

Bancroft Convertible Fund, Inc.

65 Madison Avenue Suite 550 • Morristown, New Jersey 07960-7308 • www.bancroftfund.com

First Quarter Update - January 31, 2005 (unaudited)

Financial Highlights

Market price 01/31/05	\$18.49
Net asset value (NAV) 01/31/05	\$20.77
Market discount to NAV	(10.98)%
12-Month income distribution	\$0.70
Yield on market price	3.79%
Ratio of expenses to avg. net assets	1.09%*
Ratio of net income to avg. net assets	3.66%*
Portfolio turnover	17.50%
Shares outstanding	5,588,453

* Annualized

Change in Net Asset Value (NAV)

	Per Share
Beginning NAV (10/31/04)	\$20.40
Changes in NAV from Operations:	
Net Investment Income	0.19
Realized Gain	0.21
Increase in Unrealized Gain	0.16
Total Change from Operations	0.56
Distributions:	
Net Investment Income	(0.19)
Capital Gains	0.00
Total Change from Distributions	(0.19)
Total Change	0.37
Ending NAV (01/31/05)	\$20.77

Major Industry Exposure as of 01/31/05

	% of Net Assets
Energy	12.0
Financial and Insurance	11.1
Pharmaceuticals	10.0
Banking/Savings and Loan	9.0
Technology	7.9
Telecommunications	6.0
Entertainment	5.7
Health Care	5.6
Retail	4.4
Automotive	3.5

The portfolio holdings and industry exposure are as of January 31, 2005 and subject to change without notice.

Detailed portfolio information is available on our website (www.bancroftfund.com). Visit us there or contact us by e-mail at info@bancroftfund.com or call us at (973) 631-1177.

Performance through 01/31/05 with dividends reinvested

	3 Months	1 Year	5 Years	10 Years
Bancroft market price (a,b)	2.47%	(2.01)%	28.02%	171.95%
Bancroft net asset value (b,c,d)	2.73	(0.16)	10.57	147.97
Closed-end conv. fund avg. (d)	4.45	5.35	15.44	128.00
S&P 500 (a)	4.96	6.22	(8.55)	197.09
Russell 2000 (d)	7.22	8.67	34.12	189.18
Lehman Aggregate Bond Total Return Index (d)	0.74	4.16	46.36	107.60

Performance data represent past results and do not reflect future performance.

(a) From Bloomberg L.P. pricing service.

(b) Performance is not adjusted for dilution due to the Dec. 2003 rights offering.

(c) Net asset value dilution resulting from the rights offering was 2.38%.

(d) From Lipper, Inc. Closed-End Fund Performance Analysis, January 31, 2005.

Quarterly History of NAV and Market Price

Qtr. Ended	Net Asset Values			Market Prices		
	High	Low	Close	High	Low	Close
Apr. 04	\$21.79	\$20.79	\$20.79	\$19.74	\$18.35	\$18.35
Jul. 04	20.98	20.06	20.23	18.71	17.87	17.87
Oct. 04	20.65	19.79	20.40	18.50	17.65	18.23
Jan. 05	21.24	20.36	20.77	19.11	18.08	18.49

Total Fund Investments as of 01/31/05

	(000's)	% of Net Assets
Convertible Bonds and Notes	\$ 61,412	52.9
Convertible Preferred Stocks	23,885	20.6
Mandatory Convertible Securities	19,641	16.9
Short-Term Securities	4,910	4.2
Other Assets	6,250	5.4
Net Assets	\$116,098	100.0%

Largest Investment Holdings as of 01/31/05

	% of Net Assets
The Walt Disney Company	2.4
The St. Paul Travelers Companies, Inc.	2.0
Constellation Brands, Inc.	1.8
Fannie Mae	1.8
Leucadia National Corp.	1.8
The TJX Companies, Inc.	1.8
Comverse Technology, Inc.	1.7
International Rectifier Corp.	1.7
Kerr-McGee Corp.	1.7
Teva Pharmaceutical Industries Ltd.	1.7

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To Our Shareholders:

March 10, 2005

The state of the convertible securities market is mixed. On the positive side, weighted average premium to conversion value (a measure of the convertible's sensitivity to movements in the price of the underlying common stock) has fallen to near 40% from a high over 100% in 2003.* On the negative side, current yields on convertible securities have fallen from over 7% in 2002 to under 4% in February 2005.*

Speculative grade convertible securities outperformed investment grade convertible bonds and convertible preferred stocks (not including mandatory issues) in 2004.** What we find most interesting is that according to Citigroup, the average premium on investment grade convertibles has fallen to below 30% while the non-investment grade average premium is above 40%. Further, the current yields in both categories are virtually the same. This implies that investment grade convertibles are currently relatively more attractive as investments than non-investment grade convertibles as a group. This does not, however, provide insight into the value of the common stocks underlying these convertibles.

