

PIMCO Income Strategy Fund II
Form N-CSRS
March 29, 2012

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, 2012
end:

Date of reporting period: January 31, 2012

Item 1: Report to Shareholders

January 31, 2012

Contents

Letter to Shareholders	2-3
Fund Insights	4-5
Performance & Statistics	6-7
Schedules of Investments	8-23
Statements of Assets and Liabilities	24
Statements of Operations	25
Statements of Changes in Net Assets	26-27
Statements of Cash Flows	28
Notes to Financial Statements	29-48
Financial Highlights	49-50
A Note Regarding Matters Relating to the Trustees Consideration of the Investment Management & Portfolio Management Agreements/Changes to Board of Trustees/ Proxy Voting Policies & Procedures	51

Dear Shareholder:

The U.S. economy gained momentum during the six-month fiscal period ended January 31, 2012. Expansion was reflected by growth in key sectors such as manufacturing and construction, and by companies that increased capital expenditures and hiring. This in turn boosted consumer confidence and helped push unemployment to its lowest level in three years. Growth was held back by political dysfunction in Washington and a spate of geopolitical worries, which at times sparked extraordinary market volatility.

Six-Month Period in Review through January 31, 2012

For the six-month period ended January 31, 2012:

- PIMCO Income Strategy Fund returned -3.04 % on net asset value (NAV) and -4.70 % on market price.
- PIMCO Income Strategy Fund II returned -2.19% on NAV and 0.92 % on market price.

The Barclays Capital U.S. Credit Index, a measure of high quality corporate bond performance, advanced 4.45% and the Barclays Capital U.S. High Yield Bond Index, a measure of below investment-grade corporate bond performance, rose 1.86% during the reporting period. Government bonds, as represented by the Barclays Capital Long Term Treasury Index, returned 21.68%. The Barclays Capital U.S. Aggregate Bond Index, a broad credit market measure of government and corporate securities, rose 4.25%, and mortgage-backed securities, reflected by the Barclays Capital Mortgage Index, advanced 2.77%. As for stocks, the Standard & Poor's 500 Index increased 2.71% during the six-month period.

U.S. gross domestic product (GDP), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, expanded at an annual rate of 1.8% between July and September 2011 and at a 2.8% annual rate (preliminary estimate) between October and December 2011. This was a marked improvement from the preceding two quarters, in which annualized growth was 0.4% and 1.3%, respectively. The latest Beige Book report from the Federal Reserve (the Fed), released in January 2012, indicated economic expansion in all but one of twelve banking districts across the country. The central bank described auto manufacturing as vibrant, and signified consumer spending was growing more robust. The labor market also

PIMCO Income Strategy Fund

2 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

improved, as the U.S. unemployment rate dropped from 9.1% to 8.3% during the six-month reporting period. The government indicated that private sector job creation during 2011 was the best since 2005.

As the economy expanded, U.S. companies continued to post strong results. The Commerce Department reported that profits were approximately \$1.97 trillion (seasonally adjusted at annualized rates) between July and September 2011. Corporate strength was reflected in Fed data signifying non-financial companies holding in excess of \$2 trillion in cash and other liquid assets at the end of June 2011. Relative to total corporate assets, this was the highest level since 1963.

The Road Ahead

Despite the improving U.S. economy, actions taken by the Fed during the six-month period indicate caution. The Fed extended its policy of maintaining low interest rates at least through late 2014 and began another effort to stimulate the economy by swapping \$400 billion in short-term Treasury securities in exchange for a similar amount of longer-term bonds. The lower long-term yields, the Fed intimated, could help breathe life into the housing market. Concerned with Europe's deepening sovereign debt crisis, the Fed warned of significant downside risks to the economic outlook, including strains in global financial markets.

Receive this report electronically and eliminate paper mailings. To enroll, go to www.allianzinvestors.com/edelivery.

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

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, 2012 (unaudited)

For the six months ended January 31, 2012, PIMCO Income Strategy Fund returned -3.04% on net asset value (NAV) and -4.70% on market price.

For the six months ended January 31, 2012, PIMCO Income Strategy Fund II returned -2.19% on NAV and 0.92% on market price.

The unmanaged Barclays Capital U.S. Aggregate Bond Index and Barclays Capital U.S. Credit Index returned 4.25% and 4.45%, respectively, during the six month reporting period ended January 31, 2012.

The overall U.S. fixed income market, as measured by the Barclays Capital U.S. Aggregate Bond Index, generated a 4.25% return during the reporting period. However, there were periods of heightened volatility due to shifting expectations for the economy and periodic flights to quality. During the first two months of the period, most spread sectors (non-U.S. Treasuries) underperformed equal-duration Treasuries. Investor risk aversion was elevated during that time given Standard & Poor's downgrade of U.S. government securities, concerns of moderating global economic growth and an escalation of the European sovereign debt crisis. However, during the last four months of the reporting period, investor risk aversion was generally replaced with risk appetite. Triggering this shift in investor sentiment were signs that the U.S. economy was gaining some momentum and hopes for progress in the European sovereign debt crisis. During the six months ended January 31, 2012, both short- and long-term Treasury yields declined and the yield curve flattened. In this environment, spread sectors produced mixed results versus equal-duration Treasuries.

Despite a setback when investor risk aversion was elevated in August and September 2011, the U.S. corporate bond market posted a positive return during the reporting period. Supporting corporate bond prices were generally strong corporate profits, strengthening corporate balance sheets and improving demand from investors seeking to generate incremental yield in the low interest rate environment.

