

FLAHERTY & CRUMRINE DYNAMIC PREFERRED AND INCOME FUND

To the Shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund (“DFP”):

Fiscal 2017 has been a very good year for preferred securities, and the third fiscal quarter¹ continued in stride. Total return² on net asset value (“NAV”) was 3.1% for the quarter, bringing total return for the first nine months of fiscal 2017 to 16.2%. Total return on market price over the same periods was 4.6% and 22.4%, respectively.

Credit conditions continue to provide a supportive backdrop for yields and spreads, as most issuers of preferreds maintain strong balance sheets. Bank payout ratios (common stock dividends plus share buybacks) are now averaging at or above 100% of current earnings, which means, as a group, banks are no longer adding to their common equity layer of capital. Normally, this could be cause for concern – but given years of balance-sheet strengthening since the financial crisis, these payout ratios are comfortably supported.

Political headlines of all flavors remain omnipresent, including topics such as healthcare reform, tax reform, immigration, and North Korea. Equity and fixed-income markets, however, have largely ignored a lack of near-term progress on these issues and focused on potential for positive economic developments – notably lower taxes and regulatory reform. There are winners and losers in all policy decisions, but markets are pricing in some upside from lower tax rates and reduced regulatory burdens.

Away from these headlines, we have been living in a low-volatility financial environment for quite some time, which has been positive for spreads of most fixed-income products. Mid- to longer-term interest rates generally fell during the quarter, although rates have remained relatively range-bound in recent years. For example, the constant-maturity 10-year Treasury yield, currently around 2.3%, has been within about 0.75% of today’s rate since mid-2011. The economy continues to expand moderately with few signs of higher inflation. As a result, the Federal Reserve is moving very deliberately in removing accommodative monetary policy. The Fed last hiked the federal funds rate in June and has another 0.25% hike penciled in for December. In October, it will begin scaling back reinvestment of Treasury and mortgage-backed securities acquired in the wake of the financial crisis. Although we expect markets will take unwinding of “quantitative easing” in stride, the Fed will be the first major central bank to shrink its balance sheet, and this is a new source of market uncertainty.

Financial regulators in the United Kingdom announced that London banks will no longer be required to submit quotes for LIBOR (London interbank offered rate) after December 31, 2021. Since LIBOR is a reference rate for trillions of dollars of financial instruments – including many floating and fixed-to-floating rate preferred securities – it will be critical to find an alternative benchmark reference rate for instruments continuing past 2021. The Federal Reserve assigned the Alternative Reference Rate Committee (ARRC) to work on a transition from U.S. Dollar LIBOR to a new benchmark reference rate, and they have already identified viable alternatives. Once an alternative is finalized, transition to a new benchmark reference rate will be complicated by the sheer number of instruments involved and mechanics of a change. This process will take time, but we believe market participants have a large incentive to get it right.

¹ June 1, 2017—August 31, 2017

² Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

One of the best places to find total return this quarter was in the primary market. New issue supply has been limited all year, and redemptions of higher-coupon preferred securities have continued at a healthy pace. Many offerings were met with strong demand that exceeded deal size, which in turn pushed prices up. This robust primary market also boosted secondary markets, as prices adjusted to reflect new-issue clearing levels.

During the quarter, a modest drop in interest rates helped lower-coupon securities outperform higher-coupon securities at the margin. Like last quarter, it is difficult to identify laggards in the portfolio this year. Performance lag has been relative return – not absolute negative return – in most cases – typically a result of call (redemption) features embedded in most preferreds. As a security moves above its call price, the call option limits further upside potential as rates or spread move lower. Investors continue to earn coupons, many of which are tax-advantaged, but price increases become more limited.

Looking forward, returns should come mostly from the coupons on securities as the pace of price gains tapers off or even reverses. Compared to fixed-income alternatives, however, preferred securities continue to offer value. Market volatility could increase, and economic or credit conditions could change – which may cause spreads to widen – but we believe preferreds' combination of credit quality and yield will be difficult to replace in other fixed-income asset classes.

