Ellsworth Convertible Growth and Income Fund, Inc.

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First Quarter Update - December 31, 2004 (unaudited)

Financial Highlights

Market price 12/31/04	$8.08
Net asset value (NAV) 12/31/04	$9.07
Market discount to NAV	(10.92)%
12-Month income distribution	$0.30
Yield on market price	3.71%
Ratio of expenses to avg. net assets	1.18%*
Ratio of net income to avg. net assets	3.30%*
Portfolio turnover	14.81%
Shares outstanding	12,362,269

** Annualized*

Change in Net Asset Value (NAV)

	Per Share
Beginning NAV (9/30/04)	$ 8.71
Changes in NAV from Operations:	
Net Investment Income	0.07
Realized Gain	0.08
Increase in Unrealized Gain	0.30
Total Change from Operations	0.45
Distributions:	
Net Investment Income	(0.09)
Capital Gains	0.00
Total Change from Distributions	(0.09)
Total Change	0.36
Ending NAV (12/31/04)	$ 9.07

Major Industry Exposure as of 12/31/04

	% of Net Assets
Energy	12.4
Financial and Insurance	12.2
Pharmaceuticals	10.5
Banking/Savings and Loan	9.5
Technology	7.2
Telecommunications	7.1
Health Care	6.0
Retail	5.7
Entertainment	5.3
Automotive	3.9

Performance through 12/31/04 *with dividends reinvested*

	3 Months	1 Year	5 Years	10 Years
Ellsworth market price (a,b)	2.74%	4.91%	38.01%	209.55%
Ellsworth net asset value (b,c,d)	5.16	5.30	13.37	165.86
Closed-end conv. fund avg. (d)	6.89	9.68	17.86	134.10
S&P 500 (a)	9.23	10.88	(10.98)	212.41
Russell 2000 (d)	14.09	18.33	37.71	197.96
Lehman Aggregate Bond Total Return Index (d)	0.95	4.34	44.97	110.38

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

(a) From Bloomberg L.P. pricing service.
(b) Performance is not adjusted for dilution due to the rights offering.
(c) Net asset value dilution resulting from the Ellsworth rights offering was 2.21%.
(d) From Lipper, Inc. Closed-End Fund Performance Analysis, December 31, 2004.

Quarterly History of NAV and Market Price

	Net Asset Values			Market Prices		
Qtr. Ended	High	Low	Close	High	Low	Close
Mar. 04	$9.25	$8.91	$9.12	$8.50	$8.01	$8.20
Jun. 04	9.19	8.58	8.87	8.34	7.41	7.70
Sep. 04	8.82	8.39	8.71	8.05	7.15	7.95
Dec. 04	9.07	8.60	9.07	8.08	7.80	8.08

Total Fund Investments as of 12/31/04

	(000's)	% of Net Assets
Convertible Bonds and Notes	$ 61,674	55.0
Convertible Preferred Stocks	21,813	19.5
Mandatory Convertible Securities	20,859	18.6
Common Stock	4,844	4.3
Short-Term Securities	2,710	2.4
Other Assets	261	0.2
Net Assets	$112,161	100.0%

Largest Investment Holdings as of 12/31/04

by underlying common stock

	% of Net Assets
Church & Dwight Co., Inc.	2.2
Leucadia National Corp.	2.2
Amerada Hess Corp.	2.0
Comverse Technology, Inc.	2.0
The Walt Disney Company	2.0
The Chubb Corp.	1.9
Lucent Technologies, Inc.	1.9
The TJX Companies, Inc.	1.9
International Rectifier Corp.	1.8
Teva Pharmaceutical Industries Ltd.	1.8

The portfolio holdings and industry exposure are as of December 31, 2004 and subject to change without notice.

