

PIMCO INCOME STRATEGY FUND

Form N-CSR

October 03, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21374

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

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

10019
(Zip code)

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

Registrant's telephone number, including area code: 1-888-877-4626

Date of fiscal year July 31, 2014
end:

Date of reporting period: July 31, 2014

ITEM 1. Report to Shareholders

Table of Contents

2	3	Letter from Chairman of the Board & President
4		Fund Insights
5	7	Performance & Statistics
8	32	Schedules of Investments
	33	Statements of Assets and Liabilities
	34	Statements of Operations
35	36	Statements of Changes in Net Assets
37	59	Notes to Financial Statements
60	61	Financial Highlights
	62	Report of Independent Registered Public Accounting Firm
	63	Tax Information/Proxy Voting Policies & Procedures
64	65	Shareholder Meeting Results
	66	Loan Investments and Origination/Changes to Board of Trustees
67	79	Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements
80	81	Privacy Policy
82	83	Dividend Reinvestment Plan
84	86	Board of Trustees
	87	Fund Officers

July 31, 2014 | Annual Report 1

Letter from Chairman of the Board & President

Dear Shareholder:

After three years of generally moderate growth, the US economy contracted during the first quarter of 2014. However, this proved to be a temporary setback as the economy expanded during the second quarter of the year. Longer-term bond yields declined and stocks produced very strong returns during the 12 months ended July 31, 2014.

12-Month Period in Review through July 31, 2014

For the 12-month period ended July 31, 2014:

- PIMCO Income Strategy Fund returned 13.82% on net asset value (NAV) and 9.95% on market price.
- PIMCO Income Strategy Fund II returned 15.88% on NAV and 12.39% on market price.

During the reporting period, Barclays US Credit Index, a measure of high quality corporate bond performance, rose 6.64%; the Barclays US High Yield Bond Index, a measure of below investment-grade corporate bond performance, returned 8.19%; and government bonds, represented by the Barclays Intermediate-Term Treasury Index, gained 1.12%. The Barclays US Aggregate Bond Index, a broad credit market measure of government and corporate securities, increased 3.97% and mortgage-backed securities, reflected by the Barclays Fixed Rate Mortgage Backed-Securities Index, rose 4.17%. As for stocks, the Standard & Poor's 500 Index advanced 16.94% during the fiscal 12-month period ended July 31, 2014.

After several years of positive growth, severe winter weather in parts of the United States constrained the US economy in early 2014. Looking back, 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 a revised 3.5% annual pace during the fourth quarter of 2013, contracted at an annual pace of 2.1% during the first quarter of 2014 and then expanded at an estimated 4.2% annual pace during the second quarter of 2014.

The Federal Reserve (the Fed) maintained an accommodative monetary stance during the reporting period. Announcements and actions related to the reduction of the Fed's monthly asset-purchase program contributed to bond-yield volatility during the December to May period. The markets have also been scrutinizing Fed statements related to when interest rates would begin to rise. In July, the Fed repeated that it would not raise rates in the near future, saying that it likely

will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.

Receive this report electronically and eliminate paper mailings.

To enroll, visit:
pimco.com/edelivery.

Outlook

We remain constructive on the US economic recovery, as confirmed by the meaningful bounce in GDP during the second quarter. Fed officials have tied the outlook for monetary policy to incoming economic data. Based on our forecasts for growth, we believe that Fed asset purchases will end in the fourth quarter of 2014, with lift-off in the fed funds rate possible in mid-2015.

Please note, at the close of business on September 5, 2014, Pacific Investment Management Company LLC (PIMCO), previously the sub-adviser, replaced Allianz Global Investors Fund Management LLC as the investment manager.

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 (844) 33PIMCO (844-337-4626). In addition, a wide range of information and resources is available on PIMCO's website, pimco.com/closedendfunds.

Sincerely,

Hans W. Kertess
Chairman

Julian Sluyters
*President & CEO**

* President & CEO through September 5, 2014.

Fund Insights

PIMCO Income Strategy Fund/ PIMCO Income Strategy Fund II

July 31, 2014 (unaudited)

For the 12-months ended July 31, 2014, PIMCO Income Strategy Fund returned 13.82% on net asset value (NAV) and 9.95% on market price. For the 12-months ended July 31, 2014, PIMCO Income Strategy Fund II returned 15.88% on NAV and 12.39% on market price.

The unmanaged Barclays US Aggregate Bond Index and Barclays US Credit Index returned 3.97% and 6.64%, respectively, during the reporting period. The US fixed income market experienced periods of volatility during the 12-month reporting period ended July 31, 2014. This was triggered by a number of factors, including mixed economic data, Fed asset purchase tapering and numerous geopolitical issues. All told, short-term Treasury yields rose during the reporting period, whereas longer-term Treasury yields edged modestly lower. Longer-term Treasury yields fell as investor risk aversion increased due to concerns about moderating global growth and uncertainties overseas. The benchmark 10-year Treasury bond began the reporting period yielding 2.60% and ended the period at 2.58%.

While the US credit market was also volatile at times, it significantly outperformed the overall bond market. The credit market was supported by declining long-term interest rates. Investor sentiment for the asset class was also positive given generally strengthening fundamentals, overall solid corporate profits and low defaults. Against this backdrop, investment demand was robust for much of the reporting period as investors sought to generate incremental yield in the low interest rate environment.

Sector exposures and yield curve positioning impact the Funds performance

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

The Funds allocation to non-agency mortgage-backed securities contributed to results, as the sector performed well, supported by the improving US housing market. The Funds overweighting to the Financial sector was beneficial. In particular, the Funds allocation to bank capital was rewarded due to continued deleveraging of their balance sheets. Elsewhere, the Funds allocation to municipal bonds, especially taxable municipal bonds, helped performance as they were supported by declining yields.

An underweighting to high yield bonds detracted from the Funds results, as the sector outperformed the broad credit market during the reporting period. Having an underweighting to the long end of the yield curve was negative for the Funds performance, as the yield curve flattened during the 12-months ended July 31, 2014. The Funds tactical allocation to Brazilian local rates in the third quarter of 2013 detracted from performance, as rates increased sharply during this period.

Performance & Statistics

PIMCO Income Strategy Fund

July 31, 2014 (unaudited)

Total Return(1):	Market Price	NAV
1 Year	9.95%	13.82%
5 Year	18.92%	19.99%
10 Year	5.76%	6.90%
Commencement of Operations (8/29/03) to 7/31/14	5.88%	6.70%

Market Price/NAV Performance:

Commencement of Operations (8/29/03) to 7/31/14

NAV
Market Price

Market Price/NAV:

Market Price	\$11.87
NAV	\$12.15
Discount to NAV	-2.30%
Market Price Yield(2)	9.10%
Leverage Ratio(3)	29.24%

Performance & Statistics

PIMCO Income Strategy Fund II

July 31, 2014 (unaudited)

Total Return(1):		Market Price	NAV	
1 Year		12.39%	15.88%	
5 Year		19.17%	19.79%	
Commencement of Operations (10/29/04) to 7/31/14		4.36%	5.29%	

Market Price/NAV Performance:

Commencement of Operations (10/29/04) to 7/31/14

Market Price/NAV:

Market Price	\$10.50
NAV	\$10.88
Discount to NAV	-3.49%
Market Price Yield(2)	9.14%
Leverage Ratio(3)	20.05%

NAV
Market Price

Performance & Statistics

PIMCO Income Strategy Fund

PIMCO Income Strategy Fund II

July 31, 2014 (unaudited)

* Bond ratings apply to the underlying holdings of the Funds and not the Funds themselves and are divided into categories ranging from highest to lowest credit quality, determined for purposes of this presentation by using ratings provided by Moody's Investors Service, Inc. (Moody's). The Funds use ratings provided by Moody's for this purpose, among other reasons, because of the access to background information and other materials provided by Moody's, as well as the Funds' consideration of industry practice. When a bond is not rated by Moody's, it is designated in the chart above as "NR" for not rated. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change periodically, even as frequently as daily. Ratings assigned by Moody's or another rating agency are not absolute standards of credit quality and do not evaluate market risk. Rating agencies may fail to make timely changes in credit ratings, and an issuer's current financial condition may be better or worse than a rating indicates. In formulating investment decisions for the Funds, Pacific Investment Management Company LLC, the investment manager to the Funds, develops its own analysis of the credit quality and risks associated with individual debt instruments, rather than relying exclusively on rating agencies or third-party research.

