

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC
Form N-Q
October 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-21380

Flaherty & Crumrine Total Return Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

R. Eric Chadwick

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

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

Date of fiscal year end: November 30

Date of reporting period: August 31, 2016

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

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q

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unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE TOTAL RETURN FUND

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

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 return² 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.

¹ June 1, 2016 - August 31, 2016

² 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 for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2016

Flaherty & 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&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% |
| | % of Net Assets**** |
| 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 & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS

August 31, 2016 (Unaudited)

| Shares/\$ Par | | Value |
|-------------------------------------|---|--------------------|
| Preferred Securities 93.4% | | |
| Banking 50.2% | | |
| 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 & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2016 (Unaudited)

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

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2016 (Unaudited)

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

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2016 (Unaudited)

| Shares/\$ Par | | Value |
|---|--|-----------------------------|
| Preferred Securities (Continued) | | |
| | Utilities 12.1% | |
| 33,700 | Baltimore Gas & Electric Company, 6.70%, Series 1993 Commonwealth Edison: | \$ 3,432,136* |
| \$ 3,160,000 | COMED Financing III, 6.35% 03/15/33 | 3,369,802 ⁽¹⁾⁽²⁾ |
| 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 ⁽³⁾⁽¹⁾ |
| 70,791 | Georgia Power Company, 6.50%, Series 2007A | 7,452,969* |
| 17,800 | Indianapolis Power & Light Company, 5.65% | 1,818,382 ⁽¹⁾ |
| 107,233 | Integrus Energy Group, Inc., 6.00% Nextera Energy: | 2,949,176 ⁽¹⁾ |
| \$ 1,997,000 | FPL Group Capital, Inc., 6.65% 06/15/67, Series C | 1,672,488 ⁽¹⁾⁽²⁾ |
| \$ 1,500,000 | FPL Group Capital, Inc., 7.30% 09/01/67, Series D PPL Corp: | 1,494,300 ⁽¹⁾⁽²⁾ |
| \$ 3,450,000 | PPL Capital Funding, Inc., 6.70% 03/30/67, Series A | 2,995,663 ⁽¹⁾⁽²⁾ |
| \$ 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 ⁽¹⁾ |
| | | 37,879,782 |
| | Energy 3.5% | |
| \$ 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 ⁽¹⁾⁽²⁾ |
| \$ 750,000 | Enterprise Products Operating L.P., 8.375% 08/01/66, Series A | 704,063 ⁽¹⁾ |
| \$ 1,500,000 | Transcanada Pipelines, Ltd., 5.875% 08/15/76, Series 2016A | 1,602,188 ⁽³⁾ |
| | | 10,981,570 |
| | Real Estate Investment Trust (REIT) 1.3% | |
| | National Retail Properties, Inc.: | |
| 35,000 | 5.70%, Series E | 933,888 ⁽¹⁾ |
| 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 ⁽¹⁾⁽²⁾ |
| 24,868 | Regency Centers Corporation, 6.625%, Series 6 | 646,879 |
| | | 4,000,002 |

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2016 (Unaudited)

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

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2016 (Unaudited)

| Shares/\$ Par | | Value |
|--|---|-----------------------------|
| Corporate Debt Securities (Continued) | | |
| | Miscellaneous Industries 0.9% | |
| 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 ⁽¹⁾⁽²⁾ |
| | | 2,855,430 |
| | Total Corporate Debt Securities (Cost \$12,674,913) | 15,773,677 |
| Common Stock 0.2% | | |
| | Banking 0.2% | |