

PIMCO Income Strategy Fund II
Form N-CSRS
April 02, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

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

Investment Company Act file number 811-21601

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

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

10019
(Zip code)

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

Registrant's telephone number, including area code: 212-739-3371

Date of fiscal year July 31, 2013
end:

Date of reporting period: January 31, 2013

Item 1. Report to Shareholders

January 31, 2013

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Dear Shareholder:

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

Six-Month Period in Review through January 31, 2013

Hans W. Kertess

Chairman

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

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

Brian S. Shlissel

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

President & CEO

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

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

Outlook

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

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

For specific information on the Funds and their performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, www.us.allianzgi.com/closedendfunds.

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

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess
Chairman

Brian S. Shlissel
President & CEO

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

January 31, 2013

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

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

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

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

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

PIMCO Income Strategy Fund

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

January 31, 2013 (continued)

Sector exposures largely contributed to the Funds' performance

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

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

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

**PIMCO Income Strategy Fund
Performance & Statistics**

January 31, 2013 (unaudited)

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

Market Price/NAV Performance:

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

Market Price

NAV

Market Price/NAV:

Market Price

NAV

Premium to NAV

Market Price Yield(2)

Leverage Ratio(3)

\$13.26

\$12.27

8.07%

7.18%

21.20%

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

January 31, 2013 (unaudited)

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

Market Price/NAV Performance:

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

Market Price
NAV

Market Price/NAV:

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

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

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

An investment in each Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are

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

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at January 31, 2013.

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

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2013 (unaudited)

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

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

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2013 (unaudited) (continued)

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

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

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2013 (unaudited) (continued)

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

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

January 31, 2013 (unaudited) (continued)

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

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

80,051,439

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2013 (unaudited) (continued)

| Principal Amount (000s) | | Value |
|---|--|-------------|
| MUNICIPAL BONDS 5.5% | | |
| California 2.8% | | |
| | Golden State Tobacco Securitization Corp. Rev., 5.125%, 6/1/47, Ser. A-1 | \$4,321,100 |
| \$5,000 | | |
| 900 | Long Beach Redev. Agcy., Tax Allocation, 8.36%, 8/1/40 | 987,399 |
| 1,100 | Oakland Unified School Dist., Alameda Cnty., GO, 9.50%, 8/1/34 | 1,279,399 |
| 600 | Riverside Cnty. Economic Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T | 626,484 |
| 3,600 | Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B | 3,511,800 |
| | | 10,726,182 |
| Texas 2.7% | | |
| 9,000 | North Texas Tollway Auth. Rev., 8.91%, 2/1/30 | 10,720,620 |
| Total Municipal Bonds (cost-\$18,601,413) | | 21,446,802 |

| Shares | | |
|---|--|------------|
| PREFERRED STOCK (j) 2.8% | | |
| Banking 2.8% | | |
| 100,000 | Ally Financial, Inc., 8.50%, 5/15/16, Ser. A (f) | 2,632,000 |
| 90,200 | CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (c) (f) (i) (acquisition cost-\$4,973,200; purchased 8/31/10-2/1/11) | 4,622,750 |
| 137,000 | GMAC Capital Trust I, 8.125%, 2/15/16, Ser. 2 | 3,653,790 |
| Total Preferred Stock (cost-\$10,880,400) | | 10,908,540 |

| Principal Amount (000s) | | |
|--|--|-----------|
| ASSET-BACKED SECURITIES 1.0% | | |
| \$1,136 | Asset-Backed Funding Certificates, 0.424%, 5/25/37 (a) (c) (k) | 909,971 |
| 293 | Bear Stearns Asset-Backed Securities Trust, 6.50%, 10/25/36 | 240,411 |
| 1,025 | GSAA Home Equity Trust, 6.295%, 6/25/36 | 669,641 |
| 553 | MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35 | 554,804 |
| 264 | Mid-State Trust IV, 8.33%, 4/1/30 | 275,884 |
| 828 | Mid-State Trust VII, 6.34%, 10/15/36 | 875,533 |
| 652 | Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47 (k) | 480,330 |
| Total Asset-Backed Securities (cost-\$3,742,111) | | 4,006,574 |

| | | |
|-------------------------------------|--|------------|
| SHORT-TERM INVESTMENTS 18.4% | | |
| Repurchase Agreements 17.7% | | |
| 10,000 | BNP Paribas Securities Corp., dated 1/31/13, 0.16%, due 2/1/13, proceeds \$10,000,044; collateralized by U.S. Treasury Bonds, 5.25%, due 2/15/29, valued at \$10,208,477 including accrued interest | 10,000,000 |
| 43,200 | Deutsche Bank Securities, Inc., dated 1/31/13, 0.16%, due 2/1/13, proceeds \$43,200,192; collateralized by U.S. Treasury Inflation Protected Securities, 0.625%, due 4/15/13, valued at \$44,076,217 including accrued interest | 43,200,000 |

