

ZWEIG TOTAL RETURN FUND INC

Form N-30B-2

May 30, 2013

**OFFICERS AND DIRECTORS**

**George R. Aylward**, *President, Chairman and Chief Executive Officer*

**Charles H. Brunie**, *Director*

**Wendy Luscombe**, *Director*

**Alden C. Olson, Ph.D.**, *Director*

**James B. Rogers, Jr.**, *Director*

**R. Keith Walton**, *Director*

**Carlton Neel**, *Executive Vice President*

**David Dickerson**, *Senior Vice President*

**William Renahan**, *Vice President, Chief Legal Officer and Secretary*

**W. Patrick Bradley**, *Vice President, Treasurer and Chief Financial Officer*

**Jacqueline Porter**, *Vice President and Assistant Treasurer*

**Nancy Engberg**, *Chief Compliance Officer and Vice President*

**Investment Adviser**

**Zweig Advisers LLC**

100 Pearl Street

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**Fund Administrator**

**Virtus Fund Services, LLC**

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**Custodian**

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**Transfer Agent**

**Computershare Trust Company, NA**

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**Fund Counsel**

**Dechert LLP**

200 Clarendon St.

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Boston, MA 02116-5021

**This report is transmitted to the shareholders of The Zweig Total Return Fund, Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.**

Q1-13

# **The Zweig Total Return Fund, Inc.**

## **Quarterly Report**

March 31, 2013

**FUND DISTRIBUTIONS AND MANAGED DISTRIBUTION PLAN**

The Fund has a Managed Distribution Plan to pay 7% of the Fund's net asset value on an annualized basis. Distributions may represent earnings from net investment income, realized capital gains, or, if necessary, return of capital. The board believes that regular monthly, fixed cash payouts will enhance shareholder value and serve the long-term interests of shareholders. You should not draw any conclusions about the Fund's investment performance from the amount of the distributions or from the terms of the Fund's Managed Distribution Plan.

The Fund estimates that it has distributed more than its income and net realized capital gains in the fiscal year to date; therefore, a portion of your distributions may be a return of capital. A return of capital may occur, for example, when some or all of the money that you invested in the Fund is paid back to you. A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with yield or income.

The amounts and sources of distributions reported in Section 19(a) notices of the 1940 Act are only estimates and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the Fund's investment experience during the remainder of its fiscal year and may be subject to changes based on tax regulations. The Fund will send shareholders a Form 1099-DIV for the calendar year that will tell you how to report distributions for federal income tax purposes.

The Board may amend, suspend or terminate the Managed Distribution Plan at any time, without prior notice to shareholders if it deems such action to be in the best interest of the Fund and its shareholders.

Information on the Zweig funds is available at [www.Virtus.com](http://www.Virtus.com). Section 19(a) notices are posted on the website at:  
<http://www.virtus.com/products/closed/details.aspx?type=individual&fundid=ZTR>

May 1, 2013

**Dear Fellow Zweig Total Return Fund Shareholder:**

I am pleased to share with you the manager's report and commentary for the Zweig Total Return Fund, Inc. for the quarter ended March 31, 2013.

The fund's net asset value (NAV) increased 5.88% for the quarter, including \$0.25 in reinvested distributions. During the same period, the fund's benchmark index, a composite consisting of equal parts of the S&P 500<sup>®</sup> Index and the Barclays U.S. Government Bond Index, rose 5.15%, including reinvested dividends. Quarterly performance for the composite's underlying indexes were 10.61% for the S&P 500 and (0.16)% for the Barclays U.S. Government Bond Index. The fund's average allocation for the quarter was approximately 64% in equities and 36% in bonds.

On behalf of the investment professionals at Zweig Advisers LLC, I thank you for entrusting your assets to us. Should you have any questions or require support, please contact customer service at 1-800-272-2700 or through the closed-end fund section of our website, [www.virtus.com](http://www.virtus.com).

