

PIMCO INCOME STRATEGY FUND  
Form N-Q  
December 29, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANY**

<b>Investment Company Act File Number:</b>	<b>811-21374</b>
<b>Registrant Name:</b>	<b>PIMCO Income Strategy Fund</b>
Address of Principal Executive Offices:	1633 Broadway New York, NY 10019
Name and Address of Agent for Service:	William G. Galipeau 1633 Broadway New York, NY 10019
Registrant's telephone number, including area code:	(844) 337-4626
Date of Fiscal Year End:	July 31, 2015
Date of Reporting Period:	October 31, 2014

**Item 1. Schedule of Investments**

**PIMCO Income Strategy Fund**

October 31, 2014 (Unaudited)

	PRINCIPAL AMOUNT (000s)	MARKET VALUE (000s)
<b>INVESTMENTS IN SECURITIES 133.5%</b>		
<b>BANK LOAN OBLIGATIONS 0.1%</b>		
<b>Clear Channel Communications, Inc.</b>		
TBD% due 01/30/2019	\$ 400	\$ 379
Total Bank Loan Obligations (Cost \$377)		379
<b>CORPORATE BONDS &amp; NOTES 46.2%</b>		
<b>BANKING &amp; FINANCE 24.4%</b>		
<b>AIG Life Holdings, Inc.</b>		
8.125% due 03/15/2046	2,000	2,823
<b>American International Group, Inc.</b>		
6.250% due 03/15/2087 (f)	7,500	8,338
8.175% due 05/15/2068	693	944
<b>Army Hawaii Family Housing Trust Certificates</b>		
5.524% due 06/15/2050	3,400	3,680
<b>Banco Popular Espanol S.A.</b>		
11.500% due 10/10/2018 (d)	EUR 1,000	1,436
<b>Barclays Bank PLC</b>		
14.000% due 06/15/2019 (d)	GBP 6,300	13,152
<b>Cooperatieve Centrale Raiffeisen-Boerenleenbank BA</b>		
8.400% due 06/29/2017 (d)	\$ 300	331
<b>Credit Agricole S.A.</b>		
6.500% due 06/23/2021 (d)	EUR 200	256
7.500% due 06/23/2026 (d)	GBP 1,600	2,524
7.875% due 01/23/2024 (d)	\$ 1,000	1,035
<b>GSPA Monetization Trust</b>		
6.422% due 10/09/2029	2,428	2,791
<b>LBG Capital PLC</b>		
7.375% due 03/12/2020	EUR 200	270
8.500% due 12/17/2021 (d)	\$ 2,000	2,231
9.125% due 07/15/2020	GBP 534	913
<b>Lloyds Banking Group PLC</b>		
7.625% due 06/27/2023 (d)	3,600	5,831
<b>Millennium Offshore Services Superholdings LLC</b>		
9.500% due 02/15/2018	\$ 2,100	2,100
<b>Nippon Life Insurance Co.</b>		
5.100% due 10/16/2044	800	837
<b>Novo Banco S.A.</b>		

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2.625% due 05/08/2017	EUR	100	114
3.875% due 01/21/2015		100	125
4.750% due 01/15/2018		400	480
5.000% due 04/04/2019		101	117
5.000% due 04/23/2019		311	367
5.000% due 05/14/2019		206	242
5.000% due 05/21/2019		115	134
5.000% due 05/23/2019		115	136
5.875% due 11/09/2015		500	611
<b>Rio Oil Finance Trust</b>			
6.250% due 07/06/2024 (f)	\$	8,200	8,563
<b>Royal Bank of Scotland Group PLC</b>			
7.648% due 09/30/2031 (d)		1,550	1,831
<b>Russian Agricultural Bank OJSC Via RSHB Capital S.A.</b>			
5.298% due 12/27/2017		1,500	1,466
6.299% due 05/15/2017		2,600	2,620
<b>Sberbank of Russia Via SB Capital S.A.</b>			
5.717% due 06/16/2021		3,000	2,938
<b>Vnesheconombank Via VEB Finance PLC</b>			
6.902% due 07/09/2020		5,100	5,228
			74,464
<b>INDUSTRIALS 11.2%</b>			
<b>Anadarko Petroleum Corp.</b>			
7.000% due 11/15/2027		1,600	1,901
<b>Boxer Parent Co., Inc. (9.000% Cash or 9.750% PIK)</b>			
9.000% due 10/15/2019 (b)		1,400	1,263
<b>Continental Airlines Pass-Through Trust</b>			
9.798% due 10/01/2022		1,123	1,255
<b>Forbes Energy Services Ltd.</b>			
9.000% due 06/15/2019		200	194
<b>Ford Motor Co.</b>			
7.700% due 05/15/2097		12,530	16,443
<b>Gulfport Energy Corp.</b>			
7.750% due 11/01/2020		200	205