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares and includes the effect of any expense reductions. Total return for a period of more than one year represents the average annual total return.

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

An investment in each Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

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

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

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2014

Principal Amount (000s)		Value
Corporate Bonds & Notes	31.5%	
	Airlines 0.5%	
\$3,458	American Airlines Pass-Through Trust (b)(e)(f), 9.73%, 9/29/14	\$108,596
1,527	10.18%, 1/2/13	15,273
1,159	Continental Airlines Pass-Through Trust, 9.798%, 10/1/22	1,333,150
630	United Air Lines Pass-Through Trust, 10.40%, 5/1/18	709,892
		2,166,911
	Auto Manufacturers 4.1%	
12,700	Ford Motor Co., 7.70%, 5/15/97 (i)	16,089,008
	Banking 9.6%	
4,700	Barclays Bank PLC, 7.625%, 11/21/22	5,261,062
£6,300	14.00%, 6/15/19 (g)	14,518,531
\$800	Citigroup, Inc., 6.125%, 8/25/36	921,954
300	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 8.40%, 6/29/17 (g)	337,875
£1,600	Credit Agricole S.A., 7.50%, 6/23/26 (g)	2,728,292
	LBG Capital No. 1 PLC, 7.375%, 3/12/20	292,550
200	8.50%, 12/17/21 (a)(c)(g)	2,201,904
\$2,000	LBG Capital No. 2 PLC, 9.125%, 7/15/20	959,229
£534	Lloyds Banking Group PLC, 7.625%, 6/27/23 (g)	5,153,112
2,900	Royal Bank of Scotland Group PLC, 7.648%, 9/30/31 (g)	1,852,560
\$1,550	Santander Issuances S.A. Unipersonal, 7.30%, 7/27/19	3,414,579
£2,000	(converts to FRN on 9/27/14)	37,641,648
	Diversified Financial Services 3.8%	
\$3,400	Army Hawaii Family Housing Trust Certificates, 5.524%, 6/15/50 (NPFGC) (a)(b)(c)(j)	3,642,352
	(acquisition cost-\$3,366,000; purchased 11/18/13)	
2,441	GSPA Monetization Trust, 6.422%, 10/9/29 (a)(b)(c)(j)	2,533,040
	(acquisition cost-\$2,411,501; purchased 9/23/13)	
8,200	Rio Oil Finance Trust, 6.25%, 7/6/24 (a)(b)(c)(i)(j)	8,554,568
	(acquisition cost-\$8,199,836; purchased 6/12/14)	14,729,960
	Electric Utilities 4.0%	
1,138	Bruce Mansfield Unit, 6.85%, 6/1/34	1,269,412
	Red Oak Power LLC, 8.54%, 11/30/19	9,042,992
8,296	9.20%, 11/30/29	5,575,000
5,000		15,887,404
	Insurance 3.9%	
2,000	AIG Life Holdings, Inc., 8.125%, 3/15/46 (a)(b)(c)(i)(j)	2,796,902
	(acquisition cost-\$1,753,150; purchased 7/12/10)	

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

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2014 (continued)

Principal Amount (000s)		Value
	Insurance (continued)	
	American International Group, Inc.,	
\$7,500	6.25%, 3/15/87 (converts to FRN on 3/15/37) (i)	\$8,401,815
2,893	8.175%, 5/15/68 (converts to FRN on 5/15/38)	4,010,421
		15,209,138
	Media 0.6%	
1,700	Time Warner Cable, Inc., 7.30%, 7/1/38 (i)	2,271,310
	Oil, Gas & Consumable Fuels 2.5%	
1,600	Anadarko Petroleum Corp., 7.00%, 11/15/27	1,887,365
7,600	Pertamina Persero PT, 6.45%, 5/30/44 (a)(c)	7,980,000
		9,867,365
	Telecommunications 2.5%	
1,900	CenturyLink, Inc., 7.60%, 9/15/39	1,909,500
7,000	Northwestern Bell Telephone, 7.75%, 5/1/30	7,892,248
		9,801,748
	Total Corporate Bonds & Notes (cost-\$112,885,966)	123,664,492
	U.S. Government Agency Securities 31.1%	
	Fannie Mae, CMO,	
35,156	3.50%, 12/25/32-2/25/43, IO	7,154,001
10,154	4.00%, 11/25/42-1/25/43, IO	1,970,981
1,309	5.214%, 7/25/43 (b)(l)	1,002,019
506	5.218%, 12/25/42 (b)(l)	385,641
1,892	5.768%, 1/25/43 (b)(l)	1,428,028
22,264	5.995%, 11/25/42-2/25/43, IO (l)	5,233,431
6,954	6.445%, 4/25/41, IO (l)	1,228,045
4,423	9.79%, 6/25/43 (b)(l)	4,506,727
4,481	11.853%, 6/25/43 (b)(l)	4,622,547
132	14.546%, 12/25/40 (b)(l)	175,208
	Freddie Mac, CMO,	
117,919	2.50%, 10/15/27-1/15/28, IO	12,335,427
81,016	3.50%, 5/15/39, IO	13,221,254
12,614	9.556%, 1/15/41 (b)(l)	12,160,383
628	9.697%, 11/15/40 (b)(l)	622,382
2,187	11.596%, 8/15/43 (b)(l)	2,330,328
13,952	11.728%, 3/15/44 (b)(l)	14,483,367
17,600	Freddie Mac Strip, 9.424%, 6/1/44-8/15/44, CMO (b)(d)(f)(l)	19,940,651
	Ginnie Mae, CMO (b)(l),	
14,714	7.207%, 5/16/41 (i)	14,532,445
4,100	8.592%, 8/20/39	4,540,976
	Total U.S. Government Agency Securities (cost-\$123,280,188)	121,873,841
	Mortgage-Backed Securities 18.5%	
102	Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	87,920
	Banc of America Funding Trust, CMO,	
3,420	6.00%, 8/25/36	3,425,849
1,872	6.00%, 3/25/37	1,591,854
3,157	6.00%, 8/25/37	2,803,294

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2014 (continued)

Principal Amount (000s)		Value
	BCAP LLC Trust, CMO (a)(c)(l),	
\$911	5.315%, 3/26/37	\$321,406
272	16.266%, 6/26/36	73,789
	Bear Stearns ALT-A Trust, CMO (l),	
724	2.612%, 9/25/35	584,440
346	2.663%, 11/25/36	243,839
1,225	Bear Stearns Mortgage Funding Trust, 7.00%, 8/25/36, CMO	1,138,182
	Chase Mortgage Finance Trust, CMO,	
10	2.51%, 12/25/35 (l)	9,045
954	6.00%, 2/25/37	857,861
633	6.00%, 7/25/37	553,810
1,785	6.25%, 10/25/36	1,577,666
163	Citicorp Mortgage Securities Trust, 5.50%, 4/25/37, CMO	168,249
	Countrywide Alternative Loan Trust, CMO,	
310	5.50%, 3/25/35	291,988
3,910	5.50%, 12/25/35	3,416,846
145	5.50%, 3/25/36	120,654
1,570	5.644%, 4/25/36 (l)	1,165,418
372	5.75%, 1/25/35	382,531
338	6.00%, 2/25/35	363,045
2,417	6.00%, 5/25/36	2,092,068
1,155	6.00%, 4/25/37	982,195
967	6.00%, 8/25/37	764,459
725	6.25%, 11/25/36	689,426
1,563	6.25%, 12/25/36 (l)	1,314,897
442	6.50%, 8/25/36	331,881
	Countrywide Home Loan Mortgage Pass-Through Trust, CMO,	
70	2.471%, 2/20/35 (l)	70,072
1,351	5.50%, 10/25/35	1,289,486
617	5.75%, 3/25/37	573,471
1,402	6.00%, 5/25/36	1,322,897
507	6.00%, 2/25/37	483,185
699	6.00%, 3/25/37	664,355
127	6.00%, 4/25/37	119,350
764	6.25%, 9/25/36	681,014
	Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust, CMO,	
393	6.00%, 2/25/37	357,258
1,237	6.75%, 8/25/36	993,970
	GSR Mortgage Loan Trust, CMO,	
153	5.50%, 5/25/36	143,608
4,937	6.00%, 2/25/36	4,430,898
57	Harborview Mortgage Loan Trust, 2.594%, 7/19/35, CMO (l)	53,368
2,066	IndyMac IMSC Mortgage Loan Trust, 6.50%, 7/25/37, CMO	1,456,754
	JPMorgan Alternative Loan Trust, CMO,	
1,673	2.576%, 3/25/37 (l)	1,319,980

