

PCM FUND, INC.
Form N-CSR
March 05, 2010
Table of Contents

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)

1345 Avenue of the Americas, New York, NY
(Address of principal executive offices)

10105
(Zip code)

Lawrence G. Altadonna

1345 Avenue of the Americas

New York, NY 10105

(Name and address of agent for service)

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

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Date of fiscal year end: December 31, 2009

Date of reporting period: December 31, 2009

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.

Table of Contents

Item 1: Report to Shareholders

PCM Fund, Inc.

Annual Report
December 31, 2009

Contents

<u>Letter to Shareholders</u>	1
<u>Fund Insights/Performance & Statistics</u>	2-3
<u>Schedule of Investments</u>	4-10
<u>Statement of Assets and Liabilities</u>	11
<u>Statement of Operations</u>	12
<u>Statement of Changes in Net Assets</u>	13
<u>Statement of Cash Flows</u>	14
<u>Notes to Financial Statements</u>	15-28
<u>Financial Highlights</u>	29
<u>Report of Independent Registered Public Accounting Firm</u>	30
<u>Annual Shareholder Meeting Results/Changes to Investment Policies/Board of Directors Changes</u>	31-32
<u>Privacy Policy/Proxy Voting Policies & Procedures</u>	33
<u>Dividend Reinvestment Plan</u>	34
<u>Board of Directors</u>	35-36
<u>Fund Officers</u>	37

Table of Contents

PCM Fund, Inc. Letter to Shareholders

February 18, 2010

Dear Shareholder:

Please find enclosed the annual report for PCM Fund, Inc. (the Fund) for the fiscal year ended December 31, 2009.

Bond market leadership shifted during the 12-month reporting period as stocks and corporate bonds returned to favor with investors who began reducing exposure to low-yielding government bonds and adding other asset classes to their portfolios. In this environment, U.S. Treasury securities underperformed, as represented by the Barclays Capital U.S. Treasury Index, declining 3.57% for the 12-month reporting period. The Barclays Capital Mortgage Index, a broad measure of mortgage bond performance, returned 5.75%. Commercial mortgage-backed securities (CMBS) staged a robust rally with AAA CMBS returning 27.17% for the fiscal year and BBB CMBS returning 34.55%. The Barclays Capital U.S. Aggregate Index, a broad measure of government and corporate bond performance, returned 5.93% for the reporting period. The Barclays Capital U.S. Credit Index, a measure of corporate bond performance, returned 16.04% for the fiscal year ended December 31, 2009.

The Federal Reserve held benchmark interest rates at an historic low target range of 0% to 0.25% and pursued other initiatives designed to inject liquidity into the financial system. Under its policy of quantitative easing, the U.S. monetary authority purchased large amounts of securities (such as mortgage-backed securities and U.S. Treasury bonds) from commercial banks to encourage lending to consumers and businesses.

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 shareholder services at (800)254-5197. In addition, a wide range of information and resources can be accessed through our Web site at www.allianzinvestors.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Fund's investment manager, and Pacific Investment Management Company LLC, the Fund's sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

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Hans W. Kertess
Chairman

Brian S. Shlissel
President & Chief Executive Officer

12.31.09 PCM Fund, Inc. Annual Report 1

Table of Contents

PCM Fund, Inc. Fund Insights/Performance & Statistics

December 31, 2009 (unaudited)

For the fiscal year ended December 31, 2009, the Fund returned 57.78% on net asset value (NAV) and 52.01% on market price.

Commercial mortgage-backed securities (CMBS) has measured by the Barclays CMBS Index, had mixed performance across the capital structure with more senior securities underperforming lower rated securities, particularly BBBs. Despite the sell-off in Treasury rates, AAA CMBS returned 27.17% for the fiscal year, while lower rated fixed-rate BBB CMBS returned 34.55% for the same period.

For most of the fiscal year, CMBS rallied benefiting from their inclusion in the Term Asset-Backed Securities Loan Facility (TALF) and the Public-Private Investment Partnership (PPIP). Both government programs have restored liquidity to senior tranches. AAA CMBS spreads tightened in excess of 1000 basis points from the wide spreads in the fall of 2008.