As always, we encourage you to visit the Fund's website, www.preferredincome.com, for important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2017

PORTFOLIO OVERVIEW

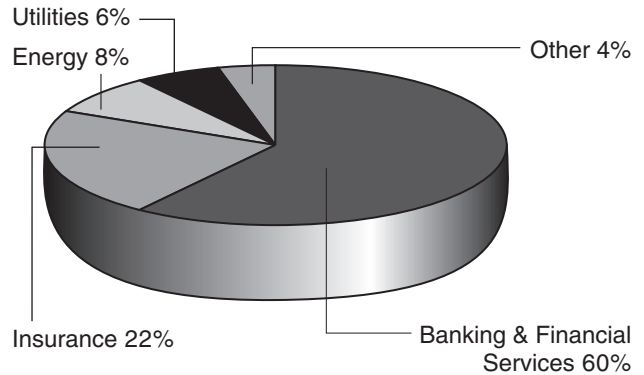
August 31, 2017 (Unaudited)

Fund Statistics

| | | |
|---------------------------------|----|------------|
| Net Asset Value | \$ | 26.48 |
| Market Price | \$ | 26.45 |
| Discount | | 0.11% |
| Yield on Market Price | | 7.03% |
| Common Stock Shares Outstanding | | 19,158,288 |

Industry Categories

% of Net Assets†



Moody's Ratings* % of Net Assets†

| | |
|---|-------|
| A | 0.2% |
| BBB | 50.1% |
| BB | 36.9% |
| Below "BB" | 1.3% |
| Not Rated** | 10.6% |
| Below Investment Grade*** | 40.1% |
| Senior Debt Rating Below Investment Grade**** | 1.2% |

* Ratings are from Moody's Investors Service, Inc. "Not Rated" securities are those with no ratings available from Moody's.

** Does not include net other assets and liabilities of 0.9%.

*** Below investment grade by all of Moody's, S&P, and Fitch.

**** Issuer's senior unsecured debt or issuer rating is below investment grade by all of Moody's, S&P, and Fitch.

Top 10 Holdings by Issuer

% of Net Assets†

| | |
|------------------------------|------|
| Citigroup Inc | 4.6% |
| Morgan Stanley | 4.3% |
| MetLife | 4.3% |
| Bank of America Corporation | 4.2% |
| PNC Financial Services Group | 4.1% |
| Liberty Mutual Group | 3.5% |
| JPMorgan Chase & Co | 3.2% |
| Fifth Third Bancorp | 2.9% |
| Enbridge Energy Partners | 2.6% |
| Wells Fargo & Company | 2.5% |

% of Net Assets***†**

| | |
|--|-----|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals | 64% |
| Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) | 49% |

*****This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.

† Net Assets includes assets attributable to the use of leverage.

PORTFOLIO OF INVESTMENTS**August 31, 2017 (Unaudited)**

| Shares/\$ Par | | Value |
|-------------------------------------|---|---------------------------------|
| Preferred Securities — 95.2% | | |
| Banking — 57.8% | | |
| | 103,166 Astoria Financial Corporation, 6.50%, Series C | \$ 2,667,099 ^{*(1)} |
| \$ 1,738,000 | Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A**** | 1,946,646 ^{** (2)} |
| \$ 1,200,000 | Banco Bilbao Vizcaya Argentaria SA, 9.00% to 05/09/18 then SW5 + 8.262%, 144A**** | 1,248,040 ^{** (2)} |
| \$ 1,660,000 | Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A**** Bank of America Corporation: | 1,791,970 ^{** (2)} |
| | 40,000 6.00%, Series EE | 1,074,000* |
| \$ 1,800,000 | 6.30% to 03/10/26 then 3ML + 4.553%, Series DD | 2,031,750 ^{*(1)} |
| \$ 9,107,000 | 6.50% to 10/23/24 then 3ML + 4.174%, Series Z | 10,279,526 ^{*(1)} |
| \$ 3,350,000 | 8.00% to 01/30/18 then 3ML + 3.63%, Series K | 3,414,990 ^{*(1)} |
| \$ 14,105,000 | 8.125% to 05/15/18 then 3ML + 3.64%, Series M | 14,602,201 ^{*(1)} |
| \$ 5,613,000 | Barclays Bank PLC, 7.875% to 03/15/22 then SW5 + 6.772%, 144A**** BNP Paribas: | 6,117,884 ^{** (2)} |
| \$ 11,200,000 | 7.375% to 08/19/25 then SW5 + 5.15%, 144A**** | 12,656,000 ^{** (1)(2)} |
| \$ 2,000,000 | 7.625% to 03/30/21 then SW5 + 6.314%, 144A**** | 2,192,500 ^{** (2)} |
| | Capital One Financial Corporation: | |
| | 25,700 6.00%, Series H | 682,656* |
| | 66,679 6.70%, Series D | 1,814,502 ^{*(1)} |
| | Citigroup, Inc.: | |
| | 1,170,807 6.875% to 11/15/23 then 3ML + 4.13%, Series K | 33,886,082 ^{*(1)} |
| | 24,371 7.125% to 09/30/23 then 3ML + 4.04%, Series J | 718,028* |
| \$ 5,000,000 | Citizens Financial Group, Inc., 5.50% to 04/06/20 then 3ML + 3.96% | 5,231,250 ^{*(1)} |
| | CoBank ACB: | |
| | 38,100 6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A**** | 4,099,324* |
| | 3,450 6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A**** | 372,277* |
| \$ 550,000 | 6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A**** | 606,834* |
| | 7,000 Compeer Financial ACA, 6.75% to 08/15/23 then 3ML + 4.58%, 144A**** | 7,497,000* |
| | 724,983 Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I | 21,570,057 ^{*(1)} |
| | 5,000 First Horizon National Corporation, 6.20%, Series A | 129,412* |
| | Goldman Sachs Group: | |
| | 10,000 5.50% to 05/10/23 then 3ML + 3.64%, Series J | 269,625* |
| \$ 1,170,000 | 5.70% to 05/10/19 then 3ML + 3.884%, Series L | 1,212,412* |
| | 54,609 6.30%, Series N | 1,475,535* |
| | 531,522 6.375% to 05/10/24 then 3ML + 3.55%, Series K | 15,419,453 ^{*(1)} |

