

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC

Form N-30B-2

October 28, 2016

*FLAHERTY & CRUMRINE TOTAL RETURN FUND*

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

The preferred market didn't miss a beat in the third fiscal quarter, continuing where it left off second quarter with additional positive returns. Total return<sup>2</sup> on net asset value ( NAV ) was 5.8% for the quarter, bringing the total return for the first nine months of fiscal 2016 to 10.1%. Total return on market price over the same periods was 6.7% and 19.9%, respectively.

Tailwinds described earlier in the year continued unabated during the most recent quarter. Monetary policy globally was very accommodative; supply of new preferred securities was subdued; legacy (those losing regulatory-capital treatment) and higher-coupon preferred securities were redeemed at a healthy pace; and credit quality remained strong. Preferred securities offered yield to investors struggling to find it in other places, which resulted in strong demand and higher prices for the asset class.

There is a direct inverse relationship in fixed-income securities (including preferreds) between price and yield, and higher prices this year have led to much lower coupons for newly-issued preferred securities. Many new issues during the quarter yield in the range of 4.5% - 5.5%, which in many cases is lower than early-2016 levels by almost 1.0%. These lower yields on preferreds were the result of lower overall interest rates (Treasuries and Swap Rates) and tighter spreads. Many issuers have taken advantage of persistently-low rates and positive market sentiment to refinance higher-coupon securities.

Although U.S. interest rates remain very low, the short end of the curve (notably T-bills and LIBOR) has moved higher in recent months as investors begin to factor in additional rate hikes by the Federal Reserve. The Federal Open Market Committee passed on a rate hike at its meeting on September 21, however, so markets continue to wrestle with predicting a future path of increases. Higher levels of 3-month LIBOR have resulted in higher leverage costs for the Fund, and future changes in this reference rate will be highly correlated to Federal Reserve rate changes. Although leverage still adds substantial incremental net income for the Fund, we expect that to decline modestly over time as borrowing costs rise.

We continue to see value in preferred securities, although security selection has become more challenging as yields have moved lower and older, higher-coupon issues have been refinanced. Flows into the preferred market (via mutual funds, exchange-traded funds (ETFs), asset managers, and retail investors) have been very strong for many years. If anything gives us pause, it is more this level of inflow than current valuations. ETFs that invest in preferreds have become very large relative to their target market segment (\$25-par listed securities), and it isn't clear where the outer limits are located. We know ETFs have been a source of volatility in the past (or opportunity, depending on one's viewpoint), and we expect they could be again in the future. Preferreds should benefit from continued strong credit quality, reliably earning coupons many of them tax-advantaged over time. However, at current levels they are potentially more sensitive to changes in market sentiment than they were six months ago.

<sup>1</sup> June 1, 2016 - August 31, 2016

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

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

September 30, 2016

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OVERVIEW****August 31, 2016 (Unaudited)****Fund Statistics**

|                                 |    |           |
|---------------------------------|----|-----------|
| Net Asset Value                 | \$ | 21.09     |
| Market Price                    | \$ | 21.92     |
| Premium                         |    | 3.94%     |
| Yield on Market Price           |    | 7.45%     |
| Common Stock Shares Outstanding |    | 9,925,935 |

**Moody's Ratings\*****% of Net Assets**

|                           |       |
|---------------------------|-------|
| A                         | 1.1%  |
| BBB                       | 67.4% |
| BB                        | 22.1% |
| Below BB                  | 0.9%  |
| Not Rated**               | 6.9%  |
| Below Investment Grade*** | 20.6% |

\* 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 1.6%.

