

PIMCO Income Strategy Fund II
Form N-CSR
October 03, 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: July 31, 2013

Item 1. Report to Shareholders

Table of Contents

2-3	Letter from Chairman of the Board & President
4-5	Fund Insights
6-7	Performance & Statistics
8-31	Schedules of Investments
32	Statements of Assets and Liabilities
33	Statements of Operations
34-35	Statements of Changes in Net Assets
36-56	Notes to Financial Statements
57-58	Financial Highlights
59	Report of Independent Registered Public Accounting Firm
60-61	Tax Information/Joint Annual Shareholder Meeting Results/Changes to Board of Trustees
62-66	Matters Relating to the Trustees Consideration of the Investment Management & Portfolio Management Agreements
67-68	Privacy Policy/Proxy Voting Policies & Procedures
69-70	Dividend Reinvestment Plan
71-72	Board of Trustees
73	Fund Officers

Letter from Chairman of the Board & President

Dear Shareholder:

The US economy continued to expand during the fiscal twelve-month reporting period ended July 31, 2013. Bond yields rose sharply, while the Federal Reserve's (the Fed's) monetary policy drove stocks to reach record highs on several occasions.

Twelve-Month Period in Review through July 31, 2013

- PIMCO Income Strategy Fund returned 15.65% on net asset value (NAV) and 5.69% on market price.
- PIMCO Income Strategy Fund II returned 15.26% on NAV and 6.80% on market price.

The Barclays US Credit Index, a measure of high quality corporate bond performance, declined 1.12%; the Barclays US High Yield Bond Index, a measure of below investment-grade corporate bond performance, rose 9.49%; and government bonds, as represented by the Barclays Intermediate-Term Treasury Index, fell 1.14% during the reporting period. The Barclays US Aggregate Bond Index, a broad credit market measure of government and corporate securities, decreased 1.91% and mortgage-backed securities, reflected by the Barclays Fixed Rate MBS Index, dropped 2.03%. As for stocks, the Standard & Poor's 500 Index advanced 25.00% during the twelve-month fiscal period ended July 31, 2013.

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, grew at an annual pace of 2.8% during the third quarter of 2012. GDP growth decelerated to 0.1% during the fourth quarter of 2012, as private inventory investment and federal government spending moderated. However, GDP growth rose to 1.1% during the first quarter of 2013, partially due to stronger consumer spending. According to an initial estimate from the US Commerce Department, GDP growth improved to a 1.7% annual pace during the second quarter of 2013.

Although US economic data was mixed, there were continuing signs of the long-awaited recovery in the housing market. Unemployment remained elevated, however, the unemployment rate declined from 8.2% in July 2012 to 7.4% in July 2013, as new job growth trended higher. Elsewhere, despite concerns related to higher tax rates, the fiscal cliff and sequestration, consumer spending held up relatively well during the twelve-month period.

Outlook

Market volatility increased sharply during the end of the fiscal reporting period. This was not triggered by economic concerns, but rather uncertainties surrounding the Fed tapering its asset purchases. We expect the Fed's policy stance to remain accommodative, even if it begins to taper its purchase program toward the end of the year. Tapering of the Fed's purchase program is likely to create higher volatility, however we believe the Fed will only raise interest rates if it is confident the economic recovery is on solid footing.

Receive this report electronically and eliminate paper mailings.

To enroll, visit:
us.allianzgi.com/edelivery.

With respect to the US economy, consumer spending will be an important factor going forward as it comprises in excess of two-thirds of GDP. The US Commerce Department reported that retail sales rose for the fourth consecutive month in July 2013. In addition, there were signs that consumers have their balance sheets in order. While the global financial crisis of 2008-2009 has had a significant impact on consumers' mindset, it appears that as the employment situation improves, consumer confidence will likely rise, with spending to follow. This could help drive the economy during the remainder of the year and into 2014.

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, 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 of the Board of Trustees

Brian S. Shlissel
President & Chief Executive Officer

Fund Insights

PIMCO Income Strategy Fund/PIMCO Income Strategy Fund II

July 31, 2013 (unaudited)

For the twelve-months ended July 31, 2013, PIMCO Income Strategy Fund returned 15.65% on net asset value (NAV) and 5.69% on market price.

