

Flaherty & Crumrine PREFERRED SECURITIES INCOME FUND INC
Form N-30B-2
October 26, 2018
FLAHERTY & CRUMRINE Preferred Securities Income Fund

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

Preferreds performed well in the third fiscal quarter¹, bringing total return for the year just back into positive territory. While these returns have not kept pace with returns in recent years, preferreds continue to outperform certain areas of the fixed income market. Total return² on net asset value (“NAV”) was 2.3% for the quarter, and 0.7% for the first nine months of fiscal 2018. Total return on market price over the same periods was 4.4% and -2.0%, respectively.

By most accounts, it has been a challenging year for corporate bond investments. As the current economic cycle has matured, interest rates rose modestly and credit spreads gradually widened. The yield curve flattened as the Federal Reserve methodically raised its benchmark rate while the long end of the Treasury yield curve moved up only modestly given a limited increase in broad-based inflation and subdued expectations for long-term economic growth. Over the first nine months of the Fund’s fiscal year, the Bloomberg Barclays U.S. Aggregate Index returned -0.5%, while the Bloomberg Barclays Long U.S. Credit Index returned -2.7%.

Preferreds outperformed these fixed-income benchmarks for a few key reasons. First, duration is moderate for many preferreds – and for the Fund’s portfolio specifically. We won’t repeat the merits of fixed-to-float preferreds here, but as previously discussed they offer attractive yields with intermediate duration. Owning both fixed-rate and fixed-to-float preferreds allows for management of portfolio duration despite the long-term nature of the Fund’s investments.

Second, an issuer’s preferreds generally yield more than its corporate bonds. The Fund’s strategy is to identify investment-grade issuers and invest down the capital structure (into preferreds) to earn extra yield for what is, in most cases, similar default risk. For issuers with solid credit quality, preferreds have consistently outperformed corporate bonds over a credit cycle. Over time, higher yields can make up for a lot of principal change and dampen effects of higher interest rates.

Outperformance of preferreds over other fixed income securities has been even better when considered after-tax. If shareholders missed our discussion on taxes in the semi-annual report dated May 31, 2018, we encourage a read. Most preferreds offer tax-advantaged income, which further enhances the extra yield earned for subordination (i.e. being lower in the capital structure than senior debt).

We believe the case for preferreds as an income investment remains largely intact, with a combination of higher relative yields, tax advantages, and benign credit conditions. Returns may be bumpy as markets navigate a late-cycle economy (albeit one that’s currently showing few signs of weakness) and an active Federal Reserve. For fixed-income investors, however, preferreds’ combination of credit quality, intermediate duration and yield should remain attractive.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2018

¹ June 1, 2018 – August 31, 2018

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

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OVERVIEW

August 31, 2018 (Unaudited)

Fund Statistics

Net Asset Value	\$ 19.42	
Market Price	\$ 19.13	
Discount	1.49	%
Yield on Market Price	7.15	%
Common Stock Shares Outstanding	44,252,635	

Security Ratings** % of Net Assets†

A	0.6	%
BBB	56.8	%
BB	32.4	%
Below “BB”	1.1	%
Not Rated***	7.7	%

Portfolio Rating Guidelines % of Net Assets†

Security Rated Below Investment Grade By All*****	31.9	%
Issuer or Senior Debt Rated Below Investment Grade by All*****	2.1	%

**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 10% of Net Assets.

Industry Categories* % of Net Assets†

Top 10 Holdings by Issuer	% of Net Assets†
JPMorgan Chase & Co	4.7 %

PNC Financial Services Group	4.4	%
Wells Fargo & Company	4.3	%
MetLife Inc	4.2	%
Citigroup Inc	3.8	%
Liberty Mutual Group	3.6	%
Morgan Stanley	3.5	%
BNP Paribas	3.3	%
Fifth Third Bancorp	3.2	%
Enbridge Energy Partners	2.9	%