Sincerely,

George R. Aylward

*President, Chairman and*

*Chief Executive Officer*

*The Zweig Total Return*

*Fund, Inc.*

# THE ZWEIG TOTAL RETURN FUND, INC.

## SCHEDULE OF INVESTMENTS AND SECURITIES SOLD SHORT

March 31, 2013

(Unaudited)

### Asset Allocation as of March 31, 2013

The following table illustrates asset allocations within certain sectors and as a percentage of total investments as of March 31, 2013.

Common Stocks	63%
U.S. Government Securities (includes U.S. Treasury Bills which are Short-term investments)	26%
Foreign Government Securities	8%
Corporate Bonds	2%
Closed-End Funds	1%
Total	100%

(\$ reported in thousands)

	Par	Value
<b>INVESTMENTS</b>		
<b>U.S. GOVERNMENT SECURITIES</b>	<b>25.5%</b>	
U.S. Treasury Bond 1.750%, 5/15/22 <sup>(3)</sup>	\$ 20,000	\$ 20,075
U.S. Treasury Inflation Indexed Bonds		
1.625%, 1/15/15 <sup>(3)</sup>	28,000	36,010
2.000%, 1/15/16 <sup>(3)</sup>	25,000	32,318
2.375%, 1/15/17 <sup>(3)</sup>	31,000	41,284
<b>Total U.S. Government Securities</b>		
(Identified Cost \$117,040)		129,687
<b>FOREIGN GOVERNMENT SECURITIES</b>	<b>8.2%</b>	
Commonwealth of Australia		
5.500%, 12/15/13	11,000	11,664
6.500%, 5/15/13	5,000	5,230
Commonwealth of New Zealand Series 413, 6.500%, 4/15/13	7,000	5,868
Kingdom of Norway Series 470, 6.500%, 5/15/13	80,000 <sup>(4)</sup>	13,763
Singapore Government Bond 3.625%, 7/1/14	6,000	5,045
<b>Total Foreign Government Securities</b>		
(Identified Cost \$40,328)		41,570

See notes to Schedule of Investments



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		Par	Value
<b>CORPORATE BONDS</b>	<b>2.1%</b>		
<b>INDUSTRIALS 2.1%</b>			
CSX Corp. 6.250%, 3/15/18		\$ 4,000	\$ 4,866
Ingersoll-Rand Global Holding Co., Ltd. 6.875%, 8/15/18		4,814	5,813
<b>Total Corporate Bonds</b> (Identified Cost \$8,397)			10,679
		<b>Number of</b>	
		<b>Shares</b>	
<b>COMMON STOCKS</b>	<b>68.9%</b>		
<b>CONSUMER DISCRETIONARY 7.1%</b>			
Amazon.com, Inc. <sup>(2)</sup>		8,100	2,159
AutoZone, Inc. <sup>(2)</sup>		7,500	2,976
Coach, Inc.		112,000	5,599
Comcast Corp. Class A <sup>(5)</sup>		151,000	6,343
Darden Restaurants, Inc. <sup>(6)</sup>		109,000	5,633
DR Horton, Inc.		134,000	3,256
Ford Motor Co.		533,000	7,009
Goodyear Tire & Rubber Co. (The) <sup>(2)</sup>		232,000	2,926
			35,901
<b>CONSUMER STAPLES 5.1%</b>			
Altria Group, Inc.		235,000	8,082
Heinz (H.J.) Co. <sup>(6)</sup>		70,000	5,059
PepsiCo, Inc.		89,000	7,041
Safeway, Inc. <sup>(6)</sup>		209,000	5,507
			25,689
<b>ENERGY 11.1%</b>			
Buckeye Partners LP <sup>(6)</sup>		97,000	5,933
Chevron Corp.		55,000	6,535
ConocoPhillips		64,000	3,846
Continental Resources, Inc. <sup>(2)</sup>		39,000	3,390
Energy Transfer Partners LP <sup>(6)</sup>		108,000	5,475
Schlumberger Ltd.		60,000	4,493
Tesoro Corp.		74,000	4,333
Total SA Sponsored ADR <sup>(6)</sup>		94,000	4,510
Valero Energy Corp.		101,000	4,594
Whiting Petroleum Corp. <sup>(2)(6)</sup>		65,000	3,305
Williams Cos., Inc. (The)		202,000	7,567
WPX Energy, Inc. <sup>(2)</sup>		154,000	2,467
			56,448