During the last quarter, industries the Fund currently invests in that have underperformed include telecommunications and automobiles. These have declined due to reduced expectations for economic growth. Industries that outperformed include energy, which has been helped by high oil prices, and consumer goods, which have been helped by continued growth in consumer income.

Bancroft Convertible Fund is the oldest closed-end convertible fund. Founded in 1971, the Fund's strategy has remained consistent, as an equity investment that uses convertible securities to reduce risk and volatility. This strategy tends to outperform in bear markets and lag in bull markets. For the ten year period ended January 31, 2005 the Fund outperformed the average of the closed-end convertible fund category tracked by Lipper, Inc. and published in the *Lipper Closed-End Performance Analysis*. However, for the quarter, one year and five years ended January 31, 2005, Bancroft underperformed the average of the twelve funds in its category. Of these twelve funds, only six, including the Fund, remain unleveraged convertible funds. In addition, many of our competitors have had greater exposure to non-convertible, low-rated, high yield debt than the Fund has had. We believe these factors contributed to the difference in performance between Bancroft and many of the other funds in the group.

Visit our website, www.bancroftfund.com, for additional information on the Fund. Further, shareholders who wish to obtain a copy of the most recent report on the Fund issued by Standard and Poor's should contact us.

At the annual meeting of shareholders, directors Thomas H. Dinsmore, Donald M. Halsted, Jr., and Duncan O. McKee were elected to three year terms, and Robert J. McMullan was elected to a one-year term. PricewaterhouseCoopers LLP was ratified as the Fund's independent auditors for the 2005 fiscal year and shareholders approved all of the proposed changes to the Fund's fundamental investment restrictions. We thank you for your support.

At its February meeting, the Board of Directors declared a dividend of 17 cents per share. The dividend is payable on March 30, 2005 to shareholders of record on March 16, 2005.



Thomas H. Dinsmore
Chairman of the Board

* *Citigroup Convertible Market Monthly Survey*, March 2, 2005.

** *Merrill Lynch Convertible Monthly*, January 7, 2005.

Shareholder Services and Transfer Agent

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Stock Exchange Listing

AMEX - Symbol: BCV



Portfolio of Investments January 31, 2005 (unaudited)

