

PIMCO INCOME STRATEGY FUND  
Form N-CSRS  
March 29, 2012

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, 2012  
end:

Date of reporting period: January 31, 2012

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Item 1: Report to Shareholders

January 31, 2012



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Dear Shareholder:

The U.S. economy gained momentum during the six-month fiscal period ended January 31, 2012. Expansion was reflected by growth in key sectors such as manufacturing and construction, and by companies that increased capital expenditures and hiring. This in turn boosted consumer confidence and helped push unemployment to its lowest level in three years. Growth was held back by political dysfunction in Washington and a spate of geopolitical worries, which at times sparked extraordinary market volatility.

### Six-Month Period in Review through January 31, 2012

For the six-month period ended January 31, 2012:

- PIMCO Income Strategy Fund returned -3.04 % on net asset value ( NAV ) and -4.70 % on market price.
- PIMCO Income Strategy Fund II returned -2.19% on NAV and 0.92 % on market price.

The Barclays Capital U.S. Credit Index, a measure of high quality corporate bond performance, advanced 4.45% and the Barclays Capital U.S. High Yield Bond Index, a measure of below investment-grade corporate bond performance, rose 1.86% during the reporting period. Government bonds, as represented by the Barclays Capital Long Term Treasury Index, returned 21.68%. The Barclays Capital U.S. Aggregate Bond Index, a broad credit market measure of government and corporate securities, rose 4.25%, and mortgage-backed securities, reflected by the Barclays Capital Mortgage Index, advanced 2.77%. As for stocks, the Standard & Poor's 500 Index increased 2.71% during the six-month period.

U.S. gross domestic product ( GDP ), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, expanded at an annual rate of 1.8% between July and September 2011 and at a 2.8% annual rate (preliminary estimate) between October and December 2011. This was a marked improvement from the preceding two quarters, in which annualized growth was 0.4% and 1.3%, respectively. The latest Beige Book report from the Federal Reserve ( the Fed ), released in January 2012, indicated economic expansion in all but one of twelve banking districts across the country. The central bank described auto manufacturing as vibrant, and signified consumer spending was growing more robust. The labor market also

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improved, as the U.S. unemployment rate dropped from 9.1% to 8.3% during the six-month reporting period. The government indicated that private sector job creation during 2011 was the best since 2005.

As the economy expanded, U.S. companies continued to post strong results. The Commerce Department reported that profits were approximately \$1.97 trillion (seasonally adjusted at annualized rates) between July and September 2011. Corporate strength was reflected in Fed data signifying non-financial companies holding in excess of \$2 trillion in cash and other liquid assets at the end of June 2011. Relative to total corporate assets, this was the highest level since 1963.

### **The Road Ahead**

Despite the improving U.S. economy, actions taken by the Fed during the six-month period indicate caution. The Fed extended its policy of maintaining low interest rates at least through late 2014 and began another effort to stimulate the economy by swapping \$400 billion in short-term Treasury securities in exchange for a similar amount of longer-term bonds. The lower long-term yields, the Fed intimated, could help breathe life into the housing market. Concerned with Europe's deepening sovereign debt crisis, the Fed warned of significant downside risks to the economic outlook, including strains in global financial markets.

**Receive this report electronically and eliminate paper mailings. To enroll, go to [www.allianzinvestors.com/edelivery](http://www.allianzinvestors.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, [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds).

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Pacific Investment Management Company LLC (PIMCO), the Funds' sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess  
Chairman

Brian S. Shlissel  
President & CEO

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

January 31, 2012 (unaudited)

For the six months ended January 31, 2012, PIMCO Income Strategy Fund returned -3.04% on net asset value ( NAV ) and -4.70% on market price.

For the six months ended January 31, 2012, PIMCO Income Strategy Fund II returned -2.19% on NAV and 0.92% on market price.

The unmanaged Barclays Capital U.S. Aggregate Bond Index and Barclays Capital U.S. Credit Index returned 4.25% and 4.45%, respectively, during the six month reporting period ended January 31, 2012.

The overall U.S. fixed income market, as measured by the Barclays Capital U.S. Aggregate Bond Index, generated a 4.25% return during the reporting period. However, there were periods of heightened volatility due to shifting expectations for the economy and periodic flights to quality. During the first two months of the period, most spread sectors (non-U.S. Treasuries) underperformed equal-duration Treasuries. Investor risk aversion was elevated during that time given Standard & Poor's downgrade of U.S. government securities, concerns of moderating global economic growth and an escalation of the European sovereign debt crisis. However, during the last four months of the reporting period, investor risk aversion was generally replaced with risk appetite. Triggering this shift in investor sentiment were signs that the U.S. economy was gaining some momentum and hopes for progress in the European sovereign debt crisis. During the six months ended January 31, 2012, both short- and long-term Treasury yields declined and the yield curve flattened. In this environment, spread sectors produced mixed results versus equal-duration Treasuries.

Despite a setback when investor risk aversion was elevated in August and September 2011, the U.S. corporate bond market posted a positive return during the reporting period. Supporting corporate bond prices were generally strong corporate profits, strengthening corporate balance sheets and improving demand from investors seeking to generate incremental yield in the low interest rate environment.

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**Sector exposures largely detracted from the Funds' performance**

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

An underweighting to retailers detracted from performance, as consumer spending increased toward the end of 2011. An overweighting to the banking sector adversely impacted performance as increased European sovereign debt concerns and uncertainties surrounding new financial regulations hindered results. Security selection within insurance companies also detracted from returns, as select life insurance companies underperformed the broader insurance sector. The Funds' underweighting to technology hindered results as this sector outperformed the overall credit market due to growth in mobile devices.

On the upside, an allocation to Build America Bonds was rewarded, as these subsidized taxable municipal securities generally outperformed the broader market. An underweighting to metals and mining also contributed to results, as slower emerging market growth caused this sector to perform poorly.



**PIMCO Income Strategy Fund  
Performance & Statistics**

January 31, 2012 (unaudited)

<b>Total Return(1):</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	-4.70%	-3.04%
1 Year	-0.06%	1.75%
5 Year	0.42%	1.16%
Commencement of Operations (8/29/03) to 1/31/12	3.77%	3.63%

**Market Price/NAV Performance:**

Commencement of Operations (8/29/03) to 1/31/12

Market Price

NAV

**Market Price/NAV:**

Market Price

NAV

Premium to NAV

Market Price Yield(2)

\$11.13

\$10.40

7.02%

8.09%

**Moody's Ratings**

(as a % of total investments)

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

January 31, 2012 (unaudited)

<b>Total Return(1):</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	0.92%	-2.19%
1 Year	3.43%	0.92%
5 Year	-1.36%	-1.57%
Commencement of Operations (10/29/04) to 1/31/12	1.27%	1.19%

**Market Price/NAV Performance:**

Commencement of Operations (10/29/04) to 1/31/12

Market Price  
NAV

**Market Price/NAV:**

Market Price	\$9.93
NAV	\$9.41
Premium to NAV	5.53%
Market Price Yield(2)	7.85%

**Moody's Ratings**

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends, capital gain and return of capital 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 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 Funds, market conditions, supply and demand for each Fund's shares, or changes in the Funds' dividends.

