

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC

Form N-30B-2

April 27, 2018

*FLAHERTY & CRUMRINE Total Return Fund*

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

Despite general weakness in most fixed-income markets (e.g., investment-grade corporate bonds), attributable mostly to higher benchmark interest rates, preferred securities performed reasonably well on a relative basis. Total return<sup>1</sup> on net asset value (“NAV”) for the first fiscal quarter was -0.4%, while total return on market price was -5.0%.

The U.S. economy remains on solid footing, with most economists forecasting faster growth in 2018. Inflation has remained in check thus far, and modest wage growth and strong business investment suggest that faster economic growth can be accommodated without the economy overheating. Faster economic growth combined with optimism around tax reform has caused interest rates to move modestly higher. Tax reform should be supportive of growth and investment, but much of it will be deficit-financed and could result in higher Treasury rates as government borrowing increases.

Investors often associate higher long-term interest rates with lower prices for preferred securities, and to some extent this is true. However, sensitivity of the Fund’s preferred portfolio to benchmark interest rates is much lower today than it was ten years ago. That is primarily attributable to larger holdings of fixed-to-floating rate securities relative to traditional fixed-for-life preferreds. Including these securities in a portfolio (~73% as of 2/28/2018) reduces sensitivity to benchmark interest rates. Moderate interest-rate sensitivity, along with a tightening of preferred credit spreads during the quarter, offset much of the weakness experienced by other fixed-income asset classes.

Most of the portfolio experienced credit-spread tightening as noted above, but one area of mixed performance was the energy sector, notably master limited partnerships (MLPs). The MLP industry appears to be in transition. The traditional MLP structure has struggled to meet investor expectations, leading some to collapse partnership structures into simpler organizations. Lower corporate tax rates from recent tax reform may accelerate that trend. While a simpler structure should benefit preferred investors over time, many MLPs issued preferreds in the last few months, causing yields to increase as concessions were offered to entice demand. Importantly, individual MLPs are in various stages of transition, and we remain comfortable with the level of MLP exposure in the Fund’s portfolio (~6.5% as of 2/28/2018). Many of the MLPs held by the Fund are among the strongest credits in the sector and a step ahead of peers in navigating these rough waters.

The Fund’s dividend rate was reduced during the quarter to reflect changes in interest rates and credit spreads that have cumulated over time. Tightening by the Federal Reserve has raised short-term interest rates and, therefore, leverage cost, while lower preferred yields have gradually reduced portfolio income. The primary investment objective of the Fund is to provide high current income, and we believe the Fund will continue to meet that objective – although distributable income may be reduced as we proceed through this economic cycle. Fund shareholders have benefited from years of record-low interest rates and low leverage costs, but rates have moved up as the economy has improved. We believe the Fund’s strategy of investing in preferred securities and using leverage to increase income will continue to produce a competitive distribution rate for shareholders. We encourage shareholders to read the Fund’s 2017 annual report for a more-thorough discussion of this important topic.

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<sup>1</sup> Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

<sup>2</sup> December 1, 2017 — February 28, 2018

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Market volatility is likely to increase from record-low levels as we move into later stages of this economic cycle, but we believe preferreds will continue to offer competitive performance. Their combination of credit quality and yield (much of which is tax-advantaged) will be difficult to replicate in other fixed-income asset classes.

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

March 31, 2018

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OVERVIEW****February 28, 2018 (Unaudited)****Fund Statistics**

Net Asset Value	\$ 21.22	
Market Price	\$ 19.90	
Discount	6.22	%
Yield on Market Price	7.18	%
Common Stock Shares Outstanding	9,958,104	

<b>Security Ratings**</b>	<b>% of Net Assets†</b>
A	0.6 %
BBB	55.6 %
BB	32.9 %
Below "BB"	1.1 %
Not Rated***	8.9 %

<b>Portfolio Rating Guidelines</b>	<b>% of Net Assets†</b>
Security Rated Below Investment Grade By All*****	28.8 %
Issuer or Senior Debt Rated Below Investment Grade by All*****	2.5 %

\*\*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 0.9%.