For the twelve-months ended July 31, 2013, PIMCO Income Strategy Fund II returned 15.26% on NAV and 6.80% on market price.

The unmanaged Barclays US Aggregate Bond Index and Barclays US Credit Index declined 1.91% and 1.12% respectively, during the reporting period. US fixed income market s experienced periods of volatility during the period. This was triggered by a number of factors, including moderating global growth, uncertainties regarding sequestration and the ongoing European sovereign debt crisis. The Federal Reserve (the Fed) and other developed country central banks maintained their accommodative monetary policies during the reporting period. However, following its meeting on June 19, 2013, Fed Chairman Bernanke said "...the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year; and if the subsequent data remain broadly aligned with our current expectations for the economy, we would continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear. This triggered a sharp rise in Treasury yields and falling bond prices. The benchmark 10-year Treasury bond began the fiscal period yielding 1.51% and ended the period at 2.60%.

While the fundamentals in the US credit market remained solid overall, it was dragged down by periods of investor risk aversion and rising interest rates. The corporate bond market was supported at times by company profits that often exceeded expectations, corporate balance sheets which were often flush with cash and low defaults. However, these positive developments were more than offset as the corporate bond market sold off toward the end of 2012 as well as in January, May and June 2013.

Sector exposures produce mixed result to the Funds performance

During the reporting period, PIMCO Income Strategy and PIMCO Income Strategy II (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).

An allocation to non-agency mortgage-backed securities was a significant contributor for performance, as these bonds generally outperformed the broader market, supported by overall strong demand. An emphasis on select high quality banking issues aided performance, as bonds also outperformed the broader market. In addition, the Funds overweighting to the Insurance sector was additive to performance as this sector outperformed the broad credit market. An allocation to Build America Bonds was rewarded, as these subsidized taxable municipal securities generally outperformed the broader market.

On the downside, the Funds' long US duration position in the second quarter of 2013 detracted from performance as rates increased sharply during this time period. Long duration positioning in the UK during 2013 was negative, as rates increased. A tactical allocation to the Brazilian real in the second quarter of 2013 was negative, as the currency weakened against the US dollar. Finally, a tactical allocation to emerging market debt in 2013 was negative, as the asset class underperformed the broader credit market.

Performance & Statistics

PIMCO Income Strategy Fund

July 31, 2013 (unaudited)

Total Return(1):		Market Price	NAV	
1 Year		5.69%	15.65%	
5 Year		9.93%	9.19%	
Commencement of Operations (8/29/03) to 7/31/13		5.47%	6.01%	

Market Price/NAV Performance:

Commencement of Operations (8/29/03) to 7/31/13

Market Price/NAV:

Market Price	\$11.83
NAV	\$11.70
Premium to NAV	1.11%
Market Price Yield(2)	9.13%
Leverage Ratio(3)	21.17%

NAV
Market Price

Performance & Statistics

PIMCO Income Strategy Fund II

July 31, 2013 (unaudited)

Total Return(1):		Market Price	NAV
1 Year		6.80%	15.26%
5 Year		8.45%	6.60%
Commencement of Operations (10/29/04) to 7/31/13		3.48%	4.14%

Market Price/NAV Performance:

Commencement of Operations (10/29/04) to 7/31/13

NAV
Market Price

Market Price/NAV:

Market Price \$10.24
 NAV \$10.29
 Discount to NAV -0.49%
 Market Price Yield(2) 9.38%
 Leverage Ratio(3) 21.00%

(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 the 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

Edgar Filing: PIMCO Income Strategy Fund II - Form N-CSR

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, 2013.