Detailed portfolio information is available on our website (www.ellsworthfund.com). *Visit us there or contact us by e-mail at* info@ellsworthfund.com *or call us at (973) 631-1177.*

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To Our Shareholders: February 10, 2005

Last year was a year of change for the convertible market. According to Merrill Lynch, there were $45 billion in new convertibles issued in 2004 but there were $72 billion in redemptions, making this the first year since 1997 that there was a negative net issuance of convertible securities in the US market. Over two thirds of the $45 billion in new issues came to market in the form of Rule 144A offerings which are available only to qualified institutional buyers at issuance. This makes it difficult for individual investors to participate in new convertible offerings outside of a fund.

Speculative grade convertible securities outperformed investment grade convertible bonds and convertible preferred stocks (not including mandatory issues) in 2004.* This made performance difficult to achieve for convertible managers who were investing in higher quality securities.

Conversion premiums on many convertibles have come down substantially. (Value Line estimates that convertible bond premiums have fallen from 40% in July 2004 to 30% in January 2005).** Looking forward, this makes these issues more equity sensitive so if the underlying stocks move, the convertible is likely to participate in that move to a greater degree than before. Many major market strategists predict a relatively flat market for 2005. If their expectations are borne out, then due to their income advantage, convertibles are in a good position to perform well in the equity market. Given the outperformance of speculative grade issues in 2004, we believe investment grade convertibles will be more attractive in 2005.

Since the founding of Ellsworth Convertible Growth and Income Fund in 1986, the Fund's strategy has consistently been to use convertible securities as an equity alternative to reduce risk and volatility. This strategy tends to outperform equities in bear markets and lag them in bull markets. For the ten year period ended December 31, 2004, Ellsworth has outperformed the average of the closed-end convertible fund category tracked by Lipper, Inc. and published in the *Lipper Closed-End Performance Analysis*. However, for the quarter, one year and five years ended December 31, 2004, the Fund underperformed the average of the thirteen funds in its category. Of these thirteen funds, only seven, including the Fund, remain unleveraged convertible funds. In addition, many of our competitors have had greater exposure to non-convertible, low-rated, high yield debt than the Fund has had. We believe these factors contributed to the difference in performance between Ellsworth and many of the other funds in the group.

Visit our website, www.ellsworthfund.com, for additional information on the Fund. Further, shareholders who wish to obtain a copy of the most recent report on the Fund issued by Standard and Poor's should contact us.

At the annual meeting of shareholders, directors Thomas H. Dinsmore, Donald M. Halsted, Jr, and Duncan O. McKee were elected to three-year terms, and Robert J. McMullan was elected to a one-year term. PricewaterhouseCoopers, LLP was ratified as the Fund's independent auditors for the 2005 fiscal year. We thank you for your participation and support.

At its January meeting, the Board of Directors declared a dividend of 7 cents per share payable February 25, 2005 to shareholders of record February 11, 2005.

Thomas H. Dinsmore
Chairman of the Board

* *Merrill Lynch Convertible Monthly*, January 7, 2005.
** *Value Line Convertible Survey*, January 24, 2005.

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Stock Exchange Listing
AMEX - Symbol: ECF

AMERICAN STOCK EXCHANGE® LISTED ECF™

Portfolio of Investments December 31, 2004 (unaudited)

