Cape Fear Bank CORP
Form DEF 14A
April 12, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Cape Fear Bank Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x 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 the transaction applies:

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(2) Aggregate number of securities to which the transaction applies:

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(3) Per unit price or other underlying value of the 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):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

Table of Contents

1117 Military Cutoff Road

Wilmington, North Carolina 28405

(910) 509-2000

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The 2007 Annual Meeting of Shareholders of Cape Fear Bank Corporation will be held at 9:30 a.m. on Thursday, May 17, 2007, at the University of North Carolina at Wilmington Executive Development Center located at 1241 Military Cutoff Road, Wilmington, North Carolina.

The purposes of the meeting are:

1. ***Election of Directors.*** To elect seven directors for one-year terms;

2. ***Proposal to Approve Omnibus Equity Plan.*** To consider a proposal to approve our 2007 Omnibus Equity Plan.

3. ***Ratification of Appointment of Independent Accountants.*** To consider a proposal to ratify the Audit Committee s appointment of Dixon Hughes PLLC as our independent accountants for 2007; and

4. ***Other Business.*** To transact any other business properly presented for action at the Annual Meeting.

You are invited to attend the Annual Meeting in person. However, even if you plan to attend, we ask that you complete, sign and date the enclosed appointment of proxy and return it to us as soon as you can in the enclosed envelope. Doing that will help us ensure that your shares are represented and that a quorum is present at the Annual Meeting. Even if you sign an appointment of proxy, you may still revoke it later or attend the Annual Meeting and vote in person.

This notice and the enclosed Proxy Statement and form of appointment of proxy are being mailed to our shareholders on or about April 12, 2007.

By Order of the Board of Directors

Cameron Coburn

Chairman, President

and Chief Executive Officer

YOUR VOTE IS IMPORTANT.

WHETHER YOU OWN ONE SHARE OR MANY, YOUR PROMPT COOPERATION

IN VOTING YOUR PROXY CARD IS APPRECIATED.

Table of Contents

Table of Contents

Table of Contents

1117 Military Cutoff Road

Wilmington, North Carolina 28405

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

General

This Proxy Statement is dated April 12, 2007, and is being furnished to our shareholders in connection with our solicitation of appointments of proxy in the enclosed form for use at the 2007 Annual Meeting of our shareholders and at any adjournments of the meeting. The Annual Meeting will be held at the University of North Carolina at Wilmington Executive Development Center located at 1241 Military Cutoff Road, Wilmington, North Carolina, at 9:30 a.m. on Thursday, May 17, 2007.

In this Proxy Statement, the terms you, your and similar terms refer to the shareholder receiving it. The terms we, us, our and similar terms r to Cape Fear Bank Corporation. Our banking subsidiary, Cape Fear Bank, is referred to as the Bank.

Voting

If your shares of our common stock are held of record in your name, you can vote at the Annual Meeting in one of the following ways. You can sign and return to us an appointment of proxy (a proxy card) in the form enclosed with this Proxy Statement (or validly appoint another person to vote your shares for you), or you can attend the Annual Meeting and vote in person.

If your shares of our common stock are held for you in street name by a broker or other nominee, then the record holder of your shares is required to vote them for you. You will need to follow the directions your broker or nominee provides you and give it instructions as to how your shares should be voted. Brokers who hold shares in street name for their clients typically have the authority to vote the shares on routine proposals, such as the election of directors, when they have not received instructions from the beneficial owners of the shares. However, without specific voting instructions from beneficial owners, brokers generally are not allowed to exercise their voting discretion with respect to the approval of non-routine matters.

Solicitation and Voting of Proxies

A proxy card is included with this Proxy Statement that provides for you to name four of our executive officers, Betty V. Norris, Lynn M. Burney, R. James MacLaren and A. Mark Tyler, to act as your Proxies and vote your shares at the Annual Meeting. Please sign and date your proxy card and return it in the enclosed envelope so that your shares will be represented at the meeting.

If you sign a proxy card and return it so that we receive it before the Annual Meeting, the shares of our common stock that you hold of record will be voted by the Proxies according to your instructions. If you sign

Table of Contents

and return a proxy card but do not give any voting instructions, then your shares will be voted by the Proxies **FOR** the election of each of the seven nominees for director named in Proposal 1 below and **FOR** Proposals 2 and 3 discussed in this Proxy Statement. If, before the Annual Meeting, any nominee named in Proposal 1 becomes unable or unwilling to serve as a director for any reason, the Proxies will have the discretion to vote your shares for a substitute nominee named by our Board of Directors. We are not aware of any other business that will be brought before the Annual Meeting but, if any other matter is properly presented for action by our shareholders, your proxy card will authorize the Proxies to vote your shares according to their best judgment. The Proxies also will be authorized to vote your shares according to their best judgment on matters incident to the conduct of the meeting, including motions to adjourn the meeting.

Revocation of Appointment of Proxy; How You Can Change Your Vote

If you are the record holder of your shares and you sign and return a proxy card and later wish to revoke it or to change the voting instructions you gave the Proxies in your proxy card, you can do so at any time before the voting takes place at the Annual Meeting by taking one of the following actions:

- give our Corporate Secretary a written notice that you want to revoke your proxy card;
- sign and submit another proxy card dated after the date of your original proxy card; or
- attend the Annual Meeting and notify our Corporate Secretary that you want to revoke your proxy card and vote your shares in person. Attending the Annual Meeting alone, without notifying our Corporate Secretary, will not revoke your proxy card.

If your shares are held in street name and you want to change voting instructions you have given to your broker or other nominee, you must follow your broker s or nominee s directions.

Expenses and Method of Solicitation

We will pay all costs of our solicitation of proxy cards for the Annual Meeting, including costs of preparing and mailing this Proxy Statement. We are requesting that banks, brokers and other custodians, nominees and fiduciaries forward copies of our proxy solicitation materials to their principals and request their voting instructions, and we may reimburse those persons for their expenses in doing so. In addition to using the mail, the Bank s and our directors, officers and employees may solicit proxy cards, personally or by telephone or other methods of communication, but they will not receive any additional compensation from us for doing so.

In connection with the solicitation of proxy cards for the Annual Meeting, we have not authorized anyone to give you any information, or make any representation to you, that is not contained in this Proxy Statement. If anyone gives you any other information or makes any other representation to you, you should not rely on it as having been authorized by us.

Record Date and Voting Securities

The close of business on April 2, 2007, is the Record Date we are using to determine which shareholders are entitled to receive notice of and to vote at the Annual Meeting and how many shares they are entitled to vote. You must have been a record holder of our common stock on that date in order to vote at the meeting. Our voting securities are the 3,586,911 shares of our common stock that were outstanding on the Record Date.

Quorum, Voting Procedures and Votes Required for Approval

A quorum must be present for business to be conducted at the Annual Meeting. For all matters to be voted on at the meeting, a quorum will consist of a majority of the outstanding shares of our common stock.

Table of Contents

Shares represented in person or by proxy at the meeting will be counted for the purpose of determining whether a quorum exists. Once a share is represented for any purpose at the meeting, it will be treated as present for quorum purposes for the remainder of the meeting and for any adjournments. If you return a valid proxy card or attend the meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted in determining whether there is a quorum. Broker non-votes will occur if your shares are held by a broker and are voted on one or more matters at the meeting but they are not voted by the broker on a non-routine matter because you have not given the broker voting instructions on that matter. If your shares are represented at the meeting with respect to any matter voted on, they will be treated as present with respect to all matters voted on, even if they are not voted on all matters.

Our directors are elected by a plurality of the votes cast in elections. In the election of directors at the Annual Meeting, the seven nominees receiving the highest numbers of votes will be elected. For Proposals 2 and 3 to be approved, the number of votes cast in person and by proxy in favor of each proposal must exceed the number of votes cast against it. Abstentions and broker non-votes will have no effect in the voting for directors or on Proposals 2 and 3. You may cast one vote for each share you held of record on the Record Date on each director to be elected and on each other matter voted on by shareholders at the Annual Meeting. You may not cumulate your votes in the election of directors.

Table of Contents

PROPOSAL 1: ELECTION OF DIRECTORS

General

Our Bylaws provide that:

- our Board of Directors consists of not less than seven nor more than 21 members, and our Board is authorized to set and change the actual number of our directors from time to time within those limits; and
- if our Board consists of fewer than nine members, directors are to be elected to one-year terms or until their respective successors have been duly elected and qualified.

Nominees

The number of our directors currently is set at seven. Based on the recommendations of our Corporate Governance Committee, our current directors named in the table below have been nominated by our Board of Directors for reelection at the Annual Meeting for new terms.

Name and age	Positions with us and the Bank (1)	Year first elected (2)	Principal occupation and business experience
Cameron Coburn (41)	Chairman, President and Chief Executive Officer	1998	Our executive officer
Walter Lee Crouch, Jr. (50)	Vice Chairman	1998	Realtor/broker, Intracoastal Realty Corporation
Windell Daniels (59)	Director	1998	President, United National Tours (charter bus company); President, Daniels Development LLC (real estate development)
Craig S. Relan (60)	Director	1998	Private investor; retired Vice President and General Manager, Digital Systems Research (1988-1996) (ship building and professional engineering)
Jerry D. Sellers (52)	Director	2003	Partner, Sellers Tile Co., Inc. (ceramic tile and stone installation)
John Davie Waggett (52)	Director	2003	Owner, Seashore Discount Drug, Inc. and Winter Park Discount Drug, Inc. (retail pharmacies)
Walter O. Winter (65)	Director	1998	Real estate investor; retired engineer, General Electric Corporation (1963-1996)

(1) Listings of the members of committees of our Board are contained below under the heading Committees of Our Board.

