

# BANCROFT FUND LTD.



2006 Annual Report  
October 31, 2006

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*Bancroft Fund Ltd. (successor to Bancroft Convertible Fund, Inc.) operates as a closed-end, diversified management investment company and invests primarily in convertible securities, with the objectives of providing income and the potential for capital appreciation ~ which objectives the Fund considers to be relatively equal, over the long-term, due to the nature of the securities in which it invests.*

### Highlights

#### Performance through October 31, 2006 with dividends reinvested

	Calendar	Annualized		10 Year	
	YTD	1 Year	5 Years	10 Years	Volatility (c)
Bancroft market price .....	10.03%	13.29%	4.80%	8.56%	11.54%
Bancroft net asset value .....	9.08	11.06	5.60	7.03	10.04
Closed-end convertible fund average (NAV) (a)	10.38	12.82	7.34	6.97	9.51
S&P 500 Index (a) .....	12.06	16.34	7.24	8.63	17.82
Merrill Lynch All Convertibles Index (a) .....	10.23	13.13	8.26	8.57	15.60
Lehman Aggregate Bond Total Return Index (b)	3.74	5.19	5.67	6.98	4.07

(a) From Bloomberg L.P. pricing service

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

(c) Volatility is a measure of risk based on the standard deviation of the return. The greater the volatility, the greater the chance of a profit or risk of a loss.

Bancroft's performance in the table above has not been adjusted for the fiscal 2004 rights offering; net asset value dilution was 2.38%. 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 (AMEX, symbol BCV)		
	High	Low	Close	High	Low	Close
Jan. 06	\$22.06	\$20.90	\$22.06	\$18.65	\$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
Oct. 06	22.63	21.58	22.55	19.33	18.34	19.30

#### Dividend Distributions (12 Months)

Record Date	Payment Date	Income	Capital Gains	* Corporate Deduction
12/02/05	12/27/05	\$0.243	—	19%
3/16/06	3/30/06	0.180	—	16
6/15/06	6/29/06	0.180	—	16
9/14/06	9/28/06	0.180	—	16
		<u>\$0.783</u>		

\* Percentage of each ordinary income distribution qualifying for the corporate dividend received tax deduction.

# To Our Shareholders

December 7, 2006

For the fiscal year ended October 31, 2006, Bancroft has declared a dividend of \$0.731 per share which includes a \$0.466 distribution of realized long-term capital gains. The Fund's largest realized gains came from its investments in Amerada Hess, Valero, Maverick Tube and The Williams Companies. Our largest gains were in energy related issues while our largest losses were in some banking and pharmaceutical convertibles. The gains realized this year were larger than both the loss carryforward from prior years and the losses taken in the rest of the portfolio.

The convertible market in calendar 2006 has seen substantial activity as Citigroup Investment Research reports that there have been \$58 billion of new domestic convertibles issued, putting the convertible market on track to exceed \$60 billion for the first time since 2003. This has been roughly enough to keep up with the redemptions of convertibles this year.

We continue to see a decline in the average yield as Citigroup has measured the average current yield at 3.1%, down from 3.7% a year ago. Offsetting this decline in yield is a drop in the average conversion premium to 26.8% from 31.3% a year ago. These changes make the average convertible somewhat more equity sensitive and more volatile than they were a year ago. While we continue to see attractive opportunities in this market, the average convertible appears to be at a modest premium to some measures of theoretical value. This leads us to the conclusion that convertibles as a group appear to be fairly valued and opportunities are more likely to be found in individual convertible issues with compelling underlying stocks.

As noted above, the Fund made profits from its energy holdings. These holdings have been less profitable since early summer but we still believe that energy is attractive due to our expectation of global economic growth. The Fund's exposure to telecommunications, pharmaceuticals and banking has been helpful of late. On the other hand, performance has been hurt by our exposure to aerospace and defense.

As seen in the Highlights section of this report, we have added a new column which reflects the ten year volatility (as measured by the standard deviation) of the various performance figures. Many market professionals consider the volatility of past returns to be a useful approximation of the past levels of risk in the Fund. 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. We have also added the Merrill Lynch All Convertibles Index, a market-weighted index consisting of every domestic security in the convertibles universe rated B- or higher, and with a market value of more than \$50 million at the time of inclusion. We believe this index provides a useful comparison to the Fund's performance since over the past five years, while the Fund has remained predominately invested in convertibles, many of our peers have migrated away from such a predominance to a mixture of convertibles and non-convertibles.

The Fund's performance through fiscal 2006 reflects the style of convertible investing intended to produce growth and income with reduced volatility. While total return has lagged the Merrill Lynch All Convertibles Index, the volatility of those returns, over ten years, is lower for the Fund than for the index.

*continued on the following page*

## To Our Shareholders (continued)

On December 31, 2006 boardmember Donald M. Halsted, Jr. will retire. He has served with distinction on the board of Bancroft for over thirty-five years. Throughout, Don has been a strong supporter of the diversified portfolio of convertibles concept. He has been indispensable and his contributions to the Fund's governance are too many to recount here, having served on both the Audit and Governance Committees. We will miss his presence.

Visit our website, [www.bancroftfund.com](http://www.bancroftfund.com), for additional information 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 included in press releases. We have also added the Fund's Audit and Governance Committee charters to the website.

On November 20, 2006, the Board of Trustees declared (1) a dividend of \$0.265 per share from undistributed net investment income and (2) a distribution of \$0.466 per share from undistributed net long-term capital gains, both payable December 26, 2006, to shareholders of record at the close of business December 1, 2006.

The 2007 annual meeting of shareholders will be held on February 12, 2007. Time and location will be included in the proxy statement, scheduled to be mailed to shareholders on December 26, 2006. All shareholders are welcome to attend, we hope to see you there.



Thomas H. Dinsmore  
Chairman of the Board

## Major Portfolio Changes by underlying common stock Six months ended October 31, 2006

### ADDITIONS

Advanced Micro Devices, Inc.  
(exchangeable from The Goldman Sachs Group, Inc.)

Agere Systems Inc.

Alleghany Corp.

Alliant Techsystems Inc.

American Medical Systems Holdings, Inc.

Bristow Group Inc.

Corning Inc.  
(exchangeable from Credit Suisse  
First Boston (USA), Inc.)

MedImmune, Inc.

Nabors Industries, Inc.

SanDisk Corp.

### REDUCTIONS

Casual Male Retail Group, Inc.

Coherent, Inc.

Constellation Brands, Inc.

Freeport-McMoRan Copper and Gold, Inc.

Hess Corp.

Lucent Technologies, Inc.

Maverick Tube Corp.

St. Jude Medical, Inc.

Teva Pharmaceutical Industries Ltd.  
(convertible from Teva Pharmaceutical  
Finance Co., LLC)

The TJX Companies, Inc.

