

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-CSRS
July 27, 2018

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 811-06179

Flaherty & Crumrine Preferred Income Fund Incorporated
(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720
Pasadena, CA 91101
(Address of principal executive offices) (Zip code)

R. Eric Chadwick
Flaherty & Crumrine Incorporated
301 E. Colorado Boulevard, Suite 720
Pasadena, CA 91101
(Name and address of agent for service)

Registrant's telephone number, including area code: 626-795-7300

Date of fiscal year end: November 30

Date of reporting period: May 31, 2018

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the

burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE Preferred Income Fund

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

Fixed-income investors shifted into a more defensive position during the quarter, which contributed to modest weakness in preferred securities prices. Total return¹ on net asset value (“NAV”) was -1.5% for the fiscal quarter and -1.9% for the first half of the fiscal year. Total return on market price of Fund shares over the same periods was -1.8% and -9.8%, respectively.

The table below shows Fund NAV returns over various measurement periods. The table includes performance of two indices, Bloomberg Barclays U.S. Aggregate and S&P 500, as proxies for bond and stock markets, respectively. While neither is a benchmark for Fund performance, they provide context for returns on broad asset categories.

**TOTAL RETURN ON NET ASSET VALUE
FOR PERIODS ENDED MAY 31, 2018**

	Actual Returns			Average Annualized Returns			
	Three Months	Six Months	One Year	Three Years	Five Years	Ten Years	Life of Fund ⁽¹⁾
Flaherty & Crumrine Preferred Income Fund	-1.5%	-1.9%	2.1%	7.1%	7.8%	11.2%	9.8%
Bloomberg Barclays U.S. Aggregate Index ⁽²⁾	0.6%	-1.0%	-0.4%	1.4%	2.0%	3.7%	5.7%
S&P 500 Index ⁽³⁾	0.2%	3.1%	14.4%	11.0%	13.0%	9.1%	10.1%

(1) Since inception on January 31, 1991.

(2) The Bloomberg Barclays U.S. Aggregate Index is an unmanaged index considered representative of the U.S. investment grade, fixed-rate bond market.

(3) The S&P 500 is a capitalization-weighted index of 500 common stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. In addition, NAV performance will vary from market price performance, and you may have a taxable gain or loss when you sell your shares.

Interest rates are a top concern for many investors, and we often receive questions about the performance of preferred securities in a rising-rate environment. Preferred securities’ prices normally decline when Treasury yields rise; i.e., they have positive “duration.” However, our investments in fixed-to-float structures (which pay a fixed distribution rate for a set period then float at a spread over a benchmark yield) greatly reduces portfolio duration compared to a

portfolio comprised of mostly fixed-rate securities. As of May 31, 2018, 72% of the portfolio was invested in fixed-to-float or currently-floating securities. A dozen years ago, the preferred market was dominated by fixed-rate securities, often with long interest rate durations, and some investors still think of preferreds as being highly sensitive to Treasury yields. Today, with fixed-to-float and floating rate preferred securities having become more common, there are many short-and intermediate-duration preferred securities available.

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

²March 1, 2018 – May 31, 2018

One may expect yields to be considerably lower on fixed-to-float securities compared to fixed-rate securities, but this generally has not been the case. Investors continue to receive attractive yields on preferred securities even though duration is moderate – and issuer credit quality generally is in excellent shape. Higher Treasury yields may dampen preferred returns over the next year or two, but over a longer time horizon, total returns should remain more than competitive with fixed-income alternatives.

While the Federal Reserve raised its benchmark rate as expected in March and June, shareholders may be surprised that 10-year and 30-year Treasury yields actually ended *lower* on May 31 (2.82% and 2.99%, respectively) compared to February 28 (2.87% and 3.13%, respectively), although higher rates persisted for much of the second fiscal quarter. Investors shifted into more defensive interest-rate positions, resulting in relative underperformance of 10-year fixed-to-float securities compared to five-year and shorter issues. This was in response to an improving economic outlook across the globe, a flattening yield curve, and anticipation of additional Federal Reserve rate increases in the future.

Rates were not the only reason for defensive positioning, as can be seen by lower Treasury yields at quarter-end. Political risks arose once again, with instability in Spain and Italy prompting weakness in foreign preferreds and increased trade rhetoric (and tariff actions) causing concern about possible negative effects on global economic growth and credit quality.

Preferred prices were also negatively affected during the quarter by new-issue supply. Supply has not been overwhelming, but issuers needed to offer yield concessions to entice buyers – and new-issue yield concessions put downward pressure on secondary market prices. We view this as an opportunity to invest proceeds of called securities at significantly higher yields, which should contribute positively to performance over time. Recall it wasn't long ago we were writing about 4-handle preferred coupons, but those same issuers today are pricing new securities in the mid-to high-5% area, and yields have reached 7% for issuers in some industries. This is welcome relief from the low-yield environment experienced in recent years.

