

PCM FUND, INC.  
Form N-CSRS  
August 28, 2014

**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)

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**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, 2014**

**Date of reporting period: June 30, 2014**

ITEM 1. REPORT TO SHAREHOLDERS

PCM Fund, Inc.

PIMCO Dynamic Credit Income Fund

**Semi-Annual Report**

**June 30, 2014**

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\* Consolidated for PIMCO Dynamic Credit Income Fund only

Letter from the Chairman of the Board & President

Hans W. Kertess

*Chairman of the Board*

Julian Sluyters

*President & Chief Executive Officer*

Dear Stockholders/Shareholders:

After three years of generally moderate growth, the US economy contracted during the first quarter of 2014. Despite this, US equities rallied sharply. The US bond market also posted a positive return during the reporting period.

For the six month reporting period ended June 30, 2014:

n PCM Fund, Inc. returned 5.58% on net asset value ( NAV ) and 9.61% on market price.

n PIMCO Dynamic Credit Income Fund returned 8.39% on NAV and 10.32% on market price.

After several years of positive growth, severe winter weather in parts of the US constrained the US economy in early 2014. Looking back, gross domestic product ( GDP ), the value of goods and services produced in the country, the broadest measure of US economic activity and the principal indicator of economic performance, expanded at a revised 3.5% annual pace during the fourth quarter of 2013. GDP contracted at an annual pace of 2.1% during the first quarter of 2014. However, this appeared to be a temporary setback, as the US Commerce Department's initial estimate showed that GDP expanded at a 4.0 % annual pace during the second quarter of 2014.

The Federal Reserve (the Fed ) maintained an accommodative monetary

stance during the reporting period. Announcements and actions related to the reduction of the Fed's monthly asset purchase program contributed to bond-yield volatility over the January to June period. The markets have also been scrutinizing Fed statements related to when interest rates would begin to rise. In June, the Fed repeated that it would not raise rates in the near future, saying that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.



## Outlook

We remain optimistic on the US economic recovery, as the first-quarter GDP decline was followed by a meaningful bounce during the second quarter.

Federal Reserve officials have tied the outlook for monetary policy to incoming economic data. Based on our forecasts for growth we believe that Fed asset purchases could end in the fourth quarter of 2014, with lift-off in the fed funds rate possible in mid-2015.

Receive this report electronically and eliminate paper mailings.

To enroll, visit:

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

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*

Julian Sluyters  
*President & Chief Executive Officer*

## Fund Insights

PCM Fund, Inc.

PIMCO Dynamic Credit Income Fund

June 30, 2014 (unaudited)

### PCM Fund, Inc.

For the six-month reporting period ended June 30, 2014, PCM Fund, Inc. (the Fund ) returned 5.58% on NAV and 9.61% on market price, outperforming the unmanaged Barclays CMBS Investment Grade Index<sup>1</sup> (the benchmark index ), which returned 2.62% during the reporting period.

The US fixed income market experienced periods of volatility during the six-month reporting period ended June 30, 2014. This was triggered by a number of factors, including mixed economic data, Fed asset purchase tapering and numerous geopolitical issues. All told, short-term Treasury yields rose during the reporting period, whereas longer-term Treasury yields declined. Longer-term Treasury yields fell from their peak in late 2013, as investor risk aversion increased due to concerns about moderating global growth and uncertainties overseas. The benchmark 10-year Treasury bond began the fiscal period yielding 3.04% and ended the period at 2.53%.

The spread sectors (non-US Treasuries) posted positive returns and generally outperformed equal-duration Treasuries over the six months ended June 30, 2014. In particular, high yield corporate bonds performed well, as the Barclays Global High Yield Index gained 6.06% during the reporting period. In contrast, the overall US fixed income market (as measured by the Barclays US Aggregate Index) rose 3.93%, whereas the commercial mortgage-backed securities ( CMBS ) market, as measured by the

benchmark index, returned 2.62%. The CMBS market benefited from strong investor demand, a strengthening economic environment and improving commercial real estate valuations. Within the CMBS market, lower rated securities outperformed higher rated investments, as fixed-rate BBB CMBS generated strong results than fixed-rate AAA CMBS.

