

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC

Form N-30B-2

April 29, 2019

FLAHERTY & CRUMRINE Total Return Fund

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

While the first fiscal quarter¹ began on a very weak note, with fixed-income markets (including preferreds) down sharply in December 2018, markets did a 180-degree turn as the Fed changed its tune on monetary policy. Rebounding prices were broad-based and more than made up for weakness in December, and investors are once again on a hunt for yield. Total return² on net asset value (“NAV”) for the first fiscal quarter was 6.1%, while total return on market price was 13.2%.

As discussed in our Annual Report dated November 30, 2018, there were many factors contributing to weakness in 2018. A few of them continue today, including a global economic slowdown, ongoing trade wars, and continuous political headlines from both sides of the aisle. However, the Federal Reserve’s unexpected pivot on its outlook for future rate hikes and size of its balance sheet (System Open Market Account (SOMA) portfolio) deserve most of the credit for the market’s sudden mood change. As of its March 20 meeting, the Federal Open Market Committee estimates no rate increases in 2019 and one 0.25% hike in 2020, which would leave the year-end 2021 fed funds rate 0.5% below earlier projections. It also plans to halt SOMA reductions in October 2019, an earlier end point than previously expected.

The Fed’s revised positions on rates and SOMA have been followed by similar policy statements from the European Central Bank (ECB). Investors globally have shifted expectations and now expect government officials to keep close watch over economies and markets with continued dovish monetary policies. The result has been lower, and remarkably stable, Treasury rates and a dramatic re-tightening of credit spreads.

Flow data on money going into and out of markets and investment products from late-2018 indicate many may have underestimated the degree of concern among investors. Outflows, particularly from corporate credit fixed-income funds, were substantial and help explain the magnitude of market weakness. Flows back into markets in 2019 have been impressive as well, although thus far they have fallen short of making up for late-2018’s outflows.

Macro factors have been driving markets, and there is little new to say about the Fund’s portfolio. Our allocations continue to focus on credit quality and structure – both of which remain healthy – and portfolio turnover remains low. The economic outlook and related macro factors – such as global monetary policy and trade – should continue to have an outsized impact on our market’s direction over the near-term.

Credit fundamentals for most issuers of preferreds are strong, and we expect them to remain resilient even if the pace of economic growth slows over the next several years. Supply of newly-issued preferreds should remain very manageable, providing technical support to the market. Combined with competitive yields, tax advantages, and benign credit conditions, we believe the case for preferreds as an income investment remains intact.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

March 29, 2019

¹December 1, 2018 – February 28, 2019

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

2

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OVERVIEW**February 28, 2019 (Unaudited)****Fund Statistics**

Net Asset Value	\$ 19.89	
Market Price	\$ 18.96	
Discount	4.68	%
Yield on Market Price†	7.28	%
Common Stock Shares Outstanding	9,958,104	

†February 2019 dividend of \$0.115 per share, annualized, divided by Market Price.

Security Ratings % of Net Assets††**

BBB	54.8 %
BB	31.9 %
Below "BB"	1.1 %
Not Rated***	10.1 %

Portfolio Rating Guidelines % of Net Assets††

Security Rated Below Investment Grade By All****	30.4 %
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. May not sum to 100% due to rounding.

***Excludes common stock and money market fund investments and net other assets and liabilities of 2.0%.

****Security rating below investment grade by all of Moody's, S&P Global Ratings, 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††**

MetLife Inc	4.6 %
JPMorgan Chase & Co	4.1 %

PNC Financial Services Group Inc	4.1 %
Citigroup Inc	3.9 %
Liberty Mutual Group	3.6 %
BNP Paribas	3.6 %
Morgan Stanley	3.4 %
Fifth Third Bancorp	3.1 %
Wells Fargo & Company	2.9 %
HSBC Holdings PLC	2.7 %

% of Net Assets*** ††**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	61 %
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.