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4 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

Sector exposures largely detracted from the Funds' performance

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

An underweighting to retailers detracted from performance, as consumer spending increased toward the end of 2011. An overweighting to the banking sector adversely impacted performance as increased European sovereign debt concerns and uncertainties surrounding new financial regulations hindered results. Security selection within insurance companies also detracted from returns, as select life insurance companies underperformed the broader insurance sector. The Funds' underweighting to technology hindered results as this sector outperformed the overall credit market due to growth in mobile devices.

On the upside, an allocation to Build America Bonds was rewarded, as these subsidized taxable municipal securities generally outperformed the broader market. An underweighting to metals and mining also contributed to results, as slower emerging market growth caused this sector to perform poorly.

**PIMCO Income Strategy Fund
Performance & Statistics**

January 31, 2012 (unaudited)

Total Return(1):	Market Price	NAV
Six Month	-4.70%	-3.04%
1 Year	-0.06%	1.75%
5 Year	0.42%	1.16%
Commencement of Operations (8/29/03) to 1/31/12	3.77%	3.63%

Market Price/NAV Performance:

Commencement of Operations (8/29/03) to 1/31/12

Market Price
NAV

Market Price/NAV:

Market Price	\$11.13
NAV	\$10.40
Premium to NAV	7.02%
Market Price Yield(2)	8.09%

Moody's Ratings

(as a % of total investments)

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6 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

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

January 31, 2012 (unaudited)

Total Return(1):	Market Price	NAV
Six Month	0.92%	-2.19%
1 Year	3.43%	0.92%
5 Year	-1.36%	-1.57%
Commencement of Operations (10/29/04) to 1/31/12	1.27%	1.19%

Market Price/NAV Performance:

Commencement of Operations (10/29/04) to 1/31/12

Market Price
NAV

Market Price/NAV:

Market Price	\$9.93
NAV	\$9.41
Premium to NAV	5.53%
Market Price Yield(2)	7.85%

Moody's Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends, capital gain and return of capital distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of 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 the Funds, market conditions, supply and demand for each Fund's shares, or changes in the Funds' dividends.

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

(2) Market Price Yield is determined by dividing the annualized current monthly per common share dividend (comprised of net investment income) payable to common shareholders by the market price per common share at January 31, 2012.

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2012 (unaudited)

Principal Amount (000s)		Value
CORPORATE BONDS & NOTES 55.0%		
Airlines 0.2%		
\$3,774	American Airlines Pass Through Trust, 9.73%, 9/29/14 (e)	\$905,616
Banking 8.2%		
2,600	AgFirst Farm Credit Bank, 7.30%, 3/1/12 (a) (b) (d) (g) (j) (acquisition cost-\$2,225,000; purchased 2/26/10-4/15/10)	2,659,116
£7,800	Barclays Bank PLC, 14.00%, 6/15/19 (g)	14,749,495
3,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20	3,714,034
\$4,400	11.00%, 6/30/19 (a) (d) (g) (i)	5,470,987
600	HBOS PLC, 6.75%, 5/21/18 (a) (d)	528,735
800	Regions Financial Corp., 7.375%, 12/10/37	717,000
1,500	7.75%, 9/15/24	1,342,500
£2,000	Santander Issuances S.A. Unipersonal, 7.30%, 7/27/19, (converts to FRN on 9/27/14)	2,757,692
		31,939,559
Chemicals 0.2%		
\$624	Lyondell Chemical Co., 8.00%, 11/1/17	698,880
Consumer Products 0.2%		
800	Reynolds Group Issuer, Inc., 9.00%, 4/15/19 (a) (d)	800,000
Energy 0.1%		
1,100	Dynergy Roseton/Danskammer Pass Through Trust, 7.67%, 11/8/16 Ser. B (e)	638,000
Financial Services 27.1%		
304	Ally Financial, Inc., 5.90%, 1/15/19	277,871
156	5.90%, 10/15/19	137,554
55	6.00%, 2/15/19	48,908
90	6.00%, 3/15/19	80,056
8	6.00%, 4/15/19	7,103
325	6.00%, 9/15/19	288,947
95	6.05%, 8/15/19	84,699
413	6.05%, 10/15/19	367,976
31	6.125%, 10/15/19	27,752
1,208	6.15%, 8/15/19	1,085,269
1,371	6.25%, 2/15/16	1,281,664
25	6.25%, 1/15/19	23,307
120	6.30%, 8/15/19	108,813
1,168	6.35%, 2/15/16	1,095,836
285	6.35%, 4/15/16	266,748
216	6.40%, 3/15/16	202,777
360	6.40%, 11/15/19	323,790
1,357	6.50%, 2/15/16	1,280,032
20	6.50%, 9/15/16	18,728
442	6.50%, 10/15/16	413,464
170	6.50%, 12/15/18	160,901
22	6.50%, 5/15/19	20,427
358	6.55%, 12/15/19	324,797
14	6.60%, 5/15/18	12,864

