

# Bancroft Fund Ltd.

~ successor to Bancroft Convertible Fund ~

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

## Third Quarter Update - July 31, 2006 (unaudited)

### Financial Highlights

Market price 07/31/06	\$18.32
Net asset value (NAV) 07/31/06	\$21.72
Market discount to NAV	(15.65)%
12-Month income distribution	\$0.773
Yield on market price	4.22%
Ratio of expenses to avg. net assets	1.17%*
Ratio of net income to avg. net assets	3.75%*
Portfolio turnover	49.22%
Shares outstanding	5,625,134

\* Annualized

### Largest Investment Holdings as of 07/31/06

by underlying common stock	% of Net Assets
The Walt Disney Company	3.6
Nuveen Investments, Inc.	2.5
The St. Paul Travelers Companies, Inc.	2.4
Chesapeake Energy Corp.	2.2
EchoStar Communications Corp.	2.1
U.S. Bancorp	2.1
Celanese Corp.	2.0
Genworth Financial, Inc.	2.0
The TJX Companies, Inc.	2.0
Schering-Plough Corp.	1.9

### Major Industry Exposure as of 07/31/06

	% of Net Assets
Technology	17.0
Financial and Insurance	15.6
Pharmaceuticals	10.3
Energy	9.0
Banking/Savings and Loan	7.9
Entertainment	5.7
Aerospace and Defense	4.6
Retail	4.0
Health Care	3.6
Chemicals	3.2

### Performance through 07/31/06 with dividends reinvested

	Calendar		Cumulative	
	YTD	1 Year	5 Years	10 Years
Bancroft market price (a)	3.49%	4.73%	8.20%	132.33%
Bancroft net asset value (d)	4.22	5.92	21.67	109.56
Closed-end conv. fund avg. (d)	5.34	6.84	32.64	104.75
S&P 500 (a)	3.34	5.38	14.92	134.01
Merrill Lynch All Convertibles Index (a)	4.77	6.23	33.27	133.63
Lehman Aggregate Bond Total Return Index (d)	0.62	1.46	26.35	84.76

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

Bancroft's performance in the table above has not been adjusted for the fiscal 2004 rights offering; net asset value dilution was 2.38%.

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

(b) From Lipper, Inc. *Closed-End Fund Performance Analysis*, July 31, 2006.

### Quarterly History of NAV and Market Price

Qtr. Ended	Net Asset Values			Market Prices		
	High	Low	Close	High	Low	Close
Oct. 05	\$21.75	\$20.79	\$21.05	\$18.65	\$17.52	\$17.77
Jan. 06	22.06	20.90	22.06	18.90	17.53	18.62
Apr. 06	22.23	21.69	22.20	18.90	18.41	18.69
Jul. 06	22.38	21.05	21.72	18.93	18.08	18.32

### Total Fund Investments as of 07/31/06

	(000's)	% of Net Assets
Convertible Bonds and Notes	\$ 72,466	59.3
Convertible Preferred Stocks	24,496	20.1
Mandatory Convertible Securities	19,820	16.2
Common Stocks	39	—
Short-Term Securities	4,508	3.7
Other Assets	851	0.7
Net Assets	<u>\$122,180</u>	<u>100.0%</u>

### Dividend Distributions (12 Months)

Record Date	Payment Date	Income	Capital Gains	Total
9/15/05	9/29/05	\$0.170	—	\$0.170
12/02/05	12/27/05	0.243	—	0.243
3/16/06	3/30/06	0.180	—	0.180
6/15/06	6/29/06	0.180	—	0.180
		<u>\$0.773</u>		<u>\$0.773</u>

The portfolio holdings and industry exposure are as of July 31, 2006 and subject to change without notice. Detailed portfolio information is available on our website (www.bancroftfund.com). Contact us by e-mail at info@bancroftfund.com or call us at (973) 631-1177.

