

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

April 27, 2018

*FLAHERTY & CRUMRINE PREFERRED INCOME FUND*

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

Despite general weakness in most fixed-income markets (e.g., investment-grade corporate bonds), attributable mostly to higher benchmark interest rates, preferred securities performed reasonably well on a relative basis. Total return<sup>1</sup> on net asset value (“NAV”) for the first fiscal quarter was -0.5%, while total return on market price was -8.2%.

The U.S. economy remains on solid footing, with most economists forecasting faster growth in 2018. Inflation has remained in check thus far, and modest wage growth and strong business investment suggest that faster economic growth can be accommodated without the economy overheating. Faster economic growth combined with optimism around tax reform has caused interest rates to move modestly higher. Tax reform should be supportive of growth and investment, but much of it will be deficit-financed and could result in higher Treasury rates as government borrowing increases.

Investors often associate higher long-term interest rates with lower prices for preferred securities, and to some extent this is true. However, sensitivity of the Fund’s preferred portfolio to benchmark interest rates is much lower today than it was ten years ago. That is primarily attributable to larger holdings of fixed-to-floating rate securities relative to traditional fixed-for-life preferreds. Including these securities in a portfolio (~72% as of 2/28/2018) reduces sensitivity to benchmark interest rates. Moderate interest-rate sensitivity, along with a tightening of preferred credit spreads during the quarter, offset much of the weakness experienced by other fixed-income asset classes.

Most of the portfolio experienced credit-spread tightening as noted above, but one area of mixed performance was the energy sector, notably master limited partnerships (MLPs). The MLP industry appears to be in transition. The traditional MLP structure has struggled to meet investor expectations, leading some to collapse partnership structures into simpler organizations. Lower corporate tax rates from recent tax reform may accelerate that trend. While a simpler structure should benefit preferred investors over time, many MLPs issued preferreds in the last few months, causing yields to increase as concessions were offered to entice demand. Importantly, individual MLPs are in various stages of transition, and we remain comfortable with the level of MLP exposure in the Fund’s portfolio (~7.6% as of 2/28/2018). Many of the MLPs held by the Fund are among the strongest credits in the sector and a step ahead of peers in navigating these rough waters.

The Fund’s dividend rate was reduced during the quarter to reflect changes in interest rates and credit spreads that have cumulated over time. Tightening by the Federal Reserve has raised short-term interest rates and, therefore, leverage cost, while lower preferred yields have gradually reduced portfolio income. The investment objective of the Fund is to provide high current income consistent with the preservation of capital, and we believe the Fund will continue to meet that objective – although distributable income may be reduced as we proceed through this economic cycle. Fund shareholders have benefited from years of record-low interest rates and low leverage costs, but rates have moved up as the economy has improved. We believe the Fund’s strategy of investing in preferred securities and using leverage to increase income will continue to produce a competitive distribution rate for shareholders. We encourage shareholders to read the Fund’s 2017 annual report for a more-thorough discussion of this important topic.

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<sup>1</sup> Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

<sup>2</sup> December 1, 2017 — February 28, 2018

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Market volatility is likely to increase from record-low levels as we move into later stages of this economic cycle, but we believe preferreds will continue to offer competitive performance. Their combination of credit quality and yield (much of which is tax-advantaged) will be difficult to replicate in other fixed-income asset classes.

As always, we encourage you to visit the Fund's website, [www.preferredincome.com](http://www.preferredincome.com), for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

March 31, 2018

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OVERVIEW****February 28, 2018 (Unaudited)****Fund Statistics**

Net Asset Value	\$ 14.02
Market Price	\$ 13.98
Discount	0.29%
Yield on Market Price	6.70%
Common Stock Shares Outstanding	11,182,896

<b>Security Ratings**</b>	<b>% of Net Assets†</b>
A	0.7%
BBB	54.5%
BB	33.2%
Below “BB”	0.9%
Not Rated***	9.3%

<b>Portfolio Rating Guidelines</b>	<b>% of Net Assets†</b>
Security Rated Below Investment Grade By All****	30.5%
Issuer or Senior Debt Rated Below Investment Grade by All*****	1.4%

\*\*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 1.4%.

\*\*\*\*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†**

<b>Top 10 Holdings by Issuer</b>	<b>% of Net Assets†</b>
JPMorgan Chase & Co	4.6%
MetLife Inc	4.2%
Wells Fargo & Company	4.1%
Citigroup Inc	3.8%
Morgan Stanley	3.7%
PNC Financial Services Group Inc	3.7%
BNP Paribas	3.2%
Fifth Third Bancorp	3.1%
Liberty Mutual Group	3.1%
Enbridge Energy Partners	3.1%

	<b>% of Net Assets*****†</b>
Holdings Generating Qualified Dividend Income (QDI) for Individuals	61%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	46%

\*\*\*\*\*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.

Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS**

**February 28, 2018 (Unaudited)**

<b>Shares/\$ Par</b>	<b>Value</b>	
<b>Preferred Securities<sup>s</sup> — 93.9%</b>		
<b>Banking — 54.7%</b>		
	Australia & New Zealand Banking Group Ltd.,	
\$ 1,655,000	6.5% 2,814,294	** (2)
	to 06/15/26 then ISDA5 + 5.168%, 144A****	
	Banco Bilbao Vizcaya Argentaria SA:	
\$ 2,400,000	6.125% to 11/16/27 then 2,448,000	** (2)
	SW5 + 3.87% 9.00% to 05/09/18	
\$ 400,000	then 404,776	** (2)
	SW5 + 8.262%, 144A****	
\$ 530,000	578,469	** (2)

	Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A****	
	Bank of America Corporation: 6.30% to 03/10/26 then	
\$ 400,000	3ML440,000	*
	+ 4.553%, Series DD 3ML +	
\$ 2,170,000	3.63% 4,188,987 5.3969% <sup>(3)</sup> ,	*(1)
	Series K 8.125% to 05/15/18 then	
\$ 1,751,000	3ML1,779,454	*(1)
	+ 3.64%, Series M	
\$ 2,802,000	Barclays Bank PLC, 7.875% to 03/15/22 then SW5 +	** <sup>(2)</sup>
	6.772%,	

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	144A****	
	BNP Paribas:	
	7.375%	
	to	
	08/19/25	
\$ 5,315,000	then 5,919,581	** (1)(2)
	SW5	
	+	
	5.15%,	
	144A****	
	7.625%	
	to	
	03/30/21	
\$ 1,500,000	then 1,635,000	** (2)
	SW5	
	+	
	6.314%,	
	144A****	
	Capital One Financial Corporation:	
	6.00%,	
2,100	Series 53,445	*
	B	
	6.20%,	
7,000	Series 85,990	*
	F	
	6.00%,	
12,900	Series 340,818	*
	H	
	6.70%,	
29,600	Series 790,320	*
	D	
	Citigroup, Inc.:	
	6.875%	
	to	
	11/15/23	
	then	
113,670	3ML 3,204,357	*(1)
	+	
	4.13%,	
	Series	
	K	
119,778	7.125% 440,024	*(1)
	to	
	09/30/23	
	then	
	3ML	
	+	

	4.04%, Series J	
	8.40% to 04/30/18 then 3ML	
\$ 2,299,000	+ 2,307,621	*(1)
	4.0285%, min 7.7575%, Series E	
	CoBank ACB: 6.125%, Series G,	
19,300	1,958,950	*
	144A**** 6.20% to 01/01/25 then 3ML	
10,000	1,071,750	*
	+ 3.744%, Series H, 144A**** 6.25% to 10/01/22 then 3ML	
10,000	1,075,000	*(1)
	+ 4.557%, Series F, 144A**** 6.25% to 10/01/26 then 3ML	
\$ 447,000	487,618	*
	+ 4.66%, Series I, 144A****	



\$ 5,210,000	Colonial Banc Group, 7.114%, 144A****	(3)(4)††
\$ 290,000	Credit Agricole SA, 7.875% to 01/23/24 then SW5 + 4.898%, 144A****	** (2)
258,558	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	* (1)
795	First Horizon National Corporation: First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75% <sup>(5)</sup> , 144A****	* (1)
1	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	
\$ 2,100,000	Goldman Sachs Group: 5.00%, 1,047,752 to	* (1)

	11/10/22	
	then	
	3ML	
	+	
	2.874%,	
	Series	
	P	
	5.70%	
	to	
	05/10/19	
	then	
\$ 195,000	3ML200,392	*
	+	
	3.884%,	
	Series	
	L	
	6.375%	
	to	
	05/10/24	
	then	
50,000	3ML1,399,000	*(1)
	+	
	3.55%,	
	Series	
	K	
	HSBC Holdings PLC:	
	6.00%	
	to	
	05/22/27	
\$ 350,000	then 358,400	** (2)
	ISDA5	
	+	
	3.746%	
	6.875%	
	to	
	06/01/21	
\$ 995,000	then 1,067,138	** (2)
	ISDA5	
	+	
	5.514%	
	8.00%,	
15,407	Series 10,365	** (1)(2)
	2	
\$ 800,000	HSBC 281,504	(1)(2)
	Capital	
	Funding	
	LP,	
	10.176%	
	to	

06/30/30  
then  
3ML  
+  
4.98%,  
144A\*\*\*\*

Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

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Shares/\$ Par	Value
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**Preferred Securities  
— (Continued)**

