

PIMCO INCOME STRATEGY FUND  
Form N-CSR  
October 04, 2011

OMB APPROVAL  
OMB Number: 3235-0570  
Expires: January 31, 2014  
Estimated average burden hours per  
response.....20.6

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, 2011  
end:

Date of reporting period: July 31, 2011

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Report to Shareholders



**Contents**

Letter to Shareholders	2-3
Fund Insights	4
Fund Performance & Statistics	5-6
Schedules of Investments	7-24
Statements of Assets and Liabilities	25
Statements of Operations	26
Statements of Changes in Net Assets	27-28
Statement of Cash Flows	29
Notes to Financial Statements	30-54
Financial Highlights	55-56
Report of Independent Registered Public Accounting Firm	57
Tax Information/Annual Shareholder Meeting Results/Changes to Board of Trustees	58
Matters Relating to the Trustees Consideration of the Investment Management & Portfolio Management Agreements	59-61
Privacy Policy/Proxy Voting Policies & Procedures	62
Dividend Reinvestment Plan	63
Board of Trustees	64-65
Fund Officers	66

Dear Shareholder:

This letter focuses on the twelve-month fiscal period ended July 31, 2011. However, it is important to note the significant volatility that has impacted U.S. financial markets since the end of the reporting period. This volatility has been sparked by a variety of economic and geopolitical challenges in both the United States and abroad. Ongoing U.S. government budget battles and the downgrading of its credit rating, fiscal concerns in Europe, and data indicating that the U.S. and global economies are slowing down have all contributed significantly to the recent market downturn.

Hans W. Kertess

*Chairman*

Brian S. Shlissel

*President & CEO*

**Twelve Month Period in Review through July 31, 2011**

For the twelve-month fiscal period ended July 31, 2011:

## Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

- PIMCO Income Strategy Fund rose 19.46% on net asset value ( NAV ) and 19.67% on market price.
- PIMCO Income Strategy Fund II advanced 19.12% on NAV and 12.53% on market price.

The Barclays Capital U.S. Credit Index, a measure of high quality corporate bond performance, returned 6.70% and the Barclays Capital U.S. High Yield Bond Index, a measure of below investment-grade corporate bond performance, returned 12.95% during the reporting period. Government bonds, as represented by the Barclays Capital Long Term Treasury Index, rose 3.04%. The Barclays Capital U.S. Aggregate Bond Index, a broad credit market measure of government and corporate securities, posted a 4.44% return, and mortgage-backed securities, reflected by the Barclays Capital Mortgage Index, rose 3.88%. As for stocks, the Standard & Poor's 500 Index advanced 19.65% during the fiscal twelve month period.

At the start of the fiscal year, 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, was growing at an annualized rate of 2.5%. GDP fell to 2.3% between October and December 2010 and 0.4% between January and March of 2011. It perked up to an annualized rate of 1.3% between April and June 2011.

As the economy struggled, U.S. Treasury prices jumped, sending yields plummeting. After reaching 3.75% in February 2011, the benchmark 10-year Treasury yielded just 2.82% at the end of the fiscal period.

## Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

The slowdown took steam out of corporate bonds, particularly in the higher-yielding ( junk bond ) sector. Corporate profits remained robust, but concerns grew that skittish consumers would reduce spending, jeopardizing future earnings.

The economic weakness prompted the Federal Reserve (the Fed ) to indicate that it would keep interest rates low through 2013. Policymakers have also hinted of additional stimulus measures.

### **The Road Ahead**

The recent market volatility reflects ongoing concerns about the health of the U.S. economy. Key measures such as unemployment and housing remain troubled, and consumer confidence has fallen to levels not seen since 1982.

There are reasons to be hopeful, however, as GDP accelerated between April and June. In addition, there were 3.1 million job openings in May. The Fed is maintaining a low interest rate environment and U.S. companies, holding record amounts of cash, appear healthy. We maintain our view that the U.S. rebound now entering its third year will continue.

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

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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

PIMCO Income Strategy Fund  
PIMCO Income Strategy Fund II Annual Report 3

7.31.111



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

July 31, 2011 (unaudited)

For the 12 months ended July 31, 2011, PIMCO Income Strategy Fund returned 19.46% on net asset value ( NAV ) and 19.67% on market price.

For the 12 months ended July 31, 2011, PIMCO Income Strategy Fund II returned 19.12% on NAV and 12.53% on market price.

The unmanaged Barclays Capital U.S. Aggregate Bond Index and Barclays Capital U.S. Credit Index returned 4.44% and 6.70%, respectively, during the reporting period.

While the U.S. fixed income market generated a positive return during the reporting period, there were periods of heightened volatility due to shifting expectations for the economy and periodic flights to quality. Early in the period, there were concerns that the economic recovery was losing momentum and the U.S. may fall back into recession. Beginning in the fourth quarter of 2010, expectations improved and inflationary concerns emerged. Despite a number of geopolitical challenges, the ongoing European sovereign debt crisis and the devastating earthquake in Japan, most spread sectors (non-U.S. Treasuries) outperformed equal-duration Treasuries through the end of April 2011. However, over the last three months of the period, the economy decelerated and investor risk appetite was replaced with risk aversion. Further impacting investor sentiment were concerns regarding the raising of the debt ceiling and the potential for a downgrade of U.S. government securities. Against this backdrop, Treasury yields moved lower and nearly every spread sector lagged equal-duration Treasuries. All told, during the 12 months ended July 31, 2011, both short- and long-term Treasury yields declined and the yield curve steepened.

Sector exposures largely enhanced the Funds' performance

During the reporting period, the Funds significantly outperformed 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).

Overall, the Funds' sector exposures within the corporate bond market were beneficial for performance. An emphasis on the life insurance sector, which materially outpaced the broad market, benefited returns. An overweighting to non-captive consumer finance bonds was a strong contributor to performance, as these issues substantially outperformed the overall credit market. An emphasis on banks was rewarded, as recapitalization efforts increased. However, a portion of these gains were given back toward the end of the reporting period as sovereign debt tensions increased and negatively impacted the financial sector. Select exposure to Build America Bonds, a part of the Obama administration's economic stimulus package, which subsidized taxable municipal securities in an effort to attract investors, added to performance, as these municipal issues generally outperformed the broader market. Finally, having an exposure to certain speculative-grade corporate bonds enhanced the Funds' results, as these securities outperformed their higher quality counterparts.

Underweight exposure to technology detracted from results as this sector rallied and outperformed the overall credit market. An underweighting to the metals and mining sector was also not rewarded, as this sector benefited from increasing metal prices. Elsewhere, the Funds' exposure to the European banking sector detracted from performance as select issuers were adversely impacted by sovereign credit concerns.

PIMCO Income Strategy Fund

4 PIMCO Income Strategy Fund II Annual Report | 7.31.11

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

July 31, 2011 (unaudited)

<b>Total Return(1):</b>	<b>Market Price</b>	<b>NAV</b>
1 Year	19.67%	19.46%
5 Year	3.35%	3.01%
Commencement of Operations (8/29/03) to 7/31/11	4.65%	4.27%

<b>Market Price/NAV Performance:</b>		<b>Market Price/NAV:</b>	
Commencement of Operations (8/29/03) to 7/31/11		Market Price	\$12.39
		NAV	\$11.39
		Premium to NAV	8.78%
Market Price		Market Price Yield(2)	7.26%
NAV			

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

July 31, 2011 (unaudited)

<b>Total Return(1):</b>	<b>Market Price</b>	<b>NAV</b>
1 Year	12.53%	19.12%
5 Year	0.32%	0.06%
Commencement of Operations (10/29/04) to 7/31/11	1.23%	1.61%

<b>Market Price/NAV Performance:</b>		<b>Market Price/NAV:</b>	
Commencement of Operations (10/29/04) to 7/31/11		Market Price	\$10.27
		NAV	\$10.04
Market Price		Premium to NAV	2.29%
NAV		Market Price Yield(2)	7.59%

**Portfolio Composition**

(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 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.

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

## Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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 July 31, 2011.

