

Bancroft Convertible Fund, Inc.

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

Third Quarter Update - July 31, 2004 (unaudited)

Financial Highlights

Market value 07/31/04	\$17.87
Net asset value (NAV) 07/31/04	\$20.23
Market discount to NAV	(11.67)%
12-Month income distribution	\$0.71
Yield on market value	3.97%
Ratio of expenses to avg. net assets	1.09%*
Ratio of net income to avg. net assets	3.52%*
Portfolio turnover	57.40%
Shares outstanding	5,557,138

* Annualized.

Change in Net Asset Value (NAV)

	Per Share
Beginning NAV (10/31/03)	\$20.84
Changes in NAV from Operations:	
Net Investment Income	0.54
Realized Gain	0.50
Increase in Unrealized Gain	(0.60)
Total Change from Operations	0.44
Effect of Rights Offering	(0.50)
Distributions:	
Net Investment Income	(0.55)
Capital Gains	(0.00)
Total Change from Distributions	(0.55)
Total Change	(0.61)
Ending NAV (07/31/04)	\$20.23

Major Industry Exposure as of 07/31/04

	% of Net Assets
Financial & Insurance	11.4
Energy	11.0
Pharmaceuticals	10.8
Banking/Savings & Loan	9.8
Technology	9.1
Retail	8.2
Telecommunications	6.5
Health Care	5.0
Automotive	4.7
Entertainment	4.4

The portfolio holdings and industry exposure are as of July 31, 2004 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 07/31/04 with dividends reinvested

	7 Months	1 Year	5 Years	10 Years
Bancroft market value (a)	(2.70)%	(6.31)%	23.65%	134.63%
Bancroft net asset value (b)	(1.82)	4.54	13.03	138.91
Closed-end conv. fund avg. (b)	0.40	11.16	18.88	117.62
S&P 500 (a)	0.01	13.17	(10.72)	186.13
Russell 2000 (a)	(0.39)	17.12	32.80	158.94(b)
Lehman Aggregate Bond Total Return Index (b)	1.14	4.84	41.92	101.95

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

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

(b) From Lipper, Inc. Closed-End Fund Performance Analysis, July 31, 2004.

Quarterly History of NAV and Market Price

Qtr. Ended	Net Asset Values			Market Prices		
	High	Low	Close	High	Low	Close
Oct. 03	\$20.84	\$19.61	\$20.84	\$19.70	\$19.05	\$19.70
Jan. 04	21.75	20.73	21.51	20.14	18.59	19.59
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

Total Fund Investments as of 07/31/04

	(000's)	% of Net Assets
Convertible Bonds and Notes	\$ 63,756	56.7
Convertible Preferred Stocks	22,300	19.8
Mandatory Convertible Securities	22,228	19.8
Short-Term Securities	3,511	3.1
Other Assets	617	0.6
Net Assets	\$112,412	100.0%

Largest Investment Holdings as of 07/31/04

	% of Net Assets
Amerada Hess Corp.	2.7
Teva Pharmaceuticals Industries Ltd.	2.7
Capital One Financial Corp.	2.1
Sovereign Bancorp, Inc.	2.1
Church & Dwight Co., Inc.	2.0
The St. Paul Travelers Companies, Inc.	2.0
Chesapeake Energy Corp.	1.9
Conexant Systems, Inc.	1.9
Leucadia National Corp.	1.8
The TJX Companies, Inc.	1.8

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To Our Shareholders:

September 10, 2004

The economic news of the last quarter is much improved. While U.S. Gross Domestic Product (GDP) growth slowed to 2.8% in the second quarter, the weakest in more than a year, it is expected to pick up to over 3.5% for the third and fourth quarters. Further, the trade deficit narrowed in July with a strong showing of exports and a decline in producer prices indicating that inflation remains low. Finally, there were big jumps in non-residential fixed investment (up 12.1% annualized) and residential investment (up 14.7% annualized) in the second quarter. While we expect the Federal Reserve to continue raising short term interest rates, it appears that the economy has indeed regained traction.

Earlier this year, energy prices rose due to politics or war in such energy producing countries as Iraq, Venezuela, Russia and Nigeria. Further disruption has come from the hurricanes in the Gulf of Mexico. Gasoline prices have risen, in part, because there has been no expansion of gasoline refinery capacity in the U.S. in decades. Also, increased importation of gasoline is not easily accomplished due to the formulations required by states and regulators. Further, demand for energy has been growing in Asia (especially China) at a pace that has advanced recently and is diverting oil away from U.S. inventories. It is possible that, at least for the immediate future, productive energy capacity will not keep up with demand. If so, OPEC's new \$30 per barrel target price is more likely to be a floor price, not an average price.