<b>Hema Bondco BV</b>			
6.250% due 06/15/2019	EUR	100	112
<b>Intrepid Aviation Group Holdings LLC</b>			
6.875% due 02/15/2019	\$	960	955
<b>Perstorp Holding AB</b>			
8.750% due 05/15/2017		1,100	1,122
9.000% due 05/15/2017	EUR	400	516
<b>Pertamina Persero PT</b>			
6.450% due 05/30/2044	\$	7,600	8,113
<b>Schaeffler Holding Finance BV (6.250% Cash or 6.250% PIK)</b>			
6.250% due 11/15/2019 (b)		800	832
<b>Schaeffler Holding Finance BV (6.750% Cash or 6.750% PIK)</b>			
6.750% due 11/15/2022 (b)		600	638
<b>UAL Pass-Through Trust</b>			
10.400% due 05/01/2018		630	696
			34,245
<b>UTILITIES 10.6%</b>			
<b>Bruce Mansfield Unit Pass-Through Trust</b>			
6.850% due 06/01/2034		1,138	1,267
<b>CenturyLink, Inc.</b>			
7.600% due 09/15/2039		1,900	1,929
<b>Dynegy Finance, Inc.</b>			
6.750% due 11/01/2019		460	477
7.375% due 11/01/2022		435	461
7.625% due 11/01/2024		70	74
<b>Gazprom Neft OAO Via GPN Capital S.A.</b>			
4.375% due 09/19/2022		3,000	2,666
6.000% due 11/27/2023		6,200	6,030
<b>Illinois Power Generating Co.</b>			
7.000% due 04/15/2018		800	768
7.950% due 06/01/2032		200	197
<b>Northwestern Bell Telephone</b>			
7.750% due 05/01/2030		7,000	8,064
<b>Red Oak Power LLC</b>			
9.200% due 11/30/2029		5,000	5,575
<b>Rosneft Finance S.A.</b>			
6.625% due 03/20/2017		1,900	1,963
7.500% due 07/18/2016		2,600	2,714
7.875% due 03/13/2018		200	215
			32,400
Total Corporate Bonds & Notes			141,109
(Cost \$132,493)			

**MUNICIPAL BONDS & NOTES 6.9%****CALIFORNIA 1.5%****Riverside County, California Redevelopment Successor****Agency Tax Allocation Bonds, Series 2010**

600

663

7.500% due 10/01/2030

**Stockton Public Financing Authority, California****Revenue Bonds, (BABs),****Series 2009**

7.942% due 10/01/2038

3,600

4,036

4,699

**ILLINOIS 2.2%****Chicago, Illinois General Obligation Bonds, (BABs),****Series 2010**

6,000

6,796

7.517% due 01/01/2040

**NEBRASKA 2.4%****Public Power Generation Agency, Nebraska Revenue****Bonds, (BABs),****Series 2009**

7.242% due 01/01/2041

6,400

7,300

**NEW JERSEY 0.1%****Tobacco Settlement Financing Corp., New Jersey****Revenue Bonds, Series 2007**

5.000% due 06/01/2041

200

150

**VIRGINIA 0.1%****Tobacco Settlement Financing Corp., Virginia Revenue****Bonds, Series 2007**

6.706% due 06/01/2046

400

296

**WEST VIRGINIA 0.6%****Tobacco Settlement Finance Authority, West Virginia****Revenue Bonds,****Series 2007**

7.467% due 06/01/2047

2,000

1,704

Total Municipal Bonds & Notes  
(Cost \$19,318)

20,945

**U.S. GOVERNMENT AGENCIES 32.5%****Fannie Mae**

3.500% due 12/25/2032 - 01/25/2043 (a)

1,810

278

4.000% due 11/25/2042 - 01/25/2043 (a)

9,824

1,765

5.217% due 12/25/2042

506

401

5.218% due 07/25/2043	1,309	1,059
5.772% due 01/25/2043	1,892	1,493
5.998% due 11/25/2042 - 02/25/2043 (a)	21,709	5,044
6.448% due 04/25/2041 (a)	6,660	1,134
9.796% due 06/25/2043	4,222	4,445
11.861% due 06/25/2043	4,451	4,704
14.543% due 12/25/2040	132	177
<b>Fannie Mae Strips</b>		
3.500% due 02/25/2043 (a)	32,418	6,980
<b>Freddie Mac</b>		
2.500% due 10/15/2027 - 01/15/2028 (a)	113,862	10,941
3.500% due 05/15/2039 (a)(f)	78,758	11,962
9.554% due 01/15/2041 (f)	12,614	12,728
9.695% due 11/15/2040	580	598
11.593% due 08/15/2043	2,046	2,160
11.726% due 03/15/2044 (f)	12,755	13,593
<b>Ginnie Mae</b>		
7.207% due 05/16/2041 (f)	14,714	15,017
8.591% due 08/20/2039	4,100	4,696
Total U.S. Government Agencies (Cost \$99,376)		99,175

**MORTGAGE-BACKED SECURITIES 22.7%****Banc of America Alternative Loan Trust**

6.000% due 01/25/2036	97	83
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**Banc of America Funding Trust**