3

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS

February 28, 2019 (Unaudited)

Shares/\$ Par	Value		
Preferred Stock & Hybrid Preferred Securities[§] — 76.3%			
Banking — 41.5%			
\$ 2,550,000	Bank of America Corporation, 5.875% to 03/15/28 then 3ML + 2.931%, Series FF	\$ 2,517,551	*(1)(4)
	Capital One Financial Corporation:		
2,910	6.00%, Series B	73,870	*(4)
17,022	6.00%, Series H	442,145	*(4)
15,436	6.20%, Series F	402,725	*(4)
28,100	6.70%, Series D	729,335	*(1)(4)
	Citigroup, Inc.:		
\$ 355,000	5.875% to 03/27/20 then 3ML + 4.059%, Series O	359,067	*(4)
\$ 1,120,000	5.95% to 05/15/25 then 3ML + 3.905%, Series P	1,130,052	*(4)
227,619	6.875% to 11/15/23 then 3ML + 4.13%, Series K	6,122,951	*(1)(4)
155,338	7.125% to 09/30/23 then 3ML + 4.04%, Series J	4,247,857	*(1)(4)
	Citizens Financial Group, Inc.:		
50,000	6.35% to 04/06/24 then 3ML + 3.642%, Series D	1,300,750	*(1)(4)
\$ 1,300,000	6.375% to 04/06/24 then 3ML + 3.157%, Series C	1,290,542	*(1)(4)
	CoBank ACB:		
11,200	6.125%, Series G, 144A****	1,134,560	*(4)
17,500	6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A****	1,813,875	*(4)
25,000	6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A****	2,587,500	*(1)(4)
\$ 609,000	6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A****	633,360	*(4)
334,226	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	9,512,908	*(1)(4)
	First Horizon National Corporation:		
875	First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75% ⁽⁵⁾ , 144A****	643,125	*(4)
3	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	3,881,250	
	Goldman Sachs Group:		
\$ 2,700,000	5.00% to 11/10/22 then 3ML + 2.874%, Series P	2,487,982	*(1)(4)

Edgar Filing: FLAHERTY & CRUMRINE TOTAL RETURN FUND INC - Form N-30B-2

\$ 390,000	5.70% to 05/10/19 then 3ML + 3.884%, Series L	390,487	*(4)
60,000	6.375% to 05/10/24 then 3ML + 3.55%, Series K	1,608,000	*(1)(4)
	HSBC Holdings PLC:		
\$ 1,400,000	HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A****	2,054,108	(1)(2)(4)
	Huntington Bancshares, Inc.:		
140,000	6.25%, Series D	3,620,400	*(1)(4)
\$ 1,400,000	5.70% to 04/15/23 then 3ML + 2.88%, Series E	1,348,669	*(1)(4)
30,000	ING Groep NV, 6.375%	769,200	** (2)(4)
	JPMorgan Chase & Company:		
61,469	6.70%, Series T	1,536,725	*(4)
\$ 5,021,000	3ML + 3.47%, 6.2205% ⁽⁵⁾ , Series I	5,052,256	*(1)(4)
\$ 750,000	6.00% to 08/01/23 then 3ML + 3.30%, Series R	773,126	*(1)(4)
\$ 4,791,000	6.75% to 02/01/24 then 3ML + 3.78%, Series S	5,271,370	*(1)(4)
122,200	KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E	3,269,314	*(1)(4)
\$ 2,250,000	Lloyds TSB Bank PLC, 12.00% to 12/16/24 then 3ML + 11.756%, 144A****	2,730,262	(2)(4)
\$ 3,500,000	M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E	3,730,422	*(1)(4)
58,320	MB Financial, Inc., 6.00%, Series C	1,467,914	*(1)(4)

4

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)**February 28, 2019 (Unaudited)****Shares/\$ Par Value****Preferred Stock &
Hybrid Preferred
Securities — (Continued)****Banking — (Continued)**

