

PIMCO MUNICIPAL INCOME FUND III
Form N-CSR
December 02, 2010

OMB APPROVAL

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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, 2010**

Date of reporting period: **September 30, 2010**

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

September 30, 2010

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 bond prices advanced during the fiscal year ended September 30, 2010 (the period), driven by the U.S. government s stimulus plan, evidence of a stabilizing economy, and increasing investor demand for tax-exempt securities. As evidence mounted that the economy was improving during the first half of the period, municipals generally outperformed U.S. government securities. This trend abated during the second half of the period, as gross domestic product (GDP) growth slowed and investors grew skittish about fiscal problems facing many state and local governments. Some shifted out of municipal bonds (and out of corporate bonds and stocks as well) and into the perceived safe haven of U.S. Treasury bonds.

The Year in Review

For the fiscal year ended September 30, 2010:

PIMCO Municipal Income Fund III returned 10.33% on net asset value (NAV) and 9.90 % on market price.

PIMCO California Municipal Income Fund III rose 9.34% on NAV and 11.94% on market price.

PIMCO New York Municipal Income Fund III advanced 10.57% on NAV and 8.98% on market price.

In this environment, the Barclays Capital Municipal Bond Index returned 5.81% for the period, while the Barclays Capital U.S. Treasury Bond Index returned 0.14%. The broad, taxable bond market, as represented by the Barclays Capital U.S. Aggregate Index, gained 8.16% for the twelve months ended September 30, 2010.

As the economy weakened during the latter half of the period, the Federal Reserve (the Fed) indicated that it would resume purchasing U.S. Treasury bonds a reversal of its position earlier in the year. The goal behind this strategy, known as Quantitative Easing, was to boost economic activity by pushing already low interest rates even lower.

Hans W. Kertess

Chairman

Brian S. Shlissel

President & CEO

The Road Ahead and the Case for Municipals

With regard to worries about possible defaults at the state and local level, some perspective may be useful. Of all municipal bonds rated by Moody's Investors Service since 1970, only 0.09%, have defaulted. States are not allowed by law to file for bankruptcy and 49 have laws requiring balanced budgets, inclusive of servicing their debt. At the local government level, while Chapter 9 bankruptcy filings are permitted in 26 states, this has occurred only twice in the past 40 years. In both cases, the entities continued to pay interest on their debt while their cases were worked out. That long-term perspective notwithstanding, municipal bonds may come under some short-term pressure. One reason: the potential end, on December 31, 2010, of the federal government's Build American Bonds (BAB) program. Because these bonds are subsidized, they have lowered borrowing costs for states and local governments. But as the end of the program nears, a rush to sell BABs has flooded the municipal bond market. This oversupply has exceeded demand causing prices to tumble.

The Fed's quantitative easing strategy may impact municipal bonds as well. This is because the Fed's purchase of Treasury securities would exclude bonds with longer maturities. This could lead to lower prices for longer-term municipal bond prices, which correlate closely with Treasuries.

But again, we think these issues are short-term in nature. From a longer vantage point, the expectation of higher taxes at all levels of government and historically low default rates will continue to make municipal securities compelling 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

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PIMCO Municipal Income Funds III Fund Insights

September 30, 2010 (unaudited)

For the fiscal year ended September 30, 2010 PIMCO Municipal Income Fund III increased 10.33% on net asset value (NAV) and 9.90% on market price. PIMCO California Municipal Income Fund III advanced 9.34% on NAV and 11.94% on market price. PIMCO New York Municipal Income Fund III rose 10.57% on NAV and 8.98% on market price.

The high-quality segment of the municipal bond market produced positive returns for the reporting period, as yields moved lower across the curve. On longer maturities, municipal bonds underperformed the stronger taxable bond market, with the Barclays Capital Long Municipal Bond Index returning 6.56% while the Barclays Capital Long Government/Credit Index returned 13.61%, and the Barclays Capital Long U.S. Treasury Index returned 12.74%. The Barclay s Capital Zero Coupon Municipal Bond Index returned 7.25% for the reporting period. Municipal to Treasury yield ratios (a measure of the relative attractiveness of municipal and Treasury bonds) ended higher as Treasuries outperformed municipals. The 10-year ratio increased to 95% and the 30-year ratio decreased to 100%.

The Funds holdings of tobacco securitization-backed debt suffered from the sector s volatility during the period. Water and sewer exposure also hampered returns.

Municipal III

Amid generally declining yields, the municipal yield curve steepened slightly during the reporting period, following the lead of the Treasury market. During the period, 30-year maturity AAA General Obligation (GO) yields decreased 11 basis points while 2-year yields fell 17 basis points.

Holdings in the health care sector added to the Fund s returns, as this sector significantly outperformed other sectors of the municipal bond market. The Fund also benefited from its interest rate positioning during the reporting period. Exposure to longer maturity zero coupon and nominal municipals allowed the Fund to participate in the widespread decline in yields at the longer end of the municipal market. The Fund also gained from its positions in corporate-backed municipals, which marginally outperformed the general municipal market during the period.

California Municipal III

California municipal bonds outperformed the national index, with the Barclays Capital California Municipal Bond Index returning 6.04% versus 5.81% for the Barclays Capital Municipal Bond Index during the period. In spite of this outperformance, continued volatility is expected as the state continues to struggle through its budget approval process. Long California municipal bonds underperformed their peers in the national index, returning 6.02% versus the Barclays Capital Long Municipal Bond Index gain of 6.56% cited above. The California municipal curve steepened even more significantly than the national markets during the reporting period, with 30-year yields increasing by 1 basis point while 2-year yields declining 42 basis points.

Holdings in the health care sector contributed to the Fund s returns, as the sector significantly outperformed the rest of the municipal bond market. The Fund also benefited from its interest rate positioning. Exposure to longer maturity traditional and zero coupon municipals enabled the Fund to participate in the widespread decline in yields at the longer end of the municipal market. The Fund also gained from its positions in corporate-backed municipals, which marginally outperformed the general municipal market. Significant exposure to longer-maturity California municipals

was neutral for performance as that portion of the curve performed in-line with the general market.

Other positions were less beneficial for returns. An underweighting in California State general obligation (GO) bonds was negative for performance as these securities outperformed during the reporting period.

New York Municipal III

Amid generally declining yields, the New York municipal yield curve steepened, following the lead of the national municipal and Treasury markets. During the period, 30-year maturity yields decreased 10 basis points while 2-year yields fell 33 basis points. New York municipals, as measured by the Barclays Capital New York Municipal Bond Index, returned 5.75% for the period, slightly trailing the national market's 5.81% gain, as measured by the Barclays Capital Municipal Bond Index. The long-maturity segment of the New York market also outperformed the long segment of the national municipal bond market, returning 6.62% versus the Barclays Capital Long Municipal Bond Index gain of 6.56% cited above.

Holdings in the health care sector contributed to the Fund's returns, as the sector significantly outperformed the rest of the municipal bond market. The Fund also gained from its positions in transportation municipals, which outperformed the general municipal market. Exposure to corporate-backed municipals contributed marginally to returns. The Fund also benefited from its interest rate positioning. Exposure to longer maturity traditional and zero coupon municipals in New York allowed the Fund to participate in the decline in yields at the longer end of the New York municipal market.