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2017 (Unaudited)**

| Shares/\$ Par | | Value |
|---|---|---------------------------------|
| Preferred Securities — (Continued) | | |
| Banking — (Continued) | | |
| | HSBC Holdings PLC: | |
| \$ 4,458,000 | HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A**** . | \$ 7,102,129 ⁽¹⁾⁽²⁾ |
| \$ 1,000,000 | HSBC Holdings PLC, 6.00% to 05/22/27 then ISDA5 + 3.746% | 1,054,000 ^{** (2)} |
| \$ 3,988,000 | HSBC Holdings PLC, 6.875% to 06/01/21 then ISDA5 + 5.514% | 4,348,914 ^{** (1)(2)} |
| 332,000 | Huntington Bancshares, Inc., 6.25%, Series D | 9,227,110 ^{* (1)} |
| 114,400 | ING Groep NV, 6.375% | 2,954,952 ^{** (1)(2)} |
| | JPMorgan Chase & Company: | |
| \$ 10,700,000 | 6.00% to 08/01/23 then 3ML + 3.30%, Series R | 11,609,500 ^{* (1)} |
| \$ 8,000,000 | 6.75% to 02/01/24 then 3ML + 3.78%, Series S | 9,150,000 ^{* (1)} |
| \$ 3,331,000 | 7.90% to 04/30/18 then 3ML + 3.47%, Series I | 3,435,094 ^{* (1)} |
| 283,700 | KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E | 8,335,815 ^{* (1)} |
| \$ 14,022,000 | Lloyds Banking Group PLC, 6.657% to 05/21/37 then 3ML + 1.27%, 144A**** . . . | 16,072,717 ^{** (1)(2)} |
| \$ 15,425,000 | M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E | 17,353,125 ^{* (1)} |
| \$ 1,700,000 | Macquarie Bank Ltd., 6.125% to 03/08/27 then SW5 + 3.703%, 144A**** | 1,755,250 ^{** (2)} |
| | Morgan Stanley: | |
| 200,500 | 5.85% to 04/15/27 then 3ML + 3.491%, Series K | 5,466,131 [*] |
| 674,994 | 6.875% to 01/15/24 then 3ML + 3.94%, Series F | 19,650,763 ^{* (1)} |
| 241,200 | 7.125% to 10/15/23 then 3ML + 4.32%, Series E | 7,099,119 ^{* (1)} |
| 549,300 | New York Community Bancorp, Inc., 6.375% to 03/17/27 then 3ML + 3.821%, Series A | 16,127,448 [*] |
| 35,000 | People's United Financial, 5.625% to 12/15/26 then 3ML + 4.02%, Series A | 941,587 [*] |
| | PNC Financial Services Group, Inc.: | |
| 686,880 | 6.125% to 05/01/22 then 3ML + 4.067%, Series P | 19,570,928 ^{* (1)} |
| \$ 9,928,000 | 6.75% to 08/01/21 then 3ML + 3.678%, Series O | 11,255,870 ^{* (1)} |
| \$ 8,625,000 | RaboBank Nederland, 11.00% to 06/30/19 then 3ML + 10.868%, 144A**** | 9,929,531 ⁽¹⁾⁽²⁾ |
| 627,170 | Regions Financial Corporation, 6.375% to 09/15/24 then 3ML + 3.536%, Series B | 17,844,554 ^{* (1)} |
| | Royal Bank of Scotland Group PLC: | |
| \$ 4,825,000 | RBS Capital Trust II, 6.425% to 01/03/34 then 3ML + 1.9425% | 5,645,250 ^{** (1)(2)} |
| | Societe Generale SA: | |
| \$ 8,200,000 | 7.375% to 09/13/21 then SW5 + 6.238%, 144A**** | 8,886,750 ^{** (1)(2)} |
| \$ 5,000,000 | 8.00% to 09/29/25 then ISDA5 + 5.873%, 144A**** | 5,762,500 ^{** (1)(2)} |
| | Sovereign Bancorp: | |
| 4,000 | Sovereign REIT, 12.00%, Series A, 144A**** | 5,015,000 |
| | Standard Chartered PLC: | |
| \$ 5,835,000 | 7.50% to 04/02/22 then SW5 + 6.301%, 144A**** | 6,332,725 ^{** (1)(2)} |
| \$ 4,000,000 | 7.75% to 04/02/23 then SW5 + 5.723%, 144A**** | 4,370,000 ^{** (2)} |

