

PIMCO CORPORATE & INCOME STRATEGY FUND
Form N-CSR
January 07, 2014

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 811-10555

PIMCO Corporate & Income Strategy Fund
(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 end: October 31, 2013

Date of reporting period: October 31, 2013

Item 1: Report to Shareholders

Table of Contents

2	3	Letter from Chairman of the Board & President
4	5	Fund Insights
6	7	Performance & Statistics
8	39	Schedules of Investments
40		Statements of Assets and Liabilities
41		Statements of Operations
42	43	Statements of Changes in Net Assets
44		Statement of Cash Flows
45	67	Notes to Financial Statements
68	69	Financial Highlights
70		Report of Independent Registered Public Accounting Firm
71-73		Tax Information/Annual Shareholder Meeting Results/Changes in Investment Policy/Loan Investments and Origination
74-78		Matters Relating to the Trustees Consideration of the Investment Management & Portfolio Management Agreements
79-80		Privacy Policy/Proxy Voting Policies & Procedures
81-82		Dividend Reinvestment Plan
83-84		Board of Trustees
85		Fund Officers

Letter from Chairman of the Board & President

Dear Shareholder:

The US economy expanded during the 12-month fiscal reporting period ended October 31, 2013. However, the level of growth was far from robust and unemployment, while declining, remained elevated from a historical perspective. The US stock market was resilient and generated very strong results. Lower rated corporate bonds also performed well during the fiscal period.

For the 12-month reporting period ended October 31, 2013:

Hans W. Kertess

n PIMCO Corporate & Income Strategy Fund advanced 11.20% on net asset value (NAV) and 3.48% on market price. *Chairman*

n PIMCO Income Opportunity Fund rose 13.65% on NAV and 6.81% on market price.

During the reporting period, the US experienced choppy, but continued growth. Gross domestic product (GDP), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, grew at an annual pace of 0.1% during the fourth quarter of 2012, as private inventory investment and federal government spending moderated. However, annual GDP growth rose to 1.1% during the first quarter and 2.5% during the second quarter of 2013. The US Commerce Department's estimate for third quarter 2013 GDP growth is 3.6%. Supporting the economy were continuing signs of the long-awaited recovery in the housing market. In addition, while unemployment remained high, the unemployment rate declined during the reporting period.

Brian S. Shlissel

President & CEO

The Federal Reserve (the Fed) maintained an accommodative monetary policy throughout the reporting period. However, with unemployment falling and signs of improving economic activity, in June 2013 the Fed announced its intention to begin tapering its monthly \$85 billion asset purchase program. This triggered sharply rising yields and declining bond prices. However, the Fed surprised many investors by choosing not to begin tapering its asset purchase program at its meeting in September 2013. This caused yields to decline somewhat from their reporting period peak that occurred in early September. All told, US Treasury bond interest rates moved sharply higher during the 12-month fiscal period, with the yield on the benchmark 10-year Treasury bond rising from 1.72% to 2.57%.

Outlook

Market volatility was elevated at times during the reporting period. This was partially triggered by concerns regarding the Fed's plans to taper its asset purchase program, mixed global growth and the 16 day partial US government shutdown that began on October 1, 2013.

Receive this report electronically and eliminate paper mailings.

To enroll, visit:

We expect the Fed's policy stance to remain accommodative for longer than some investors currently anticipate. The Fed's tapering of its asset purchase program is likely to create greater volatility, but we believe the Fed will only raise short-term interest rates if it is confident the economic recovery is on solid footing. Concerns of higher mortgage rates impacting the housing market, geopolitical issues, and continued dysfunction in Washington DC may also contribute to market volatility. us.allianzgi.com/edelivery.

With respect to the US economy, in the wake of the Fed's decision in September and October not to taper its bond buying program, some investors may be concerned that the economy is deteriorating. However, recent data indicates continuing improvement in economic conditions, particularly in manufacturing. It appears the Fed's decision was more preventative in nature, intended to avoid derailing the housing recovery and to offset a drag on the economy created by the government shutdown and concerns related to the raising of the debt ceiling.

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

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

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess
Chairman of the Board of Trustees

Brian S. Shlissel
President & Chief Executive Officer

Fund Insights

PIMCO Corporate & Income Strategy Fund

PIMCO Income Opportunity Fund

October 31, 2013 (unaudited)

For the 12 months ended October 31, 2013, PIMCO Corporate & Income Strategy Fund returned 11.20% on NAV and 3.48% on market price.

For the 12 months ended October 31, 2013, PIMCO Income Opportunity Fund returned 13.65% on NAV and 6.81% on market price.

The US fixed income market experienced periods of elevated volatility during the 12-month reporting period ended October 31, 2013. This was triggered by a number of factors, including the fiscal cliff and sequestration, the Federal Reserve's (the Fed) announcement of a possible shift in monetary policy, the European sovereign debt crisis, geopolitical issues and the 16 day partial shutdown of the federal government. All told, both short- and long-term Treasury yields rose and the yield curve steepened during the reporting period. Spread sectors (non-US Treasuries) achieved mixed results during the reporting period, with high yield bonds contributing the strongest returns.

Compared to the -1.08% return for the overall US fixed income market (as measured by the Barclays US Aggregate Index), high yield and investment grade bonds returned 8.87% and -1.58%, respectively (as measured by the Barclays US High Yield and Barclays US Credit Indices) for the 12 month fiscal period.

