

CORNERSTONE STRATEGIC VALUE FUND INC  
Form N-CSR  
March 02, 2012

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 811-05150

Cornerstone Strategic Value Fund, Inc.

---

(Exact name of registrant as specified in charter)

350 Jericho Turnpike, Suite 206 Jericho, New York

11753

(Address of principal executive offices)

(Zip code)

Frank J. Maresca

Ultimus Fund Solutions, LLC 350 Jericho Turnpike, Suite 206 Jericho, New York 11753

---

(Name and address of agent for service)

Registrant's telephone number, including area code: (513) 326-3597

Date of fiscal year end: December 31, 2011

Date of reporting period: December 31, 2011

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

---

ITEM 1.

REPORTS TO STOCKHOLDERS.

---

---

Cornerstone Strategic  
Value Fund, Inc.

Annual Report  
December 31, 2011

---

---

---

CONTENTS

Portfolio Summary	1
Summary Schedule of Investments	2
Statement of Assets and Liabilities	5
Statement of Operations	6
Statement of Changes in Net Assets	7
Financial Highlights	8
Notes to Financial Statements	9
Report of Independent Registered Public Accounting Firm	14
Tax Information	15
Additional Information Regarding the Fund's Directors and Corporate Officers	16
Description of Dividend Reinvestment Plan	19
Proxy Voting and Portfolio Holdings Information	21
Privacy Policy Notice	22
Summary of General Information	25
Stockholder Information	25

---

Cornerstone Strategic Value Fund, Inc.  
 Portfolio Summary – as of December 31, 2011 (unaudited)

SECTOR ALLOCATION

Sector	Percent of Net Assets
Closed-End Funds	30.6
Information Technology	12.1
Energy	8.4
Consumer Staples	7.0
Healthcare	6.4
Consumer Discretionary	6.2
Financials	5.2
Industrials	5.0
Telecommunication Services	2.5
Utilities	1.9
Materials	1.6
Other	13.1

TOP TEN HOLDINGS, BY ISSUER

Holding	Sector	Percent of Net Assets
1. Eaton Vance Tax-Managed Global Diversified Equity Income Fund	Closed-End Funds	3.9
2. Apple, Inc.	Information Technology	3.6
3. Exxon Mobil Corporation	Energy	3.6
4. Eaton Vance Tax-Managed Diversified Equity Income Fund	Closed-End Funds	3.4
5. Eaton Vance Risk-Managed Diversified Equity Income Fund	Closed-End Funds	3.0
6. Microsoft Corporation	Information Technology	2.6

7.	Wal-Mart Stores, Inc.	Consumer Staples	2.0
8.	Chevron Corporation	Energy	1.9
9.	Google, Inc. - Class A	Information Technology	1.8
10.	Eaton Vance Enhanced Equity Income Fund II	Closed-End Funds	1.8

1

---

Edgar Filing: CORNERSTONE STRATEGIC VALUE FUND INC - Form N-CSR

Cornerstone Strategic Value Fund, Inc.  
Summary Schedule of Investments – December 31, 2011

Description	No. of Shares	Value
EQUITY SECURITIES – 86.92%		
CLOSED-END FUNDS – 30.57%		
CONVERTIBLE SECURITIES – 0.54%		
Other Convertible Securities (a)		\$474,060
CORE – 0.31%		
Other Core (a)		275,548
CORPORATE DEBT FUNDS INVESTMENT GRADE-RATED – 2.30%		
AllianceBernstein Income Fund	155,160	1,252,141
Federated Enhanced Treasury Income Fund	47,044	675,081
Other Corporate Debt Funds Investment Grade-Rated (a)		101,322
		2,028,544
DEVELOPED MARKET – 0.38%		
Total Developed Market (a)		338,717
EMERGING MARKETS – 0.19%		
Other Emerging Markets (a)		167,187
FLEXIBLE INCOME – 0.50%		
Zweig Total Return Fund, Inc. (The)	145,657	441,341
GENERAL BOND – 0.35%		
Total General Bond (a)		311,240
GLOBAL – 0.48%		
Other Global (a)		426,252
GLOBAL INCOME – 0.17%		
Total Global Income (a)		147,342
Description	No. of Shares	Value
CLOSED-END FUNDS – (continued)		
LOAN PARTICIPATION – 1.26%		
Other Loan Participation (a)		\$1,106,672
OPTION ARBITRAGE/OPTIONS STRATEGIES – 21.43%		
BlackRock Enhanced Capital & Income Fund, Inc.	52,048	640,190
BlackRock Enhanced Equity Dividend Trust	127,740	903,122
BlackRock International Growth & Income Trust	105,800	757,528
Eaton Vance Enhanced Equity Income Fund	102,000	1,038,360
Eaton Vance Enhanced Equity Income Fund II	152,300	1,554,983
Eaton Vance Risk-Managed Diversified Equity Income Fund	254,748	2,662,117

