

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form 40-17G

May 31, 2018

KNIGHT INSURANCE SERVICES

ATTN: Manuel Hamme

535 N. BRAND BL. 10TH FL

GLENDALE, CA 91203

**INSURED:** FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED

**PRODUCT:** *DFIBond*

**POLICY NO:** 82302718

**TRANSACTION:** RENL\_CORR

**Chubb Group of Insurance Companies**

202B Hall's Mill Road  
Whitehouse Station, NJ 08889

**DECLARATIONS  
FINANCIAL INSTITUTION INVESTMENT  
COMPANY ASSET PROTECTION BOND**

NAME OF ASSURED (including its **Subsidiaries**): Bond Number: 82302718

FLAHERTY & CRUMRINE PREFERRED INCOME  
FUND INCORPORATED  
301 EAST COLORADO BLVD., #720  
PASADENA, CA 91101

**FEDERAL INSURANCE COMPANY**  
Incorporated under the laws of Indiana  
a stock insurance company herein called the COMPANY

Capital Center, 251 North Illinois, Suite 1100  
Indianapolis, IN 46204-1927

**ITEM 1.** BOND PERIOD: from 12:01 a.m. on May 15, 2018  
to 12:01 a.m. on May 15, 2019

**ITEM 2.** LIMITS OF LIABILITY--DEDUCTIBLE AMOUNTS:

If "Not Covered" is inserted below opposite any specified INSURING CLAUSE, such INSURING CLAUSE and any other reference shall be deemed to be deleted. **There shall be no deductible applicable to any loss under INSURING CLAUSE 1. sustained by any Investment Company.**

INSURING CLAUSE	SINGLE LOSS LIMIT OF LIABILITY	DEDUCTIBLE AMOUNT
1. Employee	\$ 600,000	\$ 0
2. On Premises	\$ 600,000	\$ 10,000
3. In Transit	\$ 600,000	\$ 10,000
4. Forgery or Alteration	\$ 600,000	\$ 10,000
5. Extended Forgery	\$ 600,000	\$ 10,000
6. Counterfeit Money	\$ 600,000	\$ 10,000
7. Threats to Person	\$ 600,000	\$ 10,000
8. Computer System	\$ 600,000	\$ 10,000
9. Voice Initiated Funds Transfer Instruction	\$ 600,000	\$ 10,000
10. Uncollectible Items of Deposit	\$ 25,000	\$ 0
11. Audit Expense	\$ 25,000	\$ 0

**ITEM 3.** THE LIABILITY OF THE COMPANY IS ALSO SUBJECT TO THE TERMS OF THE FOLLOWING ENDORSEMENTS EXECUTED SIMULTANEOUSLY HEREWITH:

1-9

**IN WITNESS WHEREOF, THE COMPANY** has caused this Bond to be signed by its authorized officers, but it shall not be valid unless also signed by an authorized representative of the Company.

Secretary

President

Countersigned by May 25, 2018

Authorized Representative

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The COMPANY, in consideration of payment of the required premium, and in reliance on the APPLICATION and all other statements made and information furnished to the COMPANY by the ASSURED, and subject to the DECLARATIONS made a part of this Bond and to all other terms and conditions of this Bond, agrees to pay the ASSURED for:

***Insuring  
Clauses***

*Employee* 1. Loss resulting directly from **Larceny** or **Embezzlement** committed by any **Employee**, alone or in collusion with others.

*On Premises* 2. Loss of **Property** resulting directly from robbery, burglary, false pretenses, common law or statutory larceny, misplacement, mysterious unexplainable disappearance, damage, destruction or removal, from the possession, custody or control of the ASSURED, while such **Property** is lodged or deposited at premises located anywhere.

*In Transit* 3. Loss of **Property** resulting directly from common law or statutory larceny, misplacement, mysterious unexplainable disappearance, damage or destruction, while the **Property** is in transit anywhere:

- a. in an armored motor vehicle, including loading and unloading thereof,
- b. in the custody of a natural person acting as a messenger of the ASSURED, or
- c. in the custody of a **Transportation Company** and being transported in a conveyance other than an armored motor vehicle provided, however, that covered **Property** transported in such manner is limited to the following:
  - (1) written records,
  - (2) securities issued in registered form, which are not endorsed or are restrictively endorsed, or
  - (3) negotiable instruments not payable to bearer, which are not endorsed or are restrictively endorsed.

