

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC

Form N-30B-2

April 28, 2015

*FLAHERTY & CRUMRINE TOTAL RETURN FUND*

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

Your Fund is off to a fine start in fiscal 2015 during the first fiscal quarter; total return on net asset value<sup>2</sup> was +2.3%, while total return on market price came in at +1.5%. The value of the investment portfolio increased modestly during the quarter, so much of the NAV return was comprised of interest and dividends earned on portfolio holdings.

Economic conditions in the U.S. remain the envy of most developed economies (faint praise indeed!). We expect gross domestic product (adjusted for inflation) to grow between 2.5% and 3.0% in 2015, up a bit from last year's 2.4%. Inflationary expectations are low, reflecting falling energy and commodity prices, along with recent appreciation in the U.S. dollar. The outlook for interest rates in the U.S. has not changed we expect the Federal Reserve to boost short-term interest rates by 0.25% sometime between June and September; subsequent increases, however, should be gradual. Intermediate and long-term interest rates, while likely to edge up over time, should remain substantially lower than what we would normally associate with 2.5-3.0% real GDP growth.

In contrast, many Euro-zone economies are struggling, and growth has slowed in Japan, as well as in China and many other developing countries. Around the globe, elevated geopolitical tensions are hampering economic activity. As evidence, interest rates are actually negative in a number of safe economies. In increasing numbers, foreign investors seeking better returns are making investments in U.S. markets. These moves help explain strength in the U.S. dollar and domestic fixed-income and equity markets.

By most measures, conditions in the preferred securities market remain healthy. Fundamental credit conditions are stable or improving, with loan delinquencies and defaults trending down across almost all loan categories. Income-oriented investors have increasingly turned to the preferred-securities space seeking alternatives to lower-yielding securities. New issue volumes, though less robust than last year, are well above historical norms. We expect preferred securities issuance to remain elevated throughout 2015, as issuers work toward future regulatory capital requirements and take advantage of low interest rates to reduce overall capital expense. We continue to be constructive on the preferred market, as demand shows little sign of abating.

The Fund's investment portfolio did not change materially over the quarter. During 2014, we had reduced the portfolio's exposure to foreign issuers as we saw better opportunities in the U.S. We also had increased holdings in fixed-to-floating preferred securities (coupons are *fixed* for an initial period, typically five or ten years, and then *float* with interest rates). We believe this increase provides some principal protection should intermediate- and long-term interest rates rise, while offering some price upside should credit spreads narrow. Putting it all together, the portfolio's current construction is in-line with our views on the market.

<sup>1</sup> December 1, 2014 - February 28, 2015

<sup>2</sup> Following the methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund's leverage and expenses.

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:

R. Eric Chadwick

Donald F. Crumrine

Robert M. Ettinger

Bradford S. Stone

March 31, 2015

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OVERVIEW**

February 28, 2015 (Unaudited)

**Fund Statistics**

|                                 |    |           |
|---------------------------------|----|-----------|
| Net Asset Value                 | \$ | 21.16     |
| Market Price                    | \$ | 20.86     |
| Discount                        |    | 1.42%     |
| Yield on Market Price           |    | 7.82%     |
| Common Stock Shares Outstanding |    | 9,903,086 |

| Moody's Ratings*          | % of Net Assets |
|---------------------------|-----------------|
| A                         | 0.5%            |
| BBB                       | 60.3%           |
| BB                        | 29.7%           |
| Below BB                  | 2.1%            |
| Not Rated**               | 6.2%            |
| Below Investment Grade*** | 23.8%           |

\* 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 1.2%.