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2017 (Unaudited)

| Shares/\$ Par | | Value |
|---|---|--------------------------------|
| Preferred Securities — (Continued) | | |
| Banking — (Continued) | | |
| 26,174 | State Street Corporation, 5.90% to 03/15/24 then 3ML + 3.108%, Series D | \$ 731,629 ^{*(1)} |
| 288,008 | SunTrust Banks, Inc., 5.875%, Series E | 7,321,883 ^{*(1)} |
| 43,095 | US Bancorp, 6.50% to 01/15/22 then 3ML + 4.468%, Series F | 1,252,879 ^{*(1)} |
| 50,000 | Valley National Bancorp, 6.25% to 06/30/25 then 3ML + 3.85%, Series A | 1,442,500* |
| | Wells Fargo & Company: | |
| 27,000 | 5.625%, Series Y | 701,798* |
| 180,300 | 5.85% to 09/15/23 then 3ML + 3.09%, Series Q | 4,899,202 ^{*(1)} |
| \$ 13,025,000 | 7.98% to 03/15/18 then 3ML + 3.77%, Series K | 13,432,031 ^{*(1)} |
| | Zions Bancorporation: | |
| 10,000 | 6.30% to 03/15/23 then 3ML + 4.24%, Series G | 275,625* |
| \$ 10,000,000 | 7.20% to 09/15/23 then 3ML + 4.44%, Series J | 11,037,500 ^{*(1)} |
| | | <u>432,398,862</u> |
| Financial Services — 0.3% | | |
| \$ 1,440,000 | AerCap Global Aviation Trust, 6.50% to 06/15/25 then 3ML + 4.30%, 06/15/45, 144A**** | 1,562,400 ⁽¹⁾⁽²⁾ |
| | Charles Schwab Corporation: | |
| 4,300 | 5.95%, Series D | 117,702* |
| 27,786 | 6.00%, Series C | 762,239 ^{*(1)} |
| | | <u>2,442,341</u> |
| Insurance — 22.4% | | |
| 373,578 | Allstate Corporation, 6.625%, Series E | 10,091,276 ^{*(1)} |
| | American International Group: | |
| \$ 280,000 | AIG Life Holdings, Inc., 7.57% 12/01/45, 144A**** | 349,300 |
| \$ 497,000 | AIG Life Holdings, Inc., 8.125% 03/15/46, 144A**** | 664,737 |
| \$ 350,000 | American International Group, Inc., 8.175% to 05/15/38 then 3ML + 4.195%, 05/15/58 | 476,875 |
| \$ 680,000 | Aon Corporation, 8.205% 01/01/27 | 894,200 |
| | Arch Capital Group, Ltd.: | |
| 38,000 | 5.25%, Series E | 940,595 ^{** (2)} |
| 33,000 | 5.45%, Series F | 834,900 ^{** (2)} |
| 317,980 | 6.75%, Series C | 8,211,039 ^{** (1)(2)} |
| \$ 6,550,000 | AXA SA, 6.379% to 12/14/36 then 3ML + 2.256%, 144A**** | 7,503,811 ^{** (1)(2)} |
| 306,000 | Delphi Financial Group, 3ML + 3.19%, 4.505% ⁽³⁾ 05/15/37 | 6,368,625 |
| 133,500 | Endurance Specialty Holdings, 6.35%, Series C | 3,574,129 ^{** (1)(2)} |
| \$ 988,000 | Everest Reinsurance Holdings, 3ML + 2.385%, 3.70% ⁽³⁾ 05/15/37 | 926,250 ⁽¹⁾ |

