

PIMCO MUNICIPAL INCOME FUND III  
Form N-Q  
February 25, 2009

OMB APPROVAL  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM N-Q  
QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act File Number: 811-21187

Registrant Name: PIMCO Municipal Income Fund III

Address of Principal Executive Offices: 1345 Avenue of the Americas,  
New York, NY 10105

Name and Address of Agent for Service: Lawrence G. Altadonna  
1345 Avenue of the Americas,  
New York, NY 10105

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

Date of Fiscal Year End: September 30, 2009

Date of Reporting Period: December 31, 2008

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to the collection of information contained in Form N-Q 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 the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

**Item 1. Schedule of Investments****PIMCO Municipal Income Fund III Schedule of Investments**

December 31, 2008 (unaudited)

Principal

| Amount<br>(000)                          |  | Credit<br>Rating<br>(Moody's/S&P) | Value*       |
|--|--|-----------------------------------|--------------|
| <b>MUNICIPAL BONDS &amp; NOTES 89.9%</b> |  |                                   |              |
| <b>Alabama 0.8%</b>                      |  |                                   |              |
| \$ 5,000                                 | Birmingham Baptist Medical Centers Special Care Facs.<br>Financing Auth. Rev., 5.00%, 11/15/30, Ser. A | Baa1/NR                           | \$ 2,909,100 |
| 1,500                                    | Colbert Cnty., Northwest Health Care Facs. Auth., Health Care<br>Fac. Rev., 5.75%, 6/1/27              | Baa3/NR                           | 1,049,895    |
|  |  |                                   | 3,958,995    |
| <b>Alaska 1.2%</b>                       |  |                                   |              |
| 3,100                                    | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser.<br>A                                   | Baa3/NR                           | 1,496,990    |
| 3,900                                    | State Housing Finance Corp. Rev.,<br>5.00%, 12/1/33, Ser. A  | Aaa/AAA                           | 3,206,658    |
| 1,000                                    | 5.25%, 6/1/32, Ser. C (MBIA)   | Aa2/AA                            | 886,090      |
|  |  |                                   | 5,589,738    |
| <b>Arizona 4.3%</b>                      |  |                                   |              |
| 2,250                                    | Health Facs. Auth. Rev.,<br>Beatitudes Project, 5.20%, 10/1/37   | NR/NR                             | 1,229,963    |
| 2,200                                    | John C. Lincoln Health Network, 7.00%, 12/1/25, (Pre-refunded<br>@ \$102, 12/1/10) (b)                 | NR/BBB                            | 2,447,566    |
| 1,500                                    | Maricopa Cnty. Pollution Control Corp., Pollution Control Rev.,<br>5.05%, 5/1/29 (AMBAC)               | Baa1/A                            | 1,046,925    |
| 13,000                                   | Pima Cnty. Industrial Dev. Auth. Rev., Correctional Fac., 5.00%,<br>9/1/39                             | Aa2/AA                            | 11,710,010   |
| 5,600                                    | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37  | A2/AA-                            | 3,535,672    |
|  |  |                                   | 19,970,136   |
| <b>California 12.4%</b>                  |  |                                   |              |
| 25,735                                   | Golden State Tobacco Securitization Corp. Rev., Ser. A-1,<br>6.25%, 6/1/33                             | Aaa/AAA                           | 27,934,570   |
| 18,500                                   | 6.75%, 6/1/39, (Pre-refunded @ \$100, 6/1/13) (b)<br>State, GO,  | NR/AAA                            | 21,514,760   |
| 400                                      | 5.00%, 6/1/37  | A1/A+                             | 340,940      |