\*\*\* 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      | 5.5%            |
| JPMorgan Chase            | 4.9%            |
| HSBC PLC                  | 4.9%            |
| MetLife                   | 4.4%            |
| Wells Fargo & Company     | 4.4%            |
| Fifth Third Bancorp       | 3.9%            |

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|   |                            |
|---|----------------------------|
| M&T Bank Corporation  | 3.7%                       |
| Citigroup   | 3.2%                       |
| Axis Capital Holdings Ltd   | 3.1%                       |
| PNC Financial Services Group  | 3.0%                       |
|   | <b>% of Net Assets****</b> |
| Holdings Generating Qualified Dividend Income (QDI) for Individuals                     | 60%                        |
| Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD) | 48%                        |

\*\*\*\* 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 &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS**

February 28, 2015 (Unaudited)

| Shares/\$ Par                     |   | Value             |
|-----------------------------------|---|-------------------|
| <b>Preferred Securities 93.6%</b> |   |                   |
| <b>Banking 46.4%</b>              |   |                   |
| 6,700                             | Astoria Financial Corp., 6.50%, Series C              | \$ 170,733*       |
| \$ 5,530,000                      | Bank of America Corporation, 8.00%, Series K          | 5,929,819*(1)     |
| Barclays Bank PLC:                |   |                   |
| 81,750                            | 7.10%, Series 3                                       | 2,141,850**(3)    |
| 8,800                             | 7.75%, Series 4                                       | 231,704**(3)      |
| 130,500                           | 8.125%, Series 5                                      | 3,475,215**(1)(3) |
| Citigroup, Inc.:                  |   |                   |
| 214,568                           | 6.875%, Series K                                      | 5,770,270*(1)     |
| 155,338                           | 7.125%, Series J                                      | 4,270,630*(1)     |
| 32,000                            | City National Corporation, 6.75%, Series D            | 918,400*          |
| CoBank ACB:                       |   |                   |
| 19,000                            | 6.125%, Series G, 144A****                            | 1,806,782*        |
| 25,000                            | 6.25%, Series F, 144A****                             | 2,577,345*(1)     |
| \$ 10,000,000                     | Colonial BancGroup, 7.114%, 144A****                  | 15,000(4)(5)      |
| 30,500                            | Cullen/Frost Bankers, Inc., 5.375%, Series A          | 759,831*          |
| 441,269                           | Fifth Third Bancorp, 6.625%, Series I                 | 12,263,969*(1)    |
| First Horizon:                    |   |                   |
| 875                               | First Tennessee Bank, Adj. Rate, 3.75%(6), 144A****   | 638,258*          |
| 3                                 | FT Real Estate Securities Company, 9.50%, 144A****    | 3,907,500         |
| 140,750                           | First Niagara Financial Group, Inc., 8.625%, Series B | 3,835,789*(1)     |
| 24,645                            | First Republic Bank, 6.70%, Series A                  | 654,386*          |
| Goldman Sachs Group:              |   |                   |
| \$ 390,000                        | 5.70%, Series L                                       | 404,138*          |
| 60,000                            | 6.375%, Series K                                      | 1,576,200*(1)     |
| HSBC PLC:                         |   |                   |
| \$ 1,400,000                      | HSBC Capital Funding LP, 10.176%, 144A****            | 2,117,500(1)(3)   |
| 200,000                           | HSBC Holdings PLC, 8.00%, Series 2                    | 5,278,500**(1)(3) |
| \$ 200,000                        | HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****   | 201,696           |
| \$ 275,000                        | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****   | 278,684(1)        |
| 160,000                           | HSBC USA, Inc., 6.50%, Series H                       | 4,114,000*(1)     |
| ING Groep NV:                     |   |                   |
| 30,000                            | 6.375%  | 762,600**(3)      |
| 50,000                            | 7.05%   | 1,283,625**(3)    |
| 31,425                            | 7.20%   | 809,901**(3)      |
| 57,500                            | 7.375%  | 1,493,850**(3)    |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2015 (Unaudited)