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2017 (Unaudited)

| Shares/\$ Par | | Value |
|---|--|------------------------------|
| Preferred Securities — (Continued) | | |
| Insurance — (Continued) | | |
| 137,500 | Hartford Financial Services Group, Inc., 7.875% to 04/15/22 then 3ML + 5.596%, 04/15/42 | \$ 4,216,094 ⁽¹⁾ |
| \$ 20,983,000 | Liberty Mutual Group, 7.80% 03/15/37, 144A**** | 26,569,724 ⁽¹⁾ |
| | MetLife, Inc.: | |
| \$ 17,200,000 | 9.25% 04/08/38, 144A**** | 25,585,000 ⁽¹⁾ |
| \$ 3,759,000 | 10.75% 08/01/39 | 6,324,518 ⁽¹⁾ |
| | PartnerRe Ltd.: | |
| 77,450 | 5.875%, Series I | 2,000,534 ^{**1(2)} |
| 37,556 | 6.50%, Series G | 1,014,388 ^{**1(2)} |
| 246,349 | 7.25%, Series H | 7,203,861 ^{**1(2)} |
| | Prudential Financial, Inc.: | |
| \$ 3,474,000 | 5.625% to 06/15/23 then 3ML + 3.92%, 06/15/43 | 3,764,948 ⁽¹⁾ |
| \$ 5,848,000 | 5.875% to 09/15/22 then 3ML + 4.175%, 09/15/42 | 6,469,350 ⁽¹⁾ |
| \$ 13,160,000 | QBE Insurance Group Ltd., 7.50% to 11/24/23 then SW10 + 6.03%, 11/24/43, 144A**** | 15,199,800 ⁽¹⁾⁽²⁾ |
| | Unum Group: | |
| \$ 1,750,000 | Provident Financing Trust I, 7.405% 03/15/38 | 2,016,875 |
| | W.R. Berkley Corporation: | |
| 95,479 | 5.625% 04/30/53 | 2,492,241 ⁽¹⁾ |
| 216,928 | 5.75% 06/01/56 | 5,694,902 ⁽¹⁾ |
| 1,530 | 5.90% 03/01/56 | 40,407 |
| | XL Group Limited: | |
| \$ 14,338,000 | Catlin Insurance Company Ltd., 3ML + 2.975%, 4.2811% ⁽³⁾ , 144A**** | 13,872,015 ⁽¹⁾⁽²⁾ |
| \$ 4,850,000 | XL Capital Ltd., 3ML + 2.4575%, 3.7611% ⁽³⁾ , Series E | 4,537,903 ⁽¹⁾⁽²⁾ |
| | | <u>167,838,297</u> |
| | Utilities — 5.7% | |
| | Commonwealth Edison: | |
| \$ 2,545,000 | COMED Financing III, 6.35% 03/15/33 | 2,809,044 |
| 454,000 | Dominion Resources, Inc., 5.25% 07/30/76, Series A | 11,705,255 ⁽¹⁾ |
| 60,000 | DTE Energy Company, 5.375% 06/01/76, Series B | 1,553,544 ⁽¹⁾ |
| \$ 6,830,000 | Emera, Inc., 6.75% to 06/15/26 then 3ML + 5.44%, 06/15/76, Series 2016A | 7,827,135 ⁽¹⁾⁽²⁾ |
| 121,452 | Integrus Energy Group, Inc., 6.00% to 08/01/23 then 3ML + 3.22%, 08/01/73 | 3,402,174 ⁽¹⁾ |
| | PPL Corp: | |
| \$ 8,500,000 | PPL Capital Funding, Inc., 3ML + 2.665%, 3.9614% ⁽³⁾ 03/30/67, Series A | 8,393,750 ⁽¹⁾ |
| \$ 5,500,000 | Puget Sound Energy, Inc., 6.974% to 12/01/17 then 3ML + 2.53%, 06/01/67, Series A | 5,362,500 ⁽¹⁾ |
| | Southern California Edison: | |
| 50,000 | SCE Trust V, 5.45% to 03/15/26 then 3ML + 3.79%, Series K | 1,428,625 ^{*1(1)} |
| | | <u>42,482,027</u> |

