
Bancroft Fund Ltd.

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

To Our Shareholders:

As the securities markets continue their recovery from last year's collapse, we note that convertible securities have been among the leaders in performance this year. Outperforming all of the major equity market indices and the corporate bond market, as measured by the Bank of America/Merrill Lynch All Convertibles Index, they trail only the high yield bond market in performance as of July 31, 2009. The extreme undervaluation of convertible securities that we wrote about in prior letters appears to be the primary driver of these gains.

The availability of many convertible issues with substantial yields and short maturities or puts prompted the management of Bancroft Fund Ltd. to move much of the portfolio into these securities. The Fund also reduced its exposure to issues that appeared to be distressed and under threat of default. We carried on this strategy into the second quarter of 2009. There were several consequences to these actions: 1) We believed this strategy would provide the portfolio with less volatile holdings and reduce the Fund's risk. This strategy was rewarded when equity markets reached new market lows in February/early March, but convertible securities did not do so. 2) The portfolio became less sensitive to moves in the underlying common stock and more sensitive to the issuer's balance sheet. As stocks recovered, the market's perception of the issuer's financial condition improved which gave these issues a boost. 3) The short dated nature of many of these investments reduced the Fund's current yield from income. Although this reduction in current yield adversely affected the income available to pay dividends, we believe the strategy improved the long-term prospects for total return and reduced the Fund's susceptibility to renewed volatility.

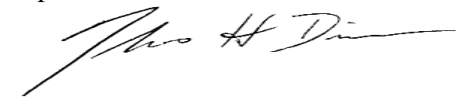
As we stated in our June letter, U.S. stock market declines of over 30% have retested their lowest levels within six months for every bear market since 1937. It does not appear that this will occur this time, but the concerns that could cause the market to fall again still exist. At some point the monetary authorities (the Federal Reserve Board) will have to begin reducing the excess liquidity injected into our economy and the Federal government will have to address the prospect of trillion dollar deficits over many years. If these issues are not handled deftly then we may see bear markets once again, not only for stocks and bonds, but also for the U.S. dollar. We believe that if the dollar weakens substantially, we will see many foreign investors pull out of our markets and we will likely see another big rise in the price of oil.

The Fund's performance in the three months ended July 31, 2009 was enhanced by its exposure to the Foods, Minerals and Mining, and Telecommunications industries. Among the better performing issues in the portfolio were SAVVIS (Telecommunications) and Trina Solar (Energy). Performance was held back by exposure to the Aerospace and Defense and Consumer Goods industries.

The Fund seeks to provide total returns to shareholders that compare favorably over full market cycles to those provided by the equity markets, but with less volatility. As indicated in the performance chart of this Third Quarter Update, Bancroft's market return outperformed the Bank of America/Merrill Lynch All Convertibles Index for the five- and ten-year periods ended July 31, 2009, but underperformed for the seven-month and one-year periods. The Fund's net asset value (NAV), with dividends reinvested, performed in line with such Index over the five- and ten-year periods, but underperformed for the seven-month and one-year periods (this is the case when one adjusts for the fiscal 2004 rights offering, the 2008 tender offer and the fact that the Index does not include expenses). The Fund's NAV volatility and market volatility for the ten-year period, however, as measured by standard deviation, were 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.

We have recently updated the website for Bancroft Fund, her sister fund, Ellsworth Fund and the Funds' manager, Dinsmore Capital Management Co. In the near future we will be adding a "White Paper" on the topic of Convertible Securities. Please look over the site and if you have any comments, please contact us.

At its August meeting, the Board of Trustees declared a dividend of thirteen cents (\$0.13) per share. The dividend consists of undistributed net investment income and will be payable on September 24, 2009 to shareholders of record on September 10, 2009.