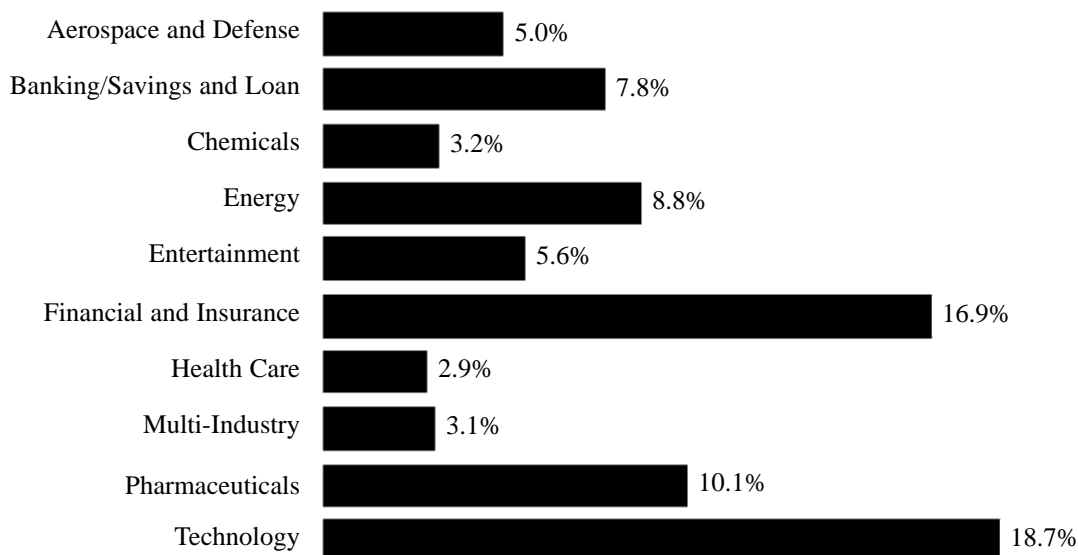
Washington Mutual Inc.

## Largest Investment Holdings by underlying common stock

	Value (Note 1)	% Total Net Assets
The Walt Disney Company . . . . . Disney is an entertainment company whose operations include media networks, studio entertainment, theme parks and resorts, consumer products, and Internet and direct marketing.	\$ 4,565,000	3.6 %
The St. Paul Travelers Companies, Inc. . . . . St. Paul Travelers provides a broad range of insurance products and services for the commercial and consumer markets.	3,445,000	2.7
Nuveen Investments, Inc. . . . . Nuveen's principal activities are asset management and related research, and the development, marketing and distribution of investment products and services. The company provides its services through financial advisors who serve the affluent and high net worth market segments. (exchangeable from Merrill Lynch & Co., Inc. and Morgan Stanley, Inc.)	3,296,475	2.6
Chesapeake Energy Corp. . . . . Chesapeake produces oil and natural gas. The company's operations are focused on developmental drilling and producing property acquisitions in onshore natural gas producing areas of the United States and Canada.	2,779,550	2.2
Celanese Corp. . . . . Celanese is a global industrial chemicals company that processes raw materials and natural products into chemicals and chemical-based products.	2,550,000	2.0
EchoStar Communications Corp. . . . . EchoStar operates a direct broadcast satellite subscription television service in the United States. The company also designs, manufactures, distributes and sells set-top boxes, antennae and other digital equipment.	2,534,375	2.0
U.S. Bancorp. . . . . U.S. Bancorp is a diversified financial services company that provides lending and depository services, cash management, foreign exchange, trust and investment management services.	2,528,125	2.0
Schering-Plough Corp. . . . . Schering-Plough is a worldwide pharmaceutical company that discovers and markets new therapies and treatment programs. The company's core product groups include allergy/respiratory, anti-infective/anticancer, dermatologics, and cardiovasculars, as well as an animal health business.	2,477,700	1.9
Genworth Financial, Inc. . . . . Genworth provides life insurance products, long-term care insurance and mortgage guarantee insurance coverage on residential mortgage loans. (exchangeable from Citigroup Funding Inc.)	2,397,750	1.9
MetLife, Inc. . . . . MetLife provides insurance and financial services to a range of individual and institutional customers.	<u>2,369,600</u>	<u>1.9</u>
Total . . . . .	<u>\$28,943,575</u>	<u>22.8 %</u>

# Major Industry Exposure

As a percentage of Net Assets



# Diversification of Assets

	Cost	Value (Note 1)	% Total Net Assets October 31,	
			2006	2005
Aerospace and Defense . . . . .	\$ 6,809,521	\$ 6,295,382	5.0%	2.6%
Automotive . . . . .	—	—	—	2.2
Banking/Savings and Loan . . . . .	9,463,836	9,874,475	7.8	9.6
Building Products . . . . .	1,938,970	2,152,500	1.7	—
Chemicals . . . . .	4,082,152	4,079,600	3.2	3.4
Consumer Goods . . . . .	1,000,000	1,398,750	1.1	2.6
Energy . . . . .	11,098,150	11,150,900	8.8	13.1
Entertainment . . . . .	6,620,307	7,099,375	5.6	4.3
Financial and Insurance . . . . .	19,221,912	21,423,606	16.9	15.4
Financial Services . . . . .	2,280,953	2,155,000	1.7	0.8
Foods . . . . .	2,078,367	2,150,600	1.7	2.6
Health Care . . . . .	3,754,679	3,739,375	2.9	3.1
Mining . . . . .	125,000	129,213	0.1	1.9
Multi-Industry . . . . .	3,591,608	3,875,000	3.1	0.7
Pharmaceuticals . . . . .	11,760,924	12,778,251	10.1	10.5
Real Estate . . . . .	1,481,097	1,542,500	1.2	—
Retail . . . . .	1,471,947	1,471,875	1.2	6.4
Technology . . . . .	23,310,947	23,790,675	18.7	8.4
Telecommunications . . . . .	3,043,820	3,318,750	2.6	5.2
Utilities . . . . .	1,500,000	1,775,625	1.4	1.5
Short-Term Securities . . . . .	6,497,221	6,497,221	5.1	4.1
<b>Total Investments</b> . . . . .	<u>\$121,131,411</u>	<u>126,698,673</u>	<u>99.9</u>	<u>98.4</u>
Other Assets, Net of Liabilities . . . . .		148,034	0.1	1.6
<b>Total Net Assets</b> . . . . .		<u>\$126,846,707</u>	<u>100.0%</u>	<u>100.0%</u>