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8 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
Financial Services (continued)		
\$60	6.70%, 6/15/18	\$55,908
329	6.75%, 4/15/13	327,487
3	6.75%, 8/15/16	2,900
13	6.75%, 6/15/17	12,363
89	6.75%, 5/15/19	82,595
10	6.75%, 6/15/19	9,277
205	6.80%, 9/15/16	194,291
3	6.80%, 10/15/18	2,804
938	6.85%, 4/15/16	897,501
30	6.85%, 5/15/18	27,941
336	6.875%, 8/15/16	319,675
5	6.875%, 7/15/18	4,696
140	6.90%, 6/15/17	131,182
32	6.90%, 8/15/18	30,097
151	6.95%, 6/15/17	144,724
25	7.00%, 12/15/16	23,833
27	7.00%, 6/15/17	25,414
130	7.00%, 7/15/17	122,676
367	7.00%, 2/15/18	345,635
12	7.00%, 3/15/18	11,170
155	7.00%, 8/15/18	147,077
5	7.00%, 9/15/18	4,787
42	7.05%, 3/15/18	39,221
39	7.05%, 4/15/18	36,723
160	7.125%, 10/15/17	152,344
40	7.15%, 3/15/25	36,781
75	7.20%, 10/15/17	71,981
288	7.25%, 6/15/16	279,329
293	7.25%, 9/15/17	280,282
10	7.25%, 4/15/18	9,507
10	7.25%, 8/15/18	9,575
328	7.25%, 9/15/18	314,230
25	7.30%, 1/15/18	23,638
396	7.35%, 4/15/18	378,549
57	7.50%, 6/15/16	55,929
45	7.55%, 5/15/16	44,256
47	7.75%, 10/15/17	46,086
110	8.125%, 11/15/17	107,945
110	9.00%, 7/15/20	110,379
750	Bank of America Corp., 6.00%, 9/1/17	786,898
1,400	Capital One Capital VI, 8.875%, 5/15/40	1,480,014
	CIT Group, Inc.,	
1,251	7.00%, 5/1/16	1,252,758
2,210	7.00%, 5/1/17	2,215,952
2,500	Citigroup Capital XXI, 8.30%, 12/21/77, (converts to FRN on 12/21/37)	2,550,750
	Credit Agricole S.A. (g),	
2,500	6.637%, 5/31/17 (a) (d)	1,796,875
£1,000	8.125%, 10/26/19	1,189,730

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\$15,500	Ford Motor Credit Co. LLC, 8.00%, 12/15/16 (i)	18,391,664
4,600	8.125%, 1/15/20	5,647,351
7,000	ILFC E-Capital Trust I, 4.34%, 12/21/65, FRN (a) (d) (i)	4,457,390

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
Financial Services (continued)		
	LBG Capital No.1 PLC,	
500	6.439%, 5/23/20	\$513,409
200	7.375%, 3/12/20	206,672
£300	7.588%, 5/12/20	387,647
£4,800	7.867%, 12/17/19	6,315,809
£700	7.869%, 8/25/20	915,540
\$2,500	7.875%, 11/1/20 (a) (d)	2,100,000
1,400	8.00%, 6/15/20 (a) (d) (g)	1,127,000
2,000	8.50%, 12/17/21 (a) (d) (g)	1,390,000
£900	11.04%, 3/19/20	1,379,220
	LBG Capital No.2 PLC,	
£534	9.125%, 7/15/20	723,671
£2,500	11.25%, 9/14/23	3,584,947
\$1,500	Lehman Brothers Holdings, Inc., 7.50%, 5/11/38 (e)	1,650
1,500	National City Preferred Capital Trust I, 12.00%, 12/10/12 (g) (i)	1,603,299
5,000	PNC Financial Services Group, Inc., 6.75%, 8/1/21 (g) (i)	5,193,175
1,000	PNC Preferred Funding Trust I, 6.517%, 3/15/12 (a) (d) (g)	745,000
3,700	Royal Bank of Scotland Group PLC, 7.648%, 9/30/31 (g)	2,886,000
	SLM Corp.,	
400	6.25%, 1/25/16	408,764
6,200	8.00%, 3/25/20 (i)	6,618,500
6,400	8.45%, 6/15/18 (i)	6,960,000
2,168	SMFG Preferred Capital USD 3 Ltd., 9.50%, 7/25/18 (a) (d) (g)	2,563,660
8,200	Springleaf Finance Corp., 6.50%, 9/15/17 (i)	5,986,000
900	State Street Capital Trust III, 5.536%, 3/1/12 (g)	902,871
500	USB Capital IX, 3.50%, 3/1/12 (g)	374,725
		105,565,440
Insurance 12.8%		
10,000	American General Capital II, 8.50%, 7/1/30 (i)	9,859,550
1,600	American General Institutional Capital A, 7.57%, 12/1/45 (a) (d)	1,432,000
	American General Institutional Capital B, 8.125%, 3/15/46	
2,000	(a) (d) (i)	1,885,000
	American International Group, Inc.,	
4,000	6.25%, 3/15/87, (converts to FRN on 3/15/37) (i)	3,180,000
£591	6.765%, 11/15/17 (a) (d)	929,727
	6.797%, 11/15/17 (a) (b) (d) (j) (acquisition cost-\$1,829,737;	
1,995	purchased 5/21/10)	2,596,021
MXN8,000	7.98%, 6/15/17	579,388
1,900	8.00%, 5/22/68, (converts to FRN on 5/22/18) (a) (d)	2,124,927
\$8,200	8.175%, 5/15/68, (converts to FRN on 5/15/38) (i)	7,995,000
4,400	8.25%, 8/15/18 (i)	5,081,767
£650	8.625%, 5/22/68, (converts to FRN on 5/22/18)	898,285
\$2,200	Dai-ichi Life Insurance Co., Ltd., 7.25%, 7/25/21 (a) (d) (g) (i)	2,302,357
	Hartford Financial Services Group, Inc., 8.125%, 6/15/68,	
2,300	(converts to FRN on 6/15/18)	2,420,750
	MetLife Capital Trust IV, 7.875%, 12/15/67, (converts to FRN on	
2,000	12/15/37) (a) (d) (i)	2,145,000
	MetLife Capital Trust X, 9.25%, 4/8/68, (converts to FRN on	
3,300	4/8/38) (a) (d) (i)	3,918,750