Thomas H. Dinsmore
Chairman of the Board
March 16, 2009

Shareholder Services and Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10007
(800) 937-5449
www.amstock.com

Investment Adviser

Dinsmore Capital Management Co.
65 Madison Avenue
Morristown, NJ 07960-7308
(973) 631-1177
www.bancroftfund.com
email: info@bancroftfund.com

Stock Exchange Listing
NYSE Amex - Symbol: BCV



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Third Quarter Update - July 31, 2009 (unaudited)

Financial Highlights

| | |
|--|-----------|
| Market price 7/31/09 | \$13.94 |
| Net asset value (NAV) 7/31/09 | \$15.70 |
| Market discount to NAV | (11.21)% |
| 12-Month income distribution | \$0.74 |
| Yield on market price | 5.31% |
| Ratio of expenses to avg. net assets | 1.26%* |
| Ratio of net income to avg. net assets | 4.95%* |
| Portfolio turnover | 57.73% |
| Shares outstanding | 5,235,599 |

* Annualized

Largest Investment Holdings as of 7/31/09

by underlying common stock

| | % of Net Assets |
|--------------------------------|--------------------|
| LSB Industries | 3.3 |
| Intel | 2.7 |
| Freeport-McMoRan Copper & Gold | 2.6 |
| Equinix | 2.5 |
| Euronet Worldwide | 2.3 |
| Blackboard | 2.2 |
| Millipore | 2.2 |
| Teva Pharmaceutical Industries | 2.1 |
| Kinetic Concepts | 2.1 |
| Oil States International | 2.1 |

Major Industry Exposure as of 7/31/09

| | % of Net Assets |
|--------------------------|--------------------|
| Energy | 15.5 |
| Telecommunications | 13.1 |
| Healthcare | 8.8 |
| Pharmaceuticals | 8.7 |
| Banking/Savings and Loan | 6.8 |
| Minerals and Mining | 6.0 |
| Foods | 5.4 |
| Computer Software | 5.0 |
| Computer Hardware | 4.5 |
| Financial Services | 4.2 |

Performance through 7/31/09 with dividends reinvested

| | 7 Months | 1 Year | Annualized 5 Years | 10 Years | 10-Year Volatility |
|--|----------|----------|-----------------------|----------|-----------------------|
| Bancroft market price | 29.45% | (11.70)% | 2.10% | 3.21% | 13.29% |
| Bancroft net asset value | 27.29 | (14.79) | 1.07 | 1.78 | 10.17 |
| Bank of America/Merrill Lynch All Conv. Index | 29.69 | (10.20) | 1.54 | 3.04 | 13.81 |
| S&P 500 | 10.97 | (19.95) | (0.14) | (1.19) | 15.42 |
| Barclay Aggregate Bond Total Return Index | 3.54 | 7.85 | 5.14 | 6.19 | 2.87 |

The above data is from Bloomberg L.P. pricing service, with the exception of the Barclay Aggregate Bond Total Return Index from Barclay Capital.

Bancroft's performance in the table above has not been adjusted for the fiscal 2004 rights offering, or the 2008 tender offer; net asset value dilution was 2.38%, and (0.85)%, respectively.

Quarterly History of NAV and Market Price

| Qtr. Ended | Net Asset Values | | | Market Prices | | |
|------------|------------------|---------|---------|---------------|---------|---------|
| | High | Low | Close | High | Low | Close |
| 10/31/08 | \$19.62 | \$12.42 | \$13.37 | \$16.81 | \$ 9.26 | \$11.30 |
| 1/31/09 | 13.85 | 11.64 | 12.63 | 12.15 | 9.97 | 11.65 |
| 4/30/09 | 13.92 | 12.02 | 13.92 | 11.90 | 9.75 | 11.69 |
| 7/31/09 | 15.70 | 14.16 | 15.70 | 13.97 | 12.04 | 13.94 |

Total Fund Investments as of 7/31/09

| | (000's) | % of Net Assets |
|-----------------------------------|-----------------|--------------------|
| Convertible Bonds and Notes | \$61,819 | 75.2 |
| Corporate Bonds and Notes | 750 | 0.9 |
| Convertible Preferred Stock | 9,285 | 11.3 |
| Mandatory Convertible Securities | 6,928 | 8.5 |
| Common Stock | 342 | 0.4 |
| Other Assets and Liabilities, Net | 3,060 | 3.7 |
| Net Assets | <u>\$82,184</u> | <u>100.0%</u> |

Dividend Distributions (12 Months)

| Record Date | Payment Date | Income | Capital Gains | Total |
|----------------|-----------------|---------------|------------------|---------------|
| 9/11/08 | 9/25/08 | \$0.21 | — | \$0.21 |
| 11/28/08 | 12/29/08 | 0.19 | — | 0.19 |
| 3/12/09 | 3/26/09 | 0.17 | — | 0.17 |
| 6/11/09 | 6/25/09 | 0.17 | — | 0.17 |
| | | <u>\$0.74</u> | <u>—</u> | <u>\$0.74</u> |

