

## FLAHERTY & CRUMRINE TOTAL RETURN FUND

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

The Fund’s year is off to a strong start, benefiting from a rebound in prices of preferred securities in the first fiscal quarter<sup>1</sup>. Total return<sup>2</sup> on net asset value (“NAV”) was 7.1% for the quarter, while total return on market price was 4.2%.

To say investors had a lot to think about in late 2016 would be an understatement, and markets were weaker and more volatile leading up to year-end as a result. A contentious November election was settled in a way that surprised many, and interest rates moved higher in anticipation of infrastructure spending and tax and regulatory reform. The Federal Reserve raised its benchmark fed funds rate in December and projected three additional hikes in 2017 (one of which came in March), as the U.S. economy showed signs of continued gradual improvement. Once the dust settled, however, investors began looking ahead to what all these changes could mean for the economy, corporate profitability, and credit conditions—and outlooks were generally favorable.

Even though interest rates moved higher following the election, rates quickly stabilized at those new levels, and they remain low overall by historical standards—especially if we broaden our view to include global interest rates. Higher rates should generate higher earnings for banks and insurance companies and further strengthen credit quality at these companies, which comprise the bulk of the preferred market. They also have offered the Fund opportunities to reinvest proceeds from redeemed securities at higher yields than we might have expected several quarters ago.

The rebound in prices of preferred securities was broad, but a few sectors led the way for portfolio performance. Fixed-to-float securities continue to be in demand, as investors seek reasonable income with moderate interest-rate duration. During the quarter, securities with 2-5 years to their float date outperformed those with 5-10 years—but nearly all fixed-to-float securities benefited from the market’s evolving view on short-term rates. Not long ago, investors were concerned about short-term rates being stuck near a zero-bound (or even negative), but recent Fed rate hikes (and projections for more) have removed much of that worry. As of February 28, 2017, 62% of the portfolio was in fixed-to-float securities. Preferred securities also benefited from positive inflows at mutual funds and exchange-traded funds that focus on this market.

A detailed policy discussion is outside the scope of this letter, but regulation is one area worth touching upon. Banks and financial companies are heavily regulated (preferred securities are primarily issued to satisfy regulatory capital requirements), so any relief in regulation could further accrete into earnings over time. A trade-off exists as regulation can enhance the safety and soundness of a company and the entire financial system, but we believe near-term regulatory changes likely would enhance earnings without materially impacting overall creditworthiness of the sector. For our broader policy review and related market implications, please see “Discussion Topics” in the 2016 annual report—available on the Fund’s website.

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<sup>1</sup> December 1, 2016—February 28, 2017

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

Preferred securities continue to benefit from a global search for yield, strong credit quality, and favorable technical factors. U.S. banks have largely filled their regulatory “buckets” for preferred securities, so going forward supply will be driven primarily by organic growth and refinancing of older securities. Supply from foreign issuers is likely to be more robust due to a longer timetable for transitioning to new capital requirements than U.S. banks, but it should remain manageable. Strong demand from yield buyers and moderate supply should continue to support prices of preferred securities. We believe this combination of fundamental and technical factors will continue to make preferred securities attractive to long-term investors.

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, 2017

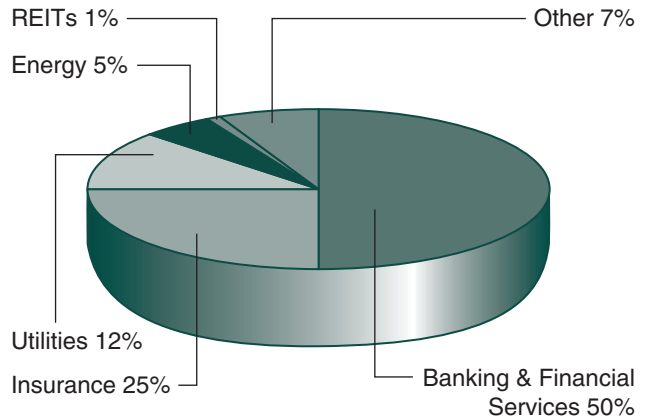
**PORTFOLIO OVERVIEW**  
**February 28, 2017 (Unaudited)**

**Fund Statistics**

Net Asset Value	\$	20.81
Market Price	\$	20.51
Discount		1.44%
Yield on Market Price		7.78%
Common Stock Shares Outstanding		9,945,250

**Industry Categories**

**% of Net Assets†**



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

A	1.1%
BBB	62.7%
BB	24.1%
Below "BB"	0.2%
Not Rated**	7.2%
Below Investment Grade***	21.1%

\* 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 4.7%.