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|       |  |         |            |
|-------|--|---------|------------|
| 250   | 5.00%, 11/1/37   | A1/A+   | 212,938    |
| 5,800 | 5.00%, 12/1/37   | A1/A+   | 4,939,686  |
| 3,060 | Statewide Community Dev. Auth. Rev., Baptist Univ., 9.00%,<br>11/1/17, Ser. B (a)(c)             | NR/NR   | 2,770,096  |
|       |  |         | 57,712,990 |
|       | <b>Colorado 3.0%</b>   |         |            |
| 9,955 | Colorado Springs Rev., 5.00%, 11/15/30, Ser. B (j)   | Aa2/AA  | 9,759,782  |
| 500   | Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34   | NR/NR   | 281,130    |
| 1,500 | Housing & Finance Auth. Rev., Evergreen Country Day School,<br>5.875%, 6/1/37 (a)(c)             | NR/BB   | 962,400    |
| 4,000 | Saddle Rock Metropolitan Dist., GO, 5.35%, 12/1/31 (Radian)                                      | NR/BBB+ | 3,232,480  |
|       |  |         | 14,235,792 |
|       | <b>Florida 3.1%</b>  |         |            |
| 3,480 | Brevard Cnty. Health Facs. Auth. Rev., 5.00%, 4/1/34   | A2/A-   | 2,168,527  |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General<br>Hospital, 5.25%, 10/1/34, Ser. B | A3/NR   | 1,821,700  |
| 1,485 | Julington Creek Plantation Community Dev. Dist., Special<br>Assessment, 5.00%, 5/1/29 (MBIA)     | Baa1/AA | 1,252,806  |
| 3,895 | Sarasota Cnty. Health Fac. Auth. Rev., 5.75%, 7/1/45   | NR/NR   | 2,252,011  |
| 6,900 | State Board of Governors Rev., Florida Univ., 6.50%, 7/1/33,<br>Ser. A (d)                       | Aa2/AA  | 7,122,180  |
|       |  |         | 14,617,224 |

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

December 31, 2008 (unaudited)

## Principal

| Amount<br>(000)      |  | Credit<br>Rating<br>(Moody s/S&P) | Value*     |
|----------------------|--|-----------------------------------|------------|
| <b>Georgia 1.0%</b>  |  |                                   |            |
| \$ 1,750             | Fulton Cnty. Rev., 5.125%, 7/1/42, Ser. A  | NR/NR                             | \$ 932,260 |
| 4,000                | Griffin Combined Public Utility Rev., 5.00%, 1/1/32 (AMBAC)                                  | A3/A                              | 3,617,120  |
| 400                  | Medical Center Hospital Auth. Rev., 5.25%, 7/1/37  | NR/NR                             | 219,064    |
|                      |  |                                   | 4,768,444  |
| <b>Idaho 1.3%</b>    |  |                                   |            |
| 1,000                | State Building Auth., Building Rev., Ser. A (XLCA),<br>5.00%, 9/1/33                         | NR/AA-                            | 917,570    |
| 5,750                | 5.00%, 9/1/43  | NR/AA-                            | 5,136,245  |
|                      |  |                                   | 6,053,815  |
| <b>Illinois 7.6%</b> |  |                                   |            |
| 720                  | Chicago, GO, 5.00%, 1/1/31, Ser. A (MBIA)  | Aa3/AA                            | 682,301    |
| 500                  | Chicago Board of Education School Reform, GO, zero coupon,<br>12/1/28, Ser. A (FGIC)         | A1/AA                             | 136,975    |
| 7,000                | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC)                                   | A1/AA+                            | 6,392,820  |
| 4,780                | Educational Facs. Auth. Rev., Univ. of Chicago,<br>5.00%, 7/1/33                             | Aa1/AA                            | 4,648,407  |
| 165                  | 5.25%, 7/1/41  | Aa1/AA                            | 162,720    |
| 1,000                | Finance Auth. Rev.,<br>Leafs Hockey Club, Ser. A,<br>5.875%, 3/1/27                          | NR/NR                             | 600,620    |
| 625                  | 6.00%, 3/1/37  | NR/NR                             | 349,825    |
| 12,795               | Peoples Gas Light & Coke, 5.00% 2/1/33 (AMBAC)   | A1/A                              | 11,613,893 |
| 5,000                | Univ. of Chicago, 5.50%, 7/1/37, Ser. B (d)(j)   | Aa1/AA                            | 4,978,550  |
| 1,175                | Health Facs. Auth. Rev., Elmhurst Memorial Healthcare, 5.50%,<br>1/1/22                      | Baa1/NR                           | 825,966    |
| 5,000                | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B   | Aa3/AA-                           | 4,934,400  |
|                      |  |                                   | 35,326,477 |
| <b>Indiana 2.2%</b>  |  |                                   |            |
| 1,375                | Fort Wayne Pollution Control Rev., 6.20%, 10/15/25   | Caa3/C                            | 192,582    |
| 5,000                | Indianapolis Local Public Improvement Board, Tax Allocation,<br>5.00%, 2/1/29, Ser. G (MBIA) | Baa1/AA                           | 4,833,800  |

