

PIMCO INCOME STRATEGY FUND
Form N-CSRS
March 30, 2011

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

FORM N-CSR

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

Investment Company Act file number 811-21374

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

1345 Avenue of the Americas, New York, NY
(Address of principal executive offices)

10105
(Zip code)

Lawrence G. Altadonna - 1345 Avenue of the Americas, New York, New York 10105
(Name and address of agent for service)

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

Date of fiscal year July 31, 2011
end:

Date of reporting period: January 31, 2011

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

ITEM 1. REPORT TO SHAREHOLDERS

January 31, 2011

PIMCO Income Strategy Fund

PIMCO Income Strategy Fund II

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Dear Shareholder:

The U.S. economy picked up steam during the six-month period ended January 31, 2011. Gross Domestic Product (GDP) expanded at an annualized rate of 2.6% and 2.8% during the third and fourth quarters of 2010, respectively. In January 2011, this acceleration continued. The strengthening economy was accompanied by sharp gains for stocks, which reached their highest levels in two-and-a-half-years. However, as is typical during an economic recovery, interest rates began to rise, which may have kept the recovery from being more robust.

Hans W. Kertess

Chairman

Yields on the benchmark 10-year U.S. Treasury bond help tell the story. Because of a variety of worries in early 2010 a possible double-dip recession in the U.S., sovereign debt concerns in Europe and the cooling of China's economy many investors shifted assets into the perceived safe haven of Treasuries, sending prices sharply higher. Since bond yields move in the opposite direction of bond prices, the yield on the 10-year fell to 2.41% in October 2010. As these concerns eased, the market shifted. At the end of the six-month period, the yield on the 10-year bond had risen to 3.42%, prices fell accordingly. Rising yields narrowed the spread, the gap between yields on Treasuries and comparable debt instruments, such as corporate bonds, making those riskier assets less attractive on a relative basis.

Brian S. Shlissel

President & CEO

Rising interest rates were countered to some degree by the U.S. Federal Reserve (the Fed), which tried to keep rates low by initiating large-scale purchases of Treasury bonds through June 2011. The Fed maintained its closely-watched Federal Funds Rate, the rate banks charge to lend federal funds to other banks, usually on an overnight basis, in the 0.0% to 0.25% range. However, the Fed did raise the discount rate, the interest rate it charges banks for direct loans, to 0.75% from 0.50%.

Six Months in Review

For the six-month period ended January 31, 2011:

- PIMCO Income Strategy Fund rose 13.85% on net asset value (NAV) and 14.11% on market price.
- PIMCO Income Strategy Fund II advanced 15.46% on NAV and 9.81% on market price.

In contrast, the Barclays Capital U.S. Credit Index, a measure of high quality corporate bond performance, returned 0.97% and the Barclays Capital U.S. High Yield Bond Index, a measure of below-investment-grade corporate bond performance, returned 8.72% for the six months ended January 31, 2011. Government bonds, represented by the Barclays Capital Long Term Treasury Index, declined 5.55% for the fiscal six-month period. The Barclays Capital U.S. Aggregate Bond Index, a broad credit market measure of government and corporate securities, posted a return of 0.20%. Mortgage-backed securities, reflected by the Barclays Capital Mortgage Index, returned 0.04%. As for stocks, the Standard & Poor's 500 Index advanced 17.93% during the six-month period.

The Road Ahead

We anticipate that the economic recovery that began in the summer of 2009 will continue and could, in fact, accelerate. U.S. companies are likely to begin hiring more workers to meet a growing demand for goods and services, which in turn should boost economic activity still further. We caution again, however, about rising interest rates. Higher rates can reflect an expanding economy, but rates that rise too far and too fast could act as a brake on expansion.

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

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

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

January 31, 2011 (unaudited)

For the six months ended January 31, 2011 PIMCO Income Strategy Fund returned 13.85% on NAV and 14.11% on market price.

For the six months ended January 31, 2011 PIMCO Income Strategy Fund II returned 15.46% on NAV and 9.81% on market price.

The unmanaged Barclays Capital U.S. Aggregate Bond Index and Barclays Capital U.S. Credit Index returned 0.20% and 0.97%, respectively, during the reporting period.

Bond markets turned in a solid performance in 2010 overall, though gains were moderated by a partial retrenchment in the fourth quarter. After a tumultuous first half of the calendar year, the creation of the Greek bailout package late in the second quarter served to reassure markets, as did the growing expectation for further quantitative easing by the Federal Reserve (the Fed), leading to a sharp and sustained rally for risk assets from July through the end of October 2010. In November, the Fed announced its widely anticipated second round of quantitative easing (QE2), which included a commitment to purchase a total of as much as \$850 to \$900 billion of longer-maturity Treasuries through June 2011. Gains in manufacturing, retail sales and consumer confidence, as well as surging equity markets and rising inflation expectations indicated that the Fed's efforts were having an impact. While QE2 raised some concerns about long-term inflation risk, actual levels of inflation excluding volatile food and fuel costs remained below the Fed's targeted range during the fourth quarter of 2010. Treasury yields rose in the final months of the year as investors turned to riskier assets in pursuit of higher returns, though these yields ended the year broadly lower at all segments of the curve.

PIMCO Income Strategy Fund

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Risk exposures drive absolute gains

Several factors contributed to the Funds' absolute returns during the fiscal period. Positioning in the financials sector was particularly beneficial. Within financials, an emphasis on the banking sector was a strong contributor to the Funds' performance as recapitalization efforts and waning concerns about sovereign debt benefited credits. The Funds' performance also benefitted from an overweighing to the insurance sector, in particular, as security selection in the outperforming life insurance industry aided performance. The financial services sector's contribution to returns was somewhat moderated by the negative impact of select issuers in the European banking sector, which suffered from European credit tensions. Exposure to lagging asset-backed securities also hampered returns.

Other contributors to performance included security selection in the transportation sector, where airline credits outperformed, as well as exposure to speculative-grade corporate credits in general. The latter outperformed higher-rated credits during the review period. Select exposure to Build America Bonds also added to returns, despite a period of turbulence toward the end of 2010.