(3) Represents Preferred Shares (Leverage) outstanding, as a percentage of total managed assets. Total managed assets refer to the total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

Annual Report | July 31, 2013 7

Edgar Filing: PIMCO Income Strategy Fund II - Form N-CSR

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2013

Principal
Amount
(000s)

Value

Corporate Bonds & Notes 30.4%

Airlines 2.6%

	American Airlines Pass-Through Trust (d),	
\$3,614	9.73%, 9/29/14	\$5,060,022
1,861	10.18%, 1/2/13	3,750,508
877	United Air Lines Pass-Through Trust, 10.40%, 5/1/18	997,060
		9,807,590

Banking 17.1%

	Ally Financial, Inc.,	
527	6.00%, 2/15/19-9/15/19	517,344
538	6.05%, 8/15/19-10/15/19	525,936
20	6.10%, 9/15/19	20,003
31	6.125%, 10/15/19	30,266
1,345	6.15%, 8/15/19-10/15/19	1,346,394
22	6.20%, 4/15/19	22,033
1,371	6.25%, 2/15/16	1,373,078
120	6.30%, 8/15/19	120,156
1,468	6.35%, 2/15/16-4/15/19	1,467,044
629	6.40%, 3/15/16-11/15/19	621,440
2,021	6.50%, 2/15/16-5/15/19	2,019,704
383	6.55%, 12/15/19	380,559
24	6.60%, 5/15/18-6/15/19	23,989
71	6.65%, 6/15/18-10/15/18	70,598
197	6.70%, 6/15/18-6/15/19	193,907
1,335	6.75%, 12/1/14-6/15/19	1,402,685
208	6.80%, 9/15/16-10/15/18	205,952
968	6.85%, 4/15/16-5/15/18	970,396
341	6.875%, 8/15/16-7/15/18	341,493
182	6.90%, 6/15/17-8/15/18	182,051
151	6.95%, 6/15/17	151,056
591	7.00%, 12/15/16-9/15/18	591,617
81	7.05%, 3/15/18-4/15/18	80,905
160	7.125%, 10/15/17	160,247
40	7.15%, 3/15/25	39,833
75	7.20%, 10/15/17	75,117
929	7.25%, 6/15/16-9/15/18	922,975
25	7.30%, 1/15/18	25,039
396	7.35%, 4/15/18	396,154
57	7.50%, 6/15/16	56,726
45	7.55%, 5/15/16	45,254
47	7.75%, 10/15/17	47,081
110	8.125%, 11/15/17	110,200
£7,500	Barclays Bank PLC, 14.00%, 6/15/19 (f)	15,315,720
\$1,000	BBVA U.S. Senior s.A.u., 4.664%, 10/9/15	1,032,697

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2013 (continued)

Principal Amount (000s)		Value
Banking (continued)		
\$9,000	CIT Group, Inc. (a) (c), 4.75%, 2/15/15	\$9,315,000
300	5.25%, 4/1/14	306,750
200	LBG Capital No. 1 PLC, 7.375%, 3/12/20	271,484
£300	7.588%, 5/12/20	476,570
4,800	7.867%, 12/17/19	7,648,847
2,400	7.869%, 8/25/20	3,849,980
\$2,000	8.50%, 12/17/21 (a) (c) (f)	2,041,870
£900	11.04%, 3/19/20	1,604,753
534	LBG Capital No. 2 PLC, 9.125%, 7/15/20	883,006
2,500	11.25%, 9/14/23	4,365,989
2,000	Santander Issuances S.A. Unipersonal, 7.30%, 7/27/19 (converts to FRN on 9/27/14)	3,141,163
		64,791,061
Diversified Financial Services 5.7%		
\$7,000	ILFC E-Capital Trust I, 4.96%, 12/21/65 (a) (c) (j)	6,020,000
200	SLM Corp., 5.05%, 11/14/14	207,000
6,200	8.00%, 3/25/20	6,936,250
8,200	Springleaf Finance Corp., 6.50%, 9/15/17	8,241,000
		21,404,250
Electric Utilities 0.3%		
1,100	Dynergy Roseton LLC / Dynergy Danskammer LLC Pass-Through Trust, 7.67%, 11/8/16, Ser. B (b) (d) (e)	27,382
1,100	Energy Future Intermediate Holding Co. LLC, 10.00%, 12/1/20 (a) (c)	1,193,500
		1,220,882
Insurance 4.2%		
2,000	AIG Life Holdings, Inc., 8.125%, 3/15/46 (a) (b) (c) (h) (acquisition cost-\$1,753,150; purchased 7/12/10)	2,462,500
4,700	American International Group, Inc. (a) (b) (c) (h), 8.00%, 5/22/68 (converts to FRN on 5/22/18)	7,246,033
£3,500	(acquisition cost-\$6,097,976; purchased 4/4/11-2/8/12) 8.625%, 5/22/68 (converts to FRN on 5/22/18)	6,258,804
	(acquisition cost-\$5,656,211; purchased 4/19/12-5/7/12)	15,967,337
Miscellaneous Manufacturing 0.5%		
\$1,900	Bombardier, Inc., 4.25%, 1/15/16 (a) (c)	1,980,750
Total Corporate Bonds & Notes (cost-\$101,225,324)		115,171,870
Mortgage-Backed Securities 21.7%		
120	Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	93,289
4,353	Banc of America Funding Trust, CMO, 6.00%, 8/25/36	4,216,886
2,454	6.00%, 3/25/37	2,164,843