**Banking —  
(Continued)**

	Huntington Bancshares, Inc.:	
	5.700%	
	to	
	04/15/23	
	then	
\$ 1,000,000	3,009,375	*
	+	
	2.88%,	
	Series	
	E	
106,000	2,869,420	*(1)
	6.25%,	
	Series	
	D	
40,000	1,034,000	** (2)
	ING	
	Groep	
	NV,	
	6.375%	
	JPMorgan Chase & Company:	
	6.70%,	
61,700	612,221	*(1)
	Series	
	T	
\$ 4,715,000	6,752,969	*(1)
	to	
	02/01/24	
	then	
	3ML	
	+	

3.78%,  
 Series  
 S  
 7.90%  
 to  
 04/30/18  
 then  
 \$ 4,000,000 3ML 4,040,000 \*(1)  
 +  
 3.47%,  
 Series  
 I  
 KeyCorp,  
 6.125%  
 to  
 12/15/26  
 then,  
 90,400 3ML 2,518,562 \*(1)  
 +  
 3.892%,  
 Series  
 E  
 Lloyds  
 TSB  
 Bank  
 PLC,  
 12.00%  
 to  
 \$ 1,660,000 2 166,501 (2)  
 12/16/24  
 then  
 3ML  
 +  
 11.756%,  
 144A\*\*\*\*  
 M&T  
 Bank  
 Corporation,  
 6.45%  
 to  
 \$ 2,790,000 02/15/24 3,100,611 \*(1)  
 then  
 3ML  
 +  
 3.61%,  
 Series  
 E  
 \$ 540,000 540,800 \*\*(2)  
 Macquarie  
 Bank  
 Ltd.,

	6.125%	
	to	
	03/08/27	
	then	
	SW5	
	+	
	3.703%,	
	144A****	
	MB	
43,230	Financial,	
	Inc.,	1,074,265 *
	6.00%,	
	Series	
	C	
	Morgan Stanley:	
	5.85%	
	to	
	04/15/27	
	then	
77,800	3M	2,086,596 *
	+	
	3.491%,	
	Series	
	K	
	6.875%	
	to	
	01/15/24	
	then	
154,665	3M	4,397,126 *(1)
	+	
	3.94%,	
	Series	
	F	
	7.125%	
	to	
	10/15/23	
	then	
80,516	3M	2,330,133 *(1)
	+	
	4.32%,	
	Series	
	E	
174,600	New	4,914,990 *(1)
	York	
	Community	
	Bancorp,	
	Inc.,	
	6.375%	
	to	

	03/17/27	
	then	
	3ML	
	+	
	3.821%,	
	Series	
	A	
	PNC Financial Services	
	Group, Inc.:	
	6.125%	
	to	
	05/01/22	
	then	
289,050	3M	* (1)
	8,074,438	
	+	
	4.067%,	
	Series	
	P	
	6.75%	
	to	
	08/01/21	
	then	
\$ 625,000	3M	* (1)
	676,294	
	+	
	3.678%,	
	Series	
	O	
	RaboBank	
	Nederland,	
	11.00%	
	to	
	06/30/19	
\$ 2,160,000	2,367,900	(1)(2)
	then	
	3ML	
	+	
	10.868%,	
	144A****	
	Regions	
	Financial	
	Corporation,	
	6.375%	
	to	
	09/15/24	
50,000	1,379,330	* (1)
	then	
	3ML	
	+	
	3.536%,	
	Series	
	B	

	Societe Generale SA, 7.375% to \$ 4,000,000	09/18/20,000	** (1)(2)
	then SW5 + 6.238%, 144A****		
	Sovereign Bancorp: Sovereign REIT, 12.00%, Series A, 144A****	1,750	2,178,750
	Standard Chartered PLC: 7.50% to 04/02/22 then SW5	\$ 1,565,000	1,697,321
	+ 6.301%, 144A**** 7.75% to 04/02/23 then SW5		** (1)(2)
	+ 5.723%, 144A****	\$ 1,250,000	1,360,938
	State Street Corporation, 5.90% to 03/15/24 then 3ML + 3.108%, Series D	92,900	2,531,525
			*(1)



8,494	Sterling Bancorp, 6.50%, 22,543 Series A	*
8,800	SunTrust Banks, Inc., 21,936 5.875%, Series E	*
10,000	Texas Capital Bancshares Inc., 254,100 6.50%, Series A	*
35,000	US Bancorp, 6.50% to 01/15/22 then 984,763 3ML + 4.468%, Series F	*(1)
30,000	Valley National Bancorp, 5.50% to 09/30/22 then 775,800 3ML + 3.578%, Series B	*

Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

Shares/\$ Par	Value
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**Preferred Securities  
— (Continued)**

