

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

PREFERRED INCOME STRATEGIES FUND INC

Form N-Q

March 31, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT  
INVESTMENT COMPANY

Investment Company Act file number 811-21286

Name of Fund: Preferred Income Strategies Fund, Inc.

Fund Address: P.O. Box 9011  
Princeton, NJ 08543-9011

Name and address of agent for service: Robert C. Doll, Jr., President, Preferred  
Income Strategies Fund, Inc., 800 Scudders Mill Road, Plainsboro, NJ  
08536. Mailing address: P.O. Box 9011, Princeton, NJ 08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 10/31/05

Date of reporting period: 11/01/04 - 1/31/05

Item 1 - Schedule of Investments

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of January 31, 2005

Preferred Securities

| Industry+                | Face<br>Amount | Capital Trusts  |
|--------------------------|----------------|---|
| Auto Components - 1.2%   | \$ 13,000,000  | Delphi Trust II, 6.197% due 11/15/2033 (b)                                    |
| Commercial Banks - 20.1% | 12,035,000     | ABN Amro North American Holding Preferred Capital Trust I, 6.523% (a) (b) (c) |
|                          | 11,000,000     | Abbey National Capital Trust I, 8.963% (b) (c)                                |
|                          | 2,000,000      | Bank One Capital III, 8.75% due 9/01/2030                                     |
|                          | 1,000,000      | Chase Capital I Series A, 7.67% due 12/01/2030                                |
|                          | 16,455,000     | Chase Capital II Series B, 3.243% due 2/01/2030                               |
|                          | 7,225,000      | Danske Bank A/S, 5.914% (a) (b) (c)   |
|                          | 34,000,000     | Dresdner Funding Trust I, 8.151% due 6/30/2030                                |
|                          | 1,600,000      | Firststar Capital Trust I Series B, 8.32% due 12/01/2030                      |
|                          | 2,000,000      | HSBC America Capital Trust I, 7.808% due 12/01/2030                           |
|                          | 15,835,000     | HSBC Capital Funding LP, 10.176% (a) (b) (c)                                  |
|                          | 12,275,000     | Hubco Capital Trust II Series B, 7.65% due 6/30/2030                          |
|                          | 998,000        | JPM Capital Trust I, 7.54% due 1/15/2027                                      |
|                          | 2,000,000      | Lloyds TSB Bank Plc, 6.90% (c)  |

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|            |   |
|------------|---|
| 8,500,000  | Mizuho JGB Investment LLC, 9.87% (a) (b) (c)  |
| 18,470,000 | Nationsbank Cap Trust III, 3.21% due 1/15/202 |
| 970,000    | RBS Capital Trust I, 4.709% (b) (c)           |
| 2,000,000  | Republic New York Corp., 7.53% due 12/04/202  |
| 5,000,000  | SB Treasury Co. LLC, 9.40% (a) (b) (c)        |
| 4,500,000  | St. George Funding Co. LLC, 8.485% (a) (c)    |
| 10,000,000 | Westpac Capital Trust III, 5.819% (a) (b) (c) |

|                                       |            |  |
|---------------------------------------|------------|--|
| Consumer Finance - 0.1%               | 1,000,000  | MBNA Capital A, 8.278% due 12/01/2026        |
| Diversified Financial Services - 5.1% | 15,000,000 | Agfirst Farm Credit Bank, 8.393% due 12/15/2 |
|                                       | 10,000,000 | CIT Capital Trust I, 7.70% due 2/15/2027     |
|                                       | 9,000,000  | Farm Credit Bank of Texas, 7.561% (b) (c)    |
|                                       | 10,000,000 | Sun Life Canada US Capital Trust, 8.526% (a) |

|                           |            |  |
|---------------------------|------------|--|
| Electric Utilities - 2.7% | 14,950,000 | HL&P Capital Trust II Series B, 8.257% due 2 |
|                           | 9,500,000  | SWEPCO Capital I, 5.25% due 10/01/2043 (b)   |

|                      |           |  |
|----------------------|-----------|--|
| Gas Utilities - 0.6% | 5,000,000 | AGL Capital Trust I Series B, 8.17% due 6/01 |
|----------------------|-----------|--|

|                   |            |   |
|-------------------|------------|---|
| Insurance - 18.0% | 24,175,000 | AON Corp., 8.205% due 1/01/2027           |
|                   | 22,100,000 | Ace Capital Trust II, 9.70% due 4/01/2030 |
|                   | 23,725,000 | Axa, 8.60% due 12/15/2030                 |

