

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC  
Form N-Q  
October 29, 2015

**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 811-21380**

**Flaherty & Crumrine Total Return Fund Incorporated**  
**(Exact name of registrant as specified in charter)**

**301 E. Colorado Boulevard, Suite 720**

**Pasadena, CA 91101**

**(Address of principal executive offices) (Zip code)**

**R. Eric Chadwick**

**Flaherty & Crumrine Incorporated**

**301 E. Colorado Boulevard, Suite 720**

**Pasadena, CA 91101**

**(Name and address of agent for service)**

**Registrant's telephone number, including area code: 626-795-7300**

**Date of fiscal year end: November 30**

**Date of reporting period: August 31, 2015**

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

**Item 1. Schedule of Investments.**

The Schedule(s) of Investments is attached herewith.

*FLAHERTY & CRUMRINE TOTAL RETURN FUND*

To the Shareholders of Flaherty & Crumrine Total Return Fund ( FLC ):

In many markets, investors experienced a bumpy, downhill ride during the third fiscal quarter<sup>1</sup>. However, the preferred securities market was better behaved, with only modest negative performance for the quarter. Total return<sup>2</sup> on net asset value ( NAV ) for your Fund was -0.8% for the quarter and 2.4% for the first nine months of fiscal 2015. Market price of Fund shares didn't fare as well. Total return on market price of Fund shares over the same periods were -7.5% and -5.6%, respectively.

The world is always an uncertain place, and a handful of those uncertainties attracted investor focus late in the quarter. Forecasts for slower economic growth in China and a policy decision in mid-August to devalue the Chinese currency were unwelcome surprises. The action sharpened market focus on what slower growth in China could mean for economies around the world. Simultaneously, European economic growth slipped, after improving in late 2014 and early 2015. Equity markets sold off sharply: better-performing markets merely gave up 2015 year-to-date gains and many markets, especially in Asia, traded materially lower. Credit markets (including preferred securities) outperformed equities, but they were still generally in negative territory.

Lower prices for oil and other commodities, a strong U.S. dollar, and an unpredictable (if entertaining) 2016 presidential campaign also contributed to higher volatility in equity markets and, to a lesser extent, credit markets.

U.S. monetary policy added to market uncertainty when the Federal Reserve indicated it was nearing lift-off for monetary policy and then demurred. Having just passed its September meeting, we now know the Federal Open Market Committee ( FOMC ) delayed an initial rate hike for at least another month or three possibly even until 2016. Monetary policy in the U.S. moved into uncharted territory many years ago with multiple rounds of Quantitative Easing ( QE ). As we move into the next phase of removing monetary accommodation, markets are understandably worried about policy mistakes moving too fast, or not moving fast enough. Meanwhile, monetary policy in many other areas of the world continues to be very accommodative, and all signs point to continued global easing over the near-term (mostly in the form of QE). Whenever it decides to raise U.S. rates, we expect the FOMC to move slowly in light of global headwinds to growth.

Despite this sea of uncertainty, the preferred securities market experienced comparatively smooth sailing. Prices drifted a bit lower in general, but high income offset much of that price weakness to keep total returns on preferred securities only slightly negative overall. A steady stream of high income, over time, can offset price weakness, which is why long-term creditworthiness is a focus of the Fund.

<sup>1</sup> June 1, 2015 – August 31, 2015

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

Credit quality remains healthy, with only modest impacts from many of the broader issues discussed above. The preferred securities market (absent some energy issuers) has limited direct exposure to oil or other commodity markets. Even banks that lend to the energy sector have limited exposure, which makes it unlikely that this would be an issue for creditworthiness of the broader banking system. The preferred securities market has no direct credit exposure to China, although the impact of an economic slowdown in China may be felt in the U.S. over time. Supply in the domestic preferred securities market trended lower during the quarter, which is supportive of spreads, and yields continue to be attractive when compared to fixed-income alternatives.

Many of the uncertainties we discussed will persist for the foreseeable future, but we believe their impact on the preferred securities market will remain muted. The market is always subject to weakening in sympathy with other markets, but we believe preferreds continue to be an attractive asset class that will hold their own as events unfold over coming months and years.

As always, we encourage you to visit the Fund's website [www.preferredincome.com](http://www.preferredincome.com) for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick

Donald F. Crumrine

Bradford S. Stone

September 22, 2015

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OVERVIEW**

**August 31, 2015 (Unaudited)**

**Fund Statistics**

Net Asset Value	\$	20.33
Market Price	\$	18.62
Discount		8.41%
Yield on Market Price		8.76%
Common Stock Shares Outstanding		9,903,086

**Moody's Ratings\***

**% of Net Assets**

A	1.1%
BBB	68.9%
BB	20.8%
Below BB	1.1%
Not Rated**	7.0%
Below Investment Grade***	21.3%

\* 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 1.1%.

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

**Industry Categories**

**% of Net Assets**

**Top 10 Holdings by Issuer**

**% of Net Assets**

Liberty Mutual Group	5.5%
JPMorgan Chase	4.9%
HSBC PLC	4.7%
MetLife	4.3%
Wells Fargo & Company	4.1%
Fifth Third Bancorp	4.0%

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M&T Bank Corporation	3.8%
Citigroup	3.3%
Axis Capital Holdings Ltd	3.2%
Enbridge Energy Partners	3.1%
	<b>% of Net Assets****</b>
Holdings Generating Qualified Dividend Income (QDI) for Individuals	59%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	48%

\*\*\*\* 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.