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

1,840 2.608%, 3/25/36 (1)
1,200 6.31%, 8/25/36

1,494,819
979,664

10 Annual Report | July 31, 2014

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2014 (continued)

Principal Amount (000s)		Value
	JPMorgan Mortgage Trust, CMO,	
\$573	2.598%, 1/25/37 (1)	\$505,102
575	2.604%, 2/25/36 (1)	512,192
1,020	5.00%, 3/25/37	945,936
87	5.75%, 1/25/36	81,528
258	6.00%, 8/25/37	232,193
1,572	Merrill Lynch Mortgage Investors Trust, 2.797%, 3/25/36, CMO (1)	1,097,688
3,694	New Century Alternative Mortgage Loan Trust, 6.173%, 7/25/36, CMO (1)	2,611,480
1,024	Residential Accredit Loans, Inc., 6.00%, 6/25/36, CMO Residential Asset Securitization Trust, CMO,	836,203
1,014	5.75%, 2/25/36	859,793
418	6.00%, 9/25/36	279,577
696	6.00%, 3/25/37	543,253
1,601	6.00%, 5/25/37	1,436,343
1,058	6.00%, 7/25/37	805,526
1,766	6.25%, 9/25/37	1,303,176
	Residential Funding Mortgage Securities I, CMO,	
1,865	3.664%, 8/25/36 (1)	1,659,776
256	6.00%, 9/25/36	236,766
633	6.00%, 1/25/37	588,878
3,418	6.00%, 6/25/37	3,049,968
	Structured Adjustable Rate Mortgage Loan Trust, CMO (1),	
1,731	2.466%, 11/25/36	1,410,470
671	4.925%, 3/25/37	503,798
2,141	5.025%, 5/25/36	1,786,186
1,406	5.056%, 1/25/36	1,082,565
762	5.358%, 7/25/36	712,827
	Suntrust Adjustable Rate Mortgage Loan Trust, CMO (1),	
307	2.697%, 2/25/37	268,870
1,972	2.707%, 4/25/37	1,691,936
	WaMu Mortgage Pass-Through Certificates, CMO (1),	
222	2.342%, 9/25/36	203,574
657	4.61%, 2/25/37	615,369
891	6.089%, 10/25/36	770,265
	Washington Mutual MSC Mortgage Pass-Through Certificates Trust, 6.50%, 8/25/34, CMO	885,308
	Wells Fargo Mortgage-Backed Securities Trust, CMO,	
357	2.61%, 7/25/36 (1)	328,685
1,229	2.612%, 7/25/36 (1)	1,206,715
710	2.613%, 8/25/36 (1)	680,498
179	2.615%, 4/25/36 (1)	173,163
427	5.75%, 3/25/37	416,637
248	6.00%, 6/25/37	245,645
355	6.00%, 7/25/37	351,788

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

Total Mortgage-Backed Securities (cost-\$65,935,028)

72,706,438

July 31, 2014 | Annual Report 11

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2014 (continued)

Principal Amount (000s)		Value
Asset-Backed Securities	5.3%	
\$273	Bear Stearns Asset-Backed Securities Trust, 6.50%, 10/25/36	\$234,173
	Countrywide Asset-Backed Certificates,	
3,500	0.715%, 12/25/35 (l)	3,255,241
3,000	5.307%, 8/25/35	2,789,193
	GSAA Home Equity Trust,	
8,078	5.772%, 11/25/36 (l)	5,003,078
930	6.295%, 6/25/36	561,843
3,782	Lehman XS Trust, 5.627%, 6/24/46	3,003,410
374	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	376,994
178	Mid-State Trust IV, 8.33%, 4/1/30	180,973
734	Mid-State Trust VII, 6.34%, 10/15/36	776,200
543	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47 (l)	405,615
	Securitized Asset-Backed Receivables LLC Trust, 0.295%,	
6,978	5/25/36 (l)	4,086,673
Total Asset-Backed Securities (cost-\$19,589,990)		20,673,393
Municipal Bonds	5.1%	
	California 1.4%	
1,000	Palomar Community College Dist., GO, 7.194%, 8/1/45, Ser. B-1	1,137,240
	Riverside Cnty. Economic Dev. Agcy., Tax Allocation, 7.50%,	
600	10/1/30, Ser. A-T	660,570
3,600	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	3,711,240
		5,509,050
	Illinois 1.8%	
6,000	Chicago, GO, 7.517%, 1/1/40, Ser. B	7,198,140
	Nebraska 1.9%	
6,400	Public Power Generation Agcy. Rev., 7.242%, 1/1/41	7,280,320
	New Jersey 0.0%	
200	Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1-A	148,410
Total Municipal Bonds (cost-\$18,427,599)		20,135,920
	Preferred Stock 4.4%	
	Shares	
	Banking 1.4%	
207,100	GMAC Capital Trust I, 8.125%, 2/15/40, Ser. 2 (k)	5,628,978
	Diversified Financial Services 1.9%	
6,000	Farm Credit Bank, 10.00%, 12/15/20, Ser. 1 (g)	7,331,250
	Electric Utilities 1.1%	
171,600	Entergy Texas, Inc., 5.625%, 6/1/64	4,321,317
Total Preferred Stock (cost-\$16,622,507)		17,281,545

Schedule of Investments**PIMCO Income Strategy Fund**

July 31, 2014 (continued)

Principal Amount (000s)		Value
Short-Term Investments	4.1%	
	Repurchase Agreements	3.8%
	Citigroup Global Markets, Inc., dated 7/31/14, 0.13%, due 8/1/14, proceeds \$14,200,051; collateralized by U.S. Treasury Notes, 1.25%, due 10/31/18, valued at \$14,502,646 including accrued interest	
\$14,200		\$14,200,000
	State Street Bank and Trust Co., dated 7/31/14, 0.00%, due 8/1/14, proceeds \$584,000; collateralized by U.S. Treasury Notes, 0.875%, due 5/15/17, valued at \$600,000 including accrued interest	
584		584,000
Total Repurchase Agreements (cost-\$14,784,000)		14,784,000
	U.S. Treasury Obligations	0.3%
1,140	U.S. Treasury Bills, 0.047%, 1/22/15 (h)(m) (cost-\$1,139,744)	
Total Short-Term Investments (cost-\$15,923,744)		15,923,738
Total Investments (cost-\$372,665,022)	100.0%	\$392,259,367

Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$28,103,961, representing 7.2% of total investments.
- (b) Illiquid.
- (c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (d) When-issued or delayed-delivery. To be settled/delivered after July 31, 2014.
- (e) In default.
- (f) Fair-Valued Securities with an aggregate value of \$20,064,520, representing 5.1% of total investments. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (g) Perpetual maturity. The date shown, if any, is the next call date. For Corporate Bonds & Notes the interest rate is fixed until the first call date and variable thereafter.
- (h) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.

