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

Fiscal 2016 came to an end on November 30, 2016 and total returns for the year were quite good, even though volatility from quarter-to-quarter was elevated. Total return[1] on net asset value ("NAV") was -3.9% for the fourth fiscal quarter[2], and 6.3% for the full fiscal year. Total return on market price of Fund shares over the same periods was -11.3% and 7.1%, respectively.

The table below shows Fund returns over various measurement periods, and they continue to be very strong. 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 NOVEMBER 30, 2016
(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 Opportunity Fund	-3.9%	1.8%	6.3%	9.2%	12.2%	7.7%	9.2%
Barclays U.S. Aggregate Index(2)	-3.2%	-0.9%	2.2%	2.8%	2.4%	4.3%	5.7%
S&P 500 Index(3)	1.8%	6.0%	8.0%	9.1%	14.4%	6.9%	9.2%

(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 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.

The preferred market spent most of 2016 in positive territory as a search for yield kept demand strong. However, the first and fourth quarters were weaker, each for different reasons. The fiscal year began with "liftoff" by the Federal Reserve (Fed), which increased short-term interest rates by 0.25%. Markets quickly turned attention to negative interest rates around the world and began questioning additional increases by the Fed. Concern at that point was that low (and perhaps negative) rates would persist for a very long time and their impact on banks and insurance companies that rely on "spread" for earnings. Commodity markets were weak in the first quarter, which also weighed on common stocks and preferreds. Many of our energy-related holdings were a drag on performance as oil hovered around $25 per barrel.

Those concerns eased during the middle of the year. Economic growth in the U.S. began to look better. Commodities found footing as attention turned to possible supply reductions (and the Fund's energy holdings rebounded accordingly). And interest rates stabilized, albeit near lows for the year. The supply

[1] Following the methodology required by the Security and Exchange Commission, total return assumes dividend reinvestment.
[2] September 1, 2016—November 30, 2016

picture for new-issue preferreds also gained clarity as issuers took their time in raising new capital, and legacy preferreds were redeemed at a faster pace. These favorable "tailwinds" led investors into preferred securities for yield and return potential, and prices rebounded strongly.

By the fourth quarter, attention turned to a contentious November election and a likely Fed rate hike in December. The election outcome was a clear turning point for the Treasury market, with interest rates moving sharply higher on a Trump victory. Much of the move was attributed to an improved growth outlook and potentially higher inflation. Markets cannot predict every policy move the new administration will implement, however. In many cases initial reactions may prove exaggerated, but for now investors appear content with a shake-up in Washington and have placed their bets on a rising stock market.

The Fed's most recent "dot plot" (fed funds rate forecast) now indicates a median expectation of three additional rate hikes in 2017. Preferreds moved lower in price as Treasury yields moved higher, although results were mixed. A number of preferreds sold off more than duration alone would have suggested (i.e., credit spreads widened), as sellers emerged in a less-liquid market. Other preferreds, notably older fixed-to-float hybrids, held ground—and in many cases moved higher. Many of these securities are nearing their floating-rate dates, and expectations of higher short-term rates helped push prices on these securities upward, reversing much of their weakness earlier in the fiscal year.

Yields on new-issue preferreds can be a good gauge of market rates, as they have current coupons and are not impacted by near-term call terms. New-issue yields began the year averaging 6.25-6.50%, moved as low as 4.50-4.75% by September, and were back to 5.75-6.25% to end the year. This is a large range over a single year, and it reflects just how unique global market conditions have been in 2016. Markets tend to overshoot in both directions initially, eventually settling into a new range as supply and demand finds a new balance. Absent unexpected growth and inflation, or deflation in some parts of the world, U.S preferreds seem to be settling in around this 5.50-6.25% range for now.

Although higher interest rates can put downward pressure on the value of the Fund's holdings while rates are rising and increase leverage cost, they do offer some benefits. Higher rates should generate higher earnings for banks and insurance companies and further strengthen credit quality at these companies, which comprise the bulk of the preferred market. Higher rates also mean higher expected back-end yields on fixed-to-floating rate securities, which represented approximately 61% of the Fund's investment portfolio as of fiscal year-end. And higher yields on preferred securities offer the Fund more attractive reinvestment opportunities for older securities that are redeemed or mature.

While it is difficult to predict interest rates, and even more difficult to predict politics, it seems unlikely the U.S. can be an island of economic growth in an otherwise weak-to-neutral global economy. Modest growth is positive for credit conditions but should also keep interest rates from moving sharply higher from current levels. This scenario—if it comes to pass—should lead preferreds to settle into a new trading range and turn investor focus toward preferreds as an attractive source of income in a world of low rates. Near-term volatility may remain elevated as our political scene evolves, but that too will gain clarity as 2017 progresses. We anticipate attractive opportunities in preferreds as the market adjusts.

We encourage you to read the discussion topics that follow, as we dig deeper into subjects mentioned here as well as others 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 30, 2016