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Morgan Gust  
David Gale  
Karen H. Hogan

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Chad C. Conwell  
Chief Compliance Officer,  
Vice President and Secretary  
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Chief Financial Officer,  
Vice President and Treasurer  
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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](mailto: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.**



Flaherty & Crumrine

PREFERRED INCOME FUND

# Annual Report

## November 30, 2018

Beginning January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, the Fund intends to no longer mail paper copies of the Fund's shareholder reports like this one, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary (such as a broker-dealer or bank). Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically ("edelivery"), you will not be affected by this change and you need not take any action. If you have not already elected edelivery, you may elect to receive shareholder reports and other communications from the Fund electronically at any time by contacting the Fund at the telephone number or mailing address listed on the left side of this page, if you invest directly with the Fund, or by contacting your financial intermediary.

You may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. That election will apply to all funds held in your account at that financial intermediary. Likewise, your election to receive reports in paper will apply to all funds held with the fund complex if you invest directly with the Fund. If you are a direct shareholder with the Fund, you can call or write to the Fund at the telephone number or address listed on the left side of this page to let the Fund know you wish to continue receiving paper copies of your shareholder reports.

[www.preferredincome.com](http://www.preferredincome.com)

## FLAHERTY & CRUMRINE PREFERRED INCOME FUND

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

Fiscal 2018 came to an end on November 30, 2018 and total returns for the year were dragged lower by a very weak fourth quarter. Total return<sup>1</sup> on net asset value (“NAV”) was -5.3% for the fourth fiscal quarter<sup>2</sup> and -5.0% for the full fiscal year. Total return on market price of Fund shares over the same periods was -12.8% and -16.6%, respectively.

The table below shows Fund NAV returns over various measurement periods. 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, 2018 (Unaudited)

	Actual Returns			Average Annualized Returns			
	Three Months	Six Months	One Year	Three Years	Five Years	Ten Years	Life of Fund <sup>(1)</sup>
Flaherty & Crumrine Preferred Income Fund . . .	-5.3%	-3.2%	-5.0%	5.6%	7.5%	17.2%	9.5%
Bloomberg Barclays U.S. Aggregate Index <sup>(2)</sup> . . .	-0.8%	-0.3%	-1.3%	1.3%	2.0%	3.7%	5.6%
S&P 500 Index <sup>(3)</sup> . . . . .	-4.4%	3.0%	6.3%	12.2%	11.1%	14.3%	10.0%

(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.*

Preferred securities held up reasonably well for the first three fiscal quarters. Investors continued to find attractive levels of income in preferreds and seemed to remain hopeful a strong U.S. economy would carry the day – which, by most measures, proved resilient. Returns in the early part of fiscal 2018 were slightly negative due to concerns about higher interest rates. On a relative basis, preferreds performed well during this period, outperforming most corporate-credit benchmarks due to modest spread tightening for preferreds.

While higher interest rates were a headwind to returns in the first two fiscal quarters, preferreds rebounded in the third quarter as interest rates moved sideways or lower, and preferred yields continued to look attractive – especially on an after-tax basis. By the fourth quarter, however, worries about future global and domestic economic growth were added to a growing list of market concerns, and almost all markets moved materially lower, including preferreds.

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

<sup>2</sup> September 1, 2018 – November 30, 2018

U.S. bank preferreds were the most stable sector for the year, consistent with limited supply and continued good credit quality. Tax reform was a positive for bank earnings, and a healthy economy combined with modestly higher interest rates further supported the outlook. Foreign banks were more mixed, with weakness targeted at those with country-specific issues, including Brexit in the U.K., weak balance sheets for many German banks and ongoing political and economic concerns in Italy. While the economy, interest rates and consumer health will impact profitability, U.S. banks are expected to report record earnings heading into 2019. As of November 30, U.S. bank holdings were 39.9%, of the Fund's total net assets and foreign bank holdings were 15.9%.

The energy sector faced the strongest headwinds during the year, especially late-2018 as commodity prices moved sharply lower. Recall that rating agencies allow preferreds some equity credit when calculating financial ratios, so many non-financial issuers have an incentive to include preferreds in their capital structures. With energy common stock prices depressed, issuers avoided issuing common stock whenever possible. Instead, many companies issued preferred securities to fund capital expenditures, pushing down prices on outstanding securities. On a positive note, many energy issuers moved to simplify their corporate structures in 2018 – consolidating subsidiaries and eliminating rather high incentive distribution rights that were so common in older Master Limited Partnership (MLP) structures. Simplification is almost always good for preferred investors, and these changes also improve earnings outlooks moving forward. As of November 30, energy holdings were 8.1%, of the Fund's total net assets.

The fourth fiscal quarter stood out during the year as nearly all markets (equity, credit, commodities) were lower in price. Intermediate- and longer-term interest rates moved lower, well off their highs for the year, in a flight-to-quality trade versus other markets. Even though interest rates moved lower, prices of credit instruments traded down and spreads widened significantly. Fund flows (mutual funds, ETFs, etc.) were modestly negative for much of the year, but outflows accelerated in the last months of 2018.

This selloff seems to reflect an accumulation of factors that have been bubbling under the surface for much of the year. Top concerns include a global economic slowdown, widening tariffs and potential for escalating trade wars, the Federal Reserve tightening credit conditions, and most recently a federal government shutdown to end the year. Many of these concerns involve politics, which often are not aligned with investor goals and tend to heighten volatility. Investors are climbing a wall of worry and, more recently, choosing to wait it out by holding more cash.

While a full discussion is beyond the scope of this letter, it is worth mentioning that changes in market structure are also likely responsible for the magnitude of the selloff. Statistics abound showing the rising influence of robo-trading and index-based passive investment products that buy and sell based solely on flows – regardless of value. Liquidity is scarce in market selloffs, and we all pay a price as momentum trading requires lower and lower prices for trade execution. This trend is not new, but it is probably fair to say it has not been fully tested by a bear market or under tightening financial conditions.

Market corrections can be a difficult experience, but we remain optimistic about prospects for preferred securities. As you know, we take a long-term view of investing and our process is rooted in fundamental credit research – and there is much to like about preferred issuers' credit quality. Preferreds offer very competitive yields (higher by 1-2% in most cases compared to December 2017), and are even better when tax benefits are taken into account. Volatility likely will persist into 2019, but we believe long-term investors will be rewarded with attractive tax-advantaged income and, from current levels, potential for price appreciation.

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](http://www.preferredincome.com), for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

December 31, 2018