PIMCO Municipal Income Fund III Performance & Statistics
September 30, 2010 (unaudited)

Total Return⁽¹⁾:	Market Price	NAV
1 Year	9.90%	10.33%
5 Year	1.01%	0.13%
Commencement of Operations (10/31/02) to 9/30/10	3.56%	2.87%

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

Market Price/NAV:

Market Price	\$11.45
NAV	\$10.29
Premium to NAV	11.27%
Market Price Yield ⁽²⁾	7.34%

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

PIMCO California Municipal Income Fund III Performance & Statistics

September 30, 2010 (unaudited) (continued)

Total Return⁽¹⁾:	Market Price	NAV
1 Year	11.94%	9.34%
5 Year	(0.70)%	(1.65)%
Commencement of Operations (10/31/02) to 9/30/10	2.08%	1.76%

Market Price/NAV Performance:

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

Market Price/NAV:

Market Price	\$10.39
NAV	\$9.65
Premium to NAV	7.67%
Market Price Yield ⁽²⁾	6.93%

Moody's Rating

(as a % of total investments)

PIMCO New York Municipal Income Fund III Performance & Statistics

September 30, 2010 (unaudited) (continued)

Total Return⁽¹⁾:	Market Price	NAV
1 Year	8.98%	10.57%
5 Year	(3.64)%	(3.34)%
Commencement of Operations (10/31/02) to 9/30/10	0.87%	0.80%

Market Price/NAV Performance:Commencement of Operations (10/31/02)
to 9/30/10**Market Price/NAV:**

Market Price	\$9.81
NAV	\$9.38
Premium to NAV	4.58%
Market Price Yield ⁽²⁾	6.42%

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 and capital gain distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

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

An investment in each Fund involves risk, including the loss of principal. Total return, market price, market yield and NAV asset 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 September 30, 2010.

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
MUNICIPAL BONDS & NOTES 97.7%			
Alabama 1.2%			
\$ 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	\$ 4,545,000
500	Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 (AGC)	Aa3/AAA	552,490
1,500	Colbert Cnty. Northwest Health Care Auth. Rev., 5.75%, 6/1/27	Baa3/NR	1,506,240
			6,603,730
Alaska 1.2%			
3,900	Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A	Aaa/AAA	3,934,905
1,000	5.25%, 6/1/32, Ser. C (NPFGC)	Aa2/AA	1,013,340
3,100	Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A	Baa3/NR	2,099,692
			7,047,937
Arizona 5.3%			
1,250	Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A	NR/A+	1,268,100
900	5.50%, 1/1/38, Ser. D	NR/A+	945,927
2,250	Beatitudes Campus Project, 5.20%, 10/1/37	NR/NR	1,828,935
1,500	Maricopa Cnty. Pollution Control Corp. Rev., Palo Verde Project, 5.05%, 5/1/29, Ser. A (AMBAC)	Baa2/BBB-	1,501,110
13,000	Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39 (g)	Aa1/AA	13,257,270
750	Tuscon Electric Power Co., 5.25%, 10/1/40, Ser. A (c)	Baa3/BBB-	756,960
5,000	Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (g)	Aa1/AA	5,391,400
5,600	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	A3/A	5,351,472
			30,301,174

California 6.2%			
2,500	Health Facs. Financing Auth. Rev., Catholic Healthcare West, 6.00%, 7/1/39, Ser. A	A2/A	2,704,450
1,250	Palomar Pomerado Health, CP, 6.75%, 11/1/39 State, GO,	Baa2/NR	1,381,988
250	5.00%, 11/1/37	A1/A-	252,212
5,300	5.00%, 12/1/37	A1/A-	5,347,223
6,000	6.00%, 4/1/38 Statewide Communities Dev. Auth. Rev.,	A1/A-	6,669,420
1,000	American Baptist Homes West, 6.25%, 10/1/39	NR/BBB-	1,023,440
2,800	California Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(b)	NR/NR	2,515,324

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
California (continued)			
\$ 2,900	Methodist Hospital Project (FHA), 6.625%, 8/1/29	Aa2/NR	3,392,797
10,300	6.75%, 2/1/38	Aa2/NR	11,987,655
			35,274,509
Colorado 2.3%			
9,955	Colorado Springs Utilities Rev., 5.00%, 11/15/30, Ser. B (g)	Aa2/AA	10,301,135
500	Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34	NR/NR	362,740
500	Health Facs. Auth. Rev., Evangelical Lutheran, 6.125%, 6/1/38, Ser. A	A3/A-	512,835
1,500	Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. Project, 5.875%, 6/1/37 (a)(b)	NR/BB	810,000
500	Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38	A2/A	588,795
500	Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34	Baa3/NR	533,470
			13,108,975
Connecticut 0.2%			
1,250	Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A	NR/NR	1,345,900
Delaware 0.3%			
1,500	State Economic Dev. Auth. Rev., Delmarva Power & Light Co., 5.40%, 2/1/31	Baa2/BBB+	1,579,335
District of Columbia 1.9%			
10,000	Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (g)	Aa2/AA	10,966,900
Florida 4.9%			
3,480	Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34	A3/A-	3,443,913
500	Broward Cnty. Airport Rev., 5.375%, 10/1/29, Ser. O	A1/A+	541,660
4,500	Broward Cnty. Water & Sewer Rev., 5.25%, 10/1/34, Ser. A (g)	Aa2/AA	4,871,790

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2,500	Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B	A3/NR	2,517,075
1,000	Miami-Dade Cnty. Airport Rev., 5.50%, 10/1/36, Ser. A	A2/A-	1,056,600
3,895	Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/45	NR/NR	3,293,495
4,200	State Board of Education, GO, 5.00%, 6/1/38, Ser. D (g)	Aa1/AAA	4,501,350
6,900	State Board of Governors Rev., Florida Univ., 6.50%, 7/1/33	Aa2/AA	8,058,510
			28,284,393
	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	1,167,285

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PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
Georgia (continued)			
\$ 400	Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37	NR/NR	336,056
			1,503,341
Hawaii 0.3%			
1,500	Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A	A3/BBB+	1,503,225
Idaho 1.2%			
1,000	State Building Auth. Rev., Ser. A (XLCA), 5.00%, 9/1/33	WR/AA-	1,026,610
5,750	5.00%, 9/1/43	WR/AA-	5,871,152
			6,897,762
Illinois 8.9%			
500	Chicago Board of Education School Reform, GO, zero coupon, 12/1/28, Ser. A (FGIC-NPFGC) Chicago, GO,	Aa2/AA-	205,425
720	5.00%, 1/1/31, Ser. A (NPFGC)	Aa3/AA-	729,763
5,000	5.00%, 1/1/34, Ser. C (g)	Aa3/AA-	5,198,100
7,000	Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC) Finance Auth. Rev.,	Aa3/AA+	7,126,700
1,175	Elmhurst Memorial Healthcare, 5.50%, 1/1/22 Leafs Hockey Club Project, Ser. A (d),	Baa1/NR	1,188,689
1,000	5.875%, 3/1/27	NR/NR	254,690
625	6.00%, 3/1/37	NR/NR	157,956
400	OSF Healthcare System, 7.125%, 11/15/37, Ser. A	A3/A	457,652
12,795	Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC)	A1/A-	12,902,862
1,000	Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A Univ. of Chicago,	NR/BBB+	1,030,960
4,780	5.00%, 7/1/33, Ser. A	Aa1/AA	4,961,640
165	5.25%, 7/1/41, Ser. A	Aa1/AA	168,297
10,000	5.50%, 7/1/37, Ser. B (g)	Aa1/AA	11,337,800
5,000	State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B	Aa3/AA-	5,503,300
			51,223,834

