

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

October 26, 2018

*FLAHERTY & CRUMRINE PREFERRED INCOME FUND*

To the Shareholders of Flaherty & Crumrine Preferred Income Fund (“PFD”):

Preferreds performed well in the third fiscal quarter<sup>1</sup>, bringing total return for the year just back into positive territory. While these returns have not kept pace with returns in recent years, preferreds continue to outperform certain areas of the fixed income market. Total return<sup>2</sup> on net asset value (“NAV”) was 2.3% for the quarter, and 0.3% for the first nine months of fiscal 2018. Total return on market price over the same periods was 6.0% and -4.4%, respectively.

By most accounts, it has been a challenging year for corporate bond investments. As the current economic cycle has matured, interest rates rose modestly and credit spreads gradually widened. The yield curve flattened as the Federal Reserve methodically raised its benchmark rate while the long end of the Treasury yield curve moved up only modestly given a limited increase in broad-based inflation and subdued expectations for long-term economic growth. Over the first nine months of the Fund’s fiscal year, the Bloomberg Barclays U.S. Aggregate Index returned -0.5%, while the Bloomberg Barclays Long U.S. Credit Index returned -2.7%.

Preferreds outperformed these fixed-income benchmarks for a few key reasons. First, duration is moderate for many preferreds – and for the Fund’s portfolio specifically. We won’t repeat the merits of fixed-to-float preferreds here, but as previously discussed they offer attractive yields with intermediate duration. Owning both fixed-rate and fixed-to-float preferreds allows for management of portfolio duration despite the long-term nature of the Fund’s investments.

Second, an issuer’s preferreds generally yield more than its corporate bonds. The Fund’s strategy is to identify investment-grade issuers and invest down the capital structure (into preferreds) to earn extra yield for what is, in most cases, similar default risk. For issuers with solid credit quality, preferreds have consistently outperformed corporate bonds over a credit cycle. Over time, higher yields can make up for a lot of principal change and dampen effects of higher interest rates.

Outperformance of preferreds over other fixed income securities has been even better when considered after-tax. If shareholders missed our discussion on taxes in the semi-annual report dated May 31, 2018, we encourage a read. Most preferreds offer tax-advantaged income, which further enhances the extra yield earned for subordination (i.e. being lower in the capital structure than senior debt).

We believe the case for preferreds as an income investment remains largely intact, with a combination of higher relative yields, tax advantages, and benign credit conditions. Returns may be bumpy as markets navigate a late-cycle economy (albeit one that’s currently showing few signs of weakness) and an active Federal Reserve. For fixed-income investors, however, preferreds’ combination of credit quality, intermediate duration and yield should remain attractive.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2018

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<sup>1</sup> June 1, 2018 – August 31, 2018

<sup>2</sup> Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

Flaherty & Crumrine Preferred Income Fund Incorporated

## PORTFOLIO OVERVIEW

August 31, 2018 (Unaudited)

### Fund Statistics

Net Asset Value	\$ 13.65	
Market Price	\$ 14.07	
Premium	3.08	%
Yield on Market Price	6.65	%
Common Stock Shares Outstanding	11,193,561	

### Security Ratings\*\* % of Net Assets†

A	0.6	%
BBB	55.6	%
BB	32.5	%
Below "BB"	0.9	%
Not Rated***	8.8	%

### Portfolio Rating Guidelines % of Net Assets†

Security Rated Below Investment Grade By All*****	32.0	%
Issuer or Senior Debt Rated Below Investment Grade by All*****	1.5	%

\*\*Ratings are from Moody's Investors Service, Inc. "Not Rated" securities are those with no ratings available from Moody's.

\*\*\*Excludes common stock and money market fund investments and net other assets and liabilities of 1.6%.

\*\*\*\*Security rating below investment grade by all of Moody's, Standard & Poor's, and Fitch Ratings.

\*\*\*\*\*Security rating and issuer's senior unsecured debt or issuer rating are below investment grade by all of Moody's, S&P, and Fitch. The Fund's investment policy currently limits such securities to 15% of Net Assets.