	Morgan Stanley:			
213,700	5.85% to 04/15/27 then 3ML + 3.491%, Series K	\$ 5,419,432		*(1)(4)
89,000	6.875% to 01/15/24 then 3ML + 3.94%, Series F	2,419,020		*(1)(4)
86,900	7.125% to 10/15/23 then 3ML + 4.32%, Series E	2,440,586		*(1)(4)
235,200	New York Community Bancorp, Inc., 6.375% to 03/17/27 then 3ML + 3.821%, Series A	5,908,224		*(1)(4)
23,066	People's United Financial, Inc., 5.625% to 12/15/26 then 3ML + 4.02%, Series A	548,394		*(4)
	PNC Financial Services Group, Inc.:			
352,826	6.125% to 05/01/22 then 3ML + 4.067%, Series P	9,382,525		*(1)(4)
\$ 2,850,000	6.75% to 08/01/21 then 3ML + 3.678%, Series O	3,043,173		*(1)(4)
\$ 2,515,000	Rabobank Nederland, 11.00% to 06/30/19 then 3ML + 10.868%, 144A*****	2,581,019		(1)(2)(4)
	Sovereign Bancorp:			
3,000	Sovereign REIT, 12.00%, Series A, 144A*****	3,364,785		(4)
	State Street Corporation:			
\$ 500,000	5.625% to 12/15/23 then 3ML + 2.539%, Series H	499,168		*(4)
157,400	5.90% to 03/15/24 then 3ML + 3.108%, Series D	4,114,043		*(1)(4)
13,616	Sterling Bancorp, 6.50%, Series A	373,283		*(4)
39,000	Valley National Bancorp, 5.50% to 09/30/22 then 3ML + 3.578%, Series B	974,220		*(4)
	Wells Fargo & Company:			
24,700	5.625%, Series Y	625,404		*(4)
325	7.50%, Series L	418,160		*(4)
81,100	5.85% to 09/15/23 then 3ML + 3.09%, Series Q	2,054,441		*(1)(4)
\$ 1,250,000	5.875% to 06/15/25 then 3ML + 3.99%, Series U	1,323,163		*(1)(4)
\$ 1,458,000	3ML + 3.77%, 6.5582% ⁽⁵⁾ , Series K	1,470,758		*(1)(4)
106,200	6.625% to 03/15/24 then 3ML + 3.69%, Series R	2,920,500		*(1)(4)

Edgar Filing: FLAHERTY & CRUMRINE TOTAL RETURN FUND INC - Form N-30B-2

Zions Bancorporation:

5,000	6.30% to 03/15/23 then 3ML + 4.24%, Series G	135,025	*(4)
\$ 1,800,000	7.20% to 09/15/23 then 3ML + 4.44%, Series J	1,873,503	*(1)(4)
		126,822,484	

Financial Services — 0.9%

\$ 640,000	E*TRADE Financial Corporation, 5.30% to 03/15/23 then 3ML + 3.16%, Series B	594,134	*(1)(4)
	General Motors Financial Company:		
\$ 610,000	5.75% to 09/30/27 then 3ML + 3.598%, Series A	535,138	*(1)(4)
\$ 1,000,000	6.50% to 09/30/28 then 3ML + 3.436%, Series B	908,975	*(1)(4)
29,000	Stifel Financial Corp., 6.25%, Series B	730,800	*(4)
		2,769,047	

Insurance — 19.6%

145,144	Allstate Corporation, 6.625%, Series E	3,682,303	*(1)(4)
\$ 2,150,000	American International Group, Inc., 8.175% to 05/15/38 then 3ML + 4.195%, 05/15/58	2,497,171	
\$ 1,290,000	Aon Corporation, 8.205% 01/01/27	1,510,551	(1)

5

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2019 (Unaudited)

Shares/\$ Par	Value		
Preferred Stock & Hybrid Preferred Securities — (Continued)			
Insurance — (Continued)			
	Arch Capital Group, Ltd.:		
16,000	5.25%, Series E	\$ 365,502	** (2)(4)
14,200	5.45%, Series F	328,730	** (2)(4)
	Aspen Insurance Holdings Ltd.:		
25,000	5.625%	586,000	** (2)(4)
9,000	5.95% to 07/01/23 then 3ML + 4.06%	224,100	** (2)(4)
\$ 620,000	AXA SA, 6.379% to 12/14/36 then 3ML + 2.256%, 144A****	662,625	** (1)(2)(4)
5,000	Axis Capital Holdings Ltd., 5.50%, Series E	118,750	** (2)(4)
	Chubb Ltd.:		
\$ 1,550,000	Ace Capital Trust II, 9.70% 04/01/30	2,094,004	(1)
224,200	Delphi Financial Group, 3ML + 3.19%, 5.8738% ⁽⁵⁾ 05/15/37	5,184,625	(1)
61,000	Enstar Group Ltd., 7.00% to 09/01/28 then 3ML + 4.015%, Series D	1,516,613	** (1)(2)(4)
\$ 1,519,000	Everest Reinsurance Holdings, 3ML + 2.385%, 5.0688% ⁽⁵⁾ 05/15/37	1,323,725	(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****	7,249,317	(1)
	MetLife, Inc.:		
\$ 5,335,000	9.25% 04/08/38, 144A****	7,079,705	(1)
\$ 4,130,000	10.75% 08/01/39	6,162,084	(1)
\$ 577,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	703,106	(1)
	PartnerRe Ltd.:		
33,950	5.875%, Series I	866,744	** (1)(2)(4)
13,917	6.50%, Series G	362,816	** (1)(2)(4)
117,494	7.25%, Series H	3,150,014	** (1)(2)(4)
\$ 704,000	Prudential Financial, Inc., 5.625% to 06/15/23 then 3ML + 3.92%, 06/15/43	731,438	(1)
24,400	RenaissanceRe Holdings Ltd., 5.75%, Series F	598,776	** (2)(4)