No particular segment of the portfolio stood out during the quarter, as modest weakness was broad-based and macro in nature. It is worth noting once again that issuer credit quality remains in great shape and should be supportive even in light of higher rates and political uncertainty. A number of non-financial industries are increasing leverage for operational purposes or acquisitions, but for the most part they are not regular issuers of preferred securities. We continue to position the portfolio with an emphasis on credit quality and security-specific structure (e.g., fixed-to-float for moderate interest-rate risk, call protection for income stability), and we are taking advantage of higher yields on new-issue preferred securities.

We are all familiar with the certainty of taxes, but it seems like many investors have moved away from evaluating investments on an after-tax basis – and to their detriment when it comes to preferred securities. In fairness, qualified dividend income (QDI) was an elusive concept for many years, as it was new for individuals in 2003 and initially subject to sunset provisions. However, it was made permanent in 2012 and offers a tremendous benefit to U.S. individuals receiving QDI. Evaluating investments solely on a pre-tax basis certainly makes comparisons across markets much simpler, but “simple” often translates into missed opportunity.

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In taxable accounts, QDI can result in a gross-up factor as high as 1.287³ versus pre-tax yields – meaning a 6.0% pre-tax yield, for example, is 7.72% on a taxable-equivalent basis. We have witnessed a multi-year shift in investor awareness away from investment tax considerations, resulting in almost no yield difference between tax-advantaged and fully-taxable preferreds (both types are issued) – which implies the QDI benefit is largely underappreciated. In calendar 2017, 79.4% of PFD’s distributions were QDI-eligible (as reported on Form 1099, box B). For illustration, a market yield of 7.0%⁴ on PFD (higher than the 6.0% used above due to the Fund’s use of leverage) would be a taxable-equivalent yield of 8.6% (assuming 79.4% QDI). Although distribution rates and QDI composition do change each year, shareholders should be aware that QDI is an important benefit of investing in preferred securities and should not be ignored.

We encourage you to read the discussion topics that follow, as we dig deeper into subjects of interest to shareholders – including leverage costs and distribution rates. In addition, visit the Fund’s website, www.preferredincome.com, for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

June 30, 2018

³Assumes marginal tax bracket of 37% and 3.8% Medicare tax on investment income.

⁴Market yields vary with changes in distribution rates and market price of Fund shares. 7.0% used for illustration purposes only. Investors should consult their tax advisors regarding their personal situation.

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DISCUSSION TOPICS**(Unaudited)****The Fund's Portfolio Results and Components of Total Return on NAV**

The table below presents a breakdown of the components that comprise the Fund's total return on NAV over the recent six months. These components include: (a) the total return on the Fund's portfolio of securities; (b) any returns from hedging the portfolio against significant increases in long-term interest rates; (c) the impact of utilizing leverage to enhance returns to shareholders; and (d) the Fund's operating expenses. When all of these components are added together, they comprise the total return on NAV.

**Components of PFD's Total Return on NAV
for the Six Months Ended May 31, 2018¹**

Total Return on Unleveraged Securities Portfolio (including principal change and income)	-0.6	%
Return from Interest Rate Hedging Strategy	N/A	
Impact of Leverage (including leverage expense)	-0.7	%
Expenses (excluding leverage expense)	-0.6	%
¹ Actual, not annualized <i>Total Return on NAV</i>	-1.9	%

For the six months ended May 31, 2018 the ICE BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities IndexSM (P8JC)^{1,2} returned -0.9%. This index reflects the various segments of the preferred securities market constituting the Fund's primary focus. Since this index return excludes all expenses and the impact of leverage, it compares most directly to the top line in the Fund's performance table above (Total Return on Unleveraged Securities Portfolio).

Total Return on Market Price of Fund Shares

While our focus is primarily on managing the Fund's investment portfolio, our shareholders' actual return is comprised of the Fund's monthly dividend payments *plus* changes in the *market price* of Fund shares. During the six-month period ending May 31, 2018, total return on market price of Fund shares was -9.8%.

Historically, the preferred securities market has experienced price volatility consistent with those of other fixed-income securities. However, since mid-2007 it has become clear that preferred-security valuations, including both the Fund's NAV and the market price of its shares, can move dramatically when there is volatility in financial markets. The chart below contrasts the relative stability of the Fund's earlier period with the more recent volatility in both its NAV and market price. Many fixed-income asset classes experienced increased volatility over this period.

¹The ICE BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities IndexSM (P8JC) includes U.S. dollar-denominated investment-grade or below investment-grade, fixed rate, floating rate or fixed-to-floating rate, retail or institutionally structured preferred securities of U.S. and foreign issuers with issuer concentration capped at 8%. All index returns include interest and dividend income, and, unlike the Fund's returns, are unmanaged and do not reflect any expenses.

²The benchmarks from ICE Data Indices, LLC ("ICE Data") are used with permission. ICE Data, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates nor their respective third party providers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. ICE Data, its affiliates and their respective third party suppliers do not sponsor, endorse, or recommend Flaherty & Crumrine Incorporated, or any of its products or services.

