

PIMCO INCOME STRATEGY FUND  
Form N-CSRS  
April 02, 2013

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, 2013  
end:

Date of reporting period: January 31, 2013

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Item 1. Report to Shareholders

January 31, 2013

**PIMCO Income Strategy Fund**



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Dear Shareholder:

The US economy continued to advance during the six-month fiscal reporting period ended January 31, 2013. The housing market nationwide displayed signs of strength, hiring increased at a steady pace and export orders were on the rise. As consumer confidence increased, investors shifted from US Treasuries to equities. Bond yields rose from all-time lows and stocks approached their highest levels in five years.

**Six-Month Period in Review through January 31, 2013**

Hans W. Kertess

*Chairman*

For the six-month period ended January 31, 2013:

- PIMCO Income Strategy Fund returned 16.05% on net asset value ( NAV ) and 13.38% on market price.
- PIMCO Income Strategy Fund II returned 14.03% on NAV and 14.88% on market price.

Brian S. Shlissel

The Barclays U.S. Credit Index, a measure of high quality corporate bond performance, advanced 0.96% and the Barclays U.S. High Yield Bond Index, a measure of below investment-grade corporate bond performance, rose 7.37% during the reporting period. Government bonds, represented by the Barclays Long-Term Treasury Index, declined 7.12%. The Barclays U.S. Aggregate Bond Index, a broad credit market measure of government and corporate securities, fell 0.29%, and mortgage-backed securities, reflected by the Barclays Fixed Rate MBS Index, declined 0.41%. As for stocks, the Standard & Poor's 500 Index increased 9.91% during the six-month fiscal period ended January 31, 2013.

*President & CEO*

US 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, expanded at an annual rate of 3.1% during the third quarter of 2012 before declining to a negative 0.1% annually during the fourth quarter of 2012. The government indicated that the drop in defense spending was the principal reason for the slowdown. US unemployment fell to 7.9% from 8.1% during the six-month reporting period. For the 2012 calendar year the economy created on average 181,000 nonfarm jobs each month according to the government. The S&P/Case-Shiller Home Price Index, a leading measure of the US residential housing market, signified that home prices rose 5.5% in its 20-City Composite during the 12-months ended November 30, 2012. According to a study by CoreLogic, a leading

provider of consumer, financial and property information analytics and services to businesses and governments, home prices advanced in 46 of 50 states during the 12-months ended December 31, 2012. Auto sales increased 13% during the same period.

## Outlook

In addition to the drop in defense spending that contributed to a weaker-than-expected GDP figure in the fourth quarter of 2012, further spending cuts by the government began on March 1, 2013. These cuts known as the sequester, are split between defense and domestic spending. The sequester is designed to cut federal spending by \$1.2 trillion, spread out over the next ten years. Both the White House and Congress say the cuts are such that the economic recovery could be jeopardized. As of this writing, the cuts are underway, and the issue has not been resolved.

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Beyond this uncertainty, we see positive signs for the US economy in 2013. The economy is expected to grow between 2.50% to 2.75%, largely driven by the strengthening housing market. Home prices are anticipated to appreciate 10% on a national basis and the improving labor market is expected to drive wage gains beyond the drag created by the December 31, 2012 expiration of the 2% payroll tax holiday.

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.us.allianzgi.com/closedendfunds](http://www.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

Brian S. Shlissel  
President & CEO

**PIMCO Income Strategy Fund/PIMCO Income Strategy Fund II  
Fund Insights**

January 31, 2013

For the six-months ended January 31, 2013, PIMCO Income Strategy Fund returned 16.05% on net asset value ( NAV ) and 13.38% on market price.

For the six-months ended January 31, 2013, PIMCO Income Strategy Fund II returned 14.03% on NAV and 14.88% on market price.

The unmanaged Barclays U.S. Aggregate Bond Index and Barclays U.S. Credit Index returned -0.29% and 0.96% respectively, during the reporting period.

The overall US fixed income market was volatile at times during the reporting period. This was triggered by a number of macro issues that impacted investor sentiment, including the European sovereign debt crisis, moderating global growth and the US fiscal cliff. Against this backdrop, the spread sectors (non-US Treasuries) produced mixed results during the six-months ended January 31, 2013. Most spread sectors initially rallied as investor sentiment was buoyed given some signs of progress in Europe, coupled with additional quantitative easing by the Federal Reserve Board and the European Central Bank. However, a portion of those gains were given back in some spread sectors toward the end of the period. This occurred as the worst of the fiscal cliff was averted and interest rates rose sharply. One exception was high yield corporate bonds, as they continued to rally given strong demand from investors looking to generate incremental yield in the low interest rate environment. All told, during the six-months ended January 31, 2013 both short- and long-term Treasury yields moved higher and the yield curve steepened.

After producing solid results during the first half of the reporting period, the US corporate bond market posted weak results as the period progressed. Initially supporting the corporate bond market were corporate profits that often exceeded expectations, cash-rich corporate balance sheets, low defaults and overall solid demand. While the fundamentals in the corporate bond market remained solid, the market sold off toward the end of 2012 and in January 2013 as interest rates rose sharply.

PIMCO Income Strategy Fund

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**PIMCO Income Strategy Fund/PIMCO Income Strategy Fund II  
Fund Insights**

January 31, 2013 (continued)

**Sector exposures largely contributed to the Funds' performance**

During the reporting period, the Funds' outperformed the broad US fixed income market (as measured by the Barclays U.S. Aggregate Bond Index) as well as the US credit market (as measured by the Barclays U.S. Credit Index).

