

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-Q
April 29, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT
INVESTMENT COMPANY**

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: February 28, 2019

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q 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 the 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. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

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

While the first fiscal quarter¹ began on a very weak note, with fixed-income markets (including preferreds) down sharply in December 2018, markets did a 180-degree turn as the Fed changed its tune on monetary policy. Rebounding prices were broad-based and more than made up for weakness in December, and investors are once again on a hunt for yield. Total return² on net asset value (“NAV”) for the first fiscal quarter was 6.1%, while total return on market price was 12.3%.

As discussed in our Annual Report dated November 30, 2018, there were many factors contributing to weakness in 2018. A few of them continue today, including a global economic slowdown, ongoing trade wars, and continuous political headlines from both sides of the aisle. However, the Federal Reserve’s unexpected pivot on its outlook for future rate hikes and size of its balance sheet (System Open Market Account (SOMA) portfolio) deserve most of the credit for the market’s sudden mood change. As of its March 20 meeting, the Federal Open Market Committee estimates no rate increases in 2019 and one 0.25% hike in 2020, which would leave the year-end 2021 fed funds rate 0.5% below earlier projections. It also plans to halt SOMA reductions in October 2019, an earlier end point than previously expected.

The Fed’s revised positions on rates and SOMA have been followed by similar policy statements from the European Central Bank (ECB). Investors globally have shifted expectations and now expect government officials to keep close watch over economies and markets with continued dovish monetary policies. The result has been lower, and remarkably stable, Treasury rates and a dramatic re-tightening of credit spreads.

Flow data on money going into and out of markets and investment products from late-2018 indicate many may have underestimated the degree of concern among investors. Outflows, particularly from corporate credit fixed-income funds, were substantial and help explain the magnitude of market weakness. Flows back into markets in 2019 have been impressive as well, although thus far they have fallen short of making up for late-2018’s outflows.

Macro factors have been driving markets, and there is little new to say about the Fund’s portfolio. Our allocations continue to focus on credit quality and structure – both of which remain healthy – and portfolio turnover remains low. The economic outlook and related macro factors – such as global monetary policy and trade – should continue to have an outsized impact on our market’s direction over the near-term.

Credit fundamentals for most issuers of preferreds are strong, and we expect them to remain resilient even if the pace of economic growth slows over the next several years. Supply of newly-issued preferreds should remain very manageable, providing technical support to the market. Combined with competitive yields, tax advantages, and benign credit conditions, we believe the case for preferreds as an income investment remains intact.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

March 29, 2019

¹December 1, 2018 – February 28, 2019

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

2

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OVERVIEW**February 28, 2019 (Unaudited)****Fund Statistics**

Net Asset Value	\$ 13.22	
Market Price	\$ 13.29	
Premium	0.53	%
Yield on Market Price†	6.77	%
Common Stock Shares Outstanding	11,203,445	

†February 2019 dividend of \$0.075 per share, annualized, divided by Market Price.

Security Ratings % of Net Assets††**

A	0.6	%
BBB	54.6	%
BB	30.7	%
Below "BB"	0.9	%
Not Rated***	9.9	%

Portfolio Rating Guidelines % of Net Assets††

Security Rated Below Investment Grade By All****	29.4	%
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. May not sum to 100% due to rounding.

***Excludes common stock and money market fund investments and net other assets and liabilities of 3.4%.

****Security rating below investment grade by all of Moody's, S&P Global Ratings, 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	4.2	%
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MetLife Inc	4.1 %
Morgan Stanley	3.7 %
PNC Financial Services Group Inc	3.5 %
BNP Paribas	3.3 %
Fifth Third Bancorp	3.2 %
Citigroup Inc	3.1 %
Liberty Mutual Group	3.0 %
Wells Fargo & Company	2.9 %
HSBC Holdings PLC	2.7 %

	% of Net Assets*****††	
Holdings Generating Qualified Dividend Income (QDI) for Individuals	63	%
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.

3

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

February 28, 2019 (Unaudited)

Shares/\$ Par Value**Preferred Stock &
Hybrid Preferred
Securities[§] — 76.3%
Banking — 41.4%**

	Bank of America Corporation:		
\$ 3,600,000	5.875% to 03/15/28 then 3ML + 2.931%, Series FF	\$ 3,554,190	*(1)(4)
\$ 400,000	6.30% to 03/10/26 then 3ML + 4.553%, Series DD	436,012	*(4)
	Capital One Financial Corporation:		
2,100	6.00%, Series B	53,308	*(4)
12,900	6.00%, Series H	335,076	*(4)
7,000	6.20%, Series F	182,630	*(4)
29,600	6.70%, Series D	768,268	*(4)
	Citigroup, Inc.:		
\$ 266,000	5.875% to 03/27/20 then 3ML + 4.059%, Series O	269,047	*(4)
\$ 460,000	5.95% to 05/15/25 then 3ML + 3.905%, Series P	464,128	*(4)
113,670	6.875% to 11/15/23 then 3ML + 4.13%, Series K	3,057,723	*(1)(4)
119,778	7.125% to 09/30/23 then 3ML + 4.04%, Series J	3,275,437	*(1)(4)
	Citizens Financial Group, Inc.:		
35,000	6.35% to 04/06/24 then 3ML + 3.642%, Series D	910,525	*(1)(4)
\$ 1,000,000	6.375% to 04/06/24 then 3ML + 3.157%, Series C	992,725	*(1)(4)
	CoBank ACB:		
17,000	6.125%, Series G, 144A****	1,722,100	*(4)
10,000	6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A****	1,036,500	*(4)
10,000	6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A****	1,035,000	*(1)(4)
\$ 447,000	6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A****	464,880	*(4)
258,058	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	7,344,976	*(1)(4)
	First Horizon National Corporation:		
795	First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75% ⁽⁵⁾ , 144A****	584,325	*(4)
1	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	1,293,750	
	Goldman Sachs Group:		

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\$ 2,100,000	5.00% to 11/10/22 then 3ML + 2.874%, Series P	1,935,097	*(1)(4)
\$ 195,000	5.70% to 05/10/19 then 3ML + 3.884%, Series L	195,244	*(4)
50,000	6.375% to 05/10/24 then 3ML + 3.55%, Series K	1,340,000	*(1)(4)
	HSBC Holdings PLC:		
\$ 800,000	HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A****	1,173,776	(1)(2)(4)
	Huntington Bancshares, Inc.:		
106,000	6.25%, Series D	2,741,160	*(1)(4)
\$ 1,000,000	5.70% to 04/15/23 then 3ML + 2.88%, Series E	963,335	*(1)(4)
40,000	ING Groep NV, 6.375%	1,025,600	** (2)(4)
	JPMorgan Chase & Company:		
61,700	6.70%, Series T	1,542,500	*(4)
\$ 2,869,000	3ML + 3.47%, 6.2205% ⁽⁵⁾ , Series I	2,886,859	*(1)(4)
\$ 4,715,000	6.75% to 02/01/24 then 3ML + 3.78%, Series S	5,187,749	*(1)(4)
90,400	KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E	2,418,543	*(1)(4)
\$ 1,660,000	Lloyds TSB Bank PLC, 12.00% to 12/16/24 then 3ML + 11.756%, 144A****	2,014,327	(2)(4)
\$ 2,790,000	M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E	2,973,680	*(1)(4)

4

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2019 (Unaudited)

Shares/\$ Par Value

**Preferred Stock &
Hybrid Preferred
Securities — (Continued)
Banking — (Continued)**

43,230 MB Financial, Inc., 6.00%, Series C \$ 1,088,099 *(1)(4)