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In a more perfect world, the market price of Fund shares and its NAV, as shown in the above chart, would track more closely. If so, any premium or discount (calculated as the difference between these two inputs and expressed as a percentage) would remain relatively close to zero. However, as can be seen in the chart below, this often has not been the case.

Although divergence between NAV and market price of a closed-end fund is generally driven by supply/demand imbalances affecting its market price, we can only speculate about why the relationship between the Fund's market price and NAV hasn't been closer.

Based on a closing price of \$13.54 on June 29th and assuming its current monthly distribution of \$0.078 does not change, the annualized yield on market price of Fund shares is 6.9%. Of course, there can be no guarantee that the Fund's dividend will not change based on market conditions.

Monthly Distributions to Fund Shareholders

So far in 2018, the Federal Reserve has continued its pattern of gradually raising the federal funds rate – hiking 0.25% in both March and June. The Fed now has a target range of 1.75-2.0%. Further, Federal Open Market Committee (FOMC) members project two more 25 bp rate increases in 2018. Including the increase in December 2017, the total increase during the Fund's fiscal year has been 0.75%.

In response, short-term interest rates have risen to reflect actual and expected increases in the Fed's target. The Fund's cost of leverage is linked to 1-month LIBOR. The average cost of leverage was 2.0% for fiscal 2017 and 2.5% for the first half of fiscal 2018. The most recent reset of its leverage rate on June 18, 2018 (actual resets occur monthly) brought the current rate to 2.9%.

Changes in leverage cost and top-line portfolio income are incorporated into the Fund's dividend-setting process and are also a normal part of the way credit markets function. Interest rates are not static, and neither are credit spreads. The portfolio is designed to have a wide range of coupons, call protection, and security structures – and each aspect will change over time. We seek to maintain call protection that staggers the impact of changes in interest rates and credit spreads, but the portfolio will normally contain at least some securities subject to being called based on current market conditions. Leverage is utilized in the Fund to increase income and returns to shareholders, and leverage continues to enhance distributable income, even though its cost has increased.

The primary 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. Reductions are simply a reflection of changes in interest rates and credit spreads that have cumulated over time. However, relative to fixed-income alternatives, the level of income produced should remain attractive. Fund shareholders have benefited from years of record-low interest rates and low leverage costs, but rates are moving back into balance as economic growth has improved. We believe the Fund's strategy of investing in preferred securities and using leverage in an efficient manner will continue to produce a competitive distribution rate for shareholders.

U.S. Economic and Credit Outlook

The U.S. economy expanded by 2.0% in the first calendar quarter of 2018, considerably below an average 3% growth rate during the prior nine months. However, inflation-adjusted gross domestic product (real GDP) is expected to rebound to 3.3% in the second quarter, and economists forecast continued solid real GDP growth of 2.9% in 2018 and 2.5% in 2019.³ Those forecasts are consistent with our own.

³Unless noted otherwise, forecasts are from the Bloomberg® *U.S. Monthly Economic Survey*, June 8, 2018.

There are four key expectations underlying our outlook.⁴ First, tax reform should prompt greater business investment and boost labor productivity. Second, higher wages due to a shrinking pool of available workers should support income growth above 4%, even as job growth slows as the economy reaches full employment. Third, global economic activity – which expanded by 3.8% in 2017 – should remain near that level in 2018. Finally, we assume that immigration and trade policies do not lead to worker shortages or trade wars that damage U.S. and global growth.

With the first half of 2018 behind us, we feel confident in the first three views, but we are considerably less confident on trade and immigration policies. We cannot predict what direction trade negotiations will take or their impact on U.S. economic growth, but with tariff barriers now expanding in the U.S. and abroad, economic risks are skewed to the downside. Immigration policy appears similarly unpredictable. We still think an optimistic economic outlook remains warranted, but risks have increased.

Inflation at last reached the Federal Reserve's target in May, when the personal consumption expenditure deflator excluding food and energy prices hit 2.0% YoY. Rising wages, higher home and energy prices and, now, tariffs on some imported goods are likely to push inflation higher. However, we think this will be a gradual process that will not prompt the Fed to tighten monetary policy more rapidly.

In response to good economic growth and higher inflation, the Federal Reserve hiked rates by 25 bp in March and again in June, bringing the target federal funds rate to 1.75-2.00% currently. The Fed also continued to wind down its securities holdings at a rate of \$30 billion per month in Q2; it is slated to rise to \$50 billion per month in Q4 and beyond. Ten- and 30-year Treasury rates pushed higher in the first two months of 2018 but have been range-bound since then, closing at 2.86% and 2.99%, respectively, on June 29.