An allocation to Build America Bonds was rewarded, as these subsidized taxable municipal securities generally outperformed the broader market. An allocation to non-agency mortgage-backed securities helped performance, as these bonds generally outperformed the broader market, supported by positive supply/demand technicals. An overweight to the Financial sector was beneficial as it outperformed the broad credit market during the past six months. In addition, the Funds' overweight and security selection within the Insurance sector was additive to performance. Finally, the Funds' underweight to the long end of the yield curve helped performance as the yield curve steepened during the six months ended January 31, 2013.

On the downside, an underweighting to lower rated Telecommunications issues detracted from results as this sector outperformed the overall credit market.



**PIMCO Income Strategy Fund  
Performance & Statistics**

January 31, 2013 (unaudited)

<b>Total Return(1):</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	13.38%	16.05%
1 Year	33.28%	32.58%
5 Year	9.00%	8.80%
Commencement of Operations (8/29/03) to 1/31/13	6.56%	6.37%

**Market Price/NAV Performance:**

Commencement of Operations (8/29/03) to 1/31/13

Market Price  
NAV

**Market Price/NAV:**

Market Price	\$13.26
NAV	\$12.27
Premium to NAV	8.07%
Market Price Yield(2)	7.18%
Leverage Ratio(3)	21.20%

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**PIMCO Income Strategy Fund II  
Performance & Statistics**

January 31, 2013 (unaudited)

<b>Total Return(1):</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	14.88%	14.03%
1 Year	32.41%	29.60%
5 Year	7.48%	5.78%
Commencement of Operations (10/29/04) to 1/31/13	4.61%	4.26%

**Market Price/NAV Performance:**

Commencement of Operations (10/29/04) to 1/31/13

Market Price  
NAV

**Market Price/NAV:**

Market Price \$11.52  
NAV \$10.65  
Premium to NAV 8.17%  
Market Price Yield(2) 7.46%  
Leverage Ratio(3) 20.63%

(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 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 each Fund, market conditions, supply and demand for each Fund's shares, or changes in each Fund's dividends.

An investment in each 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

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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 dividend per common share (comprised of net investment income) by the market price per common share at January 31, 2013.

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

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2013 (unaudited)

Principal Amount (000s)		Value
<b>CORPORATE BONDS &amp; NOTES</b>	<b>51.7%</b>	
<b>Airlines</b>	<b>1.5%</b>	
\$900	American Airlines, Inc., 10.50%, 10/15/12 (d)	\$1,046,250
3,614	American Airlines Pass-Through Trust (d), 9.73%, 9/29/14	2,891,441
1,861	10.18%, 1/2/13 (b) (e)	2,103,263
		6,040,954
<b>Auto Manufacturers</b>	<b>2.3%</b>	
7,800	Ford Motor Co., 7.70%, 5/15/97	9,126,000
<b>Banking</b>	<b>24.2%</b>	
2,600	AgFirst Farm Credit Bank, 7.30%, 3/4/13 (a) (b) (c) (f) (i) (acquisition cost-\$2,225,000; purchased 2/26/10-4/15/10)	2,600,000
475	Ally Financial, Inc., 5.90%, 1/15/19-10/15/19	467,307
535	6.00%, 2/15/19-9/15/19	524,147
538	6.05%, 8/15/19-10/15/19	529,968
20	6.10%, 9/15/19	19,749
31	6.125%, 10/15/19	30,578
1,345	6.15%, 8/15/19-10/15/19	1,323,737
22	6.20%, 4/15/19	21,674
1,406	6.25%, 2/15/16-7/15/19	1,397,863
120	6.30%, 8/15/19	118,794
1,468	6.35%, 2/15/16-4/15/19	1,458,165
629	6.40%, 3/15/16-11/15/19	623,164
2,021	6.50%, 2/15/16-5/15/19	1,988,478
383	6.55%, 12/15/19	378,414
24	6.60%, 5/15/18-6/15/19	23,654
71	6.65%, 6/15/18-10/15/18	70,550
197	6.70%, 6/15/18-6/15/19	195,087
464	6.75%, 4/15/13-6/15/19	465,214
208	6.80%, 9/15/16-10/15/18	205,954
968	6.85%, 4/15/16-5/15/18	968,462
341	6.875%, 8/15/16-7/15/18	339,677
182	6.90%, 6/15/17-8/15/18	181,738
151	6.95%, 6/15/17	149,556
721	7.00%, 12/15/16-9/15/18	714,850
81	7.05%, 3/15/18-4/15/18	80,304
160	7.125%, 10/15/17	158,404
40	7.15%, 3/15/25	39,465
75	7.20%, 10/15/17	74,563
929	7.25%, 6/15/16-9/15/18	924,854
25	7.30%, 1/15/18	24,756
396	7.35%, 4/15/18	394,005
57	7.50%, 6/15/16	57,263
45	7.55%, 5/15/16	44,519
47	7.75%, 10/15/17	46,469
110	8.125%, 11/15/17	109,127
110	9.00%, 7/15/20	109,996
£10,400	Barclays Bank PLC, 14.00%, 6/15/19 (f)	22,143,403
\$600	BNP Paribas S.A., 7.195%, 6/25/37 (a) (c) (f)	627,300