See notes to Schedule of Investments

	Number of Shares	Value
<b>FINANCIALS 11.3%</b>		
Aflac, Inc.	131,000	\$ 6,815
BB&T Corp.	265,000	8,319
BlackRock, Inc.	26,200	6,730
Goldman Sachs Group, Inc. (The)	29,000	4,267
HCP, Inc. <sup>(6)</sup>	108,000	5,385
JPMorgan Chase & Co.	192,000	9,112
Lincoln National Corp.	141,000	4,598
Silver Bay Realty Trust Corp	20,000	414
Two Harbors Investment Corp. <sup>(6)</sup>	407,000	5,132
U.S. Bancorp	201,000	6,820
		57,592
<b>HEALTH CARE 7.0%</b>		
Abbott Laboratories	140,000	4,945
Biogen Idec, Inc. <sup>(2)</sup>	18,000	3,472
Eli Lilly & Co. <sup>(6)</sup>	94,000	5,338
Gilead Sciences, Inc. <sup>(2)</sup>	86,000	4,208
Johnson & Johnson	93,000	7,582
Merck & Co., Inc. <sup>(6)</sup>	116,000	5,131
UnitedHealth Group, Inc.	89,000	5,092
		35,768
<b>INDUSTRIALS 9.0%</b>		
Alaska Air Group, Inc. <sup>(2)</sup>	48,000	3,070
Caterpillar, Inc.	62,000	5,392
Cummins, Inc.	51,000	5,906
Deere & Co.	59,000	5,073
Dover Corp.	69,000	5,029
Lockheed Martin Corp. <sup>(6)</sup>	53,000	5,115
Parker Hannifin Corp.	51,000	4,671
Robinson (C.H.) Worldwide, Inc.	41,000	2,438
Trinity Industries, Inc.	93,000	4,216
Union Pacific Corp.	35,000	4,984
		45,894
<b>INFORMATION TECHNOLOGY 8.9%</b>		
Apple, Inc.	28,400	12,571
Citrix Systems, Inc. <sup>(2)</sup>	43,000	3,103
EMC Corp. <sup>(2)</sup>	126,000	3,010
Google, Inc. Class A <sup>(2)</sup>	3,600	2,859
Intel Corp. <sup>(6)</sup>	228,000	4,982
MasterCard, Inc. Class A	8,200	4,437
QUALCOMM, Inc.	111,000	7,431

See notes to Schedule of Investments



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	Number of Shares	Value
<b>INFORMATION TECHNOLOGY (CONTINUED)</b>		
VeriSign, Inc. <sup>(2)(6)</sup>	64,000	\$ 3,026
Visa, Inc. Class A <sup>(5)</sup>	22,000	3,736
		45,155
<b>MATERIALS 4.7%</b>		
CF Industries Holdings, Inc.	14,000	2,665
Cliffs Natural Resources, Inc. <sup>(6)</sup>	263,000	5,000
Du Pont (E.I.) de Nemours & Co.	102,000	5,014
Freeport-McMoRan Copper & Gold, Inc.	228,000	7,547
Monsanto Co.	34,000	3,591
		23,817
<b>TELECOMMUNICATION SERVICES 3.7%</b>		
AT&T, Inc. <sup>(6)</sup>	151,000	5,540
CenturyLink, Inc. <sup>(6)</sup>	152,000	5,340
Verizon Communications, Inc.	165,000	8,110
		18,990
<b>UTILITIES 1.0%</b>		
FirstEnergy Corp. <sup>(6)</sup>	126,000	5,317
		5,317
<b>Total Common Stocks</b> (Identified Cost \$303,014)		350,571
<b>CLOSED-END FUNDS 0.8%</b>		
Templeton Dragon Fund, Inc.	141,000	3,938
<b>Total Closed-End Funds</b> (Identified Cost \$2,689)		3,938
<b>Total Long Term Investments 105.5%</b> (Identified Cost \$471,468)		536,445
<b>SHORT-TERM INVESTMENTS 0.1%</b>		
<b>MONEY MARKET MUTUAL FUNDS 0.1%</b>		
Fidelity Money Market Portfolio Institutional Shares (Seven-day effective yield 0.140%)	672,037	672
<b>Total Short-Term Investments</b> (Identified Cost \$672)		672
<b>Total Investments, before Securities Sold Short and Written</b>		
<b>Options 105.6%</b> (Identified Cost \$472,140)		537,117