**Banking —  
(Continued)**

	Wells Fargo & Company:	
15,000	5.625%, Series Y	*
	\$17,430	
	5.85% to 09/15/23 then	
60,300	3ML	*(1)
	611,216	
	+ 3.09%, Series Q	
	5.875% to 06/15/25 then	
\$ 2,075,000	3ML	*(1)
	2,208,589	
	+ 3.99%, Series U	
35,900	6.625%	*(1)
	to 03/15/24 then 3ML	
	6,297,353	
	+ 3.69%, Series	

	R		
	7.50%		
241	' .307,275	*	
	Series		
	L		
	7.98%		
	to		
	03/15/18		
	then		
\$ 1,095,000	3ML,114,163	*(1)	
	+		
	3.77%,		
	Series		
	K		
	8.00%,		
123,500	Series,214,705	*(1)	
	J		
	Westpac		
	Banking		
	Corporation,		
	5.00%		
\$ 1,200,000	to 1,148,561	** (2)	
	09/21/27		
	then		
	ISDA5		
	+		
	2.888%		
	Zions		
	Bancorporation,		
	7.20%		
	to		
	09/15/23		
\$ 1,000,000	then 1,105,000	*	
	3ML		
	+		
	4.44%,		
	Series		
	J		

129,653,243

**Financial Services — 0.6%**

\$ 460,000	AerCap,400	(2)	
	Global		
	Aviation		
	Trust,		
	6.50%		
	to		
	06/15/25		
	then		
	3ML		

	+		
	4.30%,		
	06/15/45,		
	144A****		
	E*TRADE		
	Financial		
	Corporation,		
	5.30%		
	to		
\$ 476,000	03/15/23,	471,240	*
	then		
	3ML		
	+		
	3.16%,		
	Series		
	B		
	General		
	Motors		
	Financial		
	Company,		
	5.75%		
	to		
\$ 453,000	09/30/22,	460,429	*
	then		
	3ML		
	+		
	3.598%,		
	Series		
	A		
	1,433,069		
<b>Insurance — 19.1%</b>			
	Allstate		
	Corporation,		
82,392	6.625%	178,502	*(1)
	Series		
	E		
	Aon		
	Corporation,		
\$ 300,000	8.205%	387,750	(1)
	01/01/27		
	Arch Capital Group, Ltd.:		
	5.25%,		
12,000	Series	282,000	** (2)
	E		
	5.45%,		
10,500	Series	253,995	** (2)
	F		
\$ 1,423,000	1,657,795		** (1)(2)

	AXA SA, 6.379% to 12/14/36 then 3ML + 2.256%, 144A****	
21,450	Axis Capital Holdings Ltd. 521,664	** (2)
	5.50%, Series E Chubb Ltd.: Ace Capital Trust	
\$ 975,000	1,455,187	(1) (2)
	II, 9.70% 04/01/30 Delphi Financial Group, 3ML	
124,779	2,869,917	(1)
	+ 3.19%, 5.0288% <sup>(5)</sup> 05/15/37 Everest Reinsurance Holdings, 3ML	
\$ 1,778,000	1,748,663	(1)
	+ 2.385%, 4.2238% <sup>(5)</sup> 05/15/37 Hartford Financial Services Group, Inc., 7.875% to 04/15/22	
10,000	108,300	

	then		
	3ML		
	+		
	5.596%,		
	04/15/42		
	Liberty		
	Mutual		
\$ 3,736,000	Group	4,651,320	(1)
	7.80%		
	03/15/37,		
	144A****		
	MetLife, Inc.:		
	9.25%		
\$ 3,600,000	04/08/49,	3,049,000	(1)
	144A****		
\$ 3,096,000	10.75%	4,961,340	(1)
	08/01/39		
	PartnerRe Ltd.:		
	5.875%,		
25,000	Series	640,750	** (1)(2)
	I		
	6.50%,		
5,600	Series	147,336	** (2)
	G		
	7.25%,		
94,510	Series	2,611,311	** (1)(2)
	H		

Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

**Shares/\$  
Par Value**

**Preferred Securities  
— (Continued)**

**Insurance —  
(Continued)**

	Prudential Financial, Inc., 5.625% to 06/15/43	
\$ 402,000	6,423,613	
	then 3ML +	
	3.92%, 06/15/43	
	QBE Insurance Group Ltd., 7.50% to	
\$ 4,043,000	11,248,913	(1)(2)
	then SW10 +	
	6.03%, 11/24/43, 144A****	
\$ 2,820,000	Unum	(1)
	Group: Provident Financing Trust I,	
	214,800	