	% of Net	
	Assets*****†	
Holdings Generating Qualified Dividend Income (QDI) for Individuals	61	%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	44	%

*****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 Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities\$ —****93.8%****Banking — 56.0%**

\$ 5,103,000	Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A*****	\$ 5,307,120	** (1)(2)
\$ 12,800,000	Banco Bilbao Vizcaya Argentaria SA, 6.125% to 11/16/27 then SW5 + 3.87%	11,322,496	** (1)(2)
\$ 2,970,000	Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A*****	3,027,915	** (2)
\$ 14,800,000	Bank of America Corporation, 5.875% to 03/15/28 then 3ML + 2.931%, Series FF	14,818,500	*(1)
	Barclays Bank PLC:		
300,036	8.125%, Series 5	7,932,952	** (1)(2)
\$ 5,615,000	7.75%, to 09/15/23 then SW5 + 4.842%	5,678,450	** (2)
\$ 18,863,000	7.875% to 03/15/22 then SW5 + 6.772%, 144A*****	19,627,499	** (1)(2)
	BNP Paribas:		
\$ 2,340,000	7.00%, to 08/16/28 then SW5 + 3.98%, 144A*****	2,345,850	** (2)
\$ 31,040,000	7.375% to 08/19/25 then SW5 + 5.15%, 144A*****	32,723,920	** (1)(2)
\$ 8,000,000	7.625% to 03/30/21 then SW5 + 6.314%, 144A*****	8,520,000	** (2)
	Capital One Financial Corporation:		
13,893	6.00%, Series B	356,425	*
58,600	6.00%, Series H	1,542,645	*
34,000	6.20%, Series F	891,480	*
120,900	6.70%, Series D	3,189,946	*(1)
	Citigroup, Inc.:		
\$ 4,590,000	5.95% to 05/15/25 then 3ML + 3.905%, Series P	4,680,423	*
1,036,484	6.875% to 11/15/23 then 3ML + 4.13%, Series K	28,871,262	*(1)
572,357	7.125% to 09/30/23 then 3ML + 4.04%, Series J	16,286,418	*(1)
	CoBank ACB:		
38,420	6.125%, Series G, 144A*****	3,861,210	*
104,000	6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A*****	11,128,000	*

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60,000	6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A****	6,270,000	*(1)
\$ 2,498,000	6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A****	2,660,370	*
\$ 35,100,000	Colonial BancGroup, 7.114%, 144A****	3,510	(3)(4)††
\$ 1,630,000	Credit Agricole SA, 7.875% to 01/23/24 then SW5 + 4.898%, 144A****	1,733,823	** (2)
1,483,814	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	41,465,182	*(1)
	First Horizon National Corporation:		
3,730	First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75% ⁽⁵⁾ , 144A****	2,909,788	*
9	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	11,664,000	
	Goldman Sachs Group:		
\$ 12,000,000	5.00% to 11/10/22 then 3ML + 2.874%, Series P	11,381,902	*(1)
\$ 390,000	5.70% to 05/10/19 then 3ML + 3.884%, Series L	395,893	*
140,000	6.375% to 05/10/24 then 3ML + 3.55%, Series K	3,812,200	*(1)
	HSBC Holdings PLC:		
\$ 2,100,000	6.00% to 05/22/27 then ISDA5 + 3.746%	2,039,730	** (1)(2)
\$ 20,770,000	6.50% to 03/23/28 then ISDA5 + 3.606%	20,354,600	** (1)(2)
\$ 5,243,000	6.875% to 06/01/21 then ISDA5 + 5.514%	5,472,381	** (1)(2)
\$ 4,400,000	HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A****	6,567,000	(1)(2)

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PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities —
(Continued)****Banking — (Continued)**