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

**Industry Categories****% of Net Assets****Top 10 Holdings by Issuer****% of Net Assets**

|                              |      |
|------------------------------|------|
| Liberty Mutual Group         | 5.4% |
| JPMorgan Chase               | 4.8% |
| MetLife                      | 4.3% |
| Wells Fargo & Company        | 4.2% |
| Fifth Third Bancorp          | 3.8% |
| PNC Financial Services Group | 3.7% |

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|  |                            |
|--|----------------------------|
| M&T Bank Corporation   | 3.7%                       |
| Citigroup  | 3.5%                       |
| Axis Capital Holdings Ltd  | 2.8%                       |
| Enbridge Energy Partners   | 2.6%                       |
|  | <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) | 45%                        |

\*\*\*\* 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, 2016 (Unaudited)

| Shares/\$ Par                       |   | Value              |
|-------------------------------------|---|--------------------|
| <b>Preferred Securities 93.4%</b>   |   |                    |
| <b>Banking 50.2%</b>                |   |                    |
| 6,700                               | Astoria Financial Corp., 6.50%, Series C                    | \$ 180,313*        |
| \$ 750,000                          | Australia & New Zealand Banking Group Ltd., 6.75%, 144A**** | 844,494**(3)       |
| \$ 5,530,000                        | Bank of America Corporation, 8.00%, Series K                | 5,695,900*(1)      |
| Barclays Bank PLC:                  |   |                    |
| 81,750                              | 7.10%, Series 3   | 2,108,332**(3)     |
| 121,112                             | 8.125%, Series 5  | 3,170,711**(1)(3)  |
| BNP Paribas:                        |   |                    |
| \$ 5,100,000                        | 7.375%, 144A****  | 5,195,624**(3)     |
| \$ 2,000,000                        | 7.625%, 144A****  | 2,108,000**(3)     |
| Capital One Financial Corporation:  |   |                    |
| 15,436                              | 6.20%, Series F   | 420,476*           |
| 31,100                              | 6.70%, Series D   | 893,270*           |
| Citigroup, Inc.:                    |   |                    |
| 214,568                             | 6.875%, Series K  | 6,353,894*(1)      |
| 155,338                             | 7.125%, Series J  | 4,719,556*(1)      |
| CoBank ACB:                         |   |                    |
| 15,300                              | 6.125%, Series G, 144A****                                  | 1,528,565*         |
| 10,000                              | 6.20%, Series H, 144A****                                   | 1,049,375*         |
| 25,000                              | 6.25%, Series F, 144A****                                   | 2,669,533*(1)      |
| \$ 609,000                          | 6.25%, Series I, 144A****                                   | 660,819*           |
| \$ 10,000,000                       | Colonial BancGroup, 7.114%, 144A****                        | 15,000(4)(5)       |
| 369,733                             | Fifth Third Bancorp, 6.625%, Series I                       | 12,017,247*(1)     |
| First Horizon National Corporation: |   |                    |
| 875                                 | First Tennessee Bank, Adj. Rate, 3.75%(6), 144A****         | 603,996*           |
| 3                                   | FT Real Estate Securities Company, 9.50%, 144A****          | 3,907,500          |
| 24,645                              | First Republic Bank, 6.70%, Series A                        | 640,092*           |
| Goldman Sachs Group:                |   |                    |
| \$ 390,000                          | 5.70%, Series L   | 398,873*           |
| 60,000                              | 6.375%, Series K  | 1,753,200*(1)      |
| HSBC PLC:                           |   |                    |
| \$ 1,400,000                        | HSBC Capital Funding LP, 10.176%, 144A****                  | 2,123,100(1)(2)(3) |
| \$ 1,370,000                        | HSBC Holdings PLC, 6.875%                                   | 1,436,788**(3)     |
| 148,600                             | HSBC Holdings PLC, 8.00%, Series 2                          | 3,933,814**(1)(3)  |
| 140,000                             | Huntington Bancshares, Inc., 6.25%, Series D                | 3,904,950*(1)      |
| ING Groep NV:                       |   |                    |
| 30,000                              | 6.375%  | 771,000**(3)       |
| 50,000                              | 7.05%   | 1,252,625**(3)     |
| 31,425                              | 7.20%   | 826,242**(3)       |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

