

Flaherty & Crumrine PREFERRED SECURITIES INCOME FUND INC
Form N-30B-2
April 27, 2018
FLAHERTY & CRUMRINE Preferred Securities Income Fund

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

Despite general weakness in most fixed-income markets (e.g., investment-grade corporate bonds), attributable mostly to higher benchmark interest rates, preferred securities performed reasonably well on a relative basis. Total return¹ on net asset value (“NAV”) for the first fiscal quarter was -0.2%, while total return on market price was -5.1%.

The U.S. economy remains on solid footing, with most economists forecasting faster growth in 2018. Inflation has remained in check thus far, and modest wage growth and strong business investment suggest that faster economic growth can be accommodated without the economy overheating. Faster economic growth combined with optimism around tax reform has caused interest rates to move modestly higher. Tax reform should be supportive of growth and investment, but much of it will be deficit-financed and could result in higher Treasury rates as government borrowing increases.

Investors often associate higher long-term interest rates with lower prices for preferred securities, and to some extent this is true. However, sensitivity of the Fund’s preferred portfolio to benchmark interest rates is much lower today than it was ten years ago. That is primarily attributable to larger holdings of fixed-to-floating rate securities relative to traditional fixed-for-life preferreds. Including these securities in a portfolio (~74% as of 2/28/2018) reduces sensitivity to benchmark interest rates. Moderate interest-rate sensitivity, along with a tightening of preferred credit spreads during the quarter, offset much of the weakness experienced by other fixed-income asset classes.

Most of the portfolio experienced credit-spread tightening as noted above, but one area of mixed performance was the energy sector, notably master limited partnerships (MLPs). The MLP industry appears to be in transition. The traditional MLP structure has struggled to meet investor expectations, leading some to collapse partnership structures into simpler organizations. Lower corporate tax rates from recent tax reform may accelerate that trend. While a simpler structure should benefit preferred investors over time, many MLPs issued preferreds in the last few months, causing yields to increase as concessions were offered to entice demand. Importantly, individual MLPs are in various stages of transition, and we remain comfortable with the level of MLP exposure in the Fund’s portfolio (~6.4% as of 2/28/2018). Many of the MLPs held by the Fund are among the strongest credits in the sector and a step ahead of peers in navigating these rough waters.

The Fund’s dividend rate was reduced during the quarter to reflect changes in interest rates and credit spreads that have cumulated over time. Tightening by the Federal Reserve has raised short-term interest rates and, therefore, leverage cost, while lower preferred yields have gradually reduced portfolio income. The investment objective of the Fund is to provide high current income consistent with the preservation of capital, and we believe the Fund will continue to meet that objective – although distributable income may be reduced as we proceed through this economic cycle. Fund shareholders have benefited from years of record-low interest rates and low leverage costs, but rates have moved up as the economy has improved. We believe the Fund’s strategy of investing in preferred securities and using leverage to increase income will continue to produce a competitive distribution rate for shareholders. We encourage shareholders to read the Fund’s 2017 annual report for a more-thorough discussion of this important topic.

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

² December 1, 2017 — February 28, 2018

Market volatility is likely to increase from record-low levels as we move into later stages of this economic cycle, but we believe preferreds will continue to offer competitive performance. Their combination of credit quality and yield (much of which is tax-advantaged) will be difficult to replicate in other fixed-income asset classes.

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

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

March 31, 2018

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Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OVERVIEW

February 28, 2018 (Unaudited)

Fund Statistics

Net Asset Value	\$ 19.95	
Market Price	\$ 19.20	
Discount	3.76	%
Yield on Market Price	7.13	%
Common Stock Shares Outstanding	44,252,635	

Security Ratings**	% of Net Assets†
A	0.7 %
BBB	56.4 %
BB	32.0 %
Below “BB”	1.0 %
Not Rated***	8.1 %

Portfolio Rating Guidelines	% of Net Assets†
Security Rated Below Investment Grade By All*****	27.9 %
Issuer or Senior Debt Rated Below Investment Grade by All*****	2.0 %

**Ratings are from Moody’s Investors Service, Inc. “Not Rated” securities are those with no ratings available from Moody’s.

