FLAHERTY & CRUMRINE TOTAL RETURN FUND INC
Form N-30B-2
October 26, 2018
FLAHERTY & CRUMRINE Total Return Fund

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

Preferreds performed well in the third fiscal quarter[1], bringing total return for the year just back into positive territory. While these returns have not kept pace with returns in recent years, preferreds continue to outperform certain areas of the fixed income market. Total return[2] on net asset value ("NAV") was 2.2% for the quarter, and 0.3% for the first nine months of fiscal 2018. Total return on market price over the same periods was 3.5% and -2.5%, respectively.

By most accounts, it has been a challenging year for corporate bond investments. As the current economic cycle has matured, interest rates rose modestly and credit spreads gradually widened. The yield curve flattened as the Federal Reserve methodically raised its benchmark rate while the long end of the Treasury yield curve moved up only modestly given a limited increase in broad-based inflation and subdued expectations for long-term economic growth. Over the first nine months of the Fund's fiscal year, the Bloomberg Barclays U.S. Aggregate Index returned -0.5%, while the Bloomberg Barclays Long U.S. Credit Index returned -2.7%.

Preferreds outperformed these fixed-income benchmarks for a few key reasons. First, duration is moderate for many preferreds – and for the Fund's portfolio specifically. We won't repeat the merits of fixed-to-float preferreds here, but as previously discussed they offer attractive yields with intermediate duration. Owning both fixed-rate and fixed-to-float preferreds allows for management of portfolio duration despite the long-term nature of the Fund's investments.

Second, an issuer's preferreds generally yield more than its corporate bonds. The Fund's strategy is to identify investment-grade issuers and invest down the capital structure (into preferreds) to earn extra yield for what is, in most cases, similar default risk. For issuers with solid credit quality, preferreds have consistently outperformed corporate bonds over a credit cycle. Over time, higher yields can make up for a lot of principal change and dampen effects of higher interest rates.

Outperformance of preferreds over other fixed income securities has been even better when considered after-tax. If shareholders missed our discussion on taxes in the semi-annual report dated May 31, 2018, we encourage a read. Most preferreds offer tax-advantaged income, which further enhances the extra yield earned for subordination (i.e. being lower in the capital structure than senior debt).

We believe the case for preferreds as an income investment remains largely intact, with a combination of higher relative yields, tax advantages, and benign credit conditions. Returns may be bumpy as markets navigate a late-cycle economy (albeit one that's currently showing few signs of weakness) and an active Federal Reserve. For fixed-income investors, however, preferreds' combination of credit quality, intermediate duration and yield should remain attractive.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2018

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[1] June 1, 2018 – August 31, 2018

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

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OVERVIEW

August 31, 2018 (Unaudited)

Fund Statistics

Net Asset Value	$ 20.60	
Market Price	$ 19.70	
Discount	4.37	%
Yield on Market Price	7.25	%
Common Stock Shares Outstanding	9,958,104	

Security Ratings**	**% of Net Assets†**	
BBB	56.0	%
BB	33.2	%
Below “BB”	1.1	%
Not Rated***	8.5	%

Portfolio Rating Guidelines	**% of Net Assets†**	
Security Rated Below Investment Grade By All****	33.3	%
Issuer or Senior Debt Rated Below Investment Grade by All*****2.6		%

**Ratings are from Moody’s Investors Service, Inc. “Not Rated” securities are those with no ratings available from Moody’s.

***Excludes common stock and money market fund investments and net other assets and liabilities of 1.2%.

****Security rating below investment grade by all of Moody’s, Standard & Poor’s, and Fitch Ratings.

*****Security rating and issuer’s senior unsecured debt or issuer rating are below investment grade by all of Moody’s, S&P, and Fitch. The Fund’s investment policy currently limits such securities to 10% of Net Assets.