Edgar Filing: FLAHERTY & CRUMRINE TOTAL RETURN FUND INC - Form N-30B-2

Unum Group:

\$ 5,803,000	Provident Financing Trust I, 7.405% 03/15/38	6,046,900	(1)
60,339	W.R. Berkley Corporation, 5.75% 06/01/56	1,521,038	(1)

XL Group Limited:

\$ 2,000,000	Catlin Insurance Company Ltd., 3ML + 2.975%, 5.736% ⁽⁵⁾ , 144A****	1,927,950	(1)(2)(4)
\$ 3,446,000	XL Capital Ltd., 3ML + 2.4575%, 5.2448% ⁽⁵⁾ , Series E	3,247,855	(1)(2)(4)
		59,956,905	

Utilities — 6.8%

\$ 900,000	CenterPoint Energy, Inc., 6.125% to 09/01/23 then 3ML + 3.27%, Series A	914,999	*(1)(4)
	Commonwealth Edison:		
\$ 3,394,000	COMED Financing III, 6.35% 03/15/33	3,523,328	(1)
188,700	Dominion Energy, Inc., 5.25% 07/30/76, Series A	4,695,328	(1)
	DTE Energy Company:		
30,000	5.375% 06/01/76, Series B	770,250	(1)
46,993	6.00% 12/15/76, Series F	1,259,647	(1)
\$ 2,940,000	Emera, Inc., 6.75% to 06/15/26 then 3ML + 5.44%, 06/15/76, Series 2016A	3,047,237	(1)(2)

6

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)**February 28, 2019 (Unaudited)****Shares/\$ Par Value****Preferred Stock &
Hybrid Preferred
Securities — (Continued)****Utilities — (Continued)**

2,200	Georgia Power Company, 5.00% 10/01/77, Series 2017A	\$ 55,187	
17,800	Indianapolis Power & Light Company, 5.65%	1,793,350	*(1)(4)
100,233	Integrays Energy Group, Inc., 6.00% to 08/01/23 then 3ML + 3.22%, 08/01/73 NiSource, Inc.:	2,534,391	(1)
\$ 440,000	5.65% to 06/15/23 then T5Y + 2.843%, Series A, 144A****	424,967	*(4)
40,000	6.50% to 03/15/24 then T5Y + 3.632%, Series B Southern California Edison:	1,068,500	*(1)(4)
30,000	SCE Trust V, 5.45% to 03/15/26 then 3ML + 3.79%, Series K	697,950	*(1)(4)
		20,785,134	

Energy — 4.1%

	DCP Midstream LP:		
\$ 1,550,000	7.375% to 12/15/22 then 3ML + 5.148%, Series A	1,493,464	(1)(4)
5,200	7.875% to 06/15/23 then 3ML + 4.919%, Series B	126,126	(4)
\$ 750,000	DCP Midstream LLC, 5.85% to 05/21/23 then 3ML + 3.85%, 05/21/43, 144A****	667,500	
\$ 1,500,000	Enbridge, Inc., 6.00% to 01/15/27 then 3ML + 3.89%, 01/15/77 Energy Transfer Partners LP:	1,472,145	(1)(2)
164,330	7.375% to 05/15/23 then 3ML + 4.53%, Series C	3,961,848	(1)(4)
2,100	7.625% to 08/15/23 then 3ML + 4.738%, Series D	51,450	(4)
\$ 1,000,000	Enterprise Products Operating L.P., 5.25% to 08/16/27 then 3ML + 3.033%, 08/16/77, Series E	918,468	(1)
45,500	NuStar Logistics LP, 3ML + 6.734%, 9.5213% ⁽⁵⁾ 01/15/43 Transcanada Pipelines, Ltd.:	1,141,595	(1)
\$ 1,500,000	5.30% to 03/15/27 then 3ML + 3.208%, 03/15/77, Series 2017-A	1,397,213	(1)(2)
\$ 1,500,000	5.875% to 08/15/26 then 3ML + 4.64%, 08/15/76, Series 2016-A	1,494,713	(1)(2)
		12,724,522	