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650	BPCE S.A., 9.00%, 3/17/15 (f)	913,461
3,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20	4,568,321

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Banking (continued)</b>		
\$9,400	11.00%, 6/30/19 (a) (b) (c) (f) (i) (acquisition cost-\$12,041,500; purchased 4/30/10-7/27/12) Credit Agricole S.A. (f),	\$12,673,080
2,000	7.875%, 10/26/19	2,873,107
\$2,200	8.375%, 10/13/19 (a) (c) LBG Capital No. 1 PLC,	2,411,750
500	6.439%, 5/23/20	674,657
200	7.375%, 3/12/20	279,451
£300	7.588%, 5/12/20	497,163
4,800	7.867%, 12/17/19	7,996,485
2,400	7.869%, 8/25/20	4,029,090
\$1,400	8.00%, 6/15/20 (a) (b) (c) (f) (i) (acquisition cost-\$1,174,250; purchased 2/2/10-3/23/10)	1,500,265
2,000	8.50%, 12/17/21 (a) (b) (c) (f) (i) (acquisition cost-\$1,820,000; purchased 5/3/10)	2,143,236
£900	11.04%, 3/19/20 LBG Capital No. 2 PLC,	1,665,920
534	9.125%, 7/15/20	921,331
2,500	11.25%, 9/14/23	4,641,033
\$3,300	Santander Finance Preferred S.A. Unipersonal, 10.50%, 9/29/14 (f)	3,515,163
£2,000	Santander Issuances S.A. Unipersonal, 7.30%, 7/27/19 (converts to FRN on 9/27/14)	3,227,510
		94,162,231
<b>Diversified Financial Services 9.0%</b>		
\$7,000	ILFC E-Capital Trust I, 4.54%, 12/21/65 (a) (c) (k) SLM Corp.,	5,600,000
6,200	8.00%, 3/25/20	7,207,500
12,200	8.45%, 6/15/18	14,596,202
8,200	Springleaf Finance Corp., 6.50%, 9/15/17	7,749,000
		35,152,702
<b>Electric Utilities 0.7%</b>		
1,900	AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (c)	2,109,000
1,100	Dynegy Roseton LLC / Dynegy Danskammer LLC Pass-Through Trust, 7.67%, 11/8/16, Ser. B (b) (d)	27,500
400	PPL Capital Funding, Inc., 6.70%, 3/30/67 (converts to FRN on 3/30/17)	426,386
		2,562,886
<b>Household Products/Wares 0.2%</b>		
800	Reynolds Group Issuer, Inc., 9.00%, 4/15/19	848,000
<b>Insurance 12.2%</b>		
2,000	American General Institutional Capital B, 8.125%, 3/15/46 (a) (c)	2,615,000
4,000	American International Group, Inc., 6.25%, 3/15/87 (converts to FRN on 3/15/37) (h)	4,285,000
MXN8,000	7.98%, 6/15/17	614,096
1,000	8.00%, 5/22/68 (converts to FRN on 5/22/18)	1,585,626
4,700	8.00%, 5/22/68 (converts to FRN on 5/22/18) (a) (b) (c) (i) (acquisition cost-\$6,097,976; purchased 4/4/11-2/8/12)	7,452,444
\$16,571	8.175%, 5/15/68 (converts to FRN on 5/15/38)	21,625,155

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£1,350	8.625%, 5/22/68 (converts to FRN on 5/22/18)	2,644,263
3,500	8.625%, 5/22/68 (converts to FRN on 5/22/18) (a) (b) (c) (i) (acquisition cost-\$5,656,211; purchased 4/19/12-5/7/12)	6,855,497
		47,677,081

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2013 (unaudited) (continued)

Principal Amount (000s)			Value
<b>Oil &amp; Gas 0.2%</b>			
\$600		SandRidge Energy, Inc., 8.00%, 6/1/18 (a) (c)	\$633,000
<b>Pipelines 1.4%</b>			
5,000		NGPL PipeCo LLC, 7.768%, 12/15/37 (a) (c)	5,325,000
Total Corporate Bonds & Notes (cost-\$177,107,213)			201,527,854
<b>MORTGAGE-BACKED SECURITIES 20.6%</b>			
127		Banc of America Alternative Loan Trust, 6.00%, 1/25/36 CMO	101,144
		Banc of America Funding Trust, CMO,	
4,598		6.00%, 8/25/36	4,630,572
2,705		6.00%, 3/25/37	2,451,834
		BCAP LLC Trust, CMO (a) (c) (k),	
1,200		5.425%, 3/26/37	166,800
511		11.955%, 6/26/36	97,608
		Bear Stearns ALT-A Trust, CMO (k),	
912		2.901%, 9/25/35	710,564
363		2.958%, 11/25/36	249,833
		Chase Mortgage Finance Trust, CMO,	
12		2.907%, 12/25/35 (k)	11,631
1,337		6.00%, 2/25/37	1,226,676
922		6.00%, 7/25/37	836,608
2,314		6.25%, 10/25/36	2,195,802
271		Citicorp Mortgage Securities Trust, 5.50%, 4/25/37 CMO	277,570
		Countrywide Alternative Loan Trust, CMO,	
394		5.50%, 3/25/35	333,468
176		5.50%, 3/25/36	137,384
479		5.75%, 1/25/35	459,034
477		6.00%, 2/25/35	475,541
3,018		6.00%, 5/25/36	2,288,664
1,429		6.00%, 4/25/37	1,140,217
1,168		6.00%, 8/25/37	805,310
1,867		6.005%, 4/25/36 (k)	1,300,128
931		6.25%, 11/25/36	793,465
537		6.50%, 8/25/36	392,065
		Countrywide Home Loan Mortgage Pass-Through Trust, CMO,	
94		2.803%, 2/20/35 (k)	89,933
780		5.50%, 10/25/35	784,523
933		5.75%, 3/25/37	832,242
605		6.00%, 5/25/36	564,046
746		6.00%, 2/25/37	684,062
179		6.00%, 4/25/37	167,120
1,038		6.25%, 9/25/36	890,986