PIMCO Income Strategy Fund

6 PIMCO Income Strategy Fund II Annual Report | 7.31.11

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

**PIMCO Income Strategy Fund Schedule of Investments**

July 31, 2011

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>CORPORATE BONDS &amp; NOTES 58.8%</b>			
<b>Airlines 5.1%</b>			
\$900	American Airlines, Inc., 10.50%, 10/15/12	B2/B	\$949,500
3,774	American Airlines Pass Through Trust, 9.73%, 9/29/14	Caa2/CCC+	3,697,932
1,861	10.18%, 1/2/13	Caa1/CCC+	1,861,294
14,637	United Air Lines Pass Through Trust, 10.40%, 5/1/18 (j)	Baa2/BBB+	16,484,010
			22,992,736
<b>Banking 8.3%</b>			
2,600	AgFirst Farm Credit Bank, 7.30%, 8/29/11 (a) (b) (d) (g) (k) (acquisition cost-\$2,225,000; purchased 2/26/10-4/15/10)	NR/A	2,611,448
1,200	Barclays Bank PLC (g), 7.375%, 12/15/11 (a) (d)	Baa2/A-	1,212,000
1,885	7.434%, 12/15/17 (a) (d) (j)	Baa2/A-	1,899,137
£7,800	14.00%, 6/15/19	Baa2/A-	15,588,042
3,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20	NR/NR	4,306,689
\$4,400	11.00%, 6/30/19 (a) (d) (g) (j)	A2/AA-	5,637,355
600	HBOS PLC, 6.75%, 5/21/18 (a) (d)	Baa3/BBB	602,413
800	Regions Financial Corp., 7.375%, 12/10/37	B1/BB	763,470
1,500	7.75%, 9/15/24	B1/BB	1,484,257
£2,000	Santander Issuances S.A. Unipersonal, 7.30%, 7/27/19, (converts to FRN on 9/27/14)	Aa3/AA-	3,346,801
			37,451,612
<b>Chemicals 0.5%</b>			
\$1,861	Lyondell Chemical Co., 8.00%, 11/1/17 (a) (d)	Ba1/BB+	2,112,235
<b>Consumer Products 0.2%</b>			
800	Reynolds Group Issuer, Inc., 9.00%, 4/15/19 (a) (d)	Caa1/B-	800,000
<b>Energy 0.2%</b>			
1,100	Dynergy Roseton/Danskammer Pass Through Trust, 7.67%, 11/8/16, Ser. B	Ca/CC	852,500
<b>Financial Services 24.3%</b>			
304	Ally Financial, Inc., 5.90%, 1/15/19	B1/B+	285,225
156	5.90%, 10/15/19	B1/B+	143,441
55	6.00%, 2/15/19	B1/B+	51,666
90	6.00%, 3/15/19	B1/B+	84,768
8	6.00%, 4/15/19	B1/B+	7,500
325	6.00%, 9/15/19	B1/B+	302,831

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

95	6.05%, 8/15/19	B1/B+	88,680
413	6.05%, 10/15/19	B1/B+	383,703
31	6.125%, 10/15/19	B1/B+	28,943
1,208	6.15%, 8/15/19	B1/B+	1,135,739
1,371	6.25%, 2/15/16	B1/B+	1,347,165
25	6.25%, 1/15/19	B1/B+	23,950
120	6.30%, 8/15/19	B1/B+	113,902
1,168	6.35%, 2/15/16	B1/B+	1,152,136
285	6.35%, 4/15/16	B1/B+	279,269
216	6.40%, 3/15/16	B1/B+	215,973

PIMCO Income Strategy Fund  
 7.31.11 | PIMCO Income Strategy Fund II Annual Report 7

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

**PIMCO Income Strategy Fund Schedule of Investments**

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Financial Services (continued)</b>			
\$360	6.40%, 11/15/19	B1/B+	\$342,443
1,357	6.50%, 2/15/16	B1/B+	1,346,265
20	6.50%, 9/15/16	B1/B+	19,669
442	6.50%, 10/15/16	B1/B+	434,892
170	6.50%, 12/15/18	B1/B+	165,262
22	6.50%, 5/15/19	B1/B+	21,190
358	6.55%, 12/15/19	B1/B+	344,146
14	6.60%, 5/15/18	B1/B+	13,996
51	6.65%, 6/15/18	B1/B+	51,129
60	6.70%, 6/15/18	B1/B+	60,152
329	6.75%, 4/15/13	B1/B+	329,327
3	6.75%, 8/15/16	B1/B+	2,979
13	6.75%, 6/15/17	B1/B+	13,010
89	6.75%, 5/15/19	B1/B+	86,985
10	6.75%, 6/15/19	B1/B+	9,737
205	6.80%, 9/15/16	B1/B+	203,965
3	6.80%, 10/15/18	B1/B+	3,001
938	6.85%, 4/15/16	B1/B+	936,212
30	6.85%, 5/15/18	B1/B+	29,991
336	6.875%, 8/15/16	B1/B+	334,982
5	6.875%, 7/15/18	B1/B+	5,004
140	6.90%, 6/15/17	B1/B+	140,384
32	6.90%, 8/15/18	B1/B+	31,845
151	6.95%, 6/15/17	B1/B+	151,439
25	7.00%, 12/15/16	B1/B+	25,003
27	7.00%, 6/15/17	B1/B+	27,083
130	7.00%, 7/15/17	B1/B+	130,506
367	7.00%, 2/15/18	B1/B+	367,257
12	7.00%, 3/15/18	B1/B+	11,999
155	7.00%, 8/15/18	B1/B+	154,999
5	7.00%, 9/15/18	B1/B+	4,984
42	7.05%, 3/15/18	B1/B+	42,000
39	7.05%, 4/15/18	B1/B+	39,003
3,812	7.10%, 9/15/12	B1/B+	3,804,875
100	7.125%, 8/15/12	B1/B+	99,882
160	7.125%, 10/15/17	B1/B+	160,351
40	7.15%, 3/15/25	B1/B+	39,447
75	7.20%, 10/15/17	B1/B+	74,217
288	7.25%, 6/15/16	B1/B+	288,310
293	7.25%, 9/15/17	B1/B+	289,880
10	7.25%, 4/15/18	B1/B+	10,026
10	7.25%, 8/15/18	B1/B+	10,002
328	7.25%, 9/15/18	B1/B+	327,992
25	7.30%, 1/15/18	B1/B+	25,063
396	7.35%, 4/15/18	B1/B+	397,545
57	7.50%, 6/15/16	B1/B+	57,314
45	7.55%, 5/15/16	B1/B+	45,210



Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

47	7.75%, 10/15/17	B1/B+	47,137
110	8.125%, 11/15/17	B1/B+	110,372
110	9.00%, 7/15/20	B1/B+	111,647
£1,700	BAC Capital Trust VII, 5.25%, 8/10/35	Baa3/BB+	2,148,660
\$1,400	Capital One Capital VI, 8.875%, 5/15/40	Baa3/BB	1,470,909

PIMCO Income Strategy Fund  
PIMCO Income Strategy Fund II Annual Report | 7.31.11

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

**PIMCO Income Strategy Fund Schedule of Investments**

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Financial Services (continued)</b>			
\$528	CIT Group, Inc., 7.00%, 5/1/14	B2/B+	\$532,919
1,157	7.00%, 5/1/15	B2/B+	1,162,383
1,579	7.00%, 5/1/16	B2/B+	1,584,798
2,210	7.00%, 5/1/17	B2/B+	2,218,715
2,500	Citigroup Capital XXI, 8.30%, 12/21/77, (converts to FRN on 12/21/37)	Ba1/BB+	2,575,000
2,500	Credit Agricole S.A. (g), 6.637%, 5/31/17 (a) (d) (j)	A3/BBB+	2,150,000
£1,000	8.125%, 10/26/19	A3/BBB+	1,608,622
\$4,600	Ford Motor Credit Co. LLC, 8.125%, 1/15/20 (j)	Ba2/BB-	5,476,562
7,000	ILFC E-Capital Trust I, 5.74%, 12/21/65, FRN (a) (d)	B3/BB	5,886,930
	LBG Capital No.1 PLC, 6.439%, 5/23/20	Ba3/BB	607,090
500	7.375%, 3/12/20	Ba3/BB	258,786
200	7.588%, 5/12/20	Ba3/BB	443,192
£300	7.867%, 12/17/19	Ba3/BB	7,130,464
£4,800	7.869%, 8/25/20	Ba3/BB	1,051,924
£700	7.875%, 11/1/20 (a) (d)	Ba3/BB	2,368,750
\$2,500	8.00%, 6/15/20 (a) (d) (g)	NR/BB-	1,302,000
1,400	8.50%, 12/17/21 (a) (d) (g)	NR/BB-	1,790,000
2,000	11.04%, 3/19/20	Ba3/BB	1,564,098
£900	LBG Capital No.2 PLC, 9.125%, 7/15/20	Ba2/BB+	850,677
£534	11.25%, 9/14/23	Ba2/BB+	4,349,846
£2,500	Lehman Brothers Holdings, Inc., 7.50%, 5/11/38 (e)	WR/NR	1,650
\$1,500	NB Capital Trust II, 7.83%, 12/15/26	Baa3/BB+	1,661,580
1,629	PNC Financial Services Group, Inc., 6.75%, 8/1/21 (g)	Baa3/BBB	5,007,660
5,000	Royal Bank of Scotland Group PLC, 7.648%, 9/30/31 (g) SLM Corp., 6.25%, 1/25/16	Ba2/BB	3,209,750
3,700	8.00%, 3/25/20 (j)	Ba1/BBB-	419,261
400	8.45%, 6/15/18 (j)	Ba1/BBB-	13,392,306
12,200	SMFG Preferred Capital USD 3 Ltd., 9.50%, 7/25/18 (a) (d) (g)	Ba1/BBB+	7,166,925
6,400	Springleaf Finance Corp., 3.25%, 1/16/13	B3/B	2,596,180
2,168	6.50%, 9/15/17	B3/B	1,224,274
900	Wells Fargo Capital XV, 9.75%, 9/26/13 (g) (j)	Baa3/A-	7,503,000
			1,914,750
			110,054,661
<b>Insurance 12.2%</b>			
10,000	American General Capital II, 8.50%, 7/1/30 (j)	Baa2/BBB-	11,050,000
1,600	American General Institutional Capital A, 7.57%, 12/1/45 (a) (d)	Baa2/BBB-	1,684,000
2,000	American General Institutional Capital B, 8.125%, 3/15/46 (a) (d)	Baa2/BBB-	2,170,000