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An investment in the Funds 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.

(2) Market Price Yield is determined by dividing the annualized current monthly per common share dividend (comprised of net investment income) payable to common shareholders by the market price per common share at January 31, 2012.

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2012 (unaudited)

Principal Amount (000s)		Value	
<b>CORPORATE BONDS &amp; NOTES</b>	<b>55.0%</b>		
<b>Airlines</b>	<b>0.2%</b>		
	\$3,774	American Airlines Pass Through Trust, 9.73%, 9/29/14 (e)	\$905,616
<b>Banking</b>	<b>8.2%</b>		
	2,600	AgFirst Farm Credit Bank, 7.30%, 3/1/12 (a) (b) (d) (g) (j) (acquisition cost-\$2,225,000; purchased 2/26/10-4/15/10)	2,659,116
	£7,800	Barclays Bank PLC, 14.00%, 6/15/19 (g)	14,749,495
	3,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20	3,714,034
	\$4,400	11.00%, 6/30/19 (a) (d) (g) (i)	5,470,987
	600	HBOS PLC, 6.75%, 5/21/18 (a) (d)	528,735
	800	Regions Financial Corp., 7.375%, 12/10/37	717,000
	1,500	7.75%, 9/15/24	1,342,500
	£2,000	Santander Issuances S.A. Unipersonal, 7.30%, 7/27/19, (converts to FRN on 9/27/14)	2,757,692
			31,939,559
<b>Chemicals</b>	<b>0.2%</b>		
	\$624	Lyondell Chemical Co., 8.00%, 11/1/17	698,880
<b>Consumer Products</b>	<b>0.2%</b>		
	800	Reynolds Group Issuer, Inc., 9.00%, 4/15/19 (a) (d)	800,000
<b>Energy</b>	<b>0.1%</b>		
	1,100	Dynergy Roseton/Danskammer Pass Through Trust, 7.67%, 11/8/16 Ser. B (e)	638,000
<b>Financial Services</b>	<b>27.1%</b>		
		Ally Financial, Inc.,	
	304	5.90%, 1/15/19	277,871
	156	5.90%, 10/15/19	137,554
	55	6.00%, 2/15/19	48,908
	90	6.00%, 3/15/19	80,056
	8	6.00%, 4/15/19	7,103
	325	6.00%, 9/15/19	288,947
	95	6.05%, 8/15/19	84,699
	413	6.05%, 10/15/19	367,976
	31	6.125%, 10/15/19	27,752
	1,208	6.15%, 8/15/19	1,085,269
	1,371	6.25%, 2/15/16	1,281,664
	25	6.25%, 1/15/19	23,307
	120	6.30%, 8/15/19	108,813
	1,168	6.35%, 2/15/16	1,095,836
	285	6.35%, 4/15/16	266,748
	216	6.40%, 3/15/16	202,777
	360	6.40%, 11/15/19	323,790
	1,357	6.50%, 2/15/16	1,280,032
	20	6.50%, 9/15/16	18,728
	442	6.50%, 10/15/16	413,464
	170	6.50%, 12/15/18	160,901
	22	6.50%, 5/15/19	20,427
	358	6.55%, 12/15/19	324,797
	14	6.60%, 5/15/18	12,864

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Financial Services (continued)</b>		
\$60	6.70%, 6/15/18	\$55,908
329	6.75%, 4/15/13	327,487
3	6.75%, 8/15/16	2,900
13	6.75%, 6/15/17	12,363
89	6.75%, 5/15/19	82,595
10	6.75%, 6/15/19	9,277
205	6.80%, 9/15/16	194,291
3	6.80%, 10/15/18	2,804
938	6.85%, 4/15/16	897,501
30	6.85%, 5/15/18	27,941
336	6.875%, 8/15/16	319,675
5	6.875%, 7/15/18	4,696
140	6.90%, 6/15/17	131,182
32	6.90%, 8/15/18	30,097
151	6.95%, 6/15/17	144,724
25	7.00%, 12/15/16	23,833
27	7.00%, 6/15/17	25,414
130	7.00%, 7/15/17	122,676
367	7.00%, 2/15/18	345,635
12	7.00%, 3/15/18	11,170
155	7.00%, 8/15/18	147,077
5	7.00%, 9/15/18	4,787
42	7.05%, 3/15/18	39,221
39	7.05%, 4/15/18	36,723
160	7.125%, 10/15/17	152,344
40	7.15%, 3/15/25	36,781
75	7.20%, 10/15/17	71,981
288	7.25%, 6/15/16	279,329
293	7.25%, 9/15/17	280,282
10	7.25%, 4/15/18	9,507
10	7.25%, 8/15/18	9,575
328	7.25%, 9/15/18	314,230
25	7.30%, 1/15/18	23,638
396	7.35%, 4/15/18	378,549
57	7.50%, 6/15/16	55,929
45	7.55%, 5/15/16	44,256
47	7.75%, 10/15/17	46,086
110	8.125%, 11/15/17	107,945
110	9.00%, 7/15/20	110,379
750	Bank of America Corp., 6.00%, 9/1/17	786,898
1,400	Capital One Capital VI, 8.875%, 5/15/40	1,480,014
	CIT Group, Inc.,	
1,251	7.00%, 5/1/16	1,252,758
2,210	7.00%, 5/1/17	2,215,952
2,500	Citigroup Capital XXI, 8.30%, 12/21/77, (converts to FRN on 12/21/37)	2,550,750
	Credit Agricole S.A. (g),	
2,500	6.637%, 5/31/17 (a) (d)	1,796,875
£1,000	8.125%, 10/26/19	1,189,730

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\$15,500	Ford Motor Credit Co. LLC, 8.00%, 12/15/16 (i)	18,391,664
4,600	8.125%, 1/15/20	5,647,351
7,000	ILFC E-Capital Trust I, 4.34%, 12/21/65, FRN (a) (d) (i)	4,457,390