Principal Amount		Value (Note 1)
	CONVERTIBLE BONDS AND NOTES — 55.0%	
	Aerospace and Defense — 1.3%	
$1,500,000	The Goldman Sachs Group, Inc. 1% 2009 exch. equity-linked notes (Aa3) (exch. for General Dynamics Corp. common stock) (1)	$ 1,499,205
	Automotive — 2.7%	
1,000,000	American Axle & Manufacturing Holdings, Inc. 2% 2024 cv. sr. notes (Baa3) (1)	909,400
3,500,000	Lear Corp. 0% 2022 cv. sr. notes (Baa3)	1,806,875
250,000	Titan International, Inc. 5.25% 2009 sr. cv. notes (NR)	346,563
		3,062,838
	Banking/Savings and Loan — 2.9%	
2,077,000	The Bear Stearns Companies, Inc. 0.25% 2010 medium-term notes (A1) (exch. for Fifth Third Bancorp common stock) (1)	1,923,198
1,250,000	Ocwen Financial Corp. 3.25% 2024 contingent cv. sr. unsecured notes (B-) (Acquired 07/22/04 - 09/27/04; Cost $1,263,750) (2)	1,332,813
		3,256,011
	Consumer Goods — 2.2%	
1,875,000	Church & Dwight Co., Inc. 5.25% 2033 cv. sr. deb. (Ba2)	2,454,075
	Data-Processing Services — 1.8%	
1,500,000	Pegasus Solutions, Inc. 3.875% 2023 cv. sr. notes (NR)	1,423,473
500,000	Per-Se Technologies, Inc. 3.25% 2024 cv. sub. deb. (B-) (Acquired 06/24/04 - 06/25/04; Cost $508,125) (2)	580,450
		2,003,923
	Electrical Supplies — 1.2%	
1,500,000	Graftech International Ltd. 1.625% 2024 cv. sr. deb. (B2)	1,383,750
	Energy — 6.1%	
1,500,000	CMS Energy Corp. 2.875% 2024 cv. sr. notes (B1)	1,505,625
3,000,000	Devon Energy Corp. 0% 2020 cv. sr. deb. (BBB)	1,681,950
1,500,000	Kerr-McGee Corp. 5.25% 2010 cv. sub. deb. (Ba1)	1,589,895
750,000	OMI Corp. 2.875% 2024 cv. sr. notes (B+) (Acquired 11/30/04; Cost $750,000) (2)	731,250
2,000,000	Weatherford International Ltd. 0% 2020 cv. sr. deb. (Baa1)	1,286,160
		6,794,880
	Entertainment — 3.0%	
1,250,000	Citadel Broadcasting Corp. 1.875% 2011 cv. sub. notes (NR)	1,130,469
2,000,000	The Walt Disney Company 2.125% 2023 cv. sr. notes (Baa1)	2,225,540
		3,356,009
	Financial and Insurance — 3.1%	
2,000,000	Leucadia National Corp. 3.75% 2014 cv. sr. sub. notes (Ba3)	2,477,500
1,000,000	Swiss Re America Holding Corp. 3.25% 2021 euro. sub. cv. bonds (Aa1) (conv. into Swiss Reinsurance Company common stock) (Acquired 11/15/01 - 12/05/01; Cost $1,007,875) (2)	971,250
		3,448,750
	Health Care — 4.6%	
1,500,000	Community Health Systems, Inc. 4.25% 2008 cv. sub. notes (B3)	1,559,063
1,000,000	Isolagen, Inc. 3.5% 2024 cv. sub. notes (NR) (Acquired 10/29/04 - 11/01/04; Cost $1,020,000) (2)	1,138,750
1,000,000	LifePoint Hospitals, Inc. 4.5% 2009 cv. sub. notes (B3)	1,003,750
1,125,000	Mentor Corp. 2.75% 2024 cv. sub. notes (NR)	1,441,406
		5,142,969

Portfolio of Investments December 31, 2004 (continued)

