

CORNERSTONE TOTAL RETURN FUND INC
Form N-CSRS
September 02, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-02363

Cornerstone Total Return Fund, Inc.

(Exact name of registrant as specified in charter)

7 Dawson Street, Huntington Station, New York

11746

(Address of principal executive offices)

(Zip code)

Frank J. Maresca

AST Fund Solutions, LLC, 7 Dawson Street, Huntington Station, New York 11746

(Name and address of agent for service)

Registrant's telephone number, including area code: (866) 668-6558

Date of fiscal year end: December 31, 2014

Date of reporting period: June 30, 2014

ITEM 1. REPORTS TO STOCKHOLDERS.



Cornerstone Total
Return Fund, Inc.

Semi-Annual Report
June 30, 2014
(Unaudited)



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Cornerstone Total Return Fund, Inc.
 Portfolio Summary – as of June 30, 2014 (unaudited)

SECTOR ALLOCATION

Sector	Percent of Net Assets
Information Technology	17.6
Closed-End Funds	14.4
Financials	13.1
Health Care	10.8
Consumer Discretionary	9.4
Energy	9.3
Industrials	8.6
Consumer Staples	7.3
Materials	2.8
Exchange-Traded Funds	2.2
Telecommunication Services	2.0
Utilities	1.8
Other	0.7

TOP TEN HOLDINGS, BY ISSUER

1.	Holding	Sector	Percent of Net Assets
1.	Apple Inc.	Information Technology	3.7
2.	Exxon Mobil Corporation	Energy	3.5
3.	Wal-Mart Stores, Inc.	Consumer Staples	2.6
4.	Microsoft Corporation	Information Technology	2.4
5.	General Electric Company	Industrials	2.1
6.	Berkshire Hathaway Inc. - Class B	Financials	2.0
7.	Merck & Company, Inc.	Health Care	1.8
8.	Oracle Corporation	Information Technology	1.6
9.	Schlumberger Limited	Energy	1.5
10.	Intel Corporation	Information Technology	1.5

Cornerstone Total Return Fund, Inc.
 Schedule of Investments – June 30, 2014 (unaudited)

Description	No. of Shares	Value
EQUITY SECURITIES — 99.30%		
CLOSED-END FUNDS — 14.35%		
CORE — 0.52%		
Adams Express Company (The)	6,000	\$82,500
General American Investors Company, Inc.	10,260	377,671
		460,171
DEVELOPED MARKET — 0.04%		
Aberdeen Australia Equity Fund, Inc.	4,316	39,189
EMERGING MARKETS — 0.22%		
First Trust/Aberdeen Emerging Opportunity Fund	9,931	189,781
ENERGY MLP — 1.15%		
ClearBridge Energy MLP Total Return Fund Inc.	21,737	520,384
First Trust MLP and Energy Income Fund	22,873	493,142
		1,013,526
GENERAL & INSURED LEVERAGED — 0.78%		
Eaton Vance Tax-Advantaged Bond and Option Strategies Fund	34,123	473,627
Invesco Advantage Municipal Income Trust II	4,400	49,940
Invesco Municipal Opportunity Trust	12,900	162,540
		686,107
GLOBAL — 1.02%		
Alpine Global Dynamic Dividend Fund	19,379	203,673
Clough Global Allocation Fund	3,430	52,959
Description	No. of Shares	Value
GLOBAL (continued)		
Delaware Enhanced Global Dividend and Income Fund	34,702	\$440,368
Gabelli Global Utility & Income Trust (The)	4,800	100,128
Nuveen Global Value Opportunities Fund	6,578	96,894
		894,022
HIGH CURRENT YIELD (LEVERAGED) — 0.76%		
DWS High Income Opportunities Fund, Inc.	45,027	665,049
INCOME & PREFERRED STOCK — 1.05%		
John Hancock Premium Dividend Fund	44,584	605,897
Nuveen Quality Preferred Income Fund 3	36,888	320,188
		926,085
LOAN PARTICIPATION — 1.50%		
BlackRock Floating Rate Income Strategies Fund, Inc	18,878	276,563