Industry Categories* % of Net Assets†

Top 10 Holdings by Issuer	**% of Net Assets†**	
JPMorgan Chase & Co	4.7	%
MetLife Inc	4.6	%

Wells Fargo & Company	4.2	%
PNC Financial Services Group Inc	4.1	%
Citigroup Inc	3.8	%
Liberty Mutual Group	3.7	%
BNP Paribas	3.5	%
Morgan Stanley	3.4	%
Enbridge Energy Partners	3.0	%
Fifth Third Bancorp	3.0	%

	% of Net Assets****†**	
Holdings Generating Qualified Dividend Income (QDI) for Individuals	60	%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	43	%

******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.

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS

August 31, 2018 (Unaudited)

Shares/$ Par	**Value**		
Preferred Securities[§] — 93.8%			
Banking — 56.1%			
$ 2,550,000	Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A****	$ 2,652,000	**(1)(2)
$ 3,000,000	Banco Bilbao Vizcaya Argentaria SA, 6.125% to 11/16/27 then SW5 + 3.87%	2,653,710	**(1)(2)
$ 710,000	Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A****	723,845	**(2)
$ 2,550,000	Bank of America Corporation, 5.875% to 03/15/28 then 3ML + 2.931%, Series FF	2,553,187	*(1)
	Barclays Bank PLC:		
84,112	8.125%, Series 5	2,223,921	**(1)(2)
$ 1,345,000	7.75%, to 09/15/23 then SW5 + 4.842%	1,360,199	**(2)
$ 3,220,000	7.875% to 03/15/22 then SW5 + 6.772%, 144A****	3,350,503	**(1)(2)
	BNP Paribas:		
$ 560,000	7.00%, to 08/16/28 then SW5 + 3.98%, 144A****	561,400	**(2)
$ 7,830,000	7.375% to 08/19/25 then SW5 + 5.15%, 144A****	8,254,777	**(1)(2)
$ 2,000,000	7.625% to 03/30/21 then SW5 + 6.314%, 144A****	2,130,000	**(1)(2)
	Capital One Financial Corporation:		
2,910	6.00%, Series B	74,656	*
17,022	6.00%, Series H	448,104	*
15,436	6.20%, Series F	404,732	*
28,100	6.70%, Series D	741,418	*(1)
	Citigroup, Inc.:		
$ 1,120,000	5.95% to 05/15/25 then 3ML + 3.905%, Series P	1,142,064	*
227,619	6.875% to 11/15/23 then 3ML + 4.13%, Series K	6,340,327	*(1)
155,338	7.125% to 09/30/23 then 3ML + 4.04%, Series J	4,420,143	*(1)
	CoBank ACB:		
15,300	6.125%, Series G, 144A****	1,537,650	*
17,500	6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A****	1,872,500	*

25,000	6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A****	2,612,500	*(1)
$ 609,000	6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A****	648,585	*
$ 10,000,000	Colonial BancGroup, 7.114%, 144A****	1,000	(3)(4)††
$ 395,000	Credit Agricole SA, 7.875% to 01/23/24 then SW5 + 4.898%,144A****	420,160	**(2)
334,976	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	9,360,904	*(1)
	First Horizon National Corporation:		
875	First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75%(5),144A****	682,591	*
3	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	3,888,000	
	Goldman Sachs Group:		
$ 2,700,000	5.00% to 11/10/22 then 3ML + 2.874%, Series P	2,560,928	*(1)
$ 390,000	5.70% to 05/10/19 then 3ML + 3.884%, Series L	395,893	*
60,000	6.375% to 05/10/24 then 3ML + 3.55%, Series K	1,633,800	*(1)
	HSBC Holdings PLC:		
$ 500,000	6.00% to 05/22/27 then ISDA5 + 3.746%	485,650	**(2)
$ 4,265,000	6.50% to 03/23/28 then ISDA5 + 3.606%	4,179,700	**(1)(2)
$ 1,370,000	6.875% to 06/01/21 then ISDA5 + 5.514%	1,429,937	**(1)(2)
$ 1,400,000	HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A****	2,089,500	(1)(2)

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2018 (Unaudited)