<u>Principal Amount</u>		<u>Value (Note 1)</u>
	CONVERTIBLE BONDS AND NOTES — 52.9%	
	Aerospace and Defense — 1.3%	
\$1,500,000	The Goldman Sachs Group, Inc. 1% 2009 exh. equity-linked notes (Aa3) (exch. for General Dynamics Corp. common stock) ⁽¹⁾	<u>\$ 1,490,970</u>
	Automotive — 2.4%	
1,000,000	American Axle & Manufacturing Holdings, Inc. 2% 2024 cv. sr. notes (Baa3) ⁽¹⁾ ..	861,800
3,500,000	Lear Corp. 0% 2022 cv. sr. notes (Baa3)	1,699,688
163,000	Titan International, Inc. 5.25% 2009 sr. cv. notes (NR)	<u>215,975</u>
		<u>2,777,463</u>
	Banking/Savings and Loan — 2.7%	
2,078,000	The Bear Stearns Companies, Inc. 0.25% 2010 medium-term notes (A1) (exch. for Fifth Third Bancorp common stock) ⁽¹⁾	1,894,737
1,250,000	Ocwen Financial Corp. 3.25% 2024 contingent cv. sr. unsecured notes (B-) (Acquired 07/22/04 - 09/27/04; Cost \$1,263,750) ⁽²⁾	<u>1,239,063</u>
		<u>3,133,800</u>
	Consumer Goods — 1.6%	
1,375,000	Church & Dwight Co., Inc. 5.25% 2033 cv. sr. deb. (Ba2)	<u>1,824,763</u>
	Data-Processing Services — 1.8%	
1,000,000	Open Solutions, Inc. 1.4673% 2035 sr. sub. cv. notes (NR) (Acquired 01/28/05; Cost \$533,560) ⁽²⁾	571,875
1,500,000	Pegasus Solutions, Inc. 3.875% 2023 cv. sr. notes (NR)	1,393,526
125,000	Per-Se Technologies, Inc. 3.25% 2024 cv. sub. deb. (B-) (Acquired 06/24/05 - 06/25/04; Cost \$129,063) ⁽²⁾	<u>138,594</u>
		<u>2,103,995</u>
	Electrical Supplies — 1.1%	
1,500,000	Graftech International Ltd. 1.625% 2024 cv. sr. deb. (B2)	<u>1,293,750</u>
	Energy — 6.2%	
1,500,000	CMS Energy Corp. 2.875% 2024 cv. sr. notes (B1)	1,497,656
3,000,000	Devon Energy Corp. 0% 2020 cv. sr. deb. (BBB)	1,685,625
1,900,000	Kerr-McGee Corp. 5.25% 2010 cv. sub. deb. (Ba1)	2,003,493
750,000	OMI Corp. 2.875% 2024 cv. sr. notes (B+)	729,375
2,000,000	Weatherford International Ltd. 0% 2020 cv. sr. deb. (Baa1)	<u>1,286,900</u>
		<u>7,203,049</u>
	Entertainment — 3.3%	
1,250,000	Citadel Broadcasting Corp. 1.875% 2011 cv. sub. notes (NR)	1,077,250
2,500,000	The Walt Disney Company 2.125% 2023 cv. sr. notes (Baa1)	<u>2,796,800</u>
		<u>3,874,050</u>
	Financial and Insurance — 2.7%	
2,000,000	Leucadia National Corp. 3.75% 2014 cv. sr. sub. notes (Ba3)	2,120,000
1,000,000	Swiss Re America Holding Corp. 3.25% 2021 euro. sub. cv. bonds (A1) (conv. into Swiss Reinsurance Company common stock) (Acquired 11/15/01 - 12/05/01; Cost \$1,007,750) ⁽²⁾	<u>964,100</u>
		<u>3,084,100</u>

Portfolio of Investments January 31, 2005 (continued)

Principal Amount		Value (Note 1)
CONVERTIBLE BONDS AND NOTES — (continued)		
Health Care — 4.3%		
\$1,500,000	Community Health Systems, Inc. 4.25% 2008 cv. sub. notes (B3)	\$1,567,050
1,000,000	Isolagen, Inc. 3.5% 2024 cv. sub. notes (NR) (Acquired 10/29/04 - 11/01/04; Cost \$1,020,000) ⁽²⁾	1,052,500
1,000,000	LifePoint Hospitals, Inc. 4.5% 2009 cv. sub. notes (B3)	1,021,500
1,125,000	Mentor Corp. 2.75% 2024 cv. sub. notes (NR)	<u>1,350,000</u>
		<u>4,991,050</u>
Metals — 0.8%		
1,000,000	Ryerson Tull, Inc. 3.5% 2024 cv. sr. notes (NR) (Acquired 11/05/04 - 12/09/04; Cost \$1,020,000) ⁽²⁾	<u>960,625</u>
Multi-Industry — 0.9%		
1,000,000	Lehman Brothers Holdings, Inc. 1% 2011 medium-term notes (A) (performance linked to Cendant Corp. common stock) ⁽¹⁾	<u>1,002,500</u>
Office Equipment — 1.5%		
1,750,000	IOS Capital, LLC 5% 2007 cv. sub. notes (Ba3) (exch. for IKON Office Solutions, Inc. common stock) (Acquired 05/08/02 - 06/02/03; Cost \$1,746,250) ⁽²⁾	<u>1,779,531</u>
Pharmaceuticals — 7.1%		
2,000,000	Alza Corp. 0% 2020 cv. sub. deb. (Aa1) (exch. for Johnson & Johnson common stock)	1,783,750
2,000,000	Amgen, Inc. 0% 2032 LYONs (A2) ⁽¹⁾	1,481,220
1,500,000	Impax Laboratories, Inc. 1.25% 2024 cv. sr. sub. deb. (NR)	1,379,250
500,000	Ivax Corp. 4.5% 2008 cv. sr. sub. notes (NR)	498,750
1,250,000	Ivax Corp. 1.5% 2024 cv. sr. notes (NR) ⁽¹⁾	1,163,938
1,000,000	Teva Pharmaceutical Finance II, LLC series A 0.5% 2024 cv. sr. deb. (BBB) (exch. for ADR representing Teva Pharmaceutical Industries Ltd. common stock) .	985,000
1,000,000	Teva Pharmaceutical Finance II, LLC series B 0.25% 2024 cv. sr. deb. (BBB) (exch. for ADR representing Teva Pharmaceutical Industries Ltd. common stock)	990,000
		<u>8,281,908</u>
Retail — 4.4%		
1,250,000	Casual Male Retail Group, Inc. 5% 2024 cv. sr. sub. notes (NR)	1,126,563
1,000,000	Charming Shoppes, Inc. 4.75% 2012 sr. cv. notes (B2)	1,111,875
1,000,000	Dick's Sporting Goods, Inc. 1.6061% 2024 sr. cv. notes (B)	749,100
2,400,000	The TJX Companies, Inc. 0% 2021 LYONs (Baa1)	<u>2,088,000</u>
		<u>5,075,538</u>
Technology — 4.8%		
1,000,000	Advanced Micro Devices, Inc. 4.75% 2022 cv. sr. deb. (B3) ⁽¹⁾	1,018,750
1,191,000	Conexant Systems, Inc. 5.25% 2006 cv. sub. notes (NR)	1,170,158
2,378,000	Hewlett-Packard Co., Inc. 0% 2017 LYONs (Baa1)	1,349,515
2,000,000	International Rectifier Corp. 4.25% 2007 cv. sub. notes (B2)	1,987,500
		<u>5,525,923</u>

