s) | Termination Date | Payments Made | Payments Received | Market Value | Premiums Paid(Received) | Unrealized Depreciation |
|-------------------|------------------------------|---------------------|------------------|----------------------|-----------------|----------------------------|----------------------------|
| Bank of America | \$ 3,200 | 6/20/42 | 4.75% | 3-Month USD-LIBOR | \$ (95,911) | \$ (30,020) | \$ (65,891) |
| Citigroup | 2,400 | 6/20/42 | 4.75% | 3-Month USD-LIBOR | (71,933) | (40,800) | (31,133) |
| Goldman Sachs | 200 | 6/20/42 | 4.75% | 3-Month USD-LIBOR | (5,994) | 1,580 | (7,574) |
| | | | | | \$ (173,838) | \$ (69,240) | \$ (104,598) |

LIBOR London Inter-Bank Offered Rate

(b) Floating rate notes:

The weighted average daily balance of floating rate notes outstanding during the six months ended March 31, 2011 for Municipal III, California Municipal III and New York Municipal III was \$59,869,224, \$33,660,309 and \$8,547,981 at a weighted average interest rate, including fees, of 0.74%, 0.78% and 0.75%, respectively.

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

6. Income Tax Information

At March 31, 2011, the aggregate cost and net unrealized appreciation (depreciation) of investments for federal income tax purposes were as follows:

| | Cost of Investments | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Net Unrealized Appreciation (Depreciation) |
|--------------------------|------------------------|-------------------------------------|-------------------------------------|--|
| Municipal III | \$488,870,828 | \$13,479,177 | \$35,930,951 | \$(22,451,774) |
| California Municipal III | 304,955,025 | 8,078,633 | 17,640,786 | (9,562,153) |
| New York Municipal III | 77,087,879 | 2,486,137 | 2,391,910 | 94,227 |

The difference between book and tax cost is attributable to Inverse Floater transactions.

7. Auction-Rate Preferred Shares

Municipal III has 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 outstanding, each with a liquidation preference value of \$25,000 per share plus any accumulated, unpaid dividends.

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

New York Municipal III has 1,280 shares of Preferred Shares Series A outstanding, with a liquidation preference 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 (or default procedures in the event of auction failure).

Distributions of net realized capital gains, if any, are paid annually.

For the six months ended March 31, 2011, the annualized dividend rates ranged from:

| | High | Low | At March 31, 2011 |
|----------------------------------|--------|--------|-------------------|
| <u>Municipal III:</u> | | | |
| Series A | 0.686% | 0.365% | 0.381% |
| Series B | 0.686% | 0.365% | 0.381% |
| Series C | 0.686% | 0.365% | 0.381% |
| Series D | 0.686% | 0.365% | 0.396% |
| Series E | 0.686% | 0.365% | 0.396% |
| <u>California Municipal III:</u> | | | |

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| | | | |
|--------------------------------|--------|--------|--------|
| Series A | 0.686% | 0.365% | 0.381% |
| Series B | 0.686% | 0.365% | 0.396% |
| <u>New York Municipal III:</u> | | | |
| Series A | 0.686% | 0.365% | 0.381% |

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 or paying any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation preference value plus any accumulated, unpaid dividends.

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

Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds 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

PIMCO Municipal Income Funds III Notes to Financial Statements

March 31, 2011 (unaudited)

7. Auction-Rate Preferred Shares (continued)

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, equal to 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). 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.

8. Legal Proceedings

In June and September 2004, the Investment Manager and certain of its affiliates (including PEA Capital LLC (PEA), Allianz Global Investors Distributors LLC and Allianz Global Investors of America, L.P.) agreed to settle, without admitting or denying the allegations, claims brought by the Securities and Exchange Commission (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 and certain of its affiliates and their employees have been named as defendants in a number of pending lawsuits concerning market timing, which allege the same or similar conduct underlying the regulatory settlements discussed above. The market timing lawsuits have been consolidated in a multi-district litigation proceeding in the U.S. District Court for the District of Maryland (the MDL Court). After a number of claims in the lawsuits were dismissed by the MDL Court, the parties entered into a stipulation of settlement, which was publicly filed with the MDL Court in April 2010, resolving all remaining claims, but the settlement remains subject to the approval of the MDL Court.

In addition, in a lawsuit filed in the Northern District of Illinois Eastern Division, plaintiffs challenged certain trades by the Sub-Adviser in the June 2005 10 year futures contract. The Sub-Adviser's position is that all such trades were properly designed to secure best execution for its clients. The parties resolved this matter through settlement, which resolves all of the claims against the Sub-Adviser. In settling this matter, the Sub-Adviser denies any liability. This settlement is purely private in nature and not a regulatory matter.