# Portfolio of Investments October 31, 2006

Principal Amount		Identified Cost	Value (Note 1)
<b>CONVERTIBLE BONDS AND NOTES — 57.4%</b>			
<b>Aerospace and Defense — 4.5%</b>			
\$1,500,000	AAR Corp. 1.75% 2026 cv. sr. notes (BB) . . . . .	\$1,535,389	\$1,642,500
1,000,000	Alliant Techsystems Inc. 2.75% 2011 cv. sr. sub. notes (B1) (Acquired 09/07/06; Cost \$1,009,134) <sup>(1)</sup> . . . . .	1,009,134	1,010,000
1,000,000	Ceradyne, Inc. 2.875% 2035 sr. sub. cv. notes (NR) <sup>(2)</sup> . . . . .	1,130,341	1,031,250
2,000,000	DRS Technologies, Inc. 2% 2026 cv. sr. notes (B1) (Acquired 01/30/06; Cost \$2,081,616) <sup>(1,2)</sup> . . . . .	<u>2,081,616</u>	<u>1,962,500</u>
		<u>5,756,480</u>	<u>5,646,250</u>
<b>Banking/Savings and Loan — 2.0%</b>			
2,500,000	U.S. Bancorp floating rate 2035 cv. sr. deb. (Aa2) . . . . .	<u>2,500,000</u>	<u>2,528,125</u>
<b>Consumer Goods — 1.1%</b>			
1,000,000	Church & Dwight Co., Inc. 5.25% 2033 cv. sr. deb. (Ba2) . . . . .	<u>1,000,000</u>	<u>1,398,750</u>
<b>Energy — 4.1%</b>			
1,000,000	Cameron International Corp. 2.50% 2026 cv. sr. notes (Baa1) . . . . .	991,958	1,056,250
1,500,000	Nabors Industries, Inc. 0.94% 2011 sr. exchangeable notes (A-) (exchangeable for Nabors Industries Ltd. common stock) . . . . .	1,491,434	1,458,750
1,000,000	Oil States International, Inc. 2.375% 2025 contingent cv. sr. notes (NR) . . . . .	1,207,784	1,177,500
1,250,000	Rentech, Inc. 4% 2013 cv. sr. notes (NR) . . . . .	<u>1,250,000</u>	<u>1,550,000</u>
		<u>4,941,176</u>	<u>5,242,500</u>
<b>Entertainment — 5.6%</b>			
2,500,000	EchoStar Communications Corp. 5.75% 2008 cv. sub. notes (B1) . . . . .	2,490,306	2,534,375
4,000,000	The Walt Disney Company 2.125% 2023 cv. sr. notes (A3) . . . . .	<u>4,130,001</u>	<u>4,565,000</u>
		<u>6,620,307</u>	<u>7,099,375</u>
<b>Financial and Insurance — 1.5%</b>			
1,590,000	FTI Consulting, Inc. 3.75% 2012 cv. sr. sub. notes (B1) . . . . .	<u>1,620,901</u>	<u>1,850,363</u>
<b>Financial Services — 1.7%</b>			
2,000,000	Euronet Worldwide, Inc. 3.50% 2025 cv. deb. (NR) <sup>(2)</sup> . . . . .	<u>2,280,953</u>	<u>2,155,000</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>(2)</sup> . . . . .	<u>1,020,367</u>	<u>1,050,600</u>
<b>Health Care — 2.9%</b>			
1,000,000	American Medical Systems Holdings, Inc. 3.25% 2036 cv. sr. sub. notes (B3) <sup>(2)</sup> . . . . .	1,019,500	1,141,250
1,500,000	Manor Care, Inc. 2.125% 2035 cv. sr. notes (Baa3) . . . . .	1,696,146	1,745,625
1,000,000	Omnicare, Inc. 3.25% 2035 cv. sr. deb. (Ba3) <sup>(2)</sup> . . . . .	<u>1,039,033</u>	<u>852,500</u>
		<u>3,754,679</u>	<u>3,739,375</u>
<b>Mining — 0.1%</b>			
125,000	Minefinders Corp. Ltd. 4.5% 2011 cv. sr. notes (NR) (Acquired 10/19/06; Cost \$125,000) <sup>(1)</sup> . . . . .	<u>125,000</u>	<u>129,213</u>
<b>Multi-Industry — 3.1%</b>			
1,500,000	LSB Industries, Inc 7% 2011 cv. sr. sub. deb. (NR) . . . . .	1,500,000	2,002,500
1,000,000	Lehman Brothers Holdings Inc. 1% 2011 medium-term notes (A1) (performance linked to a basket of common stocks) <sup>(2)</sup> . . . . .	1,071,962	832,500
1,000,000	Trinity Industries, Inc. 3.875% 2036 cv. sub. notes (Ba3) <sup>(2)</sup> . . . . .	<u>1,019,646</u>	<u>1,040,000</u>
		<u>3,591,608</u>	<u>3,875,000</u>

# Portfolio of Investments October 31, 2006 (continued)

Principal Amount		Identified Cost	Value (Note 1)
<b>CONVERTIBLE BONDS AND NOTES — continued</b>			
<b>Pharmaceuticals — 8.1%</b>			
\$2,000,000	Alza Corp. 0% 2020 cv. sub. deb. (Aa1) (exch. for Johnson & Johnson common stock) . . . . .	\$ 1,708,974	\$ 1,862,500
1,250,000	Amgen Inc. 0.125% 2011 cv. sr. notes (A2) (Acquired 02/14/06 - 02/15/06; Cost \$1,253,225) <sup>(1)</sup> . . . . .	1,253,225	1,309,375
500,000	Amgen Inc. 0.375% 2013 cv. sr. notes (A2) (Acquired 02/14/06; Cost \$500,000) <sup>(1)</sup> . . . . .	500,000	525,000
1,000,000	Bristol-Myers Squibb Co. floating rate 2023 cv. sr. deb. (A2) . . . . .	995,164	1,006,800
750,000	Cephalon, Inc. 2% 2015 cv. sr. sub. notes (B-) . . . . .	737,662	1,220,625
1,000,000	Ivax Corp. 4.5% 2008 cv. sr. sub. notes (NR) (exchangeable for Teva Pharmaceutical Industries Ltd. ADR and cash) . . . . .	1,000,399	1,005,000
750,000	MedImmune, Inc. 1.375% 2011 cv. sr. notes (BBB) . . . . .	750,000	849,375
750,000	MedImmune, Inc. 1.625% 2013 cv. sr. notes (BBB) . . . . .	750,000	861,563
1,750,000	Teva Pharmaceutical Finance Co. B.V. 1.75% 2026 cv. sr. deb. (Baa2) (exchangeable for Teva Pharmaceutical Industries Ltd. ADR) . . . . .	1,750,000	1,660,313
		<u>9,445,424</u>	<u>10,300,551</u>
<b>Real Estate — 1.2%</b>			
500,000	Archstone-Smith Operating Trust 4% 2036 exchangeable sr. notes (Baa1) (exchangeable into Archstone-Smith Trust common stock) . . . . .	494,089	545,000
1,000,000	United Dominion Realty Trust, Inc. 3.625% 2011 cv. sr. notes (NR) (Acquired 10/06/06; Cost \$987,008) <sup>(1)</sup> . . . . .	987,008	997,500
		<u>1,481,097</u>	<u>1,542,500</u>
<b>Retail — 1.2%</b>			
1,500,000	Amazon.com, Inc. 4.75% 2009 cv. sub. notes (B2) . . . . .	1,471,947	1,471,875
<b>Technology — 15.5%</b>			
1,000,000	Agere Systems Inc. 6.5% 2009 cv. sub. notes (B1) . . . . .	1,008,750	1,011,250
1,000,000	C&D Technologies, Inc. 5.25% 2025 cv. sr. notes (NR) (Acquired 11/16/05; Cost \$1,000,000) <sup>(1)</sup> . . . . .	1,000,000	901,250
2,000,000	Citigroup Funding Inc. 1% 2010 medium-term notes (Aa1) (exchangeable for the cash value of a basket of technology stocks) <sup>(2)</sup> . . . . .	2,088,424	1,944,600
2,000,000	Credit Suisse First Boston (USA), Inc. 15.55% 2007 equity-linked notes (Aa3) (exchangeable for Corning Inc. common stock) . . . . .	2,000,000	1,929,600
1,000,000	Conexant Systems, Inc. 4% 2026 cv. sub. notes (NR) . . . . .	987,769	885,000
2,000,000	Intel Corp. 2.95% 2035 jr. sub. cv. deb. (A-) <sup>(2)</sup> . . . . .	1,929,851	1,825,000
2,250,000	International Rectifier Corp. 4.25% 2007 cv. sub. notes (B1) . . . . .	2,247,633	2,235,937
1,500,000	LSI Logic Corp. 4% 2010 cv. sub. notes (B) . . . . .	1,486,545	1,606,875
1,500,000	Lehman Brothers Holdings Inc. 1% 2009 medium-term notes (A1) (performance linked to Microsoft Corp. common stock) <sup>(2)</sup> . . . . .	1,536,404	1,515,300
1,000,000	Richardson Electronics, Ltd. 8% 2011 cv. sr. sub. notes (NR) (Acquired 11/21/05; Cost \$1,000,000) <sup>(1)</sup> . . . . .	1,000,000	1,113,750
1,100,000	SanDisk Corp. 1% 2013 cv. sr. notes (BB-) . . . . .	1,108,301	1,002,375
1,000,000	Sybase, Inc. 1.75% 2025 cv. sub. notes (NR) . . . . .	994,046	1,118,750
1,000,000	Symantec Corp. 1% 2013 cv. sr. notes (NR) (Acquired 06/13/06; Cost \$992,890) <sup>(1)</sup> . . . . .	992,890	1,168,750
1,400,000	Vishay Intertechnology, Inc. 3.625% 2023 cv. sub. notes (B3) . . . . .	1,360,723	1,396,500
		<u>19,741,336</u>	<u>19,654,937</u>