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Financial Services (continued)</b>		
	LBG Capital No.1 PLC,	
500	6.439%, 5/23/20	\$513,409
200	7.375%, 3/12/20	206,672
£300	7.588%, 5/12/20	387,647
£4,800	7.867%, 12/17/19	6,315,809
£700	7.869%, 8/25/20	915,540
\$2,500	7.875%, 11/1/20 (a) (d)	2,100,000
1,400	8.00%, 6/15/20 (a) (d) (g)	1,127,000
2,000	8.50%, 12/17/21 (a) (d) (g)	1,390,000
£900	11.04%, 3/19/20	1,379,220
	LBG Capital No.2 PLC,	
£534	9.125%, 7/15/20	723,671
£2,500	11.25%, 9/14/23	3,584,947
\$1,500	Lehman Brothers Holdings, Inc., 7.50%, 5/11/38 (e)	1,650
1,500	National City Preferred Capital Trust I, 12.00%, 12/10/12 (g) (i)	1,603,299
5,000	PNC Financial Services Group, Inc., 6.75%, 8/1/21 (g) (i)	5,193,175
1,000	PNC Preferred Funding Trust I, 6.517%, 3/15/12 (a) (d) (g)	745,000
3,700	Royal Bank of Scotland Group PLC, 7.648%, 9/30/31 (g)	2,886,000
	SLM Corp.,	
400	6.25%, 1/25/16	408,764
6,200	8.00%, 3/25/20 (i)	6,618,500
6,400	8.45%, 6/15/18 (i)	6,960,000
2,168	SMFG Preferred Capital USD 3 Ltd., 9.50%, 7/25/18 (a) (d) (g)	2,563,660
8,200	Springleaf Finance Corp., 6.50%, 9/15/17 (i)	5,986,000
900	State Street Capital Trust III, 5.536%, 3/1/12 (g)	902,871
500	USB Capital IX, 3.50%, 3/1/12 (g)	374,725
		105,565,440
<b>Insurance 12.8%</b>		
10,000	American General Capital II, 8.50%, 7/1/30 (i)	9,859,550
1,600	American General Institutional Capital A, 7.57%, 12/1/45 (a) (d)	1,432,000
	American General Institutional Capital B, 8.125%, 3/15/46	
2,000	(a) (d) (i)	1,885,000
	American International Group, Inc.,	
4,000	6.25%, 3/15/87, (converts to FRN on 3/15/37) (i)	3,180,000
£591	6.765%, 11/15/17 (a) (d)	929,727
	6.797%, 11/15/17 (a) (b) (d) (j) (acquisition cost-\$1,829,737;	
1,995	purchased 5/21/10)	2,596,021
MXN8,000	7.98%, 6/15/17	579,388
1,900	8.00%, 5/22/68, (converts to FRN on 5/22/18) (a) (d)	2,124,927
\$8,200	8.175%, 5/15/68, (converts to FRN on 5/15/38) (i)	7,995,000
4,400	8.25%, 8/15/18 (i)	5,081,767
£650	8.625%, 5/22/68, (converts to FRN on 5/22/18)	898,285
\$2,200	Dai-ichi Life Insurance Co., Ltd., 7.25%, 7/25/21 (a) (d) (g) (i)	2,302,357
	Hartford Financial Services Group, Inc., 8.125%, 6/15/68,	
2,300	(converts to FRN on 6/15/18)	2,420,750
	MetLife Capital Trust IV, 7.875%, 12/15/67, (converts to FRN on	
2,000	12/15/37) (a) (d) (i)	2,145,000
	MetLife Capital Trust X, 9.25%, 4/8/68, (converts to FRN on	
3,300	4/8/38) (a) (d) (i)	3,918,750



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2,440	Progressive Corp., 6.70%, 6/15/67, (converts to FRN on 6/15/17) (i)	2,503,799 49,852,321
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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Oil &amp; Gas 2.4%</b>		
	NGPL PipeCo LLC (a) (d), 7.119%, 12/15/17	\$4,467,980
\$5,000	7.768%, 12/15/37 (i)	4,243,715
5,000		
600	SandRidge Energy, Inc., 8.00%, 6/1/18 (a) (d)	624,000
		9,335,695
<b>Telecommunications 3.1%</b>		
	CenturyLink, Inc., 6.00%, 4/1/17	842,322
800	7.60%, 9/15/39 (i)	11,212,839
11,000		12,055,161
<b>Utilities 0.7%</b>		
	AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (d)	1,947,500
1,900	Dominion Resources, Inc., 2.879%, 9/30/66, FRN	340,351
390	PPL Capital Funding, Inc., 6.70%, 3/30/67, (converts to FRN on 3/30/17)	395,424
400		2,683,275
		214,473,947
Total Corporate Bonds & Notes (cost-\$214,560,448)		
<b>MUNICIPAL BONDS 23.2%</b>		
<b>California 10.0%</b>		
	Alameda Cnty. Joint Powers Auth. Rev., 7.046%, 12/1/44, Ser. A	11,088,852
9,200	Fresno Cnty. Rev., zero coupon, 8/15/24, Ser. A (FGIC-NPFGC)	1,357,170
3,000	Golden State Tobacco Securitization Corp. Rev., 5.125%, 6/1/47, Ser. A-1	3,408,250
5,000	Long Beach Redev. Agcy., Tax Allocation, 8.36%, 8/1/40	984,609
900	Los Angeles Cnty. Public Works Financing Auth. Rev., 7.618%, 8/1/40	9,925,904
7,600	Oakland Unified School Dist., Alameda Cnty., GO, 9.50%, 8/1/34	1,239,150
1,100	Riverside Cnty. Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	618,372
600	Riverside Electric Rev., 7.605%, 10/1/40	1,354,590
1,000	San Luis Obispo Cnty. Rev., zero coupon, 9/1/27, Ser. C (NPFGC)	371,980
1,000	San Marcos Unified School Dist., GO, zero coupon, 8/1/32	137,468
400	State Public Works Board Rev., 7.804%, 3/1/35, Ser. B-2	4,531,320
4,000	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	3,947,544
3,600		38,965,209
<b>Colorado 1.3%</b>		
	Denver Public Schools, CP, 7.017%, 12/15/37, Ser. B	5,130,360
4,000		
<b>District of Columbia 2.2%</b>		
	Metropolitan Airports Auth. Rev., 7.462%, 10/1/46	8,405,400
7,500		
<b>Nevada 2.9%</b>		
	Las Vegas Valley Water Dist., GO, 7.263%, 6/1/34	11,419,400
10,000		
<b>New Jersey 0.6%</b>		
	Middlesex Cnty. Improvement Auth. Rev. (AGM-GTD), zero coupon, 10/1/22	1,098,693
1,935	zero coupon, 10/1/23	1,306,944
2,455		2,405,637