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

**Top 10 Holdings by Issuer**

**% of Net Assets†**

JPMorgan Chase	4.8%
PNC Financial Services Group	4.8%
MetLife	4.7%
Wells Fargo & Company	4.1%
Citigroup	3.6%
Fifth Third Bancorp	3.4%
BNP Paribas	3.2%
Enbridge Energy Partners	3.0%
Axis Capital Holdings Ltd	2.8%
Liberty Mutual Group	2.5%

**% of Net Assets\*\*\*\*†**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	56%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	42%

\*\*\*\* 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.

**PORTFOLIO OF INVESTMENTS****February 28, 2017 (Unaudited)**

Shares/\$ Par		Value
<b>Preferred Securities — 90.3%</b>		
<b>Banking — 48.1%</b>		
	6,700 Astoria Financial Corp., 6.50%, Series C .....	\$ 173,815*
\$ 2,550,000	Australia & New Zealand Banking Group Ltd., 6.75%, 144A**** .....	2,762,129**(2)
\$ 5,530,000	Bank of America Corporation, 8.00%, Series K .....	5,730,462*(1)
	Barclays Bank PLC:	
	69,570 7.10%, Series 3 .....	1,737,859**(2)
	88,112 8.125%, Series 5 .....	2,287,388**(1)(2)
	BNP Paribas:	
\$ 7,830,000	7.375%,144A**** .....	7,984,642**(1)(2)
\$ 2,000,000	7.625%,144A**** .....	2,117,000**(1)(2)
	Capital One Financial Corporation:	
	5,722 6.00%, Series H .....	144,480*
	15,436 6.20%, Series F .....	397,631*
	31,100 6.70%, Series D .....	855,639*
	Citigroup, Inc.:	
\$ 500,000	5.875%, Series O .....	516,875*
	214,568 6.875%, Series K .....	6,177,949*(1)
	155,338 7.125%, Series J .....	4,565,772*(1)
	CoBank ACB:	
	15,300 6.125%,Series G, 144A**** .....	1,513,744*
	17,500 6.20%,Series H, 144A**** .....	1,788,281*
	25,000 6.25%,Series F, 144A**** .....	2,571,095*(1)
\$ 609,000	6.25%,Series I, 144A**** .....	659,582*
\$ 10,000,000	Colonial BancGroup, 7.114%, 144A**** .....	15,000 <sup>(3)(4)</sup> ††
	369,733 Fifth Third Bancorp, 6.625%, Series I .....	10,741,668*(1)
	First Horizon National Corporation:	
	875 First Tennessee Bank, Adj. Rate, 3.75% <sup>(5)</sup> , 144A**** .....	602,191*
	3 FT Real Estate Securities Company, 9.50% 03/31/31, 144A**** .....	3,896,250
	Goldman Sachs Group:	
\$ 390,000	5.70%, Series L .....	402,188*
	60,000 6.375%, Series K .....	1,717,200*(1)
	HSBC PLC:	
\$ 1,400,000	HSBC Capital Funding LP, 10.176%, 144A**** .....	2,117,500 <sup>(1)(2)</sup>
\$ 1,370,000	HSBC Holdings PLC, 6.875% .....	1,471,038**(2)
	132,100 HSBC Holdings PLC, 8.00%, Series 2 .....	3,456,066**(1)(2)
	140,000 Huntington Bancshares, Inc., 6.25%, Series D .....	3,727,150*(1)
	ING Groep NV:	
	30,000 6.375% .....	765,600**(2)
	27,925 7.20% .....	699,591**(2)

Flaherty & Crumrine Total Return Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**February 28, 2017 (Unaudited)**