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of January 31, 2005 (continued)

Preferred Securities (continued)

| Industry+                                     | Face<br>Amount | Capital Trusts  |
|---|----------------|---|
| Insurance (concluded)                         | \$ 15,000,000  | Farmers Exchange Capital, 7.05% due 7/15/202                        |
|   | 10,000,000     | GE Global Insurance Holding Corp., 7.75% due                        |
|   | 1,000,000      | Genamerica Capital I, 8.525% due 6/30/2027 (                        |
|   | 6,066,000      | ING Capital Funding TR III, 8.439% (b) (c)                          |
|   | 1,000,000      | Markel Capital Trust I Series B, 8.71% due 1                        |
|   | 3,605,000      | Oil Casualty Insurance Ltd., 8% due 9/15/203                        |
|   | 7,000,000      | Oil Insurance Ltd., 5.15% due 8/15/2033 (a) (                       |
|   | 6,325,000      | Principal Life Insurance Company, 8% due 3/0<br>(Surplus Notes) (a) |
|   | 14,000,000     | QBE Insurance Group Ltd., 5.647% due 7/01/20                        |
|   | 6,225,000      | Transamerica Capital III, 7.625% due 11/15/2                        |
|   | 10,000,000     | Zurich Capital Trust I, 8.376% due 6/01/2037                        |
| Multi-Utilities & Unregulated<br>Power - 3.1% | 10,000,000     | Dominion Capital Trust I, 7.83% due 12/01/20                        |
|   | 15,000,000     | Dominion Resources Capital Trust III, 8.40%                         |

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|                  |           |  |
|------------------|-----------|--|
| Oil & Gas - 1.9% | 5,000,000 | KN Capital Trust I Series B, 8.56% due 4/15/2028 |
|                  | 1,750,000 | KN Capital Trust III, 7.63% due 4/15/2028        |
|                  | 9,850,000 | Phillips 66 Capital Trust II, 8% due 1/15/2028   |

|                                   |            |  |
|-----------------------------------|------------|--|
| Thrifts & Mortgage Finance - 3.6% |            | Astoria Capital Trust I:                           |
|                                   | 1,000,000  | 9.75% due 11/01/2029 (a)                           |
|                                   | 5,000,000  | Series B, 9.75% due 11/01/2029                     |
|                                   | 5,760,000  | Dime Capital Trust I Series A, 9.33% due 5/01/2029 |
|                                   | 12,765,000 | Greenpoint Capital Trust I, 9.10% due 6/01/2029    |
|                                   | 5,775,000  | Webster Capital Trust I, 9.36% due 1/29/2027       |

Total Investments in Capital Trusts  
(Cost - \$514,733,277) - 56.4%

Shares  
Held Preferred Stocks

|                        |         |                                 |
|------------------------|---------|---------------------------------|
| Capital Markets - 2.2% |         | Lehman Brothers Holdings, Inc.: |
|                        | 600,000 | 6.50%                           |
|                        | 100,000 | Series C, 5.94%                 |

|                         |         |  |
|-------------------------|---------|--|
| Commercial Banks - 7.3% | 150     | BBVA Privanza International Ltd., 7.764% (a)     |
|                         | 435,200 | Banco Santander Central Hispano SA, 6.41%        |
|                         | 800,000 | Royal Bank of Scotland Group Plc Series L, 5.94% |
|                         | 23,000  | SG Preferred Capital II, 6.302%                  |

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of January 31, 2005 (continued)

Preferred Securities (continued)

Industry+ Shares  
Held Preferred Stocks

|                                       |         |                 |
|---------------------------------------|---------|-----------------|
| Diversified Financial Services - 1.8% | 320,000 | Cobank ACB , 7% |
|---------------------------------------|---------|-----------------|

|                           |        |   |
|---------------------------|--------|---|
| Electric Utilities - 3.0% | 14,000 | Alabama Power Co., 5.83%                      |
|                           | 8,200  | Delmarva Power & Light, 4.56%                 |
|                           | 80,000 | Duquesne Light Co., 6.50%                     |
|                           | 80,000 | Interstate Power & Light Co. Series B, 8.375% |