The portfolio holdings and industry exposure are as of July 31, 2009 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.

| | Principal Amount | Value (Note 1) |
|--|---------------------|-------------------|
| CONVERTIBLE BONDS AND NOTES - 75.2% | | |
| Aerospace and Defense - 1.3% | | |
| Alliant Techsystems Inc. 2.75%, due 2011 cv. sr. sub. notes (B1) | \$1,000,000 | \$ 1,028,750 |
| Banking/Savings and Loan - 1.2% | | |
| National City Corp. 4%, due 2011 cv. sr. notes (A3) | 1,000,000 | 997,500 |
| Computer Hardware - 4.5% | | |
| EMC Corp. 1.75%, due 2013 cv. sr. notes (A-) | 1,000,000 | 1,131,250 |
| NETAPP, Inc. 1.75%, due 2023 cv. sr. notes (NR) | 1,500,000 | 1,464,375 |
| Richardson Electronics, Ltd. 8%, due 2011 cv. sr. sub. notes (NR) | 1,000,000 | 835,000 |
| Verigy Ltd. 5.25%, due 2014 cv. sr. notes (NR) (Acquired 07/10/09; Cost \$250,000) (1) | 250,000 | 305,625 |
| | | <u>3,736,250</u> |
| Computer Software - 5.0% | | |
| Blackboard Inc. 3.25%, due 2027 cv. sr. notes (BB-) | 2,000,000 | 1,927,500 |
| GSI Commerce, Inc. 2.5%, due 2027 cv. sr. notes (NR) | 1,500,000 | 1,271,250 |
| Lehman Brothers Holdings Inc. 1%, due 2009 medium-term notes (NR) (performance formerly linked to Microsoft Corp. common stock) (2,3) | 1,500,000 | 127,500 |
| Sybase, Inc. 3.5%, due 2029 cv. sr. notes (NR) (Acquired 07/29/09 and 07/30/09; Cost \$750,000) (1) | 750,000 | 781,875 |
| | | <u>4,108,125</u> |
| Consumer Goods - 2.6% | | |
| Chattem, Inc. 1.625%, due 2014 cv. sr. notes (NR) | 1,307,000 | 1,279,226 |
| Regis Corp. 5%, due 2014 cv. sr. notes (NR) | 750,000 | 830,625 |
| | | <u>2,109,851</u> |
| Energy - 10.3% | | |
| Chesapeake Energy Corp. 2.75%, due 2035 contingent cv. sr. notes (Ba3) (4) | 1,910,000 | 1,704,675 |
| Covanta Holding Corp. 1%, due 2027 cv. sr. deb. (Ba3) (4) | 1,750,000 | 1,550,938 |
| McMoRan Exploration Co. 5.25%, due 2011 cv. sr. notes (NR) | 1,337,000 | 1,201,629 |
| Oil States International, Inc. 2.375%, due 2025 contingent cv. sr. notes (NR) | 1,575,000 | 1,714,781 |
| SunPower Corp. 1.25%, due 2027 cv. sr. deb. (NR) | 1,500,000 | 1,310,625 |
| Trina Solar Ltd. 4%, due 2013 cv. sr. notes (NR) (exchangeable for ADS representing common shares) | 1,000,000 | 1,002,500 |
| | | <u>8,485,148</u> |
| Financial Services - 4.2% | | |
| Old Republic International Corp. 8%, due 2012 cv. sr. notes (BBB) | 1,250,000 | 1,370,313 |
| Euronet Worldwide, Inc. 3.50%, due 2025 cv. deb. (B+) (4) | 2,250,000 | 2,041,875 |
| | | <u>3,412,188</u> |
| Foods - 3.9% | | |
| Central European Distribution Corp. 3%, due 2013 cv. sr. notes (B-) | 1,400,000 | 1,078,000 |
| The Great Atlantic & Pacific Tea Company, Inc. 5.125%, due 2011 cv. sr. notes (Caa1) | 525,000 | 500,063 |
| The Great Atlantic & Pacific Tea Company, Inc. 6.75%, due 2012 cv. sr. notes (Caa1) | 700,000 | 605,500 |
| Tyson Foods, Inc. 3.25%, due 2013 cv. sr. notes (BB) | 1,000,000 | 1,013,750 |
| | | <u>3,197,313</u> |
| Healthcare - 8.8% | | |
| China Medical Technologies, Inc. 4%, due 2013 cv. sr. sub. notes (NR) (exchangeable for ADS representing common stock) | 1,750,000 | 1,139,688 |
| Greatbatch, Inc. 2.25%, due 2013 cv. sub. deb. (NR) (4) | 1,500,000 | 1,276,875 |
| Kinetic Concepts, Inc. 3.25%, due 2015 cv. sr. notes (B+) | 2,000,000 | 1,752,500 |
| Millipore Corp. 3.75%, due 2026 cv. sr. notes (BB-) (4) | 1,750,000 | 1,800,313 |
| Omnicare, Inc. 3.25%, due 2035 cv. sr. deb. (B3) (4) | 500,000 | 373,125 |
| SonoSite Inc. 3.75%, due 2014 cv. sr. notes (NR) | 1,000,000 | 898,750 |
| | | <u>7,241,251</u> |
| Information Technology - 0.7% | | |
| Itron, Inc. 2.50%, due 2026 cv. sub. deb. (B-) | 500,000 | 536,250 |