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2,440	Progressive Corp., 6.70%, 6/15/67, (converts to FRN on 6/15/17) (i)	2,503,799 49,852,321
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10 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
Oil & Gas 2.4%		
	NGPL PipeCo LLC (a) (d), 7.119%, 12/15/17	\$4,467,980
\$5,000	7.768%, 12/15/37 (i)	4,243,715
5,000		
600	SandRidge Energy, Inc., 8.00%, 6/1/18 (a) (d)	624,000
		9,335,695
Telecommunications 3.1%		
	CenturyLink, Inc., 6.00%, 4/1/17	842,322
800	7.60%, 9/15/39 (i)	11,212,839
11,000		12,055,161
Utilities 0.7%		
	AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (d)	1,947,500
1,900	Dominion Resources, Inc., 2.879%, 9/30/66, FRN	340,351
390	PPL Capital Funding, Inc., 6.70%, 3/30/67, (converts to FRN on 3/30/17)	395,424
400		2,683,275
		214,473,947
Total Corporate Bonds & Notes (cost-\$214,560,448)		
MUNICIPAL BONDS 23.2%		
California 10.0%		
	Alameda Cnty. Joint Powers Auth. Rev., 7.046%, 12/1/44, Ser. A	11,088,852
9,200	Fresno Cnty. Rev., zero coupon, 8/15/24, Ser. A (FGIC-NPFGC)	1,357,170
3,000	Golden State Tobacco Securitization Corp. Rev., 5.125%, 6/1/47, Ser. A-1	3,408,250
5,000	Long Beach Redev. Agcy., Tax Allocation, 8.36%, 8/1/40	984,609
900	Los Angeles Cnty. Public Works Financing Auth. Rev., 7.618%, 8/1/40	9,925,904
7,600	Oakland Unified School Dist., Alameda Cnty., GO, 9.50%, 8/1/34	1,239,150
1,100	Riverside Cnty. Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser. A-T	618,372
600	Riverside Electric Rev., 7.605%, 10/1/40	1,354,590
1,000	San Luis Obispo Cnty. Rev., zero coupon, 9/1/27, Ser. C (NPFGC)	371,980
1,000	San Marcos Unified School Dist., GO, zero coupon, 8/1/32	137,468
400	State Public Works Board Rev., 7.804%, 3/1/35, Ser. B-2	4,531,320
4,000	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	3,947,544
3,600		38,965,209
Colorado 1.3%		
	Denver Public Schools, CP, 7.017%, 12/15/37, Ser. B	5,130,360
4,000		
District of Columbia 2.2%		
	Metropolitan Airports Auth. Rev., 7.462%, 10/1/46	8,405,400
7,500		
Nevada 2.9%		
	Las Vegas Valley Water Dist., GO, 7.263%, 6/1/34	11,419,400
10,000		
New Jersey 0.6%		
	Middlesex Cnty. Improvement Auth. Rev. (AGM-GTD), zero coupon, 10/1/22	1,098,693
1,935	zero coupon, 10/1/23	1,306,944
2,455		2,405,637

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)	Value	
Ohio 2.9%		
\$8,000	American Municipal Power-Ohio, Inc. Rev., Comb Hydroelectric Projects, 8.084%, 2/15/50, Ser. B	\$11,236,160
Pennsylvania 0.1%		
1,000	Philadelphia Auth. for Industrial Dev. Rev., zero coupon, 4/15/26, Ser. B (AMBAC)	359,300
Texas 3.2%		
1,900	Dallas Convention Center Hotel Dev. Corp. Rev., 7.088%, 1/1/42	2,198,015
9,000	North Texas Tollway Auth. Rev., 8.91%, 2/1/30	10,215,720
		12,413,735
Total Municipal Bonds (cost-\$77,216,625)		90,335,201
MORTGAGE-BACKED SECURITIES 11.7%		
154	Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	112,234
3,100	Banc of America Funding Corp., 6.00%, 3/25/37, CMO	2,389,694
1,200	BCAP LLC Trust, CMO, VRN (a) (d), 5.594%, 3/26/37	92,400
906	10.834%, 6/26/36	104,209
390	Bear Stearns Alt-A Trust, 2.833%, 11/25/36, CMO, VRN	200,149
1,464	Chase Mortgage Finance Corp., CMO, 2.501%, 3/25/37, FRN	1,027,922
25	2.802%, 12/25/35, FRN	23,857
1,600	6.00%, 2/25/37	1,249,993
1,200	6.00%, 7/25/37	983,852
2,470	6.25%, 10/25/36	2,063,354
375	Citicorp Mortgage Securities, Inc., 5.50%, 4/25/37, CMO	362,072
206	Countrywide Alternative Loan Trust, CMO, 5.50%, 3/25/36	135,768
3,707	6.00%, 5/25/36	2,335,732
2,821	6.028%, 4/25/36, VRN	1,708,005
1,196	6.25%, 11/25/36	897,713
630	6.50%, 8/25/36	330,378
111	Countrywide Home Loan Mortgage Pass Through Trust, CMO, 2.774%, 2/20/35, VRN	88,683
1,185	5.50%, 10/25/35	1,117,304
1,152	5.75%, 3/25/37	937,622
753	6.00%, 5/25/36	612,690
897	6.00%, 2/25/37	709,829
249	6.00%, 4/25/37	219,653
1,304	6.25%, 9/25/36	864,419
650	Credit Suisse Mortgage Capital Certificates, 6.00%, 2/25/37, CMO	493,038
287	GSR Mortgage Loan Trust, CMO, 5.50%, 5/25/36	231,935
7,041	6.00%, 2/25/36	6,137,951
73	Harborview Mortgage Loan Trust, 2.775%, 7/19/35, CMO, VRN	49,741
1,833	JPMorgan Mortgage Trust, CMO, 5.00%, 3/25/37	1,389,063
831	5.433%, 1/25/37, VRN	614,866
440	6.00%, 8/25/37	372,029