Edgar Filing: CORNERSTONE STRATEGIC VALUE FUND INC - Form N-CSR

Eaton Vance Tax-Managed Buy-Write Income Fund	74,563	957,389
Eaton Vance Tax-Managed Buy-Write Opportunities Fund	95,600	1,120,432
Eaton Vance Tax-Managed Diversified Equity Income Fund	334,608	2,967,973
Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund	106,866	1,098,582
Eaton Vance Tax-Managed Global Diversified Equity Income Fund	413,226	3,409,115
ING Global Equity Dividend and Premium Opportunity Fund	82,389	711,841
Other Option Arbitrage/Options Strategies (a)		1,057,446
		18,879,078

See accompanying notes to financial statements.

Edgar Filing: CORNERSTONE STRATEGIC VALUE FUND INC - Form N-CSR

Cornerstone Strategic Value Fund, Inc.  
Summary Schedule of Investments – December 31, 2011 (continued)

Description	No. of Shares	Value
CLOSED-END FUNDS – 30.57% (continued)		
PACIFIC EX JAPAN – 1.00%		
Morgan Stanley China A Share Fund, Inc.	45,347	\$877,464
SECTOR EQUITY – 1.66%		
BlackRock EcoSolutions Investment Trust	63,511	496,656
BlackRock Real Asset Equity Trust	43,333	462,363
Other Sector Equity (a)		504,771
		1,463,790
<b>TOTAL CLOSED-END FUNDS</b>		<b>26,937,235</b>
CONSUMER DISCRETIONARY – 6.20%		
Comcast Corporation - Class A	20,655	489,730
Home Depot, Inc. (The)	12,600	529,704
McDonald's Corporation	11,400	1,143,762
Target Corporation	8,800	450,736
TJX Companies, Inc. (The)	7,000	451,850
Yum! Brands, Inc.	9,000	531,090
Other Consumer Discretionary (a)		1,867,687
		5,464,559
CONSUMER STAPLES – 6.95%		
Altria Group, Inc.	20,800	616,720
Coca-Cola Company (The)	13,500	944,595
Philip Morris International, Inc.	13,400	1,051,632
Wal-Mart Stores, Inc.	29,700	1,774,872
Other Consumer Staples (a)		1,733,984
		6,121,803
ENERGY – 8.40%		
Chevron Corporation	15,732	1,673,885
ConocoPhillips	14,974	1,091,156
Description	No. of Shares	Value
ENERGY – (continued)		
Exxon Mobil Corporation	36,936	\$3,130,695
Occidental Petroleum Corporation	5,800	543,460
Other Energy (a)		966,345
		7,405,541
FINANCIALS – 5.21%		
JPMorgan Chase & Co.	30,132	1,001,889
Wells Fargo & Company	40,800	1,124,448
Other Financials (a)		2,461,092
		4,587,429