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Eaton Vance Senior Income Trust	14,289	97,308
First Trust Senior Floating Rate Income Fund II	65,755	939,639
LMP Corporate Loan Fund Inc.	227	2,728
		1,316,238
NATURAL RESOURCES — 1.33%		
BlackRock Real Asset Equity Trust	66,980	628,942
Petroleum & Resources Corporation	17,400	542,532
		1,171,474

See accompanying notes to financial statements.

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Gap, Inc. (The)	3,000	124,710
Home Depot, Inc. (The)	11,500	931,040
Johnson Controls, Inc.	5,500	274,615
Macy's, Inc.	3,000	174,060
McDonald's Corporation	9,000	906,660
NIKE, Inc. - Class B	7,000	542,850
Ralph Lauren Corporation	1,000	160,690
Time Inc. *	808	19,570
Time Warner Cable Inc.	2,500	368,250
Time Warner Inc.	6,466	454,236
TJX Companies, Inc. (The)	3,000	159,450

See accompanying notes to financial statements.

Cornerstone Total Return Fund, Inc.
 Schedule of Investments – June 30, 2014 (unaudited) (continued)

Description	No. of Shares	Value
CONSUMER DISCRETIONARY (continued)		
Twenty-First Century Fox, Inc.	2,500	\$85,575
Viacom Inc. - Class B	3,000	260,190
Walt Disney Company (The)	14,500	1,243,230
		8,296,254
CONSUMER STAPLES — 7.29%		
Altria Group, Inc.	17,000	712,980
Archer-Daniels-Midland Company	5,000	220,550
Coca-Cola Company (The)	17,000	720,120
CVS Caremark Corporation	13,200	994,884
Kellogg Company	3,000	197,100
Kraft Foods Group, Inc.	1,000	59,950
Kroger Co. (The)	5,000	247,150
Mondelēz International, Inc. - Class A	3,000	112,830
PepsiCo, Inc.	8,000	714,720
Tyson Foods, Inc.	3,000	112,620
Wal-Mart Stores, Inc.	31,000	2,327,170
		6,420,074
ENERGY — 9.31%		
Anadarko Petroleum Corporation	4,000	437,880
Chesapeake Energy Corporation	5,000	155,400
ConocoPhillips	8,000	685,840
Devon Energy Corporation	3,500	277,900
EOG Resources, Inc.	4,000	467,440
Exxon Mobil Corporation	31,000	3,121,080
Kinder Morgan, Inc.	5,000	181,300
Marathon Oil Corporation	6,900	275,448
Occidental Petroleum Corporation	5,000	513,150
Phillips 66	3,000	241,290
Schlumberger Limited	11,500	1,356,425
Description	No. of Shares	Value
ENERGY (continued)		
Southwestern Energy Company *	3,000	\$136,470
Valero Energy Corporation	4,500	225,450
Williams Companies, Inc. (The)	2,000	116,420
		8,191,493
EXCHANGE-TRADED FUNDS — 2.23%		
iShares Core S&P 500 ETF	5,000	985,000
SPDR S&P 500 ETF Trust	5,000	978,600

		1,963,600
FINANCIALS — 13.14%		
Allstate Corporation (The)	4,000	234,880
American International Group, Inc.	11,000	600,380
Aon plc	2,500	225,225
Bank of America Corporation	40,000	614,800
Bank of New York Mellon Corporation (The)	11,000	412,280
BB&T Corporation	5,500	216,865
Berkshire Hathaway Inc. - Class B *	14,000	1,771,840
Capital One Financial Corporation	2,500	206,500
Citigroup, Inc.	23,000	1,083,300
Fifth Third Bancorp	9,000	192,150
Goldman Sachs Group, Inc. (The)	3,500	586,040
Hartford Financial Services Group, Inc. (The)	4,000	143,240
JPMorgan Chase & Co.	22,200	1,279,164
Loews Corporation	3,000	132,030
Marsh & McLennan Companies, Inc.	3,000	155,460
MetLife, Inc.	10,500	583,380
Morgan Stanley	16,000	517,280

See accompanying notes to financial statements.

