

PIMCO INCOME STRATEGY FUND
Form N-CSRS
March 31, 2014

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 811-21374

PIMCO Income Strategy Fund
(Exact name of registrant as specified in charter)

1633 Broadway, New York, New York
(Address of principal executive offices)

10019
(Zip code)

Lawrence G. Altadonna - 1633 Broadway, New York, New York 10019
(Name and address of agent for service)

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

Date of fiscal year July 31, 2014
end:

Date of reporting period: January 31, 2014

Item 1. Report to Shareholders

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Letter to Shareholders

Dear Shareholder:

The US economy expanded throughout the fiscal six-month reporting period ended January 31, 2014. Bond yields moved modestly higher as the Federal Reserve (the Fed) adjusted its monetary policy, while stocks posted solid gains.

For the six-month reporting period ended January 31, 2014:

- PIMCO Income Strategy Fund returned 6.05% on net asset value (NAV) and 2.13% on market price.
- PIMCO Income Strategy Fund II returned 7.06% on NAV and 4.61% on market price.

During the reporting period, Barclays US Credit Index, a measure of high quality corporate bond performance, rose 2.63%; the Barclays US High Yield Bond Index, a measure of below investment-grade corporate bond performance, returned 4.70%; and government bonds, represented by the Barclays Intermediate-Term Treasury Index, gained 0.67%. The Barclays US Aggregate Bond Index, a broad credit market measure of government and corporate securities, increased 1.78% and mortgage-backed securities, reflected by the Barclays Fixed Rate Mortgage Backed Securities Index, rose 2.29%. As for stocks, the Standard & Poor's 500 Index advanced 6.85% during the fiscal six-month period ended January 31, 2014.

During the reporting period, US economic growth accelerated. Gross domestic product (GDP), the value of goods and services produced in the country, the broadest measure of US economic activity and the principal indicator of economic performance, grew at an annual pace of 2.5% during the second quarter of 2013. The US Commerce Department reported third quarter 2013 GDP growth at 4.1%, the highest growth since the fourth quarter of 2011. This improvement was partially due to an increase in private inventory investment and decelerating imports. According to the US Commerce Department, fourth quarter 2013 GDP growth expanded at a 2.4% annual pace.

The Fed maintained an accommodative monetary policy during the reporting period. However, at its meeting in December 2013, the Fed announced that it would begin tapering its asset purchase program beginning in January 2014, from \$85 billion to \$75 billion. The Fed also reiterated that tapering does not signify that the Fed would raise interest rates anytime soon,

indicating, it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5%.

Receive this report electronically and eliminate paper mailings.

Outlook

The US was highly resilient and appeared to overcome the headwinds associated with higher taxes, the sequestration, a partial federal government shutdown and rising interest rates. Barring unanticipated strengthening of US labor markets and accelerating inflation, we expect the central bank to take a measured approach to the reduction of purchases in 2014. Tapering of asset purchases, as well as concerns about global growth, ongoing geopolitical issues and dysfunction in Washington DC, will likely contribute to increased market volatility.

To enroll, visit:
us.allianzgi.com/edelivery.

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, us.allianzgi.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

Julian Sluyters
President & CEO

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Fund Insights

PIMCO Income Strategy Fund/PIMCO Income Strategy Fund II

January 31, 2014 (unaudited)

For the six-months ended January 31, 2014, PIMCO Income Strategy Fund returned 6.05% on net asset value (NAV) and 2.13% on market price. For the six-months ended January 31, 2014, PIMCO Income Strategy Fund II returned 7.06% on NAV and 4.61% on market price.

The unmanaged Barclays US Aggregate Bond Index and Barclays US Credit Index returned 1.78% and 2.63%, respectively, during the reporting period. The US fixed income market experienced periods of elevated volatility during the six-month reporting period ended January 31, 2014. This was triggered by a number of factors, including mixed economic data, Fed tapering, geopolitical issues and the 16 day partial federal government shutdown. All told, both short- and long-term Treasury yields rose and the yield curve steepened during the reporting period. That being said, Treasury yields fell from their peak toward the end of the period. This occurred as investor risk aversion increased due to concerns about China's economy and several sharply declining emerging market currencies. The benchmark 10-year Treasury bond began the fiscal period yielding 2.60% and ended the period at 2.67%.

The US credit market was also volatile at times, but it outperformed the overall bond market. The credit market was dragged down during periods of rising interest rates. However this was offset by overall positive fundamentals, generally solid corporate profits, low defaults and solid demand from investors looking to generate incremental yield in the low interest rate environment.

Sector exposures produce largely enhance the Funds' performance

During the reporting period, PIMCO Income Strategy and PIMCO Income Strategy II (the Funds) outperformed the broad US fixed income market (as measured by the Barclays US Aggregate Bond Index) as well as the US credit market (as measured by the Barclays US Credit Index) at NAV.

An allocation to high yield bonds helped the Funds' results, as the sector outperformed the broad credit market during the reporting period. The Funds' overweighting to the Financial sector was beneficial as it was supported by improving earnings. Security selection within the Telecommunications sector contributed to performance. An allocation to non-agency mortgage-backed securities was positive for performance, as these bonds benefited from continued improvements in the US housing market. Opportunistically gaining exposure to select emerging market external bonds during the third and fourth quarters of 2013 was additive for the Funds' performance, as their spreads tightened following the May/June sell-off.

On the downside, a tactical allocation to Brazilian local rates detracted from the Funds' performance, as rates continued rising due to expectations for higher inflation within the country.

Performance & Statistics

PIMCO Income Strategy Fund

January 31, 2014 (unaudited)

Total Return(1)	Market Price	NAV
Six Month	2.13%	6.05%
1 Year	-4.80%	5.69%
5 Year	19.26%	25.22%
10 Year	5.43%	6.38%
Commencement of Operations (8/29/03) to 1/31/14	5.42%	6.31%

Market Price/NAV Performance		Market Price/NAV	
Commencement of Operations (8/29/03) to 1/31/14		Market Price	\$11.53
NAV		NAV	\$11.84
Market Price		Discount to NAV	-2.62%
		Market Price Yield(2)	6.59%
		Leverage Ratio(3)	21.89%

(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 dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares and includes the effect of any expense reductions. Total return for a period of less than one year is not annualized. Total return for a period of more than one year represents the average annual total return.

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

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time 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.

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(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at January 31, 2014.

(3) Represents Preferred Shares and Reverse Repurchase Agreements outstanding (collectively Leverage), as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

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Performance & Statistics

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited)

Total Return(1)	Market Price	NAV
Six Month	4.61%	7.06%
1 Year	-2.75%	8.20%
5 Year	22.38%	25.07%
Commencement of Operations (10/29/04) to 1/31/14	3.79%	4.69%

Market Price/NAV Performance

Commencement of Operations (10/29/04) to 1/31/14

Market Price/NAV

Market Price	\$10.22
NAV	\$10.52
Discount to NAV	-2.85%
Market Price Yield(2)	5.20%
Leverage Ratio(3)	20.61%

NAV
Market Price

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

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(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at January 31, 2014.