(2) First elected refers to the year in which each individual first became a director of the Bank. Each nominee first became our director at the time we were incorporated during 2005 as the Bank s holding company.

Our Board of Directors recommends that you vote FOR each of the seven nominees named above. The seven nominees receiving the highest numbers of votes will be elected.

Table of Contents

CORPORATE GOVERNANCE

Director Independence

Our Board of Directors periodically reviews transactions, relationships and other arrangements involving our directors and determines which of the directors the Board considers to be independent. In making those determinations, the Board applies the independence criteria contained in the listing requirements of The Nasdaq Stock Market. The following table lists persons who served as directors during 2006, and all nominees for election as directors at the Annual Meeting, who our Board believes are, or will be, independent directors under Nasdaq s criteria.

Walter Lee Crouch, Jr.	Jerry D. Sellers
Windell Daniels	John Davie Waggett
Craig S. Relan	Walter O. Winter

In addition to the specific Nasdaq criteria, in determining the independence of each director the Board considers whether it believes any other transactions, relationships, arrangements or factors (including our directors borrowing relationships with the Bank) could impair their ability to exercise independent judgment. There currently are no such other factors known to the Board that it believes affect the independence of the directors listed above.

Attendance by Directors at Meetings

Board of Directors Meetings. The Bank s and our Boards of Directors meet jointly. During 2006, the Boards met 18 times and each of our current directors attended 75% or more of the aggregate number of meetings of the Boards and any committees on which he served, with the exception of Windell Daniels.

Annual Meetings. Attendance by our directors at Annual Meetings of our shareholders gives directors an opportunity to meet, talk with and hear the concerns of shareholders who attend those meetings, and it gives those shareholders access to our directors that they may not have at any other time during the year. Our Board of Directors recognizes that our outside directors have their own business interests and are not our employees, and that it is not always possible for them to attend Annual Meetings. However, our Board s policy is that attendance by directors at our Annual Meetings is beneficial to us and to our shareholders and that our directors are strongly encouraged to attend each Annual Meeting whenever possible. All seven of our current directors attended our last Annual Meeting which was held during May 2006.

Communications with Our Board

Our Board of Directors encourages our shareholders to communicate with it regarding their concerns and other matters related to our business, and the Board has established a process by which you may send written communications to the Board or to one or more individual directors. You may address and mail your communication to our Corporate Secretary at:

Cape Fear Bank Corporation

Attention: Corporate Secretary

1117 Military Cutoff Road

Wilmington, North Carolina 28405

You also may send them by email to *info@capefearbank.com*. You should indicate whether your communication is directed to the entire Board of Directors, to a particular committee of the Board or its Chairman, or to one or more individual directors. All communications will be reviewed by our Corporate Secretary and forwarded to the intended recipients. Communications that involve specific complaints from a customer relating to a deposit, loan or other financial relationship or transaction also will be forwarded to the head of the department or division that is most closely associated with the subject of the complaint.

Table of Contents

Code of Ethics

Our Board of Directors has adopted a Code of Ethics that applies to our directors and all our executive officers and is intended to promote:

- honest and ethical conduct;
- the ethical handling of actual or apparent conflicts of interests between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the Securities and Exchange Commission;
- compliance with governmental laws, rules and regulations; and
- prompt internal reporting of violations of the Code to the Board s Audit Committee.

Illegal or unethical behavior, violations of the Code, or accounting or auditing concerns, may be reported, anonymously or otherwise, by mail addressed to the Chairman or any other member of our Audit Committee at:

Cape Fear Bank Corporation

1117 Military Cutoff Road

Wilmington, NC 28405

A copy of the Code is available upon your written request to our Corporate Secretary at the above address.

COMMITTEES OF OUR BOARD

General

Our Board of Directors has two independent, standing committees that assist the Board in oversight and governance matters. They are the Audit Committee and the Corporate Governance Committee (that serves as a nominations committee and a compensation committee). Each Committee operates under a written charter approved by our Board that sets out their composition, authority, duties and responsibilities. We believe that each member of those committees is an independent director as that term is defined by Nasdaq s listing standards. A copy of the charter of each of those Committees is posted on the Bank s Internet website at *www.capefearbank.com*. The Board also has an Executive Committee, of which the majority of the members are independent directors. The current members of each committee are listed in the following table, and the function of and other information about each committee is described in the paragraphs below.

Audit Committee	**Corporate Governance Committee**	**Executive Committee**
Craig S. Relan Chairman	Walter Lee Crouch, Jr. Chairman	Cameron Coburn Chairman
Windell Daniels	Craig S. Relan	Walter Lee Crouch, Jr.
John Davie Waggett	John Davie Waggett	Jerry D. Sellers
		Walter O. Winter

Audit Committee

Our Audit Committee is a joint committee of the Bank s and our Boards of Directors. Under its charter, the Committee is responsible for:

- appointing our independent accountants and approving their compensation and the terms of their engagement;

- approving services proposed to be provided by the independent accountants, and

Table of Contents

- monitoring and overseeing the quality and integrity of our accounting and financial reporting process and systems of internal controls.

The Committee reviews various reports from our independent accountants (including the annual audit report on our audited consolidated financial statements), reports we file under the Securities Exchange Act of 1934, and reports of examinations by our regulatory agencies, and it generally oversees our internal audit program. The Committee met eight times during 2006.

Audit Committee Report

Our management is responsible for our financial reporting process, including our system of internal controls and disclosure controls and procedures, and for the preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Our independent accountants are responsible for auditing those financial statements. The Audit Committee oversees and reviews those processes. In connection with the preparation and audit of our consolidated financial statements for 2006, the Audit Committee has:

- reviewed our audited consolidated financial statements for 2006 and discussed them with management;

- discussed with our independent accountants the matters required to be discussed by Statement on Auditing Standards No. 61, as amended;

- received written disclosures and a letter from our independent accountants required by Independence Standards Board Standard No. 1; and

- discussed the independence of our independent accountants with the accountants.

Based on the above reviews and discussions, the Audit Committee recommended to our Board of Directors that the audited consolidated financial statements be included in our 2006 Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

The Audit Committee:

Craig S. Relan *John Davie Waggett* *Windell Daniels*

Corporate Governance Committee

Function. Our Corporate Governance Committee is a joint committee of the Bank s and our Boards. Under its written charter the Committee acts as our Board s nominations committee and as the compensation committee of both Boards. The Committee met five times during 2006.

Nominations Committee Functions. Under its written charter, and among its other duties and responsibilities assigned from time to time by the Board, the Corporate Governance Committee functions as a nominations committee of our Board by identifying individuals who are qualified to become directors and recommending candidates to the Board for selection as nominees for election as directors at our Annual Meetings and for appointment to fill vacancies on the Board.

The Committee s charter provides that it identify and recommend individuals who have high personal and professional integrity, who demonstrate ability and judgment, and who, with other members of the Board, will be effective in collectively serving the long-term interests of our shareholders. Candidates also must satisfy applicable requirements of state and federal banking regulators, and the Committee may develop other criteria or minimum qualifications for use in identifying and evaluating candidates. In identifying candidates to

Table of Contents

be recommended to the Board of Directors, the Committee considers incumbent directors and candidates suggested by our management or other directors. The Committee also will consider candidates recommended by shareholders. The Committee has not used the services of a third-party search firm. Shareholders who wish to recommend candidates to the Committee should send their recommendations in writing to:

Corporate Governance Committee

Cape Fear Bank Corporation

Attention: Corporate Secretary

1117 Military Cutoff Road

Wilmington, North Carolina 28405

Each recommendation should be accompanied by the following:

- the full name, address and telephone number of the person making the recommendation, and a statement that the person making the recommendation is a shareholder of record (or, if the person is a beneficial owner of our shares but not a record holder, a statement from the record holder of the shares verifying the number of shares beneficially owned), and a statement as to whether the person making the recommendation has a good faith intention to continue to hold those shares through the date of our next Annual Meeting;

- the full name, address and telephone number of the candidate being recommended, information regarding the candidate s beneficial ownership of our equity securities and any business or personal relationship between the candidate and the person making the recommendation, and an explanation of the value or benefit that the person making the recommendation believes that the candidate would provide as a director;

- a statement signed by the candidate that he or she is aware of and consents to being recommended to the Committee and will provide information the Committee may request in connection with its evaluation of candidates;

- a description of the candidate s current principal occupation, business or professional experience, previous employment history, educational background, and any areas of particular expertise;

- information regarding any business or personal relationships between the candidate and any of our or the Bank s customers, suppliers, vendors, competitors, directors or officers, affiliated companies, or other persons with any special interest regarding our company or affiliated companies, and any transactions between the candidate and our company or affiliated companies; and

- any information in addition to the above regarding the candidate that would be required to be included in our proxy statement pursuant to the SEC s Regulation 14A (including without limitation information regarding legal proceedings in which the candidate has been involved within the past five years).