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

January 31, 2011 (unaudited)

| Total Return(1): | Market Price | NAV |
|---|---------------------|------------|
| Six Month | 14.11% | 13.85% |
| 1 Year | 13.85% | 21.41% |
| 5 Year | 4.78% | 2.73% |
| Commencement of Operations (8/29/03) to 1/31/11 | 4.30% | 3.89% |

| Market Price/NAV Performance: | Market Price/NAV: | |
|---|--------------------------|---------|
| Commencement of Operations (8/29/03) to 1/31/11 | Market Price | \$12.27 |
| | NAV | \$11.29 |
| | Premium to NAV | 8.68% |
| | Market Price Yield(2) | 7.33% |

Portfolio Composition

(as a % of total investments)

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

January 31, 2011 (unaudited)

| Total Return(1): | Market Price | NAV |
|--|---------------------|------------|
| Six Month | 9.81% | 15.46% |
| 1 Year | 16.17% | 22.06% |
| 5 Year | 1.26% | 0.20% |
| Commencement of Operations (10/29/04) to 1/31/11 | 0.93% | 1.23% |

| Market Price/NAV Performance: | Market Price/NAV: | |
|--|--------------------------|---------|
| Commencement of Operations (10/29/04) to 1/31/11 | Market Price | \$10.41 |
| | NAV | \$10.11 |
| | Premium to NAV | 2.97% |
| | Market Price Yield(2) | 7.49% |

Portfolio Composition

(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 and capital gain distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. 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 the Funds' shares, or changes in Funds' dividends.

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 onetime 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 share dividend (comprised of net investment income) payable to common shareholders by the market price per common share at January 31, 2011.

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2011 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|--|---|-----------------------------|------------|
| CORPORATE BONDS & NOTES 67.8% | | | |
| Airlines 6.5% | | | |
| \$900 | American Airlines, Inc., 10.50%, 10/15/12 | B2/B | \$999,000 |
| | American Airlines Pass Through Trust, | | |
| 1,700 | 8.608%, 10/1/12 | Ba3/B+ | 1,717,000 |
| 4,066 | 9.73%, 9/29/14 | Caa2/CCC+ | 3,811,746 |
| 1,861 | 10.18%, 1/2/13 | Caa1/CCC+ | 1,884,560 |
| 15,203 | United Air Lines Pass Through Trust, 10.40%, 5/1/18 (j) | Baa2/BBB+ | 17,597,861 |
| | | | 26,010,167 |
| Banking 8.6% | | | |
| 2,600 | AgFirst Farm Credit Bank, 7.30%, 2/28/11 | | |
| | (a) (b) (d) (g) (k) (acquisition cost-\$2,225,000; purchased 2/26/10-4/15/10) | NR/A | 2,202,730 |
| | Barclays Bank PLC, (g), | | |
| 1,200 | 7.375%, 12/15/11 (a) (d) | Baa2/A- | 1,201,500 |
| 1,885 | 7.434%, 12/15/17 (a) (d) (j) | Baa2/A- | 1,852,013 |
| £7,800 | 14.00%, 6/15/19 | Baa2/A- | 15,398,427 |
| | Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, | | |
| 3,000 | 6.875%, 3/19/20 | NR/NR | 4,023,371 |
| \$4,400 | 11.00%, 6/30/19 (a) (d) (g) | A2/AA- | 5,703,738 |
| 1,000 | Den Norske Bank ASA, 7.729%, 6/29/11 (a) (d) (g) (j) | Baa3/BBB+ | 1,004,729 |
| 600 | HBOS PLC, 6.75%, 5/21/18 (a) (d) | Baa3/BBB- | 554,021 |
| | Regions Financial Corp., | | |
| 800 | 7.375%, 12/10/37 | B1/BB | 768,000 |
| 1,500 | 7.75%, 9/15/24 | B1/BB | 1,450,478 |
| | | | 34,159,007 |
| Chemicals 0.6% | | | |
| 2,069 | Lyondell Chemical Co., 8.00%, 11/1/17 (a) (d) | Ba2/BB | 2,314,694 |
| Energy 0.3% | | | |
| 1,100 | Dynergy Roseton/Danskammer Pass Through Trust, 7.67%, 11/8/16, Ser. B | Caa2/B- | 1,045,000 |
| Financial Services 26.4% | | | |
| | Ally Financial, Inc., | | |
| 304 | 5.90%, 1/15/19 | B3/B | 267,944 |
| 156 | 5.90%, 10/15/19 | B3/B | 136,585 |
| 55 | 6.00%, 2/15/19 | B3/B | 48,626 |
| 40 | 6.00%, 3/15/19 | B3/B | 35,409 |
| 8 | 6.00%, 4/15/19 | B3/B | 7,059 |
| 325 | 6.00%, 9/15/19 | B3/B | 286,690 |
| 95 | 6.05%, 8/15/19 | B3/B | 83,936 |
| 413 | 6.05%, 10/15/19 | B3/B | 365,745 |
| 1,208 | 6.15%, 8/15/19 | B3/B | 1,076,263 |
| 1,371 | 6.25%, 2/15/16 | B3/B | 1,289,542 |
| 25 | 6.25%, 1/15/19 | B3/B | 22,530 |
| 120 | 6.30%, 8/15/19 | B3/B | 108,361 |
| 1,168 | 6.35%, 2/15/16 | B3/B | 1,103,403 |
| 285 | 6.35%, 4/15/16 | B3/B | 269,057 |
| 216 | 6.40%, 3/15/16 | B3/B | 204,441 |
| 360 | 6.40%, 11/15/19 | B3/B | 326,861 |
| 1,357 | 6.50%, 2/15/16 | B3/B | 1,290,310 |

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| | | | |
|-----|-----------------|------|---------|
| 20 | 6.50%, 9/15/16 | B3/B | 18,997 |
| 442 | 6.50%, 10/15/16 | B3/B | 419,795 |
| 150 | 6.50%, 12/15/18 | B3/B | 137,199 |

