

FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INC
Form DEF 14A
March 06, 2012

SCHEDULE 14A
PROXY STATEMENT
PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by Registrant
Filed by Party other than the Registrant

Check the appropriate box:
 Preliminary Proxy Statement
 Confidential for Use of the Commission Only as permitted by Rule 14a-6(e)(2)
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to Rule 14a-11c or Rule 14a-12

Flaherty & Crumrine/Claymore Total Return Fund Incorporated
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

No fee required
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (Set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
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- (1) Amount previously paid:
- (2) Form, Schedule or Registration Statement No.:
- (3)

Filing Party:

(4) Date Filed:

**FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED (NYSE: PFD)
FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND INCORPORATED (NYSE: PFO)
FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED (NYSE: FFC)
FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INCORPORATED (NYSE: FLC)**

301 E. Colorado Boulevard, Suite 720
Pasadena, California 91101

QUESTIONS AND ANSWERS

What am I being asked to vote for in Proposal 2 for each Fund?

You are being asked to approve one or more changes to each Fund's current fundamental policy relating to concentration of investments, as summarized below.

Proposal 2-A (PFD, FFC and FLC only): With respect to Flaherty & Crumrine Preferred Income Fund (PFD), Flaherty & Crumrine/Claymore Preferred Securities Income Fund (FFC) and Flaherty & Crumrine/Claymore Total Return Fund (FLC), shareholders are being asked to approve a revision to each Fund's concentration policy to eliminate the requirement that it concentrate its investments in the banking industry and instead require each Fund to concentrate in the financials sector. This proposed revision would require the Fund, under normal market conditions, to invest at least 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and real estate investment trust (REIT) industries. From time to time, a Fund may have 25% or more of its total assets invested in any one of these industries. In 2009, shareholders of Flaherty & Crumrine Preferred Income Opportunity Fund (PFO) approved a similar investment policy to concentrate PFO's investments in the financial services sector.

Proposal 2-B (PFD, PFO, FFC and FLC): Each Fund's current fundamental investment policy regarding concentration requires it to concentrate its investments in the utilities industry so that, under normal market conditions, more than 25% of each Fund's total assets must be invested in securities issued by companies in the utilities industry. Shareholders of each Fund are being asked to approve a revision to the Fund's concentration policy to eliminate the requirement that the Fund concentrate its investments in the utilities industry. If Proposal 2-B is approved by a Fund's shareholders, that Fund may not invest more than 25% of its total assets in the utilities industry.

You can find greater detail on both proposals beginning on page 12 of this proxy statement.

Why are the Funds' Boards of Directors recommending changes to the Funds' industry concentration policies?

Each Fund, like all registered funds, is required by law to have a fundamental policy regarding concentration. If a fund has stated that it will be concentrated in an industry (or a sector comprised of a group of industries), it must maintain at least 25% of its assets invested in that industry (or a sector comprised of a group of industries). Similarly, if a fund has not stated that it will be concentrated in an industry, it may not invest more than 25% of its assets in that industry.

Given this legal requirement, the Funds' Boards of Directors have recommended the proposed concentration policy changes so that each Fund can more effectively invest its portfolio in the various types of industries that issue preferred securities. The only sector of the preferred securities market that is greater than 25% is the financials sector. This sector alone represents more than 80% of outstanding preferred securities. On the other hand, utility preferred securities represent less than 5% of all outstanding preferred securities. As such, the Boards of Directors recommend that PFD, FFC and FLC concentrate its investments in the financials sector (similar to what PFO has already implemented) and that all Funds no longer concentrate their investments in the utilities industry.

What if I have additional questions?

The Funds have engaged The Altman Group, Inc. to assist in the solicitation of proxies. The Altman Group has set up a toll-free number, (866) 751-6315, for you to call with any additional questions.