Coverage under this INSURING CLAUSE begins immediately on the receipt of such **Property** by the natural person or **Transportation Company** and ends immediately on delivery to the premises of the addressee or to any representative of the addressee located anywhere.

**Insuring Clauses**

(continued)

*Forgery Or Alteration* 4. Loss resulting directly from:

**Forgery** on, or fraudulent material alteration of, any bills of exchange, checks, drafts, acceptances, certificates of deposits, promissory notes, due bills, a. money orders, orders upon public treasuries, letters of credit, other written promises, orders or directions to pay sums certain in money, or receipts for the withdrawal of **Property**, or

transferring, paying or delivering any funds or other **Property**, or establishing any credit or giving any value in reliance on any written instructions, advices or applications directed to the ASSURED authorizing or acknowledging the transfer, payment, delivery or receipt of funds or other **Property**, which instructions, advices or applications fraudulently purport to bear the b. handwritten signature of any customer of the ASSURED, or shareholder or subscriber to shares of an **Investment Company**, or of any financial institution or **Employee** but which instructions, advices or applications either bear a **Forgery** or have been fraudulently materially altered without the knowledge and consent of such customer, shareholder, subscriber, financial institution or **Employee**;

excluding, however, under this INSURING CLAUSE any loss covered under INSURING CLAUSE 5. of this Bond, whether or not coverage for INSURING CLAUSE 5. is provided for in the DECLARATIONS of this Bond.

For the purpose of this INSURING CLAUSE, a mechanically reproduced facsimile signature is treated the same as a handwritten signature.

*Extended Forgery* Loss resulting directly from the ASSURED having, in 5. good faith, and in the ordinary course of business, for its own account or the account of others in any capacity:

acquired, accepted or received, sold or delivered, or given value, extended credit or assumed liability, in a. reliance on any original **Securities, documents or other written instruments** which prove to:

(1) bear a **Forgery** or a fraudulently material alteration,

(2) have been lost or stolen, or

(3) be **Counterfeit**, or

guaranteed in writing or witnessed any signatures on any transfer, assignment, bill of sale, power of attorney,  
b. guarantee, endorsement or other obligation upon or in connection with any **Securities, documents or other written instruments**.

Actual physical possession, and continued actual physical possession if taken as collateral, of such **Securities, documents or other written instruments** by an **Employee, Custodian**, or a Federal or State chartered deposit institution of the ASSURED is a condition precedent to the ASSURED having relied on such items. Release or return of such collateral is an acknowledgment by the ASSURED that it no longer relies on such collateral.

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***Insuring Clauses***

*Extended Forgery*  
(continued) For the purpose of this INSURING CLAUSE, a mechanically reproduced facsimile signature is treated the same as a handwritten signature.

*Counterfeit Money* 6. Loss resulting directly from the receipt by the ASSURED in good faith of any **Counterfeit** money.

*Threats To Person* 7. Loss resulting directly from surrender of **Property** away from an office of the ASSURED as a result of a threat communicated to the ASSURED to do bodily harm to an **Employee** as defined in SECTION 1.e. (1), (2) and (5), a **Relative** or invitee of such **Employee**, or a resident of the household of such **Employee**, who is, or allegedly is, being held captive provided, however, that prior to the surrender of such **Property**:

- a. the **Employee** who receives the threat has made a reasonable effort to notify an officer of the ASSURED who is not involved in such threat, and
- b. the ASSURED has made a reasonable effort to notify the Federal Bureau of

Investigation and local law enforcement authorities concerning such threat.

It is agreed that for purposes of this INSURING CLAUSE, any **Employee** of the ASSURED, as set forth in the preceding paragraph, shall be deemed to be an ASSURED hereunder, but only with respect to the surrender of money, securities and other tangible personal property in which such **Employee** has a legal or equitable interest.