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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Ohio 2.9%</b>		
\$8,000	American Municipal Power-Ohio, Inc. Rev., Comb Hydroelectric Projects, 8.084%, 2/15/50, Ser. B	\$11,236,160
<b>Pennsylvania 0.1%</b>		
1,000	Philadelphia Auth. for Industrial Dev. Rev., zero coupon, 4/15/26, Ser. B (AMBAC)	359,300
<b>Texas 3.2%</b>		
1,900	Dallas Convention Center Hotel Dev. Corp. Rev., 7.088%, 1/1/42	2,198,015
9,000	North Texas Tollway Auth. Rev., 8.91%, 2/1/30	10,215,720
		12,413,735
Total Municipal Bonds (cost-\$77,216,625)		90,335,201
<b>MORTGAGE-BACKED SECURITIES 11.7%</b>		
154	Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	112,234
3,100	Banc of America Funding Corp., 6.00%, 3/25/37, CMO	2,389,694
1,200	BCAP LLC Trust, CMO, VRN (a) (d), 5.594%, 3/26/37	92,400
906	10.834%, 6/26/36	104,209
390	Bear Stearns Alt-A Trust, 2.833%, 11/25/36, CMO, VRN	200,149
1,464	Chase Mortgage Finance Corp., CMO, 2.501%, 3/25/37, FRN	1,027,922
25	2.802%, 12/25/35, FRN	23,857
1,600	6.00%, 2/25/37	1,249,993
1,200	6.00%, 7/25/37	983,852
2,470	6.25%, 10/25/36	2,063,354
375	Citicorp Mortgage Securities, Inc., 5.50%, 4/25/37, CMO	362,072
206	Countrywide Alternative Loan Trust, CMO, 5.50%, 3/25/36	135,768
3,707	6.00%, 5/25/36	2,335,732
2,821	6.028%, 4/25/36, VRN	1,708,005
1,196	6.25%, 11/25/36	897,713
630	6.50%, 8/25/36	330,378
111	Countrywide Home Loan Mortgage Pass Through Trust, CMO, 2.774%, 2/20/35, VRN	88,683
1,185	5.50%, 10/25/35	1,117,304
1,152	5.75%, 3/25/37	937,622
753	6.00%, 5/25/36	612,690
897	6.00%, 2/25/37	709,829
249	6.00%, 4/25/37	219,653
1,304	6.25%, 9/25/36	864,419
650	Credit Suisse Mortgage Capital Certificates, 6.00%, 2/25/37, CMO	493,038
287	GSR Mortgage Loan Trust, CMO, 5.50%, 5/25/36	231,935
7,041	6.00%, 2/25/36	6,137,951
73	Harborview Mortgage Loan Trust, 2.775%, 7/19/35, CMO, VRN	49,741
1,833	JPMorgan Mortgage Trust, CMO, 5.00%, 3/25/37	1,389,063
831	5.433%, 1/25/37, VRN	614,866
440	6.00%, 8/25/37	372,029

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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
	Residential Asset Securitization Trust, CMO,	
\$1,346	5.75%, 2/25/36	\$901,328
532	6.00%, 9/25/36	285,892
1,384	6.00%, 7/25/37	1,016,266
	Residential Funding Mortgage Securities I, CMO,	
452	6.00%, 9/25/36	338,547
1,132	6.00%, 1/25/37	847,116
5,761	6.00%, 6/25/37	4,596,546
	Suntrust Adjustable Rate Mortgage Loan Trust, CMO, FRN,	
3,306	5.511%, 4/25/37	2,367,425
509	5.808%, 2/25/37	335,738
	WaMu Mortgage Pass Through Certificates, CMO,	
1,000	5.473%, 2/25/37, FRN	783,800
300	5.835%, 9/25/36, VRN	208,535
	Wells Fargo Mortgage-Backed Securities Trust, CMO,	
263	2.667%, 4/25/36, VRN	206,759
549	2.698%, 7/25/36, FRN	378,710
4,968	2.738%, 7/25/36, FRN	3,635,663
796	5.75%, 3/25/37	669,489
490	6.00%, 6/25/37	447,881
700	6.00%, 7/25/37	675,556
	<b>Total Mortgage-Backed Securities (cost-\$46,386,824)</b>	<b>45,551,406</b>
	<b>Shares</b>	
	<b>PREFERRED STOCK 4.5%</b>	
	<b>Banking 1.2%</b>	
90,200	CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (d) (g) (j) (k) (acquisition cost-\$4,973,200; purchased 8/31/10-2/1/11)	4,659,398
	<b>Financial Services 1.4%</b>	
100,000	Ally Financial, Inc., 8.50%, 5/15/16, Ser. A (g) (k)	2,091,000
120,000	Citigroup Capital XIII, 7.875%, 10/30/15 (k)	3,232,800
	<b>Real Estate Investment Trust 1.9%</b>	
6,800	Sovereign Real Estate Investment Trust, 12.00%, 5/16/20 (a) (d) (g)	7,544,478
	<b>Total Preferred Stock (cost-\$18,290,200)</b>	<b>17,527,676</b>
	<b>CONVERTIBLE PREFERRED STOCK 2.1%</b>	
	<b>Financial Services 0.7%</b>	
2,700	Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (g)	2,956,500
	<b>Utilities 1.4%</b>	
98,000	PPL Corp., 9.50%, 7/1/13	5,311,600
	<b>Total Convertible Preferred Stock (cost-\$7,163,145)</b>	<b>8,268,100</b>



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**PIMCO Income Strategy Fund Schedule of Investments**

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>ASSET-BACKED SECURITIES</b>	<b>0.9%</b>	
\$1,268	Asset-Backed Funding Certificates, 0.496%, 5/25/37, FRN (a) (d)	\$1,032,212
454	Greenpoint Manufactured Housing, 8.45%, 6/20/31, VRN	391,363
1,092	GSAA Trust, 6.295%, 6/25/36	595,595
754	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	756,506
729	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47	471,633
Total Asset-Backed Securities (cost-\$3,160,392)		3,247,309
Shares		
<b>MUTUAL FUNDS</b>	<b>0.0%</b>	
1,540	BlackRock MuniYield Quality Fund II, Inc.	22,006
3,836	BlackRock MuniYield Quality Fund III, Inc.	57,195
Total Mutual Funds (cost-\$66,897)		79,201
Principal Amount (000s)		
<b>SHORT-TERM INVESTMENTS</b>	<b>2.6%</b>	
<b>Corporate Notes</b>	<b>1.8%</b>	
<b>Airlines</b>	<b>0.5%</b>	
\$900	American Airlines, Inc., 10.50%, 10/15/12 (e)	901,125
1,861	American Airlines Pass Through Trust, 10.18%, 1/2/13 (b) (e)	1,228,454
		2,129,579
<b>Financial Services</b>	<b>1.3%</b>	
3,812	Ally Financial, Inc., 7.10%, 9/15/12	3,801,303
100	7.125%, 8/15/12	99,584
900	Springleaf Finance Corp., 3.25%, 1/16/13	1,040,853
Total Corporate Notes (cost-\$7,898,409)		4,941,740
<b>U.S. Treasury Obligations (1)</b>		
2,700	U.S. Treasury Bills, 0.026%, 2/23/12 (cost-\$2,699,931)	2,699,931
<b>Repurchase Agreements</b>	<b>0.1%</b>	
465	State Street Bank & Trust Co., dated 1/31/12, 0.01%, due 2/1/12, proceeds \$465,000; collateralized by Federal Home Loan Bank, 0.255%, due 7/20/12, valued at \$476,188 including accrued interest (cost-\$465,000)	465,000
Total Short-Term Investments (cost-\$11,063,340)		10,236,250
<b>Total Investments</b> (cost-\$377,907,871) <b>100.0%</b>		<b>\$389,719,090</b>



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## PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2012 (unaudited)