(3) Represents Preferred Shares outstanding (Leverage), as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

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Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited)

Principal Amount (000s)			Value
Corporate Bonds & Notes 25.8%			
Airlines 1.8%			
		American Airlines Pass-Through Trust (d),	
\$3,614		9.73%, 9/29/14	\$2,710,726
1,861		10.18%, 1/2/13 (e)	2,043,753
1,228		Continental Airlines Pass-Through Trust, 9.798%, 10/1/22	1,387,988
740		United Air Lines Pass-Through Trust, 10.40%, 5/1/18	839,980
			6,982,447
Auto Manufacturers 3.7%			
12,700		Ford Motor Co., 7.70%, 5/15/97	14,431,962
Banking 11.0%			
£6,300		Barclays Bank PLC, 14.00%, 6/15/19 (f)	13,877,793
\$800		Citigroup, Inc., 6.125%, 8/25/36	861,778
		LBG Capital No. 1 PLC,	
200		7.375%, 3/12/20	289,256
£300		7.588%, 5/12/20	527,691
4,800		7.867%, 12/17/19	8,443,064
2,400		7.869%, 8/25/20	4,247,113
\$2,000		8.50%, 12/17/21 (a)(c)(f)	2,141,916
£900		11.04%, 3/19/20	1,719,929
		LBG Capital No. 2 PLC,	
534		9.125%, 7/15/20	960,780
2,200		11.25%, 9/14/23	4,235,012
\$1,550		Royal Bank of Scotland Group PLC, 7.648%, 9/30/31 (f)	1,652,688
£2,000		Santander Issuances S.A. Unipersonal, 7.30%, 7/27/19 (converts to FRN on 9/27/14)	3,386,431
			42,343,451
Diversified Financial Services 4.0%			
\$3,400		Army Hawaii Family Housing Trust Certificates, 5.524%, 6/15/50 (NPPGC) (a)(b)(c)(i) (acquisition cost-\$3,366,000; purchased 11/18/13)	3,414,484
2,800		General Electric Capital Corp., 6.375%, 11/15/67 (converts to FRN on 11/15/17)	3,048,500
2,464		GSPA Monetization Trust, 6.422%, 10/9/29 (a)(b)(c)(i) (acquisition cost-\$2,434,898; purchased 9/23/13)	2,383,642
7,000		ILFC E-Capital Trust I, 5.46%, 12/21/65 (a)(c)(h)(k)	6,466,250
			15,312,876
Electric Utilities 0.3%			
1,219		Bruce Mansfield Unit, 6.85%, 6/1/34	1,309,258
Insurance 1.6%			

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2,000		AIG Life Holdings, Inc., 8.125%, 3/15/46 (a)(b)(c)(i) (acquisition cost-\$1,753,150; purchased 7/12/10)	2,465,000
2,893		American International Group, Inc., 8.175%, 5/15/68 (converts to FRN on 5/15/38)	3,609,018
			6,074,018

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PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)			Value
		Media 1.0%	
\$3,900		Time Warner Cable, Inc., 7.30%, 7/1/38	\$4,062,813
		Oil & Gas 0.5%	
1,600		Anadarko Petroleum Corp., 7.00%, 11/15/27	1,760,331
		Telecommunications 1.9%	
7,000		Northwestern Bell Telephone, 7.75%, 5/1/30	7,372,848
Total Corporate Bonds & Notes (cost-\$85,712,499)			99,650,004
Municipal Bonds 23.0%			
		California 9.2%	
5,800		Infrastructure & Economic Dev. Bank Rev., 6.486%, 5/15/49	6,620,874
900		Long Beach Redev. Agcy., Tax Allocation, 8.36%, 8/1/40	947,187
9,600		Los Angeles Department of Water & Power Rev., 6.166%, 7/1/40	10,367,616
9,600		Metropolitan Water Dist. of Southern California Rev., 6.947%, 7/1/40, Ser. A	10,859,424
1,000		Palomar Community College Dist., GO, 7.194%, 8/1/45, Ser. B-1	1,117,370
600		Riverside Cnty. Economic Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	632,256
900		State Univ. Rev., 6.484%, 11/1/41	1,051,920
3,600		Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	3,669,552
			35,266,199
		Georgia 1.1%	
3,900		Municipal Electric Auth. of Georgia Rev., 6.655%, 4/1/57	4,264,728
		Illinois 4.8%	
6,000		Chicago, GO, 7.517%, 1/1/40	6,627,180
11,000		Municipal Electric Agcy. Rev., 6.832%, 2/1/35	12,040,380
			18,667,560
		Nebraska 1.8%	
6,400		Public Power Generation Agcy. Rev., 7.242%, 1/1/41	6,997,376
		Nevada 3.0%	
10,500		Las Vegas Valley Water Dist., GO, 7.013%, 6/1/39	11,582,130
		New Jersey 0.0%	
200		Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1-A	147,716
		Ohio 1.8%	
5,000		American Municipal Power, Inc. Rev., Comb Hydroelectric Projects, 8.084%, 2/15/50, Ser. B	6,796,500
		Texas 1.3%	
4,200		Dallas Convention Center Hotel Dev. Corp. Rev., 7.088%, 1/1/42	4,951,002
Total Municipal Bonds (cost-\$85,296,410)			88,673,211
Mortgage-Backed Securities 21.4%			
109		Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	87,931

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		Banc of America Funding Trust, CMO,	
3,652		6.00%, 8/25/36	3,661,251
2,098		6.00%, 3/25/37	1,909,463
3,543		6.00%, 8/25/37	3,140,836
		BCAP LLC Trust, CMO (a)(c)(k),	
1,200		5.429%, 3/26/37	357,209
317		14.963%, 6/26/36	79,354

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PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
	Bear Stearns ALT-A Trust, CMO (k),	
\$346	2.591%, 11/25/36	\$244,624
771	2.746%, 9/25/35	636,570
1,341	Bear Stearns Mortgage Funding Trust, 7.00%, 8/25/36, CMO	1,106,316
	Chase Mortgage Finance Trust, CMO,	
10	2.533%, 12/25/35 (k)	9,056
1,054	6.00%, 2/25/37	943,162
705	6.00%, 7/25/37	647,861
1,929	6.25%, 10/25/36	1,784,770
165	Citicorp Mortgage Securities Trust, 5.50%, 4/25/37, CMO	170,465
	Countrywide Alternative Loan Trust, CMO,	
337	5.50%, 3/25/35	304,047
4,186	5.50%, 12/25/35	3,682,459
153	5.50%, 3/25/36	121,626
1,659	5.741%, 4/25/36 (k)	1,217,908
415	5.75%, 1/25/35	402,545
374	6.00%, 2/25/35	391,366
2,597	6.00%, 5/25/36	2,059,459
1,195	6.00%, 4/25/37	976,236
1,019	6.00%, 8/25/37	706,648
794	6.25%, 11/25/36	700,185
1,689	6.25%, 12/25/36 (k)	1,408,284
468	6.50%, 8/25/36	331,754
	Countrywide Home Loan Mortgage Pass-Through Trust, CMO,	
77	2.492%, 2/20/35 (k)	74,612
1,497	5.50%, 10/25/35	1,404,723
685	5.75%, 3/25/37	621,521
1,486	6.00%, 5/25/36	1,361,925
557	6.00%, 2/25/37	523,246
140	6.00%, 4/25/37	129,653
844	6.25%, 9/25/36	751,481
	Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust, CMO,	
411	6.00%, 2/25/37	359,625
1,303	6.75%, 8/25/36	1,016,180
	GSR Mortgage Loan Trust, CMO,	
174	5.50%, 5/25/36	167,098
5,120	6.00%, 2/25/36	4,756,356
58	Harborview Mortgage Loan Trust, 2.743%, 7/19/35, CMO (k)	51,409
2,098	IndyMac IMSC Mortgage Loan Trust, 6.50%, 7/25/37, CMO	1,490,048
	JPMorgan Alternative Loan Trust, CMO,	