### Spread sectors drive results

The Fund s exposure to the Banking sector contributed to performance during the reporting period. It generated strong results given improving fundamentals, muted volatility and a continuation of the gradual economic recovery. Also contributing to the Fund s performance was an allocation to non-agency mortgage-backed securities. The sector benefited from generally robust demand from investors looking to generate incremental yield in the relatively low interest rate environment. A lack of new supply and overall improvement in housing prices also supported the sector.

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.

### PIMCO Dynamic Credit Income Fund

For the six months ended June 30, 2014, PIMCO Dynamic Credit Income Fund (the Fund ) returned 8.39% on NAV and 10.32% on market price. In comparison, the 80% Barclays Investment Grade Index/20% BofA High Yield



1. The Barclays CMBS Investment Grade Index is an index designed to mirror commercial mortgage-backed securities 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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Index (the benchmark index ) returned 5.67%, while the Barclays Global Credit Index, the BofA Merrill Lynch Global High Yield BB/B Constrained Index and the Credit Suisse Leveraged Loan Index returned 5.45%, 5.83% and 2.77%, respectively, during the same period.

The US fixed income market experienced periods of volatility during the six-month reporting period ended June 30, 2014. This was triggered by a number of factors, including mixed economic data, Fed asset purchase tapering and numerous geopolitical issues. All told, short-term Treasury yields rose during the reporting period, whereas longer-term Treasury yields declined. Longer-term Treasury yields fell from their peak in late 2013, as investor risk aversion increased due to concerns about moderating global growth and uncertainties overseas. The benchmark 10-year Treasury bond began the fiscal period yielding 3.04% and ended the period at 2.53%. The spread sectors (non-US Treasuries) posted positive returns and generally outperformed equal-duration Treasuries over the six months ended June 30, 2014.

### **Sector exposure positive for performance**

An allocation to non-agency mortgage-backed securities was a significant contributor to performance. The sector was supported by positive supply supply/demand technicals and improving housing prices. The Fund's security selection within financials benefited results, as those bonds outperformed the broader credit market during the reporting period. Also within the credit market, the Fund's overweightings to raw materials, media/cable and energy/pipelines were positive, as these sectors outperformed the broad credit market. A tactical exposure to emerging markets ( EM ) contributed to results, as EM bonds outperformed the overall credit market during the reporting period. The EM asset class was supported by declining yields and tightening spreads. Finally, a tactical exposure to the Australian dollar contributed to performance.

On the downside, an underweight to US duration, especially to the long end of the yield curve, was negative as US rates generally declined during the six month reporting period.

**Performance & Statistics**

PCM Fund, Inc.

June 30, 2014 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	9.61%	5.58%
1 Year	14.94%	10.41%
5 Year	27.83%	27.00%
10 Year	10.34%	10.80%
Commencement of Operations (9/2/93) to 6/30/14	9.21%	9.45%

**Market Price/NAV Performance:**

Commencement of Operations (9/2/93) to 6/30/14

**Market Price/NAV:**

Market Price	\$12.25
NAV	\$11.32
Premium to NAV	8.22%
Market Price Yield <sup>(2)</sup>	7.84%
Leverage Ratio <sup>(3)</sup>	31.82%

**Moody's Rating\***

(as a % of total investments)

**Performance & Statistics**

PIMCO Dynamic Credit Income Fund

June 30, 2014 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	10.32%	8.39%
1 Year	14.71%	17.00%
Commencement of Operations (1/31/13) to 6/30/14	5.08%	12.60%

**Market Price/NAV Performance:**

Commencement of Operations (1/31/13) to 6/30/14

**Market Price/NAV**

Market Price	\$23.82
NAV	\$25.09
Discount to NAV	-5.06%
Market Price Yield <sup>(2)</sup>	7.87%
Leverage Ratio <sup>(3)</sup>	43.23%

**Moody's Rating\***

(as a % of total investments)

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## Performance & Statistics

PCM Fund, Inc.