Cornerstone Total Return Fund, Inc.
Schedule of Investments – June 30, 2014 (unaudited) (continued)

Description	No. of Shares	Value
FINANCIALS (continued)		
PNC Financial Services Group, Inc. (The)	5,000	\$445,250
Prudential Financial, Inc.	4,000	355,080
SunTrust Banks, Inc.	5,000	200,300
T. Rowe Price Group, Inc.	2,500	211,025
Wells Fargo & Company	24,000	1,261,440
Weyerhaeuser Company	4,000	132,360
		11,560,269
HEALTH CARE — 10.76%		
Abbott Laboratories	10,000	409,000
AbbVie Inc.	6,000	338,640
Actavis plc *	1,000	223,050
Aetna Inc.	3,000	243,240
Allergan, Inc.	3,000	507,660
Amgen Inc.	6,000	710,220
Baxter International, Inc.	5,700	412,110
Cardinal Health, Inc.	4,000	274,240
Cigna Corporation	2,000	183,940
Express Scripts Holding Company *	6,000	415,980
Johnson & Johnson	10,500	1,098,510
Mallinckrodt public limited company *	250	20,005
McKesson Corporation	2,000	372,420
Merck & Company, Inc.	27,000	1,561,950
Pfizer, Inc.	31,462	933,792
St. Jude Medical, Inc.	3,000	207,750
Stryker Corporation	3,000	252,960
Thermo Fisher Scientific Inc.	3,000	354,000
UnitedHealth Group Incorporated	9,000	735,750
Wellpoint, Inc.	2,000	215,220
		9,470,437
Description	No. of Shares	Value
INDUSTRIALS — 8.55%		
Boeing Company (The)	3,000	\$381,690
Caterpillar Inc.	4,000	434,680
CSX Corporation	8,000	246,480
Deere & Company	3,500	316,925
Delta Air Lines, Inc.	4,000	154,880
FedEx Corporation	3,000	454,140
General Dynamics Corporation	2,000	233,100

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General Electric Company	71,000	1,865,880
Honeywell International Inc.	7,000	650,650
Lockheed Martin Corporation	2,500	401,825
Norfolk Southern Corporation	3,000	309,090
Northrop Grumman Corporation	2,000	239,260
Precision Castparts Corporation	1,500	378,600
Raytheon Company	2,000	184,500
Southwest Airlines Co.	4,000	107,440
Union Pacific Corporation	9,000	897,750
Waste Management, Inc.	6,000	268,380
		7,525,270
INFORMATION TECHNOLOGY — 17.55%		
Apple Inc.	35,000	3,252,550
Cisco Systems, Inc.	40,000	994,000
Cognizant Technology Solutions Corporation *	6,000	293,460
Corning, Inc.	12,000	263,400
eBay Inc. *	9,000	450,540
EMC Corporation	13,000	342,420
Facebook, Inc. *	10,000	672,900
Google Inc. - Class A *	1,000	584,670
Google Inc. - Class C *	1,000	575,280
Hewlett-Packard Company	17,000	572,560
Intel Corporation	42,000	1,297,800

See accompanying notes to financial statements.