***Excludes common stock and money market fund investments and net other assets and liabilities of 1.8%.

****Security rating below investment grade by all of Moody’s, Standard & Poor’s, and Fitch Ratings.

*****Security rating and issuer’s senior unsecured debt or issuer rating are below investment grade by all of Moody’s, S&P, and Fitch. The Fund’s investment policy currently limits such securities to 10% of Net Assets.

Industry Categories* % of Net Assets†

Top 10 Holdings by Issuer	% of Net Assets†
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JPMorgan Chase & Co	4.6 %
PNC Financial Services Group Inc	4.5 %
Wells Fargo & Company	4.3 %
MetLife Inc	4.3 %
Liberty Mutual Group	3.7 %
Citigroup Inc	3.6 %
Morgan Stanley	3.5 %
BNP Paribas	3.2 %
Fifth Third Bancorp	3.2 %
XL Group Limited	3.0 %

	% of Net Assets*****†
Holdings Generating Qualified Dividend Income (QDI) for Individuals	58 %
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	45 %

*****This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.

†Net Assets includes assets attributable to the use of leverage.

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

February 28, 2018 (Unaudited)

Shares/\$ Par	Value	
Preferred Securities\$ — 93.4%		
Banking — 54.0%		
	Australia & New Zealand Banking Group Ltd.,	
\$ 5,103,000	6.75%\$5,594,164	** (1)(2)
	to 06/15/26 then ISDA5 + 5.168%, 144A****	
	Banco Bilbao Vizcaya Argentaria SA,	
\$ 12,800,000	6.125% 13,056,000	** (1)(2)
	to 11/16/27 then SW5 + 3.87%	
\$ 2,970,000	Banco\$3,241,607	** (2)
	Mercantil del Norte SA, 7.625% to 01/06/28	

	then		
	T10Y		
	+		
	5.353%,		
	144A****		
	Bank of America Corporation:		
	3ML		
	+		
\$ 13,571,000	3.63%	13,689,746	*(1)
	5.3969% ⁽³⁾ ,		
	Series		
	K		
	8.125%		
	to		
	05/15/18		
	then		
\$ 11,000,000	3ML	11,178,750	*(1)
	+		
	3.64%,		
	Series		
	M		
	Barclays Bank PLC:		
	7.875%		
	to		
	03/15/22		
	then		
\$ 18,863,000	SW5	20,390,997	** ⁽¹⁾ (2)
	+		
	6.772%,		
	144A****		
	8.125%,		
300,036	Series	7,968,956	** ⁽¹⁾ (2)
	5		
	BNP Paribas:		
	7.375%		
	to		
	08/19/25		
	then		
\$ 31,040,000	SW5	34,570,800	** ⁽¹⁾ (2)
	+		
	5.15%,		
	144A****		
\$ 8,000,000	7.625%	8,720,000	** ⁽²⁾
	to		
	03/30/21		
	then		
	SW5		
	+		

	6.314%, 144A****	
	Capital One Financial Corporation:	
13,893	6.00%, Series353,577 B	*
58,600	6.00%, Series1,548,212 H	*
34,000	6.20%, Series903,380 F	*
120,900	6.70%, Series3,228,030 D	*(1)
	Citigroup, Inc.:	
	5.95% to 05/15/25 then	
\$ 2,000,000	3ML 2,081,500	*
	+ 3.905%, Series P	
	6.875% to 11/15/23 then	
1,036,484	3ML 29,218,484	*(1)
	+ 4.13%, Series K	
	7.125% to 09/30/23 then	
572,357	3ML 16,438,093	*(1)
	+ 4.04%, Series J	
	CoBank ACB:	
38,420	6.125%,899,630 Series G,	*