Shares/$ Par	**Value**		
Preferred Securities — (Continued)			
Banking — (Continued)			
	Huntington Bancshares, Inc.:		
140,000	6.25%, Series D	$ 3,721,200	*(1)
$ 1,400,000	5.70% to 04/15/23 then 3ML + 2.88%, Series E	1,399,125	*(1)
30,000	ING Groep NV, 6.375%	770,400	**(2)
	JPMorgan Chase & Company:		
61,469	6.70%, Series T	1,599,423	*(1)
$ 7,000,000	3ML + 3.47%, 5.8089%(5) Series I	7,057,750	*(1)
$ 750,000	6.00% to 08/01/23 then 3ML + 3.30%, Series R	783,577	*(1)
$ 4,791,000	6.75% to 02/01/24 then 3ML + 3.78%, Series S	5,279,442	*(1)
122,200	KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E	3,425,877	*(1)
$ 2,250,000	Lloyds TSB Bank PLC, 12.00% to 12/16/24 then 3ML + 11.756%, 144A****	2,738,376	(2)
$ 3,500,000	M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E	3,753,750	*(1)
$ 730,000	Macquarie Bank Ltd., 6.125% to 03/08/27 then SW5 + 3.703%, 144A****	670,687	**(2)
58,320	MB Financial, Inc., 6.00%, Series C	1,522,152	*(1)
	Morgan Stanley:		
213,700	5.85% to 04/15/27 then 3ML + 3.491%, Series K	5,593,597	*(1)
85,000	6.875% to 01/15/24 then 3ML + 3.94%, Series F	2,393,175	*(1)
86,900	7.125% to 10/15/23 then 3ML + 4.32%, Series E	2,504,023	*(1)
235,200	New York Community Bancorp, Inc., 6.375% to 03/17/27 then 3ML + 3.821%, Series A	6,559,728	*(1)
	PNC Financial Services Group, Inc.:		
352,826	6.125% to 05/01/22 then 3ML + 4.067%, Series P	9,824,440	*(1)
$ 2,850,000	6.75% to 08/01/21 then 3ML + 3.678%, Series O	3,102,225	*(1)
$ 2,515,000	RaboBank Nederland, 11.00% to 06/30/19 then 3ML + 10.868%, 144A****	2,672,187	(1)(2)
$ 6,000,000	Societe Generale SA, 6.75% to 04/06/28 then SW5 + 3.929%, 144A****	5,685,000	**(2)
3,000	Sovereign Bancorp: Sovereign REIT, 12.00%, Series A, 144A****	3,532,500	

	Standard Chartered PLC:		
$ 3,510,000	7.50% to 04/02/22 then SW5 + 6.301%, 144A****	3,632,850	**(1)(2)
$ 1,500,000	7.75% to 04/02/23 then SW5 + 5.723%, 144A****	1,558,125	**(1)(2)
157,400	State Street Corporation, 5.90% to 03/15/24 then 3ML + 3.108%, Series D	4,272,623	*(1)
13,616	Sterling Bancorp, 6.50%, Series A	362,668	*
39,000	Valley National Bancorp, 5.50% to 09/30/22 then 3ML + 3.578%, Series B	1,021,800	*
	Wells Fargo & Company:		
24,700	5.625%, Series Y	629,230	*
325	7.50%, Series L	421,845	*
169,700	8.00%, Series J	4,262,016	*
81,100	5.85% to 09/15/23 then 3ML + 3.09%, Series Q	2,100,085	*(1)
$ 1,250,000	5.875% to 06/15/25 then 3ML + 3.99%, Series U	1,318,750	*(1)
$ 1,458,000	3ML + 3.77%, 6.1106%(5) Series K	1,478,631	*(1)
106,200	6.625% to 03/15/24 then 3ML + 3.69%, Series R	2,921,562	*(1)

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2018 (Unaudited)