Cornerstone Total Return Fund, Inc.
 Schedule of Investments – June 30, 2014 (unaudited) (concluded)

Description	No. of Shares	Value
INFORMATION TECHNOLOGY (continued)		
International Business Machines Corporation	7,000	\$1,268,890
Micron Technology, Inc.	7,000	230,650
Microsoft Corporation	51,000	2,126,700
Oracle Corporation	34,700	1,406,391
QUALCOMM Incorporated	11,000	871,200
Yahoo! Inc. *	7,000	245,910
		15,449,321
MATERIALS — 2.80%		
Air Products & Chemicals, Inc.	1,500	192,930
Dow Chemical Company (The)	11,000	566,060
Ecolab Inc.	2,000	222,680
Freeport-McMoRan Copper & Gold Inc.	8,500	310,250
International Paper Company	3,300	166,551
LyondellBasell Industries N.V.	3,000	292,950
Newmont Mining Corporation	4,000	101,760
PPG Industries, Inc.	1,000	210,150
Praxair, Inc.	3,000	398,520
		2,461,851
TELECOMMUNICATION SERVICES — 2.04%		
AT&T, Inc.	17,589	621,947
Verizon Communications, Inc.	24,000	1,174,320
		1,796,267
UTILITIES — 1.85%		
AES Corporation (The)	4,600	71,530
American Electric Power Company, Inc.	4,000	223,080
Consolidated Edison, Inc.	1,500	86,610
Entergy Corporation	2,000	164,180
Exelon Corporation	7,000	255,360
Description	No. of Shares	Value
UTILITIES (continued)		
FirstEnergy Corp.	2,000	\$69,440
PPL Corporation	4,000	142,120
Public Service Enterprises Group, Inc.	4,000	163,160
Southern Company (The)	6,000	272,280
Xcel Energy Inc.	5,500	177,265
		1,625,025
TOTAL EQUITY SECURITIES		
(cost - \$72,001,848)		87,388,481

SHORT-TERM INVESTMENTS — 1.29%		
MONEY MARKET FUNDS — 1.29%		
Fidelity Institutional Money Market Government Portfolio - Class I, 0.01%^ (cost - \$1,130,626)	1,130,626	1,130,626
TOTAL INVESTMENTS — 100.59%		
(cost - \$73,132,474)		88,519,107
LIABILITIES IN EXCESS OF OTHER ASSETS — (0.59)%		(518,005)
NET ASSETS — 100.00%		\$88,001,102

* Non-income producing security.

^ The rate shown is the 7-day effective yield as of June 30, 2014.

See accompanying notes to financial statements.

Cornerstone Total Return Fund, Inc.
Statement of Assets and Liabilities – June 30, 2014 (unaudited)

ASSETS

Investments, at value (cost – \$73,132,474) (Notes B and C)	\$88,519,107
Cash	12,628
Receivables:	
Investments sold	397,248
Dividends	119,241
Prepaid expenses	7,458
Total Assets	89,055,682

LIABILITIES

Payables:	
Investments purchased	909,400
Investment management fees (Note D)	77,162
Directors' fees and expenses	9,741
Administration fees (Note D)	4,932
Other accrued expenses	53,345
Total Liabilities	1,054,580

NET ASSETS (applicable to 17,680,873 shares of common stock)	\$88,001,102
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NET ASSET VALUE PER SHARE ($\$88,001,102 \div 17,680,873$)	\$4.98
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NET ASSETS CONSISTS OF

Common stock, \$0.01 par value; 17,680,873 shares issued and outstanding (50,000,000 shares authorized)	\$176,810
Paid-in Capital	72,437,659
Net unrealized appreciation in value of investments	15,386,633
Net assets applicable to shares outstanding	\$88,001,102

See accompanying notes to financial statements.

Cornerstone Total Return Fund, Inc.

