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

What a difference a quarter makes. After beginning the fiscal year with weak performance, the preferred market recovered in remarkable fashion during the second fiscal quarter.[1] To be fair, recovery was a story for many markets during this period, but preferreds more than held their own in comparison. Total return[2] on net asset value ("NAV") was 6.7% for the quarter and 4.4% for the first half of the fiscal year. Total return on market price of Fund shares over the same periods was 10.2% and 15.4%, respectively.

The table below shows Fund returns over various measurement periods, and they continue to be very good. The table includes performance of two indices, 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 MAY 31, 2016

	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 Opportunity Fund	6.7%	4.4%	5.8%	7.8%	10.7%	8.4%	9.3%
Barclays U.S. Aggregate Index(2)	1.3%	3.1%	3.0%	2.9%	3.3%	5.0%	5.9%
S&P 500 Index(3)	9.1%	1.9%	1.7%	11.0%	11.7%	7.4%	9.1%

(1) Since inception on February 13, 1992.
(2) The 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 Index 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 breathed a sigh of relief in the second fiscal quarter as earlier concerns eased. Commodity prices, such as oil and metals, not only halted their rapid declines, but in several instances rebounded to levels more than 150% above recent lows. Higher common stock prices of oil and other commodity companies, along with the stocks of banks that lend to these sectors, helped improve market sentiment broadly.

The preferred market also benefited from positive technical developments, with a marked increase in issuers redeeming securities. Issuer redemptions ($15.9 billion announced during the second fiscal quarter), combined with measured new-issue supply, provided support to prices as redemption proceeds were reinvested. Many recent redemptions were long overdue from an economic standpoint (because the

[1] March 1, 2016—May 31, 2016
[2] Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

securities had high coupons), but issuers delayed those calls primarily due to complicated rules around regulatory capital treatment of these securities. We expect issuers to call similar “legacy” securities over the next several years.

Monetary policy globally appears to be in a holding pattern, albeit still at very accommodative levels. After raising its benchmark interest rate in December 2015, the Federal Reserve has continued to wait on its next rate increase. The European Union (EU) and Japan have not expanded programs in the last quarter. However, the United Kingdom’s recent vote to exit the EU (so-called “Brexit”) may prompt easier monetary policy in the UK and possibly an increase in or extension of the European Central Bank’s asset purchase program going forward.

The U.S. economy continues to be a ray of sunshine compared to most others (even if growth is still below historical norms), and it remains to be seen how long the Federal Reserve will wait on its next rate increase. Prior to Brexit, at least one rate hike seemed probable this year, perhaps beginning as soon as July. However, with both domestic and global economic uncertainty on the rise, the Fed is expected to keep monetary policy on hold until at least September—and perhaps into 2017.

Taking a step back from what has been a volatile market this year, the fundamentally positive case for preferred securities remains largely unchanged. Investors around the world are searching for yield as interest rates remain low. Credit quality continues to be strong, and modest economic growth should restrain companies and households from over-borrowing despite low rates. New issue supply has been and should remain measured for preferred stocks, with a bias towards non-U.S. issuers going forward. Regulatory trends continue to bolster credit-worthiness at financial companies, which are the largest issuers of preferred securities. As we have said before, the ride may be bumpy as markets traverse much uncharted territory—but we believe total returns will continue to be competitive over time for preferred investors.

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

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

June 30, 2016