After a recent decline in Treasury yields, our current rate expectations are a little above market forward rates but below the Fed's median forecast of a 3.4% federal funds rate for year-end 2020. We expect that solid economic growth in 2018 and 2019 will moderate in 2020 as federal government spending slows and early stimulus from tax reform wanes. In addition, rising Treasury supply and reduced portfolio reinvestment by the Fed should combine with prior rate hikes to tighten financial conditions without more aggressive monetary tightening. As a result, we think intermediate Treasury rates will rise only moderately from current levels – perhaps by 50 bp or so over the next several years – although they could be more volatile than in recent years.

Credit spreads on preferred securities and investment-grade corporate bonds widened as investors worried about rising global trade tensions and a renewed swing toward populist economic policies in the U.S. and abroad. While we acknowledge those challenges, credit fundamentals – especially at U.S. financial companies – continue to support preferred securities. Bank capital in the U.S. is strong and stable; loan performance is steady to improving overall; loan-loss reserves are sizable; and earnings, even before accounting for tax reform, are rising. Moreover, all banks that participated in the Federal Reserve's recent Dodd-Frank Act Stress Tests (DFAST) and Comprehensive Capital Analysis and Review (CCAR) passed the quantitative portions of those regulatory reviews, and the Fed objected to just one bank's capital plan on a qualitative basis.⁵ Other industries have also benefitted from stronger growth. Higher investment yields are boosting returns at insurance companies. Increased demand for oil and gas is benefitting pipeline companies that bring those resources to market. And sturdy hiring and rising incomes support a range of businesses from REITs to homebuilders to manufacturers.

⁴*First-Quarter U.S. Economic Update*, Flaherty & Crumrine Incorporated, May 15, 2018. Available at www.flaherty-crumrine.com and the Fund's website.

⁵The Fed objected to DB USA Corporation's capital plan due to qualitative concerns over its capital planning and DFAST processes.

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For preferred investors, we see this outlook as good news following modestly negative returns since the start of 2018. Credit fundamentals are strong, especially at financial institutions, and solid economic growth and rising profits should support credit spreads. Although short rates are likely to rise further and markets will face ongoing trade and political uncertainty, we think most of the adjustment in intermediate- and long-term interest rates has already occurred. We believe the macroeconomic and credit environments remain supportive of preferred securities.

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OVERVIEW**May 31, 2018 (Unaudited)****Fund Statistics**

Net Asset Value	\$ 13.58	
Market Price	\$ 13.50	
Discount	0.59	%
Yield on Market Price	6.93	%
Common Stock Shares Outstanding	11,182,896	

Security Ratings** % of
Net
Assets†

A	0.7	%
BBB	54.8	%
BB	30.6	%
Below "BB"	0.9	%
Not Rated***	9.2	%

Portfolio Rating Guidelines % of
Net
Assets†

Security Rated Below Investment Grade By All*****	30.2	%
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 3.8%.

****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	4.6 %

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

	% of Net	
	Assets*****†	
Holdings Generating Qualified Dividend Income (QDI) for Individuals	60	%
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.

The accompanying notes are an integral part of the financial statements.

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**Shares/\$
Par Value**

Preferred Securities[§]

— **91.6%**

Banking — 54.4%

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

May 31, 2018 (Unaudited)

\$ 1,655,000	Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A****	\$ 1,704,650	** ⁽¹⁾⁽²⁾
\$ 2,400,000	Banco Bilbao Vizcaya Argentaria SA, 6.125% to 11/16/27 then SW5 + 3.87%	2,184,000	** ⁽²⁾
\$ 530,000	Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A****	528,543	** ⁽²⁾
	Bank of America Corporation:		
\$ 2,600,000	5.875% to 03/15/28 then 3ML + 2.931%, Series FF	2,574,000	* ⁽¹⁾
\$ 694,000	3ML + 3.63%, 5.9888% ⁽⁵⁾ , Series K	698,338	* ⁽¹⁾
\$ 400,000	6.30% to 03/10/26 then 3ML + 4.553%, Series DD	421,800	*
\$ 2,802,000	Barclays Bank PLC, 7.875% to 03/15/22 then SW5 + 6.772%, 144A****	2,934,128	** ⁽²⁾
	BNP Paribas:		
\$ 5,315,000	7.375% to 08/19/25 then SW5 + 5.15%, 144A****	5,580,750	** ⁽¹⁾⁽²⁾
\$ 1,500,000	7.625% to 03/30/21 then SW5 + 6.314%, 144A****	1,576,875	** ⁽²⁾
	Capital One Financial Corporation:		
2,100	6.00%, Series B	53,371	*
12,900	6.00%, Series H	334,045	*
7,000	6.20%, Series F	182,140	*
29,600	6.70%, Series D	785,436	*
	Citigroup, Inc.:		
\$ 460,000	5.95% to 05/15/25 then 3ML + 3.905%, Series P	464,025	*
113,670	6.875% to 11/15/23 then 3ML + 4.13%, Series K	3,100,349	* ⁽¹⁾
119,778	7.125% to 09/30/23 then 3ML + 4.04%, Series J	3,377,740	* ⁽¹⁾
	CoBank ACB:		
19,300	6.125%, Series G, 144A****	1,963,466	*
10,000	6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A****	1,056,340	*