Statement of Operations – for the Six Months Ended June 30, 2014 (unaudited)

INVESTMENT INCOME

Income:

Dividends	\$1,191,210
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Expenses:

Investment management fees (Note D)	430,748
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Administration fees (Note D)	32,306
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Directors' fees and expenses	22,316
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Accounting fees	20,793
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Legal and audit fees	19,615
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Printing	19,255
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Transfer agent fees	16,037
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Custodian fees	7,856
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Stock exchange listing fees	2,921
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Insurance	2,615
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Miscellaneous	4,784
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Total Expenses	579,246
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Net Investment Income	611,964
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NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS

Net realized gain from investments	948,751
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Capital gain distributions from regulated investment companies	8,519
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Net change in unrealized appreciation in value of investments	4,704,715
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Net realized and unrealized gain on investments	5,661,985
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NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$6,273,949
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See accompanying notes to financial statements.

 Cornerstone Total Return Fund, Inc.
 Statement of Changes in Net Assets

	For the Six Months Ended June 30, 2014 (Unaudited)	For the Year Ended December 31, 2013
INCREASE/(DECREASE) IN NET ASSETS		
Operations:		
Net investment income	\$611,964	\$615,712
Net realized gain from investments	957,270	4,066,714
Net change in unrealized appreciation in value of investments	4,704,715	6,449,164
Net increase in net assets resulting from operations	6,273,949	11,131,590
Dividends and distributions to stockholders (Note B):		
Net investment income	(611,964)	(2,509,261)
Net realized gains	(950,146)	(2,173,165)
Return-of-capital	(7,581,078)	(7,172,892)
Total dividends and distributions to stockholders	(9,143,188)	(11,855,318)
Common stock transactions:		
Proceeds from rights offering of 0 and 6,892,384 shares of newly issued common stock, respectively	—	36,805,331
Offering expenses associated with rights offering	(10,278)	(56,952)
Proceeds from 351,223 and 304,027 shares newly issued in reinvestment of dividends and distributions, respectively	1,733,788	1,547,260
Net increase in net assets from common stock transactions	1,723,510	38,295,639
Total increase/(decrease) in net assets	(1,145,729)	37,571,911
NET ASSETS		
Beginning of period	89,146,831	51,574,920
End of period	\$88,001,102	\$89,146,831

See accompanying notes to financial statements.

 Cornerstone Total Return Fund, Inc.
 Financial Highlights

Contained below is per share operating performance data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each period indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

	For the Six Months Ended June 30, 2014 (Unaudited)	2013	For the Years Ended December 31,			2009
			2012	2011	2010	
PER SHARE OPERATING PERFORMANCE						
Net asset value, beginning of period	\$ 5.14	\$ 5.09	\$ 5.47	\$ 6.65	\$ 7.19	\$ 7.75
Net investment income/(loss) #	0.03	0.06	0.05	0.02	(0.00)+	(0.02)
Net realized and unrealized gain on investments	0.33	0.94	0.62	0.05	0.68	1.31
Net increase in net assets resulting from operations	0.36	1.00	0.67	0.07	0.68	1.29
Dividends and distributions to stockholders:						
Net investment income	(0.03)	(0.23)	(0.31)	(0.02)	—	—
Net realized capital gain	(0.06)	(0.20)	—	—	—	—
Return-of-capital	(0.43)	(0.66)	(0.86)	(1.32)	(1.46)	(1.90)
Total dividends and distributions to stockholders	(0.52)	(1.09)	(1.17)	(1.34)	(1.46)	(1.90)
Common stock transactions:						
Anti-dilutive effect due to shares issued:						
Rights offering	—	0.14	0.12	0.06	0.19	—
Reinvestment of dividends and distributions	0.00 +	0.00 +	0.00 +	0.03	0.05	0.05
Total common stock transactions	0.00 +	0.14	0.12	0.09	0.24	0.05
Net asset value, end of period	\$ 4.98	\$ 5.14	\$ 5.09	\$ 5.47	\$ 6.65	\$ 7.19
Market value, end of period	\$ 5.64	\$ 6.05	\$ 5.35	\$ 5.97	\$ 7.88	\$ 10.29
Total investment return (a)	3.53 % (b)	40.08 %	11.16 %	(10.08)%	(10.28)%	66.98 %

