

Bancroft Fund Ltd.

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Third Quarter Update - July 31, 2007 (unaudited)

Financial Highlights

Market price 07/31/07	\$20.95
Net asset value (NAV) 07/31/07	\$23.25
Market discount to NAV	(9.89)%
12-Month income distribution	\$0.865
Yield on market price	4.13%
Ratio of expenses to avg. net assets	1.06%*
Ratio of net income to avg. net assets	3.71%*
Portfolio turnover	65.21%
Shares outstanding	5,733,016

* Annualized

Largest Investment Holdings as of 07/31/07

by underlying common stock	% of Net Assets
LSI Corp.	2.7
U.S. Bancorp	2.6
LSB Industries, Inc.	2.3
Prudential Financial, Inc.	2.3
The Walt Disney Company	2.2
Bristow Group Inc.	2.1
Chesapeake Energy Corp.	2.1
Freeport-McMoRan Copper & Gold Inc.	2.1
Nabors Industries Ltd.	2.1
New York Community Bancorp, Inc.	2.0

Major Industry Exposure as of 07/31/07

	% of Net Assets
Energy	10.3
Insurance	8.8
Pharmaceuticals	8.4
Banking/Savings and Loan	7.7
Semiconductors	6.9
Computer Hardware	5.1
Health Care	4.8
Minerals and Mining	4.5
Multi-Industry	4.4
Telecommunications	3.9

Performance through 07/31/07 with dividends reinvested

	Calendar		Annualized		10 Year
	YTD	1 Year	5 Years	10 Years	Volatility
Bancroft market price	9.64%	22.33%	9.01%	7.65%	12.96%
Bancroft net asset value	5.72	13.48	8.71	6.14	7.96
Merrill Lynch All					
Convertibles Index	4.40	12.43	11.99	7.40	12.41
S&P 500	3.64	16.13	11.80	5.97	14.57
Lehman Aggregate Bond					
Total Return Index	1.82	5.58	4.41	5.82	3.10

The above data is from Bloomberg L.P. pricing service, with the exception of the Lehman Aggregate Bond Total Return Index which is from Lipper, Inc. *Closed-End Fund Performance Analysis*, dated July 31, 2007.

Bancroft's performance in the table above has not been adjusted for the fiscal 2004 rights offering. Performance data represent past results and do not reflect future performance.

Quarterly History of NAV and Market Price

Qtr. Ended	Net Asset Values			Market Prices		
	High	Low	Close	High	Low	Close
Oct. 06	\$22.63	\$21.58	\$22.55	\$19.33	\$18.34	\$19.30
Jan. 07	22.98	22.24	22.70	19.84	19.06	19.80
Apr. 07	23.43	22.23	23.27	20.68	19.59	20.68
Jul. 07	24.19	23.24	23.25	21.80	20.65	20.95

Total Fund Investments as of 07/31/07

	(000's)	% of Net Assets
Convertible Bonds and Notes	\$ 83,048	62.3
Corporate Bonds and Notes	1,500	1.1
Convertible Preferred Stocks	14,351	10.8
Mandatory Convertible Securities	26,947	20.2
Common Stocks	15	0.0
Short-Term Securities	6,597	5.0
Other Assets	843	0.6
Net Assets	<u>\$133,301</u>	<u>100.0%</u>

Dividend Distributions (12 Months)

Record Date	Payment Date	Income	Capital Gains	Total
9/14/06	9/28/06	\$0.180	—	\$0.180
12/01/06	12/26/06	0.265	\$0.466	0.731
3/15/07	3/29/07	0.210	—	0.210
6/14/07	6/28/07	0.210	—	0.210
		<u>\$0.865</u>	<u>\$0.466</u>	<u>\$1.331</u>

The portfolio holdings and industry exposure are as of July 31, 2007 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:

This summer saw substantial repercussions from the increase in defaults on home mortgages. Like virtually every other market, the convertible market was affected by these events. Convertibles as a group absorbed much of their underlying common stocks' volatility during this turbulent time and finished down for July and August (the peak of market volatility). Although investment grade convertibles had been underperforming the convertible market for some time prior to July, they outperformed non-investment grade issues during these two months. The non-investment grade convertibles appear to have been adversely affected by the increase in the yield spread between high-yield corporate securities and treasury bonds of roughly 200 basis points, and by a market perception of increased risk to many of the companies represented by these convertibles. We believe that the breadth of the decline is overdone. The Fund's portfolio appears to have weathered this turbulence well.