CMBS fundamentals deteriorated throughout 2009 due to higher delinquencies and loss severities, and a decline in commercial property values. Commercial property prices are now down 43.70% from their peak in October 2007.

Drivers of Fund performance:

Exposure to high-quality CMBS detracted from relative performance as senior CMBS positioning did not keep pace with the rally in lower rated CMBS.

Exposure to financials was positive for performance as confidence in financial institution balance sheets was regained due to supportive government policies, leading to increased liquidity and risk appetite in the credit market

Exposure to Senior Non-Agency mortgage-backed securities (MBS) contributed positively to performance as the sector rallied due to strong demand from PPIP, a continued absence of new supply, and the improved availability of financing.

An underweighting to duration contributed positively to performance as rates sold-off 162 basis points during the fiscal year as economic indicators improved.

A curve-steepening bias added to performance on continued concerns of the long-term inflationary impact of government stimulus policy.

Total Return⁽¹⁾:	Market Price	Net Asset Value (NAV)
1 Year	52.01%	57.78%
5 Year	0.73%	1.85%
10 Year	6.10%	5.68%
Commencement of Operations (9/2/93) to 12/31/09	5.92%	6.42%

Table of Contents

PCM Fund, Inc. Fund Insights/Performance & Statistics

December 31, 2009 (unaudited) (continued)

Common Share Market Price/NAV Performance:

Commencement of Operations (9/2/93) to 12/31/09

Market Price/NAV:

Market Price	\$7.97
NAV	\$7.73
Premium to NAV	3.10%
Market Price Yield ⁽²⁾	10.54%

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. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from its 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 shares, or changes in Fund dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market 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 onetime 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 attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to common shareholders by the market price per common share at December 31, 2009.

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

December 31, 2009

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
MORTGAGE-BACKED SECURITIES 117.2%			
	Banc of America Commercial Mortgage, Inc., CMO,		
\$2,000	5.414%, 9/10/47 (h)	Aaa/AAA	\$1,882,375
700	6.29%, 6/11/35 (a)(c)	Ba1/BBB+	569,693
2,500	7.224%, 4/15/36, VRN (h)	A1/NR	2,392,342
2,210	8.258%, 11/15/31 VRN (h)	Aa1/AA+	2,135,479
2,000	Banc of America Large Loan, Inc., 0.983%, 8/15/29, CMO, FRN (a)(c)	Aaa/AA	1,225,675
1,000	BCRR Trust, 5.858%, 7/17/40, CMO, VRN (a)(c)(e)	Aaa/NR	624,513
	Bear Stearns Commercial Mortgage Securities, CMO,		
1	5.06%, 11/15/16	Aaa/AAA	1,260
3,000	5.694%, 6/11/50, VRN (h)	NR/A+	2,633,912
2,000	5.719%, 6/11/40, VRN	Aaa/NR	1,822,463
1,000	5.811%, 5/11/39, VRN (a)(c)	NR/BBB+	707,323
2,000	5.991%, 9/11/42, VRN (a)(c)	NR/BB+	491,291
1,332	6.50%, 2/15/32 (c)	NR/BB	983,390
1,258	6.625%, 10/15/32 (a)(c)	NR/B	191,546
1,747	CBA Commercial Small Balance Commercial Mortgage, 5.54%, 1/25/39, CMO (a)(c)(e)	A2/BBB-	972,240
1,500	Chase Commercial Mortgage Securities Corp., 6.887%, 10/15/32, CMO (a)(c)	NR/BB+	1,207,812
2,500	Citigroup Commercial Mortgage Trust, 5.70%, 12/10/49, CMO, VRN (h)	Aaa/AA	2,236,055
4,012	Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 12/11/49, CMO (h)	Aaa/A-	3,490,719
3,000	Commercial Capital Access One, Inc., 7.971%, 11/15/28, CMO, VRN (a)(c)	NR/NR	1,044,185
	Commercial Mortgage Pass Through Certificates, CMO (a)(c),		
1,500	6.586%, 7/16/34 (h)	Aaa/AAA	1,578,506
2,893	6.83%, 2/14/34, VRN (h)	Aaa/NR	2,935,194
1,500	6.938%, 7/16/34, VRN	Aa2/A+	1,236,938
	Credit Suisse First Boston Mortgage Securities Corp., CMO,		
22,664	1.00%, 12/15/35, IO, VRN (a)(c)(h)	NR/AAA	748,443
3,000	6.574%, 12/15/35 (h)	Aaa/AAA	3,053,515
2,000	7.46%, 1/17/35, VRN (c)	NR/NR	2,106,057
	Credit Suisse Mortgage Capital Certificates, CMO,		
1,100	0.403%, 10/15/21, FRN (a)(c)	Aa1/AAA	848,604
5,000	5.467%, 9/15/39 (h)	Aaa/AAA	4,294,574
375	6.50%, 5/25/36	Caa2/CCC	195,778
1,806	CVS Pass-Through Trust, 5.88%, 1/10/28 (h)	Baa2/BBB+	1,694,013
1,925	CW Capital Cobalt Ltd., 5.223%, 8/15/48, CMO	NR/AA-	1,683,005
4,309	FFCA Secured Lending Corp., 1.00%, 9/18/27, CMO, IO, VRN (a)(c)	Aaa/NR	88,115
2,000	First Union-Lehman Brothers-Bank of America, 6.778%, 11/18/35, CMO (h)	Aaa/AAA	2,109,675
1,000	First Union-National Bank-Bank of America Commercial Mortgage Trust, 6.00%, 1/15/11, CMO (a)(c)	Ba3/NR	617,379
	GMAC Commercial Mortgage Securities, Inc., CMO,		
268	6.50%, 5/15/35	Aaa/AAA	267,680
2,000	6.50%, 5/15/35 (c)	NR/BBB	2,015,976
1,500	6.984%, 5/15/30, VRN (a)(c)	NR/NR	777,520
1,500	8.051%, 9/15/35, VRN (a)(c)	NR/NR	1,425,694