| Shares/\$ Par                           |  | Value                       |
|---|--|-----------------------------|
| <b>Preferred Securities (Continued)</b> |  |                             |
| <b>Banking (Continued)</b>              |  |                             |
| JPMorgan Chase & Company:               |  |                             |
| \$ 750,000                              | 6.00%, Series R                                | \$ 768,281*                 |
| 69,200                                  | 6.70%, Series T                                | 1,844,180 <sup>*(1)</sup>   |
| \$ 4,791,000                            | 6.75%, Series S                                | 5,196,702 <sup>*(1)</sup>   |
| \$ 7,000,000                            | 7.90%, Series I                                | 7,568,750 <sup>*(1)</sup>   |
| \$ 1,000,000                            | Lloyds Banking Group PLC, 6.657%, 144A****     | 1,127,500 <sup>** (3)</sup> |
| M&T Bank Corporation:                   |  |                             |
| \$ 3,500,000                            | 6.450%, Series E                               | 3,797,500 <sup>*(1)</sup>   |
| \$ 7,648,000                            | 6.875%, Series D, 144A****                     | 7,877,440 <sup>*(1)</sup>   |
| Morgan Stanley:                         |  |                             |
| 65,000                                  | 6.875%, Series F                               | 1,762,800 <sup>*(1)</sup>   |
| 86,900                                  | 7.125%, Series E                               | 2,453,404 <sup>*(1)</sup>   |
| 335,045                                 | PNC Financial Services Group, 6.125%, Series P | 9,519,466 <sup>*(1)</sup>   |
| \$ 2,515,000                            | RaboBank Nederland, 11.00%, 144A****           | 3,260,853 <sup>(1)(3)</sup> |
| Royal Bank of Scotland Group PLC:       |  |                             |
| 5,000                                   | 6.40%, Series M                                | 125,250 <sup>** (3)</sup>   |
| 10,000                                  | 6.60%, Series S                                | 253,500 <sup>** (3)</sup>   |
| 97,100                                  | 7.25%, Series T                                | 2,488,673 <sup>** (3)</sup> |
| 3,000                                   | Sovereign REIT, 12.00%, Series A, 144A****     | 4,015,350                   |
| 157,400                                 | State Street Corporation, 5.90%, Series D      | 4,212,418 <sup>*(1)</sup>   |
| 63,000                                  | US Bancorp, 6.50%, Series F                    | 1,888,268 <sup>*(1)</sup>   |
| Wells Fargo & Company:                  |  |                             |
| 81,100                                  | 5.85%, Series Q                                | 2,102,315*                  |
| \$ 1,250,000                            | 5.875%, Series U                               | 1,318,750*                  |
| 106,200                                 | 6.625%, Series R                               | 2,959,794 <sup>*(1)</sup>   |
| \$ 1,458,000                            | 7.98%, Series K                                | 1,600,155*                  |
| 198,700                                 | 8.00%, Series J                                | 5,754,849 <sup>*(1)</sup>   |
| Zions Bancorporation:                   |  |                             |
| 5,000                                   | 6.30%, Series G                                | 129,612*                    |
| \$ 1,500,000                            | 7.20%, Series J                                | 1,597,500 <sup>*(1)</sup>   |
| 125,000                                 | 7.90%, Series F                                | 3,481,250 <sup>*(1)</sup>   |
|   |  | 144,792,735                 |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2015 (Unaudited)