6.000% due 08/25/2036 ^	3,272	3,274
6.000% due 03/25/2037 ^	1,829	1,580
6.000% due 08/25/2037 ^	3,045	2,694

**BCAP LLC Trust**

5.410% due 03/26/2037	877	303
17.277% due 06/26/2036	244	70

**Bear Stearns ALT-A Trust**

2.561% due 11/25/2036	346	239
2.661% due 09/25/2035 ^	684	555

**Bear Stearns Mortgage Funding Trust**

7.000% due 08/25/2036	1,178	1,097
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**Chase Mortgage Finance Trust**

2.497% due 12/25/2035 ^	9	9
6.000% due 02/25/2037 ^	923	772
6.000% due 07/25/2037 ^	592	526
6.250% due 10/25/2036 ^	1,730	1,553

**Citicorp Mortgage Securities Trust**

5.500% due 04/25/2037	131	134
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**Countrywide Alternative Loan Resecuritization Trust**

6.000% due 05/25/2036 ^	2,313	2,023
6.000% due 08/25/2037	948	746

**Countrywide Alternative Loan Trust**

5.500% due 03/25/2035	303	283
5.500% due 12/25/2035	3,724	3,271
5.500% due 03/25/2036	139	111
5.648% due 04/25/2036 ^	1,564	1,157
5.750% due 01/25/2035	359	368
6.000% due 02/25/2035	329	354
6.000% due 04/25/2037 ^	1,102	928
6.250% due 11/25/2036 ^	684	649
6.250% due 12/25/2036 ^	1,492	1,253
6.500% due 08/25/2036 ^	431	337

**Countrywide Home Loan Mortgage Pass-Through Trust**

2.489% due 02/20/2035	66	65
5.500% due 10/25/2035	1,281	1,202
5.750% due 03/25/2037 ^	584	536
6.000% due 05/25/2036 ^	1,335	1,247
6.000% due 02/25/2037	481	464
6.000% due 03/25/2037	655	596
6.000% due 04/25/2037 ^	120	111
6.250% due 09/25/2036 ^	715	648

**Credit Suisse Mortgage Capital Mortgage-Backed Trust**

6.000% due 02/25/2037 ^	381	345
6.750% due 08/25/2036 ^	1,221	978

**GSR Mortgage Loan Trust**

5.500% due 05/25/2036 ^	142	132
6.000% due 02/25/2036	4,735	4,175

**HarborView Mortgage Loan Trust**

2.613% due 07/19/2035	55	51
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**IndyMac Mortgage Loan Trust**

6.500% due 07/25/2037	2,059	1,446
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**JPMorgan Alternative Loan Trust**

2.537% due 03/25/2037 ^	1,602	1,257
2.636% due 03/25/2036	1,775	1,424
6.310% due 08/25/2036	1,200	958

**JPMorgan Mortgage Trust**

2.522% due 01/25/2037	553	483
2.610% due 02/25/2036 ^	539	485
5.000% due 03/25/2037 ^	1,004	925
5.750% due 01/25/2036 ^	85	79
6.000% due 08/25/2037 ^	247	223



<b>Merrill Lynch Mortgage Investors Trust</b>		
2.845% due 03/25/2036 ^	1,532	1,058
<b>New Century Alternative Mortgage Loan Trust</b>		
6.173% due 07/25/2036 ^	3,623	2,523
<b>Residential Accredit Loans, Inc. Trust</b>		
6.000% due 06/25/2036	538	447
6.000% due 06/25/2036 ^	452	375
<b>Residential Asset Securitization Trust</b>		
5.750% due 02/25/2036	994	842
6.000% due 09/25/2036 ^	409	274
6.000% due 03/25/2037 ^	678	522
6.000% due 05/25/2037 ^	1,518	1,357
6.000% due 07/25/2037 ^	1,024	767
6.250% due 09/25/2037 ^	1,741	1,272
<b>Residential Funding Mortgage Securities, Inc. Trust</b>		
3.663% due 08/25/2036	1,809	1,598
6.000% due 09/25/2036 ^	240	222
6.000% due 01/25/2037 ^	613	566
6.000% due 06/25/2037 ^	3,250	2,873
<b>Structured Adjustable Rate Mortgage Loan Trust</b>		
2.453% due 11/25/2036	1,605	1,313
4.867% due 05/25/2036	1,971	1,552
4.886% due 03/25/2037	622	459
5.020% due 01/25/2036 ^	1,387	1,051
5.283% due 07/25/2036 ^	689	598
<b>Suntrust Adjustable Rate Mortgage Loan Trust</b>		
2.664% due 02/25/2037 ^	291	254
2.742% due 04/25/2037 ^	1,873	1,593
<b>WaMu Mortgage Pass-Through Certificates Trust</b>		
2.237% due 09/25/2036 ^	215	194
4.531% due 02/25/2037 ^	639	588
6.076% due 10/25/2036 ^	827	703
<b>Washington Mutual Mortgage Pass-Through Certificates Trust</b>		
6.500% due 08/25/2034	828	863
<b>Wells Fargo Mortgage-Backed Securities Trust</b>		
2.610% due 07/25/2036 ^	343	318
2.615% due 04/25/2036	173	167
2.615% due 08/25/2036	690	661
2.617% due 07/25/2036 ^	1,185	1,140
5.750% due 03/25/2037 ^	404	392
6.000% due 06/25/2037	228	232
6.000% due 07/25/2037 ^	337	334
<b>Total Mortgage-Backed Securities</b>		<b>69,307</b>
<b>(Cost \$63,368)</b>		

