

PIMCO CORPORATE & INCOME STRATEGY FUND
Form N-CSRS
July 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 811-10555

PIMCO Corporate & 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 end: October 31, 2013

Date of reporting period: April 30, 2013

Item 1. Report to Shareholders

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Letter from the Chairman and President & CEO

Dear Shareholder:

The US economy expanded during the six-month fiscal reporting period ended April 30, 2013. However, growth was uneven and unemployment remained a concern. Despite this, many US stock market indices reached record highs and lower rated corporate bonds produced strong results.

Six Months in Review

For the six-month fiscal reporting period ended April 30, 2013:

Hans W. Kertess

Chairman

n PIMCO Corporate & Income Strategy Fund advanced 8.72% on net asset value (NAV) and 6.89% on market price.

n PIMCO Income Opportunity Fund rose 12.85% on NAV and 15.27% on market price.

The US economy continued to grow during the fiscal six-month reporting period, but the pace of the expansion was far from robust. 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 0.4% during the fourth quarter of 2012 and accelerated to an annual rate of 2.5% (preliminary estimate) during the first quarter of 2013.

Brian S. Shlissel

President & CEO

The Federal Reserve (the Fed) initiated a number of actions to support the economy and reduce unemployment. In September 2012, prior to the beginning of the fiscal reporting period, the Fed introduced a third round of quantitative easing which entailed the purchasing of \$40 billion of mortgage securities each month. Toward the end of 2012, the Fed revealed that it would continue to purchase \$40 billion of mortgage securities each month, in addition to purchasing \$45 billion per month of longer-term Treasuries on an open-ended basis. At its meeting in December, the Fed said that it expected to keep the Fed Funds rate in the 0.0% to 0.25% range: ...as long as the unemployment rate remains above 6.5%, provided that inflation remains well contained.

Yields on US Treasury bonds trended lower during the six-months ended April 30, 2013. The benchmark ten-year Treasury bond commenced the fiscal period yielding 1.72% and ended the period at 1.70%. Continued low yields reflected a variety of concerns, including Europe's ongoing sovereign debt crisis, uncertainties regarding fiscal policy and decelerating global economic growth.

Outlook

Recent US economic data, in general, has been weaker than anticipated, leading to concerns of another spring/summer slowdown. At the conclusion of its meeting in March 2013, the Fed stated that it was seeing a return to moderate economic growth following a pause late last year. However, the Fed also acknowledged that fiscal policy is restraining economic growth. Whether the economy is currently experiencing a temporary soft patch or larger setback remains to be seen. Given this uncertainty and continued high unemployment, we expect the Fed will maintain an accommodative monetary stance.

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Concerns related to the European sovereign debt crisis reemerged during the reporting period amid inconclusive election results in Italy and a banking crisis in Cyprus. In addition, austerity measures remain a headwind for European Union countries. In China, while growth has decelerated, a soft landing for China's economy appears likely.

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 of the Board of Trustees

Brian S. Shlissel
President & Chief Executive Officer

Fund Insights

PIMCO Corporate & Income Strategy Fund

PIMCO Income Opportunity Fund

April 30, 2013 (unaudited)

For the fiscal six-months ended April 30, 2013, PIMCO Corporate & Income Strategy Fund returned 8.72% on net asset value (NAV) and 6.89% on market price.

For the fiscal six-months ended April 30, 2013, PIMCO Income Opportunity Fund returned 12.85% on NAV and 15.27% on market price.

While the US fixed income market experienced periods of volatility during the reporting period, all told positive results were generated. Market volatility was triggered by a number of factors, including uncertainty regarding the fiscal cliff and sequestration, as well as the ongoing European sovereign debt crisis. However, with the Federal Reserve (the Fed) maintaining its highly accommodative monetary policy, investor demand for higher yielding securities was generally solid. All told, during the six-months ended April 30, 2013, both short- and long-term Treasury yields declined and the yield curve steepened. A number of spread sectors (non-US Treasuries) outperformed equal-duration Treasuries, with high yield corporate bonds generating the strongest returns.

In comparison to the 0.90% return for the overall US fixed income market (as measured by the Barclays US Aggregate Index), high yield and investment grade bonds returned 7.26% and 1.54%, respectively (as measured by the Barclays US High Yield and Barclays US Credit Indices) for the six-month reporting period.

Given strong overall investor demand, on a total return basis, lower rated, higher yielding investment grade corporate bonds generally outperformed their higher quality counterparts. For instance, AAA-, AA-, A and BBB-rated issues, as measured by the Barclays US Credit Index, returned 0.88%, 1.34%, 1.29%, and 2.04%, respectively, during the six-months ended April 30, 2013.¹ Within the high yield market, BB-rated issues returned 5.62%, versus 7.20% for B-rated securities, as measured by the Barclays US High Yield Index.