# Portfolio of Investments October 31, 2006 (continued)

Principal Amount		Identified Cost	Value (Note 1)
<b>CONVERTIBLE BONDS AND NOTES — continued</b>			
<b>Telecommunications — 2.6%</b>			
\$2,000,000	Tekelec 2.25% 2008 sr. sub. cv. notes (NR) .....	\$ 2,016,888	\$ 2,035,000
1,000,000	Time Warner Telecom Inc. 2.375% 2026 cv. sr. deb. (Caa1) .....	1,026,932	1,283,750
		<u>3,043,820</u>	<u>3,318,750</u>
<b>Utilities — 1.4%</b>			
1,500,000	CMS Energy Corp. 2.875% 2024 cv. sr. notes (Ba3) .....	1,500,000	1,775,625
	<b>TOTAL CONVERTIBLE BONDS AND NOTES</b> .....	<b>\$69,895,095</b>	<b>\$72,778,789</b>
<b>CONVERTIBLE PREFERRED STOCKS — 20.2%</b>			
<b>Aerospace and Defense — 0.5%</b>			
40,000	Ionatron, Inc. 6.5% Series A redeemable cv. pfd. (NR) (Acquired 10/27/05; Cost \$1,000,000) <sup>(1)</sup> .....	1,000,000	620,000
<b>Banking/Savings and Loan — 5.8%</b>			
40,000	National Australia Bank Ltd. 7.875% exch. capital units (NR) .....	1,038,700	1,914,000
45,000	New York Community Bancorp, Inc. 6% BONUSSES units (Baa2) ...	2,303,400	2,090,250
35,000	Sovereign Capital Trust IV 4.375% PIERS (Baa2) (exchangeable for Sovereign Bancorp, Inc. common stock) <sup>(2)</sup> .....	2,017,236	1,697,500
30,000	Washington Mutual Capital Trust 5.375% PIERS units (BBB) (exchangeable for Washington Mutual, Inc. common stock) .....	1,604,500	1,644,600
		<u>6,963,836</u>	<u>7,346,350</u>
<b>Building Products — 1.7%</b>			
35,000	TXI Capital Trust I 5.5% SPuRS (B2) (exchangeable for Texas Industries, Inc. common stock) .....	1,938,970	2,152,500
<b>Chemicals — 2.0%</b>			
85,000	Celanese Corp. 4.25% cv. perpetual pfd. (NR) .....	2,070,748	2,550,000
<b>Energy — 3.3%</b>			
25,000	Chesapeake Energy Corp. 4.5% cum. cv. pfd. (B+) .....	2,566,320	2,505,750
9,000	SEMCO Energy, Inc. 5% Series B cv. cum. pfd. (B-) .....	1,835,154	1,685,250
		<u>4,401,474</u>	<u>4,191,000</u>
<b>Financial and Insurance — 6.9%</b>			
75,000	Citigroup Funding Inc. variable rate exch. notes (Aa1) (exchangeable for Genworth Financial, Inc. common stock) .....	2,212,500	2,397,750
15	Fannie Mae 5.375% non-cumulative cv. pfd. (Aa3) (Acquired 12/30/04 - 01/11/05; Cost \$1,578,125) <sup>(1)</sup> .....	1,578,125	1,453,123
20,000	Reinsurance Group of America, Inc. 5.75% PIERS (Baa2) .....	1,000,000	1,415,000
132,500	The St. Paul Travelers Companies, Inc. 4.5% 2032 cv. jr. sub. notes (Baa1) .....	3,249,675	3,445,000
		<u>8,040,300</u>	<u>8,710,873</u>
	<b>TOTAL CONVERTIBLE PREFERRED STOCKS</b> .....	<b>\$24,415,328</b>	<b>\$25,570,723</b>

# Portfolio of Investments October 31, 2006 (continued)

Shares		Identified Cost	Value (Note 1)
<b>MANDATORY CONVERTIBLE SECURITIES — 17.2%</b> <sup>(3)</sup>			
<b>Chemicals — 1.2%</b>			
40,000	Huntsman Corp. 5% 02/16/08 mandatory cv. pfd. (NR) . . . . .	\$ 2,011,404	\$ 1,529,600
<b>Energy — 1.3%</b>			
30,000	Bristow Group Inc. 5.5% 09/15/09 mandatory cv. pfd. (NR) . . . . .	1,505,500	1,443,600
1,000	Chesapeake Energy Corp. 6.25% 06/15/09 mandatory cv. pfd. (B+) . .	250,000	273,800
		<u>1,755,500</u>	<u>1,717,400</u>
<b>Financial and Insurance — 8.6%</b>			
7,000	Alleghany Corp. 5.75% 06/15/09 mandatory cv. pfd. (BBB-) . . . . .	1,852,200	2,086,000
43,500	E*TRADE Financial Corp. 6.125% 11/18/08 equity units (Ba3) . . . . .	1,120,063	1,305,870
30,000	Merrill Lynch & Co., Inc. 6.75% 10/15/07 mandatorily exchangeable securities (Aa3) (exchangeable for Nuveen Investments, Inc. common stock) . . . . .	1,020,000	1,310,400
80,000	MetLife, Inc. 6.375% 08/15/08 common equity units (BBB+) . . . . .	2,084,000	2,369,600
45,500	Morgan Stanley, Inc. 5.875% 10/15/08 mandatorily exchangeable securities (Aa3) (exchangeable for Nuveen Investments, Inc. common stock) . . . . .	1,572,500	1,986,075
45,000	XL Capital, Ltd. 6.5% 05/15/07 equity security units (A3) . . . . .	1,137,000	1,031,625
30,000	XL Capital, Ltd. 7% 02/15/09 equity security units (A3) . . . . .	774,948	772,800
		<u>9,560,711</u>	<u>10,862,370</u>
<b>Foods — 0.9%</b>			
40,000	Lehman Brothers Holdings Inc. 6.25% 10/15/07 PIES (A1) (exchangeable for General Mills, Inc. common stock) . . . . .	1,058,000	1,100,000
<b>Pharmaceuticals — 2.0%</b>			
45,000	Schering-Plough Corp. 6% 09/14/07 mand. cv. pfd. (Baa3) . . . . .	2,315,500	2,477,700
<b>Technology — 3.2%</b>			
30,000	Credit Suisse First Boston (USA), Inc. 5.5% 11/15/08 SAILS (Aa3) (exchangeable for Equinix, Inc. common stock) . . . . .	1,069,200	1,861,200
98,850	The Goldman Sachs Group, Inc. 14.75% 06/22/07 mandatory exchangeable notes (NR) (exchangeable for Advanced Micro Devices, Inc. common stock) (Acquired 06/14/06; Cost \$2,500,411) <sup>(1)</sup> . . . . .	2,500,411	2,274,538
		<u>3,569,611</u>	<u>4,135,738</u>
<b>TOTAL MANDATORY CONVERTIBLE SECURITIES</b> <sup>(3)</sup> . . . . .		<u>\$ 20,270,726</u>	<u>\$ 21,822,808</u>
<b>COMMON STOCKS — 0.0%</b>			
<b>Aerospace and Defense — 0.0%</b>			
6,606	Ionatron, Inc. (Acquired 04/17/05 - 10/11/06; Cost \$53,041) <sup>(1,4)</sup> . . . . .	53,041	29,132