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10,000	6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A****	1,058,750	*(1)
\$ 447,000	6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A****	466,314	*
\$ 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****	302,310	** (2)
258,558	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	7,101,295	*(1)
	First Horizon National Corporation:		
795	First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75% ⁽⁵⁾ ,144A****	628,050	*(1)
1	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	1,296,875	
	Goldman Sachs Group:		
\$ 2,100,000	5.00% to 11/10/22 then 3ML + 2.874%, Series P	2,002,350	*(1)
\$ 195,000	5.70% to 05/10/19 then 3ML + 3.884%, Series L	198,364	*
50,000	6.375% to 05/10/24 then 3ML + 3.55%, Series K	1,355,500	*(1)

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2018 (Unaudited)

Shares/\$ Par	Value		
Preferred Securities —			
(Continued)			
Banking — (Continued)			
	HSBC Holdings PLC:		
15,407	8.00%, Series 2	\$ 393,372	** (2)
\$ 350,000	6.00% to 05/22/27 then ISDA5 + 3.746%	336,000	** (2)
\$ 3,160,000	6.50% to 03/23/28 then ISDA5 + 3.606%	3,136,300	** (1)(2)
\$ 995,000	6.875% to 06/01/21 then ISDA5 + 5.514%	1,039,775	** (2)
\$ 800,000	HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A****	1,226,496	(1)(2)
	Huntington Bancshares, Inc.:		
106,000	6.25%, Series D	2,801,050	* (1)
\$ 1,000,000	5.700% to 04/15/23 then 3ML + 2.88%, Series E	992,400	* (1)
40,000	ING Groep NV, 6.375%	1,026,400	** (2)
	JPMorgan Chase & Company:		
61,700	6.70%, Series T	1,628,263	* (1)
\$ 4,000,000	3ML + 3.47%, 5.8288% ⁽⁵⁾ Series I	4,030,000	* (1)
\$ 4,715,000	6.75% to 02/01/24 then 3ML + 3.78%, Series S	5,105,402	* (1)
90,400	KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E	2,429,509	* (1)
\$ 1,660,000	Lloyds TSB Bank PLC, 12.00% to 12/16/24 then 3ML + 11.756%, 144A****	2,050,191	(2)
\$ 2,790,000	M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E	3,013,200	* (1)
\$ 540,000	Macquarie Bank Ltd., 6.125% to 03/08/27 then SW5 + 3.703%, 144A****	496,800	** (2)
43,230	MB Financial, Inc., 6.00%, Series C	1,100,636	*
	Morgan Stanley:		
77,800	5.85% to 04/15/27 then 3ML + 3.491%, Series K	2,014,507	* (1)
154,665	6.875% to 01/15/24 then 3ML + 3.94%, Series F	4,277,678	* (1)
80,516	7.125% to 10/15/23 then 3ML + 4.32%, Series E	2,304,779	* (1)
174,600	New York Community Bancorp, Inc., 6.375% to 03/17/27 then 3ML + 3.821%, Series A	4,831,182	* (1)

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	PNC Financial Services Group, Inc.:	
281,557	6.125% to 05/01/22 then 3ML + 4.067%, Series P	7,732,963 *(1)
\$ 625,000	6.75% to 08/01/21 then 3ML + 3.678%, Series O	677,656 *(1)
\$ 2,160,000	RaboBank Nederland, 11.00% to 06/30/19 then 3ML + 10.868%, 144A****	2,322,000 (1)(2)
50,000	Regions Financial Corporation, 6.375% to 09/15/24 then 3ML + 3.536%, Series B	1,341,250 *(1)
	Societe Generale SA:	
\$ 400,000	6.75% to 04/06/28 then SW5 + 3.929%, 144A****	380,900 **(2)
\$ 4,000,000	7.375% to 09/13/21 then SW5 + 6.238%, 144A****	4,140,000 **(1)(2)
	Sovereign Bancorp:	
1,750	Sovereign REIT, 12.00%, Series A, 144A****	2,060,625
	Standard Chartered PLC:	
\$ 1,565,000	7.50% to 04/02/22 then SW5 + 6.301%, 144A****	1,603,147 **(1)(2)
\$ 1,250,000	7.75% to 04/02/23 then SW5 + 5.723%, 144A****	1,298,438 **(1)(2)

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2018 (Unaudited)