See notes to Schedule of Investments



		Number of Shares	Value
<b>SECURITIES SOLD SHORT</b>	<b>(1.4)%</b>		
<b>COMMON STOCK (1.4)%</b>			
<b>CONSUMER DISCRETIONARY (1.4)%</b>			
Buffalo Wild Wings, Inc.		48	\$ (4,202)
Vail Resorts, Inc.		44	(2,742)
<b>Total Securities Sold Short</b> (Proceeds \$5,887)			(6,944)
		<b>Contracts</b>	
<b>WRITTEN OPTIONS</b>	<b>(0.0)%</b>		
<b>CALL OPTIONS (0.0)%</b>			
Comcast Corp., expiring 4/20/13 strike price \$41.00		615	(69)
Visa, Inc., expiring 6/22/13 strike price \$165.00		120	(110)
<b>Total Written Options</b> (Premiums received \$100)			(179)
<b>Total Investments, Net of Securities Sold Short and Written Options</b> (Identified Cost \$466,153)	<b>104.2%</b>		529,994
<b>Other Assets and Liabilities, Net</b> (4.2)%			(21,380)
<b>Net Assets</b> 100.0%			\$ 508,614

- (1) Federal Income Tax Information: For tax information at March 31, 2013, see Note 4 Federal Income Tax Information in the Notes to Schedules of Investments.
- (2) Non-income producing.
- (3) Principal amount is adjusted daily pursuant to the change in the Consumer Price Index.
- (4) Par value represents Norwegian Krone (reported in thousands).
- (5) All or a portion segregated as collateral for written options.
- (6) All or a portion of securities segregated as collateral for margin borrowing and/or securities sold short.

See notes to Schedule of Investments

(\$ reported in thousands)

<b>Country Weightings</b>	
United States	90%
Australia	3%
Norway	3%
Bermuda	1%
France	1%
New Zealand	1%
Singapore	1%
<b>Total</b>	<b>100%</b>

% of total investments as of March 31, 2013

The following table provides a summary of inputs used to value the Fund's net assets as of March 31, 2013 (See Security Valuation Note 1A in the Notes to Financial Statements.):

	<b>Total Value at March 31, 2013</b>	<b>Level 1 Quoted Prices</b>	<b>Level 2 Significant Observable Inputs</b>
<b>Debt Securities:</b>			
U.S. Government Securities	\$ 129,687	\$	\$ 129,687
Foreign Government Securities	41,570		41,570
Corporate Bonds	10,679		10,679
<b>Equity Securities:</b>			
Common Stocks	350,571	350,571	
Closed-End Funds	3,938	3,938	
Short-Term Investments	672	672	
<b>Total Investments before Securities Sold Short and Written Options</b>	<b>\$ 537,117</b>	<b>\$ 355,181</b>	<b>\$ 181,936</b>
<b>Liabilities:</b>			
Securities Sold Short	(6,944)	(6,944)	
Written Options	(179)	(179)	
<b>Total Liabilities</b>	<b>\$ (7,123)</b>	<b>\$ (7,123)</b>	<b>\$</b>

There are no Level 3 (significant unobservable input) priced securities.