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FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED (NYSE: FFC)
FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INCORPORATED (NYSE: FLC)**

301 E. Colorado Boulevard, Suite 720
Pasadena, California 91101

NOTICE OF ANNUAL MEETINGS OF SHAREHOLDERS

To Be Held on April 19, 2012

To the Shareholders:

Notice is hereby given that the Annual Meetings of Shareholders of Flaherty & Crumrine Preferred Income Fund Incorporated, Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated, Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated and Flaherty & Crumrine/Claymore Total Return Fund Incorporated (each, a "Fund" and collectively, the "Funds"), each a Maryland corporation, will be held at the offices of Flaherty & Crumrine Incorporated, 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101 at 8:30 a.m. PT, on April 19, 2012, for the following purposes:

Each Fund:

1. To elect Directors of each Fund (Proposal 1).
2. To approve one or more changes to each Fund's fundamental investment policy regarding concentration of investments (Proposal 2).
3. To transact such other business as may properly come before the Annual Meetings or any adjournments thereof.

Your vote is important!

The Board of Directors of each Fund has fixed the close of business on January 20, 2012 as the record date for the determination of shareholders of each Fund entitled to notice of and to vote at the Annual Meetings and any adjournments or postponements thereof.

By Order of the Boards of Directors,

March 6, 2012

CHAD C. CONWELL
Secretary

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 19, 2012.

The notice of Annual Meetings of Shareholders, joint proxy statement and proxy cards for the Funds are available to you on each Fund's website - www.preferredincome.com for PFD and PFO and www.fcclaymore.com for FFC and FLC. You are encouraged to review all of the information contained in the proxy materials before voting.

To obtain directions to attend the Annual Meetings and vote in person, please call 1-626-795-7300 or 1-866-751-6315.

SEPARATE PROXY CARDS ARE ENCLOSED FOR EACH FUND IN WHICH YOU OWN SHARES. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE ANNUAL MEETINGS ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD(S). The proxy card(s) should be returned in the enclosed envelope, which needs no postage if mailed in the continental United States. Instructions for the proper execution of proxies are set forth on the inside cover.

INSTRUCTIONS FOR SIGNING PROXY CARDS

The following general rules for signing proxy cards may be of assistance to you and may minimize the time and expense to the Fund(s) involved in validating your vote if you fail to sign your proxy card(s) properly.

1. Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card(s).
2. Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.
3. All Other Accounts: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form registration. For example:

Registration	Valid Signature
Corporate Accounts	
(1) ABC Corp.	ABC Corp.
(2) ABC Corp.	John Doe, Treasurer
(3) ABC Corp. c/o John Doe, Treasurer	John Doe
(4) ABC Corp. Profit Sharing Plan	John Doe, Trustee
Trust Accounts	
(1) ABC Trust	Jane B. Doe, Trustee
(2) Jane B. Doe, Trustee u/t/d 12/28/78	Jane B. Doe
Custodian or Estate Accounts	
(1) John B. Smith, Cust., f/b/o John B. Smith, Jr. UGMA	John B. Smith
(2) John B. Smith, Executor, Estate of Jane Smith	John B. Smith, Jr., Executor

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FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED (NYSE:FFC)
FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INCORPORATED (NYSE: FLC)**

301 E. Colorado Boulevard, Suite 720
Pasadena, California 91101

ANNUAL MEETINGS OF SHAREHOLDERS

April 19, 2012

JOINT PROXY STATEMENT

This document is a joint proxy statement ("Joint Proxy Statement") for Flaherty & Crumrine Preferred Income Fund Incorporated ("Preferred Income Fund" or "PFD"), Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated ("Preferred Income Opportunity Fund" or "PFO"), Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ("Preferred Securities Income Fund" or "FFC") and Flaherty & Crumrine/Claymore Total Return Fund Incorporated ("Total Return Fund" or "FLC") (each, a "Fund" and collectively, the "Funds"). This Joint Proxy Statement is furnished in connection with the solicitation of proxies by each Fund's Board of Directors (each, a "Board" and collectively, the "Boards") for use at the Annual Meeting of Shareholders of each Fund to be held on April 19, 2012, at 8:30 a.m. PT, at the offices of Flaherty & Crumrine Incorporated, 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101 and at any adjournments or postponements thereof (each, a "Meeting" and collectively, the "Meetings").