Principal Amount		Value (Note 1)
	CONVERTIBLE BONDS AND NOTES — (continued)	
	Hotel Services — 1.1%	
$1,000,000	Four Seasons Hotels, Inc. 1.875% 2024 cv. sr. notes (Baa3)	$1,290,625
	Metals — 0.9%	
1,000,000	Ryerson Tull, Inc. 3.5% 2024 cv. sr. notes (NR) (Acquired 11/05/04 - 12/09/04; Cost $1,020,000) (2)	1,043,125
	Multi-Industry — 0.9%	
1,000,000	Lehman Brothers Holdings, Inc. 1% 2011 medium-term notes (A) (performance linked to Cendant Corp. common stock) (1)	1,002,500
	Office Equipment — 1.4%	
1,500,000	IOS Capital, LLC 5% 2007 cv. sub. notes (Ba3) (exch. for IKON Office Solutions, Inc. common stock) (Acquired 05/08/02 - 06/02/03; Cost $1,498,125) (2)	1,534,683
	Pharmaceuticals — 5.9%	
2,000,000	Amgen, Inc. 0% 2032 LYONs (A2) (1)	1,489,280
1,500,000	Impax Laboratories, Inc. 1.25% 2024 cv. sr. sub. deb. (NR)	1,364,820
500,000	Ivax Corp. 4.5% 2008 cv. sr. sub. notes (NR)	498,750
1,250,000	Ivax Corp. 1.5% 2024 cv. sr. notes (NR) (1)	1,203,350
1,000,000	Teva Pharmaceutical Finance II, LLC series A 0.50% 2024 cv. sr. deb. (BBB) (exch. for ADR representing Teva Pharmaceutical Industries Ltd. common stock)	1,005,950
1,000,000	Teva Pharmaceutical Finance II, LLC series B 0.25% 2024 cv. sr. deb. (BBB) (exch. for ADR representing Teva Pharmaceutical Industries Ltd. common stock)	1,019,180
		6,581,330
	Retail — 5.7%	
1,250,000	Casual Male Retail Group, Inc. 5% 2024 cv. sr. sub. notes (NR)	1,125,000
750,000	Charming Shoppes, Inc. 4.75% 2012 sr. cv. notes (B2)	902,344
1,000,000	Dick's Sporting Goods, Inc. 1.6061% 2024 sr. cv. notes (B)	773,125
125,000	The Dress Barn, Inc. 2.5% 2024 cv. sr. notes (NR) (Acquired 12/09/04; Cost $125,306) (1,2)	136,016
1,350,000	Saks, Inc. 2% 2024 cv. sr. notes (Ba3)	1,335,636
2,400,000	The TJX Companies, Inc. 0% 2021 LYONs (Baa1)	2,116,500
		6,388,621
	Technology — 4.4%	
1,000,000	Conexant Systems, Inc. 5.25% 2006 cv. sub. notes (NR)	981,250
2,379,000	Hewlett-Packard Co., Inc. 0% 2017 LYONs (Baa1)	1,356,030
2,000,000	International Rectifier Corp. 4.25% 2007 cv. sub. notes (B2)	1,990,000
625,000	Synaptics, Inc. 0.75% 2024 cv. sr. sub. notes (NR) (Acquired 12/02/04; Cost $648,099) (1,2)	604,688
		4,931,968
	Telecommunications — 5.8%	
1,500,000	Comverse Technology, Inc. 0% 2023 ZYPS (BB-) (3)	2,215,725
1,000,000	Lucent Technologies, Inc. 2.75% 2023 series A cv. sr. deb. (B2)	1,374,730
500,000	Lucent Technologies, Inc. 2.75% 2025 series B cv. sr. deb. (B2)	729,445
1,250,000	Nortel Networks Corp. 4.25% 2008 cv. sr. notes (B3)	1,220,313
750,000	Tekelec, Inc. 2.25% 2008 sr. sub. cv. notes (NR)	959,100
		6,499,313
	TOTAL CONVERTIBLE BONDS AND NOTES	$61,674,575

Portfolio of Investments December 31, 2004 (continued)