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		Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust, CMO,	
557		6.00%, 2/25/37	491,788
1,436		6.75%, 8/25/36	1,076,275
		GSR Mortgage Loan Trust, CMO,	
240		5.50%, 5/25/36	219,159
6,200		6.00%, 2/25/36	6,011,380
67		Harborview Mortgage Loan Trust, 3.059%, 7/19/35 CMO (k)	56,723
2,323		IndyMac IMSC Mortgage Loan Trust, 6.50%, 7/25/37 CMO	1,477,326

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
	JPMorgan Alternative Loan Trust, CMO,	
\$2,327	3.655%, 3/25/36 (k)	\$1,833,306
1,975	5.65%, 3/25/37 (k)	1,425,871
1,200	6.31%, 8/25/36	863,483
	JPMorgan Mortgage Trust, CMO,	
729	3.058%, 2/25/36 (k)	659,106
1,364	5.00%, 3/25/37	1,229,824
708	5.325%, 1/25/37 (k)	613,883
129	5.75%, 1/25/36	122,086
370	6.00%, 8/25/37	326,805
4,453	New Century Alternative Mortgage Loan Trust, 6.173%, 7/25/36 CMO (k)	3,164,674
	Residential Accredited Loans, Inc., CMO,	
3,854	5.75%, 1/25/34	4,164,595
580	6.00%, 6/25/36	475,771
	Residential Asset Securitization Trust, CMO,	
1,224	5.75%, 2/25/36	1,030,975
483	6.00%, 9/25/36	313,278
874	6.00%, 3/25/37	693,493
2,087	6.00%, 5/25/37	1,923,346
1,263	6.00%, 7/25/37	1,047,666
2,128	6.25%, 9/25/37	1,524,828
	Residential Funding Mortgage Securities I, CMO,	
2,344	5.704%, 8/25/36 (k)	1,966,807
365	6.00%, 9/25/36	338,165
908	6.00%, 1/25/37	820,826
4,646	6.00%, 6/25/37	4,140,122
	Structured Adjustable Rate Mortgage Loan Trust, CMO (k),	
1,706	5.259%, 1/25/36	1,335,002
3,007	5.315%, 5/25/36	2,618,186
993	5.487%, 7/25/36	943,610
2,098	5.516%, 11/25/36	1,648,290
	Suntrust Adjustable Rate Mortgage Loan Trust, CMO (k),	
2,613	5.478%, 4/25/37	2,200,663
431	5.803%, 2/25/37	367,317
	WaMu Mortgage Pass-Through Certificates, CMO (k),	
264	2.686%, 9/25/36	219,050
912	5.144%, 2/25/37	883,011
1,211	6.087%, 10/25/36	1,123,285
961	Washington Mutual MSC Mortgage Pass-Through Certificates Trust, 6.50%, 8/25/34 CMO	990,879
	Wells Fargo Mortgage-Backed Securities Trust, CMO,	
1,596	2.603%, 7/25/36 (k)	1,476,658
466	2.622%, 7/25/36 (k)	427,736
235	2.71%, 4/25/36 (k)	222,954
971	5.082%, 8/25/36 (k)	914,280
641	5.75%, 3/25/37	611,432
394	6.00%, 6/25/37	389,603
582	6.00%, 7/25/37	573,092

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Total Mortgage-Backed Securities (cost-\$72,408,941)

