FLAHERTY & CRUMRINE TOTAL RETURN FUND INC
Form N-Q
October 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21380

Flaherty & Crumrine Total Return Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

R. Eric Chadwick

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

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

Date of fiscal year end: November 30

Date of reporting period: August 31, 2017

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

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE TOTAL RETURN FUND

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

Fiscal 2017 has been a very good year for preferred securities, and the third fiscal quarter[1] continued in stride. Total return[2] on net asset value (NAV) was 3.1% for the quarter, bringing total return for the first nine months of fiscal 2017 to 16.3%. Total return on market price over the same periods was -0.1% and 14.1%, respectively.

Credit conditions continue to provide a supportive backdrop for yields and spreads, as most issuers of preferreds maintain strong balance sheets. Bank payout ratios (common stock dividends plus share buybacks) are now averaging at or above 100% of current earnings, which means, as a group, banks are no longer adding to their common equity layer of capital. Normally, this could be cause for concern but given years of balance-sheet strengthening since the financial crisis, these payout ratios are comfortably supported.

Political headlines of all flavors remain omnipresent, including topics such as healthcare reform, tax reform, immigration, and North Korea. Equity and fixed-income markets, however, have largely ignored a lack of near-term progress on these issues and focused on potential for positive economic developments notably lower taxes and regulatory reform. There are winners and losers in all policy decisions, but markets are pricing in some upside from lower tax rates and reduced regulatory burdens.

Away from these headlines, we have been living in a low-volatility financial environment for quite some time, which has been positive for spreads of most fixed-income products. Mid- to longer-term interest rates generally fell during the quarter, although rates have remained relatively range-bound in recent years. For example, the constant-maturity 10-year Treasury yield, currently around 2.3%, has been within about 0.75% of today s rate since mid-2011. The economy continues to expand moderately with few signs of higher inflation. As a result, the Federal Reserve is moving very deliberately in removing accommodative monetary policy. The Fed last hiked the federal funds rate in June and has another 0.25% hike penciled in for December. In October, it will begin scaling back reinvestment of Treasury and mortgage-backed securities acquired in the wake of the financial crisis. Although we expect markets will take unwinding of quantitative easing in stride, the Fed will be the first major central bank to shrink its balance sheet, and this is a new source of market uncertainty.

Financial regulators in the United Kingdom announced that London banks will no longer be required to submit quotes for LIBOR (London interbank offered rate) after December 31, 2021. Since LIBOR is a reference rate for trillions of dollars of financial instruments including many floating and fixed-to-floating rate preferred securities it will be critical to find an alternative benchmark reference rate for instruments continuing past 2021. The Federal Reserve assigned the Alternative Reference Rate Committee (ARRC) to work on a transition from U.S. Dollar LIBOR to a new benchmark reference rate, and they have already identified viable alternatives. Once an alternative is finalized, transition to a new benchmark reference rate will be complicated by the sheer number of instruments involved and mechanics of a change. This process will take time, but we believe market participants have a large incentive to get it right.

1 June 1, 2017 August 31, 2017

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

One of the best places to find total return this quarter was in the primary market. New issue supply has been limited all year, and redemptions of higher-coupon preferred securities have continued at a healthy pace. Many offerings were met with strong demand that exceeded deal size, which in turn pushed prices up. This robust primary market also boosted secondary markets, as prices adjusted to reflect new-issue clearing levels.

During the quarter, a modest drop in interest rates helped lower-coupon securities outperform higher-coupon securities at the margin. Like last quarter, it is difficult to identify laggards in the portfolio this year. Performance lag has been relative return not absolute negative return in most cases typically a result of call (redemption) features embedded in most preferreds. As a security moves above its call price, the call option limits further upside potential as rates or spread move lower. Investors continue to earn coupons, many of which are tax-advantaged, but price increases become more limited.