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	114,045	(4)
12,315	National Retail Properties, Inc., 5.20%, Series F	279,551	(4)
		393,596	

Miscellaneous Industries — 3.3%

	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*****	659,055	(2)
\$ 718,000	General Electric Company, 5.00% to 01/21/21 then 3ML + 3.33%, Series D	677,774	*(1)(4)
	Land O' Lakes, Inc.:		
\$ 1,500,000	7.00%, Series C, 144A*****	1,448,813	*(4)
\$ 4,350,000	7.25%, Series B, 144A*****	4,317,375	*(4)
34,700	Ocean Spray Cranberries, Inc., 6.25%, 144A*****	3,018,900	*(4)
		10,121,917	
	Total Preferred Stock & Hybrid Preferred Securities	233,573,605	
	(Cost \$226,768,817)		

7

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2019 (Unaudited)

Shares/\$ Par Value**Contingent Capital****Securities⁽³⁾ — 16.9%****Banking — 14.3%**

\$ 2,550,000	Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A****	\$ 2,681,248	** (1)(2)(4)
\$ 3,000,000	Banco Bilbao Vizcaya Argentaria SA, 6.125% to 11/16/27 then SW5 + 3.87%	2,706,660	** (1)(2)(4)
\$ 710,000	Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A****	699,350	** (2)(4)
	Barclays Bank PLC:		
\$ 1,645,000	7.75% to 09/15/23 then SW5 + 4.842%	1,642,261	** (1)(2)(4)
\$ 3,220,000	7.875% to 03/15/22 then SW5 + 6.772%, 144A****	3,385,064	** (1)(2)(4)
	BNP Paribas:		
\$ 560,000	7.00% to 08/16/28 then SW5 + 3.98%, 144A****	560,826	** (2)(4)
\$ 7,830,000	7.375% to 08/19/25 then SW5 + 5.15%, 144A****	8,258,927	** (1)(2)(4)
\$ 2,000,000	7.625% to 03/30/21 then SW5 + 6.314%, 144A****	2,108,670	** (1)(2)(4)
\$ 395,000	Credit Agricole SA, 7.875% to 01/23/24 then SW5 + 4.898%, 144A****	424,891	** (2)(4)
	HSBC Holdings PLC:		
\$ 500,000	6.00% to 05/22/27 then ISDA5 + 3.746%	487,612	** (2)(4)
\$ 4,265,000	6.50% to 03/23/28 then ISDA5 + 3.606%	4,202,518	** (1)(2)(4)
\$ 1,370,000	6.875% to 06/01/21 then ISDA5 + 5.514%	1,424,074	** (1)(2)(4)
\$ 730,000	Macquarie Bank Ltd., 6.125% to 03/08/27 then SW5 + 3.703%, 144A****	665,008	** (2)(4)
\$ 6,000,000	Societe Generale SA, 6.75% to 04/06/28 then SW5 + 3.929%, 144A****	5,443,320	** (1)(2)(4)
	Standard Chartered PLC:		
\$ 3,510,000	7.50% to 04/02/22 then SW5 + 6.301%, 144A****	3,676,725	** (1)(2)(4)
\$ 1,500,000	7.75% to 04/02/23 then SW5 + 5.723%, 144A****	1,573,463	** (1)(2)(4)
\$ 2,500,000	UBS Group Funding Switzerland AG, 7.000% to 01/31/24 then SW5 + 4.344%, 144A****	2,523,750	** (2)(4)
\$ 1,600,000	Westpac Banking Corporation, 5.00% to 09/21/27 then ISDA5 + 2.888%	1,412,311	** (1)(2)(4)
		43,876,678	

