

Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC
Form N-30B-2
October 26, 2018
FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

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

Preferreds performed well in the third fiscal quarter¹, bringing total return for the year just back into positive territory. While these returns have not kept pace with returns in recent years, preferreds continue to outperform certain areas of the fixed income market. Total return² on net asset value (“NAV”) was 2.3% for the quarter, and 0.3% for the first nine months of fiscal 2018. Total return on market price over the same periods was 12.5% and 5.1%, respectively.

By most accounts, it has been a challenging year for corporate bond investments. As the current economic cycle has matured, interest rates rose modestly and credit spreads gradually widened. The yield curve flattened as the Federal Reserve methodically raised its benchmark rate while the long end of the Treasury yield curve moved up only modestly given a limited increase in broad-based inflation and subdued expectations for long-term economic growth. Over the first nine months of the Fund’s fiscal year, the Bloomberg Barclays U.S. Aggregate Index returned -0.5%, while the Bloomberg Barclays Long U.S. Credit Index returned -2.7%.

Preferreds outperformed these fixed-income benchmarks for a few key reasons. First, duration is moderate for many preferreds – and for the Fund’s portfolio specifically. We won’t repeat the merits of fixed-to-float preferreds here, but as previously discussed they offer attractive yields with intermediate duration. Owning both fixed-rate and fixed-to-float preferreds allows for management of portfolio duration despite the long-term nature of the Fund’s investments.

Second, an issuer’s preferreds generally yield more than its corporate bonds. The Fund’s strategy is to identify investment-grade issuers and invest down the capital structure (into preferreds) to earn extra yield for what is, in most cases, similar default risk. For issuers with solid credit quality, preferreds have consistently outperformed corporate bonds over a credit cycle. Over time, higher yields can make up for a lot of principal change and dampen effects of higher interest rates.

Outperformance of preferreds over other fixed income securities has been even better when considered after-tax. If shareholders missed our discussion on taxes in the semi-annual report dated May 31, 2018, we encourage a read. Most preferreds offer tax-advantaged income, which further enhances the extra yield earned for subordination (i.e. being lower in the capital structure than senior debt).

We believe the case for preferreds as an income investment remains largely intact, with a combination of higher relative yields, tax advantages, and benign credit conditions. Returns may be bumpy as markets navigate a late-cycle economy (albeit one that’s currently showing few signs of weakness) and an active Federal Reserve. For fixed-income investors, however, preferreds’ combination of credit quality, intermediate duration and yield should remain attractive.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2018

¹ June 1, 2018 – August 31, 2018

² Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OVERVIEW

August 31, 2018 (Unaudited)

Fund Statistics

Net Asset Value	\$ 11.35	
Market Price	\$ 11.97	
Premium	5.46	%
Yield on Market Price	6.62	%
Common Stock Shares Outstanding	12,525,035	

Security Ratings % of Net Assets†**

A	1.2	%
BBB	54.8	%
BB	32.9	%
Below “BB”	0.9	%
Not Rated***	8.7	%

Portfolio Rating Guidelines % of Net Assets†

Security Rated Below Investment Grade By All*****	33.2	%
Issuer or Senior Debt Rated Below Investment Grade by All*****	1.7	%

**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 1.5%.

****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 15% of Net Assets.

Industry Categories* % of Net Assets†

Top 10 Holdings by Issuer	% of Net Assets†
JPMorgan Chase & Co	4.7 %

MetLife Inc	4.2 %
Wells Fargo & Company	4.2 %
Morgan Stanley	3.9 %
PNC Financial Services Group	3.9 %
BNP Paribas	3.2 %
Enbridge Energy Partners	3.1 %
Fifth Third Bancorp	3.0 %
Liberty Mutual Group	2.8 %
HSBC PLC	2.7 %

	% of Net Assets*****†	
Holdings Generating Qualified Dividend Income (QDI) for Individuals	61	%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	44	%

*****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.

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities[§] —****94.3%****Banking — 55.4%**