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## To Our Shareholders:

According to Bloomberg L.P. pricing service, the five-year cumulative performance ended July 31, 2006 of the Russell 2000 (an equity index of small capitalization stocks) outperformed that of the S&P 500 Index, 54% to 15%. For the same period the Merrill Lynch Speculative Grade Convertible Index outperformed the Merrill Lynch Investment Grade Convertible Index 54% to 16%, also according to Bloomberg. In our analysis of this period we have concluded that among the possible reasons that small companies and companies issuing speculative-grade convertible securities outperformed by so much are: (1) a recovery from their substantial decline in 2000/2001, (2) the expansive monetary and fiscal policies (not just of the United States, but also of much of the industrialized world during this time), and (3) an improvement in the business plans and capital structures of many small and speculative firms. The last implies improved corporate governance.

It is our expectation that this split performance will not continue. Securities of small companies and speculative-grade securities have recovered and are no longer rising from a low base. Monetary policy is substantially less expansive as interest rates have been raised. Better corporate governance should be a positive for all companies for years to come.

Convertible securities became slightly richer as the average yield of the Citigroup Convertible Index fell to 3.3% in August 2006, from 3.6% in August 2005, and the average premium to conversion value rose to 31.9% from 31.4% a year earlier. We view the current convertible market as still being attractive for buyers with a focus on total return.

The Fund's performance based on its industry exposure continues to be helped by its positions in energy and energy-related issues as well as retail and telecommunications. The aerospace and defense industry, which had performed well earlier this year, has recently underperformed along with finance and insurance.

For the ten-year period ended July 31, 2006, Bancroft's net asset value (NAV) outperformed the average NAV performance of the closed-end funds included in the closed-end convertible fund category tracked by Lipper, Inc. and published in the *Lipper Closed-End Performance Analysis*. However, for the one-year, three years and five years, the Fund underperformed the average NAV of the ten funds in its category.

Visit our website, [www.bancroftfund.com](http://www.bancroftfund.com), for additional information on the Fund, such as a monthly portfolio summary which lists the Fund's largest holdings. Quarterly updates may be found in the Financial Reports section, and other financial data is often included in press releases.

At its August meeting, the Board of Trustees declared a dividend of 18 cents per share payable September 28, 2006 to shareholders of record September 14, 2006.



Thomas H. Dinsmore  
Chairman of the Board  
September 15, 2006

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### Shareholder Services and Transfer Agent

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10007  
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### Stock Exchange Listing