Of the Fund's major industry exposure, the industries that have underperformed the most have been technology and telecommunications. These are industries whose stock prices are affected strongly by economic expectations of GDP growth which have fallen from 4.5% to under 4%. The industries that have outperformed the most have been energy, which has been helped by the rise in oil and gasoline prices, and retail, which has been helped by continued consumer income growth.

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 July 31, 2004 the Fund outperformed its peers within the category of closed-end convertible funds followed in the *Lipper Closed-End Performance Analysis* survey (this category consists of seven funds for the ten year period and currently consists of thirteen funds). Fund performance year-to-date has lagged its peers. Of the thirteen funds in the *Lipper* survey, only four of these are unleveraged convertible funds with greater than 80% of their investments in convertible securities. We believe that the Fund has underperformed the average of its peer group because the Fund holds more investment grade convertible debt and less lower-rated high yield debt than its peers. Low-rated high yield debt has had a very good run since early 2003 and has continued to outperform investment grade debt and convertibles through July.

Additional information on the Fund is available on the Fund's website (www.bancroftfund.com). 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 its August meeting, the Board of Directors declared a dividend of 17 cents per share. The dividend consists of undistributed net investment income. This dividend will be payable on September 29, 2004 to shareholders of record on September 15, 2004.



Thomas H. Dinsmore
Chairman of the Board

Shareholder Services and Transfer Agent

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Stock Exchange Listing

AMEX - Symbol: BCV



Portfolio of Investments July 31, 2004 (unaudited)

Principal Amount		Value (Note 1)
	CONVERTIBLE BONDS AND NOTES — 56.7%	
	Advertising — 0.9%	
\$1,000,000	Lamar Advertising Company 2.875% 2010 cv. sub. notes (B2)	\$ 1,051,250
	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⁾	1,462,830
	Automotive — 3.4%	
1,000,000	American Axle & Manufacturing Holdings, Inc. 2% 2024 cv. sr. notes (Baa3) ⁽¹⁾ .	937,500
125,000	Goodyear Tire & Rubber Company 4% 2034 cv. sr. notes (B3) (Acquired 06/28/04; Cost \$125,000) ⁽²⁾	144,844
3,500,000	Lear Corp. 0% 2022 cv. sr. notes (Baa3)	1,736,875
1,000,000	Titan International, Inc. 5.25% 2009 sr. cv. notes 144A (NR) (Acquired 7/20/04; Cost \$1,000,938) ⁽²⁾	1,028,125
		<u>3,847,344</u>
	Banking/Savings and Loan — 2.4%	
2,078,000	The Bear Stearns Companies, Inc. 0.25% 2010 medium term notes (A1) (exch. for Fifth Third Bancorp common stock) ⁽¹⁾	1,956,738
750,000	Ocwen Financial Corp. 3.25% 2024 contingent cv. sr. unsecured notes (NR) (Acquired 07/22/04; Cost \$750,000) ⁽²⁾	760,313
		<u>2,717,051</u>
	Consumer Goods — 2.0%	
1,875,000	Church & Dwight Co., Inc. 5.25% 2033 cv. sr. deb. (Ba3)	2,240,663
	Data-Processing Services — 1.8%	
1,500,000	Pegasus Solutions, Inc. 3.875% 2023 cv. sr. notes (NR)	1,441,875
500,000	Per-Se Technologies, Inc. 3.25% 2024 cv. sub. deb. (B-) (Acquired 06/24/04 - 06/25/04; Cost \$508,125) ⁽²⁾	543,750
		<u>1,985,625</u>
	Electrical Supplis — 0.8%	
1,000,000	Graftech International LTD 1.625% 2024 cv. sr. deb. (B2)	943,750
	Energy — 3.1%	
250,000	Cooper Cameron Corp. 1.5% 2024 sr. cv. deb. (Baa1) (Acquired 05/06/04; Cost \$250,000) ⁽²⁾	255,243
1,000,000	Devon Energy Corp. 0% 2020 cv. sr. deb. (BBB)	555,000
1,900,000	Kerr-McGee Corp. 5.25% 2010 cv. sub. deb. (Ba1)	1,991,998
1,000,000	Weatherford International Ltd. 0% 2020 cv. sr. deb. (Baa1)	636,040
		<u>3,438,281</u>
	Entertainment — 1.9%	
1,250,000	Citadel Broadcasting Corp. 1.875% 2011 cv. sub. notes (NR)	1,072,000
1,000,000	The Walt Disney Company 2.125% 2023 cv. sr. notes (Baa1)	1,034,030
		<u>2,106,030</u>
	Financial and Insurance — 2.6%	
2,000,000	Leucadia National Corp. 3.75% 2014 cv. sr. sub. notes (Ba3) (Acquired 04/22/04 - 07/16/04; Cost \$2,038,123) ⁽²⁾	2,040,000
1,000,000	Swiss Re America Holding Corp. 3.25% 2021 euro. sub. cv. bonds (Aa1) (conv. into Swiss Reinsurance Company common stock) (Acquired 11/15/01 - 12/05/01; Cost \$1,007,750) ⁽²⁾	929,600
		<u>2,969,600</u>

