

PIMCO Dynamic Credit Income Fund
Form N-CSR
March 04, 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: 811-22758

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

1633 Broadway, New York, New York 10019
(Address of principal executive offices) (Zip code)

Lawrence G. Altadonna 1633 Broadway, New York, New York 10019

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(Name and address of agent for service)

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

Date of fiscal year end: December 31, 2013

Date of reporting period: December 31, 2013

ITEM 1. REPORT TO SHAREHOLDERS

PCM Fund, Inc.

PIMCO Dynamic Credit Income Fund

Annual Report

December 31, 2013

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* Consolidated For PIMCO Dynamic Credit Income Fund only

Letter from Chairman of the Board & President

Hans W. Kertess

Chairman of the Board

Brian S. Shlissel

President & Chief Executive Officer

Dear Stockholders/Shareholders:

The US economy expanded throughout the 12-month fiscal reporting period ended December 31, 2013. In contrast, growth in many other developed countries was generally less robust. Demand for equities and lower-rated/higher-yielding fixed income securities was solid as investors sought incremental returns in the relatively low interest rate environment.

For the annual reporting period ended December 31, 2013:

n PCM Fund, Inc. returned 8.31% on net asset value (NAV) and 6.49% on market price.

n PIMCO Dynamic Credit Income Fund returned 9.09% on NAV and -2.79% on market price since its inception on January 31, 2013.

For the 12-month reporting period ended December 31, 2013, the US Treasury market, as measured by the Barclays US Treasury Index, declined 1.34% and the Barclays Fixed Rate MBS Index, which measures the performance of investment grade fixed-rate mortgage backed securities, fell 1.45%. The Barclays US Aggregate Index, a broad measure of government and corporate bond performance, dropped 2.02% and the Barclays US Credit Index, a measure of corporate bond performance, declined 2.03%.

During the reporting period, economic growth in the US accelerated. Looking back, 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 2012, as private inventory investment and federal government spending contracted. Annual GDP growth rose to 1.1% and 2.5% during the first and second quarters of 2013,

respectively. The US Commerce Department reported that GDP growth for the third quarter of 2013 registered 4.1%, the largest rate of growth since the fourth quarter of 2011. This improvement was partially due to an increase in private inventory investment and decelerating imports. Unemployment declined during the reporting period, although this was partially triggered by the reduction in the labor participation rate.

The Federal Reserve (the Fed) maintained an accommodative monetary policy during the reporting period. However, at its meeting in December 2013, the Fed announced that it would begin tapering the monthly asset purchase program beginning in January 2014. The central bank expects to pare its monthly purchases from \$85 billion to \$75 billion. The Fed also reiterated that tapering does not signify that the Fed would raise interest rates anytime soon, indicating, it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5%. Regardless, 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 1.78% to 3.04%, the highest level since July 2011.

Outlook

Looking at the global economy, the US was highly resilient and appeared to overcome the headwinds associated with higher taxes, the sequestration, a partial federal government shutdown and rising interest rates. Significant monetary policy accommodation, along with a weakening yen, supported Japan's economy. While the euro zone finally emerged from its lengthy recession, growth was lackluster. Elsewhere, growth in many emerging market countries surpassed that of more developed

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countries. Still, the pace of growth for many emerging market countries moderated during the reporting period.

Despite the Fed's recent tapering, we expect the central bank will maintain an easy monetary stance for sometime. While Fed tapering could lead to periods of volatility, policymakers have made it clear they do not intend to raise short term rates for an extended period. That being said, concerns of higher mortgage rates impacting the housing market, ongoing geopolitical issues, and continued dysfunction in Washington DC will likely contribute to market volatility.

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 are 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

Brian S. Shlissel
President & Chief Executive Officer

Fund Insights

PCM Fund, Inc.

December 31, 2013 (unaudited)

For the 12-month annual reporting period ended December 31, 2013, PCM returned 8.31% on net asset value and 6.49% on market price, outperforming the unmanaged Barclays Investment Grade CMBS Index¹ (the benchmark index), which returned 0.23% during the reporting period.