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2017 (Unaudited)

| Shares/\$ Par | | Value |
|---|--|-----------------------------|
| Preferred Securities — (Continued) | | |
| Energy — 6.5% | | |
| \$ 9,780,000 | DCP Midstream LLC, 5.85% to 05/21/23 then 3ML + 3.85%, 05/21/43, 144A**** | \$ 9,119,850 ⁽¹⁾ |
| \$ 3,500,000 | Enbridge, Inc., 6.00% to 01/15/27 then 3ML + 3.89%, 01/15/77 | 3,711,610 ⁽¹⁾⁽²⁾ |
| \$ 19,804,000 | Enbridge Energy Partners LP, 8.05% to 10/01/17 then 3ML + 3.7975%, 10/01/37 Enterprise Products Operating L.P.: | 19,804,000 ⁽¹⁾ |
| \$ 3,750,000 | 3ML + 3.7075%, 5.0181% ⁽³⁾ 08/01/66 | 3,764,738 ⁽¹⁾ |
| \$ 3,675,000 | 7.034% to 01/15/18 then 3ML + 2.68%, min 7.034%, 01/15/68 | 3,746,663 ⁽¹⁾ |
| \$ 2,700,000 | 5.25% to 08/16/27 then 3ML + 3.033%, 08/16/77, Series E | 2,708,775 |
| 94,595 | Kinder Morgan, Inc., 9.75%, 10/26/2018, Series A | 4,021,233* |
| \$ 1,500,000 | Transcanada Pipelines, Ltd., 5.875% to 08/15/26 then 3ML + 4.64%, 08/15/76, Series 2016-A | 1,638,750 ⁽¹⁾⁽²⁾ |
| | | <u>48,515,619</u> |
| Real Estate Investment Trust (REIT) — 0.4% | | |
| 25,300 | National Retail Properties, Inc., 5.70%, Series E | 646,225 ⁽¹⁾ |
| | PS Business Parks, Inc.: | |
| 14,307 | 5.20%, Series W | 360,715 |
| 9,945 | 5.70%, Series V | 254,915 |
| 23,486 | 5.75%, Series U | 593,726 |
| 52,879 | 6.00%, Series T | 1,344,184 ⁽¹⁾ |
| | | <u>3,199,765</u> |
| Miscellaneous Industries — 2.1% | | |
| | BHP Billiton Limited: | |
| \$ 1,400,000 | BHP Billiton Finance U.S.A., Ltd., 6.75% to 10/19/25 then SW5 + 5.093%, 10/19/75, 144A**** | 1,627,500 ⁽¹⁾⁽²⁾ |
| | Land O' Lakes, Inc.: | |
| \$ 725,000 | 7.25%, Series B, 144A**** | 784,813* |
| \$ 11,700,000 | 8.00%, Series A, 144A**** | 12,943,125 ⁽¹⁾ |
| | | <u>15,355,438</u> |
| | Total Preferred Securities (Cost \$656,959,870) | <u>712,232,349</u> |

PORTFOLIO OF INVESTMENTS (Continued)**August 31, 2017 (Unaudited)**

| <u>Shares/\$ Par</u> | | <u>Value</u> |
|---|---|-------------------------------|
| Corporate Debt Securities — 2.3% | | |
| Banking — 1.8% | | |
| 428,300 | Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes | \$ 11,001,956 ⁽¹⁾ |
| 89,000 | Zions Bancorporation, 6.95% to 09/15/23 then 3ML + 3.89%, 09/15/28, Sub Notes | 2,672,786 ⁽¹⁾ |
| | | <u>13,674,742</u> |
| Communication — 0.5% | | |
| | Qwest Corporation: | |
| 114,100 | 6.50% 09/01/56 | 2,895,002 |
| 22,500 | 6.75% 06/15/57 | 578,531 |
| 1,298 | 6.875% 10/01/54 | 33,985 |
| | | <u>3,507,518</u> |
| | Total Corporate Debt Securities | |
| | (Cost \$16,207,758) | <u>17,182,260</u> |
| Common Stock — 1.4% | | |
| Energy — 1.4% | | |
| 555,315 | Kinder Morgan, Inc. | 10,734,239* |
| | | <u>10,734,239</u> |
| | Total Common Stock | |
| | (Cost \$9,576,730) | <u>10,734,239</u> |
| Money Market Fund — 0.0% | | |
| | BlackRock Liquidity Funds: | |
| 148,600 | T-Fund, Institutional Class | 148,600 |
| | Total Money Market Fund | |
| | (Cost \$148,600) | <u>148,600</u> |
| | Total Investments (Cost \$682,892,958***) | 98.9% <u>740,297,448</u> |
| | Other Assets And Liabilities (Net) | 1.1% <u>8,316,158</u> |
| | Total Managed Assets | 100.0%‡ <u>\$ 748,613,606</u> |
| | Loan Principal Balance | <u>(241,300,000)</u> |
| | Total Net Assets Available To Common Stock | <u>\$ 507,313,606</u> |