Portfolio of Investments July 31, 2004 (continued)

Principal Amount		Value (Note 1)
CONVERTIBLE BONDS AND NOTES — (continued)		
Health Care — 3.9%		
\$ 500,000	Allscripts Healthcare Solutions, Inc. 3.5% 2024 cv. sr. deb. (NR) (Acquired 06/29/04 - 06/30/04; Cost \$502,500) ⁽²⁾	\$ 490,000
1,000,000	AmerisourceBergen Corp. 5% 2007 cv. sub. notes (B1)	1,108,300
1,000,000	Community Health Systems, Inc. 4.25% 2008 cv. sub. notes (B3)	1,024,200
500,000	LifePoint Hospitals, Inc. 4.50% 2009 cv. sub. notes (B3)	506,875
875,000	Mentor Corp. 2.75% 2024 cv. deb. (NR)	1,069,688
		<u>4,199,063</u>
Hotel Services — 0.9%		
1,000,000	Four Seasons Hotels, Inc. 1.875% 2024 cv. sr. notes (Baa3)	1,061,875
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⁾	1,816,719
Pharmaceuticals — 9.4%		
2,000,000	Alza Corp. 0% 2020 cv. sub. deb. (Aa1) (exch. for Johnson & Johnson common stock)	1,527,500
2,000,000	Amgen, Inc. 0% 2032 LYONs (A2) ⁽¹⁾	1,476,200
1,000,000	Gilead Sciences, Inc. 2% 2007 cv. sr. notes (NR)	1,447,650
1,500,000	Impax Laboratories, Inc. 1.25% 2024 cv. sr. sub. deb. (NR) (Acquired 03/31/04 - 07/21/04; Cost \$1,543,813) ⁽²⁾	1,260,195
500,000	Ivax Corp. 4.50% 2008 cv. sr. sub. notes (NR)	489,375
1,250,000	Ivax Corp. 1.50% 2024 cv. sr. notes (NR) (Acquired 02/27/04; Cost \$1,279,392) ⁽¹⁾⁽²⁾	1,294,250
750,000	Teva Pharmaceutical Finance B.V. 0.75% 2021 cv. sub. deb. (BBB) (exch. for ADR representing Teva Pharmaceuticals Industries Ltd. common stock)	1,048,125
1,000,000	Teva Pharmaceutical Finance II, LLC series A 0.50% 2024 cv. sr. deb. (BBB) (exch. for ADR representing Teva Pharmaceuticals Industries Ltd. common stock)	990,000
1,000,000	Teva Pharmaceutical Finance II, LLC series B 0.25% 2024 cv. sr. deb. (BBB) (exch. for ADR representing Teva Pharmaceuticals Industries Ltd. common stock)	992,500
		<u>10,525,795</u>
Retail — 8.2%		
1,250,000	Casual Male Retail Group, Inc. 5% 2024 cv. sr. sub. notes (NR)	1,150,000
1,500,000	Charming Shoppes, Inc. 4.75% 2012 sr. cv. notes (B2)	1,598,438
750,000	Costco Wholesale Corp. 0% 2017 cv. sub. notes (A3)	696,645
1,800,000	Dick's Sporting Goods, Inc. 1.6061% 2024 sr. cv. notes (NR)	1,324,125
1,000,000	Reebok International Ltd. 2% 2024 cv. deb. (BBB) (Acquired 04/27/04; Cost \$1,011,230) ⁽¹⁾⁽²⁾	975,000
1,500,000	Saks, Inc. 2% 2024 cv. sr. notes (Ba3) (Acquired 03/17/04 - 07/16/04; Cost \$ 1,483,785) ⁽²⁾	1,391,940
2,400,000	The TJX Companies, Inc. 0% 2021 LYONs (Baa1)	2,049,000
		<u>9,185,148</u>
Technology — 6.1%		
1,500,000	Axcelis Technologies, Inc. 4.25% 2007 cv. sub. notes (NR)	1,447,500
2,191,000	Conexant Systems, Inc. 5.25% 2006 cv. sub. notes (NR)	2,125,270
2,378,000	Hewlett-Packard Co., Inc. 0% 2017 LYONs (Baa1)	1,353,974
2,000,000	International Rectifier Corp. 4.25% 2007 cv. sub. notes (B2)	1,970,000
		<u>6,896,744</u>