PIMCO Income Strategy Fund

12 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
	Residential Asset Securitization Trust, CMO,	
\$1,346	5.75%, 2/25/36	\$901,328
532	6.00%, 9/25/36	285,892
1,384	6.00%, 7/25/37	1,016,266
	Residential Funding Mortgage Securities I, CMO,	
452	6.00%, 9/25/36	338,547
1,132	6.00%, 1/25/37	847,116
5,761	6.00%, 6/25/37	4,596,546
	Suntrust Adjustable Rate Mortgage Loan Trust, CMO, FRN,	
3,306	5.511%, 4/25/37	2,367,425
509	5.808%, 2/25/37	335,738
	WaMu Mortgage Pass Through Certificates, CMO,	
1,000	5.473%, 2/25/37, FRN	783,800
300	5.835%, 9/25/36, VRN	208,535
	Wells Fargo Mortgage-Backed Securities Trust, CMO,	
263	2.667%, 4/25/36, VRN	206,759
549	2.698%, 7/25/36, FRN	378,710
4,968	2.738%, 7/25/36, FRN	3,635,663
796	5.75%, 3/25/37	669,489
490	6.00%, 6/25/37	447,881
700	6.00%, 7/25/37	675,556
	Total Mortgage-Backed Securities (cost-\$46,386,824)	45,551,406
	Shares	
	PREFERRED STOCK 4.5%	
	Banking 1.2%	
90,200	CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (d) (g) (j) (k) (acquisition cost-\$4,973,200; purchased 8/31/10-2/1/11)	4,659,398
	Financial Services 1.4%	
100,000	Ally Financial, Inc., 8.50%, 5/15/16, Ser. A (g) (k)	2,091,000
120,000	Citigroup Capital XIII, 7.875%, 10/30/15 (k)	3,232,800
	Real Estate Investment Trust 1.9%	
6,800	Sovereign Real Estate Investment Trust, 12.00%, 5/16/20 (a) (d) (g)	7,544,478
	Total Preferred Stock (cost-\$18,290,200)	17,527,676
	CONVERTIBLE PREFERRED STOCK 2.1%	
	Financial Services 0.7%	
2,700	Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (g)	2,956,500
	Utilities 1.4%	
98,000	PPL Corp., 9.50%, 7/1/13	5,311,600
	Total Convertible Preferred Stock (cost-\$7,163,145)	8,268,100

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
ASSET-BACKED SECURITIES	0.9%	
\$1,268	Asset-Backed Funding Certificates, 0.496%, 5/25/37, FRN (a) (d)	\$1,032,212
454	Greenpoint Manufactured Housing, 8.45%, 6/20/31, VRN	391,363
1,092	GSAA Trust, 6.295%, 6/25/36	595,595
754	MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35	756,506
729	Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47	471,633
Total Asset-Backed Securities (cost-\$3,160,392)		3,247,309
Shares		
MUTUAL FUNDS	0.0%	
1,540	BlackRock MuniYield Quality Fund II, Inc.	22,006
3,836	BlackRock MuniYield Quality Fund III, Inc.	57,195
Total Mutual Funds (cost-\$66,897)		79,201
Principal Amount (000s)		
SHORT-TERM INVESTMENTS	2.6%	
Corporate Notes 1.8%		
Airlines 0.5%		
\$900	American Airlines, Inc., 10.50%, 10/15/12 (e)	901,125
1,861	American Airlines Pass Through Trust, 10.18%, 1/2/13 (b) (e)	1,228,454
		2,129,579
Financial Services 1.3%		
3,812	Ally Financial, Inc., 7.10%, 9/15/12	3,801,303
100	7.125%, 8/15/12	99,584
900	Springleaf Finance Corp., 3.25%, 1/16/13	1,040,853
		4,941,740
Total Corporate Notes (cost-\$7,898,409)		7,071,319
U.S. Treasury Obligations (1) 0.7%		
2,700	U.S. Treasury Bills, 0.026%, 2/23/12 (cost-\$2,699,931)	2,699,931
Repurchase Agreements 0.1%		
465	State Street Bank & Trust Co., dated 1/31/12, 0.01%, due 2/1/12, proceeds \$465,000; collateralized by Federal Home Loan Bank, 0.255%, due 7/20/12, valued at \$476,188 including accrued interest (cost-\$465,000)	465,000
Total Short-Term Investments (cost-\$11,063,340)		10,236,250
Total Investments (cost-\$377,907,871) 100.0%		\$389,719,090

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PIMCO Income Strategy Fund

14 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

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PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2012 (unaudited)