PIMCO Dynamic Credit Income Fund

June 30, 2014 (unaudited) (continued)

\* Bond ratings apply to the underlying holdings of the Funds and not the Funds themselves and are divided into categories ranging from highest to lowest credit quality, determined for purposes of this presentation by using ratings provided by Moody's Investors Service, Inc. (Moody's). The Funds use ratings provided by Moody's for this purpose, among other reasons, because of the access to background information and other materials provided by Moody's, as well as the Funds' consideration of industry practice. When a bond is not rated by Moody's, it is designated in the chart above as NR for not rated. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change periodically, even as frequently as daily. Ratings assigned by Moody's or another rating agency are not absolute standards of credit quality and do not evaluate market risk. Rating agencies may fail to make timely changes in credit ratings, and an issuer's current financial condition may be better or worse than a rating indicates. In formulating investment decisions for the Funds, Pacific Investment Management Company LLC, the sub-adviser to the Funds, develops its own analysis of the credit quality and risks associated with individual debt instruments, rather than relying exclusively on rating agencies or third-party research.

(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. 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 each Fund, market conditions, supply and demand for each Fund's shares, or changes in each Fund's dividends.

An investment in each 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 attributable to shareholders 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 common share at June 30, 2014.

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



**Schedule of Investments**

PCM Fund, Inc.

June 30, 2014 (unaudited)

Principal

Amount

(000s)		Value
<b>Mortgage-Backed Securities 95.7%</b>		
\$374	Adjustable Rate Mortgage Trust, 2.705%, 1/25/36, CMO, IO (k)	\$324,159
581	Banc of America Alternative Loan Trust, 6.362%, 4/25/37, CMO (k)	487,971
	Banc of America Funding Corp., CMO,	
753	2.70%, 12/20/34 (k)	633,744
260	5.624%, 3/20/36 (k)	241,540
966	7.00%, 10/25/37	586,521
	Banc of America Merrill Lynch Commercial Mortgage, Inc., 5.414%, 9/10/47, CMO	
2,000	(i)	2,155,010
	Banc of America Mortgage Trust, CMO (k),	
654	2.684%, 6/20/31	676,517
384	2.731%, 6/25/35	379,402
558	2.748%, 11/25/34	561,659
	BCAP LLC Trust, CMO (a)(d)(k),	
87	0.353%, 7/26/36	65,213
150	5.017%, 3/26/36	153,579
1,000	BCRR Trust, 5.858%, 7/17/40, CMO (a)(d)(i)(k)	1,105,407
	Bear Stearns Adjustable Rate Mortgage Trust, CMO (k),	
295	2.504%, 5/25/34	289,632
1,708	2.663%, 10/25/35	1,704,025
	Bear Stearns ALT-A Trust, CMO (k),	
67	2.454%, 5/25/36	41,579
1,317	2.576%, 8/25/36	1,089,177
1,195	2.648%, 11/25/36	846,324
498	2.699%, 8/25/36	380,122
86	2.723%, 1/25/47	62,197
484	2.832%, 5/25/36	345,717
257	3.599%, 9/25/34	258,678
232	4.478%, 7/25/35	179,755
120	Bear Stearns Asset-Backed Securities Trust, 5.50%, 12/25/35, CMO	102,061
	Bear Stearns Commercial Mortgage Securities Trust, CMO (k),	
3,000	5.694%, 6/11/50	3,341,682
2,000	5.898%, 6/11/40 (i)	2,230,893
1,000	6.619%, 5/11/39 (a)(d)	1,022,330
	CBA Commercial Small Balance Commercial Mortgage, 5.54%, 1/25/39, CMO	
994	(a)(d)	649,284
473	Chase Mortgage Finance Trust, 6.00%, 3/25/37, CMO	426,329