Portfolio of Investments July 31, 2004 (continued)

Principal Amount		Value (Note 1)
CONVERTIBLE BONDS AND NOTES — (continued)		
Telecommunications — 6.5%		
\$1,500,000	Comverse Technology, Inc. 0% 2023 ZYPS (BB-) ⁽³⁾	\$ 1,705,313
1,000,000	Lucent Technologies, Inc. 2.75% 2023 series A cv. sr. deb. (Caa1)	1,208,390
500,000	Lucent Technologies, Inc. 2.75% 2025 series B cv. sr. deb. (Caa1)	627,475
1,250,000	Nortel Networks Corp. 4.25% 2008 cv. sr. notes (B3)	1,184,375
1,250,000	Tekelec, Inc. 2.25% 2008 cv. sub. discount notes (NR)	1,539,063
1,000,000	UTStarcom, Inc. 0.875% 2008 cv. notes (NR)	1,044,063
		7,308,679
	TOTAL CONVERTIBLE BONDS AND NOTES	63,756,447
Shares		
CONVERTIBLE PREFERRED STOCKS — 19.8%		
Automotive — 1.3%		
50,000	General Motors Corp. 6.25% series C cv. sr. deb. (Baa1)	1,406,000
Banking/Savings and Loan — 7.4%		
20,000	Commerce Capital Trust II 5.95% cv. trust pfd. (Baa1) (exch. for Commerce Bancorp, Inc. common stock)	1,125,000
40,000	National Australia Bank Ltd. 7.875% exch. capital units (NR)	1,329,520
30,000	New York Community Bancorp, Inc. 6% BONUSES units (Baa2)	1,605,000
50,000	Sovereign Capital Trust IV 4.375% PIERS (Ba1) (exch. for Sovereign Bancorp, Inc. common stock) ⁽¹⁾	2,393,750
35,000	Washington Mutual Capital Trust PIERS units (Baa1) (exch. for Washington Mutual, Inc. common stock)	1,859,375
		8,312,645
Energy — 3.2%		
12,500	Chesapeake Energy Corp. 6% cum. cv. pfd. (B3)	1,016,000
1,000	Chesapeake Energy Corp. 4.125% cum. cv. pfd. (B3) (Acquired 03/24/04; Cost \$1,000,000) ⁽²⁾	1,107,500
20,000	The Williams Companies, Inc. 5.50% 2033 jr. sub. cv. deb. (B-)	1,425,000
		3,548,500
Entertainment — 2.5%		
22,500	Emmis Communications Corp. 6.25% series A cum. cv. pfd. (Caa1)	1,013,906
1,750	Radio One, Inc. 6.50% HIGH TIDES (B3)	1,794,078
		2,807,984
Financial and Insurance — 3.1%		
20,000	Reinsurance Group of America, Inc. 5.75% PIERS (Baa2)	1,140,000
100,000	The St. Paul Travelers Companies, Inc. 4.50% 2032 cv. jr. sub. notes (Baa1)	2,299,500
		3,439,500
Health Care — 1.1%		
29,000	Omnicare Capital Trust I 4% PIERS (Ba3) (exch. for Omnicare, Inc. common stock) ⁽¹⁾	1,392,000
Mining — 1.2%		
1,500	Freeport-McMoRan Copper and Gold, Inc. 5.50% cv. perpetual pfd. (CCC+) (Acquired 03/24/04 - 07/16/04; Cost \$1,481,987) ⁽²⁾	1,393,219
	TOTAL CONVERTIBLE PREFERRED STOCKS	22,299,848

Portfolio of Investments July 31, 2004 (continued)