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

- (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 \$15,730,487. The aggregate value is \$17,526,862, representing 4.5% of total investments.
- (k) Dividend rate is fixed until the first call date and variable thereafter.
- (l) Variable or Floating Rate Security Securities with an interest rate that changes periodically. The interest rate disclosed reflects the rate in effect on July 31, 2014.
- (m) Rates reflect the effective yields at purchase date.

July 31, 2014 | Annual Report **13**

Schedule of Investments**PIMCO Income Strategy Fund**

July 31, 2014 (continued)

(n) Interest rate swap agreements outstanding at July 31, 2014:

OTC swap agreements:

Swap Counterparty	Notional Amount (000s)	Termination Date	Rate Type		Payments Received	Value	Upfront Premiums Paid	Unrealized Depreciation
			Payments Made	3-Month				
Bank of America	\$401,700	10/16/19	USD-LIBOR	3-Month	2.00%	\$(706,142)	\$	\$(706,142)
Nomura Global Financial Products	388,300	10/16/19	USD-LIBOR	3-Month	2.00%	(682,586)	120,507	(803,093)
						\$(1,388,728)	\$ 120,507	\$(1,509,235)

Centrally cleared swap agreements:

Broker (Exchange)	Notional Amount (000s)	Termination Date	Rate Type		Payments Received	Value	Unrealized Appreciation (Depreciation)
			Payments Made	3-Month			
Morgan Stanley (CME)	\$107,000	9/17/43	3.75%	3-Month	USD-LIBOR	\$(9,074,517)	\$(3,071,817)
Morgan Stanley (CME)	107,000	6/19/44	3-Month USD-LIBOR	3-Month	3.50%	4,689,415	8,180,035
						\$(4,385,102)	\$5,108,218

(o) Forward foreign currency contracts outstanding at July 31, 2014:

	Counterparty	U.S.\$ Value on Origination Date	U.S.\$ Value July 31, 2014	Unrealized Appreciation (Depreciation)
Purchased:				
378,432 Brazilian Real settling 8/4/14	Barclays Bank	\$169,321	\$166,802	\$(2,519)
1,030,087 Brazilian Real settling 8/4/14	JPMorgan Chase	454,303	454,033	(270)
651,655 Brazilian Real settling 8/4/14	UBS	288,279	287,231	(1,048)
16,184,000 British Pound settling 8/5/14	Barclays Bank	27,496,616	27,323,218	(173,398)
5,000 Euro settling 8/5/14	Citigroup	6,823	6,695	(128)
4,050,000 Euro settling 9/3/14	Citigroup	5,443,504	5,423,663	(19,841)

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

4,183,000 Euro settling 8/5/14	JPMorgan Chase	5,657,841	5,601,264	(56,577)
6,000 Euro settling 8/5/14	Morgan Stanley	8,211	8,034	(177)

Sold:

378,432 Brazilian Real settling 8/4/14	Barclays Bank	166,901	166,802	99
378,432 Brazilian Real settling 9/3/14	Barclays Bank	167,886	165,339	2,547
1,030,087 Brazilian Real settling 8/4/14	JPMorgan Chase	455,983	454,033	1,950
651,655 Brazilian Real settling 8/4/14	UBS	287,402	287,231	171
16,184,000 British Pound settling 8/5/14	Bank of America	27,464,248	27,323,218	141,030
16,184,000 British Pound settling 9/3/14	Barclays Bank	27,490,305	27,316,860	173,445
9,000 Euro settling 6/15/15	Bank of America	12,237	12,072	165
22,000 Euro settling 6/13/16	Bank of America	30,086	29,770	316
4,000 Euro settling 6/27/16	Bank of America	5,508	5,415	93
5,000 Euro settling 6/15/15	Barclays Bank	6,793	6,707	86
5,000 Euro settling 6/27/16	Barclays Bank	6,875	6,768	107
4,000 Euro settling 6/15/15	BNP Paribas	5,424	5,365	59
4,050,000 Euro settling 8/5/14	Citigroup	5,443,200	5,423,170	20,030

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2014 (continued)

	Counterparty	U.S.\$ Value on Origination Date	U.S.\$ Value July 31, 2014	Unrealized Appreciation (Depreciation)
5,000 Euro settling 6/15/15	Citigroup	\$6,835	\$6,707	\$128
144,000 Euro settling 8/5/14	Credit Suisse			
	First Boston	196,456	192,824	3,632
4,173,000 Euro settling 4/21/15	Credit Suisse			
	First Boston	5,657,541	5,594,351	63,190
7,000 Euro settling 6/15/15	Credit Suisse			
	First Boston	9,501	9,389	112
3,000 Euro settling 6/13/16	Deutsche Bank	4,108	4,060	48
6,000 Euro settling 6/15/15	Morgan Stanley	8,225	8,048	177
7,000 Euro settling 6/13/16	Morgan Stanley	9,627	9,472	155
5,000 Euro settling 6/15/15	National Australia Bank	6,800	6,707	93
8,000 Euro settling 6/13/16	National Australia Bank	10,962	10,825	137
7,000 Euro settling 6/27/16	National Australia Bank	9,632	9,476	156
				\$153,968

(p) At July 31, 2014, the Fund held \$625,000 in cash as collateral and pledged cash collateral of \$248,159 for derivative contracts. Cash collateral held may be invested in accordance with the Fund's investment strategy.

(q) Open reverse repurchase agreements at July 31, 2014:

Counterparty	Rate	Trade Date	Due Date	Principal & Interest	Principal
Royal Bank of Canada	0.375%	7/21/14	8/21/14	\$12,959,485	\$12,958,000
	0.50	7/23/14	8/6/14	12,195,524	12,194,000
UBS	0.38	7/7/14	8/8/14	8,038,121	8,036,000
	0.40	7/23/14	8/13/14	14,472,447	14,471,000
					\$47,659,000

(r) The weighted average daily balance of reverse repurchase agreements during the year ended July 31, 2014 was \$10,632,559, at a net weighted average interest rate of 0.002%. Total value of underlying collateral (refer to the Schedule of Investments for positions transferred for the benefit of the counterparty as collateral) for open reverse repurchase agreements at July 31, 2014 was \$52,646,049.

At July 31, 2014, the Fund held U.S. Government Agency Securities and Corporate Bonds valued at \$454,315 and \$561,263, respectively, as collateral for open reverse repurchase agreements. Securities held as collateral will not be pledged and are not reflected in the Schedule of Investments.

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2014 (continued)

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

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 7/31/14
Investments in Securities Assets				
Corporate Bonds & Notes:				
Airlines	\$	\$	\$2,166,911	\$2,166,911
Diversified Financial Services		12,196,920	2,533,040	14,729,960
Electric Utilities		14,617,992	1,269,412	15,887,404
All Other		90,880,217		90,880,217
U.S. Government Agency Securities		101,933,190	19,940,651	121,873,841
Mortgage-Backed Securities		72,706,438		72,706,438
Asset-Backed Securities		20,673,393		20,673,393
Municipal Bonds		20,135,920		20,135,920
Preferred Stock:				
Banking	5,628,978			5,628,978
All Other		11,652,567		11,652,567
Short-Term Investments		15,923,738		15,923,738
	5,628,978	360,720,375	25,910,014	392,259,367
Other Financial Instruments* Assets				
Foreign Exchange Contracts		407,926		407,926
Interest Rate Contracts		8,180,035		8,180,035
		8,587,961		8,587,961
Other Financial Instruments* Liabilities				
Foreign Exchange Contracts		(253,958)		(253,958)
Interest Rate Contracts		(4,581,052)		(4,581,052)
		(4,835,010)		(4,835,010)
Totals	\$5,628,978	\$364,473,326	\$25,910,014	\$396,012,318