See notes to Schedule of Investments

# THE ZWEIG TOTAL RETURN FUND, INC.

## FINANCIAL HIGHLIGHTS

March 31, 2013

(Unaudited)

(Reported in thousands except for the per share amounts)

	Total Net Assets	Net Asset Value per share
Beginning of period: December 31, 2012	\$ 492,209	\$ 14.08
Net investment income	\$ 2,215	\$ 0.06
Net realized and unrealized loss on investments	22,910	0.73
Dividends from net investment income and distributions from net long-term and short-term capital gains*	(8,720)	(0.25)
Net increase (decrease) in net assets/net asset value	16,405	0.54
End of period: March 31, 2013	\$ 508,614	\$ 14.62

\* Please note that the tax status of our distributions is determined at the end of the taxable year. However, based on interim data as of March 31, 2013, we estimate 25% of the distributions will represent net investment income, 75% will represent excess gain distributions which are taxed as ordinary income and 0% will represent return of capital. Also refer to the inside front cover for information on the Managed Distribution Plan.

See notes to Schedule of Investments

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# THE ZWEIG TOTAL RETURN FUND, INC.

## NOTES TO SCHEDULE OF INVESTMENTS

March 31, 2013 (Unaudited)

### NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates and those differences could be significant.

#### A. Security Valuation:

Security valuation procedures for the Fund, which include, nightly price variance, as well as back-testing such as bi-weekly unchanged price, monthly secondary source and transaction analysis, have been approved by the Board of Directors. All internally fair valued securities are approved by a valuation committee appointed by the Board. The valuation committee is comprised of the treasurer, assistant treasurer, secretary and chief compliance officer for the Fund. All internally fair valued securities, referred to below, are updated daily and reviewed in detail by the valuation committee monthly unless changes occur within the period. The valuation committee reviews the validity of the model inputs and any changes to the model. Internal fair valuations are ratified by the Board of Directors at least quarterly.

The Fund utilizes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

Level 1 quoted prices in active markets for identical securities

Level 2 prices determined using other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 prices determined using significant unobservable inputs (including the valuation committee's own assumptions in determining the fair value of investments)

A description of the valuation techniques applied to the Fund's major categories of assets and liabilities measured at fair value on a recurring basis is as follows:

Equity securities are valued at the official closing price (typically last sale) on the exchange on which the securities are primarily traded, or if no closing price is available, at the last bid price and are categorized as Level 1 in the hierarchy. Restricted equity securities and private placements that are not widely traded, are illiquid or are internally fair valued by the valuation committee, are generally categorized as Level 3 in the hierarchy.

Certain foreign securities may be fair valued in cases where closing prices are not readily available or are deemed not reflective of readily available market prices. For example, significant events (such as

movement in the U.S. securities market, or other regional and local developments) may occur between the time that foreign markets close (where the security is principally traded) and the time that the Fund calculates its net asset value (generally, the close of the NYSE) that may impact the value of securities traded in these foreign markets. In such cases the Fund fair values foreign securities using an external pricing service which considers the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments such as American Depositary Receipts, financial futures, exchange-traded funds, and certain indexes as well as prices for similar securities. Such fair valuations are categorized as Level 2 in the hierarchy. Because the frequency of significant events is not predictable, fair valuation of certain foreign common stocks may occur on a frequent basis.