| Shares/\$<br>Par                        |   | Value                          |
|---|---|--------------------------------|
| <b>Preferred Securities (Continued)</b> |   |                                |
| <b>Banking (Continued)</b>              |   |                                |
| JPMorgan Chase & Company:               |   |                                |
| \$ 750,000                              | 6.00%, Series R                                   | \$ 792,525 <sup>*(1)</sup>     |
| 61,469                                  | 6.70%, Series T                                   | 1,742,031 <sup>*(1)</sup>      |
| \$ 4,791,000                            | 6.75%, Series S                                   | 5,408,847 <sup>*(1)</sup>      |
| \$ 7,000,000                            | 7.90%, Series I                                   | 7,271,250 <sup>*(1)</sup>      |
| 140,750                                 | KeyCorp, 8.625%, Series C                         | 3,687,650*                     |
| M&T Bank Corporation:                   |   |                                |
| \$ 3,500,000                            | 6.450%, Series E                                  | 3,911,250 <sup>*(1)</sup>      |
| \$ 7,648,000                            | 6.875%, Series D, 144A****                        | 7,714,920 <sup>*(1)</sup>      |
| Morgan Stanley:                         |   |                                |
| 85,000                                  | 6.875%, Series F                                  | 2,545,750 <sup>*(1)</sup>      |
| 86,900                                  | 7.125%, Series E                                  | 2,659,357 <sup>*(1)</sup>      |
| PNC Financial Services Group, Inc.:     |   |                                |
| 267,004                                 | 6.125%, Series P                                  | 8,088,219 <sup>*(1)</sup>      |
| \$ 3,150,000                            | 6.75%, Series O                                   | 3,559,500 <sup>*(1)</sup>      |
| \$ 2,515,000                            | Rabobank Nederland, 11.00%, 144A****              | 3,079,303 <sup>(1)(2)(3)</sup> |
| 89,774                                  | Royal Bank of Scotland Group PLC, 7.25%, Series T | 2,279,362 <sup>*(3)</sup>      |
| Sovereign Bancorp:                      |   |                                |
| 3,000                                   | Sovereign REIT, 12.00%, Series A, 144A****        | 3,821,250                      |
| \$ 3,170,000                            | Standard Chartered PLC, 7.50%, 144A****           | 3,174,755 <sup>*(3)</sup>      |
| 157,400                                 | State Street Corporation, 5.90%, Series D         | 4,498,886 <sup>*(1)</sup>      |
| 63,000                                  | US Bancorp, 6.50%, Series F                       | 1,968,908 <sup>*(1)</sup>      |
| 86,400                                  | Webster Financial Corporation, 6.40%, Series E    | 2,282,040*                     |
| Wells Fargo & Company:                  |   |                                |
| 81,100                                  | 5.85%, Series Q                                   | 2,279,924 <sup>*(1)</sup>      |
| \$ 1,250,000                            | 5.875%, Series U                                  | 1,382,125 <sup>*(1)(2)</sup>   |
| 106,200                                 | 6.625%, Series R                                  | 3,255,030 <sup>*(1)</sup>      |
| \$ 1,458,000                            | 7.98%, Series K                                   | 1,543,658 <sup>*(1)</sup>      |
| 169,700                                 | 8.00%, Series J                                   | 4,685,841 <sup>*(1)</sup>      |
| Zions Bancorporation:                   |   |                                |
| \$ 1,500,000                            | 7.20%, Series J                                   | 1,601,250*                     |
| 5,000                                   | 6.30%, Series G                                   | 160,113*                       |
| 125,000                                 | 7.90%, Series F                                   | 3,288,750 <sup>*(1)</sup>      |
|   |   | 157,865,783                    |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