Shares/$ Par		Value	
Preferred Securities — (Continued)			
Banking — (Continued)			
$ 1,600,000	Westpac Banking Corporation, 5.00% to 09/21/27 then ISDA5 + 2.888%	$ 1,437,297	**(1)(2)
	Zions Bancorporation:		
5,000	6.30% to 03/15/23 then 3ML + 4.24%, Series G	135,980	*
$ 1,500,000	7.20% to 09/15/23 then 3ML + 4.44%, Series J	1,608,750	*
		175,585,130	
Financial Services — 0.8%			
$ 1,100,000	Credit Suisse Group AG, 7.50% to 07/17/23 then SW5 + 4.60%, 144A****	1,140,150	**(2)
$ 640,000	E*TRADE Financial Corporation, 5.30% to 03/15/23 then 3ML + 3.16%, Series B	638,080	*
$ 610,000	General Motors Financial Company, 5.75% to 09/30/27 then 3ML + 3.598%, Series A	595,131	*
		2,373,361	
Insurance — 20.3%			
145,144	Allstate Corporation, 6.625%, Series E	3,775,645	*(1)
$ 1,290,000	Aon Corporation, 8.205% 01/01/27	1,583,475	(1)
	Arch Capital Group, Ltd.:		
16,000	5.25%, Series E	387,955	**(2)
14,200	5.45%, Series F	352,018	**(2)
	Aspen Insurance Holdings Ltd.:		
25,000	5.625%	626,500	**(2)
9,000	5.95% to 07/01/23 then 3ML + 4.06%	233,550	**(2)
$ 620,000	AXA SA, 6.379% to 12/14/36 then 3ML + 2.256%, 144A****	663,400	**(1)(2)
5,000	Axis Capital Holdings Ltd., 5.50%, Series E	124,950	**(2)
$ 1,550,000	Chubb Ltd.: Ace Capital Trust II, 9.70% 04/01/30	2,181,625	(1)(2)
210,000	Delphi Financial Group, 3ML + 3.19%, 5.5038%(5) 05/15/37	4,751,250	(1)
61,000	Enstar Group Ltd., 7.00% to 08/31/28 then 3ML + 4.015%, Series D	1,603,385	**(1)(2)

$ 1,519,000	Everest Reinsurance Holdings, 3ML + 2.385%, 4.6988%[(5)] 05/15/37	1,503,810	(1)
7,500	Hartford Financial Services Group, Inc., 7.875% to 04/15/22 then 3ML + 5.596%, 04/15/42	214,463	
$ 6,351,000	Liberty Mutual Group, 7.80% 03/15/37, 144A****	7,510,058	(1)
	MetLife, Inc.:		
$ 5,335,000	9.25% 04/08/38, 144A****	7,282,275	(1)
$ 4,130,000	10.75% 08/01/39	6,370,525	(1)
$ 577,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	718,365	(1)
	PartnerRe Ltd.:		
33,950	5.875%, Series I	853,843	**(1)(2)
13,917	6.50%, Series G	365,460	**(1)(2)
117,494	7.25%, Series H	3,290,419	**(1)(2)
$ 704,000	Prudential Financial, Inc., 5.625% to 06/15/23 then 3ML + 3.92%, 06/15/43	737,074	(1)
$ 5,300,000	QBE Insurance Group Ltd., 7.50% to 11/24/23 then SW10 + 6.03%, 11/24/43, 144A****	5,796,875	(1)(2)
24,400	RenaissanceRe Holdings Ltd., 5.75%, Series F	619,638	**(2)

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2018 (Unaudited)