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17,372 South Carolina Electric & Gas Series B, 4.60%  
 200,000 TXU Corp. Series B, 7.24% (b)

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 Gas Utilities - 1.8% 626,000 Southern Union Co., 7.55%  
 -----  
 Insurance - 5.3% 880,000 ACE Ltd. Series C, 7.80%  
 Zurich RegCaPS Funding Trust (a) (b):  
 17,340 6.01%  
 9,800 6.58%

-----  
 Thrifts & Mortgage Finance - 8.2% 1,210,000 Fannie Mae, 7% (b)  
 264,650 Fannie Mae Series L, 5.125%

-----  
 Wireless Telecommunication Services - 4.2% 30,423 Centaur Funding Corp., 9.08%

-----  
 Total Investments in Preferred Stocks  
 (Cost - \$306,497,559) - 33.8%

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 Real Estate Investment Trusts

Real Estate Investment Trusts

|         |  |
|---------|--|
|         | AMB Property Corp:                           |
| 117,800 | Series L, 6.50%                              |
| 124,000 | Series M, 6.75%                              |
| 251,400 | Alexandria Real Estate Equities, Inc. Series |
| 290,000 | BRE Properties Series C, 6.75%               |
| 400,000 | CBL & Associates Properties, Inc. Series C,  |
| 600,000 | CarrAmerica Realty Corp. Series E, 7.50%     |
| 2,000   | Centerpoint Properties Trust, 5.377% (b)     |
| 200,000 | Cousins Properties, Inc. Series A, 7.75%     |
|         | Developers Diversified Realty Corp.:         |
| 280,000 | 7.375%                                       |
| 780,000 | 8%   |
|         | Duke Realty Corp.:                           |
| 100,000 | Series J, 6.625%                             |
| 270,000 | Series K, 6.50%                              |
| 637,000 | Equity Residential Series N, 6.48%           |
| 2,390   | First Industrial Realty Trust, Inc., 6.236%  |

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of January 31, 2005 (continued)

Preferred Securities (concluded)

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 Industry+ Shares Held Real Estate Investment Trusts  
 -----

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|  |   |   |
|--|---|---|
| Real Estate Investment Trusts<br>(concluded) | 4,000<br>768,000<br>172,800<br>684,700<br>1,600,000<br><br>161,400<br>72,000<br>320,000<br><br>58,000<br>607,550<br>11,857<br>145,000<br>130,000<br>200,000 | Firststar Realty LLC, 8.875% (a)<br>Health Care Property Investors, Inc. Series<br>Health Care REIT, Inc. Series F, 7.625%<br>Kimco Realty Corp. Series F, 6.65%<br>New Plan Excel Realty Trust Series E, 7.625%<br>PS Business Parks, Inc.:<br>Series H, 6.45%<br>Series K, 7.95%<br>Public Storage, Inc. Series X, 6.45%<br>Regency Centers Corp.:<br>7.25%<br>7.45%<br>Sovereign Real Estate Investment Corp., 12%<br>Vornado Realty Trust Series E, 7%<br>Wachovia Corp. Series A, 7.25%<br>Weingarten Realty Investors Series D, 6.75% |
|  |   | Total Investments in Real Estate Investment<br>(Cost - \$250,778,725) - 26.6%   |