| | Principal Amount | Value (Note 1) |
|--|---------------------|-------------------|
| CONVERTIBLE BONDS AND NOTES - continued | | |
| Minerals and Mining - 1.3% | | |
| Goldcorp Inc. 2%, due 2014 cv. sr. notes (BBB+) | | |
| (Acquired 06/02/09; Cost \$1,000,000) (1) | \$1,000,000 | \$ 1,059,100 |
| Multi-Industry - 3.5% | | |
| Diversa Corp. 5.5%, due 2027 cv. sr. notes (NR) (exchangeable for Verenum Corp. common stock) | 750,000 | 167,813 |
| LSB Industries, Inc. 5.5%, due 2012 cv. sr. sub. deb. (NR) | 3,000,000 | 2,685,000 |
| | | <u>2,852,813</u> |
| Pharmaceuticals - 7.3% | | |
| Biovail Corp. 5.375%, due 2014 cv. sr. notes (NR) (Acquired 06/04/09; Cost \$125,000) (1) | 125,000 | 140,938 |
| Cephalon, Inc. 2.5%, due 2014 cv. sr. sub. notes (NR) | 1,000,000 | 1,045,000 |
| Endo Pharmaceuticals Holdings, Inc. 1.75%, due 2015 cv. sr. sub. notes (NR) | | |
| (Acquired 01/15/09, 04/02/09 and 05/04/09; Cost \$1,264,897) (1) | 1,500,000 | 1,372,500 |
| Mylan Inc. 3.75%, due 2015 cash cv. notes (B+) | 1,000,000 | 1,191,250 |
| Mylan Laboratories, Inc. 1.25%, due 2012 cv. sr. notes (B+) | 500,000 | 451,250 |
| Teva Pharmaceutical Finance Co. B.V. 1.75%, due 2026 cv. sr. deb. (Baa2) | | |
| (exchangeable for Teva Pharmaceutical Industries Ltd. ADR) | 1,500,000 | 1,811,250 |
| | | <u>6,012,188</u> |
| Retail - 1.8% | | |
| RadioShack Corp. 2.5%, due 2013 cv. sr. notes (BB) | 1,500,000 | 1,464,375 |
| Semiconductors - 3.4% | | |
| Intel Corp. 2.95%, due 2035 jr. sub. cv. deb. (A-) (4) | 2,000,000 | 1,755,000 |
| Intel Corp. 3.25%, due 2039 jr. sub. cv. deb. (A-) (4) | 500,000 | 503,750 |
| LSI Corp. 4%, due 2010 cv. sub. notes. (NR) | 500,000 | 491,250 |
| | | <u>2,750,000</u> |
| Telecommunications - 13.1% | | |
| ADC Telecommunications Inc. floating rate, due 2013 cv. sub. notes (NR) | 1,775,000 | 1,353,438 |
| Anixter International Inc. 1%, due 2013 cv. sr. notes (BB-) | 1,250,000 | 1,043,750 |
| CommScope, Inc. 3.25%, due 2015 cv. sr. sub. notes (B) | 500,000 | 579,375 |
| Comtech Telecommunications Corp. 3%, due 2029 cv. sr. notes (NR) (Acquired 05/04/09; Cost \$1,000,000) (1) | 1,000,000 | 1,062,500 |
| Equinix, Inc. 2.5%, due 2012 cv. sub. notes (B-) | 2,200,000 | 2,112,000 |
| General Cable Corp. 1%, due 2012 cv. sr. notes (B1) | 1,500,000 | 1,267,500 |
| NII Holdings, Inc. 2.75%, due 2025 cv. notes (NR) | 1,750,000 | 1,682,188 |
| SAVVIS, Inc. 3%, due 2012 cv. sr. notes (NR) | 2,000,000 | 1,665,000 |
| | | <u>10,765,751</u> |
| Transportation - 1.9% | | |
| ExpressJet Holdings, Inc. 4.25%, due 2023 cv. notes (NR) | 800,000 | 567,000 |
| JetBlue Airways Corp. 3.75%, due 2035 cv. deb. (Ca) | 1,000,000 | 982,500 |
| | | <u>1,549,500</u> |
| Travel and Leisure - 0.6% | | |
| Morgans Hotel Group 2.375%, due 2014 cv. sr. sub. notes (NR) | 1,000,000 | 512,500 |
| | | <u>61,818,853</u> |
| TOTAL CONVERTIBLE BONDS AND NOTES | | |
| CORPORATE BONDS AND NOTES - 0.9% | | |
| Retail - 0.9% | | |
| Amerivon Holdings LLC 4%, due 2010 units (NR) | | |
| (Acquired 06/01/07; Cost \$1,500,000) (1,2,5) | 1,500,000 | 750,000 |