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|---------------------------------------|---|--------------------------------|-----------|
| Financial Services (continued) | | | |
| \$358 | 6.55%, 12/15/19 | B3/B | \$325,437 |
| 14 | 6.60%, 5/15/18 | B3/B | 13,092 |
| 51 | 6.65%, 6/15/18 | B3/B | 47,664 |
| 60 | 6.70%, 6/15/18 | B3/B | 56,241 |
| 329 | 6.75%, 4/15/13 | B3/B | 329,393 |
| 3 | 6.75%, 8/15/16 | B3/B | 2,882 |
| 13 | 6.75%, 6/15/17 | B3/B | 12,397 |
| 89 | 6.75%, 5/15/19 | B3/B | 82,598 |
| 10 | 6.75%, 6/15/19 | B3/B | 9,290 |
| 205 | 6.80%, 9/15/16 | B3/B | 197,488 |
| 3 | 6.80%, 10/15/18 | B3/B | 2,801 |
| 938 | 6.85%, 4/15/16 | B3/B | 905,289 |
| 30 | 6.85%, 5/15/18 | B3/B | 28,476 |
| 336 | 6.875%, 8/15/16 | B3/B | 324,797 |
| 5 | 6.875%, 7/15/18 | B3/B | 4,715 |
| 140 | 6.90%, 6/15/17 | B3/B | 134,602 |
| 32 | 6.90%, 8/15/18 | B3/B | 30,298 |
| 151 | 6.95%, 6/15/17 | B3/B | 145,551 |
| 25 | 7.00%, 12/15/16 | B3/B | 24,324 |
| 27 | 7.00%, 6/15/17 | B3/B | 26,093 |
| 130 | 7.00%, 7/15/17 | B3/B | 125,544 |
| 367 | 7.00%, 2/15/18 | B3/B | 355,041 |
| 12 | 7.00%, 3/15/18 | B3/B | 11,571 |
| 155 | 7.00%, 8/15/18 | B3/B | 147,621 |
| 5 | 7.00%, 9/15/18 | B3/B | 4,741 |
| 42 | 7.05%, 3/15/18 | B3/B | 40,612 |
| 39 | 7.05%, 4/15/18 | B3/B | 37,576 |
| 3,812 | 7.10%, 9/15/12 | B3/B | 3,816,525 |
| 100 | 7.125%, 8/15/12 | B3/B | 100,086 |
| 160 | 7.125%, 10/15/17 | B3/B | 155,214 |
| 40 | 7.15%, 3/15/25 | B3/B | 36,430 |
| 75 | 7.20%, 10/15/17 | B3/B | 73,047 |
| 288 | 7.25%, 6/15/16 | B3/B | 282,899 |
| 293 | 7.25%, 9/15/17 | B3/B | 286,319 |
| 10 | 7.25%, 4/15/18 | B3/B | 9,741 |
| 10 | 7.25%, 8/15/18 | B3/B | 9,660 |
| 141 | 7.25%, 9/15/18 | B3/B | 135,751 |
| 25 | 7.30%, 1/15/18 | B3/B | 24,621 |
| 396 | 7.35%, 4/15/18 | B3/B | 387,923 |
| 57 | 7.50%, 6/15/16 | B3/B | 56,576 |
| 45 | 7.55%, 5/15/16 | B3/B | 44,732 |
| 47 | 7.75%, 10/15/17 | B3/B | 46,989 |
| 110 | 8.125%, 11/15/17 | B3/B | 110,338 |
| 110 | 9.00%, 7/15/20 | B3/B | 111,821 |
| 5,000 | American General Finance Corp., 5.375%, 10/1/12 | B3/B | 4,850,000 |
| £1,700 | BAC Capital Trust VII, 5.25%, 8/10/35 | Baa3/BB+ | 2,042,232 |
| \$1,400 | Capital One Capital VI, 8.875%, 5/15/40 | Baa3/BB | 1,491,000 |
| | CIT Group, Inc., | | |
| 2,311 | 7.00%, 5/1/13 | B3/B+ | 2,366,016 |

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| | | | |
|-------|---------------|-------|-----------|
| 947 | 7.00%, 5/1/14 | B3/B+ | 967,456 |
| 1,157 | 7.00%, 5/1/15 | B3/B+ | 1,175,395 |
| 1,579 | 7.00%, 5/1/16 | B3/B+ | 1,598,613 |
| 2,210 | 7.00%, 5/1/17 | B3/B+ | 2,235,293 |

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|--|---|--------------------------------|-------------|
| Financial Services (continued) | | | |
| \$100 | Citigroup Capital XXI, 8.30%, 12/21/77, (converts to FRN on 12/21/37) | Ba1/BB+ | \$104,875 |
| 2,500 | Credit Agricole S.A., 6.637%, 5/31/17 (a) (d) (g) (j) Ford Motor Credit Co. LLC, | A3/A- | 2,168,250 |
| 800 | 5.625%, 9/15/15 | Ba2/B+ | 841,608 |
| 12,600 | 8.125%, 1/15/20 | Ba2/B+ | 14,781,148 |
| 4,000 | 12.00%, 5/15/15 | Ba2/B+ | 5,076,052 |
| 2,947 | International Lease Finance Corp., 6.625%, 11/15/13 LBG Capital No.1 PLC, | B1/BB+ | 3,094,350 |
| 500 | 6.439%, 5/23/20 | Ba3/BB- | 577,533 |
| 200 | 7.375%, 3/12/20 | Ba3/BB- | 238,691 |
| £300 | 7.588%, 5/12/20 | Ba3/BB- | 424,063 |
| £4,800 | 7.867%, 12/17/19 | Ba3/BB- | 6,765,794 |
| £700 | 7.869%, 8/25/20 | Ba3/BB- | 995,087 |
| \$2,500 | 7.875%, 11/1/20 | Ba3/BB- | 2,350,000 |
| 1,400 | 8.00%, 6/15/20 (a) (d) (g) | NR/B+ | 1,260,000 |
| 2,000 | 8.50%, 12/17/21 (a) (d) (f) (g) | NR/B+ | 1,761,808 |
| £900 | 11.04%, 3/19/20 | Ba3/BB- | 1,520,862 |
| £2,500 | LBG Capital No.2 PLC, 11.25%, 9/14/23 | Ba2/BB | 4,204,595 |
| \$1,500 | Lehman Brothers Holdings, Inc., 7.50%, 5/11/38 (e) | WR/NR | 825 |
| 1,100 | MUFG Capital Finance 2 Ltd., 4.85%, 7/25/16 (g) | Ba1/BBB+ | 1,394,992 |
| \$1,629 | NB Capital Trust II, 7.83%, 12/15/26 | Baa3/BB+ | 1,665,652 |
| 3,700 | Royal Bank of Scotland Group PLC, 7.648%, 9/30/31 (g) SLM Corp., | Ba2/BB- | 3,237,500 |
| 300 | 1.356%, 6/17/13, FRN | Ba1/BBB- | 370,222 |
| \$1,600 | 5.375%, 5/15/14 | Ba1/BBB- | 1,636,293 |
| 7,500 | 8.00%, 3/25/20 | Ba1/BBB- | 7,831,425 |
| 6,400 | 8.45%, 6/15/18 | Ba1/BBB- | 6,922,003 |
| 2,168 | SMFG Preferred Capital USD 3 Ltd., 9.50%, 7/25/18 (a) (d) (g) | Ba1/BBB+ | 2,555,292 |
| | | | 105,118,484 |
| Healthcare & Hospitals 0.9% | | | |
| 3,300 | HCA, Inc., 9.625%, 11/15/16, PIK | B2/BB- | 3,568,125 |
| Insurance 12.7% | | | |
| 10,000 | American General Capital II, 8.50%, 7/1/30 | Baa2/BBB- | 11,000,000 |
| 2,000 | American General Institutional Capital B, 8.125%, 3/15/46 (a) (d) | Baa2/BBB- | 2,200,000 |
| 2,800 | American International Group, Inc., 4.875%, 3/15/67, (converts to FRN on 3/15/17) | Baa2/BBB | 3,320,560 |
| \$6,400 | 5.45%, 5/18/17 (j) | Baa1/A- | 6,649,517 |
| 4,000 | 6.25%, 3/15/87, (converts to FRN on 3/15/37) | Baa2/BBB | 3,705,000 |
| 1,300 | 8.175%, 5/15/68, (converts to FRN on 5/15/38) | Baa2/BBB | 1,459,250 |
| 4,400 | 8.25%, 8/15/18 (j) | Baa1/A- | 5,198,688 |
| £1,300 | 8.625%, 5/22/68, (converts to FRN on 5/22/18) | Baa2/BBB | 2,248,857 |
| \$2,300 | Hartford Financial Services Group, Inc., 8.125%, 6/15/68, (converts to FRN on 6/15/18) | Ba1/BB+ | 2,518,500 |
| 7,000 | | B3/BB | 5,671,680 |

