

## CORNERSTONE TOTAL RETURN FUND MANAGED DISTRIBUTIONS

Effective January 2002, the Fund initiated a fixed, monthly distribution to stockholders. On November 29, 2006, this distribution policy was updated to provide for the annual resetting of the monthly distribution amount per share based on the Fund's net asset value on the last business day in each October. The terms of the distribution policy will be reviewed and approved at least annually by the Fund's Board of Directors (the "Board") and can be modified at their discretion. To the extent that these distributions exceed the current earnings of the Fund, the balance will be generated from sales of portfolio securities held by the Fund, which will either be short-term or long-term capital gains, or a tax-free return-of-capital. To the extent these distributions are not represented by net investment income and capital gains, they will not represent yield or investment return on the Fund's investment portfolio.

The Fund plans to maintain this distribution policy even if regulatory requirements would make part of a return-of-capital, necessary to maintain the distribution, taxable to stockholders and to disclose that portion of the distribution that is classified as ordinary income. Although it has no current intention to do so, the Board may terminate this distribution policy at any time and such termination may have an adverse effect on the market price for the Fund's common shares. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. To the extent that the Fund's taxable income in any calendar year exceeds the aggregate amount distributed pursuant to this distribution policy, an additional distribution may be made to avoid the payment of a 4% U.S. federal excise tax, and to the extent that the aggregate amount distributed in any calendar year exceeds the Fund's taxable income, the amount of that excess may constitute a return-of-capital for tax purposes. A return-of-capital distribution reduces the cost basis of an investor's

shares in the Fund. Dividends and distributions to stockholders are recorded by the Fund on the ex-dividend date.

The Board believes that the Fund's distribution policy maintains a stable, high rate of distribution. These distributions are not tied to the Fund's investment income or capital gains and do not represent yield or investment return on the Fund's portfolio. The Distribution Amount from one calendar year to the next will increase or decrease based on the change in the Fund's net asset value. The terms of the distribution policy will be reviewed and approved at least annually by the Board and, as always, can be modified at their discretion for the benefit of the Fund and its stockholders.

The Board remains convinced that its stockholders are well served by a policy of regular distributions which increase liquidity and provide flexibility to individual stockholders in managing their investment. Stockholders have the option of reinvesting these distributions in additional shares of the Fund or receiving them in cash. Stockholders may consider reinvesting all or a portion of their regular distributions through their Fund's reinvestment plan. Stockholders should carefully read the description of the dividend reinvestment plan contained in the Fund's report to stockholders, noting the changes described below which were made to provide additional benefit to stockholders who participate in the plan.

The Board approved revisions to the Fund's dividend reinvestment plan on August 12, 2011, regarding the method for determining the number of shares issued to plan participants when the Fund's market price is at or above its last reported net asset value. As revised, the plan provides that, effective November 1, 2011, the method for determining the number of newly issued shares received when distributions are reinvested will be determined by dividing the amount of the distribution either by the Fund's last reported net asset value per share or by a price

## **CORNERSTONE TOTAL RETURN FUND MANAGED DISTRIBUTIONS (CONTINUED)**

equal to the average closing price of the Fund over the five trading days preceding the payment date of the distribution, whichever is lower.

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

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