In order to be considered by the Committee in connection with its recommendations of candidates for selection as nominees for election at an Annual Meeting, a shareholder s recommendation must be received by the Committee not later than the 120th day prior to the first anniversary of the date that our proxy statement was first mailed to our shareholders in conjunction with our preceding year s Annual Meeting. Recommendations submitted by shareholders other than in accordance with these procedures will not be considered by the Committee.

The Committee will evaluate candidates recommended by shareholders in a manner similar to its evaluation of other candidates. The Committee will select candidates to be recommended to the Board of Directors each year based on its assessment of, among other things, (1) candidates business, personal and educational background and experience, community leadership, independence, geographic location within our service

area, and their other qualifications, attributes and potential contributions; (2) the past and future contributions of our current directors, and the value of continuity and prior Board experience; (3) the

Table of Contents

existence of one or more vacancies on the Board; (4) the need for a director possessing particular attributes or particular experience or expertise; (5) the role of directors in our business development activities; and (6) other factors that it considers relevant, including any specific qualifications the Committee adopts from time to time.

The Corporate Governance Committee recommended to our Board of Directors that our incumbent directors be nominated for reelection at the Annual Meeting for new terms.

Compensation Committee Functions. Under its charter, the Corporate Governance Committee also functions as a compensation committee of our and the Bank s Boards and reviews and provides overall guidance to the Boards regarding our executive and director compensation and benefit programs and makes recommendations to the Boards regarding:

- cash and other compensation paid or provided to our and the Banks Chief Executive Officer and other executive officers; and
- the adoption of new compensation or benefit plans, or changes in existing plans, under which compensation or benefits are or will be paid or provided to those persons.

The Committee also reviews and makes recommendations to the Boards regarding amounts of compensation paid to our directors and, to the extent requested by the Boards, compensation paid (individually or in the aggregate) to other employees of the Bank.

In performing its duties, the Committee may, if it considers it appropriate, delegate any of its responsibilities to a subcommittee. However, any subcommittee must be composed entirely of independent directors. The Committee is authorized to conduct investigations, and to request and consider any information (from management or otherwise) that it believes is necessary, relevant or helpful in its deliberations and in making its recommendations. It may rely on information provided by management without further verification. However, under its charter, when the Committee takes an action, it should exercise independent judgment on an informed basis and in a manner it considers to be in the best interests of our shareholders. In connection with matters relating to the compensation of executive officers other than our Chief Executive Officer, the Committee considers information provided by our Chief Executive Officer about the individual performance of those other officers and his recommendations as to their compensation. After receiving the Committee s recommendations, the Boards make all final decisions regarding compensation matters.

The Committee may retain the services of outside consultants or its own legal counsel, at our or the Bank s expense, and on terms (including fees) that it approves. In that regard, in reviewing and approving the compensation of our executive officers, the Committee uses an annual compensation survey of North Carolina-based banking organizations that is prepared by Matthews, Young Management Consulting, Hillsborough, North Carolina, in collaboration with the North Carolina Bankers Association. That firm also is retained from time to time for other purposes, and during 2006 it consulted with the Committee in designing a new annual incentive plan discussed under the heading Compensation Discussion and Analysis. The Committee also obtains legal services from separate legal counsel, Grady & Associates, Rocky River, Ohio, in connection with the various compensatory plans and agreements described under the heading Executive Compensation. That firm also participates in the preparation and review of executive compensation disclosures in our proxy statements.

Other than in an advisory capacity as described above, the Committee s outside consultants and legal counsel have no role in the actual recommendations made by the Committee to the Boards, or in the Boards approval of amounts or arrangements relating to executive compensation. However, they do make

Table of Contents

recommendations to the Committee in connection with the Committee s formulation of its recommendations to the full Boards on executive compensation matters.

Executive Committee

Our Executive Committee is a joint committee of our and the Bank s Board s of Directors. Under our Bylaws, the Committee is authorized to exercise all the powers of the Board in the management of our affairs when the Board is not in session. The Executive Committee met 14 times during 2006.

EXECUTIVE OFFICERS

We consider our six officers listed below to be our and the Bank s executive officers.

Cameron Coburn, age 41, serves as our Chairman, President and Chief Executive Officer. He has served as Chairman of the Bank s Board since 2001 and as its President and Chief Executive Officer since 2000. He formed the Bank s organizing group during 1997 and, prior to his election as President, he had served as Executive Vice President and Chief Operating Officer of the Bank since it was incorporated and began operations during 1998. Prior to his employment with the Bank, Mr. Coburn was employed by United Carolina Bank in Wilmington, North Carolina, from 1992 to 1997, and by RHNB National Bank of North Carolina in Charlotte, North Carolina, from 1989 to 1992.

Larry W. Flowers**,** age 65, became Senior Management Advisor, serving on a part-time basis, effective on March 1, 2007. He had served as our Executive Vice President and, since 2002, as the Bank s Executive Vice President and Chief Credit Officer. Previously, he served as the Bank s Senior Vice President and Business Banking Manager since it began operations during 1998. Prior to his employment with the Bank, he was employed by United Carolina Bank in Wilmington, North Carolina, from 1971 to 1994, where he last served as Vice President and Commercial Banking Manager.

Betty V. Norris**,** age 52, serves as our and the Bank s Senior Vice President, Treasurer and Chief Financial Officer. She has been employed by the Bank since it began operations during 1998. Ms. Norris previously was employed as Vice President and Chief Financial Officer of Peoples Savings Bank, Wilmington, North Carolina, from 1985 to 1996.

Lynn M. Burney**,** age 59, serves as our and the Bank s Senior Vice President and Chief Operations Officer. She has been employed by the Bank since it began operations during 1998. Ms. Burney previously was employed by United Carolina Bank in Wilmington, North Carolina, from 1973 to 1997, where she last served as Vice President and Branch Development Support Officer.

R. James MacLaren, age 58, was appointed to serve as our Senior Vice President, and as the Bank s Senior Vice President and Credit Administrator, during 2006. During February 2007, he became our and the Bank s Chief Credit Officer. He previously served as the Bank s First Vice President from 2003 until 2006 and Vice President from 1999 to 2003. He has been employed by the Bank since 1999.

A. Mark Tyler, age 42, was appointed to serve as our Senior Vice President, during December 2006. He has served as the Bank s Senior Vice President and Business Banking Manager since 2003 and, during February 2007, he became our and the Bank s Chief Banking Officer. He previously served as the Bank s Vice President and Business Banking Officer from 1999 to 2003. He has been employed by the Bank since 1999.

Michelle L. Southerland, age 49, serves as our Vice President and Corporate Secretary. She has served as Vice President of the Bank since 2003 and was Assistant Vice President from 2002 to 2003. She has served as Corporate Secretary of the Bank since it began operations in 1998.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy

Our compensation arrangements for executive officers are designed to:

- compensate our executive officers fairly for their service to us and the Bank;
- reward performance that exceeds expectations;
- recognize performance that promotes our and the Bank s prosperity and growth;
- create incentives for the executives to commit themselves to long-term service with us and the Bank;
- provide compensation that is competitive with companies in our peer group; and
- align executive officers personal financial interests with those of long-term stockholders.

A cohesive and dedicated management team working together over the long term is a valuable intangible asset to a financial organization, especially to a community-based banking organization such as ours. Our compensation arrangements are designed to protect and nurture that asset and to make it work for the benefit of our stockholders. Accordingly, in addition to base salary and health and dental insurance, 401(k) retirement plan, life insurance and other benefits made available to all employees generally, our compensation arrangements for executive officers include cash bonuses rewarding past performance, equity-based incentive arrangements promoting continued service, severance arrangements creating a measure of financial security for executives whose careers could be interrupted by increasingly common changes in control, and retirement benefits under Salary Continuation Agreements and split-dollar life insurance arrangements encouraging a long-term commitment to the Bank.

Compensation Arrangements

The principal compensation arrangements for our executive officers identified in the Summary Compensation Table (our named executive officers) during 2006 were:

Name and 2006 Position	Base Salary	Eligibility for Non-Equity Incentive Payments and Bonuses	Eligibility for Stock Options	Severance Arrangements	Salary Continuation Agreement	Split-Dollar Life Insurance
Cameron Coburn Chairman, President and Chief Executive Officer	X	X	X	X	X	X
Larry W. Flowers Executive Vice President and Chief Credit Officer	X	X	X	X	X	X

Betty V. Norris Senior Vice President and Chief Financial Officer	X	X	X	X	X	X
Lynn M. Burney Senior Vice President and Chief Operations Officer	X	X	X	X	X	X
R. James MacLaren Senior Vice President and Credit Administrator	X	X	X			X
A. Mark Tyler Senior Vice President and Business Banking Manager	X	X	X			X

Table of Contents

The Corporate Governance Committee, a joint committee of our and the Bank s Boards, has jurisdiction over officer compensation, making recommendations that in all cases are not final unless also approved by the full Boards. The Committee generally reviews the performance and compensation of executives in January of each year, establishing at that time compensation for the twelve months to follow. If awarded, bonuses for performance during the preceding year are usually awarded at the end of January. Salary increases ordinarily become effective on February 1. The composition of the Corporate Governance Committee and the processes it employs in its deliberations having to do with executive compensation are discussed under the heading Committees of Our Board.