\*\*\*\*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**

	<b>% of Net Assets†</b>
MetLife Inc	4.6 %
JPMorgan Chase & Co	4.6 %
PNC Financial Services Group Inc	4.6 %
Wells Fargo & Company	4.2 %
Liberty Mutual Group	3.8 %
Citigroup Inc	3.6 %
BNP Paribas	3.4 %
Morgan Stanley	3.3 %
Fifth Third Bancorp	3.0 %
Enbridge Energy Partners	3.0 %

	<b>% of Net Assets*****†</b>
Holdings Generating Qualified Dividend Income (QDI) for Individuals	58 %
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 & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS**

**February 28, 2018 (Unaudited)**

Shares/\$ Par	Value	
<b>Preferred Securities<sup>s</sup> — 93.9%</b>		
<b>Banking — 55.2%</b>		
	Australia & New Zealand Banking Group Ltd.,	
\$ 2,550,000	6.75% 2,795,438	** (1)(2)
	to 06/15/26 then ISDA5 + 5.168%, 144A****	
	Banco Bilbao Vizcaya Argentaria SA,	
\$ 3,000,000	6.125% 3,060,000	** (1)(2)
	to 11/16/27 then SW5 + 3.87%	
\$ 710,000	Banco 774,930	** (2)
	Mercantil del Norte SA, 7.625%	

	to		
	01/06/28		
	then		
	T10Y		
	+		
	5.353%,		
	144A****		
	Bank of America Corporation:		
	3ML		
	+		
\$ 7,280,000	3.63%	7,343,700	*(1)
	5.3969% <sup>(5)</sup> ,		
	Series		
	K		
	8.125%		
	to		
	05/15/18		
	then		
\$ 400,000	3ML	406,500	*
	+		
	3.64%,		
	Series		
	M		
	Barclays Bank PLC:		
	7.875%		
	to		
	03/15/22		
\$ 3,220,000	then	3,480,836	** (2)
	SW5		
	+		
	6.772%,		
	144A****		
	8.125%,		
88,112	Series	2,340,255	** (1)(2)
	5		
	BNP Paribas:		
	7.375%		
	to		
	08/19/25		
\$ 7,830,000	then	8,720,663	** (1)(2)
	SW5		
	+		
	5.15%,		
	144A****		
\$ 2,000,000	7.625%	2,180,000	** (1)(2)
	to		
	03/30/21		
	then		
	SW5		

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	+		
	6.314%,		
	144A****		
	Capital One Financial Corporation:		
	6.00%,		
2,910	Series 74,060 B	*	
	6.00%,		
17,022	Series 449,721 H	*	
	6.20%,		
15,436	Series 410,135 F	*	
	6.70%,		
28,100	Series 750,270 D	*(1)	
	Citigroup, Inc.:		
	5.95%		
	to		
	05/15/25		
	then		
\$ 500,000	3ML 520,375	*	
	+		
	3.905%,		
	Series P		
	6.875%		
	to		
	11/15/23		
	then		
227,619	3ML 6,416,580	*(1)	
	+		
	4.13%,		
	Series K		
	7.125%		
	to		
	09/30/23		
	then		
155,338	3ML 4,461,307	*(1)	
	+		
	4.04%,		
	Series J		
	CoBank ACB:		
15,300	6.125% 552,950 Series	*	

	G, 144A****	
	6.20%	
	to	
	01/01/25	
	then	
17,500	3ML 1,875,563	*
	+	
	3.744%,	
	Series	
	H,	
	144A****	
	6.25%	
	to	
	10/01/22	
	then	
25,000	3ML 2,687,500	*(1)
	+	
	4.557%,	
	Series	
	F,	
	144A****	
	6.25%	
	to	
	10/01/26	
	then	
\$ 609,000	3ML 664,339	*
	+	
	4.66%,	
	Series	
	I,	
	144A****	
	Colonial	
	BancGroup,	
\$ 10,000,000	1,000	(3)(4)††
	7.114%,	
	144A****	
	Credit	
	Agricole	
	SA,	
	7.875%	
	to	
\$ 395,000	441,906	** (2)
	01/23/24	
	then	
	SW5	
	+	
	4.898%, 144A****	
335,576	Fifth 9,647,810	*(1)
	Third	
	Bancorp,	



	6.625%		
	to		
	12/31/23		
	then		
	3ML		
	+		
	3.71%,		
	Series		
	I		
	First Horizon National		
	Corporation:		
	First		
	Tennessee		
	Bank,		
	3ML		
875	+	697,813	*
	0.85%,		
	min		
	3.75%,		
	3.75% <sup>(5)</sup> ,		
	144A****		
	FT		
	Real		
	Estate		
3	Securities	3,888,750	
	Company,		
	9.50%		
	03/31/31,		
	144A****		
	Goldman Sachs Group:		
	5.00%		
	to		
	11/10/22		
	then		
\$ 2,700,000	3ML	2,632,824	*(1)
	+		
	2.874%,		
	Series		
	P		
	5.70%		
	to		
	05/10/19		
	then		
\$ 390,000	3ML	400,784	*
	+		
	3.884%,		
	Series		
	L		
60,000		1,678,800	*(1)