| Shares/\$ Par                           |  | Value                                  |
|---|--|--|
| <b>Preferred Securities (Continued)</b> |  |  |
| <b>Financial Services 1.9%</b>          |  |  |
| \$ 2,300,000                            | General Electric Capital Corp., 7.125%, Series A       | \$ 2,716,875 <sup>*(1)</sup>           |
|   | HSBC PLC:  |  |
| 128,497                                 | HSBC Finance Corporation, 6.36%, Series B              | 3,252,579 <sup>*(1)</sup><br>5,969,454 |
| <b>Insurance 24.1%</b>                  |  |  |
|   | Ace Ltd.:  |  |
| \$ 1,550,000                            | Ace Capital Trust II, 9.70% 04/01/30                   | 2,317,250 <sup>(1)(2)(3)</sup>         |
| 154,900                                 | Allstate Corp., 6.625%, Series E                       | 4,219,863 <sup>*(1)</sup>              |
| \$ 1,875,000                            | Aon Corporation, 8.205% 01/01/27                       | 2,455,438 <sup>(1)(2)</sup>            |
| 80,000                                  | Arch Capital Group, Ltd., 6.75%, Series C              | 2,221,800 <sup>** (1)(3)</sup>         |
|   | Aspen Insurance Holdings Ltd.:                         |  |
| 10,000                                  | 5.95%  | 258,400 <sup>** (3)</sup>              |
| 26,683                                  | 7.401%   | 709,301 <sup>** (3)</sup>              |
|   | AXA SA:  |  |
| \$ 620,000                              | 6.379%, 144A****                                       | 693,470 <sup>** (1)(2)(3)</sup>        |
| \$ 500,000                              | 8.60% 12/15/30   | 695,199 <sup>(3)</sup>                 |
| 358,650                                 | Axis Capital Holdings Ltd., 6.875%, Series C           | 9,831,493 <sup>** (1)(3)</sup>         |
| 160,000                                 | Delphi Financial Group, 7.376% 05/15/37                | 4,005,008 <sup>(1)(2)</sup>            |
| 39,000                                  | Endurance Specialty Holdings, 7.50%, Series B          | 1,034,378 <sup>** (3)</sup>            |
| \$ 4,714,000                            | Everest Re Holdings, 6.60% 05/15/37                    | 4,878,990 <sup>(1)(2)</sup>            |
| 7,500                                   | Hartford Financial Services Group, Inc., 7.875%        | 227,644                                |
| \$ 8,600,000                            | Liberty Mutual Group, 10.75% 06/15/58, 144A****        | 13,287,000 <sup>(1)(2)</sup>           |
|   | MetLife:   |  |
| \$ 577,000                              | MetLife Capital Trust IV, 7.875% 12/15/37, 144A****    | 742,888 <sup>(1)</sup>                 |
| \$ 5,335,000                            | MetLife Capital Trust X, 9.25% 04/08/38, 144A****      | 7,842,450 <sup>(1)(2)</sup>            |
| \$ 3,130,000                            | MetLife, Inc., 10.75% 08/01/39                         | 5,239,620 <sup>(1)(2)</sup>            |
| 31,000                                  | PartnerRe Ltd., 7.25%, Series E                        | 832,738 <sup>** (1)(3)</sup>           |
| 75,000                                  | Principal Financial Group, 6.518%, Series B            | 1,934,438 <sup>*(1)</sup>              |
| \$ 704,000                              | Prudential Financial, Inc., 5.625% 06/15/43            | 748,000 <sup>(1)</sup>                 |
|   | QBE Insurance:   |  |
| \$ 1,600,000                            | QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A**** | 1,770,234 <sup>(1)(3)</sup>            |
|   | Unum Group:  |  |
| \$ 2,490,000                            | Provident Financing Trust I, 7.405% 03/15/38           | 2,964,613 <sup>(1)</sup>               |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2015 (Unaudited)