The Committee uses an annual compensation survey of North Carolina-based banking organizateds of the Board and the nominee's: (i) integrity, honesty, and accountability; (ii) successful leadership experience and strong business acumen; (iii) forward-looking, strategic focus; (iv) collegiality; (v) independence and absence of conflicts of interests; and (vi) ability to devote necessary time to meet director responsibilities. The N&CG Committee does not have a policy with regard to considering diversity when identifying candidates for election, but would expect to consider race, gender and professional experience diversity when identifying future candidates. The N&CG Committee will ultimately recommend nominees that it believes will enhance the Board's ability to oversee, in an effective manner, the affairs and business of the Fund. The N&CG Committee will consider and evaluate Stockholder-recommended candidates by applying the same criteria used to evaluate director-recommended candidates. The deadline for submitting a Stockholder proposal for inclusion in the Fund's proxy statement and proxy for the Fund's 2020 annual meeting of Stockholders pursuant to Rule 14a-8 promulgated under the Securities Exchange Act of 1934, is November 1, 2019. Stockholders wishing to submit proposals or director nominations that are to be included in such proxy statement and proxy must deliver notice to the Secretary at the principal executive offices of the Fund no later than the close of business on November 1, 2019. Stockholders are also advised to review the Fund's By-laws, which contain additional requirements with respect to advance notice of stockholder proposals and director nominations.

In 2019, the N&CG Committee met and discussed the nomination of the Directors of the Fund for the 2019 Annual Meeting of Stockholders. Each Nominee was recommended by the N&CG Committee, comprised of the non-interested Directors. The N&CG Committee convened four (4) times during the 2018 calendar year.

The responsibilities of the N&CG Committee, as approved by the Directors, are set forth in the N&CG Committee Charter, a copy of which is available on the Fund's website at: http://www.cornerstonetotalreturnfund.com/Data/Sites/20/media/docs/Nominating_Charter.pdf, under the section "Corporate Governance - Nominating and Corporate Governance Committee Charter.

BOARD'S ROLE IN RISK OVERSIGHT OF THE FUND

The Board oversees risk management for the Fund directly and, as to certain matters, through its Audit and Nominating and Corporate Governance Committees. The Board exercises its oversight in this regard primarily through requesting and receiving reports from and otherwise working with the Fund's senior officers (including the Fund's Chief Compliance Officer), portfolio management personnel of the Investment Adviser, the Fund's independent auditors, legal counsel and personnel from the Fund's other service providers. The Board has adopted, on behalf of the Fund, and periodically reviews with the assistance of Fund personnel, policies and procedures designed to address certain risks associated with the Fund's activities. In addition, the Investment Adviser and the Fund's other service providers have also adopted policies, processes and procedures designed to identify, assess and manage certain risks associated with the Fund's activities, and the Board receives reports from service providers with respect to the operation of these policies, processes and procedures as required and/or as the Board deems appropriate. The Board does not believe that a separate Risk Oversight Committee is necessary for effective risk oversight at this time, but intends to continuously evaluate how it assesses risk and consider whether any changes to the current structure are prudent.

REQUIRED VOTE

Directors are elected by a plurality of the votes cast by the holders of shares of common stock of the Fund present in person or represented by proxy at a meeting with a quorum present. For purposes of the election of Directors, abstentions and broker non-votes will be counted as shares present for quorum purposes, may be considered votes cast, and may affect the plurality vote required for Directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE ELECTION OF MESSRS. RALPH W. BRADSHAW, ROBERT E. DEAN, EDWIN MEESE III, MATTHEW W. MORRIS, SCOTT B. ROGERS, ANDREW A. STRAUSS, AND GLENN W. WILCOX, SR. AS DIRECTORS OF THE FUND.

PROPOSAL 2 — TO APPROVE A NEW INVESTMENT MANAGEMENT AGREEMENT WITH CORNERSTONE ADVISORS ASSET MANAGEMENT LLC

Introduction

You are being asked to approve a new investment management agreement (the "New Management Agreement") between the Fund and Cornerstone Advisors Asset Management LLC (the "New Investment Adviser"). Under the Fund's current investment management agreement with Cornerstone Advisors, Inc. (the "Current Adviser") (the "Current Management Agreement"), the Current Adviser carries out the investment and reinvestment of the assets of the Fund, continuously furnishes an investment program with respect to the Fund, determines which securities should be purchased, sold or exchanged, and implements such determinations.

The Current Adviser has acted as the Fund's Investment Adviser since 2001, and has its principal office at 1075 Hendersonville Road, Suite 250, Asheville, NC 28803. The Current Adviser was organized in February 2001, to provide investment management services to closed-end investment companies and is registered with the U.S. Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940, as amended. The Current Adviser is the investment adviser to one other closed-end fund, Cornerstone Strategic Value Fund, Inc. Messrs. Ralph W. Bradshaw and Gary A. Bentz are the only stockholders of the Current Adviser.

Mr. Bentz, one of the two owners of the Current Adviser, has indicated that he is considering different options with respect to his future endeavors and, if the New Management Agreement is approved by the Fund's stockholders and the Reorganization (as defined in the paragraph below) is completed, Mr. Bentz would prefer to provide non-advisory consulting services on an as-needed basis to the New Investment Adviser and devote the bulk of his time to other ventures. The Reorganization (as defined in the paragraph below) would allow for Mr. Bentz's transition to a non-advisory consulting role while also creating a new entity (the New Investment Adviser) that can employ the same portfolio managers and other personnel that are currently employed by the Current Adviser in connection with the investment advisory services it provides the Fund.

At a meeting held on Friday, February 8, 2019, the Board of Directors of the Fund, including all of the independent directors who are not "interested" persons as such term is defined in the Investment Company Act of 1940, as amended (the "1940 Act")(the "Independent Directors"), approved the New Management Agreement to be entered into between the Fund and the New Investment Adviser. The Independent Directors considerations are set forth below. The New Investment Adviser is owned by the Cornerstone Trust, a trust established on January 29, 2019. The trustees of the Cornerstone Trust include, but are not limited to, Messrs. Ralph W. Bradshaw, Joshua G. Bradshaw and Daniel W. Bradshaw. It is anticipated that the New Investment Adviser's name will be changed to Cornerstone Advisors, LLC upon completion of the reorganization described above (the "Reorganization"). It is anticipated that the Reorganization will be completed in 2019. Subject to stockholder approval of the New Management Agreement, the New Investment Adviser will become the Fund's investment adviser upon completion of the Reorganization.

The Reorganization is being considered as a change of control of the Current Adviser and therefore would constitute an "assignment" (as defined in the 1940 Act) of the Fund's Current Management Agreement. As required by the 1940 Act, the Current Management Agreement provides for its automatic termination in the event of an assignment. Accordingly, the Current Management Agreement will terminate upon the completion of the Reorganization. You are being asked to approve the New Management Agreement to enable the New Investment Adviser to manage the Fund following the completion of the Reorganization. The New Investment Adviser's registration as an investment adviser must be declared effective by the SEC prior to the completion of the Reorganization. If stockholders approve the New Management Agreement prior to the effective date of the New Investment Adviser's registration as an investment adviser, the Current Management Agreement will continue to be in effect until the New Management Agreement becomes effective upon the completion of the Reorganization. In the event that the New Management Agreement is not approved by stockholders or the Reorganization is not completed, the Current Adviser will continue to serve as investment adviser of the Fund pursuant to the terms of the Current Management Agreement.

There will be no increase in management fees as a result of the New Management Agreement for the Fund. The New Investment Adviser is in agreement with and committed to the ongoing distribution policy carried out by the Fund under the direction of the Board of Directors. The Reorganization is not expected to have a material adverse impact on the nature, extent, or quality of the services provided by the New Investment Adviser to the Fund, although there can be no assurances that the New Investment Adviser will not be affected by the Reorganization.

The Reorganization

Messrs. Ralph W. Bradshaw and Gary A. Bentz are the only stockholders of Cornerstone Advisors, Inc. Mr. Ralph W. Bradshaw is President and Chairman of the Board of Directors of the Fund. Mr. Gary A. Bentz is Assistant Treasurer of the Fund. After the completion of the Reorganization, Messrs. Ralph W. Bradshaw, Joshua G. Bradshaw and Daniel W. Bradshaw will continue to be the Fund's portfolio managers and officers of the Fund. Mr. Bentz will become a consultant on non-advisory matters only to the New Investment Adviser.

Impact of the New Investment Adviser on The Fund

The Reorganization will not result in any material changes in the manner in which the New Investment Adviser provides investment management services to the Fund or the personnel providing services to the Fund. The New Investment Adviser will remain based in Asheville, North Carolina. The New Investment Adviser will continue to carry out the investment and reinvestment of the assets of the Fund, continuously furnish an investment program with respect to the Fund, determine which securities should be purchased, sold or exchanged, and implement such determinations. No major changes to the New Investment Adviser's executive management, investment management, administration, compliance, and other personnel are anticipated as a direct result of the Reorganization. Similarly, no changes to the Fund's portfolio managers are anticipated as a direct result of the Reorganization.

Information Concerning the Parties to the Reorganization

The Adviser. The Current Adviser is located at 1075 Hendersonville Road, Suite 250, Asheville, North Carolina 28803. The Current Adviser began conducting business in February 2001 and manages one other closed-end fund with combined total assets with the Fund, of approximately $1,157.1 million, as of December 31, 2018. The New Investment Adviser was organized on January 29, 2019.