Looking forward, returns should come mostly from the coupons on securities as the pace of price gains tapers off or even reverses. Compared to fixed-income alternatives, however, preferred securities continue to offer value. Market volatility could increase, and economic or credit conditions could change which may cause spreads to widen but we believe preferreds combination of credit quality and yield will be difficult to replace in other fixed-income asset classes.

As always, we encourage you to visit the Fund s website, www.preferredincome.com, for important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2017

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OVERVIEW

August 31, 2017 (Unaudited)

Fund Statistics	
Net Asset Value	$ 21.79
Market Price	$ 21.51
Discount	1.28%
Yield on Market Price	7.03%
Common Stock Shares Outstanding	9,958,104

Moody s Ratings*	**% of Net Assets**
A	1.0%
BBB	61.8%
BB	28.1%
Below BB	0.2%
Not Rated**	7.8%
Below Investment Grade***	25.3%
Senior Debt Rating Below Investment Grade****	1.1%

* 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 1.1%.
*** Below investment grade by all of Moody s, S&P and Fitch.
**** Issuer s senior unsecured debt or issuer rating is 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**
MetLife	4.9%
JPMorgan Chase & Co	4.7%
PNC Financial Services Group	4.7%
Wells Fargo & Company	4.1%
Liberty Mutual Group	3.8%

Citigroup Inc	3.5%
BNP Paribas	3.4%
Fifth Third Bancorp	3.1%
Enbridge Energy Partners	2.9%
XL Group Limited	2.7%

	% of Net Assets***
Holdings Generating Qualified Dividend Income (QDI) for Individuals	57%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	44%

***** This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.
Net Assets includes assets attributable to the use of leverage.

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS

August 31, 2017 (Unaudited)

Shares/$ Par		Value
Preferred Securities 92.9%		
	Banking 50.6%	
6,700	Astoria Financial Corporation, 6.50%, Series C	$ 173,212*
$ 2,550,000	Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A****	2,856,127**(2)
$ 710,000	Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A****	766,445**(2)
	Bank of America Corporation:	
$ 7,280,000	8.00% to 01/30/18 then 3ML + 3.63%, Series K	7,421,232*(1)
$ 400,000	8.125% to 05/15/18 then 3ML + 3.64%, Series M	414,100*
	Barclays Bank PLC:	
$ 1,732,000	7.875% to 03/15/22 then SW5 + 6.772%, 144A****	1,887,792**(2)
88,112	8.125%, Series 5	2,362,283**(1)(2)
	BNP Paribas:	
$ 7,830,000	7.375% to 08/19/25 then SW5 + 5.15%, 144A****	8,847,900**(1)(2)
$ 2,000,000	7.625% to 03/30/21 then SW5 + 6.314%, 144A****	2,192,500**(1)(2)
	Capital One Financial Corporation:	
17,022	6.00%, Series H	452,147*
15,436	6.20%, Series F	413,685*
28,100	6.70%, Series D	764,671*(1)
	Citigroup, Inc.:	
$ 500,000	5.875% to 03/27/20 then 3ML + 4.059%, Series O	523,125*
214,568	6.875% to 11/15/23 then 3ML + 4.13%, Series K	6,210,134*(1)
155,338	7.125% to 09/30/23 then 3ML + 4.04%, Series J	4,576,630*(1)
	CoBank ACB:	
15,300	6.125%, Series G, 144A****	1,533,825*
17,500	6.20% to 01/01/25 then 3ML + 3.744%, Series H, 144A****	1,882,891*
25,000	6.25% to 10/01/22 then 3ML + 4.557%, Series F, 144A****	2,697,657*(1)
$ 609,000	6.25% to 10/01/26 then 3ML + 4.66%, Series I, 144A****	671,931*
$ 10,000,000	Colonial BancGroup, 7.114%, 144A****	15,000(3)(4)
335,576	Fifth Third Bancorp, 6.625% to 12/31/23 then 3ML + 3.71%, Series I	9,984,225*(1)
	First Horizon National Corporation:	
875	First Tennessee Bank, 3ML + 0.85%, min 3.75%, 3.75%(5), 144A****	682,500*
3	FT Real Estate Securities Company, 9.50% 03/31/31, 144A****	3,896,250
	Goldman Sachs Group:	
$ 390,000	5.70% to 05/10/19 then 3ML + 3.884%, Series L	404,137*
60,000	6.375% to 05/10/24 then 3ML + 3.55%, Series K	1,740,600*(1)