| Shares/\$ Par                                   |  | Value                          |
|---|--|--------------------------------|
| <b>Preferred Securities (Continued)</b>         |  |                                |
| <b>Insurance (Continued)</b>                    |  |                                |
| XL Group PLC:                                   |  |                                |
| \$ 7,200,000                                    | XL Capital Ltd., 6.50%, Series E                     | \$ 6,354,000 <sup>(1)(3)</sup> |
|   |  | 75,264,215                     |
| <b>Utilities 13.7%</b>                          |  |                                |
| 6,050   | Alabama Power Company, 6.45%                         | 167,509* <sup>(1)</sup>        |
| 33,700  | Baltimore Gas & Electric Company, 6.70%, Series 1993 | 3,419,499*                     |
| Commonwealth Edison:                            |  |                                |
| \$ 3,160,000                                    | COMED Financing III, 6.35% 03/15/33                  | 3,263,828 <sup>(1)(2)</sup>    |
| \$ 3,100,000                                    | Dominion Resources, Inc., 7.50% 06/30/66             | 3,215,630 <sup>(1)(2)</sup>    |
| 59,850  | Entergy Louisiana, Inc., 6.95%                       | 5,988,741*                     |
| 70,791  | Georgia Power Company, 6.50%, Series 2007A           | 7,598,975*                     |
| 17,800  | Indianapolis Power & Light Company, 5.65%            | 1,731,607* <sup>(1)</sup>      |
| 65,300  | Integrus Energy Group, Inc., 6.00%                   | 1,786,118 <sup>(1)(2)</sup>    |
| Nextera Energy:                                 |  |                                |
| \$ 1,997,000                                    | FPL Group Capital, Inc., 6.65% 06/15/67, Series C    | 1,998,002 <sup>(1)(2)</sup>    |
| \$ 1,500,000                                    | FPL Group Capital, Inc., 7.30% 09/01/67, Series D    | 1,583,399 <sup>(1)(2)</sup>    |
| PPL Corp:                                       |  |                                |
| \$ 3,450,000                                    | PPL Capital Funding, Inc., 6.70% 03/30/67, Series A  | 3,408,493 <sup>(1)(2)</sup>    |
| \$ 3,900,000                                    | Puget Sound Energy, Inc., 6.974% 06/01/67, Series A  | 3,973,125 <sup>(1)(2)</sup>    |
| 44,864  | Southern California Edison, 6.50%, Series D          | 4,689,691 * <sup>(1)</sup>     |
|   |  | 42,824,617                     |
| <b>Energy 2.6%</b>                              |  |                                |
| \$ 750,000                                      | DCP Midstream LLC, 5.85% 05/21/43, 144A****          | 605,625                        |
| \$ 7,050,000                                    | Enbridge Energy Partners LP, 8.05% 10/01/37          | 7,614,000 <sup>(1)(2)</sup>    |
|   |  | 8,219,625                      |
| <b>Real Estate Investment Trust (REIT) 3.7%</b> |  |                                |
| 7,500   | Equity CommonWealth, 7.25%, Series E                 | 194,494                        |
| 52,436  | Kimco Realty Corporation, 6.90%, Series H            | 1,365,433 <sup>(1)</sup>       |
| National Retail Properties, Inc.:               |  |                                |
| 35,000  | 5.70%, Series E                                      | 889,788                        |
| 22,970  | 6.625%, Series D                                     | 606,465                        |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2015 (Unaudited)

| Shares/\$ Par  |  | Value                       |
|--|--|-----------------------------|
| <b>Preferred Securities (Continued)</b>                |  |                             |
| <b>Real Estate Investment Trust (REIT) (Continued)</b> |  |                             |
| PS Business Parks, Inc.:                               |  |                             |
| 6,698  | 5.70%, Series V  | \$ 166,998                  |
| 7,128  | 5.75%, Series U  | 177,416                     |
| 56,000   | 6.45%, Series S  | 1,488,060 <sup>(1)(2)</sup> |
| 35,000   | 6.875%, Series R   | 907,200                     |
| 30,000   | Public Storage, 6.375%, Series Y   | 811,575                     |
| 148,030  | Realty Income Corporation, 6.625%, Series F                                | 3,959,803 <sup>(1)(2)</sup> |
| 36,960   | Regency Centers Corporation, 6.625%, Series 6                              | 979,902                     |
|  |  | 11,547,134                  |
| <b>Miscellaneous Industries 1.2%</b>                   |  |                             |
| 37,400   | Ocean Spray Cranberries, Inc., 6.25%, 144A****                             | 3,468,850*                  |
| 7,828  | Stanley Black & Decker, Inc., 5.75% 07/25/52                               | 204,096 <sup>(1)</sup>      |
|  |  | 3,672,946                   |
|  | <b>Total Preferred Securities</b><br>(Cost \$279,013,523)                  | 292,290,726                 |
| <b>Corporate Debt Securities 5.1%</b>                  |  |                             |
| <b>Banking 2.0%</b>                                    |  |                             |
| \$ 3,741,000   | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes                  | 5,003,711 <sup>(1)(2)</sup> |
| 24,770   | Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes                   | 613,119                     |
| 20,000   | Zions Bancorporation, 6.95% 09/15/28, Sub Notes                            | 542,450                     |
|  |  | 6,159,280                   |
| <b>Financial Services 0.4%</b>                         |  |                             |
| 28,603   | Affiliated Managers Group, Inc., 6.375% 08/15/42                           | 748,040                     |
| \$ 4,726,012   | Lehman Brothers, Guaranteed Note, Variable Rate, 5.843% 12/16/16, 144A**** | 298,400 <sup>(4)(5)</sup>   |
| 4,193  | Raymond James Financial, 6.90% 03/15/42                                    | 115,695                     |
|  |  | 1,162,135                   |
| <b>Insurance 1.2%</b>                                  |  |                             |
| \$ 3,000,000   | Liberty Mutual Insurance, 7.697% 10/15/97, 144A****                        | 3,889,101 <sup>(1)(2)</sup> |
|  |  | 3,889,101                   |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2015 (Unaudited)