| | Shares | Value (Note 1) |
|---|--------|----------------------|
| CONVERTIBLE PREFERRED STOCKS - 11.3% | | |
| Banking/Savings and Loan - 5.2% | | |
| Bank of America Corp. 7.25% non-cum. perpetual cv. pfd., series L (B3) | 1,000 | \$ 840,000 |
| New York Community Bancorp, Inc. 6% BONUSSES units (Baa1) | 39,179 | 1,449,623 |
| Sovereign Capital Trust IV 4.375% PIERS (Baa2) (exchangeable for Sovereign Bancorp, Inc. common stock) (4) | 14,000 | 317,800 |
| Wells Fargo Corp perpetual 7.5% cv. pfd., series L (Ba3) | 2,000 | 1,679,920 |
| | | <u>4,287,343</u> |
| Chemicals - 1.6% | | |
| Celanese Corp. 4.25% perpetual cv. pfd. (NR) | 40,000 | 1,320,000 |
| Energy - 1.5% | | |
| Whiting Petroleum Corp. 6.25% perpetual cv. pfd. (B-) | 10,000 | 1,222,800 |
| Foods - 1.4% | | |
| Bunge Limited 4.875% cum. perpetual cv. pfd. (Ba1) | 12,500 | 1,150,000 |
| Minerals and Mining - 1.6% | | |
| Freeport-McMoRan Copper & Gold Inc. 5.5% perpetual cv. pfd. (BB) | 1,000 | 1,305,010 |
| | | <u>9,285,153</u> |
| TOTAL CONVERTIBLE PREFERRED STOCKS | | |
| MANDATORY CONVERTIBLE SECURITIES - 8.4% (6) | | |
| Energy - 3.7% | | |
| Bristow Group Inc. 5.5%, due 09/15/09 mandatory cv. pfd. (B) | 20,000 | 905,800 |
| Great Plains Energy, Inc. 12%, due 06/15/12 equity units (NR) (4) | 20,000 | 1,168,600 |
| Merrill Lynch & Co., Inc. 5.4%, due 09/27/10 PRIDES (A+) (linked to the performance of ConocoPhillips common stock) | 2,000 | 993,420 |
| | | <u>3,067,820</u> |
| Foods - 0.1% | | |
| Lehman Brothers Holdings Inc. 6%, due 10/12/10 PIES (NR) (formerly exchangeable for General Mills, Inc. common stock) (2,3) | 50,000 | 106,250 |
| Minerals and Mining - 3.2% | | |
| Freeport-McMoRan Copper & Gold Inc. 6.75%, due 05/01/10 mandatory cv. pfd. (BB) | 10,000 | 922,400 |
| Vale Capital Ltd. 5.5%, due 06/15/10 mandatory cv. notes (BBBH) (exchangeable for ADS representing Companhia Vale do Rio Doce common stock) | 30,000 | 1,240,200 |
| Vale Capital Ltd. 5.5%, due 06/15/10 mandatory cv. notes (BBBH) (exchangeable for ADS representing Companhia Vale do Rio Doce Preference A Shares) | 10,000 | 425,000 |
| | | <u>2,587,600</u> |
| Pharmaceuticals - 1.4% | | |
| Schering-Plough Corp. 6%, due 08/13/10 mandatory cv. pfd. (Baa3) | 5,000 | 1,166,200 |
| | | <u>6,927,870</u> |
| TOTAL MANDATORY CONVERTIBLE SECURITIES (6) | | |
| COMMON STOCKS - 0.4% | | |
| Banking/Savings and Loan - 0.4% | | |
| Fifth Third Bancorp | 36,000 | \$ 342,000 |
| Total Convertible Bonds and Notes - 75.2% | | \$ 61,818,853 |
| Total Corporate Bonds and Notes - 0.9% | | 750,000 |
| Total Convertible Preferred Stocks - 11.3% | | 9,285,153 |
| Total Mandatory Convertible Securities - 8.5% | | 6,927,870 |
| Total Common Stocks - 0.4% | | <u>342,000</u> |
| Total Investments - 96.3% | | 79,123,876 |
| Other assets and liabilities, net - 3.7% | | 3,060,252 |
| Total Net Assets - 100.0% | 5 | <u>\$ 82,184,128</u> |