Comparison of New Management Agreement with Current Management Agreement

A form of the proposed New Management Agreement is attached hereto as Exhibit A. The terms of the New Management Agreement are substantially identical to the terms of the Current Management Agreement, except for the dates of execution and effectiveness. The stated management fees to be paid by the Fund are identical under the Current Management Agreement and the New Management Agreement. The material terms of the New Management Agreement are discussed below. For purposes of the discussion below the term "adviser" refers to the Current Adviser and the New Investment Adviser.

Investment Management Services. Each of the Current Management Agreement and the New Management Agreement provides that, subject to the supervision of the Fund's Board, the adviser regularly provides the Fund with investment research, advice, management and supervision, and furnishes a continuous investment program for the Fund's portfolio of securities and other investments consistent with the Fund's investment objectives, policies and restrictions. The adviser determines what securities and other investments will be purchased, retained or sold by the Fund and implements those decisions, all subject to the provisions of the Fund's governing documents, the 1940 Act

and any specific policies adopted by the Fund’s Board and disclosed to the adviser.

Under each of the Current Management Agreement and the New Management Agreement, the adviser is authorized, for the purchase and sale of the Fund's portfolio services, to employ such dealers and brokers as may, in the judgment of the adviser, implement the policy of the Fund to obtain the best results taking into account such factors as price, including dealer spread, the size, type and difficulty of the transaction involved, the firm's general execution and operational facilities and the firm's risk in positioning the securities involved. Consistent with this policy, the adviser is authorized to direct the execution of the Fund's portfolio transactions to dealers and brokers furnishing statistical information or research deemed by the adviser to be useful or valuable to the performance of its investment advisory functions for the Fund. It is understood that in these circumstances, as contemplated by Section 28(e) of the Securities Exchange Act of 1934, the commissions paid may be higher than those that the Fund might otherwise have paid to another broker if those services had not been provided. Information so received will be in addition to and not in lieu of the services required to be performed by the adviser. It is understood that the expenses of the adviser will not necessarily be reduced as a result of the receipt of such information or research. Research services furnished to the adviser by brokers who effect securities transactions for the Fund may be used by the adviser in servicing other investment companies and accounts that it manages. Similarly, research services furnished to the adviser by brokers who effect securities transactions for other investment companies and accounts that the adviser manages may be used by the adviser in servicing the Fund. It is understood that not all of these research services are used by the adviser in managing any particular account, including the Fund.

Each of the Current Management Agreement and the New Management Agreement provides that the adviser will also advise the Fund with respect to all matters relating to the Fund's use of leveraging techniques, monitor the performance of the Fund's outside service providers, including the Fund's administrator, transfer agent and custodian, be responsible for compliance by the Fund with U.S. federal, state and other applicable laws and regulations, and pay the salaries, fees and expenses of such of the Fund's directors, officers or employees who are directors, officers or employees of the adviser or any of its affiliates, except that the Fund will bear travel expenses or an appropriate portion thereof of directors and officers of the Fund who are directors, officers or employees of the adviser, to the extent that such expenses relate to attendance at meetings of the Board of Directors or any committees thereof. The adviser may delegate any of the foregoing responsibilities to a third party with the consent of the Board of Directors.

Each of the Current Management Agreement and the New Management Agreement provides that the adviser shall not be deemed to have assumed or have responsibility for any functions specifically assumed by any administrator, transfer agent, fund accounting agent, custodian, stockholder servicing agent or other agent employed by the Fund to perform such functions.

Fees. As noted above, the stated management fees to be paid by the Fund and the method of calculation are identical under the Current Management Agreement and the New Management Agreement. The adviser is entitled to receive a monthly fee at the annual rate of 1.00% of the Fund’s average weekly net assets.

Payment of Expenses. Each of the Current Management Agreement and the New Management Agreement requires the adviser to furnish all necessary services, facilities and personnel in connection with the performance of its services under the agreement, and states that, except as specifically indicated therein, the adviser is not responsible for any of the Fund’s ordinary or extraordinary expenses. Each of the Current Management Agreement and the New Management Agreement states that the adviser will pay or reimburse the Fund for compensation paid to the Directors who are affiliated persons of the adviser and officers of the Fund as such, except as the Board may decide.

Potential Conflicts of Interest. The Fund has adopted procedures under Rule 17a-7 of the 1940 Act to permit purchase and sales transactions to be effected between the Fund and other accounts that are managed by the adviser. The Fund may from time to time engage in such transactions in accordance with these procedures.

Each of the Current Management Agreement and the New Management Agreement also provides that securities considered as investments for the Fund may also be appropriate for other investment accounts managed by the adviser or its affiliates. Whenever decisions are made to buy or sell securities by the Fund and one or more of such other accounts simultaneously, the adviser will allocate the security transactions (including “hot” issues) in a manner which it believes to be equitable under the circumstances. As a result of such allocations, there may be instances where the Fund will not participate in a transaction that is allocated among other accounts. If an aggregated order cannot be filled completely, allocations will generally be made on a pro rata basis. An order may not be allocated on a pro rata basis where, for example: (i) consideration is given to an account with specialized investment policies that coincide with the particulars of a specific investment; (ii) pro rata allocation would result in odd-lot or de minimis amounts

being allocated to a portfolio or other client; or (iii) where the adviser reasonably determines that departure from a pro rata allocation is advisable. While these aggregation and allocation policies could have a detrimental effect on the price or amount of the securities available to the Fund from time to time, it is the opinion of the Directors of the Fund that the benefits from the adviser's organization outweigh any disadvantage that may arise from exposure to simultaneous transactions.

Limitation on Liability. Each of the Current Management Agreement and the New Management Agreement states that the adviser shall exercise its best judgment in rendering the services in accordance with the terms of the agreement and that the adviser shall not be liable for any error of judgment or mistake of law or for any act or omission or any loss suffered by the Fund in connection with the matters to which the agreement relates. This limitation of liability applies to affiliates, partners, stockholders, directors, officers and employees of the adviser and its affiliates who may perform services for the Fund contemplated by both the Current Management Agreement and the New Management Agreement. Neither of the adviser nor any other such person is protected, however, from liability by reason of its willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of its reckless disregard of its obligations and duties under the Current Management Agreement and the New Management Agreement.

Term and Continuance. The Current Management Agreement has been in effect for an initial term of two years and for successive one-year periods subject to such continuance being approved annually in the manner required by the 1940 Act. If approved by stockholders prior to the completion of the Reorganization, the Fund's New Management Agreement will go into effect upon the completion of the Reorganization. and, unless terminated in accordance with its terms, will stay in effect for an initial two-year term. If not terminated, the New Management Agreement will continue in effect from year to year if such continuance is specifically approved at least annually (a) by the Board, or (b) by a vote of a majority of the outstanding voting securities of the Fund, provided that in either event the continuance also is approved by a majority of the Directors who are not interested persons of a party to the New Management Agreement.

Termination. Each of the Current Management Agreement and the New Management Agreement (a) may terminated at any time, without penalty, by the Fund's Board of Directors, by vote of holders of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund or by the adviser, upon sixty (60) days' written notice delivered to each party hereto, and (b) shall automatically be terminated in the event of its assignment (as defined in the 1940 Act).

Board Considerations Regarding Approval of the New Management Agreement

The Board has evaluated the Reorganization and the New Management Agreement for the Fund. In connection with their evaluation of the Reorganization and the New Management Agreement for the Fund, the Independent Directors requested such information as they deemed reasonably necessary, including: (a) the structure of the New Investment Adviser and the reasons for Reorganization; (b) the effect of the Reorganization on the ongoing services provided to the Fund; (c) the stability and continuity of the New Investment Adviser's management and key employees; (d) the post-Reorganization financial resources of the New Investment Adviser; (e) the nature, quality and extent of the services to be provided by New Investment Adviser; (f) the cost to the New Investment Adviser for providing such services, with special attention to the New Investment Adviser's potential profitability (and whether the New Investment Adviser may realize any economies of scale); (g) the direct and indirect benefits that may be received by the New Investment Adviser from its relationship with the Fund; and (h) comparative information as to the management fees, expense ratios and performance of other similarly situated closed-end investment companies.

The Independent Directors also requested and obtained the following information in connection with their evaluation of the New Investment Adviser and the New Management Agreement for the Fund: (i) memoranda provided by Fund counsel that summarized the legal standards and other considerations that are relevant to the Directors in their deliberations regarding the New Management Agreement; (ii) the qualifications of the investment management team for the Fund; (iii) the Fund's management fee and total expense ratio, the financial resources of the New Investment Adviser and the anticipated profitability analysis from the New Investment Adviser. In addition, the Independent Directors considered the information provided at regularly scheduled meetings throughout the year regarding the Fund's performance and risk attributes, including through meetings with investment management personnel, and took into account other information related to the Fund provided to the Independent Directors at regularly scheduled meetings. The Independent Directors also considered information they had received in their review of the continuance of the Current Management Agreement for the Fund in February 2019.