The US fixed income market experienced periods of elevated volatility during the reporting period. This was triggered by a number of factors, including the fiscal cliff and sequestration, the Fed's announcement of a shift in monetary policy, the European sovereign debt crisis, geopolitical issues and the 16 day partial federal government shutdown. All told, both short- and long-term Treasury yields rose and the yield curve steepened during the period.

Most spread sectors (non-US Treasuries) posted negative returns, but generally outperformed equal-duration Treasuries during the 12 months ended December 31, 2013. One notable exception was high yield corporate bonds, as the Barclays High Yield Bond Index gained 7.44% during the reporting period. In contrast, the overall US fixed income market (as measured by the Barclays US Aggregate Index) declined 2.02%, while the commercial mortgage-backed securities (CMBS) market,

as measured by the benchmark index, rose 0.23%. The CMBS market's relative outperformance was due to generally solid investor demand and signs that the economy was building some momentum. Within the CMBS market, lower rated securities outperformed higher rated investments, as fixed-rate BBB CMBS returned 30.6%, compared to -0.47% for fixed-rate AAA CMBS.

Spread sector exposures generally produced positive results

The Fund's exposure to the banking sector contributed to performance during the reporting period. Strong results were generated due to improving fundamentals and ongoing global central bank liquidity injections. An allocation to non-agency mortgage-backed securities also positively contributed to performance. This sector benefited from robust investor demand with investors looking to generate incremental yield in the relatively low interest rate environment. Also supporting non-agency mortgage-backed securities were continuing signs of a rebound in the housing market.

Detracting from performance was the Fund's allocation to super-senior CMBS as CMBS positioned high in the capital structure underperformed the lower rated (less senior) portion of the CMBS capital structure.

(1) The Barclays Investment Grade CMBS Index is an index designed to mirror commercial mortgage-backed securities (CMBS) of investment grade quality (Baa3/BBB-/BBB- or above) using Moody's, S&P, and Fitch respectively, with maturity of at least one year.

Fund Insights

PIMCO Dynamic Credit Income Fund

December 31, 2013 (unaudited)

For the period from inception on January 31, 2013 through December 31, 2013 (the reporting period), PIMCO Dynamic Credit Income Fund (the Fund) returned 9.09% on net asset value (NAV) and -2.79% on market price. In comparison, the Barclays Global Credit Index, the Barclays Global High Yield Index and the Credit Suisse Leveraged Loan Index returned 1.23%, 5.77% and 4.98%, respectively, during this period.

The US fixed income market experienced periods of elevated volatility during the reporting period. This was triggered by a number of factors, including the fiscal cliff and sequestration, the Fed's announcement of a shift in monetary policy, the European sovereign debt crisis, geopolitical issues and the 16 day partial federal government shutdown. All told, both short- and long-term Treasury yields rose and the yield curve steepened during the period. Most spread sectors (non-US Treasuries) posted negative returns, but generally outperformed equal-duration Treasuries during the reporting period ended December 31, 2013.

Sector exposures largely contribute to performance

An allocation to non-agency residential mortgage-backed securities was one of the primary contributors to performance, as prices of non-agency residential mortgage-backed securities continued to appreciate on an improving US housing market. The Fund's emphasis on lower rated corporate bonds also

contributed significantly to performance, as high yield bonds outperformed the broad credit market on higher coupon income and lower rate sensitivity. Within the high yield space, the Fund's short-dated high yield exposure through high yield credit derivatives was positive, as high yield spreads tightened sharply during the period. An overweighting to banking and specialty financial companies, as well as an allocation to construction companies positively contributed to results, as these issues outperformed the broad credit market due to strengthening fundamentals and a close linkage to the improving US housing market. Security selection within telecommunication, media, and raw materials also enhanced Fund performance.