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

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

	Beginning Balance 7/31/13	Purchases	Sales	Accrued Discount (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3	Transfers out of Level 3**	Ending Balance 7/31/14
Investments in Securities Assets									

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

Corporate Bonds &

Notes:									
Airlines	\$9,807,590	\$1,386,942	\$(12,146,010)	\$(27,715)	\$6,685,355	\$(3,539,251)	\$	\$	\$2,166,911
Diversified Financial Services		2,449,547	(38,504)	910	451	120,636			2,533,040
Electric Utilities	27,382	1,278,377	(522,807)	(1,195)	(3,876)	491,531			1,269,412
U.S. Government Agency Securities	3,728,708	20,204,404	(3,849,405)		57,771	(200,827)			19,940,651
Mortgage-Backed Securities	7,858,372		(7,589,919)	7,995	(218,583)	15,924		(73,789)	
Totals	\$21,422,052	\$25,319,270	\$(24,146,645)	\$(20,005)	\$6,521,118	\$(3,111,987)	\$	\$(73,789)	\$25,910,014

16 Annual Report | July 31, 2014

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2014 (continued)

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

	Ending Balance at 7/31/14	Valuation Technique Used	Unobservable Inputs	Input Values	
Investments in Securities					
Assets					
Corporate Bonds & Notes	\$123,869	Analytical Model	Estimated Recovery Value	\$1.00	\$3.14
U.S. Government Agency Securities	5,845,494 19,940,651	Third-Party Pricing Vendor Benchmarked Pricing	Single Broker Quote Security Price Reset	\$103.79 \$113.19	\$115.00 \$113.81

Includes amounts related to corporate action.

Liquidation due to corporate action.

Paydown shortfall.

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

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

The net change in unrealized appreciation/depreciation of Level 3 investments held at July 31, 2014, was \$(3,592,635). Net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statement of Operations.

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

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

Location	Interest Rate Contracts	Foreign Exchange Contracts	Total
Asset derivatives:			
Receivable for variation margin on centrally cleared swaps*	\$3,556	\$	\$3,556
Unrealized appreciation of forward foreign currency contracts		407,926	407,926
Total asset derivatives	\$3,556	\$407,926	\$411,482
Liability derivatives:			
Unrealized depreciation of OTC swaps	\$(1,509,235)	\$	\$(1,509,235)
Unrealized depreciation of forward foreign currency contracts		(253,958)	(253,958)

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

Total liability derivatives \$(1,509,235) \$ (253,958) \$(1,763,193)

* Included in net unrealized appreciation of \$5,108,218 on centrally cleared swaps as reported in note (n) of the Notes to Schedule of Investments.

The effect of derivatives on the Statement of Operations for the year ended July 31, 2014:

Location	Market Price	Interest Rate Contracts	Credit Contracts	Foreign Exchange Contracts	Total
Net realized gain (loss) on:					
Swaps	\$(10,434)	\$1,026,133	\$11,625	\$	\$1,027,324
Foreign currency transactions (forward foreign currency contracts)				(6,379,097)	(6,379,097)
Total net realized gain (loss)	\$(10,434)	\$1,026,133	\$11,625	\$ (6,379,097)	\$(5,351,773)

July 31, 2014 | Annual Report 17

Schedule of Investments
PIMCO Income Strategy Fund
July 31, 2014 (continued)

Location	Market Price	Interest Rate Contracts	Credit Contracts	Foreign Exchange Contracts	Total
Net change in unrealized appreciation/depreciation of:					
Swaps	\$	\$2,236,870	\$(10,035)	\$	\$2,226,835
Foreign currency transactions (forward foreign currency contracts)				(587,522)	(587,522)
Total net change in unrealized appreciation/depreciation	\$	\$2,236,870	\$(10,035)	\$(587,522)	\$1,639,313

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

Forward Foreign Currency Contracts (1)		Credit Default Swap Agreements (2)	Interest Rate Swap Agreements (2)
Purchased	Sold	Sell	
\$60,484,559	\$95,005,391	\$300	\$893,720

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

(2) Notional Amount (in thousands)

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

Counterparty	Gross Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount
	Gross Asset Derivatives Presented in Statement of Assets and Liabilities	Financial Instrument/ Derivative Offset	Cash Collateral Paid (Received)	
Foreign Currency Exchange Contracts				
Bank of America	\$141,604	\$(141,604)	\$	\$
Barclays Bank	176,284	(175,917)		367
BNP Paribas	59			59
Citigroup	20,158	(19,969)		189
Credit Suisse First Boston	66,934			66,934
Deutsche Bank	48			48
JP Morgan Chase	1,950	(1,950)		
Morgan Stanley	332	(177)		155
National Australia Bank	386			386
UBS	171	(171)		
Totals	\$407,926	\$(339,788)	\$	\$ 68,138

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

Gross Amounts Not Offset in the Statement of Assets and Liabilities

Counterparty	Gross Financial Assets Presented in Statement of Assets and Liabilities	Financial Instrument/ Derivative Offset	Net Amount
Repurchase Agreement			
Citigroup Global Markets	\$14,200,000	\$14,200,000	\$
State Street Bank and Trust	584,000	584,000	
Totals	\$14,784,000	\$14,784,000	\$

18 Annual Report | July 31, 2014

Schedule of Investments
PIMCO Income Strategy Fund
 July 31, 2014 (continued)

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

Counterparty	Gross Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount
	Gross Liability Derivatives Presented in Statement of Assets and Liabilities	Financial Instrument/ Derivative Offset	Cash Collateral Received (Pledged)	
Foreign Currency Exchange Contracts				
Barclays Bank	\$175,917	\$(175,917)	\$	\$
Citigroup	19,969	(19,969)		
JP Morgan Chase	56,847	(1,950)		54,897
Morgan Stanley	177	(177)		
UBS	1,048	(171)		877
Swaps				
Bank of America	706,142	(651,487)		54,655
Nomura Global Financial Products	803,093	(629,855)	504,493#	677,731
Totals	\$1,763,193	\$(1,479,526)	\$ 504,493	\$ 788,160
Counterparty	Gross Financial Liability Presented in Statement of Assets and Liabilities	Financial Instrument/ Derivative Offset	Net Amount	
Reverse Repurchase Agreements				
Royal Bank of Canada	\$25,155,009	\$(25,155,009)		\$
UBS	22,510,568	(22,510,568)		
Totals	\$47,665,577	\$(47,665,577)		\$

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

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

The amount includes interest payable for Reverse Repurchase Agreements.

The amount includes upfront premiums paid.

Glossary:

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

See accompanying Notes to Financial Statements | July 31, 2014 | Annual Report **19**