| Shares/\$<br>Par                        |  | Value                          |
|---|--|--------------------------------|
| <b>Preferred Securities (Continued)</b> |  |                                |
|   | <b>Insurance 24.6%</b>                                 |                                |
| 145,144                                 | Allstate Corp., 6.625%, Series E                       | \$ 4,089,069 <sup>(1)</sup>    |
| \$ 1,875,000                            | Aon Corporation, 8.205% 01/01/27                       | 2,493,750 <sup>(1)(2)</sup>    |
| 80,000                                  | Arch Capital Group, Ltd., 6.75%, Series C              | 2,119,400 <sup>(1)(3)</sup>    |
|   | Aspen Insurance Holdings Ltd.:                         |                                |
| 10,000                                  | 5.95%  | 300,400 <sup>(3)</sup>         |
| 5,000                                   | 7.25%  | 132,762 <sup>(3)</sup>         |
| \$ 620,000                              | AXA SA, 6.379%, 144A****                               | 678,900 <sup>(1)(2)(3)</sup>   |
| 340,419                                 | Axis Capital Holdings Ltd., 6.875%, Series C           | 8,906,212 <sup>(1)(3)</sup>    |
| \$ 2,000,000                            | Catlin Insurance Company Ltd., 7.249%, 144A****        | 1,545,000 <sup>(3)</sup>       |
|   | Chubb Ltd.:  |                                |
| \$ 1,550,000                            | Ace Capital Trust II, 9.70% 04/01/30                   | 2,352,125 <sup>(1)(2)(3)</sup> |
| 210,000                                 | Delphi Financial Group, 7.376% 05/15/37                | 4,685,625 <sup>(1)(2)</sup>    |
| 20,000                                  | Endurance Specialty Holdings, 6.35%, Series C          | 557,400 <sup>(3)</sup>         |
| \$ 3,325,000                            | Everest Re Holdings, 6.60% 05/15/37                    | 2,709,875 <sup>(1)(2)</sup>    |
| 7,500                                   | Hartford Financial Services Group, Inc., 7.875%        | 236,719                        |
| \$ 8,600,000                            | Liberty Mutual Group, 10.75% 06/15/58, 144A****        | 13,007,500 <sup>(1)(2)</sup>   |
|   | MetLife:   |                                |
| \$ 3,130,000                            | MetLife, Inc., 10.75% 08/01/39                         | 5,047,125 <sup>(1)(2)</sup>    |
| \$ 577,000                              | MetLife Capital Trust IV, 7.875% 12/15/37, 144A****    | 727,020 <sup>(1)(2)</sup>      |
| \$ 5,335,000                            | MetLife Capital Trust X, 9.25% 04/08/38, 144A****      | 7,640,147 <sup>(1)(2)</sup>    |
|   | PartnerRe Ltd.:  |                                |
| 33,950                                  | 5.875%, Series I                                       | 937,020 <sup>(1)(3)</sup>      |
| 13,917                                  | 6.50%, Series G  | 405,124 <sup>(1)(3)</sup>      |
| 117,494                                 | 7.25%, Series H  | 3,695,480 <sup>(1)(3)</sup>    |
| \$ 704,000                              | Prudential Financial, Inc., 5.625% 06/15/43            | 755,920 <sup>(1)(2)</sup>      |
|   | QBE Insurance:   |                                |
| \$ 4,333,000                            | QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A**** | 4,934,204 <sup>(1)(2)(3)</sup> |
|   | Unum Group:  |                                |
| \$ 2,490,000                            | Provident Financing Trust I, 7.405% 03/15/38           | 2,795,879 <sup>(1)(2)</sup>    |
| 44,000                                  | W.R. Berkley Corporation, 5.75% 06/01/56               | 1,155,110                      |
|   | XL Group PLC:  |                                |
| \$ 7,200,000                            | XL Capital Ltd., 6.50%, Series E                       | 5,407,200 <sup>(1)(2)(3)</sup> |
|   |  | 77,314,966                     |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