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

	American International Group, Inc.,		
2,800	4.875%, 3/15/67, (converts to FRN on 3/15/17)	Baa2/BBB	3,198,538
\$4,000	6.25%, 3/15/87, (converts to FRN on 3/15/37) (j)	Baa2/BBB	3,630,000
MXN 8,000	7.98%, 6/15/17	Baa1/A-	621,308
1,900	8.00%, 5/22/68, (converts to FRN on 5/22/18) (a) (d)	Baa2/BBB	2,702,808
\$8,200	8.175%, 5/15/68, (converts to FRN on 5/15/38)	Baa2/BBB	8,968,750
4,400	8.25%, 8/15/18 (j)	Baa1/A-	5,231,050
£1,300	8.625%, 5/22/68, (converts to FRN on 5/22/18)	Baa2/BBB	2,181,899

PIMCO Income Strategy Fund  
7.31.11 | PIMCO Income Strategy Fund II Annual Report 9

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

**PIMCO Income Strategy Fund Schedule of Investments**

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Insurance (continued)</b>			
\$2,200	Dai-ichi Life Insurance Co., Ltd., 7.25%, 7/25/21 (a) (d) (g) (j)	A3/BBB+	\$2,326,990
2,300	Hartford Financial Services Group, Inc., 8.125%, 6/15/68, (converts to FRN on 6/15/18)	Ba1/BB+	2,466,750
2,000	Metlife Capital Trust IV, 7.875%, 12/15/67, (converts to FRN on 12/15/37) (a) (d)	Baa2/BBB	2,200,554
3,300	MetLife Capital Trust X, 9.25%, 4/8/68, (converts to FRN on 4/8/38) (a) (d) (j)	Baa2/BBB	4,108,500
2,440	Progressive Corp., 6.70%, 6/15/67, (converts to FRN on 6/15/17) (j)	A2/A-	2,522,338
			55,063,485
<b>Oil &amp; Gas 2.6%</b>			
5,000	NGPL PipeCo LLC (a) (d), 7.119%, 12/15/17	Ba2/BB+	5,698,300
5,000	7.768%, 12/15/37 (j)	Ba2/BB+	5,456,590
600	SandRidge Energy, Inc., 8.00%, 6/1/18 (a) (d)	B3/B	639,000
			11,793,890
<b>Paper &amp; Forest Products 2.4%</b>			
10,000	Weyerhaeuser Co., 7.375%, 3/15/32 (j)	Ba1/BBB-	10,767,360
<b>Telecommunications 2.4%</b>			
11,000	CenturyLink, Inc., 7.60%, 9/15/39 (j)	Baa3/BB	11,109,978
<b>Utilities 0.6%</b>			
1,900	AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (d)	NR/B-	2,035,850
390	Dominion Resources, Inc., 6.30%, 9/30/66, (converts to FRN on 9/30/11)	Baa3/BBB	379,875
400	PPL Capital Funding, Inc., 6.70%, 3/30/67, (converts to FRN on 3/30/17)	Ba1/BB+	394,657
			2,810,382
	Total Corporate Bonds & Notes (cost-\$241,957,648)		265,808,839
<b>MUNICIPAL BONDS 22.2%</b>			
<b>California 7.6%</b>			
9,200	Alameda Cnty. Joint Powers Auth. Rev., 7.046%, 12/1/44, Ser. A	A1/AA	9,980,252
3,000	Fresno Cnty. Rev., zero coupon, 8/15/24, Ser. A (FGIC-NPFGC)	WR/AA-	1,308,270
900	Long Beach Redev. Agcy., Tax Allocation, 8.36%, 8/1/40	NR/BBB+	939,222
7,600	Los Angeles Cnty. Public Works Financing Auth. Rev., 7.618%, 8/1/40	A1/A+	8,454,696
2,375	Marysville Public Financing Auth., CP, 6.15%, 10/1/36	NR/A-	1,981,344
1,100		A2/NR	1,231,901

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

	Oakland Unified School Dist., Alameda Cnty., GO, 9.50%, 8/1/34		
600	Riverside Cnty. Redev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	A3/A-	604,248
1,000	Riverside Rev., 7.605%, 10/1/40	NR/AA-	1,222,580
1,000	San Luis Obispo Cnty. Rev., zero coupon, 9/1/27, Ser. C (NPFGC)	Baa1/AA-	320,200
400	San Marcos Unified School Dist., GO, zero coupon, 8/1/32	Aa2/AA-	101,708
4,000	State Public Works Board Rev., 7.804%, 3/1/35, Ser. B-2	Aa3/BBB+	4,179,120
3,600	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	NR/A	3,777,984
			34,101,525

PIMCO Income Strategy Fund  
PIMCO Income Strategy Fund II Annual Report | 7.31.11

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

**PIMCO Income Strategy Fund Schedule of Investments**

July 31, 2011 (continued)

	Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Colorado 1.0%</b>	\$4,000	Denver Public Schools, CP, 7.017%, 12/15/37, Ser. B	Aa3/A+	\$4,586,840
<b>District of Columbia 3.4%</b>	15,000	Metropolitan Airports Auth. Rev., 7.462%, 10/1/46	Baa1/BBB+	15,379,950
<b>Nevada 2.4%</b>	10,000	Las Vegas Valley Water Dist., GO, 7.263%, 6/1/34	Aa2/AA+	10,765,700
<b>New Jersey 0.5%</b>	1,935	Middlesex Cnty. Improvement Auth. Rev. (AGM-GTD), zero coupon, 10/1/22	Aa3/NR	979,923
	2,455	zero coupon, 10/1/23	Aa3/NR	1,158,735
				2,138,658
<b>Ohio 4.6%</b>	16,000	American Municipal Power-Ohio, Inc. Rev., Comb Hydroelectric Projects, 8.084%, 2/15/50, Ser. B	A3/A	20,892,960
<b>Pennsylvania 0.1%</b>	1,000	Philadelphia Auth. for Industrial Dev. Rev., zero coupon, 4/15/26, Ser. B (AMBAC)	A2/BBB	347,560
<b>Texas 2.6%</b>	1,900	Dallas Convention Center Hotel Dev. Corp. Rev., 7.088%, 1/1/42	A1/A+	2,051,639
	9,000	North Texas Tollway Auth. Rev., 8.91%, 2/1/30	Baa3/NR	9,857,610
				11,909,249
Total Municipal Bonds (cost-\$91,123,197)				100,122,442
<b>MORTGAGE-BACKED SECURITIES 11.3%</b>	162	Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	Caa2/NR	112,164
	3,100	Banc of America Funding Corp., 6.00%, 3/25/37, CMO BCAP LLC Trust, CMO, VRN (a) (d) (f), 5.835%, 3/26/37	Caa2/CCC	2,277,582
	1,200	10.322%, 6/25/36	NR/NR	104,292
	1,000	Bear Stearns Alt-A Trust, 4.516%, 11/25/36, CMO, VRN	NR/NR	122,311
	402	Chase Mortgage Finance Corp., CMO, 2.526%, 3/25/37, FRN	Caa3/CCC	231,630
	1,581	2.935%, 12/25/35, FRN	Caa2/NR	1,229,780
	41	6.00%, 2/25/37	NR/CC	39,891
	1,600	6.00%, 7/25/37	Caa2/CCC	1,260,641
	1,200	6.25%, 10/25/36	NR/CCC	993,215
	2,500	Citicorp Mortgage Securities, Inc., 5.50%, 4/25/37, CMO	Caa1/CCC	2,121,464
	449	Countrywide Alternative Loan Trust, CMO,	Caa1/NR	399,426