# Portfolio of Investments October 31, 2006 (continued)

Principal Amount		Identified Cost	Value (Note 1)
	<b>SHORT-TERM SECURITIES — 5.1%</b>		
	<b>Commercial Paper — 5.1%</b>		
\$6,500,000	American Express Credit Corp. 5.13% 11/02/06 (P1) .....	\$ 6,497,221	\$ 6,497,221
	<b>Total Convertible Bonds and Notes — 57.4%</b> .....	69,895,095	72,778,789
	<b>Total Convertible Preferred Stocks — 20.2%</b> .....	24,415,328	25,570,723
	<b>Total Mandatory Convertible Securities — 17.2%</b> .....	20,270,726	21,822,808
	<b>Total Common Stocks — 0.0%</b> .....	53,041	29,132
	<b>Total Short-Term Securities — 5.1%</b> .....	<u>6,497,221</u>	<u>6,497,221</u>
	<b>Total Investments — 99.9%</b> .....	<u>\$121,131,411</u>	126,698,673
	<b>Other assets and liabilities, net — 0.1%</b> .....		<u>148,034</u>
	<b>Total Net Assets — 100.0%</b> .....		<u>\$126,846,707</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 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 October 31, 2006 was \$13,494,131 which represented 10.6% of the Fund's net assets.
- (2) Contingent payment debt instrument which accrues contingent interest. See Note 2.
- (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.	PIERS	Preferred Income Equity Redeemable Securities.
BONUSES	Bifurcated Option Note Unit Securities.	SAILS	Shared Appreciation Income Linked Securities.
PIES	Premium Income Exchangeable 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.

# Statement of Assets and Liabilities

	<u>October 31, 2006</u>
<b>Assets:</b>	
Investments at value (cost \$121,131,411) (Note 1) .....	\$126,698,673
Cash .....	344,467
Receivable for securities sold .....	264,975
Dividends and interest receivable .....	830,182
Other assets .....	41,034
Total assets .....	<u>128,179,331</u>
<b>Liabilities:</b>	
Payable for securities purchased .....	1,283,667
Accrued management fee (Note 2) .....	11,725
Accrued expenses .....	23,432
Other liabilities .....	13,800
Total liabilities .....	<u>1,332,624</u>
<b>Net Assets</b> .....	<u>\$126,846,707</u>
<b>Net assets consist of:</b>	
Undistributed net investment income .....	\$ 742,627
Accumulated net realized gain from investment transactions .....	3,230,750
Unrealized appreciation on investments .....	5,567,262
Capital shares (Note 3) .....	56,251
Additional paid-in capital .....	<u>117,249,817</u>
<b>Net Assets</b> .....	<u>\$126,846,707</u>
Net asset value per share (\$126,846,707 ÷ 5,625,134 outstanding shares) .....	<u>\$ 22.55</u>

# Statement of Operations

For the Year Ended October 31, 2006

<b>Investment Income (Note 1):</b>	
Interest .....	\$ 3,402,586
Dividends .....	2,446,805
Other income .....	20,000
Total Income .....	<u>5,869,391</u>
<b>Expenses (Note 2):</b>	
Management fee .....	865,804
Custodian .....	17,484
Transfer agent .....	30,116
Audit fees .....	44,200
Legal fees .....	72,254
Trustees' fees .....	121,375
Reports to shareholders .....	101,298
Administrative services fees .....	25,000
Other .....	112,678
Total Expenses .....	<u>1,390,209</u>
<b>Net Investment Income</b> .....	<u>4,479,182</u>
<b>Realized and Unrealized Gain on Investments:</b>	
Net realized gain from investment transactions .....	7,233,885
Net change in unrealized appreciation of investments .....	1,251,584
Net gain on investments .....	8,485,469
<b>Net Increase in Net Assets Resulting from Operations</b> .....	<u>\$ 12,964,651</u>

# Statements of Changes in Net Assets

For the Years Ended October 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Change in net assets from operations:</b>		
Net investment income . . . . .	\$ 4,479,182	\$ 3,568,764
Net realized gain from investment transactions . . . . .	7,233,885	414,909
Net change in unrealized appreciation of investments . . . . .	<u>1,251,584</u>	<u>3,577,352</u>
Net increase in net assets resulting from operations . . . . .	<u>12,964,651</u>	<u>7,561,025</u>
<b>Dividends to shareholders from:</b>		
Net investment income . . . . .	<u>(4,395,566)</u>	<u>(3,894,853)</u>
<b>Capital share transactions (Note 3) . . . . .</b>	<u>655,492</u>	<u>582,476</u>
<b>Change in net assets . . . . .</b>	<u>9,224,577</u>	<u>4,248,648</u>
Net assets at beginning of period . . . . .	<u>117,622,130</u>	<u>113,373,482</u>
<b>Net assets at end of period . . . . .</b>	<u>\$126,846,707</u>	<u>\$117,622,130</u>
Undistributed net investment income at end of period . . . . .	<u>\$ 742,627</u>	<u>\$ 659,011</u>

## Notes to Financial Statements

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

**(a) Organization** — 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.

**(b) Use of Estimates** — 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.

**(c) Indemnification** — Under the Fund’s organizational documents, each trustee, officer or other agent of the Fund (including the Fund’s investment adviser) is indemnified against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts that contain a variety of indemnification clauses. The Fund’s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. The risk of material loss as a result of such indemnification is considered remote.

**(d) 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. At October 31, 2006, the Fund utilized capital loss carryforward of \$4,596,296 available to the extent allowed by tax law to offset net capital gains. As of October 31, 2006, the Fund had no capital loss carryforwards.

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund’s tax return to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Management has not completed their analysis on whether the adoption of FIN 48 will have an impact on the financial statements.

# Notes to Financial Statements (continued)

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) **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.

(f) **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 13 cents per share for the year ended October 31, 2006. In addition, Federal tax regulations require the Fund to reclassify realized gains on contingent payment debt instruments to interest income. At October 31, 2006 there were unrealized losses of approximately 8 cents per share on contingent payment debt instruments.

(g) **Change in Method of Accounting** — Effective November 1, 2004, the Fund began amortizing discounts and premiums on all debt securities. Prior to November 1, 2004, the Fund amortized discounts on original issue discount debt securities. The new method of amortization was adopted in accordance with the provisions of the *AICPA Audit and Accounting Guide, Audits of Investment Companies* and the financial highlights and statement of changes in net assets presented herein have been restated to reflect the new method retroactive to November 1, 2001. The effect of this accounting change is included in the financial highlights for the years ended October 31, 2002, 2003 and 2004. The cumulative effect of this accounting change had no impact on the total net assets of the Fund or on distributions for tax purposes, but resulted in a \$103,986 increase in the cost of securities held and a corresponding \$103,986 reduction in the net unrealized gains based on the securities held on November 1, 2001. These changes had no effect on previously reported total net assets or total returns.