Nature, Extent and Quality of Services. The Independent Directors considered the nature, extent and quality of the services that had been provided by the Current Adviser to the Fund and that are expected to be provided by the New Investment Adviser to the Fund following the completion of the Reorganization. The Independent Directors reviewed the terms of the New Management Agreement, and noted that such terms are substantially identical to the terms of the Current Management Agreement, except for different execution and, effective dates. The Independent Directors reviewed the New Investment Adviser's investment approach for the Fund and its research process and concluded that these would be unchanged from those of the Current Adviser. The Independent Directors considered the resources of the New Investment Adviser and the personnel of the New Investment Adviser who provide investment management services to the Fund noting that that the portfolio managers would remain unchanged. They also reviewed the non-investment resources and personnel of the New Investment Adviser that are involved in the New Investment Adviser's services to the Fund, including the New Investment Adviser's compliance and administration resources and personnel.

The Independent Directors considered that the New Investment Adviser will continue to supervise and monitor the performance of the Fund's service providers and will continue to provide the Fund with personnel (including Fund officers) and other resources that are necessary for the Fund's business management and operations. The Independent Directors also considered that the New Investment Adviser will continue to provide those investment management and research services and resources to the Fund following the completion of the Reorganization.

The Independent Directors considered that the Reorganization will not have a material adverse impact on the nature, scope and overall quality of services provided to the Fund and its stockholders, including investment management, risk management, administrative, compliance and other services.

Based on these considerations, the Independent Directors concluded that the nature, extent and quality of services that the New Investment Adviser will provide to the Fund under the New Management Agreement will be satisfactory and consistent with the terms of the Current Management Agreement.

Performance of the Fund. In considering the Fund's anticipated performance under the New Management Agreement, the Independent Directors noted that they regularly reviewed and discussed throughout the year data prepared by the Current Adviser and information comparing the Fund's performance with the performance of the S&P 500 Index. The Independent Directors also noted that they expect that the New Investment Adviser will continue to provide the same level of performance as the Current Adviser has provided the Fund in the past. The Independent Directors noted that the New Investment Adviser's experience and expertise with respect to the Fund's managed distribution program, the Fund's historic premium to net asset value and the success of previously completed rights offerings, were factors in their deliberations concerning the approval of the New Management Agreement. The Independent Directors also considered that the New Investment Advisor is in agreement with and committed to the ongoing distribution policy carried out by the Fund under the direction of the Board of Directors.

Management Fee and Expenses. The Independent Directors noted that the stated management fee to be paid by the Fund to the New Investment Adviser is identical under the Current Management Agreement and the New Management Agreement. The Independent Directors considered information showing the fees and expenses of the Fund in comparison to the management fees and expense ratios of its peer group of funds. To the extent applicable, the Independent Directors also considered the impact of transfer agency, custodian, fund accounting, fund administration, and other non-management fee expenses on the expense ratios of the Fund.

The Independent Directors concluded that the management fee to be paid by the Fund to the New Investment Adviser was not unreasonable in relation to the nature and quality of the services to be provided by the New Investment Adviser.

Profitability. The Independent Directors considered information provided by the New Investment Adviser regarding the anticipated profitability of the New Investment Adviser with respect to the advisory services to be provided by the New Investment Adviser to the Fund. The Independent Directors also considered the New Investment Adviser's anticipated profit margin in connection with the overall operation of the Fund. The Independent Directors concluded that the New Investment Adviser's anticipated profitability with respect to the management of the Fund would not be unreasonable or excessive.

Section 15(f) Considerations. The New Investment Adviser intends to rely, to the extent appropriate, on Section 15(f) of the 1940 Act, which provides a non-exclusive safe harbor whereby an investment adviser (such as the Current Adviser) to an investment company (such as the Fund) or an affiliate of such investment adviser may receive payment or benefit in connection with the sale of an interest in the investment adviser if two conditions are satisfied. The first condition of Section 15(f) is that during the three-year period following the Reorganization, at least 75% of the investment company's board must not be "interested persons" (as defined in the 1940 Act) of the investment adviser or its predecessor. The Board of Directors currently meets this requirement as six of the seven the directors are independent and will continue to be independent for the period required. Second, no "unfair burden" can be imposed on the investment company as a result of the Reorganization. An "unfair burden" includes: any arrangement during the two-year period after the Reorganization where the investment adviser (or predecessor or successor adviser), or any of its "interested persons" (as defined in the 1940 Act), receives or is entitled to receive any compensation, directly or indirectly, (i) from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for the investment company), or (ii) from the investment company or its shareholders (other than fees for bona fide investment advisory or other services). The Independent Directors determined that there was no "unfair burden" imposed as a result of the Reorganization, and that they will ensure that this condition will continue to be satisfied for the required time period.

Conclusion. After consideration of the factors described above as well as other factors, the Directors, including the Independent Directors, concluded that the New Management Agreement for the Fund, including the management fees payable thereunder, was fair, not unreasonable and in the best interest of the Fund and its stockholders. The Directors, including the Independent Directors, voted to approve the New Management Agreement and to recommend that the stockholders approve the New Management Agreement.

Required Vote

To become effective with respect to the Fund, the New Management Agreement must be approved by a "1940 Act Majority Vote" of the outstanding voting securities of the Fund. A "1940 Act Majority Vote" of the outstanding voting

securities of a Fund means the affirmative vote of the lesser of (a) 67% or more of the voting securities of the Fund that are present at the Meeting or represented by proxy if holders of shares representing more than 50% of the outstanding voting securities of the Fund are present or represented by proxy or (b) more than 50% of the outstanding voting securities of the Fund.

The Board recommends that you vote “FOR” thE proposal to APPROVE THE NEW MANAGEMENT AGREEMENT WITH CORNERSTONE ADVISORS ASSET MANAGEMENT LLC.

AUDIT COMMITTEE REPORT

In February 2019, the Audit Committee met with the Fund’s Administrator, Ultimus Fund Solutions LLC, and the Fund’s independent registered public accounting firm, Tait, Weller & Baker LLP, to discuss and review the Fund’s audited financial statements for the calendar year ended December 31, 2018. The Fund’s independent registered public accounting firm represented to the Audit Committee that the Fund’s financial statements were prepared in accordance with U.S. Generally Accepted Accounting Principles, and the Audit Committee has reviewed and discussed the financial statements with the Fund’s Administrator and its independent registered public accounting firm. The Audit Committee also discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 61.

The Fund’s independent registered public accounting firm also provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent registered public accounting firm their independence, in light of the services they were providing.

Based upon the Audit Committee’s discussion with the Fund’s Administrator and the independent registered public accounting firm and the Audit Committee’s review of the representations and report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited financial statements in the Fund’s Annual Report for the calendar year ended December 31, 2018 filed with the Securities and Exchange Commission.

This Audit Committee report shall not be deemed incorporated by reference in any document previously or subsequently filed with the SEC that incorporates by reference all or any portion of this proxy statement except to the extent that the Fund specifically requests that the report be specifically incorporated by reference.

The Audit Committee of the Board of Directors has selected Tait, Weller & Baker LLP to be employed as the Fund’s independent registered public accounting firm to make the annual audit and to report on, as may be required, the financial statements which may be filed by the Fund with the SEC during the ensuing year.

Respectfully submitted,

Glenn W. Wilcox, Sr., Chairman
Andrew A. Strauss
Scott B. Rogers
Matthew W. Morris
Edwin Meese III
Robert E. Dean

RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Fund's independent registered public accounting firm for the calendar year ended December 31, 2018, was the firm of Tait, Weller & Baker LLP. The Audit Committee has selected Tait, Weller & Baker LLP to be the Fund's registered public accounting firm for the calendar year ending December 31, 2019.

A representative of Tait, Weller & Baker LLP is not expected to be present at the Annual Meeting of Stockholders or to make a statement, but may be available by telephone to respond to appropriate questions from Stockholders.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate fees for professional services rendered for the Fund by Tait, Weller & Baker LLP for the years ended December 31, 2018 and 2017 were:

Service	2018	2017
Audit Fees	$17,900	$17,400
Audit-Related Fees	0	0
Tax Fees (1)	4,100	4,000
All Other Fees (2)	1,600	1,600
Total	$23,600	$23,000

(1) Tax services in connection with the Fund's excise tax calculations and review of the Fund's applicable tax returns.

(2) All Other Fees represents changes for review of the Fund's rights offering documents.

All of the services performed by the Fund's independent registered public accounting firm, including audit related and non-audit related services, were pre-approved by the Audit Committee, as required under the Audit Committee Charter. Audit Fees for the years ended December 31, 2018 and 2017 were for professional services rendered for the audits of the financial statements of the Fund, reviews, and issuances of consents, and assistance with review of documents filed with the SEC. Tax Fees for the years ended December 31, 2018 and 2017 were for services performed in connection with income and excise tax services other than those directly related to the audit of the income tax accrual.

The Audit Committee has considered and determined that the services provided by Tait, Weller & Baker LLP are compatible with maintaining Tait, Weller & Baker LLP's independence. The aggregate fees included in Audit Fees are fees billed for the calendar year for the audit of the Fund's annual financial statements. Of the time expended by the Fund's independent registered public accounting firm to audit the Fund's financial statements for the calendar year ended December 31, 2018, less than 50% of such time involved work performed by persons other than the independent registered public accounting firm's full time, permanent employees. Tait, Weller & Baker LLP did not perform any services on behalf of the Investment Adviser.

