

PCM FUND, INC.  
Form N-CSR  
March 03, 2011  
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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**  
(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

Date of fiscal year end: December 31, 2010

Date of reporting period: December 31, 2010

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

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.

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ITEM 1. REPORT TO SHAREHOLDERS

# Annual Report

December 31, 2010

PCM Fund, Inc.

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Hans W. Kertess

*Chairman*

Brian S. Shlissel

*President & CEO*

Dear Stockholder:

The U.S. economy expanded throughout 2010, as the recession of 2007-09 receded further into the rear view mirror. As the year progressed, this expansion gathered steam, with gross domestic product ( GDP ) growing at an annualized rate of 1.7% during the second quarter of 2010, 2.6% in the third quarter and 3.2% during the fourth quarter. The improving economy was also reflected in the solid performance stock market, equities ended the year perched at levels not seen since 2008. Bond prices experienced gains early in the year, but as the economy strengthened, some of those gains were given back as interest rates rose.

**Twelve Months in Review**

For the twelve-month fiscal period ended December 31, 2010, PCM Fund returned 45.93% on net asset value ( NAV ) and 54.01% on market price. The U.S. Treasury market, as measured by the Barclays Capital U.S. Treasury Index, gained 9.38% and the Barclays Capital Mortgage Index, a broad measure of mortgage bond performance, returned 5.50%. The Barclays Capital U.S. Aggregate Index, a broad measure of government and corporate bond performance, returned 6.54%, and the Barclays Capital U.S. Credit Index, a measure of corporate bond performance, returned 6.59% for the year ended December 31, 2010.

With one notable exception housing the U.S. economic recovery was fairly broad-based. Consumer confidence and with it retail sales perked up. The manufacturing sector approximately 9% of the U.S. economy expanded in December for the 17th consecutive month, according to a key gauge.

As the economy advanced, many investors responded by shifting out of the U.S. Treasury market a perceived safe haven during difficult times and into riskier asset classes such as stocks and corporate bonds.

However, progress was not linear. During the Spring of 2010, signs emerged that the U.S. economy which registered its slowest growth between April and June was slowing down. In Europe, a sovereign debt crisis affected several

countries, casting a shadow across the continent. Moreover, key emerging markets such as China and Brazil, showed signs of cooling off. Some investors reversed course, moving back into the Treasury market. Stocks fell accordingly.

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The mid-year perception that the U.S. economy was cooling caused another reversal. The Federal Reserve (the Fed ) announced it would purchase as

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much as \$900 billion in Treasury bonds through June 2011. The goal of this so-called quantitative easing was to stimulate the economy by lowering lower interest rates.

Previously, the Fed had begun withdrawing similar stimulus measures that had been put in place during the recession. The Fed also raised the discount-rate - the interest rate it charges banks for direct loans to 0.75% from 0.50%. The move was seen as a signal for banks to borrow money not from the government, but from a healthier private sector. The Fed continued to maintain its closely-

watched Federal Funds Rate the interest rate banks charge to lend federal funds to other banks, usually on an overnight basis in the 0.0% to 0.25% range.

## **The Road Ahead**

When we last reported to you six months ago, there were concerns that the U.S. economy could slip back into recession, or even deflation. Those concerns have largely evaporated. Although housing remains

troubled and unemployment is stubbornly high, our expectation is that economic growth will continue and may, in fact, shift into a relatively higher gear. At some point, unemployment is likely to decline, and with the American consumer representing approximately two-thirds of the economy, this should boost the recovery still further.

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.

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, 2010 (unaudited)

For the fiscal year ended December 31, 2010, PCM returned 45.93% on net asset value and 54.01% on market price prior to the deduction of fees, outperforming the unmanaged Barclay's CMBS Investment Grade Index (the benchmark index), which returned 20.40% during the reporting period.

Overall bond markets turned in solid performance in 2010, though gains were moderated by a partial retracement during the fourth quarter. Sovereign and high-quality bonds in particular benefited from general risk aversion early in the year, as mounting concerns about the fiscal health of peripheral European economies as well as continued anemic employment and housing data in the U.S weighed on expectations. Concerns in the U.S. centered on the waning effects of policy stimulus as unemployment remained stubbornly high and consumer confidence weakened. The uncertain impact of new regulations for the health care and financial services industries added to the anxiety.