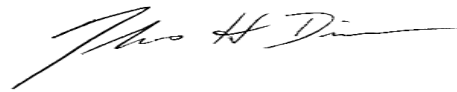
The convertible market in the U.S. is primarily a professionals' market because there are many issues that individuals may not buy. The professional convertible community can be generally broken into two camps: outright buyers, such as Bancroft, who use convertibles primarily as long-term investments, and hedge funds who utilize strategies that include taking on substantial short positions in stocks against long positions of convertible securities. Hedge funds currently make up the bulk of the trading of convertible securities and the change in yield spread mentioned above affects how these funds set up their positions. During July and August, there was a logical movement by such managers into short-duration, large cap, investment grade issues which is why such issues outperformed non-investment grade issues this summer.

During the fiscal year, the performance of the Fund has been enhanced by its exposure to the chemical, computer hardware, and metals and mining industries. Among the

better performing issues in the portfolio were Freeport-McMoRan Copper & Gold Inc., Celanese Corp. and Anixter International Inc. By contrast, performance was held back by exposure to the pharmaceutical and real estate industries.

For the calendar year-to-date, one- and ten-year periods ended July 31, 2007, Bancroft's market return outperformed the Merrill Lynch All Convertibles Index (the Index) while underperforming for the five-year period. The Fund's net asset value (NAV), when adjusted for fund expenses (the Index includes no expenses) and the fiscal 2004 rights offering, outperformed the Index over the calendar year-to-date, one- and ten-year periods, and was in-line for the five-year period. For that ten-year period, the volatility of the Fund's NAV, 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 that it is informative.

At its August meeting, the Board of Trustees declared a dividend of 21 cents per share. The dividend consists of undistributed net investment income and will be payable on September 27, 2007 to shareholders of record September 13, 2007.



Thomas H. Dinsmore
Chairman of the Board

September 17, 2007

Shareholder Services and Transfer Agent

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Stock Exchange Listing

AMEX - Symbol: BCV



Portfolio of Investments July 31, 2007 (unaudited)