Debt securities, including restricted securities, are valued based on evaluated quotations received from independent pricing services or from dealers who make markets in such securities. For most bond types, the pricing service utilizes matrix pricing which considers yield or price of bonds of comparable quality, coupon, maturity, current cash flows, type, and current day trade information, as well as dealer supplied prices. These valuations are generally categorized as Level 2 in the hierarchy. Structured debt instruments such as mortgage-backed and asset-backed securities may also incorporate collateral analysis and utilize cash flow models for valuation and are generally categorized as Level 2 in the hierarchy. Pricing services do not provide pricing for all securities and therefore dealer supplied prices are utilized representing indicative bids based on pricing models used by market makers in the security and are generally categorized as Level 2 in the hierarchy. Debt securities that are not widely traded, are illiquid, or are internally fair valued by the valuation committee are generally categorized as Level 3 in the hierarchy.

Listed derivatives, such as options, that are actively traded are valued based on quoted prices from the exchange and are categorized as Level 1 in the hierarchy. Over the counter (OTC) derivative contracts, which include forward currency contracts and equity linked instruments are valued based on inputs observed from actively quoted markets and are categorized as Level 2 in the hierarchy.

Investments in open-end mutual funds are valued at their closing net asset value determined as of the close of business of the New York Stock Exchange (generally 4:00 p.m. Eastern time) each business day and are categorized as Level 1 in the hierarchy.

Short-term notes having a remaining maturity of 60 days or less are valued at amortized cost, which approximates market and are generally categorized as Level 2 in the hierarchy.

A summary of the inputs used to value the Fund's major categories of assets and liabilities, which primarily include investments of the Fund, by each major security type is disclosed at the end of the Schedule of Investments for the Fund. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

#### **B. Security Transactions and Investment Income:**

Security transactions are recorded on the trade date. Realized gains and losses from sales of securities are determined on the identified cost basis. Dividend income is recognized on the ex-dividend date, or in the case of certain foreign securities, as soon as the Fund is notified. Interest income is recorded on the accrual basis. The Fund amortizes premiums and accretes discounts using the effective interest method.

**C. Foreign Currency Translation:**

Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the foreign currency exchange rate effective at the end of the reporting period. Cost of investments is translated at the currency exchange rate effective at the trade date. The gain or loss resulting from a change in currency exchange rates between the trade and settlement date of a portfolio transaction is treated as a gain or loss on foreign currency. Likewise, the gain or loss resulting from a change in currency exchange rates between the date income is accrued and paid is treated as a gain or loss on foreign currency. The Fund does not isolate that portion of the results of operations arising from changes in foreign exchange rates on investments from the fluctuations arising from changes in the market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

**D. Derivative Financial Instruments:**

Disclosures on derivatives instruments and hedging activities are intended to improve financial reporting for derivative instruments by enhanced disclosure that enables the investors to understand how and why a fund uses derivatives, how derivatives are accounted for, and how derivative instruments affect a fund's results of operations and financial position. Summarized below is a specific type of derivative instrument used by the Fund.

**Options Contracts**

An options contract provides the purchaser with the right, but not the obligation, to buy (call option) or sell (put option) a financial instrument at an agreed upon price. The Fund may purchase or write listed covered and uncovered put and call options on portfolio securities for hedging purposes or to facilitate the rapid implementation of investment strategies if the Fund anticipates a significant market or market sector advance. The Fund is subject to equity price risk in the normal course of pursuing its investment objectives. The Fund may use options contracts to hedge against changes in the values of equities or for yield enhancement.

When the Fund purchases an option, it pays a premium and an amount equal to that premium is recorded as an asset. When the Fund writes an option, it receives a premium and an amount equal to that premium is recorded as a liability. The asset or liability is adjusted daily to reflect the current market value of the option. Holdings of the Fund designated to cover outstanding written options are noted in the Schedules of Investments. Purchased options are reported as an asset within Investment securities at value before written options on the Statement of Assets and Liabilities. Options written are reported as a liability within Written options outstanding at value. Changes in value of the purchased option is included in unrealized appreciation/(depreciation) on investments on the Statement of Operations. Changes in value of written options is included in unrealized appreciation/(depreciation) on written options on the Statement of Operations.