On the downside, tactical exposure to emerging markets (EM) detracted from performance, as EM bonds lagged the overall credit market during the reporting period; EM spreads widened on a weaker economic growth outlook and geopolitical risks. The Fund's long duration positioning hindered performance, as rates increased during the period.

PIMCO remains cautious on the credit sector as the continuation of global de-leveraging, regulatory uncertainty and unknown monetary policy action may lead to future bouts of volatility. We believe a focus on security selection should make the Fund less likely to be adversely impacted by the ongoing de-leveraging process.

Performance & Statistics

PCM Fund, Inc.

December 31, 2013 (unaudited)

Total Return⁽¹⁾:	Market Price	NAV
1 Year	6.49%	8.31%
5 Year	27.70%	28.76%
10 Year	8.59%	10.37%
Commencement of Operations (9/2/93) to 12/31/13	8.95%	9.39%

Market Price/NAV Performance:

Commencement of Operations (9/2/93) to 12/31/13

Market Price/NAV:

Market Price	\$11.65
NAV	\$11.17
Premium to NAV	4.30%
Market Price Yield ⁽²⁾	8.24%
Leverage Ratio ⁽³⁾	30.35%

Moody's Rating

(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 stock. 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 stock, or changes in the Fund's 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) by the market price per share at December 31, 2013.

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

Performance & Statistics

PIMCO Dynamic Credit Income Fund

December 31, 2013 (unaudited)

Total Return⁽¹⁾:	Market Price	NAV
Commencement of Operations (1/31/13) to 12/31/13	-2.79%	9.09%

Market Price/NAV Performance:

Commencement of Operations (1/31/13) to 12/31/13

Market Price/NAV:

Market Price	\$22.48
NAV	\$24.04
Discount to NAV	-6.49%
Market Price Yield ⁽²⁾	8.34%
Leverage Ratio ⁽³⁾	28.41%

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 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 less than one year is not annualized.

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 the Fund's 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 December 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 accrued liabilities (other than liabilities representing Leverage).

Schedule of Investments

PCM Fund, Inc.

December 31, 2013

Principal Amount (000s)		Value
Mortgage-Backed Securities 102.5%		
\$442	Adjustable Rate Mortgage Trust, 2.711%, 1/25/36, CMO, IO (i)	\$361,462
603	Banc of America Alternative Loan Trust, 6.878%, 4/25/37, CMO (i)	492,355
	Banc of America Funding Corp., CMO,	
756	2.70%, 12/20/34 (i)	612,759
277	5.578%, 3/20/36 (i)	259,307
1,016	7.00%, 10/25/37	623,187
	Banc of America Merrill Lynch Commercial Mortgage, Inc., 5.414%, 9/10/47, CMO	
2,000	(g)	2,172,758
	Banc of America Mortgage Trust, CMO (i),	
613	2.495%, 11/25/34	607,788
673	2.73%, 6/20/31	689,210
394	2.807%, 6/25/35	379,820
	BCAP LLC Trust, CMO (a)(c)(i),	
87	0.365%, 7/26/36	51,916
150	4.996%, 3/26/36	144,842
1,000	BCRR Trust, 5.858%, 7/17/40, CMO (a)(c)(g)(i)	1,085,147
	Bear Stearns Adjustable Rate Mortgage Trust, CMO (i),	
1,805	2.66%, 10/25/35	1,814,000
301	2.701%, 5/25/34	287,677
	Bear Stearns ALT-A Trust, CMO (i),	
509	2.393%, 5/25/36	344,623
71	2.409%, 5/25/36	40,405
1,435	2.484%, 8/25/36	1,162,443
1,195	2.598%, 11/25/36	829,212
89	2.784%, 1/25/47	62,397
528	2.801%, 8/25/36	373,748
261	3.596%, 9/25/34	256,280
251	4.393%, 7/25/35	196,894
136	Bear Stearns Asset-Backed Securities Trust, 5.50%, 12/25/35, CMO	127,652
	Bear Stearns Commercial Mortgage Securities Trust, CMO (i),	
635	5.514%, 3/13/40 (a)(c)	635,637
3,000	5.694%, 6/11/50	3,363,714
2,000	5.706%, 6/11/40 (g)	2,245,743
1,000	6.54%, 5/11/39 (a)(c)	1,034,165
	CBA Commercial Small Balance Commercial Mortgage, 5.54%, 1/25/39, CMO	
1,097	(a)(b)(c)(h)	
	(acquisition cost-\$618,246; purchased 11/18/09)	636,494
523	Chase Mortgage Finance Trust, 6.00%, 3/25/37, CMO	464,318