Indiana 0.8%			
500	Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC)	A2/NR	500,115
2,000	Finance Auth. Rev., United States Steel Corp., 6.00%, 12/1/26 Portage, Tax Allocation, Ameriplex Project,	Ba2/BB	2,137,160
1,000	5.00%, 7/15/23	NR/A	970,520
775	5.00%, 1/15/27	NR/A	730,430
			4,338,225

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
Iowa 1.7%			
	Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A,		
\$ 120	5.50%, 11/15/27	NR/NR	90,107
575	5.50%, 11/15/37	NR/NR	395,312
11,010	Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B	Baa3/BBB	9,408,155
			9,893,574
Kentucky 1.2%			
	Economic Dev. Finance Auth. Rev., Baptist Healthcare Systems, Ser. A,		
1,000	5.375%, 8/15/24	Aa3/NR	1,115,120
1,300	5.625%, 8/15/27	Aa3/NR	1,445,990
1,000	Catholic Healthcare Partners, 5.25%, 10/1/30	A1/AA-	1,012,210
2,000	Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A	Baa2/NR	2,155,980
1,250	Ohio Cnty. Pollution Control Rev., Big Rivers Electric Corp., 6.00%, 7/15/31, Ser. A	Baa1/BBB-	1,301,838
			7,031,138
Louisiana 1.0%			
	Local Gov t Environmental Facs. & Community Dev. Auth. Rev., Woman s Hospital Foundation, Ser. A,		
1,500	5.875%, 10/1/40	A3/BBB+	1,557,960
1,000	6.00%, 10/1/44	A3/BBB+	1,040,370
1,700	Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, 5.50%, 5/15/47, Ser. B	Baa1/NR	1,700,816
1,595	Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B	Baa3/BBB	1,608,143
			5,907,289
Maryland 0.5%			
1,000	Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B	Baa3/NR	1,042,030
1,500	Health & Higher Educational Facs. Auth. Rev., Calvert Health System, 5.50%, 7/1/36	A3/NR	1,546,815
			2,588,845

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Massachusetts 1.3%

	Dev. Finance Agcy. Rev.,		
300	Adventcare Project, 7.625%, 10/15/37	NR/NR	303,651
750	Linden Ponds, Inc. Fac., 5.75%, 11/15/35, Ser. A	NR/NR	548,782
4,910	Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H	Aa3/AA-	4,954,976
1,600	State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A	Aa2/AA-	1,789,920
			7,597,329

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PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Michigan 14.8%		
\$ 500	Conner Creek Academy East Rev., 5.25%, 11/1/36	NR/BB+	385,010
1,500	Detroit, GO, 5.25%, 11/1/35	Aa3/AA-	1,538,880
9,320	Detroit Sewer Rev., 5.00%, 7/1/32, Ser. A (AGM)	Aa3/AAA	9,411,895
	Detroit Water Rev. (NPFGC),		
30,000	5.00%, 7/1/34, Ser. A	A2/A+	30,234,300
7,555	5.00%, 7/1/34, Ser. B	A1/A	7,543,970
1,500	Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital,		
	8.25%, 9/1/39	A1/A	1,821,585
	State Hospital Finance Auth. Rev.,		
175	Detroit Medical Center, 5.25%, 8/15/23, Ser. A	Ba3/BB-	162,302
	Oakwood Group, Ser. A,		
5,405	5.75%, 4/1/32	A2/A	5,458,456
575	6.00%, 4/1/22	A2/A	591,140
20,000	Trinity Health Credit, 5.375%, 12/1/30, Ser. C	Aa2/AA	20,284,600
10,000	Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A	NR/BBB	7,704,600
			85,136,738
	Mississippi 0.7%		
	Business Finance Corp. Rev., System Energy Res., Inc. Project,		
3,000	5.875%, 4/1/22	Ba1/BBB	3,008,250
1,250	5.90%, 5/1/22	Ba1/BBB	1,254,400
			4,262,650
	Missouri 0.1%		
250	Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23	NR/NR	230,327
500	Manchester, Tax Allocation, Highway 141/Manchester Road Project,		
	6.875%, 11/1/39	NR/NR	512,320
			742,647
	Nevada 0.7%		
4,000	Clark Cnty., GO, 4.75%, 6/1/30 (AGM)	Aaa/AAA	4,111,560
	New Hampshire 0.4%		
2,000		Baa1/BBB+	2,084,820

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Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39,
Ser. A

New Jersey 4.6%

1,000	Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A	Baa3/BBB	924,440
300	Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14	Ba1/NR	300,696
4,500	Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28	Ba2/NR	5,127,345
1,070	Health Care Facs. Financing Auth. Rev., Pascack Valley Hospital Assoc., 6.625%, 7/1/36 (d)	NR/NR	16,045

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody's/S&P)*	Value
New Jersey (continued)			
\$ 1,000	St. Peters Univ. Hospital, 5.75%, 7/1/37	Baa2/BBB-	1,017,380
1,150	Trinitas Hospital, 5.25%, 7/1/30, Ser. A	Baa3/BBB-	1,079,976
2,000	State Turnpike Auth. Rev., 5.25%, 1/1/40, Ser. E	A3/A+	2,159,300
22,645	Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1-A	Baa3/BBB	15,682,795
			26,307,977
New Mexico 0.2%			
1,000	Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D	Baa3/BB+	1,040,210
New York 4.3%			
1,700	Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37	A1/A	1,870,765
1,150	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	NR/NR	1,164,950
10,450	New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC)	Aa3/AAA	12,301,113
4,900	New York City Municipal Water Finance Auth. Water & Sewer Rev. (g), 5.00%, 6/15/37, Ser. D	Aa1/AAA	5,219,774
4,000	Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD	Aa2/AA+	4,145,920
			24,702,522
North Carolina 0.7%			
1,700	Capital Facs. Finance Agcy. Rev., Duke Energy, 4.625%, 11/1/40, Ser. A	A1/A	1,701,989
1,000	Eastern Municipal Power Agcy. Rev., 5.125%, 1/1/26, Ser. D	Baa1/A-	1,031,160
1,500	Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC)	WR/A	1,504,950
			4,238,099
Ohio 4.1%			
15,375	Air Quality Dev. Auth. Pollution Control Rev., Dayton Power, 4.80%, 1/1/34, Ser. B (FGIC)	Aa3/A	15,510,146

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500	Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A	A1/AA-	515,815
5,000	Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2	Baa3/BBB	3,665,000
500	Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. 2009-A	A2/A	537,455
2,500	Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30	A1/AA-	2,544,500
500	Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A	Aa3/NR	530,170
250	State Rev., Ashland Univ. Project, 6.25%, 9/1/24	Ba1/NR	261,533
			23,564,619

