

PCM FUND, INC.  
Form N-CSRS  
August 27, 2013  
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)

1633 Broadway, New York, New York 10019

(Address of principal executive offices) (Zip code)

Edgar Filing: PCM FUND, INC. - Form N-CSRS

**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, 2013**

**Date of reporting period: June 30, 2013**

**Table of Contents**

ITEM 1. REPORT TO SHAREHOLDERS

PCM Fund, Inc.

PIMCO Dynamic Credit Income Fund

**Semiannual Report**

**June 30, 2013**

**Table of Contents**

Contents

2-3	<u>Letter to Stockholders/Shareholders</u>
4-5	<u>Fund Insights</u>
6-7	<u>Performance and Statistics</u>
8-39	<u>Schedules of Investments</u>
40	<u>Statements of Assets and Liabilities</u>
41	<u>Statements of Operations</u>
42-43	<u>Statements of Changes in Net Assets</u>
44	<u>Statements of Cash Flows</u>
45-61	<u>Notes to Financial Statements</u>
62-63	<u>Financial Highlights</u>
64	<u>Annual Stockholder Meeting Results/Proxy Voting Policies &amp; Procedures/Loan Investments and Origination</u>
65-71	<u>Matters Relating to the Directors /Trustees Consideration of the Investment Management &amp; Portfolio Management Agreements</u>

**Table of Contents**

Letter from the Chairman and President & CEO

Hans W. Kertess

*Chairman of the Board*

Brian S. Shlissel

*President & Chief Executive Officer*

Dear Stockholders/Shareholders:

The US economy continued to expand throughout the fiscal six-month reporting period ended June 30, 2013. In contrast, growth in many other developed countries moderated and in certain situations fell into recession. Overall, the Federal Reserve's (the Fed) monetary policy supported the US stock market while the US fixed income market was adversely impacted by rising interest rates.

For the reporting period ended June 30, 2013:

n PCM Fund, Inc. returned 3.74% on net asset value ( NAV ) and 1.57% on market price.

n PIMCO Dynamic Credit Income Fund returned 1.06% on NAV and -6.52% on market price since its inception on January 31, 2013.

For the six-month reporting period ended June 30, 2013, the US Treasury market, as measured by the Barclays US Treasury Index, returned 0.06% and the Barclays Fixed Rate MBS Index, which measures the performance of investment grade fixed-rate mortgage backed securities, declined 2.04% during the period. The Barclays US Aggregate Index, a broad measure of government and corporate bond performance, fell 2.44% and the Barclays US Credit Index, a measure of corporate bond performance, declined 3.62%.

The US economy continued to grow during the fiscal six-month reporting period however, the pace of expansion was far from robust. 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, grew at an annual pace of 0.4% during the fourth quarter of 2012. GDP growth rose to 1.8% during the first quarter of 2013, partially due to stronger consumer spending.

While US economic data was mixed, there were continuing signs of the long-awaited recovery in the housing market. In addition unemployment remains elevated although the unemployment rate declined from 7.8% in December 2012

to 7.6% in June 2013 as the pace of new job growth trended higher. Elsewhere, despite concerns of higher tax rates, the fiscal cliff and sequestration, consumer spending held up relatively well during the reporting period.

The Fed and other developed country central banks, including the European Central Bank and The Bank of Japan, maintained their accommodative monetary policies during the reporting period. However, following its meeting on June 19, 2013, Fed Chairman Bernanke said the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year; and if the subsequent data remain broadly aligned with our current expectations for the economy, we would continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear. These comments triggered a sharp rise in Treasury yields and falling bond prices. The benchmark 10-year Treasury bond began the fiscal period yielding 1.78% and ended the six-month period at 2.52%.

2 June 30, 2013 | Semiannual Report

**Table of Contents**

**Outlook**

As the second half of the year unfolds, the mood appears similar to late December 2012. Market volatility has increased, not due to economic concerns, but rather uncertainties surrounding the Fed tapering its asset purchases. In fact, most economic measures have demonstrated improvement. The housing market has rebounded sharply in recent months, the labor market has picked up and consumer confidence has been on the upswing. At the same time, inflation remains tame.

Receive this report electronically and eliminate paper mailings.

To enroll, visit;

[us.allianzgi.com/edelivery](http://us.allianzgi.com/edelivery).