The creation of the Greek bailout package late in the second quarter served to reassure markets, as did the growing expectation for further quantitative easing by the Fed, leading to a sharp and sustained rally for risk assets from July 2010 through the end of October 2010. In November, the Federal Reserve (the Fed) announced its widely anticipated second round of quantitative easing (QE2), which included a commitment to purchase a total of as much as \$850 to \$900 billion of longer-maturity Treasuries through June 2011. Gains in manufacturing, retail sales and consumer confidence, as well as surging equity markets and a rise in inflation expectations indicated that the Fed's efforts were having an impact. While QE2 raised concern about long term inflation risk, actual levels of inflation excluding volatile food and fuel costs remained below the Fed's targeted range during the quarter. Treasury yields rose in the final months of the year as investors turned to riskier assets in pursuit of higher returns, though yields ended the year broadly lower at all segments of the curve.

#### **Risk exposures drive absolute gains**

The outperformance of riskier segments of the bond market for the calendar year supported the Fund's absolute returns. The Fund's exposure to commercial mortgage-backed securities (CMBS), one of the best performing asset classes during the reporting period, enhanced performance as investor demand for higher yielding assets and positive supply technicals benefitted the sector. That said, not all CMBS exposure was beneficial. A large allocation to super-senior CMBS detracted from Fund performance as the rally in risk assets was more beneficial to bonds from the lower (less senior) portion of the CMBS capital structure.

Exposure to financials also detracted from performance, as the sector underperformed the Barclays CMBS Index, largely a result of increased regulatory pressures. Although the non-Agency Mortgage - Backed Securities (MBS) sector benefitted from lack of new issue supply and investor demand for higher yielding assets, senior non-Agency MBS positions detracted from performance as the sector was unable to keep pace with the rally in BBB CMBS.



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

December 31, 2010 (unaudited)

Total Return <sup>(1)</sup> :	Market Price	NAV
1 Year	54.01%	45.93%
5 Year	6.71%	8.83%
10 Year	9.10%	8.66%
Commencement of Operations (9/2/93) to 12/31/10	8.23%	8.37%

Market Price/NAV Performance:

Commencement of Operations (9/2/93) to 12/31/10

Market Price/NAV:

Market Price	\$10.80
NAV	\$9.88
Premium to NAV	9.31%
Market Price Yield <sup>(2)</sup>	8.89%

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 net asset value ( 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 less total liabilities divided by the number of 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 stockholders by the market price per share at December 31, 2010.



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

December 31, 2010

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>MORTGAGE-BACKED SECURITIES 125.7%</b>			
\$575	Adjustable Rate Mortgage Trust, 3.047%, 1/25/36, CMO, VRN	Caa3/CCC	\$393,611
	Banc of America Alternative Loan Trust, CMO,		
804	5.761%, 4/25/37, VRN	Ca/NR	585,951
387	6.25%, 1/25/37	C/NR	109,098
	Banc of America Commercial Mortgage, Inc., CMO (h),		
2,000	5.414%, 9/10/47	Aaa/AAA	2,096,128
2,500	7.224%, 4/15/36, VRN	A1/NR	2,507,963
150	7.812%, 11/15/31, VRN	Aaa/AAA	150,125
	Banc of America Funding Corp., CMO,		
1,170	2.997%, 12/20/34, VRN	NR/A-	798,907
435	5.701%, 3/20/36, FRN	Caa1/BB	364,241
1,138	7.00%, 10/25/37	NR/CCC	868,894
1,500	Banc of America Large Loan, Inc., 0.730%, 3/15/22, CMO, FRN (a)(c)	NR/BBB-	1,335,461
696	Banc of America Mortgage Securities, Inc., 5.023%, 6/25/35, CMO, FRN	B3/NR	626,914
1,000	BCRR Trust, 5.858%, 7/17/40, CMO, VRN (a)(c)	Aa2/NR	943,921
	Bear Stearns Adjustable Rate Mortgage Trust, CMO, FRN,		
2,000	2.871%, 10/25/35	NR/BB	1,686,527
467	4.752%, 5/25/34 (h)	A2/A+	456,872
	Bear Stearns Alt-A Trust, CMO,		
393	3.498%, 9/25/34, VRN	A2/AAA	322,643
702	4.967%, 5/25/36, VRN	Ca/CC	436,992
1,895	5.170%, 8/25/36, VRN	Caa3/D	1,044,796
322	5.325%, 7/25/35, FRN	Caa3/CCC	224,914
827	6.046%, 8/25/36, VRN	Caa3/CCC	546,982
280	Bear Stearns Asset Backed Securities Trust, 5.50%, 12/25/35, CMO	Caa2/D	241,377
	Bear Stearns Commercial Mortgage Securities, CMO,		
200	0.480%, 3/15/19, FRN (a)(c)	A2/BB+	189,044
1,300	5.625%, 3/13/40, VRN (a)(c)	NR/BBB+	1,102,654
3,000	5.694%, 6/11/50, VRN (h)	NR/A+	3,185,130
2,000	5.717%, 6/11/40, VRN (h)	Aaa/NR	2,137,111
1,000	5.811%, 5/11/39, VRN (a)(c)	NR/BBB+	894,701
1,103	6.50%, 2/15/32	NR/D	16,465
1,630	CBA Commercial Small Balance Commercial Mortgage, 5.54%, 1/25/39, CMO (a)(c)	C/BB-	818,895
800	Chase Mortgage Finance Corp., 6.00%, 3/25/37, CMO	Caa3/CCC	705,027
2,500	Citigroup Commercial Mortgage Trust, 5.698%, 12/10/49, CMO, VRN (h)	Aaa/AA	2,676,364
	Citigroup Mortgage Loan Trust, Inc., CMO, VRN,		
702	2.986%, 8/25/35	Caa2/NR	520,769
843	5.178%, 9/25/35	NR/CCC	752,167
871	5.536%, 11/25/36	NR/CCC	662,970
4,012	Citigroup/Deutsche Bank Commercial Mortgage Trust,		
	5.322%, 12/11/49, CMO (h)	Aaa/A-	4,164,779
276	Citimortgage Alternative Loan Trust, 5.50%, 4/25/22, CMO	B3/NR	247,473
3,000	Commercial Capital Access One, Inc., 7.883%, 11/15/28, CMO, VRN (a)(c)	NR/NR	1,144,892