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1,997	2.612%, 3/25/36 (k)	1,614,775
1,773	3.014%, 3/25/37 (k)	1,371,785
1,200	6.31%, 8/25/36	904,657
	JPMorgan Mortgage Trust, CMO,	
590	2.566%, 1/25/37 (k)	514,166
611	2.625%, 2/25/36 (k)	548,845
1,063	5.00%, 3/25/37	985,541
96	5.75%, 1/25/36	90,213
287	6.00%, 8/25/37	257,546

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Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
\$1,641	Merrill Lynch Mortgage Investors Trust, 2.912%, 3/25/36, CMO (k)	\$1,160,441
3,917	New Century Alternative Mortgage Loan Trust, 6.173%, 7/25/36, CMO (k)	2,810,140
1,096	Residential Accredit Loans, Inc., 6.00%, 6/25/36, CMO	894,868
1,075	Residential Asset Securitization Trust, CMO,	
432	5.75%, 2/25/36	926,430
730	6.00%, 9/25/36	283,374
1,725	6.00%, 3/25/37	561,046
1,116	6.00%, 5/25/37	1,558,352
1,861	6.00%, 7/25/37	920,918
	6.25%, 9/25/37	1,490,516
1,932	Residential Funding Mortgage Securities I, CMO,	
284	3.79%, 8/25/36 (k)	1,662,189
704	6.00%, 9/25/36	262,316
3,693	6.00%, 1/25/37	655,636
	6.00%, 6/25/37	3,291,758
1,779	Structured Adjustable Rate Mortgage Loan Trust, CMO (k),	
760	2.462%, 11/25/36	1,429,896
2,374	4.937%, 3/25/37	574,556
1,467	5.057%, 5/25/36	2,023,819
799	5.071%, 1/25/36	1,151,534
	5.32%, 7/25/36	735,510
331	Suntrust Adjustable Rate Mortgage Loan Trust, CMO (k),	
2,023	3.179%, 2/25/37	282,991
5,672	5.082%, 4/25/37	1,701,179
	WaMu Commercial Mortgage Securities Trust,	
	5.749%, 3/23/45, CMO (a)(c)(k)	5,848,424
236	WaMu Mortgage Pass-Through Certificates, CMO (k),	
722	2.362%, 9/25/36	211,270
990	4.737%, 2/25/37	678,707
914	6.087%, 10/25/36	840,102
	Washington Mutual MSC Mortgage Pass-Through Certificates Trust,	
	6.50%, 8/25/34, CMO	953,485
1,327	Wells Fargo Mortgage-Backed Securities Trust, CMO,	
781	2.612%, 7/25/36 (k)	1,290,896
190	2.616%, 8/25/36 (k)	748,292
381	2.623%, 4/25/36 (k)	186,215
484	2.685%, 7/25/36 (k)	353,158
283	5.75%, 3/25/37	462,080
	6.00%, 6/25/37	274,499

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414		6.00%, 7/25/37	401,275
Total Mortgage-Backed Securities (cost-\$75,578,097)			82,702,662
Asset-Backed Securities 5.5%			
284		Bear Stearns Asset-Backed Securities Trust, 6.50%, 10/25/36	246,461
		Countrywide Asset-Backed Certificates,	
3,500		0.718%, 12/25/35 (k)	3,131,706
3,000		5.595%, 8/25/35	2,556,216

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Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
	GSAA Home Equity Trust, 5.772%, 11/25/36 (k)	\$5,370,435
\$8,324		
954	6.295%, 6/25/36	568,138
4,077	Lehman XS Trust, 5.895%, 6/24/46	3,255,785
434	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	437,784
206	Mid-State Trust IV, 8.33%, 4/1/30	213,361
761	Mid-State Trust VII, 6.34%, 10/15/36	805,880
575	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47 (k)	441,329
7,196	Securitized Asset-Backed Receivables LLC Trust, 0.298%, 5/25/36 (k)	4,020,045
Total Asset-Backed Securities (cost-\$20,151,473)		21,047,140
Shares		
Preferred Stock 3.3%		
207,100	Banking 1.5% GMAC Capital Trust I, 8.125%, 2/15/40, Ser. 2 (j)	5,670,398
6,000	Diversified Financial Services 1.8% Farm Credit Bank, 10.00%, 12/15/20, Ser. 1 (f)	7,168,125
Total Preferred Stock (cost-\$12,332,507)		12,838,523
Principal Amount (000s)		
U.S. Government Agency Securities 0.5%		
\$4,877	Fannie Mae, CMO, IO, 3.50%, 1/25/43-2/25/43	1,057,020
4,292	4.00%, 11/25/42	778,582
Total U.S. Government Agency Securities (cost-\$1,658,850)		1,835,602
Short-Term Investments 20.5%		
77,300	Repurchase Agreements 20.3% RBC Capital Markets LLC, dated 1/31/14, 0.03%, due 2/3/14, proceeds \$77,300,193; collateralized by U.S. Treasury Notes, 0.25%, due 1/15/15, valued at \$78,881,442 including accrued interest	77,300,000
962	State Street Bank and Trust Co., dated 1/31/14, 0.00%, due 2/3/14, proceeds \$962,000; collateralized by Freddie Mac, 2.08%, due 10/17/22, valued at \$981,538 including accrued interest	962,000
Total Repurchase Agreements (cost-\$78,262,000)		78,262,000
U.S. Treasury Obligations 0.2%		
750	U.S. Treasury Bills, 0.038%, 7/3/14 (g)(l) (cost-\$749,881)	749,859
Total Short-Term Investments (cost-\$79,011,881)		79,011,859

Total Investments

(cost-\$359,741,717) **100.0%**

\$385,759,001

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Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$23,156,279, representing 6.0% of total investments.
- (b) Illiquid.
- (c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (d) In default.
- (e) Fair-Valued Security with a value of \$2,043,753, representing 0.5% of total investments. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (f) Perpetual maturity. The date shown, if any, is the next call date. For Corporate Bonds & Notes the interest rate is fixed until the first call date and variable thereafter.
- (g) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.
- (h) All or partial amount transferred for the benefit of the counterparty as collateral for reverse repurchase agreements.
- (i) Restricted. The aggregate acquisition cost of such securities is \$7,554,048. The aggregate value is \$8,263,126, representing 2.1% of total investments.
- (j) Dividend rate is fixed until the first call date and variable thereafter.
- (k) Variable or Floating Rate Security Securities with an interest rate that changes periodically. The interest rate disclosed reflects the rate in effect on January 31, 2014.
- (l) Rates reflect the effective yields at purchase date.
- (m) Interest rate swap agreements outstanding at January 31, 2014:

OTC swap agreements:

Swap Counterparty	Notional Amount (000s)	Termination Date	Rate Type		Value	Upfront Premiums Paid	Unrealized Appreciation
			Payments Made	Payments Received			
Bank of America	\$130,400	4/30/19	USD-LIBOR 3-Month	1.90%	\$502,508	\$176,956	\$325,552
Deutsche Bank	130,400	4/30/19	USD-LIBOR 3-Month	1.90%	502,509	163,916	338,593
JPMorgan Chase	278,800	4/30/19	USD-LIBOR 3-Month	1.90%	1,074,380	376,874	697,506
Morgan Stanley	250,000	4/30/19	USD-LIBOR	1.90%	963,397	208,163	755,234
					\$3,042,794	\$925,909	\$2,116,885

Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

Centrally cleared swap agreements:

Broker (Exchange)	Notional Amount (000s)	Termination Date	Rate Type		Value	Unrealized Appreciation (Depreciation)
			Payments Made	Payments Received		
Goldman Sachs (CME)	\$37,000	6/18/44	3.50%	3-Month USD-LIBOR	\$1,210,564	\$(772,853)
Morgan Stanley (CME)	107,000	6/18/43	3.75%	3-Month USD-LIBOR	(1,728,780)	(2,172,995)
Morgan Stanley (CME)	107,000	6/19/44	3-Month USD-LIBOR	3.50%	(1,752,025)	1,738,594
					\$(2,270,241)	\$(1,207,254)

(n) Forward foreign currency contracts outstanding at January 31, 2014:

	Counterparty	U.S.\$ Value on Origination Date	U.S.\$ Value January 31, 2014	Unrealized Appreciation (Depreciation)
Purchased:				
644,659 Brazilian Real settling 2/4/14	Barclays Bank	\$271,321	\$267,133	\$(4,188)
644,659 Brazilian Real settling 2/4/14	Morgan Stanley	265,696	267,133	1,437
23,340,000 British Pound settling 2/4/14	Bank of America	38,705,819	38,368,595	(337,224)
1,701,000 British Pound settling 2/4/14	Credit Suisse First Boston	2,805,189	2,796,272	(8,917)
201,000 Euro settling 2/4/14	Credit Suisse First Boston	274,566	271,089	(3,477)
Sold:				
644,659 Brazilian Real settling 2/4/14	Barclays Bank	265,696	267,133	(1,437)
644,659 Brazilian Real settling 3/6/14	Barclays Bank	269,371	265,033	4,338
644,659 Brazilian Real settling 2/4/14	Morgan Stanley	273,810	267,133	6,677
23,340,000 British Pound settling 3/4/14	Bank of America	38,697,720	38,360,659	337,061
25,041,000 British Pound settling 2/4/14	Barclays Bank	40,757,433	41,164,867	(407,434)
201,000 Euro settling 2/4/14	Citigroup	276,711	271,089	5,622
201,000 Euro settling 3/4/14	Credit Suisse First Boston	274,559	271,091	3,468
				\$(404,074)

(o) At January 31, 2014, the Fund held \$4,054,000 in cash as collateral and pledged cash collateral of \$2,848,000 for derivative contracts. Cash collateral held may be invested in accordance with the Fund's investment strategy.

(p) Open reverse repurchase agreements at January 31, 2014:

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Counterparty	Rate	Trade Date	Due Date	Principal & Interest	Principal
Barclays Bank	(1.50)%	12/31/13	2/14/14	\$4,626,823	\$4,633,000

(q) The weighted average daily balance of reverse repurchase agreements during the six months ended January 31, 2014 was \$5,583,368, at a weighted average interest rate of (0.94)%. Total value of underlying collateral (refer to the Schedule of Investments for positions transferred for the benefit of the counterparty as collateral) for open reverse repurchase agreements at January 31, 2014 was \$4,618,750.

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Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

(r) Fair Value Measurements-See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 1/31/14
Investments in Securities Assets				
Corporate Bonds & Notes:				
Airlines	\$	\$2,710,726	\$4,271,721	\$6,982,447
Diversified Financial Services		12,929,234	2,383,642	15,312,876
All Other		77,354,681		77,354,681
Municipal Bonds		88,673,211		88,673,211
Mortgage-Backed Securities		82,702,662		82,702,662
Asset-Backed Securities		21,047,140		21,047,140
Preferred Stock:				
Banking	5,670,398			5,670,398
Diversified Financial Services		7,168,125		7,168,125
U.S. Government Agency Securities		1,835,602		1,835,602
Short-Term Investments		79,011,859		79,011,859
	5,670,398	373,433,240	6,655,363	385,759,001
Other Financial Instruments* Assets				
Foreign Exchange Contracts		358,603		358,603
Interest Rate Contracts		3,855,479		3,855,479
		4,214,082		4,214,082
Other Financial Instruments* Liabilities				
Foreign Exchange Contracts		(762,677)		(762,677)
Interest Rate Contracts		(2,945,848)		(2,945,848)
		(3,708,525)		(3,708,525)
Totals	\$5,670,398	\$373,938,797	\$6,655,363	\$386,264,558

At January 31, 2014, there were no transfers between Levels 1 and 2.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the six months ended January 31, 2014, was as follows:

Beginning Balance 7/31/13	Purchases	Sales	Accrued Discount (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/	Transfers into Level 3	Transfers out of Level 3**	Ending Balance 1/31/14
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Investments in Securities	Assets	Depreciation							
Corporate Bonds & Notes:									
Airlines		\$9,807,590	\$3,752,735	\$(5,332,991)	\$(13,847)	\$(22,108)	\$(1,208,932)	\$(2,710,726)	\$4,271,721
Diversified									
Financial Services			2,449,548	(14,826)	375	175	(51,630)		2,383,642
Electric Utilities		27,382		(441,604)			414,222		
Mortgage-Backed Securities		7,858,372	6	(1,849,537)	5,075	(78,057)	(8,081)	(5,927,778)	
U.S. Government Agency Securities		3,728,708	31,076	(3,849,405)		57,771	31,850		
Totals		\$21,422,052	\$6,233,365	\$(11,488,363)	\$(8,397)	\$(42,219)	\$(822,571)	\$(8,638,504)	\$6,655,363

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Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 at January 31, 2014.

Investments in Securities	Assets	Ending Balance at 1/31/14	Valuation Technique Used	Unobservable Inputs	Input Values
Corporate Bonds & Notes		\$2,043,753	Benchmark Pricing	Security Price Reset	\$109.80
		4,611,610	Third-Party Pricing Vendor	Single Broker Quote	\$96.73 \$113.50

Reduction of cost due to corporate action.

Liquidation due to corporate action.

Paydown shortfall.

* Other financial instruments are derivatives, such as swap agreements and forward foreign currency contracts, which are valued at the unrealized appreciation (depreciation) of the instrument.

** Transferred out of Level 3 into Level 2 because an evaluated price with observable inputs from a third-party pricing vendor became available.

The net change in unrealized appreciation/depreciation of Level 3 investments held at January 31, 2014, was \$(1,719,580). Net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statement of Operations.

(s) The following is a summary of the derivative instruments categorized by risk exposure:

The effect of derivatives on the Statement of Assets and Liabilities at January 31, 2014:

Location	Interest Rate Contracts	Foreign Exchange Contracts	Total
Asset derivatives:			

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Unrealized appreciation of OTC swaps	\$2,116,885	\$	\$2,116,885
Receivable for variation margin on centrally cleared swaps*	9,827		9,827
Unrealized appreciation of forward foreign currency contracts		358,603	358,603
Total asset derivatives	\$2,126,712	\$358,603	\$2,485,315
Liability derivatives:			
Payable for variation margin on centrally cleared swaps*	\$(266,847)	\$	\$(266,847)
Unrealized depreciation of forward foreign currency contracts		(762,677)	(762,677)
Total liability derivatives	\$(266,847)	\$(762,677)	\$(1,029,524)

* Included in net unrealized depreciation of \$1,207,254 on centrally cleared swaps as reported in note (m) of the Notes to Schedule of Investments.