	7.405%		
	03/15/38		
	W.R.		
	Berkley		
24,000	Corporate, 1956,		
	5.75%		
	06/01/56		
	XL Group Limited:		
	Catlin		
	Insurance		
	Company		
	Ltd.,		
\$ 1,400,000	3ML, 379,000	(1)(2)	
	+		
	2.975%,		
	4.7142% <sup>(5)</sup> ,		
	144A****		
	XL		
	Capital		
	Ltd.,		
	3ML		
\$ 5,500,000	+ 5,259,375	(1)(2)	
	2.4575%,		
	4.1790% <sup>(5)</sup> ,		
	Series		
	E		
	45,207,587		
<b>Utilities — 9.2%</b>			
	Commonwealth		
	Edison:		
	COMED		
\$ 3,127,000	Financial, 890	(1)	
	III,		
	6.35%		
	03/15/33		
	Dominion		
	Energy,		
	Inc.,		
145,000	5,253,764	(1)	
	07/30/76,		
	Series		
	A		
	DTE Energy Company:		
	5.375%		
18,000	06/01/76,		
	443,698		
	Series		
	B		
10,000	267,201		



	6.00%		
	12/15/76,		
	Series		
	F		
	Emera,		
	Inc.,		
	6.75%		
	to		
	06/15/26		
\$ 2,180,000	then,	2,430,700	(1)(2)
	3ML		
	+		
	5.44%,		
	06/15/76,		
	Series		
	2016A		
	Georgia		
	Power		
	Company,		
22,700	5.00%	54,220	
	10/01/77,		
	Series		
	2017A		
	Indianapolis		
	Power		
25,000	&	2,583,182	*
	Light		
	Company,		
	5.65%		
	Integrus		
	Energy		
	Group,		
	Inc.,		
	6.00%		
84,500	to	2,260,375	(1)
	08/01/23		
	then		
	3ML		
	+		
	3.22%,		
	08/01/73		
\$ 1,500,000	Nexia	149,740	(1)
	Energy:		
	FPL		
	Group		
	Capital,		
	Inc.,		
	3ML		
	+		

	2.125%, 3.7135% <sup>(5)</sup> 06/15/67, Series C PECO Energy: PECO Energy Capital Trust		
\$ 500,000	72,524	(1)	
	III, 7.38% 04/06/28, Series D PPL Corp: PPL Capital Funding, Inc.,		
44,960	1,142,883	(1)	
	5.90% 04/30/73, Series B PPL Capital Funding, Inc., 3ML		
\$ 1,632,000	+ 1,627,920	(1)	
	2.665%, 4.3584% <sup>(5)</sup> 03/30/67, Series A Puget Sound Energy, Inc., 3ML		
\$ 1,103,000	+ 1,094,728	(1)	
	2.53%, 4.0106% <sup>(5)</sup> 06/01/67, Series A Southern California		
20,000	128	*	

Edison:  
 SCE  
 Trust  
 V,  
 5.45%  
 to  
 03/15/26  
 then  
 3ML  
 +  
 3.79%,  
 Series  
 K

21,836,953

**Energy — 5.9%**

DCP  
 Midstream  
 LP,  
 7.375%  
 to  
 12/15/22  
 then 1,152,113  
 3ML  
 +  
 5.148%,  
 Series  
 A

\$ 1,140,000

Enbridge,  
 Inc.,  
 6.00%  
 to

\$ 1,120,000

01/15/27  
 then 1,136,800 (2)

3ML  
 +  
 3.89%,  
 01/15/77

Enbridge  
 Energy  
 Partners  
 LP,

\$ 7,302,000

3ML 7,320,255 (1)

+  
 3.7975%,  
 5.4917%<sup>(5)</sup>  
 10/01/37

Enterprise Products  
 Operating L.P.:

\$ 450,000

448,313

	3ML	
	+	
	3.7075%,	
	5.4809% <sup>(5)</sup>	
	08/01/66,	
	Series	
	A	
	5.25%	
	to	
	08/16/27	
	then	
\$ 500,000	3ML	483,750
	+	
	3.033%,	
	08/16/77,	
	Series	
	E	
	Kinder	
	Morgan,	
	Inc.,	
16,900	9.75%	66,150
	10/26/18,	
	Series	
	A	

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****February 28, 2018 (Unaudited)**

Shares/\$ Par	Value
<b>Preferred Securities</b>	
<b>— (Continued)</b>	
	<b>Energy — (Continued)</b>
	NuStar Logistics LP, 3ML
33,700	\$ 864,405 +
	6.734%, 8.4555% <sup>(5)</sup> 01/15/43
	Transcanada Pipelines, Ltd.:
	5.30% to 03/15/27 then
\$ 1,000,000	3ML 1,009,375 (2) +
	3.208%, 03/15/77, Series 2017-A
	5.875% to 08/15/26 then
\$ 1,000,000	3ML 1,077,500 (1)(2) +
	4.64%, 08/15/76, Series 2016-A