Still, there are two major headwinds: fear over the Fed winding down quantitative easing sooner than expected and concerns about China's economic slowdown and overall emerging market weakness. We expect the Fed's stance to remain accommodative, even if it starts to taper its purchase program toward the end of the year. Fed tapering is likely to create higher volatility, but we believe that the Fed will only raise interest rates if it is confident the economic recovery is on solid footing. As for China, its cyclical data is showing signs of weakness, but it is our view that it is not weak enough to dramatically curtail growth.

For specific information on the Funds and their 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 Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources are available on our website, [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds).

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

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess  
*Chairman of the Board*

Brian S. Shlissel  
*President & Chief Executive Officer*





---

**Table of Contents**

**Fund Insights**

PCM Fund, Inc.

PIMCO Dynamic Credit Income Fund

PCM Fund, Inc.

For the six-month reporting period ended June 30, 2013, PCM Fund, Inc. (the Fund ) returned 3.74% on net asset value ( NAV ) and 1.57% on market price, outperforming the unmanaged Barclays CMBS Investment Grade Index (the benchmark index ), which returned -1.31% during the reporting period.

The US fixed income market experienced periods of volatility during the reporting period, all told, weak results were generated. Market volatility was triggered by a number of factors, including uncertainties regarding the sequestration, the ongoing European sovereign debt crisis and geopolitical issues. While the Federal Reserve (the Fed ) maintained its highly accommodative monetary policy, in June, the Fed indicated that it may begin to taper its asset purchase program sooner than previously anticipated. Against this backdrop, both short- and long-term Treasury yields moved sharply higher and the yield curve steepened.

Most spread sectors (non-US Treasuries) posted negative returns and generally performed in line with equal-duration Treasuries during the six months ended June 30, 2013. One notable exception was high yield corporate bonds, as the Barclays High Yield Index gained 1.42% during the reporting period. In contrast, the overall US fixed income market (as measured by the Barclays US Aggregate Index) declined 2.44%, and the commercial mortgage-backed

securities ( CMBS ) market, as measured by the benchmark index, fell 1.31%. For much of the reporting period, the CMBS market benefited from the strengthening economic environment and gradually improving fundamentals. However, the fixed income market's sell-off in June 2013 also negatively impacted CMBS, which more than offset the gains achieved from the proceeding five months. Within the CMBS market, lower rated securities outperformed higher rated investments, as fixed-rate BBB CMBS returned 0.55%, compared to -1.71% for fixed-rate AAA CMBS.

Spread sector exposures generally produced positive results

The Fund's exposure to the Banking sector contributed to performance during the reporting period. This sector generated solid results due to improving fundamentals and the ongoing economic recovery. The Fund's performance was further enhanced by an allocation to non-agency mortgage-backed securities. The sector benefited from overall solid demand from investors looking to generate incremental yield in the low interest rate environment. Supporting non-agency mortgage-backed securities were continued signs of a rebound in the housing market.

Detracting from performance was the Fund's allocation to super-senior CMBS as CMBS positioned high in the capital structure underperformed the lower rated (less senior) portion of the CMBS capital structure.

1. The Barclays CMBS Investment Grade 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.

**4** June 30, 2013 | Semiannual Report

**Table of Contents**

**Fund Insights** (continued)

**PIMCO Dynamic Credit Income Fund**

For the period from its inception on January 31, 2013 through June 30, 2013 (the reporting period), PIMCO Dynamic Credit Income Fund (the Fund) returned 1.06% on net asset value (NAV) and -6.52% on market price. In comparison, the 80% Barclays Investment Grade Index/20% BofA High Yield Index (the benchmark index) returned -2.26%, the Barclays Global Credit Index, the BofA Merrill Lynch Global High Yield BB/B Constrained Index and the Credit Suisse Leveraged Loan Index returned -3.11%, -0.45% and 1.67%, respectively, during the same period.

The US fixed income market experienced periods of volatility during the reporting period. Market volatility was triggered by a number of factors, including moderating global growth, uncertainties regarding sequestration and the ongoing European sovereign debt crisis. A sharp rise in Treasury yields and falling bond prices were triggered by uncertainties surrounding the Fed tapering its asset purchases.