AMEX - Symbol: BCV



# Portfolio of Investments July 31, 2006 (unaudited)

<u>Principal Amount</u>		<u>Value (Note 1)</u>
	<b>CONVERTIBLE BONDS AND NOTES — 59.3%</b>	
	<b>Aerospace and Defense — 3.8%</b>	
\$1,500,000	AAR Corp. 1.75% 2026 cv. sr. notes (BB-) .....	\$1,522,500
1,000,000	Ceradyne, Inc. 2.875% 2035 sr. sub. cv. notes (NR) <sup>(1)</sup> .....	1,105,000
2,000,000	DRS Technologies, Inc. 2% 2026 cv. sr. notes (B2) (Acquired 01/30/06; Cost \$2,053,750) <sup>(1,2)</sup> .....	<u>1,960,000</u>
		<u>4,587,500</u>
	<b>Banking/Savings and Loan — 2.1%</b>	
2,500,000	U.S. Bancorp floating rate 2035 cv. sr. deb. (Aa2) .....	<u>2,509,250</u>
	<b>Consumer Goods — 1.4%</b>	
1,375,000	Church & Dwight Co., Inc. 5.25% 2033 cv. sr. deb. (Ba2) .....	<u>1,746,250</u>
	<b>Energy — 5.3%</b>	
1,000,000	Cameron International Corp. 2.50% 2026 cv. sr. notes (Baa1) (Acquired 05/23/06; Cost \$991,250) <sup>(2)</sup> .....	1,043,750
1,500,000	Nabors Industries, Inc. 0.94% 2011 sr. exchangeable notes (A-) (exchangeable for Nabors Industries Ltd. common stock) (Acquired 05/18/06 - 06/02/06; Cost \$1,490,615) <sup>(2)</sup> .....	1,509,375
1,500,000	Oil States International, Inc. 2.375% 2025 contingent cv. sr. notes (NR) .....	1,878,750
1,500,000	Rentech, Inc. 4% 2013 cv. sr. notes (NR) .....	<u>2,038,125</u>
		<u>6,470,000</u>
	<b>Entertainment — 5.7%</b>	
2,500,000	EchoStar Communications Corp. 5.75% 2008 cv. sub. notes (B2) .....	2,506,250
4,000,000	The Walt Disney Company 2.125% 2023 cv. sr. notes (A3) .....	<u>4,445,000</u>
		<u>6,951,250</u>
	<b>Financial and Insurance — 1.0%</b>	
1,125,000	FTI Consulting, Inc. 3.75% 2012 cv. sr. sub. notes (Ba3) .....	<u>1,247,344</u>
	<b>Financial Services — 1.6%</b>	
2,000,000	Euronet Worldwide, Inc. 3.50% 2025 cv. deb. (NR) <sup>(1)</sup> .....	<u>1,955,000</u>
	<b>Foods — 0.8%</b>	
1,000,000	Lehman Brothers Holdings Inc. 3% 2012 medium-term notes (A1) (performance linked to General Mills, Inc. common stock) <sup>(1)</sup> .....	<u>998,400</u>
	<b>Health Care — 3.6%</b>	
1,000,000	American Medical Systems Holdings, Inc. 3.25% 2036 cv. sr. sub. notes (B3) <sup>(1)</sup> ..	1,156,250
2,000,000	Manor Care, Inc. 2.125% 2035 cv. sr. notes (Baa3) .....	2,362,500
1,000,000	Omnicare, Inc. 3.25% 2035 cv. sr. deb. (B1) <sup>(1)</sup> .....	912,500
		<u>4,431,250</u>
	<b>Multi-Industry — 2.9%</b>	
1,500,000	LSB Industries, Inc 7% 2011 cv. sr. sub. deb. (NR) .....	1,717,500
1,000,000	Lehman Brothers Holdings Inc. 1% 2011 medium-term notes (A1) (performance linked to Cendant Corp. common stock) <sup>(1)</sup> .....	827,500
1,000,000	Trinity Industries, Inc. 3.875% 2036 cv. sub. notes (Ba3) <sup>(1)</sup> .....	975,000
		<u>3,520,000</u>