| Shares/\$<br>Par                                |  | Value                       |
|---|--|-----------------------------|
| <b>Preferred Securities (Continued)</b>         |  |                             |
| <b>Utilities 12.1%</b>                          |  |                             |
| 33,700  | Baltimore Gas & Electric Company, 6.70%, Series 1993<br>Commonwealth Edison: | \$ 3,432,136*               |
| \$ 3,160,000                                    | COMED Financing III, 6.35% 03/15/33  | 3,369,802 <sup>(1)(2)</sup> |
| 164,000   | Dominion Resources, Inc., 5.25% 07/30/76, Series A                           | 4,225,050                   |
| 40,000  | DTE Energy Company, 5.375% 06/01/76, Series B                                | 1,048,500                   |
| \$ 2,940,000                                    | Emera, Inc., 6.75% 06/15/76, Series 2016A                                    | 3,184,734 <sup>(3)(1)</sup> |
| 70,791  | Georgia Power Company, 6.50%, Series 2007A                                   | 7,452,969*                  |
| 17,800  | Indianapolis Power & Light Company, 5.65%                                    | 1,818,382 <sup>*(1)</sup>   |
| 107,233   | Integrus Energy Group, Inc., 6.00%<br>Nextera Energy:                        | 2,949,176 <sup>(1)</sup>    |
| \$ 1,997,000                                    | FPL Group Capital, Inc., 6.65% 06/15/67, Series C                            | 1,672,488 <sup>(1)(2)</sup> |
| \$ 1,500,000                                    | FPL Group Capital, Inc., 7.30% 09/01/67, Series D<br>PPL Corp:               | 1,494,300 <sup>(1)(2)</sup> |
| \$ 3,450,000                                    | PPL Capital Funding, Inc., 6.70% 03/30/67, Series A                          | 2,995,663 <sup>(1)(2)</sup> |
| \$ 3,900,000                                    | Puget Sound Energy, Inc., 6.974% 06/01/67, Series A                          | 3,346,707                   |
| 30,000  | SCE Trust V, 5.45%, Series K   | 889,875 <sup>*(1)</sup>     |
|   |  | 37,879,782                  |
| <b>Energy 3.5%</b>                              |  |                             |
| \$ 750,000                                      | DCP Midstream LLC, 5.85% 05/21/43, 144A****                                  | 577,500                     |
| \$ 9,485,000                                    | Enbridge Energy Partners LP, 8.05% 10/01/37                                  | 8,097,819 <sup>(1)(2)</sup> |
| \$ 750,000                                      | Enterprise Products Operating L.P., 8.375% 08/01/66, Series A                | 704,063 <sup>(1)</sup>      |
| \$ 1,500,000                                    | Transcanada Pipelines, Ltd., 5.875% 08/15/76, Series 2016A                   | 1,602,188 <sup>(3)</sup>    |
|   |  | 10,981,570                  |
| <b>Real Estate Investment Trust (REIT) 1.3%</b> |  |                             |
| National Retail Properties, Inc.:               |  |                             |
| 35,000  | 5.70%, Series E  | 933,888 <sup>(1)</sup>      |
| 14,456  | 6.625%, Series D   | 374,447                     |
| PS Business Parks, Inc.:                        |  |                             |
| 6,698   | 5.70%, Series V  | 176,576                     |
| 7,128   | 5.75%, Series U  | 184,544                     |
| 64,900  | 6.45%, Series S  | 1,683,668 <sup>(1)(2)</sup> |
| 24,868  | Regency Centers Corporation, 6.625%, Series 6                                | 646,879                     |
|   |  | 4,000,002                   |



Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

| Shares/\$<br>Par                        |  | Value                        |
|---|--|------------------------------|
| <b>Preferred Securities (Continued)</b> |  |                              |
| <b>Miscellaneous Industries 1.7%</b>    |  |                              |
| BHP Billiton Limited:                   |  |                              |
| \$ 600,000                              | BHP Billiton Finance U.S.A., Ltd., 6.75% 10/19/75, 144A****                | \$ 686,250 <sup>(3)</sup>    |
| \$ 1,388,000                            | General Electric Company, 5.00%, Series D                                  | 1,490,365 <sup>*(1)(2)</sup> |
| 34,700                                  | Ocean Spray Cranberries, Inc., 6.25%, 144A****                             | 3,120,831*                   |
|   |  | 5,297,446                    |
|   | <b>Total Preferred Securities</b><br>(Cost \$282,639,456)                  | 293,339,549                  |
| <b>Corporate Debt Securities 5.0%</b>   |  |                              |
| <b>Banking 1.8%</b>                     |  |                              |
| \$ 2,951,000                            | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes                  | 3,846,747 <sup>(1)(2)</sup>  |
| 48,000                                  | Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes                   | 1,252,440 <sup>(1)</sup>     |
| 18,000                                  | Zions Bancorporation, 6.95% 09/15/28, Sub Notes                            | 554,985                      |
|   |  | 5,654,172                    |
| <b>Financial Services 0.2%</b>          |  |                              |
| 25,046                                  | Affiliated Managers Group, Inc., 6.375% 08/15/42                           | 668,039                      |
| \$ 4,726,012                            | Lehman Brothers, Guaranteed Note, Variable Rate, 5.843% 12/16/16, 144A**** | 133,274 <sup>(4)(5)</sup>    |
|   |  | 801,313                      |
| <b>Insurance 1.3%</b>                   |  |                              |
| \$ 3,000,000                            | Liberty Mutual Insurance, 7.697% 10/15/97, 144A****                        | 4,020,690 <sup>(1)(2)</sup>  |
|   |  | 4,020,690                    |
| <b>Energy 0.4%</b>                      |  |                              |
| \$ 940,000                              | Energy Transfer Partners LP, 8.25% 11/15/29                                | 1,170,404 <sup>(1)(2)</sup>  |
|   |  | 1,170,404                    |
| <b>Communication 0.4%</b>               |  |                              |
| 49,000                                  | Qwest Corporation, 6.50% 09/01/56  | 1,271,668                    |
|   |  | 1,271,668                    |



Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

| Shares/\$<br>Par                             |   | Value                       |
|--|---|-----------------------------|
| <b>Corporate Debt Securities (Continued)</b> |   |                             |
|  | <b>Miscellaneous Industries 0.9%</b>                          |                             |
| 12,000                                       | eBay, Inc., 6.00% 02/01/56                                    | \$ 329,310                  |
| \$ 2,160,000                                 | Pulte Group, Inc., 7.875% 06/15/32                            | 2,526,120 <sup>(1)(2)</sup> |
|  |   | 2,855,430                   |
|  | <b>Total Corporate Debt Securities</b><br>(Cost \$12,674,913) | 15,773,677                  |
| <b>Common Stock 0.2%</b>                     |   |                             |
|  | <b>Banking 0.2%</b>   |                             |
| 13,500                                       | CIT Group, Inc.   | 497,880*                    |
|  |   | 497,880                     |
|  | <b>Total Common Stock</b><br>(Cost \$2,533,093)               | 497,880                     |
| <b>Money Market Fund 0.4%</b>                |   |                             |
|  | BlackRock Liquidity Funds:                                    |                             |
| 1,249,470                                    | T-Fund, Institutional Class                                   | 1,249,470                   |
|  | <b>Total Money Market Fund</b><br>(Cost \$1,249,470)          | 1,249,470                   |
|  | <b>Total Investments</b> (Cost \$299,096,932***)              | 99.0% 310,860,576           |
|  | <b>Other Assets And Liabilities</b> (Net)                     | 1.0% 3,264,616              |
|  | <b>Total Managed Assets</b>                                   | 100.0% \$ 314,125,192       |
|  | <b>Loan Principal Balance</b>                                 | (104,800,000)               |
|  | <b>Total Net Assets Available To Common Stock</b>             | \$ 209,325,192              |

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**August 31, 2016 (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, 2016, these securities amounted to \$75,567,550 or 24.0% 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 \$191,422,814 at August 31, 2016.

(2) All or a portion of this security has been rehypothecated. The total value of such securities was \$68,634,588 at August 31, 2016.

(3) Foreign Issuer.

(4) Illiquid security (designation is unaudited).

(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of August 31, 2016.

(6) Represents the rate in effect as of the reporting date.

The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

Flaherty &amp; Crumrine Total Return Fund Incorporated

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>****For the period from December 1, 2015 through August 31, 2016 (Unaudited)**

|  | Value               |
|--|---------------------|
| <b>OPERATIONS:</b>   |                     |
| Net investment income  | \$ 11,912,364       |
| Net realized gain/(loss) on investments sold during the period                                     | 550,779             |
| Change in net unrealized appreciation/(depreciation) of investments                                | 6,914,094           |
| <b>Net increase in net assets resulting from operations</b>  | <b>19,377,237</b>   |
| <b>DISTRIBUTIONS:</b>  |                     |
| Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup>              | (12,133,909)        |
| <b>Total Distributions to Common Stock Shareholders</b>  | <b>(12,133,909)</b> |
| <b>FUND SHARE TRANSACTIONS:</b>  |                     |
| Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan                 | 459,801             |
| <b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b> | <b>459,801</b>      |
| <b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD</b>                         | <b>\$ 7,703,129</b> |
| <b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>   |                     |
| Beginning of period  | \$ 201,622,063      |
| Net increase in net assets during the period   | 7,703,129           |
| End of period  | \$ 209,325,192      |

(1) These tables summarize the nine months ended August 31, 2016 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2015.