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.

9. Subsequent Events

On April 1, 2011, the following dividends were declared to common shareholders payable May 2, 2011 to shareholders of record on April 11, 2011:

| | |
|--------------------------|---------------------------|
| 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 2, 2011, the following dividends were declared to common shareholders payable June 1, 2011 to shareholders of record on May 12, 2011:

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

PIMCO Municipal Income Fund III Financial Highlights

For a common share outstanding throughout each period:

| | Six Months ended March 31, 2011 (unaudited) | 2010 | 2009 | Year ended September 30, 2008 | 2007 | 2006 |
|--|---|-----------|-----------|----------------------------------|-----------|-----------|
| Net asset value, beginning of period | \$10.29 | \$10.16 | \$10.81 | \$14.53 | \$14.90 | \$14.53 |
| Investment Operations: | | | | | | |
| Investment income | 0.43 | 0.86 | 0.96 | 1.29 | 1.17 | 1.17 |
| Realized and change in unrealized (decreases) on investments, futures contracts, options written and swaps | (1.58) | 0.13 | (0.67) | (3.87) | (0.40) | 0.00 |
| Income from investment operations | (1.15) | 0.99 | 0.29 | (2.58) | 0.77 | 1.17 |
| Dividends on Preferred Shares from Investment Income | (0.01) | (0.02) | (0.10) | (0.30) | (0.30) | (0.30) |
| Increase (decrease) in net assets attributable to common shareholders from investment operations | (1.16) | 0.97 | 0.19 | (2.88) | 0.47 | 1.17 |
| Dividends to Common Shareholders from Investment Income | (0.42) | (0.84) | (0.84) | (0.84) | (0.84) | (0.84) |
| Net asset value, end of period | \$8.71 | \$10.29 | \$10.16 | \$10.81 | \$14.53 | \$14.53 |
| Share price, end of period | \$10.58 | \$11.45 | \$11.29 | \$11.17 | \$15.05 | \$15.05 |
| Investment Return (1) | (3.67)% | 9.90% | 11.02% | (21.07)% | 1.38% | 7.91% |
| FINANCIAL/SUPPLEMENTAL DATA: | | | | | | |
| Assets applicable to common shareholders, end of period (000s) | \$280,722 | \$330,840 | \$324,921 | \$342,926 | \$457,914 | \$466,500 |
| Operating expenses to average net assets, excluding interest expense (2)(3)(4) | 1.46%* | 1.40%(5) | 1.92%(5) | 2.48%(5) | 2.73%(5) | 2.73% |
| | 1.30%* | 1.26%(5) | 1.44%(5) | 1.23%(5) | 1.10%(5) | 1.10% |

| | | | | | | |
|--|----------|----------|-----------|----------|----------|--------|
| expenses to average net assets, g interest expense (2)(3) | | | | | | |
| net investment income to net assets (2) | 9.44%* | 8.78%(5) | 11.23%(5) | 9.39%(5) | 7.90%(5) | 7 |
| l shares asset coverage per | \$62,131 | \$68,760 | \$67,977 | \$56,709 | \$67,378 | \$68,1 |
| turnover | 9% | 7% | 58% | 17% | 10% | |

* Annualized.

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Income dividends, capital gains and return of capital distributions, if any, 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 in connection with the purchase or sale of Fund shares. 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(i) in Notes to Financial Statements).
- (4) Interest expense relates to the liability for floating rate notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.
- (5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.01%, 0.10%, 0.17%, 0.24% and 0.24%, for the years ended September 30, 2010, September 30, 2009, September 30, 2008, September 30, 2007 and September 30, 2006, respectively.

40 PIMCO Municipal Income Funds III Semi-Annual Report i 3.31.11 i **See accompanying Notes to Financial Statements**

PIMCO California Municipal Income Fund III Financial Highlights

For a common share outstanding throughout each period:

| | Six Months ended March 31, 2011 (unaudited) | 2010 | 2009 | Year ended September 30, 2008 | 2007 | 2006 |
|---|---|-----------|-----------|----------------------------------|-----------|-----------|
| Net asset value, beginning of period | \$9.65 | \$9.55 | \$11.13 | \$14.48 | \$14.83 | \$14.83 |
| Investment Operations: | | | | | | |
| Investment income | 0.38 | 0.76 | 0.88 | 1.15 | 1.07 | 1.07 |
| Realized and change in unrealized (loss) gains on investments, futures contracts, options written and swaps | (1.65) | 0.08 | (1.64) | (3.49) | (0.26) | 0.00 |
| Net income from investment operations | (1.27) | 0.84 | (0.76) | (2.34) | 0.81 | 1.07 |
| Losses on Preferred Shares from Investment Income | (0.01) | (0.02) | (0.10) | (0.29) | (0.29) | (0.00) |
| Increase (decrease) in net assets attributable to common shareholders from investment operations | (1.28) | 0.82 | (0.86) | (2.63) | 0.52 | 0.00 |
| Losses to Common Shareholders from Investment Income | (0.36) | (0.72) | (0.72) | (0.72) | (0.87) | (0.00) |
| Net asset value, end of period | \$8.01 | \$9.65 | \$9.55 | \$11.13 | \$14.48 | \$14.83 |
| Net asset price, end of period | \$9.03 | \$10.39 | \$10.03 | \$10.54 | \$14.20 | \$16.00 |
| Investment Return (1) | (9.47)% | 11.94% | 3.95% | (21.60)% | (11.38)% | 19.52% |
| FINANCIAL/SUPPLEMENTAL DATA: | | | | | | |
| Assets applicable to common shareholders, end of period (000s) | \$174,950 | \$210,317 | \$207,173 | \$240,436 | \$311,958 | \$318,200 |
| Operating expenses to average net assets, including interest expense (2)(3)(4) | 1.49%* | 1.45%(5) | 1.77%(5) | 2.75%(5) | 2.94%(5) | 2.94% |
| | 1.35%* | 1.31%(5) | 1.48%(5) | 1.21%(5) | 1.16%(5) | 1.16% |

| | | | | | | |
|--|----------|----------|-----------|----------|----------|--------|
| expenses to average net assets, g interest expense (2)(3) | | | | | | |
| net investment income to net assets (2) | 9.01%* | 8.39%(5) | 10.82%(5) | 8.53%(5) | 7.26%(5) | 7 |
| l shares asset coverage per | \$59,988 | \$67,061 | \$66,432 | \$57,426 | \$67,140 | \$67,9 |
| turnover | 7% | 3% | 48% | 8% | 7% | |

* Annualized.

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Income dividends, capital gains and return of capital distributions, if any, 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 in connection with the purchase or sale of Fund shares. 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(i) in Notes to Financial Statements).
- (4) Interest expense relates to the liability for floating rate notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.
- (5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.01%, 0.10%, 0.17%, 0.24% and 0.24%, for the years ended September 30, 2010, September 30, 2009, September 30, 2008, September 30, 2007 and September 30, 2006, respectively.

See accompanying Notes to Financial Statements ĩ 3.31.11 ĩ PIMCO Municipal Income Funds III Semi-Annual Report 41

PIMCO New York Municipal Income Fund III Financial Highlights

For a common share outstanding throughout each period:

| | Six Months ended March 31, 2011 (unaudited) | 2010 | 2009 | Year ended September 30, 2008 | 2007 | 2006 |
|--|---|----------|----------|----------------------------------|----------|----------|
| Asset value, beginning of period | \$9.38 | \$9.10 | \$11.45 | \$14.57 | \$15.09 | \$15.03 |
| Investment Operations: | | | | | | |
| Investment income | 0.34 | 0.66 | 0.78 | 1.11 | 1.03 | 1.07 |
| Realized and change in unrealized (loss) on investments, futures contracts, options written and swaps | (1.32) | 0.27 | (2.40) | (3.30) | (0.48) | 0.13 |
| Net income from investment operations | (0.98) | 0.93 | (1.62) | (2.19) | 0.55 | 1.20 |
| Dividends on Preferred Shares from Investment Income | | | | | | |
| Dividends on Preferred Shares from Investment Income | (0.01) | (0.02) | (0.10) | (0.30) | (0.29) | (0.26) |
| Increase (decrease) in net assets applicable to common shareholders resulting from investment operations | (0.99) | 0.91 | (1.72) | (2.49) | 0.26 | 0.94 |
| Dividends to Common Shareholders from Net Investment Income | | | | | | |
| Dividends to Common Shareholders from Net Investment Income | (0.32) | (0.63) | (0.63) | (0.63) | (0.78) | (0.88) |
| Asset value, end of period | \$8.07 | \$9.38 | \$9.10 | \$11.45 | \$14.57 | \$15.09 |
| Net asset price, end of period | \$8.62 | \$9.81 | \$9.65 | \$10.00 | \$13.57 | \$16.45 |
| Annual Investment Return (1) | (8.82)% | 8.98% | 4.19% | (22.55)% | (13.12)% | 8.73% |
| GAAP/SUPPLEMENTAL DATA: | | | | | | |
| Net assets applicable to common shareholders, end of period (000s) | \$45,196 | \$52,400 | \$50,528 | \$63,151 | \$80,417 | \$82,836 |
| Ratio of expenses to average net assets, including interest expense (2)(3)(4) | 1.75%* | 1.66%(5) | 2.30%(5) | 3.02%(5) | 3.18%(5) | 2.89% |
| | 1.61%* | 1.56%(5) | 1.74%(5) | 1.34%(5) | 1.31%(5) | 1.16% |