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2013 (unaudited) (continued)

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

Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$60,642,369, representing 15.6% of total investments.
- (b) Illiquid.
- (c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (d) In default.
- (e) Fair-Valued Security with a value of \$2,103,263, representing 0.5% of total investments. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (f) Perpetual maturity. The date shown, if any, is the next call date. For Corporate Bonds & Notes, the interest rate is fixed until the first call date and variable thereafter.
- (g) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.
- (h) All or partial amount transferred for the benefit of the counterparty as collateral for reverse repurchase agreements.
- (i) Restricted. The aggregate acquisition cost of such securities is \$33,988,137. The aggregate market value is \$37,847,272, representing 9.7% of total investments.
- (j) Dividend rate fixed until the first call date and variable thereafter.
- (k) Variable or Floating Rate Security Securities with an interest rate that changes periodically. The interest rate disclosed reflects the rate in effect on January 31, 2013.
- (l) Rates reflect the effective yields at purchase date.

PIMCO Income Strategy Fund Notes to Schedule of Investments

January 31, 2013 (unaudited)

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

OTC sell protection swap agreements:

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

- (1) This represents the maximum potential amount the Fund could be required to make available as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.
- (2) The quoted market prices and resulting values for credit default swap agreements serve as an indicator of the status at January 31, 2013 of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement have been closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

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

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

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

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

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

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PIMCO Income Strategy Fund Notes to Schedule of Investments

January 31, 2013 (unaudited) (continued)

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

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

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

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

(r) The weighted average daily balance of reverse repurchase agreements outstanding during the six months ended January 31, 2013 was \$24,295,951 at a weighted average interest rate of 0.67%. Total market value of underlying collateral (refer to the Schedule of Investments for positions transferred for the benefit of the counterparty as collateral) for open reverse repurchase agreements at January 31, 2013 was \$4,285,000.

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

PIMCO Income Strategy Fund Notes to Schedule of Investments

January 31, 2013 (unaudited) (continued)

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

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

At January 31, 2013, there were no transfers between Levels 1 and 2.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the six months ended January 31, 2013, was as follows:

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

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PIMCO Income Strategy Fund Notes to Schedule of Investments

January 31, 2013 (unaudited) (continued)

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 at January 31, 2013.

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

Reduction of cost due to corporate action.

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

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

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

The net change in unrealized appreciation/depreciation of Level 3 investments held at January 31, 2013, was \$780,370. Net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statement of Operations.

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

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

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

PIMCO Income Strategy Fund Notes to Schedule of Investments

January 31, 2013 (unaudited) (continued)

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

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

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

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

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

(2) Notional Amount (in thousands)

Glossary:

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

PIMCO Income Strategy Fund

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PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2013 (unaudited)

| Principal Amount (000s) | | Value |
|--|--|-------------|
| CORPORATE BONDS & NOTES 46.2% | | |
| Airlines 1.4% | | |
| | American Airlines Pass-Through Trust (d), 9.73%, 9/29/14 | \$5,889,544 |
| \$7,362 | | |
| 3,834 | 10.18%, 1/2/13 (b) (e) | 4,332,412 |
| 622 | United Air Lines Pass-Through Trust, 10.40%, 5/1/18 | 721,470 |
| | | 10,943,426 |
| Banking 21.4% | | |
| 5,500 | AgFirst Farm Credit Bank, 7.30%, 3/4/13 (a) (b) (c) (f) (i) (acquisition cost-\$4,709,000; purchased 2/26/10-4/15/10) | 5,500,000 |
| 416 | Ally Financial, Inc., 5.25%, 1/15/14 | 418,576 |
| 315 | 5.35%, 1/15/14 | 316,856 |
| 130 | 5.70%, 6/15/13 | 129,829 |
| 561 | 5.75%, 1/15/14 | 560,992 |
| 568 | 5.90%, 1/15/19-2/15/19 | 559,006 |
| 2,150 | 6.00%, 12/15/13-9/15/19 | 2,128,766 |
| 486 | | |