Shares/\$ Par		Value
<b>Preferred Securities — (Continued)</b>		
<b>Banking — (Continued)</b>		
	JPMorgan Chase & Company:	
\$ 750,000	6.00%, Series R .....	\$ 787,500 <sup>*(1)</sup>
61,469	6.70%, Series T .....	1,667,039 <sup>*(1)</sup>
\$ 4,791,000	6.75%, Series S .....	5,312,021 <sup>*(1)</sup>
\$ 7,000,000	7.90%, Series I .....	7,288,750 <sup>*(1)</sup>
122,200	KeyCorp, 6.125%, Series E .....	3,360,500 <sup>*(1)</sup>
\$ 3,500,000	M&T Bank Corporation, 6.450%, Series E .....	3,806,250 <sup>*(1)</sup>
	Morgan Stanley:	
85,000	6.875%, Series F .....	2,459,050 <sup>*(1)</sup>
86,900	7.125%, Series E .....	2,549,863 <sup>*(1)</sup>
	PNC Financial Services Group, Inc.:	
412,004	6.125%, Series P .....	11,771,984 <sup>*(1)</sup>
\$ 2,850,000	6.75%, Series O .....	3,195,563 <sup>*(1)</sup>
\$ 2,515,000	Rabobank Nederland, 11.00%, 144A**** .....	2,955,125 <sup>(1)(2)</sup>
	Sovereign Bancorp:	
3,000	Sovereign REIT, 12.00%, Series A, 144A**** .....	3,738,750
\$ 3,170,000	Standard Chartered PLC, 7.50%, 144A**** .....	3,271,123 <sup>** (1)(2)</sup>
157,400	State Street Corporation, 5.90%, Series D .....	4,343,060 <sup>*(1)</sup>
63,000	US Bancorp, 6.50%, Series F .....	1,848,577 <sup>*(1)</sup>
86,400	Webster Financial Corporation, 6.40%, Series E .....	2,204,280*
	Wells Fargo & Company:	
81,100	5.85%, Series Q .....	2,183,415 <sup>*(1)</sup>
\$ 1,250,000	5.875%, Series U .....	1,351,563 <sup>*(1)</sup>
106,200	6.625%, Series R .....	3,124,404 <sup>*(1)</sup>
\$ 1,458,000	7.98%, Series K .....	1,536,368 <sup>*(1)</sup>
169,700	8.00%, Series J .....	4,461,837 <sup>*(1)</sup>
	Zions Bancorporation:	
5,000	6.30%, Series G .....	142,812*
\$ 1,500,000	7.20%, Series J .....	1,636,875*
125,000	7.90%, Series F .....	3,185,000 <sup>*(1)</sup>
		149,777,494
<b>Insurance — 23.5%</b>		
145,144	Allstate Corp., 6.625%, Series E .....	3,916,348 <sup>*(1)</sup>
\$ 1,290,000	Aon Corporation, 8.205% 01/01/27 .....	1,660,875 <sup>(1)</sup>
	Arch Capital Group, Ltd.:	
16,000	5.25%, Series E .....	360,360 <sup>** (2)</sup>
80,000	6.75%, Series C .....	2,040,200 <sup>** (1)(2)</sup>

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2017 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities — (Continued)</b>		
<b>Insurance — (Continued)</b>		
	Aspen Insurance Holdings Ltd.:	
25,000	5.625% .....	\$ 591,250**(2)
9,000	5.95% .....	244,530**(2)
5,000	7.25% .....	129,412**(2)
\$ 620,000	AXA SA, 6.379%, 144A**** .....	676,184**(1)(2)
	Axis Capital Holdings Ltd.:	
5,000	5.50%, Series E .....	116,400**(2)
338,419	6.875%, Series C .....	8,616,994**(1)(2)
	Chubb Ltd.:	
\$ 1,550,000	Ace Capital Trust II, 9.70% 04/01/30 .....	2,313,375(1)(2)
210,000	Delphi Financial Group, 7.376% 05/15/37 .....	4,889,073(1)
57,000	Endurance Specialty Holdings, 6.35%, Series C .....	1,474,590**(1)(2)
\$ 3,325,000	Everest Re Holdings, 6.60% 05/15/37 .....	3,071,469(1)
7,500	Hartford Financial Services Group, Inc., 7.875% 04/15/42 .....	229,594
\$ 3,511,000	Liberty Mutual Group, 7.80% 03/15/37, 144A**** .....	4,063,983(1)
	MetLife:	
\$ 5,335,000	MetLife, Inc., 9.25% 04/08/38, 144A**** .....	7,415,650(1)
\$ 4,130,000	MetLife, Inc., 10.75% 08/01/39 .....	6,432,475(1)
\$ 577,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A**** .....	716,923(1)
	PartnerRe Ltd.:	
33,950	5.875%, Series I .....	854,182**(1)(2)
13,917	6.50%, Series G .....	362,677**(1)(2)
117,494	7.25%, Series H .....	3,327,724**(1)(2)
\$ 704,000	Prudential Financial, Inc., 5.625% 06/15/43 .....	758,947(1)
\$ 5,300,000	QBE Insurance Group Ltd., 7.50% 11/24/43, 144A**** .....	5,949,250(1)(2)
	Unum Group:	
\$ 3,251,000	Provident Financing Trust I, 7.405% 03/15/38 .....	3,567,973(1)
60,700	W.R. Berkley Corporation, 5.75% 06/01/56 .....	1,501,263
	XL Group PLC:	
\$ 2,000,000	Catlin Insurance Company Ltd., 4.00% <sup>(5)</sup> , 144A**** .....	1,810,000(1)(2)
\$ 7,200,000	XL Capital Ltd., 6.50%, Series E .....	6,084,000(1)(2)
		<u>73,175,701</u>
	<b>Utilities — 11.6%</b>	
	Commonwealth Edison:	
\$ 3,160,000	COMED Financing III, 6.35% 03/15/33 .....	3,362,186(1)
195,000	Dominion Resources, Inc., 5.25% 07/30/76, Series A .....	4,567,387(1)