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Oregon 0.2%		
\$ 1,000	Medford Hospital Facs. Auth. Rev., Asante Health Systems, 5.00%, 8/15/40, Ser. A (AGM)	Aa3/AAA	1,036,190
	Pennsylvania 2.7%		
1,000	Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39	Aa3/A+	1,081,400
1,000	West Penn Allegheny Health System, 5.375%, 11/15/40, Ser. A	B1/BB-	763,730
	Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A,		
750	5.625%, 7/1/28	NR/BBB-	719,475
670	6.00%, 7/1/35	NR/BBB-	644,895
1,000	Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project,		
	6.00%, 6/1/36, Ser. A	A2/A	1,067,320
1,250	Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B	NR/NR	1,161,775
100	Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39	A2/A	105,206
6,200	Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A	Baa3/BBB	6,204,216
500	Philadelphia Water Rev., 5.25%, 1/1/36, Ser. A	A1/A	525,895
3,000	Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D	A3/A-	3,127,800
			15,401,712
	Puerto Rico 1.2%		
2,400	Sales Tax Financing Corp. Rev., 5.00%, 8/1/40, Ser. A (AGM) (g)	Aa3/AAA	2,486,688
3,000	5.375%, 8/1/38, Ser. C	A1/A+	3,186,750
1,000	5.50%, 8/1/42, Ser. A	A1/A+	1,063,640
			6,737,078
	South Carolina 1.1%		
1,000	Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39	A2/A	1,034,930
5,305	Jobs-Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30, Ser. B	A3/A-	5,385,212

6,420,142

Tennessee 0.7%

1,250	Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39	NR/NR	1,323,237
1,000	Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38	Baa1/BBB+	1,053,400
1,200	Tennessee Energy Acquisition Corp. Rev., Ser. A, 5.25%, 9/1/21	Ba3/BB+	1,260,996
365	5.25%, 9/1/22	Ba3/BB+	381,367
			4,019,000

PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
Texas 10.3%			
\$ 6,810	Crowley Independent School Dist., GO, 4.75%, 8/1/35 (PSF-GTD)	Aaa/AAA	7,077,020
1,300	Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC)	Aa3/AAA	1,368,588
10,115	Denton Independent School Dist., GO, 5.00%, 8/15/33 (PSF-GTD) (g)	Aaa/AAA	10,437,365
465	Judson Independent School Dist., GO, 5.00%, 2/1/30 (PSF-GTD)	Aaa/NR	467,581
150	Municipal Gas Acquisition & Supply Corp. I Rev., 5.25%, 12/15/26, Ser. A	A2/A	153,280
8,100	6.25%, 12/15/26, Ser. D	A2/A	9,282,438
5,500	North Harris Cnty. Regional Water Auth. Rev., 5.25%, 12/15/33	A1/A+	5,791,280
5,500	5.50%, 12/15/38	A1/A+	5,807,450
10,800	North Texas Tollway Auth. Rev., 5.625%, 1/1/33, Ser. A	A2/A-	11,590,992
700	5.75%, 1/1/33, Ser. F	A3/BBB+	748,146
2,000	6.25%, 1/1/39, Ser. A	A2/A-	2,213,900
2,000	Sabine River Auth. Pollution Control Rev., 5.20%, 5/1/28, Ser. C	Caa3/NR	880,240
3,000	Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29	Aa2/AA-	3,412,260
			59,230,540
Virginia 0.3%			
1,000	Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A	Aa2/AA+	1,100,670
1,000	James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A	NR/NR	627,190
			1,727,860
Washington 7.5%			
6,375	Chelan Cnty. Public Utility Dist. No. 1 Rev., Chelan Hyrdo Systems, 5.125%, 7/1/33, Ser. C (AMBAC)	Aa2/AA	6,523,027
1,000	Health Care Facs. Auth. Rev., Seattle Cancer Care Alliance,	A3/NR	1,142,130

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	7.375%, 3/1/38		
15,000	King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (AGM) (g)	Aa2/AAA	15,249,600
19,265	Tobacco Settlement Auth. Rev., 6.50%, 6/1/26	Baa3/BBB	19,886,682
			42,801,439
	Wisconsin 2.4%		
	Health & Educational Facs. Auth. Rev.,		
1,000	Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A	A3/NR	1,049,990
1,000	Prohealth Care, Inc., 6.625%, 2/15/39	A1/A+	1,110,580
10,000	State Rev., 6.00%, 5/1/36, Ser. A	Aa3/AA-	11,400,100
			13,560,670
	Total Municipal Bonds & Notes (cost \$535,264,680)		560,123,888

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PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
VARIABLE RATE NOTES (a)(b)(e)(f) 2.3%			
California 0.3%			
\$ 1,675	Los Angeles Community College Dist., GO, 13.58%, 8/1/33, Ser. 3096	NR/AA	1,974,775
Florida 0.7%			
3,335	Greater Orlando Aviation Auth. Rev., 13.55%, 10/1/39, Ser. 3174	NR/NR	3,777,054
Texas 1.3%			
6,500	JPMorgan Chase Putters/Drivers Trust, GO, 9.25%, 2/1/17, Ser. 3480	NR/AA+	7,651,280
	Total Variable Rate Notes (cost \$11,405,650)		13,403,109
	Total Investments (cost \$546,670,330) 100.0%		\$ 573,526,997

PIMCO California Municipal Income Fund III Schedule of Investments
September 30, 2010