Edgar Filing: PIMCO Income Strategy Fund II - Form N-CSR

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2013 (continued)

Principal Amount (000s)		Value
	BCAP LLC Trust, CMO (a) (c) (j),	
\$1,200	5.437%, 3/26/37	\$337,696
377	14.208%, 6/26/36	92,349
	Bear Stearns ALT-A Trust, CMO (j),	
866	2.751%, 9/25/35	667,007
355	2.888%, 11/25/36	234,403
	Chase Mortgage Finance Trust, CMO,	
11	2.875%, 12/25/35 (j)	10,051
1,190	6.00%, 2/25/37	1,059,835
807	6.00%, 7/25/37	720,942
2,105	6.25%, 10/25/36	1,900,108
222	Citicorp Mortgage Securities Trust, 5.50%, 4/25/37, CMO	222,320
	Countrywide Alternative Loan Trust, CMO,	
362	5.50%, 3/25/35	323,919
164	5.50%, 3/25/36	125,122
1,773	5.703%, 4/25/36 (j)	1,250,411
451	5.75%, 1/25/35	428,567
437	6.00%, 2/25/35	437,796
2,784	6.00%, 5/25/36	2,133,859
1,299	6.00%, 4/25/37	1,020,443
1,084	6.00%, 8/25/37	715,304
873	6.25%, 11/25/36	736,624
1,808	6.25%, 12/25/36 (j)	1,444,672
501	6.50%, 8/25/36	364,225
	Countrywide Home Loan Mortgage Pass-Through Trust, CMO,	
86	2.734%, 2/20/35 (j)	81,117
604	5.50%, 10/25/35	587,103
798	5.75%, 3/25/37	702,641
530	6.00%, 5/25/36	495,152
654	6.00%, 2/25/37	603,545
159	6.00%, 4/25/37	143,639
922	6.25%, 9/25/36	774,987
	Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust,	
	CMO,	
467	6.00%, 2/25/37	414,946
1,367	6.75%, 8/25/36	1,019,919
	GSR Mortgage Loan Trust, CMO,	
195	5.50%, 5/25/36	177,781
5,764	6.00%, 2/25/36	5,300,702
63	Harborview Mortgage Loan Trust, 2.758%, 7/19/35, CMO (j)	53,455
2,202	IndyMac IMSC Mortgage Loan Trust, 6.50%, 7/25/37, CMO	1,301,554
	JPMorgan Alternative Loan Trust, CMO,	
2,174	2.803%, 3/25/36 (j)	1,633,402
1,863	5.475%, 3/25/37 (j)	1,340,158
1,200	6.31%, 8/25/36	882,597
	JPMorgan Mortgage Trust, CMO,	
671	2.814%, 2/25/36 (j)	566,580

Edgar Filing: PIMCO Income Strategy Fund II - Form N-CSR

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2013 (continued)