| Shares/\$ Par                                |   | Value                       |
|--|---|-----------------------------|
| <b>Corporate Debt Securities (Continued)</b> |   |                             |
| <b>Energy 0.4%</b>                           |   |                             |
| \$ 940,000                                   | Energy Transfer Partners LP, 8.25% 11/15/29                   | \$ 1,305,182 <sup>(1)</sup> |
|  |   | 1,305,182                   |
| <b>Communication 0.3%</b>                    |   |                             |
| 38,300                                       | Qwest Corporation, 7.375% 06/01/51                            | 1,016,195                   |
|  |   | 1,016,195                   |
| <b>Miscellaneous Industries 0.8%</b>         |   |                             |
| \$ 2,160,000                                 | Pulte Group, Inc., 7.875% 06/15/32                            | 2,505,600 <sup>(1)(2)</sup> |
|  |   | 2,505,600                   |
|  | <b>Total Corporate Debt Securities</b><br>(Cost \$12,460,025) | 16,037,493                  |
| <b>Common Stock 0.2%</b>                     |   |                             |
| <b>Banking 0.2%</b>                          |   |                             |
| 13,500                                       | CIT Group, Inc.   | 624,375*                    |
|  |   | 624,375                     |
|  | <b>Total Common Stock</b><br>(Cost \$2,533,093)               | 624,375                     |
| <b>Money Market Fund 0.2%</b>                |   |                             |
| BlackRock Liquidity Funds:                   |   |                             |
| 540,458                                      | T-Fund, Institutional Class                                   | 540,458                     |
|  | <b>Total Money Market Fund</b><br>(Cost \$540,458)            | 540,458                     |
|  | <b>Total Investments</b> (Cost \$294,547,099***)              | 99.1% 309,493,052           |
|  | <b>Other Assets And Liabilities</b> (Net)                     | 0.9% 2,966,757              |
|  | <b>Total Managed Assets</b>                                   | 100.0% \$ 312,459,809       |
|  | <b>Loan Principal Balance</b>                                 | (102,900,000)               |
|  | <b>Total Net Assets Available To Common Stock</b>             | \$ 209,559,809              |



Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2015 (Unaudited)**

\* 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, 2015, these securities amounted to \$60,421,926 or 19.3% 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 \$191,104,412 at February 28, 2015.

(2) All or a portion of this security has been rehypothecated. The total value of such securities was \$62,555,961 at February 28, 2015.

(3) Foreign Issuer.

(4) Illiquid security (designation is unaudited).

(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 28, 2015.

(6) 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.