80,051,439

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>MUNICIPAL BONDS 5.5%</b>		
<b>California 2.8%</b>		
	Golden State Tobacco Securitization Corp. Rev., 5.125%, 6/1/47, Ser. A-1	\$4,321,100
\$5,000		
900	Long Beach Redev. Agcy., Tax Allocation, 8.36%, 8/1/40	987,399
1,100	Oakland Unified School Dist., Alameda Cnty., GO, 9.50%, 8/1/34	1,279,399
600	Riverside Cnty. Economic Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	626,484
3,600	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	3,511,800
		10,726,182
<b>Texas 2.7%</b>		
9,000	North Texas Tollway Auth. Rev., 8.91%, 2/1/30	10,720,620
Total Municipal Bonds (cost-\$18,601,413)		21,446,802
Shares		
<b>PREFERRED STOCK (j) 2.8%</b>		
<b>Banking 2.8%</b>		
100,000	Ally Financial, Inc., 8.50%, 5/15/16, Ser. A (f)	2,632,000
90,200	CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (c) (f) (i) (acquisition cost-\$4,973,200; purchased 8/31/10-2/1/11)	4,622,750
137,000	GMAC Capital Trust I, 8.125%, 2/15/16, Ser. 2	3,653,790
Total Preferred Stock (cost-\$10,880,400)		10,908,540
Principal Amount (000s)		
<b>ASSET-BACKED SECURITIES 1.0%</b>		
\$1,136	Asset-Backed Funding Certificates, 0.424%, 5/25/37 (a) (c) (k)	909,971
293	Bear Stearns Asset-Backed Securities Trust, 6.50%, 10/25/36	240,411
1,025	GSAA Home Equity Trust, 6.295%, 6/25/36	669,641
553	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	554,804
264	Mid-State Trust IV, 8.33%, 4/1/30	275,884
828	Mid-State Trust VII, 6.34%, 10/15/36	875,533
652	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47 (k)	480,330
Total Asset-Backed Securities (cost-\$3,742,111)		4,006,574
<b>SHORT-TERM INVESTMENTS 18.4%</b>		
<b>Repurchase Agreements 17.7%</b>		
10,000	BNP Paribas Securities Corp., dated 1/31/13, 0.16%, due 2/1/13, proceeds \$10,000,044; collateralized by U.S. Treasury Bonds, 5.25%, due 2/15/29, valued at \$10,208,477 including accrued interest	10,000,000
43,200	Deutsche Bank Securities, Inc., dated 1/31/13, 0.16%, due 2/1/13, proceeds \$43,200,192; collateralized by U.S. Treasury Inflation Protected Securities, 0.625%, due 4/15/13, valued at \$44,076,217 including accrued interest	43,200,000

PIMCO Income Strategy Fund

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Repurchase Agreements</b> (continued)		
\$4,100	JPMorgan Securities, Inc., dated 1/31/13, 0.18%, due 2/1/13, proceeds \$4,100,021; collateralized by Freddie Mac, 2.255%, due 12/5/22, valued at \$4,192,103 including accrued interest	\$4,100,000
11,100	Morgan Stanley & Co., Inc., dated 1/31/13, 0.17%, due 2/1/13, proceeds \$11,100,052; collateralized by U.S. Treasury Bonds, 3.75%, due 8/15/41, valued at \$11,324,597 including accrued interest	11,100,000
595	State Street Bank and Trust Co., dated 1/31/13, 0.01%, due 2/1/13, proceeds \$595,000; collateralized by Freddie Mac, 1.96%, due 11/7/22, valued at \$610,821 including accrued interest	595,000
Total Repurchase Agreements (cost-\$68,995,000)		68,995,000
<b>Commercial Paper 0.6%</b>		
2,300	Ford Motor Credit Co., 0.52%, 2/11/13 (a) (l) (cost-\$2,299,668)	2,299,668
<b>U.S. Treasury Obligations (g) (l) 0.1%</b>		
460	U.S. Treasury Bills, 0.042%, 2/21/13 (cost-\$459,989)	459,989
Total Short-Term Investments (cost-\$71,754,657)		71,754,657
<b>Total Investments</b> (cost-\$354,494,735) <b>100.0%</b>		<b>\$389,695,866</b>

**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 \$60,642,369, representing 15.6% 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 \$2,103,263, 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 \$33,988,137. The aggregate market value is \$37,847,272, representing 9.7% of total investments.
- (j) Dividend rate 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, 2013.
- (l) Rates reflect the effective yields at purchase date.



**PIMCO Income Strategy Fund Notes to Schedule of Investments**

January 31, 2013 (unaudited)

(m) Credit default swap agreements outstanding at January 31, 2013:

OTC sell protection swap agreements:

Swap Counterparty/ Referenced Debt Issuer	Notional Amount (000s) (1)	Credit Spread	Termination Date	Payments Received	Value (2)	Upfront Premiums Paid (Received)	Unrealized Appreciation
Goldman Sachs: HCA	\$1,500	0.79%	9/20/13	3.00%	\$26,505	\$	\$26,505

(1) This represents the maximum potential amount the Fund could be required to make available as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(2) The quoted market prices and resulting values for credit default swap agreements serve as an indicator of the status at January 31, 2013 of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement have been closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(n) OTC interest rate swap agreements outstanding at January 31, 2013:

Swap Counterparty	Notional Amount (000s)	Termination Date	Rate Type		Value	Upfront Premiums Paid	Unrealized Appreciation (Depreciation)
			Payments Made	Payments Received			
Bank of America	\$55,300	3/20/20	3-Month USD-LIBOR	1.65%	\$123,592	\$2,281	\$121,311
Goldman Sachs	28,000	6/18/18	3-Month USD-LIBOR	1.25%	(27,831)	5,208	(33,039)
Royal Bank of Scotland	216,000	5/29/18	3-Month USD-LIBOR	1.75%	1,388,952 \$1,484,713	1,040,841 \$1,048,330	348,111 \$436,383

(o) Forward foreign currency contracts outstanding at January 31, 2013:

	Counterparty	U.S.\$ Value on Origination Date	U.S.\$ Value January 31, 2013	Unrealized Appreciation (Depreciation)
<u>Purchased:</u>				
12,018,000 British Pound settling 2/4/13	Barclays Bank	\$18,959,597	\$19,060,549	\$100,952
12,018,000 British Pound settling 2/4/13	Credit Suisse First Boston	18,903,112	19,060,549	157,437
709,000 British Pound settling 2/4/13	Royal Bank of Canada	1,139,669	1,124,474	(15,195)
6,975,000 Chinese Yuan Renminbi settling 2/1/13	JPMorgan Chase	1,110,563	1,121,599	11,036
6,975,000 Chinese Yuan Renminbi settling 2/1/13	UBS	1,112,706	1,121,599	8,893
169,437 Euro settling 2/7/13	Deutsche Bank	230,000	230,065	65
930,000 Euro settling 2/4/13	Royal Bank of Canada	1,242,948	1,262,755	19,807