INFORMATION PERTAINING TO THE FUND'S INVESTMENT ADVISER AND ADMINISTRATOR

THE INVESTMENT ADVISER

Cornerstone Advisors, Inc. has acted as the Fund's Investment Adviser since January 2, 2002, and has its principal office at 1075 Hendersonville Road, Suite 250, Asheville, NC 28803. Cornerstone Advisors, Inc. was organized in February 2001, to provide investment management services to closed-end investment companies and is registered with the SEC under the Investment Advisers Act of 1940, as amended. Cornerstone Advisors, Inc. is the investment adviser to one other closed-end fund, Cornerstone Strategic Value Fund, Inc. Messrs. Bradshaw and Bentz are the only stockholders of Cornerstone Advisors, Inc.

Mr. Bradshaw is President and Chairman of the Board of Directors of the Fund. Mr. Bentz is Assistant Treasurer of the Fund.

The continuation of the Current Management Agreement was last approved by the Board of Directors on February 8, 2019.

THE ADMINISTRATOR

Ultimus Fund Solutions, LLC, whose address is 225 Pictoria Drive, Suite 450, Cincinnati, OH 45246, currently acts as the Administrator of the Fund.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 30(h) of the Investment Company Act in combination require the Fund's directors and officers, persons who own more than ten (10%) of the Fund's common stock, and the Fund's Investment Adviser and its directors and officers, to file reports of ownership and changes in ownership with the SEC. The Fund believes that the Fund's directors and officers, the Fund's Investment Adviser and its directors and officers have complied with all applicable filing requirements during the year ended December 31, 2018.

INFORMATION PERTAINING TO CERTAIN STOCKHOLDERS

The following table sets forth the beneficial ownership of shares of the Fund by each person known to the Fund to be deemed the beneficial owner of more than five (5%) percent of the outstanding shares of the Fund at the close of business on December 31, 2018:

Name and Address of Beneficial Owner	**Shares of Common Stock Beneficially Owned**	**Percentage of Shares Outstanding**
Sit Investment Associates, Inc.* 3300 IDS Center 80 South Eighth Street Minneapolis, MN 55402	5,566,534	14.5%

*Pursuant to a 13G filing dated February 5, 2019 for the quarter ended December 31, 2018.

Additionally, on February 19, 2019 Cede & Co., a nominee for participants in the Depository Trust Company, held of record 38,405,987 shares of the Fund, equal to approximately 99.8% of the outstanding shares of the Fund. All the directors and executive officers of the Fund, as of the date of this proxy, owned less than 1% of the outstanding shares of the Fund.

ADDITIONAL INFORMATION

This Proxy Statement does not contain all of the information set forth in the registration statements and the exhibits relating thereto which the Fund has filed with the SEC, under the Exchange Act and the Investment Company Act of 1940, as amended, to which reference is hereby made.

The Fund is subject to the informational requirements of the Exchange Act and in accordance therewith, files reports and other information with the SEC. Reports, proxy statements, registration statements and other information filed by the Fund can be inspected and copied at the public reference facilities of the SEC in Washington, DC. Copies of such materials also can be obtained by mail from the Public Reference Branch, Office of Consumer Affairs and Information Services, SEC, 100 F Street, NE, Washington, DC 20594, at prescribed rates.

OTHER BUSINESS

The Board of Directors of the Fund does not know of any other matter which may come before the Meeting, but should any other matter requiring a vote of Stockholders arise, including any questions as to the adjournment of the Meeting, it is the intention of the persons named in the proxy to vote the proxies in accordance with their judgment on that matter in the interest of the Fund.

PROPOSALS TO BE SUBMITTED BY STOCKHOLDERS

All proposals by Stockholders of the Fund which are intended to be presented at the Fund's next Annual Meeting of Stockholders, to be held in the year 2020, must be received by the Fund addressed to Cornerstone Total Return Fund, Inc., c/o Ultimus Fund Solutions, LLC, 225 Pictoria Drive, Suite 450, Cincinnati, OH 45246, in advance of that meeting as set forth in this document.

CORNERSTONE TOTAL RETURN FUND, INC.

Hoyt M. Peters, Secretary

Dated: March 1, 2019

CORNERSTONE TOTAL RETURN FUND, INC.

PROXY CARD FOR THE ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON APRIL 16, 2019

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned stockholder of Cornerstone Total Return Fund, Inc. (the "Fund") hereby constitutes and appoints Messrs. Ralph W. Bradshaw, Andrew A. Strauss, Scott B. Rogers, and Glenn W. Wilcox, Sr., or any of them, the action of a majority of them voting to be controlling, as proxy of the undersigned, with full power of substitution, to vote all shares of common stock of the Fund standing in his or her name on the books of the Fund at the Annual Meeting of Stockholders of the Fund to be held at the First Floor Conference Room, 1075 Hendersonville Rd., Asheville, NC 28803, on April 16, 2019 at 11:00 a.m., Eastern Time, or at any adjournment or postponement thereof, with all the powers which the undersigned would possess if personally present, as designated on the reverse hereof.

The undersigned hereby revokes any proxy previously given and instructs the said proxies to vote in accordance with the instructions with respect to the election of the directors and the consideration and vote of such other matters as may properly come before the Annual Meeting of Stockholders or any adjournment or postponement thereof.

This proxy, when properly executed, will be voted in the manner directed herein by the stockholder. If no such direction is made, the said proxies will vote FOR Proposal 1 and Proposal 2 and in their discretion with respect to such other matters as may properly come before the Annual Meeting of Stockholders, in the interest of the Fund.

(Continued and to be dated and signed on reverse side)

ANNUAL MEETING OF STOCKHOLDERS OF CORNERSTONE TOTAL RETURN FUND, INC. April 16, 2019

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

The Notice of Meeting, proxy statement and proxy card are available at

http://www.cornerstonetotalreturnfund.com/Data/Sites/20/media/docs/CRF_proxy_final.pdf

PLEASE SIGN, DATE AND MAIL YOUR PROXY CARD IN THE ENVELOPE PROVIDED AS SOON AS POSSIBLE.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 1, “FOR” PROPOSAL 2 AND "FOR" PROPOSAL 3.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE [X]

1. To approve the election of seven (7) Directors:

			NOMINEES:
/ /	FOR ALL NOMINEES	/ /	Ralph W. Bradshaw
		/ /	Robert E. Dean
	WITHHOLD AUTHORITY	/ /	Edwin Meese III
/ /	FOR ALL NOMINEES	/ /	Matthew W. Morris
		/ /	Scott B. Rogers
	(See instructions below)	/ /	Andrew A. Strauss

/ / Glenn W. Wilcox, Sr.

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark

"FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: o

2. To approve a new investment management agreement with Cornerstone Advisors Asset Management LLC:

FOR	AGAINST	ABSTAIN
/ /	/ /	/ /

3. In their discretion, the proxies are authorized to consider and vote upon such other matters as may properly come before the Meeting or any adjournment thereof.

FOR AGAINST ABSTAIN
/ / / / / /

Your proxy is important to assure a quorum at the Annual Meeting of Stockholders, whether or not you plan to attend the Meeting in person. You may revoke this proxy at any time, and the giving of it will not affect your right to attend the Annual Meeting of Stockholders and vote in person.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

To change the address on your account, please check the box at right and indicate your new address in the address space above. [ ] Please note that changes to the registered name(s) on the account may not be submitted by this method.

SIGNATURE OF STOCKHOLDER DATE

SIGNATURE OF STOCKHOLDER DATE

NOTE: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Exhibit A

FORM OF

INVESTMENT MANAGEMENT AGREEMENT

THIS INVESTMENT MANAGEMENT AGREEMENT dated and effective as of [_____ __, 2019] between CORNERSTONE TOTAL RETURN FUND, INC., a New York corporation (herein referred to as the "Fund"), and CORNERSTONE ADVISORS ASSET MANAGEMENT LLC, a limited liability company duly organized under the laws of North Carolina (herein referred to as the "Investment Manager").

1. APPOINTMENT OF INVESTMENT MANAGER. The Investment Manager hereby undertakes and agrees, upon the terms and conditions herein set forth, to provide overall investment management services for the Fund, and in connection therewith to (i)supervise the Fund's investment program, including advising and consulting with the Fund's Board of Directors regarding the Fund's overall investment strategy;(ii) make, in consultation with the Fund's Board of Directors, investment strategy decisions for the Fund; (iii) manage the investing and reinvesting of the Fund's assets; (iv) place purchase and sale orders on behalf of the Fund;(v) advise the Fund with respect to all matters relating to the Fund's use of leveraging techniques; (vi) provide or procure the provision of research and statistical data to the Fund in relation to investing and other matters within the scope of the investment objective and limitations of the Fund; (vii) monitor the performance of the Fund's outside service providers, including the Fund's administrator, transfer agent and custodian; (viii) be responsible for compliance by the Fund with U.S. federal, state and other applicable laws and regulations; and (ix) pay the salaries, fees and expenses of such of the Fund's directors, officers or employees who are directors, officers or employees of the Investment Manager or any of its affiliates, except that the Fund will bear travel expenses or an appropriate portion thereof of directors and officers of the Fund who are directors, officers or employees of the Investment Manager, to the extent that such expenses relate to attendance at meetings of the Board of Directors or any committees thereof. The Investment Manager may delegate any of the foregoing responsibilities to a third party with the consent of the Board of Directors.

2. EXPENSES. In connection herewith, the Investment Manager agrees to maintain a staff within its organization to furnish the above services to the Fund. The Investment Manager shall bear all expenses arising out of its duties hereunder.