Principal Amount (000s)		Value
\$647	4.533%, 1/25/37 (j)	\$535,983
1,094	5.00%, 3/25/37	970,188
108	5.75%, 1/25/36	98,759
325	6.00%, 8/25/37	285,342
1,687	Merrill Lynch Mortgage Investors Trust, 3.008%, 3/25/36, CMO (j)	1,147,958
4,208	New Century Alternative Mortgage Loan Trust, 6.173%, 7/25/36, CMO (j)	2,914,742
3,966	Residential Accredit Loans, Inc., CMO, 5.75%, 1/25/34	4,255,658
538	6.00%, 6/25/36	418,221
1,143	Residential Asset Securitization Trust, CMO, 5.75%, 2/25/36	937,611
457	6.00%, 9/25/36	288,307
787	6.00%, 3/25/37	585,931
1,885	6.00%, 5/25/37	1,722,068
1,186	6.00%, 7/25/37	934,703
1,948	6.25%, 9/25/37	1,376,980
2,089	Residential Funding Mortgage Securities I, CMO, 3.777%, 8/25/36 (j)	1,720,711
321	6.00%, 9/25/36	289,172
804	6.00%, 1/25/37	709,344
4,115	6.00%, 6/25/37	3,634,779
2,677	Structured Adjustable Rate Mortgage Loan Trust, CMO (j), 5.104%, 5/25/36	2,225,854
1,568	5.143%, 1/25/36	1,222,742
888	5.432%, 7/25/36	794,623
1,927	5.447%, 11/25/36	1,502,132
2,400	Suntrust Adjustable Rate Mortgage Loan Trust, CMO (j), 5.413%, 4/25/37	1,951,168
378	5.807%, 2/25/37	310,653
7,522	WaMu Commercial Mortgage Securities Trust, 5.799%, 3/23/45, CMO (a) (b) (c) (h) (j) (acquisition cost-\$7,789,528; purchased 6/18/13)	7,766,023
251	WaMu Mortgage Pass-Through Certificates, CMO (j), 2.651%, 9/25/36	204,611
818	4.949%, 2/25/37	743,980
1,106	6.083%, 10/25/36	908,798
942	Washington Mutual MSC Mortgage Pass-Through Certificates Trust, 6.50%, 8/25/34, CMO	978,795
1,497	Wells Fargo Mortgage-Backed Securities Trust, CMO, 2.611%, 7/25/36 (j)	1,388,854
427	2.692%, 7/25/36 (j)	378,501
215	2.71%, 4/25/36 (j)	195,515
871	2.83%, 8/25/36 (j)	805,756
554	5.75%, 3/25/37	503,945
335	6.00%, 6/25/37	322,270
489	6.00%, 7/25/37	471,001
Total Mortgage-Backed Securities (cost-\$77,127,994)		82,281,627

Edgar Filing: PIMCO Income Strategy Fund II - Form N-CSR

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2013 (continued)

Principal Amount (000s)	Value
Sovereign Debt Obligations 16.0%	
Brazil 15.8%	
BRL18,000	Brazil Notas do Tesouro Nacional, Ser. F, 10.00%, 1/1/17 \$7,766,138
96,000	10.00%, 1/1/21 40,461,441
28,000	10.00%, 1/1/23 11,702,489
	59,930,068
Spain 0.2%	
400	Autonomous Community of Catalonia, 3.875%, 9/15/15 529,958
Total Sovereign Debt Obligations (cost-\$64,475,875)	60,460,026
U.S. Government Agency Securities (b) 1.9%	
\$5,050	Fannie Mae, IO, 3.50%, 1/25/43-2/25/43, CMO, 1,027,787
4,137	6.06%, 8/25/41, CMO, (j) 948,989
1,775	6.41%, 4/25/41, CMO, (j) 411,642
26,300	6.478%, 1/25/18 (e) (j) 3,728,708
3,892	Ginnie Mae, CMO, IO, 3.50%, 1/20/42-3/20/43 625,754
1,887	4.00%, 3/20/42 345,599
Total U.S. Government Agency Securities (cost-\$6,937,074)	7,088,479
Asset-Backed Securities 1.8%	
1,030	Asset-Backed Funding Certificates, 0.41%, 5/25/37 (a) (c) (j) 910,235
286	Bear Stearns Asset-Backed Securities Trust, 6.50%, 10/25/36 236,432
3,500	Countrywide Asset-Backed Certificates, 0.75%, 12/25/35 (j) 3,130,335
987	GSAA Home Equity Trust, 6.295%, 6/25/36 548,891
491	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35 492,107
236	Mid-State Trust IV, 8.33%, 4/1/30 249,343
797	Mid-State Trust VII, 6.34%, 10/15/36 841,706
615	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47 (j) 465,308
Total Asset-Backed Securities (cost-\$6,534,134)	6,874,357
Shares	
Preferred Stock 1.4%	
Banking 1.4%	
207,100	GMAC Capital Trust I, 8.125%, 2/15/40, Ser. 2 (i) (cost-\$5,267,507) 5,498,505
Principal Amount (000s)	
Municipal Bonds 1.3%	
California 1.3%	
\$900	948,978