Shares/$ Par	**Value**		
Preferred Securities — (Continued)			
Insurance — (Continued)			
$ 4,476,000	Unum Group: Provident Financing Trust I, 7.405% 03/15/38	$ 4,925,838	(1)
60,339	W.R. Berkley Corporation, 5.75% 06/01/56	1,502,139	(1)
	XL Group Limited:		
$ 2,000,000	Catlin Insurance Company Ltd., 3ML + 2.975%, 5.3169%(5), 144A****	1,980,000	(1)(2)
$ 3,446,000	XL Capital Ltd., 3ML + 2.4575%, 4.7967%(5), Series E	3,394,655	(1)(2)
		63,349,190	
Utilities — 6.4%			
$ 900,000	CenterPoint Energy, Inc., 6.125% to 09/01/23 then 3ML + 3.27%, Series A	918,000	*
$ 3,394,000	Commonwealth Edison: COMED Financing III, 6.35% 03/15/33	3,600,729	(1)
195,000	Dominion Energy, Inc., 5.25% 07/30/76, Series A	4,807,725	(1)
	DTE Energy Company:		
30,000	5.375% 06/01/76, Series B	742,110	(1)
46,993	6.00% 12/15/76, Series F	1,234,976	
$ 2,940,000	Emera, Inc., 6.75% to 06/15/26 then 3ML + 5.44%, 06/15/76, Series 2016A	3,131,455	(1)(2)
2,200	Georgia Power Company, 5.00% 10/01/77, Series 2017A	54,043	
17,800	Indianapolis Power & Light Company, 5.65%	1,826,102	*(1)
100,233	Integrys Energy Group, Inc., 6.00% to 08/01/23 then 3ML + 3.22%, 08/01/73	2,598,541	(1)
$ 440,000	NiSource, Inc., 5.65% to 06/15/23 then T5Y + 2.843%, 144A****	446,050	*
30,000	Southern California Edison: SCE Trust V, 5.45% to 03/15/26 then 3ML + 3.79%, Series K	781,650	*(1)
		20,141,381	
Energy — 7.2%			
$ 750,000	DCP Midstream LLC, 5.85% to 05/21/23 then 3ML + 3.85%, 05/21/43, 144A****	693,750	
	DCP Midstream LP:		

$ 1,550,000	7.375% to 12/15/22 then 3ML + 5.148%, Series A	1,552,906	(1)
5,200	7.875% to 06/15/23 then 3ML + 4.919%, Series B	134,602	
$ 1,500,000	Enbridge, Inc., 6.00% to 01/15/27 then 3ML + 3.89%, 01/15/77	1,466,250	(1)(2)
$ 9,485,000	Enbridge Energy Partners LP, 3ML + 3.7975%, 6.1349%[(5)] 10/01/37	9,537,467	(1)
	Energy Transfer Partners LP:		
151,330	7.375% to 05/15/23 then 3ML + 4.53%, Series C	3,883,567	(1)
2,100	7.625% to 08/15/23 then 3ML + 4.738%, Series D	55,125	
$ 1,000,000	Enterprise Products Operating L.P., 5.25% to 08/16/27 then 3ML + 3.033%, 08/16/77, Series E	947,500	
3,000	Kinder Morgan, Inc., 9.75% 10/26/18, Series A	99,677	*
45,500	NuStar Logistics LP, 3ML + 6.734%, 9.0732%[(5)] 01/15/43	1,180,498	
	Transcanada Pipelines, Ltd.:		
$ 1,500,000	5.30% to 03/15/27 then 3ML + 3.208%, 03/15/77, Series 2017-A	1,440,938	(2)
$ 1,500,000	5.875% to 08/15/26 then 3ML + 4.64%, 08/15/76, Series 2016-A	1,533,750	(1)(2)
		22,526,030	

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2018 (Unaudited)

Shares/$ Par		Value	
Preferred Securities — (Continued)			
Real Estate Investment Trust (REIT) — 0.1%			
4,540	Annaly Capital Management, Inc., 6.95% to 09/30/22 then 3ML + 4.993%, Series F	$ 116,451	
12,315	National Retail Properties, Inc., 5.20%, Series F	293,343	
		409,794	
Miscellaneous Industries — 2.9%			
	BHP Billiton Limited:		
$ 600,000	BHP Billiton Finance U.S.A., Ltd., 6.75% to 10/19/25 then SW5 + 5.093%, 10/19/75, 144A****	660,000	(2)
$ 718,000	General Electric Company, 5.00% to 01/21/21 then 3ML + 3.33%, Series D	707,679	*(1)
$ 4,350,000	Land O' Lakes, Inc., 7.25%, Series B, 144A****	4,708,875	*
34,700	Ocean Spray Cranberries, Inc., 6.25%, 144A****	3,079,625	*
		9,156,179	
	Total Preferred Securities (Cost $289,274,524)	293,541,065	
Corporate Debt Securities§ — 5.1%			
Banking — 2.1%			
$ 826,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	1,080,911	(1)
193,600	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	4,986,168	(1)
18,000	Zions Bancorporation, 6.95% to 09/15/23 then 3ML + 3.89%, 09/15/28, Sub Notes	532,530	
		6,599,609	
Financial Services — 0.0%			
$ 4,726,012	Lehman Brothers, Guaranteed Note, 5.843% 12/16/16,144A****	46,788	(3)(4)††
		46,788	
Insurance — 1.3%			