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	Citigroup Commercial Mortgage Trust, CMO (k),	
71,540	0.673%, 5/15/43, IO (a)(d)	182,785
2,500	5.898%, 12/10/49	2,764,971
	Citigroup Mortgage Loan Trust, Inc., CMO (k),	
289	2.536%, 8/25/35	270,691
431	2.642%, 9/25/35	379,826
390	2.643%, 11/25/36	318,982
4,012	Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 12/11/49, CMO (i)	4,368,719
93	CitiMortgage Alternative Loan Trust, 5.50%, 4/25/22, CMO	95,111
1,847	COBALT CMBS Commercial Mortgage Trust, 5.223%, 8/15/48, CMO	1,974,288
	Commercial Mortgage Trust, CMO (a)(d),	
690	6.079%, 7/10/46 (k)	764,171
726	6.586%, 7/16/34	803,728
1,500	7.16%, 7/16/34 (k)	1,689,199

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**Schedule of Investments**

PCM Fund, Inc.

June 30, 2014 (unaudited) (continued)

Principal

Amount

(000s)		Value
	<b>Countrywide Alternative Loan Trust, CMO,</b>	
\$1,365	0.332%, 6/25/47 (i)(k)	\$1,103,453
2,522	0.363%, 7/20/46 (k)	1,736,109
436	0.432%, 2/25/37 (k)	350,507
1,591	0.442%, 2/25/36 (k)	1,297,267
3,340	1.123%, 12/25/35 (i)(k)	2,643,000
262	6.00%, 11/25/35	141,889
1,021	6.00%, 5/25/37	860,575
	<b>Countrywide Home Loan Mortgage Pass-Through Trust, CMO,</b>	
351	0.472%, 3/25/35 (k)	271,785
29	2.417%, 2/20/36 (k)	26,783
252	2.514%, 9/20/36 (k)	187,762
1,017	2.666%, 9/25/47 (k)	914,837
672	6.00%, 5/25/37 (i)	586,230
	<b>Credit Suisse First Boston Mortgage Securities Corp., CMO,</b>	
440	0.692%, 12/15/35, IO (a)(d)(k)	3,567
117	7.00%, 2/25/33	123,721
	<b>Credit Suisse Mortgage Capital Certificates, CMO,</b>	
4,614	5.467%, 9/15/39 (i)	4,973,863
1,000	5.467%, 9/16/39 (a)(d)(k)	1,076,539
357	5.896%, 4/25/36	299,993
271	6.50%, 5/25/36	189,916
2,563	FFCA Secured Lending Corp., 1.013%, 9/18/27, CMO, IO (a)(b)(d)(j)(k) (acquisition cost-\$602,093; purchased 11/17/00)	87,458
238	First Horizon Alternative Mortgage Securities Trust, 2.25%, 8/25/35, CMO (k)	69,591
213	First Horizon Mortgage Pass-Through Trust, 2.575%, 4/25/35, CMO (k)	213,937
14,898	FREMF Mortgage Trust, 0.10%, 5/25/20, CMO, IO	64,656
	<b>GMAC Commercial Mortgage Securities, Inc., CMO (a)(d)(k),</b>	
1,500	6.948%, 5/15/30 (f)(g)	232,933
1,500	8.592%, 9/15/35	1,503,814
2,000	Greenwich Capital Commercial Funding Corp., 5.444%, 3/10/39, CMO (i)	2,184,220
	<b>GS Mortgage Securities Trust, CMO,</b>	
16,387	1.649%, 8/10/43, IO (a)(d)(k)	1,094,821
6,309	2.762%, 5/10/45, IO (k)	774,593
4,500	5.56%, 11/10/39 (i)	4,882,437