**ASSET-BACKED SECURITIES 6.6%**

<b>Bear Stearns Asset-Backed Securities Trust</b>		
6.500% due 10/25/2036	268	227
<b>Countrywide Asset-Backed Certificates</b>		
0.712% due 12/25/2035	3,500	3,257
<b>Countrywide Asset-Backed Certificates Trust</b>		
5.283% due 08/25/2035	3,000	2,785
<b>GSAA Home Equity Trust</b>		
5.772% due 11/25/2036	7,968	4,917
6.295% due 06/25/2036 ^	921	548
<b>Lehman XS Trust</b>		
5.525% due 06/24/2046	3,607	2,839
<b>MASTR Asset-Backed Securities Trust</b>		
5.233% due 11/25/2035	353	360
<b>Mid-State Trust</b>		
6.340% due 10/15/2036	720	761
8.330% due 04/01/2030	163	165
<b>Morgan Stanley Mortgage Loan Trust</b>		
6.250% due 07/25/2047 ^	537	411
<b>Securitized Asset-Backed Receivables LLC Trust</b>		
0.292% due 05/25/2036	6,881	4,007
Total Asset-Backed Securities		20,277
(Cost \$19,316)		

**SOVEREIGN ISSUES 9.3%**

<b>Brazil Letras do Tesouro Nacional</b>			
0.000% due 01/01/2017	BRL	90,000	28,278
Total Sovereign Issues			28,278
(Cost \$28,673)			

## SHARES

<b>PREFERRED SECURITIES 5.8%</b>		
<b>BANKING &amp; FINANCE 4.4%</b>		
<b>Farm Credit Bank of Texas</b>		
10.000% due 12/15/2020 (d)	6,000	7,772

<b>GMAC Capital Trust</b>		
8.125% due 02/15/2040	207,100	5,536
		13,308

**UTILITIES 1.4%**

<b>Entergy Texas, Inc.</b>		
5.625% due 06/01/2064	171,600	4,395
Total Preferred Securities (Cost \$16,623)		17,703

PRINCIPAL  
AMOUNT  
(000s)

<b>SHORT-TERM INSTRUMENTS 3.4%</b>		
<b>REPURCHASE AGREEMENTS (e) 2.3%</b>		7,142

**SHORT-TERM NOTES 0.5%**

<b>Fannie Mae</b>		
0.071% due 04/27/2015	\$ 1,200	1,200
0.086% due 04/22/2015	400	400
		1,600

**U.S. TREASURY BILLS 0.6%**

0.042% due 03/26/2015 - 04/30/2015 (c)(h)(j)	1,802	1,801
Total Short-Term Instruments (Cost \$10,543)		10,543

Total Investments in Securities (Cost \$390,087)		407,716
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<b>Total Investments 133.5%</b>	<b>\$</b>	<b>407,716</b>
<b>(Cost \$390,087)</b>		

<b>Financial Derivative Instruments (g)(i) 0.5%</b>		<b>1,436</b>
<b>(Cost or Premiums, net \$(250))</b>		

<b>Preferred Shares (25.9%)</b>		<b>(78,975)</b>
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<b>Other Assets and Liabilities, net (8.1%)</b>		<b>(24,848)</b>
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<b>Net Assets Applicable to Common Shareholders 100.0%</b>	<b>\$</b>	<b>305,329</b>
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**Notes to Schedule of Investments (amounts in thousands\*):**

\* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) Interest only security.

(b) Payment in-kind bond security.

(c) Coupon represents a weighted average yield to maturity.

(d) Perpetual maturity; date shown, if applicable, represents next contractual call date.  
Borrowings and Other Financing Transactions

**(e) Repurchase Agreements:**

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Repurchase Agreements		
						Collateral Received, at Value	Repurchased at Value	Agreed to be Received
	0.160%	10/31/2014	11/03/2014	\$ 1,800	U.S. Treasury Bonds 3.750% due 11/15/2043	\$ (1,352)	\$ 1,800	\$ 1,800
					U.S. Treasury Bonds 1.5% due 10/31/2019	(503)		
	0.160%	10/31/2014	11/03/2014	4,400	U.S. Treasury Notes 2.500% due 05/15/2024	(4,490)	4,400	4,400
	0.000%	10/31/2014	11/03/2014	942	Freddie Mac 2.000% due 11/02/2022	(961)	942	942
<b>Total Repurchase Agreements</b>						<b>\$ (7,306)</b>	<b>\$ 7,142</b>	<b>\$ 7,142</b>

<sup>(1)</sup> Includes accrued interest.

