

To Our Shareholders

December 11, 2009

One year ago the convertible securities market, along with most other securities markets, was in disarray. Many convertible issues fell to prices well below their investment value or bond floor, a level that had rarely been reached by issuers believed to be solvent. This decline in prices occurred because many investors in convertible securities had borrowed money to create their portfolios and, as prices fell, they were compelled to sell at a time when there were few buyers. The rebound in the credit markets this year has allowed the rebuilding of the structural integrity of many convertible securities, generally to the benefit of those who held onto them.

Bancroft Fund Ltd. was in a position to sort through the disarray to restructure its portfolio with the many issues that we believed were selling at extraordinarily attractive prices. There was a choice to be made; should the Fund focus on equity sensitivity, yield, or safety of principal? Equity sensitive convertibles would do well in a strong stock market, but it was not apparent to us that the stock market was near its bottom (it bottomed the following March). It was clear to us that many issuers were financially sound enough to be able to pay off these short-dated high-yield convertible securities at put or maturity. We made the decision to add convertible issues to the portfolio that appeared unlikely to default and had good yields to put or maturity (many greater than 10%). To us this strategy appeared less risky than more equity-sensitive alternative convertible portfolios and was likely to outperform such portfolios in all but a very strong equity market.

It has long been our contention that convertible securities can be competitive with equities over full market cycles. In fact, as the table on the opposite page and the ten-year growth chart on the following page show, the Fund, the Fund's shares, and the Bank of America/Merrill Lynch All Convertibles Index (BAML Index) outperformed the S&P 500 Index for all periods listed. Although this level and breadth of outperformance is unusual, it makes sense that it would occur after a substantial decline in equity markets.

Although convertible securities have outperformed equities over the last year, it remains our position that convertibles are still a reasonable value; yields are competitive and premium to conversion value is low enough in most instances to provide sensitivity to stock price changes. Despite the lower volume of available convertible securities today than in 2008 due to fewer multibillion dollar issues in the past year, the new issue market is active and healthy as the number of new issues is actually up over last year. The Fund's portfolio is in good shape to take advantage of a continuing economic recovery in 2010.

Performance for the Fund's fiscal year was enhanced by its exposure to the minerals and mining, and foods industries. Performance was hurt by its exposure to aerospace and defense, and pharmaceuticals.

When adjusted for the fiscal 2004 rights offering and the fact that the BAML Index does not include expenses, the Fund's net asset value (NAV) outperformed the Index over the five-year period and performed in line with the Index over the ten-year period. Despite gains of over 30% for the calendar year-to-date and one-year periods ended October 31, 2009, the Fund slightly underperformed the Index for those time periods. Bancroft's market return outperformed the Index over the ten-year period, but underperformed over the year-to-date, one- and five-year periods. For the ten-year performance, the Fund's NAV and market price volatility, as measured by standard deviation, were lower than that of the Index. Many market professionals consider the volatility of past returns to be a useful approximation of the past levels of risk. A higher volatility level equates to a higher measure of risk. This measure of historic results may not reflect future performance but we believe it is informative. The Fund has sought to provide total returns to shareholders that compare favorably to those provided by the equity markets, but with less volatility.

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Now posted on the Fund's website (www.bancroftfund.com) is a white paper on convertible securities. Written by the Fund's adviser, Dinsmore Capital Management Co., this paper is a presentation on the strengths and weaknesses of convertible securities today. We believe many will find it educational.

Gordon Ahalt, an independent trustee of the Fund for nearly 30 years, is retiring from the Board on December 31, 2009. His counsel improved the Fund and helped it through both good and difficult times. We will miss his presence.

At its November 16, 2009 meeting, the Board of Trustees declared a distribution of \$0.256 per share, consisting of undistributed net investment income. The distribution is payable on December 28, 2009 to shareholders of record on November 27, 2009.

The 2010 annual meeting of shareholders will be held on February 8, 2010. Time and location will be included in the proxy statement, scheduled to be mailed to shareholders on December 30, 2009. All shareholders are welcome to attend and we hope to see you there.



Thomas H. Dinsmore
Chairman of the Board