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| | ILFC E-Capital Trust I, 5.96%, 12/21/65, (converts to FRN on 12/21/10) (a) (d) | | |
| 3,300 | MetLife Capital Trust X, 9.25%, 4/8/68, (converts to FRN on 4/8/38) (a) (d) | Baa2/BBB | 3,976,500 |
| 2,440 | Progressive Corp., 6.70%, 6/15/67, (converts to FRN on 6/15/17) | A2/A- | 2,608,082 |
| | | | 50,556,634 |

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|--|--|-----------------------------|-------------|
| Oil & Gas 5.6% | | | |
| \$7,700 | Atlantic Richfield Co., 8.375%, 2/21/12 | A2/A | \$8,146,854 |
| 2,900 | El Paso Corp., 7.42%, 2/15/37 | Ba3/BB- | 2,749,159 |
| 5,000 | NGPL PipeCo LLC (a) (d), 7.119%, 12/15/17 | Ba1/BBB- | 5,529,185 |
| 5,000 | 7.768%, 12/15/37 | Ba1/BBB- | 5,233,110 |
| 600 | SandRidge Energy, Inc., 8.00%, 6/1/18 (a) (d) | B3/B | 619,500 |
| | | | 22,277,808 |
| Paper & Forest Products 2.6% | | | |
| 10,000 | Weyerhaeuser Co., 7.375%, 3/15/32 | Ba1/BBB- | 10,158,750 |
| Telecommunications 2.9% | | | |
| 11,000 | CenturyLink, Inc., 7.60%, 9/15/39 (j) | Baa3/BBB- | 11,438,713 |
| Utilities 0.7% | | | |
| 1,900 | AES Andres Dominicana, 9.50%, 11/12/20 (a) (d) | NR/B- | 2,033,000 |
| 390 | Dominion Resources, Inc., 6.30%, 9/30/66, (converts to FRN on 9/30/11) | Baa3/BBB | 381,285 |
| 400 | PPL Capital Funding, Inc., 6.70%, 3/30/67, (converts to FRN on 3/30/17) | Ba1/BBB- | 393,488 |
| | | | 2,807,773 |
| Total Corporate Bonds & Notes (cost-\$243,434,961) | | | 269,455,155 |
| MORTGAGE-BACKED SECURITIES 15.8% | | | |
| 170 | Banc of America Alternative Loan Trust, 6.00%, 1/25/36, CMO | Caa2/NR | 131,779 |
| 3,100 | Banc of America Funding Corp., 6.00%, 3/25/37, CMO | Caa2/CCC | 2,177,970 |
| 1,345 | Bear Stearns Adjustable Rate Mortgage Trust, 2.56%, 10/25/35, CMO, FRN | Caa1/BBB | 1,218,932 |
| 64 | Chase Mortgage Finance Corp., CMO, 2.949%, 12/25/35, FRN | NR/CCC | 61,927 |
| 1,750 | 5.025%, 3/25/37, FRN | Caa2/NR | 1,476,559 |
| 1,600 | 6.00%, 2/25/37 | Caa2/CCC | 1,302,414 |
| 1,200 | 6.00%, 7/25/37 | NR/CCC | 1,064,021 |
| 2,500 | 6.25%, 10/25/36 | Caa1/CCC | 2,248,997 |
| 558 | Citicorp Mortgage Securities, Inc., 5.50%, 4/25/37, CMO | Caa1/NR | 518,001 |
| 4,241 | Countrywide Alternative Loan Trust, CMO, 6.00%, 5/25/36 | Caa3/NR | 3,074,348 |
| 3,414 | 6.086%, 4/25/36, VRN | Ca/CCC | 2,381,274 |
| 1,358 | 6.25%, 11/25/36 | Caa3/NR | 1,082,247 |
| 689 | 6.50%, 8/25/36 | Ca/CC | 430,778 |
| 127 | Countrywide Home Loan Mortgage Pass Through Trust, CMO, 2.820%, 2/20/35, VRN | A3/AA- | 112,172 |
| 1,694 | 5.50%, 10/25/35 | Caa1/NR | 1,618,283 |
| 1,577 | 5.75%, 3/25/37 | NR/CCC | 1,400,711 |
| 1,180 | 6.00%, 5/25/36 | NR/CCC | 1,061,815 |
| 900 | 6.00%, 2/25/37 | NR/CCC | 739,341 |
| 375 | 6.00%, 4/25/37 | NR/CCC | 350,595 |
| 1,675 | 6.25%, 9/25/36 | B3/NR | 1,496,854 |

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| | | | |
|-------|---|--------|-----------|
| 745 | Credit Suisse Mortgage Capital Certificates, 6.00%, 2/25/37, CMO | NR/CCC | 682,632 |
| 394 | GSR Mortgage Loan Trust, CMO, 5.50%, 5/25/36 | NR/CCC | 361,642 |
| 7,878 | 6.00%, 2/25/36 | NR/CCC | 7,472,393 |