### Industry Categories\* % of Net Assets†

Top 10 Holdings by Issuer	% of Net Assets†
JPMorgan Chase & Co	4.7 %

MetLife Inc	4.2 %
Wells Fargo & Company	4.1 %
Morgan Stanley	3.7 %
PNC Financial Services Group Inc	3.6 %
BNP Paribas	3.3 %
Enbridge Energy Partners	3.2 %
Fifth Third Bancorp	3.1 %
Liberty Mutual Group	3.1 %
Citigroup Inc	3.0 %

	<b>% of Net Assets*****†</b>
Holdings Generating Qualified Dividend Income (QDI) for Individuals	62 %
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	45 %

\*\*\*\*\*This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.

†Net Assets includes assets attributable to the use of leverage.

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**Shares/\$ Par Value****Preferred Securities<sup>\$</sup> —****93.7%****Banking — 55.3%**

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**PORTFOLIO OF INVESTMENTS****August 31, 2018 (Unaudited)**

\$ 1,655,000	Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A****	\$ 1,721,200	** (1)(2)
\$ 2,400,000	Banco Bilbao Vizcaya Argentaria SA, 6.125% to 11/16/27 then SW5 + 3.87%	2,122,968	** (2)
\$ 530,000	Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A****	540,335	** (2)
	Bank of America Corporation:		
\$ 3,600,000	5.875% to 03/15/28 then 3ML + 2.931%, Series FF	3,604,500	* (1)
\$ 400,000	6.30% to 03/10/26 then 3ML + 4.553%, Series DD	429,000	*
	Barclays Bank PLC:		
\$ 990,000	7.75%, to 09/15/23 then SW5 + 4.842%	1,001,187	** (2)
\$ 2,802,000	7.875% to 03/15/22 then SW5 + 6.772%, 144A****	2,915,562	** (2)
	BNP Paribas:		
\$ 420,000	7.00%, to 08/16/28 then SW5 + 3.98%, 144A****	421,050	** (2)
\$ 5,315,000	7.375% to 08/19/25 then SW5 + 5.15%, 144A****	5,603,339	** (1)(2)
\$ 1,500,000	7.625% to 03/30/21 then SW5 + 6.314%, 144A****	1,597,500	** (2)
	Capital One Financial Corporation:		
2,100	6.00%, Series B	53,875	*
12,900	6.00%, Series H	339,592	*
7,000	6.20%, Series F	183,540	*
29,600	6.70%, Series D	780,996	*
	Citigroup, Inc.:		
\$ 460,000	5.95% to 05/15/25 then 3ML + 3.905%, Series P	469,062	*
113,670	6.875% to 11/15/23 then 3ML + 4.13%, Series K	3,166,278	* (1)
119,778	7.125% to 09/30/23 then 3ML + 4.04%, Series J	3,408,283	* (1)
	CoBank ACB:		
19,300	6.125%, Series G, 144A****	1,939,650	*
10,000	6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A****	1,070,000	*

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10,000	6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A****	1,045,000	*(1)
\$ 447,000	6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A****	476,055	*
\$ 5,210,000	Colonial BancGroup, 7.114%, 144A****	521	(3)(4)††
\$ 290,000	Credit Agricole SA, 7.875% to 01/23/24 then SW5 + 4.898%,144A****	308,472	** (2)
258,558	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	7,225,403	*(1)
	First Horizon National Corporation:		
795	First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75% <sup>(5)</sup> ,144A****	620,183	*(1)
1	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	1,296,000	
	Goldman Sachs Group:		
\$ 2,100,000	5.00% to 11/10/22 then 3ML + 2.874%, Series P	1,991,833	*(1)
\$ 195,000	5.70% to 05/10/19 then 3ML + 3.884%, Series L	197,946	*
50,000	6.375% to 05/10/24 then 3ML + 3.55%, Series K	1,361,500	*(1)

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Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2018 (Unaudited)****Shares/\$ Par      Value****Preferred Securities —  
(Continued)****Banking — (Continued)**