| | | | | | | |
|---|----------|----------|----------|----------|----------|----------|
| of expenses to average net assets, including interest expense (2)(3) | | | | | | |
| of net investment income to average net assets (2) | 8.13%* | 7.39%(5) | 9.42%(5) | 8.04%(5) | 6.89%(5) | 7.23% |
| Preferred shares asset coverage per | \$60,308 | \$65,936 | \$64,474 | \$58,583 | \$67,749 | \$69,042 |
| Portfolio turnover | 5% | 12% | 33% | 7% | 12% | 8% |

* Annualized.

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Income dividends, capital gains and return of capital distributions, if any, 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 in connection with the purchase or sale of Fund shares. 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(i) in Notes to Financial Statements).
- (4) Interest expense relates to the liability for floating rate notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.
- (5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.01%, 0.10%, 0.17%, 0.24% and 0.24%, for the years ended September 30, 2010, September 30, 2009, September 30, 2008, September 30, 2007 and September 30, 2006, respectively.

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PIMCO Municipal Income Funds III**Annual Shareholder Meeting Results/Changes to Board of Trustees/Proxy Voting Policies & Procedures**

(unaudited)

Annual Shareholder Meeting Results:

The Funds held their annual meeting of shareholders on December 14, 2010. Shareholders of the Funds voted as indicated below:

| | Affirmative | Withheld Authority |
|---|-------------|-----------------------|
| <u>Municipal III</u> | | |
| Election of James A. Jacobson* Class II to serve until 2013 | 6,011 | 102 |
| Election of Alan Rappaport* Class I to serve until 2012 | 6,011 | 102 |
| <u>California Municipal III</u> | | |
| Election of James A. Jacobson* Class II to serve until 2013 | 3,671 | 9 |
| Election of Alan Rappaport* Class I to serve until 2012 | 3,671 | 9 |
| <u>New York Municipal III</u> | | |
| Election of James A. Jacobson* Class II to serve until 2013 | 1,144 | 5 |
| Election of Alan Rappaport* Class I to serve until 2012 | 1,144 | 5 |

The other members of the Board of Trustees at the time of the meeting, namely Messrs. Paul Belica, Hans W. Kertess, William B. Ogden, IV and John C. Maney continued to serve as Trustees of the Funds.

* Preferred Shares Trustee

Interested Trustee

Changes to Board of Trustees:

Effective December 15, 2010, the Board of Trustees appointed Bradford K. Gallagher as a Class II Trustee for the Funds to serve until 2011.

Effective March 7, 2011, the Board of Trustees appointed Deborah A. Zoullas as a Class III Trustee for the Funds to serve until 2011.

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 (800) 254-5197; (ii) on the Funds website at www.allianzinvestors.com/closedendfunds; and (iii) on the Securities and Exchange Commission website at www.sec.gov.

Trustees

Hans W. Kertess
Chairman of the Board of Trustees
Paul Belica
Bradford K. Gallagher
James A. Jacobson
John C. Maney
William B. Ogden, IV
Alan Rappaport
Deborah A. Zoullas

Fund Officers

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
Orhan Dzemaili
Assistant Treasurer
Youse E. Guia
Chief Compliance Officer
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

BNY Mellon
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
Prudential Tower
800 Boylston Street
Boston, MA 02199

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 herein.

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 their common shares in the open market.

The Funds file their complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of their fiscal year on Form N-Q. Each Fund 's Form N-Q 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, D.C. 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.

Information on the Funds is available at www.allianzinvestors.com/closedendfunds or by calling the Funds shareholder servicing agent at (800) 254-5197.

Receive this report electronically and eliminate paper mailings.
To enroll, go to www.allianzinvestors.com/edelivery.

AZ606SA_033111

AGI-2011-04-01-0710

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

(a) The registrant's Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable due to no such divestments during the semi-annual period covered since the previous Form N-CSR filing.

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

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) (1) Not required in this filing.
 - (a) (2) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - (a) (3) Not applicable
 - (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 and Chief Executive Officer

Date: June 3, 2011

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

Date: June 3, 2011

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 and Chief Executive Officer

Date: June 3, 2011

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

Date: June 3, 2011