*Computer System* 8. Loss resulting directly from fraudulent:

- a. entries of data into, or changes of data
- b. elements or programs within,

a **Computer System**, provided the fraudulent entry or change causes:

- (1) funds or other property to be transferred, paid or delivered,
- (2) an account of the ASSURED or of its customer to be added, deleted, debited or credited, or



- (3) an  
unauthorized  
account or a  
fictitious  
account to be  
debited or  
credited.

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**Insuring Clauses**  
(continued)

*Voice Initiated  
Funds  
Transfer  
Instruction*

9. Loss resulting directly from **Voice Initiated Funds Transfer Instruction** directed to the ASSURED authorizing the transfer of dividends or redemption proceeds of **Investment Company** shares from a **Customer's** account, provided such **Voice Initiated Funds Transfer Instruction** was:
- a. received at the ASSURED'S offices by those **Employees** of the ASSURED specifically authorized to receive the **Voice Initiated Funds Transfer Instruction**,
  - b. made by a person purporting to be a **Customer**, and
  - c. made by said person for the purpose of causing the ASSURED or **Customer** to sustain a loss or making an improper personal financial gain for such person or any other person.

In order for coverage to apply under this INSURING CLAUSE, all **Voice Initiated Funds Transfer Instructions** must be received and processed in accordance with the Designated Procedures outlined in the APPLICATION furnished to the COMPANY.

*Uncollectible  
Items of  
Deposit*

10. Loss resulting directly from the ASSURED having credited an account of a customer, shareholder or subscriber on the faith of any **Items of Deposit** which prove to be uncollectible, provided that the crediting of such account causes:
- a. redemptions or withdrawals to be permitted,
  - b. shares to be issued, or
  - c. dividends to be paid,

from an account of an **Investment Company**.

In order for coverage to apply under this INSURING CLAUSE, the ASSURED must hold **Items of Deposit** for the minimum number of days stated in the APPLICATION before permitting any redemptions or withdrawals, issuing any shares or paying any dividends with respect to such **Items of Deposit**.

**Items of Deposit** shall not be deemed uncollectible until the ASSURED'S standard collection procedures have failed.

*Audit Expense*

11. Expense incurred by the ASSURED for that part of the cost of audits or examinations required by any governmental regulatory authority or self-regulatory organization to be conducted by such authority, organization or their appointee by reason of the discovery of loss sustained by the ASSURED and covered by this Bond.



**General Agreements**

*Additional Companies  
Included As Assured*

If more than one corporation,  
or **Investment Company**, or  
A. any combination of them is  
included as the ASSURED  
herein:

(1) The total liability  
of the  
COMPANY  
under this Bond  
for loss or losses  
sustained by any  
one or more or all  
of them shall not  
exceed the limit  
for which the  
COMPANY  
would be liable  
under this Bond  
if all such loss  
were sustained by  
any one of them.

(2) Only the first  
named  
ASSURED shall  
be deemed to be  
the sole agent of  
the others for all  
purposes under  
this Bond,  
including but not  
limited to the  
giving or  
receiving of any  
notice or proof  
required to be  
given and for the  
purpose of  
effecting or  
accepting any  
amendments to or  
termination of

this Bond. The COMPANY shall furnish each **Investment Company** with a copy of the Bond and with any amendment thereto, together with a copy of each formal filing of claim by any other named ASSURED and notification of the terms of the settlement of each such claim prior to the execution of such settlement.

(3) The COMPANY shall not be responsible for the proper application of any payment made hereunder to the first named ASSURED.

(4) Knowledge possessed or discovery made by any partner, director, trustee, officer or supervisory employee of any ASSURED shall constitute knowledge or discovery by all the ASSUREDS for the purposes of this Bond.

(5)

If the first named ASSURED ceases for any reason to be covered under this Bond, then the ASSURED next named on the APPLICATION shall thereafter be considered as the first named ASSURED for the purposes of this Bond.

*Representation Made By Assured*

B. The ASSURED represents that all information it has furnished in the APPLICATION for this Bond or otherwise is complete, true and correct. Such APPLICATION and other information constitute part of this Bond.

The ASSURED must promptly notify the COMPANY of any change in any fact or circumstance which materially affects the risk assumed by the COMPANY under this Bond.

Any intentional misrepresentation, omission, concealment or incorrect statement of a material fact, in the APPLICATION or otherwise, shall be grounds for rescission of this Bond.