14,058,661

**Real Estate Investment Trust  
(REIT) — 0.5%**

	Annaly Capital Management, Inc., 6.95%	
3,440	to 09/30/27	
	then 3ML +	
	4.993%, Series F	
	National Retail Properties, Inc.:	
5,500	5.20%, Series F	26,995
	5.70%, Series E	59,251 (1)
	PS Business Parks, Inc.:	
7,760	5.20%, Series W	87,171
	5.70%, Series V	99,160
4,000		
	5.75%, Series U	8,057

1,101,671

**Miscellaneous Industries — 3.9%**

	BHP Billiton Limited:	55,000 (2)
\$ 400,000		
	BHP Billiton Finance U.S.A., Ltd., 6.75%	
	to 10/19/25	

	then		
	SW5		
	+		
	5.093%,		
	10/19/75,		
	144A****		
	General		
	Electric		
	Company,		
	5.00%		
	to		
\$ 833,000	01/21/21	823,629	*(1)
	then		
	3ML		
	+		
	3.33%,		
	Series		
	D		
	Land O' Lakes, Inc.:		
	7.25%,		
\$ 260,000	Series	290,550	*
	B,		
	144A****		
	8.00%,		
\$ 3,900,000	Series	4,416,750	*(1)
	A,		
	144A****		
	Ocean		
	Spray		
34,700	Cranberries	3,157,700	*
	Inc.,		
	6.25%,		
	144A****		
	9,143,629		
	<b>Total</b>		
	<b>Preferred</b>		
	<b>Securities</b>	9,434,813	
	(Cost		
	\$211,395,178)		

**Corporate Debt Securities<sup>s</sup> — 4.7%**

**Banking — 2.0%**

\$ 600,000	Reg 704	979	(1)
	Financial		
	Corporation,		
	7.375%		
	12/10/37,		
	Sub		

Notes  
 Texas  
 Capital  
 Bancshares  
 Inc., 3,453,511 (1)  
 133,500 6.50%

09/21/42,  
 Sub  
 Notes  
 Zions  
 Bancorporation,  
 6.95%  
 to  
 09/15/23  
 then, 526,498 (1)  
 18,000 3ML  
 +  
 3.89%,  
 09/15/28,  
 Sub  
 Notes  
 4,774,988

**Financial Services — 0.0%**

B.  
 Riley  
 Financial  
 Inc., 25,690  
 1,000 7.50%  
 05/31/27  
 25,690



Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

Shares/\$ Par	Value
------------------	-------

**Corporate Debt**

**Securities —  
(Continued)**

**Insurance  
— 1.2%**

\$ 2,000,000	Liberty Mutual Insurance, 10/15/97, 144A**** 2,750,618	(1)
--------------	---	-----

**Energy — 0.9%**

\$ 1,680,000	Energy Transfer Partners LP, 8.25% 11/15/29 2,108,720	(1)
--------------	---	-----

**Communication — 0.5%**

22,170	Qwest Corporation: 6.50% 09/01/56 478,872
28,330	6.75% 06/15/57 640,825
400	7.00% 04/01/52 9,477
	1,129,174

**Miscellaneous Industries —  
0.1%**

10,000 eBay, Inc. 264,315  
 6.00%  
 02/01/56  
 264,315  
**Total Corporate Debt Securities** 11,053,505  
 (Cost \$9,691,041)

**Common Stock — 0.8%**

**Banking — 0.1%**

3,620 CIT Group Inc. 192,041 \*  
 192,041

**Energy — 0.7%**

99,212 Kinder Morgan Inc. 607,234 \*  
 1,607,234

**Insurance — 0.0%**

19,896 WMI Holdings Corporation, 144A\*\*\*\* 25,666 \*†  
 25,666

**Total Common Stock** 824,941  
 (Cost \$3,041,295)

**Money Market Fund — 0.1%**

307,820 BlackRock Liquidity Funds: T-Fund, Institutional Class 307,820  
**Total Money Market Fund** 307,820

(Cost  
\$307,820)

Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

			<b>Value</b>
<b>Total Investments</b> (Cost \$224,435,334***)	99.5	%	\$ 235,621,079
<b>Other Assets And Liabilities</b> (Net)	0.5	%	1,239,087
<b>Total Managed Assets</b>	100.0	% ‡	\$ 236,860,166
<b>Loan Principal Balance</b>			(80,100,000 )
<b>Total Net Assets Available To Common Stock</b>			\$ 156,760,166

§Date shown is maturity date unless referencing the end of the fixed-rate period of a fixed-to-floating rate security.

\*Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

\*\*Securities distributing Qualified Dividend Income only.

\*\*\*Aggregate cost of securities held.

\*\*\*\*Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At February 28, 2018, these securities amounted to \$65,087,061 or 27.5% of total managed assets.

(1)All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$144,970,804 at February 28, 2018.

(2)Foreign Issuer.

(3)Level 3, illiquid security (designation is unaudited; see Note 2: Additional Accounting Standards).

(4)Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 28, 2018.

(5)Represents the rate in effect as of the reporting date.