Principal Amount (000s)		Value
CORPORATE BONDS & NOTES	52.6%	
Airlines	0.4%	
\$7,686	American Airlines Pass Through Trust, 9.73%, 9/29/14 (e)	\$1,844,639
751	United Air Lines Pass Through Trust, 10.40%, 5/1/18 (i)	846,956
		2,691,595
Banking	8.3%	
5,500	AgFirst Farm Credit Bank, 7.30%, 3/1/12 (a) (b) (d) (g) (j) (acquisition cost-\$4,709,000; purchased 2/26/10-4/15/10)	5,625,054
£13,600	Barclays Bank PLC, 14.00%, 6/15/19 (g)	25,717,068
\$6,700	BBVA Bancomer S.A., 7.25%, 4/22/20 (a) (d) (i)	6,792,125
16,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20	19,808,182
\$1,400	HBOS PLC, 6.75%, 5/21/18 (a) (d) (i)	1,233,715
2,400	Intesa Sanpaolo SpA, 8.375%, 10/14/19 (g)	2,528,721
\$1,675	Regions Financial Corp., 7.375%, 12/10/37	1,501,219
£800	Santander Finance Preferred S.A. Unipersonal, 11.30%, 7/27/14 (g)	1,203,912
		64,409,996
Consumer Products	0.2%	
\$1,700	Reynolds Group Issuer, Inc., 9.00%, 4/15/19 (a) (d)	1,700,000
Energy	1.4%	
9,379	AES Red Oak LLC, 8.54%, 11/30/19 (i)	9,660,848
2,300	Dynegy Roseton/Danskammer Pass Through Trust, 7.67%, 11/8/16, Series B (e)	1,334,000
		10,994,848
Financial Services	24.7%	
1,800	AGFC Capital Trust I, 6.00%, 1/15/67, (converts to FRN on 1/15/17) (a) (d)	900,000
416	Ally Financial, Inc., 5.25%, 1/15/14	399,334
315	5.35%, 1/15/14	302,942
130	5.70%, 6/15/13	127,485
561	5.75%, 1/15/14	543,525
565	5.90%, 1/15/19	516,438
3	5.90%, 2/15/19	2,653
585	6.00%, 12/15/13	574,591
1,437	6.00%, 2/15/19	1,282,315
119	6.00%, 3/15/19	105,715
9	6.00%, 9/15/19	8,002
486	6.10%, 9/15/19	434,822
159	6.125%, 10/15/19	142,343
394	6.15%, 8/15/19	353,970
454	6.15%, 10/15/19	407,081
675	6.20%, 4/15/19	611,002
500	6.25%, 12/15/18	466,645
47	6.25%, 7/15/19	42,523
7	6.35%, 4/15/16	6,552
792	6.35%, 10/15/16	736,311
303	6.35%, 4/15/19	274,925
1,142	6.35%, 7/15/19	1,039,547
463	6.375%, 1/15/14	453,736

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249	6.50%, 9/15/16	233,169
608	6.50%, 10/15/16	568,746

PIMCO Income Strategy Fund
1.31.12 | PIMCO Income Strategy Fund II Semi-Annual Report **15**

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PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
Financial Services (continued)		
\$5	6.50%, 6/15/18	\$4,600
449	6.50%, 11/15/18	412,568
190	6.50%, 12/15/18	179,789
15	6.50%, 5/15/19	13,928
208	6.60%, 8/15/16	195,601
864	6.60%, 5/15/18	793,868
100	6.60%, 6/15/19	91,947
132	6.65%, 10/15/18	122,365
190	6.70%, 5/15/14	186,858
256	6.70%, 6/15/18	238,541
335	6.70%, 12/15/19	306,803
555	6.75%, 6/15/14	546,128
215	6.75%, 8/15/16	203,553
1,136	6.75%, 11/15/16	1,072,642
210	6.75%, 6/15/17	199,703
831	6.75%, 7/15/18	775,874
3	6.75%, 9/15/18	2,798
612	6.75%, 10/15/18	570,021
107	6.75%, 11/15/18	99,978
27	6.75%, 5/15/19	25,063
92	6.80%, 9/15/16	87,194
12	6.80%, 9/15/18	11,323
207	6.85%, 4/15/16	198,063
7	6.875%, 7/15/18	6,574
319	6.90%, 7/15/18	301,458
326	6.90%, 8/15/18	306,611
135	6.95%, 6/15/17	129,389
201	7.00%, 8/15/16	192,170
1,729	7.00%, 11/15/16	1,649,390
580	7.00%, 12/15/16	552,936
1,729	7.00%, 1/15/17	1,636,987
601	7.00%, 2/15/17	567,521
1,087	7.00%, 6/15/17	1,023,153
1,073	7.00%, 7/15/17	1,012,551
43	7.00%, 2/15/18	40,137
506	7.00%, 3/15/18	471,010
15	7.00%, 5/15/18	14,079
400	7.00%, 9/15/18	382,975
134	7.00%, 6/15/22	122,730
2,035	7.00%, 11/15/24	1,866,673
325	7.05%, 3/15/18	303,493
4	7.05%, 4/15/18	3,766
6	7.15%, 9/15/18	5,718
477	7.20%, 10/15/17	455,801
55	7.25%, 6/15/16	53,344
653	7.25%, 9/15/17	618,675
329	7.25%, 1/15/18	310,532
255	7.25%, 4/15/18	242,427
39	7.30%, 12/15/17	37,764

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503	7.30%, 1/15/18	475,589
165	7.35%, 1/15/17	158,230
58	7.35%, 4/15/18	55,444
25	7.375%, 11/15/16	24,339