**Reverse Repurchase Agreements:**

Counterparty	Borrowing Rate	Borrowing Date	Maturity Date	Amount Borrowed <sup>(2)</sup>	Payable for Reverse Repurchase
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						<b>Agreements</b>
RDR	0.580%	10/24/2014	11/24/2014	\$ (3,138)	\$ (3,139)	
	0.590%	10/31/2014	02/02/2015	(9,810)	(9,810)	
	0.590%	11/05/2014	02/05/2015	(30,922)	(30,922)	
UBS	0.380%	10/21/2014	11/20/2014	(8,099)	(8,100)	
	0.480%	10/23/2014	01/23/2015	(7,807)	(7,808)	

**Total Reverse Repurchase  
Agreements**

**\$ (59,779)**

(2) The average amount of borrowings while outstanding during the period ended October 31, 2014 was \$15,972 at a weighted average interest rate of 0.420%.

(f) Securities with an aggregate market value of \$70,201 have been pledged as collateral under the terms of master agreements as of October 31, 2014.

**(g) Financial Derivative Instruments: Exchange-traded Or Centrally Cleared  
Swap Agreements:**

**Interest Rate Swaps**

						<b>Variation Margin</b>		
<b>Pay/Receive</b>	<b>Floating Rate</b>	<b>Fixed Rate</b>	<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Market Value</b>	<b>Unrealized Appreciation/ (Depreciation)</b>	<b>Asset</b>	<b>Liability</b>
Pay	3-Month USD-LIBOR	1.900%	06/18/2019	\$ 87,800	\$ 1,531	\$ 1,164	\$ 0	\$ (104)
Pay	3-Month USD-LIBOR	2.000%	06/18/2019	99,400	2,219	872	0	(118)
Receive	3-Month USD-LIBOR	3.750%	09/17/2043	107,000	(12,109)	(4,385)	652	0
Pay	3-Month USD-LIBOR	3.500%	06/19/2044	107,000	11,367	14,858	0	(625)
Receive	3-Month USD-LIBOR	3.500%	12/17/2044	98,100	(8,802)	(4,924)	597	0
					\$ (5,794)	\$ 7,585	\$ 1,249	\$ (847)
<b>Total Swap Agreements</b>					<b>\$ (5,794)</b>	<b>\$ 7,585</b>	<b>\$ 1,249</b>	<b>\$ (847)</b>

(h) Securities with an aggregate market value of \$882 and cash of \$7,886 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of October 31, 2014.

**(i) Financial Derivative Instruments: Over The Counter**

**Forward Foreign Currency Contracts:**

Counterparty	Settlement Month	Currency to		Currency to		Unrealized Appreciation/(Depreciation)	
		be Delivered		be Received		Asset	Liability
BOA	11/2014	GBP	16,184	\$	26,461	\$ 571	\$ 0
	11/2014	\$	23,391	GBP	14,516	0	(169)
	12/2014	EUR	120	\$	153	2	0
	12/2014	GBP	14,516		23,385	169	0
	06/2015	EUR	9		12	1	0
	06/2016		26		36	3	0
	06/2016	\$	1	EUR	1	0	0
BPS	11/2014	EUR	2,171	\$	2,768	48	0
	11/2014	GBP	548		885	8	0
	06/2015	EUR	4		5	0	0
BRC	11/2014		219		280	6	0
	12/2014	BRL	175		71	1	0
	06/2015	EUR	5		7	0	0
	06/2016		5		7	1	0
CBK	01/2015	BRL	38,434		15,288	42	0
	06/2015	EUR	5		7	1	0
	06/2015	\$	45	EUR	34	0	(2)
DUB	12/2014	BRL	393	\$	160	3	0
	06/2016	EUR	3		4	0	0
FBF	12/2014	BRL	135		55	1	0
	04/2015	EUR	4,173		5,658	422	0
	06/2015		7		10	1	0
GLM	11/2014		98		124	1	0
	12/2014	BRL	218		89	2	0
	06/2015	\$	9	EUR	7	0	(1)
HUS	11/2014	EUR	220	\$	280	4	0
	11/2014	\$	2,887	EUR	2,239	0	(81)
JPM	11/2014	EUR	1,000	\$	1,281	28	0
	11/2014	\$	3,615	GBP	2,216	0	(70)
MSB	01/2015	BRL	31,659	\$	12,604	46	0
	06/2015	EUR	6		8	1	0
	06/2016		7		10	1	0
NAB	06/2015		5		7	0	0
	06/2016		15		21	2	0
UAG	11/2014	BRL	378		160	7	0
	11/2014	EUR	304		386	5	0
	11/2014	\$	153	BRL	378	0	(1)
	11/2014		2,268	EUR	1,773	0	(46)
	12/2014	BRL	378	\$	152	1	0
	12/2014	\$	386	EUR	304	0	(5)
<b>Total Forward Foreign Currency Contracts</b>						<b>\$ 1,378</b>	<b>\$ (375)</b>