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

212	5.50%, 3/25/36	Caa3/NR	147,886
4,029	6.00%, 5/25/36	Ca/NR	2,541,583
2,963	6.045%, 4/25/36, VRN	Ca/CCC	1,891,885
1,280	6.25%, 11/25/36	Caa3/NR	997,240
669	6.50%, 8/25/36	Ca/CC	392,662
	Countrywide Home Loan Mortgage Pass Through Trust, CMO,		
117	2.786%, 2/20/35, VRN	Caa1/BB	94,723
1,414	5.50%, 10/25/35	Caa1/NR	1,350,445
1,360	5.75%, 3/25/37	NR/CCC	1,171,375
937	6.00%, 5/25/36	NR/CC	814,872

PIMCO Income Strategy Fund  
7.31.11 | PIMCO Income Strategy Fund II Annual Report

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

**PIMCO Income Strategy Fund Schedule of Investments**

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
\$900	6.00%, 2/25/37	NR/CC	\$751,162
312	6.00%, 4/25/37	NR/CCC	287,478
1,457	6.25%, 9/25/36	B3/NR	1,179,393
675	Credit Suisse Mortgage Capital Certificates, 6.00%, 2/25/37, CMO	NR/CCC	576,840
328	GSR Mortgage Loan Trust, CMO, 5.50%, 5/25/36	NR/CCC	283,125
7,396	6.00%, 2/25/36	NR/CCC	6,516,142
77	Harborview Mortgage Loan Trust, 2.774%, 7/19/35, CMO, VRN	Caa3/CCC	57,369
2,021	JPMorgan Mortgage Trust, CMO, 5.00%, 3/25/37	NR/CCC	1,628,959
893	5.561%, 1/25/37, VRN	Caa2/NR	693,153
480	6.00%, 8/25/37	NR/CCC	428,016
1,412	Residential Asset Securitization Trust, CMO, 5.75%, 2/25/36	Caa3/D	972,534
561	6.00%, 9/25/36	Ca/D	314,274
1,466	6.00%, 7/25/37	NR/CCC	1,065,475
528	Residential Funding Mortgage Securities I, CMO, 6.00%, 9/25/36	Caa1/CC	475,366
1,200	6.00%, 1/25/37	Caa2/NR	1,029,164
6,192	6.00%, 6/25/37	NR/D	4,993,390
3,572	Suntrust Adjustable Rate Mortgage Loan Trust, CMO, FRN, 5.533%, 4/25/37	NR/CCC	2,742,837
550	5.824%, 2/25/37	NR/CCC	392,775
1,000	WaMu Mortgage Pass Through Certificates, CMO, 5.653%, 2/25/37, FRN	NR/CCC	843,159
310	5.833%, 9/25/36, VRN	NR/CCC	230,211
5,309	Wells Fargo Mortgage-Backed Securities Trust, CMO, 2.734%, 7/25/36, FRN	NR/CC	4,424,733
577	2.743%, 7/25/36, FRN	NR/CC	448,661
303	2.77%, 4/25/36, VRN	NR/CC	254,207
909	5.75%, 3/25/37	Caa2/NR	795,881
538	6.00%, 6/25/37	Caa1/NR	506,477
700	6.00%, 7/25/37	B3/CCC	668,139
Total Mortgage-Backed Securities (cost-\$49,449,899)			50,853,987
Shares			
<b>PREFERRED STOCK 3.8%</b>			
<b>Banking 1.1%</b>			
90,200	CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (d) (g) (k) (l) (acquisition cost-\$4,973,200; purchased 8/31/10-2/1/11)	NR/A	4,916,631
<b>Financial Services 0.9%</b>			
100,000	Ally Financial, Inc., 8.50%, 5/15/16, Ser. A (g) (l)	Caa1/CCC	2,462,000
60,000	Citigroup Capital XIII, 7.875%, 10/30/15 (l)	Ba1/BB+	1,624,200
			4,086,200



Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

<b>Real Estate Investment Trust</b>	<b>1.8%</b>			
6,800		Sovereign Real Estate Investment Trust, 12.00%, 5/16/20		
		(a) (d) (g)	Baa2/BBB+	8,046,950
Total Preferred Stock (cost-\$16,746,700)				17,049,781

PIMCO Income Strategy Fund  
PIMCO Income Strategy Fund II Annual Report | 7.31.11

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

**PIMCO Income Strategy Fund Schedule of Investments**

July 31, 2011 (continued)

Shares		Credit Rating (Moody s/S&P)*	Value
<b>CONVERTIBLE PREFERRED STOCK 1.8%</b>			
<b>Financial Services 0.6%</b>			
2,700	Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (g)	Baa3/A-	\$2,866,590
<b>Utilities 1.2%</b>			
98,000	PPL Corp., 9.50%, 7/1/13	NR/NR	5,496,820
Total Convertible Preferred Stock (cost-\$7,163,145)			8,363,410
Principal Amount (000s)			
<b>SENIOR LOANS (a) (c) 0.9%</b>			
<b>Financial Services 0.3%</b>			
\$1,244	CIT Group, Inc., 6.25%, 8/11/15, Term 3		1,249,707
<b>Multi-Media 0.6%</b>			
AUD 2,246	Seven Media Group, Term T1, 6.855%, 12/28/12		2,378,729
AUD 563	6.902%, 12/28/12		596,408
Total Senior Loans (cost-\$3,538,003)			2,975,137
			4,224,844
<b>ASSET-BACKED SECURITIES 0.7%</b>			
\$1,352	Asset-Backed Funding Certificates, 0.407%, 5/25/37, FRN (a) (d)	B3/B- Caa3/CCC	1,141,291
1,125	GSA Trust, 6.295%, 6/25/36		649,818
883	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	A1/BBB	781,785
772	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47	Caa2/CCC	610,642
Total Asset-Backed Securities (cost-\$2,983,576)			3,183,536
Shares			
<b>MUTUAL FUNDS 0.0%</b>			
1,540	BlackRock MuniYield Quality Fund II, Inc.		17,895
3,836	BlackRock MuniYield Quality Fund III, Inc.		46,684
Total Mutual Funds (cost-\$66,897)			64,579
Principal Amount (000s)			
<b>SHORT-TERM INVESTMENTS 0.5%</b>			
<b>U.S. Treasury Obligations (h) (m) 0.1%</b>			
\$570	U.S. Treasury Bills, 0.015%, 9/1/11 (cost-\$569,993)		569,993



**PIMCO Income Strategy Fund Schedule of Investments**

July 31, 2011 (continued)

Principal Amount (000s)		Value
<b>Repurchase Agreements</b> <b>0.4%</b>		
\$800	Barclays Capital, Inc., dated 7/29/11, 0.15%, due 8/1/11, proceeds \$800,010; collateralized by U.S. Treasury Inflation Index Notes, 3.00%, 7/15/12, valued at \$816,453 including accrued interest	\$800,000
848	State Street Bank & Trust Co., dated 7/29/11, 0.01%, due 8/1/11, proceeds \$848,001; collateralized by U.S. Treasury Notes, 3.125%, due 4/30/17, valued at \$866,270 including accrued interest	848,000
Total Repurchase Agreements (cost-\$1,648,000)		1,648,000
Total Short-Term Investments (cost-\$2,217,993)		2,217,993
<b>Total Investments</b> (cost-\$415,247,058) <b>100.0%</b>		<b>\$451,889,411</b>

14                    PIMCO Income Strategy Fund  
PIMCO Income Strategy Fund II Annual Report | 7.31.11

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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