		HSBC Holdings PLC:		
\$	350,000	6.00% to 05/22/27 then ISDA5 + 3.746%	\$	339,955      *(2)
\$	3,710,000	6.50% to 03/23/28 then ISDA5 + 3.606%		3,635,800      *(1)(2)
\$	995,000	6.875% to 06/01/21 then ISDA5 + 5.514%		1,038,531      *(2)
\$	800,000	HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A****		1,194,000      (1)(2)
	106,000	Huntington Bancshares, Inc.:		
		6.25%, Series D		2,817,480      *(1)
\$	1,000,000	5.70% to 04/15/23 then 3ML + 2.88%, Series E		999,375      *(1)
	40,000	ING Groep NV, 6.375%		1,027,200      *(2)
	61,700	JPMorgan Chase & Company:		
		6.70%, Series T		1,605,434      *(1)
\$	4,000,000	3ML + 3.47%, 5.8089% <sup>(5)</sup> , Series I		4,033,000      *(1)
\$	4,715,000	6.75% to 02/01/24 then 3ML + 3.78%, Series S		5,195,694      *(1)
	90,400			2,534,364      *(1)

		KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E		
\$	1,660,000	Lloyds TSB Bank PLC, 12.00% to 12/16/24 then 3ML + 11.756%, 144A****	2,020,313	(2)
\$	2,790,000	M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E	2,992,275	*(1)
\$	540,000	Macquarie Bank Ltd., 6.125% to 03/08/27 then SW5 + 3.703%, 144A****	496,125	** (2)
	43,230	MB Financial, Inc., 6.00%, Series C	1,128,303	*
	77,800	Morgan Stanley: 5.85% to 04/15/27 then 3ML + 3.491%, Series K	2,036,415	*(1)
	154,665	6.875% to 01/15/24 then 3ML + 3.94%, Series F	4,354,593	*(1)
	80,516	7.125% to 10/15/23 then 3ML + 4.32%, Series E	2,320,069	*(1)
	174,600	New York Community Bancorp, Inc., 6.375% to 03/17/27 then 3ML + 3.821%, Series A	4,869,594	*(1)
	274,357	PNC Financial Services Group, Inc.: 6.125% to 05/01/22 then 3ML + 4.067%, Series P	7,639,471	*(1)
\$	625,000	6.75% to 08/01/21 then 3ML + 3.678%, Series O	680,313	*(1)
\$	2,160,000	RaboBank Nederland, 11.00% to 06/30/19 then 3ML + 10.868%, 144A****	2,295,000	(1)(2)

	50,000	Regions Financial Corporation, 6.375% to 09/15/24 then 3ML + 3.536%, Series B	1,367,245	*(1)
\$	400,000	Societe Generale SA: 6.75% to 04/06/28 then SW5 + 3.929%, 144A****	379,000	** (2)
\$	4,000,000	7.375% to 09/13/21 then SW5 + 6.238%, 144A****	4,190,000	** (1)(2)
	1,750	Sovereign Bancorp: Sovereign REIT, 12.00%, Series A, 144A****	2,060,625	
\$	1,815,000	Standard Chartered PLC: 7.50% to 04/02/22 then SW5 + 6.301%, 144A****	1,878,525	** (1)(2)
\$	1,250,000	7.75% to 04/02/23 then SW5 + 5.723%, 144A****	1,298,438	** (1)(2)
	92,900	State Street Corporation, 5.90% to 03/15/24 then 3ML + 3.108%, Series D	2,521,770	*(1)
	8,494	Sterling Bancorp, 6.50%, Series A	226,241	*
	10,000	Texas Capital Bancshares Inc., 6.50%, Series A	254,050	*
	29,260	US Bancorp, 6.50% to 01/15/22 then 3ML + 4.468%, Series F	825,863	*(1)



## Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2018 (Unaudited)**

Shares/\$ Par	Value		
<b>Preferred Securities —</b>			
<b>(Continued)</b>			
<b>Banking — (Continued)</b>			
30,000	Valley National Bancorp, 5.50% to 09/30/22 then 3ML + 3.578%, Series B	\$ 786,000	*
	Wells Fargo & Company:		
15,000	5.625%, Series Y	382,124	*
241	7.50%, Series L	312,814	*
123,500	8.00%, Series J	3,101,703	*(1)
60,300	5.85% to 09/15/23 then 3ML + 3.09%, Series Q	1,561,468	*(1)
\$ 2,075,000	5.875% to 06/15/25 then 3ML + 3.99%, Series U	2,189,125	*(1)
\$ 1,095,000	3ML + 3.77%, 6.1106% <sup>(5)</sup> , Series K	1,110,494	*(1)
35,900	6.625% to 03/15/24 then 3ML + 3.69%, Series R	987,609	*(1)
\$ 1,200,000	Westpac Banking Corporation, 5.00% to 09/21/27 then ISDA5 + 2.888%	1,077,973	** (2)
\$ 1,000,000	Zions Bancorporation, 7.20% to 09/15/23 then 3ML + 4.44%, Series J	1,072,500	*
		128,727,701	
<b>Financial Services — 1.0%</b>			
\$ 460,000	AerCap Global Aviation Trust, 6.50% to 06/15/25 then 3ML + 4.30%, 06/15/45, 144A****	476,100	(2)
\$ 800,000	Credit Suisse Group AG, 7.50% to 07/17/23 then SW5 + 4.60%, 144A****	829,200	** (2)
\$ 476,000	E*TRADE Financial Corporation, 5.30% to 03/15/23 then 3ML + 3.16%, Series B	474,572	*
\$ 453,000	General Motors Financial Company, 5.75% to 09/30/27 then 3ML + 3.598%, Series A	441,958	*
		2,221,830	
<b>Insurance — 18.6%</b>			
82,392	Allstate Corporation, 6.625%, Series E	2,143,271	*(1)
\$ 300,000	Aon Corporation, 8.205% 01/01/27	368,250	(1)
	Arch Capital Group, Ltd.:		
12,000	5.25%, Series E	290,966	** (2)
10,500	5.45%, Series F	260,295	** (2)

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\$ 1,423,000	AXA SA, 6.379% to 12/14/36 then 3ML + 2.256%, 144A****	1,522,610	** (1)(2)
21,450	Axis Capital Holdings Ltd., 5.50%, Series E	536,036	** (2)
\$ 975,000	Chubb Ltd.: Ace Capital Trust II, 9.70% 04/01/30	1,372,313	(1)(2)
124,779	Delphi Financial Group, 3ML + 3.19%, 5.5038% <sup>(5)</sup> 05/15/37	2,823,125	(1)
45,000	Enstar Group Ltd., 7.00% to 08/31/28 then 3ML + 4.015%, Series D	1,182,825	** (1)(2)
\$ 885,000	Everest Reinsurance Holdings, 3ML + 2.385%, 4.6988% <sup>(5)</sup> 05/15/37	876,150	(1)
10,000	Hartford Financial Services Group, Inc., 7.875% to 04/15/22 then 3ML + 5.596%, 04/15/42	285,950	
\$ 3,736,000	Liberty Mutual Group, 7.80% 03/15/37, 144A**** MetLife, Inc.:	4,417,820	(1)
\$ 3,600,000	9.25% 04/08/38, 144A****	4,914,000	(1)
\$ 3,096,000	10.75% 08/01/39	4,775,580	(1)

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Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities —  
(Continued)****Insurance —  
(Continued)**