Shares/\$ Par	Value		
Preferred Securities —			
(Continued)			
Banking — (Continued)			
92,900	State Street Corporation, 5.90% to 03/15/24 then 3ML + 3.108%, Series D	\$ 2,429,446	*(1)
8,494	Sterling Bancorp, 6.50%, Series A	221,226	*
10,000	Texas Capital Bancshares Inc., 6.50%, Series A	253,250	*
35,000	US Bancorp, 6.50% to 01/15/22 then 3ML + 4.468%, Series F	982,625	*(1)
30,000	Valley National Bancorp, 5.50% to 09/30/22 then 3ML + 3.578%, Series B	773,700	*
	Wells Fargo & Company:		
15,000	5.625%, Series Y	376,005	*
241	7.50%, Series L	302,588	*
123,500	8.00%, Series J	3,179,507	*(1)
60,300	5.85% to 09/15/23 then 3ML + 3.09%, Series Q	1,562,071	*(1)
\$ 2,075,000	5.875% to 06/15/25 then 3ML + 3.99%, Series U	2,133,142	*(1)
\$ 1,095,000	3ML + 3.77%, 5.8945% ⁽⁵⁾ Series K	1,109,783	*(1)
35,900	6.625% to 03/15/24 then 3ML + 3.69%, Series R	986,173	*(1)
\$ 1,200,000	Westpac Banking Corporation, 5.00% to 09/21/27 then ISDA5 + 2.888%	1,051,608	** ⁽²⁾
\$ 1,000,000	Zions Bancorporation, 7.20% to 09/15/23 then 3ML + 4.44%, Series J	1,072,810	*
		126,155,178	
Financial Services — 0.6%			
\$ 460,000	AerCap Global Aviation Trust, 6.50% to 06/15/25 then 3ML + 4.30%, 06/15/45, 144A****	483,000	(2)
\$ 476,000	E*TRADE Financial Corporation, 5.30% to 03/15/23 then 3ML + 3.16%, Series B	465,290	*
\$ 453,000	General Motors Financial Company, 5.75% to 09/30/27 then 3ML + 3.598%, Series A	442,241	*
		1,390,531	
Insurance — 17.8%			

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82,392	Allstate Corporation, 6.625%, Series E	2,162,790	*(1)
\$ 300,000	Aon Corporation, 8.205% 01/01/27	371,625	(1)
	Arch Capital Group, Ltd.:		
12,000	5.25%, Series E	287,580	** (2)
10,500	5.45%, Series F	255,360	** (2)
\$ 1,423,000	AXA SA, 6.379% to 12/14/36 then 3ML + 2.256%, 144A*****	1,565,300	** (1)(2)
21,450	Axis Capital Holdings Ltd., 5.50%, Series E	526,812	** (2)
	Chubb Ltd.:		
\$ 975,000	Ace Capital Trust II, 9.70% 04/01/30	1,390,594	(1)(2)
124,779	Delphi Financial Group, 3ML + 3.19%, 5.5325% ⁽⁵⁾ 05/15/37	2,807,527	(1)
\$ 885,000	Everest Reinsurance Holdings, 3ML + 2.385%, 4.7275% ⁽⁵⁾ 05/15/37	878,363	(1)
10,000	Hartford Financial Services Group, Inc., 7.875% to 04/15/22 then 3ML + 5.596%, 04/15/42	295,250	
\$ 3,736,000	Liberty Mutual Group, 7.80% 03/15/37, 144A*****	4,473,860	(1)

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2018 (Unaudited)

Shares/\$ Par	Value		
Preferred Securities —			
(Continued)			
Insurance — (Continued)			
	MetLife, Inc.:		
\$ 3,600,000	9.25% 04/08/38, 144A****	\$ 4,932,000	(1)
\$ 3,096,000	10.75% 08/01/39	4,825,890	(1)
	PartnerRe Ltd.:		
25,000	5.875%, Series I	636,000	** (1)(2)
5,600	6.50%, Series G	146,888	** (2)
94,510	7.25%, Series H	2,635,411	** (1)(2)
\$ 402,000	Prudential Financial, Inc., 5.625% to 06/15/23 then 3ML + 3.92%, 06/15/43	418,583	
\$ 4,043,000	QBE Insurance Group Ltd., 7.50% to 11/24/23 then SW10 + 6.03%, 11/24/43, 144A****	4,489,994	(1)(2)
\$ 2,820,000	Unum Group: Provident Financing Trust I, 7.405% 03/15/38	3,130,200	(1)
24,000	W.R. Berkley Corporation, 5.75% 06/01/56	590,520	
	XL Group Limited:		
\$ 1,400,000	Catlin Insurance Company Ltd., 3ML + 2.975%, 5.3304% ⁽⁵⁾ , 144A****	1,375,500	(1)(2)
\$ 3,226,000	XL Capital Ltd., 3ML + 2.4575%, 4.8052% ⁽⁵⁾ , Series E	3,145,931	(1)(2)
		41,341,978	
Utilities — 7.6%			
\$ 3,127,000	Commonwealth Edison: COMED Financing III, 6.35% 03/15/33	3,338,072	(1)
145,000	Dominion Energy, Inc., 5.25% 07/30/76, Series A	3,599,567	(1)
	DTE Energy Company:		
18,000	5.375% 06/01/76, Series B	447,568	
10,000	6.00% 12/15/76, Series F	263,050	
\$ 2,180,000	Emera, Inc., 6.75% to 06/15/26 then 3ML + 5.44%, 06/15/76, Series 2016A	2,318,861	(1)(2)