\$ 1,817,000	Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A****	\$ 1,889,680	** ⁽¹⁾⁽²⁾
\$ 2,200,000	Banco Bilbao Vizcaya Argentaria SA, 6.125% to 11/16/27 then SW5 + 3.87%	1,946,054	** ⁽¹⁾⁽²⁾
\$ 490,000	Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A****	499,555	** ⁽²⁾
	Bank of America Corporation:		
\$ 2,100,000	5.875% to 03/15/28 then 3ML + 2.931%, Series FF	2,102,625	* ⁽¹⁾
\$ 300,000	6.30% to 03/10/26 then 3ML + 4.553%, Series DD	321,750	*
	Barclays Bank PLC:		
\$ 930,000	7.75%, to 09/15/23 then SW5 + 4.842%	940,509	** ⁽²⁾
\$ 2,848,000	7.875% to 03/15/22 then SW5 + 6.772%, 144A****	2,963,427	** ⁽²⁾
	BNP Paribas:		
\$ 380,000	7.00%, to 08/16/28 then SW5 + 3.98%, 144A****	380,950	** ⁽²⁾
\$ 4,661,000	7.375% to 08/19/25 then SW5 + 5.15%, 144A****	4,913,859	** ⁽¹⁾⁽²⁾
\$ 1,500,000	7.625% to 03/30/21 then SW5 + 6.314%, 144A****	1,597,500	** ⁽²⁾
	Capital One Financial Corporation:		
2,020	6.00%, Series B	51,823	*
12,400	6.00%, Series H	326,430	*
7,000	6.20%, Series F	183,540	*
24,333	6.70%, Series D	642,026	*
	Citigroup, Inc.:		
\$ 430,000	5.95% to 05/15/25 then 3ML + 3.905%, Series P	438,471	*
115,370	6.875% to 11/15/23 then 3ML + 4.13%, Series K	3,213,631	* ⁽¹⁾
74,694	7.125% to 09/30/23 then 3ML + 4.04%, Series J	2,125,418	* ⁽¹⁾
	CoBank ACB:		
15,600	6.125%, Series G, 144A****	1,567,800	*
9,000	6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A****	963,000	*

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10,000	6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A****	1,045,000	*(1)
\$ 415,000	6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A****	441,975	*
\$ 4,500,000	Colonial BancGroup, 7.114%, 144A****	450	(3)(4)††
\$ 270,000	Credit Agricole SA, 7.875% to 01/23/24 then SW5 + 4.898%,144A****	287,198	** (2)
232,807	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	6,505,792	*(1)
	First Horizon National Corporation:		
750	First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75% ⁽⁵⁾ ,144A****	585,078	*(1)
1	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	1,296,000	
	Goldman Sachs Group:		
\$ 2,000,000	5.00% to 11/10/22 then 3ML + 2.874%, Series P	1,896,984	*(1)
\$ 195,000	5.70% to 05/10/19 then 3ML + 3.884%, Series L	197,946	*
50,000	6.375% to 05/10/24 then 3ML + 3.55%, Series K	1,361,500	*(1)
	HSBC Holdings PLC:		
\$ 325,000	6.00% to 05/22/27 then ISDA5 + 3.746%	315,672	** (2)
\$ 3,430,000	6.50% to 03/23/28 then ISDA5 + 3.606%	3,361,400	** (1)(2)
\$ 937,000	6.875% to 06/01/21 then ISDA5 + 5.514%	977,994	** (2)
\$ 800,000	HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A****	1,194,000	(1)(2)

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities —
(Continued)****Banking — (Continued)**

		Huntington Bancshares, Inc.:		
	99,000	6.25%, Series D	\$ 2,631,420	*(1)
		5.70% to 04/15/23		
\$	950,000	then 3ML + 2.88%, Series E	949,406	*
		JPMorgan Chase & Company:		
	54,650	6.70%, Series T	1,421,993	*(1)
\$	3,750,000	3ML + 3.47%, 5.8089% ⁽⁵⁾ , Series I	3,780,937	*(1)
\$	300,000	6.00% to 08/01/23 then 3ML + 3.30%, Series R	313,431	*
\$	4,167,000	6.75% to 02/01/24 then 3ML + 3.78%, Series S	4,591,826	*(1)
	84,000	KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E	2,354,940	*(1)
\$	1,550,000	Lloyds TSB Bank PLC, 12.00% to 12/16/24 then 3ML + 11.756%, 144A****	1,886,437	(2)
\$	2,240,000	M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E	2,402,400	*(1)
\$	500,000	Macquarie Bank Ltd., 6.125% to 03/08/27 then SW5 +	459,375	** (2)