July 31, 2011

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>CORPORATE BONDS &amp; NOTES 54.3%</b>			
<b>Airlines 1.5%</b>			
\$7,686	American Airlines Pass Through Trust, 9.73%, 9/29/14	Caa2/CCC+	\$7,532,276
3,834	10.18%, 1/2/13	Caa1/CCC+	3,833,993
889	United Air Lines Pass Through Trust, 10.40%, 5/1/18	Baa2/BBB+	1,001,616
			12,367,885
<b>Banking 8.5%</b>			
5,500	AgFirst Farm Credit Bank, 7.30%, 8/29/11 (a) (b) (d) (g) (k) (acquisition cost-\$4,709,000; purchased 2/26/10-4/15/10)	NR/A	5,524,216
£13,600	Barclays Bank PLC, 14.00%, 6/15/19 (g)	Baa2/A-	27,179,150
\$ 6,700	BBVA Bancomer S.A., 7.25%, 4/22/20 (a) (d)	A3/NR	7,143,875
16,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20	NR/NR	22,969,008
\$1,400	HBOS PLC, 6.75%, 5/21/18 (a) (d) (j)	Baa3/BBB	1,405,631
2,400	Intesa Sanpaolo SpA, 8.375%, 10/14/19 (g)	Baa2/BBB+	3,241,645
\$1,675	Regions Financial Corp., 7.375%, 12/10/37	B1/BB	1,598,514
£ 800	Santander Finance Preferred S.A. Unipersonal, 11.30%, 7/27/14 (g)	Baa2/A-	1,383,743
			70,445,782
<b>Chemicals 0.5%</b>			
\$3,887	Lyondell Chemical Co., 8.00%, 11/1/17 (a) (d)	Ba1/BB+	4,411,745
<b>Consumer Products 0.2%</b>			
1,700	Reynolds Group Issuer, Inc., 9.00%, 4/15/19 (a) (d)	Caa1/B-	1,700,000
<b>Energy 1.4%</b>			
9,943	AES Red Oak LLC, 8.54%, 11/30/19	B2/BB-	10,240,834
2,300	Dynegy Roseton/Danskammer Pass Through Trust, 7.67%, 11/8/16, Ser. B	Ca/CC	1,782,500
			12,023,334
<b>Financial Services 23.8%</b>			
1,800	AGFC Capital Trust I, 6.00%, 1/15/67, (converts to FRN on 1/15/17) (a) (d)	Caa2/CCC-	1,215,000
416	Ally Financial, Inc., 5.25%, 1/15/14	B1/B+	410,352
315	5.35%, 1/15/14	B1/B+	311,432
130	5.70%, 6/15/13	B1/B+	128,885
561	5.75%, 1/15/14	B1/B+	559,698
565	5.90%, 1/15/19	B1/B+	530,106
3	5.90%, 2/15/19	B1/B+	2,801
585	6.00%, 12/15/13	B1/B+	585,271
1,437	6.00%, 2/15/19	B1/B+	1,350,776
119	6.00%, 3/15/19	B1/B+	112,022
9	6.00%, 9/15/19	B1/B+	8,386
486	6.10%, 9/15/19	B1/B+	455,816
159	6.125%, 10/15/19	B1/B+	148,448
394	6.15%, 8/15/19	B1/B+	370,431
454	6.15%, 10/15/19	B1/B+	426,270
675	6.20%, 4/15/19	B1/B+	640,910

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

500	6.25%, 12/15/18	B1/B+	479,077
47	6.25%, 7/15/19	B1/B+	44,432

PIMCO Income Strategy Fund  
7.31.11 | PIMCO Income Strategy Fund II Annual Report

15

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Financial Services (continued)</b>			
\$7	6.35%, 4/15/16	B1/B+	\$6,859
792	6.35%, 10/15/16	B1/B+	774,264
303	6.35%, 4/15/19	B1/B+	290,346
1,142	6.35%, 7/15/19	B1/B+	1,086,404
463	6.375%, 1/15/14	B1/B+	463,674
249	6.50%, 9/15/16	B1/B+	244,873
608	6.50%, 10/15/16	B1/B+	598,223
5	6.50%, 6/15/18	B1/B+	5,004
449	6.50%, 11/15/18	B1/B+	437,982
190	6.50%, 12/15/18	B1/B+	184,688
15	6.50%, 5/15/19	B1/B+	14,448
208	6.60%, 8/15/16	B1/B+	205,402
864	6.60%, 5/15/18	B1/B+	863,733
100	6.60%, 6/15/19	B1/B+	96,514
132	6.65%, 10/15/18	B1/B+	131,971
190	6.70%, 5/15/14	B1/B+	190,403
256	6.70%, 6/15/18	B1/B+	256,475
335	6.70%, 12/15/19	B1/B+	325,051
160	6.75%, 9/15/12	B1/B+	159,112
844	6.75%, 10/15/12	B1/B+	843,254
555	6.75%, 6/15/14	B1/B+	556,572
215	6.75%, 8/15/16	B1/B+	213,348
1,136	6.75%, 11/15/16	B1/B+	1,129,338
210	6.75%, 6/15/17	B1/B+	210,164
831	6.75%, 7/15/18	B1/B+	832,963
3	6.75%, 9/15/18	B1/B+	2,952
612	6.75%, 10/15/18	B1/B+	607,387
107	6.75%, 11/15/18	B1/B+	107,008
27	6.75%, 5/15/19	B1/B+	26,390
92	6.80%, 9/15/16	B1/B+	91,536
12	6.80%, 9/15/18	B1/B+	11,998
207	6.85%, 4/15/16	B1/B+	206,605
7	6.875%, 7/15/18	B1/B+	7,005
319	6.90%, 7/15/18	B1/B+	319,951
326	6.90%, 8/15/18	B1/B+	324,424
135	6.95%, 6/15/17	B1/B+	135,393
201	7.00%, 8/15/16	B1/B+	201,060
1,729	7.00%, 11/15/16	B1/B+	1,728,872
580	7.00%, 12/15/16	B1/B+	580,075
1,729	7.00%, 1/15/17	B1/B+	1,729,797
601	7.00%, 2/15/17	B1/B+	601,459
1,087	7.00%, 6/15/17	B1/B+	1,090,343
1,073	7.00%, 7/15/17	B1/B+	1,077,177
43	7.00%, 2/15/18	B1/B+	43,030
506	7.00%, 3/15/18	B1/B+	505,974
15	7.00%, 5/15/18	B1/B+	15,001
400	7.00%, 9/15/18	B1/B+	398,741
134	7.00%, 6/15/22	B1/B+	131,613
2,035	7.00%, 11/15/24	B1/B+	2,012,273
325	7.05%, 3/15/18	B1/B+	325,000

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

4	7.05%, 4/15/18	B1/B+	4,000
837	7.10%, 9/15/12	B1/B+	835,036

16

PIMCO Income Strategy Fund  
PIMCO Income Strategy Fund II Annual Report | 7.31.11



Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Financial Services (continued)</b>			
\$28	7.15%, 11/15/12	B1/B+	\$28,032
6	7.15%, 9/15/18	B1/B+	5,999
477	7.20%, 10/15/17	B1/B+	472,019
339	7.25%, 8/15/12	B1/B+	339,975
1,998	7.25%, 12/15/12	B1/B+	2,001,858
55	7.25%, 6/15/16	B1/B+	55,059
653	7.25%, 9/15/17	B1/B+	646,104
329	7.25%, 1/15/18	B1/B+	332,191
255	7.25%, 4/15/18	B1/B+	255,661
39	7.30%, 12/15/17	B1/B+	38,452
503	7.30%, 1/15/18	B1/B+	504,263
165	7.35%, 1/15/17	B1/B+	166,385
58	7.35%, 4/15/18	B1/B+	58,226
25	7.375%, 11/15/16	B1/B+	25,083
55	7.375%, 4/15/18	B1/B+	55,218
166	7.40%, 12/15/17	B1/B+	166,431
1,828	7.50%, 11/15/16	B1/B+	1,828,486
15	7.50%, 8/15/17	B1/B+	15,166
559	7.50%, 11/15/17	B1/B+	560,488
290	7.50%, 12/15/17	B1/B+	290,786
40	8.00%, 3/15/17	B1/B+	40,110
3	8.125%, 11/15/17	B1/B+	3,010
25	8.20%, 3/15/17	B1/B+	25,075
24	8.40%, 8/15/15	B1/B+	24,387
224	9.00%, 7/15/20	B1/B+	227,354
3,200	American General Finance Corp., 4.125%, 11/29/13	B3/B	4,301,883
£2,100	BAC Capital Trust VII, 5.25%, 8/10/35	Baa3/BB+	2,654,227
\$10,100	Bank of America Corp., 8.125%, 5/15/18 (g) (j)	Ba3/BB+	10,414,716
2,900	Capital One Capital VI, 8.875%, 5/15/40 (j)	Baa3/BB	3,046,882
	CIT Group, Inc.,		
596	7.00%, 5/1/14	B2/B+	600,725
1,068	7.00%, 5/1/15	B2/B+	1,073,195
2,129	7.00%, 5/1/16	B2/B+	2,136,537
2,492	7.00%, 5/1/17	B2/B+	2,501,015
3,200	Citigroup Capital XXI, 8.30%, 12/21/77, (converts to FRN on 12/21/37)	Ba1/BB+	3,296,000
£2,000	Credit Agricole S.A., 8.125%, 10/26/19 (g)	A3/BBB+	3,217,244
\$11,000	ILFC E-Capital Trust II, 6.25%, 12/21/65, (converts to FRN on 12/21/15) (a) (d)	B3/BB	9,460,000
	LBG Capital No.1 PLC,		
500	6.439%, 5/23/20	Ba3/BB	607,090
500	7.375%, 3/12/20	Ba3/BB	646,964
£300	7.588%, 5/12/20	Ba3/BB	443,192
£10,200	7.867%, 12/17/19	Ba3/BB	15,152,236
£1,000	7.869%, 8/25/20	Ba3/BB	1,502,749
\$4,500	7.875%, 11/1/20 (a) (d)	Ba3/BB	4,263,750
£4,700	11.04%, 3/19/20	Ba3/BB	8,168,067
	LBG Capital No.2 PLC,		
8,900	8.875%, 2/7/20	Ba2/BB+	12,596,578