**General Agreements**  
(continued)

*Additional Offices Or  
Employees - Consolidation,  
Merger Or Purchase Or  
Acquisition Of Assets Or  
Liabilities - Notice To  
Company*

If the ASSURED, other than an **Investment Company**, while this Bond is in force, merges or consolidates with, or purchases or acquires assets or liabilities of another institution, the ASSURED shall not have the coverage afforded under this Bond for loss which has:

- C. (1) occurred or will occur on premises, or
- (2) been caused or will be caused by an employee, or
- (3) arisen or will arise out of the assets or liabilities,

of such institution, unless the ASSURED:

- a. gives the COMPANY written notice of the proposed consolidation, merger or purchase or acquisition of assets or liabilities prior to the proposed effective date of such action, and



- b. obtains the written consent of the COMPANY to extend some or all of the coverage provided by this Bond to such additional exposure, and
- c. on obtaining such consent, pays to the COMPANY an additional premium.

*Change Of Control -  
Notice To Company*

When the ASSURED learns of a change in control (other than in an **Investment Company**), as set forth in Section D.2(a) (9) of the Investment Company Act of 1940, the ASSURED shall within sixty (60) days give written notice to the COMPANY setting forth:

- (1) the names of the transferors and transferees (or the names of the beneficial owners if the voting securities are registered in another name),
- (2) the total number of voting securities owned by the transferors and the transferees (or the beneficial owners), both immediately before and after

the transfer, and

- (3) the total number  
of outstanding  
voting securities.

Failure to give the  
required notice shall  
result in termination of  
coverage for any loss  
involving a transferee, to  
be effective on the date of  
such change in control.

The COMPANY will  
indemnify the ASSURED  
for court costs and  
reasonable attorneys' fees  
incurred and paid by the  
ASSURED in defense,  
whether or not  
successful, whether or  
not fully litigated on the  
merits and whether or not  
settled, of any claim, suit  
or legal proceeding with  
respect to which the  
ASSURED would be  
entitled to recovery under  
this Bond. However, with  
respect to INSURING  
CLAUSE 1., this Section  
shall only apply in the  
event that:

*Court Costs And  
Attorneys' Fees*

E.

- (1) an **Employee**  
admits to being  
guilty of  
**Larceny or  
Embezzlement,**

- (2) an **Employee** is  
adjudicated to be  
guilty of  
**Larceny or  
Embezzlement,**  
or

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**General  
Agreements**

*Court Costs  
And  
Attorneys' Fees  
(continued)*

in the absence of 1 or 2 above, an arbitration panel agrees, after a review of an agreed statement (3) of facts between the COMPANY and the ASSURED, that an **Employee** would be found guilty of **Larceny or Embezzlement** if such **Employee** were prosecuted.

The ASSURED shall promptly give notice to the COMPANY of any such suit or legal proceeding and at the request of the COMPANY shall furnish copies of all pleadings and pertinent papers to the COMPANY. The COMPANY may, at its sole option, elect to conduct the defense of all or part of such legal proceeding. The defense by the COMPANY shall be in the name of the ASSURED through attorneys selected by the COMPANY. The ASSURED shall provide all reasonable information and assistance as required by the COMPANY for such defense.

If the COMPANY declines to defend the ASSURED, no settlement without the prior written consent of the COMPANY nor judgment against the ASSURED shall determine the existence, extent or amount of coverage under this Bond.

If the amount demanded in any such suit or legal proceeding is within the DEDUCTIBLE AMOUNT, if any, the COMPANY shall have no liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceeding.

If the amount demanded in any such suit or legal proceeding is in excess of the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE, the COMPANY'S liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceedings is limited to the proportion of such court costs and attorney's fees incurred that the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE bears to the total of the amount demanded in such suit or legal proceeding.

If the amount demanded in any such suit or legal proceeding is in excess of the DEDUCTIBLE AMOUNT, if any, but within the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE, the COMPANY'S liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceedings shall be limited to the proportion of such court costs or attorney's fees that the amount demanded that would be payable under this Bond after application of the DEDUCTIBLE AMOUNT, bears to the total amount demanded.

Amounts paid by the COMPANY for court costs and attorneys' fees shall be in addition to the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS.