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS**

August 31, 2015 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities 93.7%</b>		
<b>Banking 47.0%</b>		
6,700	Astoria Financial Corp., 6.50%, Series C	\$ 170,398*
\$ 5,530,000	Bank of America Corporation, 8.00%, Series K	5,827,238*(1)
	Barclays Bank PLC:	
81,750	7.10%, Series 3	2,098,522**(3)
8,800	7.75%, Series 4	227,392**(3)
130,500	8.125%, Series 5	3,381,255**(1)(3)
\$ 3,100,000	BNP Paribas, 7.375%, 144A****	3,178,275**(3)
6,100	Capital One Financial Corporation, 6.70%, Series D	162,330*
	Citigroup, Inc.:	
214,568	6.875%, Series K	5,740,230*(1)
155,338	7.125%, Series J	4,290,669*(1)
32,000	City National Corporation, 6.75%, Series D	910,720*
	CoBank ACB:	
19,000	6.125%, Series G, 144A****	1,791,345*
10,000	6.20%, Series H, 144A****	1,005,000*
25,000	6.25%, Series F, 144A****	2,614,062*(1)
\$ 10,000,000	Colonial BancGroup, 7.114%, 144A****	15,000*(4)(5)
30,192	Cullen/Frost Bankers, Inc., 5.375%, Series A	761,186*
441,269	Fifth Third Bancorp, 6.625%, Series I	12,162,477*(1)
	First Horizon National Corporation:	
875	First Tennessee Bank, Adj. Rate, 3.75% <sup>(6)</sup> , 144A****	630,848*
3	FT Real Estate Securities Company, 9.50%, 144A****	3,907,500
140,750	First Niagara Financial Group, Inc., 8.625%, Series B	3,713,196*(1)
24,645	First Republic Bank, 6.70%, Series A	643,764*
	Goldman Sachs Group:	
\$ 390,000	5.70%, Series L	392,925*
60,000	6.375%, Series K	1,564,200*(1)
	HSBC PLC:	
\$ 1,400,000	HSBC Capital Funding LP, 10.176%, 144A****	2,103,500 <sup>(1)(3)</sup>
200,000	HSBC Holdings PLC, 8.00%, Series 2	5,114,500**(1)(3)
160,000	HSBC USA, Inc., 6.50%, Series H	4,078,800*(1)
	ING Groep NV:	
30,000	6.375%	757,200**(3)
50,000	7.05%	1,284,575**(3)
31,425	7.20%	808,958**(3)



Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2015 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Banking (Continued)</b>		
JPMorgan Chase & Company:		
\$ 750,000	6.00%, Series R	\$ 744,375*
64,169	6.70%, Series T	1,692,778*(1)
\$ 4,791,000	6.75%, Series S	5,060,494*(1)
\$ 7,000,000	7.90%, Series I	7,358,750*(1)
M&T Bank Corporation:		
\$ 3,500,000	6.450%, Series E	3,745,000*(1)
\$ 7,648,000	6.875%, Series D, 144A****	7,743,600*(1)
Morgan Stanley:		
85,000	6.875%, Series F	2,302,650*(1)
86,900	7.125%, Series E	2,416,906*(1)
277,045	PNC Financial Services Group, Inc., 6.125%, Series P	7,649,628*(1)
\$ 2,515,000	Rabobank Nederland, 11.00%, 144A****	3,139,600(1)(2)(3)
Royal Bank of Scotland Group PLC:		
5,000	6.40%, Series M	126,300**(3)
10,000	6.60%, Series S	252,600**(3)
97,100	7.25%, Series T	2,477,021**(3)
Sovereign Bancorp:		
3,000	Sovereign REIT, 12.00%, Series A, 144A****	3,971,250
157,400	State Street Corporation, 5.90%, Series D	4,125,690*(1)
63,000	US Bancorp, 6.50%, Series F	1,811,407*(1)
86,400	Webster Financial Corporation, 6.40%, Series E	2,161,080*
Wells Fargo & Company:		
81,100	5.85%, Series Q	2,086,906*(1)
\$ 1,250,000	5.875%, Series U	1,281,250*(1)(2)
106,200	6.625%, Series R	2,928,996*(1)
\$ 1,458,000	7.98%, Series K	1,558,238*(1)
169,700	8.00%, Series J	4,804,631*(1)
Zions Bancorporation:		
5,000	6.30%, Series G	134,063*
\$ 1,500,000	7.20%, Series J	1,571,250*(1)
125,000	7.90%, Series F	3,387,500*(1)
		143,868,028

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**August 31, 2015 (Unaudited)**

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
	<b>Financial Services 1.5%</b>	
\$ 1,125,000	General Electric Capital Corp., 7.125%, Series A	\$ 1,299,319 <sup>*(1)</sup>
	HSBC PLC:	
128,497	HSBC Finance Corporation, 6.36%, Series B	3,221,741 <sup>*(1)</sup>
		4,521,060
	<b>Insurance 23.6%</b>	