	PartnerRe Ltd.:		
25,000	5.875%, Series I	\$ 628,750	** (1)(2)
5,600	6.50%, Series G	147,056	** (2)
94,510	7.25%, Series H	2,646,753	** (1)(2)
\$ 402,000	Prudential Financial, Inc., 5.625% to 06/15/23 then 3ML + 3.92%, 06/15/43	420,886	
\$ 4,043,000	QBE Insurance Group Ltd., 7.50% to 11/24/23 then SW10 + 6.03%, 11/24/43, 144A****	4,422,031	(1)(2)
18,200	RenaissanceRe Holdings Ltd., 5.75%, Series F	462,189	** (2)
\$ 3,370,000	Unum Group: Provident Financing Trust I, 7.405% 03/15/38	3,708,685	(1)
24,000	W.R. Berkley Corporation, 5.75% 06/01/56	597,480	
	XL Group Limited:		
\$ 1,400,000	Catlin Insurance Company Ltd., 3ML + 2.975%, 5.3169% <sup>(5)</sup> , 144A****	1,386,000	(1)(2)
\$ 3,226,000	XL Capital Ltd., 3ML + 2.4575%, 4.7967% <sup>(5)</sup> , Series E	3,177,933	(1)(2)
		43,366,954	
	<b>Utilities — 7.7%</b>		
\$ 670,000	CenterPoint Energy, Inc., 6.125% to 09/01/23 then 3ML + 3.27%, Series A	683,400	*
\$ 3,127,000	Commonwealth Edison: COMED Financing III, 6.35% 03/15/33	3,317,466	(1)
145,000	Dominion Energy, Inc., 5.25% 07/30/76, Series A	3,574,975	(1)
	DTE Energy Company:		
18,000	5.375% 06/01/76, Series B	445,266	
10,000	6.00% 12/15/76, Series F	262,800	
\$ 2,180,000	Emera, Inc., 6.75% to 06/15/26 then 3ML + 5.44%, 06/15/76, Series 2016A	2,321,963	(1)(2)
500	Georgia Power Company, 5.00% 10/01/77, Series 2017A	12,282	
25,000	Indianapolis Power & Light Company, 5.65%	2,564,750	*

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84,500	Integrys Energy Group, Inc., 6.00% to 08/01/23 then 3ML + 3.22%, 08/01/73	2,190,662	(1)
\$ 325,000	NiSource, Inc., 5.65% to 06/15/23 then T5Y + 2.843%, 144A****	329,469	*
\$ 500,000	PECO Energy: PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	569,101	(1)
	PPL Corp: PPL Capital Funding, Inc., 5.90% 04/30/73, Series B	1,145,806	(1)
44,960			
	Southern California Edison: SCE Trust V, 5.45% to 03/15/26 then 3ML + 3.79%, Series K	521,100	*
20,000			
		17,939,040	
<b>Energy — 7.1%</b>			
	DCP Midstream LP:		
\$ 1,140,000	7.375% to 12/15/22 then 3ML + 5.148%, Series A	1,142,138	(1)
3,700	7.875% to 06/15/23 then 3ML + 4.919%, Series B	95,774	

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## Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities —  
(Continued)****Energy — (Continued)**

\$ 1,120,000	Enbridge, Inc., 6.00% to 01/15/27 then 3ML + 3.89%, 01/15/77	\$ 1,094,800	(1)(2)
\$ 7,302,000	Enbridge Energy Partners LP, 3ML + 3.7975%, 6.1349% <sup>(5)</sup> 10/01/37	7,342,391	(1)
	Energy Transfer Partners LP:		
112,355	7.375% to 05/15/23 then 3ML + 4.53%, Series C	2,883,355	(1)
1,500	7.625% to 08/15/23 then 3ML + 4.738%, Series D	39,375	
\$ 500,000	Enterprise Products Operating L.P., 5.25% to 08/16/27 then 3ML + 3.033%, 08/16/77, Series E	473,750	
16,900	Kinder Morgan, Inc., 9.75% 10/26/18, Series A	561,513	*
33,700	NuStar Logistics LP, 3ML + 6.734%, 9.0732% <sup>(5)</sup> 01/15/43	874,346	
	Transcanada Pipelines, Ltd.:		
\$ 1,000,000	5.30% to 03/15/27 then 3ML + 3.208%, 03/15/77, Series 2017-A	960,625	(2)
\$ 1,000,000	5.875% to 08/15/26 then 3ML + 4.64%, 08/15/76, Series 2016-A	1,022,500	(1)(2)
		16,490,567	

**Real Estate Investment Trust (REIT) — 0.4%**

3,440	Annaly Capital Management, Inc., 6.95% to 09/30/22 then 3ML + 4.993%, Series F	88,236	
	National Retail Properties, Inc.:		
5,500	5.20%, Series F	131,010	
24,270	5.70%, Series E	609,541	(1)
7,760			