	144A****		
	6.20%		
	to		
	01/01/25		
	then		
104,000	3ML 11,146,200	*	
	+		
	3.744%,		
	Series		
	H,		
	144A****		
	6.25%		
	to		
	10/01/22		
	then		
60,000	3ML 6,450,000	*(1)	
	+		
	4.557%,		
	Series		
	F,		
	144A****		
	6.25%		
	to		
	10/01/26		
	then		
\$ 2,498,000	3ML 2,724,991	*	
	+		
	4.66%,		
	Series		
	I,		
	144A****		
	Colonial		
	BancGroup,		
\$ 35,100,000	7.114%, 3,510	(3)(4)††	
	144A****		
	Credit		
	Agricole		
	SA,		
	7.875%		
	to		
\$ 1,630,000	01/23/24 1,823,562	** (2)	
	then		
	SW5		
	+		
	4.898%, 144A****		
1,483,814	Fifth 42,659,652	*(1)	
	Third		
	Bancorp,		
	6.625%		

	to		
	12/31/23		
	then		
	3ML		
	+		
	3.71%,		
	Series		
	I		
	First Horizon National		
	Corporation:		
	First		
	Tennessee		
	Bank,		
	3ML		
3,730	+	2,974,675	*
	0.85%,		
	min		
	3.75%,		
	3.75% ⁽⁵⁾ ,		
	144A****		
	FT		
	Real		
	Estate		
9	Securities	11,666,250	
	Company,		
	9.50%		
	03/31/31,		
	144A****		
	Goldman Sachs Group:		
	5.00%		
	to		
	11/10/22		
	then		
\$ 12,000,000	3ML	11,701,440	*(1)
	+		
	2.874%,		
	Series		
	P		
	5.70%		
	to		
	05/10/19		
	then		
\$ 390,000	3ML	400,783	*
	+		
	3.884%,		
	Series		
	L		
140,000	6.375%	9,917,200	*(1)
	to		

	05/10/24	
	then	
	3ML	
	+	
	3.55%,	
	Series	
	K	
	HSBC Holdings PLC:	
	6.00%	
	to	
	05/22/27	
\$ 2,100,000	then 2,150,400	** (1)(2)
	ISDA5	
	+	
	3.746%	
	6.875%	
	to	
	06/01/21	
\$ 5,243,000	then 5,623,117	** (1)(2)
	ISDA5	
	+	
	5.514%	
	8.00%,	
114,004	Series 3,036,497	** (1)(2)
	2	
	HSBC	
	Capital	
	Funding	
	LP,	
	10.176%	
\$ 4,400,000	to 7,048,272	(1)(2)
	06/30/30	
	then	
	3ML	
	+	
	4.98%,	
	144A****	

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value
Preferred Securities	
— (Continued)	
	Banking —
	(Continued)
	Huntington
	Bancshares
	Inc.:
	5.700%
	to
\$ 5,800,000	04/15/23 \$ 5,854,375 *
	then
	3ML
	+
	2.88%,
	Series
	E
590,000	6.25%,
	Series \$ 5,971,300 *(1)
	D
	ING
300,000	Groep 7,755,000 **(2)
	NV,
	6.375%
	JPMorgan Chase &
	Company:
	6.00%
	to
	08/01/23
\$ 5,450,000	then 3ML 5,711,600 *(1)
	+
	3.30%,
	Series
	R
56,600	6.125% 494,806 *

	Series	
	Y	
183,700	6.70%,	
	Series	4,800,081 *(1)
	T	
	6.75%	
	to	
	02/01/24	
	then	
\$ 15,155,000	3ML	16,765,219 *(1)
	+	
	3.78%,	
	Series	
	S	
	7.90%	
	to	
	04/30/18	
	then	
\$ 32,000,000	3ML	32,320,000 *(1)
	+	
	3.47%,	
	Series	
	I	
	KeyCorp,	
	6.125%	
	to	
	12/15/26	
	then	
502,300	3ML	13,994,178 *(1)
	+	
	3.892%,	
	Series	
	E	
	Lloyds	
	TSB	
	Bank	
	PLC,	
	12.00%	
	to	
\$ 9,340,000	12/16/24	12,189,830 (2)
	then	
	3ML	
	+	
	11.756%,	
	144A****	
\$ 16,750,000	M&T	18,614,778 *(1)
	Bank	
	Corporation,	
	6.45%	

