

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.

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Flaherty &amp; 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	

	<b>% of</b>	
<b>Security Ratings**</b>	<b>Net</b>	
	<b>Assets†</b>	

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

	<b>% of</b>	
<b>Portfolio Rating Guidelines</b>	<b>Net</b>	
	<b>Assets†</b>	

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†**

<b>Top 10 Holdings by Issuer</b>	<b>% of Net</b>	
	<b>Assets†</b>	
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\$ —****93.7%****Banking — 55.3%**

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**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	PS Business Parks, Inc., 5.20%, Series W	186,667	
		1,015,454	

**Miscellaneous Industries — 3.6%**

	BHP Billiton Limited:		
\$ 400,000	BHP Billiton Finance U.S.A., Ltd., 6.75% to 10/19/25 then SW5 + 5.093%, 10/19/75, 144A*****	440,000	(2)
\$ 413,000	General Electric Company, 5.00% to 01/21/21 then 3ML + 3.33%, Series D	407,063	*(1)

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	Land O' Lakes, Inc.:		
\$ 260,000	7.25%, Series B, 144A****	281,450	*
\$ 3,900,000	8.00%, Series A, 144A****	4,290,000	*(1)
34,700	Ocean Spray Cranberries, Inc., 6.25%, 144A****	3,079,625	*
		8,498,138	
	<b>Total Preferred Securities</b>		
	(Cost \$211,186,202)	218,259,684	

**Corporate Debt Securities<sup>s</sup> — 4.6%**

**Banking — 2.0%**

\$ 600,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	785,165	(1)
133,500	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	3,438,292	(1)
18,000	Zions Bancorporation, 6.95% to 09/15/23 then 3ML + 3.89%, 09/15/28, Sub Notes	532,530	(1)
		4,755,987	

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Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2018 (Unaudited)****Shares/\$ Par Value****Corporate Debt****Securities —****(Continued)****Financial Services —****0.0%**

1,000	B. Riley Financial, Inc., 7.50% 05/31/27	\$ 25,455	
		25,455	

**Insurance — 1.2%**

\$ 2,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,722,367	(1)
		2,722,367	

**Energy — 0.9%**

\$ 1,680,000	Energy Transfer Partners LP, 8.25% 11/15/29	2,050,749	(1)
		2,050,749	

**Communication — 0.5%**

	Qwest Corporation:		
22,170	6.50% 09/01/56	522,436	
28,330	6.75% 06/15/57	692,810	
400	7.00% 04/01/52	10,162	
		1,225,408	

**Total Corporate Debt Securities**

(Cost \$9,430,969)

10,779,966

**Common Stock — 0.0%****Insurance — 0.0%**

19,896	WMI Holdings Corporation, 144A****	30,043	*†
		30,043	

**Total Common Stock**

(Cost \$1,000,000)

30,043

**Money Market Fund — 0.7%**

1,555,675	BlackRock Liquidity Funds: T-Fund, Institutional Class	1,555,675
	<b>Total Money Market Fund</b> (Cost \$1,555,675)	1,555,675



## Flaherty &amp; Crumrine Preferred Income Fund Incorporated

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

			<b>Value</b>
<b>Total Investments</b> (Cost \$223,172,846***)	99.0	%	\$ 230,625,368
<b>Other Assets And Liabilities</b> (Net)	1.0	%	2,280,366
<b>Total Managed Assets</b>	100.0	% ‡	\$ 232,905,734
<b>Loan Principal Balance</b>			(80,100,000 )
<b>Total Net Assets Available To Common Stock</b>			\$ 152,805,734

§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 August 31, 2018, these securities amounted to \$64,507,608 or 27.7% 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 \$147,926,841 at August 31, 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 August 31, 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

**T5Y** — Federal Reserve H.15 5-Yr Constant Maturity Treasury Semiannual yield

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

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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 August 31, 2018 (Unaudited)**

