

PCM FUND, INC.
Form N-CSR
March 06, 2009
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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)

1345 Avenue of the Americas, New York, NY 10105

(Address of principal executive offices) (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

Date of fiscal year end: December 31, 2008

Date of reporting period: December 31, 2008

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, 450 Fifth Street, NW, Washington, DC 20549-0609. 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

PCM Fund, Inc.

Annual Report
December 31, 2008

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PCM Fund, Inc. Letter to Shareholders

February 18, 2009

Dear Shareholder:

We are pleased to provide you with the annual report for the PCM Fund, Inc. (the Fund) for the fiscal year ended December 31, 2008.

Bond markets delivered mixed results for the reporting period. Investors waged a wholesale retreat from asset risk, which served to boost prices and returns for government bonds. Meanwhile, tight credit conditions, global economic slowing and slack demand caused corporate bond prices to fall. In this environment, the Barclays Capital Intermediate U.S. Credit Index, a measure of corporate bond performance, returned (2.76)% while the Barclays Capital U.S. Aggregate Bond Index, a broad credit market measure of government and corporate securities, posted a positive return of 5.24%. Stocks fared worse in the downturn. The Standard & Poor's 500 Index returned (37.00)% for the twelve months ended December 31, 2008, among the worst years on record for equities. The Federal Reserve (The Fed) sought to inject liquidity into the economy through multiple initiatives, including reducing the Federal Funds rate seven times during 2008. The series of cuts lowered the key benchmark rate on loans between member banks from 4.25% to a target range of between 0% to 0.25%. The Fed also announced plans to purchase approximately \$500 billion in mortgage-backed securities by mid 2009.

For specific information on the Fund and its performance during the reporting period, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial adviser or call the Fund's shareholder servicing agent at (800) 331-1710. In addition, a wide range of information and resources can be accessed through our Web site, 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 sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess

Brian S. Shlissel

Chairman

President & Chief Executive Officer

12.31.08 PCM Fund, Inc. Annual Report 1

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December 31, 2008 (unaudited)

For the fiscal year ended December 31, 2008, the Fund's net asset value (NAV) and market price returns were (40.94)% and (30.79)%, respectively.

During the fourth quarter of 2008, commercial mortgage-backed securities (CMBS) sold off across the capital structure to their all-time lows in November. Market participants rapidly reduced inventories of CMBS to clear up available balance sheet. The lack of policy support for CMBS from the Troubled Asset Relief Program (TARP), the Term Asset-Backed Securities Loan Facility, or some other policy vehicle had been a primary driver of declining prices in the fourth quarter.

As the crisis in the financial markets worsened, CMBS experienced delinquencies and tenant bankruptcies increase, causing property value to fall.

While performance in the first half of the year was relatively muted, CMBS were equally affected by the distress and disarray in financial markets during September and the fourth quarter, driving performance lower in line with the aggressive delevering of balance sheets.

Drivers of performance:

Exposure to high quality CMBS detracted from performance on an absolute basis as CMBS across the capital structure underperformed Treasuries on concerns of deteriorating collateral performance amid an environment of delevering. CMBS, as measured by the Barclays Investment Grade CMBS Index, underperformed Treasuries by (4.82)%.

An underweight to duration detracted from performance as rates rallied in response to a deteriorating economic outlook and increasing financial system distress

Exposure to non-agency mortgage-backed security (MBS) detracted from performance as these securities sold off similarly to CMBS on a flight to quality in the face of financial system volatility

A curve steepening bias added to performance as the financial crisis increased expectations of further rate cuts

Total Return⁽¹⁾:	Market Price	Net Asset Value (NAV)
1 Year	(30.79)%	(40.94)%
5 Year	(7.67)%	(5.40)%
10 Year	1.29%	1.21%
Commencement of Operations (9/2/93) to 12/31/08	3.45%	3.72%

Common Share Market Price/NAV Performance:

Commencement of Operations (9/2/93) to 12/31/08

Market Price/NAV:

Market Price	\$6.13
NAV	\$5.77
Premium to NAV	6.42%
Market Price Yield ⁽²⁾	18.76%

Moody's Ratings(as a % of total investments)

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(1) **Past performance is no guarantee of future results.** Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) in the period

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covered. The calculation assumes that all of the Fund's income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of less than one year is not annualized. Total return for a period of more than one year represents the average annual total return. The Fund's 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 distributions.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market yield and net asset value will fluctuate with changes in market conditions. This data is provided for information 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. Net asset value 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) to common shareholders by the market price per common share at December 31, 2008.