(h) **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, 2006 and 2005 were \$4,395,566 and \$3,894,853, respectively, both from ordinary income.

At October 31, 2006 the components of distributable net assets and federal tax cost were as follows:

Unrealized appreciation	\$ 9,273,673
Unrealized depreciation	<u>(3,829,223)</u>
Net unrealized appreciation	5,444,450
Undistributed ordinary income	1,480,740
Undistributed capital gains	<u>2,615,450</u>
Total distributable net assets	<u>\$ 9,540,640</u>
Cost for federal income tax purposes	\$121,254,223

# Notes to Financial Statements (continued)

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**(i) Market Risk** — It is the Fund's policy to invest at least 65% of its assets (consisting of net assets plus the amount of any borrowings for investment purposes) 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 \$21,822,808 at October 31, 2006, representing 17.2% of net assets.

**(j) New Accounting Pronouncements** — In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The changes to current generally accepted accounting principles from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. As of October 31, 2006, the Fund does not believe the adoption of SFAS No. 157 will impact the financial statement amounts, however, additional disclosures may be required about the inputs used to develop the measurements and the effect of certain of the measurements on changes in net assets for the period.

## NOTE 2 - MANAGEMENT FEE AND OTHER TRANSACTIONS WITH AFFILIATES

The Fund has entered into an investment advisory agreement with Davis-Dinsmore Management Company ("Davis-Dinsmore"). Pursuant to the investment advisory agreement, Davis-Dinsmore provides the Fund with investment advice, office space and facilities. Under the terms of the investment advisory agreement, the Fund pays Davis-Dinsmore on the last day of each month an advisory fee for such month computed at an annual rate of 0.75% of the first \$100,000,000 and 0.50% of the excess over \$100,000,000 of the Fund's net asset value in such month.

The Fund, pursuant to an administrative services agreement with Davis-Dinsmore, has agreed to pay Davis-Dinsmore for certain accounting and other administrative services provided to the Fund. Under the administrative services agreement, the Fund pays Davis-Dinsmore compensation in the amount of \$25,000 per year, payable on a monthly basis. Effective January 1, 2007, the Fund will pay Davis-Dinsmore on the last day of each month a fee for such month computed at an annual rate of 0.05% of the Fund's net asset value in such month.

Certain officers and trustees of the Fund are officers and directors of Davis-Dinsmore.

## NOTE 3 - PORTFOLIO ACTIVITY

At October 31, 2006 there were 5,625,134 shares of beneficial interest outstanding, with a par value of \$0.01 per share. During the years ended October 31, 2006 and 2005, 36,681 shares and 31,315 shares were issued in connection with reinvestment of dividends from net investment income, resulting in an increase in paid-in capital of \$655,492 and \$582,476, respectively.

Purchases and sales of investments, exclusive of corporate short-term notes, aggregated \$67,500,867 and \$68,023,810, respectively, for the year ended October 31, 2006.

A distribution of \$0.731 per share, consisting of \$0.265 from net investment income, and \$0.466 long-term capital gains was declared on November 20, 2006, payable December 26, 2006 to shareholders of record at the close of business December 1, 2006.

# Financial Highlights Selected data for a share of beneficial interest outstanding:

	Year Ended October 31,				
	2006	2005	2004	2003	2002
<b>Operating Performance:</b>					
Net asset value, beginning of year . . . . .	\$21.05	\$20.40	\$20.84	\$18.55	\$20.72
Net investment income . . . . .	0.80	0.64	0.70(a)	0.71 (a)	0.79 (a)
Adjustment for change in amortization policy . . . . .	—	—	(0.02)	(0.02)	—
Net investment income, as adjusted . . .	0.80	0.64	0.68	0.69	0.79
Net realized and unrealized gain (loss) . . . .	1.48	0.71	0.08(a)	2.31 (a)	(2.02)(a)
Adjustment for change in amortization policy . . . . .	—	—	0.02	0.02	—
Net realized and unrealized gain (loss), as adjusted . . . . .	1.48	0.71	0.10	2.33	(2.02)
Total from investment operations . . . . .	2.28	1.35	0.78	3.02	(1.23)
<b>Less Distributions:</b>					
Dividends from net investment income . . . .	(0.78)	(0.70)	(0.72)	(0.73)	(0.94)
Distributions from realized gains . . . . .	—	—	—	—	—
Total distributions . . . . .	(0.78)	(0.70)	(0.72)	(0.73)	(0.94)
<b>Capital Share Transactions:</b>					
Effect of rights offering . . . . .	—	—	(0.50)	—	—
Capital share repurchases . . . . .	—	—	—	—	—
Total capital share transactions . . . . .	—	—	(0.50)	—	—
Net asset value, end of year . . . . .	\$22.55	\$21.05	\$20.40	\$20.84	\$18.55
Market value, end of year . . . . .	\$19.30	\$17.77	\$18.23	\$19.70	\$17.54
Total Net Asset Value Return %(b) . . . . .	11.1	6.7	1.3	16.7	(6.3)
Total Investment Return %(c) . . . . .	13.3	1.3	(3.8)	16.7	(1.8)
<b>Ratios/Supplemental Data:</b>					
Net assets, end of year (in thousands) . . . . .	\$126,847	\$117,622	\$113,373	\$98,486	\$86,904
Ratio of expenses to average net assets (%)	1.1	1.2	1.1	1.2	1.2
Ratio of net investment income to average net assets (%) . . . . .	3.7	3.1	3.3 (d)	3.6(d)	4.0 (d)
Portfolio turnover rate (%) . . . . .	58	86	66	87	78

(a) As previously reported.

(b) Assumes valuation of the Fund's shares, and reinvestment of dividends, at net asset values.

(c) Assumes valuation of the Fund's shares at market price and reinvestment of dividends at actual reinvestment price.

(d) Ratios for 2004, 2003 and 2002 reflect ratios adjusted for change in amortization policy. Ratios previously reported for 2004, 2003 and 2002 were 3.4%, 3.6% and 4.0%, respectively.

*See accompanying notes to financial statements*

# Report of Independent Registered Public Accounting Firm

## **To the Shareholders and Board of Trustees of Bancroft Fund Ltd.**

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments of Bancroft Fund Ltd. (formerly Bancroft Convertible Fund, Inc.) (the "Fund") as of October 31, 2006, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the two years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for each of the years in the three year period ended October 31, 2004 have been audited by other auditors, whose report dated November 19, 2004 expressed an unqualified opinion thereon.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2006, by correspondence with the custodian and brokers, or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Bancroft Fund Ltd. as of October 31, 2006, the results of its operations for the year then ended, the changes in its net assets and its financial highlights for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER LLP

Philadelphia, Pennsylvania  
December 4, 2006

# Miscellaneous Notes

## **Automatic Dividend Investment and Cash Payment Plan**

The Fund has an Automatic Dividend Investment and Cash Payment Plan (the “Plan”). Any shareholder may elect to join the Plan by sending an application to American Stock Transfer & Trust Company, P.O. Box 922, Church Street Station, NY 10269-0560 (the “Plan Agent”). You may also obtain additional information about the Plan as well as the Plan application by calling the Plan Agent toll free at (800) 937-5449. If your shares are held by a broker or other nominee, you should instruct the nominee to join the Plan on your behalf. Some brokers may require that your shares be taken out of the broker’s “street name” and re-registered in your own name. Shareholders should also contact their broker to determine whether shares acquired through participation in the Plan can be transferred to another broker, and thereafter, whether the shareholder can continue to participate in the Plan.