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value |
|--|--|-----------------------------|------------|
| \$81 | Harborview Mortgage Loan Trust, 2.956%, 7/19/35, CMO, VRN | Caa3/B | \$66,082 |
| 3,500 | JPMorgan Chase Commercial Mortgage Securities Corp., 5.653%, 3/18/51, CMO, VRN (a) (d) JPMorgan Mortgage Trust, CMO, | A1/NR | 3,485,561 |
| 2,117 | 5.00%, 3/25/37 | NR/CCC | 1,734,721 |
| 980 | 5.682%, 1/25/37, VRN | Caa2/NR | 821,170 |
| 522 | 6.00%, 8/25/37 | NR/CCC | 475,709 |
| 1,000 | Morgan Stanley Reremic Trust, 5.808%, 8/12/45, CMO, VRN (a) (d) | A3/NR | 1,023,661 |
| 1,468 | Residential Asset Securitization Trust, CMO, 5.75%, 2/25/36 | Caa3/D | 1,116,415 |
| 597 | 6.00%, 9/25/36 | Ca/D | 374,320 |
| 1,538 | 6.00%, 7/25/37 | NR/CCC | 1,168,599 |
| 634 | Residential Funding Mortgage Securities I, CMO, 6.00%, 9/25/36 | Caa1/CCC | 572,554 |
| 1,200 | 6.00%, 1/25/37 | Caa2/NR | 1,062,196 |
| 6,722 | 6.00%, 6/25/37 | NR/CC | 5,897,251 |
| 4,049 | Suntrust Adjustable Rate Mortgage Loan Trust, CMO, FRN, 5.578%, 4/25/37 | NR/CCC | 3,469,907 |
| 597 | 5.833%, 2/25/37 | NR/CCC | 468,759 |
| 1,000 | WaMu Mortgage Pass Through Certificates, CMO, 5.724%, 2/25/37, FRN | NR/CCC | 890,600 |
| 335 | 5.852%, 9/25/36, VRN | NR/CCC | 266,217 |
| 334 | Wells Fargo Mortgage-Backed Securities Trust, CMO, 2.896%, 4/25/36, VRN | NR/BB+ | 296,796 |
| 601 | 4.338%, 7/25/36, FRN | NR/CCC | 490,876 |
| 5,673 | 5.433%, 7/25/36, FRN | NR/CCC | 4,703,934 |
| 1,000 | 5.75%, 3/25/37 | Caa2/NR | 864,933 |
| 594 | 6.00%, 6/25/37 | Caa1/NR | 563,774 |
| 700 | 6.00%, 7/25/37 | B3/BB | 662,048 |
| Total Mortgage-Backed Securities (cost-\$57,103,449) | | | 62,941,768 |
| MUNICIPAL BONDS 7.3% | | | |
| California 0.6% | | | |
| 1,100 | Oakland Unified School Dist., Alameda Cnty., GO, 9.50%, 8/1/34 | A1/BBB+ | 1,192,554 |
| 1,000 | Riverside Rev., 7.605%, 10/1/40 | NR/AA- | 997,140 |
| | | | 2,189,694 |
| Ohio 4.4% | | | |
| 16,000 | American Municipal Power-Ohio, Inc. Rev., 8.084%, 2/15/50, Ser. B | A3/A | 17,689,120 |
| Texas 2.3% | | | |
| 9,000 | North Texas Tollway Auth. Rev., 8.91%, 2/1/30 | Baa3/NR | 9,223,020 |
| Total Municipal Bonds (cost-\$27,144,925) | | | 29,101,834 |

Shares

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CONVERTIBLE PREFERRED STOCK 2.0%

Financial Services 0.7%

| | | | |
|-------|---|---------|-----------|
| 2,700 | Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (g) | Baa3/A- | 2,814,750 |
|-------|---|---------|-----------|

Utilities 1.3%

| | | | |
|--------|--------------------------|-------|-----------|
| 98,000 | PPL Corp., 9.50%, 7/1/13 | NR/NR | 5,321,400 |
|--------|--------------------------|-------|-----------|

| | | | |
|--|--|--|-----------|
| Total Convertible Preferred Stock (cost-\$7,163,145) | | | 8,136,150 |
|--|--|--|-----------|

PIMCO Income Strategy Fund

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2011 (unaudited) (continued)

| Shares | | | Credit Rating (Moody s/S&P) | Value |
|--|--|---|--------------------------------|-------------|
| PREFERRED STOCK 2.0% | | | | |
| Banking 1.1% | | | | |
| 78,000 | | CoBank Acb, 11.00%, 7/1/13, Ser. C (a) (b) (d) (g) (k) (l) (acquisition cost-\$4,290,000; purchased 8/31/10) | NR/A | \$4,358,250 |
| Diversified Financial Services 0.4% | | | | |
| 60,000 | | Citigroup Capital XIII, 7.875%, 10/30/15 (l) | Ba1/BB+ | 1,603,800 |
| Real Estate Investment Trust 0.5% | | | | |
| 1,800 | | Sovereign Real Estate Investment Trust, 12.00%, 5/16/20 (a) (d) (g) | Baa3/BBB+ | 2,056,500 |
| Total Preferred Stock (cost-\$7,738,500) | | | | 8,018,550 |
| Principal Amount (000s) | | | | |
| SENIOR LOANS (a) (c) 1.5% | | | | |
| Consumer Products 0.3% | | | | |
| \$1,000 | | National Mentor, Inc., 2.56%, 6/29/12 (b) (k) (acquisition cost-\$998,250; purchased 9/26/06) | | 940,000 |
| Financial Services 0.4% | | | | |
| 1,492 | | CIT Group, Inc., 6.25%, 8/11/15, Term 3 | | 1,531,570 |
| Multi-Media 0.8% | | | | |
| AUD2,766 | | Seven Media Group, Term T1, 6.908%, 2/7/13 | | 2,685,035 |
| AUD649 | | 7.105%, 2/7/13 | | 630,073 |
| Total Senior Loans (cost-\$5,282,215) | | | | 5,786,678 |
| ASSET-BACKED SECURITIES 0.9% | | | | |
| \$1,473 | | Asset-Backed Funding Certificates, 0.48%, 5/25/37, FRN (a) (d) | B3/B- Caa3/CCC | 1,325,241 |
| 1,158 | | GSAA Trust, 6.295%, 6/25/36 | | 756,434 |
| 1,044 | | MASTR Asset-Backed Securities Trust, 5.233%, 11/25/35 | A1/BBB | 957,901 |
| 800 | | Morgan Stanley Mortgage Loan Trust, 6.25%, 7/25/47, VRN | Caa2/CCC | 586,209 |
| Total Asset-Backed Securities (cost-\$3,246,976) | | | | 3,625,785 |
| SHORT-TERM INVESTMENTS 2.7% | | | | |
| Corporate Notes 1.3% | | | | |
| Financial Services 1.3% | | | | |
| 1,425 | | Ally Financial, Inc., 6.875%, 9/15/11 | B3/B | 1,460,093 |
| 3,900 | | American General Finance Corp., 0.552%, 12/15/11, FRN | B3/B | 3,745,482 |
| Total Corporate Notes (cost-\$4,714,999) | | | | 5,205,575 |
| U.S. Treasury Obligations 0.0% | | | | |
| 127 | | | | 126,985 |

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U.S. Treasury Bills, 0.142%, 3/3/11
(h) (n) (cost-\$126,985)