	to	
	02/15/24	
	then	
	3ML	
	+	
	3.61%,	
	Series	
	E	
	Macquarie	
	Bank	
	Ltd.,	
	6.125%	
\$ 3,000,000	to	
	03/08/2020	8,170,000 ** (2)
	then	
	SW5	
	+	
	3.703%,	
	144A****	
	MB	
	Financial,	
242,340	Inc.,	6,022,149 *
	6.00%,	
	Series	
	C	
	Morgan Stanley:	
	5.85%	
	to	
	04/15/27	
879,089	then	
	3ML	23,577,167 * (1)
	+	
	3.491%,	
	Series	
	K	
	6.875%	
	to	
	01/15/24	
502,400	then	
	3ML	14,283,232 * (1)
	+	
	3.94%,	
	Series	
	F	
298,300	7.125%	8,632,802 * (1)
	to	
	10/15/23	
	then	
	3ML	

	+	
	4.32%,	
	Series	
	E	
	New	
	York	
	Community	
	Bancorp,	
	Inc.,	
	6.375%	
977,000	to	27,502,550 *(1)
	03/17/27	
	then	
	3ML	
	+	
	3.821%,	
	Series	
	A	
	PNC Financial Services	
	Group, Inc.:	
	6.125%	
	to	
	05/01/22	
	then	
2,014,460	3ML	56,272,731 *(1)
	+	
	4.067%,	
	Series	
	P	
	6.75%	
	to	
	08/01/21	
	then	
\$ 3,043,000	3ML	3,292,739 *(1)
	+	
	3.678%,	
	Series	
	O	
	RaboBank	
	Nederland,	
	11.00%	
	to	
	06/30/19	
\$ 7,885,000	then	8,643,931 (1)(2)
	3ML	
	+	
	10.868%,	
	144A****	
27,213	750,714	*

	Regions Financial Corporation, 6.375% to 09/15/24 then 3ML + 3.536%, Series B Societe Generale SA, 7.375% to \$ 7,000,000 09/13/25 160,000 ***(2)
	then SW5 + 6.238%, 144A**** Sovereign Bancorp: Sovereign REIT, 8,641 10,758,045 12.00%, Series A, 144A****
	Standard Chartered PLC: 7.50% to 04/02/22 then \$ 9,970,000 10,812,964 **(1)(2)
	SW5 + 6.301%, 144A**** 7.75% to 04/02/23 then \$ 8,000,000 8,710,000 **(1)(2)
	SW5 + 5.723%, 144A**** 505,500 13,774,875 *(1)

	State Street Corporation, 5.90% to 03/15/24 then 3ML +	
59,724	3.108%, Series D Sterling Bancorp, 6.50%, 564,769 *	
156,166	Series A SunTrust Banks, Inc., 3,938,507 * 5.875%, Series E	
216,000	US Bancorp, 6.50% to 01/15/22 then 6,077,398 *(1) 3ML +	
165,000	4.468%, Series F Valley National Bancorp, 5.50% to 09/30/22 then 4,266,900 *(1) 3ML +	
	3.578%, Series B	

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value
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**Preferred Securities
— (Continued)**

**Banking —
(Continued)**

	Wells Fargo & Company:	
55,000	5.625%, Series Y \$1,383,910	*
	5.85% to 09/15/23 then	
339,095	3ML9,060,618	*(1)
	+	
	3.09%, Series Q 5.875% to 06/15/25 then	
\$ 3,000,000	3ML3,193,140	*(1)
	+	
	3.99%, Series U 6.625% to 03/15/24 then	
402,925	3ML 11,148,935	*(1)
	+	
	3.69%, Series R	