(1) Security not registered under the Securities Act of 1933, as amended (e.g., the security was purchased in a Rule 144A or a Regulation D transaction). The security may be resold only pursuant to an exemption from registration under the Securities Act of 1933, 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 July 31, 2009 was \$5,472,538, which represented 6.7% of the Fund's net assets.

(2) Investment is valued at fair value as determined in good faith in accordance with procedures adopted by the Board of Trustees. It is possible that the estimated value may differ significantly from the amount that might ultimately be realized in the near term, and the difference could be material. The market value of these securities amounted to \$983,750 at July 31, 2009, which represented 1.2% of the Fund's net assets.

(3) In default.

(4) Contingent payment debt instrument (See Note 2 on following page).

(5) Restricted securities include securities that have not been registered under the Securities Act of 1933, as amended, and securities that are subject to restrictions on resale. The Fund may invest in restricted securities that are consistent with the Fund's investment objective and investment strategies. As of July 31, 2009, the Fund was invested in the following restricted securities:

Amerivon Holdings LLC 4% units containing cv. promissory note and warrants due 2010, acquired June 1, 2007.

(6) 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.

Investment Abbreviations

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.

PRIDES - Preferred Redeemable Increased Dividend Equity 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 *

| | |
|-----------|-----|
| AA | 0% |
| A | 7% |
| BBB | 11% |
| BB | 20% |
| B | 20% |
| CCC | 1% |
| CC | 1% |
| Not Rated | 40% |

* Excludes equity securities and cash.

Bancroft Fund Ltd. (the “Fund”), is registered under the Investment Company Act of 1940, as amended, 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, supplied by an independent pricing service, 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 the 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 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 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 10 cents per share for the nine months ended July 31, 2009. In addition, Federal tax regulations require the Fund to reclassify realized gains on contingent payment debt instruments to interest income. At July 31, 2009, there were unrealized losses of approximately 42 cents per share on contingent payment debt instruments.

The cost basis of investments for federal income tax purposes at July 31, 2009 was as follows:

| | |
|-------------------------------|-----------------------|
| Cost basis of investments | <u>\$ 86,316,160</u> |
| Gross unrealized appreciation | 4,808,012 |
| Gross unrealized depreciation | <u>(12,000,304)</u> |
| Net unrealized depreciation | <u>\$ (7,192,292)</u> |