|                                       | Face<br>Amount  | Trust Preferred   |
|---------------------------------------|---|---|
| Aerospace & Defense - 2.9%            | \$ 27,450,000   | RC Trust I, 7% due 5/15/2006  |
| Auto Components - 1.0%                | 10,000,000  | Delphi Trust I, 8.25% due 10/15/2033 (b)  |
| Capital Markets - 0.1%                | 875,000   | Lehman Brothers Holdings Capital Trust III,<br>due 3/15/2052  |
| Communications Equipment - 0.2%       | 2,000,000   | Corporate-Backed Trust Certificates, 8.375%   |
| Diversified Financial Services - 0.4% | 4,000,000   | Principal Protected PreTSL IX, Ltd., 14.50%   |
| Electric Utilities - 1.7%             | 6,750,000<br>3,000,000<br>5,000,000<br><br>397,425<br>950,000 | Georgia Power Company, 5.90% due 4/15/2033<br>HECO Capital Trust III, 6.50% due 3/18/2034<br>Natural Rural Utilities Cooperative Finance<br>6.75% due 2/15/2043<br>PSEG Funding Trust II, 8.75% due 12/31/2032<br>Virginia Power Capital Trust II, 7.375% due |
| Gas Utilities - 0.7%                  | 500,000<br>5,750,000  | Dominion-CNG Capital Trust I, 7.80% due 10/3<br>Southwest Gas Capital II, 7.70% due 9/15/204  |
| Insurance - 2.2%                      | 16,000,000<br><br>1,000,000<br>5,000,000                      | ABN AMRO North America Capital Funding Trust<br>(a) (b) (c)<br>Everest Re Capital Trust, 7.85% due 11/15/20<br>Lincoln National Capital VI Series F, 6.75%  |
| Thriffs & Mortgage Finance - 3.5%     | 27,000,000<br>6,000,000                                       | Countrywide Capital IV, 6.75% due 4/01/2033<br>Dime Community Capital I, 7% due 4/14/2034   |

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Total Investments in Trust Preferred  
(Cost - \$122,147,604) - 12.7%

Total Investments in Preferred Securities  
(Cost - \$1,194,157,165) - 129.5%

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of January 31, 2005 (continued)

| Industry+  | Face<br>Amount                        | Corporate Bonds   |
|--|---------------------------------------|---|
| Automobiles - 1.0%                               | \$ 10,000,000                         | Ford Motor Co., 7.45% due 7/16/2031   |
| Diversified Financial Services - 4.5%            | 29,000,000<br>15,000,000              | General Motors Acceptance Corp., 8% due 11/0<br>Sigma Finance Corp., 5.348% due 8/15/2011                     |
| Diversified Telecommunication<br>Services - 7.5% | 28,000,000<br>2,000,000<br>24,000,000 | France Telecom SA, 9.25% due 3/01/2031<br>Sprint Capital Corp.:<br>6.90% due 5/01/2019<br>8.75% due 3/15/2032 |
| Electric Utilities - 1.1%                        | 10,000,000                            | FirstEnergy Corp. Series B, 6.45% due 11/15/  |
| Food Products - 0.6%                             | 4,800,000                             | Tyson Foods, Inc., 7% due 1/15/2028   |
| Media - 4.1%                                     | 10,000,000<br>5,000,000<br>18,000,000 | Comcast Corp., 7.05% due 3/15/2033<br>Time Warner, Inc.:<br>7.625% due 4/15/2031<br>7.70% due 5/01/2032       |
| Multi-Utilities & Unregulated<br>Power - 2.3%    | 16,575,000                            | Duke Energy Field Services LLC, 8.125% due 8  |
| Thrifts & Mortgage Finance - 0.8%                | 8,000,000                             | Roslyn Real Estate Asset Corp. Series D, 6.2  |
| Wireless Telecommunication<br>Services - 4.0%    | 28,000,000                            | AT&T Wireless Services, Inc., 8.75% due 3/01  |
|  |                                       | Total Investments in Corporate Bonds<br>(Cost - \$227,471,639) - 25.8%  |

Short-Term Securities

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16,100,000 Fannie Mae, 2.31% due 2/22/2005 (d) (e)

Total Investments in Short-Term Securities  
(Cost - \$16,078,305) - 1.7%

Total Investments (Cost - \$1,437,707,109\*)

Liabilities in Excess of Other Assets - (0.8

Preferred Stock, at Redemption Value - (56.2

Net Assets, Applicable to Common Stock - 100

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of January 31, 2005 (continued)

\* The cost and unrealized appreciation (depreciation) of investments as of January 31, 2005, as computed for federal income tax purposes, were as follows:

|                               |                  |
|-------------------------------|------------------|
| Aggregate cost                | \$ 1,444,013,071 |
|                               | =====            |
| Gross unrealized appreciation | \$ 103,608,590   |
| Gross unrealized depreciation | (10,617,376)     |
|                               | -----            |
| Net unrealized appreciation   | \$ 92,991,214    |
|                               | =====            |

+ For Fund compliance purposes, "Industry" means any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine such industry sub-classifications for reporting ease.