The effect of derivatives on the Statement of Operations for the six months ended January 31, 2014:

Location	Interest Rate Contracts	Credit Contracts	Foreign Exchange Contracts	Total
Net realized gain (loss) on:				
Swaps	\$1,505,820	\$(457,519)	\$	\$1,048,301
Foreign currency transactions (forward foreign currency contracts)			(4,955,792)	(4,955,792)
Total net realized gain (loss)	\$1,505,820	\$(457,519)	\$(4,955,792)	\$(3,907,491)

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Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

Location	Interest Rate Contracts	Credit Contracts	Foreign Exchange Contracts	Total
Net change in unrealized appreciation/depreciation of:				
Swaps	\$(452,482)	\$(10,035)	\$	\$(462,517)
Foreign currency transactions (forward foreign currency contracts)			(1,145,564)	(1,145,564)
Total net change in unrealized appreciation/depreciation	\$(452,482)	\$(10,035)	\$(1,145,564)	\$(1,608,081)

The average volume (measured at each fiscal quarter-end) of derivative activity during the six months ended January 31, 2014:

Forward Foreign Currency Contracts (1)		Credit Default Swap Agreements (2)	Interest Rate Swap Agreements (2)
Purchased	Sold	Sell	
\$81,084,064	\$122,940,337	\$500	\$808,267

(1) U.S. \$ Value on origination date

(2) Notional Amount (in thousands)

Financial Assets and Derivative Assets, and Collateral Received at January 31, 2014:

Gross Amounts Not Offset in the Statement of Assets and Liabilities

Counterparty	Gross Asset Derivatives Presented in Statement of Assets and Liabilities	Financial Instrument	Cash Collateral Received	Net Amount
Foreign Currency Exchange Contracts				
Bank of America	\$337,061	\$(337,061)	\$	\$
Barclays Bank	4,338	(4,338)		
Citigroup	5,622			5,622
Credit Suisse First Boston	3,468	(3,468)		
Morgan Stanley	8,114		(8,114)	
Swaps				
Bank of America	325,552	(163)	(223,044)#	102,345

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Deutsche Bank	338,593		(236,084)#	102,509
JPMorgan Chase	697,506		(463,126)#	234,380
Morgan Stanley	755,234		(755,234) ,#	
Totals	\$2,475,488	\$(345,030)	\$(1,685,602)	\$444,856

Financial Assets and Derivative Assets, and Collateral Received at January 31, 2014:

Gross Amounts Not Offset in the Statement of Assets and Liabilities

Counterparty	Gross Financial Assets Presented in Statement of Assets and Liabilities	Financial Instrument	Net Amount
Repurchase Agreements			
RBC Capital Markets LLC	\$77,300,000	\$(77,300,000)	\$
State Street Bank & Trust Co.	962,000	(962,000)	
Totals	\$78,262,000	\$(78,262,000)	\$

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Schedule of Investments

PIMCO Income Strategy Fund

January 31, 2014 (unaudited) (continued)

Financial Liabilities and Derivative Liabilities, and Collateral Pledged at January 31, 2014:

Gross Amounts Not Offset in the Statement of Assets and Liabilities			
Counterparty	Gross Liability Derivatives Presented in Statement of Assets and Liabilities	Financial Instrument	Net Amount
Foreign Currency Exchange Contracts			
Bank of America	\$337,224	\$(337,224)	\$
Barclays Bank	413,059	(413,059)	
Credit Suisse First Boston	12,394	(3,468)	8,926
Totals	\$762,677	\$(753,751)	\$8,926

Counterparty	Payable for Reverse Repurchase Agreements	Financial Instrument	Net Amount
Barclays Bank plc	\$4,626,823	\$(4,618,750)	\$8,073

The actual collateral received is greater than the amount shown here due to over collateralization.

The actual collateral pledged is greater than the amount shown here due to over collateralization.

The amount includes interest receivable for Reverse Repurchase Agreements.

The amount includes upfront premiums paid.

Glossary:

- £ - British Pound
- CME - Chicago Mercantile Exchange
- CMO - Collateralized Mortgage Obligation
- Euro
- FRN - Floating Rate Note
- GO - General Obligation Bond
- IO - Interest Only
- LIBOR - London Inter-Bank Offered Rate
- NPFGC - insured by National Public Finance Guarantee Corp.

OTC - Over-the-Counter

See accompanying Notes to Financial Statements | January 31, 2014 | Semi-Annual Report 17

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited)

Principal Amount (000s)		Value
Mortgage-Backed Securities	26.8%	
\$7,097	Banc of America Alternative Loan Trust, CMO, 5.50%, 7/25/33	\$7,440,202
8,533	5.50%, 10/25/33	8,873,315
254	6.00%, 1/25/36	205,171
68	Banc of America Funding Trust, CMO, 2.785%, 1/20/47 (j)	55,680
10,280	6.00%, 8/25/37	9,111,876
813	BCAP LLC Trust, CMO (a)(c)(j), 2.81%, 5/26/36	21,240
2,500	5.429%, 3/26/37	744,185
1,891	9.698%, 5/26/37	343,550
6,078	14.58%, 9/26/36	4,927,781
634	14.963%, 6/26/36	158,709
1,960	Bear Stearns Adjustable Rate Mortgage Trust, 2.66%, 10/25/34, CMO (j)	1,775,039
562	Bear Stearns ALT-A Trust, CMO (j), 2.591%, 11/25/36	397,514
1,613	2.746%, 9/25/35	1,331,011
20	Chase Mortgage Finance Trust, CMO, 2.533%, 12/25/35 (j)	18,113
108	5.50%, 5/25/36	106,487
331	Citicorp Mortgage Securities Trust, CMO, 5.50%, 4/25/37	340,930
3,126	6.00%, 9/25/37	3,294,782
693	Countrywide Alternative Loan Trust, CMO, 5.50%, 3/25/35	625,978
1,682	5.50%, 1/25/36	1,508,828
248	5.50%, 3/25/36	197,642
3,422	5.741%, 4/25/36 (j)	2,512,567
862	5.75%, 1/25/35	836,055
982	5.75%, 2/25/35	948,162
1,498	5.75%, 12/25/36	1,195,158
777	6.00%, 2/25/35	814,465
1,056	6.00%, 4/25/36	872,093
5,333	6.00%, 5/25/36	4,228,964
3,601	6.00%, 4/25/37	2,857,807
4,717	6.00%, 5/25/37	3,779,345
2,123	6.00%, 8/25/37	1,472,183
1,632	6.25%, 11/25/36	1,439,270
1,090	6.25%, 12/25/36 (j)	908,570
936	6.50%, 8/25/36	663,507
1,433	Countrywide Home Loan Mortgage Pass-Through Trust, CMO, 5.75%, 3/25/37	1,299,543
978	6.00%, 5/25/36	896,707