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

Flaherty &amp; Crumrine Total Return Fund Incorporated

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>****For the period from December 1, 2015 through August 31, 2016 (Unaudited)****For a Common Stock share outstanding throughout the period****PER SHARE OPERATING PERFORMANCE:**

|                                      |          |
|--------------------------------------|----------|
| Net asset value, beginning of period | \$ 20.36 |
|--------------------------------------|----------|

**INVESTMENT OPERATIONS:**

|                       |      |
|-----------------------|------|
| Net investment income | 1.20 |
|-----------------------|------|

|   |      |
|---|------|
| Net realized and unrealized gain/(loss) on investments. | 0.75 |
|---|------|

|                                  |      |
|----------------------------------|------|
| Total from investment operations | 1.95 |
|----------------------------------|------|

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

|                            |        |
|----------------------------|--------|
| From net investment income | (1.22) |
|----------------------------|--------|

|  |        |
|--|--------|
| Total distributions to Common Stock Shareholders | (1.22) |
|--|--------|

|                                |          |
|--------------------------------|----------|
| Net asset value, end of period | \$ 21.09 |
|--------------------------------|----------|

|                             |          |
|-----------------------------|----------|
| Market value, end of period | \$ 21.92 |
|-----------------------------|----------|

|  |           |
|--|-----------|
| Common Stock shares outstanding, end of period | 9,925,935 |
|--|-----------|

**RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:**

|                       |        |
|-----------------------|--------|
| Net investment income | 7.95%* |
|-----------------------|--------|

|   |        |
|---|--------|
| Operating expenses including interest expense | 2.04%* |
|---|--------|

|   |        |
|---|--------|
| Operating expenses excluding interest expense | 1.33%* |
|---|--------|

**SUPPLEMENTAL DATA:**

|                         |       |
|-------------------------|-------|
| Portfolio turnover rate | 10%** |
|-------------------------|-------|

|  |            |
|--|------------|
| Total managed assets, end of period (in 000 s) | \$ 314,125 |
|--|------------|

|  |        |
|--|--------|
| Ratio of operating expenses including interest expense to total managed assets | 1.33%* |
|--|--------|

|  |        |
|--|--------|
| Ratio of operating expenses excluding interest expense to total managed assets | 0.87%* |
|--|--------|

(1) These tables summarize the nine months ended August 31, 2016 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2015.

\* 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.

Flaherty &amp; Crumrine Total Return Fund Incorporated

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

|                   | <b>Total<br/>Dividends<br/>Paid</b> | <b>Net Asset<br/>Value</b> | <b>NYSE<br/>Closing Price</b> | <b>Dividend<br/>Reinvestment<br/>Price<sup>(1)</sup></b> |
|-------------------|-------------------------------------|----------------------------|-------------------------------|--|
| December 31, 2015 | \$ 0.1360                           | \$ 20.16                   | \$ 19.17                      | \$ 19.26   |
| January 29, 2016  | 0.1360                              | 19.79                      | 19.79                         | 19.79  |
| February 29, 2016 | 0.1360                              | 19.43                      | 19.96                         | 19.43  |
| March 31, 2016    | 0.1360                              | 19.84                      | 20.28                         | 19.84  |
| April 29, 2016    | 0.1360                              | 19.92                      | 20.75                         | 19.92  |
| May 31, 2016      | 0.1360                              | 20.33                      | 20.95                         | 20.33  |
| June 30, 2016     | 0.1360                              | 20.40                      | 21.91                         | 20.81  |
| July 29, 2016     | 0.1360                              | 20.82                      | 21.63                         | 20.82  |
| August 31, 2016   | 0.1360                              | 21.09                      | 21.92                         | 21.09  |

<sup>(1)</sup> 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.