# Portfolio of Investments July 31, 2006 (continued)

Principal Amount		Value (Note 1)
<b>CONVERTIBLE BONDS AND NOTES — continued</b>		
<b>Pharmaceuticals — 8.3%</b>		
\$2,000,000	Alza Corp. 0% 2020 cv. sub. deb. (Aa1) (exch. for Johnson & Johnson common stock) .....	\$ 1,727,500
1,250,000	Amgen Inc. 0.125% 2011 cv. sr. notes (A2) (Acquired 02/14/06 - 02/15/06; Cost \$1,253,750) <sup>(2)</sup> .....	1,232,813
500,000	Amgen Inc. 0.375% 2013 cv. sr. notes (A2) (Acquired 02/14/06; Cost \$500,000) <sup>(2)</sup> .....	492,500
1,000,000	Bristol-Myers Squibb Co. floating rate 2023 cv. sr. deb. (A1) .....	1,009,300
1,000,000	Cephalon, Inc. 2% 2015 cv. sr. sub. notes (B-) .....	1,536,250
1,000,000	Ivax Corp. 4.5% 2008 cv. sr. sub. notes (NR) (exchangeable for Teva Pharmaceutical Industries Ltd. ADR and cash) .....	1,013,750
750,000	MedImmune, Inc. 1.375% 2011 cv. sr. notes (BBB) (Acquired 06/23/06; Cost \$750,000) <sup>(2)</sup> .....	750,000
750,000	MedImmune, Inc. 1.625% 2013 cv. sr. notes (BBB) (Acquired 06/23/06; Cost \$750,000) <sup>(2)</sup> .....	750,000
1,750,000	Teva Pharmaceutical Finance Co. B.V. 1.75% 2026 cv. sr. deb. (Baa2) (exchangeable for Teva Pharmaceutical Industries Ltd. ADR) .....	<u>1,658,125</u>
		<u>10,170,238</u>
<b>Real Estate — 0.4%</b>		
500,000	Archstone-Smith Operating Trust 4% 2036 exchangeable sr. notes (Baa1) (exchangeable into Archstone-Smith Trust common stock) .....	<u>515,625</u>
<b>Retail — 4.0%</b>		
1,000,000	Amazon.com, Inc. 4.75% 2009 cv. sub. notes (B2) .....	977,500
1,250,000	Casual Male Retail Group, Inc. 5% 2024 cv. sr. sub. notes (NR) .....	1,414,063
3,000,000	The TJX Companies, Inc. 0% 2021 LYONs (Baa1) .....	<u>2,501,250</u>
		<u>4,892,813</u>
<b>Technology — 14.0%</b>		
1,000,000	C&D Technologies, Inc. 5.25% 2025 cv. sr. notes (NR) (Acquired 11/16/05; Cost \$1,000,000) <sup>(2)</sup> .....	1,086,250
2,000,000	Citigroup Funding, Inc. 1% 2010 medium-term notes (Aa1) (exchangeable for the cash value of a basket of technology stocks) <sup>(1)</sup> .....	1,794,200
1,000,000	Coherent, Inc. 2.75% 2011 cv. sub. notes (NR) (Acquired 03/07/06 - 03/08/06; Cost \$1,012,500) <sup>(2)</sup> .....	1,066,250
1,000,000	Conexant Systems, Inc. 4% 2026 cv. sub. notes (NR) .....	830,000
2,000,000	Intel Corp. 2.95% 2035 jr. sub. cv. deb. (A-) <sup>(1)</sup> .....	1,675,000
2,250,000	International Rectifier Corp. 4.25% 2007 cv. sub. notes (B2) .....	2,221,875
1,500,000	LSI Logic Corp. 4% 2010 cv. sub. notes (B) .....	1,509,375
1,500,000	Lehman Brothers Holdings Inc. 1% 2009 medium-term notes (A1) (performance linked to Microsoft Corp. common stock) <sup>(1)</sup> .....	1,419,900
1,000,000	Richardson Electronics, Ltd. 8% 2011 cv. sr. sub. notes (NR) (Acquired 11/21/05; Cost \$1,000,000) <sup>(2)</sup> .....	993,125
1,100,000	SanDisk Corp. 1% 2013 cv. sr. notes (BB-) .....	962,500
1,500,000	Sybase, Inc. 1.75% 2025 cv. sub. notes (NR) .....	1,530,000
1,000,000	Symantec Corp. 1% 2013 cv. sr. notes (NR) (Acquired 06/13/06; Cost \$992,500) <sup>(2)</sup> .....	1,056,250
1,000,000	Vishay Intertechnology, Inc. 3.625% 2023 cv. sub. notes (B3) .....	<u>1,001,250</u>
		<u>17,145,975</u>