Portfolio of Investments January 31, 2005 (continued)

Principal Amount		Value (Note 1)
CONVERTIBLE BONDS AND NOTES — (continued)		
Telecommunications — 6.0%		
\$1,500,000	Comverse Technology, Inc. 0% 2023 ZYPS (BB-) ⁽³⁾	\$ 2,016,975
1,000,000	Lucent Technologies, Inc. 2.75% 2023 series A cv. sr. deb. (B2)	1,245,180
500,000	Lucent Technologies, Inc. 2.75% 2025 series B cv. sr. deb. (B2)	655,825
1,250,000	Nortel Networks Corp. 4.25% 2008 cv. sr. notes (B3)	1,203,906
750,000	Tekelec, Inc. 2.25% 2008 sr. sub. cv. notes (NR)	893,438
1,000,000	UTStarcom, Inc. 0.875% 2008 cv. notes (NR)	993,750
		7,009,074
	TOTAL CONVERTIBLE BONDS AND NOTES	\$61,412,089

Shares		
CONVERTIBLE PREFERRED STOCKS — 20.6%		
Automotive — 1.1%		
50,000	General Motors Corp. 6.25% 2033 series C cv. sr. deb. (Baa2)	1,260,000
Banking/Savings and Loan — 6.3%		
17,500	Commerce Capital Trust II 5.95% cv. trust pfd. (Baa1) (exch. for Commerce Bancorp, Inc. common stock)	1,040,156
40,000	National Australia Bank Ltd. 7.875% exch. capital units (NR)	1,544,000
20,000	New York Community Bancorp, Inc. 6% BONUSSES units (Baa2)	1,058,400
35,000	Sovereign Capital Trust IV 4.375% PIERS (Ba1) (exch. for Sovereign Bancorp, Inc. common stock) ⁽¹⁾	1,732,500
35,000	Washington Mutual Capital Trust PIERS units (Baa1) (exch. for Washington Mutual, Inc. common stock)	1,911,875
		7,286,931
Energy — 3.1%		
1,550	Chesapeake Energy Corp. 4.125% cum. cv. pfd. (NR)	1,873,563
20,000	The Williams Companies, Inc. 5.5% 2033 jr. sub. cv. deb. (B-)	1,721,250
		3,594,813
Entertainment — 2.4%		
22,500	Emmis Communications Corp. 6.25% series A cum. cv. pfd. (Caa1)	1,009,688
1,750	Radio One, Inc. 6.5% HIGH TIDES (B3)	1,771,875
		2,781,563
Financial and Insurance — 4.8%		
20	Fannie Mae 5.375% non-cumulative cv. pfd. (Aa3)	2,072,500
20,000	Reinsurance Group of America, Inc. 5.75% PIERS (Baa2)	1,215,000
100,000	The St. Paul Travelers Companies, Inc. 4.5% 2032 cv. jr. sub. notes (Baa1)	2,307,500
		5,595,000
Health Care — 1.3%		
29,000	Omnicare Capital Trust I 4% PIERS (Ba3) (exch. for Omnicare, Inc. common stock) ⁽¹⁾	1,457,250
Mining — 1.6%		
2,000	Freeport-McMoRan Copper and Gold, Inc. 5.5% cv. perpetual pfd. (B-)	1,909,375
	TOTAL CONVERTIBLE PREFERRED STOCKS	\$23,884,932