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14,349,000 Euro settling 2/4/13	UBS	19,287,926	19,483,085	195,159
321,355 Mexican Peso settling 4/3/13	HSBC Bank	25,233	25,128	(105)

PIMCO Income Strategy Fund

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**PIMCO Income Strategy Fund Notes to Schedule of Investments**

January 31, 2013 (unaudited) (continued)

	Counterparty	U.S.\$ Value on Origination Date	U.S.\$ Value January 31, 2013	Unrealized Appreciation (Depreciation)
<u>Sold:</u>				
12,018,000 British Pound settling 3/4/13	Barclays Bank	\$18,956,460	\$19,057,544	\$(101,084)
3,243,000 British Pound settling 2/4/13	Citigroup	5,205,709	5,143,398	62,311
12,017,000 British Pound settling 3/4/13	Citigroup	19,043,977	19,055,959	(11,982)
12,018,000 British Pound settling 3/4/13	Credit Suisse First Boston	18,900,084	19,057,545	(157,461)
33,069,000 British Pound settling 2/4/13	Goldman Sachs	53,844,103	52,447,436	1,396,667
450,000 British Pound settling 2/4/13	JPMorgan Chase	713,339	713,700	(361)
6,975,000 Chinese Yuan Renminbi settling 2/1/13	JPMorgan Chase	1,112,263	1,121,599	(9,336)
6,975,000 Chinese Yuan Renminbi settling 2/1/13	UBS	1,110,563	1,121,599	(11,036)
14,999,000 Euro settling 2/4/13	Citigroup	19,577,005	20,365,656	(788,651)
60,000 Euro settling 2/4/13	JPMorgan Chase	80,781	81,468	(687)
220,000 Euro settling 2/4/13	UBS	293,066	298,716	(5,650)
14,349,000 Euro settling 3/4/13	UBS	19,291,441	19,486,242	(194,801)
7,492,955 Mexican Peso settling 4/3/13	JPMorgan Chase	573,316	585,920	(12,604)
				\$643,374

(p) At January 31, 2013, the Fund held \$3,540,000 in cash as collateral for derivatives. Cash collateral held may be invested in accordance with the Fund's investment strategy.

(q) Open reverse repurchase agreements at January 31, 2013:

Counterparty	Rate	Trade Date	Due Date	Principal & Interest	Principal
UBS	1.00%	8/29/12	2/28/13	\$3,852,623	\$3,836,000

(r) The weighted average daily balance of reverse repurchase agreements outstanding during the six months ended January 31, 2013 was \$24,295,951 at a weighted average interest rate of 0.67%. Total market 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, 2013 was \$4,285,000.

At January 31, 2013, the Fund held Corporate Bonds valued at \$214,814 as collateral for reverse repurchase agreements. Securities held as collateral will not be pledged and are not reflected in the Schedule of Investments.



**PIMCO Income Strategy Fund Notes to Schedule of Investments**

January 31, 2013 (unaudited) (continued)

(s) Fair Value Measurement See Note 1(b) in Notes to Financial Statements

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 1/31/13
<b>Investments in Securities</b> <b>Assets</b>				
Corporate Bonds & Notes:				
Airlines	\$	\$1,046,250	\$4,994,704	\$6,040,954
All Other		195,486,900		195,486,900
Mortgage-Backed Securities		79,787,031	264,408	80,051,439
Municipal Bonds		21,446,802		21,446,802
Preferred Stock	6,285,790	4,622,750		10,908,540
Asset-Backed Securities		4,006,574		4,006,574
Short-Term Investments		71,754,657		71,754,657
	6,285,790	378,150,964	5,259,112	389,695,866
<b>Other Financial Instruments*</b> <b>Assets</b>				
Credit Contracts		26,505		26,505
Foreign Exchange Contracts		1,952,327		1,952,327
Interest Rate Contracts		469,422		469,422
		2,448,254		2,448,254
<b>Other Financial Instruments*</b> <b>Liabilities</b>				
Foreign Exchange Contracts		(1,308,953)		(1,308,953)
Interest Rate Contracts		(33,039)		(33,039)
		(1,341,992)		(1,341,992)
<b>Totals</b>	\$6,285,790	\$379,257,226	\$5,259,112	\$390,802,128

At January 31, 2013, 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, 2013, was as follows:

	Beginning Balance 7/31/12	Purchases	Sales	Accrued Discount (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3**	Transfers out of Level 3***	Ending Balance 1/31/13
<b>Investments in Securities</b> <b>Assets</b>									
Corporate Bonds & Notes:									
Airlines	\$4,353,771	\$	\$(159,098)	\$	\$13,135	\$786,896	\$	\$4,994,704	
Electric Utilities	709,500		(554,925)	21,529		(148,604)		(27,500)	
Mortgage-Backed Securities	136,790		(248,912)	11,033	205,536	(6,839)	166,800	264,408	
Preferred Stock:									
Banking	4,654,320					(31,570)		(4,622,750)	
<b>Totals</b>	\$9,854,381	\$	\$(962,935)	\$32,562	\$218,671	\$599,883	\$166,800	\$(4,650,250)	\$5,259,112

PIMCO Income Strategy Fund

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**PIMCO Income Strategy Fund Notes to Schedule of Investments**

January 31, 2013 (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, 2013.