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014

Principal Amount (000s)		Value
Corporate Bonds & Notes	26.7%	
	Airlines 0.3%	
\$7,045	American Airlines Pass-Through Trust (b)(e)(f), 9.73%, 9/29/14	\$221,199
3,146	10.18%, 1/2/13	31,461
1,841	United Air Lines Pass-Through Trust, 10.40%, 5/1/18	2,075,672
		2,328,332
	Auto Manufacturers 0.5%	
3,000	Ford Motor Co., 7.70%, 5/15/97	3,800,553
	Banking 6.3%	
1,000	Ally Financial, Inc., 8.30%, 2/12/15	1,031,875
1,400	Barclays Bank PLC, 7.625%, 11/21/22	1,567,125
1,600	Barclays PLC, 8.00%, 12/15/20 (g)	2,324,591
\$1,700	Citigroup, Inc., 6.125%, 8/25/36	1,959,153
700	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 8.40%, 6/29/17 (g)	788,375
£3,500	Credit Agricole S.A., 7.50%, 6/23/26 (g)	5,968,139
500	LBG Capital No. 1 PLC, 7.375%, 3/12/20	731,375
	LBG Capital No. 2 PLC, 8.875%, 2/7/20	13,620,564
8,900	12.75%, 8/10/20	562,705
£300	15.00%, 12/21/19	2,259,379
1,100	Lloyds Banking Group PLC, 7.625%, 6/27/23 (g)	10,839,304
£6,100	Wachovia Capital Trust III, 5.57%, 9/2/14 (g)	4,846,875
\$5,000		46,499,460
	Diversified Financial Services 6.9%	
1,800	AGFC Capital Trust I, 6.00%, 1/15/67 (converts to FRN on 1/15/17) (a)(c)	1,548,000
7,000	Army Hawaii Family Housing Trust Certificates, 5.524%, 6/15/50 (NPFGC) (a)(b)(c)(i) (acquisition cost-\$6,930,000; purchased 11/18/13)	7,498,960
5,069	GSPA Monetization Trust, 6.422%, 10/9/29 (a)(b)(c)(i) (acquisition cost-\$5,008,501; purchased 9/23/13)	5,260,929
5,500	ILFC E-Capital Trust II, 6.25%, 12/21/65 (converts to FRN on 12/21/15) (a)(c)(k)	5,506,875
24,240	Navient Corp., 5.50%, 1/15/19	25,149,000
5,500	Western Group Housing L.P., 6.75%, 3/15/57 (a)(b)(c)(i) (acquisition cost-\$6,016,890; purchased 11/22/13)	6,513,210
		51,476,974
	Electric Utilities 0.3%	
2,195	Bruce Mansfield Unit, 6.85%, 6/1/34	2,448,151
	Healthcare-Services 2.9%	
19,515	City of Hope, 5.623%, 11/15/43	21,733,348
	Insurance 2.7%	
15,900	American International Group, Inc., 6.25%, 3/15/87 (converts to FRN on 3/15/37)	17,811,848
1,400	8.175%, 5/15/68 (converts to FRN on 5/15/38)	1,940,750
		19,752,598
	Media 0.7%	

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

3,700

Time Warner Cable, Inc., 7.30%, 7/1/38

4,943,440

20 Annual Report | July 31, 2014

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014 (continued)

Principal Amount (000s)		Value
	Oil, Gas & Consumable Fuels 2.8%	
\$3,400	Anadarko Petroleum Corp., 7.00%, 11/15/27	\$4,010,650
16,000	Pertamina Persero PT, 6.45%, 5/30/44 (a)(c)	16,800,000
		20,810,650
	Telecommunications 3.3%	
7,000	CenturyLink, Inc., 7.60%, 9/15/39	7,035,000
12,625	Northwestern Bell Telephone, 7.75%, 5/1/30	14,234,233
3,400	Qwest Corp., 7.20%, 11/10/26	3,433,548
		24,702,781
Total Corporate Bonds & Notes (cost-\$182,941,984)		198,496,287
	Mortgage-Backed Securities 23.8%	
7,841	Banc of America Alternative Loan Trust, CMO, 5.50%, 10/25/33	8,118,636
239	6.00%, 1/25/36	205,147
1,228	6.00%, 7/25/46	1,025,322
65	Banc of America Funding Trust, CMO, 2.98%, 1/20/47 (k)	50,678
9,160	6.00%, 8/25/37	8,132,633
720	BCAP LLC Trust, CMO (a)(c)(k), 2.73%, 5/26/36	18,243
1,898	5.315%, 3/26/37	669,595
1,801	9.914%, 5/26/37	437,230
6,019	13.649%, 9/26/36	4,785,625
544	16.266%, 6/26/36	147,578
1,821	Bear Stearns Adjustable Rate Mortgage Trust, 2.636%, 10/25/34, CMO (k)	1,663,077
1,513	Bear Stearns ALT-A Trust, CMO (k), 2.612%, 9/25/35	1,222,011
562	2.663%, 11/25/36	396,239
19	Chase Mortgage Finance Trust, CMO, 2.51%, 12/25/35 (k)	18,089
93	5.50%, 5/25/36	85,506
326	Citicorp Mortgage Securities Trust, CMO, 5.50%, 4/25/37	336,499
2,679	6.00%, 9/25/37	2,818,709
637	Countrywide Alternative Loan Trust, CMO, 5.50%, 3/25/35	601,151
1,564	5.50%, 1/25/36	1,368,229
235	5.50%, 3/25/36	196,063
3,239	5.644%, 4/25/36 (k)	2,404,279
773	5.75%, 1/25/35	794,487
927	5.75%, 2/25/35	912,544
1,386	5.75%, 12/25/36	1,126,430
704	6.00%, 2/25/35	755,525
1,025	6.00%, 4/25/36	892,314
4,964	6.00%, 5/25/36	4,295,926
3,466	6.00%, 4/25/37	2,879,854

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014 (continued)

Principal Amount (000s)		Value
\$4,366	6.00%, 5/25/37	\$3,617,275
2,015	6.00%, 8/25/37	1,592,622
1,491	6.25%, 11/25/36	1,417,153
1,008	6.25%, 12/25/36 (k)	848,321
883	6.50%, 8/25/36	663,762
	Countrywide Home Loan Mortgage Pass-Through Trust, CMO,	
1,291	5.75%, 3/25/37	1,199,076
923	6.00%, 5/25/36	871,011
1,014	6.00%, 2/25/37	966,370
1,457	6.00%, 3/25/37	1,384,073
4,577	6.00%, 7/25/37	3,944,174
4,902	6.00%, 9/25/37	4,718,490
1,569	6.25%, 9/25/36	1,399,861
	Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust, CMO,	
386	5.75%, 4/25/36	333,142
2,509	6.75%, 8/25/36	2,015,549
	First Horizon Alternative Mortgage Securities Trust, CMO,	
1,606	6.00%, 5/25/36	1,370,005
2,682	6.00%, 8/25/36	2,244,221
	First Horizon Mortgage Pass-Through Trust, CMO (k),	
144	2.595%, 5/25/37	118,298
1,969	2.625%, 11/25/35	1,575,934
4,367	IndyMac IMSC Mortgage Loan Trust, 6.50%, 7/25/37, CMO	3,079,048
	JPMorgan Alternative Loan Trust, CMO,	
3,407	2.56%, 5/25/36 (k)	2,700,979
2,301	2.576%, 3/25/37 (k)	1,814,972
3,885	2.608%, 3/25/36 (k)	3,155,729
2,500	6.31%, 8/25/36	2,040,968
	JPMorgan Mortgage Trust, CMO,	
996	2.604%, 2/25/36 (k)	887,799
696	5.041%, 10/25/35 (k)	695,827
1,229	5.50%, 4/25/36	1,268,495
173	5.75%, 1/25/36	163,056
451	6.00%, 8/25/37	406,337
169	6.50%, 9/25/35	169,986
	Lehman Mortgage Trust, CMO,	
1,641	6.00%, 7/25/36	1,328,812
2,899	6.00%, 7/25/37	2,653,187
5,585	6.50%, 9/25/37	4,917,107
1,053	MASTR Asset Securitization Trust, 6.50%, 11/25/37, CMO	940,121
3,065	Merrill Lynch Mortgage Investors Trust, 2.797%, 3/25/36, CMO (k)	2,139,561
4,662	Morgan Stanley Mortgage Loan Trust, 4.993%, 5/25/36, CMO (k)	3,758,279
7,835	New Century Alternative Mortgage Loan Trust, 6.173%, 7/25/36, CMO (k)	5,538,140
36	Nomura Asset Acceptance Corp. Alternative Loan Trust, 4.976%, 5/25/35, CMO	33,820
	Residential Accredited Loans, Inc., CMO,	
2,587	3.422%, 12/26/34 (k)	2,263,360
8,584	5.75%, 1/25/34	8,932,766

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014 (continued)

