

PCM FUND, INC.  
Form N-CSR  
March 01, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-07816

**PCM Fund, Inc.**

(Exact name of registrant as specified in charter)

**1633 Broadway, New York, New York**  
(Address of principal executive offices)

**10019**  
(Zip code)

**Lawrence G. Altadonna**

**1633 Broadway**

**New York, New York 10019**

(Name and address of agent for service)

Registrant's telephone number, including area code: 212-739-3371

Date of fiscal year end: December 31, 2011

## Edgar Filing: PCM FUND, INC. - Form N-CSR

Date of reporting period: December 31, 2011

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ( OMB ) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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Item 1. Report to Shareholders

# Annual Report

December 31, 2011

PCM Fund, Inc.

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Hans W. Kertess

*Chairman*

Brian S. Shlissel

*President & CEO*

Dear Stockholder:

The U.S. economy expanded steadily, albeit modestly, throughout the twelve-month fiscal period ended December 31, 2011. Growth occurred despite a steady stream of geopolitical turmoil and uncertainty both around the world and, to some degree, in the United States. This sparked extraordinary market volatility for much of the fiscal period. Despite this, U.S. corporations ended the reporting period in strong financial shape.

**Twelve Months in Review**

For the twelve-month fiscal period ended December 31, 2011, PCM rose 6.75% on net asset value ( NAV ) and 10.43% on market price. The U.S. Treasury market, as measured by the Barclays Capital U.S. Treasury Index, returned 0.15%, and the Barclays Capital Mortgage Index, a broad measure of mortgage bond performance, rose 6.32%. The Barclays Capital U.S. Aggregate Index, a broad measure of government and corporate bond performance, rose 7.84%, while the Barclays Capital U.S. Credit Index, a measure of corporate bond performance, rose 8.35%.

The fiscal period began with U.S. gross domestic product ( GDP ), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, rising at a 0.4% annual rate between January and March 2011. Growth was hindered during this period by turmoil across much of the Middle East, and by an earthquake and tsunami in Japan, which led to a meltdown at a nuclear power plant. The unrest in the Middle East put upward pressure on oil prices, while the Japanese catastrophe rippled across the global supply chain, hampering a broad swath of the manufacturing sector. GDP increased to a 1.3% annualized growth rate between April and June 2011 and to a 1.8% annualized growth rate between July and September 2011. In the final three months of the fiscal period, there were signs that GDP was accelerating further. The latest Beige Book report from the Federal Reserve ( the Fed ), released in January 2012, indicated economic

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expansion in all but one of twelve banking districts across the country. The central bank described auto manufacturing as vibrant, and stated that consumer spending was growing more robust. The message was a marked improvement from the summer of 2011, when Fed Chairman Ben Bernanke described growth as uneven and frustratingly slow.

The U.S. labor market also showed signs of improvement. The unemployment rate fell to 8.5% in December 2011, the lowest level in nearly three years. The government indicated that private sector job creation in 2011 was the best since 2005.

These encouraging signs were offset to some degree by ongoing weakness in the housing market. The S&P/Case-Schiller Home Price Index signified that housing prices are still falling on a macro basis and stand at their lowest levels seen since 2003. In an attempt to boost the housing market, the Fed launched Operation Twist, which involves the selling of \$400 billion in short-term Treasury securities in exchange for a similar amount of longer-term bonds. The Fed indicated that one of their objectives of this program

was to lower longer-term bond yields which, it hoped, would trigger home sales.

Sovereign debt woes worsened in both the U.S. and Europe during the fiscal year. Standard & Poor's downgraded the U.S. government's long-term credit rating in August 2011 and the credit ratings of nine European nations in January 2012. The inability of officials on both sides of the Atlantic to tackle their debt issues in a substantive way has hindered investor confidence and increased uncertainty. There is also significant concern as to how the U.S. and European Union economies can be repaired given historically low interest rates and a general aversion to expensive stimulus programs. In addition, the price of oil, now well over \$100/barrel due, in part, to growing tensions with Iran over its nuclear program, is another source of concern.

For specific information on the Fund and its performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Fund's stockholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources are available on our Web site, [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds).

Together with Allianz Global Investors Fund Management LLC, the Fund's investment manager, and Pacific Investment Management Company LLC (PIMCO), the Fund's subadviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess  
Chairman

Brian S. Shlissel  
President & CEO

Receive this report electronically and eliminate paper mailings. To enroll, go to [www.allianzinvestors.com/edelivery](http://www.allianzinvestors.com/edelivery).