A Notice of Annual Meetings of Shareholders and proxy card for each Fund of which you are a shareholder accompany this Joint Proxy Statement. Proxy solicitations will be made, beginning on or about March 6, 2012, primarily by mail, but proxy solicitations may also be made by telephone, telefax or personal interviews conducted by officers of each Fund, Flaherty & Crumrine Incorporated ("Flaherty & Crumrine"), the investment adviser of each Fund, Guggenheim Funds Distributors, Inc., the servicing agent of FFC and FLC, and BNY Mellon Investment Servicing (US) Inc. ("BNY Mellon"), the transfer agent and administrator of each Fund. In addition, the Funds have also retained The Altman Group, Inc. ("The Altman Group"), a proxy solicitation firm, to assist in the solicitation of proxies. Other costs of proxy solicitation and expenses incurred in connection with the preparation of this Joint Proxy Statement and its enclosures will be shared proportionally by the Funds. Each Fund also will reimburse brokerage firms and others for their expenses in forwarding solicitation material to the beneficial owners of its shares. This Joint Proxy Statement and form of proxy are first being sent to shareholders on or about March 6, 2012.

THE ANNUAL REPORT OF EACH FUND, INCLUDING AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011, IS AVAILABLE UPON REQUEST, WITHOUT CHARGE, BY WRITING TO BNY MELLON SHAREOWNER SERVICES, P.O. BOX 358035, PITTSBURGH, PENNSYLVANIA 15252-8035, OR CALLING 1-866-351-7446. EACH FUND'S ANNUAL REPORT IS ALSO AVAILABLE ON THE FUNDS' WEBSITES - WWW.PREFERREDINCOME.COM FOR PFD AND PFO AND WWW.FCCLAYMORE.COM FOR FFC AND FLC - THE SECURITIES AND EXCHANGE COMMISSION'S ("SEC") WEBSITE (WWW.SEC.GOV) OR, FOR FFC AND FLC ONLY, BY CALLING GUGGENHEIM FUNDS DISTRIBUTORS, INC. AT 1-866-233-4001.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 19, 2012.

The notice of Annual Meetings of Shareholders, joint proxy statement and proxy cards for the Funds are available to you on each Fund's website - www.preferredincome.com for PFD and PFO and www.fcclaymore.com for FFC and FLC. You are encouraged to review all of the information contained in the proxy materials before voting.

To obtain directions to attend the Annual Meetings and vote in person, please call 1-626-795-7300 or 1-866-751-6315.

SEPARATE PROXY CARDS ARE ENCLOSED FOR EACH FUND IN WHICH YOU OWN SHARES. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE ANNUAL MEETINGS ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD(S). The proxy card(s) should be returned in the enclosed envelope, which needs no postage if mailed in the continental United States. Instructions for the proper execution of proxies are set forth on the inside cover.

If the enclosed proxy card is properly executed and returned in time to be voted at the relevant Meeting, the Shares (as defined below) represented thereby will be voted in accordance with the instructions marked thereon. Unless instructions to the contrary are marked thereon, a proxy will be voted "FOR" Proposal 1 and Proposals 2-A and 2-B. Any shareholder who has given a proxy has the right to revoke it at any time prior to its exercise either by attending the relevant Meeting and voting his or her Shares in person or by submitting a letter of revocation or a later-dated proxy to the appropriate Fund delivered at the above address prior to the date of the Meeting.

Under the Bylaws of each Fund, the presence in person or by proxy of the holders of a majority of the outstanding shares of the Fund entitled to vote shall be necessary and sufficient to constitute a quorum for the transaction of business (a "Quorum") at that Fund's Meeting. In the event that a Quorum is not present at a Meeting, or in the event that a Quorum is present but sufficient votes to approve any of the proposals are not received, the persons named as proxies may propose one or more adjournments of the Meeting to permit further solicitation of proxies. Any such adjournment will require the affirmative vote of a majority of those shares represented at the Meeting in person or by proxy. If a Quorum is present, the persons named as proxies will vote those proxies which they are entitled to vote "FOR" a proposal in favor of such an adjournment with respect to that proposal and will vote those proxies required to be voted "AGAINST" a proposal against any such adjournment with respect to that proposal. A shareholder vote may be taken on a proposal in the Joint Proxy Statement prior to any such adjournment if sufficient votes have been received for approval of that proposal. Once a Quorum has been established at the Meeting, shareholders may continue to transact business, notwithstanding the withdrawal of enough shareholders to leave less than a Quorum.