**Sector and duration positioning drive results**

An allocation to non-agency mortgage-backed securities contributed to results, as this sector outperformed the broader credit market due to generally positive supply/demand technicals. An emphasis on banking issues enhanced performance, as these bonds outperformed the broad credit market during the reporting period.

Extending the Fund's duration in the second quarter detracted from performance, as rates rose sharply on the Fed's taper talk. The Fund's overweighting compared to the broad market to high yield corporate bonds was detrimental for performance, as their spreads widened during the reporting period. However, this was somewhat offset by the positive impact of the Fund's exposure to higher coupon high yield corporate bonds. Elsewhere, the Fund's tactical exposure to emerging market debt was not rewarded, as this asset class underperformed the broad credit market during the period.

**Table of Contents****Performance and Statistics**

PCM Fund, Inc.

June 30, 2013 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	1.57%	3.74%
1 Year	15.95%	21.52%
5 Year	16.90%	16.90%
10 Year	8.75%	10.21%
Commencement of Operations (9/2/93) to 6/30/13	8.92%	9.39%

**Market Price/NAV Performance:**

Commencement of Operations (9/2/93) to 6/30/13

**Market Price/NAV:**

Market Price	\$11.73
NAV	\$11.30
Premium to NAV	3.81%
Market Price Yield <sup>(2)</sup>	8.18%
Leverage Ratio <sup>(3)</sup>	37.57%

**Moody's Rating**

(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 dividends and 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. Total return for a period of less than one year is not annualized.

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 traded 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 dividend per share (comprised of net investment income) by the market price per share at June 30, 2013.

(3) Represents Reverse Repurchase Agreements ( Leverage ) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

**Table of Contents****Performance and Statistics**

PIMCO Dynamic Credit Income Fund

June 30, 2013 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Commencement of Operations (1/31/13) to 6/30/13	6.52%	1.06%

**Market Price/NAV Performance:**

Commencement of Operations (1/31/13) to 6/30/13

**Market Price/NAV:**

Market Price	\$22.91
NAV	\$23.50
Discount to NAV	(2.51)%
Market Price Yield <sup>(2)</sup>	8.18%
Leverage Ratio <sup>(3)</sup>	14.23%

**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 dividends and 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 shares. Total return for a period of less than one year is not annualized.

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 shares, 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 traded 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 dividend per share (comprised of net investment income and short-term capital gains, if any) by the market price per share at June 30, 2013.

(3) Represents Reverse Repurchase Agreements ( Leverage ) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage), minus liabilities (other than liabilities representing Leverage).

**Table of Contents****Schedule of Investments**

PCM Fund, Inc.

June 30, 2013 (unaudited)

Principal

Amount

(000s)		Value
<b>Mortgage-Backed Securities 112.1%</b>		
\$ 456	Adjustable Rate Mortgage Trust, 2.888%, 1/25/36 CMO (i)	\$ 361,637
659	Banc of America Alternative Loan Trust, 6.47%, 4/25/37 CMO (i)	507,391
	Banc of America Funding Corp., CMO,	
848	2.985%, 12/20/34 (i)	708,763
316	5.562%, 3/20/36 (i)	295,486
1,065	7.00%, 10/25/37	651,797
	Banc of America Merrill Lynch Commercial Mortgage, Inc., 5.414%, 9/10/47	
2,000	CMO (g)	2,208,132
	Banc of America Mortgage Trust, CMO (i),	
728	2.75%, 6/20/31	742,466
448	2.811%, 6/25/35	422,315
704	3.101%, 11/25/34	693,034
	BCAP LLC Trust, CMO (a)(c)(i),	
87	0.393%, 7/26/36	36,707
150	5.006%, 3/26/36	143,517
1,000	BCRR Trust, 5.858%, 7/17/40 CMO (a)(c)(g)(i)	1,105,087
	Bear Stearns Adjustable Rate Mortgage Trust, CMO (i),	
1,886	2.674%, 10/25/35	1,851,166
327	2.702%, 5/25/34	307,047
	Bear Stearns ALT-A Trust, CMO (i),	
75	2.552%, 5/25/36	39,876
1,537	2.594%, 8/25/36	1,053,187
534	2.727%, 5/25/36	350,111
94	2.888%, 1/25/47	62,555
1,202	2.911%, 11/25/36	793,374
314	3.395%, 9/25/34	304,537
569	3.645%, 8/25/36	387,100
275	4.447%, 7/25/35	212,823
160	Bear Stearns Asset-Backed Securities Trust, 5.50%, 12/25/35 CMO	149,347
	Bear Stearns Commercial Mortgage Securities Trust, CMO,	
1,300	5.623%, 3/13/40 (a)(c)(i)	1,301,890
3,000	5.694%, 6/11/50 (g)(i)	3,411,084
2,000	5.905%, 6/11/40 (g)(i)	2,269,805
1,000	6.06%, 5/11/39 (a)(c)(i)	1,013,478