Principal Amount (000s)		Value
<b>CORPORATE BONDS &amp; NOTES</b>	<b>52.6%</b>	
<b>Airlines</b>	<b>0.4%</b>	
\$7,686	American Airlines Pass Through Trust, 9.73%, 9/29/14 (e)	\$1,844,639
751	United Air Lines Pass Through Trust, 10.40%, 5/1/18 (i)	846,956
		2,691,595
<b>Banking</b>	<b>8.3%</b>	
5,500	AgFirst Farm Credit Bank, 7.30%, 3/1/12 (a) (b) (d) (g) (j) (acquisition cost-\$4,709,000; purchased 2/26/10-4/15/10)	5,625,054
£13,600	Barclays Bank PLC, 14.00%, 6/15/19 (g)	25,717,068
\$6,700	BBVA Bancomer S.A., 7.25%, 4/22/20 (a) (d) (i)	6,792,125
16,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20	19,808,182
\$1,400	HBOS PLC, 6.75%, 5/21/18 (a) (d) (i)	1,233,715
2,400	Intesa Sanpaolo SpA, 8.375%, 10/14/19 (g)	2,528,721
\$1,675	Regions Financial Corp., 7.375%, 12/10/37	1,501,219
£800	Santander Finance Preferred S.A. Unipersonal, 11.30%, 7/27/14 (g)	1,203,912
		64,409,996
<b>Consumer Products</b>	<b>0.2%</b>	
\$1,700	Reynolds Group Issuer, Inc., 9.00%, 4/15/19 (a) (d)	1,700,000
<b>Energy</b>	<b>1.4%</b>	
9,379	AES Red Oak LLC, 8.54%, 11/30/19 (i)	9,660,848
2,300	Dynegy Roseton/Danskammer Pass Through Trust, 7.67%, 11/8/16, Series B (e)	1,334,000
		10,994,848
<b>Financial Services</b>	<b>24.7%</b>	
1,800	AGFC Capital Trust I, 6.00%, 1/15/67, (converts to FRN on 1/15/17) (a) (d)	900,000
416	Ally Financial, Inc., 5.25%, 1/15/14	399,334
315	5.35%, 1/15/14	302,942
130	5.70%, 6/15/13	127,485
561	5.75%, 1/15/14	543,525
565	5.90%, 1/15/19	516,438
3	5.90%, 2/15/19	2,653
585	6.00%, 12/15/13	574,591
1,437	6.00%, 2/15/19	1,282,315
119	6.00%, 3/15/19	105,715
9	6.00%, 9/15/19	8,002
486	6.10%, 9/15/19	434,822
159	6.125%, 10/15/19	142,343
394	6.15%, 8/15/19	353,970
454	6.15%, 10/15/19	407,081
675	6.20%, 4/15/19	611,002
500	6.25%, 12/15/18	466,645
47	6.25%, 7/15/19	42,523
7	6.35%, 4/15/16	6,552
792	6.35%, 10/15/16	736,311
303	6.35%, 4/15/19	274,925
1,142	6.35%, 7/15/19	1,039,547
463	6.375%, 1/15/14	453,736

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249	6.50%, 9/15/16	233,169
608	6.50%, 10/15/16	568,746

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

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Financial Services (continued)</b>		
\$5	6.50%, 6/15/18	\$4,600
449	6.50%, 11/15/18	412,568
190	6.50%, 12/15/18	179,789
15	6.50%, 5/15/19	13,928
208	6.60%, 8/15/16	195,601
864	6.60%, 5/15/18	793,868
100	6.60%, 6/15/19	91,947
132	6.65%, 10/15/18	122,365
190	6.70%, 5/15/14	186,858
256	6.70%, 6/15/18	238,541
335	6.70%, 12/15/19	306,803
555	6.75%, 6/15/14	546,128
215	6.75%, 8/15/16	203,553
1,136	6.75%, 11/15/16	1,072,642
210	6.75%, 6/15/17	199,703
831	6.75%, 7/15/18	775,874
3	6.75%, 9/15/18	2,798
612	6.75%, 10/15/18	570,021
107	6.75%, 11/15/18	99,978
27	6.75%, 5/15/19	25,063
92	6.80%, 9/15/16	87,194
12	6.80%, 9/15/18	11,323
207	6.85%, 4/15/16	198,063
7	6.875%, 7/15/18	6,574
319	6.90%, 7/15/18	301,458
326	6.90%, 8/15/18	306,611
135	6.95%, 6/15/17	129,389
201	7.00%, 8/15/16	192,170
1,729	7.00%, 11/15/16	1,649,390
580	7.00%, 12/15/16	552,936
1,729	7.00%, 1/15/17	1,636,987
601	7.00%, 2/15/17	567,521
1,087	7.00%, 6/15/17	1,023,153
1,073	7.00%, 7/15/17	1,012,551
43	7.00%, 2/15/18	40,137
506	7.00%, 3/15/18	471,010
15	7.00%, 5/15/18	14,079
400	7.00%, 9/15/18	382,975
134	7.00%, 6/15/22	122,730
2,035	7.00%, 11/15/24	1,866,673
325	7.05%, 3/15/18	303,493
4	7.05%, 4/15/18	3,766
6	7.15%, 9/15/18	5,718
477	7.20%, 10/15/17	455,801
55	7.25%, 6/15/16	53,344
653	7.25%, 9/15/17	618,675
329	7.25%, 1/15/18	310,532
255	7.25%, 4/15/18	242,427
39	7.30%, 12/15/17	37,764

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503	7.30%, 1/15/18	475,589
165	7.35%, 1/15/17	158,230
58	7.35%, 4/15/18	55,444
25	7.375%, 11/15/16	24,339