		3.703%, 144A****		
	40,220	MB Financial, Inc., 6.00%, Series C	1,049,742	*
		Morgan Stanley:		
	82,600	5.85% to 04/15/27 then 3ML + 3.491%, Series K	2,162,055	*(1)
	148,000	6.875% to 01/15/24 then 3ML + 3.94%, Series F	4,166,940	*(1)
	77,200	7.125% to 10/15/23 then 3ML + 4.32%, Series E	2,224,518	*(1)
		New York Community Bancorp, Inc.,		
	162,500	6.375% to 03/17/27 then 3ML + 3.821%, Series A	4,532,125	*(1)
		PNC Financial Services Group, Inc.:		
	287,667	6.125% to 05/01/22 then 3ML + 4.067%, Series P	8,010,088	*(1)
\$	395,000	6.75% to 08/01/21 then 3ML + 3.678%, Series O	429,957	*(1)
\$	1,775,000	RaboBank Nederland, 11.00% to 06/30/19 then 3ML + 10.868%, 144A****	1,885,938	(1)(2)
	35,000	Regions Financial Corporation, 6.375% to 09/15/24 then 3ML + 3.536%, Series B	957,071	*
		Societe Generale SA:		
\$	300,000	6.75% to 04/06/28 then SW5 + 3.929%, 144A****	284,250	** (2)
\$	3,800,000	7.375% to 09/13/21 then SW5 + 6.238%, 144A****	3,980,500	** (1)(2)
	2,600	Sovereign Bancorp: Sovereign REIT, 12.00%, Series A,	3,061,500	

		144A****		
		Standard Chartered PLC:		
\$	1,600,000	7.50% to 04/02/22 then SW5 + 6.301%, 144A****	1,656,000	** (1)(2)
\$	2,500,000	7.75% to 04/02/23 then SW5 + 5.723%, 144A****	2,596,875	** (1)(2)
	83,700	State Street Corporation, 5.90% to 03/15/24 then 3ML + 3.108%, Series D	2,272,037	*(1)
	20,517	Sterling Bancorp, 6.50%, Series A	546,478	*
	10,000	Texas Capital Bancshares Inc., 6.50%, Series A	254,050	*
	29,460	US Bancorp, 6.50% to 01/15/22 then 3ML + 4.468%, Series F	831,509	*(1)
	28,000	Valley National Bancorp, 5.50% to 09/30/22 then 3ML + 3.578%, Series B	733,600	*

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities —
(Continued)****Banking — (Continued)**

	Wells Fargo & Company:		
15,000	5.625%, Series Y	\$ 382,123	*
225	7.50%, Series L	292,047	*
104,500	8.00%, Series J	2,624,517	*(1)
56,200	5.85% to 09/15/23 then 3ML + 3.09%, Series Q	1,455,299	*(1)
\$ 2,075,000	5.875% to 06/15/25 then 3ML + 3.99%, Series U	2,189,125	*(1)
\$ 1,139,000	3ML + 3.77%, 6.1106% ⁽⁵⁾ , Series K	1,155,117	*
34,400	6.625% to 03/15/24 then 3ML + 3.69%, Series R	946,344	*(1)
\$ 1,100,000	Westpac Banking Corporation, 5.00% to 09/21/27 then ISDA5 + 2.888%	988,142	** (2)
\$ 1,000,000	Zions Bancorporation, 7.20% to 09/15/23 then 3ML + 4.44%, Series J	1,072,500	*
		120,067,649	

Financial Services — 1.0%

\$ 410,000	AerCap Global Aviation Trust, 6.50% to 06/15/25 then 3ML + 4.30%, 06/15/45, 144A****	424,350	(2)
\$ 800,000	Credit Suisse Group AG, 7.50% to 07/17/23 then SW5 + 4.60%, 144A****	829,200	** (2)
\$ 444,000	E*TRADE Financial Corporation, 5.30% to 03/15/23 then 3ML + 3.16%, Series B	442,668	*
\$ 420,000	General Motors Financial Company, 5.75% to 09/30/27 then 3ML + 3.598%, Series A	409,762	*
		2,105,980	

Insurance — 18.8%

73,000	Allstate Corporation, 6.625%, Series E	1,898,956	*(1)
\$ 275,000	Aon Corporation, 8.205% 01/01/27	337,563	(1)
	Arch Capital Group, Ltd.:		
11,000	5.25%, Series E	266,719	** (2)
9,900	5.45%, Series F	245,421	** (2)
\$ 1,453,000	AXA SA, 6.379% to 12/14/36 then 3ML + 2.256%, 144A****	1,554,710	** (1)(2)