**Swap Agreements:****Credit Default Swaps on Corporate Issues - Sell Protection <sup>(1)</sup>**

Swap Agreements, at Value									
Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at October 31, 2014	Notional Amount <sup>(3)</sup>	Premiums (Received)	Unrealized		
							Appreciation	Asset	Liability
BPS	Novo Banco S.A.	5.000%	12/20/2019	4.650%	EUR 200	\$ (3)	\$ 8	\$ 5	\$ 0
BRC	Novo Banco S.A.	5.000%	12/20/2019	4.650%	400	(7)	17	10	0
						\$ (10)	\$ 25	\$ 15	\$ 0

- (1) If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.
- (2) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate issues as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads 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.
- (3) The maximum potential amount the Fund could be required to pay 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.

**Interest Rate Swaps**

Swap Agreements, at Value									
Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums (Received)	Unrealized		
							Appreciation/ Depreciation	Asset	Liability
BOA	Pay	3-Month USD-LIBOR	2.200%	01/14/2020	\$ 77,000	\$ (174)	\$ 433	\$ 259	\$ 0
CBK	Pay	1-Year BRL-CDI	11.500%	01/04/2021	BRL 23,000	(22)	(40)	0	(62)
UAG	Pay	1-Year BRL-CDI	11.250%	01/04/2021	29,500	(44)	(137)	0	(181)
						\$ (240)	\$ 256	\$ 259	\$ (243)
<b>Total Swap Agreements</b>						\$ (250)	\$ 281	\$ 274	\$ (243)



- (j) Securities with an aggregate market value of \$920 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of October 31, 2014.**

**Fair Value Measurements**

The following is a summary of the fair valuations according to the inputs used as of October 31, 2014 in valuing the Fund's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 10/31/2014
<b>Investments in Securities, at Value</b>				
Bank Loan Obligations	\$ 0	\$ 379	\$ 0	\$ 379
<b>Corporate Bonds &amp; Notes</b>				
Banking & Finance	0	71,673	2,791	74,464
Industrials	0	32,294	1,951	34,245
Utilities	0	31,133	1,267	32,400
<b>Municipal Bonds &amp; Notes</b>				
California	0	4,699	0	4,699
Illinois	0	6,796	0	6,796
Nebraska	0	7,300	0	7,300
New Jersey	0	150	0	150
Virginia	0	296	0	296
West Virginia	0	1,704	0	1,704
U.S. Government Agencies	0	99,175	0	99,175
Mortgage-Backed Securities	0	69,307	0	69,307
Asset-Backed Securities	0	20,277	0	20,277
Sovereign Issues	0	28,278	0	28,278
<b>Preferred Securities</b>				
Banking & Finance	5,536	7,772	0	13,308
Utilities	4,395	0	0	4,395
<b>Short-Term Instruments</b>				
Repurchase Agreements	0	7,142	0	7,142
Short-Term Notes	0	1,600	0	1,600
U.S. Treasury Bills	0	1,801	0	1,801
Total Investments	\$ 9,931	\$ 391,776	\$ 6,009	\$ 407,716
<b>Financial Derivative Instruments - Assets</b>				
Exchange-traded or centrally cleared	0	1,249	0	1,249
Over the counter	0	1,652	0	1,652
	\$ 0	\$ 2,901	\$ 0	\$ 2,901
<b>Financial Derivative Instruments - Liabilities</b>				
Exchange-traded or centrally cleared	0	(847)	0	(847)
Over the counter	0	(618)	0	(618)
	\$ 0	\$ (1,465)	\$ 0	\$ (1,465)
Totals	\$ 9,931	\$ 393,212	\$ 6,009	\$ 409,152

There were no significant transfers between Level 1 and 2 during the period ended October 31, 2014.

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Fund during the period ended October 31, 2014:

Category and Subcategory	Beginning Balance at 07/31/2014	Net Purchases	Net Sales	Accrued Discounts (Premiums)	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Net Change in Transfers into Level 3	Transfers out of Level 3	Ending Balance at 10/31/2014	Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at 10/31/2014 <sup>(1)</sup>
<b>Investments in Securities, at Value</b>										
Corporate Bonds & Notes										
Banking & Finance	\$ 2,533	\$ 0	\$ (12)	\$ 0	\$ 0	\$ 270	\$ 0	\$ 0	\$ 2,791	\$ 0
Industrials	2,167	0	(157)	(7)	23	(75)	0	0	1,951	(12)
Utilities	1,269	0	0	0	0	(2)	0	0	1,267	(2)
Mortgage-Backed Securities	19,941	(20,173)	0	0	0	232	0	0	0	0
<b>Totals</b>	<b>\$ 25,910</b>	<b>\$ (20,173)</b>	<b>\$ (169)</b>	<b>\$ (7)</b>	<b>\$ 23</b>	<b>\$ 425</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 6,009</b>	<b>\$ (14)</b>

The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category and Subcategory	Ending Balance at 10/31/2014	Valuation Technique	Input Value(s) Unless Noted Otherwise
<b>Investments in Securities, at Value</b>			
Corporate Bonds & Notes			
Banking & Finance	\$ 2,791	Benchmark Pricing	Base Price 115.40
Industrials	1,951	Third Party Vendor	Broker Quote 110.50 - 111.75
Utilities	1,267	Third Party Vendor	Broker Quote 111.36
<b>Total</b>	<b>\$ 6,009</b>		

<sup>(1)</sup> Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at October 31, 2014 may be due to an investment no longer held or categorized as level 3 at period end.