Each Fund has one class of capital stock outstanding: common stock, par value \$0.01 per share (the "Common Stock" or the "Shares"). Each Share is entitled to one vote at the Meeting with respect to matters to be voted on, with pro rata voting rights for any fractional Shares. On the record date, January 20, 2012, the following number of Shares of each Fund were issued and outstanding:

Name of Fund	Common Stock Outstanding
Preferred Income Fund (PFD)	10,858,133
Preferred Income Opportunity Fund (PFO)	12,114,299
Preferred Securities Income Fund (FFC)	43,089,646
Total Return Fund (FLC)	9,839,825

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To the knowledge of each Fund and its Board, the following shareholder(s), or “group” as that term is defined in Section 13(d) of the Securities Exchange Act of 1934, as amended (the “1934 Act”), is the beneficial owner or owner of record of more than 5% of the relevant Fund’s outstanding Shares as of January 20, 2012*:

Name and Address of Beneficial/Record Owner	Title of Class	Amount and Nature of Ownership	Percent of Class
Cede & Co.**	Common Stock	PFD 10,277,155 (record)	94.6%
Depository Trust Company		PFO 11,446,939 (record)	94.4%
55 Water Street, 25 th Floor		FFC 42,980,749 (record)	99.7%
New York, NY 10041		FLC 9,825,841 (record)	99.9%
Fifth Third BanCorp ¹	Common Stock	PFO 626,553(beneficial)	5.19%
Fifth Third Center			
Cincinnati, OH 45263			
Claymore Securities Defined Portfolios, Series 390, 434, 453, 494, 592, 644, 651, 652, 661, 664, 683, 713; and Guggenheim Defined Portfolios, Series 742, 750, 754, 761, 765, 766, 771, 777, 779, 781, 788, 789, 793, 811, 812, 813, 833, 840, 846 ²	Common Stock	FLC 822,873(beneficial)	8.37%
2455 Corporate West Drive			
Lisle, IL 60532			
Spectrum Asset Management, Inc. ³	Common Stock	FFC 2,534,057(beneficial)	5.90%
2 High Ridge Park			
Stamford, CT 06905			

* As of January 20, 2012, the Directors and officers, as a group, owned less than 1% of the Shares of each Fund.

** A nominee partnership of The Depository Trust Company.

1 Information obtained from a Schedule 13G/A filed by Fifth Third BanCorp (“FTB”) and Fifth Third Bank- Ohio (“FTBO”) with the SEC reporting share ownership as of December 31, 2011. Based on that filing, FTB has the sole power to vote or direct the vote of 624,288 Shares and has the sole power to dispose of 595,639 Shares. FTB and FTBO have the shared power to dispose of 28,315 Shares.

2 Information obtained from a Schedule 13G/A filed by Guggenheim Funds Distributors, Inc. (as Sponsor for Claymore Securities Defined Portfolios and Guggenheim Defined Portfolios (the “Filing Entities”)), with the SEC reporting share ownership as of December 31, 2011. Based on that filing, the Filing Entities have the sole power to vote or direct the vote or dispose or direct the disposition of 822,873 Shares.

3 Information obtained from a Schedule 13G filed by Spectrum Asset Management, Inc. (“Spectrum”) with the SEC reporting share ownership as of December 31, 2011. Based on that filing, Spectrum and Principal Financial Group Inc. have the shared power to vote or direct the vote or dispose or direct the disposition of 2,534,057 Shares.

This Joint Proxy Statement is being used in order to reduce the preparation, printing, handling and postage expenses that would result from the use of a separate proxy statement for each Fund. Shareholders of each Fund will vote as a single class. Shareholders of each Fund will vote separately for each of PFD, PFO, FFC and FLC on each proposal on which shareholders of that Fund are entitled to vote. Separate proxy cards are enclosed for each Fund in which a shareholder is a record owner of Shares. Thus, if a proposal is approved by shareholders of one or more Funds and not approved by shareholders of one or more other Funds, the proposal will be implemented for the Fund or Funds that approved the proposal and will not be implemented for any Fund that did not approve the proposal. It is therefore essential that shareholders complete, date and sign each enclosed proxy card. Shareholders of each Fund are entitled to vote on the proposal pertaining to that Fund.