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1,113
4,876

6.00%, 2/25/37
6.00%, 7/25/37

1,046,493
4,180,764

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
\$5,310	6.00%, 9/25/37	\$5,101,278
1,735	6.25%, 9/25/36	1,544,711
	Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust, CMO,	
436	5.75%, 4/25/36	383,431
3,012	5.863%, 2/25/37 (j)	1,771,060
2,641	6.75%, 8/25/36	2,060,586
	First Horizon Alternative Mortgage Securities Trust, CMO,	
1,674	6.00%, 5/25/36	1,484,314
2,736	6.00%, 8/25/36	2,454,318
	First Horizon Mortgage Pass-Through Trust, CMO (j),	
2,147	2.625%, 11/25/35	1,689,361
146	2.632%, 5/25/37	120,872
4,435	IndyMac IMSC Mortgage Loan Trust, 6.50%, 7/25/37, CMO	3,149,418
	JPMorgan Alternative Loan Trust, CMO,	
4,216	2.612%, 3/25/36 (j)	3,408,969
3,608	2.628%, 5/25/36 (j)	2,869,137
2,437	3.014%, 3/25/37 (j)	1,886,204
2,500	6.31%, 8/25/36	1,884,702
	JPMorgan Mortgage Trust, CMO,	
1,059	2.625%, 2/25/36 (j)	951,330
754	5.065%, 10/25/35 (j)	779,621
1,332	5.50%, 4/25/36	1,360,795
192	5.75%, 1/25/36	180,426
502	6.00%, 8/25/37	450,706
193	6.50%, 9/25/35	193,176
	Lehman Mortgage Trust, CMO,	
1,745	6.00%, 7/25/36	1,393,912
3,230	6.00%, 7/25/37	2,854,619
5,957	6.50%, 9/25/37	5,018,062
1,109	MASTR Asset Securitization Trust, 6.50%, 11/25/37, CMO	995,376
3,199	Merrill Lynch Mortgage Investors Trust, 2.912%, 3/25/36, CMO (j)	2,261,877
5,020	Morgan Stanley Mortgage Loan Trust, 4.987%, 5/25/36, CMO (j)	3,931,629
8,306	New Century Alternative Mortgage Loan Trust, 6.173%, 7/25/36, CMO (j)	5,959,434
41	Nomura Asset Acceptance Corp. Alternative Loan Trust, 4.976%, 5/25/35, CMO	39,251
	Residential Accredit Loans, Inc., CMO,	
2,634	3.432%, 12/26/34 (j)	2,222,731
8,341	5.75%, 1/25/34	8,730,294
2,218	6.00%, 6/25/36	1,810,896
748	6.00%, 8/25/36	621,755
1,550	6.00%, 12/25/36	1,234,310
	Residential Asset Securitization Trust, CMO,	
2,222	5.75%, 2/25/36	1,915,858
1,229	6.00%, 2/25/36	1,006,892
864	6.00%, 9/25/36	566,748
2,653	6.00%, 3/25/37	2,040,165

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3,599 6.00%, 5/25/37

3,250,896

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
\$2,371	6.00%, 7/25/37	\$1,956,950
3,970	6.25%, 9/25/37	3,179,768
	Residential Funding Mortgage Securities I, CMO,	
4,327	3.55%, 9/25/35 (j)	3,972,076
3,361	3.79%, 8/25/36 (j)	2,890,764
1,730	6.25%, 8/25/36	1,566,493
	Structured Adjustable Rate Mortgage Loan Trust, CMO (j),	
5,221	2.462%, 11/25/36	4,196,433
4,956	5.057%, 5/25/36	4,224,723
4,400	5.071%, 1/25/36	3,454,603
1,626	5.32%, 7/25/36	1,497,288
	Suntrust Adjustable Rate Mortgage Loan Trust, 3.179%, 2/25/37,	
663	CMO (j)	565,982
	WaMu Commercial Mortgage Securities Trust, 5.749%, 3/23/45,	
18,022	CMO (a)(c)(j)	18,582,226
	WaMu Mortgage Pass-Through Certificates, CMO (j),	
1,444	4.737%, 2/25/37	1,357,415
2,377	4.766%, 7/25/37	2,212,088
3,225	4.804%, 5/25/37	3,111,897
1,981	6.087%, 10/25/36	1,680,205
	Washington Mutual Mortgage Pass-Through Certificates, 6.00%,	
81	6/25/37, CMO	68,586
1,686	Wells Fargo Alternative Loan Trust, 6.00%, 7/25/37, CMO	1,610,278
	Wells Fargo Mortgage-Backed Securities Trust, CMO,	
2,661	2.612%, 7/25/36 (j)	2,587,337
1,301	2.616%, 8/25/36 (j)	1,247,153
380	2.623%, 4/25/36 (j)	372,430
798	2.685%, 7/25/36 (j)	738,422
967	5.75%, 3/25/37	924,160
	Total Mortgage-Backed Securities (cost-\$199,127,286)	213,006,083
	Corporate Bonds & Notes 25.5%	
	Airlines 1.5%	
	American Airlines Pass-Through Trust (d),	
7,362	9.73%, 9/29/14	5,521,448
3,834	10.18%, 1/2/13 (e)	4,209,830
2,164	United Air Lines Pass-Through Trust, 10.40%, 5/1/18	2,456,039
		12,187,317
	Auto Manufacturers 0.4%	
3,000	Ford Motor Co., 7.70%, 5/15/97	3,409,125
	Banking 6.8%	
1,000	Ally Financial, Inc., 8.30%, 2/12/15	1,066,250
1,700	Citigroup, Inc., 6.125%, 8/25/36	1,831,279
	LBG Capital No. 1 PLC,	
500	7.375%, 3/12/20	723,139
£300	7.588%, 5/12/20	527,692

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10,200	7.867%, 12/17/19	17,941,510
1,000	7.869%, 8/25/20	1,769,631
4,700	11.04%, 3/19/20	8,981,851

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
	Banking (continued)	
8,900	LBG Capital No. 2 PLC, 8.875%, 2/7/20	\$13,640,693
£300	12.75%, 8/10/20	589,831
1,100	15.00%, 12/21/19	2,201,261
\$5,000	Wachovia Capital Trust III, 5.57%, 4/7/14 (f)	4,700,000
		53,973,137
	Diversified Financial Services 6.9%	
1,800	AGFC Capital Trust I, 6.00%, 1/15/67 (converts to FRN on 1/15/17) (a)(c)	1,521,000
7,000	Army Hawaii Family Housing Trust Certificates, 5.524%, 6/15/50 (NPFGC) (a)(b)(c)(h) (acquisition cost-\$6,930,000; purchased 11/18/13)	7,029,820
5,118	GSPA Monetization Trust, 6.422%, 10/9/29 (a)(b)(c)(h) (acquisition cost-\$5,057,096; purchased 9/23/13)	4,950,642
11,000	ILFC E-Capital Trust II, 6.25%, 12/21/65 (converts to FRN on 12/21/15) (a)(c)	10,395,000
24,240	SLM Corp., 5.50%, 1/15/19	24,891,304
5,500	Western Group Housing L.P., 6.75%, 3/15/57 (a)(b)(c)(h) (acquisition cost-\$6,016,890; purchased 11/22/13)	6,169,185
		54,956,951
	Electric Utilities 0.3%	
2,351	Bruce Mansfield Unit, 6.85%, 6/1/34	2,524,997
19,515	Healthcare-Services 2.5% City of Hope, 5.623%, 11/15/43	20,207,919
	Insurance 0.2%	
1,400	American International Group, Inc., 8.175%, 5/15/68 (converts to FRN on 5/15/38)	1,746,500
8,200	Media 1.1% Time Warner Cable, Inc., 7.30%, 7/1/38	8,542,325
18,700	Mining 2.4% Corp. Nacional del Cobre de Chile, 5.625%, 10/18/43 (a)(c)	18,914,433
3,400	Oil & Gas 0.5% Anadarko Petroleum Corp., 7.00%, 11/15/27	3,740,704
7,000	Telecommunications 2.9% CenturyLink, Inc., 7.60%, 9/15/39	6,282,500
12,625	Northwestern Bell Telephone, 7.75%, 5/1/30	13,297,458
3,400	Qwest Corp., 7.20%, 11/10/26	3,437,485
		23,017,443
	Total Corporate Bonds & Notes (cost-\$181,132,623)	203,220,851
	Municipal Bonds 20.0%	
1,650	California 4.5% City & Cnty. of San Francisco Redev. Agcy., Tax Allocation, 8.406%, 8/1/39	1,833,447