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|        |  |          |            |
|--------|--|----------|------------|
| 1,000  | Plainfield Parks Facs. Corp. Lease Rent Rev., 5.00%, 1/15/22<br>(AMBAC)                                | Baa1/A   | 997,140    |
| 1,000  | Portage Industrial Economic Dev. Rev., Tax Allocation,<br>5.00%, 7/15/23                               | NR/BBB+  | 687,350    |
| 775    | 5.00%, 1/15/27   | NR/BBB+  | 493,745    |
| 3,500  | State Dev. Finance Auth., Pollution Control Rev., 5.00%, 3/1/30<br>(AMBAC)                             | Aa3/AAA  | 2,944,305  |
|        |  |          | 10,148,922 |
|        | <b>Iowa 1.4%</b>   |          |            |
| 575    | Finance Auth. Rev.,<br>5.50%, 11/15/37   | NR/NR    | 298,506    |
| 120    | Deerfield Retirement Community Inc., 5.50%, 11/15/27, Ser. A   | NR/NR    | 68,504     |
| 11,010 | Tobacco Settlement Auth. of Iowa Rev., 5.60%, 6/1/34, Ser. B   | Baa3/BBB | 6,215,916  |
|        |  |          | 6,582,926  |
|        | <b>Kentucky 0.2%</b>   |          |            |
| 1,000  | Economic Dev. Finance Auth. Rev., Hospital Facs. Rev.,<br>Catholic Healthcare Partners, 5.25%, 10/1/30 | A1/AA-   | 860,819    |

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

December 31, 2008 (unaudited)

| Principal<br>Amount<br>(000) |  | Credit<br>Rating<br>(Moody s/S&P) | Value*       |
|------------------------------|--|-----------------------------------|--------------|
|                              | <b>Louisiana 1.7%</b>  |                                   |              |
| \$ 5,000                     | Public Facs. Auth. Rev., Ochsner Clinic Foundation, Ser. B,<br>5.50%, 5/15/32, (Pre-refunded @ \$100, 5/15/26) (b) | Aaa/NR                            | \$ 5,540,050 |
| 1,700                        | 5.50%, 5/15/47   | A3/NR                             | 1,204,722    |
| 1,595                        | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser.<br>2001-B   | Baa3/BBB                          | 995,073      |
|                              |  |                                   | 7,739,845    |
|                              | <b>Maryland 0.3%</b>   |                                   |              |
| 1,500                        | Health & Higher Educational Facs. Auth. Rev., Calvert Health<br>Systems, 5.50%, 7/1/36                             | A2/NR                             | 1,225,979    |
|                              | <b>Massachusetts 1.2%</b>  |                                   |              |
| 750                          | Dev. Finance Agcy. Rev.,<br>Linden Ponds, 5.75%, 11/15/35, Ser. A  | NR/NR                             | 391,358      |
| 1,000                        | Massachusetts College of Pharmacy, 5.75%, 7/1/33, Ser. C,<br>(Pre-refunded @ \$101, 7/1/13) (b)                    | A3/A-                             | 1,167,400    |
| 4,910                        | State Housing Finance Agcy., Housing Rev., 5.125%, 6/1/43,<br>Ser. H   | Aa3/AA-                           | 3,960,406    |
|                              |  |                                   | 5,519,164    |
|                              | <b>Michigan 13.9%</b>  |                                   |              |
| 500                          | Conner Creek Academy East Rev., 5.25%, 11/1/36   | NR/BB+                            | 294,740      |
| 9,320                        | Detroit Sewer Disposal System Rev., 5.00%, 7/1/32, Ser. A<br>(FSA)   | Aa3/AAA                           | 7,212,468    |
| 30,000                       | Detroit Water Supply System Rev. (MBIA),<br>5.00%, 7/1/34, Ser. A  | A2/AA                             | 24,023,100   |
| 7,555                        | 5.00%, 7/1/34, Ser. B  | A3/AA                             | 5,948,958    |
| 175                          | State Hospital Finance Auth. Rev.,<br>Detroit Medical Center, 5.25%, 8/15/23                                       | Ba3/BB-                           | 116,148      |
| 5,405                        | Oakwood Group, Ser. A,<br>5.75%, 4/1/32  | A2/A                              | 4,253,843    |
| 575                          | 6.00%, 4/1/22  | A2/A                              | 515,666      |
| 20,000                       | Trinity Health Credit, 5.375%, 12/1/30   | Aa2/AA                            | 16,936,000   |
| 10,000                       | Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A   | NR/BBB                            | 5,576,200    |