# Portfolio of Investments July 31, 2006 (continued)

Principal Amount		Value (Note 1)
<b>CONVERTIBLE BONDS AND NOTES — continued</b>		
<b>Telecommunications — 3.0%</b>		
\$2,000,000	Tekelec 2.25% 2008 sr. sub. cv. notes (NR) .....	\$ 1,887,500
1,557,000	Time Warner Telecom Inc. 2.375% 2026 cv. sr. deb. (Caa1) .....	<u>1,743,840</u>
		<u>3,631,340</u>
<b>Utilities — 1.4%</b>		
1,500,000	CMS Energy Corp. 2.875% 2024 cv. sr. notes (B1) .....	<u>1,693,125</u>
	<b>TOTAL CONVERTIBLE BONDS AND NOTES</b> .....	<u>\$72,465,360</u>
<b>CONVERTIBLE PREFERRED STOCKS — 20.1%</b>		
<b>Aerospace and Defense — 0.8%</b>		
40,000	Ionatron, Inc. 6.5% Series A redeemable cv. pfd. (NR) (Acquired 10/27/05; Cost \$1,000,000) <sup>(2)</sup> .....	<u>960,000</u>
<b>Banking/Savings and Loan — 5.8%</b>		
40,000	National Australia Bank Ltd. 7.875% exch. capital units (NR) .....	1,760,000
45,000	New York Community Bancorp, Inc. 6% BONUSES units (Baa2) .....	2,087,325
35,000	Sovereign Capital Trust IV 4.375% PIERS (Baa2) (exchangeable for Sovereign Bancorp, Inc. common stock) <sup>(1)</sup> .....	1,575,000
30,000	Washington Mutual Capital Trust 5.375% PIERS units (BBB) (exchangeable for Washington Mutual, Inc. common stock) .....	<u>1,676,400</u>
		<u>7,098,725</u>
<b>Building Products — 1.4%</b>		
35,000	TXI Capital Trust I 5.5% SPuRS (B2) (exchangeable for Texas Industries, Inc. common stock) .....	<u>1,766,406</u>
<b>Chemicals — 2.0%</b>		
85,000	Celanese Corp. 4.25% cv. perpetual pfd. (NR) .....	<u>2,431,797</u>
<b>Energy — 3.5%</b>		
25,000	Chesapeake Energy Corp. 4.5% cum. cv. pfd. (B+) .....	2,450,391
9,000	SEMCO Energy, Inc. 5% Series B cv. cum. pfd. (B-) .....	<u>1,779,750</u>
		<u>4,230,141</u>
<b>Financial and Insurance — 6.6%</b>		
75,000	Citigroup Funding, Inc. variable rate exch. notes (Aa1) (exchangeable for Genworth Financial, Inc. common stock) .....	2,437,500
15	Fannie Mae 5.375% non-cumulative cv. pfd. (Aa3) (Acquired 12/30/04 - 01/11/05; Cost \$1,578,125) <sup>(2)</sup> .....	1,392,696
20,000	Reinsurance Group of America, Inc. 5.75% PIERS (Baa2) .....	1,245,000
120,000	The St. Paul Travelers Companies, Inc. 4.5% 2032 cv. jr. sub. notes (Baa1) .....	<u>2,934,000</u>
		<u>8,009,196</u>
	<b>TOTAL CONVERTIBLE PREFERRED STOCKS</b> .....	<u>\$24,496,265</u>

# Portfolio of Investments July 31, 2006 (continued)

Shares		Value (Note 1)
	<b>MANDATORY CONVERTIBLE SECURITIES — 16.2% <sup>(4)</sup></b>	
	<b>Chemicals — 1.2%</b>	
40,000	Huntsman Corp. 5% mandatory cv. pfd. 02/16/08 (NR) .....	\$ 1,459,375
	<b>Consumer Goods — 1.0%</b>	
35,000	Constellation Brands, Inc. dep. shs. representing 5.75% Series A mandatory cv. pfd. 09/01/06 (B) .....	1,256,500
	<b>Energy — 0.2%</b>	
1,000	Chesapeake Energy Corp. 6.25% mandatory cv. pfd. 06/15/09 (B+) .....	278,740
	<b>Financial and Insurance — 8.0%</b>	
7,000	Alleghany Corp. 5.75% mandatory cv. pfd. 06/15/09 (BBB-) .....	1,956,500
43,500	E*TRADE Financial Corp. 6.125% equity units 11/18/08 (Ba3) .....	1,314,516
30,000	Merrill Lynch & Co., Inc. 6.75% mandatorily exchangeable securities 10/15/07 (Aa3) (exchangeable for Nuveen Investments, Inc. common stock) .....	1,261,800
80,000	MetLife, Inc. 6.375% common equity units 08/15/08 (BBB+) .....	2,207,500
42,500	Morgan Stanley, Inc. 5.875% mandatorily exchangeable securities 10/15/08 (Aa3) (exchangeable for Nuveen Investments, Inc. common stock) .....	1,806,250
45,000	XL Capital, Ltd. 6.5% equity security units 05/15/07 (A3) .....	967,275
10,000	XL Capital, Ltd. 7% equity security units 02/15/09 (A3) .....	242,500
		<u>9,756,341</u>
	<b>Foods — 0.9%</b>	
40,000	Lehman Brothers Holdings Inc. 6.25% PIES 10/15/07 (A1) (exchangeable for General Mills, Inc. common stock) .....	1,041,250
	<b>Pharmaceuticals — 1.9%</b>	
45,000	Schering-Plough Corp. 6% mandatory cv. pfd. 09/14/07 (Baa3) .....	2,376,563
	<b>Technology — 3.0%</b>	
30,000	Credit Suisse First Boston (USA), Inc. 5.5% SAILS 11/15/08 (Aa3) (exchangeable for Equinix, Inc. common stock) .....	1,472,100
98,850	The Goldman Sachs Group, Inc. 14.75% mandatory exchangeable notes 06/22/07 (NR) (exchangeable for Advanced Micro Devices, Inc. common stock) (Acquired 06/14/06; Cost \$2,500,411) <sup>(2)</sup> .....	2,179,445
		<u>3,651,545</u>
	<b>TOTAL MANDATORY CONVERTIBLE SECURITIES <sup>(4)</sup></b> .....	<u>\$19,820,314</u>
	<b>COMMON STOCKS — 0.0%</b>	
	<b>Aerospace and Defense — 0.0%</b>	
5,167	Ionatron, Inc. (Acquired 04/17/05 - 07/13/06; Cost \$55,973) <sup>(2,3)</sup> .....	39,269
	<b>TOTAL COMMON STOCKS</b> .....	<u>\$ 39,269</u>