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2017 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	HSBC Holdings PLC:	
$ 1,400,000	HSBC Capital Funding LP, 10.176% to 06/30/30 then 3ML + 4.98%, 144A****	$ 2,230,368[(1)(2)]
$ 500,000	HSBC Holdings PLC, 6.00% to 05/22/27 then ISDA5 + 3.746%	527,000**[(2)]
$ 1,370,000	HSBC Holdings PLC, 6.875% to 06/01/21 then ISDA5 + 5.514%	1,493,985**[(1)(2)]
132,100	HSBC Holdings PLC, 8.00%, Series 2	3,581,561**[(1)(2)]
140,000	Huntington Bancshares, Inc., 6.25%, Series D	3,890,950*[(1)]
30,000	ING Groep NV, 6.375%	774,900**[(2)]
	JPMorgan Chase & Company:	
$ 750,000	6.00% to 08/01/23 then 3ML + 3.30%, Series R	813,750*[(1)]
61,469	6.70%, Series T	1,658,434*[(1)]
$ 4,791,000	6.75% to 02/01/24 then 3ML + 3.78%, Series S	5,479,706*[(1)]
$ 7,000,000	7.90% to 04/30/18 then 3ML + 3.47%, Series I	7,218,750*[(1)]
122,200	KeyCorp, 6.125% to 12/15/26 then 3ML + 3.892%, Series E	3,590,542*[(1)]
$ 3,500,000	M&T Bank Corporation, 6.45% to 02/15/24 then 3ML + 3.61%, Series E	3,937,500*[(1)]
$ 730,000	Macquarie Bank Ltd., 6.125% to 03/08/27 then SW5 + 3.703%, 144A****	753,725**[(2)]
	Morgan Stanley:	
15,000	5.85% to 04/15/27 then 3ML + 3.491%, Series K	408,938*
85,000	6.875% to 01/15/24 then 3ML + 3.94%, Series F	2,474,563*[(1)]
86,900	7.125% to 10/15/23 then 3ML + 4.32%, Series E	2,557,684*[(1)]
235,200	New York Community Bancorp, Inc., 6.375% to 03/17/27 then 3ML + 3.821%, Series A	6,905,472*
	PNC Financial Services Group, Inc.:	
412,004	6.125% to 05/01/22 then 3ML + 4.067%, Series P	11,739,024*[(1)]
$ 2,850,000	6.75% to 08/01/21 then 3ML + 3.678%, Series O	3,231,187*[(1)]
$ 2,515,000	RaboBank Nederland, 11.00% to 06/30/19 then 3ML + 10.868%, 144A****	2,895,394[(1)(2)]
	Sovereign Bancorp:	
3,000	Sovereign REIT, 12.00%, Series A, 144A****	3,761,250
	Standard Chartered PLC:	
$ 3,170,000	7.50% to 04/02/22 then SW5 + 6.301%, 144A****	3,440,401**[(1)(2)]
$ 1,500,000	7.75% to 04/02/23 then SW5 + 5.723%, 144A****	1,638,750**[(2)]
157,400	State Street Corporation, 5.90% to 03/15/24 then 3ML + 3.108%, Series D	4,399,724*[(1)]
63,000	US Bancorp, 6.50% to 01/15/22 then 3ML + 4.468%, Series F	1,831,568*[(1)]
39,000	Valley National Bancorp, 5.50% to 09/30/22 then 3ML + 3.578%, Series B	1,033,500*
86,400	Webster Financial Corporation, 6.40%, Series E	2,196,504*

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2017 (Unaudited)

Shares/$ Par		**Value**
Preferred Securities (Continued)		
	Banking (Continued)	
	Wells Fargo & Company:	