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2017 (Unaudited)

- * Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.
- ** Securities distributing Qualified Dividend Income only.
- *** Aggregate cost of securities held.
- **** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At August 31, 2017, these securities amounted to \$219,537,152 or 29.3% of total managed assets.
- (1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$432,243,323 at August 31, 2017.
- (2) Foreign Issuer.
- (3) Represents the rate in effect as of the reporting date.
- ‡ The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

ABBREVIATIONS:

| | |
|--------------|--|
| 3ML | — 3-Month ICE LIBOR USD A/360 |
| ISDA5 | — 5-year USD ICE Swap Semiannual 30/360 |
| SW5 | — 5-year USD Swap Semiannual 30/360 |
| SW10 | — 10-year USD Swap Semiannual 30/360 |
| T10Y | — Federal Reserve H.15 10-Yr Constant Maturity Treasury Semiannual yield |

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK⁽¹⁾**For the period from December 1, 2016 through August 31, 2017 (Unaudited)**

| | <u>Value</u> |
|--|----------------------|
| OPERATIONS: | |
| Net investment income | \$ 24,119,238 |
| Net realized gain/(loss) on investments sold during the period | 1,924,873 |
| Change in net unrealized appreciation/(depreciation) of investments | 46,909,369 |
| Net increase in net assets resulting from operations | 72,953,480 |
| DISTRIBUTIONS: | |
| Dividends paid from net investment income to Common Stock Shareholders ⁽²⁾ | (27,875,030) |
| Total Distributions to Common Stock Shareholders | (27,875,030) |
| FUND SHARE TRANSACTIONS: | |
| Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan | 20,401 |
| Net increase in net assets available to Common Stock resulting from Fund share transactions | 20,401 |
| NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD | \$ 45,098,851 |
| NET ASSETS AVAILABLE TO COMMON STOCK: | |
| Beginning of period | \$462,214,755 |
| Net increase in net assets during the period | 45,098,851 |
| End of period | \$507,313,606 |

⁽¹⁾ These tables summarize the nine months ended August 31, 2017 and should be read in conjunction with the Fund's audited financial statements, including notes to the financial statements, in its Annual Report dated November 30, 2016.

⁽²⁾ May include income earned, but not paid out, in prior fiscal year.

FINANCIAL HIGHLIGHTS⁽¹⁾

For the period from December 1, 2016 through August 31, 2017 (Unaudited)

For a Common Stock share outstanding throughout the period

PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period \$ 24.13

INVESTMENT OPERATIONS:

Net investment income 1.26
 Net realized and unrealized gain/(loss) on investments 2.55
 Total from investment operations 3.81

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income (1.46)
 Total distributions to Common Stock Shareholders (1.46)
 Net asset value, end of period \$ 26.48
 Market value, end of period \$ 26.45
 Common Stock shares outstanding, end of period 19,158,288

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income† 6.54%*
 Operating expenses including interest expense 2.08%*
 Operating expenses excluding interest expense 1.09%*

SUPPLEMENTAL DATA:††

Portfolio turnover rate 10%**
 Total managed assets, end of period (in 000's) \$ 748,614
 Ratio of operating expenses including interest expense to total managed assets 1.39%*
 Ratio of operating expenses excluding interest expense to total managed assets 0.73%*

⁽¹⁾ These tables summarize the nine months ended August 31, 2017 and should be read in conjunction with the Fund's audited financial statements, including notes to the financial statements, in its Annual Report dated November 30, 2016.

* Annualized.

** Not annualized.

† The net investment income ratio reflects income net of operating expenses, including interest expense.

†† Information presented under heading Supplemental Data includes loan principal balance.