**Value**

**OPERATIONS:**

Net  
investment  
income

Net  
realized  
gain/(loss)

on  
investment  
sold  
during  
the  
period

Change  
in  
net  
unrealized  
appreciation/(depreciation)  
of  
investments

**Net  
increase  
in  
net  
assets  
resulting  
from  
operations**

**DISTRIBUTIONS:**

Dividend  
paid  
from  
net  
investment  
income

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

**Total  
Distributions**

to **(7,940,678** )  
**Common**

**Stock  
Shareholders**

**FUND  
SHARE  
TRANSACTIONS:**

Increase  
from  
shares  
issued  
under  
the  
Dividend<sup>290,739</sup>

Reinvestment  
and  
Cash  
Purchase  
Plan

**Net  
increase  
in  
net  
assets  
available  
to  
Common<sup>290,739</sup>**

**Stock  
resulting  
from  
Fund  
share  
transactions**

**NET \$ (7,343,048** )

**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 (7,343,048 )  
during  
the  
period

End  
of \$ 152,805,734  
period

(1)These tables summarize the nine months ended August 31, 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 &amp; Crumrine Preferred Income Fund Incorporated

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

**For the period December 1, 2017 through August 31, 2018 (Unaudited)  
For a Common Stock share outstanding throughout the period**

**PER SHARE OPERATING PERFORMANCE:**

Net asset value, beginning of period	\$	14.33	
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**INVESTMENT OPERATIONS:**

Net investment income		0.65	
Net realized and unrealized gain/(loss) on investments		(0.62)	)
Total from investment operations		0.03	

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

From net investment income		(0.71)	)
Total distributions to Common Stock Shareholders		(0.71)	)
Net asset value, end of period	\$	13.65	
Market value, end of period	\$	14.07	
Common Stock shares outstanding, end of period	11,193,561		

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

Net investment income <sup>†</sup>	6.26	%*
Operating expenses including interest expense	2.60	%*
Operating expenses excluding interest expense	1.25	%*

**SUPPLEMENTAL DATA: ††**

Portfolio turnover rate	9	%**
Total managed assets, end of period (in 000's)	\$	232,906
	1.72	%*

Ratio of operating expenses  
including interest expense to  
average total managed assets

Ratio of operating expenses  
excluding interest expense to  
average total managed assets

0.82

%\*

<sup>(1)</sup>These tables summarize the nine months ended August 31, 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 & Crumrine Preferred Income Fund Incorporated

**Financial Highlights (Continued)**

**Per Share of Common Stock (Unaudited)**

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	<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
March 29, 2018	0.0780	13.91	13.59	13.58
April 30, 2018	0.0780	13.72	13.38	13.42
May 31, 2018	0.0780	13.58	13.50	13.51
June 29, 2018	0.0780	13.51	13.54	13.51
July 31, 2018	0.0780	13.59	13.82	13.59
August 31, 2018	0.0780	13.65	14.07	13.65

<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 August 31, 2018, the aggregate cost of securities for federal income tax purposes was \$233,502,059, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$14,798,020 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$17,674,711.

**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.

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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 August 31, 2018 is as follows:

	<b>Total Value at August 31, 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	\$128,727,701	\$112,125,557	\$16,601,623	\$521
Financial Services	2,221,830	1,745,730	476,100	—
Insurance	43,366,954	23,855,970	19,510,984	—
Utilities	17,939,040	9,297,061	8,641,979	—
Energy	16,490,567	9,148,176	7,342,391	—
Real Estate Investment Trust (REIT)	1,015,454	1,015,454	—	—
Miscellaneous Industries	8,498,138	847,063	7,651,075	—
Corporate Debt Securities				
Banking	4,755,987	3,970,822	785,165	—
Financial Services	25,455	25,455	—	—
Insurance	2,722,367	—	2,722,367	—
Energy	2,050,749	—	2,050,749	—
Communication	1,225,408	1,225,408	—	—
Common Stock				
Insurance	30,043	30,043	—	—
Money Market Fund	1,555,675	1,555,675	—	—
Total Investments	\$ 230,625,368	\$164,842,414	\$65,782,433	\$ 521

During the reporting period, securities with an aggregate market value of \$1,386,000 were transferred into Level 1 from Level 2. The securities were transferred due to an increase in the quantity and quality of the information related to trading activity or broker quotes for these securities. During the period, securities with an aggregate market value of \$3,532,610 were transferred into Level 2 from Level 1. The securities were transferred due to a decrease in the quantity and quality of the information related to trading activity or broker quotes for these securities. 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 &amp; 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 08/31/18</b>	\$ 521	\$ 521

For the nine months ended August 31, 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 08/31/18</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

August 31, 2018

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