Edgar Filing: PIMCO Income Strategy Fund II - Form N-CSR

Long Beach Redev. Agcy., Tax Allocation, 8.36%,
8/1/40

12 July 31, 2013 | Annual Report

Schedule of Investments**PIMCO Income Strategy Fund**

July 31, 2013 (continued)

Principal Amount (000s)		Value
California (continued)		
\$600	Riverside Cnty. Economic Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	\$604,524
3,600	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	3,278,484
Total Municipal Bonds (cost-\$5,192,196)		4,831,986
Short-Term Investments 25.5%		
Repurchase Agreements 19.5%		
12,500	Banc of America Securities LLC, dated 7/31/13, 0.09%, due 8/1/13, proceeds \$12,500,031; collateralized by U.S. Treasury Notes, 0.25%, due 7/31/15, valued at \$12,755,534 including accrued interest	12,500,000
12,300	Barclays Capital, Inc., dated 7/31/13, 0.09%, due 8/1/13, proceeds \$12,300,031; collateralized by U.S. Treasury Inflation Indexed Bonds, 2.375%, due 1/15/25, valued at \$12,716,184 including accrued interest	12,300,000
5,500	Citigroup Global Markets, Inc., dated 7/31/13, 0.11%, due 8/1/13, proceeds \$5,500,017; collateralized by Freddie Mac, 1.62%, due 11/21/19, valued at \$5,639,901 including accrued interest	5,500,000
43,700	JPMorgan Securities, Inc., dated 7/31/13, 0.10%, due 8/1/13, proceeds \$43,700,121; collateralized by U.S. Treasury Notes, 4.25%, due 8/15/13, valued at \$44,627,635 including accrued interest	43,700,000
Total Repurchase Agreements (cost-\$74,000,000)		74,000,000
U.S. Treasury Obligations (g) (k) 6.0%		
22,641	U.S. Treasury Bills, 0.01%-0.035%, 8/1/13-8/29/13 (cost-\$22,640,831)	22,640,831
Total Short-Term Investments (cost-\$96,640,831)		96,640,831
Total Investments (cost-\$363,400,935) 100.0%		\$378,847,681

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 \$45,931,510, representing 12.1% 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.

Edgar Filing: PIMCO Income Strategy Fund II - Form N-CSR

- (d) In default.
- (e) Fair-Valued Securities with an aggregate value of \$3,756,090, representing 1.0% 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.

Schedule of Investments

PIMCO Income Strategy Fund

July 31, 2013 (continued)

(h) Restricted. The aggregate acquisition cost of such securities is \$21,296,865. The aggregate value is \$23,733,360, representing 6.3% of total investments.

(i) Dividend rate is fixed until the first call date and variable thereafter.

(j) 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, 2013.

(k) Rates reflect the effective yields at purchase date.

(l) Credit default swap agreements outstanding at July 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	0.74%	9/20/13	3.00%	\$10,035		\$10,035

(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 July 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.

(m) Interest rate swap agreements outstanding at July 31, 2013:

OTC swap agreements:

Rate Type

Edgar Filing: PIMCO Income Strategy Fund II - Form N-CSR

Swap	Notional Amount	Termination	Payments	Payments	Upfront Premiums	Unrealized
------	--------------------	-------------	----------	----------	---------------------	------------