†Non-income producing.

††The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

‡The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

**ABBREVIATIONS:**

**3ML** — 3-Month ICE LIBOR USD A/360

**ISDA5** — 5-year USD ICE Swap Semiannual 30/360

**SW5** — 5-year USD Swap Semiannual 30/360

**SW10** — 10-year USD Swap Semiannual 30/360

**T10Y** — Federal Reserve H.15 10-Yr Constant Maturity Treasury Semiannual yield

Flaherty & Crumrine Preferred Income Fund Incorporated

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**

**For the period from December 1, 2017 through February 28, 2018 (Unaudited)**

<b>Value</b>	
<b>OPERATIONS:</b>	
Net investment income	\$2368,570
Net realized gain/(loss) on investments sold during the period	(66,136 )
Change in net unrealized appreciation/(depreciation) of investments	17,456 )
<b>Net decrease in net assets resulting from operations</b>	<b>(829,022 )</b>
<b>DISTRIBUTIONS:</b>	
Dividends paid from net investment income to	(2,705,828 )

Common  
Stock  
Shareholders<sup>(2)</sup>

**Total  
Distributions**

to **(2,705,828** )  
**Common**

**Stock  
Shareholders**

**FUND  
SHARE  
TRANSACTIONS:**

Increase  
from  
shares  
issued  
under  
the  
Dividend **146,234**

Reinvestment  
and  
Cash  
Purchase  
Plan

**Net  
increase  
in  
net  
assets  
available  
to **146,234**  
Common**

**Stock  
resulting  
from  
Fund  
share  
transactions**

**NET \$ (3,388,616** )

**DECREASE  
IN  
NET  
ASSETS  
AVAILABLE  
TO  
COMMON  
STOCK  
FOR**

**THE  
period**

**NET  
ASSETS  
AVAILABLE  
TO  
COMMON  
STOCK:**

Beginning  
of \$ 160,148,782  
period

Net  
decrease  
in  
net  
assets (3,388,616 )  
during  
the  
period

End  
of \$ 156,760,166  
period

(1)These tables summarize the three months ended February 28, 2018 and should be read in conjunction with the Fund's audited financial statements, including notes to the financial statements, in its Annual Report dated November 30, 2017.

(2)May include income earned, but not paid out, in prior fiscal year.



Flaherty & Crumrine Preferred Income Fund Incorporated

**Financial Highlights<sup>(1)</sup>**

**For the period December 1, 2017 through February 28, 2018 (Unaudited)**  
**For a Common Stock share outstanding throughout the period**

12

**PER  
 SHARE  
 OPERATING  
 PERFORMANCE:**

Net  
 asset  
 value,  
 beginning \$ 14.33  
 of  
 period

**INVESTMENT  
 OPERATIONS:**

Net  
 investment  
 income 0.21

Net  
 realized  
 and  
 unrealized  
 gain/(loss) 0.28 )  
 on  
 investments

Total  
 from  
 investment  
 operations (0.07 )

**DISTRIBUTIONS  
 TO  
 COMMON  
 STOCK  
 SHAREHOLDERS:**

From  
 net  
 investment  
 income (0.24 )

Total  
distributions  
to  
Common (0.24 )  
Stock  
Shareholders

Net  
asset  
value, \$ 14.02  
end

of  
period

Market  
value,  
end \$ 13.98

of  
period

Common  
Stock  
shares  
outstanding, 182,896

end  
of  
period

**RATIOS TO  
AVERAGE NET  
ASSETS AVAILABLE  
TO COMMON  
STOCK  
SHAREHOLDERS:**

Net  
investment 6.04 %\*  
income †

Operating  
expenses  
including 2.41 %\*  
interest  
expense

Operating  
expenses  
excluding 1.25 %\*  
interest  
expense

**SUPPLEMENTAL  
DATA:**

††  
1 %\*\*

Portfolio  
turnover  
rate  
Total  
managed  
assets,  
end \$ 236,860  
of  
period  
(in  
000's)

Ratio  
of  
operating  
expenses  
including  
interest  
expense 1.61 %\*  
to  
average  
total  
managed  
assets

Ratio  
of  
operating  
expenses  
excluding  
interest  
expense 0.83 %\*  
to  
average  
total  
managed  
assets

(1)These tables summarize the three months ended February 28, 2018 and should be read in conjunction with the Fund's audited financial statements, including notes to the financial statements, in its Annual Report dated November 30, 2017.

\*Annualized.

\*\*Not annualized.

†The net investment income ratio reflects income net of operating expenses, including interest expense.

††Information presented under heading Supplemental Data includes loan principal balance.



## Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**Financial Highlights (Continued)****Per Share of Common Stock (Unaudited)**

	<b>Total Dividends Paid</b>	<b>Net Asset Value</b>	<b>NYSE Closing Price</b>	<b>Dividend Reinvestment Price<sup>(1)</sup></b>
December 29, 2017	\$0.0820	\$14.33	\$14.98	\$14.33
January 31, 2018	0.0820	14.17	13.41	13.65
February 28, 2018	0.0780	14.02	13.98	13.98

<sup>(1)</sup>Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Flaherty & Crumrine Preferred Income Fund Incorporated

**Notes to Financial Statements (Unaudited)**

**1. Aggregate Information for Federal Income Tax Purposes**

At February 28, 2018, the aggregate cost of securities for federal income tax purposes was \$234,764,547, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$18,138,875 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$17,282,343.

**2. Additional Accounting Standards**

*Fair Value Measurements:* The Fund has analyzed all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period.

## Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**Notes to Financial Statements (Unaudited) (Continued)**

A summary of the inputs used to value the Fund's investments as of February 28, 2018 is as follows:

	<b>Total Value at February 28, 2018</b>	<b>Level 1 Quoted Price</b>	<b>Level 2 Significant Observable Inputs</b>	<b>Level 3 Significant Unobservable Inputs</b>
Preferred Securities				
Banking	\$129,653,243	\$110,787,756	\$18,864,966	\$521
Financial Services	1,433,069	931,669	501,400	—
Insurance	45,207,587	23,244,242	21,963,345	—
Utilities	21,836,953	11,980,254	9,856,699	—
Energy	14,058,661	6,738,406	7,320,255	—
Real Estate Investment Trust (REIT)	1,101,671	1,101,671	—	—
Miscellaneous Industries	9,143,629	1,278,629	7,865,000	—
Corporate Debt Securities				
Banking	4,774,988	3,980,009	794,979	—
Financial Services	25,690	25,690	—	—
Insurance	2,750,618	—	2,750,618	—
Energy	2,108,720	—	2,108,720	—
Communication	1,129,174	1,129,174	—	—
Miscellaneous Industries	264,315	264,315	—	—
Common Stock				
Banking	192,041	192,041	—	—
Energy	1,607,234	1,607,234	—	—
Insurance	25,666	25,666	—	—
Money Market Fund	307,820	307,820	—	—
Total Investments	\$ 235,621,079	\$163,594,576	\$72,025,982	\$521

During the reporting period, securities with an aggregate market value of \$3,100,611 were transferred into Level 2 from Level 1. The securities were transferred due to a decrease in the quantity and quality of information related to trading activity or broker quotes for these securities. During the period, there were no transfers into Level 1 from Level 2. During the reporting period, there were no transfers into or out of Level 3.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services that are approved by the Board of Directors and are unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the

Fund's portfolio, and market information obtained by the Adviser as a function of being an active market participant.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades—or the same information for securities that are similar in many respects to those being valued—are classified as



Flaherty & Crumrine Preferred Income Fund Incorporated

**Notes to Financial Statements (Unaudited) (Continued)**

Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	<b>Total Investments</b>	<b>Preferred Securities Banking</b>
<b>Balance as of 11/30/17</b>	\$ 521	\$ 521
Accrued discounts/premiums	—	—
Realized gain/(loss)	—	—
Change in unrealized appreciation/(depreciation)	—	—
Purchases	—	—
Sales	—	—
Transfer in	—	—
Transfer out	—	—
<b>Balance as of 02/28/18</b>	\$ 521	\$ 521

For the three months ended February 28, 2018, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$0.

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

<b>Category</b>	<b>Fair Value at 02/28/18</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Input Range (Wgt Avg)</b>
Preferred Securities (Banking)	\$521	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.02% (0.01%)

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very

low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs would result in a significantly higher or lower fair value measurement.

**Directors**

R. Eric Chadwick, CFA  
Chairman of the Board

Morgan Gust

David Gale

Karen H. Hogan

**Officers**

R. Eric Chadwick, CFA  
Chief Executive Officer and  
President

Chad C. Conwell  
Chief Compliance Officer,  
Vice President and Secretary

Bradford S. Stone  
Chief Financial Officer,  
Vice President and Treasurer

Roger W. Ko  
Assistant Treasurer

Laurie C. Lodolo  
Assistant Compliance Officer,  
Assistant Treasurer and  
Assistant Secretary

Linda M. Puchalski  
Assistant Treasurer

**Investment Adviser**

Flaherty & Crumrine Incorporated  
e-mail: flaherty@pfdincome.com

**Questions concerning your shares of Flaherty & Crumrine Preferred Income Fund?**

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent —

BNY Mellon c/o Computershare  
P.O. Box 30170  
College Station, TX 77842-3170

1-866-351-7446

**This report is sent to shareholders of Flaherty & Crumrine Preferred Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.**

Quarterly  
Report

February 28, 2018

[www.preferredincome.com](http://www.preferredincome.com)