# Portfolio of Investments July 31, 2006 (continued)

Principal Amount		Value (Note 1)
	<b>SHORT-TERM SECURITIES — 3.7%</b>	
	<b>Commercial Paper — 3.7%</b>	
\$4,500,000	American Express Credit Corp. 5.15% 07/31/06 (P1) .....	\$ 4,497,425
	<b>U.S. Government Obligations — 0.0%</b>	
11,000	U.S. Treasury notes 3.625% 04/30/07 (Aaa) <sup>(5)</sup> .....	10,880
	<b>TOTAL SHORT-TERM SECURITIES</b> .....	<b>\$ 4,508,305</b>
	<b>Total Convertible Bonds and Notes — 59.3%</b> .....	72,465,360
	<b>Total Convertible Preferred Stocks — 20.1%</b> .....	24,496,265
	<b>Total Mandatory Convertible Securities — 16.2%</b> .....	19,820,314
	<b>Total Common Stocks — 0.0%</b> .....	39,269
	<b>Total Short-Term Securities — 3.7%</b> .....	4,508,305
	<b>Total Investments — 99.3%</b> .....	121,329,513
	<b>Other assets and liabilities, net — 0.7%</b> .....	850,763
	<b>Total Net Assets — 100.0%</b> .....	<b><u>\$122,180,276</u></b>

- (1) Contingent payment debt instrument which accrues contingent interest. See Note 2.
- (2) Security not registered under the Securities Act of 1933, as amended (e.g., the security was purchased in a Rule 144A or a Reg 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, 2006 was \$16,511,723 which represented 13.5% of the Fund's net assets.
- (3) Non-income producing security.
- (4) These securities are required to be converted on the dates listed; they generally may be converted prior to these dates at the option of the holder.
- (5) Collateral for a letter of credit.

ADR	American Depositary Receipts.
BONUSES	Bifurcated Option Note Unit Securities.
LYONS	Liquid Yield Option Notes.
PIES	Premium Income Exchangeable Securities.
PIERS	Preferred Income Equity Redeemable Securities.
SAILS	Shared Appreciation Income Linked Securities.
SPuRS	Shared Preference Redeemable 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)

Bancroft Fund Ltd. (successor to Bancroft Convertible Fund, Inc. (established in 1971)) (the “Fund”), is registered under the Investment Company Act of 1940 as a diversified, closed-end management investment company. On March 17, 2006, the Fund was reorganized as a Delaware statutory trust from a Delaware corporation.

**Note 1. 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. 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. Unlisted securities traded in the over-the-counter market are valued using an evaluated quote provided by an independent pricing service. The independent pricing service derives an evaluated quote by obtaining dealer quotes, analyzing the listed markets, reviewing trade execution data and employing sensitivity analysis. Evaluated quotes may also reflect appropriate factors such as individual characteristics of the issue, communications with broker-dealers, and other market data. 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 pursuant to procedures approved by the Board of Trustees. Short-term debt securities with original maturities of 60 days or less are valued at amortized cost.

**Note 2. 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.

At July 31, 2006 unrealized appreciation (depreciation) of investment securities on a tax basis were as follows:

Unrealized appreciation	\$6,681,692
Unrealized depreciation	<u>(4,366,042)</u>
Net unrealized appreciation	2,315,650
Cost for federal income tax purposes	\$114,516,438