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December 31, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
MORTGAGE-BACKED SECURITIES 108.8%			
	Banc of America Commercial Mortgage, Inc., CMO,		
\$2,000	5.334%, 3/11/41, VRN (a)(c)	NR/BBB+	\$650,451
2,000	5.414%, 9/10/47 (g)	Aaa/AAA	1,587,009
700	6.29%, 6/11/35 (a)(c)	Ba1/BBB+	348,999
2,500	7.224%, 4/15/36, VRN (g)	A1/NR	1,856,448
2,800	7.748%, 11/15/31, VRN (g)	Aa1/AA+	2,613,749
	Bear Stearns Commercial Mortgage Securities, Inc., CMO,		
3	5.06%, 11/15/16	Aaa/AAA	2,752
1,000	5.560%, 2/11/41, VRN (a)(c)	NR/BBB-	240,740
1,000	5.812%, 5/11/39, VRN (a)(c)	NR/BBB+	363,912
2,000	5.991%, 9/11/42, VRN (a)(c)	NR/A	294,847
1,332	6.50%, 2/15/32	NR/BB	675,337
1,258	6.625%, 10/15/32 (a)(c)	NR/B	346,244
	Bear Stearns Commercial Mortgage Securities Trust, CMO, VRN (g),		
2,000	5.694%, 6/11/50	NR/AAA	1,495,346
2,000	5.712%, 6/11/40	Aaa/NR	1,563,453
1,272	Carey Commercial Mortgage Trust, 5.97%, 9/20/19, CMO (a)(c)	Aaa/NR	1,220,295
	Chase Commercial Mortgage Securities Corp., CMO (a)(c),		
1,000	6.275%, 2/12/16, VRN	Aaa/NR	975,451
1,600	6.65%, 7/15/32	Ba2/NR	755,846
1,500	6.887%, 10/15/32	NR/BB+	699,116
1,015	Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.225%, 7/15/44, CMO, VRN (g)	Aa2/AA	315,963
3,000	Commercial Capital Access One, Inc., 7.699%, 11/15/28, CMO, VRN (a)(c)	NR/NR	903,423
2,500	Commercial Mortgage Asset Trust, 6.975%, 1/17/32, CMO, VRN (g)	Aaa/AAA	2,274,786
	Commercial Mortgage Pass Through Certificates, CMO (a)(c),		
1,500	6.586%, 7/16/34	Aaa/AAA	1,369,644
1,500	6.811%, 7/16/34, VRN (g)	Aa2/A+	656,899
2,893	6.83%, 2/14/34, VRN (g)	Aaa/NR	2,844,454
	Credit Suisse Mortgage Capital Certificates, CMO,		
5,000	5.467%, 9/15/39 (g)	Aaa/AAA	3,694,486
405	6.50%, 5/25/36	A1/B	198,503
	CS First Boston Mortgage Securities Corp., CMO, VRN,		
23,465	0.375%, 12/15/35, IO (a)(c)(g)	NR/AAA	596,165
2,000	5.322%, 8/15/36 (a)(c)	Ba1/BB+	433,413
2,600	5.745%, 12/15/36 (a)(c)(g)	NR/BBB+	887,515
2,000	7.46%, 1/17/35 (g)	NR/NR	1,868,712
1,860	CVS Lease Pass-Through, 5.88%, 1/10/28 (a)(c)(g)	Baa2/BBB+	1,695,388
13	DLJ Commercial Mortgage Corp., 7.017%, 11/12/31, CMO, VRN	Aaa/NR	13,461
74	Federal Housing Administration, 8.36%, 1/1/12	NR/NR	74,899
5,441	FFCA Secured Lending Corp., 1.314%, 9/18/27, CMO, IO, VRN (a)(c)	NR/NR	85,667
2,000	First Union-Lehman Brothers-Bank of America, 6.778%, 11/18/35, CMO	Aaa/AAA	1,932,428
1,000	First Union-National Bank-Bank of America Commercial Mortgage Trust, 6.00%, 1/15/11, CMO (a)(c)	Ba1/NR	625,527
	GE Capital Commercial Mortgage Corp., CMO, VRN,		
1,000	5.112%, 7/10/45 (a)(c)	NR/BBB+	211,084
1,000	5.119%, 5/10/43	NR/A	270,014