PIMCO Income Strategy Fund

16 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

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PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
Financial Services (continued)		
\$55	7.375%, 4/15/18	\$52,642
166	7.40%, 12/15/17	162,219
1,828	7.50%, 11/15/16	1,779,063
15	7.50%, 8/15/17	14,401
559	7.50%, 11/15/17	541,579
290	7.50%, 12/15/17	283,521
40	8.00%, 3/15/17	39,375
3	8.125%, 11/15/17	2,944
25	8.20%, 3/15/17	24,814
24	8.40%, 8/15/15	23,734
224	9.00%, 7/15/20	224,772
3,200	American General Finance Corp., 4.125%, 11/29/13	3,435,621
\$3,100	Bank of America Corp., 6.00%, 9/1/17 (i)	3,252,511
2,900	Capital One Capital VI, 8.875%, 5/15/40	3,065,744
	CIT Group, Inc.,	
1,687	7.00%, 5/1/16	1,688,899
2,492	7.00%, 5/1/17	2,497,900
3,200	Citigroup Capital XXI, 8.30%, 12/21/77, (converts to FRN on 12/21/37)	3,264,960
£2,000	Credit Agricole S.A., 8.125%, 10/26/19 (g)	2,379,459
\$8,000	Ford Motor Credit Co. LLC, 8.00%, 12/15/16	9,492,472
11,000	ILFC E-Capital Trust II, 6.25%, 12/21/65, (converts to FRN on 12/21/15) (a) (d)	7,975,000
	LBG Capital No.1 PLC,	
500	6.439%, 5/23/20	513,409
500	7.375%, 3/12/20	516,680
£300	7.588%, 5/12/20	387,647
£10,200	7.867%, 12/17/19	13,421,095
£1,000	7.869%, 8/25/20	1,307,915
\$4,500	7.875%, 11/1/20 (a) (d)	3,780,000
£4,700	11.04%, 3/19/20	7,202,591
	LBG Capital No.2 PLC,	
8,900	8.875%, 2/7/20	9,953,603
£300	12.75%, 8/10/20	477,468
1,100	15.00%, 12/21/19	1,687,057
\$2,500	Lehman Brothers Holdings, Inc., 7.50%, 5/11/38 (e)	2,750
25,500	National City Preferred Capital Trust I, 12.00%, 12/10/12 (g) (i)	27,256,083
5,965	NSG Holdings LLC, 7.75%, 12/15/25 (a) (d)	5,994,825
2,200	PNC Preferred Funding Trust I, 6.517%, 3/15/12 (a) (d) (g) (i)	1,639,000
	SLM Corp.,	
5,000	5.625%, 8/1/33 (i)	4,058,345
10,700	8.00%, 3/25/20 (i)	11,422,250
1,700	8.45%, 6/15/18	1,848,750
11,800	Springleaf Finance Corp., 6.50%, 9/15/17 (i)	8,614,000
1,596	State Street Capital Trust III, 5.536%, 3/1/12 (g)	1,601,091
800	USB Capital IX, 3.50%, 3/1/12 (g)	599,560
17,550	Wells Fargo & Co., 7.98%, 3/15/18 (g)	19,085,625
		191,466,420

Insurance 16.3%

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3,000	American General Institutional Capital A, 7.57%, 12/1/45 (a) (d)	2,685,000
5,000	American General Institutional Capital B, 8.125%, 3/15/46 (a) (d) (i)	4,712,500

PIMCO Income Strategy Fund
1.31.12 | PIMCO Income Strategy Fund II Semi-Annual Report 17

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PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
Insurance (continued)		
	American International Group, Inc.,	
\$1,900	6.25%, 3/15/87, (converts to FRN on 3/15/37)	\$1,510,500
£10,545	6.765%, 11/15/17 (a) (d)	16,588,786
12,540	6.797%, 11/15/17 (a) (b) (d) (j)	
	(acquisition cost-\$11,931,071; purchased 5/20/10-5/21/10)	16,317,844
MXN 16,000	7.98%, 6/15/17	1,158,777
11,800	8.00%, 5/22/68, (converts to FRN on 5/22/18) (a) (d)	13,196,912
\$32,750	8.175%, 5/15/68, (converts to FRN on 5/15/38) (i)	31,931,250
£6,550	8.625%, 5/22/68, (converts to FRN on 5/22/18)	9,051,951
\$1,700	AXA S.A., 6.463%, 12/14/18 (a) (d) (g)	1,266,500
6,500	Dai-ichi Life Insurance Co., Ltd., 7.25%, 7/25/21 (a) (d) (g)	6,802,419
4,700	Hartford Financial Services Group, Inc.,	
	8.125%, 6/15/68, (converts to FRN on 6/15/18)	4,946,750
15,000	MetLife Capital Trust IV, 7.875%, 12/15/67,	
	(converts to FRN on 12/15/37) (a) (d) (i)	16,087,500
		126,256,689
Telecommunications 0.2%		
1,400	CenturyLink, Inc., 6.00%, 4/1/17	1,474,063
200	Sprint Capital Corp., 8.75%, 3/15/32	169,000
		1,643,063
Utilities 1.1%		
3,900	AES Andres Dominicana Ltd., 9.50%, 11/12/20 (a) (d)	3,997,500
4,500	Ameren Energy Generating Co., 7.95%, 6/1/32	4,488,750
		8,486,250
	Total Corporate Bonds & Notes (cost-\$396,788,968)	407,648,861
MUNICIPAL BONDS 20.1%		
California 12.4%		
13,100	Alameda Cnty. Joint Powers Auth. Rev., 7.046%, 12/1/44, Ser. A	15,789,561
1,650	City & Cnty. of San Francisco Redev. Agcy., Tax Allocation,	
	8.406%, 8/1/39	1,921,623
3,000	La Quinta Financing Auth., Tax Allocation, 8.07%, 9/1/36, Ser. A	3,202,140
4,000	Long Beach Redev. Agcy., Tax Allocation, 8.11%, 8/1/30	4,331,240
10,800	Los Angeles Cnty. Public Works Financing Auth. Rev., 7.618%,	
	8/1/40	14,105,232
20,000	Northern California Power Agcy. Rev., 7.311%, 6/1/40	23,354,000
1,200	Riverside Cnty. Dev. Agcy., Tax Allocation, 7.50%, 10/1/30, Ser.	
	A-T	1,236,744
10,000	Riverside Community College Dist., GO, 7.021%, 8/1/40, Ser. D-1	11,384,800
1,355	San Bernardino Cnty. Redev. Agcy., Tax Allocation, 8.50%,	
	9/1/40	1,421,137
2,100	San Luis Obispo Cnty. Rev., zero coupon, 9/1/27, Ser. C (NPFGC)	781,158
9,200	State Public Works Board Rev., 7.804%, 3/1/35, Ser. B-2	10,422,036
7,500	Stockton Public Financing Auth. Rev., 7.942%, 10/1/38, Ser. B	8,224,050
		96,173,721
Colorado 0.8%		
5,000	Denver Public Schools, CP, 7.017%, 12/15/37, Ser. B	6,412,950
District of Columbia 1.9%		

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Illinois 0.3%	13,000	Metropolitan Airports Auth. Rev., 7.462%, 10/1/46	14,569,360
	2,600	State, GO, 6.63%, 2/1/35	2,816,528