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

£300	12.75%, 8/10/20	Ba2/BB+	551,528
1,100	15.00%, 12/21/19	Ba2/BB+	2,102,184
\$2,500	Lehman Brothers Holdings, Inc., 7.50%, 5/11/38 (e)	WR/NR	2,750

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Financial Services (continued)</b>			
\$22,600	National City Preferred Capital Trust I, 12.00%, 12/10/12 (g) (j)	Baa3/BBB	\$24,741,169
3,500	NB Capital Trust II, 7.83%, 12/15/26	Baa3/BB+	3,570,000
5,965	NSG Holdings LLC, 7.75%, 12/15/25 (a) (d) SLM Corp.,	Ba2/BB	5,935,175
5,000	5.625%, 8/1/33 (j)	Ba1/BBB-	4,394,860
10,700	8.00%, 3/25/20 (j)	Ba1/BBB-	11,745,711
1,700	8.45%, 6/15/18	Ba1/BBB-	1,903,714
11,800	Springleaf Finance Corp., 6.50%, 9/15/17	B3/B	10,797,000
6,750	Wells Fargo & Co., 7.98%, 3/15/18 (g)	Baa3/A-	7,264,688
			198,278,925
<b>Insurance 17.3%</b>			
3,000	American General Institutional Capital A, 7.57%, 12/1/45 (a) (d)	Baa2/BBB-	3,157,500
10,000	American General Institutional Capital B, 8.125%, 3/15/46 (a) (d) (j)	Baa2/BBB-	10,850,000
17,600	American International Group, Inc., 4.875%, 3/15/67, (converts to FRN on 3/15/17)	Baa2/BBB	20,105,095
£5,000	5.75%, 3/15/67, (converts to FRN on 3/15/17)	Baa2/BBB	6,729,950
\$1,900	6.25%, 3/15/87, (converts to FRN on 3/15/37)	Baa2/BBB	1,724,250
MXN16,000	7.98%, 6/15/17	Baa1/A-	1,242,616
11,800	8.00%, 5/22/68, (converts to FRN on 5/22/18) (a) (d)	Baa2/BBB	16,785,857
\$27,750	8.175%, 5/15/68, (converts to FRN on 5/15/38) (j)	Baa2/BBB	30,351,562
£14,100	8.625%, 5/22/68, (converts to FRN on 5/22/18)	Baa2/BBB	23,665,213
\$1,700	AXA S.A., 6.463%, 12/14/18 (a) (d) (g) (j)	Baa1/BBB	1,428,000
6,500	Dai-ichi Life Insurance Co., Ltd., 7.25%, 7/25/21 (a) (d) (g) (j)	A3/BBB+	6,875,200
4,700	Hartford Financial Services Group, Inc., 8.125%, 6/15/68, (converts to FRN on 6/15/18)	Ba1/BB+	5,040,750
15,000	Metlife Capital Trust IV, 7.875%, 12/15/67, (converts to FRN on 12/15/37) (a) (d) (j)	Baa2/BBB	16,504,155
			144,460,148
<b>Telecommunications 0.0%</b>			
200	Sprint Capital Corp., 8.75%, 3/15/32	B1/BB-	217,500
<b>Utilities 1.1%</b>			
3,900	AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (d)	NR/B-	4,178,850
4,500	Ameren Energy Generating Co., 7.95%, 6/1/32	Ba1/BBB-	4,566,789
			8,745,639
	Total Corporate Bonds & Notes (cost-\$393,139,183)		452,650,958
<b>MUNICIPAL BONDS 20.5%</b>			
<b>California 10.5%</b>			
13,100	Alameda Cnty. Joint Powers Auth. Rev., 7.046%, 12/1/44, Ser. A	A1/AA	14,211,011

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

1,650	City & Cnty. of San Francisco Redev. Agcy., Tax Allocation, 8.406%, 8/1/39	A1/A	1,766,341
3,000	La Quinta Financing Auth., Tax Allocation, 8.07%, 9/1/36, Ser. A	NR/A	3,049,740
4,000	Long Beach Redev. Agcy., Tax Allocation, 8.11%, 8/1/30	NR/BBB+	4,136,400
10,800	Los Angeles Cnty. Public Works Financing Auth. Rev., 7.618%, 8/1/40	A1/A+	12,014,568

PIMCO Income Strategy Fund

18

PIMCO Income Strategy Fund II Annual Report | 7.31.11

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>California (continued)</b>			
\$20,000	Northern California Power Agcy. Rev., 7.311%, 6/1/40	A3/A-	\$21,510,000
1,200	Riverside Cnty. Redev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	A3/A-	1,208,496
10,000	Riverside Community College Dist., GO, 7.021%, 8/1/40, Ser. D-1	Aa2/AA	10,254,900
1,355	San Bernardino Cnty. Redev. Agcy., Tax Allocation, 8.50%, 9/1/40	NR/BBB	1,353,388
2,100	San Luis Obispo Cnty. Rev., zero coupon, 9/1/27, Ser. C (NPFGC)	Baa1/AA-Aa3/BBB+	672,420
9,200	State Public Works Board Rev., 7.804%, 3/1/35, Ser. B-2		9,611,976
7,500	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	NR/A	7,870,800
			87,660,040
<b>Colorado 0.7%</b>			
5,000	Denver Public Schools, CP, 7.017%, 12/15/37, Ser. B	Aa3/A+	5,733,550
<b>District of Columbia 1.6%</b>			
13,000	Metropolitan Airports Auth. Rev., 7.462%, 10/1/46	Baa1/BBB+	13,329,290
<b>Illinois 0.7%</b>			
5,500	State, GO, 6.63%, 2/1/35	A1/A+	5,756,355
<b>Nevada 3.0%</b>			
22,700	Las Vegas Valley Water Dist., GO, 7.263%, 6/1/34	Aa2/AA+	24,438,139
<b>Ohio 2.0%</b>			
13,000	American Municipal Power-Ohio, Inc. Rev., Comb Hydroelectric Projects, 8.084%, 2/15/50, Ser. B	A3/A	16,975,530
<b>Texas 2.0%</b>			
4,000	Dallas Convention Center Hotel Dev. Corp. Rev., 7.088%, 1/1/42	A1/A+	4,319,240
11,500	North Texas Tollway Auth. Rev., 8.91%, 2/1/30	Baa3/NR	12,595,835
			16,915,075
			170,807,979
<b>Total Municipal Bonds (cost-\$160,119,214)</b>			
<b>MORTGAGE-BACKED SECURITIES 12.4%</b>			
377	Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	Caa2/NR	261,717
115	Banc of America Funding Corp., CMO, 5.766%, 1/20/47, VRN	NR/CCC	80,660
14,600	6.00%, 3/25/37	Caa2/CCC	10,726,678
2,209	BCAP LLC Trust, CMO, VRN (a) (d) (f), 2.788%, 5/26/36 (b) (k) (acquisition cost-\$45,096; purchased 6/15/11)	NR/NR	44,810
2,500	5.835%, 3/26/37	NR/NR	217,275
3,627	9.00%, 5/25/37	NR/NR	569,950
2,000	10.322%, 6/25/36	NR/NR	244,623
653	Bear Stearns Alt-A Trust, 4.516%, 11/25/36, CMO, VRN	Caa3/CCC	376,399
3,298	Chase Mortgage Finance Corp., CMO, 2.526%, 3/25/37, FRN	Caa2/NR	2,564,970
82	2.935%, 12/25/35, FRN	NR/CC	79,783
2,310	5.50%, 5/25/36	B3/NR	2,145,772



Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

PIMCO Income Strategy Fund II Schedule of Investments

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
\$898	Citicorp Mortgage Securities, Inc., CMO, 5.50%, 4/25/37	Caa1/NR	\$798,852
7,117	6.00%, 9/25/37	B3/NR	7,008,556
2,470	Countrywide Alternative Loan Trust, CMO, 5.50%, 1/25/36	Caa3/CCC	1,768,324
345	5.50%, 3/25/36	Caa3/NR	240,314
2,145	5.75%, 12/25/36	NR/CC	1,406,088
8,273	6.00%, 5/25/36	Ca/NR	5,218,975
1,608	6.00%, 4/25/37	NR/CC	1,069,320
6,112	6.045%, 4/25/36, VRN	Ca/CCC	3,902,994
2,631	6.25%, 11/25/36	Caa3/NR	2,049,881
1,338	6.50%, 8/25/36	Ca/CC	785,323
2,845	Countrywide Home Loan Mortgage Pass Through Trust, CMO, 5.75%, 3/25/37	NR/CCC	2,449,239
1,902	6.00%, 5/25/36	NR/CC	1,654,437
1,800	6.00%, 2/25/37	NR/CC	1,502,323
7,700	6.00%, 3/25/37	NR/CCC	6,414,204
2,996	6.25%, 9/25/36	B3/NR	2,424,309
3,742	First Horizon Asset Securities, Inc., 2.796%, 11/25/35, CMO, FRN	NR/CC	2,974,654
4,754	JPMorgan Alternative Loan Trust, 2.739%, 5/25/36, CMO, VRN	NR/CCC	2,801,022
1,654	JPMorgan Mortgage Trust, CMO, 5.334%, 10/25/35, VRN	B2/NR	1,597,588
840	6.00%, 8/25/37	NR/CCC	749,027
333	6.50%, 9/25/35	NR/CCC	337,001
1,992	MASTR Asset Securitization Trust, 6.50%, 11/25/37, CMO	NR/CCC	1,677,408
83	Nomura Asset Acceptance Corp., 4.976%, 5/25/35, CMO	Caa2/CCC	75,091
2,921	Residential Asset Securitization Trust, CMO, 5.75%, 2/25/36	Caa3/D	2,011,200
1,122	6.00%, 9/25/36	Ca/D	628,548
3,115	6.00%, 7/25/37	NR/CCC	2,264,134
6,255	Residential Funding Mortgage Securities I, CMO, 5.425%, 9/25/35, VRN	Caa2/CCC	5,061,390
12,714	6.00%, 6/25/37	NR/D	10,253,603
2,749	6.25%, 8/25/36	Caa1/CCC	2,280,781
1,101	Suntrust Adjustable Rate Mortgage Loan Trust, 5.824%, 2/25/37, CMO, FRN	NR/CCC	785,551
2,000	WaMu Mortgage Pass Through Certificates, CMO, 5.653%, 2/25/37, FRN	NR/CCC	1,686,318
664	5.833%, 9/25/36, VRN	NR/CCC	493,308
10,801	Wells Fargo Mortgage-Backed Securities Trust, CMO, 2.734%, 7/25/36, FRN	NR/CC	9,002,659
1,207	2.743%, 7/25/36, FRN	NR/CC	938,109
605	2.77%, 4/25/36, VRN	NR/CC	508,415

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

1,818	5.75%, 3/25/37	Caa2/NR	1,591,763
Total Mortgage-Backed Securities (cost-\$101,130,754)			103,723,346

**20** PIMCO Income Strategy Fund  
PIMCO Income Strategy Fund II Annual Report | 7.31.11



Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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

July 31, 2011 (continued)

Shares		Credit Rating (Moody's/S&P)*	Value
<b>PREFERRED STOCK 5.3%</b>			
<b>Automotive Products 0.0%</b>			
20,275	Dura Automotive Systems, Inc., 20.00% (b) (f) (i)	NR/NR	\$10,137
<b>Banking 2.6%</b>			
397,300	CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (d) (g) (k) (l) (acquisition cost-\$21,899,400; purchased 2/26/10-3/23/11)	NR/A	21,656,071
<b>Financial Services 2.3%</b>			
248,000	Ally Financial, Inc., 7.30%, 3/9/31	B1/B+	5,803,200
240,000	Citigroup Capital XIII, 7.875%, 10/30/15 (l)	Ba1/BB+	6,496,800
5,000	Farm Credit Bank, 10.00%, 12/15/20, Ser. 1 (g)	A3/NR	5,739,063
40,000	GMAC Capital Trust I, 8.125%, 2/15/16, Ser. 2 (l)	B3/CCC	1,023,700
			19,062,763
<b>Real Estate Investment Trust 0.4%</b>			
3,000	Sovereign Real Estate Investment Trust, 12.00%, 5/16/20 (a) (d) (g)	Baa2/BBB+	3,550,125
Total Preferred Stock (cost-\$45,583,520)			44,279,096
<b>CONVERTIBLE PREFERRED STOCK 3.6%</b>			
<b>Financial Services 0.4%</b>			
3,000	Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (g)	Baa3/A-	3,185,100
<b>Utilities 3.2%</b>			
104,000	PPL Corp., 8.75%, 5/1/14	NR/NR	5,578,560
374,000	9.50%, 7/1/13	NR/NR	20,977,660
			26,556,220
Total Convertible Preferred Stock (cost-\$27,405,180)			29,741,320
Principal Amount (000s)			
<b>SENIOR LOANS (a) (c) 1.7%</b>			
<b>Financial Services 0.4%</b>			
\$1,174	CIT Group, Inc., 6.25%, 8/11/15, Term 3		1,180,277
2,115	International Lease Finance Corp., 7.00%, 3/17/16, Term B2		2,130,495
			3,310,772
<b>Multi-Media 0.9%</b>			
AUD 5,807	Seven Media Group, Term T1, 6.855%, 12/28/12		6,149,556
AUD 1,456	6.902%, 12/28/12		1,541,850
			7,691,406
<b>Utilities 0.4%</b>			
\$2,309	Texas Competitive Electric Holdings Co. LLC, 4.686%, 10/10/17		1,727,372
2,450	4.768%, 10/10/17		1,832,958
			3,560,330

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

Total Senior Loans (cost-\$13,252,611)

14,562,508

PIMCO Income Strategy Fund  
7.31.11 | PIMCO Income Strategy Fund II Annual Report

21

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

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

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody's/S&P)*	Value
<b>ASSET-BACKED SECURITIES 1.2%</b>			
	Asset-Backed Funding Certificates, 0.407%, 5/25/37, FRN (a) (d)	B3/B-	\$2,402,717
\$2,847			
2,344	GSAA Trust, 6.295%, 6/25/36	Caa3/CCC	1,353,787
	Indymac Residential Asset-Backed Trust, 0.347%, 7/25/37, FRN	Caa3/CCC	3,328,771
6,578			
1,803	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	A1/BBB	1,596,145
1,543	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47	Caa2/CCC	1,221,285
	<b>Total Asset-Backed Securities (cost-\$10,396,790)</b>		<b>9,902,705</b>
Shares			
<b>MUTUAL FUNDS 0.0%</b>			
3,160	BlackRock MuniYield Quality Fund II, Inc.		36,719
7,920	BlackRock MuniYield Quality Fund III, Inc.		96,387
	<b>Total Mutual Funds (cost-\$137,887)</b>		<b>133,106</b>
<b>COMMON STOCK 0.0%</b>			
<b>Automotive Products 0.0%</b>			
81,383	Dura Automotive Systems, Inc. (b) (f) (i) (cost-\$1,317,433)		813
Principal Amount (000s)			
<b>SHORT-TERM INVESTMENTS 1.0%</b>			
<b>U.S. Treasury Obligations (h) (m) 0.6%</b>			
\$5,000	U.S. Treasury Bills, 0.023%-0.077%, 8/18/11-9/1/11 (cost-\$4,999,859)		4,999,859
<b>Corporate Notes 0.2%</b>			
<b>Financial Services 0.2%</b>			
	Ally Financial, Inc.,		
30	1.931%, 10/17/11, FRN	B1/B+	29,968
25	1.951%, 9/15/11, FRN	B1/B+	25,002
81	1.981%, 8/15/11, FRN	B1/B+	81,117
360	2.031%, 8/15/11, FRN	B1/B+	360,526
250	2.031%, 11/15/11, FRN	B1/B+	249,460
33	2.081%, 11/15/11, FRN	B1/B+	32,933
38	2.131%, 11/15/11, FRN	B1/B+	37,929
100	2.181%, 11/15/11, FRN	B1/B+	99,826
155	2.251%, 12/15/11, FRN	B1/B+	154,626
30	2.801%, 3/15/12, FRN	B1/B+	29,848
256	6.50%, 7/15/12	B1/B+	254,275
45	6.60%, 6/15/12	B1/B+	44,747
76	6.625%, 10/15/11	B1/B+	76,175

Total Corporate Notes (cost-\$1,462,007)