<u>Principal Amount</u>		<u>Value (Note 1)</u>
CONVERTIBLE BONDS AND NOTES — 62.3%		
Aerospace and Defense — 3.4%		
\$1,500,000	AAR Corp. 1.75%, due 2026 cv. sr. notes (BB)	\$1,771,875
1,000,000	Alliant Techsystems Inc. 2.75%, due 2011 cv. sr. sub. notes (B1)	1,173,750
1,500,000	DRS Technologies, Inc. 2%, due 2026 cv. sr. notes (B1) (Acquired 01/30/06 - 05/16/07; Cost \$1,597,641) ^(1,2)	<u>1,571,250</u>
		<u>4,516,875</u>
Agriculture — 1.4%		
2,000,000	Merrill Lynch & Co., Inc. 1.5%, due 2012 cv. securities (Aa3) (exchangeable into Archer-Daniels-Midland Co. common stock) (Acquired 02/23/07; Cost \$2,000,000) ⁽²⁾	<u>1,916,500</u>
Banking/Savings and Loan — 3.4%		
1,000,000	PrivateBancorp, Inc. 3.625%, due 2027 cv. sr. notes (NR)	955,000
2,500,000	U.S. Bancorp floating rate, due 2035 cv. sr. deb. (Aa2)	2,518,750
1,000,000	U.S. Bancorp floating rate, due 2037 cv. sr. deb. (Aa2)	<u>995,600</u>
		<u>4,469,350</u>
Computer Hardware — 5.1%		
1,000,000	C&D Technologies, Inc. 5.25%, due 2025 cv. sr. notes (NR)	940,000
2,000,000	Credit Suisse, New York Branch 13.62%, due 2007 equity-linked notes (Aa3) (exchangeable for Corning Inc. common stock)	2,190,600
1,000,000	EMC Corp. 1.75%, due 2011 cv. sr. notes (BBB+)	1,307,500
1,000,000	EMC Corp. 1.75%, due 2013 cv. sr. notes (BBB+)	1,311,250
1,000,000	Richardson Electronics, Ltd. 8%, due 2011 cv. sr. sub. notes (NR)	<u>1,050,000</u>
		<u>6,799,350</u>
Computer Software — 2.7%		
1,000,000	Blackboard Inc 3.25%, due 2027 cv. sr. notes (NR)	1,071,250
1,000,000	GSI Commerce, Inc. 2.5%, due 2027 cv. sr. notes (NR) (Acquired 06/27/07; Cost \$1,001,875) ⁽²⁾	982,500
1,500,000	Lehman Brothers Holdings Inc. 1%, due 2009 medium-term notes (A1) (performance linked to Microsoft Corp. common stock) ⁽¹⁾	<u>1,561,350</u>
		<u>3,615,100</u>
Consumer Goods — 2.3%		
1,500,000	Chattem, Inc. 1.625%, due 2014 cv. sr. notes (NR)	1,430,625
1,000,000	Church & Dwight Co., Inc. 5.25%, due 2033 cv. sr. deb. (Ba1)	<u>1,622,500</u>
		<u>3,053,125</u>
Energy — 5.3%		
1,000,000	Cameron International Corp. 2.50%, due 2026 cv. sr. notes (Baa1)	1,300,000
1,500,000	Covanta Holding Corp. 1%, due 2027 sr. cv. deb. (B1) ⁽¹⁾	1,464,375
1,500,000	Nabors Industries, Inc. 0.94%, due 2011 sr. exchangeable notes (A-) (exchangeable for Nabors Industries Ltd. common stock)	1,419,375
1,225,000	Oil States International, Inc. 2.375%, due 2025 contingent cv. sr. notes (NR)	1,877,313
1,250,000	Rentech, Inc. 4%, due 2013 cv. sr. notes (NR)	<u>1,025,781</u>
		<u>7,086,844</u>
Financial Services — 1.4%		
2,000,000	Euronet Worldwide, Inc. 3.50%, due 2025 cv. deb. (B+) ⁽¹⁾	<u>1,900,000</u>

Portfolio of Investments July 31, 2007 (continued)