Given strong overall investor demand, on a total return basis, in most cases, lower rated, higher yielding investment grade corporate bonds generally outperformed higher quality corporate bonds. For instance, AAA-, AA-, A and BBB-rated issues, as measured by the Barclays US Credit Index, returned -0.55%, -2.14%, -1.68%, and -1.54%, respectively, during the 12 months ended October 31, 2013. Within the high yield market, BB-rated issues returned 6.25%, versus 8.91% for B-rated securities, as measured by the Barclays US High Yield Index.

Corporate & Income Strategy

Sector and duration positioning drive results

An overweighting to the banking and life insurance sectors contributed to results, as these issues outperformed the credit market as measured by the Fund's benchmark, the 80% Barclays Credit/20% BofA Merrill Lynch BB/B Constrained Index (the Index),¹ during the reporting period. An overweighting to electric utilities was positive for returns due to its outperformance versus the Index. An allocation to non-agency residential mortgage-backed securities was positive for performance as this asset class outperformed

¹ The Barclays U.S. Credit Index consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. It includes both corporate and non-corporate sectors. The corporate sectors are Industrial,

Edgar Filing: PIMCO CORPORATE & INCOME STRATEGY FUND - Form N-CSR

Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. The BofA Merrill Lynch BB/B Constrained Index tracks the performance of BB-B Rated U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Qualifying bonds are capitalization-weighted provided the total allocation to an individual issuer (defined by Bloomberg tickers) does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face value of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. It is not possible to invest directly in an unmanaged index.

the Index. The Fund's duration positioning was also rewarded, as the Fund was targeted to have a shorter duration than that of the Index and rates moved sharply higher during the reporting period.

On the downside, an underweighting to technology and energy was negative for results as these sectors outperformed the Index.

PIMCO Income Opportunity

Sector positioning and duration positioning drive results

The Fund produced strong absolute returns during the 12-month reporting period. An allocation to non-agency mortgage-backed securities was a significant contributor to results, as this asset class generally outperformed the broader market. The sector was supported by a number of factors, including overall strong investor demand for higher yielding assets, improving collateral performance, signs of a bottom in housing and continuing positive supply technicals. An emphasis on select financials issues was beneficial to performance, as these securities generally outperformed the broad credit market during the reporting period. The Fund's allocation to high yield bonds enhanced performance, as spreads tightened amid robust investor demand and continued low defaults. Less sensitivity to rising interest rates and the higher coupons available from high yield bonds also added to returns. Finally, a short duration contributed to the Fund's performance, as rates rose sharply during the reporting period.

On the downside, a tactical allocation to emerging market debt detracted from performance, as the asset class underperformed the broad credit market during the reporting period.

Performance & Statistics

PIMCO Corporate & Income Strategy Fund

October 31, 2013 (unaudited)

Total Return⁽¹⁾	Market Price	NAV
1 Year	3.48%	11.20%
5 Year	24.96%	28.64%
10 Year	12.52%	12.42%
Commencement of Operations (12/21/01) to 10/31/13	12.35%	12.70%

Market Price/NAV Performance

Commencement of Operations (12/21/01) to 10/31/13

NAV
Market Price

Market Price/NAV

Market Price	\$17.15
NAV	\$16.04
Premium to NAV	6.92%
Market Price Yield ⁽²⁾	7.87%
Leverage Ratio ⁽³⁾	21.63%

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

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

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end

Edgar Filing: PIMCO CORPORATE & INCOME STRATEGY FUND - Form N-CSR

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 dividend per common share (comprised of net investment income) by the market price per common share at October 31, 2013.

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

Performance & Statistics**PIMCO Income Opportunity Fund**

October 31, 2013 (unaudited)

Total Return(1)	Market Price	NAV
1 Year	6.81%	13.65%
5 Year	22.69%	23.03%
Commencement of Operations (11/30/07) to 10/31/13	14.07%	14.99%

Market Price/NAV Performance

Commencement of Operations (11/30/07) to 10/31/13

Market Price/NAV

Market Price

\$28.90

NAV

\$28.67

NAV

Premium to NAV

0.80%

Market Price

Market Price Yield(2)

7.89%

Leverage Ratio(3)

24.55%

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

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

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

outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per share (comprised of net investment income and short-term capital gains, if any) by the market price per share at October 31, 2013.

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

October 31, 2013 | Annual Report 7

Schedule of Investments

PIMCO Corporate & Income Strategy Fund

October 31, 2013

Principal Amount (000s)		Value
Mortgage-Backed Securities	41.2%	
\$386	American Home Mortgage Assets Trust, 0.40%, 9/25/46, CMO (j)	\$36,906
9,522	Banc of America Alternative Loan Trust, CMO, 5.50%, 10/25/35	8,448,051
272	6.00%, 1/25/36	214,027
5,423	Banc of America Funding Trust, CMO, 6.00%, 3/25/37	4,815,742
688	6.00%, 7/25/37	532,674
21,318	6.00%, 8/25/37	18,439,162
4,700	Banc of America Mortgage Trust, CMO, 5.50%, 11/25/35	4,632,311
418	6.50%, 9/25/33	432,460
2,500	BCAP LLC Trust, 5.514%, 3/26/37, CMO (a) (c) (j)	663,694
11,266	Bear Stearns Adjustable Rate Mortgage Trust, 2.752%, 8/25/35, CMO (j)	9,508,770
2,441	Bear Stearns ALT-A Trust, CMO (j), 2.61%, 11/25/36	1,645,627
1,632	2.804%, 8/25/36	1,134,418
1,622		