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

December 31, 2009 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Greenwich Capital Commercial Funding Corp., CMO,		
\$1,500	5.419%, 1/5/36, VRN (a)(c)	A2/A+	\$1,275,684
2,000	5.444%, 3/10/39	Aaa/A	1,771,591
	GS Mortgage Securities Corp. II, CMO,		
2,000	1.285%, 3/6/20, FRN (a)(c)	NR/BBB	1,628,104
5,750	5.56%, 11/10/39 (h)	Aaa/NR	5,047,842
3,480	7.397%, 8/5/18, VRN (a)(c)	Baa2/NR	2,583,683
	JPMorgan Chase Commercial Mortgage Securities Corp, CMO,		
3,000	0.683%, 7/15/19, FRN (a)(c)(h)	Aa2/NR	2,152,522
9,485	1.00%, 3/12/39, IO, VRN (a)(c)(h)	Aaa/NR	305,874
1,400	5.746%, 2/12/49, VRN	Aaa/A+	1,228,382
1,195	5.794%, 2/12/51, VRN	Aaa/A+	1,045,360
1,120	5.818%, 6/15/49, VRN	Aaa/A-	978,116
1,150	5.99%, 2/15/51, VRN	Aaa/A-	1,129,135
2,000	6.162%, 5/12/34 (h)	Aaa/NR	2,106,853
716	JPMorgan Mortgage Trust, 4.067%, 7/25/35, CMO, FRN	B1/AAA	644,330
950	LB Commercial Conduit Mortgage Trust, 5.950%, 7/15/44, CMO, VRN	Aaa/A	787,710
	LB-UBS Commercial Mortgage Trust, CMO,		
1,278	5.347%, 11/15/38 (h)	NR/AAA	1,174,173
1,500	5.683%, 7/15/35 (a)(c)	Ba1/BBB-	638,900
1,572	6.95%, 3/15/34, VRN (a)(c)	A1/A	1,344,137
2,000	7.29%, 9/15/34 (a)(c)	A2/NR	1,878,663
	Merrill Lynch Countrywide Commercial Mortgage Trust, CMO,		
1,500	5.485%, 3/12/51, VRN (h)	Aaa/NR	1,224,031
2,300	5.70%, 9/12/49	NR/A+	1,957,545
2,000	5.957%, 8/12/17, VRN	NR/B+	401,532
1,500	Merrill Lynch Mortgage Investors, Inc., 7.062%, 12/15/30, CMO, VRN (h)	A3/AA+	1,502,917
	Morgan Stanley Capital I, CMO,		
2,000	5.447%, 2/12/44, VRN	Aaa/A	1,757,253
315	5.692%, 4/15/49, VRN	Aaa/A-	266,219
558	5.809%, 12/12/49	NR/A+	476,428
1,946	Nationslink Funding Corp., 7.105%, 1/20/13, CMO, VRN (a)(c)	NR/BBB+	2,055,181
	RBSCF Trust, CMO, VRN (a)(c)(e),		
1,000	5.223%, 8/26/47 (b)	Aaa/NR	713,441
1,000	5.331%, 2/26/44 (b)	Aaa/NR	683,973
1,000	5.336%, 5/26/47 (b)	Aaa/NR	681,906
2,744	6.068%, 2/17/51	NR/NR	1,478,302
	RMF Commercial Mortgage Pass Through Certificates, CMO (a)(c),		
258	7.471%, 1/15/19,	NR/NR	177,040
265	9.35%, 1/15/19, VRN	NR/NR	73,040
3,000	TrizecHahn Office Properties, 7.604%, 5/15/16, CMO (a)(c)	Baa1/A	3,105,666
1,000	UBS Commercial Mortgage Trust, 0.814%, 7/15/24 (a)(b)(c)(i) (acquisition cost-\$584,062; purchased 12/10/09)	Aa1/BB+	593,552
	Wachovia Bank Commercial Mortgage Trust, CMO,		
3,000	0.353%, 9/15/21, FRN (a)(c)	A1/A+	2,042,429
42,463	1.00%, 10/15/41, IO, VRN (a)(c)(h)	Aaa/AAA	787,367