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

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Financial Services</b> (continued)		
\$55	7.375%, 4/15/18	\$52,642
166	7.40%, 12/15/17	162,219
1,828	7.50%, 11/15/16	1,779,063
15	7.50%, 8/15/17	14,401
559	7.50%, 11/15/17	541,579
290	7.50%, 12/15/17	283,521
40	8.00%, 3/15/17	39,375
3	8.125%, 11/15/17	2,944
25	8.20%, 3/15/17	24,814
24	8.40%, 8/15/15	23,734
224	9.00%, 7/15/20	224,772
3,200	American General Finance Corp., 4.125%, 11/29/13	3,435,621
\$3,100	Bank of America Corp., 6.00%, 9/1/17 (i)	3,252,511
2,900	Capital One Capital VI, 8.875%, 5/15/40	3,065,744
	CIT Group, Inc.,	
1,687	7.00%, 5/1/16	1,688,899
2,492	7.00%, 5/1/17	2,497,900
3,200	Citigroup Capital XXI, 8.30%, 12/21/77, (converts to FRN on 12/21/37)	3,264,960
£2,000	Credit Agricole S.A., 8.125%, 10/26/19 (g)	2,379,459
\$8,000	Ford Motor Credit Co. LLC, 8.00%, 12/15/16	9,492,472
11,000	ILFC E-Capital Trust II, 6.25%, 12/21/65, (converts to FRN on 12/21/15) (a) (d)	7,975,000
	LBG Capital No.1 PLC,	
500	6.439%, 5/23/20	513,409
500	7.375%, 3/12/20	516,680
£300	7.588%, 5/12/20	387,647
£10,200	7.867%, 12/17/19	13,421,095
£1,000	7.869%, 8/25/20	1,307,915
\$4,500	7.875%, 11/1/20 (a) (d)	3,780,000
£4,700	11.04%, 3/19/20	7,202,591
	LBG Capital No.2 PLC,	
8,900	8.875%, 2/7/20	9,953,603
£300	12.75%, 8/10/20	477,468
1,100	15.00%, 12/21/19	1,687,057
\$2,500	Lehman Brothers Holdings, Inc., 7.50%, 5/11/38 (e)	2,750
25,500	National City Preferred Capital Trust I, 12.00%, 12/10/12 (g) (i)	27,256,083
5,965	NSG Holdings LLC, 7.75%, 12/15/25 (a) (d)	5,994,825
2,200	PNC Preferred Funding Trust I, 6.517%, 3/15/12 (a) (d) (g) (i)	1,639,000
	SLM Corp.,	
5,000	5.625%, 8/1/33 (i)	4,058,345
10,700	8.00%, 3/25/20 (i)	11,422,250
1,700	8.45%, 6/15/18	1,848,750
11,800	Springleaf Finance Corp., 6.50%, 9/15/17 (i)	8,614,000
1,596	State Street Capital Trust III, 5.536%, 3/1/12 (g)	1,601,091
800	USB Capital IX, 3.50%, 3/1/12 (g)	599,560
17,550	Wells Fargo & Co., 7.98%, 3/15/18 (g)	19,085,625
		191,466,420

**Insurance 16.3%**

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3,000	American General Institutional Capital A, 7.57%, 12/1/45 (a) (d)	2,685,000
5,000	American General Institutional Capital B, 8.125%, 3/15/46 (a) (d) (i)	4,712,500

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

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>Insurance (continued)</b>		
\$1,900	American International Group, Inc., 6.25%, 3/15/87, (converts to FRN on 3/15/37)	\$1,510,500
£10,545	6.765%, 11/15/17 (a) (d)	16,588,786
12,540	6.797%, 11/15/17 (a) (b) (d) (j) (acquisition cost-\$11,931,071; purchased 5/20/10-5/21/10)	16,317,844
MXN 16,000	7.98%, 6/15/17	1,158,777
11,800	8.00%, 5/22/68, (converts to FRN on 5/22/18) (a) (d)	13,196,912
\$32,750	8.175%, 5/15/68, (converts to FRN on 5/15/38) (i)	31,931,250
£6,550	8.625%, 5/22/68, (converts to FRN on 5/22/18)	9,051,951
\$1,700	AXA S.A., 6.463%, 12/14/18 (a) (d) (g)	1,266,500
6,500	Dai-ichi Life Insurance Co., Ltd., 7.25%, 7/25/21 (a) (d) (g)	6,802,419
4,700	Hartford Financial Services Group, Inc., 8.125%, 6/15/68, (converts to FRN on 6/15/18)	4,946,750
15,000	MetLife Capital Trust IV, 7.875%, 12/15/67, (converts to FRN on 12/15/37) (a) (d) (i)	16,087,500
		126,256,689
<b>Telecommunications 0.2%</b>		
1,400	CenturyLink, Inc., 6.00%, 4/1/17	1,474,063
200	Sprint Capital Corp., 8.75%, 3/15/32	169,000
		1,643,063
<b>Utilities 1.1%</b>		
3,900	AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (d)	3,997,500
4,500	Ameren Energy Generating Co., 7.95%, 6/1/32	4,488,750
		8,486,250
Total Corporate Bonds & Notes (cost-\$396,788,968)		407,648,861
<b>MUNICIPAL BONDS 20.1%</b>		
<b>California 12.4%</b>		
13,100	Alameda Cnty. Joint Powers Auth. Rev., 7.046%, 12/1/44, Ser. A	15,789,561
1,650	City & Cnty. of San Francisco Redev. Agcy., Tax Allocation, 8.406%, 8/1/39	1,921,623
3,000	La Quinta Financing Auth., Tax Allocation, 8.07%, 9/1/36, Ser. A	3,202,140
4,000	Long Beach Redev. Agcy., Tax Allocation, 8.11%, 8/1/30	4,331,240
10,800	Los Angeles Cnty. Public Works Financing Auth. Rev., 7.618%, 8/1/40	14,105,232
20,000	Northern California Power Agcy. Rev., 7.311%, 6/1/40	23,354,000
1,200	Riverside Cnty. Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	1,236,744
10,000	Riverside Community College Dist., GO, 7.021%, 8/1/40, Ser. D-1	11,384,800
1,355	San Bernardino Cnty. Redev. Agcy., Tax Allocation, 8.50%, 9/1/40	1,421,137
2,100	San Luis Obispo Cnty. Rev., zero coupon, 9/1/27, Ser. C (NPFGC)	781,158
9,200	State Public Works Board Rev., 7.804%, 3/1/35, Ser. B-2	10,422,036
7,500	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	8,224,050
		96,173,721
<b>Colorado 0.8%</b>		
5,000	Denver Public Schools, CP, 7.017%, 12/15/37, Ser. B	6,412,950
<b>District of Columbia 1.9%</b>		



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<b>Illinois 0.3%</b>	13,000	Metropolitan Airports Auth. Rev., 7.462%, 10/1/46	14,569,360
	2,600	State, GO, 6.63%, 2/1/35	2,816,528