FINANCIAL HIGHLIGHTS (Continued)**Per Share of Common Stock (Unaudited)**

| | Total Dividends Paid | Net Asset Value | NYSE Closing Price | Dividend Reinvestment Price⁽¹⁾ |
|-------------------------|-------------------------------------|----------------------------|-------------------------------|--|
| December 30, 2016 | \$0.1800 | \$24.20 | \$23.77 | \$23.75 |
| January 31, 2017 | 0.1600 | 24.91 | 24.98 | 24.91 |
| February 28, 2017 | 0.1600 | 25.46 | 24.89 | 24.80 |
| March 31, 2017 | 0.1600 | 25.37 | 24.53 | 24.68 |
| April 30, 2017 | 0.1600 | 25.91 | 25.37 | 25.46 |
| May 31, 2017 | 0.1600 | 26.14 | 25.74 | 25.75 |
| June 30, 2017 | 0.1600 | 26.52 | 26.30 | 26.40 |
| July 31, 2017 | 0.1600 | 26.77 | 26.54 | 26.55 |
| August 31, 2017 | 0.1550 | 26.48 | 26.45 | 26.48 |

⁽¹⁾ Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Aggregate Information for Federal Income Tax Purposes

At August 31, 2017, the aggregate cost of securities for federal income tax purposes was \$690,191,157, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$60,438,039 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$10,331,748.

2. Additional Accounting Standards

Fair Value Measurements: The Fund has analyzed all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

A summary of the inputs used to value the Fund's investments as of August 31, 2017 is as follows:

| | Total Value at August 31, 2017 | Level 1 Quoted Price | Level 2 Significant Observable Inputs | Level 3 Significant Unobservable Inputs |
|-------------------------------------|--------------------------------------|----------------------------|--|--|
| Preferred Securities | | | | |
| Banking | \$432,398,862 | \$375,862,767 | \$ 56,536,095 | \$— |
| Financial Services | 2,442,341 | 879,941 | 1,562,400 | — |
| Insurance | 167,838,297 | 93,472,960 | 74,365,337 | — |
| Utilities | 42,482,027 | 34,310,483 | 8,171,544 | — |
| Energy | 48,515,619 | 19,591,769 | 28,923,850 | — |
| Real Estate Investment Trust (REIT) | 3,199,765 | 3,199,765 | — | — |
| Miscellaneous Industries | 15,355,438 | 1,627,500 | 13,727,938 | — |
| Corporate Debt Securities | | | | |
| Banking | 13,674,742 | 13,674,742 | — | — |
| Communication | 3,507,518 | 3,507,518 | — | — |
| Common Stock | | | | |
| Energy | 10,734,239 | 10,734,239 | — | — |
| Money Market Fund | 148,600 | 148,600 | — | — |
| Total Investments | <u>\$740,297,448</u> | <u>\$557,010,284</u> | <u>\$183,287,164</u> | <u>\$—</u> |

During the reporting period, securities with an aggregate market value of \$1,946,646 were transferred into Level 1 from Level 2. The securities were transferred due to an increase in the quantity and quality of information related to trading activity or broker quotes for these securities. During the period, there were no transfers into Level 2 from Level 1. During the reporting period, there were no transfers into or out of Level 3.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services that are approved by the Board of Directors and are unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active market participant.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades—or the same information for securities that are similar in many respects to those being valued—are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

3. Subsequent Event

Management has evaluated the impact of all subsequent events in the Fund through the date this quarterly report was issued, and has determined that there was the following subsequent event:

The Fund recently amended its committed financing agreement with BNP Paribas Prime Brokerage International, Ltd. ("Financing Agreement"). Effective September 1, 2017, the lender charges an annualized rate of one-month LIBOR (reset monthly) plus 0.80% on the drawn (borrowed) balance. Prior to that date, the lender charged an annualized rate of three-month LIBOR (reset quarterly) plus 0.90% on the drawn balance. The lender's charges on the undrawn (committed) balance remain unchanged at an annualized rate of 0.65%. As of September 1, 2017, the committed amount and amount borrowed was \$241,300,000. The Financing Agreement may be amended from time to time to allow for changes in the committed amount.

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Directors

R. Eric Chadwick, CFA
Chairman of the Board
Morgan Gust
David Gale
Karen H. Hogan

Officers

R. Eric Chadwick, CFA
Chief Executive Officer and
President
Chad C. Conwell
Chief Compliance Officer,
Vice President and Secretary
Bradford S. Stone
Chief Financial Officer,
Vice President and Treasurer
Roger W. Ko
Assistant Treasurer
Laurie C. Lodolo
Assistant Compliance Officer,
Assistant Treasurer and
Assistant Secretary
Linda M. Puchalski
Assistant Treasurer

Investment Adviser

Flaherty & Crumrine Incorporated
e-mail: flaherty@pfdincome.com

Servicing Agent

Destra Capital Investments LLC
1-877-855-3434

Questions concerning your shares of Flaherty & Crumrine Dynamic Preferred and Income Fund?

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent —
BNY Mellon c/o Computershare
P.O. Box 30170
College Station, TX 77842-3170
1-866-351-7446

This report is sent to shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.



Quarterly Report

August 31, 2017

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