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2011 (unaudited) (continued)

| Principal Amount (000s) | | Value |
|---|---|----------------------|
| Repurchase Agreements 1.4% | | |
| \$3,600 | Credit Suisse Securities (USA) LLC, dated 1/31/11, 0.23%, due 2/1/11, proceeds \$3,600,023; collateralized by U.S. Treasury Notes, 2.625%, due 1/31/18, valued at \$3,665,892 including accrued interest | \$3,600,000 |
| 1,673 | State Street Bank & Trust Co., dated 1/31/11, 0.01%, due 2/1/11, proceeds \$1,673,000; collateralized by U.S. Treasury Notes, 1.375%, due 5/15/13, valued at \$1,706,658 including accrued interest | 1,673,000 |
| Total Repurchase Agreements (cost-\$5,273,000) | | 5,273,000 |
| Total Short-Term Investments (cost-\$10,114,984) | | 10,605,560 |
| Total Investments (cost-\$361,229,155) 100.0% | | \$397,671,480 |

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PIMCO Income Strategy Fund II Schedule of Investments

January 31, 2011 (unaudited)

Principal
Amount
(000s)

CORPORATE BONDS & NOTES 65.8%

Airlines 2.3%

American Airlines Pass Through Trust,
\$4,560 8.608%, 10/1/12
8,282 9.73%, 9/29/14
3,834 10.18%, 1/2/13
924 United Air Lines Pass Through Trust, 10.40%, 5/1/18

Banking 9.2%

5,500 AgFirst Farm Credit Bank, 7.30%, 2/28/11 (a) (b) (d) (g) (k)
(acquisition cost-\$4,709,000; purchased 2/26/10-4/15/10)
£13,600 Barclays Bank PLC, 14.00%, 6/15/19 (g)
\$6,700 BBVA Bancomer S.A., 7.25%, 4/22/20 (a) (d)
20,000 Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 6.875%, 3/19/20
\$2,000 Den Norske Bank ASA, 7.729%, 6/29/11 (a) (d) (g)
1,400 HBOS PLC, 6.75%, 5/21/18 (a) (d) (j)
1,675 Regions Financial Corp., 7.375%, 12/10/37

Chemicals 0.6%

4,320 Lyondell Chemical Co., 8.00%, 11/1/17 (a) (d)

Energy 1.6%

10,229 AES Red Oak LLC, 8.54%, 11/30/19
2,300 Dynegy Roseton/Danskammer Pass Through Trust, 7.67%, 11/8/16, Ser. B

Financial Services 31.7%

Ally Financial, Inc.,
30 2.892%, 3/15/12, FRN
416 5.25%, 1/15/14
315 5.35%, 1/15/14

130 Mr. Nikolaus has been president and chief executive officer of Donegal Mutual since 1981 and a director of Donegal Mutual since 1972. He served as our president and chief executive officer from 1986 to July 16, 2015 and has been chairman of our board of directors since April 2012. Mr. Nikolaus also serves as the chairman of the board of directors of UCB and as chairman of the board or president of each of our insurance subsidiaries as well as Conestoga Title Insurance Company. Prior to the formation of the predecessor to UCB, Mr. Nikolaus served as a director of several regional banks. Mr. Nikolaus has also served as chairman of the Insurance Federation of Pennsylvania. Mr. Nikolaus has been a partner in the law firm of Nikolaus & Hohenadel since 1972. Mr. Nikolaus also currently serves as an executive officer and director of several Lancaster County-based water utilities unaffiliated with Donegal Mutual or us. The leadership and accomplishments of Mr. Nikolaus as our chief executive officer for over 25 years provides a strong foundation for the continuation of Mr. Nikolaus as a member of our board of directors.

Mr. Wampler is a certified public accountant and served as a principal of the accounting firm of Brown Schultz Sheridan & Fritz from 1998 to 2005. For 28 prior years, Mr. Wampler was a partner in the accounting firm of KPMG LLP. His practice focused on property and casualty insurance companies. Mr. Wampler is also a member of the board of trustees of the Pennsylvania School Boards Association Insurance Trust and the boards of directors of its insurance subsidiaries. He also serves as a member of the board of directors of a medical professional liability insurer in Pennsylvania. We believe Mr. Wampler's background and financial expertise qualifies Mr. Wampler to serve on our board of directors and assist us in our analysis of statutory accounting principles as well as generally accepted accounting principles and in analyzing and maintaining internal controls over financial reporting.

Six of our 11 current directors also serve as directors of Donegal Mutual with which we have a variety of inter-company agreements providing for, among other things, the pooling of Atlantic States underwriting results with those of Donegal Mutual, reinsurance and expense-sharing. See The Relationship of Donegal Mutual and DGI. After the election of the nominees for Class C directors we name

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in this proxy statement, six of our 11 directors will also continue to serve as directors of Donegal Mutual. We believe our board membership appropriately represents our public stockholders, who collectively owned approximately one-fourth of the aggregate voting power of our outstanding shares of our Class A common stock and our outstanding shares of our Class B common stock at March 4, 2016, and Donegal Mutual, which owned approximately three-fourths of the aggregate voting power of our outstanding shares of our Class A common stock and our outstanding shares of our Class B common stock at March 4, 2016.

Our board of directors unanimously recommends that you vote FOR the election of our three nominees to serve as Class C directors for a term of three years and until the election of their respective successors and their respective successors take office.

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PROPOSAL 2

RATIFICATION OF THE APPOINTMENT BY OUR AUDIT COMMITTEE OF

KPMG LLP TO SERVE AS OUR INDEPENDENT REGISTERED PUBLIC

ACCOUNTING FIRM FOR 2016

Our audit committee has appointed KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2016. Although our By-laws do not require that we submit our audit committee's appointment of KPMG LLP to our stockholders for ratification, we do so as a matter of good corporate governance.

Representatives of KPMG LLP will attend our 2016 Annual Meeting and will respond to appropriate questions. The KPMG LLP representatives will also be able to make a statement during our 2016 Annual Meeting if any of them determine to do so.

Our board of directors recommends that you vote FOR the ratification of our audit committee's appointment of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2016.

Even if our stockholders ratify the appointment of KPMG LLP, our audit committee, in its discretion, may appoint a different independent registered public accounting firm at any time during 2016 if our audit committee determines that such a change would be in our best interests and in the best interests of our stockholders.

AUDIT AND NON-AUDIT FEES

Our audit committee approves the fees and other significant compensation we pay to our independent registered public accounting firm for the preparation and issuance of an audit report or related work incidental to the opinion. Our audit committee also approves all auditing services and permitted non-audit services, including the fees and terms for such services, to be performed for us by our independent registered public accounting firm, subject to the de minimis exceptions for non-audit services described in the Exchange Act. Our audit committee delegates to our audit committee chairman pre-approval authority for non-audit services up to \$25,000 subject to subsequent approval by the full audit committee at its next scheduled meeting.

Our audit committee reviewed and discussed with KPMG LLP the following fees for services KPMG LLP rendered to us during our 2015 fiscal year and considered whether KPMG LLP's performance of any non-audit services is compatible with KPMG LLP's independence.