Under the Plan, all dividends and distributions are automatically invested in additional Fund shares. Depending on the circumstances, shares may either be issued by the Fund or acquired through open market purchases at the current market price or net asset value, whichever is lower (but not less than 95% of market price). When the market price is lower, the Plan Agent will combine your dividends with those of other Plan participants and purchase shares in the market, thereby taking advantage of the lower commissions on larger purchases. There is no other charge for this service.

All dividends and distributions made by the Fund (including capital gain dividends and dividends designated as qualified dividend income, which are eligible for taxation at lower rates) remain taxable to Plan participants, regardless of whether such dividends and distributions are reinvested in additional shares of the Fund through open market purchases or through the issuance of new shares. Plan participants will be treated as receiving the cash used to purchase shares on the open market and, in the case of any dividend or distribution made in the form of newly issued shares, will be treated as receiving an amount equal to the fair market value of such shares as of the reinvestment date. Accordingly, a shareholder may incur a tax liability even though such shareholder has not received a cash distribution with which to pay the tax.

Plan participants may also voluntarily send cash payments of \$100 to \$10,000 per month to the Plan Agent, to be combined with other Plan monies, for purchase of additional Fund shares in the open market. You pay only a bank service charge of \$1.25 per transaction, plus your proportionate share of the brokerage commission. All shares and fractional shares purchased will be held by the Plan Agent in your dividend reinvestment account. You may deposit with the Plan Agent any Bancroft share certificates you hold, for a one-time fee of \$7.50.

At any time, a Plan participant may instruct the Plan Agent to liquidate all or any portion of such Plan participant’s account. To do so, a Plan participant must deliver written notice to the Plan Agent prior to the record date of any dividend or distribution requesting either liquidation or a share certificate. The Plan Agent will combine all liquidation requests it receives from Plan participants on a particular day and will then sell shares of the Fund that are subject to liquidation requests in the open market. The amount of proceeds a Plan participant will receive shall be determined by the average sales price per share, after deducting brokerage commissions, of all shares sold by the Plan Agent for all Plan participants who have given the Plan Agent liquidation requests.

The Plan Agent or the Fund may terminate the Plan for any reason at any time by sending written notice addressed to Plan participant’s address as shown on the Plan Agent’s records. Following the date of termination, the Plan Agent shall send the Plan participant either the proceeds of liquidation, or a share certificate or certificates for the full shares held by the Plan Agent in the Plan participant’s account. Additionally, a check will be sent for the value of any fractional interest in the Plan participant’s account based on the market price of the Fund’s shares on that date.

## Miscellaneous Notes (continued)

### **Notice of Privacy Policy**

The Fund has adopted a privacy policy in order to protect the confidentiality of nonpublic personal information that we have about you. We receive personal information, such as your name, address and account balances, when transactions occur in Fund shares registered in your name.

We may disclose this information to companies that perform services for the Fund, such as the Fund's transfer agent or proxy solicitors. These companies may only use this information in connection with the services they provide to the Fund, and not for any other purpose. We will not otherwise disclose any nonpublic personal information about our shareholders or former shareholders to anyone else, except as required by law.

Access to nonpublic information about you is restricted to our employees and service providers who need that information in order to provide services to you. We maintain physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

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### **Change in Investment Policies**

The Fund currently has a non-fundamental investment objective of investing primarily in convertible securities with the objectives of providing income and the potential for capital appreciation (which objectives the Fund considers to be relatively equal due to the nature of the securities in which it invests).

The Board has approved the following new investment policy for the Fund: The Fund will invest, under normal circumstances, at least 65% of the value of its assets (consisting of net assets plus the amount of any borrowing for investment purposes) in convertible securities.

The Board has eliminated the following non-fundamental policy: The Fund will invest, under normal circumstances, at least 80% of the value of its assets (consisting of net assets plus the amount of any borrowings for investment purposes) in convertible securities.

These changes became effective as of September 29, 2006. Fund shareholders were provided 60 days notice of these changes in July 2006.

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### **For More Information About Portfolio Holdings**

In addition to the semi-annual and annual reports that Bancroft delivers to shareholders and makes available through the Fund's public website, the Fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the Fund's first and third fiscal quarters on Form N-Q. Bancroft does not deliver the schedule of portfolio holdings for the first and third fiscal quarters to shareholders, however the schedule is posted to the Fund's public website, [www.bancroftfund.com](http://www.bancroftfund.com). You may obtain the Form N-Q filings by accessing the SEC's website at [www.sec.gov](http://www.sec.gov). You may also review and copy them at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC at (800) SEC-0330.

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### **Proxy Voting Policies and Procedures / Proxy Voting Record**

The Fund's policies and procedures with respect to the voting of proxies relating to the Fund's portfolio securities is available without charge, upon request, by calling (973) 631-1177, or at our website at [www.bancroftfund.com](http://www.bancroftfund.com). This information is also available on the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, information on how the Fund voted such proxies relating to portfolio securities during the most recent twelve-month period ended June 30, is available without charge at the above sources.

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### **Disclosure of Portfolio Holdings to Broker-Dealers**

From time to time, brokers with whom the Fund's Adviser, Davis-Dinsmore Management Company, has a pre-existing relationship may request that Davis-Dinsmore disclose Fund portfolio holdings to such broker in advance of the public disclosure of such portfolio holdings. Davis-Dinsmore may make such disclosure under the following conditions: (i) the specific purpose of the disclosure is to assist Davis-Dinsmore in identifying potential investment opportunities for the Fund; (ii) prior to the receipt of nonpublic portfolio holdings, the broker, by means of e-mail or other written communication, shall agree to keep the nonpublic portfolio holdings confidential and not to use the information for the broker's own benefit, except in connection with the above described purpose for which it was disclosed; (iii) Davis-Dinsmore shall keep written records of its agreement with each broker to which it distributes nonpublic portfolio holdings; and (iv) Davis-Dinsmore will secure a new agreement with a broker any time the broker directs the nonpublic portfolio holdings to be sent to a new recipient.

# Board of Trustees

Each trustee is also a trustee of Ellsworth Fund Ltd. (Ellsworth) (a closed-end management investment company). Davis-Dinsmore Management Company (Davis-Dinsmore) is the Fund's investment adviser and is also the investment adviser to Ellsworth. Because of this connection, the Fund and Ellsworth make up a Fund Complex. Therefore, each trustee oversees two investment companies in the Fund Complex.

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Personal  
Information

Principal Occupation(s) During Past Five Years; Other  
Directorship(s)

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## INDEPENDENT TRUSTEES

Gordon F. Ahalt  
65 Madison Avenue  
Suite 550  
Morristown, NJ 07960  
Term expires 2007  
Trustee since 1982  
Age 78

Retired; Trustee of Ellsworth and Helix Energy Solutions Group, Inc. (an energy services company).

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Elizabeth C. Bogan, Ph.D.  
65 Madison Avenue  
Suite 550  
Morristown, NJ 07960  
Term expires 2009  
Trustee since 1990  
Age 62

Senior Lecturer in Economics at Princeton University; Trustee of Ellsworth.

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Donald M. Halsted, Jr. <sup>(1)</sup>  
65 Madison Avenue  
Suite 550  
Morristown, NJ 07960  
Term expires 2008  
Trustee since 1970  
Age 79

Retired Business Executive; Trustee of Ellsworth.