	Ending Balance at 1/31/13	Valuation Technique Used	Unobservable Inputs	Input Values
<b>Investments in Securities</b>				
<b>Assets</b>				
Corporate Bonds & Notes	\$2,891,441	Third-Party Pricing Vendor	Single Broker Quote	\$80.00
	2,103,263	Analytical Model	Estimated Recovery Value	\$113.00
Mortgage-Backed Securities	264,408	Third-Party Pricing Vendor	Single Broker Quote	\$13.90-\$19.10

*Reduction of cost due to corporate action.*

\* *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 2 into Level 3 because the price provided by third-party pricing vendor was a single broker quote.*

\*\*\* *Transferred out of Level 3 into Level 2 because 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, 2013, was \$780,370. Net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statement of Operations.

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

The effect of derivatives on the Statement of Assets and Liabilities at January 31, 2013:

Location	Interest Rate Contracts	Credit Contracts	Foreign Exchange Contracts	Total
<b>Asset derivatives:</b>				
Unrealized appreciation of OTC swaps	\$469,422	\$26,505	\$	\$495,927
Unrealized appreciation of forward foreign currency contracts			1,952,327	1,952,327
<b>Total asset derivatives</b>	\$469,422	\$26,505	\$1,952,327	\$2,448,254
<b>Liability derivatives:</b>				
Unrealized depreciation of OTC swaps	\$(33,039)	\$	\$	\$(33,039)
Unrealized depreciation of forward foreign currency contracts			(1,308,953)	(1,308,953)
<b>Total liability derivatives</b>	\$(33,039)	\$	\$(1,308,953)	\$(1,341,992)



**PIMCO Income Strategy Fund Notes to Schedule of Investments**

January 31, 2013 (unaudited) (continued)

The effect of derivatives on the Statement of Operations for the six months ended January 31, 2013:

Location	Interest Rate Contracts	Credit Contracts	Foreign Exchange Contracts	Total
<b>Net realized gain (loss) on:</b>				
Swaps	\$1,316,448	\$22,875	\$	\$1,339,323
Foreign currency transactions (forward foreign currency contracts)			(2,750,466)	(2,750,466)
<b>Total net realized gain (loss)</b>	\$1,316,448	\$22,875	\$(2,750,466)	\$(1,411,143)
<b>Net change in unrealized appreciation/depreciation of:</b>				
Swaps	\$(825,903)	\$(4,307)	\$	\$(830,210)
Foreign currency transactions (forward foreign currency contracts)			731,665	731,665
<b>Total net change in unrealized appreciation/depreciation</b>	\$(825,903)	\$(4,307)	\$731,665	\$(98,545)

The average volume (measured at each fiscal quarter-end) of derivative activity during the six months ended January 31, 2013:

Forward Foreign Currency Contracts (1)		Credit Default Swap Agreements (2)	Interest Rate Swap Agreements (2)
Purchased	Sold	Sell	
\$55,930,604	\$132,983,898	\$1,500	\$262,200

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

(2) Notional Amount (in thousands)

**Glossary:**

£	- British Pound
CMO	- Collateralized Mortgage Obligation
	- Euro
FRN	- Floating Rate Note
GO	- General Obligation Bond
LIBOR	- London Inter-Bank Offered Rate
MXN	- Mexican Peso
OTC	- Over-the-Counter

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**PIMCO Income Strategy Fund II Schedule of Investments**

January 31, 2013 (unaudited)

Principal Amount (000s)		Value
<b>CORPORATE BONDS &amp; NOTES</b>	<b>46.2%</b>	
<b>Airlines</b>	<b>1.4%</b>	
	American Airlines Pass-Through Trust (d),	
\$7,362	9.73%, 9/29/14	\$5,889,544
3,834	10.18%, 1/2/13 (b) (e)	4,332,412
622	United Air Lines Pass-Through Trust, 10.40%, 5/1/18	721,470
		10,943,426
<b>Banking</b>	<b>21.4%</b>	
5,500	AgFirst Farm Credit Bank, 7.30%, 3/4/13 (a) (b) (c) (f) (i) (acquisition cost-\$4,709,000; purchased 2/26/10-4/15/10)	5,500,000
416	Ally Financial, Inc.,	
	5.25%, 1/15/14	418,576
315	5.35%, 1/15/14	316,856
130	5.70%, 6/15/13	129,829
561	5.75%, 1/15/14	560,992
568	5.90%, 1/15/19-2/15/19	559,006
2,150	6.00%, 12/15/13-9/15/19	2,128,766
486	6.10%, 9/15/19	479,897
159	6.125%, 10/15/19	156,838
848	6.15%, 8/15/19-10/15/19	835,669
675	6.20%, 4/15/19	664,990
547	6.25%, 12/15/18-7/15/19	541,543
2,244	6.35%, 4/15/16-7/15/19	2,227,244
463	6.375%, 1/15/14	463,089
1,516	6.50%, 9/15/16-5/15/19	1,508,677
1,172	6.60%, 8/15/16-6/15/19	1,154,968
132	6.65%, 10/15/18	130,149
781	6.70%, 5/15/14-12/15/19	773,897
3,696	6.75%, 6/15/14-5/15/19	3,678,428
104	6.80%, 9/15/16-9/15/18	103,897
207	6.85%, 4/15/16	207,040
7	6.875%, 7/15/18	6,932
645	6.90%, 7/15/18-8/15/18	640,885
135	6.95%, 6/15/17	133,709
10,133	7.00%, 8/15/16-11/15/24	10,044,400
329	7.05%, 3/15/18-4/15/18	325,567
6	7.15%, 9/15/18	5,962
477	7.20%, 10/15/17	473,915
1,292	7.25%, 6/15/16-4/15/18	1,285,078
542	7.30%, 12/15/17-1/15/18	536,925
223	7.35%, 1/15/17-4/15/18	219,150
80	7.375%, 11/15/16-4/15/18	79,000
166	7.40%, 12/15/17	166,602
2,692	7.50%, 11/15/16-12/15/17	2,691,646
40	8.00%, 3/15/17	39,698
3	8.125%, 11/15/17	2,976
25	8.20%, 3/15/17	24,983
24	8.40%, 8/15/15	24,101
224	9.00%, 7/15/20	223,993
£20,400	Barclays Bank PLC, 14.00%, 6/15/19 (f)	43,435,136