64,877,123

**Mississippi 0.6%**

|       |   |         |           |
|-------|---|---------|-----------|
| 3,000 | Business Finance Corp., Pollution Control Rev.,<br>5.875%, 4/1/22 | Ba1/BBB | 2,127,900 |
| 1,250 | 5.90%, 5/1/22   | Ba1/BBB | 887,800   |
|       |   |         | 3,015,700 |

**Missouri 0.3%**

|       |   |        |           |
|-------|---|--------|-----------|
| 1,350 | St. Louis Cnty. Industrial Dev. Auth. Housing Dev. Rev., 5.20%,<br>1/20/36 (GNMA) | NR/AAA | 1,194,885 |
| 250   | Township of Jennings Rev., 5.00%, 11/1/23   | NR/NR  | 163,090   |
|       |   |        | 1,357,975 |

**Montana 1.7%**

|        |  |        |           |
|--------|--|--------|-----------|
| 11,250 | Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%,<br>3/1/31 (AMBAC) | Baa1/A | 7,809,188 |
|--------|--|--------|-----------|

**New Hampshire 1.0%**

|       |  |        |           |
|-------|--|--------|-----------|
| 1,500 | Manchester Water Works Rev., (FGIC),<br>5.00%, 12/1/28 | Aa3/AA | 1,468,455 |
| 3,250 | 5.00%, 12/1/34   | Aa3/AA | 3,073,980 |
|       |  |        | 4,542,435 |

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

December 31, 2008 (unaudited)

## Principal

| Amount<br>(000)            |   | Credit<br>Rating<br>(Moody's/S&P) | Value*     |
|----------------------------|---|-----------------------------------|------------|
| <b>New Jersey 4.5%</b>     |   |                                   |            |
| \$ 1,000                   | Camden Cnty., Improvement Auth. Rev., 5.00%, 2/15/35, Ser. A Economic Dev. Auth. Rev.,            | Baa3/BBB                          | \$ 540,150 |
| 4,500                      | Kapkowski Road Landfill, Special Assessment, 6.50%, 4/1/28  | Baa3/NR                           | 3,749,445  |
| 300                        | Newark Airport, 7.00%, 10/1/14  | Ba1/NR                            | 240,045    |
| 2,000                      | Financing Auth. Rev., South Jersey Port Corp., 5.10%, 1/1/33, Ser. K                              | NR/A                              | 1,886,500  |
|                            | Health Care Facs. Financing Auth. Rev.,   |                                   |            |
| 1,159                      | Pascack Valley Hospital, 6.625%, 7/1/36 (e)(k)(l)   | NR/D                              | 149,999    |
| 1,000                      | St. Peters Univ. Hospital, 5.75%, 7/1/37  | Baa2/BBB-                         | 648,300    |
| 1,150                      | Trinitas Hospital, 5.25%, 7/1/30, Ser. A  | Baa3/BBB-                         | 739,979    |
|                            | Tobacco Settlement Financing Corp. Rev.,  |                                   |            |
| 22,645                     | 5.00%, 6/1/41, Ser. 1A  | Baa3/BBB                          | 11,010,905 |
| 525                        | 6.00%, 6/1/37, (Pre-refunded @ \$100, 6/1/12) (b)   | Aaa/AAA                           | 593,554    |
| 950                        | 6.125%, 6/1/24  | Aaa/AAA                           | 1,005,556  |
| 230                        | 6.125%, 6/1/42, (Pre-refunded @ \$100, 6/1/12) (b)  | Aaa/AAA                           | 260,974    |
| 350                        | 6.25%, 6/1/43, (Pre-refunded @ \$100, 6/1/13) (b)   | Aaa/AAA                           | 408,524    |
|                            |   |                                   | 21,233,931 |
| <b>New Mexico 0.2%</b>     |   |                                   |            |
| 1,000                      | Farmington Pollution Control Rev., 5.80%, 4/1/22  | Baa3/BB+                          | 783,070    |
| <b>New York 1.2%</b>       |   |                                   |            |
| 1,150                      | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A           | NR/NR                             | 786,612    |
| 4,900                      | New York City Municipal Water Finance Auth. Water & Sewer System Rev., 5.00%, 6/15/37, Ser. D (j) | Aa2/AAA                           | 4,596,347  |
|                            |   |                                   | 5,382,959  |
| <b>North Carolina 1.7%</b> |   |                                   |            |
|                            | Eastern Municipal Power Agcy., Power System Rev.,   |                                   |            |
| 2,000                      | 5.125%, 1/1/23, Ser. D  | Baa1/BBB+                         | 1,635,600  |
| 2,000                      | 5.125%, 1/1/26, Ser. D  | Baa1/BBB+                         | 1,562,060  |
| 3,795                      | 5.375%, 1/1/17, Ser. C  | Baa1/BBB+                         | 3,723,844  |
| 1,500                      | Medical Care Commission Rev., Cleveland Cnty., 5.00%, 7/1/35 (AMBAC)                              | Baa1/A                            | 1,105,350  |