RATIOS/SUPPLEMENTAL
DATA

Net assets, end of period (000 omitted)	\$ 88,001		\$ 89,147		\$ 51,575		\$ 36,004		\$ 25,913		\$ 20,400	
Ratio of expenses to average net assets, net of fee waivers and fees paid indirectly, if any (c)	1.35	%(e)	1.46	%	1.73	%	1.88	%	2.33	%	2.76	%
Ratio of expenses to average net assets, excluding fee waivers and fees paid indirectly, if any (c)	1.35	%(e)	1.46	%	1.73	%	1.88	%	2.37	%	3.20	%
Ratio of net investment income/(loss) to average net assets (d)	1.42	%(e)	1.13	%	0.85	%	0.31	%	(0.04))%	(0.24))%
Portfolio turnover rate	18.70	%(b)	48.27	%	44.55	%	30.11	%	34.39	%	13.24	%

Based on average shares outstanding.

+ Amount rounds to less than \$0.01 per share.

(a) Total investment return at market value is based on the changes in market price of a share during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(b) Not annualized.

(c) Expenses do not include expenses of investments companies in which the Fund invests.

(d) Recognition of net investment income/(loss) by the Fund may be affected by the timing of the declaration of dividends, if any, by investment companies in which the Fund invests.

(e) Annualized.

See accompanying notes to financial statements.

Cornerstone Total Return Fund, Inc.
Notes to Financial Statements (unaudited)

NOTE A. ORGANIZATION

Cornerstone Total Return Fund, Inc. (the “Fund”) was incorporated in New York on March 16, 1973 and commenced investment operations on May 15, 1973. Its investment objective is to seek capital appreciation with current income as a secondary objective. The Fund is registered under the Investment Company Act of 1940, as amended, as a closed-end, diversified management investment company.

NOTE B. SIGNIFICANT ACCOUNTING POLICIES

Management Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make certain estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Subsequent Events: The Fund has evaluated the need for additional disclosures and/or adjustments resulting from subsequent events through the date its financial statements were issued. Based on this evaluation, no additional disclosures or adjustments were required to such financial statements.

Portfolio Valuation: Investments are stated at value in the accompanying financial statements. Readily marketable portfolio securities listed on the New York Stock Exchange (“NYSE”) are valued, except as indicated below, at the last sale price reflected on the consolidated tape at the close of the NYSE on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices on such day. If no bid or asked prices are quoted on such day or if market prices may be unreliable because of events occurring after the close of trading, then the security is valued by such method as the Board of Directors shall determine in good faith to reflect its fair market value. Readily marketable securities not listed on the NYSE but listed on other domestic or foreign securities exchanges are valued in a like manner. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the consolidated tape at the close of the exchange representing the principal market for such securities. Securities trading on the Nasdaq Stock Market, Inc. (“NASDAQ”) are valued at the NASDAQ Official Closing Price.

Readily marketable securities traded in the over-the counter market, including listed securities whose primary market is believed by Cornerstone Advisors, Inc. (the “Investment Manager” or “Cornerstone”) to be over-the-counter, are valued at the mean of the current bid and asked prices as reported by the NASDAQ or, in the case of securities not reported by the NASDAQ or a comparable source, as the Board of Directors deem appropriate to reflect their fair market value. Where securities are traded on more than one exchange and also over-the-counter, the securities will generally be valued using the quotations the Board of Directors believes reflect most closely the value of such securities. At June 30, 2014 the Fund held no securities valued in good faith by the Board of Directors.

The net asset value per share of the Fund is calculated weekly and on the last business day of the month with the exception of those days on which the NYSE is closed.

The Fund is exposed to financial market risks, including the valuations of its investment portfolio. During the six months ended June 30, 2014, the Fund did not invest in derivative instruments or engage in hedging activities.