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
CALIFORNIA MUNICIPAL BONDS & NOTES 93.0%			
	Assoc. of Bay Area Gov t Finance Auth. for Nonprofit Corps. Rev.,		
\$ 3,200	Odd Fellows Home of California, Ser. A (CA Mtg. Ins.),	NR/A-	\$ 3,261,280
11,725	5.20%, 11/15/22	NR/A-	11,814,931
1,000	5.35%, 11/15/32		
	Cathedral City Public Financing Auth., Tax Allocation,		
	5.00%, 8/1/33, Ser. A (NPFGC)	Baa1/A	956,650
1,150	Ceres Redev. Agcy., Tax Allocation, Project Area No. 1,		
	5.00%, 11/1/33 (NPFGC)	Baa1/A	1,045,476
2,000	Chula Vista Rev., San Diego Gas & Electric, 5.875%, 2/15/34,		
	Ser. B	Aa3/A+	2,317,960
550	City & Cnty. of San Francisco, Capital Improvement Projects,		
	CP,		
	5.25%, 4/1/31, Ser. A	Aa3/AA-	585,624
1,415	Contra Costa Cnty. Public Financing Auth., Tax Allocation,		
	5.625%, 8/1/33, Ser. A	NR/BBB	1,380,262
3,775	Cucamonga School Dist., CP, 5.20%, 6/1/27	NR/AA-	3,904,067
	Educational Facs. Auth. Rev.,		
9,800	Claremont McKenna College, 5.00%, 1/1/39 (g)	Aa2/NR	10,250,310
3,300	Pepperdine Univ., 5.00%, 9/1/33, Ser. A (FGIC-NPFGC)	Aa3/A	3,381,807
10,000	Univ. of Southern California, 5.00%, 10/1/39, Ser. A (g)	Aa1/AA+	10,834,500
1,695	El Dorado Irrigation Dist. & El Dorado Water Agcy., CP,		
	5.75%, 8/1/39, Ser. A (AGC)	Aa3/AAA	1,809,599
	Golden State Tobacco Securitization Corp. Rev.,		
11,000	5.00%, 6/1/45 (AMBAC-TCRS)	A2/A-	10,362,110
4,000	5.00%, 6/1/45, Ser. A (FGIC-TCRS)	A2/A-	3,768,040
500	Hartnell Community College Dist., GO,		
	zero coupon, 8/1/34, Ser. 2002-D (h)	Aa2/AA-	276,390
	Health Facs. Financing Auth. Rev.,		
	Adventist Health System, Ser. A,		
500	5.00%, 3/1/33	NR/A	493,345
4,000	5.75%, 9/1/39	NR/A	4,184,040
	Catholic Healthcare West, Ser. A,		
1,935	6.00%, 7/1/34	A2/A	2,016,135
4,000	6.00%, 7/1/39	A2/A	4,327,120
450	Children s Hospital of Los Angeles, 5.25%, 7/1/38 (AGM)	Aa3/AAA	461,344
500	Children s Hospital of Orange Cnty., 6.50%, 11/1/38, Ser. A	NR/A	550,695
6,000	Cottage Health System, 5.00%, 11/1/33, Ser. B (NPFGC)	Baa1/A+	5,926,920
1,550	Paradise VY Estates, 5.25%, 1/1/26 (CA Mtg. Ins.)	NR/A-	1,585,991

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1,300	Scripps Health, 5.00%, 11/15/36, Ser. A	A1/AA-	1,330,511
500	Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)	Aa3/A	502,065
	Infrastructure & Economic Dev. Bank Rev., Kaiser Hospital Assistance,		
3,000	5.50%, 8/1/31, Ser. B	WR/A	3,076,860
8,000	5.55%, 8/1/31, Ser. A	NR/A+	8,215,520
20	Lancaster Financing Auth., Tax Allocation, 4.75%, 2/1/34 (NPFGC)	Baa1/A	17,591

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PIMCO California Municipal Income Fund III Schedule of Investments
September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
\$ 500	Lancaster Redev. Agcy., Tax Allocation, 6.875%, 8/1/39	NR/A	558,985
150	Lancaster Redev. Agcy. Rev., Capital Improvements Projects, 5.90%, 12/1/35	NR/A	152,612
5,600	Long Beach Bond Finance Auth. Rev., Long Beach Natural Gas, 5.50%, 11/15/37, Ser. A	A2/A	5,694,920
5,000	Long Beach Unified School Dist., GO, 5.75%, 8/1/33, Ser. A	Aa2/AA-	5,688,600
6,000	Los Angeles Department of Water & Power Rev. (g), 4.75%, 7/1/30, Ser. A-2 (AGM)	Aa3/AAA	6,221,040
10,000	5.00%, 7/1/39, Ser. A	Aa3/AA-	10,601,700
9,580	Los Angeles Unified School Dist., GO, 4.75%, 1/1/28, Ser. A (NPFGC)	Aa2/AA-	9,736,729
10,000	5.00%, 1/1/34, Ser. I (g)	Aa2/AA-	10,549,500
550	Malibu, City Hall Project, CP, 5.00%, 7/1/39, Ser. A	NR/AA+	576,538
1,000	Manteca Financing Auth. Sewer Rev., 5.75%, 12/1/36	Aa3/NR	1,088,970
5,000	Metropolitan Water Dist. of Southern California Rev., 5.00%, 7/1/37, Ser. A (g)	Aa1/AAA	5,350,400
2,980	Modesto Irrigation Dist., Capital Improvement Projects, CP, 5.00%, 7/1/33, Ser. A (NPFGC)	A1/A+	3,003,274
3,000	Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM)	Aa3/AAA	3,150,270
200	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	NR/A	235,376
5,000	Oakland, GO, 5.00%, 1/15/33, Ser. A (NPFGC)	Aa2/AA-	5,086,800
5,000	Orange Cnty. Unified School Dist., CP, 4.75%, 6/1/29 (NPFGC)	Aa3/A+	5,001,800
4,560	Orange Cnty. Water Dist. Rev., CP, Ser. B (NPFGC), 5.00%, 8/15/34	Aa1/AAA	4,733,143
965	5.00%, 8/15/34	WR/AAA	1,156,765
2,000	Palm Desert Financing Auth., Tax Allocation, 5.00%, 4/1/25, Ser. A (NPFGC)	Baa1/A	1,965,620
1,250	Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C	NR/AA-	1,315,475
1,250	Pollution Control Financing Auth. Rev., American Water Capital Corp. Project, 5.25%, 8/1/40 (a)(b)	Baa2/BBB+	1,274,900
1,950	Poway Unified School Dist., Special Tax, 5.125%, 9/1/28	NR/BBB+	1,932,996
5,000	Riverside, CP, 5.00%, 9/1/33 (AMBAC)	WR/A+	5,034,700
500	Rocklin Unified School Dist. Community Facs. Dist., Special Tax, 5.00%, 9/1/29 (NPFGC)	Baa1/A	493,955
3,250	Sacramento Municipal Utility Dist. Rev., 5.00%, 8/15/33, Ser. R (NPFGC)	A1/A+	3,328,942

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6,250	San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM)	Aa2/AAA	6,583,688
12,075	San Diego Community College Dist., GO, 5.00%, 5/1/28, Ser. A (AGM)	Aa1/AAA	12,757,358
2,000	San Diego Public Facs. Financing Auth. Rev., 5.25%, 5/15/39, Ser. A	Aa3/A+	2,168,380
2,200	San Diego Regional Building Auth. Rev., Cnty. Operations Center & Annex, 5.375%, 2/1/36, Ser. A	Aa3/AA+	2,379,850
1,500	San Diego State Univ. Foundation Rev., 5.00%, 3/1/27, Ser. A (NPFGC)	Baa1/A	1,520,655
1,000	San Jose, Libraries & Parks Project, GO, 5.125%, 9/1/31	Aaa/AAA	1,024,880