	Huntington Bancshares, Inc.:	
590,000	6.25%, Series D	\$ 15,682,200 ^{*(1)}
\$ 5,800,000	5.70% to 04/15/23 then 3ML + 2.88%, Series E	5,796,375 ^{*(1)}
300,000	ING Groep NV, 6.375%	7,704,000 ^{** (2)}
	JPMorgan Chase & Company:	
56,600	6.125%, Series Y	1,497,353 *
183,700	6.70%, Series T	4,779,874 ^{*(1)}
\$ 32,000,000	3ML + 3.47%, 5.8089% ⁽⁵⁾ , Series I	32,264,000 ^{*(1)}
\$ 5,450,000	6.00% to 08/01/23 then 3ML + 3.30%, Series R	5,693,996 ^{*(1)}
\$ 15,155,000	6.75% to 02/01/24 then 3ML + 3.78%, Series S	16,700,052 ^{*(1)}
502,300	KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E	14,081,980 ^{*(1)}
\$ 9,340,000	Lloyds TSB Bank PLC, 12.00% to 12/16/24 then 3ML + 11.756%, 144A****	11,367,303 ⁽¹⁾⁽²⁾
\$ 16,750,000	M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E	17,964,375 ^{*(1)}
\$ 3,000,000	Macquarie Bank Ltd., 6.125% to 03/08/27 then SW5 + 3.703%, 144A****	2,756,250 ^{** (2)}
242,340	MB Financial, Inc., 6.00%, Series C	6,325,074 ^{*(1)}
	Morgan Stanley:	
879,089	5.85% to 04/15/27 then 3ML + 3.491%, Series K	23,010,155 ^{*(1)}
502,400	6.875% to 01/15/24 then 3ML + 3.94%, Series F	14,145,072 ^{*(1)}
298,300	7.125% to 10/15/23 then 3ML + 4.32%, Series E	8,595,514 ^{*(1)}
977,000	New York Community Bancorp, Inc., 6.375% to 03/17/27 then 3ML + 3.821%, Series A	27,248,530 ^{*(1)}
	PNC Financial Services Group, Inc.:	
1,941,960	6.125% to 05/01/22 then 3ML + 4.067%, Series P	54,073,876 ^{*(1)}
\$ 3,043,000	6.75% to 08/01/21 then 3ML + 3.678%, Series O	3,312,305 ^{*(1)}
\$ 7,885,000	RaboBank Nederland, 11.00% to 06/30/19 then 3ML + 10.868%, 144A****	8,377,812 ⁽¹⁾⁽²⁾
27,213	Regions Financial Corporation, 6.375% to 09/15/24 then 3ML + 3.536%, Series B	744,137 *

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Societe Generale SA:		
\$ 17,750,000	6.75% to 04/06/28 then SW5 + 3.929%, 144A****	16,818,125 **(1)(2)
\$ 7,000,000	7.375% to 09/13/21 then SW5 + 6.238%, 144A****	7,332,500 **(2)
Sovereign Bancorp:		
8,641	Sovereign REIT, 12.00%, Series A, 144A****	10,174,777
Standard Chartered PLC:		
\$ 11,370,000	7.50% to 04/02/22 then SW5 + 6.301%, 144A****	11,767,950 **(1)(2)
\$ 8,000,000	7.75% to 04/02/23 then SW5 + 5.723%, 144A****	8,310,000 **(1)(2)
505,500	State Street Corporation, 5.90% to 03/15/24 then 3ML + 3.108%, Series D	13,721,797 *(1)
59,724	Sterling Bancorp, 6.50%, Series A	1,590,773 *
174,959	US Bancorp, 6.50% to 01/15/22 then 3ML + 4.468%, Series F	4,938,218 *(1)
165,000	Valley National Bancorp, 5.50% to 09/30/22 then 3ML + 3.578%, Series B	4,323,000 *(1)

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PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities —
(Continued)****Banking — (Continued)**