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19,750	Axis Capital Holdings Ltd., 5.50%, Series E	493,552	** (2)
\$ 1,200,000	Chubb Ltd.:		
	Ace Capital Trust II, 9.70% 04/01/30	1,689,000	(1)(2)
120,000	Delphi Financial Group, 3ML + 3.19%, 5.5038% ⁽⁵⁾ 05/15/37	2,715,000	(1)
42,000	Enstar Group Ltd., 7.00% to 08/31/28 then 3ML + 4.015%, Series D	1,103,970	** (1)(2)
\$ 1,031,000	Everest Reinsurance Holdings, 3ML + 2.385%, 4.6988% ⁽⁵⁾ 05/15/37	1,020,690	(1)
10,000	Hartford Financial Services Group, Inc., 7.875% to 04/15/22 then 3ML + 5.596%, 04/15/42	285,950	
\$ 3,054,000	Liberty Mutual Group, 7.80% 03/15/37, 144A****	3,611,355	(1)
	MetLife, Inc.:		
\$ 3,350,000	9.25% 04/08/38, 144A****	4,572,750	(1)
\$ 2,704,000	10.75% 08/01/39	4,170,920	(1)
\$ 350,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	435,750	(1)

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities —
(Continued)****Insurance — (Continued)**

	PartnerRe Ltd.:		
23,350	5.875%, Series I	\$ 587,253	** (1)(2)
5,300	6.50%, Series G	139,178	** (2)
78,200	7.25%, Series H	2,189,991	** (1)(2)
\$ 241,000	Prudential Financial, Inc., 5.625% to 06/15/23 then 3ML + 3.92%, 06/15/43	252,322	
\$ 3,634,000	QBE Insurance Group Ltd., 7.50% to 11/24/23 then SW10 + 6.03%, 11/24/43, 144A****	3,974,687	(1)(2)
17,000	RenaissanceRe Holdings Ltd., 5.75%, Series F	431,715	** (2)
\$ 3,250,000	Unum Group: Provident Financing Trust I, 7.405% 03/15/38	3,576,625	(1)
24,000	W.R. Berkley Corporation, 5.75% 06/01/56	597,480	
	XL Group Limited:		
\$ 1,400,000	Catlin Insurance Company Ltd., 3ML + 2.975%, 5.3169% ⁽⁵⁾ , 144A****	1,386,000	(1)(2)
\$ 3,318,000	XL Capital Ltd., 3ML + 2.4575%, 4.7967% ⁽⁵⁾ , Series E	3,268,562	(1)(2)
		40,806,119	
	Utilities — 8.0%		
\$ 620,000	CenterPoint Energy, Inc., 6.125% to 09/01/23 then 3ML + 3.27%, Series A	632,400	*
\$ 2,512,000	Commonwealth Edison: COMED Financing III, 6.35% 03/15/33	2,665,006	(1)
136,000	Dominion Energy, Inc., 5.25% 07/30/76, Series A	3,353,080	(1)
	DTE Energy Company:		
7,000	5.375% 06/01/76, Series B	173,159	
13,000	6.00% 12/15/76, Series F	341,640	
\$ 2,030,000	Emera, Inc., 6.75% to 06/15/26 then 3ML + 5.44%, 06/15/76, Series 2016A	2,162,195	(1)(2)
650	Georgia Power Company, 5.00% 10/01/77, Series 2017A	15,967	
24,000	Indianapolis Power & Light Company, 5.65%	2,462,160	*(1)
77,100	Integrays Energy Group, Inc., 6.00% to 08/01/23 then 3ML + 3.22%, 08/01/73	1,998,818	(1)

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\$ 293,000	NextEra Energy: FPL Group Capital, Inc., 3ML + 2.125%, 4.4656% ⁽⁵⁾ 06/15/67, Series C	282,398	(1)
\$ 300,000	NiSource, Inc., 5.65% to 06/15/23 then T5Y + 2.843%, 144A****	304,125	*
\$ 1,500,000	PECO Energy: PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	1,707,303	(1)
	PPL Corp: PPL Capital Funding, Inc., 5.90% 04/30/73, Series B	682,998	(1)
26,800			
	Southern California Edison: SCE Trust V, 5.45% to 03/15/26 then 3ML + 3.79%, Series K	521,100	*
20,000			
		17,302,349	