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22,100	Georgia Power Company, 5.00% 10/01/77, Series 2017A	547,936
25,000	Indianapolis Power & Light Company, 5.65%	2,568,492 *
84,500	Integrys Energy Group, Inc., 6.00% to 08/01/23 then 3ML + 3.22%, 08/01/73	2,227,842 (1)
\$ 500,000	PECO Energy: PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	581,267 (1)
44,960	PPL Corp: PPL Capital Funding, Inc., 5.90% 04/30/73, Series B	1,143,108 (1)
20,000	Southern California Edison: SCE Trust V, 5.45% to 03/15/26 then 3ML + 3.79%, Series K	514,700 *
		17,550,463

Energy — 6.8%

	DCP Midstream LP:	
\$ 1,140,000	7.375% to 12/15/22 then 3ML + 5.148%, Series A	1,103,663 (1)
3,700	7.875% to 06/15/23 then 3ML + 4.919%, Series B	92,596

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 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	\$ 1,080,800 (1)(2)
\$ 7,302,000	Enbridge Energy Partners LP, 3ML + 3.7975%, 6.1055% ⁽⁵⁾ 10/01/37	7,274,618 (1)
80,155	Energy Transfer Partners LP, 7.375% to 05/15/23 then 3ML + 4.53%, Series C	2,014,696
	Enterprise Products Operating L.P.:	
\$ 500,000	5.25% to 08/16/27 then 3ML + 3.033%, 08/16/77, Series E	472,500
\$ 450,000	3ML + 3.7075%, 6.0656% ⁽⁵⁾ 08/01/66, Series A	451,688
16,900	Kinder Morgan, Inc., 9.75% 10/26/18, Series A	558,587 *
33,700	NuStar Logistics LP, 3ML + 6.734%, 9.0817% ⁽⁵⁾ 01/15/43	864,068
	Transcanada Pipelines, Ltd.:	
\$ 1,000,000	5.30% to 03/15/27 then 3ML + 3.208%, 03/15/77, Series 2017-A	952,495 (2)
\$ 1,000,000	5.875% to 08/15/26 then 3ML + 4.64%, 08/15/76, Series 2016-A	1,002,500 (1)(2)
		15,868,211
Real Estate Investment Trust (REIT) — 0.5%		
3,440	Annaly Capital Management, Inc., 6.95% to 09/30/22 then 3ML + 4.993%, Series F	86,550
	National Retail Properties, Inc.:	
5,500	5.20%, Series F	122,320
24,270	5.70%, Series E	573,136 (1)
	PS Business Parks, Inc.:	
7,760	5.20%, Series W	176,967
4,000	5.70%, Series V	99,420
325	5.75%, Series U	8,099
		1,066,492
Miscellaneous Industries — 3.9%		
	BHP Billiton Limited:	436,200 (2)

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\$ 400,000	BHP Billiton Finance U.S.A., Ltd., 6.75% to 10/19/25 then SW5 + 5.093%, 10/19/75, 144A****		
\$ 833,000	General Electric Company, 5.00% to 01/21/21 then 3ML + 3.33%, Series D Land O' Lakes, Inc.:	824,045	*(1)
\$ 260,000	7.25%, Series B, 144A****	286,650	*
\$ 3,900,000	8.00%, Series A, 144A****	4,348,500	*(1)
34,700	Ocean Spray Cranberries, Inc., 6.25%, 144A****	3,123,000	*
		9,018,395	
	Total Preferred Securities		
	(Cost \$206,194,795)	212,391,248	

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2018 (Unaudited)

Shares/\$ Par	Value	
Corporate Debt Securities^s — 4.6%		
Banking — 2.0%		
\$ 600,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	\$ 794,939 (1)
133,500	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	3,452,977 (1)
18,000	Zions Bancorporation, 6.95% to 09/15/23 then 3ML + 3.89%, 09/15/28, Sub Notes	516,150 (1)
		4,764,066
Financial Services — 0.0%		
1,000	B. Riley Financial, Inc., 7.50% 05/31/27	25,175
		25,175
Insurance — 1.2%		
\$ 2,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,778,027 (1)
		2,778,027
Energy — 0.9%		
\$ 1,680,000	Energy Transfer Partners LP, 8.25% 11/15/29	2,074,065 (1)
		2,074,065
Communication — 0.5%		
	Qwest Corporation:	
22,170	6.50% 09/01/56	477,877
28,330	6.75% 06/15/57	636,462
400	7.00% 04/01/52	9,414
		1,123,753
	Total Corporate Debt Securities	
	(Cost \$9,436,031)	10,765,086
Common Stock — 0.7%		
Energy — 0.7%		
99,212	Kinder Morgan, Inc.	1,654,856 *