Principal Amount or Shares		Value (Note 1)
MANDATORY CONVERTIBLE SECURITIES — 19.8% ⁽⁴⁾		
Aerospace and Defense — 1.4%		
15,000 shs	Northrop Grumman Corp. 7.25% equity units (NR) ⁽¹⁾	\$ 1,576,200
Consumer Goods — 1.5%		
50,000 shs	Constellation Brands, Inc. dep. shs. representing 5.75% series A mand. cv. pfd. (B)	1,642,500
Energy — 4.7%		
40,000 shs	Amerada Hess Corp. 7% mandatory cv. pfd. ACES (Ba3)	3,028,600
25,000 shs	Teekay Shipping Corp. 7.25% PEPS units (BB-)	1,168,000
30,000 shs	Valero Energy Corp. 2% mandatory cv. pfd. (BB+)	1,122,660
		<u>5,319,260</u>
Financial and Insurance — 5.7%		
45,000 shs	Capital One Financial Corp. 6.25% Upper DECS (Baa3) ⁽¹⁾	2,313,900
15,000 shs	The Chubb Corp. 7% 2005 equity units (A) ⁽¹⁾	412,350
54,000 shs	The Chubb Corp. 7% 2006 equity units (A) ⁽¹⁾	1,489,860
40,000 shs	Platinum Underwriters Holdings, Ltd. 7% equity security units (NR) ⁽¹⁾	1,140,000
45,000 shs	XL Capital, Ltd. 6.5% equity security units (A2)	1,068,255
		<u>6,424,365</u>
Foods — 0.9%		
40,000 shs	Albertson's, Inc. 7.25% HITS units (Baa2) ⁽¹⁾	1,025,000
Pharmaceuticals — 1.4%		
31,500 shs	Baxter International, Inc. 7% equity units (Baa1) ⁽¹⁾	1,618,785
Technology — 3.0%		
105,550 shs	The Goldman Sachs Group, Inc. 7.50% mand. exch. notes (Aa3) (exch. for EMC Corp. common stock)	1,231,927
36,395 shs	The Goldman Sachs Group, Inc. 5.625% mand. exch. notes (Aa3) (exch. for Intel Corp. common stock)	913,041
\$2,000,000	Lehman Brothers Holdings, Inc. 6% 2005 YEELDS (A) (linked to LSI Logic Corp. common stock)	1,202,500
		<u>3,347,468</u>
Utilities — 1.1%		
50,000 shs	DTE Energy Co. 8.75% equity security units (BBB) ⁽¹⁾	1,274,500
	TOTAL MANDATORY CONVERTIBLE SECURITIES ⁽⁴⁾	<u>22,228,078</u>
SHORT-TERM SECURITIES — 3.1%		
Commercial Paper — 3.1%		
3,500,000	American Express Credit Corp. (P1) (1.26% maturing 08/03/04)	3,499,510

Portfolio of Investments July 31, 2004 (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⁾	\$ 10,979
	TOTAL SHORT-TERM SECURITIES	3,510,489
	Total Convertible Bonds and Notes — 56.7%	63,756,447
	Total Convertible Preferred Stocks — 19.8%	22,299,848
	Total Mandatory Convertible Securities — 19.8%	22,228,078
	Total Short-Term Securities — 3.1%	3,510,489
	Total Investments — 99.4%	111,794,862
	Other assets and liabilities, net — 0.6%	617,194
	Total Net Assets — 100.0%	\$112,412,056

- (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 or a Regulation D 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 these securities. The aggregate market value of these securities at July 31, 2004 was \$15,430,698, which represented 13.7% 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.
DECS	Debt Exchangeable for Common Stock.
HIGH TIDES	Remarketable Term Income Deferrable Equity Securities.
HITS	Hybrid Income Term Securities.
LYONs	Liquid Yield Option Notes.
PEPS	Premium Equity Participating 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, a division of McGraw-Hill Companies, Inc. NR is used whenever a rating is unavailable.

The cost of investments for federal income tax purposes is \$111,180,824 resulting in gross unrealized appreciation and depreciation of \$5,444,288 and \$4,730,118, respectively, or net unrealized appreciation of \$714,170 on a tax cost basis.

The Fund invests primarily in convertible securities. Some convertible securities the Fund invests in may be "restricted securities." Typically, securities are considered "restricted securities" when they are not registered under the Securities Act of 1933, as amended (the "Securities Act") and may be resold only pursuant to an exemption from registration under the Securities Act.

Notes to Financial Statements (unaudited)

1. Significant Accounting Policies

Bancroft Convertible Fund, Inc. (the “Fund”) 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 initial 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 8 cents per share for the nine months ended July 31, 2004.

(c) Federal Income Taxes

It is the policy of the Fund 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. At October 31, 2003, the net capital loss carryforward of the Fund which may be used to offset possible future net realized gains was approximately \$8,230,848, and expires in 2009, 2010 and 2011.

(d) Dividends and Distributions to Shareholders

The liability for dividends and distributions payable is recorded on the ex-dividend date.

(e) Market Risk

It is the Fund’s policy, under normal circumstances, 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 in their underlying securities. Thus they expose the Fund to greater downside risk than traditional convertible securities, but still less than that of the underlying common stock. At July 31, 2004, the market value of those securities was \$22,228,078, representing 19.8% of net assets.