Principal Amount (000s)		Value
\$2,074	6.00%, 6/25/36	\$1,692,179
688	6.00%, 8/25/36	584,651
1,435	6.00%, 12/25/36	1,137,114
2,096	Residential Asset Securitization Trust, CMO, 5.75%, 2/25/36	1,778,051
1,165	6.00%, 2/25/36	927,607
837	6.00%, 9/25/36	559,154
2,532	6.00%, 3/25/37	1,975,466
3,340	6.00%, 5/25/37	2,996,372
2,248	6.00%, 7/25/37	1,711,743
3,767	6.25%, 9/25/37	2,780,109
3,115	Residential Funding Mortgage Securities I, CMO, 3.659%, 9/25/35 (k)	2,820,638
3,244	3.664%, 8/25/36 (k)	2,886,568
1,568	6.25%, 8/25/36	1,435,880
5,081	Structured Adjustable Rate Mortgage Loan Trust, CMO (k), 2.466%, 11/25/36	4,139,424
4,468	5.025%, 5/25/36	3,728,664
4,219	5.056%, 1/25/36	3,247,695
1,550	5.358%, 7/25/36	1,451,112
614	Suntrust Adjustable Rate Mortgage Loan Trust, 2.697%, 2/25/37, CMO (k)	537,740
1,314	WaMu Mortgage Pass-Through Certificates, CMO (k), 4.61%, 2/25/37	1,230,738
3,014	4.652%, 5/25/37	2,902,314
2,231	4.676%, 7/25/37	2,114,799
1,783	6.089%, 10/25/36	1,540,530
1,563	Wells Fargo Alternative Loan Trust, 6.00%, 7/25/37, CMO	1,501,395
746	Wells Fargo Mortgage-Backed Securities Trust, CMO, 2.61%, 7/25/36 (k)	687,251
2,464	2.612%, 7/25/36 (k)	2,418,612
1,184	2.613%, 8/25/36 (k)	1,134,164
357	2.615%, 4/25/36 (k)	346,327
854	5.75%, 3/25/37	833,274
Total Mortgage-Backed Securities (cost-\$162,966,668)		176,624,876
U.S. Government Agency Securities 21.5%		
3,156	Fannie Mae, CMO, 3.50%, 2/25/42-1/25/43, IO	539,750
24,842	4.00%, 8/25/42-1/25/43, IO	4,681,975
4,719	4.50%, 11/25/42, IO	892,629
1,309	5.214%, 7/25/43 (b)(k)	1,002,019
506	5.218%, 12/25/42 (b)(k)	385,641
1,892	5.768%, 1/25/43 (b)(k)	1,428,028
5,313	5.995%, 11/25/42, IO (k)	1,244,971
8,384	6.095%, 1/25/40-8/25/41, IO (k)	1,536,912
33,373	6.445%, 11/25/40-4/25/41, IO (k)	5,905,257
9,377	9.79%, 6/25/43 (b)(k)	9,554,262
9,460	11.853%, 6/25/43 (b)(k)	9,759,577

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014 (continued)

Principal Amount (000s)		Value
	Freddie Mac, CMO	
\$3,739	3.00%, 2/15/33, IO	\$570,536
12,395	3.50%, 12/15/32-1/15/43, IO	2,084,318
3,806	4.00%, 11/15/39, IO	621,054
4,556	5.848%, 8/15/42, IO (k)	912,100
28,519	8.296%, 7/15/39, (b)(k)	28,092,794
6,598	11.596%, 9/15/35-8/15/43, (b)(k)	6,920,509
37,405	Freddie Mac Strip, 9.424%, 6/1/44-8/15/44, CMO (b)(d)(f)(k)	42,379,211
	Ginnie Mae, CMO,	
4,456	3.50%, 6/20/42-3/20/43, IO	693,410
4,264	4.00%, 3/20/42-10/20/42, IO	741,662
31,000	7.207%, 5/16/41 (b)(k)	30,616,899
8,700	8.592%, 8/20/39 (b)(k)	9,635,730
Total U.S. Government Agency Securities (cost-\$162,738,578)		160,199,244
Municipal Bonds 6.8%		
	California 1.9%	
1,650	City & Cnty. of San Francisco Redev. Agcy., Tax Allocation, 8.406%, 8/1/39	2,011,020
3,000	La Quinta Financing Auth., Tax Allocation, 8.07%, 9/1/36, Ser. A	3,210,540
1,200	Riverside Cnty. Economic Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	1,321,140
7,500	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	7,731,750
		14,274,450
	Nebraska 1.0%	
6,500	Public Power Generation Agcy. Rev., 7.242%, 1/1/41	7,394,075
	New Jersey 0.1%	
400	Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1-A	296,820
	Ohio 3.8%	
27,300	State Univ. Rev., 4.80%, 6/1/11, Ser. A	28,228,473
Total Municipal Bonds (cost-\$44,202,220)		50,193,818
	Shares	
Preferred Stock 6.4%		
	Diversified Financial Services 5.2%	
260,000	Citigroup Capital XIII, 7.875%, 10/30/40 (j)	7,043,400
	Farm Credit Bank,	
100,000	6.75%, 9/15/23 (a)(c)(g)(j)	10,521,880
16,900	10.00%, 12/15/20, Ser. 1 (g)	20,649,688
		38,214,968
	Electric Utilities 1.2%	
360,400	Entergy Texas, Inc., 5.625%, 6/1/64	9,075,773
Total Preferred Stock (cost-\$44,974,250)		47,290,741

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014 (continued)

Principal Amount (000s)			Value
Asset-Backed Securities 2.2%			
\$437		Bear Stearns Asset-Backed Securities Trust, 6.50%, 10/25/36	\$374,677
1,880		Greenpoint Manufactured Housing, 8.14%, 3/20/30 (k)	1,932,767
		GSAA Home Equity Trust,	
2,499		5.772%, 11/25/36 (k)	1,548,042
1,938		6.295%, 6/25/36	1,170,507
4,010		IndyMac Residential Asset-Backed Trust, 0.315%, 7/25/37 (k)	2,501,748
6,377		Lehman XS Trust, 5.627%, 6/24/46	5,064,499
764		MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	769,697
305		Mid-State Trust IV, 8.33%, 4/1/30	310,902
1,539		Mid-State Trust VII, 6.34%, 10/15/36	1,627,516
1,086		Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47 (k)	811,229
Total Asset-Backed Securities (cost-\$15,860,370)			16,111,584
Sovereign Debt Obligations 0.4%			
Spain 0.4%			
2,500		Autonomous Community of Valencia Spain, 2.634%, 9/3/17 (k) (cost-\$2,959,170)	3,383,385
Short-Term Investments 12.2%			
Repurchase Agreements 12.0%			
\$3,100		Barclays Capital, Inc., dated 7/31/14, 0.13%, due 8/1/14, proceeds \$3,100,011; collateralized by U.S. Treasury Notes, 2.25%, due 7/31/21, valued at \$3,168,420 including accrued interest	3,100,000
2,000		JPMorgan Securities, Inc., dated 7/31/14, 0.14%, due 8/1/14, proceeds \$2,000,008; collateralized by Freddie Mac, 1.67%, due 12/17/18, valued at \$2,061,457 including accrued interest	2,000,000
77,200		RBC Capital Markets LLC, dated 7/31/14, 0.13%, due 8/1/14, proceeds \$77,200,279; collateralized by U.S. Treasury Notes, 2.25%, due 7/31/21, valued at \$78,873,232 including accrued interest	77,200,000
2,825		State Street Bank and Trust Co., dated 7/31/14, 0.00%, due 8/1/14, proceeds \$2,825,000; collateralized by U.S. Treasury Notes, 0.875%, due 5/15/17, valued at \$2,885,000 including accrued interest	2,825,000
4,400		TD Securities (USA) LLC, dated 7/31/14, 0.13%, due 8/1/14, proceeds \$4,400,016; collateralized by U.S. Treasury Bonds, 3.625%, due 8/15/43, valued at \$4,583,846 including accrued interest	4,400,000
Total Repurchase Agreements (cost-\$89,525,000)			89,525,000
U.S. Treasury Obligations 0.2%			
1,620		U.S. Treasury Bills, 0.047%, 1/22/15 (h)(l) (cost-\$1,619,636)	1,619,627
Total Short-Term Investments (cost-\$91,144,636)			91,144,627
Total Investments (cost-\$707,787,876) 100.0%			\$743,444,562