|        |  |          |            |
|--------|--|----------|------------|
|        |  |          | 8,026,854  |
|        | <b>Ohio 3.9%</b>   |          |            |
| 15,375 | Air Quality Dev. Auth. Pollution Control Rev., Dayton Power,<br>4.80%, 1/1/34 (FGIC)             | A2/A-    | 13,213,583 |
| 5,000  | Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%,<br>6/1/47, Ser. A-2                     | Baa3/BBB | 2,720,800  |
| 2,500  | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%,<br>10/1/30                              | A1/AA-   | 2,188,725  |
|        |  |          | 18,123,108 |
|        | <b>Pennsylvania 1.4%</b>   |          |            |
| 750    | Cumberland Cnty. Auth., Retirement Community Rev., Messiah<br>Village, Ser. A,<br>5.625%, 7/1/28 | NR/BBB-  | 489,878    |
| 670    | 6.00%, 7/1/35  | NR/BBB-  | 435,212    |

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

December 31, 2008 (unaudited)

## Principal

| Amount<br>(000) |  | Credit<br>Rating<br>(Moody s/S&P) | Value*     |
|-----------------|--|-----------------------------------|------------|
|                 | <b>Pennsylvania (continued)</b>  |                                   |            |
| \$ 1,250        | Harrisburg Auth. Rev., 6.00%, 9/1/36   | NR/NR                             | \$ 832,462 |
| 6,200           | Philadelphia Hospitals & Higher Education Facs. Auth. Hospital<br>Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A        | Baa3/BBB                          | 4,694,826  |
|                 |  |                                   | 6,452,378  |
|                 | <b>South Carolina 0.9%</b>   |                                   |            |
| 5,305           | Jobs-Economic Dev. Auth. Rev., Bon Secours, 5.625%,<br>11/15/30  | A3/A-                             | 4,388,030  |
|                 | <b>Tennessee 0.2%</b>  |                                   |            |
| 1,250           | Knox Cnty. Health Educational & Housing Facs. Board Rev.,<br>Catholic Healthcare Partners, 5.25%, 10/1/30                      | A1/AA-                            | 1,076,012  |
|                 | <b>Texas 8.3%</b>  |                                   |            |
| 1,300           | Comal Cnty. Health Facs. Dev. Rev., McKenna Memorial<br>Hospital Project, 6.25%, 2/1/32, (Pre-refunded @ \$100, 2/1/13)<br>(b) | NR/AAA                            | 1,512,667  |
| 6,810           | Crowley Independent School District, GO, 4.75%, 8/1/35<br>(PSF-GTD)  | Aaa/AAA                           | 6,093,247  |
| 10,115          | Denton Independent School Dist., GO, 5.00%, 8/15/33<br>(PSF-GTD) (j)   | Aaa/AAA                           | 9,808,111  |
| 465             | Judson Independent School Dist., GO, 5.00%, 2/1/30<br>(PSF-GTD)  | Aaa/NR                            | 457,839    |
| 5,500           | North Harris Cnty. Regional Water Auth. Rev.,<br>5.25%, 12/15/33   | A3/A+                             | 4,936,470  |
| 5,500           | 5.50%, 12/15/38  | A3/A+                             | 5,056,370  |
| 10,800          | North Texas Tollway Auth. Rev., 5.625%, 1/1/33, Ser. A   | A2/A-                             | 9,334,656  |
| 2,000           | Sabine River Auth. Rev., 5.20%, 5/1/28   | Caa1/CCC                          | 957,740    |
|                 |  |                                   | 38,157,100 |
|                 | <b>Virginia 0.1%</b>   |                                   |            |
| 1,000           | James City Cnty. Economic Dev. Auth. Rev., 5.50%, 7/1/37,<br>Ser. A  | NR/NR                             | 553,960    |