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**PCM Fund, Inc. Fund Insights**

December 31, 2011

For the 12-month reporting period ended December 31, 2011, PCM returned 6.75% on net asset value and 10.43% on market price, outperforming the unmanaged Barclays Capital CMBS Investment Grade Index<sup>1</sup> (the benchmark index), which returned 6.02% during the reporting period.

Although the overall U.S. fixed income market, as measured by the Barclays Capital U.S. Aggregate Index, generated a positive return during the reporting period. There were periods of heightened volatility due to shifting expectations for the economy and periodic flights to quality. Early in the fiscal period, expectations for the U.S. economy improved and inflationary concerns emerged. Despite a number of geopolitical challenges, including the ongoing European sovereign debt crisis and the devastating earthquake in Japan, most spread sectors (non-U.S. Treasuries) outperformed equal-duration Treasuries during the first half of the reporting period. However, during the second half of the period, investor risk appetite was replaced with risk aversion. Concerns of moderating global economic growth, an escalation of the European sovereign debt crisis and the downgrade of U.S. government securities adversely affected investor sentiment. In this environment, Treasury yields moved lower and most spread sectors lagged equal-duration Treasuries. During the 12 months ended December 31, 2011, both short and long-term Treasury yields declined and the yield curve flattened.

During the fiscal year ended December 31, 2011, higher quality, lower yielding securities generally outperformed their lower rated, higher yielding investments. For example, the overall U.S. fixed income market rose 7.84%, while the CMBS market, as measured by the benchmark index, advanced 6.02%. Within the CMBS market, higher rated securities outperformed lower rated investments, as fixed-rate AAA CMBS returned 5.74%, while lower rated fixed-rate BBB CMBS returned 4.57%.

(1) The Barclays Capital Investment Grade CMBS Index is an index designed to mirror commercial mortgage backed securities (CMBS) of investment grade quality (Baa3/BBB-/BBB- or above) using Moody's, S&P, and Fitch respectively, with maturity of at least one year.

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**Spread sector exposures generally produce positive results**

The Fund's allocation to super-senior CMBS contributed to performance during the reporting period. During the 12-month reporting period, CMBS positioned high in the capital structure outperformed the lower rated (less senior) portion of the CMBS capital structure.

Despite volatile performance within the financial sector throughout the 12-month period, the Fund's bank related exposures added to performance. In particular, security selection within the investment grade corporate bond and high yield bond markets were beneficial for results, as these securities generally outperformed lower rated CMBS.

On the downside, the Fund's allocation to non-agency mortgage-backed securities detracted from results. The sector was negatively impacted by overall weak supply/demand technicals during the reporting period. In addition, risk aversion stemming from the European sovereign debt crisis and economic uncertainty weighed on the sector's performance.

**Table of Contents****PCM Fund, Inc. Performance & Statistics**

December 31, 2011 (unaudited)

Total Return <sup>(1)</sup> :	Market Price	NAV
1 Year	10.43%	6.75%
5 Year	6.57%	8.34%
10 Year	7.83%	8.26%
Commencement of Operations (9/2/93) to 12/31/11	8.34%	8.28%

Market Price/NAV Performance:

Commencement of Operations (9/2/93) to 12/31/11

Market Price/NAV:

Market Price	\$10.77
NAV	\$9.48
Premium to NAV	13.61%
Market Price Yield <sup>(2)</sup>	8.91%

Moody's Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends and capital gain distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund stock. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's stock, or changes in the Fund's dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

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(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to stockholders by the market price per share at December 31, 2011.

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**Table of Contents****PCM Fund, Inc. Schedule of Investments**