	6.375%	
	to	
	05/10/24	
	then	
	3ML	
	+	
	3.55%,	
	Series	
	K	
	HSBC Holdings PLC:	
	6.00%	
	to	
	05/22/27	
\$ 500,000	then 512,000	** (2)
	ISDA5	
	+	
	3.746%	
	6.875%	
	to	
	06/01/21	
\$ 1,370,000	then 1,469,325	** (1)(2)
	ISDA5	
	+	
	5.514%	
	8.00%,	
26,880	Series 15,940	** (1)(2)
	2	
	HSBC	
	Capital	
	Funding	
	LP,	
	10.176%	
\$ 1,400,000	to 2,242,632	(1)(2)
	06/30/30	
	then	
	3ML	
	+	
	4.98%,	
	144A****	

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

Shares/\$ Par	Value
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**Preferred Securities  
— (Continued)**

**Banking —  
(Continued)**

	Huntington Bancshares, Inc.:	
	5.700%	
	to	
	04/15/23	
	then	
\$ 1,400,000	3M	1,413,125 *
	+	
	2.88%,	
	Series	
	E	
140,000	6.25%,	2,789,800 *(1)
	Series	
	D	
30,000	ING Groep NV,	775,500 **(2)
	6.375%	
	JPMorgan Chase & Company:	
	6.00%	
	to	
	08/01/23	
	then	
\$ 750,000	3M	786,000 *(1)
	+	
	3.30%,	
	Series	
	R	

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61,469	6.70%, Series T 606,185	*(1)
	6.75% to 02/01/24 then	
\$ 4,791,000	3ML5,300,044	*(1)
	+ 3.78%, Series S	
	7.90% to 04/30/18 then	
\$ 7,000,000	3ML7,070,000	*(1)
	+ 3.47%, Series I	
	KeyCorp, 6.125% to 12/15/26 then	
122,200	3ML3,404,516	*(1)
	+ 3.892%, Series E	
	Lloyds TSB Bank PLC, 12.00% to	
\$ 2,250,000	2,936,522	(2)
	12/16/24 then 3ML	
	+ 11.756%, 144A****	
\$ 3,500,000	M&T,889,655	*(1)
	Bank Corporation, 6.45% to 02/15/24	

	then		
	3ML		
	+		
	3.61%,		
	Series		
	E		
	Macquarie		
	Bank		
	Ltd.,		
	6.125%		
	to		
\$ 730,000	03/08/27	600	** (2)
	then		
	SW5		
	+		
	3.703%,		
	144A****		
	MB		
	Financial,		
58,320	Inc.,	1,449,252	*
	6.00%,		
	Series		
	C		
	Morgan Stanley:		
	5.85%		
	to		
	04/15/27		
	then		
213,700	3ML	5,731,434	* (1)
	+		
	3.491%,		
	Series		
	K		
	6.875%		
	to		
	01/15/24		
	then		
85,000	3ML	2,416,550	* (1)
	+		
	3.94%,		
	Series		
	F		
86,900	7.125%	14,886	* (1)
	to		
	10/15/23		
	then		
	3ML		
	+		
	4.32%,		

	Series	
	E	
	New	
	York	
	Community	
	Bancorp,	
	Inc.,	
	6.375%	
235,200	to	6,620,880 *(1)
	03/17/27	
	then	
	3ML	
	+	
	3.821%,	
	Series	
	A	
	PNC Financial Services	
	Group, Inc.:	
	6.125%	
	to	
	05/01/22	
	then	
410,904	3ML	1,478,357 *(1)
	+	
	4.067%,	
	Series	
	P	
	6.75%	
	to	
	08/01/21	
	then	
\$ 2,850,000	3ML	3,083,900 *(1)
	+	
	3.678%,	
	Series	
	O	
	RaboBank	
	Nederland,	
	11.00%	
	to	
\$ 2,515,000	06/30/19	2,757,069 (1)(2)
	then	
	3ML	
	+	
	10.868%,	
	144A****	
3,000	Sovereign	3,735,000
	Bancorp:	
	Sovereign	