Investment Transactions and Investment Income: Investment transactions are accounted for on the trade date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes. Interest income is recorded on an accrual basis; dividend income is recorded on the ex-dividend date.

Cornerstone Total Return Fund, Inc.
Notes to Financial Statements (unaudited) (continued)

Risks Associated with Investments in Other Closed-end Funds: Closed-end investment companies are subject to the risks of investing in the underlying securities. The Fund, as a holder of the securities of the closed-end investment company, will bear its pro rata portion of the closed-end investment company's expenses, including advisory fees. These expenses are in addition to the direct expenses of the Fund's own operations.

Taxes: No provision is made for U.S. federal income or excise taxes as it is the Fund's intention to continue to qualify as a regulated investment company and to make the requisite distributions to its stockholders which will be sufficient to relieve it from all or substantially all U.S. federal income and excise taxes.

The Accounting for Uncertainty in Income Taxes Topic of the FASB Accounting Standards Codification defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. The Fund's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations. As of June 30, 2014, the Fund does not have any interest or penalties associated with the underpayment of any income taxes. Management reviewed any uncertain tax positions for open tax years 2010 through 2013, and for the six months ended June 30, 2014. There was no material impact to the financial statements.

Distributions to Stockholders: Effective January 2002, the Fund initiated a fixed, monthly distribution to stockholders. On November 29, 2006, this distribution policy was updated to provide for the annual resetting of the monthly distribution amount per share based on the Fund's net asset value on the last business day in each October. The terms of the distribution policy will be reviewed and approved at least annually by the Fund's Board of Directors and can be modified at their discretion. To the extent that these distributions exceed the current earnings of the Fund, the balance will be generated from sales of portfolio securities held by the Fund, which will either be short-term or long-term capital gains, or a tax-free return-of-capital. To the extent these distributions are not represented by net investment income and capital gains, they will not represent yield or investment return on the Fund's investment portfolio. The Fund plans to maintain this distribution policy even if regulatory requirements would make part of a return-of-capital, necessary to maintain the distribution, taxable to stockholders and to disclose that portion of the distribution that is classified as ordinary income. Although it has no current intention to do so, the Board may terminate this distribution policy at any time and such termination may have an adverse effect on the market price for the Fund's common shares. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. To the extent that the Fund's taxable income in any calendar year exceeds the aggregate amount distributed pursuant to this distribution policy, an additional distribution may be made to avoid the payment of a 4% U.S. federal excise tax, and to the extent that the aggregate amount distributed in any calendar year exceeds the Fund's taxable income, the amount of that excess may constitute a return-of-capital for tax purposes. A return-of-capital distribution reduces the cost basis of an investor's shares in the Fund. Dividends and distributions to stockholders are recorded by the Fund on the ex-dividend date.

Managed Distribution Risk: Under the managed distribution policy, the Fund makes monthly distributions to stockholders at a rate that may include periodic distributions of its net income and net capital gains ("Net Earnings"), or from return-of-capital. If, for any fiscal year where total cash distributions exceeded Net Earnings (the "Excess"), the Excess would decrease the Fund's total assets and, as a result, would have the likely effect of

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increasing the Fund's expense ratio. There is a risk that the total Net Earnings from the Fund's portfolio would not be great enough to offset the amount of cash distributions paid to Fund stockholders. If this were to be the case, the Fund's assets would be depleted, and there is no guarantee that the Fund would be able to replace the assets. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action. Furthermore, such assets used to make distributions will not be available for investment pursuant to the Fund's investment objective.

NOTE C. FAIR VALUE

As required by the Fair Value Measurement and Disclosures Topic of the FASB Accounting Standards Codification, the Fund has performed an analysis of all assets and liabilities measured at fair value to determine the significance and character of all inputs to their fair value determination.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories.

Level 1 – quoted unadjusted prices for identical instruments in active markets to which the Fund has access at the date of measurement.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.