|   |  |           |             |
|---|--|-----------|-------------|
| <b>Washington 8.2%</b>                  |  |           |             |
| 6,375                                   | Chelan Cnty. Public Utility Dist. Rev., 5.125%, 7/1/33, Ser. C (AMBAC) | Aa2/AA    | 6,283,136   |
| 15,000                                  | King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (FSA) (j)                 | Aaa/AAA   | 14,409,750  |
| 21,480                                  | Tobacco Settlement Auth. Tobacco Settlement Rev., 6.50%, 6/1/26        | Baa3/BBB  | 17,662,575  |
|   |  |           | 38,355,461  |
| <b>Wisconsin 0.1%</b>                   |  |           |             |
| 560                                     | Badger Tobacco Asset Securitization Corp. Rev., 6.00%, 6/1/17          | Baa3/BBB  | 509,196     |
|   | Total Municipal Bonds & Notes (cost \$482,819,083)                     |           | 418,955,746 |
| <b>CORPORATE BONDS &amp; NOTES 1.2%</b> |  |           |             |
| 5,500                                   | CIT Group, Inc., 5.80%, 7/28/11 (i)                                    | Baa1/BBB+ | 4,608,764   |
| 700                                     | International Lease Finance Corp., FRN, 2.373%, 5/24/10                | Baa1/A-   | 557,964     |
| 600                                     | 5.153%, 1/15/10  | Baa1/A-   | 452,663     |
|   | Total Corporate Bonds & Notes (cost \$5,032,239)                       |           | 5,619,391   |

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

December 31, 2008 (unaudited)

Principal

Amount

Credit  
Rating  
(Moody s/S&P)  
(cost

(000)

\$19,178,190

Value\*

**SHORT-TERM INVESTMENTS 8.9%****U.S. Treasury Bills (h) 4.1%**

|          |                                    |               |  |    |            |
|----------|------------------------------------|---------------|--|----|------------|
| \$19,180 | 0.03%-0.98%, 1/22/09-5/15/09 (cost | \$19,178,190) |  | \$ | 19,178,190 |
|----------|------------------------------------|---------------|--|----|------------|

**Variable Rate Demand Notes (f)(g) 2.5%****Montana 1.7%**

|       |   |            |  |           |
|-------|---|------------|--|-----------|
| 7,980 | State Board of Regents Rev., Montana St. Univ. Facs., 0.90%, 1/2/09, Ser. J | VMIG1/A-1+ |  | 7,980,000 |
|-------|---|------------|--|-----------|

**South Carolina 0.8%**

|       |   |          |  |           |
|-------|---|----------|--|-----------|
| 3,500 | Educational Facs. Auth. Rev., Furman Univ., 0.95%, 1/2/09, Ser. B | VMIG1/NR |  | 3,500,000 |
|-------|---|----------|--|-----------|

Total Variable Rate Demand Notes (cost \$11,480,000)