	7.50%		
1,353	' Series L	1,725,075	*
	7.98%		
	to		
	06/15/18		
	then		
\$ 16,314,000	3ML	16,599,495	*(1)
	+		
	3.77%,		
	Series		
	K		
	8.00%,		
550,500	Series J	4,329,515	*(1)
	Westpac		
	Banking		
	Corporation,		
	5.00%		
\$ 6,700,000	to	6,412,801	** (1)(2)
	09/21/27		
	then		
	ISDA5		
	+		
	2.888%		
	Zions Bancorporation:		
	6.30%		
	to		
	03/15/23		
	then		
20,000	3ML	537,402	*
	+		
	4.24%,		
	Series		
	G		
	7.20%		
	to		
	09/15/23		
	then		
\$ 9,000,000	3ML	9,945,000	*(1)
	+		
	4.44%,		
	Series		
	J		
		718,717,006	
	Financial Services — 1.0%		
\$ 2,540,000	AerCap	2,768,600	(2)

	Global Aviation Trust, 6.50% to 06/15/25 then 3ML + 4.30%, 06/15/45, 144A****	
	Charles Schwab Corporation: 5.95%, Series 59,041 D	*
13,600		
176,400	6.00%, Series 4,664,422 C	*(1)
	E*TRADE Financial Corporation, 5.30% to 03/15/23 then 3ML + 3.16%, Series B General Motors Financial Company, 5.75% to 09/30/25 then 3ML + 3.598%, Series A	*
\$ 2,600,000	2,574,000	
\$ 2,625,000	2,568,050	*
	13,034,113	
Insurance — 20.1%		
612,382	Allstate Corporation, 6.625%,	*(1)

	Series		
	E		
\$ 718,000	Aon Corporation	928,015	(1)
	8.205%		
	01/01/27		
	Arch Capital Group, Ltd.:		
	5.25%,		
67,000	Series	1,574,500	** (2)
	E		
	5.45%,		
56,500	Series	1,366,735	** (2)
	F		
	Aspen Insurance Holdings Ltd.:		
65,962	5.625%	1,629,261	** (2)
	5.95%		
	to		
	07/01/23		
65,830	then	1,745,858	** (2)
	3ML		
	+		
	4.06%		
	AXA SA,		
	6.379%		
	to		
\$ 3,315,000	12/14/36	3,861,975	** (1)(2)
	then		
	3ML		
	+		
	2.256%,		
	144A****		
	Axis Capital Holdings Ltd.,	1,269,285	** (2)
52,191	5.50%,		
	Series		
	E		
	Chubb Ltd.:		
	Ace Capital Trust	6,814,755	(1)(2)
\$ 4,566,000	II,		
	9.70%		
	04/01/30		

732,250	Delphi Financial Group, 3ML 16,841,750 (1) + 3.19%, 5.0288% ⁽⁵⁾ 05/15/37
\$ 10,158,000	Everest Reinsurance Holdings, 3ML 9,990,393 (1) + 2.385%, 4.2238% ⁽⁵⁾ 05/15/37
50,000	Hartford Financial Services Group, Inc., 7.875% to 1,491,500 04/15/22 then 3ML + 5.596%, 04/15/42
\$ 24,634,000	Liberty Mutual Group 30,669,330 (1) 7.80% 03/15/37, 144A****

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value	
Preferred Securities		
— (Continued)		
	Insurance —	
	(Continued)	
	MetLife, Inc.:	
	9.25%	
\$ 18,250,000	04/08/38 595,625	(1)
	144A****	
	MetLife	
	10.75%	
\$ 17,895,000	08/01/39 28,676,737	(1)
	MetLife	
	Capital	
	Trust	
\$ 2,250,000	IV, 2,891,250	(1)
	7.875%	
	12/15/37,	
	144A****	
	PartnerRe Ltd.:	
	5.875%,	
140,000	Series 3,588,200	** (1)(2)
	I	
	6.50%,	
36,394	Series 957,526	** (1)(2)
	G	
	7.25%,	
475,799	Series 3,146,326	** (1)(2)
	H	
	Prudential Financial, Inc.:	
\$ 4,906,000	5.625% 181,962	(1)
	to	
	06/15/23	
	then	
	3ML	
	+	
	3.92%,	