Flaherty &amp; Crumrine Total Return Fund Incorporated

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>****For the period from December 1, 2014 through February 28, 2015 (Unaudited)**

|  | Value              |
|--|--------------------|
| <b>OPERATIONS:</b>   |                    |
| Net investment income  | \$ 3,842,670       |
| Net realized gain/(loss) on investments sold during the period                                     | 30,801             |
| Change in net unrealized appreciation/(depreciation) of investments                                | 819,025            |
| <b>Net increase in net assets resulting from operations</b>  | <b>4,692,496</b>   |
| <b>DISTRIBUTIONS:</b>  |                    |
| Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup>              | (4,039,789)        |
| <b>Total Distributions to Common Stock Shareholders</b>  | <b>(4,039,789)</b> |
| <b>FUND SHARE TRANSACTIONS:</b>  |                    |
| Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan                 | 52,124             |
| <b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b> | <b>52,124</b>      |
| <b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD</b>                         | <b>\$ 704,831</b>  |
| <b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>   |                    |
| Beginning of period  | \$ 208,854,978     |
| Net increase in net assets during the period   | 704,831            |
| End of period  | \$ 209,559,809     |

(1) These tables summarize the three months ended February 28, 2015 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, 2014.

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

Flaherty &amp; Crumrine Total Return Fund Incorporated

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>****For the period from December 1, 2014 through February 28, 2015 (Unaudited)****For a Common Stock share outstanding throughout the period****PER SHARE OPERATING PERFORMANCE:**

|                                      |          |
|--------------------------------------|----------|
| Net asset value, beginning of period | \$ 21.10 |
|--------------------------------------|----------|

**INVESTMENT OPERATIONS:**

|                       |      |
|-----------------------|------|
| Net investment income | 0.39 |
|-----------------------|------|

|   |      |
|---|------|
| Net realized and unrealized gain/(loss) on investments. | 0.08 |
|---|------|

|                                  |      |
|----------------------------------|------|
| Total from investment operations | 0.47 |
|----------------------------------|------|

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

|                            |        |
|----------------------------|--------|
| From net investment income | (0.41) |
|----------------------------|--------|

|  |        |
|--|--------|
| Total distributions to Common Stock Shareholders | (0.41) |
|--|--------|

|                                |          |
|--------------------------------|----------|
| Net asset value, end of period | \$ 21.16 |
|--------------------------------|----------|

|                             |          |
|-----------------------------|----------|
| Market value, end of period | \$ 20.86 |
|-----------------------------|----------|

|  |           |
|--|-----------|
| Common Stock shares outstanding, end of period | 9,903,086 |
|--|-----------|

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

|                       |        |
|-----------------------|--------|
| Net investment income | 7.48%* |
|-----------------------|--------|

|   |        |
|---|--------|
| Operating expenses including interest expense | 1.81%* |
|---|--------|

|   |        |
|---|--------|
| Operating expenses excluding interest expense | 1.31%* |
|---|--------|

**SUPPLEMENTAL DATA:**

|                         |      |
|-------------------------|------|
| Portfolio turnover rate | 1%** |
|-------------------------|------|

|  |            |
|--|------------|
| Total managed assets, end of period (in 000 s) | \$ 312,460 |
|--|------------|

|  |        |
|--|--------|
| Ratio of operating expenses including interest expense to total managed assets | 1.21%* |
|--|--------|

|  |        |
|--|--------|
| Ratio of operating expenses excluding interest expense to total managed assets | 0.88%* |
|--|--------|

(1) These tables summarize the three months ended February 28, 2015 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, 2014.

\* Annualized.

\*\* Not annualized.

The net investment income ratios reflect 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)**

|                   | <b>Total<br/>Dividends<br/>Paid</b> | <b>Net Asset<br/>Value</b> | <b>NYSE<br/>Closing Price</b> | <b>Dividend<br/>Reinvestment<br/>Price<sup>(1)</sup></b> |
|-------------------|-------------------------------------|----------------------------|-------------------------------|--|
| December 31, 2014 | \$ 0.1360                           | \$ 21.02                   | \$ 19.78                      | \$ 20.03   |
| January 30, 2015  | 0.1360                              | 21.18                      | 21.24                         | 21.18  |
| February 27, 2015 | 0.1360                              | 21.16                      | 20.86                         | 20.79  |

<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, 2015, the aggregate cost of securities for federal income tax purposes was \$305,289,288, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$26,075,824 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$21,872,060.