Flaherty & Crumrine Total Return Fund Incorporated

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

### 1. Aggregate Information for Federal Income Tax Purposes

At August 31, 2016, the aggregate cost of securities for federal income tax purposes was \$310,027,281, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$27,722,085 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$26,888,790.

### 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.



Flaherty &amp; Crumrine Total Return Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)**

A summary of the inputs used to value the Fund's investments as of August 31, 2016 is as follows:

|                                     | Total<br>Value at<br>August 31, 2016 | Level 1<br>Quoted<br>Price | Level 2<br>Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
|-------------------------------------|--------------------------------------|----------------------------|--|--|
| <b>Preferred Securities</b>         |                                      |                            |  |  |
| Banking                             | \$ 157,865,783                       | \$ 128,246,678             | \$ 29,604,105                                  | \$ 15,000  |
| Insurance                           | 77,314,966                           | 42,112,108                 | 35,202,858                                     |  |
| Utilities                           | 37,879,782                           | 18,459,786                 | 19,419,996                                     |  |
| Energy                              | 10,981,570                           | 2,306,251                  | 8,675,319                                      |  |
| Real Estate Investment Trust (REIT) | 4,000,002                            | 4,000,002                  |  |  |
| Miscellaneous Industries            | 5,297,446                            | 2,176,615                  | 3,120,831                                      |  |
| <b>Corporate Debt Securities</b>    |                                      |                            |  |  |
| Banking                             | 5,654,172                            | 1,807,425                  | 3,846,747                                      |  |
| Financial Services                  | 801,313                              | 668,039                    |  | 133,274  |
| Insurance                           | 4,020,690                            |                            | 4,020,690                                      |  |
| Energy                              | 1,170,404                            |                            | 1,170,404                                      |  |
| Communication                       | 1,271,668                            | 1,271,668                  |  |  |
| Miscellaneous Industries            | 2,855,430                            | 329,310                    | 2,526,120                                      |  |
| <b>Common Stock</b>                 |                                      |                            |  |  |
| Banking                             | 497,880                              | 497,880                    |  |  |
| Money Market Fund                   | 1,249,470                            | 1,249,470                  |  |  |
| <b>Total Investments</b>            | <b>\$ 310,860,576</b>                | <b>\$ 203,125,232</b>      | <b>\$ 107,587,070</b>                          | <b>\$ 148,274</b>                                |

During the reporting period, there were no transfers into Level 1 from Level 2 or into Level 2 from Level 1.

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.

Flaherty &amp; Crumrine Total Return Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)**

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

|  | Total Investments | Preferred Securities<br>Banking | Corporate Debt Securities<br>Financial Services |
|--|-------------------|---------------------------------|---|
| <b>Balance as of 11/30/15</b>                    | \$ 164,342        | \$ 15,000                       | \$ 149,342                                      |
| Accrued discounts/premiums                       |                   |                                 |   |
| Realized gain/(loss)                             |                   |                                 |   |
| Change in unrealized appreciation/(depreciation) | (16,068)          |                                 | (16,068)  |
| Purchases  |                   |                                 |   |
| Sales  |                   |                                 |   |
| Transfers in                                     |                   |                                 |   |
| Transfers out                                    |                   |                                 |   |
| <b>Balance as of 08/31/16</b>                    | \$ 148,274        | \$ 15,000                       | \$ 133,274                                      |

For the nine months ended August 31, 2016, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$(16,068).

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

| Category   | Fair Value at<br>08/31/16 | Valuation Technique | Unobservable Input                 | Input Range (Wgt Avg) |
|--|---------------------------|---------------------|------------------------------------|-----------------------|
| Preferred Securities<br>(Banking)                    | \$ 15,000                 | Bankruptcy recovery | Credit/Structure-specific recovery | 0.00%-0.50% (0.15%)   |
| Corporate Debt<br>Securities<br>(Financial Services) | 133,274                   | Bankruptcy recovery | Credit/Structure-specific recovery | 2%-5% (2.8%)          |

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs would result in a significantly higher or lower fair value measurement.

**Directors**

R. Eric Chadwick, , CFA

Chairman of the Board

David Gale

Morgan Gust

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 Total Return 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 Total Return 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, 2016

[www.preferredincome.com](http://www.preferredincome.com)