11,480,000

**Corporate Bonds & Notes (i) 2.3%**

## American General Finance Corp.,

|       |                      |          |  |           |
|-------|----------------------|----------|--|-----------|
| 1,900 | 4.403%, 10/2/09, FRN | Baa1/BBB |  | 1,456,669 |
|-------|----------------------|----------|--|-----------|

|       |                 |          |  |           |
|-------|-----------------|----------|--|-----------|
| 1,400 | 4.625%, 5/15/09 | Baa1/BBB |  | 1,200,748 |
|-------|-----------------|----------|--|-----------|

## CIT Group, Inc.,

|       |                      |           |  |           |
|-------|----------------------|-----------|--|-----------|
| 1,200 | 2.269%, 8/17/09, FRN | Baa1/BBB+ |  | 1,153,367 |
|-------|----------------------|-----------|--|-----------|

|       |                 |           |  |           |
|-------|-----------------|-----------|--|-----------|
| 5,785 | 4.125%, 11/3/09 | Baa1/BBB+ |  | 5,446,456 |
|-------|-----------------|-----------|--|-----------|

|       |  |      |  |           |
|-------|--|------|--|-----------|
| 1,800 | Goldman Sachs Group, Inc., 2.229%, 11/16/09, FRN | A1/A |  | 1,724,112 |
|-------|--|------|--|-----------|

Total Corporate Bonds &amp; Notes (cost \$10,737,609)

10,981,352

Total Short-Term Investments (cost \$41,395,799)

41,639,542

**Total Investments (cost \$529,247,121) 100.0%****\$ 466,214,679**

**Notes to Schedule of Investments:**

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

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

valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Prices obtained from independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Securities purchased on a when-issued or delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

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

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$3,732,496 representing 0.80% of total investments.
- (b) Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding date (payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate).

- (c) 144A  
Security Security  
exempt from  
registration under  
Rule 144A of the  
Securities Act of  
1933. These  
securities may be  
resold in transactions  
exempt from  
registration, typically  
only to qualified  
institutional buyers.  
Unless otherwise  
indicated, these  
securities are not  
considered to be  
illiquid.
- (d) When-issued or  
delayed-delivery  
security. To be  
settled/delivered  
after December 31,  
2008.
- (e) Security in default.
- (f) 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  
December 31, 2008.
- (g) Maturity date shown  
is date of next put.
- (h) All or partial amount  
segregated as



collateral for swap contracts.

- (i) All or partial amount segregated as collateral for reverse repurchase agreements.
- (j) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (k) Illiquid security.
- (l) Fair-Valued Security with an aggregate value of \$149,999, representing 0.03% of total investments.

**Glossary:**

AMBAC insured by American Municipal Bond Assurance Corp.

FGIC insured by Financial Guaranty Insurance Co.

FRN Floating Rate Note. The interest rate disclosed reflects the rate in effect on December 31, 2008.

FSA insured by Financial Security Assurance, Inc.

GNMA insured by Government National Mortgage Association

GO General Obligation Bond

GTD Guaranteed

MBIA insured by Municipal Bond Investors Assurance

NR Not Rated

PSF Public School Fund

Radian insured by Radian Guaranty, Inc.

XLCA insured by XL Capital Assurance

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**Other Investments:**

(1) Interest rate swap agreements outstanding at December 31, 2008:

| Swap Counterparty          | Notional Amount<br>(000) | Termination Date | Rate Type<br>Payments Made by Fund | Payments Received by Fund | Market Value   | Upfront Premiums Paid | Unrealized Depreciation |
|----------------------------|--------------------------|------------------|------------------------------------|---------------------------|----------------|-----------------------|-------------------------|
| Bank of America            | \$ 37,700                | 12/17/23         | 5.00% 3-Month USD-LIBOR            |                           | (10,279,874)   | \$(2,258,984)         | \$(8,065,124)           |
| Credit Suisse First Boston | 6,600                    | 6/17/24          | 4.00% 3-Month USD-LIBOR            |                           | (922,312)      | (798,204)             | (124,108)               |
| Merrill Lynch & Co.        | 2,500                    | 12/17/38         | 5.00% 3-Month USD-LIBOR            |                           | (1,133,843)    | (281,600)             | (855,177)               |
| Royal Bank of Scotland     | 16,100                   | 12/17/23         | 5.00% 3-Month USD-LIBOR            |                           | (4,390,079)    | (998,200)             | (3,410,769)             |
| Royal Bank of Scotland     | 11,100                   | 6/17/24          | 4.00% 3-Month USD-LIBOR            |                           | (1,551,161)    | (1,342,545)           | (208,616)               |
|                            |                          |                  |                                    |                           | \$(18,277,269) | \$(5,679,533)         | \$(12,663,794)          |