1,476,432

PIMCO Income Strategy Fund

22 PIMCO Income Strategy Fund II Annual Report | 7.31.11

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

July 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Repurchase Agreements</b>	<b>0.2%</b>		
\$400	Barclays Capital, Inc., dated 7/29/11, 0.15%, due 8/1/11, proceeds \$400,005; collateralized by U.S. Treasury Inflation Index Notes, 3.00%, 7/15/12, valued at \$408,226 including accrued interest		\$400,000
1,218	State Street Bank & Trust Co., dated 7/29/11, 0.01%, due 8/1/11, proceeds \$1,218,001; collateralized by U.S. Treasury Notes, 1.75%, due 5/31/16, valued at \$1,242,886 including accrued interest		1,218,000
Total Repurchase Agreements (cost-\$1,618,000)			1,618,000
Total Short-Term Investments (cost-\$8,079,866)			8,094,291
<b>Total Investments</b> (cost-\$760,562,438) <b>100.0%</b>			<b>\$833,896,122</b>

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

July 31, 2011 (continued)

- \* Unaudited.
- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$78,547,359 and \$144,087,033 representing 17.4% and 17.3% 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 July 31, 2011.
- (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 \$226,603 and \$1,087,608, representing 0.1% and 0.1% of total investments in Income Strategy and Income Strategy II, respectively. 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. On Corporate Bonds & Notes, the interest rate is fixed until the first call date and variable thereafter.
- (h) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.
- (i) Non-income producing.
- (j) All or partial amount segregated for the benefit of the counterparty as collateral for reverse repurchase agreements.
- (k) Restricted. The aggregate acquisition cost of such securities is \$7,198,200 and \$26,653,496 for Income Strategy and Income Strategy II, respectively. The aggregate market value is \$7,528,079 and \$27,225,097, representing 1.7% and 3.3% of total investments in Income Strategy and Income Strategy II, respectively.
- (l) Dividend rate is fixed until the first call date and variable thereafter.
- (m) Rates reflect the effective yields at purchase date.

**Glossary:**

AGM	-	insured by Assured Guaranty Municipal Corp.
AMBAC	-	insured by American Municipal Bond Assurance Corp.
AUD	-	Australian Dollar
£	-	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 July 31, 2011.
GO	-	General Obligation Bond
GTD	-	Guaranteed
LIBOR	-	London Inter-Bank Offered Rate
MXN	-	Mexican Peso
NPFGC	-	insured by National Public Finance Guarantee Corp.
NR	-	Not Rated
VRN	-	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

Edgar Filing: PIMCO INCOME STRATEGY FUND - Form N-CSR

the prime interest rate). The interest rate disclosed reflects the rate in effect on July 31, 2011.

WR

-

Withdrawn Rating

PIMCO Income Strategy Fund

**24** PIMCO Income Strategy Fund II Annual Report | 7.31.11 | See accompanying Notes to Financial Statements.

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

July 31, 2011

	Income Strategy	Income Strategy II
<b>Assets:</b>		
Investments, at value (cost-\$415,247,058 and \$760,562,438, respectively)	\$451,889,411	\$833,896,122
Cash (including foreign currency at value of \$22,092 and \$154,185 with a cost of \$21,199 and \$151,338, respectively)	3,547,448	10,196,455
Interest and dividends receivable	7,950,635	13,741,358
Deposits with brokers for futures contracts collateral	548,000	841,000
Unrealized appreciation of swaps	215,101	330,592
Receivable for variation margin on futures contracts	93,275	223,988
Unrealized appreciation of forward foreign currency contracts	45,620	169,812
Prepaid expenses	30,584	60,968
Total Assets	464,320,074	859,460,295
<b>Liabilities:</b>		
Payable for reverse repurchase agreements	96,361,093	103,792,225
Dividends payable to common and preferred shareholders	1,874,416	3,814,046
Payable for investments purchased	1,237,834	
Unrealized depreciation of forward foreign currency contracts	1,068,022	3,465,593
Unrealized depreciation of swaps	947,127	1,351,798
Swap premiums received	525,488	823,823
Investment management fees payable	289,095	531,079
Payable to brokers for cash collateral received	100,000	
Interest payable for reverse repurchase agreements	22,222	9,724
Payable to broker		42,340
Accrued expenses	229,042	278,421
Total Liabilities	102,654,339	114,109,049
<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>	78,975,000	161,000,000
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$282,690,735</b>	<b>\$584,351,246</b>
<b>Composition of Net Assets Applicable to Common Shareholders:</b>		
Common Shares:		
Par value (\$0.00001 per share)	\$248	\$582
Paid-in-capital in excess of par	411,178,843	934,419,652
Undistributed net investment income	4,998,713	6,957,156
Accumulated net realized loss	(168,962,601)	(426,975,174)
Net unrealized appreciation of investments, futures contracts, swaps and foreign currency transactions	35,475,532	69,949,030
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$282,690,735</b>	<b>\$584,351,246</b>
Common Shares Issued and Outstanding	24,829,508	58,199,229
<b>Net Asset Value Per Common Share</b>	<b>\$11.39</b>	<b>\$10.04</b>



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

Year ended July 31, 2011

	Income Strategy	Income Strategy II
<b>Investment Income:</b>		
Interest	\$33,168,399	\$61,675,617
Dividends	1,668,127	5,171,083
Facility and other fee income	68,677	242,834
Total Investment Income	34,905,203	67,089,534
<b>Expenses:</b>		
Investment management fees	3,104,398	5,883,242
Interest expense	288,779	192,231
Legal fees	176,575	160,280
Custodian and accounting agent fees	165,133	249,237
Auction agent fees and commissions	137,678	273,257
Audit and tax services	110,933	114,609
Shareholder communications	109,496	144,841
Trustees' fees and expenses	35,549	69,145
Transfer agent fees	30,620	30,815
New York Stock Exchange listing fees	22,259	42,380
Insurance expense	9,545	18,702
Miscellaneous	24,326	27,311
Total Expenses	4,215,291	7,206,050
<b>Net Investment Income</b>	<b>30,689,912</b>	<b>59,883,484</b>
<b>Realized and Change in Unrealized Gain (Loss):</b>		
Net realized gain (loss) on:		
Investments	13,691,493	37,571,372
Futures contracts	56,379	110,582
Swaps	(4,243,167)	(6,662,116)
Foreign currency transactions	(3,121,305)	(11,827,720)
Net change in unrealized appreciation/depreciation of:		
Investments	13,743,321	23,528,546
Futures contracts	577,182	890,772
Swaps	(1,382,914)	(2,297,212)
Unfunded loan commitments	25,625	51,250
Foreign currency transactions	51,358	562,814
Net realized and change in unrealized gain on investments, futures contracts, swaps, unfunded loan commitments and foreign currency transactions	19,397,972	41,928,288
<b>Net Increase in Net Assets Resulting from Investment Operations</b>	<b>50,087,884</b>	<b>101,811,772</b>
<b>Dividends on Preferred Shares from Net Investment Income</b>	<b>(1,166,363)</b>	<b>(2,379,363)</b>
<b>Net Increase in Net Assets Applicable to Common Shareholders Resulting from Investment Operations</b>	<b>\$48,921,521</b>	<b>\$99,432,409</b>

PIMCO Income Strategy Fund

26 PIMCO Income Strategy Fund II Annual Report | 7.31.11 | See accompanying Notes to Financial Statements.



**PIMCO Income Strategy Fund**  
**Statements of Changes in Net Assets Applicable to Common Shareholders**

	Year ended July 31,	
	2011	2010
<b>Investment Operations:</b>		
Net investment income	\$30,689,912	\$27,707,207
Net realized gain on investments, futures contracts, swaps and foreign currency transactions	6,383,400	12,662,734
Net change in unrealized appreciation/depreciation of investments, futures contracts, swaps, unfunded loan commitments and foreign currency transactions	13,014,572	36,580,808
Net increase in net assets resulting from investment operations	50,087,884	76,950,749
<b>Dividends on Preferred Shares from Net Investment Income</b>	(1,166,363)	(1,184,659)
Net increase in net assets applicable to common shareholders resulting from investment operations	48,921,521	75,766,090
<b>Dividends to Common Shareholders from Net Investment Income</b>	(29,956,842)	(39,077,561)
<b>Common Share Transactions:</b>		
Net proceeds from rights offering (See Note 8)		57,647,677
Offering costs charged to paid-in-capital in excess of par (See Note 8)		(537,741)
Reinvestment of dividends	1,666,381	2,279,525
Net increase in net assets from common share transactions	1,666,381	59,389,461
Total increase in net assets applicable to common shareholders	20,631,060	96,077,990
<b>Net Assets Applicable to Common Shareholders:</b>		
Beginning of year	262,059,675	165,981,685
End of year (including undistributed net investment income of \$4,998,713 and \$6,672,703, respectively)	\$282,690,735	\$262,059,675
<b>Common Shares Issued:</b>		