	06/15/43		
	5.875%		
	to		
	09/15/22		
\$ 3,900,000	then	4,192,500	(1)
	3ML		
	+		
	4.175%,		
	09/15/42		
	QBE		
	Insurance		
	Group		
	Ltd.,		
	7.50%		
	to		
\$ 21,757,000	11/24/43	23,748,588	(1)(2)
	then		
	SW10		
	+		
	6.03%,		
	11/24/43,		
	144A****		
	Unum		
	Group:		
	Provident		
\$ 18,380,000	Financing	20,953,200	(1)
	Trust		
	I,		
	7.405%		
	03/15/38		
	W.R.		
	Berkley		
144,335	Corp	3,700,335	(1)
	5.75%		
	06/01/56		
	XL Group Limited:		
	Catlin		
	Insurance		
	Company		
	Ltd.,		
\$ 8,000,000	3ML	7,880,000	(1)(2)
	+		
	2.975%,		
	4.7142% ⁽⁵⁾ ,		
	144A****		
\$ 33,000,000	XL	31,556,250	(1)(2)
	Capital		
	Ltd.,		
	3ML		

+
 2.4575%,
 4.1790%⁽⁵⁾,
 Series
 E
 267,448,265

Utilities — 9.3%

	Commonwealth Edison: COMED	
\$ 16,798,000	Financial III, 6.35% 03/15/33	17,386 (1)
	Dominion Energy, Inc., 5.25% 07/30/76, Series A	19,723,581 (1)
810,000	DTE Energy Company: 5.375% 06/01/76, Series B	4,042,584 (1)
164,000	6.00% 12/15/76, Series F	1,469,605
55,000	Emera, Inc., 6.75% to 06/15/26 then 3ML	13,569,550 (1)(2)
\$ 12,170,000	+ 5.44%, 06/15/76, Series 2016A	
127,200	Georgia Power Company, 5.00% 10/01/77, Series	105,588

	2017A		
	Indianapolis		
	Power		
98,800	& Light	10,208,737	*
	Company,		
	5.65%		
	Integrus		
	Energy		
	Group,		
	Inc.,		
	6.00%		
463,700	to	12,403,975	(1)
	08/01/23		
	then		
	3ML		
	+		
	3.22%,		
	08/01/73		
	NextEra		
	Energy:		
	FPL		
	Group		
	Capital,		
	Inc.,		
\$ 16,293,000	3ML	15,855,701	(1)
	+		
	2.125%,		
	3.7135% ⁽⁵⁾		
	06/15/67,		
	Series		
	C		
	PECO		
	Energy:		
	PECO		
	Energy		
	Capital		
\$ 2,386,000	Trust	2,732,085	(1)
	III,		
	7.38%		
	04/06/28,		
	Series		
	D		
\$ 12,190,000	PPL	12,159,525	(1)
	Corp:		
	PPL		
	Capital		
	Funding,		
	Inc.,		

	3ML		
	+		
	2.665%,		
	4.3584% ⁽⁵⁾		
	03/30/67,		
	Series		
	A		
	Puget		
	Sound		
	Energy,		
	Inc.,		
	3ML		
\$ 9,102,000	+	9,033,735	(1)
	2.53%,		
	4.0106% ⁽⁵⁾		
	06/01/67,		
	Series		
	A		
	Southern		
	California		
	Edison:		
	SCE		
	Trust		
	V,		
	5.45%		
70,000	to	1,830,948	*(1)
	03/15/26		
	then		
	3ML		
	+		
	3.79%,		
	Series		
	K		
		124,109,474	

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2018 (Unaudited)

Shares/\$ Par	Value
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