PIMCO Corporate & Income Strategy

Sector and duration positioning drive results

An overweighting to the banking and life insurance sectors contributed to results, as these

1. The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody's, and Fitch respectively.

2. The Barclays US Credit Index consists of publicly issued US corporate and specified foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. It includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both US and non-US corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. The B of A Merrill Lynch BB/B Constrained Index tracks the performance of BB-B Rated US dollar-denominated corporate bonds publicly issued in the US domestic market. Qualifying bonds are capitalization-weighted provided the total allocation to an individual issuer (defined by Bloomberg tickers) does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face value of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. It is not possible to invest directly in an unmanaged index.

issues outperformed the credit market as measured by the Fund's benchmark, the 80% Barclays US Credit/20% B of A Merrill Lynch BB/B Constrained Index (the Index),² during the reporting period. An overweighting to airlines was also positive for returns due to its outperformance versus the Index. The Fund's duration positioning was also rewarded, as the Fund was targeted to have a shorter duration than that of the Index.

On the downside, underweightings in health care and independent exploration and production energy companies were negative for results as these sectors outperformed the Index.

PIMCO Income Opportunity

Sector positioning and yield curve positioning drive results

The Fund produced strong absolute returns during the six-month reporting period. Allocations to non-agency mortgage-backed securities were a significant contributor to results, as these securities outperformed the broader market. Driving these strong returns were generally robust investor demand for higher yielding assets and continued signs of a recovery in the housing market. An emphasis on select, high quality, banking issues was also beneficial to performance, as these securities generally outperformed the broad market during the reporting period. An overweight to the insurance sector and positions in select insurance issues enhanced performance as they outperformed the broader credit market during the six-months ended April 30, 2013. The Fund's overweighting to the front end of the yield curve added to performance as front end rates trended lower during the reporting period. An overweighting to credit spread duration was also helpful, as credit spreads tightened during the reporting period.

There were no meaningful detractors from performance during the period.

Performance and Statistics

PIMCO Corporate & Income Strategy Fund

April 30, 2013 (unaudited)

Total Return(1):	Market Price	NAV
Six Month	6.89%	8.72%
1 Year	26.70%	26.97%
5 Year	17.59%	19.04%
10 Year	13.75%	13.07%
Commencement of Operations (12/21/01) to 4/30/13	13.26%	13.08%

Market Price/NAV Performance:

Commencement of Operations (12/21/01) to 4/30/13

NAV
Market Price

Market Price/NAV

Market Price	\$18.47
NAV	\$16.38
Premium to NAV	12.76%
Market Price Yield(2)	7.31%
Leverage Ratio(3)	21.32%

(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. Total return for a period of more than one year represents the average annual total return. Total return for a period of less than one year is not annualized.

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

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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.

(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 April 30, 2013.

(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).

Performance and Statistics

PIMCO Income Opportunity Fund

April 30, 2013 (unaudited)

Total Return(1):	Market Price	NAV
Six Month	15.27%	12.85%
1 Year	34.21%	31.35%
5 Year	19.23%	17.46%
Commencement of Operations (11/30/07) to 4/30/13	17.11%	16.34%

Market Price/NAV Performance:

Commencement of Operations (11/30/07) to 4/30/13

NAV
Market Price

Market Price/NAV:

Market Price	\$32.48
NAV	\$29.63
Premium to NAV	9.62%
Market Price Yield(2)	7.02%
Leverage Ratio(3)	36.13%

(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. Total return for a period of more than one year represents the average annual total return. Total return for a period of less than one year is not annualized.

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

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traded in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per share (comprised of net investment income and short-term capital gains, if any) by the market price per common share at April 30, 2013.

(3) Represents Reverse Repurchase Agreements (Leverage) outstanding, 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 Corporate & Income Strategy Fund

April 30, 2013 (unaudited)

Principal Amount (000s)			Value
Corporate Bonds & Notes 40.8%			
Airlines 0.9%			
\$1,635		American Airlines Pass-Through Trust, 10.375%, 1/2/21	\$1,726,802
1,657		Continental Airlines Pass-Through Trust, 9.798%, 10/1/22	1,880,818
		United Air Lines Pass-Through Trust,	
1,273		7.336%, 1/2/21 (a) (b) (c) (j) (acquisition cost-\$1,273,478; purchased 6/19/07)	1,286,213
1,907		10.40%, 5/1/18	2,212,457
			7,106,290
Auto Manufacturers 0.3%			
1,500		Ford Motor Co., 9.98%, 2/15/47	2,292,277
Banking 26.8%			
2,400		AgFirst Farm Credit Bank, 7.30%, 5/15/13 (a) (b) (c) (g) (j) (acquisition cost-\$1,904,000; purchased 2/26/10-3/2/10)	2,400,262
		Ally Financial, Inc.,	
240		5.35%, 1/15/14	240,473
70		5.75%, 1/15/14	70,054
753		6.00%, 7/15/13-9/15/19	754,347
492		6.05%, 8/15/19	492,260
659		6.125%, 10/15/19	658,590
348		6.15%, 9/15/19-10/15/19	345,155
10		6.20%, 4/15/19	10,001
719		6.25%, 12/15/18-7/15/19	717,638
620		6.30%, 8/15/19	613,916
5		6.35%, 7/15/19	5,001
158		6.40%, 12/15/18	158,006
2,515		6.50%, 2/15/16-1/15/20	2,514,422
78		6.60%, 5/15/18	78,465
1,246		6.65%, 6/15/18-10/15/18	1,245,664
1,431		6.70%, 6/15/18-12/15/19	1,430,701
1,957		6.75%, 8/15/16-6/15/19	1,955,605
817		6.80%, 9/15/18-10/15/18	815,310
30		6.85%, 5/15/18	30,184
80		6.875%, 7/15/18	79,644
988		6.90%, 6/15/17-8/15/18	991,117
4,000		7.00%, 8/15/16-11/15/23	4,010,668
1,878		7.05%, 3/15/18-4/15/18	1,891,328
105		7.125%, 10/15/17	104,002
501		7.15%, 6/15/16-1/15/25	501,773
2,434		7.25%, 9/15/17-3/15/25	2,434,826
288		7.30%, 12/15/17-1/15/18	287,665