Audit Fees. The fees of KPMG LLP we incurred in connection with the audit of our annual consolidated and statutory financial statements for those fiscal years, the reviews of the consolidated financial statements in our Form 10-Q quarterly reports and the services KPMG LLP performed on our behalf in connection with filings of registration statements and offerings for our fiscal years ended December 31, 2014 and 2015 were \$800,000 and \$867,000, respectively.

Audit-Related Fees. We did not pay KPMG LLP any audit-related fees during our fiscal years ended December 31, 2014 or 2015.

Tax Fees. We did not pay any tax fees to KPMG LLP during our fiscal years ended December 31, 2014 or 2015.

All Other Fees. We did not pay KPMG LLP any fees for other services during our fiscal years ended December 31, 2014 or 2015.

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Report of Our Audit Committee

The audit committee performs its responsibilities in accordance with the Exchange Act. Each of the members of the audit committee satisfies the independence and financial literacy requirements under applicable Exchange Act rules. Our board of directors believes that all five members of the audit committee, Robert S. Bolinger, Jack L. Hess, Barry C. Huber, Jon M. Mahan and Richard D. Wampler, II, each satisfy the financial expertise requirements and have the requisite experience the SEC's rules establish. The audit committee operates pursuant to a written charter. You may view the full text of our audit committee's charter on our website at www.donegalgroup.com. The audit committee reviews and reassesses the adequacy of its charter on an annual basis.

As provided in its charter, our audit committee undertakes the following primary responsibilities:

the selection of, appointment of, determination of funding for, compensation of, retention of and oversight of the work of our independent registered public accounting firm and the review of its qualifications and independence;

the approval, in advance, of all auditing services and all non-audit services to be performed by our independent registered public accounting firm;

the oversight of our accounting and financial reporting processes, including the overview of our financial reports and the reports of our internal audit staff;

the establishment of procedures for the receipt, retention and treatment of complaints we receive regarding accounting, internal accounting controls or auditing matters; and

the responsibility for reviewing reports and disclosures of all related person transactions, subject to the approval of the audit committee and the process set forth in our By-laws relating to the responsibilities of our coordinating committee.

The audit committee of our board of directors, in carrying out these responsibilities, performs many functions, including the following:

It monitors the preparation of our quarterly and annual financial reports by our management;

It supervises the relationship between us and our independent registered public accounting firm, including having direct responsibility for its appointment, compensation and retention, reviewing the scope of its audit services, approving audit and non-audit services and confirming the independence of our independent registered public accounting firm; and

It oversees management's implementation and maintenance of effective systems of internal and disclosure controls, including review of our policies relating to legal and regulatory compliance, ethics and conflicts of interest and review of our internal audit program.

Our senior executive officers who have primary responsibility for the accuracy and completeness of our financial statements and our reporting processes, including our system of internal control, have advised the members of our audit committee that our financial statements were prepared in accordance with accounting principles generally accepted in the United States, or GAAP.

The audit committee of our board of directors met nine times during 2015. Our audit committee schedules its meetings in order to have sufficient time to devote appropriate attention to all of its responsibilities. When it deems it appropriate, our audit committee holds meetings with our independent registered public accounting firm and with our internal auditors in executive sessions at which our senior executive officers are not present.

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The members of our audit committee rely, without independent verification, on the information and representations our senior executive officers provide to them and on the representations our independent registered public accounting firm makes to them. As a result, you should not construe the oversight that our audit

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committee provides as establishing an independent basis for a determination that our senior executive officers have established and maintain appropriate internal controls over financial reporting, that we have prepared our financial statements in accordance with GAAP or that our independent registered public accounting firm conducted its audit of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB).

As part of our audit committee s oversight of our financial reporting process, our audit committee reviews all annual and quarterly financial statements and discusses them with our independent registered public accounting firm and with our senior executive officers prior to the issuance of those financial statements. During 2015, our senior executive officers advised the audit committee that we had prepared each of these financial statements in accordance with GAAP, and our senior executive officers and representatives of our independent registered public accounting firm reviewed significant accounting and disclosure issues with our audit committee.

Our audit committee has reviewed and discussed our audited financial statements for the year ended December 31, 2015 with our management and with KPMG LLP. Our audit committee also discussed with KPMG LLP the matters the PCAOB Auditing Standard No. 16 requires regarding *Communication with Audit Committees*. Our audit committee has received the written disclosures and the letter from our independent registered public accounting firm the applicable provisions of the PCAOB require regarding independent registered public accounting firms communications with audit committees concerning independence and has discussed with KPMG LLP its independence.

Our audit committee also reviewed methods of enhancing the effectiveness of our internal and disclosure control systems. Our audit committee, as part of this process, analyzed steps we have taken to implement a continuing analysis of the improvement and efficiency of our internal control procedures.

Based on the reviews and discussions by our audit committee that we describe above, our audit committee recommended to our board of directors that our board of directors approve the inclusion of our audited financial statements for the year ended December 31, 2015 in our 2015 Annual Report on Form 10-K for filing with the SEC.

March 17, 2016

MEMBERS OF THE AUDIT COMMITTEE

OF DONEGAL GROUP INC.

Robert S. Bolinger

Jack L. Hess

Barry C. Huber

Jon M. Mahan

Richard D. Wampler, II

STOCKHOLDER PROPOSALS FOR OUR

2017 ANNUAL MEETING OF STOCKHOLDERS

Any stockholder who, in accordance with and subject to the provisions of Rule 14a-8 of the proxy rules of the SEC, wishes to submit a proposal for inclusion in our proxy statement for our 2017 annual meeting of stockholders must deliver such proposal and an appropriate supporting statement in writing to our corporate secretary, Sheri O. Smith, at our principal executive offices at 1195 River Road, P.O. Box 302, Marietta, Pennsylvania 17547, not later than November 21, 2016. The e-mail address of Ms. Smith is sherismith@donegalgroup.com.

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Section 2.3 of our By-laws provides that if a stockholder wishes to present at our 2017 annual meeting of stockholders either nominations of persons as candidates for election to the class of our board of directors whose terms expire in 2017 upon the election and taking of office of their successors or an item of business for

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stockholder action other than pursuant to Rule 14a-8 of the proxy rules of the SEC, the stockholder must comply with the provisions relating to stockholder proposals in our By-laws. We summarize these by-law provisions below. We must receive written notice of any such proposal that includes all of the information our By-laws require, to the attention of our corporate secretary, Sheri O. Smith, at our principal executive offices at 1195 River Road, P.O. Box 302, Marietta, Pennsylvania 17547, during the period that begins on November 21, 2016 and that ends on December 21, 2016.

