To Our Shareholders

November 16, 2009

The returns generated by convertible securities as a group so far this year were well above the expectations we had at the beginning of the year. As shown in the performance table on the opposite page, the Bank of America/Merrill Lynch All Convertibles Index (BAML Index), the Fund's portfolio and the Fund's market price have all outperformed equities as measured by the S&P 500 Index. This outperformance is not just for 2009, but for the past ten years as shown in the graph on the next page. Within the BAML Index, the greatest increase in value occurred in the most speculative (by rating) portion of the Index.

It has been the position of management at Ellsworth Fund Ltd. that convertible securities are capable of providing total returns that are competitive with equities over full market cycles with less volatility and higher income. This last decade has confirmed this capability. That being said, the strong recovery of convertible securities generated this year after the 2008 meltdown has brought convertible price levels back to a point where the convertible securities market appears more 'normal.' While the average premium to conversion value levels may be high enough at 80% on the BAML Index to make continued outperformance more difficult, we still see many attractive issues as the average has been skewed by a few issues with very high premiums. BAML and other institutions that provide convertible research continue to measure the convertible securities market as undervalued by the sum-of-the-parts method. The method takes the theoretical non-convertible bond or preferred share value, adds the theoretical value of the embedded option and compares that sum to the current price. This October the measure was undervalued by 1.6%, much closer to their measure of intrinsic value than the 5% of October 2008. While we are still positive about the potential returns from convertible securities, the obvious undervaluations are mostly gone now.

The BAML Index has expanded this year to $208 billion from $177.4 billion mostly due to price appreciation. While there have been $27.9 billion of new convertible securities issued this year, $55.6 billion have been redeemed. This is disappointing as we expected that many companies would choose to issue convertible securities to meet their capital needs. That expectation may still be met as the year winds down.

Performance for the Fund's fiscal year was enhanced by its exposure to the minerals and mining, and travel and leisure industries. Performance was hurt by its exposure to the consumer goods industry, and the oil and gas portion of the energy industry.

The Fund's net asset value (NAV) performed in line with the BAML Index over the five- and ten-year periods (this is the case when you adjust for the fiscal 2004 rights offering and the fact that the Index does not include expenses), and underperformed for the calendar year-to-date and one-year periods ended September 30, 2009. For the one-year and ten-year periods, Ellsworth's market return outperformed the Index, underperforming over the year-to-date and five-year periods. For the ten-year performance, the Fund's NAV volatility, as measured by standard deviation, was 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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To Our Shareholders (continued)

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

At its October 12, 2009 meeting, the Board of Trustees declared a distribution of $0.0985 per share, consisting of undistributed net investment income. The distribution is payable on November 25, 2009 to shareholders of record on October 22, 2009.

The 2010 annual meeting of shareholders will be held on January 15, 2010. Time and location will be included in the proxy statement, scheduled to be mailed to shareholders on November 30, 2009. All shareholders are welcome to attend and we hope to see you there.

Thomas H. Dinsmore
Chairman of the Board