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

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)	Value	
<b>Ohio 2.4%</b>		
\$13,000	American Municipal Power-Ohio, Inc. Rev., Comb Hydroelectric Projects, 8.084%, 2/15/50, Ser. B	\$18,258,760
<b>Texas 2.3%</b>		
4,000	Dallas Convention Center Hotel Dev. Corp. Rev., 7.088%, 1/1/42	4,627,400
11,500	North Texas Tollway Auth. Rev., 8.91%, 2/1/30	13,053,420
		17,680,820
Total Municipal Bonds (cost-\$133,576,040)		155,912,139
<b>MORTGAGE-BACKED SECURITIES 11.9%</b>		
360	Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	261,880
108	Banc of America Funding Corp., CMO, 5.745%, 1/20/47, VRN	70,289
14,600	6.00%, 3/25/37	11,254,687
2,209	BCAP LLC Trust, CMO, VRN (a) (d), 2.810%, 5/26/36	54,255
2,500	5.594%, 3/26/37	192,500
3,627	8.858%, 5/26/37	525,872
1,812	10.834%, 6/26/36	208,418
634	Bear Stearns Alt-A Trust, 2.833%, 11/25/36, CMO, VRN	325,242
3,053	Chase Mortgage Finance Corp., CMO, 2.501%, 3/25/37, FRN	2,143,953
49	2.802%, 12/25/35, FRN	47,714
1,191	5.50%, 5/25/36	1,124,041
751	Citicorp Mortgage Securities, Inc., CMO, 5.50%, 4/25/37	724,144
6,164	6.00%, 9/25/37	6,077,856
2,385	Countrywide Alternative Loan Trust, CMO, 5.50%, 1/25/36	1,430,197
334	5.50%, 3/25/36	220,623
2,047	5.75%, 12/25/36	1,255,054
7,612	6.00%, 5/25/36	4,796,274
1,542	6.00%, 4/25/37	979,963
5,820	6.028%, 4/25/36, VRN	3,523,647
2,458	6.25%, 11/25/36	1,845,298
1,261	6.50%, 8/25/36	660,757
2,410	Countrywide Home Loan Mortgage Pass Through Trust, CMO, 5.75%, 3/25/37	1,960,482
1,529	6.00%, 5/25/36	1,243,946
1,795	6.00%, 2/25/37	1,419,659
7,700	6.00%, 3/25/37	6,206,550
2,681	6.25%, 9/25/36	1,776,861
3,342	First Horizon Asset Securities, Inc., 2.625%, 11/25/35, CMO, FRN	2,608,364
4,599	JPMorgan Alternative Loan Trust, 2.627%, 5/25/36, CMO, VRN	2,495,896
1,440	JPMorgan Mortgage Trust, CMO, 5.272%, 10/25/35, VRN	1,311,852
771	6.00%, 8/25/37	651,051
316	6.50%, 9/25/35	312,223

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1,877	MASTR Asset Securitization Trust, 6.50%, 11/25/37, CMO	1,540,296
80	Nomura Asset Acceptance Corp., 4.976%, 5/25/35, CMO	68,496

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

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
	Residential Asset Securitization Trust, CMO, 5.75%, 2/25/36	\$1,863,947
\$2,784	6.00%, 9/25/36	571,783
1,063	6.00%, 7/25/37	2,159,565
2,940	Residential Funding Mortgage Securities I, CMO, 5.423%, 9/25/35, VRN	4,361,394
5,633	6.00%, 6/25/37	9,438,709
11,830	6.25%, 8/25/36	1,938,147
2,490	Suntrust Adjustable Rate Mortgage Loan Trust, 5.808%, 2/25/37, CMO, FRN	671,476
1,017	WaMu Mortgage Pass Through Certificates, CMO, 5.473%, 2/25/37, FRN	1,567,599
2,000	5.835%, 9/25/36, VRN	446,861
643	Wells Fargo Mortgage-Backed Securities Trust, CMO, 2.667%, 4/25/36, VRN	413,518
525	2.698%, 7/25/36, FRN	791,848
1,149	2.738%, 7/25/36, FRN	7,397,200
10,107	5.75%, 3/25/37	1,338,980
1,593		1,338,980
	<b>Total Mortgage-Backed Securities (cost-\$94,024,039)</b>	<b>92,279,367</b>
	<b>Shares</b>	
	<b>PREFERRED STOCK 6.2%</b>	
	<b>Automotive Products 0.0%</b>	
20,275	Dura Automotive Systems, Inc., 20.00% (b) (f) (h)	10,137
	<b>Banking 2.7%</b>	
397,300	CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (d) (g) (j) (k) (acquisition cost-\$21,899,400; purchased 2/26/10-3/23/11)	20,523,048
	<b>Financial Services 3.1%</b>	
248,000	Ally Financial, Inc., 7.30%, 3/9/31	5,619,680
260,000	Citigroup Capital XIII, 7.875%, 10/30/15 (k)	7,004,400
5,000	Farm Credit Bank, 10.00%, 12/15/20, Ser. 1 (g)	5,792,187
255,400	GMAC Capital Trust I, 8.125%, 2/15/16, Ser. 2 (k)	5,667,326
		24,083,593
	<b>Real Estate Investment Trust 0.4%</b>	
3,000	Sovereign Real Estate Investment Trust, 12.00%, 5/16/20 (a) (d) (g)	3,328,446
	<b>Total Preferred Stock (cost-\$50,302,628)</b>	<b>47,945,224</b>
	<b>CONVERTIBLE PREFERRED STOCK 3.8%</b>	
	<b>Financial Services 0.5%</b>	
3,500	Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (g)	3,832,500
	<b>Utilities 3.3%</b>	
104,000	PPL Corp., 8.75%, 5/1/14	5,466,240
374,000	9.50%, 7/1/13	20,270,800
		25,737,040
	<b>Total Convertible Preferred Stock (cost-\$27,930,180)</b>	<b>29,569,540</b>

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

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>ASSET-BACKED SECURITIES 3.0%</b>		
\$2,669	Asset-Backed Funding Certificates, 0.496%, 5/25/37, FRN (a) (d)	\$2,173,079
17,113	Greenpoint Manufactured Housing, 8.45%, 6/20/31, VRN	14,743,929
2,275	GSAA Trust, 6.295%, 6/25/36	1,240,822
6,086	Indymac Residential Asset-Backed Trust, 0.436%, 7/25/37, FRN	2,980,846
1,539	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	1,544,534
1,458	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47	943,265
Total Asset-Backed Securities (cost-\$24,554,124)		23,626,475
<b>SENIOR LOANS (a) (c) 0.7%</b>		
<b>Financial Services 0.3%</b>		
2,115	Delos Aircraft, Inc., 7.00%, 3/17/16, Term B2	2,132,219
<b>Utilities 0.4%</b>		
4,759	Texas Competitive Electric Holdings Co. LLC, 4.795%, 10/10/17	2,955,046
Total Senior Loans (cost-\$6,247,666)		5,087,265
Shares		
<b>MUTUAL FUNDS 0.0%</b>		
3,160	BlackRock MuniYield Quality Fund II, Inc.	45,157
7,920	BlackRock MuniYield Quality Fund III, Inc.	118,087
Total Mutual Funds (cost-\$137,887)		163,244
<b>COMMON STOCK 0.0%</b>		
<b>Automotive Products 0.0%</b>		
81,383	Dura Automotive Systems, Inc. (b) (f) (h) (cost-\$1,317,433)	813
Principal Amount (000s)		
<b>SHORT-TERM INVESTMENTS 1.7%</b>		
<b>Corporate Notes 0.9%</b>		
<b>Airlines 0.3%</b>		
\$3,834	American Airlines Pass Through Trust, 10.18%, 1/2/13 (b) (e)	2,530,435
<b>Financial Services 0.6%</b>		
30	Ally Financial, Inc., 2.76%, 3/15/12, FRN	30,036
256	6.50%, 7/15/12	254,797
45	6.60%, 6/15/12	44,842
160	6.75%, 9/15/12	159,685
844	6.75%, 10/15/12	839,290
836	7.10%, 9/15/12	834,252
28	7.15%, 11/15/12	27,915
339	7.25%, 8/15/12	338,207

