

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 return¹ 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.

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

² 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, for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

March 31, 2018

Flaherty & 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 |

| Security Ratings** | % of Net Assets† |
|---------------------------|-------------------------|
| A | 0.7% |
| BBB | 54.5% |
| BB | 33.2% |
| Below “BB” | 0.9% |
| Not Rated*** | 9.3% |

| Portfolio Rating Guidelines | % of Net Assets† |
|--|-------------------------|
| 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†

| Top 10 Holdings by Issuer | % of Net Assets† |
|----------------------------------|-------------------------|
| 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% |

| | % of Net Assets*****† |
|--|------------------------------|
| 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)

| Shares/\$ Par | Value | |
|---|---|-------------------|
| Preferred Securities^s — 93.9% | | |
| Banking — 54.7% | | |
| | 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: | |
| | 6.125% to 11/16/27 | |
| \$ 2,400,000 | 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% 2,188,987 5.3969% ⁽³⁾ , | *(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 + | ** ⁽²⁾ |
| | 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% ⁽⁵⁾ , 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 |
|------------------|-------|
|------------------|-------|

**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
 02/15/24
 \$ 2,790,000 3ML 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, Inc. 6.50%, Series A | 22,543 * |
| 8,800 | SunTrust Banks, Inc. 5.875%, Series E | 21,936 * |
| 10,000 | Texas Capital Bancshares Inc. 6.50%, Series A | 254,100 * |
| 35,000 | US Bancorp, 6.50% to 01/15/22 then 3ML + 4.468%, Series F | 984,763 *(1) |
| 30,000 | Valley National Bancorp, 5.50% to 09/30/22 then 3ML + 3.578%, Series B | 775,800 * |

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

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

**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 | | |
| Insurance — 19.1% | | | |
| | 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% ⁽⁵⁾ 05/15/37 Everest Reinsurance Holdings, 3ML | |
| \$ 1,778,000 | 1,748,663 | (1) |
| | + 2.385%, 4.2238% ⁽⁵⁾ 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**** | | |
| | 10.75% | | |
| \$ 3,096,000 | 4.96% | 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 11/24/43 | |
| \$ 4,043,000 | 24,598,913 | (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% ⁽⁵⁾ , | | |
| | 144A**** | | |
| | XL | | |
| | Capital | | |
| | Ltd., | | |
| | 3ML | | |
| \$ 5,500,000 | + 5,259,375 | (1)(2) | |
| | 2.4575%, | | |
| | 4.1790% ⁽⁵⁾ , | | |
| | Series | | |
| | E | | |
| | 45,207,587 | | |
| Utilities — 9.2% | | | |
| | 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 | | |
| 22,700 | Company, | 5,005,220 | |
| | 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 | NexEra, | 1,459,740 | (1) |
| | Energy: | | |
| | FPL | | |
| | Group | | |
| | Capital, | | |
| | Inc., | | |
| | 3ML | | |
| | + | | |

| | | | |
|--------------|--|-----|--|
| | 2.125%, 3.7135% ⁽⁵⁾ 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% ⁽⁵⁾ 03/30/67, Series A Puget Sound Energy, Inc., 3ML | | |
| \$ 1,103,000 | + 1,094,728 | (1) | |
| | 2.53%, 4.0106% ⁽⁵⁾ 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
3ML
+
5.148%,
Series
A

\$ 1,140,000 1,152,113

Enbridge,
Inc.,
6.00%

\$ 1,120,000 1,136,800 (2)

to
01/15/27
then
3ML

+
3.89%,
01/15/77

Enbridge
Energy
Partners
LP,

\$ 7,302,000 3ML 7,320,255 (1)

+
3.7975%,
5.4917%⁽⁵⁾
10/01/37

Enterprise Products
Operating L.P.:

\$ 450,000 448,313

3ML
+
3.7075%,
5.4809%⁽⁵⁾
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 *

Flaherty & Crumrine Preferred Income Fund Incorporated

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

| Shares/\$ Par | Value |
|-----------------------------|---|
| Preferred Securities | |
| — (Continued) | |
| | Energy — (Continued) |
| | NuStar Logistics LP, 3ML |
| 33,700 | \$ 864,405 + |
| | 6.734%, 8.4555% ⁽⁵⁾ 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 | | |
| | Total | | |
| | Preferred | | |
| | Securities | 9,434,813 | |
| | (Cost | | |
| | \$211,395,178) | | |

Corporate Debt Securities^s — 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, 7.697% 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% 478,872 09/01/56 |
| 28,330 | 6.75% 640,825 06/15/57 |
| 400 | 7.00% 9,477 04/01/52 |
| | 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

(Cost
\$307,820)

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

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

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

| Value | |
|---|-------------------|
| OPERATIONS: | |
| 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) |
| Net decrease in net assets resulting from operations | (829,022) |
| DISTRIBUTIONS: | |
| Dividends paid from net investment income to | (205,828) |

Common
Stock
Shareholders⁽²⁾

**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⁽¹⁾

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
of \$ 236,860
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 & Crumrine Preferred Income Fund Incorporated

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

| | Total Dividends Paid | Net Asset Value | NYSE Closing Price | Dividend Reinvestment Price⁽¹⁾ |
|-------------------|-------------------------------------|----------------------------|-------------------------------|--|
| 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 |

⁽¹⁾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 & 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:

| | Total Value at February 28, 2018 | Level 1 Quoted Price | Level 2 Significant Observable Inputs | Level 3 Significant Unobservable Inputs |
|-------------------------------------|---|-------------------------------------|--|--|
| 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:

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

| Category | Fair Value at 02/28/18 | Valuation Technique | Unobservable Input | Input Range (Wgt Avg) |
|-----------------------------------|-----------------------------------|--------------------------------|---------------------------------------|----------------------------------|
| 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