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Duncan O. McKee  
65 Madison Avenue  
Suite 550  
Morristown, NJ 07960  
Term expires 2008  
Trustee since 1996  
Age 75

Retired Attorney; Trustee of Ellsworth.

(1) Scheduled to retire effective as of December 31, 2006

## Board of Trustees (continued)

Personal Information	Principal Occupation(s) During Past Five Years; Other Directorship(s)
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### INDEPENDENT TRUSTEES (continued)

Robert J. McMullan 65 Madison Avenue Suite 550 Morristown, NJ 07960 Term expires 2009 Trustee since 2004 Age 52	Since 2005, Chief Executive Officer and director of Control Point Solutions, Inc. (a provider of telecommunications expense management and business process outsourcing services); prior to 2004, Senior Vice President and Chief Financial Officer of Conexant Systems, Inc. (a semiconductor manufacturing company); Trustee of Ellsworth.
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Nicolas W. Platt 65 Madison Avenue Suite 550 Morristown, NJ 07960 Term expires 2007 Trustee since 1997 Age 53	Since August 2006, Managing Director, Rodman & Renshaw, LLC (an investment banking firm); prior to August 2006, President of CNC-US (an international consulting company); prior to January 2003, Senior Partner of Platt & Rickenbach (a public relations firm); prior to May 2001, with WPP Group, UK and its public relations subsidiaries, Ogilvy Public Relations, Burson-Marsteller and Robinson Lehr Montgomery; Trustee of Ellsworth.
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### INTERESTED TRUSTEES

Thomas H. Dinsmore, C.F.A. <sup>(2)</sup> 65 Madison Avenue Suite 550 Morristown, NJ 07960 Term expires 2008 Trustee since 1985 Chairman of the Board since 1996 Age 53	Chairman and Chief Executive Officer of the Fund, Ellsworth and Davis-Dinsmore; Trustee of Ellsworth and director of Davis-Dinsmore.
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Jane D. O’Keeffe <sup>(2)</sup> 65 Madison Avenue Suite 550 Morristown, NJ 07960 Term expires 2007 Trustee since 1995 Age 51	President of the Fund, Ellsworth and Davis-Dinsmore; Trustee of Ellsworth and director of Davis-Dinsmore.
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(2) Mr. Dinsmore and Ms. O’Keeffe are considered interested persons of the Fund because they are officers, directors, and holders of more than 5% of the outstanding shares of the voting common stock of Davis-Dinsmore. They are brother and sister.

# Principal Officers

The business address of each officer is 65 Madison Avenue, Suite 550, Morristown, NJ 07960. Officers are elected by and serve at the pleasure of the Board of Trustees. Each officer holds office until the annual meeting to be held in 2007, and thereafter until his or her respective successor is duly elected and qualified.

Personal Information	Principal Occupation(s) During Past Five Years
Thomas H. Dinsmore, C.F.A. <sup>(1,2,3)</sup> Trustee, Chairman and Chief Executive Officer since 1984 Age 53	Trustee, Chairman and Chief Executive Officer of the Fund, Ellsworth and Davis-Dinsmore.
Jane D. O’Keeffe <sup>(1,2,3)</sup> Trustee and President Officer since 1994 Age 51	Trustee and President of the Fund, Ellsworth and Davis-Dinsmore.
Gary I. Levine Executive Vice President, Chief Financial Officer and Secretary Officer since 1986 Age 49	Executive Vice President and Chief Financial Officer of the Fund, Ellsworth and Davis-Dinsmore since 2004; Secretary of the Fund, Ellsworth and Davis-Dinsmore since 2003; Treasurer of Davis-Dinsmore since 1997; Vice President of the Fund, Ellsworth and Davis-Dinsmore from 2002 until 2004; Treasurer of the Fund and Ellsworth from 1993 until 2004.
H. Tucker Lake, Jr. <sup>(2,4)</sup> Vice President Officer since 1994 Age 59	Vice President of the Fund and Ellsworth since 2002, and of Davis-Dinsmore since 1997; Vice President, Trading, of the Fund and Ellsworth from 1994 to 2002.
Germaine M. Ortiz Vice President Officer since 1996 Age 37	Vice President of the Fund, Ellsworth and Davis-Dinsmore.
Mercedes A. Pierre Vice President and Chief Compliance Officer Officer since 1998 Age 45	Vice President and Chief Compliance Officer of the Fund, Ellsworth and Davis-Dinsmore since 2004, and Assistant Treasurer from 1998 to 2004.
Joshua P. Lake, C.T.P. <sup>(3,4)</sup> Treasurer and Assistant Secretary Officer since 2002 Age 30	Treasurer of the Fund and Ellsworth since 2004; Assistant Secretary of the Fund, Ellsworth and Davis-Dinsmore since 2002; Assistant Treasurer of Davis-Dinsmore, also since 2002.

(1) Mr. Dinsmore and Ms. O’Keeffe are brother and sister.

(2) Mr. H. Tucker Lake, Jr. is the cousin of Mr. Dinsmore and Ms. O’Keeffe.

(3) Mr. Joshua P. Lake is the cousin of Mr. Dinsmore and Ms. O’Keeffe.

(4) Mr. H. Tucker Lake, Jr. is the father of Mr. Joshua P. Lake.

***Board of Trustees***

GORDON F. AHALT  
ELIZABETH C. BOGAN Ph.D.  
THOMAS H. DINSMORE, C.F.A.  
DONALD M. HALSTED, JR.  
DUNCAN O. MCKEE  
ROBERT J. MCMULLAN  
JANE D. O'KEEFFE  
NICOLAS W. PLATT

***Officers***

THOMAS H. DINSMORE, C.F.A.  
*Chairman of the Board  
and Chief Executive Officer*

JANE D. O'KEEFFE  
*President*

GARY I. LEVINE  
*Executive Vice President, Chief Financial Officer  
and Secretary*

H. TUCKER LAKE, JR.  
*Vice President*

GERMAINE M. ORTIZ  
*Vice President*

MERCEDES A. PIERRE  
*Vice President and Chief Compliance Officer*

JOSHUA P. LAKE, C.T.P.  
*Treasurer and Assistant Secretary*

JOANN VENEZIA  
*Assistant Vice President and Assistant Secretary*

***Internet***

www.bancroftfund.com  
email: info@bancroftfund.com

***Investment Adviser***

Davis-Dinsmore Management Company  
65 Madison Avenue, Suite 550  
Morristown, NJ 07960  
(973) 631-1177

***Shareholder Services and Transfer Agent***

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038  
(800) 937-5449  
www.amstock.com

***Beneficial Share Listing***

American Stock Exchange Symbol: BCV

***Legal Counsel***

Ballard Spahr Andrews & Ingersoll LLP

***Independent Accountants***

Tait, Weller & Baker LLP

The Fund is a member of the Closed-End Fund Association, a non-profit national trade association (www.cefa.com). Thomas H. Dinsmore is on the Executive Board and is the president of the association. *The association is solely responsible for the content of its website.*

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Pursuant to Section 23 of the Investment Company Act of 1940, notice is hereby given that the Fund may in the future purchase its own shares from time to time, at such times, and in such amounts, as may be deemed advantageous to the Fund. Nothing herein shall be considered a commitment to purchase such shares.

BANCROFT FUND LTD.  
65 MADISON AVENUE, SUITE 550  
MORRISTOWN, NEW JERSEY 07960  
[www.bancroftfund.com](http://www.bancroftfund.com)