Financial Services — 0.7%

Edgar Filing: FLAHERTY & CRUMRINE TOTAL RETURN FUND INC - Form N-30B-2

Credit Suisse Group AG:

\$ 1,000,000	7.25% to 09/12/25 then SW5 + 4.332%, 144A****	1,001,475	** (1)(2)(4)
\$ 1,100,000	7.50% to 07/17/23 then SW5 + 4.60%, 144A****	1,129,794	** (1)(2)(4)
		2,131,269	

Insurance — 1.9%

\$ 5,300,000	QBE Insurance Group Ltd., 7.50% to 11/24/23 then SW10 + 6.03%, 11/24/43, 144A****	5,751,693	(1)(2)
		5,751,693	

Total Contingent Capital Securities

(Cost \$52,127,649)

51,759,640

Corporate Debt Securities^s — 4.8%

Banking — 1.8%

193,600	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	5,018,112	(1)
18,000	Zions Bancorporation, 6.95% to 09/15/23 then 3ML + 3.89%, 09/15/28, Sub Notes	526,540	
		5,544,652	

8

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)**February 28, 2019 (Unaudited)****Shares/\$ Par Value****Corporate Debt****Securities — (Continued)****Insurance — 1.3%**

\$ 3,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	\$ 3,858,755	(1)
		3,858,755	

Energy — 0.4%

\$ 940,000	Energy Transfer Partners LP, 8.25% 11/15/29	1,135,264	(1)
		1,135,264	

Communication — 0.5%

Qwest Corporation:

29,941	6.50% 09/01/56	682,805	
41,820	6.75% 06/15/57	1,000,907	
		1,683,712	

Miscellaneous Industries — 0.8%

\$ 2,160,000	Pulte Group, Inc., 7.875% 06/15/32	2,343,600	(1)
		2,343,600	

Total Corporate Debt Securities

(Cost \$13,176,435)

14,565,983

Common Stock — 0.0%**Energy — 0.0%**

5,442	Kinder Morgan, Inc.	104,269	*
		104,269	

Total Common Stock

(Cost \$98,749)

104,269

Money Market Fund — 1.1%

BlackRock Liquidity Funds:

3,344,611	T-Fund, Institutional Class	3,344,611	
-----------	-----------------------------	-----------	--

Total Money Market Fund					
(Cost \$3,344,611)					3,344,611

Total Investments (Cost \$295,516,261***)	99.1	%		303,348,108
Other Assets And Liabilities (Net)	0.9	%		2,631,564
Total Managed Assets	100.0	%	\$	305,979,672
Loan Principal Balance				(107,900,000)
Total Net Assets Available To Common Stock			\$	198,079,672

Flaherty & Crumrine Total Return Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
February 28, 2019 (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 February 28, 2019, these securities amounted to \$93,326,116 or 30.5% 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 \$196,584,751 at February 28, 2019.

(2)Foreign Issuer.

(3)A Contingent Capital Security is a hybrid security with contractual loss-absorption characteristics.

(4)Perpetual security with no stated maturity date.

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

‡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

10

Flaherty & Crumrine Total Return Fund Incorporated

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

For the period from December 1, 2018 through February 28, 2019 (Unaudited)

Value

OPERATIONS:

Net
investment
income

\$13,691

Net
realized
gain/(loss)

on
investments
(7,555,711)

sold
during
the
period

Change
in
net

unrealized
appreciation/depreciation
of
investments

15,705,103

**Net
increase
in
net
assets**

11,353,083

**resulting
from
operations**

DISTRIBUTIONS:

Dividends
paid
from
distributable
earnings
to

(3,475,378)

Common
Stock
Shareholders⁽²⁾

Total (3,475,378)
Distributions

**NET
INCREASE
IN
NET
ASSETS
AVAILABLE
TO \$ 7,877,705
COMMON
STOCK
FOR
THE
period**

**NET
ASSETS
AVAILABLE
TO
COMMON
STOCK:**

Beginning
of \$ 190,201,967
period

Net
increase
in
net 7,877,705
assets
during
the
period

End
of \$ 198,079,672
period

⁽¹⁾These tables summarize the three months ended February 28, 2019 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, 2018.