Shares		Value (Note 1)
	CONVERTIBLE PREFERRED STOCKS — 19.4%	
	Automotive — 1.2%	
50,000	General Motors Corp. 6.25% 2033 series C cv. sr. deb. (Baa2)	$ 1,333,000
	Banking/Savings and Loan — 6.6%	
17,500	Commerce Capital Trust II 5.95% cv. trust pfd. (Baa1) (exch. for Commerce Bancorp, Inc. common stock)	1,116,719
40,000	National Australia Bank Ltd. 7.875% exch. capital units (NR)	1,514,000
20,000	New York Community Bancorp, Inc. 6% BONUSES units (Baa2)	1,135,720
35,000	Sovereign Capital Trust IV 4.375% PIERS (Ba1) (exch. for Sovereign Bancorp, Inc. common stock) (1)	1,717,223
35,000	Washington Mutual Capital Trust PIERS units (Baa1) (exch. for Washington Mutual, Inc. common stock)	1,961,103
		7,444,765
	Energy — 2.5%	
1,000	Chesapeake Energy Corp. 4.125% cum. cv. pfd. (NR)	1,165,642
20,000	The Williams Companies, Inc. 5.5% 2033 jr. sub. cv. deb. (B-)	1,680,880
		2,846,522
	Entertainment — 2.3%	
22,500	Emmis Communications Corp. 6.25% series A cum. cv. pfd. (Caa1)	1,040,625
1,500	Radio One, Inc. 6.5% HIGH TIDES (B3)	1,518,562
		2,559,187
	Financial and Insurance — 3.7%	
10	Fannie Mae 5.375% non-cumulative cv. pfd. (Aa3)	1,057,552
20,000	Reinsurance Group of America, Inc. 5.75% PIERS (Baa2)	1,230,000
80,000	The St. Paul Travelers Companies, Inc. 4.5% 2032 cv. jr. sub. notes (Baa1)	1,839,200
		4,126,752
	Health Care — 1.4%	
28,000	Omnicare Capital Trust I 4% PIERS (Ba3) (exch. for Omnicare, Inc. common stock) (1)	1,544,480
	Mining — 1.7%	
2,000	Freeport-McMoRan Copper and Gold, Inc. 5.5% cv. perpetual pfd. (B-)	1,958,250
	TOTAL CONVERTIBLE PREFERRED STOCKS	$21,812,956
	MANDATORY CONVERTIBLE SECURITIES — 18.6% (4)	
	Consumer Goods — 1.7%	
50,000	Constellation Brands, Inc. dep. shs. representing 5.75% series A mand. cv. pfd. (B)	1,881,000
	Energy — 3.2%	
30,000	Amerada Hess Corp. 7% mand. cv. pfd. ACES (Ba3)	2,215,800
30,000	Valero Energy Corp. 2% mand. cv. pfd. (BB+)	1,361,160
		3,576,960
	Financial and Insurance — 5.4%	
27,800	Capital One Financial Corp. 6.25% Upper DECS (Baa3) (1)	1,569,032
72,000	The Chubb Corp. 7% equity units (A2) (1)	2,160,000
40,000	Platinum Underwriters Holdings, Ltd. 7% equity security units (NR) (1)	1,209,000
45,000	XL Capital, Ltd. 6.5% equity security units (A2)	1,136,700
		6,074,732

Portfolio of Investments December 31, 2004 (continued)

Principal Amount or Shares		Value (Note 1)
	MANDATORY CONVERTIBLE SECURITIES — (continued) [4]	
	Foods — 1.4%	
40,000 shs	Albertson's, Inc. 7.25% HITS units (Baa2) [1]	$ 1,021,200
20,000 shs	Lehman Brothers Holdings, Inc. 6.25% PIES (A) (exch. for General Mills, Inc. common stock)	542,500
		1,563,700
	Pharmaceuticals — 3.1%	
31,500 shs	Baxter International, Inc. 7% equity units (Baa1) [1]	1,786,680
30,000 shs	Schering-Plough Corp. 6% mand. cv. pfd. (Baa3)	1,683,000
		3,469,680
	Technology — 2.8%	
105,550 shs	The Goldman Sachs Group, Inc. 7.5% mand. exch. notes (Aa3) (exch. for EMC Corp. common stock)	1,582,775
36,395 shs	The Goldman Sachs Group, Inc. 5.625% mand. exch. notes (Aa3) (exch. for Intel Corp. common stock)	860,269
$1,100,000	Lehman Brothers Holdings, Inc. 6% 2005 YEELDS (A) (performance linked to LSI Logic Corp. common stock)	676,500
		3,119,544
	Utilities — 1.0%	
45,000 shs	DTE Energy Co. 8.75% equity security units (BBB) [1]	1,173,150
	TOTAL MANDATORY CONVERTIBLE SECURITIES [4]	$20,858,766
	COMMON STOCKS — 4.3%	
	Aerospace and Defense — 0.9%	
19,171 shs	Northrop Grumman Corp.	1,042,136
	Energy — 0.6%	
39,945 shs	Chesapeake Energy Corp.	658,693
	Pharmaceuticals — 1.5%	
26,300 shs	Johnson & Johnson	1,668,998
	Telecommunications — 1.3%	
40,000 shs	SBC Communications, Inc.	1,030,800
20,000 shs	UTStarcom, Inc. [3]	443,000
		1,473,800
	TOTAL COMMON STOCKS	$ 4,843,627
	SHORT-TERM SECURITIES — 2.4%	
	Commercial Paper — 2.4%	
2,700,000	American Express Credit Corp. (P1) (2.1% maturing 01/04/05)	2,699,213

