

BANCROFT FUND LTD
Form N-CSR
January 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-02151

BANCROFT FUND LTD.

(Exact name of registrant as specified in charter)

65 Madison Avenue, Morristown, New Jersey 07960-7308

(Address of principal executive offices) (Zip code)

Thomas H. Dinsmore
BANCROFT FUND LTD.
65 Madison Avenue
Morristown, New Jersey 07960-7308
(Name and address of agent for service)

Copy to:
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Registrant's telephone number, including area code: (973) 631-1177

Date of fiscal year end: October 31, 2008

Date of reporting period: October 31, 2008

ITEM 1. REPORTS TO STOCKHOLDERS.

BANCROFT FUND LTD.

2008 Annual Report
October 31, 2008

2008 Annual Report
October 31, 2008

Bancroft Fund Ltd. 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, 2008 with dividends reinvested

	Calendar	Annualized		10	10 Year
	YTD	1 Year	5 Years	Years	Volatility
					*
Bancroft market price	(39.32)%	(38.72)%	(4.33)%	0.78%	17.05%
Bancroft net asset value	(35.57)	(37.50)	(2.94)	1.33	16.50
Merrill Lynch All Convertibles					
Index	(35.21)	(38.50)	(2.39)	2.73	21.22
S&P 500 Index	(32.84)	(36.10)	0.26	0.40	20.71
Lehman Aggregate Bond Total					
Return Index	(1.74)	0.30	3.48	5.00	4.15

All data in the table above is from Bloomberg L.P. pricing service, except Lehman Aggregate Bond Total Return Index, which is from Lipper, Inc. Closed-End Fund Performance Analysis, dated October 31, 2008.

Bancroft's performance in the table above has not been adjusted for the fiscal 2004 rights offering (net asset value dilution was 2.38%), or the tender offer which expired earlier this year (the anti-dilutive effect was 0.85%). Performance data represent past results and do not reflect future performance.

* 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.

Quarterly History of NAV and Market Price

Qtr. Ended	Net Asset Values			Market Prices (AMEX, symbol BCV)			
	High	Low	Close	High	Low	Close	
1/31/08	\$ 24.17	\$ 19.95	\$ 20.53	\$ 21.52	\$ 18.12	\$ 18.85	
4/30/08	20.72	19.41	20.69	18.98	17.64	18.48	
7/31/08	21.51	19.20	19.41	19.15	16.65	16.80	
10/31/08	19.62	12.42	13.37	16.81	9.26	11.30	

Dividend Distributions (12 Months)

Record Date	Payment Date	Income	Capital Gains	Total	Corporate Deduction *
11/29/07	12/26/07	\$ 0.166	\$ 2.009	\$ 2.175	16 %

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3/14/08	3/28/08	0.210	—	0.210	24
6/12/08	6/26/08	0.210	—	0.210	24
9/11/08	9/25/08	0.210	—	0.210	24
		\$ 0.796	\$ 2.009	\$ 2.805	

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

To Our Shareholders

December 12, 2008

Much has happened since our last shareholder letter was written. The cascading bear market of 2008 is among the worst bear markets of my lifetime and is the worst of my career. From its high in October 2007 the Standard & Poor's 500 Index fell over 50% by November 20, 2008. This decline is similar to the one seen in the 1973-1974 bear market which was followed by an 80% bull market in 1975-1976. We do not expect that kind of recovery immediately following the bottom of this market.

Performance of all types of securities was hurt in this downturn, but convertible securities did not perform as expected. According to Merrill Lynch, although convertible securities usually do outperform their underlying common stocks, convertible securities as an asset class underperformed the broad equity indices. This unexpected result appears to be due to excessive hedge fund liquidations of convertibles and because of the disproportionate presence of financial issuers in the convertible universe.