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Preferred Securities —
(Continued)****Energy — 7.1%**

	DCP Midstream LP:		
\$ 1,060,000	7.375% to 12/15/22 then 3ML + 5.148%, Series A	\$ 1,061,988	(1)
3,800	7.875% to 06/15/23 then 3ML + 4.919%, Series B	98,363	
\$ 1,030,000	Enbridge, Inc., 6.00% to 01/15/27 then 3ML + 3.89%, 01/15/77	1,006,825	(1)(2)
\$ 6,595,000	Enbridge Energy Partners LP, 3ML + 3.7975%, 6.1349% ⁽⁵⁾ 10/01/37	6,631,481	(1)
	Energy Transfer Partners LP:		
104,980	7.375% to 05/15/23 then 3ML + 4.53%, Series C	2,694,091	(1)
1,400	7.625% to 08/15/23 then 3ML + 4.738%, Series D	36,750	
\$ 500,000	Enterprise Products Operating L.P., 5.25% to 08/16/27 then 3ML + 3.033%, 08/16/77, Series E	473,750	
14,920	Kinder Morgan, Inc., 9.75% 10/26/18, Series A	495,726	*
31,500	NuStar Logistics LP, 3ML + 6.734%, 9.0732% ⁽⁵⁾ 01/15/43	817,268	
	Transcanada Pipelines, Ltd.:		
\$ 1,000,000	5.30% to 03/15/27 then 3ML + 3.208%, 03/15/77, Series 2017-A	960,625	(2)
\$ 1,000,000	5.875% to 08/15/26 then 3ML + 4.64%, 08/15/76, Series 2016-A	1,022,500	(1)(2)
		15,299,367	

Real Estate Investment Trust (REIT) — 0.4%

3,110	Annaly Capital Management, Inc., 6.95% to 09/30/22 then 3ML + 4.993%, Series F	79,772	
	National Retail Properties, Inc.:		
5,500	5.20%, Series F	131,010	
23,962	5.70%, Series E	601,806	(1)
6,918	PS Business Parks, Inc., 5.20%, Series W	166,412	
		979,000	

Miscellaneous Industries — 3.6%

	BHP Billiton Limited:	440,000	(2)
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\$ 400,000	BHP Billiton Finance U.S.A., Ltd., 6.75% to 10/19/25 then SW5 + 5.093%, 10/19/75, 144A****		
\$ 392,000	General Electric Company, 5.00% to 01/21/21 then 3ML + 3.33%, Series D Land O' Lakes, Inc.:	386,365	*(1)
\$ 240,000	7.25%, Series B, 144A****	259,800	*
\$ 3,630,000	8.00%, Series A, 144A****	3,993,000	*(1)
30,400	Ocean Spray Cranberries, Inc., 6.25%, 144A****	2,698,000	*
		7,777,165	
	Total Preferred Securities (Cost \$197,582,040)	204,337,629	

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2018 (Unaudited)****Shares/\$ Par Value****Corporate Debt****Securities[§] — 4.2%****Banking — 2.0%**

\$ 550,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	\$ 719,735	(1)
123,450	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	3,179,455	(1)
18,000	Zions Bancorporation, 6.95% to 09/15/23 then 3ML + 3.89%, 09/15/28, Sub Notes	532,530	
		4,431,720	

Financial Services — 0.0%

1,000	B. Riley Financial, Inc., 7.50% 05/31/27	25,455	
		25,455	

Insurance — 1.2%

\$ 1,850,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,518,189	(1)
		2,518,189	

Energy — 0.5%

\$ 904,000	Energy Transfer Partners LP, 8.25% 11/15/29	1,103,498	(1)
		1,103,498	

Communication — 0.5%

	Qwest Corporation:		
19,728	6.50% 09/01/56	464,890	
24,920	6.75% 06/15/57	609,419	
400	7.00% 04/01/52	10,162	
		1,084,471	

Total Corporate Debt Securities

(Cost \$7,920,790) 9,163,333

Common Stock — 0.0%**Insurance — 0.0%**

17,907	WMI Holdings Corporation, 144A****	27,040	*†
		27,040	
		27,040	

Total Common Stock

(Cost \$900,000)

Money Market Fund — 0.5%

1,192,190	BlackRock Liquidity Funds: T-Fund, Institutional Class	1,192,190
	Total Money Market Fund (Cost \$1,192,190)	1,192,190

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2018 (Unaudited)

			Value
Total Investments (Cost \$207,595,020***)	99.0	%	\$ 214,720,192
Other Assets And Liabilities (Net)	1.0	%	2,079,549
Total Managed Assets	100.0	% ‡	\$ 216,799,741
Loan Principal Balance			(74,700,000)
Total Net Assets Available To Common Stock			\$ 142,099,741

§Date shown is maturity date unless referencing the end of the fixed-rate period of a fixed-to-floating rate security.

*Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

**Securities distributing Qualified Dividend Income only.

***Aggregate cost of securities held.

****Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At August 31, 2018, these securities amounted to \$62,465,303 or 28.8% of total managed assets.

(1)All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$143,099,329 at August 31, 2018.

(2)Foreign Issuer.

(3)Level 3, illiquid security (designation is unaudited; see Note 2: Additional Accounting Standards).

(4)Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of August 31, 2018.

(5)Represents the rate in effect as of the reporting date.

†Non-income producing.

††The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

‡The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

ABBREVIATIONS:

3ML — 3-Month ICE LIBOR USD A/360

ISDA5 — 5-year USD ICE Swap Semiannual 30/360

SW5 — 5-year USD Swap Semiannual 30/360

SW10 — 10-year USD Swap Semiannual 30/360

T5Y — Federal Reserve H.15 5-Yr Constant Maturity Treasury Semiannual yield

T10Y — Federal Reserve H.15 10-Yr Constant Maturity Treasury Semiannual yield

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK⁽¹⁾

For the period from December 1, 2017 through August 31, 2018 (Unaudited)

Value	
OPERATIONS:	
Net	
investment	\$6,760,531
income	
Net	
realized	
gain/(loss)	
on	
investments	
sold	
during	
the	
period	
Change	
in	
net	
unrealized	(6,719,755)
appreciation/(depreciation)	
of	
investments	
Net	
increase	
in	
net	52,291
assets	
resulting	
from	
operations	
DISTRIBUTIONS:	
Dividend	(7,511,468)
paid	
from	
net	
investment	
income	

to
Common
Stock
Shareholders⁽²⁾

**Total
Distributions**

to
Common (7,511,468)
**Stock
Shareholders**

**FUND
SHARE
TRANSACTIONS:**

Increase
from
shares
issued
under
the
Dividend 153,398

Reinvestment
and
Cash
Purchase
Plan

**Net
increase
in
net
assets
available
to
Common** 153,398
**Stock
resulting
from
Fund
share
transactions**

NET\$ (7,305,779)
**DECREASE
IN
NET
ASSETS
AVAILABLE
TO
COMMON
STOCK**

**FOR
THE
period**

**NET
ASSETS
AVAILABLE
TO
COMMON
STOCK:**

Beginning
of \$ 149,405,520
period

Net
decrease
in
net
assets (7,305,779)
during
the
period

End
of \$ 142,099,741
period

(1)These tables summarize the nine months ended August 31, 2018 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2017.

(2)May include income earned, but not paid out, in prior fiscal year.

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Financial Highlights⁽¹⁾

For the period December 1, 2017 through August 31, 2018 (Unaudited)
For a Common Stock share outstanding throughout the period

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period	\$ 11.94
--------------------------------------	----------

INVESTMENT OPERATIONS:

Net investment income	0.54
Net realized and unrealized gain/(loss) on investments	(0.53)
Total from investment operations	0.01

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income	(0.60)
Total distributions to Common Stock Shareholders	(0.60)
Net asset value, end of period	\$ 11.35
Market value, end of period	\$ 11.97
Common Stock shares outstanding, end of period	12,525,035

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income†	6.23	%*
Operating expenses including interest expense	2.64	%*
Operating expenses excluding interest expense	1.29	%*

SUPPLEMENTAL DATA: ††

Portfolio turnover rate	9	%**
Total managed assets, end of period (in 000's)	\$ 216,800	
Ratio of operating expenses including interest expense to average total managed assets	1.74	%*
Ratio of operating expenses excluding interest expense to average total managed assets	0.85	%*

⁽¹⁾These tables summarize the nine months ended August 31, 2018 and should be read in conjunction with the Fund's audited financial statements, including notes to the financial statements, in its Annual Report dated November 30, 2017.

*Annualized.