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12,100	Infrastructure & Economic Dev. Bank Rev., 6.486%, 5/15/49	13,812,513
3,000	La Quinta Financing Auth., Tax Allocation, 8.07%, 9/1/36, Ser. A	3,150,480
4,000	Long Beach Redev. Agcy., Tax Allocation, 8.11%, 8/1/30	4,175,520

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
	California (continued)	
\$3,400	8.36%, 8/1/40	\$3,578,262
1,200	Riverside Cnty. Economic Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	1,264,512
7,500	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	7,644,900
		35,459,634
	District of Columbia 1.5%	
10,000	Metropolitan Airports Auth. Rev., 7.462%, 10/1/46	11,685,600
	Georgia 2.1%	
15,500	Municipal Electric Auth. of Georgia Rev., 6.655%, 4/1/57	16,949,560
	Nebraska 0.9%	
6,500	Public Power Generation Agcy. Rev., 7.242%, 1/1/41	7,106,710
	New Jersey 0.0%	
400	Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1-A	295,432
	New York 2.3%	
20,000	Port Auth. of New York & New Jersey Rev., 4.458%, 10/1/62, Ser. 174	18,237,000
	Ohio 3.2%	
27,300	State Univ. Rev., 4.80%, 6/1/11, Ser. A	25,529,868
	Texas 5.5%	
16,500	Dallas Convention Center Hotel Dev. Corp. Rev., 7.088%, 1/1/42	19,450,365
21,500	North Texas Tollway Auth. Rev., 8.91%, 2/1/30	24,579,660
		44,030,025
		159,293,829
	Total Municipal Bonds (cost-\$150,470,667)	
	Preferred Stock 4.7%	
	Diversified Financial Services 4.7%	
260,000	Citigroup Capital XIII, 7.875%, 10/30/15 (i)	7,053,800
	Farm Credit Bank, 6.75%, 9/15/23 (a)(b)(c)(f)(h)(i)	
100,000	(acquisition cost-\$10,000,000; purchased 7/16/13)	10,212,500
16,900	10.00%, 12/15/20, Ser. 1 (f)	20,190,219
		37,456,519
	Total Preferred Stock (cost-\$35,964,250)	
	U.S. Government Agency Securities 2.7%	
	Fannie Mae, CMO, IO, 3.50%, 2/25/42-2/25/43	2,112,669
\$10,235		
19,654	4.00%, 8/25/42	3,745,522
5,013	4.50%, 11/25/42	1,046,613
8,847	6.092%, 1/25/40-8/25/41 (j)	1,698,244

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35,904	6.442%, 11/25/40-4/25/41 (j)	7,218,730
	Freddie Mac, CMO, IO,	
3,912	3.00%, 2/15/33	596,742

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
\$13,103	3.50%, 12/15/32-1/15/43	\$2,130,161
4,071	4.00%, 11/15/39	712,329
4,773	5.84%, 8/15/42 (j)	1,080,887
4,812	Ginnie Mae, CMO, IO, 3.50%, 6/20/42-3/20/43	718,240
4,516	4.00%, 3/20/42-10/20/42	803,228
Total U.S. Government Agency Securities (cost-\$21,520,390)		21,863,365
Asset-Backed Securities 2.2%		
455	Bear Stearns Asset-Backed Securities Trust, 6.50%, 10/25/36	394,338
1,951	Greenpoint Manufactured Housing, 8.14%, 3/20/30 (j)	2,006,763
2,575	GSAA Home Equity Trust, 5.772%, 11/25/36 (j)	1,661,709
1,988	6.295%, 6/25/36	1,183,621
4,068	IndyMac Residential Asset-Backed Trust, 0.318%, 7/25/37 (j)	2,562,535
6,875	Lehman XS Trust, 5.895%, 6/24/46	5,490,067
885	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	893,808
354	Mid-State Trust IV, 8.33%, 4/1/30	366,544
1,595	Mid-State Trust VII, 6.34%, 10/15/36	1,689,748
1,149	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47 (j)	882,658
Total Asset-Backed Securities (cost-\$16,646,032)		17,131,791
Sovereign Debt Obligations 0.4%		
2,500	Spain 0.4% Autonomous Community of Valencia Spain, 2.593%, 9/3/17 (j) (cost-\$2,903,994)	3,338,031
Short-Term Investments 17.7%		
\$138,700	Repurchase Agreements 17.6% RBC Capital Markets LLC, dated 1/31/14, 0.03%, due 2/3/14, proceeds \$138,700,347; collateralized by U.S. Treasury Notes, 0.125%-1.50%, due 7/31/14-8/31/18, valued at \$141,549,869 including accrued interest	138,700,000
1,748	State Street Bank and Trust Co., dated 1/31/14, 0.00%, due 2/3/14, proceeds \$1,748,000; collateralized by Fannie Mae, 2.17%, due 10/17/22, valued at \$1,785,657 including accrued interest	1,748,000
Total Repurchase Agreements (cost-\$140,448,000)		140,448,000
560	U.S. Treasury Obligations 0.1% U.S. Treasury Bills, 0.038%, 7/3/14 (g)(k) (cost-\$559,911)	559,895
Total Short-Term Investments (cost-\$141,007,911)		141,007,895
Total Investments (cost-\$748,773,153) 100.0%		\$796,318,364

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)


Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$83,970,271, representing 10.5% of total investments.
- (b) Illiquid.
- (c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (d) In default.
- (e) Fair-Valued Security with a value of \$4,209,830, representing 0.5% of total investments. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (f) Perpetual maturity. The date shown, if any, is the next call date. For Corporate Bonds & Notes the interest rate is fixed until the first call date and variable thereafter.
- (g) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.
- (h) Restricted. The aggregate acquisition cost of such securities is \$28,003,986. The aggregate value is \$28,362,147, representing 3.6% of total investments.
- (i) Dividend rate is fixed until the first call date and variable thereafter.
- (j) Variable or Floating Rate Security Securities with an interest rate that changes periodically. The interest rate disclosed reflects the rate in effect on January 31, 2014.
- (k) Rates reflect the effective yields at purchase date.
- (l) Interest rate swap agreements outstanding at January 31, 2014:

OTC swap agreements:

Rate Type

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Swap Counterparty	Notional Amount (000s)	Termination Date	Payments Made	Payments Received	Value	Upfront Premiums Paid (Received)	Unrealized Appreciation
							

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

Centrally cleared swap agreements:

Broker (Exchange)	Notional Amount (000s)	Termination Date	Payments Made	Rate Type	Payments Received	Value	Unrealized Appreciation (Depreciation)
[Redacted]							

(m) Forward foreign currency contracts outstanding at January 31, 2014:

Counterparty	U.S.\$ Value on Origination Date	U.S.\$ Value January 31, 2014	Unrealized Appreciation (Depreciation)
[Redacted]			

(n) At January 31, 2014, the Fund held \$5,498,000 in cash as collateral and pledged cash collateral of \$5,141,000 for derivative contracts. Cash collateral held may be invested in accordance with the Fund's investment strategy.