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December 31, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
	GMAC Commercial Mortgage Securities, Inc., CMO,		
\$1,367	6.50%, 5/15/35	Aaa/AAA	\$1,362,339
2,000	6.50%, 5/15/35 (g)	NR/BBB	1,898,572
1,500	6.987%, 5/15/30, VRN (a)(c)	NR/NR	501,989
1,500	8.055%, 9/15/35, VRN (a)(c)(g)	NR/NR	1,194,018
	Greenwich Capital Commercial Funding Corp., CMO (g),		
1,500	5.419%, 1/5/36, VRN (a)(c)	A2/A+	593,290
2,000	5.444%, 3/10/39	Aaa/AAA	1,528,351
	GS Mortgage Securities Corp. II, CMO,		
2,000	2.926%, 3/6/20, FRN (a)(c)	NR/BBB	1,205,830
5,750	5.56%, 11/10/39 (g)	Aaa/NR	4,578,370
2,000	5.74%, 11/10/39, VRN (g)	A1/NR	366,987
3,480	7.397%, 8/5/18, VRN (a)(c)(g)	A2/NR	2,432,280
	JPMorgan Chase Commercial Mortgage Securities Corp., CMO,		
9,703	0.572%, 3/12/39, IO, VRN (a)(c)(g)	Aaa/NR	246,187
1,500	5.265%, 5/15/41, VRN (a)(c)	Baa1/NR	417,429
2,000	6.162%, 5/12/34	Aaa/NR	1,909,919
3,000	6.465%, 11/15/35 (g)	NR/AAA	2,907,401
	LB-UBS Commercial Mortgage Trust, CMO (a)(c),		
1,500	5.683%, 7/15/35	Ba1/BBB-	565,509
1,572	6.95%, 3/15/34, VRN (g)	A1/A	933,431
2,000	7.29%, 9/15/34 (g)	A2/NR	1,407,909
2,000	Merrill Lynch/Countrywide Commercial Mortgage Trust, 5.957%, 8/12/49, CMO, VRN	NR/A	296,355
1,500	Merrill Lynch Mortgage Investors, Inc., 6.805%, 12/15/30, CMO, VRN (g)	A3/AA	1,321,185
	Morgan Stanley Capital I, CMO, VRN,		
500	5.208%, 11/14/42 (g)	A1/A+	129,973
100	5.379%, 8/13/42 (a)(c)	NR/A-	25,829
2,000	5.447%, 2/12/44 (g)	Aaa/AAA	1,489,558
257	7.586%, 4/30/39 (a)(c)	NR/NR	236,621
517	Multi-Family Capital Access One, Inc., 8.82%, 1/15/24, CMO, VRN	NR/NR	492,321
2,243	Nationslink Funding Corp., 7.105%, 8/20/30, CMO, VRN (a)(c)(g)	NR/BBB	2,091,491
1,000	Office Portfolio Trust, 6.778%, 2/3/16, CMO (a)(c)	Baa2/NR	588,128
	RMF Commercial Mortgage Pass-Through Certificates, CMO (a)(c),		
299	7.471%, 1/15/19	NR/NR	174,715
266	9.15%, 1/15/19, VRN	NR/NR	23,017
3,000	TrizecHahn Office Properties, 7.604%, 5/15/16, CMO (a)(c)(g)	Baa1/A	1,838,689
	Wachovia Bank Commercial Mortgage Trust, CMO (a)(c),		
46,755	0.253%, 10/15/41, IO, VRN (g)	Aaa/AAA	546,421
1,020	4.982%, 2/15/35	NR/BBB	341,969
2,500	5.188%, 2/15/41, VRN	Baa2/BBB	658,720
1,500	5.338%, 1/15/41, VRN	Baa2/BBB	389,736
Total Commercial Mortgage-Backed Securities (cost-\$114,995,744)			71,336,965

