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# Ellsworth Fund Ltd.

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## To Our Shareholders:

When the securities markets collapsed last fall, convertible securities declined more than past performance would lead one to expect because many holders were forced to sell in a rush to raise cash. As a result of these sales, we described the convertible securities market as undervalued in our 2008 Annual Report. Many issues at that time were priced with substantial yields and at levels that gave little value to the imbedded option that permits conversion into the underlying common shares. It was a remarkable period in market history.

The broad availability of many issues with substantial yields and short maturities or puts prompted management of Ellsworth Fund to move much of the portfolio into these securities. In the process of adding convertible bonds with higher yields-to-put or yields-to-maturity, the Fund came to have a weighted average yield-to-put or yield-to-maturity of over 10.4% on January 2, 2009. The Fund also reduced its exposure to issues that appeared to be distressed and under threat of default with the credit markets under stress. We carried on this strategy well into the second calendar quarter of 2009. There were several consequences to these portfolio actions: 1) We believed this strategy would provide the portfolio with less volatile holdings. This analysis was borne out by the February/early March decline to the bear market lows in equities, but not in convertible securities; 2) The portfolio became less sensitive to moves in the price of the underlying common stock and more sensitive to the issuer's balance sheet. As stocks recovered, the market's perception of the issuer's financial condition improved which gave these issues a substantial boost; 3) The short-dated nature of many of our investments reduced the Fund's current yield from income. Although this reduction in current yield adversely affected the income available to pay dividends later in the year, we believe the overall strategy improved the Fund's total return and reduced the Fund's susceptibility to renewed volatility.

Performance within the convertible securities universe was led by distressed and speculative issues as the credit markets started working through their problems. Convertible securities have been outperforming equities this year as they have returned to more "normal" levels relative to common stocks. As seen in the Bank of America/Merrill Lynch All Convertible Index (VXA0) (the "Index"), the average convertible security has a yield advantage over the underlying common shares of over 3% (304 basis points) and parity delta (a measure of sensitivity to movement in the underlying common stock) of 0.524, a level that is moderately equity sensitive but not strongly so. Although both of these numbers are approaching their long-term averages, the yield

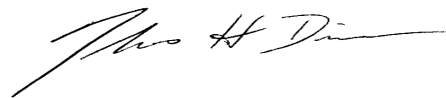
advantage is still somewhat above average, and parity delta is below average.

As we have observed these changes in the convertible securities market, we see more value in issues with total return and equity sensitive characteristics. Convertible prices have become more rational as market participants become more confident. There are many attractively priced issues still available.

The Fund's performance in the three months ended June 30, 2009 was enhanced by its exposure to the Banking, Minerals & Mining, and Chemicals industries. Among the better performing issues in the portfolio were Bank of America and Wells Fargo, both in the Banking industry. Performance was held back by exposure to the Aerospace & Defense and Consumer Goods industries.

The Fund seeks to provide total returns to shareholders that compare favorably over full market cycles to those provided by the equity markets, but with less volatility. As indicated in the performance chart of this Third Quarter Update, Ellsworth's net asset value (NAV), with dividends reinvested, outperformed the Index over the five- and ten-year periods, but slightly underperformed the Index for the six-month and one-year periods ended June 30, 2009 (this is the case when one adjusts for the fiscal 2004 rights offering and the fact that the Index does not include expenses). For the five- and ten-year periods, the Fund's market return outperformed such Index, but underperformed for the six-month and one-year periods. The Fund's NAV volatility and market volatility for the ten-year period, however, as measured by standard deviation, were appreciably 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.

We have recently updated the website for Ellsworth Fund, her sister fund, Bancroft Fund and the Funds' manager, Dinsmore Capital Management Co. In the near future we will be adding a "White Paper" on the topic of Convertible Securities. Please look over the site and if you have any comments, please contact us.



Thomas H. Dinsmore  
Chairman of the Board  
August 13, 2009

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### **Stock Exchange Listing**

NYSE Amex - Symbol: ECF

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