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\$6,700	BBVA Bancomer S.A., 7.25%, 4/22/20 (a) (c)	7,638,000
1,100	BNP Paribas S.A., 7.195%, 6/25/37 (a) (c) (f)	1,150,050

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**PIMCO Income Strategy Fund II Schedule of Investments**

January 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Banking (continued)</b>		
10,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20	\$15,227,737
£2,000	Credit Agricole S.A., 8.125%, 10/26/19 (f)	3,270,570
500	LBG Capital No. 1 PLC, 6.439%, 5/23/20	674,657
500	7.375%, 3/12/20	698,629
£300	7.588%, 5/12/20	497,163
10,200	7.867%, 12/17/19	16,992,531
1,000	7.869%, 8/25/20	1,678,787
\$4,500	7.875%, 11/1/20 (a) (b) (c) (i) (acquisition cost-\$3,985,000; purchased 3/17/10-3/23/10)	4,977,000
£4,700	11.04%, 3/19/20	8,699,805
8,900	LBG Capital No. 2 PLC, 8.875%, 2/7/20	13,167,193
£300	12.75%, 8/10/20	570,960
1,100	15.00%, 12/21/19	2,102,514
\$6,700	Santander Finance Preferred S.A. Unipersonal (f), 10.50%, 9/29/14	7,136,847
£800	11.30%, 7/27/14	1,326,150
		168,709,602
<b>Diversified Financial Services 5.7%</b>		
\$1,800	AGFC Capital Trust I, 6.00%, 1/15/67 (converts to FRN on 1/15/17) (a) (c)	1,233,000
11,000	ILFC E-Capital Trust II, 6.25%, 12/21/65 (converts to FRN on 12/21/15) (a) (c)	9,652,500
900	International Lease Finance Corp., 6.375%, 3/25/13	907,200
5,000	SLM Corp., 5.625%, 8/1/33	4,712,500
10,700	8.00%, 3/25/20	12,438,750
3,200	Springleaf Finance Corp., 4.125%, 11/29/13	4,373,205
\$11,800	6.50%, 9/15/17	11,151,000
		44,468,155
<b>Electric Utilities 2.1%</b>		
3,900	AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (c)	4,329,000
8,376	AES Red Oak LLC, 8.54%, 11/30/19	9,151,032
4,500	Ameren Energy Generating Co., 7.95%, 6/1/32	2,745,000
2,300	Dynegy Roseton LLC / Dynegy Danskammer LLC Pass-Through Trust, 7.67%, 11/8/16, Ser. B (b) (d)	57,500
		16,282,532
<b>Household Products/Wares 0.2%</b>		
1,700	Reynolds Group Issuer, Inc., 9.00%, 4/15/19	1,802,000
<b>Insurance 15.2%</b>		
3,000	American General Institutional Capital A, 7.57%, 12/1/45 (a) (c)	3,678,750
5,000	American General Institutional Capital B, 8.125%, 3/15/46 (a) (c)	6,537,500
1,900	American International Group, Inc., 6.25%, 3/15/87 (converts to FRN on 3/15/37)	2,035,375
MXN16,000	7.98%, 6/15/17	1,228,193
2,000	8.00%, 5/22/68 (converts to FRN on 5/22/18)	3,171,253

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12,800	8.00%, 5/22/68 (converts to FRN on 5/22/18) (a) (b) (c) (i) (acquisition cost-\$13,831,236; purchased 7/13/10-2/8/12)	20,296,017
\$31,750	8.175%, 5/15/68 (converts to FRN on 5/15/38)	41,433,750
£8,050	8.625%, 5/22/68 (converts to FRN on 5/22/18)	15,767,641

PIMCO Income Strategy Fund

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**PIMCO Income Strategy Fund II Schedule of Investments**

January 31, 2013 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Insurance</b> (continued)	£1,600	8.625%, 5/22/68 (converts to FRN on 5/22/18) (a) (b) (c) (i) (acquisition cost-\$2,598,018; purchased 4/19/12-5/7/12)