Edgar Filing: CORNERSTONE STRATEGIC VALUE FUND INC - Form N-CSR

HEALTH CARE – 6.41%		
Abbott Laboratories	13,200	742,236
Amgen, Inc.	7,800	500,838
Bristol-Myers Squibb Company	19,000	669,560
Merck & Company, Inc.	22,267	839,466
UnitedHealth Group, Inc.	11,000	557,480
Other Health Care (a)		2,337,486
		5,647,066
INDUSTRIALS – 4.98%		
Caterpillar, Inc.	5,300	480,180
Deere & Company	6,500	502,775
Other Industrials (a)		3,401,734
		4,384,689
INFORMATION TECHNOLOGY – 12.10%		
Apple, Inc. *	7,900	3,199,500
Google, Inc. - Class A *	2,500	1,614,750
Intel Corporation	39,500	957,875
International Business Machines Corporation	8,100	1,489,428
Microsoft Corporation	87,800	2,279,288
Oracle Corporation	35,272	904,727
Other Information Technology (a)		219,450
		10,665,018

See accompanying notes to financial statements.

Cornerstone Strategic Value Fund, Inc.  
 Summary Schedule of Investments – December 31, 2011 (concluded)

Description	No. of Shares	Value
<b>MATERIALS – 1.64%</b>		
Praxair, Inc.	4,500	\$481,050
Other Materials (a)		963,730
		1,444,780
<b>REAL ESTATE INVESTMENT TRUST – 0.00%</b>		
Total Real Estate Investment Trust (a)		1,805
<b>TELECOMMUNICATION SERVICES – 2.53%</b>		
AT&T, Inc.	47,039	1,422,459
Verizon Communications, Inc.	20,000	802,400
		2,224,859
<b>UTILITIES – 1.93%</b>		
Other Utilities (a)		1,703,620
<b>TOTAL EQUITY SECURITIES</b>		
(cost - \$67,585,449)		76,588,404
Description	No. of Shares	Value
<b>SHORT-TERM INVESTMENT – 20.45%</b>		
<b>MONEY MARKET FUND – 20.45%</b>		
Fidelity Institutional Money Market Government Portfolio - Class I (cost - \$18,014,247)	18,014,247	\$18,014,247
<b>TOTAL INVESTMENTS – 107.37%</b>		
(cost - \$85,599,696)		94,602,651
<b>LIABILITIES IN EXCESS OF OTHER ASSETS – (7.37)%</b>		
		(6,491,892 )
<b>NET ASSETS – 100.00%</b>		
		\$88,110,759

(a) Represents issuers not identified as a top 50 holding in terms of market value and issues or issuers not exceeding 1% of net assets individually or in the aggregate, respectively, as of December 31, 2011.

\* Non-income producing security.

See accompanying notes to financial statements.

Cornerstone Strategic Value Fund, Inc.  
Statement of Assets and Liabilities – December 31, 2011

ASSETS

Investments, at value (cost – \$85,599,696)	\$94,602,651
Cash	19,769
Receivables:	
Investment sold	47,201
Dividends	83,301
Prepaid expenses	1,340
Total Assets	94,754,262

LIABILITIES

Payables:	
Securities purchased	6,453,183
Investment management fees	51,532
Directors' fees	27,525
Administration fees	5,399
Accounting fees	3,805
Other accrued expenses	102,059
Total Liabilities	6,643,503

NET ASSETS (applicable to 14,370,683 shares of common shares of beneficial interest) \$88,110,759

NET ASSET VALUE PER SHARE (\$88,110,759 ÷ 14,370,683) \$6.13

NET ASSETS CONSISTS OF

Common stock, \$0.001 par value; 14,370,683 shares issued and outstanding (100,000,000 shares authorized)	\$14,371
Paid-in capital	82,813,279
Accumulated net realized loss on investments	(3,719,846 )
Net unrealized appreciation in value of investments	9,002,955
Net assets applicable to shares outstanding	\$88,110,759

See accompanying notes to financial statements.