Although recent market events have been volatile and sometimes terrifying, there are some reasons for optimism. Bancroft does not use leverage so it does not have that risk added to the current volatility of the market. Convertible securities appear to be undervalued relative to their underlying shares and by many historical measures. Merrill Lynch's convertible valuation model has shown these securities to be at their cheapest levels since 1995. Because of this apparent cheapness, we have been able to add convertible securities to the Fund that have historically high yields with puts or short maturities that we expect will help protect against further erosion of their prices.

The economy is likely to see substantial weakness in housing, jobs, and consumption for much of 2009. Declining economic activity is likely to continue into the summer, if not longer. Before a bottom can be found, the commercial credit markets must be stabilized and begin to function reliably again.

Performance for the Fund's fiscal year was enhanced by its exposure to the Consumer Goods and Health Care industries. Performance was hurt by its exposure to the Financial and the Metals and Mining industries.

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To Our Shareholders (continued)

The Fund's net asset value (NAV), with dividends reinvested, after adjustment for fund expenses (the Index includes no expenses), and for the Fund's fiscal 2004 rights offer and the February 2008 tender offer (see Note 3 on page 14), outperformed the Merrill Lynch All Convertibles Index (the "Index") over the calendar year-to-date and one-year periods, and was in-line for the five- and ten-year periods ended October 31, 2008. For the calendar year-to-date, one-, five- and ten-year periods, Bancroft's market return underperformed the Index. For the ten-year period, the Fund's market volatility, 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 it is informative. The Fund has sought to provide total returns to shareholders that compare favorably to those provided by the equity markets, but with less volatility.

At its November 17, 2008 meeting, the Board of Trustees declared a distribution of \$0.19 per share, consisting of undistributed net investment income. The distribution is payable on December 29, 2008 to shareholders of record on November 28, 2008.

The 2009 annual meeting of shareholders will be held on February 13, 2008. Time and location will be included in the proxy statement, scheduled to be mailed to shareholders on December 29, 2008. 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, 2008

ADDITIONS

Bank of America

Corning

General Electric

The Great Atlantic & Pacific Tea Company

Kinetic Concepts

Nabors Industries

Prudential Financial

St. Jude Medical

Walt Disney

Webster Financial

REDUCTIONS

Archer Daniels Midland

Bristol-Myers Squibb

Church & Dwight

Corning

Cypress Semiconductor

MetLife

Nabors Industries

Prudential Financial

St. Jude Medical

Walt Disney

Largest Investment Holdings by underlying common stock

	Value (Note 1)	% Total Net Assets
<p>Wyeth</p> <p>Wyeth is engaged in the discovery, development, manufacture, distribution and sale of a line of products in three primary businesses: Pharmaceuticals, Consumer Healthcare and Animal Health. Pharmaceuticals includes branded human ethical pharmaceuticals, biotechnology products, vaccines and nutrition products.</p>	\$ 2,884,500	4.2%
<p>New York Community Bancorp</p> <p>New York Community Bancorp is a multi-bank holding company that offers a full range of traditional and non-traditional products and services.</p>	2,307,981	3.3
<p>LSB Industries</p> <p>LSB manufactures and sells chemical products for the mining, agricultural and industrial markets. The company also manufactures and sells commercial and residential climate control products.</p>	2,235,000	3.2
<p>The Walt Disney Company</p> <p>Disney, an entertainment company, has operations that include media networks, studio entertainment, theme parks and resorts, consumer products, and Internet and direct marketing.</p>	2,128,088	3.1
<p>Prudential Financial</p> <p>Prudential provides financial services worldwide, offering a variety of products and services including life insurance, mutual funds, annuities, asset management and real estate brokerage.</p>	1,953,800	2.8
<p>EMC</p> <p>With its subsidiaries, EMC develops, delivers and supports the information technology (IT) industry's range of information infrastructure technologies and solutions.</p>	1,866,250	2.7
<p>Johnson & Johnson</p> <p>With more than 250 operating companies, Johnson & Johnson is engaged in the research and development, manufacture and sale of a range of products in the healthcare field, operating in three segments: Consumer, Pharmaceutical, and Medical Devices and Diagnostics.</p>	1,715,000	2.5
<p>Teva Pharmaceutical Industries Ltd</p> <p>Develops, produces and markets generic drugs covering all major treatment categories. The company operates 36 pharmaceutical manufacturing sites in 16 countries, 17 generic R&D centers operating mostly within certain manufacturing sites and 18 API manufacturing sites globally.</p>	1,573,125	2.3
<p>Nabors Industries, Inc</p> <p>A land drilling contractor, Nabors also performs well-servicing and workovers. The company conducts oil, gas and geothermal land drilling operations.</p>	1,471,750	2.1