Flaherty & Crumrine Total Return Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**February 28, 2017 (Unaudited)**

Shares/\$ Par		Value
<b>Preferred Securities — (Continued)</b>		
<b>Utilities — (Continued)</b>		
	DTE Energy Company:	
40,000	5.375% 06/01/76, Series B .....	\$ 966,100
46,993	6.00% 12/15/76, Series F .....	1,202,198
\$ 2,940,000	Emera, Inc., 6.75% 06/15/76, Series 2016A .....	3,234,000 <sup>(1)(2)</sup>
70,791	Georgia Power Company, 6.50%, Series 2007A .....	7,275,991*
17,800	Indianapolis Power & Light Company, 5.65% .....	1,813,932 <sup>(1)</sup>
107,233	Integrus Energy Group, Inc., 6.00% 08/01/73 .....	2,825,858 <sup>(1)</sup>
	Nextera Energy:	
\$ 1,997,000	FPL Group Capital, Inc., 6.65% 06/15/67, Series C .....	1,773,336 <sup>(1)</sup>
\$ 1,500,000	FPL Group Capital, Inc., 7.30% 09/01/67, Series D .....	1,516,500 <sup>(1)</sup>
	PPL Corp:	
\$ 3,450,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A .....	3,286,125 <sup>(1)</sup>
\$ 3,900,000	Puget Sound Energy, Inc., 6.974% 06/01/67, Series A .....	3,578,250 <sup>(1)</sup>
30,000	SCE Trust V, 5.45%, Series K .....	821,775 <sup>(1)</sup>
		<u>36,223,638</u>
<b>Energy — 4.9%</b>		
\$ 750,000	DCP Midstream LLC, 5.85% 05/21/43, 144A**** .....	705,000
\$ 1,500,000	Enbridge, Inc., 6.00% 01/15/77 .....	1,526,250 <sup>(2)</sup>
\$ 9,485,000	Enbridge Energy Partners LP, 8.05% 10/01/37 .....	9,295,300 <sup>(1)</sup>
\$ 750,000	Enterprise Products Operating L.P., 4.742% <sup>(5)</sup> 08/01/66 .....	745,312 <sup>(1)</sup>
	Transcanada Pipelines, Ltd.:	
\$ 1,500,000	5.30% 03/15/77 .....	1,517,813 <sup>(2)</sup>
\$ 1,500,000	5.875% 08/15/76, Series 2016A .....	1,616,250 <sup>(1)(2)</sup>
		<u>15,405,925</u>
<b>Real Estate Investment Trust (REIT) — 0.5%</b>		
35,000	National Retail Properties, Inc., 5.70%, Series E .....	870,184 <sup>(1)</sup>
	PS Business Parks, Inc.:	
16,529	5.20%, Series W .....	380,498
6,698	5.70%, Series V .....	166,127
7,128	5.75%, Series U .....	177,345
		<u>1,594,154</u>
<b>Miscellaneous Industries — 1.7%</b>		
	BHP Billiton Limited:	
\$ 600,000	BHP Billiton Finance U.S.A., Ltd., 6.75% 10/19/75, 144A**** .....	687,300 <sup>(2)</sup>