Cornerstone Strategic Value Fund, Inc.  
Statement of Operations – for the Year Ended December 31, 2011

INVESTMENT INCOME

Income:

Dividends from investments	\$1,514,992
----------------------------	-------------

Expenses:

Investment management fees	598,937
----------------------------	---------

Directors' fees	101,700
-----------------	---------

Administration fees	59,893
---------------------	--------

Legal and audit fees	47,170
----------------------	--------

Accounting fees	42,157
-----------------	--------

Printing	32,898
----------	--------

Transfer agent fees	18,428
---------------------	--------

Custodian fees	9,820
----------------	-------

Insurance	7,795
-----------	-------

Stock exchange listing fees	7,278
-----------------------------	-------

Miscellaneous	3,800
---------------	-------

Total Expenses	929,876
----------------	---------

Net Investment Income	585,116
-----------------------	---------

NET REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS

Net realized gain from investments	477,161
------------------------------------	---------

Capital gain distributions from regulated investment companies	20,172
--	--------

Net change in unrealized appreciation in value of investments	60,034
---	--------

Net realized and unrealized gain on investments	557,367
---	---------

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$1,142,483
--	-------------

See accompanying notes to financial statements.

Cornerstone Strategic Value Fund, Inc.  
Statement of Changes in Net Assets

	For the Years Ended December 31,	
	2011	2010
<b>INCREASE/(DECREASE) IN NET ASSETS</b>		
Operations:		
Net investment income	\$585,116	\$409,189
Net realized gain from investments	497,333	59,555
Net change in unrealized appreciation/(depreciation) in value of investments	60,034	5,307,753
Net increase in net assets resulting from operations	1,142,483	5,776,497
Dividends and distributions to stockholders:		
Net investment income	(1,082,449 )	(468,744 )
Return-of-capital	(12,048,205 )	(11,304,528 )
Total dividends and distributions to stockholders	(13,130,654 )	(11,773,272 )
Common stock transactions:		
Proceeds from rights offering of 5,734,886 and 1,433,827 shares of newly issued common stock, respectively	34,925,455	11,812,869
Offering expenses associated with rights offering	(159,227 )	(90,887 )
Proceeds from 124,384 and 108,178 shares newly issued in reinvestment of dividends and distributions, respectively	1,067,013	1,093,718
Net increase in net assets from capital stock transactions	35,833,241	12,815,700
Total increase in net assets	23,845,070	6,818,925
<b>NET ASSETS</b>		
Beginning of year	64,265,689	57,446,764
End of year	\$88,110,759	\$64,265,689

See accompanying notes to financial statements.

Cornerstone Strategic Value Fund, Inc.

Financial Highlights

Contained below is per share operating performance data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each period indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

	2011	For the Years Ended December 31,*				2007
		2010	2009	2008		
<b>PER SHARE OPERATING PERFORMANCE</b>						
Net asset value, beginning of year	\$7.55	\$8.24	\$8.71	\$18.12		\$21.28
Net investment income #	0.07	0.06	0.06	0.15		0.16
Net realized and unrealized gain/(loss) on investments	(0.04 )	0.76	1.52	(5.55 )		0.96
Net increase/(decrease) in net assets resulting from operations	0.03	0.82	1.58	(5.40 )		1.12
<b>Dividends and distributions to shareholders:</b>						
Net investment income	(0.13 )	(0.07 )	(0.06 )	(0.15 )		(0.16 )
Net realized capital gains	—	—	—	—		(1.32 )
Return-of-capital	(1.40 )	(1.61 )	(2.03 )	(4.01 )		(3.00 )
Total dividends and distributions to shareholders	(1.53 )	(1.68 )	(2.09 )	(4.16 )		(4.48 )
<b>Capital stock transactions:</b>						
<b>Anti-dilutive effect due to shares issued:</b>						
Rights offering	0.05	0.13	—	—		—
Reinvestment of dividends and distributions	0.03	0.04	0.04	0.15		0.20
Total anti-dilutive effect due to shares issued	0.08	0.17	0.04	0.15		0.20
Net asset value, end of year	\$6.13	\$7.55	\$8.24	\$8.71		\$18.12
Market value, end of year	\$6.59	\$8.84	\$11.61	\$7.62		\$20.20
Total investment return (a)	(11.11 )%	(10.19 )%	89.55 %	(49.92 )%		(29.04 )%
<b>RATIOS/SUPPLEMENTAL DATA</b>						
Net assets, end of year (000 omitted)	\$88,111	\$64,266	\$57,447	\$59,510		\$120,268
Ratio of expenses to average net assets, net of fee waivers, if any (b)(c)	1.55 %	1.73 %	1.80 %	1.40 %		1.23 %
Ratio of expenses to average net assets, excluding fee waivers, if any (c)(d)	1.55 %	1.74 %	2.01 %	1.54 %		1.35 %
Ratio of expenses to average net assets, net of fee waivers, if any	1.55 %	1.74 %	1.95 %	1.44 %		1.25 %