- (a) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (b) Floating rate note.
- (c) The security is a perpetual bond and has no definite maturity date.
- (d) Certain U.S. Government Obligations are traded on a discount basis; the interest rate shown reflects the discount rate paid at the time of purchase.
- (e) All or a portion of security held as collateral in connection with open financial futures contracts.

Swaps outstanding as of January 31, 2005 were as follows:

|  | Notional<br>Amount | Unrealized<br>Appreciation<br>(Depreciation) |
|--|--------------------|--|
|--|--------------------|--|

Receive a variable rate equal to 1-month  
USD LIBOR and pay a fixed rate of 1.3275%

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|  |                |           |
|--|----------------|-----------|
| Broker, JPMorgan Chase Bank<br>Expires June 2005                                 | \$ 125,000,000 | \$ 770,33 |
| Receive a variable rate equal to 1-month USD LIBOR and pay a fixed rate of 1.33% |                |           |
| Broker, Morgan Stanley Capital Services, Inc.<br>Expires June 2005               | \$ 125,000,000 | 787,75    |
| Receive a variable rate equal to 1-month USD LIBOR and pay a fixed rate of 1.32% |                |           |
| Broker, UBS Warburg<br>Expires June 2005   | \$ 25,000,000  | 156,56    |
| Receive a variable rate equal to 1-month USD LIBOR and pay a fixed rate of 1.31% |                |           |
| Broker, UBS Warburg<br>Expires June 2005   | \$ 150,000,000 | 936,45    |

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of January 31, 2005 (concluded)

|  | Notional Amount | Unrealized Appreciation (Depreciation) |
|--|-----------------|--|
| -----  |                 |  |
| Receive a fixed rate of 4.1275% and pay a variable rate equal to 3-month USD LIBOR |                 |  |
| Broker, Deutsche Bank AG London<br>Expires February 2012                           | \$ 200,000,000  | \$ (826,3                              |
| Receive a fixed rate of 4.14% and pay a variable rate equal to 3-month USD LIBOR   |                 |  |
| Broker, Lehman Brothers Special Finance<br>Expires February 2012                   | \$ 200,000,000  | (769,3                                 |
| Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.4975% |                 |  |
| Broker, Morgan Stanley Capital Services, Inc.<br>Expires February 2015             | \$ 300,000,000  | (23,415,9                              |
| Receive a fixed rate of 4.683% and pay a variable rate equal to 3-month USD LIBOR  |                 |  |
| Broker, Morgan Stanley Capital Services, Inc.<br>Expires January 2015              | \$ 18,880,000   | (317,9                                 |



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Receive a variable rate equal to 3-month  
USD LIBOR and pay a fixed rate of 5.26405%

Broker, Morgan Stanley Capital Services, Inc.  
Expires July 2025

\$ 82,080,000

3,038,6

Receive a fixed rate of 5.256% and pay a  
variable rate equal to 3-month USD LIBOR

Broker, Morgan Stanley Capital Services, Inc.  
Expires January 2035

\$ 56,400,000

(2,742,9

-----  
Total

\$ (22,382,7  
=====

Financial futures contracts sold as of January 31, 2005 were as follows:

| Number of<br>Contracts | Issue                       | Expiration<br>Date | Face<br>Value  | Unreali<br>Deprecia |
|------------------------|-----------------------------|--------------------|----------------|---------------------|
| 8,707                  | 10-Year U.S. Treasury Notes | March 2005         | \$ 969,997,822 | \$ (7,498           |
| 800                    | 30-Year U.S. Treasury Notes | March 2005         | \$ 87,888,017  | (3,986              |
| -----                  |                             |                    |                |                     |
| Total                  |                             |                    |                | \$ (11,485<br>===== |

### Item 2 - Controls and Procedures

- 2(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.
- 2(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the last fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

### Item 3 - Exhibits

Certifications - Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Preferred Income Strategies Fund, Inc.

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By: /s/ Robert C. Doll, Jr.

-----  
Robert C. Doll, Jr.,  
President  
Preferred Income Strategies Fund, Inc.

Date: March 21, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Robert C. Doll, Jr.

-----  
Robert C. Doll, Jr.,  
President  
Preferred Income Strategies Fund, Inc.

Date: March 21, 2005

By: /s/ Donald C. Burke

-----  
Donald C. Burke,  
Chief Financial Officer  
Preferred Income Strategies Fund, Inc.

Date: March 21, 2005