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2017 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities — (Continued)</b>		
<b>Miscellaneous Industries — (Continued)</b>		
\$ 1,388,000	General Electric Company, 5.00%, Series D .....	\$ 1,464,340 <sup>(1)</sup>
34,700	Ocean Spray Cranberries, Inc., 6.25%, 144A**** .....	3,013,480*
		<u>5,165,120</u>
	<b>Total Preferred Securities</b>	
	(Cost \$274,056,123) .....	<u>281,342,032</u>
<b>Corporate Debt Securities — 5.0%</b>		
<b>Banking — 1.8%</b>		
\$ 2,951,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes .....	3,695,068 <sup>(1)</sup>
48,000	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes .....	1,246,502 <sup>(1)</sup>
18,000	Zions Bancorporation, 6.95% 09/15/28, Sub Notes .....	527,445
		<u>5,469,015</u>
<b>Financial Services — 0.2%</b>		
25,046	Affiliated Managers Group, Inc., 6.375% 08/15/42 .....	648,253
\$ 4,726,012	Lehman Brothers, Guaranteed Note, Variable Rate, 5.843%, 144A**** .....	105,863 <sup>(3)(4)††</sup>
		<u>754,116</u>
<b>Insurance — 1.2%</b>		
\$ 3,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** .....	3,866,889 <sup>(1)</sup>
		<u>3,866,889</u>
<b>Energy — 0.4%</b>		
\$ 940,000	Energy Transfer Partners LP, 8.25% 11/15/29 .....	1,234,786 <sup>(1)</sup>
		<u>1,234,786</u>
<b>Communication — 0.5%</b>		
Qwest Corporation:		
62,091	6.50% 09/01/56 .....	1,520,764
5,270	6.625% 09/15/55 .....	133,450
500	6.875% 10/01/54 .....	12,851
		<u>1,667,065</u>



Flaherty & Crumrine Total Return Fund Incorporated  
**PORTFOLIO OF INVESTMENTS (Continued)**  
**February 28, 2017 (Unaudited)**

Shares/\$ Par	Value
<b>Corporate Debt Securities — (Continued)</b>	
<b>Miscellaneous Industries — 0.9%</b>	
12,000 eBay, Inc., 6.00% 02/01/56 .....	\$ 309,630
\$ 2,160,000 Pulte Group, Inc., 7.875% 06/15/32 .....	2,440,800 <sup>(1)</sup>
	2,750,430
<b>Total Corporate Debt Securities</b>	
(Cost \$13,120,365) .....	15,742,301
<b>Common Stock — 0.2%</b>	
<b>Banking — 0.2%</b>	
13,500 CIT Group, Inc. ....	579,150*
	579,150
<b>Total Common Stock</b>	
(Cost \$2,533,093) .....	579,150
<b>Money Market Fund — 4.2%</b>	
BlackRock Liquidity Funds:	
13,061,498 T-Fund, Institutional Class .....	13,061,498
<b>Total Money Market Fund</b>	
(Cost \$13,061,498) .....	13,061,498
<b>Total Investments</b> (Cost \$302,771,079***) .....	99.7% 310,724,981
<b>Other Assets And Liabilities</b> (Net) .....	0.3% 1,008,076
<b>Total Managed Assets</b> .....	100.0%‡ \$ 311,733,057
<b>Loan Principal Balance</b> .....	(104,800,000)
<b>Total Net Assets Available To Common Stock</b> .....	\$ 206,933,057

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2017 (Unaudited)**

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- \* 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, 2017, these securities amounted to \$65,002,934 or 20.9% 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 \$195,710,114 at February 28, 2017.
- (2) Foreign Issuer.
- (3) Illiquid security (designation is unaudited).
- (4) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 28, 2017.
- (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.

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**  
**For the period from December 1, 2016 through February 28, 2017 (Unaudited)**

	Value
<b>OPERATIONS:</b>	
Net investment income .....	\$ 3,520,651
Net realized gain/(loss) on investments sold during the period .....	1,184,788
Change in net unrealized appreciation/(depreciation) of investments .....	9,087,146
<b>Net increase in net assets resulting from operations</b>	<b>13,792,585</b>
<b>DISTRIBUTIONS:</b>	
Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup> .....	(3,966,944)
<b>Total Distributions to Common Stock Shareholders</b>	<b>(3,966,944)</b>
<b>FUND SHARE TRANSACTIONS:</b>	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan .....	185,668
<b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b>	<b>185,668</b>
<b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD .....</b>	<b>\$ 10,011,309</b>
<hr/>	
<b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>	
Beginning of period .....	\$196,921,748
Net increase in net assets during the period .....	10,011,309
End of period .....	<u>\$206,933,057</u>

<sup>(1)</sup> These tables summarize the three months ended February 28, 2017 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2016.