CORPORATE BONDS & NOTES 42.5%**Financial Services 35.4%**

1,000	American Express Bank, 0.601%, 5/29/12, FRN (g)	A1/A+	825,147
2,000	American Express Credit Corp., 1.20%, 6/16/11, FRN (g)	A1/A	1,718,062

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December 31, 2008 (continued)

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
Financial Services (continued)			
	American International Group, Inc.,		
\$2,000	4.25%, 5/15/13 (g)	A3/A-	\$1,475,350
600	4.70%, 10/1/10	A3/A-	530,298
500	5.45%, 5/18/17	A3/A-	330,940
900	5.85%, 1/16/18	A3/A-	604,202
3,000	8.175%, 5/15/68, VRN (a)(c)(g)	Baa1/BBB	1,168,488
500	Bear Stearns Cos., Inc., 2.359%, 8/15/11, FRN	Aa2/A+	449,910
	CIT Group, Inc.,		
2,000	2.219%, 3/12/10, FRN (g)	Baa1/BBB+	1,855,190
500	5.80%, 7/28/11	Baa1/BBB+	419,215
	Citigroup, Inc. (g),		
1,000	2.046%, 3/16/12, FRN	A2/A	847,240
750	2.386%, 5/18/10, FRN	A2/A	693,010
2,000	5.00%, 9/15/14	A3/A-	1,761,272
500	Ford Motor Credit Co. LLC, 8.00%, 12/15/16 (g)	Caa1/CCC+	326,098
500	General Electric Capital Corp., 2.219%, 6/12/12, FRN	Aaa/AAA	486,959
1,000	Goldman Sachs Group, Inc., 5.319%, 1/12/15, FRN (g)	A1/A	742,828
	International Lease Finance Corp. (g),		
1,500	4.875%, 9/1/10	Baa1/A-	1,176,255
2,200	4.95%, 2/1/11	Baa1/A-	1,588,028
500	Merrill Lynch & Co., Inc., 3.393%, 11/1/11, FRN	A2/A	437,588
	Morgan Stanley, FRN (g),		
1,000	4.753%, 1/18/11	A2/A	851,890
2,000	4.953%, 10/18/16	A2/A	1,378,510
	SLM Corp. (g),		
1,000	3.765%, 10/25/11, FRN	Baa2/BBB-	766,877
1,000	8.45%, 6/15/18	Baa2/BBB-	791,797
750	Tenneco Automotive, Inc., 8.625%, 11/15/14 (g)	B3/B	288,750
1,000	Wachovia Bank, 3.573%, 11/3/14, FRN (g)	Aa3/A+	790,238
1,000	Wachovia Corp., 4.883%, 10/15/11, FRN (g)	A1/A+	896,297
			23,200,439
Industrial 5.2%			
1,000	Archer-Daniels-Midland Co., 6.45%, 1/15/38 (g)	A2/A	1,016,496
500	Bon-Ton Stores, Inc., 10.25%, 3/15/14	Caa1/CCC	62,500
500	CCO Holdings LLC, 8.75%, 11/15/13	Caa1/CCC	317,500
250	Dynegy Holdings, Inc., 7.125%, 5/15/18 (g)	B2/B	153,750
1,250	HCA, Inc., 6.75%, 7/15/13 (g)	Caa1/B-	793,750
950	RH Donnelley Corp., 8.875%, 1/15/16	Caa1/B-	147,250
500	SemGroup L.P., 8.75%, 11/15/15 (a)(c)(d)	NR/NR	20,000
951	United Air Lines, Inc., 6.636%, 1/2/24	Ba1/BBB-	563,145
800	Verso Paper Holdings LLC and Verso Paper, Inc., 9.125%, 8/1/14	B2/B+	320,000
			3,394,391
Utilities 1.9%			
1,000	NGPL Pipe Co. LLC, 7.768%, 12/15/37 (a)(c)(g)	Baa3/BBB-	816.6