December 31, 2011

Principal Amount (000s)		Value
<b>MORTGAGE-BACKED SECURITIES 136.1%</b>		
\$562	Adjustable Rate Mortgage Trust, 2.756%, 1/25/36, CMO, VRN Banc of America Alternative Loan Trust, CMO,	\$328,540
757	5.443%, 4/25/37, VRN	513,984
205	6.25%, 1/25/37 Banc of America Funding Corp., CMO,	10,739
1,051	2.735%, 12/20/34, VRN	624,536
384	5.628%, 3/20/36, FRN	280,582
1,053	7.00%, 10/25/37 Banc of America Large Loan, Inc., CMO, FRN (a)(b),	744,668
1,500	0.748%, 3/15/22	1,386,285
955	2.028%, 11/15/15	865,209
2,000	Banc of America Merrill Lynch Commercial Mortgage, Inc., 5.414%, 9/10/47, CMO (g)	2,169,119
782	Banc of America Mortgage Securities, Inc., CMO, FRN, 2.803%, 6/20/31	679,611
33	2.803%, 11/25/34	29,071
615	5.074%, 6/25/35 BCAP LLC Trust (a)(b),	505,447
87	0.445%, 7/26/36 (d)	22,652
150	5.047%, 3/26/36, CMO, FRN	134,226
1,000	BCRR Trust, 5.858%, 7/17/40, CMO, VRN (a)(b)(g) Bear Stearns Adjustable Rate Mortgage Trust, CMO, FRN,	966,263
2,000	2.706%, 10/25/35	1,562,224
451	2.75%, 5/25/34 Bear Stearns Alt-A Trust, CMO,	375,256
94	2.651%, 5/25/36, VRN	34,149
294	2.823%, 11/25/36, VRN	142,521
656	2.857%, 5/25/36, VRN	270,602
378	3.309%, 9/25/34, VRN	295,722
1,766	4.296%, 8/25/36, VRN	931,934
119	4.390%, 1/25/47, VRN	52,431
303	4.945%, 7/25/35, FRN	181,940
749	5.719%, 8/25/36, VRN	397,262
222	Bear Stearns Asset-Backed Securities Trust, 5.50%, 12/25/35, CMO Bear Stearns Commercial Mortgage Securities, CMO,	176,610
1,300	5.628%, 3/13/40, VRN (a)(b)(g)	1,158,279
3,000	5.694%, 6/11/50, VRN (g)	3,317,355
2,000	5.714%, 6/11/40, VRN (g)	2,198,843
1,000	5.810%, 5/11/39, VRN (a)(b)	893,397
525	6.50%, 2/15/32	27,230
1,508	CBA Commercial Small Balance Commercial Mortgage, 5.54%, 1/25/39, CMO (a)(b)	604,458
800	Chase Mortgage Finance Corp., 6.00%, 3/25/37, CMO	632,060
2,500	Citigroup Commercial Mortgage Trust, 5.697%, 12/10/49, CMO, VRN (g)	2,767,894

**Table of Contents****PCM Fund, Inc. Schedule of Investments**

December 31, 2011 (continued)

Principal Amount (000s)		Value
	Citigroup Mortgage Loan Trust, Inc., CMO, VRN,	
\$634	2.781%, 8/25/35	\$465,672
710	5.143%, 9/25/35	519,586
738	5.260%, 11/25/36	462,571
4,012	Citigroup/Deutsche Bank Commercial Mortgage Trust,	
	5.322%, 12/11/49, CMO (g)	4,272,571
208	Citimortgage Alternative Loan Trust, 5.50%, 4/25/22, CMO	191,817
3,000	Commercial Capital Access One, Inc., 7.824%, 11/15/28, CMO, VRN (a)(b)	2,135,658
	Commercial Mortgage Pass Through Certificates, CMO (a)(b),	
2,500	5.605%, 6/9/28	2,521,202
1,500	6.586%, 7/16/34 (g)	1,632,706
1,500	6.774%, 7/16/34, VRN	1,620,953
	Countrywide Alternative Loan Trust, CMO,	
1,733	0.474%, 6/25/47, FRN	868,549
4,125	0.495%, 7/20/46, FRN (g)	1,416,002
529	0.574%, 2/25/37, FRN	250,636
403	0.584%, 2/25/36, FRN	89,341
4,556	1.208%, 12/25/35, FRN (g)	2,477,766
350	6.00%, 11/25/35	178,349
	Countrywide Home Loan Mortgage Pass Through Trust, CMO,	
408	0.614%, 3/25/35, FRN	189,449
43	2.595%, 2/20/36, FRN	29,675
377	2.778%, 9/20/36, VRN	189,412
1,610	5.593%, 9/25/47, VRN	969,739
1,125	6.00%, 5/25/37	886,477
	Credit Suisse First Boston Mortgage Securities Corp., CMO,	
20,982	1.341%, 12/15/35, IO, VRN (a)(b)	140,411
617	6.574%, 12/15/35 (g)	616,223
139	7.00%, 2/25/33	148,912
2,000	7.46%, 1/17/35, VRN (g)	2,104,033
	Credit Suisse Mortgage Capital Certificates, CMO,	
1,000	5.467%, 7/18/16, VRN (a)(b)	987,451
5,000	5.467%, 9/15/39 (g)	5,336,907
423	5.896%, 4/25/36	242,506
326	6.50%, 5/25/36	169,334
1,925	CW Capital Cobalt Ltd., 5.223%, 8/15/48, CMO (g)	2,055,468
3,204	FFCA Secured Lending Corp., 1.094%, 9/18/27, CMO, IO, VRN (a)(b)	