	REIT,	
	12.00%,	
	Series	
	A,	
	144A****	
	Standard Chartered PLC:	
	7.50%	
	to	
	04/02/22	
\$ 3,170,000	then	3,438,024 ** (1)(2)
	SW5	
	+	
	6.301%,	
	144A****	
	7.75%	
	to	
	04/02/23	
\$ 1,500,000	then	1,633,125 ** (1)(2)
	SW5	
	+	
	5.723%,	
	144A****	
	State	
	Street	
	Corporation,	
	5.90%	
	to	
157,400	03/15/24	4,289,150 * (1)
	then	
	3ML	
	+	
	3.108%,	
	Series	
	D	
	Sterling	
	Bancorp,	
13,616	6.50%	56,739 *
	Series	
	A	
	SunTrust	
	Banks,	
	Inc.,	
11,800	297,596	*
	5.875%,	
	Series	
	E	
63,000	US 1,772,574	* (1)
	Bancorp,	
	6.50%	
	to	

	01/15/22	
	then	
	3ML	
	+	
	4.468%,	
	Series	
	F	
	Valley	
	National	
	Bancorp,	
	5.50%	
	to	
39,000	09/30/22	1,008,540 *
	then	
	3ML	
	+	
	3.578%,	
	Series	
	B	
	Wells Fargo &	
	Company:	
	5.625%,	
24,700	Series	621,501 *
	Y	
	5.85%	
	to	
	09/15/23	
	then	
81,100	3ML	2,166,992 *(1)
	+	
	3.09%,	
	Series	
	Q	
	5.875%	
	to	
	06/15/25	
	then	
\$ 1,250,000	3ML	1,330,475 *(1)
	+	
	3.99%,	
	Series	
	U	
106,200	6.625%	2,038,554 *(1)
	to	
	03/15/24	
	then	
	3ML	
	+	
	3.69%,	



	Series		
	R		
325	7.50%,		
	Series	14,375	*
	L		
	7.98%		
	to		
	03/15/18		
	then		
\$ 1,458,000	3M	1,483,515	*(1)
	+		
	3.77%,		
	Series		
	K		
	8.00%,		
169,700	Series	417,291	*(1)
	J		

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

	Westpac Banking Corporation, 5.00%	
\$ 1,600,000	to \$ 1,531,415	** (1)(2)
	09/21/27	
	then	
	ISDA5	
	+	
	2.888%	
	Zions Bancorporation:	
	6.30%	
	to	
	03/15/23	
	then	
5,000	3ML134,351	*
	+	
	4.24%,	
	Series	
	G	
	7.20%	
	to	
	09/15/23	
	then	
\$ 1,500,000	3ML1,657,500	*
	+	
	4.44%,	
	Series	
	J	
	176,289,698	

**Financial Services — 0.4%**

\$ 640,000	E*TRADE	*
	Financial	
	Corporation,	
	5.30%	
	to	
	03/15/23	
	then	

	3ML		
	+		
	3.16%,		
	Series		
	B		
	General		
	Motors		
	Financial		
	Company,		
	5.75%		
	to		
\$ 610,000	09/30/2004	*	
	then		
	3ML		
	+		
	3.598%,		
	Series		
	A		
	1,253,604		
<b>Insurance — 20.6%</b>			
	Allstate		
	Corporation,		
145,144	6.625%	3,709	*(1)
	Series		
	E		
	Aon		
	Corporation,		
\$ 1,290,000	8.205%	1,667,325	(1)
	01/01/27		
	Arch Capital Group, Ltd.:		
	5.25%,		
16,000	Series	376,000	** (2)
	E		
	5.45%,		
14,200	Series	343,498	** (2)
	F		
	Aspen Insurance Holdings		
	Ltd.:		
25,000	5.625%	17,500	** (2)
	5.95%		
	to		
	07/01/23		
9,000	then	238,686	** (2)
	3ML		
	+		
	4.06%		
\$ 620,000	AXA	22,300	** (1)(2)
	SA,		