		1,654,856	
Insurance — 0.0%			
19,896	WMI Holdings Corporation, 144A****	26,860	*†
		26,860	
	Total Common Stock		
	(Cost \$2,710,970)	1,681,716	
Money Market Fund — 2.2%			
5,069,342	BlackRock Liquidity Funds: T-Fund, Institutional Class	5,069,342	
	Total Money Market Fund		
	(Cost \$5,069,342)	5,069,342	

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2018 (Unaudited)

Value

Total Investments (Cost \$223,411,138 ^{***})	99.1	%	\$ 229,907,392
Other Assets And Liabilities (Net)	0.9	%	2,021,855
Total Managed Assets	100.0	%	\$ 231,929,247
Loan Principal Balance			(80,100,000)
Total Net Assets Available To Common Stock			\$ 151,829,247

§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 May 31, 2018, these securities amounted to \$62,995,060 or 27.2% 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 \$144,446,191 at May 31, 2018.

(2)Foreign Issuer.

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

(4)Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of May 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

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

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENT OF ASSETS AND LIABILITIES

May 31, 2018 (Unaudited)

ASSETS:

Investments, at value (Cost \$223,411,138)	\$ 229,907,392
Cash	2,310
Receivable for investments sold	14,709
Dividends and interest receivable	2,291,742
Total Assets	232,216,153

LIABILITIES:

Loan Payable	\$ 80,100,000
Payable for investment securities purchased	21,017
Dividends payable to Common Stock Shareholders	73,606
Investment advisory fees payable	109,532
Administration, Transfer Agent and Custodian fees payable	37,818
Professional fees payable	36,827
Accrued expenses and other payables	8,106
Total Liabilities	80,386,906

**NET ASSETS
AVAILABLE
TO COMMON
STOCK** \$ 151,829,247

**NET ASSETS
AVAILABLE
TO COMMON
STOCK** consist
of:

Undistributed net investment income	\$ 65,509
Accumulated net realized loss on investments sold	(10,469,859)
Unrealized appreciation of investments	6,496,254
Par value of Common Stock	111,829
Paid-in capital in excess of par value of Common Stock	155,625,514
Total Net Assets Available to Common Stock	\$ 151,829,247

**NET ASSET
VALUE PER
SHARE OF
COMMON
STOCK:**

Common Stock (11,182,896 shares outstanding)	\$ 13.58
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The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENT OF OPERATIONS

For the Six Months Ended May 31, 2018 (Unaudited)

INVESTMENT INCOME:

Dividends [†]	\$	3,118,527
Interest		3,740,101
Total Investment Income		6,858,628

EXPENSES:

Investment advisory fees	\$	652,937
Interest expenses		993,682
Administrator's fees		110,360
Professional fees		58,786
Insurance expenses		26,732
Transfer Agent fees		16,644
Directors' fees		28,210
Custodian fees		15,090
Compliance fees		18,200
Other		46,425
Total Expenses		1,967,066

NET INVESTMENT INCOME		4,891,562
----------------------------------	--	------------------

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS

Net realized loss on investments sold during the period	(207,767)
Capital gains distributions from investments held during the period	7	
Change in unrealized appreciation/(depreciation) of investments	(7,826,946)

NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	(8,034,706)
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NET DECREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS	\$ (3,143,144)
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†For Federal income tax purposes, a significant portion of this amount may not qualify for the inter-corporate dividends received deduction (“DRD”) or as qualified dividend income (“QDI”) for individuals.

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

Six Months Ended May 31, 2018 (Unaudited)	Year Ended November 30, 2017
OPERATIONS:	
Net investment income	
\$ 4,891,562	\$ 10,402,991
Net realized gain/(loss) on investments sold during the period	
(2,271,760)) 2,271,117
Change in net unrealized appreciation/(depreciation) of investments	
(7,826,946)) 11,624,648
Net increase/(decrease) in net assets resulting from operations	
(3,143,144)) 24,298,756
DISTRIBUTIONS:	
Dividends paid from net investment	
(5,322,626)) (11,501,970)

income
to
Common
Stock
Shareholders⁽¹⁾

**Total
Distributions
to
Common
Stock
Shareholders**

(5,322,626) (11,501,970)

**FUND
SHARE
TRANSACTIONS:**

Increase
from
shares
issued
under
the
Dividend

146,235 871,806

Reinvestment
and
Cash
Purchase
Plan

**Net
increase
in
net
assets
available**

**to
Common
Stock** 146,235 871,806

**resulting
from
Fund
share
transactions**

**NET
INCREASE (DECREASE)
IN**)
\$ (8,319,335) \$ 13,668,592

**NET
ASSETS
AVAILABLE
TO**

**COMMON
STOCK
FOR
THE
period**

**NET
ASSETS
AVAILABLE
TO
COMMON
STOCK:**