LIBOR London  
Inter-Bank Offered  
Rate(2) Open reverse  
repurchase  
agreements at  
December 31,  
2008:

| Counterparty  | Rate  | Trade Date | Maturity Date | Principal & Interest | Principal     |
|---------------|-------|------------|---------------|----------------------|---------------|
| Barclays Bank | 1.65% | 12/24/08   | 1/29/09       | \$2,731,376          | \$2,731,000   |
|               | 1.75% | 12/23/08   | 1/26/09       | 7,346,142            | 7,344,000     |
|               | 1.75% | 12/23/08   | 1/29/09       | 2,376,346            | 2,376,000     |
|               |       |            |               |                      | \$ 12,451,000 |

Collateral for open reverse repurchase agreements at December 31, 2008 as reflected in the Schedule of Investments:

| Counterparty | Description | Rate | Maturity Date | Principal | Market Value |
|--------------|-------------|------|---------------|-----------|--------------|
|--------------|-------------|------|---------------|-----------|--------------|

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|               |   |        |          |              |               |
|---------------|---|--------|----------|--------------|---------------|
| Barclays Bank | American<br>General<br>Finance<br>Corp. | 4.403% | 10/2/09  | \$ 1,900,000 | \$1,456,669   |
|               | American<br>General<br>Finance<br>Corp. | 4.625% | 5/15/09  | 1,400,000    | 1,200,748     |
|               | CIT Group,<br>Inc.                      | 2.269% | 8/17/09  | 1,200,000    | 1,153,367     |
|               | CIT Group,<br>Inc.                      | 4.125% | 11/3/09  | 5,785,000    | 5,446,456     |
|               | CIT Group,<br>Inc.                      | 5.80%  | 7/28/11  | 5,500,000    | 4,608,764     |
|               | Goldman<br>Sachs<br>Group, Inc.         | 2.229% | 11/16/09 | 1,800,000    | 1,724,112     |
|               |   |        |          |              | \$ 15,590,116 |

The Fund received \$956,045 in U.S. government agency securities as collateral for reverse repurchase agreements.

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

Level 1 quoted prices in active markets for identical investments that the Fund has the ability to access

Level 2 valuation 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 valuation based on significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The valuation techniques used by the Fund to measure fair value during the three months ended December 31, 2008 maximized the use of observable inputs and minimized the use of unobservable inputs. The Fund utilized the following fair valuation technique on Level 3: multi-dimensional relational pricing model.

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

The following is a summary of the inputs used at December 31, 2008 in valuing the Fund's investments carried at value:

| Valuation Inputs                              | Investments in Securities | Other Financial Instruments |
|---|---------------------------|-----------------------------|
| Level 1 - Quoted Prices                       | \$                        | \$                          |
| Level 2 - Other Significant Observable Inputs | 466,064,680               | (12,663,794)                |
| Level 3 - Significant Unobservable Inputs     | 149,999                   |                             |
| Total   | \$466,214,679             | \$(12,663,794)              |

A roll forward of fair value measurements using significant unobservable inputs (Level 3) at December 31, 2008, were as follows:

|   | Investments in Securities |
|---|---------------------------|
| Beginning balance, 9/30/08                | \$149,999                 |
| Net purchases (sales) and settlements     |                           |
| Accrued discounts (premiums)              |                           |
| Total realized and unrealized gain (loss) |                           |
| Transfers in and/or out of Level 3        |                           |
| Ending balance, 12/31/08                  | \$149,999                 |

**Item 2. Controls and Procedures**

(a) The registrant's President & Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a -3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this 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 registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits**

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

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**SIGNATURES**

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

Registrant: PIMCO Municipal Income Fund III

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: February 25, 2009

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting Officer

Date: February 25, 2009

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

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: February 25, 2009

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting Officer

Date: February 25, 2009