Level 3 – model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The following is a summary of the inputs used as of June 30, 2014 in valuing the Fund's investments carried at value:

Valuation Inputs	Investments in Securities	Other Financial Instruments*
Level 1 – Quoted Prices		
Equity Investments	\$87,388,481	\$—
Short-Term Investments	1,130,626	—
Level 2 – Other Significant Observable Inputs	—	—
Level 3 – Significant Unobservable Inputs	—	—
Total	\$88,519,107	\$—

* Other financial instruments include futures, forwards and swap contracts.

The breakdown of the Fund's investments into major categories is disclosed in its Schedule of Investments.

During the six months ended June 30, 2014, the Fund did not have any transfers in and out of any Level.

The Fund did not have any assets or liabilities that were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2014.

It is the Fund's policy to recognize transfers into and out of any Level at the end of the reporting period.

In June 2013, FASB issued Accounting Standards Update 2013-08 Financial Services – Investment Companies (Topic 946) – Amendments to the Scope, Measurement and Disclosure Requirements (“ASU 2013-08”) which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. ASU 2013-08 sets forth a methodology for determining whether an

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entity should be characterized as an investment company and prescribes fair value accounting for an investment company's non-controlling ownership interest in another investment company. FASB has determined that a fund registered under the Investment Company Act of 1940 automatically meets ASU 2013-08's criteria for an investment company. Although still evaluating the potential impacts of ASU 2013-08 to the Fund, the Investment Manager does not expect the adoption of the ASU to have an effect on the Fund.

NOTE D. AGREEMENTS WITH AFFILIATES

At June 30, 2014 certain officers of the Fund are also officers of Cornerstone or AST Fund Solutions, LLC ("AFS"). Such officers are paid no fees by the Fund for serving as officers of the Fund.

Investment Management Agreement

Cornerstone serves as the Fund's Investment Manager with respect to all investments. As compensation for its investment management services, Cornerstone receives from the Fund an annual fee, calculated weekly and paid monthly, equal to 1.00% of the Fund's average weekly net assets. For the six months ended June 30, 2014, Cornerstone earned \$430,748 for investment management services.

Administration Agreement

Under the terms of the administration agreement, AFS supplies executive, administrative and regulatory services for the Fund. AFS supervises the preparation of reports to stockholders for the Fund, reports to and filings with the Securities and Exchange Commission and materials for meetings of the Board of Directors. For these services, the Fund pays AFS a monthly fee at an annual rate of 0.075% of its average daily net assets, subject to an annual minimum fee of \$50,000. AFS has agreed to discount the annual minimum fee to \$30,000 and such discount will remain in place until an amended fee is agreed upon. For the six months ended June 30, 2014, AFS earned \$32,306 as administrator.

NOTE E. INVESTMENT IN SECURITIES

For the six months ended June 30, 2014, purchases and sales of securities, other than short-term investments, were \$16,770,026 and \$15,974,062, respectively.

NOTE F. SHARES OF COMMON STOCK

The Fund has 50,000,000 shares of common stock authorized and 17,680,873 shares issued and outstanding at June 30, 2014. Transactions in common stock for the six months ended June 30, 2014 were as follows:

Shares at beginning of period	17,329,650
Shares newly issued in reinvestment of dividends and distributions	351,223
Shares at end of period	17,680,873

NOTE G. FEDERAL INCOME TAXES

Income and capital gains distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments of losses deferred due to wash sales and excise tax regulations.

The tax character of dividends and distributions paid to stockholders during the year ended December 31, 2013 for the Fund was ordinary income of \$2,509,261, long-term capital gains of \$2,173,165 and return-of-capital of \$7,172,892.

GAAP requires that certain components of net assets relating to permanent differences be reclassified between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. Under current tax law, certain capital losses realized after October 31 within a taxable year may be deferred and treated as occurring on the first day of the following tax year ("Post-October losses"). The Fund incurred no such losses during the six months ended June 30, 2014.