Portfolio of Investments January 31, 2005 (continued)

Principal Amount or Shares		Value (Note 1)
MANDATORY CONVERTIBLE SECURITIES — 16.9% ⁽⁴⁾		
Consumer Goods — 1.8%		
50,000 shs	Constellation Brands, Inc. dep. shs. representing 5.75% series A mand. cv. pfd. (B)	\$ 2,032,000
Energy — 2.7%		
20,000 shs	Amerada Hess Corp. 7% mand. cv. pfd. ACES (Ba3)	1,547,000
30,000 shs	Valero Energy Corp. 2% mand. cv. pfd. (BB+)	1,553,970
		<u>3,100,970</u>
Financial and Insurance — 3.6%		
15,000 shs	The Chubb Corp. 7% 2005 equity units (A) ⁽¹⁾	421,500
54,000 shs	The Chubb Corp. 7% 2006 equity units (A2) ⁽¹⁾	1,545,480
40,000 shs	Platinum Underwriters Holdings, Ltd. 7% equity security units (NR) ⁽¹⁾	1,161,400
45,000 shs	XL Capital, Ltd. 6.5% equity security units (A2)	1,093,860
		<u>4,222,240</u>
Foods — 1.8%		
40,000 shs	Albertson's, Inc. 7.25% HITS units (Baa2) ⁽¹⁾	981,600
40,000 shs	Lehman Brothers Holdings, Inc. 6.25% PIES (A) (exch. for General Mills, Inc. common stock)	1,120,000
		<u>2,101,600</u>
Pharmaceuticals — 2.8%		
31,500 shs	Baxter International, Inc. 7% equity units (Baa1) ⁽¹⁾	1,719,585
30,000 shs	Schering-Plough Corp. 6% mand. cv. pfd. (Baa3)	1,548,000
		<u>3,267,585</u>
Technology — 3.1%		
105,550 shs	The Goldman Sachs Group, Inc. 7.5% mand. exch. notes (Aa3) (exch. for EMC Corp. common stock)	1,407,773
36,395 shs	The Goldman Sachs Group, Inc. 5.625% mand. exch. notes (Aa3) (exch. for Intel Corp. common stock)	827,113
\$2,000,000	Lehman Brothers Holdings, Inc. 6% 2005 YEELDS (A) (performance linked to LSI Logic Corp. common stock)	1,365,000
		<u>3,599,886</u>
Utilities — 1.1%		
50,000 shs	DTE Energy Co. 8.75% equity security units (BBB-) ⁽¹⁾	1,317,000
		<u>1,317,000</u>
	TOTAL MANDATORY CONVERTIBLE SECURITIES ⁽⁴⁾	<u>\$19,641,281</u>
SHORT-TERM SECURITIES — 4.2%		
Commercial Paper — 4.2%		
4,900,000	American Express Credit Corp. (P1) (2.2% maturing 02/01/05)	4,898,802

Portfolio of Investments January 31, 2005 (continued)

Principal Amount		Value (Note 1)
	SHORT-TERM SECURITIES — (continued)	
	U.S. Government Obligations — 0.0%	
\$11,000	U.S. Treasury notes 1.625% 04/30/05 (Aaa) ⁽⁵⁾	\$ 10,976
	TOTAL SHORT-TERM SECURITIES	4,909,778
	Total Convertible Bonds and Notes — 52.9%	61,412,089
	Total Convertible Preferred Stocks — 20.6%	23,884,932
	Total Mandatory Convertible Securities — 16.9%	19,641,281
	Total Short-Term Securities — 4.2%	4,909,778
	Total Investments — 94.6%	109,848,080
	Other assets and liabilities, net — 5.4%	6,250,259
	Total Net Assets — 100.0%	116,098,339

- (1) Contingent payment debt instrument. See Note 1(b) below.
- (2) Security not registered under the Securities Act of 1933, as amended (e.g., the security was purchased in a Rule 144A transaction). The security may be resold only pursuant to an exemption from registration under the 1933 Act, typically to qualified institutional buyers. The Fund generally has no rights to demand registration of such securities. The aggregate market value of these unregistered securities at January 31, 2005 was \$6,706,288, which represented 5.8% of the Fund's net assets.
- (3) Non-income producing security.
- (4) Mandatory convertible. See Note 1(e) below.
- (5) Collateral for a letter of credit.