	6.379%	
	to	
	12/14/36	
	then	
	3ML	
	+	
	2.256%,	
	144A****	
	Axis	
	Capital	
	Holdings	
5,000	Ltd.,121,600	** (2)
	5.50%,	
	Series	
	E	
	Chubb	
	Ltd.:	
	Ace	
\$ 1,550,000	Capital	
	Trust	
	2,313,375	(1)(2)
	II,	
	9.70%	
	04/01/30	
	Delphi	
	Financial	
	Group,	
210,000	3ML	
	4,830,000	(1)
	+	
	3.19%,	
	5.0288% <sup>(5)</sup>	
	05/15/37	
	Everest	
	Reinsurance	
	Holdings,	
\$ 2,535,000	3ML	
	2,493,173	(1)
	+	
	2.385%,	
	4.2238% <sup>(5)</sup>	
	05/15/37	
7,500	Hart	
	221,725	
	Financial	
	Services	
	Group,	
	Inc.,	
	7.875%	
	to	
	04/15/22	
	then	
	3ML	

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	+		
	5.596%,		
	04/15/42		
	Liberty		
	Mutual		
\$ 6,351,000	Group,	7,906,995	(1)
	7.80%		
	03/15/37,		
	144A****		
	MetLife, Inc.:		
	9.25%		
\$ 5,335,000	04/08/38,	4,382,338	(1)
	144A****		
	10.75%		
\$ 4,130,000	08/01/39,	6,618,325	(1)
	MetLife		
	Capital		
	Trust		
\$ 577,000	IV,	741,445	(1)
	7.875%		
	12/15/37,		
	144A****		
	PartnerRe		
	Ltd.:		
	5.875%,		
33,950	Series	870,139	** (1)(2)
	I		
	6.50%,		
13,917	Series	366,156	** (1)(2)
	G		
	7.25%,		
117,494	Series	3,246,359	** (1)(2)
	H		
	Prudential		
	Financial,		
	Inc.,		
	5.625%		
	to		
\$ 704,000	06/15/43,	23,600	(1)
	then		
	3ML		
	+		
	3.92%,		
	06/15/43		
\$ 5,300,000	QBE,	6,028,750	(1)(2)
	Insurance		
	Group		
	Ltd.,		

7.50%  
to  
11/24/23  
then  
SW10  
+  
6.03%,  
11/24/43,  
144A\*\*\*\*

**Shares/\$  
Par**

**Value**

**Preferred Securities  
— (Continued)**

**Banking —  
(Continued)**

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

\$ 3,251,000	Unum Group: Provident Financing Trust	\$ 3,706,140 (1)
	I, 7.405% 03/15/38	
60,339	W.R. Berkley Corporation	548,842 (1)
	5.75% 06/01/56	
	XL Group Limited:	
\$ 2,000,000	Catlin Insurance Company Ltd.,	3ML1,970,000 (1)(2)
	+ 2.975%, 4.7142% <sup>(5)</sup> , 144A****	
\$ 7,200,000	XL Capital Ltd., 3ML	+ 6,885,000 (1)(2)
	2.4575%, 4.1790% <sup>(5)</sup> , Series E	
	65,898,980	
<b>Utilities — 8.1%</b>		
\$ 3,394,000	Com Edison: COMED Financing	3,611,580 (1)

	III, 6.35% 03/15/33 Dominion Energy, Inc., 195,000	5.25%	4,748,270	(1)
	07/30/76, Series A DTE Energy Company: 5.375% 40,000	06/01/76	985,996	(1)
	Series B 6.00% 46,993	12/15/76	1,255,658	
	Series F Emera, Inc., 6.75% to 06/15/26 then \$ 2,940,000	3ML	3,278,100	(1)(2)
	+ 5.44%, 06/15/76, Series 2016A Georgia Power Company, 30,700	5.00%	49,541	
	10/01/77, Series 2017A Indianapolis Power & 17,800		1,839,226	*(1)
	Light Company, 5.65% 100,233		2,681,233	(1)
	Integrity Energy Group, Inc., 6.00%			



	to		
	08/01/23		
	then		
	3ML		
	+		
	3.22%,		
	08/01/73		
	NextEra		
	Energy:		
	FPL		
	Group		
	Capital,		
	Inc.,		
\$ 1,997,000	3ML1,943,401	(1)	
	+		
	2.125%,		
	3.7135% <sup>(5)</sup>		
	06/15/67,		
	Series		
	C		
	PPL		
	Corp:		
	PPL		
	Capital		
	Funding,		
	Inc.,		
\$ 2,504,000	3ML2,497,740	(1)	
	+		
	2.665%,		
	4.3584% <sup>(5)</sup>		
	03/30/67,		
	Series		
	A		
	Puget		
	Sound		
	Energy,		
	Inc.,		
	3ML		
\$ 1,509,000	+ 1,497,683	(1)	
	2.53%,		
	4.0106% <sup>(5)</sup>		
	06/01/67,		
	Series		
	A		
	Southern		
	California		
	Edison:		
30,000	SCE784,692	*(1)	
	Trust		