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PIMCO California Municipal Income Fund III Schedule of Investments
September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
\$ 13,200	San Marcos Public Facs. Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (FGIC-NPFGC)	A2/A	12,358,500
500	Santa Clara Cnty. Financing Auth. Rev., 5.75%, 2/1/41, Ser. A (AMBAC)	A1/A+	522,295
1,200	Santa Cruz Cnty. Redev. Agcy., Tax Allocation, Live Oak/Soquel Community, 7.00%, 9/1/36, Ser. A	A1/A	1,363,332
4,425	South Tahoe JT Powers Financing Auth. Rev., South Tahoe Redev. Project, 5.45%, 10/1/33, Ser. 1-A	NR/BBB+	4,235,079
7,300	State, GO, 6.00%, 4/1/38	A1/A-	8,114,461
4,095	State Department Veteran Affairs Rev., 5.35%, 12/1/27, Ser. A (AMBAC)	Aa3/AA	4,176,859
2,000	State Public Works Board Rev., California State Univ., 6.00%, 11/1/34, Ser. J	Aa3/BBB+	2,165,580
2,050	Univ. CA M.I.N.D. Inst., 5.00%, 4/1/28, Ser. A	Aa2/AA-	2,134,111
3,505	Statewide Communities Dev. Auth., The Internext Group, CP, 5.375%, 4/1/30	NR/BBB	3,416,183
500	Statewide Communities Dev. Auth. Rev., American Baptist Homes West, 6.25%, 10/1/39	NR/BBB-	511,720
1,200	Catholic Healthcare West, 5.50%, 7/1/31, Ser. D	A2/A	1,253,400
1,200	5.50%, 7/1/31, Ser. E	A2/A	1,253,400
1,000	Lancer Student Housing Project, 7.50%, 6/1/42	NR/NR	1,057,820
7,300	Los Angeles Jewish Home, 5.50%, 11/15/33 (CA St. Mtg.)	NR/A-	7,322,265
15,000	Memorial Health Services, 5.50%, 10/1/33, Ser. A Methodist Hospital Project (FHA),	WR/AA-	15,456,150
2,000	6.625%, 8/1/29	Aa2/NR	2,339,860
7,200	6.75%, 2/1/38	Aa2/NR	8,379,720
3,100	St. Joseph, 5.75%, 7/1/47, Ser. A (FGIC)	A1/AA-	3,225,240
10,000	Sutter Health, 5.50%, 8/15/34, Ser. B Tobacco Securitization Agcy. Rev., Alameda Cnty.,	Aa3/A+	10,113,700
8,100	5.875%, 6/1/35	Baa3/NR	7,121,844
7,000	6.00%, 6/1/42	Baa3/NR	5,629,540
2,000	Kern Cnty., 6.125%, 6/1/43, Ser. A	NR/BBB	1,625,360
5,000	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	Baa3/BBB	3,848,450
2,950	Torrance Rev., Torrance Memorial Medical Center, 5.50%, 6/1/31, Ser. A	A2/A+	2,997,790

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1,000	West Basin Municipal Water Dist., CP, 5.00%, 8/1/30, Ser. A (NPFGC)	Aa2/AA-	1,041,570
2,000	Western Municipal Water Dist. Facs. Auth. Rev., 5.00%, 10/1/39, Ser. B	NR/AA+	2,129,540
1,000	Westlake Village, CP, 5.00%, 6/1/39	NR/AA+	1,043,430
2,500	William S. Hart Union High School Dist., Special Tax, 6.00%, 9/1/33, Ser. 2002-1	NR/NR	2,475,275

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PIMCO California Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
\$ 2,750	Woodland Finance Auth. Rev., 5.00%, 3/1/32 (XLCA)	A1/NR	2,864,482
	Total California Municipal Bonds & Notes (cost \$319,310,458)		339,182,920
OTHER MUNICIPAL BONDS & NOTES 6.7%			
Indiana 1.3%			
5,000	Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 5.75%, 9/1/42 (a)(b)	NR/NR	4,775,200
New York 1.0%			
3,300	New York City Municipal Water Finance Auth. Water & Sewer Rev., 5.00%, 6/15/37, Ser. D (g)	Aa1/AAA	3,515,358
Puerto Rico 4.0%			
1,000	Electric Power Auth. Rev., 5.25%, 7/1/40, Ser. XX	A3/BBB+	1,047,290
4,420	Public Buildings Auth. Gov t Facs. Rev., 5.00%, 7/1/36, Ser. I (GTD)	A3/BBB-	4,442,100
23,200	Sales Tax Financing Corp. Rev., zero coupon, 8/1/47, Ser. A (AMBAC)	Aa2/AA-	2,529,496
29,200	zero coupon, 8/1/54, Ser. A (AMBAC)	Aa2/AA-	1,943,552
26,300	zero coupon, 8/1/56, Ser. A	Aa2/AA-	1,479,638
3,000	5.25%, 8/1/41, Ser. C	A1/A+	3,152,520
			14,594,596
South Dakota 0.4%			
2,000	Minnehaha Cnty. Rev., Bethany Lutheran, 5.50%, 12/1/35	NR/NR	1,686,440
	Total Other Municipal Bonds & Notes (cost \$24,830,405)		24,571,594
CALIFORNIA VARIABLE RATE NOTES (a)(b)(e)(f) 0.3%			
1,000	Los Angeles Community College Dist., GO, 13.58%, 8/1/33, Ser. 3096 (cost \$996,622)	NR/AA	1,178,970
	Total Investments (cost \$345,137,485) 100.0%		\$ 364,933,484

PIMCO New York Municipal Income Fund III Schedule of Investments
September 30, 2010

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
NEW YORK MUNICIPAL BONDS & NOTES 83.2%			
\$ 1,000	Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.375%, 7/15/43	Baa3/BBB-	\$ 1,094,410
1,500	Chautauqua Cnty. Industrial Dev. Agcy. Rev., Dunkirk Power Project, 5.875%, 4/1/42	Baa3/BB+	1,570,545
755	Dutchess Cnty. Industrial Dev. Agcy. Rev., Elant Fishkill, Inc., 5.25%, 1/1/37, Ser. A	NR/NR	547,768
800	East Rochester Housing Auth. Rev., St. Mary's Residence Project, 5.375%, 12/20/22, Ser. A (GNMA)	NR/NR	858,072
750	Liberty Dev. Corp. Rev., 6.375%, 7/15/49	NR/BBB-	804,435
1,810	Goldman Sachs Headquarters, 5.25%, 10/1/35	A1/A	1,908,790
2,400	5.50%, 10/1/37	A1/A	2,641,080
1,000	Long Island Power Auth. Rev., 5.00%, 9/1/27, Ser. C	A3/A-	1,054,370
1,500	5.75%, 4/1/39, Ser. A	A3/A-	1,675,920
6,220	Metropolitan Transportation Auth. Rev., 5.00%, 11/15/32, Ser. A (FGIC-NPFGC)	A2/A	6,416,552
500	5.00%, 11/15/34, Ser. B	NR/AA	538,240
200	Mortgage Agcy. Rev., 4.75%, 10/1/27, Ser. 128	Aa1/NR	204,268
500	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	NR/NR	506,500
2,695	New York City, GO, 5.00%, 3/1/33, Ser. I	Aa2/AA	2,794,338
600	New York City Industrial Dev. Agcy. Rev. (AGC), Queens Baseball Stadium, 6.50%, 1/1/46	Aa3/AAA	679,590
2,200	Yankee Stadium, 7.00%, 3/1/49	Aa3/AAA	2,589,708
	New York City Municipal Water Finance Auth. Water & Sewer Rev.,		
	Second Generation Resolutions,		
5,000	4.75%, 6/15/35, Ser. DD (g)	Aa2/AA+	5,182,400
1,500	5.00%, 6/15/39, Ser. GG-1	Aa2/AA+	1,622,895
3,450	New York City Trust for Cultural Res. Rev., Wildlife Conservation Society, 5.00%, 2/1/34 (FGIC-NPFGC)	Aa3/AA-	3,595,418
1,000	Niagara Falls Public Water Auth. Water & Sewer Rev., 5.00%, 7/15/34, Ser. A (NPFGC)	Baa1/A	1,017,030
	State Dormitory Auth. Rev.,		
1,000	5.00%, 3/15/38, Ser. A	NR/AAA	1,075,490
2,250	Jewish Board Family & Children, 5.00%, 7/1/33 (AMBAC)	WR/BBB	2,164,095
2,000	Kaleida Health Hospital, 5.05%, 2/15/25 (FHA)	NR/NR	2,045,120