Principal Amount		Value (Note 1)
CONVERTIBLE BONDS AND NOTES — continued		
Health Care — 3.6%		
\$1,000,000	China Medical Technologies, Inc. 3.5%, due 2011 cv. sr. sub. notes (NR)	\$ 1,202,500
500,000	LifePoint Hospitals, Inc. 3.25, due 2025 cv. sr. sub. deb. (B2)	428,750
475,000	LifePoint Hospitals, Inc. 3.50, due 2014 cv. sr. sub. notes (B)	418,594
1,000,000	Omnicare, Inc. 3.25%, due 2035 cv. sr. deb. (B2) ⁽¹⁾	811,250
1,000,000	SonoSite Inc. 3.75%, due 2014 cv. sr. notes (NR)	973,750
1,000,000	St. Jude Medical, Inc. 1.22%, due 2008 cv. sr. deb. (BBB+) (Acquired 04/20/07; Cost \$1,005,938) ⁽²⁾	<u>1,016,250</u>
		<u>4,851,094</u>
Insurance — 2.3%		
3,000,000	Prudential Financial, Inc. floating rate, due 2036 cv. sr. notes (A3)	<u>3,014,310</u>
Media and Entertainment — 3.7%		
2,000,000	Gannett Co., Inc. floating rate, due 2037 cv. sr. notes (A3)	1,991,000
2,500,000	The Walt Disney Company 2.125%, due 2023 cv. sr. notes (A2)	<u>2,918,750</u>
		<u>4,909,750</u>
Minerals and Mining — 0.8%		
1,000,000	Newmont Mining Corp. 1.625%, due 2017 cv. sr. notes (BBB) (Acquired 07/12/07; Cost \$1,018,750) ⁽²⁾	<u>1,073,750</u>
Multi-Industry — 4.4%		
2,000,000	Citigroup Funding Inc. 1%, due 2010 medium-term notes (Aa1) (exchangeable for the cash value of a basket of technology stocks) ⁽¹⁾	2,063,600
750,000	Diversa Corp. 5.5%, due 2027 cv. sr. notes (NR) (exchangeable for Verenum Corp. common stock) (Acquired 03/23/07; Cost \$750,000) ⁽²⁾	742,500
3,000,000	LSB Industries, Inc. 5.5%, due 2012 cv. sr. sub. deb. (NR) (Acquired 06/28/07; Cost \$3,000,000) ⁽²⁾	<u>3,045,000</u>
		<u>5,851,100</u>
Pharmaceuticals — 7.0%		
2,000,000	Alza Corp. 0%, due 2020 cv. sub. deb. (Aa1) (exchangeable for Johnson & Johnson common stock)	1,672,500
2,500,000	Bristol-Myers Squibb Co. floating rate, due 2023 cv. sr. deb. (A2)	2,543,750
1,625,000	Mylan Laboratories Inc. 1.25%, due 2012 sr. cv. notes (BB+)	1,470,625
1,500,000	Teva Pharmaceutical Finance Co. B.V. 1.75%, due 2026 cv. sr. deb. (Baa2) (exchangeable for Teva Pharmaceutical Industries Ltd. ADR)	1,530,000
2,000,000	Wyeth floating rate, due 2024 cv. sr. deb. (A3)	<u>2,133,600</u>
		<u>9,350,475</u>
Real Estate — 2.5%		
1,000,000	ProLogis 2.25%, due 2037 cv. sr. notes (BBB+) (Acquired 03/20/07 - 04/16/07; Cost \$982,038) ⁽²⁾	948,750
1,000,000	United Dominion Realty Trust, Inc. 3.625%, due 2011 cv. sr. notes (NR)	935,000
1,500,000	Vornado Realty Trust 2.85%, due 2027 cv. sr. deb. (Baa2)	<u>1,383,750</u>
		<u>3,267,500</u>
Retail — 2.2%		
1,500,000	Amazon.com, Inc. 4.75%, due 2009 cv. sub. notes (Ba3)	1,616,250
1,500,000	Charming Shoppes, Inc. 1.125%, due 2014 sr. cv notes (BB-) (Acquired 05/02/07 - 05/03/07; Cost \$1,491,125) ⁽²⁾	<u>1,256,250</u>
		<u>2,872,500</u>

Portfolio of Investments July 31, 2007 (continued)