V,  
 5.45%  
 to  
 03/15/26  
 then  
 3ML  
 +  
 3.79%,  
 Series  
 K  
 25,893,120

**Energy — 6.1%**

DCP  
 Midstream  
 LLC,  
 5.85%  
 to  
 05/21/23  
 \$ 750,000 then 14,375  
 then  
 3ML  
 +  
 3.85%,  
 05/21/43,  
 144A\*\*\*\*

DCP  
 Midstream  
 LP,  
 7.375%  
 to  
 12/15/22  
 \$ 1,550,000 then 1,566,469  
 then  
 3ML  
 +  
 5.148%,  
 Series  
 A

Enbridge,  
 Inc.,  
 6.00%  
 to  
 01/15/27  
 \$ 1,500,000 then, 1,522,500 (1)(2)  
 then,  
 3ML  
 +

3.89%,  
 01/15/77  
 \$ 9,485,000 Enbridge Energy Partners 9,508,713 (1)

LP,  
 3ML  
 +  
 3.7975%,  
 5.4917%<sup>(5)</sup>  
 10/01/37  
 Enterprise Products  
 Operating L.P.:  
 3ML  
 +  
 3.7075%,  
 \$ 750,000 5.48097,688 (1)  
 08/01/66,  
 Series  
 A  
 5.25%  
 to  
 08/16/27  
 then  
 \$ 1,000,000 3ML 967,500  
 +  
 3.033%,  
 08/16/77,  
 Series  
 E  
 NuStar  
 Logistics  
 LP,  
 45,500 3ML 1,167,075  
 +  
 6.734%,  
 8.4555%<sup>(5)</sup>  
 01/15/43  
 Transcanada Pipelines,  
 Ltd.:  
 5.30%  
 to  
 03/15/27  
 then  
 \$ 1,500,000 3ML 1,514,063 (2)  
 +  
 3.208%,  
 03/15/77,  
 Series  
 2017-A  
 \$ 1,500,000 5.873% 16,250 (1)(2)  
 to  
 08/15/26  
 then

3ML  
+  
4.64%,  
08/15/76,  
Series  
2016-A  
19,324,133

<b>Shares/\$ Par</b>	<b>Value</b>
--------------------------	--------------

**Preferred Securities**  
— (Continued)

**Insurance —**  
**(Continued)**

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

	Annaly Capital Management, Inc., 6.95%	
4,540	to 09% <del>30</del> 12,229	
	then 3ML +	
	4.993%, Series F	
	National Retail Properties, Inc.:	
12,315	5.20%, Series F	284,353
18,343	5.70%, Series E	449,884 (1)
	PS Business Parks, Inc.:	
4,883	5.70%, Series V	21,050
1,878	5.75%, Series U	46,556
		1,014,072
	<b>Miscellaneous Industries — 3.2%</b>	
	BHP Billiton Limited:	682,500 (2)
\$ 600,000		

	BHP Billiton Finance U.S.A., Ltd., 6.75% to 10/19/25 then SW5 + 5.093%, 10/19/75, 144A****		
\$ 1,388,000	General Electric Company, 5.00% to 01/21/21 then 1,372,385	*(1)	
	3ML + 3.33%, Series D Land O' Lakes, Inc., 7.25%, Series B, 144A****		4,861,125 *
\$ 4,350,000	Ocean Spray Cranberries Inc., 6.25%, 144A****		3,157,700 *
34,700	10,073,710		
	<b>Total Preferred Securities</b>		10,547,317
	(Cost \$289,735,712)		

**Corporate Debt Securities<sup>s</sup> — 5.2%**

**Banking — 2.1%**

Regions  
Financial  
Corporation,  
\$ 826,000 7.37% 94,421 (1)  
12/10/37,  
Sub  
Notes

Texas  
Capital  
Bancshares  
Inc., 5,008,238 (1)  
6.50%  
09/21/42,  
Sub  
Notes

Zions  
Bancorporation,  
6.95%  
to  
09/15/23  
18,000 then 526,498  
3ML  
+  
3.89%,  
09/15/28,  
Sub  
Notes  
6,629,157