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490	Long Island Univ., 5.00%, 9/1/23, Ser. A (Radian)	Baa3/NR	496,909
3,000	Lutheran Medical Hospital, 5.00%, 8/1/31 (FHA-NPFGC)	Baa1/A	3,043,770
3,085	New York Univ., 5.25%, 7/1/48, Ser. A	Aa3/AA-	3,318,041
2,750	North General Hospital, 5.00%, 2/15/25	NR/AA-	2,819,355

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PIMCO New York Municipal Income Fund III Schedule of Investments

September 30, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
\$ 700	North Shore-Long Island Jewish Health System, 5.50%, 5/1/37, Ser. A	Baa1/A-	738,605
400	School Dist. Financing, 5.00%, 10/1/30, Ser. D (NPFGC)	A2/A+	413,924
1,250	Skidmore College, 5.00%, 7/1/28 (FGIC-NPFGC)	A1/NR	1,316,450
3,740	St. Barnabas Hospital, 5.00%, 2/1/31, Ser. A (AMBAC-FHA)	WR/NR	3,809,489
1,200	Teachers College, 5.50%, 3/1/39	A1/NR	1,288,368
620	Winthrop Univ. Hospital Assoc., 5.50%, 7/1/32, Ser. A	Baa1/NR	630,168
2,500	Winthrop-Nassau Univ., 5.75%, 7/1/28	Baa1/NR	2,568,450
2,000	State Environmental Facs. Corp. Rev., 4.75%, 6/15/32, Ser. B	Aa1/AA+	2,140,560
	State Urban Dev. Corp. Rev.,		
3,350	5.00%, 3/15/35, Ser. B	NR/AAA	3,545,204
2,200	5.00%, 3/15/36, Ser. B-1 (g)	NR/AAA	2,372,634
2,000	Triborough Bridge & Tunnel Auth. Rev., 5.25%, 11/15/34, Ser. A-2 (g)	Aa2/AA-	2,202,180
2,000	Warren & Washington Cntys. Industrial Dev. Agcy. Rev.,		
	Glens Falls Hospital Project, 5.00%, 12/1/35, Ser. A (AGM)	Aa3/AAA	2,040,200
	Total New York Municipal Bonds & Notes (cost \$69,681,482)		75,331,341
OTHER MUNICIPAL BONDS & NOTES 11.1%			
District of Columbia 0.2%			
175	Tobacco Settlement Financing Corp. Rev., 6.50%, 5/15/33	Baa3/BBB	174,984
Puerto Rico 9.6%			
580	Children s Trust Fund Rev., 5.625%, 5/15/43	Baa3/BBB	537,312
2,000	Electric Power Auth. Rev., 5.25%, 7/1/40, Ser. XX	A3/BBB+	2,094,580
	Sales Tax Financing Corp. Rev.,		
5,000	zero coupon, 8/1/54, Ser. A (AMBAC)	Aa2/AA-	332,800
4,000	5.00%, 8/1/40, Ser. A (AGM) (g)	Aa3/AAA	4,144,480
1,000	5.375%, 8/1/38, Ser. C	A1/A+	1,062,250
500	5.75%, 8/1/37, Ser. A	A1/A+	544,680
			8,716,102
South Carolina 0.5%			
370	Tobacco Settlement Rev. Management Auth. Rev.,		
	6.375%, 5/15/30, Ser. B	Baa3/BBB	488,437
U. S. Virgin Islands 0.6%			
500	Public Finance Auth. Rev., 6.00%, 10/1/39, Ser. A	Baa3/NR	539,975

Washington 0.2%			
135	Tobacco Settlement Auth. Rev., 6.625%, 6/1/32	Baa3/BBB	136,469
	Total Other Municipal Bonds & Notes (cost \$9,439,853)		10,055,967
NEW YORK VARIABLE RATE NOTES (f) 5.7%			
5,000	State Dormitory Auth. Rev., Rockefeller Univ., 5.00%, 7/1/32, Ser. A-1 (cost \$4,322,537)	Aa1/AAA	5,124,350
	Total Investments (cost \$83,443,872) 100.0%		\$ 90,511,658

PIMCO Municipal Income Funds III Schedules of Investments
September 30, 2010

Notes to Schedules of Investments:

- * Unaudited
- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$16,728,433, representing 2.9% of total investments in Municipal III and \$7,229,070, representing 2.0% of total investments in California Municipal III.
- (b) 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.
- (c) When-issued. To be settled after September 30, 2010.
- (d) In default.
- (e) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on September 30, 2010.
- (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 September 30, 2010.
- (g) 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.
- (h) Step Bond Coupon is a fixed rate for an initial period then resets at a specific date and rate.

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
Radian insured by Radian Guaranty, Inc.
TCRS Temporary Custodian Receipts
WR Withdrawn Rating
XLCA insured by XL Capital Assurance

See accompanying Notes to Financial Statements i 9.30.10 i PIMCO Municipal Income Funds III Annual Report **25**

PIMCO Municipal Income Funds III Statements of Assets and Liabilities

September 30, 2010

	Municipal III	California Municipal III	New York Municipal III
Assets:			
Investments, at value (cost \$546,670,330, \$345,137,485 and \$83,443,872, respectively)	\$573,526,997	\$364,933,484	\$90,511,658
Interest receivable	9,365,117	5,431,290	1,074,871
Prepaid expenses and other assets	45,421	22,967	11,598
Total Assets	582,937,535	370,387,741	91,598,127
Liabilities:			
Payable for floating rate notes issued	59,869,224	33,623,688	6,933,000
Payable to custodian for cash overdraft	1,807,063	950,623	117,210
Payable for investments purchased	750,000		
Investment management fees payable	276,882	178,645	44,996
Interest payable	132,941	86,136	13,003
Dividends payable to preferred shareholders	7,861	6,942	1,127
Accrued expenses and other liabilities	253,765	224,486	89,015
Total Liabilities	63,097,736	35,070,520	7,198,351
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
Net Assets Applicable to Common Shareholders	\$330,839,799	\$210,317,221	\$52,399,776
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	454,779,454	307,894,864	78,766,714

Undistributed net investment income	4,257,779	3,372,730	994,886
Accumulated net realized loss on investments	(155,059,365)	(120,731,787)	(34,428,911)
Net unrealized appreciation of investments	26,861,609	19,781,196	7,067,031
Net Assets Applicable to Common Shareholders	\$330,839,799	\$210,317,221	\$52,399,776
Common Shares Issued and Outstanding	32,154,243	21,786,460	5,584,672
Net Asset Value Per Common Share	\$10.29	\$9.65	\$9.38