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	Citigroup Commercial Mortgage Trust, CMO (i),	
85,868	0.481%, 5/15/43, IO (a)(c)	421,696
2,500	5.705%, 12/10/49	2,799,906
	Citigroup Mortgage Loan Trust, Inc., CMO (i),	
460	2.635%, 9/25/35	403,549
473	2.726%, 11/25/36	392,340
343	2.735%, 8/25/35	301,470
4,012	Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 12/11/49, CMO (g)	4,399,569
103	CitiMortgage Alternative Loan Trust, 5.50%, 4/25/22, CMO	105,447
1,925	COBALT CMBS Commercial Mortgage Trust, 5.223%, 8/15/48, CMO	2,080,024

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Schedule of Investments

PCM Fund, Inc.

December 31, 2013 (continued)

Principal Amount (000s)		Value
	Commercial Mortgage Trust, CMO (a)(c),	
\$690	5.908%, 7/10/46 (i)	\$724,033
759	6.586%, 7/16/34	856,038
1,500	6.922%, 7/16/34 (i)	1,729,513
	Countrywide Alternative Loan Trust, CMO,	
1,431	0.345%, 6/25/47 (g)(i)	1,095,238
2,622	0.377%, 7/20/46 (i)	1,580,910
453	0.445%, 2/25/37 (i)	344,073
1,631	0.455%, 2/25/36 (i)	1,072,177
3,558	1.071%, 12/25/35 (g)(i)	2,709,015
288	6.00%, 11/25/35	159,516
1,099	6.00%, 5/25/37	854,754
	Countrywide Home Loan Mortgage Pass-Through Trust, CMO,	
360	0.485%, 3/25/35 (i)	268,616
32	2.417%, 2/20/36 (i)	28,116
261	2.604%, 9/20/36 (i)	186,232
1,070	2.726%, 9/25/47 (i)	892,006
721	6.00%, 5/25/37	603,530
	Credit Suisse First Boston Mortgage Securities Corp., CMO,	
2,282	0.826%, 12/15/35, IO (a)(c)(i)	6,231
122	7.00%, 2/25/33	129,169
192	7.46%, 1/17/35 (i)	192,964
	Credit Suisse Mortgage Capital Certificates, CMO,	
4,683	5.467%, 9/15/39 (g)	5,099,888
1,000	5.467%, 9/16/39 (a)(c)(i)	1,088,216
	Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust, CMO,	
374	5.896%, 4/25/36	327,879
279	6.50%, 5/25/36	192,693
2,641	FFCA Secured Lending Corp., 1.032%, 9/18/27, CMO, IO (a)(b)(c)(h)(i) (acquisition cost-\$610,967; purchased 11/17/00)	96,033
258	First Horizon Alternative Mortgage Securities Trust, 2.238%, 8/25/35, CMO (i)	56,519
225	First Horizon Mortgage Pass-Through Trust, 2.654%, 4/25/35, CMO (i)	225,837
6,423	FREMF Mortgage Trust, 0.10%, 5/25/20, CMO, IO (e)	29,436
	GMAC Commercial Mortgage Securities, Inc., CMO (a)(c)(i),	
1,500	6.744%, 5/15/30 (d)	250,335
1,500	8.316%, 9/15/35	1,502,784
2,000	Greenwich Capital Commercial Funding Corp., 5.444%, 3/10/39, CMO (g)	2,199,872
	GS Mortgage Securities Trust, CMO,	