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**Conditions and  
Limitations**

**Definitions**

1. As used in this Bond:

**Computer System** means a computer and all input, output, processing, storage, off-line media libraries, and communication facilities

- a. which are connected to the computer and which are under the control and supervision of the operating system(s) or application(s) software used by the ASSURED.

**Counterfeit** means an imitation of an actual

- b. valid original which is intended to deceive and be taken as the original.

**Custodian** means the institution designated by

- c. an **Investment Company** to maintain possession and control of its assets.

**Customer** means an individual, corporate, partnership, trust customer, shareholder or subscriber of an

- d. **Investment Company** which has a written agreement with the ASSURED for **Voice Initiated Funds Transfer Instruction**.

e. **Employee** means:

- (1) an officer of the ASSURED,
- (2) a natural person while in the regular service of the ASSURED at any of the ASSURED'S premises and compensated directly by the ASSURED through its payroll system and subject to the United States Internal Revenue Service Form W-2 or equivalent income reporting plans of other countries, and whom the ASSURED has the right to control and direct both as to the result to be accomplished and details and means by which such result is accomplished in the performance of such service,
- (3)

a guest student  
pursuing  
studies or  
performing  
duties in any  
of the  
ASSURED'S  
premises,

(4) an attorney  
retained by the  
ASSURED  
and an  
employee of  
such attorney  
while either is  
performing  
legal services  
for the  
ASSURED,

(5) a natural  
person  
provided by an  
employment  
contractor to  
perform  
employee  
duties for the  
ASSURED  
under the  
ASSURED'S  
supervision at  
any of the  
ASSURED'S  
premises,

(6) an employee  
of an  
institution  
merged or  
consolidated  
with the  
ASSURED  
prior to the  
effective date  
of this Bond,

(7)



a director or trustee of the ASSURED, but only while performing acts within the scope of the customary and usual duties of any officer or other employee of the ASSURED or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to **Property** of the ASSURED, or

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**Conditions  
and  
Limitations**

**Definitions  
(continued)** (8) each natural person, partnership or corporation authorized by written agreement with the ASSURED to perform services as electronic data processor of checks or other accounting records related to such checks but only while such person, partnership or corporation is actually performing such services and not:

- a. creating, preparing, modifying or maintaining the ASSURED'S computer software or programs, or
- b. acting as transfer agent or in any other agency capacity in issuing checks, drafts or securities for the ASSURED,

(9) any partner, officer or employee of an investment advisor, an underwriter (distributor), a transfer agent or shareholder accounting recordkeeper, or an administrator, for an **Investment Company** while performing acts coming within the scope of the customary and usual duties of an officer or employee of an **Investment Company** or acting as a member of any committee duly elected or appointed to examine, audit or have custody of or access to **Property of an Investment Company**.

The term **Employee** shall not include any partner, officer or employee of a transfer agent, shareholder accounting recordkeeper or administrator:

- a. which is not an "affiliated person" (as defined in Section 2(a) of the Investment Company Act of 1940) of an **Investment Company** or of the investment advisor or underwriter (distributor) of such **Investment Company**, or
- b. which is a "bank" (as defined in Section 2(a) of the Investment Company Act of 1940).

This Bond does not afford coverage in favor of the employers of persons as set forth in e. (4), (5) and (8) above, and upon payment to the ASSURED by the COMPANY resulting directly from **Larceny or Embezzlement** committed by any of the partners, officers or employees of such employers, whether acting alone or in collusion with others, an assignment of such of the ASSURED'S rights and causes of action as it may have against such employers by reason of such acts so committed shall, to the extent of such payment, be given by the ASSURED to the COMPANY, and the ASSURED shall execute all papers necessary to secure to the COMPANY the rights provided for herein.

Each employer of persons as set forth in e.(4), (5) and (8) above and the partners, officers and other employees of such employers shall collectively be deemed to be one person for all the purposes of this Bond; excepting, however, the fifth paragraph of Section 13.

Independent contractors not specified in e.(4), (5) or (8) above, intermediaries, agents, brokers or other representatives of the same general character shall not be considered **Employees**.

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***Conditions and  
Limitations***

*Definitions  
(continued)*