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PIMCO Municipal Income Funds III Statements of Operations

Year ended September 30, 2010

	Municipal III	California Municipal III	New York Municipal III
Investment Income:			
Interest	\$32,031,902	\$19,503,425	\$4,520,392
Expenses:			
Investment management fees	3,273,798	2,101,201	532,959
Interest expense	433,142	272,747	49,954
Auction agent fees and commissions	308,959	189,605	52,319
Custodian and accounting agent fees	115,117	88,233	49,953
Audit and tax services	73,118	59,256	39,292
Shareholder communications	71,144	49,738	21,519
Trustees' fees and expenses	44,431	33,839	8,170
Transfer agent fees	36,113	35,021	34,883
New York Stock Exchange listing fees	26,098	21,580	21,369
Insurance expense	16,085	10,614	3,217
Legal fees	14,385	12,342	6,978
Miscellaneous	12,680	11,585	10,522
Total Expenses	4,425,070	2,885,761	831,135
Less: investment management fees waived	(21,511)	(13,861)	(3,465)
custody credits earned on cash balances	(242)	(143)	(78)
Net Expenses	4,403,317	2,871,757	827,592
Net Investment Income	27,628,585	16,631,668	3,692,800
Realized and Change In Unrealized Gain:			
Net realized gain on investments	8,381	34,880	51,846

Net change in unrealized appreciation/depreciation of investments	4,194,047	1,712,656	1,471,822
Net realized and change in unrealized gain on investments	4,202,428	1,747,536	1,523,668
Net Increase in Net Assets Resulting from Investment Operations	31,831,013	18,379,204	5,216,468
Dividends on Preferred Shares from Net Investment Income	(797,851)	(524,271)	(137,098)
Net Increase in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	\$31,033,162	\$17,854,933	\$5,079,370

See accompanying Notes to Financial Statements ĩ 9.30.10 ĩ PIMCO Municipal Income Funds III Annual Report 27

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

	Municipal III	
	Year ended September 30, 2010	Year ended September 30, 2009
Investment Operations:		
Net investment income	\$27,628,585	\$30,476,003
Net realized gain (loss) on investments, futures contracts and swaps	8,381	(119,164,941)
Net change in unrealized appreciation/depreciation of investments, futures contracts and swaps	4,194,047	98,353,898
Net increase (decrease) in net assets resulting from investment operations	31,831,013	9,664,960
Dividends on Preferred Shares from Net Investment Income		
	(797,851)	(3,168,279)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	31,033,162	6,496,681
Dividends to Common Shareholders from Net Investment Income		
	(26,934,450)	(26,754,995)
Common Share Transactions:		
Reinvestment of dividends	1,819,762	2,254,067
Total increase (decrease) in net assets applicable to common shareholders	5,918,474	(18,004,247)
Net Assets Applicable to Common Shareholders:		
Beginning of year	324,921,325	342,925,572
End of year (including undistributed net investment income of \$4,257,779 and \$4,372,069; \$3,372,730 and \$2,916,964; \$994,886 and \$946,705; respectively)	\$330,839,799	\$324,921,325
Common Shares Issued in Reinvestment of Dividends	175,126	250,003

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

California Municipal III		New York Municipal III	
Year ended September 30, 2010	Year ended September 30, 2009	Year ended September 30, 2010	Year ended September 30, 2009
\$16,631,668	\$18,933,752	\$3,692,800	\$4,316,704
34,880	(89,968,659)	51,846	(27,031,363)
1,712,656	54,718,046	1,471,822	13,850,740
18,379,204	(16,316,861)	5,216,468	(8,863,919)
(524,271)	(2,138,774)	(137,098)	(552,741)
17,854,933	(18,455,635)	5,079,370	(9,416,660)
(15,648,624)	(15,572,754)	(3,507,521)	(3,483,636)
938,286	765,116	300,354	276,538
3,144,595	(33,263,273)	1,872,203	(12,623,758)
207,172,626	240,435,899	50,527,573	63,151,331
\$210,317,221	\$207,172,626	\$52,399,776	\$50,527,573
101,572	89,708	33,283	33,756

See accompanying Notes to Financial Statements ĩ 9.30.10 ĩ PIMCO Municipal Income Funds III Annual Report **29**

PIMCO Municipal Income Funds III Statements of Cash Flows

Year ended September 30, 2010

	Municipal III	California Municipal III
Increase in Cash from:		
Cash Flows provided by Operating Activities:		
Net increase in net assets resulting from investment operations	\$31,831,013	\$18,379,204
Adjustments to reconcile net increase in net assets resulting from investment operations to net cash provided by operating activities:		
Purchases of long-term investments	(48,441,385)	(10,954,895)
Proceeds from sales of long-term investments	38,451,028	13,696,813
Sales of short-term portfolio investments, net	5,600,000	
Net change in unrealized appreciation/depreciation of investments	(4,937,444)	(1,715,663)
Net realized (gain) loss on investments	724,444	(34,880)
Net amortization on investments	(759,911)	(683,278)
Increase in interest receivable	(600,976)	(112,390)
Increase in prepaid expenses and other assets	(558)	(546)
Increase in payable for investments purchased	750,000	
Increase in investment management fees payable	30,659	19,834
Decrease in interest payable for reverse repurchase agreements	(3,555)	(934)
Increase in accrued expenses and other liabilities	4,927	16,946
Net cash provided by operating activities*	22,648,242	18,610,211
Cash Flows used for Financing Activities:		
Decrease in payable for reverse repurchase agreements	(6,553,000)	(1,822,000)
Cash dividends paid (excluding reinvestment of dividends of \$1,819,762 and \$938,286, respectively)	(25,915,603)	(15,234,321)
Cash receipts on issuance of floating rate notes	11,027,666	
Decrease in payable to custodian for cash overdraft	(1,207,305)	(1,553,890)

Net cash used for financing activities	(22,648,242)	(18,610,211)
Net increase in cash		
Cash at beginning of year		
Cash at end of year	\$	\$

A Statement of Cash Flows is not required for New York Municipal III.

- * Included in operating expenses is cash paid by Municipal III and California Municipal III for interest related to participation in reverse repurchase agreement transactions of \$29,204 and \$3,187, respectively.

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PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2010

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. 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. There is no guarantee that the Funds will meet their stated objectives.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the Funds' 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 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

PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2010

1. Organization and Significant Accounting Policies (continued)

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

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 year ended September 30, 2010 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 in accordance with Generally Accepted Accounting Principles (GAAP).

Municipal Bonds and Variable Rate Notes Municipal bonds 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 variable rate notes 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 September 30, 2010 in valuing each Fund's assets and liabilities is listed below:

Municipal III:

	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Value at 9/30/10
Investments in Securities				
Assets				
Municipal Bonds & Notes:				
New Jersey		\$ 26,291,932	\$16,045	\$ 26,307,977
All Other		533,815,911		533,815,911
Variable Rate Notes		13,403,109		13,403,109

Total Investments	\$ 573,510,952	\$16,045	\$ 573,526,997
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California Municipal III:

Level 2 -

Level 3 -