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

December 31, 2010 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Commercial Mortgage Pass Through Certificates, CMO (a)(c),		
\$1,500	6.586%, 7/16/34 (h)	Aaa/AAA	\$1,528,660
1,500	6.811%, 7/16/34, VRN	Aa2/A+	1,498,525
	Countrywide Alternative Loan Trust, CMO,		
1,878	0.441%, 6/25/47, FRN	Caa3/CCC	1,147,367
558	0.541%, 2/25/37, FRN	Caa3/CCC	330,430
430	0.551%, 2/25/36, FRN	C/CC	129,847
370	6.00%, 11/25/35	Caa3/CCC	308,565
1,277	Countrywide Home Loan Mortgage Pass Through Trust, 6.00%, 5/25/37, CMO	Caa2/NR	969,966
	Credit Suisse First Boston Mortgage Securities Corp., CMO,		
22,169	1.402%, 12/15/35, IO, VRN (a)(c)(h)	NR/AAA	441,965
3,000	6.574%, 12/15/35 (h)	Aaa/AAA	3,119,535
153	7.00%, 2/25/33	Aaa/AAA	161,039
2,000	7.46%, 1/17/35, VRN	NR/NR	2,219,161
	Credit Suisse Mortgage Capital Certificates, CMO,		
5,000	5.467%, 9/15/39 (h)	Aaa/AAA	5,251,260
444	5.896%, 4/25/36	Caa3/CCC	315,080
357	6.50%, 5/25/36	Ca/D	233,022
1,925	CW Capital Cobalt Ltd., 5.223%, 8/15/48, CMO (h)	NR/AA-	2,006,537
3,442	FFCA Secured Lending Corp., 1.120%, 9/18/27, CMO, IO, VRN (a)(c)	Aaa/NR	65,074
371	First Horizon Alternative Mortgage Securities, 2.376%, 8/25/35, CMO, FRN	C/CCC	93,114
347	First Horizon Asset Securities, Inc., 2.875%, 4/25/35, CMO, FRN	Baa2/AAA	336,708
2,000	First Union-Lehman Brothers-Bank of America, 6.778%, 11/18/35, CMO (h)	Aaa/AAA	2,088,534
15,929	FREMF Mortgage Trust, 0.10%, 5/25/20, CMO, IO, VRN (b)(e)	NR/NR	95,249
	GMAC Commercial Mortgage Securities, Inc., CMO (a)(c),		
2,000	6.50%, 5/15/35 (h)	NR/B	2,082,822
1,500	6.975%, 5/15/30, VRN	NR/NR	1,189,348
1,500	8.192%, 9/15/35, VRN	NR/NR	1,493,289
	Greenwich Capital Commercial Funding Corp., CMO,		
1,500	5.419%, 1/5/36, VRN (a)(c)	A2/A+	1,516,318
2,000	5.444%, 3/10/39 (h)	Aaa/A	2,110,148
	GS Mortgage Securities Corp. II, CMO,		
18,405	1.587%, 8/10/43, IO, VRN (a)(c)	Aaa/NR	1,658,170