Except as provided in Section 1 hereof, the Fund shall be responsible for all of the Fund's expenses and liabilities, including expenses for legal, accounting and auditing services; taxes and governmental fees; dues and expenses incurred in connection with membership in investment company organizations; fees and expenses incurred in connection with listing the Fund's shares on any stock exchange; costs of printing and distributing shareholder reports, proxy materials, prospectuses, stock certificates and distribution of dividends; charges of the Fund's custodians and

sub-custodians, administrators and sub-administrators, registrars, transfer agents, dividend disbursing agents and dividend reinvestment plan agents; payment for portfolio pricing services to a pricing agent, if any; registration and filing fees of the Securities and Exchange Commission; expenses of registering or qualifying securities of the Fund for sale in the various states; freight and other charges in connection with the shipment of the Fund's portfolio securities; fees and expenses of non-interested directors or non-interested members of any advisory or investment board, committee or panel of the Fund; fees and expenses of any officers and interested directors of the Fund who are not affiliated with the Investment Manager, the Administrator or their respective affiliates; travel expenses or an appropriate portion thereof of directors and officers of the Fund, or members of any advisory or investment board, committee or panel of the Fund, to the extent that such expenses relate to attendance at meetings of the Board of Directors or any committee thereof, or of any such advisory or investment board, committee or panel; salaries of shareholder relations personnel; costs of shareholder meetings; insurance; interest; brokerage costs; and litigation and other extraordinary or non-recurring expenses.

3. TRANSACTIONS WITH AFFILIATES. The Investment Manager is authorized on behalf of the Fund, from time to time when deemed to be in the best interests of the Fund and to the extent permitted by applicable law, to purchase and/or sell securities in which the Investment Manager or any of its affiliates underwrites, deals in and/or makes a market and/or may perform or seek to perform investment banking services for issuers of such securities. The Investment Manager is further authorized, to the extent permitted by applicable law, to select brokers (including any brokers affiliated with the Investment Manager) for the execution of trades for the Fund.

4. BEST EXECUTION; RESEARCH SERVICES. The Investment Manager is authorized, for the purchase and sale of the Fund's portfolio services, to employ such dealers and brokers as may, in the judgment of the Investment Manager, implement the policy of the Fund to obtain the best results taking into account such factors as price, including dealer spread, the size, type and difficulty of the transaction involved, the firm's general execution and operational facilities and the firm's risk in positioning the securities involved. Consistent with this policy, the Investment Manager is authorized to direct the execution of the Fund's portfolio transactions to dealers and brokers furnishing statistical information or research deemed by the Investment Manager to be useful or valuable to the performance of its investment advisory functions for the Fund.

It is understood that in these circumstances, as contemplated by Section 28(e) of the Securities Exchange Act of 1934, the commissions paid may be higher than those which the Fund might otherwise have paid to another broker if those services had not been provided. Information so received will be in addition to and not in lieu of the services required to be performed by the Investment Manager. It is understood that the expenses of the Investment Manager will not necessarily be reduced as a result of the receipt of such information or research. Research services furnished to the Investment Manager by brokers who effect securities transactions for the Fund may be used by the Investment Manager in servicing other investment companies and accounts which it manages.

Similarly, research services furnished to the Investment Manager by brokers who effect securities transactions for other investment companies and accounts which the Investment Manager manages may be used by the Investment Manager in servicing the Fund. It is understood that not all of these research services are used by the Investment Manager in managing any particular account, including the Fund.

5. REMUNERATION. In consideration of the services to be rendered by the Investment Manager under this Agreement, the Fund shall pay the Investment Manager a monthly fee in United States dollars for the previous month at an annual rate of one (1.00%) percent of the Fund's average weekly net assets. If the fee payable to the Investment Manager pursuant to this paragraph 5 begins to accrue before the end of any month or if this Agreement terminates before the end of any month, the fee for the period from such date to the end of such month or from the beginning of such month to the date of termination, as the case may be, shall be prorated according to the proportion which such period bears to the full month in which such effectiveness or termination occurs. For purposes of calculating each such monthly fee, the value of the Fund's net assets shall be computed at the time and in the manner specified in the Registration Statement.

6. REPRESENTATIONS AND WARRANTIES. The Investment Manager represents and warrants that it is duly registered and authorized as an investment adviser under the Investment Advisers Act of 1940, as amended, and the Investment Manager agrees to maintain effective all requisite registrations, authorizations and licenses, as the case may be, until the termination of this Agreement.

7. SERVICES NOT DEEMED EXCLUSIVE. The services provided hereunder by the Investment Manager are not to be deemed exclusive and the Investment Manager and any of its affiliates or related persons are free to render similar services to other and to use the research developed in connection with this Agreement for other clients or affiliates. Nothing herein shall be construed as constituting the Investment Manager an agent of the Fund.

8. LIMIT OF LIABILITY. The Investment Manager shall exercise its best judgment in rendering the services in accordance with the terms of this Agreement. The Investment Manager shall not be liable for any error of judgment or mistake of law or for any act or omission or any loss suffered by the Fund in connection with the matters to which this Agreement relates, provided that nothing herein shall be deemed to protect or purport to protect the Investment Manager against any liability to the Fund or its shareholders to which the Investment Manager would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard by it of its obligations and duties under this Agreement ("disabling conduct"). The Fund will indemnify the Investment Manager against, and hold it harmless from, any and all losses, claims, damages, liabilities or expenses (including reasonable counsel fees and expenses), including any amounts paid in satisfaction of judgments, in compromise or as fines or penalties, not resulting from disabling conduct by the Investment Manager. Indemnification shall be made only following: (i) a final decision on the merits by a court or other body before whom the proceeding was brought that the Investment Manager was not liable by reason of disabling conduct, or (ii) in the absence of such a decision, a reasonable determination, based upon a review of the facts, that the Investment Manager was not liable by reason of disabling conduct by (a) the vote of a majority of a quorum of directors of the Fund who are neither "interested persons" of the Fund nor parties to the proceeding ("disinterested non-party directors"), or (b) an independent legal counsel in a written opinion. The Investment Manager shall be entitled to advances from the Fund for payment of the reasonable expenses (including reasonable counsel fees and expenses)incurred by it in connection with the matter as to which it is seeking indemnification in the manner and to the fullest extent permissible under law.

Prior to any such advance, the Investment Manager shall provide to the Fund a written affirmation of its good faith belief that the standard conduct necessary for indemnification by the Fund has been met and a written undertaking to repay any such advance if it should ultimately be determined that the standard of conduct has not been met. In addition, at least one of the following additional conditions shall be met: (a) the Investment Manager shall provide a security in form and amount acceptable to the Fund for its undertaking; (b) the Fund is insured against losses arising by reason of the advance; or (c) a majority of a quorum of disinterested non-party directors, or independent legal counsel, in a written opinion, shall have determined, based on a review of facts readily available to the Fund at the time the advance is proposed to be made, that there is reason to believe that the Investment Manager will ultimately be found to be entitled to indemnification.

9. DURATION AND TERMINATION. This Agreement shall have an initial term beginning [____ __, 2019] and ending [____ __, 2021], and then shall continue in effect thereafter for successive annual periods, but only so long as such continuance is specifically approved at least annually by the affirmative vote of (i) a majority of the members of the Fund's Board of Directors who are not parties to this Agreement or "interested persons" (as defined in the Investment Company Act of 1940 (the "1940 Act")) of any such party, cast in person at a meeting called for the purpose of voting on such approval, and (ii) the Fund's Board of Directors or the holders of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund.

Notwithstanding the above, this Agreement (a) may nevertheless be terminated at any time, without penalty, by the Fund's Board of Directors, by vote of holders of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund or by the Investment Manager, upon sixty (60) days' written notice delivered to each party hereto, and (b) shall automatically be terminated in the event of its assignment (as defined in the 1940 Act). Any such notice shall be deemed given when received by the addressee.

10. GOVERNING LAW. This Agreement shall be governed, construed and interpreted in accordance with the laws of the State of New York, provided, however, that nothing herein shall be construed as being inconsistent with the 1940 Act.

11. NOTICES. Any notice hereunder shall be in writing and shall be delivered in person or by telex or facsimile (followed by delivery in person) to the parties at the addresses set forth below:

IF TO THE FUND:

_____

CORNERSTONE TOTAL RETURN FUND, INC.

c/o Cornerstone Advisors Asset Management LLC

[1075 Hendersonville Road]

[Suite 250]

[Asheville, NC 28803]

Attention: [_____]

IF TO THE INVESTMENT MANAGER:

_____

CORNERSTONE ADVISORS ASSET MANAGEMENT LLC

[1075 Hendersonville Road]

[Suite 250]

[Asheville, NC 28803]

Attention: [_____]

or to such other address as to which the recipient shall have informed the other party in writing.

Unless specifically provided elsewhere, notice given as provided above shall be deemed to have been given, if by personal delivery, on the day of such delivery, and, if by facsimile and mail, on the date on which such facsimile or mail is sent.

12. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto caused their duly authorized signatories to execute this Agreement as of the day and year first written above.

CORNERSTONE TOTAL
RETURN FUND, INC.

By:
Name: Ralph W. Bradshaw
Title: President

CORNERSTONE
ADVISORS ASSET

MANAGEMENT LLC

By:
Name: [_____]
Title: [_____]