

To Our Shareholders

December 13, 2011

October provided some bounce after the U.S. and global equities markets endured their worst quarter in three years. The increased volatility of equity markets and continued decline in interest rates in the U.S. has affected the convertible securities market. A volatile equities market would normally induce companies to issue convertible securities, and investors to participate in these offerings eagerly. However, lower interest rates and corporate attempts to reduce debt actually have caused a drop-off in the issuance of convertible securities in 2011. This pattern is likely to continue until economic growth begins to pull interest rates up, something that is not likely to happen in the immediate future.

During the last fiscal year, Bancroft Fund Ltd. expanded its exposure to convertible preferred shares and mandatory convertible securities moving from 20.5% of the portfolio to 27.2%. Such issues make up 19.3% of the Bank of America Merrill Lynch All U.S. Convertibles Index (BAML Index); we anticipate that they will provide a higher yield than the bonds.

As of November 30, 2011, the cumulative value of the BAML Index was \$194 billion, down from \$232 billion at year end 2010. The index added 26 new issues worth \$6.7 billion over the six months ended November 30, 2011. There are 521 issues in the BAML Index which represents over 90% of the dollar-dominated U.S. convertible securities market. The index has an average current yield of 3.61% and a premium-to-conversion value of 51%. The average equity sensitivity measure (parity delta) of the index has dropped further to 0.58, implying the index is less sensitive to stock price movement than it had been. We believe that convertible securities, taken in the aggregate, are fairly valued. There are, however, numerous issues that appear undervalued and should be considered individually.

Performance for the Fund's fourth fiscal quarter of 2011 (ended October 31) was enhanced by exposure to the Pharmaceutical and Financial Services industries. Performance was held back, however, by the Fund's exposure to the Energy and Automotive industries.

The Fund's net asset value (NAV) outperformed the BAML Index for the calendar year-to-date, one- and five-year periods, but underperformed for the ten-year period ended October 31, 2011 (when the NAV is adjusted for the fiscal 2004 rights offering, the 2008 tender offer, and the fact that the index does not include expenses).

Bancroft seeks to provide total returns to shareholders that compare favorably to those provided by equity markets, but with less volatility. We therefore note that the Fund's NAV and shares outperformed equities, as represented by the S&P 500® Index, for the five- and ten- year periods presented, and did so with lower 10-year volatility, as measured by standard deviation, than that experienced by the S&P 500® Index. The Fund's NAV return was also less volatile than the BAML Index for the 10-year period, also as measured by standard deviation.

We have posted an updated version of our White Paper on Convertible Securities to our website. This document is intended to provide an understandable yet sophisticated introduction to the U.S. convertible securities market.

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At its November 21, 2011 meeting, the Board of Trustees declared a distribution of \$0.165 per share, consisting of undistributed net investment income. The distribution is payable on December 29, 2011 to shareholders of record on December 1, 2011.

The 2012 annual meeting of shareholders will be held on February 17, 2012. Information about the location of the meeting will be included in the proxy statement, scheduled to be mailed to shareholders on December 30, 2011. All shareholders are welcome to attend and we hope to see you there.



Thomas H. Dinsmore
Chairman of the Board