(c)(d)

Ratio of net investment income to average net assets	0.98	%	0.77	%	0.79	%	1.08	%	0.86	%
Portfolio turnover rate	38.08	%	25.28	%	10.81	%	13.24	%	10.38	%

---

\*Effective December 23, 2008, a reverse stock split of 1:4 occurred. All per share amounts have been restated according to the terms of the split.

# Based on average shares outstanding.

(a) Total investment return at market value is based on the changes in market price of a share during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(b) Expenses are net of fees paid indirectly.

(c) Expenses do not include expenses of investments companies in which the Fund invests.

(d) Expenses exclude the reduction for fees paid indirectly.

See accompanying notes to financial statements.

Cornerstone Strategic Value Fund, Inc.  
Notes to Financial Statements

#### NOTE A. ORGANIZATION

Cornerstone Strategic Value Fund, Inc. (the “Fund”) was incorporated in Maryland on May 1, 1987 and commenced investment operations on June 30, 1987. Its investment objective is to seek long-term capital appreciation through investment primarily in equity securities of U.S. and non-U.S. companies. The Fund is registered under the Investment Company Act of 1940, as amended, as a closed-end, diversified management investment company.

#### NOTE B. SIGNIFICANT ACCOUNTING POLICIES

**Management Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make certain estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Subsequent Events:** The Fund has evaluated the need for additional disclosures and/or adjustments resulting from subsequent events through the date its financial statements were issued. Based on this evaluation, no additional disclosures or adjustments were required to such financial statements.

**Portfolio Valuation:** Investments are stated at value in the accompanying financial statements. Readily marketable portfolio securities listed on the NYSE are valued, except as indicated below, at the last sale price reflected on the consolidated tape at the close of the NYSE on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices on such day. If no bid or asked prices are quoted on such day or if market prices may be unreliable because of events occurring after the close of trading, then the security is valued by such method as the Board of Directors shall determine in good faith to reflect its fair market value. Readily marketable securities not listed on the NYSE but listed on other domestic or foreign securities exchanges are valued in a like manner. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the consolidated tape at the close of the exchange representing the principal market for such securities. Securities trading on the Nasdaq Stock Market, Inc. (“NASDAQ”) are valued at the closing price.

Readily marketable securities traded in the over-the counter market, including listed securities whose primary market is believed by Cornerstone Advisors, Inc. (the “Investment Manager” or “Cornerstone”) to be over-the-counter, are valued at the mean of the current bid and asked prices as reported by the NASDAQ or, in the case of securities not reported by the NASDAQ or a comparable source, as the Board of Directors deem appropriate to reflect their fair market value. Where securities are traded on more than one exchange and also over-the-counter, the securities will generally be valued using the quotations the Board of Directors believes reflect most closely the value of such securities.

At December 31, 2011, the Fund held no securities valued in good faith by the Board of Directors. The net asset value per share of the Fund is calculated weekly and on the last business day of the month with the exception of those days on which the NYSE Amex Equities LLC is closed.

The Fund is exposed to financial market risks, including the valuations of its investment portfolio. For the year ended December 31, 2011, the Fund did not engage in derivative instruments and other hedging activities.

**Investment Transactions and Investment Income:** Investment transactions are accounted for on the trade date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income



tax purposes. Interest income is recorded on an accrual basis; dividend income is recorded on the ex-dividend date.