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12,861		7.375%, 11/15/16-4/15/18	12,886,196
20		7.40%, 12/15/17	20,037
84		7.50%, 11/15/16-12/15/17	83,808
266		9.00%, 7/15/20	266,078
MXN35,000		Bank of America Corp., 4.854%, 4/29/25 (f) (h) (l)	3,462,359
£17,500		Barclays Bank PLC, 14.00%, 6/15/19 (g)	37,795,564

Schedule of Investments

PIMCO Corporate & Income Strategy Fund

April 30, 2013 (unaudited) (continued)

Principal Amount (000s)			Value
\$5,000		BPCE S.A., 12.50%, 9/30/19 (a) (c) (g)	\$6,325,290
27,790		Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 11.00%, 6/30/19 (a) (c) (g)	37,543,512
		Credit Agricole S.A. (g),	
800		7.875%, 10/26/19	1,159,101
\$21,400		8.375%, 10/13/19 (a) (c)	23,941,250
1,000		HSBC Capital Funding L.P., 10.176%, 6/30/30 (g)	1,452,500
		LBG Capital No. 1 PLC,	
300		7.375%, 3/12/20	411,896
£100		7.588%, 5/12/20	165,432
200		7.867%, 12/17/19	331,329
400		7.869%, 8/25/20	667,008
\$12,700		7.875%, 11/1/20 (a) (b) (c) (j) (acquisition cost-\$10,447,750; purchased 12/7/09-4/16/10)	13,995,400
17,500		8.00%, 6/15/20 (a) (c) (g)	18,824,960
8,500		8.50%, 12/17/21 (a) (c) (g)	9,125,625
£300		11.04%, 3/19/20	553,195
		LBG Capital No. 2 PLC,	
400		8.875%, 2/7/20	588,993
£3,100		9.125%, 7/15/20	5,378,688
500		9.334%, 2/7/20	875,306
		Royal Bank of Scotland Group PLC (g),	
\$1,000		6.99%, 10/5/17 (a) (b) (c) (j) (acquisition cost-\$770,000; purchased 1/30/12)	990,000
7,800		7.648%, 9/30/31	8,229,000
£1,200		Santander Finance Preferred S.A. Unipersonal, 11.30%, 7/27/14 (g)	1,985,554
			211,895,158
Building Materials 0.0%			
\$400		Desarrolladora Homex S.A.B. de C.V., 9.50%, 12/11/19 (a) (c)	246,000
Diversified Financial Services 4.5%			
2,300		AGFC Capital Trust I, 6.00%, 1/15/67 (converts to FRN on 1/15/17) (a) (c)	1,863,000
		International Lease Finance Corp.,	
2,900		6.75%, 9/1/16 (a) (c)	3,313,250
1,000		8.625%, 9/15/15	1,143,750
		SLM Corp.,	
5,900		8.00%, 3/25/20	6,842,708
12,500		8.45%, 6/15/18	14,742,137
		Springleaf Finance Corp.,	
1,500		4.125%, 11/29/13	1,985,378
\$2,200		5.40%, 12/1/15	2,307,250

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500		6.50%, 9/15/17	515,000
3,000		6.90%, 12/15/17	3,136,875
			35,849,348
Electric Utilities 0.4%			
800		AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (c)	874,000
4,300		Dynergy Roseton LLC / Dynergy Danskammer LLC Pass-Through Trust, 7.67%, 11/8/16, Ser. B (b) (e) (f)	107,281

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Schedule of Investments

PIMCO Corporate & Income Strategy Fund

April 30, 2013 (unaudited) (continued)

Principal Amount (000s)			Value
\$1,215		FPL Energy Wind Funding LLC, 6.876%, 6/27/17 (a) (c)	\$1,050,975
1,100		PPL Capital Funding, Inc., 6.70%, 3/30/67 (converts to FRN on 3/30/17)	1,169,754
			3,202,010
Healthcare-Services 0.5%			
3,600		HCA, Inc., 8.50%, 4/15/19	3,978,000
Household Products/Wares 0.2%			
1,700		Reynolds Group Issuer, Inc., 9.00%, 4/15/19	1,844,500
Insurance 4.9%			
3,400		American General Institutional Capital A, 7.57%, 12/1/45 (a) (c)	4,296,818