A written proposal of nomination of a candidate for election as a director must set forth:

the name and address of the proposing stockholder, as the same appears on our stock register, or the proponent who intends to make the nomination;

as to each person whom the proponent nominates for election or reelection as a director, the proponent must disclose all information relating to such person that the proxy rules under the 1934 Act require to be disclosed in a solicitation by an issuer of proxies for the election of directors;

the principal occupation or employment for the past five years of each person whose nomination the proponent intends to make;

a description of any arrangement or understanding between each person whose nomination the proponent proposes and the proponent with respect to such person's nomination for election as a director and actions such person proposes to take;

the written consent of each person so nominated to serve as a director if elected as a director; and

the number of shares of our Class A common stock and the number of shares of our Class B common stock the proponent owns beneficially within the meaning of SEC Rule 13d-3 as well as the number of shares the proponent owns of record. As to any other item of stockholder business that the proponent intends to bring before our 2017 annual meeting of stockholders, the written proposal must set forth:

a brief description of such item of stockholder business;

the proponent's reasons for presenting that item of stockholder business at our 2017 annual meeting of stockholders;

any material interest of the proponent in that item of stockholder business;

the name and address of the proponent; and

the number of shares of our Class A common stock and the number of shares of our Class B common stock the proponent owns beneficially within the meaning of SEC Rule 13d-3 as well as the number of shares the proponent owns of record. Only candidates stockholders nominate for election as a member of a class of our board of directors in accordance with our by-law provisions as we summarize those provisions in this proxy statement will be eligible for election as a member of a class of our board of

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directors at our 2017 annual meeting of stockholders. A written proposal relating to stockholder approval of any item of stockholder business other than a nomination for election as a director must include information regarding the matter the stockholder proposes for stockholder action equivalent to the information required under the proxy rules of the SEC if the proponent was to solicit proxies for stockholder consideration and approval of the proposed action at a meeting of stockholders.

At our 2017 annual meeting of stockholders, we will only transact such business as shall have been brought before our 2017 annual meeting of stockholders in accordance with the procedures our by-law provisions establish, as we summarize those procedures in this proxy statement or pursuant to SEC Rule 14a-8. The chairman of our 2017 annual meeting of stockholders will have the discretion to determine if a nomination or another item of stockholder business has been proposed in accordance with the procedures we set forth in our By-laws and summarize in this proxy statement. Only stockholder proposals submitted in accordance with the by-law provisions

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we previously summarize in this proxy statement or pursuant to SEC Rule 14a-8 will be eligible for presentation at our 2017 annual meeting of stockholders, and we will not consider any matter at our 2017 annual meeting of stockholders not submitted in accordance with the procedures we describe in this proxy statement.

HOUSEHOLDING

We may, unless we receive contrary instructions from you, send a single copy of our annual report, proxy statement and notice of annual or special meeting to any household at which two or more stockholders reside if we believe the stockholders are members of the same family.

If you would like to receive our annual disclosure documents directly in future years rather than from your broker or other nominee holder, or if you and another stockholder share an address and you and the other stockholder would like to receive individual copies of our annual disclosure documents, you should follow these instructions:

If your shares are registered in your own name, please contact our transfer agent and inform it of your request to revoke or institute householding by calling Computershare Trust Company, N.A. at (800) 317-4445 or writing to Computershare Trust Company, N.A., at P.O. Box 30170, College Station, Texas 77842-3170. Computershare Trust Company, N.A. will respond to your request within 30 days.

If a bank, broker, nominee or other holder of record holds your shares, please contact your bank, broker, nominee or other holder of record directly.

DIRECTOR STOCKHOLDER COMMUNICATIONS

Stockholders who wish to communicate with our board of directors or with one or more individual members of our board may do so by sending their communication in writing addressed to a particular director or directors, or, in the alternative, to Non-Management Directors as a group. Please send your communication to our corporate secretary, Sheri O. Smith, at our principal executive offices at 1195 River Road, P.O. Box 302, Marietta, Pennsylvania 17547 or by e-mail to sherismith@donegalsgroup.com with a request that our corporate secretary promptly forward all such communications to the addressee or addressees set forth in the communication. However, we reserve the right not to forward to board members any abusive, threatening or otherwise inappropriate materials.

We encourage our directors to attend our annual meetings of stockholders. All of our directors attended our annual meeting of stockholders in 2015.

OTHER MATTERS

Our board of directors does not know of any matter to be presented for consideration at our 2016 Annual Meeting other than the matters we have described in the notice of annual meeting and in this proxy statement. However, if any stockholder properly presents such a matter in accordance with our advance notice By-laws and applicable law, we will vote the proxies we receive from our stockholders, in accordance with the recommendation of our board of directors or, in the absence of such a recommendation, in accordance with the judgment of the persons named as proxies in our form of proxy card.

By order of our board of directors,

Donald H. Nikolaus,

Chairman of the Board
March 21, 2016

Kevin G. Burke,

President and Chief Executive Officer

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DONEGAL GROUP INC.

ATTN: JEFFREY D. MILLER

1195 RIVER RD, P.O. BOX 302

MARIETTA, PA 17547

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time April 20, 2016. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time April 20, 2016. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

| The Board of Directors recommends you vote FOR the following nominees for Class C Director | For | Withhold | For All Except | To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below. |
|---|------------|-------------------|-----------------------|---|
| 1. Election of Directors Nominees | .. | .. | .. | |
| 01 Scott A. Berlucchi | | 02 Barry C. Huber | | 03 S. Trezevant Moore, Jr. |

The Board of Directors recommends you vote FOR the following proposal:

| | For | Against | Abstain |
|--|------------|----------------|----------------|
| 2 Ratification of KPMG LLP as our independent registered public accounting firm for 2016. | .. | .. | .. |

NOTE: In their discretion, our proxies are authorized to vote upon such other business as may properly come before our annual meeting and any adjournment or postponement thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE
SIGN WITHIN
BOX] Date

Signature
(Joint Owners)

Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice, Proxy Statement and Annual Report is/are available at www.proxyvote.com.

DONEGAL GROUP INC.

Annual Meeting of Stockholders

April 21, 2016 10:00 AM

This proxy is solicited by the board of directors

The undersigned hereby appoints Daniel J. Wagner and Jeffrey D. Miller, and each or either of them, proxies of the undersigned, with full power of substitution, to vote all of the shares of Class A common stock and Class B common stock of Donegal Group Inc. (the Company) that the undersigned may be entitled to vote at the Annual Meeting of Stockholders of the Company to be held at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601, on April 21, 2016 at 10:00 a.m., and at any adjournment or postponement thereof, as set forth on the reverse side of this proxy card.

You are encouraged to specify your choices by marking the appropriate boxes, SEE REVERSE SIDE, but you need not mark any boxes if you wish to vote in accordance with our board of directors recommendations.

Continued and to be signed on reverse side