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

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>**

**For the period from December 1, 2016 through February 28, 2017 (Unaudited)  
For a Common Stock share outstanding throughout the period**

**PER SHARE OPERATING PERFORMANCE:**

Net asset value, beginning of period . . . . . \$ 19.82

**INVESTMENT OPERATIONS:**

Net investment income . . . . . 0.35  
 Net realized and unrealized gain/(loss) on investments. . . . . 1.04  
 Total from investment operations . . . . . 1.39

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

From net investment income . . . . . (0.40)  
 Total distributions to Common Stock Shareholders . . . . . (0.40)  
 Net asset value, end of period . . . . . \$ 20.81  
 Market value, end of period . . . . . \$ 20.51  
 Common Stock shares outstanding, end of period . . . . . 9,945,250

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

Net investment income† . . . . . 7.09%\*  
 Operating expenses including interest expense . . . . . 2.34%\*  
 Operating expenses excluding interest expense . . . . . 1.36%\*

**SUPPLEMENTAL DATA:††**

Portfolio turnover rate . . . . . 8%\*\*  
 Total managed assets, end of period (in 000's) . . . . . \$ 311,733  
 Ratio of operating expenses including interest expense to total managed assets . . . . . 1.54%\*  
 Ratio of operating expenses excluding interest expense to total managed assets . . . . . 0.90%\*

<sup>(1)</sup> These tables summarize the three months ended February 28, 2017 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2016.

\* 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 <sup>(1)</sup>
December 30, 2016 .....	\$0.1330	\$19.96	\$19.87	\$19.93
January 31, 2017 .....	0.1330	20.42	20.93	20.42
February 28, 2017 .....	0.1330	20.81	20.51	20.49

<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.

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

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

At February 28, 2017, the aggregate cost of securities for federal income tax purposes was \$314,102,162, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$21,198,341 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$24,575,522.

### **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.

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

A summary of the inputs used to value the Fund's investments as of February 28, 2017 is as follows:

	Total Value at February 28, 2017	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	\$149,777,494	\$125,520,972	\$24,241,522	\$ 15,000
Insurance	73,175,701	45,173,519	28,002,182	—
Utilities	36,223,638	20,193,279	16,030,359	—
Energy	15,405,925	5,405,625	10,000,300	—
Real Estate Investment Trust (REIT)	1,594,154	1,594,154	—	—
Miscellaneous Industries	5,165,120	2,151,640	3,013,480	—
Corporate Debt Securities				
Banking	5,469,015	1,773,947	3,695,068	—
Financial Services	754,116	648,253	—	105,863
Insurance	3,866,889	—	3,866,889	—
Energy	1,234,786	—	1,234,786	—
Communication	1,667,065	1,667,065	—	—
Miscellaneous Industries	2,750,430	309,630	2,440,800	—
Common Stock				
Banking	579,150	579,150	—	—
Money Market Fund	13,061,498	13,061,498	—	—
Total Investments	<u>\$310,724,981</u>	<u>\$218,078,732</u>	<u>\$92,525,386</u>	<u>\$120,863</u>

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

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

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

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

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

	Total Investments	Preferred Securities Banking	Corporate Debt Securities Financial Services
<b>Balance as of 11/30/16</b>	\$112,356	\$15,000	\$ 97,356
Accrued discounts/premiums	—	—	—
Realized gain/(loss)	—	—	—
Change in unrealized appreciation/(depreciation)	8,507	—	8,507
Purchases	—	—	—
Sales	—	—	—
Transfers in	—	—	—
Transfers out	—	—	—
<b>Balance as of 02/28/17</b>	\$120,863	\$15,000	\$105,863

For the three months ended February 28, 2017, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$8,507.

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 02/28/17	Valuation Technique	Unobservable Input	Input Range (Wgt Avg)
Preferred Securities (Banking)	\$ 15,000	Bankruptcy recovery	Credit/Structure-specific recovery	0.00%-0.50% (0.15%)
Corporate Debt Securities (Financial Services)	105,863	Bankruptcy recovery and market information	Credit/Structure-specific recovery	2%-5% (2.2%)

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.



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## Directors

R. Eric Chadwick, CFA  
Chairman of the Board  
David Gale  
Morgan Gust  
Karen H. Hogan

## Officers

R. Eric Chadwick, CFA  
Chief Executive Officer and  
President  
Chad C. Conwell  
Chief Compliance Officer,  
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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, 2017

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