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Chesapeake Energy A producer of 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.	1,416,552	2.0
Total	\$ 19,552,046	28.2%

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Major Industry Exposure

Diversification of Assets

	Cost	Value (Note 1)	% Total Net Assets October 31,	
			2008	2007
Aerospace and Defense	\$ 2,021,763	\$ 1,248,525	1.8%	3.8%
Agriculture	—	—	—	1.4
Banking/Savings and Loan	7,574,998	5,379,481	7.8	6.1
Chemicals	1,160,525	746,000	1.1	2.8
Computer Hardware	5,054,133	3,885,850	5.6	5.3
Computer Software	4,630,285	2,135,625	3.1	3.0
Consumer Goods	4,337,007	3,218,213	4.6	3.7
Energy	14,032,705	9,358,408	13.5	14.3
Financial Services	2,514,909	1,427,500	2.1	2.3
Foods	4,591,580	2,527,188	3.6	1.7
Health Care	6,499,175	4,219,375	6.1	4.2
Insurance	4,707,811	3,231,467	4.7	7.6
Media and Entertainment	3,496,542	2,653,088	3.8	3.6
Minerals and Mining	4,686,448	2,442,600	3.5	5.8
Multi-Industry	5,750,130	3,798,877	5.5	2.9
Pharmaceuticals	9,793,524	8,221,785	11.8	10.2
Real Estate	2,000,622	920,000	1.3	0.8
Retail	2,936,140	1,863,750	2.7	1.9
Semiconductors	4,085,541	3,383,863	4.9	6.5
Telecommunications	7,973,569	4,178,407	6.0	4.6
Transportation	772,885	516,000	0.7	1.4
Travel and Leisure	1,022,546	527,500	0.8	0.8
Short-Term Securities	—	—	—	3.7
Total Investments	\$ 99,642,838	65,883,502	95.0	98.4
Other Assets, Net of Liabilities		3,520,457	5.0	1.6
Total Net Assets		\$ 69,403,959	100.0%	100.0%

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Portfolio of Investments October 31, 2008