Cornerstone Strategic Value Fund, Inc.  
Notes to Financial Statements (continued)

**Risks Associated with Investments in Other Closed-end Funds:** Closed-end investment companies are subject to the risks of investing in the underlying securities. The Fund, as a holder of the securities of the closed-end investment company, will bear its pro rata portion of the closed-end investment company's expenses, including advisory fees. These expenses are in addition to the direct expenses of the Fund's own operations.

**Taxes:** No provision is made for U.S. federal income or excise taxes as it is the Fund's intention to continue to qualify as a regulated investment company and to make the requisite distributions to its stockholders which will be sufficient to relieve it from all or substantially all U.S. federal income and excise taxes.

The Accounting for Uncertainty in Income Taxes Topic of the FASB Accounting Standards Codification defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. The Fund's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations. As of December 31, 2011, the Fund does not have any interest or penalties associated with the under-payment of any income taxes. Management reviewed any uncertain tax positions for open tax years 2008 through 2010, and for the year ended December 31, 2011. There was no material impact to the financial statements.

**Distributions to Stockholders:** Effective June 25, 2002, the Fund initiated a fixed, monthly distribution to stockholders. On November 29, 2006, this distribution policy was updated to provide for the annual resetting of the monthly distribution amount per share based on the Fund's net asset value on the last business day in each October. The terms of the distribution policy will be reviewed and approved at least annually by the Fund's Board of Directors and can be modified at their discretion. To the extent that these distributions exceed the current earnings of the Fund, the balance will be generated from sales of portfolio securities held by the Fund, which will either be short-term or long-term capital gains or a tax-free return-of-capital. To the extent these distributions are not represented by net investment income and capital gains, they will not represent yield or investment return on the Fund's investment portfolio. The Fund plans to maintain this distribution policy even if regulatory requirements would make part of a return-of-capital, necessary to maintain the distribution, taxable to stockholders and to disclose that portion of the distribution that is classified as ordinary income. Although it has no current intention to do so, the Board may terminate this distribution policy at any time and such termination may have an adverse effect on the market price for the Fund's common shares. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. To the extent that the Fund's taxable income in any calendar year exceeds the aggregate amount distributed pursuant to this distribution policy, an additional distribution may be made to avoid the payment of a 4% U.S. federal excise tax, and to the extent that the aggregate amount distributed in any calendar year exceeds the Fund's taxable income, the amount of that excess may constitute a return-of-capital for tax purposes. A return-of-capital distribution reduces the cost basis of an investor's shares in the Fund. Dividends and distributions to stockholders are recorded by the Fund on the ex-dividend date.

**Managed Distribution Risk:** Under the managed distribution policy, the Fund makes monthly distributions to stockholders at a rate that may include periodic distributions of its net income and net capital gains, ("Net Earnings"), or from return-of-capital. If, for any fiscal year where total cash distributions exceeded Net Earnings (the "Excess"), the Excess would decrease the Fund's total assets



Cornerstone Strategic Value Fund, Inc.  
Notes to Financial Statements (continued)

and, as a result, would have the likely effect of increasing the Fund's expense ratio. There is a risk that the total Net Earnings from the Fund's portfolio would not be great enough to offset the amount of cash distributions paid to Fund stockholders. If this were to be the case, the Fund's assets would be depleted, and there is no guarantee that the Fund would be able to replace the assets. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action. Furthermore, such assets used to make distributions will not be available for investment pursuant to the Fund's investment objective.

NOTE C. FAIR VALUE

As required by the Fair Value Measurement and Disclosures Topic of the FASB Accounting Standards Codification, the Fund has performed an analysis of all assets and liabilities measured at fair value to determine the significance and character of all inputs to their fair value determination.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories.

Level 1 – quoted unadjusted prices for identical instruments in active markets to which the Fund has access at the date of measurement.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.

Level 3 – model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The following is a summary of the inputs used as of December 31, 2011 in valuing the Fund's investments carried at value:

Valuation Inputs	Investments in Securities	Other Financial Instruments*
Level 1 - Quoted Prices		
Equity Investments	\$76,588,404	—
Short-Term Investments	18,014,247	—
Level 2 - Other Significant Observable Inputs		