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

11

Flaherty & Crumrine Total Return Fund Incorporated

Financial Highlights⁽¹⁾

**For the period December 1, 2018 through February 28, 2019 (Unaudited)
For a Common Stock share outstanding throughout the period**

11

**PER
SHARE
OPERATING
PERFORMANCE:**

Net
asset
value, \$ 19.10
beginning
of
period

**INVESTMENT
OPERATIONS:**

Net
investment
income

Net
realized
and
unrealized
gain/(loss)
on
investments

Total
from
investment
operations

**DISTRIBUTIONS
TO
COMMON
STOCK
SHAREHOLDERS:**

From (0.35)
net

investment
 income
 Total
 distributions
 to
 Common (0.35)
 Stock
 Shareholders
 Net
 asset
 value, \$ 19.89
 end
 of
 period
 Market
 value,
 end \$ 18.96
 of
 period
 Common
 Stock
 shares
 outstanding 9,58,104
 end
 of
 period

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

Net
 investment 6.59 %*
 income †
 Operating
 expenses
 including 3.21 %*
 interest
 expense
 Operating
 expenses
 excluding 1.36 %*
 interest
 expense

**SUPPLEMENTAL
 DATA:**

††

Portfolio turnover 3 rate %**

Total managed assets, end of \$ 305,980 period (in 000's)

Ratio of operating expenses including interest expense 2.06 %* to average total managed assets

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

(1)These tables summarize the three months ended February 28, 2019 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, 2018.

*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)

12

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price⁽¹⁾
December 31, 2018	\$0.1190	\$18.62	\$17.21	\$17.26
January 31, 2019	0.1150	19.73	18.60	18.68
February 28, 2019	0.1150	19.89	18.96	19.14

⁽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.

Flaherty & Crumrine Total Return Fund Incorporated

Notes to Financial Statements (Unaudited)

1. Aggregate Information for Federal Income Tax Purposes

At February 28, 2019, the aggregate cost of securities for federal income tax purposes was \$300,363,325, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$12,552,966 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$9,568,183.

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 February 28, 2019 is as follows:

	Total Value at February 28, 2019	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Stock & Hybrid Preferred Securities				
Banking	\$126,822,484	\$101,234,435	\$25,588,049	\$—
Financial Services	2,769,047	2,769,047	—	—
Insurance	59,956,905	35,885,158	24,071,747	—
Utilities	20,785,134	12,934,065	7,851,069	—
Energy	12,724,522	12,057,022	667,500	—
Real Estate Investment Trust (REIT)	393,596	393,596	—	—
Miscellaneous Industries	10,121,917	1,336,829	8,785,088	—
Contingent Capital Securities				
Banking	43,876,678	43,177,328	699,350	—
Financial Services	2,131,269	2,131,269	—	—
Insurance	5,751,693	—	5,751,693	—
Corporate Debt Securities				
Banking	5,544,652	5,544,652	—	—
Insurance	3,858,755	—	3,858,755	—
Energy	1,135,264	—	1,135,264	—
Communication	1,683,712	1,683,712	—	—
Miscellaneous Industries	2,343,600	—	2,343,600	—
Common Stock				
Energy	104,269	104,269	—	—
Money Market Fund	3,344,611	3,344,611	—	—
Total Investments	\$303,348,108	\$222,595,993	\$80,752,115	\$—

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

Flaherty & Crumrine Total Return Fund Incorporated

Notes to Financial Statements (Unaudited) (Continued)

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.

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 Advisors 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, 2019

Beginning January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, the Fund intends to no longer mail paper copies of the Fund’s shareholder reports like this one, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary (such as a broker-dealer or bank). Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically (“edelivery”), you will not be affected by this change and you need not take any action. If you have not already elected edelivery, you may elect to receive shareholder reports and other communications from the Fund electronically at any time by contacting the Fund at the telephone number or mailing address listed on the left side of this page, if you invest directly with the Fund, or by contacting your financial intermediary.

You may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. That election will apply to all funds held in your account at that financial intermediary. Likewise, your election to receive reports in paper will apply to all funds held with the fund complex if you invest directly with the Fund. If you are a direct shareholder with the Fund, you can call or write to the Fund at the telephone number or address listed on the left side of this page to let the Fund know you wish to continue receiving paper copies of your shareholder reports.

www.preferredincome.com