**Financial Services — 0.0%**

Lehman  
Brothers,  
Guaranteed  
\$ 4,726,012 Note 65,219 (3)(4)††  
5.843%,  
12/16/16,  
144A\*\*\*\*  
65,219

**Insurance — 1.3%**

Liberty  
Mutual  
Insurance,  
\$ 3,000,000 4,125,926 (1)  
7.697%  
10/15/97,  
144A\*\*\*\*  
4,125,926

**Energy — 0.4%**

\$ 940,000 1,179,879 (1)

Energy  
Transfer  
Partners  
LP,  
8.25%  
11/15/29  
1,179,879

<b>Shares/\$ Par</b>	<b>Value</b>
--------------------------	--------------

**Preferred  
Securities —  
(Continued)**

**Real Estate  
Investment  
Trust  
(REIT) —  
0.3%**



## Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****February 28, 2018 (Unaudited)**

	Qwest Corporation:		
29,941	6.50% 09/01/56	\$ 646,726	
41,820	6.75% 06/15/57	945,968	
500	7.00% 04/01/52	11,846	
		1,604,540	
<b>Miscellaneous Industries — 0.9%</b>			
12,000	eBay, Inc., 6.00% 02/01/56	317,178	
\$ 2,160,000	Pulte Group, Inc., 7.875% 06/15/32	2,608,200 (1)	
		2,925,378	
	<b>Total Corporate Debt Securities</b>	16,530,099	
	(Cost \$14,326,215)		
<b>Common Stock — 0.2%</b>			
<b>Banking — 0.2%</b>			
13,500	CIT Group, Inc.	716,175 *	
		716,175	
	<b>Total Common Stock</b>	716,175	
	(Cost \$2,533,093)		

**Money Market Fund — 0.2%**

769,115	BlackRock Liquidity Funds: T-Fund, Institutional Class	769,115
	<b>Total                  Money                  Market                  Fund</b> (Cost \$769,115)	769,115

<b>Shares/\$ Par</b>	<b>Value</b>
--------------------------	--------------

**Corporate Debt  
 Securities —  
 (Continued)**

**Communication  
 — 0.5%**

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2018 (Unaudited)**

			<b>Value</b>
<b>Total Investments</b> (Cost \$307,364,135***)	99.5	%	\$ 317,762,706
<b>Other Assets And Liabilities</b> (Net)	0.5	%	1,445,726
<b>Total Managed Assets</b>	100.0	% ‡	\$ 319,208,432
<b>Loan Principal Balance</b>			(107,900,000 )
<b>Total Net Assets Available To Common Stock</b>			\$ 211,308,432

§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 February 28, 2018, these securities amounted to \$85,707,333 or 26.8% 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 \$198,581,435 at February 28, 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 February 28, 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

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

Flaherty & Crumrine Total Return Fund Incorporated

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**

**For the period from December 1, 2017 through February 28, 2018 (Unaudited)**

<b>Value</b>	
<b>OPERATIONS:</b>	
Net investment income	\$12,421
Net realized gain/(loss) on investments sold during the period	(65,148 )
Change in net unrealized appreciation/depreciation of investments	(4,660,853 )
<b>Net decrease in net assets resulting from operations</b>	<b>(983,580 )</b>
<b>DISTRIBUTIONS:</b>	
Dividends paid from net investment income to	(3,694,457 )

Common  
Stock  
Shareholders<sup>(2)</sup>

**Total  
Distributions**

to (3,694,457 )  
**Common  
Stock  
Shareholders**

**NET  
DECREASE  
IN**

**NET  
ASSETS  
AVAILABLE  
TO \$(4,678,037 )  
COMMON  
STOCK  
FOR  
THE  
period**

**NET  
ASSETS  
AVAILABLE  
TO  
COMMON  
STOCK:**

Beginning  
of \$ 215,986,469  
period

Net  
decrease  
in  
net (4,678,037 )  
assets  
during  
the  
period

End  
of \$ 211,308,432  
period

<sup>(1)</sup>These tables summarize the three months ended February 28, 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.