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	1,998	7.25%, 12/15/12	2,006,020
			4,535,044
Total Corporate Notes (cost-\$8,316,668)			7,065,479

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

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
<b>U.S. Treasury Obligations (1)</b> <b>0.7%</b>		
\$4,900	U.S. Treasury Bills, 0.02%-0.026%, 2/9/12-2/23/12 (cost-\$4,899,973)	\$4,899,973
<b>Repurchase Agreements</b> <b>0.1%</b>		
400	Credit Suisse Securities (USA) LLC, dated 1/31/12, 0.20%, due 2/1/12, proceeds \$400,002; collateralized by U.S. Treasury Notes, 0.25%, due 1/31/14, valued at \$409,131 including accrued interest	400,000
522	State Street Bank & Trust Co., dated 1/31/12, 0.01%, due 2/1/12, proceeds \$522,000; collateralized by U.S. Treasury Notes, 1.875%, due 10/31/17, valued at \$535,786 including accrued interest	522,000
Total Repurchase Agreements (cost-\$922,000)		922,000
Total Short-Term Investments (cost-\$14,138,641)		12,887,452
<b>Total Investments</b> (cost-\$749,017,606) <b>100.0%</b>		<b>\$775,120,380</b>



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

January 31, 2012 (unaudited) (continued)

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$65,688,437 and \$149,387,563, representing 16.9% and 19.3% of total investments in Income Strategy and Income Strategy II, respectively.
- (b) Illiquid.
- (c) These securities generally pay interest at rates which are periodically pre-determined by reference to a base lending rate plus a premium. These base lending rates are generally either the lending rate offered by one or more major European banks, such as the LIBOR or the prime rate offered by one or more major United States banks, or the certificate of deposit rate. These securities are generally considered to be restricted as the Funds are ordinarily contractually obligated to receive approval from the Agent bank and/or borrower prior to disposition. Remaining maturities of senior loans may be less than the stated maturities shown as a result of contractual or optional payments by the borrower. Such prepayments cannot be predicted with certainty. The interest rate disclosed reflects the rate in effect on January 31, 2012.
- (d) 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.
- (e) In default.
- (f) Fair-Valued Securities with an aggregate value of \$10,950, representing less than 0.05% of total investments in Income Strategy II. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (g) Perpetual maturity. The date shown is the next call date. For Corporate Bonds & Notes, the interest rate is fixed until the first call date and variable thereafter.
- (h) Non-income producing.
- (i) All or partial amount transferred for the benefit of the counterparty as collateral for reverse repurchase agreements.
- (j) Restricted. The aggregate acquisition cost of such securities is \$9,027,937 and \$38,539,471 for Income Strategy and Income Strategy II, respectively. The aggregate market value is \$9,914,535 and \$42,465,946, representing 2.5% and 5.5% of total investments in Income Strategy and Income Strategy II, respectively.
- (k) Dividend rate is fixed until the first call date and variable thereafter.
- (l) Rates reflect the effective yields at purchase date.

**Glossary:**

AGM	- insured by Assured Guaranty Municipal Corp.
AMBAC	- insured by American Municipal Bond Assurance Corp.
£	- British Pound
CMO	- Collateralized Mortgage Obligation
CP	- Certificates of Participation
	- Euro
FGIC	- insured by Financial Guaranty Insurance Co.
FRN	- Floating Rate Note. The interest rate disclosed reflects the rate in effect on January 31, 2012.
GO	- General Obligation Bond
GTD	- Guaranteed
LIBOR	- London Inter-Bank Offered Rate

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MXN  
NPFGC  
VRN

- Mexican Peso
- insured by National Public Finance Guarantee Corp.
- Variable Rate Note. Instruments whose interest rates change on a specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on January 31, 2012.

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**See accompanying Notes to Financial Statements.** | 1.31.12 | PIMCO Income Strategy Fund II Semi-Annual Report 23

**PIMCO Income Strategy Fund/PIMCO Income Strategy Fund II**  
**Statements of Assets and Liabilities**

January 31, 2012 (unaudited)

	Income Strategy	Income Strategy II
<b>Assets:</b>		
Investments, at value (cost-\$377,907,871 and \$749,017,606, respectively)	\$389,719,090	\$775,120,380
Cash (including foreign currency, at value of \$180,371 and \$308,983 with a cost of \$175,152 and \$309,021, respectively)	180,448	309,228
Interest and dividends receivable	7,589,845	15,982,683
Unrealized appreciation of forward foreign currency contracts	96,466	3,311,060
Unrealized appreciation of OTC swaps	18,583	
Receivable for principal paydown	328	683
Prepaid expenses	38,344	55,484
<b>Total Assets</b>	<b>397,643,104</b>	<b>794,779,518</b>
<b>Liabilities:</b>		
Payable for reverse repurchase agreements	56,430,000	76,380,000
Dividends payable to common and preferred shareholders	1,884,446	3,816,823
Unrealized depreciation of forward foreign currency contracts	453,492	621,228
Payable to brokers for cash collateral received	435,000	3,080,000
Investment management fees payable	244,354	486,955
Interest payable for reverse repurchase agreements	151,576	225,959
Payable to broker		42,340
Accrued expenses and other liabilities	167,469	262,454
<b>Total Liabilities</b>	<b>59,766,337</b>	<b>84,915,759</b>
<b>Preferred Shares (\$0.00001 par value and \$25,000 liquidation preference per share applicable to an aggregate of 3,159 and 6,440 shares issued and outstanding, respectively)</b>	<b>78,975,000</b>	<b>161,000,000</b>
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$258,901,767</b>	<b>\$548,863,759</b>
<b>Composition of Net Assets Applicable to Common Shareholders:</b>		
Common Shares:		
Par value (\$0.00001 per share)	\$249	\$583
Paid-in-capital in excess of par	411,862,359	935,425,175
Undistributed net investment income	4,337,908	13,822,479
Accumulated net realized loss	(168,744,463)	(428,974,488)
Net unrealized appreciation of investments swaps and foreign currency transactions	11,445,714	28,590,010
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$258,901,767</b>	<b>\$548,863,759</b>
Common Shares Issued and Outstanding	24,894,204	58,307,433
<b>Net Asset Value Per Common Share</b>	<b>\$10.40</b>	<b>\$9.41</b>

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**PIMCO Income Strategy Fund/PIMCO Income Strategy Fund II  
Statements of Operations**

Six Months ended January 31, 2012 (unaudited)

	Income Strategy	Income Strategy II
<b>Investment Income:</b>		
Interest	\$15,995,060	\$31,331,082
Dividends	1,187,189	3,283,922
Facility and other fee income	102,583	28,895
Total Investment Income	17,284,832	34,643,899
<b>Expenses:</b>		
Investment management fees	1,544,729	2,966,000
Interest expense	273,882	334,257
Custodian and accounting agent fees	85,641	127,783
Legal fees	83,984	108,640
Auction agent fees and commissions	66,884	135,067
Audit and tax services	60,292	