See Accompanying Notes

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## Notes to Financial Statements

### 1. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

**(a) Investment Valuation Policies** The Net Asset Value ( NAV ) of the Fund's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the NYSE Close ) on each day that the New York Stock Exchange ( NYSE ) is open (each a Business Day ). Information that becomes known to the Fund or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

For purposes of calculating the NAV, portfolio securities and other financial derivative instruments are valued on each Business Day using valuation methods as adopted by the Board of Trustees (the Board ) of the Trust. The Board has formed a Valuation Committee whose function is to monitor the valuation of portfolio securities and other financial derivative instruments and, as required by the Trust's valuation policies, determine in good faith the fair value of portfolio holdings after consideration of all relevant factors, including recommendations provided by the Adviser. The Board has delegated responsibility for applying the valuation methods to the investment adviser (the Adviser ). The Adviser monitors the continual appropriateness of methods applied and determines if adjustments should be made in light of market factor changes and events affecting issuers.

Where market quotes are readily available, fair market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services. Where market quotes are not readily available, portfolio securities and other financial derivative instruments are valued at fair value, as determined in good faith by the Board, its Valuation Committee, or the Adviser pursuant to instructions from the Board or its Valuation Committee. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, or broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Fund's securities or financial derivative instruments. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Adviser, PIMCO, the responsibility for monitoring significant events that may materially affect the values of the Fund's securities or financial derivative instruments and for determining whether the value of the applicable securities or financial derivative instruments should be re-evaluated in light of such significant events.

The Board has adopted methods for valuing securities and other financial derivative instruments that may require fair valuation under particular circumstances. The Adviser monitors the continual appropriateness of fair valuation methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Adviser determines that a fair valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will take any appropriate action in accordance with procedures set forth by the Board. The Board reviews the appropriateness of the valuation methods from time to time and these methods may be amended or supplemented from time to time by the Valuation Committee.

In circumstances in which daily market quotes are not readily available, investments may be valued pursuant to guidelines established by the Board. In the event that the security or asset cannot be valued pursuant to the established guidelines, the value of the security or other financial derivative instrument will be determined in good faith by the Valuation Committee of the Board, generally based upon recommendations provided by PIMCO. These methods may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of the Fund's NAV that fairly reflects security values as of the time of pricing, the Trust cannot guarantee that values determined by the Board or persons acting at their direction would accurately reflect the price that the Fund could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced

or distressed sale). The prices used by the Fund may differ from the value that would be realized if the securities were sold.

**(b) Fair Value Hierarchy** U.S. GAAP describes fair market value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, and 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

Level 1 Inputs using (unadjusted) quoted prices in active markets or exchanges for identical assets and liabilities.

Level 2 Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.

Level 3 Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers in and out of Level 3, if any, are disclosed in the Notes to Schedule of Investments for each respective Fund.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to total realized and unrealized gains or losses, purchases and sales, and transfers in or out of the Level 3 category during the period. The end of period timing recognition is used for the transfers between Levels of the Fund's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets or liabilities categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, and if material, a Level 3 reconciliation and details of significant unobservable inputs, have been included in the Notes to Schedule of Investments for each respective Fund.

### **(c) Valuation Techniques and the Fair Value Hierarchy**

**Level 1 and Level 2 trading assets and trading liabilities, at fair market value** The valuation methods (or techniques) and significant inputs used in determining the fair market values of portfolio securities or financial derivative instruments categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued by pricing service providers that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The service providers' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by pricing service providers that use broker-dealer quotations or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, exchange-traded funds, exchange-traded notes and financial derivative instruments, such as futures contracts or options on futures that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing service providers. As a result, the NAV of the Fund's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed and the NAV may change on days when an investor is not able to purchase, redeem or exchange shares. Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using pricing service providers that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Short-term investments having a maturity of 60 days or less and repurchase agreements are generally valued at amortized cost which approximates fair market value. These investments are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as foreign currency contracts, options contracts, or swap agreements, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. These contracts are normally valued by independent pricing service providers. Depending on the product and the terms of the transaction, financial derivative instruments can be valued by a pricing service provider using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps listed or traded on a multilateral or trade facility platform, such as a registered exchange, are valued at the daily settlement price determined by the respective exchange. For centrally cleared credit default swaps the clearing facility requires its members to provide actionable price levels across complete term structures. These levels along with external third-party prices are used to produce daily settlement prices. These securities are categorized as Level 2 of the fair value hierarchy. Centrally cleared interest rate swaps are valued using a pricing model that references the underlying rates including the overnight index swap rate and London Interbank Offered Rate (LIBOR) forward rate to produce the daily settlement price. These securities are categorized as Level 2 of the fair value hierarchy.