Edgar Filing: PCM FUND, INC. - Form N-CSRS

2	6.50%, 2/15/32 (b)	908
	CBA Commercial Small Balance Commercial Mortgage, 5.54%, 1/25/39 CMO (a)(b)(c)(h) (acquisition cost-\$707,844; purchased 11/18/09)	772,407
1,256		
594	Chase Mortgage Finance Trust, 6.00%, 3/25/37 CMO	518,341
	Citigroup Commercial Mortgage Trust, CMO (i),	
87,285	0.652%, 5/15/43 IO (a)(c)	674,978
2,500	5.885%, 12/10/49 (g)	2,844,096
	Citigroup Mortgage Loan Trust, Inc., CMO (i),	
399	2.846%, 8/25/35	343,344
530	2.908%, 9/25/35	455,010
508	4.656%, 11/25/36	409,036

8 June 30, 2013 | Semiannual Report

**Table of Contents****Schedule of Investments**

PCM Fund, Inc.

June 30, 2013 (unaudited) (continued)

Principal

Amount

(000s)		Value
\$ 4,012	Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 12/11/49 CMO (g)	\$ 4,432,993
121	CitiMortgage Alternative Loan Trust, 5.50%, 4/25/22 CMO	123,785
1,925	COBALT CMBS Commercial Mortgage Trust, 5.223%, 8/15/48 CMO (g)	2,092,327
	Commercial Mortgage Trust, CMO (a)(c),	
690	6.078%, 7/10/46 (i)	724,264
791	6.586%, 7/16/34	908,179
1,500	7.16%, 7/16/34 (i)	1,769,752
	Countrywide Alternative Loan Trust, CMO,	
1,479	0.373%, 6/25/47 (g)(i)	1,027,481
2,951	0.402%, 7/20/46 (i)	1,656,954
467	0.473%, 2/25/37 (i)	322,667
1,688	0.483%, 2/25/36 (i)	1,020,148
3,786	1.173%, 12/25/35 (g)(i)	2,706,079
295	6.00%, 11/25/35	208,929
1,190	6.00%, 5/25/37	923,695
	Countrywide Home Loan Mortgage Pass-Through Trust, CMO,	
358	0.513%, 3/25/35 (i)	254,639
290	2.763%, 9/20/36 (i)	190,780
34	2.783%, 2/20/36 (i)	29,581
1,158	3.08%, 9/25/47 (i)	937,959
817	6.00%, 5/25/37	707,307
	Credit Suisse First Boston Mortgage Securities Corp., CMO,	
2,588	1.043%, 12/15/35 IO (a)(c)(i)	6,921
127	7.00%, 2/25/33	137,328
625	7.46%, 1/17/35 (i)	626,911
	Credit Suisse Mortgage Capital Certificates, CMO,	
4,806	5.467%, 9/15/39 (g)	5,310,463
1,000	5.467%, 9/18/39 (a)(c)(i)	1,089,654
	Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust, CMO,	
389	5.896%, 4/25/36	363,460
306	6.50%, 5/25/36	214,187
	FFCA Secured Lending Corp.,	
	1.073%, 9/18/27 CMO, IO (a)(b)(c)(h)(i)	
2,715	(acquisition cost-\$624,854; purchased 11/17/00)	62,678

Edgar Filing: PCM FUND, INC. - Form N-CSRS

294	First Horizon Alternative Mortgage Securities Trust, 2.297%, 8/25/35 CMO (i)	60,890
241	First Horizon Mortgage Pass-Through Trust, 2.657%, 4/25/35 CMO (i)	240,375
15,462	FREMF Mortgage Trust, 0.10%, 5/25/20 CMO, IO (e)(i)	74,011
695	GMAC Commercial Mortgage Securities, Inc., CMO (a)(c)(i), 5.539%, 4/10/40	697,386
1,500		