$ 3,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	4,083,550	(1)
		4,083,550	
Energy — 0.4%			
$ 940,000	Energy Transfer Partners LP, 8.25% 11/15/29	1,147,443	(1)
		1,147,443	
Communication — 0.5%			
	Qwest Corporation:		
29,941	6.50% 09/01/56	705,560	
41,820	6.75% 06/15/57	1,022,708	
500	7.00% 04/01/52	12,703	
		1,740,971	

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2018 (Unaudited)

Shares/$ Par		**Value**	
Corporate Debt Securities — (Continued)			
Miscellaneous Industries — 0.8%			
$ 2,160,000	Pulte Group, Inc., 7.875% 06/15/32	$ 2,424,600	(1)
		2,424,600	
	Total Corporate Debt Securities (Cost $14,017,344)	16,042,961	
Money Market Fund — 0.1%			
434,205	BlackRock Liquidity Funds: T-Fund, Institutional Class	434,205	
	Total Money Market Fund (Cost $434,205)	434,205	

Total Investments (Cost $303,726,073***)	99.0	%	310,018,231
Other Assets And Liabilities (Net)	1.0	%	3,033,033
Total Managed Assets	100.0	%‡	$ 313,051,264
Loan Principal Balance			(107,900,000)
Total Net Assets Available To Common Stock			$ 205,151,264

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2018 (Unaudited)

§Date shown is maturity date unless referencing the end of the fixed-rate period of a fixed-to-floating rate security.

*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, 2018, these securities amounted to $90,724,497 or 29.0% 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 $193,264,099 at August 31, 2018.

(2)Foreign Issuer.

(3)Level 3, illiquid security (designation is unaudited; see Note 2: Additional Accounting Standards).

(4)Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of August 31, 2018.

(5)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.

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

T5Y — Federal Reserve H.15 5-Yr Constant Maturity Treasury Semiannual yield

T10Y — Federal Reserve H.15 10-Yr Constant Maturity Treasury Semiannual yield

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Flaherty & Crumrine Total Return Fund Incorporated

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK[(1)]

For the period from December 1, 2017 through August 31, 2018 (Unaudited)

	Value
OPERATIONS:	
Net investment income	$ 9,792,841
Net realized gain/(loss) on investments sold during the period	(1,656,238)
Change in net unrealized appreciation/depreciation of investments	(18,167,265)
Net decrease in net assets resulting from operations	**(30,662)**
DISTRIBUTIONS:	
Dividends paid from net investment income	(10,804,543)

to Common Stock Shareholders[2]	
Total Distributions to Common Stock Shareholders	**(10,804,543)**
NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE period	**$(10,835,205)**
NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of period	$ 215,986,469
Net decrease in net assets during the period	(10,835,205)
End of period	$ 205,151,264

[1]These tables summarize the nine months ended August 31, 2018 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,

2017.

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

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Flaherty & Crumrine Total Return Fund Incorporated

Financial Highlights[(1)]

For the period December 1, 2017 through August 31, 2018 (Unaudited)
For a Common Stock share outstanding throughout the period

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PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period	$ 21.69	
INVESTMENT OPERATIONS:		
Net investment income	0.98	
Net realized and unrealized gain/(loss) on investments	(0.98)	
Total from investment operations	0.00	
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:		
From net investment income	(1.09)	
Total distributions to Common Stock Shareholders	(1.09)	
Net asset value, end of period	$ 20.60	
Market value, end of period	$ 19.70	
Common Stock shares outstanding, end of period	9,958,104	
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:		
Net investment income†	6.24	%*
Operating expenses including interest expense	2.58	%*
Operating expenses excluding interest expense	1.23	%*
SUPPLEMENTAL DATA: ††		
Portfolio turnover rate	11	%**
Total managed assets, end of period (in 000's)	$ 313,051	
Ratio of operating expenses including interest expense to average total managed assets	1.70	%*
Ratio of operating expenses excluding interest expense to average total managed assets	0.81	%*

[(1)]These tables summarize the nine months ended August 31, 2018 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, 2017.