SUMMARY OF PROXY PROPOSALS

Preferred Income Fund (PFD)

PROPOSALS

1. Election of Directors Elect two Directors: Donald F. Crumrine and Robert F. Wulf
2. Changes in Fundamental Investment Policy Regarding Concentrations of Investments (2-A and 2-B)
3. Other Business

Preferred Income Opportunity Fund (PFO)

PROPOSALS

1. Election of Directors Elect one Director: David Gale
2. Changes in Fundamental Investment Policy Regarding Concentrations of Investments (2-B only)
3. Other Business

Preferred Securities Income Fund (FFC)

PROPOSALS

1. Election of Directors Elect two Directors: Morgan Gust and Karen H. Hogan
2. Changes in Fundamental Investment Policy Regarding Concentrations of Investments (2-A and 2-B)
3. Other Business

Total Return Fund (FLC)

PROPOSALS

1. Election of Directors Elect two Directors: Morgan Gust and Karen H. Hogan
2. Changes in Fundamental Investment Policy Regarding Concentrations of Investments (2-A and 2-B)
3. Other Business

PROPOSAL 1: ELECTION OF DIRECTORS

At the Meetings, shareholders are being asked to consider the election of Directors of each Fund. The Board of each Fund is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three-year term and until their successors are duly elected and qualified.

Nominees for the Boards of Directors

Each nominee named below has consented to serve as a Director if elected at the relevant Meeting. If a designated nominee declines or otherwise becomes unavailable for election, however, the proxy confers discretionary power on the persons named therein to vote in favor of a substitute nominee or nominees. Each nominee has been nominated for a three-year term to expire at each Fund's 2015 Annual Meeting of Shareholders and until his or her successor is duly elected and qualified. Shareholders of each Fund's Common Stock are entitled to elect the nominees for election to the Board of the relevant Fund.

Fund	Nominees For Election
PFD	Donald F. Crumrine Robert F. Wulf
PFO	David Gale
FFC	Morgan Gust Karen H. Hogan
FLC	Morgan Gust Karen H. Hogan

Information About Each Director's or Nominee for Election as Director's Experience, Qualifications, Attributes or Skills

Directors or Nominees for Election as Directors of the Funds, together with information as to their positions with the Funds, principal occupations and other board memberships for the past five years, are shown below.

Name, Address and Age	Current Position(s) Held with Funds	Term of Office and Length of Time Served*	Principal Occupation During Past Five Years	Number of Funds in Fund Complex Overseen by Director**	Other Public Company Board Memberships During Past 5 Years
Non-Interested Directors/Nominees:					
David Gale Delta Dividend Group, Inc. 220 Montgomery Street Suite 426 San Francisco, CA 94104 Age: 63	Director	Class I Director PFD since 1997 PFO since 1997 FFC since inception FLC since inception	President of Delta Dividend Group, Inc. (investments)	4	Metromedia International Group, Inc. and Emmis Communications
Morgan Gust 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 64	Director and Nominating and Governance Committee Chairman	Class III Director PFD since inception PFO since inception Class II Director FFC since inception FLC since inception	Owner and operator of various entities engaged in agriculture and real estate; Former President of Giant Industries, Inc. (petroleum refining and marketing) from March 2002 through June 2007	4	CoBiz Financial, Inc. (financial services)
Karen H. Hogan 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 50	Director	Class I Director PFD since 2005 Class III Director PFO since 2005 Class II Director FFC since 2005 FLC since 2005	Financial Consultant; Active Community Volunteer and Board Member of IKAR, a non-profit organization	4	None
Robert F. Wulf 47-154 El Merana Circle Palm Desert, CA 92260 Age: 74	Director and Audit Committee Chairman	Class II Director PFD since inception PFO since inception Class III Director FFC since inception FLC since inception	Financial Consultant; Former Trustee, University of Oregon Foundation from October 1998 to June 2008; Former Trustee, San Francisco Theological Seminary from October 2001 to October 2011	4	None

Interested Director:

Donald F. Crumrine ⁽¹⁾ 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 64	Director,	Class II Director	Chairman of the	4	None
	Chairman of	PFD since inception	Board and Director		
	the Board	PFO since inception	of Flaherty &		
	and Chief		Crumrine		
	Executive	Class III Director			
	Officer	FFC since inception			
		FLC since inception			

* The Class II Directors of PFO and the Class III Directors of PFD, FFC and FLC will serve until each Fund’s 2013 Annual Meeting of Shareholders and until their successors are duly elected and qualified. The Class I Directors of PFD, the Class I Director of FFC and FLC and the Class III Directors of PFO will serve until each Fund’s Annual Meeting of Shareholders in 2014 and until their successors are duly elected and qualified. The Class I Director of PFO and the Class II Directors of PFD, FFC and FLC will serve until each Fund’s Annual Meeting of Shareholders in 2015 and until their successors are duly elected and qualified.

** The Flaherty & Crumrine fund complex consists solely of the Funds.
 “Interested person” of the Funds as defined in the Investment Company Act of 1940, as amended (the “1940 Act”). Mr. Crumrine is

(1) considered an “interested person” because of his affiliation with Flaherty & Crumrine.

Each Director has been a Director of the Funds for at least five years. Additional information about each Director follows (supplementing the information provided in the table above) that describes some of the specific experiences, qualifications, attributes or skills that each Director possesses which the Boards believe have prepared them to be effective Directors. The Boards believe that Directors need to have the ability to critically review, evaluate, question and discuss information provided to them, and to interact effectively with Fund management, service providers and counsel, in order to exercise effective business judgment in the performance of their duties; the Boards believe that their members satisfy this standard. Experience relevant to having this ability may be achieved through a Director's educational background; business, professional training or practice (*e.g.*, accounting or law); public service or academic positions; experience from service as a board member (including the Boards of the Funds) or as an executive of investment funds, public companies or significant private or not-for-profit entities or other organizations; and/or other life experiences. The charters for the Boards' Nominating and Governance Committees contain certain other factors considered by the Committees in identifying and evaluating potential Director nominees. To assist them in evaluating matters under federal and state law, the Independent Directors (defined below) are counseled by their own independent legal counsel, who participates in Board meetings and interacts with Flaherty & Crumrine, and also may benefit from information provided by the Funds' and Flaherty & Crumrine's counsel; both counsel to the Independent Directors and counsel to the Funds and Flaherty & Crumrine have significant experience advising funds and fund directors. The Boards and their committees have the ability to engage other experts as appropriate. The Boards evaluate their performance on an annual basis.

- Donald F. Crumrine Mr. Crumrine has been the Chairman of the Boards of PFD and PFO since 2002 and Chairman of the Boards of FFC and FLC since each Fund's inception. Mr. Crumrine has over 35 years of experience managing portfolios of preferred securities. He co-founded Flaherty & Crumrine in 1983, after spending twelve years at Scudder, Stevens & Clark, to focus on managing preferred portfolios and associated hedges. Mr. Crumrine is actively involved in the day-to-day management of all Flaherty & Crumrine client portfolios, including those of the Funds, and directs client service and marketing efforts at Flaherty & Crumrine.
- David Gale In addition to his tenure as a Director of the Funds, Mr. Gale has been President and Chief Executive Officer of Delta Dividend Group, Inc, a San Francisco-based investment management firm, since 1992. Prior to joining Delta Dividend Group, Inc., Mr. Gale was a Principal with Morgan Stanley from February 1983 to January 1990, and a Managing Director of Lehman Brothers Holdings Inc. from January 1990 to January 1992. Mr. Gale currently serves as a director of Emmis Communications and served as a director of Metromedia International Group, Inc., a telecommunications company from 2005 through August 30, 2008.
- Morgan Gust In addition to his tenure as a Director of the Funds, Mr. Gust is the owner and operator of various entities engaged in agriculture and real estate. From 1990 to 2007, Mr. Gust served in various capacities, including President, Executive Vice President, General Counsel and Corporate Secretary, of Giant Industries, Inc., a petroleum refining and marketing company listed on the New York Stock Exchange.
- Karen H. Hogan In addition to her tenure as a Director of the Funds, Ms. Hogan has served as a board member and committee member of charitable and non-profit organizations. From September 1985 to January 1997, Ms. Hogan served as Senior Vice President of Preferred Stock Origination, and previously Vice President of New Product Development, at Lehman Brothers Holdings Inc. Ms. Hogan also serves as a board member of a non-profit organization.
- Robert F. Wulf In addition to his tenure as a Director of the Funds, Mr. Wulf has worked as a financial consultant for over 28 years. Mr. Wulf also served as a board member of two non-profit organizations.