Principal Amount		Value (Note 1)
CONVERTIBLE BONDS AND NOTES — continued		
Semiconductors — 6.9%		
\$2,500,000	Agere Systems Inc. 6.5%, due 2009 cv. sub. notes (B+) (exchangeable for LSI Corp.)	\$ 2,575,000
1,500,000	Cypress Semiconductor Corp. 1%, due 2009 cv. sr. notes (NR)	1,760,625
2,000,000	Fairchild Semiconductor Corp. 5%, due 2008 cv. sr. sub. notes (B) (exchangeable into Fairchild Semiconductor International, Inc. common stock)	1,985,000
2,000,000	Intel Corp. 2.95%, due 2035 jr. sub. cv. deb. (A-) ⁽¹⁾	1,952,500
1,000,000	LSI Corp. 4%, due 2010 cv. sub. notes (B+)	966,250
		9,239,375
Telecommunications — 2.5%		
1,000,000	Anixter International Inc. 1%, due 2013 sr. cv. notes (BB-)	1,395,000
1,000,000	Equinix, Inc. 2.5%, due 2012 cv. sub. notes (NR)	1,018,750
1,000,000	SAVVIS, Inc. 3%, due 2012 cv. sr. notes (NR)	902,500
		3,316,250
Transportation — 1.5%		
2,000,000	ExpressJet Holdings, Inc. 4.25%, due 2023 cv. notes (NR)	1,945,000
	TOTAL CONVERTIBLE BONDS AND NOTES	\$83,048,248
 CORPORATE BONDS AND NOTES — 1.1%		
Retail — 1.1%		
1,500,000	Amerivon Holdings LLC 4%, due 2010 units with corporate note and warrants attached (NR) (Acquired 06/01/07; Cost \$1,500,000) ⁽²⁾	1,500,000
 CONVERTIBLE PREFERRED STOCKS — 10.8%		
Aerospace and Defense — 0.3%		
40,000	Ionatron, Inc. 6.5% Series A redeemable cv. pfd. (NR) (Acquired 10/27/05; Cost \$1,000,000) ⁽²⁾	440,000
Banking/Savings and Loan — 4.3%		
59,179	New York Community Bancorp, Inc. 6% BONUSSES units (Baa1)	2,713,061
20,000	Sovereign Capital Trust IV 4.375% PIERS (Baa1) (exchangeable for Sovereign Bancorp, Inc. common stock) ⁽¹⁾	900,000
40,000	Washington Mutual Capital Trust 5.375% PIERS units (A3) (exchangeable for Washington Mutual, Inc. common stock)	2,135,200
		5,748,261
Chemicals — 2.0%		
55,000	Celanese Corp. 4.25% cv. perpetual pfd. (NR)	2,701,875
Energy — 1.9%		
25,000	Chesapeake Energy Corp. 4.5% cum. cv. pfd. (B+)	2,494,000

Portfolio of Investments July 31, 2007 (continued)

Shares		Value (Note 1)
CONVERTIBLE PREFERRED STOCKS — continued		
Insurance — 1.7%		
75,000	Citigroup Funding Inc. variable rate exch. notes (Aa1) (exchangeable for Genworth Financial, Inc. common stock)	\$ 2,222,250
Telecommunications — 0.6%		
100	Medis Technologies Ltd 7.25% Series A cum. cv. perpetual pfd. (NR)	744,366
TOTAL CONVERTIBLE PREFERRED STOCKS		\$14,350,752
MANDATORY CONVERTIBLE SECURITIES — 20.2% ⁽³⁾		
Chemicals — 0.7%		
20,000	Huntsman Corp. 5% mandatory cv. pfd., due 02/16/08 (NR)	976,000
Consumer Goods — 1.4%		
1,750	The Stanley Works floating rate equity units, due 05/17/12 (A2)	1,842,453
Energy — 3.1%		
40,000	Bristow Group Inc. 5.5% mandatory cv. pfd., due 09/15/09 (B)	2,458,000
1,000	Chesapeake Energy Corp. 6.25% mandatory cv. pfd., due 06/15/09 (B+)	281,855
45,950	NATIXIS Financial Products Inc. 9.55% mandatory trigger exchangeable notes, due 01/26/08 (NR) (exchangeable for Nabors Industries, Inc. common stock) (Acquired 07/23/07; Cost \$1,500,268) ⁽²⁾	1,369,930
		<u>4,109,785</u>
Finance — 1.0%		
25,500	Morgan Stanley, Inc. 5.875% mandatorily exchangeable securities, due 10/15/08 (Aa3) (exchangeable for Nuveen Investments, Inc. common stock)	1,316,820
Financial Services — 1.3%		
70,000	E*TRADE Financial Corp. 6.125% equity units, due 11/18/08 (Ba3)	1,698,900
Foods — 0.8%		
40,000	Lehman Brothers Holdings Inc. 6.25% PIES, due 10/15/07 (A1) (exchangeable for General Mills, Inc. common stock)	1,045,200
Health Care — 1.1%		
35,732	NATIXIS Financial Products Inc. 9.1% mandatory trigger exchangeable notes, due 01/07/08 (NR) (exchangeable for St. Jude Medical, Inc. common stock) (Acquired 07/02/07; Cost \$1,500,029) ⁽²⁾	1,516,127
Insurance — 4.9%		
7,000	Alleghany Corp. 5.75% mandatory cv. pfd., due 06/15/09 (BBB-)	2,709,000
80,000	MetLife, Inc. 6.375% common equity units, due 08/15/08 (BBB+)	2,390,400
52,500	XL Capital, Ltd. 7% equity security units, due 02/15/09 (A3)	1,436,400
		<u>6,535,800</u>