*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 & Crumrine Total Return Fund Incorporated

Financial Highlights (Continued)

Per Share of Common Stock (Unaudited)
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	Total Dividends Paid	**Net Asset Value**	**NYSE Closing Price**	**Dividend Reinvestment Price[(1)]**
December 29, 2017	$0.1260	$21.66	$21.61	$21.56
January 31, 2018	0.1260	21.42	19.79	19.93
February 28, 2018	0.1190	21.22	19.90	19.90
March 29, 2018	0.1190	21.07	19.81	19.72
April 30, 2018	0.1190	20.77	19.21	19.20
May 31, 2018	0.1190	20.53	19.39	19.44
June 29, 2018	0.1190	20.40	19.51	19.43
July 31, 2018	0.1190	20.51	19.70	19.76
August 31, 2018	0.1190	20.60	19.70	19.74

[(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.

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Flaherty & Crumrine Total Return Fund Incorporated

Notes to Financial Statements (Unaudited)

1.Aggregate Information for Federal Income Tax Purposes

At August 31, 2018, the aggregate cost of securities for federal income tax purposes was $315,346,504, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was $17,377,992 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was $22,706,265.

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 & 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, 2018 is as follows:

	Total Value at August 31, 2018	**Level 1 Quoted Price**	**Level 2 Significant Observable Inputs**	**Level 3 Significant Unobservable Inputs**
Preferred Securities				
Banking	$175,585,130	$149,961,772	$25,622,358	$1,000
Financial Services	2,373,361	2,373,361	—	—
Insurance	63,349,190	34,432,859	28,916,331	—
Utilities	20,141,381	12,116,009	8,025,372	—
Energy	22,526,030	12,294,813	10,231,217	—
Real Estate Investment Trust (REIT)	409,794	409,794	—	—
Miscellaneous Industries	9,156,179	1,367,679	7,788,500	—
Corporate Debt Securities				
Banking	6,599,609	5,518,698	1,080,911	—
Financial Services	46,788	—	—	46,788
Insurance	4,083,550	—	4,083,550	—
Energy	1,147,443	—	1,147,443	—
Communication	1,740,971	1,740,971	—	—
Miscellaneous Industries	2,424,600	—	2,424,600	—
Money Market Fund	434,205	434,205	—	—
Total Investments	$310,018,231	$220,650,161	$89,320,282	$47,788

During the reporting period, securities with an aggregate market value of $1,980,000 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, securities with an aggregate market value of $4,477,595 were transferred into Level 2 from Level 1. The securities were transferred due to a decrease in the quantity and quality of the information related to trading activity or broker quotes for these securities. 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

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Flaherty & Crumrine Total Return Fund Incorporated

Notes to Financial Statements (Unaudited) (Continued)

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.

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

		Preferred Securities	**Corporate Debt Securities**
	Total Investments	**Banking**	**Financial Services**
Balance as of 11/30/17	$94,575	$1,000	$93,575
Accrued discounts/premiums	—	—	—
Realized gain/(loss)	—	—	—
Change in unrealized appreciation/(depreciation)	(46,787)	—	(46,787)
Purchases	—	—	—
Sales	—	—	—
Transfer in	—	—	—
Transfer out	—	—	—
Balance as of 08/31/18	$47,788	$1,000	$46,788

For the nine months ended August 31, 2018, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was $(46,787).

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 08/31/18**	**Valuation Technique**	**Unobservable Input**	**Input Range (Wgt Avg)**
Preferred Securities (Banking)	$ 1,000	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.02% (0.01%)
Corporate Debt Securities (Financial Services)	46,788	Bankruptcy recovery and market information	Credit/Structure-specific recovery	0.5% - 2.0% (1.0%)

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

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 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, 2018

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