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014 (continued)

Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$59,708,125, representing 8.0% of total investments.
- (b) Illiquid.
- (c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (d) When-issued or delayed-delivery. To be settled/delivered after July 31, 2014.
- (e) In default.
- (f) Fair-Valued Securities with an aggregate value of \$42,631,871, representing 5.7% of total investments. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (g) Perpetual maturity. The date shown, if any, is the next call date. For Corporate Bonds & Notes the interest rate is fixed until the first call date and variable thereafter.
- (h) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.
- (i) Restricted. The aggregate acquisition cost of such securities is \$17,955,391. The aggregate value is \$19,273,099, representing 2.6% of total investments.
- (j) Dividend rate is fixed until the first call date and variable thereafter.
- (k) Variable or Floating Rate Security Securities with an interest rate that changes periodically. The interest rate disclosed reflects the rate in effect on July 31, 2014.
- (l) Rates reflect the effective yields at purchase date.
- (m) Interest rate swap agreements outstanding at July 31, 2014:

OTC swap agreements:

Swap Counterparty	Notional Amount (000s)	Termination Date	Rate Type	Payments Made	Payments Received	Value	Upfront	Unrealized
							Premiums Paid (Received)	Appreciation (Depreciation)
Bank of America	\$567,500	10/16/19	3-Month USD-LIBOR		2.00%	\$(997,599)	\$	\$(997,599)
Morgan Stanley	1,000,000	9/4/19	3-Month USD-LIBOR		2.00%	6,717,233	(2,821,087)	9,538,320
Nomura Global Financial Products	548,600	10/16/19	3-Month USD-LIBOR		2.00%	(964,376)	170,255	(1,134,631)
						\$4,755,258	\$(2,650,832)	\$7,406,090

Centrally cleared swap agreements:

Broker (Exchange)	Notional Amount	Termination Date	Rate Type	Payments Made	Payments Received	Value	Unrealized
							Appreciation

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

	(000s)					(Depreciation)
Goldman Sachs (CME)	\$66,400	9/17/44	3.50%	3-Month USD-LIBOR	\$(2,377,705)	\$(1,649,705)
Morgan Stanley (CME)	236,000	9/17/43	3.75%	3-Month USD-LIBOR	(20,014,823)	(6,775,223)
Morgan Stanley (CME)	236,000	6/19/44	3-Month USD-LIBOR	3.50%	10,343,008 \$(12,049,520)	18,041,946 \$9,617,018

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014 (continued)

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

	Counterparty	U.S.\$ Value on Origination Date	U.S.\$ Value July 31, 2014	Unrealized Appreciation (Depreciation)
Purchased:				
896,202 Brazilian Real settling 8/4/14	Barclays Bank	\$400,985	\$395,020	\$(5,965)
2,221,907 Brazilian Real settling 8/4/14	JPMorgan Chase	979,936	979,353	(583)
1,325,705 Brazilian Real settling 8/4/14	UBS	586,466	584,333	(2,133)
10,766,000 British Pound settling 8/5/14	Barclays Bank	18,291,435	18,176,086	(115,349)
340,000 Euro settling 8/5/14	Citigroup	463,998	455,278	(8,720)
897,000 Euro settling 8/5/14	Credit Suisse First Boston	1,203,415	1,201,132	(2,283)
8,794,000 Euro settling 8/5/14	JPMorgan Chase	11,894,528	11,775,644	(118,884)
481,000 Euro settling 8/5/14	Morgan Stanley	658,296	644,085	(14,211)
70,000 Euro settling 9/3/14	National Australia Bank	93,905	93,742	(163)
Sold:				
896,202 Brazilian Real settling 8/4/14	Barclays Bank	395,255	395,020	235
896,202 Brazilian Real settling 9/3/14	Barclays Bank	397,588	391,555	6,033
2,221,907 Brazilian Real settling 8/4/14	JPMorgan Chase	983,558	979,353	4,205
1,325,705 Brazilian Real settling 8/4/14	UBS	584,681	584,333	348
10,766,000 British Pound settling 8/5/14	Bank of America	18,269,902	18,176,086	93,816
10,766,000 British Pound settling 9/3/14	Barclays Bank	18,287,236	18,171,856	115,380
691,000 Euro settling 6/15/15	Bank of America	939,505	926,844	12,661
1,608,000 Euro settling 6/13/16	Bank of America	2,199,043	2,175,892	23,151
332,000 Euro settling 6/27/16	Bank of America	457,106	449,418	7,688
397,000 Euro settling 6/15/15	Barclays Bank	539,368	532,499	6,869
368,000 Euro settling 6/27/16	Barclays Bank	506,019	498,150	7,869
316,000 Euro settling 6/15/15	BNP Paribas	428,556	423,853	4,703
340,000 Euro settling 6/15/15	Citigroup	464,780	456,045	8,735
897,000 Euro settling 9/3/14	Credit Suisse First Boston	1,203,492	1,201,241	2,251
8,667,000 Euro settling 4/21/15	Credit Suisse First Boston	11,750,277	11,619,036	131,241
575,000 Euro settling 6/15/15	Credit Suisse First Boston	780,435	771,252	9,183
205,000 Euro settling 6/13/16	Deutsche Bank	280,686	277,399	3,287
10,512,000 Euro settling 8/5/14	JPMorgan Chase	14,292,778	14,076,140	216,638
481,000 Euro settling 6/15/15	Morgan Stanley	659,369	645,169	14,200
516,000 Euro settling 6/13/16	Morgan Stanley	709,681	698,234	11,447
402,000 Euro settling 6/15/15	National Australia Bank	546,680	539,206	7,474
567,000 Euro settling 6/13/16	National Australia Bank	776,960	767,245	9,715
556,000 Euro settling 6/27/16	National Australia Bank	765,003	752,639	12,364
70,000 Euro settling 7/29/16	National Australia Bank	94,962	94,837	125
				\$441,327

July 31, 2014 | Annual Report 27

Schedule of Investments

PIMCO Income Strategy Fund II

July 31, 2014 (continued)

- (o) At July 31, 2014, the Fund held \$10,256,000 in cash as collateral and pledged cash collateral of \$5,749,332 for derivative contracts. Cash collateral held may be invested in accordance with the Fund's investment strategy.
- (p) The weighted average daily balance of reverse repurchase agreements during the year ended July 31, 2014 was \$13,330,250, at a weighted average interest rate of 0.40%. There were no open reverse repurchase agreements at July 31, 2014.
- (q) Fair Value Measurements-See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 7/31/14
Investments in Securities Assets				
Corporate Bonds & Notes:				
Airlines	\$	\$	\$2,328,332	\$2,328,332
Diversified Financial Services		46,216,045	5,260,929	51,476,974
Electric Utilities			2,448,151	2,448,151
All Other		142,242,830		142,242,830
Mortgage-Backed Securities		176,624,876		176,624,876
U.S. Government Agency Securities		117,820,033	42,379,211	160,199,244
Municipal Bonds		50,193,818		50,193,818
Preferred Stock:				
Diversified Financial Services	7,043,400	31,171,568		38,214,968
Electric Utilities		9,075,773		9,075,773
Asset-Backed Securities		16,111,584		16,111,584
Sovereign Debt Obligations		3,383,385		3,383,385
Short-Term Investments		91,144,627		91,144,627
	7,043,400	683,984,539	52,416,623	743,444,562
Other Financial Instruments* Assets				
Foreign Exchange Contracts		709,618		709,618
Interest Rate Contracts		27,580,266		27,580,266
		28,289,884		28,289,884
Other Financial Instruments* Liabilities				
Foreign Exchange Contracts		(268,291)		