	Principal Amount	Identified Cost	Value (Note 1)
CONVERTIBLE BONDS AND NOTES — 62.5%			
Aerospace and Defense — 1.4%			
Alliant Techsystems Inc. 2.75%, due 2011 cv. sr. sub. notes (B1)	\$ 1,000,000	\$ 1,005,513	\$ 982,500
Computer Hardware — 5.6%			
Credit Suisse, New York Branch 12.90%, due 2008 equity-linked notes (NR) (exchangeable for Corning Inc. common stock)	2,000,000	2,000,000	1,284,600
EMC Corp. 1.75%, due 2011 cv. sr. notes (A-)	1,000,000	1,029,719	957,500
EMC Corp. 1.75%, due 2013 cv. sr. notes (A-)	1,000,000	1,024,414	908,750
Richardson Electronics, Ltd. 8%, due 2011 cv. sr. sub. notes (NR)	1,000,000	1,000,000	735,000
		5,054,133	3,885,850
Computer Software — 3.1%			
Blackboard Inc. 3.25%, due 2027 cv. sr. notes (B+)	2,000,000	1,980,461	1,310,000
GSI Commerce, Inc. 2.5%, due 2027 cv. sr. notes (NR)	1,000,000	1,001,538	696,250
Lehman Brothers Holdings Inc. 1%, due 2009 medium-term notes (B3) (performance linked to Microsoft Corp. common stock) (3)	1,500,000	1,648,286	129,375
		4,630,285	2,135,625
Consumer Goods — 1.5%			
Chattem, Inc. 1.625%, due 2014 cv. sr. notes (NR)	1,000,000	1,019,159	1,090,000
Energy — 7.2%			
Chesapeake Energy Corp. 2.75%, due 2035 contingent cv. sr. notes (BB-)(1)	800,000	596,000	596,000
Covanta Holding Corp. 1%, due 2027 sr. cv. deb. (B1) (1)	1,500,000	1,695,326	1,246,875
Nabors Industries, Inc. 0.94%, due 2011 sr. exchangeable notes (BBB+)	1,000,000	774,188	792,500
Oil States International, Inc. 2.375%, due 2025 contingent cv. sr. notes (NR)	1,325,000	1,542,887	1,215,688
SunPower Corp. 1.25%, due 2027 sr. cv. deb. (NR)	750,000	966,149	509,063
Trina Solar Ltd. 4%, due 2013 cv. sr. notes (NR)	1,000,000	1,000,000	630,000
		6,574,550	4,990,126
Financial Services — 2.1%			
Euronet Worldwide, Inc. 3.50%, due 2025 cv. deb. (B+) (1)	2,000,000	2,514,909	1,427,500
Foods — 3.5%			
Central European Distribution Corp. 3%, due 2013 cv. sr. notes (B-)	500,000	349,830	293,125
The Great Atlantic & Pacific Tea Company, Inc. 5.125%, due 2011 cv. sr. notes (Caa1)	500,000	500,000	346,875
The Great Atlantic & Pacific Tea Company, Inc. 6.75%, due 2012 cv. sr. notes (Caa1)	1,500,000	1,500,000	1,003,125
Tyson Foods, Inc. 3.25%, due 2013 cv. sr. notes (BB)	1,000,000	991,750	776,250
		3,341,580	2,419,375
Health Care — 6.1%			
China Medical Technologies, Inc. 4%, due 2013 cv. sr. sub. notes (NR)	1,500,000	1,500,000	793,125
Kinetic Concepts, Inc. 3.25%, due 2015 cv. sr. notes (B+)	2,000,000	1,966,222	1,227,500

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(Acquired 04/16/08 and 08/04/08; Cost \$1,966,222) (2)			
Omnicare, Inc. 3.25%, due 2035 cv. sr. deb. (B3) (1)	900,000	1,019,382	438,750
SonoSite Inc. 3.75%, due 2014 cv. sr. notes (NR)	1,000,000	1,013,133	770,000
St. Jude Medical, Inc. 1.22%, due 2008 cv. sr. deb. (A-)	1,000,000	1,000,438	990,000
		6,499,175	4,219,375
Insurance — 2.8%			
Prudential Financial, Inc. floating rate, due 2036 cv. sr. notes (A3)	2,000,000	2,006,308	1,953,800
Media and Entertainment — 0.8%			
Virgin Media Inc. 6.5%, due 2016 cv. sr. notes (B-)			
(Acquired 04/10/08 and 04/11/08; Cost \$995,241) (2)	1,000,000	995,241	525,000

Portfolio of Investments October 31, 2008 (continued)

	Principal Amount	Identified Cost	Value (Note 1)
CONVERTIBLE BONDS AND NOTES — continued			
Multi-Industry — 3.4%			
Diversa Corp. 5.5%, due 2027 cv. sr. notes (NR) (exchangeable for Verenum Corp. common stock)	\$ 750,000	\$ 750,000	\$ 143,434
LSB Industries, Inc. 5.5%, due 2012 cv. sr. sub. deb. (NR)	3,000,000	3,000,000	2,235,000
		3,750,000	2,378,434