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

December 31, 2009 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
\$2,500	5.188%, 2/15/41, VRN (a)(c)	Baa2/BBB	\$1,215,739
1,000	5.509%, 4/15/47	Aaa/BBB+	805,033
1,825	5.902%, 2/15/51, VRN	Aaa/BBB	1,470,327
Total Mortgage-Backed Securities (cost-\$118,691,401)			103,478,919
CORPORATE BONDS & NOTES 39.8%			
Airlines 8.9%			
4,706	American Airlines Pass Through Trust, 6.817%, 5/23/11 (h)	B2/BB-	4,517,760
537	Northwest Airlines, Inc., 1.019%, 5/20/14, FRN (MBIA) (h)	Baa2/BBB-	451,221
1,000	United Air Lines, Inc., (h), 9.75%, 1/15/17	Ba1/BBB	1,020,000
1,000	10.40%, 11/1/16	Ba1/BBB	1,053,750
910	United Air Lines Pass Through Trust, 6.636%, 1/2/24 (h)	Ba1/BB+	773,714
			7,816,445
Automotive 0.9%			
750	Tenneco, Inc., 8.625%, 11/15/14 (h)	Caa2/CCC	760,312
Banking 3.3%			
1,000	American Express Bank FSB, 0.361%, 5/29/12, FRN (h)	A2/BBB+	974,305
2,000	Regions Financial Corp., 7.75%, 11/10/14 (h)	Baa3/BBB	1,974,402
			2,948,707
Financial Services 17.7%			
1,000	Cantor Fitzgerald L.P., 7.875%, 10/15/19 (a)(c)(h)	Baa3/BBB	980,293
	CIT Group, Inc.,		
183	7.00%, 5/1/13	NR/NR	172,402
275	7.00%, 5/1/14	NR/NR	256,195
275	7.00%, 5/1/15	NR/NR	247,598
459	7.00%, 5/1/16	NR/NR	405,786
642	7.00%, 5/1/17	NR/NR	560,078
2,000	Citigroup, Inc., 5.00%, 9/15/14 (h)	Baa1/A-	1,930,032
	Ford Motor Credit Co. LLC (h),		
2,000	7.25%, 10/25/11	B3/B-	2,020,628
500	8.00%, 12/15/16	B3/B-	