	Wells Fargo & Company:		
55,000	5.625%, Series Y	\$ 1,401,119	*
1,353	7.50%, Series L	1,756,174	*
550,500	8.00%, Series J	13,825,807	*(1)
339,095	5.85% to 09/15/23 then 3ML + 3.09%, Series Q	8,780,865	*(1)
\$ 3,000,000	5.875% to 06/15/25 then 3ML + 3.99%, Series U	3,165,000	*(1)
\$ 16,314,000	3ML + 3.77%, 6.1106% ⁽⁵⁾ , Series K	16,544,843	*(1)
402,925	6.625% to 03/15/24 then 3ML + 3.69%, Series R	11,084,467	*(1)
\$ 6,700,000	Westpac Banking Corporation, 5.00% to 09/21/27 then ISDA5 + 2.888%	6,018,682	** ⁽¹⁾⁽²⁾
	Zions Bancorporation:		
20,000	6.30% to 03/15/23 then 3ML + 4.24%, Series G	543,920	*
\$ 9,000,000	7.20% to 09/15/23 then 3ML + 4.44%, Series J	9,652,500	*(1)
		732,713,640	

Financial Services — 1.4%

\$ 2,540,000	AerCap Global Aviation Trust, 6.50% to 06/15/25 then 3ML + 4.30%, 06/15/45, 144A****	2,628,900	(2)
	Charles Schwab Corporation:		
13,600	5.95%, Series D	355,232	*
176,400	6.00%, Series C	4,629,618	*(1)
\$ 4,700,000	Credit Suisse Group AG, 7.50% to 07/17/23 then SW5 + 4.60%, 144A****	4,871,550	** ⁽²⁾
\$ 2,600,000	E*TRADE Financial Corporation, 5.30% to 03/15/23 then 3ML + 3.16%, Series B	2,592,200	*
\$ 2,625,000	General Motors Financial Company, 5.75% to 09/30/27 then 3ML + 3.598%, Series A	2,561,016	*
		17,638,516	

Insurance — 19.9%

612,382	Allstate Corporation, 6.625%, Series E	15,929,954	*(1)
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\$ 718,000	Aon Corporation, 8.205% 01/01/27	881,345	(1)
	Arch Capital Group, Ltd.:		
67,000	5.25%, Series E	1,624,562	**(2)
56,500	5.45%, Series F	1,400,635	**(2)
	Aspen Insurance Holdings Ltd.:		
65,962	5.625%	1,653,008	**(2)
65,830	5.95% to 07/01/23 then 3ML + 4.06%	1,708,288	**(2)
\$ 3,315,000	AXA SA, 6.379% to 12/14/36 then 3ML + 2.256%, 144A****	3,547,050	**(1)(2)
52,191	Axis Capital Holdings Ltd., 5.50%, Series E	1,304,253	**(2)
\$ 4,566,000	Chubb Ltd.:		
	Ace Capital Trust II, 9.70% 04/01/30	6,426,645	(1)(2)
732,250	Delphi Financial Group, 3ML + 3.19%, 5.5038% ⁽⁵⁾ 05/15/37	16,567,156	(1)
254,000	Enstar Group Ltd., 7.00% to 08/31/28 then 3ML + 4.015%, Series D	6,676,390	**(1)(2)
\$ 7,310,000	Everest Reinsurance Holdings, 3ML + 2.385%, 4.6988% ⁽⁵⁾ 05/15/37	7,236,900	(1)

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PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2018 (Unaudited)

Shares/\$ Par Value

**Preferred Securities —
(Continued)**

Insurance — (Continued)

50,000	Hartford Financial Services Group, Inc., 7.875% to 04/15/22 then 3ML + 5.596%, 04/15/42	\$ 1,429,750
\$ 24,634,000	Liberty Mutual Group, 7.80% 03/15/37, 144A****	29,129,705 (1)
	MetLife, Inc.:	
\$ 18,250,000	9.25% 04/08/38, 144A****	24,911,250 (1)
\$ 17,895,000	10.75% 08/01/39	27,603,038 (1)
\$ 2,250,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	2,801,250 (1)
	PartnerRe Ltd.:	
140,000	5.875%, Series I	