PIMCO Income Strategy Fund

18 PIMCO Income Strategy Fund II Semi-Annual Report | 1.31.12

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PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
Ohio 2.4%		
\$13,000	American Municipal Power-Ohio, Inc. Rev., Comb Hydroelectric Projects, 8.084%, 2/15/50, Ser. B	\$18,258,760
Texas 2.3%		
4,000	Dallas Convention Center Hotel Dev. Corp. Rev., 7.088%, 1/1/42	4,627,400
11,500	North Texas Tollway Auth. Rev., 8.91%, 2/1/30	13,053,420
		17,680,820
Total Municipal Bonds (cost-\$133,576,040)		155,912,139
MORTGAGE-BACKED SECURITIES 11.9%		
360	Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO	261,880
108	Banc of America Funding Corp., CMO, 5.745%, 1/20/47, VRN	70,289
14,600	6.00%, 3/25/37	11,254,687
2,209	BCAP LLC Trust, CMO, VRN (a) (d), 2.810%, 5/26/36	54,255
2,500	5.594%, 3/26/37	192,500
3,627	8.858%, 5/26/37	525,872
1,812	10.834%, 6/26/36	208,418
634	Bear Stearns Alt-A Trust, 2.833%, 11/25/36, CMO, VRN	325,242
3,053	Chase Mortgage Finance Corp., CMO, 2.501%, 3/25/37, FRN	2,143,953
49	2.802%, 12/25/35, FRN	47,714
1,191	5.50%, 5/25/36	1,124,041
751	Citicorp Mortgage Securities, Inc., CMO, 5.50%, 4/25/37	724,144
6,164	6.00%, 9/25/37	6,077,856
2,385	Countrywide Alternative Loan Trust, CMO, 5.50%, 1/25/36	1,430,197
334	5.50%, 3/25/36	220,623
2,047	5.75%, 12/25/36	1,255,054
7,612	6.00%, 5/25/36	4,796,274
1,542	6.00%, 4/25/37	979,963
5,820	6.028%, 4/25/36, VRN	3,523,647
2,458	6.25%, 11/25/36	1,845,298
1,261	6.50%, 8/25/36	660,757
2,410	Countrywide Home Loan Mortgage Pass Through Trust, CMO, 5.75%, 3/25/37	1,960,482
1,529	6.00%, 5/25/36	1,243,946
1,795	6.00%, 2/25/37	1,419,659
7,700	6.00%, 3/25/37	6,206,550
2,681	6.25%, 9/25/36	1,776,861
3,342	First Horizon Asset Securities, Inc., 2.625%, 11/25/35, CMO, FRN	2,608,364
4,599	JPMorgan Alternative Loan Trust, 2.627%, 5/25/36, CMO, VRN	2,495,896
1,440	JPMorgan Mortgage Trust, CMO, 5.272%, 10/25/35, VRN	1,311,852
771	6.00%, 8/25/37	651,051
316	6.50%, 9/25/35	312,223

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1,877	MASTR Asset Securitization Trust, 6.50%, 11/25/37, CMO	1,540,296
80	Nomura Asset Acceptance Corp., 4.976%, 5/25/35, CMO	68,496

PIMCO Income Strategy Fund
1.31.12 | PIMCO Income Strategy Fund II Semi-Annual Report **19**

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PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2012 (unaudited) (continued)

Principal Amount (000s)		Value
	Residential Asset Securitization Trust, CMO, 5.75%, 2/25/36	\$1,863,947
\$2,784	6.00%, 9/25/36	571,783
1,063	6.00%, 7/25/37	2,159,565
2,940	Residential Funding Mortgage Securities I, CMO, 5.423%, 9/25/35, VRN	4,361,394
5,633	6.00%, 6/25/37	9,438,709
11,830	6.25%, 8/25/36	1,938,147
2,490	Suntrust Adjustable Rate Mortgage Loan Trust, 5.808%, 2/25/37, CMO, FRN	671,476
1,017	WaMu Mortgage Pass Through Certificates, CMO, 5.473%, 2/25/37, FRN	1,567,599
2,000	5.835%, 9/25/36, VRN	446,861
643	Wells Fargo Mortgage-Backed Securities Trust, CMO, 2.667%, 4/25/36, VRN	413,518
525	2.698%, 7/25/36, FRN	791,848
1,149	2.738%, 7/25/36, FRN	7,397,200
10,107	5.75%, 3/25/37	1,338,980
1,593		92,279,367
Total Mortgage-Backed Securities (cost-\$94,024,039)		

Shares

PREFERRED STOCK 6.2%

Automotive Products 0.0%

20,275	Dura Automotive Systems, Inc., 20.00% (b) (f) (h)	10,137
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Banking 2.7%

397,300	CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (d) (g) (j) (k) (acquisition cost-\$21,899,400; purchased 2/26/10-3/23/11)	20,523,048
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Financial Services 3.1%

248,000	Ally Financial, Inc., 7.30%, 3/9/31	5,619,680
260,000	Citigroup Capital XIII, 7.875%, 10/30/15 (k)	7,004,400
5,000	Farm Credit Bank, 10.00%, 12/15/20, Ser. 1 (g)	5,792,187
255,400	GMAC Capital Trust I, 8.125%, 2/15/16, Ser. 2 (k)	5,667,326
		24,083,593

Real Estate Investment Trust 0.4%

3,000	Sovereign Real Estate Investment Trust, 12.00%, 5/16/20 (a) (d) (g)	3,328,446
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Total Preferred Stock (cost-\$50,302,628)

47,945,224

CONVERTIBLE PREFERRED STOCK 3.8%

Financial Services 0.5%

3,500	Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (g)	3,832,500
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Utilities 3.3%

PPL Corp.,