**Level 3 trading assets and trading liabilities, at fair value** When a fair valuation method is applied by PIMCO that uses significant unobservable inputs, securities will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy. The valuation techniques and significant inputs used in determining the fair values of portfolio assets and liabilities categorized as Level 3 of the fair value hierarchy are as follows:

Benchmark pricing procedures set the base price of a fixed income security and subsequently adjust the price proportionally to market value changes of a pre-determined security deemed to be comparable in duration, generally a U.S. Treasury or sovereign note based on country of issuance. The base price may be a broker-dealer quote, transaction price, or an internal value as derived by analysis of market data. The base price of the security may be

reset on a periodic basis based on the availability of market data and procedures approved by the Valuation Committee. Significant changes in the unobservable inputs of the benchmark pricing process (the base price) would result in direct and proportional changes in the fair value of the security. These securities are categorized as Level 3 of the fair value hierarchy. The validity of the fair value is reviewed by PIMCO on a periodic basis and may be amended as the availability of market data indicates a material change.

If third-party evaluated vendor pricing is not available or not deemed to be indicative of fair value, the investment advisor may elect to obtain indicative market quotations ( broker quotes ) directly from the broker-dealer or passed through from a third-party vendor. In the event that fair value is based upon a single sourced broker quote, these securities are categorized as Level 3 of the fair value hierarchy. Broker quotes are typically received from established market participants. Although independently received, the investment advisor does not have the transparency to view the underlying inputs which support the market quotation. Significant changes in the broker quote would have direct and proportional changes in the fair value of the security.

## 2. FEDERAL INCOME TAX MATTERS

The Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the Code ) and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

In accordance with U.S. GAAP, the Adviser has reviewed the Fund's tax positions for all open tax years. As of October 31, 2014, the Fund has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Fund files U.S. tax returns. While the statute of limitations remains open to examine the Fund's U.S. tax returns filed for the fiscal years ending in 2011-2013, no examinations are in progress or anticipated at this time. The Fund is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

As of October 31, 2014, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

<b>Federal Tax Cost</b>	<b>Aggregate Gross Unrealized Appreciation</b>	<b>Aggregate Gross Unrealized (Depreciation)</b>	<b>Net Unrealized Appreciation/ (Depreciation) (1)</b>
\$ 390,087	\$ 20,938	\$ (3,309)	\$ 17,629

(1) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) are typically attributable to wash sale loss deferrals, straddle loss deferrals, swap contracts, sale-buyback transactions, and accelerated recognition of unrealized gain on certain futures and forward contracts for federal income tax purposes.



**Glossary: (abbreviations that may be used in the preceding statements)**

(Unaudited)

## Counterparty Abbreviations:

BOA	Bank of America N.A.	FBF	Credit Suisse International	RDR	RBC Dain Rausher, Inc.
BOS	Banc of America Securities LLC	GLM	Goldman Sachs Bank USA	SAL	Citigroup Global Markets, Inc.
BPS	BNP Paribas S.A.	HUS	HSBC Bank USA N.A.	SSB	State Street Bank and Trust Co.
BRC	Barclays Bank PLC	JPM	JPMorgan Chase Bank N.A.	UAG	UBS AG Stamford
CBK	Citibank N.A.	MSB	Morgan Stanley Bank, N.A.	UBS	UBS Securities LLC
DUB	Deutsche Bank AG	NAB	National Australia Bank Ltd.		

## Currency Abbreviations:

BRL	Brazilian Real	GBP	British Pound	USD (or \$)	United States Dollar
EUR	Euro				

## Other Abbreviations:

ALT	Alternate Loan Trust	CDI	Brazil Interbank Deposit Rate	PIK	Payment-in-Kind
BABs	Build America Bonds	LIBOR	London Interbank Offered Rate	TBD%	Interest rate to be determined when loan settles

**Item 2. Controls and Procedures**

(a) The registrant's President, Principal Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a-3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits**

A separate certification for each principal executive officer and principal financial & accounting officer of the registrant as required by Rule 30a-2 under the 1940 Act is attached as Exhibit 99.CERT.

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PIMCO Income Strategy Fund

By: /s/ Peter G. Strelow  
Peter G. Strelow

President, Principal Executive Officer

Date: December 29, 2014

By: /s/ William G. Galipeau  
William G. Galipeau, Treasurer,

Principal Financial & Accounting Officer

Date: December 29, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Peter G. Strelow  
Peter G. Strelow,

President, Principal Executive Officer

Date: December 29, 2014

By: /s/ William G. Galipeau  
William G. Galipeau, Treasurer,

Principal Financial & Accounting Officer

Date: December 29, 2014