(o) The weighted average daily balance of reverse repurchase agreements during the six months ended January 31, 2014 was \$13,330,250, at a weighted average interest rate of 0.40%. There were no open reverse repurchase agreements at January 31, 2014.

Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

(p) Fair Value Measurements-See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 1/31/14
Investments in Securities Assets				
Mortgage-Backed Securities	\$	\$213,006,083	\$	\$213,006,083
Corporate Bonds & Notes:				
Airlines		5,521,448	6,665,869	12,187,317
Diversified Financial Services		50,006,309	4,950,642	54,956,951
All Other		136,076,583		136,076,583
Municipal Bonds		159,293,829		159,293,829
Preferred Stock	7,053,800	30,402,719		37,456,519
U.S. Government Agency Securities		21,863,365		21,863,365
Asset-Backed Securities		17,131,791		17,131,791
Sovereign Debt Obligations		3,338,031		3,338,031
Short-Term Investments		141,007,895		141,007,895
	7,053,800	777,648,053	11,616,511	796,318,364
Other Financial Instruments* Assets				
Foreign Exchange Contracts		954,819		954,819
Interest Rate Contracts		13,862,568		13,862,568
		14,817,387		14,817,387
Other Financial Instruments* Liabilities				
Foreign Exchange Contracts		(844,136)		(844,136)
Interest Rate Contracts		(6,179,734)		(6,179,734)
		(7,023,870)		(7,023,870)
Totals	\$7,053,800	\$785,441,570	\$11,616,511	\$804,111,881

At January 31, 2014, there were no transfers between Levels 1 and 2.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the six months ended January 31, 2014, was as follows:

Beginning Balance 7/31/13	Purchases	Sales	Accrued Discount (Premiums)	Net Realized Gain	Net Change in Unrealized	Transfers into Level 3	Transfers out of Level 3**	Ending Balance 1/31/14
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				(Loss)	Appreciation/ Depreciation		
Investments in Securities							
Assets							
Mortgage-Backed Securities	\$16,310,862	\$8,866,091	\$(5,819,142)	\$10,032	\$(296,178)	\$12,820	\$(19,084,485) \$
Corporate Bonds & Notes:							
Airlines	20,947,526	4,837,776	(10,958,426)	(27,665)	(48,651)	(2,563,243)	(5,521,448) 6,665,869
Diversified Financial							
Services		5,087,522	(30,792)	779	364	(107,231)	4,950,642
Electric Utilities	57,254		(923,667)			866,413	
U.S. Government Agency							
Securities	7,599,192	63,334	(7,845,175)		117,738	64,911	
Totals	\$44,914,834	\$18,854,723	\$(25,577,202)	\$(16,854)	\$(226,727)	\$(1,726,330)	\$(24,605,933) \$11,616,511

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 at January 31, 2014.

Investments in Securities	Assets	Ending Balance at 1/31/14	Valuation Technique Used	Unobservable Inputs	Input Values
Corporate Bonds & Notes		\$4,209,830	Benchmark Pricing	Security Price Request	\$109.80
		7,406,681	Third-Party Pricing Vendor	Single Broker Quote	\$96.73 \$113.50

Reduction of cost due to corporate action.

Liquidation due to corporate action.

Paydown shortfall.

* Other financial instruments are derivatives, such as swap agreements and forward foreign currency contracts, which are valued at the unrealized appreciation (depreciation) of the instrument.

** Transferred out of Level 3 into Level 2 because an evaluated price with observable inputs from a third-party pricing vendor became available.

The net change in unrealized appreciation/depreciation of Level 3 investments held at January 31, 2014, was \$(3,628,305). Net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statement of Operations.

(q) The following is a summary of the derivative instruments categorized by risk exposure:

The effect of derivatives on the Statement of Assets and Liabilities at January 31, 2014:

Location	Interest Rate	Foreign Exchange	Total
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	Contracts	Contracts	
Asset derivatives:			
Unrealized appreciation of OTC swaps	\$10,027,911	\$	\$10,027,911
Receivable for variation margin on centrally cleared swaps*	21,674		21,674
Unrealized appreciation of forward foreign currency contracts		954,819	954,819
Total asset derivatives	\$10,049,585	\$ 954,819	\$11,004,404
Liability derivatives:			
Payable for variation margin on centrally cleared swaps*	\$(478,881)	\$	\$(478,881)
Unrealized depreciation of forward foreign currency contracts		(844,136)	(844,136)
Total liability derivatives	\$(478,881)	\$(844,136)	\$(1,323,017)

* Included in net unrealized depreciation of \$2,345,077 on centrally cleared swaps as reported in note (l) of the Notes to Schedule of Investments.

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

The effect of derivatives on the Statement of Operations for the six months ended January 31, 2014:

Location	Interest Rate Contracts	Foreign Exchange Contracts	Total
Net realized gain (loss) on:			
Swaps	\$5,462,216	\$	\$5,462,216
Foreign currency transactions (forward foreign currency contracts)		(9,522,379)	(9,522,379)
Total net realized gain (loss)	\$5,462,216	\$(9,522,379)	\$(4,060,163)
Net change in unrealized appreciation/depreciation of:			
Swaps	\$133,556	\$	\$133,556
Foreign currency transactions (forward foreign currency contracts)		438,642	438,642
Total net change in unrealized appreciation/depreciation	\$133,556	\$ 438,642	\$572,198

The average volume (measured at each fiscal quarter-end) of derivative activity during the six months ended January 31, 2014:

Forward Foreign Currency Contracts (1)		Interest Rate Swap Agreements (2)
Purchased	Sold	
\$135,488,232	\$188,490,535	\$1,724,667

(1) U.S. \$ Value on origination date

(2) Notional Amount (in thousands)

Financial Assets and Derivative Assets, and Collateral Received at January 31, 2014:

Gross Amounts Not Offset in the Statement of Assets and Liabilities

Counterparty	Gross Asset Derivatives Presented in Statement of Assets and Liabilities	Financial Instrument	Cash Collateral Received	Net Amount
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Foreign Currency Exchange Contracts

Bank of America	\$267,757	\$(267,757)	\$	\$
Barclays Bank	9,540	(9,540)		
BNP Paribas	398,155		(280,000)	118,155
Credit Suisse First Boston	261,524	(261,524)		
Morgan Stanley	17,843		(17,843)	

Swaps

Bank of America	521,033	(129)	(346,789)#	174,115
Deutsche Bank	541,903		(367,659)#	174,244
JPMorgan Chase	8,209,741		(3,430,354)#,##	4,779,387
Morgan Stanley	755,234		(755,234) ,#	
Totals	\$10,982,730	\$(538,950)	\$(5,197,879)	\$5,245,901

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Schedule of Investments

PIMCO Income Strategy Fund II

January 31, 2014 (unaudited) (continued)

Financial Assets and Derivative Assets, and Collateral Received at January 31, 2014:

Gross Amounts Not Offset in the Statement of Assets and Liabilities

Counterparty	Gross Financial Assets Presented in Statement of Assets and Liabilities	Financial Instrument	Net Amount
Repurchase Agreements			
RBC Capital Markets LLC			