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

Fiscal 2017 came to an end on November 30, 2017 and total returns for the year were impressive. Total return on net asset value ("NAV") was 0.9% for the fourth fiscal quarter, and 16.8% for the full fiscal year. Total return on market price of Fund shares over the same periods was 4.0% and 24.9%, respectively.

The table below shows Fund NAV returns over various measurement periods, and they continue to be very strong. 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 NOVEMBER 30, 2017
(Unaudited)

	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	0.9%	4.1%	16.8%	8.9%	9.7%	10.3%	10.1%
Bloomberg Barclays U.S. Aggregate Index[2]	-0.5%	0.7%	3.2%	2.1%	2.0%	4.0%	5.9%
S&P 500 Index[3]	7.6%	10.9%	22.9%	10.9%	15.7%	8.3%	10.2%

(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.

Investors began 2017 with a spring in their step and, with few exceptions, never looked back – driving prices higher in most equity and fixed-income markets. After a contentious election in late-2016, it became clear to many that there could be a silver lining where the economy was concerned. Although shrouded by many other political shadows throughout the year, deregulation and tax reform emerged as important factors behind market optimism. Total return of 22.9% on the S&P 500, in a year where GDP growth was only 2.6%, is a good indication of just how much investors are expecting. While an improving economy and corporate profitability are also good for issuers of preferred securities, there were a few additional factors specifically behind performance of fixed-income markets, including preferreds.

Flows into fixed-income investment products were very healthy throughout the year, and preferreds were a common choice (via mutual funds, ETFs, and individual purchases). Preferreds continue to be one of the highest-yielding asset classes, especially after-tax, and are issued mostly by investment-grade companies (as measured by senior-debt ratings). A global search for yield has continued for many years, and investors from all parts of the world have invested in preferreds. Credit conditions continued to provide a supportive backdrop for yields and spreads, as most issuers of preferreds maintained strong balance sheets.

Gross supply of new preferreds has continued to be healthy at approximately $50 billion a year over the last several years, but issuance has increasingly been earmarked for refinancing higher-coupon securities issued years before. Many utility and REIT issuers have redeemed preferreds outright, choosing to refinance with senior debt to take advantage of lower all-in costs. Net issuance of $41 billion in 2015, $23 billion in 2016, and $18 billion in 2017 has not kept pace with increasing demand described above, resulting in higher prices.

Preferreds issued by banks were top performers in the portfolio this year. Bank preferreds benefited from ongoing balance-sheet strength and higher profitability. Fixed-to-float structures modestly outperformed fixed-rate securities. Banks' choices of new-issue coupon structure this year had more to do with meeting pockets of demand than preference on the part of a bank, and issuance of each type varied throughout the year. The Fund's insurance holdings also did well this year for many of the same reasons, but also because the structures of the Fund's insurance holdings are attractive. In general, the Fund owns higher-coupon securities from quality issuers with good call protection. Issuance from insurance companies has been very limited, so these seasoned deals have continued to attract secondary demand.

Laggards in the portfolio have been few in number, and mostly in relative return – rarely absolute negative return – typically a result of call (redemption) features embedded in preferreds. As a security moves above its call price, the call option limits further upside potential as rates or spreads move lower. Returns each quarter were positive, but to a lesser degree each quarter as the year progressed – which at least partially demonstrates the effect of call options. The energy sector was among the least positive this year, notably in master limited partnerships (MLPs), although performance varied significantly by security type – with preferreds outperforming common stock of the same issuer.

A downside of strong NAV performance is the inverse effect of higher prices on yield. Yields moved significantly lower as prices rallied, and an overall low interest-rate environment has persisted for many years. Combined with higher leverage costs, the result has been lower overall income that can be distributed by the Fund, something that is likely to continue in 2018. We encourage you to read the topic that follows in this report for a more detailed discussion of monthly distributions to Fund shareholders.

The economy continues to expand moderately with few signs of higher inflation, and market volatility remains low by historical standards. While there are no immediate signs market sentiment is changing – in fact tax reform may push equity markets even higher as improved corporate profitability is priced into the market – it is worth noting there are factors that could increase market volatility. The Federal Reserve has indicated a very gradual approach to removal of monetary accommodation, but it did raise its target Fed funds rate by 0.25% three times in 2017 and forecasts another three rate hikes in 2018. This is in addition to an unwinding of "quantitative easing," again at a very measured pace. Economies are improving around the globe, and other central banks may soon follow the Fed's lead on slowly removing accommodation. A flatter yield curve seems more likely than materially higher long-term rates, but each could have its own effect on market sentiment.

A tax reform bill was signed into law late in December, and while it is too early to provide much detail in this letter, we believe it should be neutral-to-positive for preferreds. Most provisions don't apply directly to preferreds, but corporate profitability certainly factors into an issuer's credit profile. Preferred dividends continue to be tax-advantaged, with no change to rates for individual investors and only modest changes to rates for corporate investors.

We continue to believe returns on preferreds should come mostly from coupons as the pace of price gains tapers off or even reverses. Yield should be evaluated in the context of other alternatives, and in that regard preferreds continue to offer value. Their combination of credit quality and yield will be difficult to replicate in other fixed-income asset classes.

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

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

December 29, 2017