Board Composition and Leadership Structure

The 1940 Act requires that at least 40% of the Funds' Directors not be "interested persons" (as defined in the 1940 Act) of the Funds, and therefore not affiliated with Flaherty & Crumrine ("Independent Directors"). To rely on certain exemptive rules under the 1940 Act, a majority of the Funds' Directors must be Independent Directors and, for certain important matters, such as the approval of investment advisory agreements or transactions with affiliates, the 1940 Act or the rules thereunder require the approval of a majority of the Independent Directors. Currently, four of the Funds' five Directors are Independent Directors. The Chairman of the Boards is an interested person of the Funds. The four Independent Directors interact directly with the Chairman and other senior management of Flaherty & Crumrine at scheduled meetings and between meetings as appropriate. Independent Directors have been designated to chair the Audit Committees and the Nominating and Corporate Governance Committees, and the Independent Directors rotate the responsibility for chairing meetings of Independent Directors. In addition, from time to time one or more Independent Directors may be designated, formally or informally, to take the lead in addressing with management or their independent legal counsel matters or issues of concern to the Boards. As a result, the Boards have determined that their leadership structures and composition, in which no individual Independent Director has been designated to lead all the Independent Directors, are appropriate in light of the Boards' size and the cooperative and dynamic working relationship among the Independent Directors and the Independent Directors' open lines of communication with Fund management. The Boards have determined that their leadership structures and composition, in which the Chairman of the Boards is an "interested person" of the Funds and 80% of the Directors are Independent Directors, are appropriate in light of the services that Flaherty & Crumrine provides to the Funds and potential conflicts of interest that could arise from these relationships.

Boards' Oversight Role in Management

The Boards' role in management of the Funds is oversight. As is the case with virtually all investment companies (as distinguished from operating companies), service providers to the Funds, primarily Flaherty & Crumrine, have responsibility for the day-to-day management of the Funds, which includes responsibility for risk management (including management of investment performance and investment risk, valuation risk, issuer and counterparty credit risk, compliance risk and operational risk). As part of their oversight, the Boards, acting at their scheduled meetings, or the Chairman, acting between Board meetings, regularly interacts with and receives reports from senior personnel of service providers, including the Funds' and Flaherty & Crumrine's Chief Compliance Officer and portfolio management personnel. The Boards' Audit Committees (which consist of all the Independent Directors) meet during their scheduled meetings, and between meetings the Audit Committee chairs maintain contact, with the Funds' independent registered public accounting firm and the Funds' Chief Financial Officer. The Boards also receive periodic presentations from senior personnel of Flaherty & Crumrine regarding risk management generally, as well as periodic presentations regarding specific operational, compliance or investment areas, such as business continuity, personal trading, valuation and credit. The Boards have adopted policies and procedures designed to address certain risks to the Funds. In addition, Flaherty & Crumrine and other service providers to the Funds have adopted a variety of policies, procedures and controls designed to address particular risks to the Funds. Different processes, procedures and controls are employed with respect to different types of risks. However, it is not possible to eliminate all of the risks applicable to the Funds. The Boards also receive reports from counsel to the Funds and Flaherty & Crumrine and the Independent Directors' own independent legal counsel regarding regulatory, compliance and governance matters. The Boards' oversight role does not make the Boards guarantors of the Funds' investments or activities.

Beneficial Ownership of Shares in Funds and Fund Complex for each Director and Nominee for Election as Director

Set forth in the table below is the dollar range of equity securities in each Fund and the aggregate dollar range of equity securities in the Flaherty & Crumrine Fund Family beneficially owned by each Director and Nominee for Election as Director.

Dollar Range of
Equity

Aggregate Dollar Range of Equity
Securities in All Registered Investment
Companies Overseen by Director in
Family