**Not annualized.

†The net investment income ratio reflects income net of operating expenses, including interest expense.

††Information presented under heading Supplemental Data includes loan principal balance.

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Financial Highlights (Continued)**Per Share of Common Stock (Unaudited)**

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price⁽¹⁾
December 29, 2017	\$0.0690	\$11.93	\$11.81	\$11.78
January 31, 2018	0.0690	11.80	10.98	11.02
February 28, 2018	0.0660	11.67	11.11	11.09
March 29, 2018	0.0660	11.58	10.86	10.83
April 30, 2018	0.0660	11.41	10.69	10.76
May 31, 2018	0.0660	11.29	10.83	10.84
June 29, 2018	0.0660	11.23	10.75	10.79
July 31, 2018	0.0660	11.30	11.68	11.30
August 31, 2018	0.0660	11.35	11.97	11.37

⁽¹⁾Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Notes to Financial Statements (Unaudited)

1. Aggregate Information for Federal Income Tax Purposes

At August 31, 2018, the aggregate cost of securities for federal income tax purposes was \$213,112,305, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$13,560,146 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$11,952,259.

2. Additional Accounting Standards

Fair Value Measurements: The Fund has analyzed all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period.

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Notes to Financial Statements (Unaudited) (Continued)

A summary of the inputs used to value the Fund's investments as of August 31, 2018 is as follows:

	Total Value at August 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	\$120,067,649	\$104,052,453	\$16,014,746	\$450
Financial Services	2,105,980	1,681,630	424,350	—
Insurance	40,806,119	22,326,489	18,479,630	—
Utilities	17,302,349	8,469,062	8,833,287	—
Energy	15,299,367	8,667,886	6,631,481	—
Real Estate Investment Trust (REIT)	979,000	979,000	—	—
Miscellaneous Industries	7,777,165	826,365	6,950,800	—
Corporate Debt Securities				
Banking	4,431,720	3,711,985	719,735	—
Financial Services	25,455	25,455	—	—
Insurance	2,518,189	—	2,518,189	—
Energy	1,103,498	—	1,103,498	—
Communication	1,084,471	1,084,471	—	—
Common Stock				
Insurance	27,040	27,040	—	—
Money Market Fund	1,192,190	1,192,190	—	—
Total Investments	\$214,720,192	\$153,044,026	\$61,675,716	\$450

During the reporting period, securities with an aggregate market value of \$1,386,000 were transferred into Level 1 from Level 2. The securities were transferred due to an increase in the quantity and quality of information related to trading activity or broker quotes for these securities. During the period, securities with an aggregate market value of \$2,901,955 were transferred into Level 2 from Level 1. The securities were transferred due to a decrease in the quantity and quality of the information related to trading activity or broker quotes for these securities. During the reporting period, there were no transfers into or out of Level 3.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services that are approved by the Board of Directors and are unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly

compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active market participant.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades—or the same information for securities that are similar in many respects to those being valued—are classified as Level 2. If

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

Notes to Financial Statements (Unaudited) (Continued)

market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	Total Investments	Preferred Securities Banking
Balance as of 11/30/17	\$ 450	\$ 450
Accrued discounts/premiums	—	—
Realized gain/(loss)	—	—
Change in unrealized appreciation/(depreciation)	—	—
Purchases	—	—
Sales	—	—
Transfer in	—	—
Transfer out	—	—
Balance as of 08/31/18	\$ 450	\$ 450

For the nine months ended August 31, 2018, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$0.

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

Category	Fair Value at 08/31/18	Valuation Technique	Unobservable Input	Input Range (Wgt Avg)
Preferred Securities (Banking)	\$450	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.02% (0.01%)

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs

would result in a significantly higher or lower fair value measurement.

Directors

R. Eric Chadwick, CFA
Chairman of the Board

Morgan Gust

David Gale

Karen H. Hogan

Officers

R. Eric Chadwick, CFA
Chief Executive Officer and
President

Chad C. Conwell
Chief Compliance Officer,
Vice President and Secretary

Bradford S. Stone
Chief Financial Officer,
Vice President and Treasurer

Roger W. Ko
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

Questions concerning your shares of Flaherty & Crumrine Preferred Income Opportunity 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 —

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This report is sent to shareholders of Flaherty & Crumrine Preferred Income Opportunity 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.

Quarterly
Report

August 31, 2018

www.preferredincome.com