### 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, 2015 is as follows:

|                                     | Total<br>Value at<br>February 28, 2015 | Level 1<br>Quoted<br>Price | Level 2<br>Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
|-------------------------------------|--|----------------------------|--|--|
| <b>Preferred Securities</b>         |  |                            |  |  |
| Banking                             | \$ 144,792,735                         | \$ 116,498,827             | \$ 28,278,908                                  | \$ 15,000  |
| Financial Services                  | 5,969,454                              | 5,969,454                  |  |  |
| Insurance                           | 75,264,215                             | 55,484,013                 | 19,780,202                                     |  |
| Utilities                           | 42,824,617                             | 11,991,642                 | 30,832,975                                     |  |
| Energy                              | 8,219,625                              | 7,614,000                  | 605,625  |  |
| Real Estate Investment Trust (REIT) | 11,547,134                             | 11,547,134                 |  |  |
| Miscellaneous Industries            | 3,672,946                              | 204,096                    | 3,468,850                                      |  |
| <b>Corporate Debt Securities</b>    |  |                            |  |  |
| Banking                             | 6,159,280                              | 1,155,569                  | 5,003,711                                      |  |
| Financial Services                  | 1,162,135                              | 863,735                    |  | 298,400  |
| Insurance                           | 3,889,101                              |                            | 3,889,101                                      |  |
| Energy                              | 1,305,182                              |                            | 1,305,182                                      |  |
| Communication                       | 1,016,195                              | 1,016,195                  |  |  |
| Miscellaneous Industries            | 2,505,600                              |                            | 2,505,600                                      |  |
| <b>Common Stock</b>                 |  |                            |  |  |
| Banking                             | 624,375                                | 624,375                    |  |  |
| Money Market Fund                   | 540,458                                | 540,458                    |  |  |
| <b>Total Investments</b>            | <b>\$ 309,493,052</b>                  | <b>\$ 213,509,498</b>      | <b>\$ 95,670,154</b>                           | <b>\$ 313,400</b>                                |

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.

Flaherty &amp; 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</b> | <b>Corporate Debt Securities</b> |
|--|--------------------------|-----------------------------|----------------------------------|
|  |                          | <b>Banking</b>              | <b>Financial Services</b>        |
| <b>Balance as of 11/30/14</b>                    | \$ 320,537               | \$ 15,000                   | \$ 305,537                       |
| Accrued discounts/premiums                       |                          |                             |                                  |
| Realized gain/(loss)                             |                          |                             |                                  |
| Change in unrealized appreciation/(depreciation) | (7,137)                  |                             | (7,137)                          |
| Purchases  |                          |                             |                                  |
| Sales  |                          |                             |                                  |
| Transfers in                                     |                          |                             |                                  |
| Transfers out                                    |                          |                             |                                  |
| <b>Balance as of 02/28/15</b>                    | \$ 313,400               | \$ 15,000                   | \$ 298,400                       |

For the three months ended February 28, 2015, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$(7,137).

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 02/28/15 | Valuation Technique | Unobservable Input                 | Input Range (Wgt Avg) |
|----------------------------------|------------------------|---------------------|------------------------------------|-----------------------|
| <b>Preferred Securities</b>      |                        |                     |                                    |                       |
| Banking                          | \$ 15,000              | Bankruptcy recovery | Credit/Structure-specific recovery | 0.00%-0.50% (0.15%)   |
| <b>Corporate Debt Securities</b> |                        |                     |                                    |                       |
|                                  | 298,400                | Bankruptcy recovery | Credit/Structure-specific recovery | 4%-9% (6%)            |

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**

Donald F. Crumrine, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf, CFA

**Officers**

Donald F. Crumrine, CFA

Chief Executive Officer

Robert M. Ettinger, CFA

President

R. Eric Chadwick, CFA

Chief Financial Officer,

Vice President and Treasurer

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Vice President and

Assistant Treasurer

Roger Ko

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

**Investment Adviser**

Flaherty & Crumrine Incorporated

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**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, 2015

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