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

Your Fund is off to a fine start in fiscal 2015—during the first fiscal quarter[1], total return on net asset value[2] was +2.3%, while total return on market price came in at +6.8%. The value of the investment portfolio increased modestly during the quarter, so much of the NAV return was comprised of interest and dividends earned on portfolio holdings.

Economic conditions in the U.S. remain the envy of most developed economies (faint praise indeed!). We expect gross domestic product (adjusted for inflation) to grow between 2.5% and 3.0% in 2015, up a bit from last year's 2.4%. Inflationary expectations are low, reflecting falling energy and commodity prices, along with recent appreciation in the U.S. dollar. The outlook for interest rates in the U.S. has not changed—we expect the Federal Reserve to boost short-term interest rates by 0.25% sometime between June and September; subsequent increases, however, should be gradual. Intermediate and long-term interest rates, while likely to edge up over time, should remain substantially lower than what we would normally associate with 2.5-3.0% real GDP growth.

In contrast, many Euro-zone economies are struggling, and growth has slowed in Japan, as well as in China and many other developing countries. Around the globe, elevated geopolitical tensions are hampering economic activity. As evidence, interest rates are actually negative in a number of "safe" economies. In increasing numbers, foreign investors seeking better returns are making investments in U.S. markets. These moves help explain strength in the U.S. dollar and domestic fixed-income and equity markets.

By most measures, conditions in the preferred securities market remain healthy. Fundamental credit conditions are stable or improving, with loan delinquencies and defaults trending down across almost all loan categories. Income-oriented investors have increasingly turned to the preferred-securities space seeking alternatives to lower-yielding securities. New issue volumes, though less robust than last year, are well above historical norms. We expect preferred securities issuance to remain elevated throughout 2015, as issuers work toward future regulatory capital requirements and take advantage of low interest rates to reduce overall capital expense. We continue to be constructive on the preferred market, as demand shows little sign of abating.

The Fund's investment portfolio did not change materially over the quarter. During 2014, we had reduced the portfolio's exposure to foreign issuers as we saw better opportunities in the U.S. We also had increased holdings in fixed-to-floating preferred securities (coupons are *fixed* for an initial period, typically five or ten years, and then *float* with interest rates). We believe this increase provides some principal protection should intermediate- and long-term interest rates rise, while offering some price upside should credit spreads narrow. Putting it all together, the portfolio's current construction is in-line with our views on the market.

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[1] December 1, 2014 – February 28, 2015

[2] Following the methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund's leverage and expenses.

We encourage you to visit the Fund's website, www.preferredincome.com for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick
Donald F. Crumrine
Robert M. Ettinger
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March 31, 2015