Portfolio of Investments July 31, 2007 (continued)

Shares		Value (Note 1)
	MANDATORY CONVERTIBLE SECURITIES — continued	
	Minerals and Mining — 3.7%	
20,000	Freeport-McMoRan Copper & Gold Inc. 6.75% mandatorily cv. pfd., due 05/01/10 (B+)	\$ 2,831,000
30,000	Vale Capital Ltd. 5.5% mandatorily convertible notes, due 06/15/10 (NR) (exchangeable for ADSs representing Companhia Vale Do Rio Doce common stock)	1,573,800
10,000	Vale Capital Ltd. 5.5% mandatorily convertible notes, due 06/15/10 (NR) (exchangeable for ADSs representing Companhia Vale Do Rio Doce Preference A Shares)	533,900
		4,938,700
	Pharmaceuticals — 1.4%	
63,012	NATIXIS Financial Products Inc. 8.1% mandatory trigger exchangeable notes, due 12/05/07 (NR) (exchangeable for Sepracor Inc. common stock) (Acquired 05/23/07; Cost \$3,000,000) ⁽²⁾	1,867,896
	Telecommunications — 0.8%	
14,000	Credit Suisse Securities (USA), Inc. 5.5% SAILS, due 11/15/08 (Aa1) (exchangeable for Equinix, Inc. common stock)	1,099,420
	TOTAL MANDATORY CONVERTIBLE SECURITIES ⁽³⁾	\$ 26,947,101
	COMMON STOCKS — 0.0%	
	Aerospace and Defense — 0.0%	
4,666	Ionatron, Inc. (NR) ⁽⁴⁾	15,258
Principal Amount	SHORT-TERM SECURITIES — 5.0%	
	Commercial Paper — 5.0%	
\$3,400,000	American Express Credit Corp. 5.27%, due 08/02/07 (P1)	6,597,102
	Total Convertible Bonds and Notes — 62.3%	\$ 83,048,248
	Total Corporate Bonds and Notes — 1.1%	1,500,000
	Total Convertible Preferred Stocks — 10.8%	14,350,752
	Total Mandatory Convertible Securities — 20.2%	26,947,101
	Total Common Stocks — 0.0%	15,258
	Total Short-Term Securities — 5.0%	6,597,102
	Total Investments — 99.4%	132,458,461
	Other assets and liabilities, net — 0.6%	842,372
	Total Net Assets — 100.0%	\$ 133,300,833

Portfolio of Investments July 31, 2007 (continued)

- (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 unregistered securities at July 31, 2007 was \$19,246,703 which represented 14.4% of the Fund's net assets.
- (3) 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.
- (4) Non-income producing security.

ADR	American Depositary Receipts.
ADS	American Depositary Shares.
BONUSES	Bifurcated Option Note Unit Securities.
PIES	Premium Income Exchangeable Securities.
PIERS	Preferred Income Equity Redeemable Securities.
SAILS	Shared Appreciation Income Linked Securities.

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

Summary of Portfolio Ratings

	% of Portfolio
Aa	13
A	19
Baa	15
Ba	9
B	17
NR	27

Selected Notes to Financial Statements (unaudited)

Bancroft Fund Ltd. (established in 1971) (the “Fund”), is registered under the Investment Company Act of 1940 as a diversified, closed-end management investment company.

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, or, if an evaluated quote is unavailable, such securities are valued using prices received from dealers, provided that if the dealer supplies both bid and asked prices, the price to be used is the mean of the bid and asked prices. 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, 2007 unrealized appreciation (depreciation) of investment securities on a tax basis were as follows:

Unrealized appreciation	\$9,113,536
Unrealized depreciation	<u>(5,685,475)</u>
Net unrealized appreciation	3,428,061
Cost for federal income tax purposes	\$129,030,398