Portfolio of Investments December 31, 2004 (continued)

Principal Amount		Value (Note 1)
	SHORT-TERM SECURITIES — (continued)	
	U.S. Government Obligations — 0.0%	
$11,000	U.S. Treasury notes 1.625% 04/30/05 (Aaa) (5)	$ 10,976
	TOTAL SHORT-TERM SECURITIES	2,710,189
	Total Convertible Bonds and Notes — 55.0%	61,674,575
	Total Convertible Preferred Stocks — 19.5%	21,812,956
	Total Mandatory Convertible Securities — 18.6%	20,858,766
	Total Common Stocks — 4.3%	4,843,627
	Total Short-Term Securities — 2.4%	2,710,189
	Total Investments — 99.8%	111,900,113
	Other assets and liabilities, net — 0.2%	261,208
	Total Net Assets — 100.0%	$112,161,321

(1) Contingent payment debt instrument. See Note 1(b) below.
(2) Security not registered under the Securities Act of 1933, as amended (e.g., the security was purchased in a Rule 144A 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 such securities. The aggregate market value of these unregistered securities at December 31, 2004 was $8,073,025, which represented 7.2% of the Fund's net assets.
(3) Non-income producing security.
(4) Mandatory convertible. See Note 1(e) below.
(5) Collateral for a letter of credit.

ACES	Automatic Convertible Equity Securities.
ADR	American Depositary Receipts.
BONUSES	Bifurcated Option Note Unit Securities.
DECS	Debt Exchangeable for Common Stock.
HIGH TIDES	Remarketable Term Income Deferrable Equity Securities.
HITS	Hybrid Income Term Securities.
LYONs	Liquid Yield Option Notes.
PIES	Premium Income Exchangeable Securities.
PIERS	Preferred Income Equity Redeemable Securities.
YEELDS	Yield Enhanced Equity Linked Debt Securities.
ZYPS	Zero Yield Puttable Securities.

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

Notes to Financial Statements (unaudited)

1. Significant Accounting Policies

Ellsworth Convertible Growth and Income Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a diversified, closed-end management investment company. 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. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements:

(a) 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. Unlisted securities traded in the over-the-counter market and 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. 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 with the approval of the Board of Directors. Short-term debt securities with initial maturities of 60 days or less are valued at amortized cost.

(b) 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 1 cent per share for the quarter ended December 31, 2004. In addition, Federal tax regulations require the Fund to reclassify realized gains on contingent payment debt instruments to interest income. At December 31, 2004 there were unrealized losses of approximately 0.5 cents per share on contingent payment debt instruments.

(c) 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 September 30, 2004, the Fund had a capital loss carryforward of $4,915,273 available to the extent allowed by tax law to offset future net capital gains, if any. To the extent that the carryforward is used, no capital gains distributions will be made. The carryforward expires in 2011. The Fund utilized net capital loss carryforwards of $2,804,454 during the year ended September 30, 2004.

(d) 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 years ended September 30, 2004 and 2003 were $3,681,116 and $3,143,201, respectively, both from ordinary income.

Notes to Financial Statements (continued)

(e) Market Risk

It is the Fund's policy to invest at least 80% of its assets 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 in their underlying securities. Thus they expose the Fund to greater downside risk than traditional convertible securities, but still less than that of the underlying common stock. The market value of those securities was $20,858,766 at December 31, 2004, representing 18.6% of net assets.

For the complete Notes to Financial Statements see the Annual Report to Shareholders, dated September 30, 2004.