ACES	Automatic Convertible Equity Securities.
ADR	American Depositary Receipts.
BONUSES	Bifurcated Option Note Unit Securities.
HIGH TIDES	Remarketable Term Income Deferrable Equity Securities.
HITS	Hybrid Income Term Securities.
LYONs	Liquid Yield Option Notes.
PIES	Premium Income Exchangeable Securities.
PIERS	Preferred Income Equity Redeemable Securities.
YEELDS	Yield Enhanced Equity Linked Debt Securities.
ZYPS	Zero Yield Puttable Securities.

Ratings in parentheses by Moody's Investors Service, Inc. or Standard & Poor's.
NR is used whenever a rating is unavailable.

Notes to Financial Statements (unaudited)

1. Significant Accounting Policies

Bancroft Convertible Fund, Inc. (the “Fund”), established in 1971, is registered under the Investment Company Act of 1940 as a diversified, closed-end management investment company. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements:

(a) Security Valuation

Investments in securities traded on a national securities exchange are valued at market using the last reported sales price as of the close of regular trading. Unlisted securities traded in the over-the-counter market and listed securities for which no sales were reported, are valued at the mean between closing reported bid and asked prices as of the close of regular trading. Securities for which quotations are not readily available, restricted securities and other assets are valued at fair value as determined in good faith by management with the approval of the Board of Directors. Short-term debt securities with original maturities of 60 days or less are valued at amortized cost.

(b) Securities Transactions and Related Investment Income

Security transactions are accounted for on the trade date (date the order to buy or sell is executed) with gain or loss on the sale of securities being determined based upon identified cost. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis, including accretion of discounts and amortization of non-equity premium. For certain securities, known as “contingent payment debt instruments,” Federal tax regulations require the Fund to record non-cash, “contingent” interest income in addition to interest income actually received. Contingent interest income amounted to approximately 3 cents per share for the quarter ended January 31, 2005. In addition, Federal tax regulations require the Fund to reclassify realized gains on contingent payment debt instruments to interest income. At January 31, 2005 there were unrealized losses of approximately 7 cents per share on contingent payment debt instruments.

(c) Federal Income Taxes

The Fund’s policy is to distribute substantially all of its taxable income within the prescribed time and to otherwise comply with the provisions of the Internal Revenue Code applicable to regulated investment companies. Therefore, no provision for federal income or excise taxes is believed necessary.

The capital loss carryforward represents tax basis capital losses which may be carried over to offset future realized capital gains. To the extent that the carryforward is used, no capital gains distributions will be made. At October 31, 2004, the Fund had available for federal income tax purposes unused capital losses of \$4,470,204, available to offset future net capital gains, \$4,045,634 of which expires in 2010 and \$424,570 of which expires in 2011. The Fund utilized net capital loss carryforwards of \$3,760,644 during the fiscal year ended October 31, 2004.

(d) Distributions to Shareholders

Distributions to shareholders from net investment income are recorded by the Fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid annually. The amount and character of income and capital gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. The tax character of distributions paid during the fiscal years ended October 31, 2004 and 2003 were \$3,826,570 and \$3,445,042, respectively, both from ordinary income.

Notes to Financial Statements (continued)

(e) Market Risk

It is the Fund's policy to invest at least 80% of its assets in convertible securities. Although convertible securities do derive part of their value from that of the securities into which they are convertible, they are not considered derivative financial instruments. However, certain of the Fund's investments include features which render them more sensitive to price changes of their underlying securities. Thus they expose the Fund to greater downside risk than traditional convertible securities, but generally less than that of the underlying common stock. The market value of those securities was \$19,641,281 at January 31, 2005, representing 16.9% of net assets.

For the complete Notes to Financial Statements see the Annual Report to Shareholders, dated October 31, 2004.