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

Flaherty & Crumrine Total Return Fund Incorporated

**Financial Highlights<sup>(1)</sup>**

**For the period from December 1, 2017 through February 28, 2018 (Unaudited)  
For a Common Stock share outstanding throughout the period**

**PER  
SHARE  
OPERATING  
PERFORMANCE:**

Net  
asset  
value, \$ 21.69  
beginning  
of  
period

**INVESTMENT  
OPERATIONS:**

Net  
investment  
income

Net  
realized  
and  
unrealized  
gain/(loss) )  
on  
investments

Total  
from  
investment )  
operations (0.10

**DISTRIBUTIONS  
TO  
COMMON  
STOCK  
SHAREHOLDERS:**

From )  
net  
investment (0.37



income  
 Total  
 distributions  
 to  
 Common (0.37 )  
 Stock  
 Shareholders  
 Net  
 asset  
 value, \$ 21.22  
 end  
 of  
 period  
 Market  
 value,  
 end \$ 19.90  
 of  
 period  
 Common  
 Stock  
 shares  
 outstanding 9,58,104  
 end  
 of  
 period

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

Net  
 investment 89 %\*  
 income †  
 Operating  
 expenses 2.40 %\*  
 including  
 interest  
 expense  
 Operating  
 expenses .23 %\*  
 excluding  
 interest  
 expense

**SUPPLEMENTAL  
 DATA:**

††

Portfolio turnover 2 rate		%**
Total managed assets, end of period (in 000's)	\$ 319,208	
Ratio of operating expenses including interest expense to average total managed assets	1.60	%*
Ratio of operating expenses excluding interest expense to average total managed assets	0.82	%*

(1)These tables summarize the three months ended February 28, 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 &amp; Crumrine Total Return Fund Incorporated

**Financial Highlights (Continued)****Per Share of Common Stock (Unaudited)**

	<b>Total Dividends Paid</b>	<b>Net Asset Value</b>	<b>NYSE Closing Price</b>	<b>Dividend Reinvestment Price<sup>(1)</sup></b>
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

<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 February 28, 2018, the aggregate cost of securities for federal income tax purposes was \$318,984,566, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$22,085,522 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$23,307,382.

**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 February 28, 2018 is as follows:

	<b>Total Value at February 28, 2018</b>	<b>Level 1 Quoted Price</b>	<b>Level 2 Significant Observable Inputs</b>	<b>Level 3 Significant Unobservable Inputs</b>
Preferred Securities				
Banking	\$176,289,698	\$150,639,927	\$25,648,771	\$1,000
Financial Services	1,253,604	1,253,604	—	—
Insurance	65,898,980	34,260,922	31,638,058	—
Utilities	25,893,120	16,243,398	9,649,722	—
Energy	19,324,133	9,101,045	10,223,088	—
Real Estate Investment Trust (REIT)	1,014,072	1,014,072	—	—
Miscellaneous Industries	10,073,710	2,054,885	8,018,825	—
Corporate Debt Securities				
Banking	6,629,157	5,534,736	1,094,421	—
Financial Services	65,219	—	—	65,219
Insurance	4,125,926	—	4,125,926	—
Energy	1,179,879	—	1,179,879	—
Communication	1,604,540	1,604,540	—	—
Miscellaneous Industries	2,925,378	317,178	2,608,200	—
Common Stock				
Banking	716,175	716,175	—	—
Money Market Fund	769,115	769,115	—	—
Total Investments	\$ 317,762,706	\$223,509,597	\$94,186,890	\$66,219

During the reporting period, securities with an aggregate market value of \$3,889,655 were transferred into Level 2 from Level 1. The securities were transferred due to a decrease in the quantity and quality of information related to trading activity or broker quotes for these securities. During the period, there were no transfers into Level 1 from Level 2. During the reporting period, there were no transfers into or out of Level 3.

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

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

Flaherty & 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:

	<b>Total Investments</b>	<b>Preferred Securities  Banking</b>	<b>Corporate Debt Securities  Financial Services</b>
<b>Balance as of 11/30/17</b>	\$94,575	\$1,000	\$93,575
Accrued discounts/premiums	—	—	—
Realized gain/(loss)	—	—	—
Change in unrealized appreciation/(depreciation)	(28,356 )	—	(28,356 )
Purchases	—	—	—
Sales	—	—	—
Transfer in	—	—	—
Transfer out	—	—	—
<b>Balance as of 02/28/18</b>	\$66,219	\$1,000	\$65,219

For the three months ended February 28, 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 \$(28,356).

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

<b>Category</b>	<b>Fair Value at 02/28/18</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Input Range (Wgt Avg)</b>
Preferred Securities (Banking)	\$ 1,000	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.02% (0.01%)
Corporate Debt Securities (Financial Services)	65,219	Bankruptcy recovery and market information	Credit/Structure-specific recovery	1% - 4% (1.4%)

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

February 28, 2018

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