If an option expires unexercised, the Portfolio realizes a gain or loss to the extent of the premium received or paid. If an option is exercised, the premium received or paid is recorded as an adjustment to the proceeds from the sale or the cost basis of the purchase. The difference between the premium and the amount received or paid on effecting a closing purchase or sale transaction is also treated as a realized gain or loss. Gain or loss on purchased options is included in net realized gain/(loss) on investment transactions on the Statement of Operations. Gain or loss on written options is presented separately as net realized gain/(loss) on written options transactions on the Statement of Operations.



The risk in writing call options is that the Fund gives up the opportunity for profit if the market price of the security increases and the option is exercised. The risk in writing put options is that the Fund may incur a loss if the market price of the security decreases and the option is exercised. The risk in buying options is that the Fund pays a premium whether or not the option is exercised. The use of such instruments may involve certain additional risks as a result of unanticipated movements in the market. Writers (sellers) of options are subject to unlimited risk of loss, as the seller will be obligated to deliver or take delivery of the security at a predetermined price which may, upon exercise of the option, be significantly different from the then-market value.

**E. Short Sales:**

**(\$ reported in thousands)**

A short sale is a transaction in which the Fund sells a security it does not own in anticipation of a decline in market price. To sell a security short, the Fund must borrow the security. The Fund's obligation to replace the security borrowed and sold short will be fully collateralized at all times by the proceeds from the short sale retained by the broker and by cash and securities deposited in a segregated account with the Fund's custodian. If the price of the security sold short increases between the time of the short sale and the time the Fund replaces the borrowed security, the Fund will realize a loss, and if the price declines during the period, the Fund will realize a gain. Any realized gain will be decreased by, and any realized loss increased by, the amount of transaction costs. Dividends on short sales are recorded as an expense to the Fund on ex-dividend date. At March 31, 2013 the value of securities sold short amounted to \$6,944 against which collateral of \$10,801 was held. The collateral includes the deposits with broker for securities held short and the value of the segregated investments held long, as shown in the Schedule of Investments and Securities Sold Short. Short selling used in the management of the Fund may accelerate the velocity of potential losses if the prices of securities sold short appreciate quickly. Stocks purchased may decline in value at the same time stocks sold short may appreciate in value, thereby increasing potential losses.

**NOTE 2 INDEMNIFICATIONS**

Under the Fund's organizational documents and related agreements, its directors and officers are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, the Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these arrangements.

**NOTE 3 CREDIT RISK AND ASSET CONCENTRATIONS**

In countries with limited or developing markets, investments may present greater risks than in more developed markets and the prices of such investments may be volatile. The consequences of political, social or economic changes in these markets may have disruptive effects on the market prices of these investments and the income they generate, as well as the Fund's ability to repatriate such amounts.

The Fund may invest a high percentage of its assets in specific sectors of the market in its pursuit of a greater investment return. Fluctuations in these sectors of concentration may have a greater impact on the Fund, positive or negative, than if the Fund did not concentrate its investments in such sectors.

At March 31, 2013, the Fund held 26% of its total investments in U.S. Government securities.

**NOTE 4 FEDERAL INCOME TAX INFORMATION**

(\$ reported in thousands)

At March 31, 2013, federal tax cost and aggregate gross unrealized appreciation (depreciation) of securities held by the Fund were as follows:

	Federal Tax Cost	Unrealized Appreciation	Unrealized Depreciation	Net Unrealized Appreciation (Depreciation)
Investments	\$ 472,770	\$ 73,200	\$ (8,853)	\$ 64,347
Securities Sold Short	(5,887)		(1,057)	(1,057)
Written Options	(100)		(79)	(79)

**NOTE 5 RECENT ACCOUNTING PRONOUNCEMENT**

In December 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-11 regarding Disclosures about Offsetting Assets and Liabilities . The amendments, which will be effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods, require an entity to disclose information about offsetting and related arrangements for assets and liabilities, financial instruments and derivatives that are either currently offset in accordance with current requirements or are subject to enforceable master netting arrangements or similar agreements. At this time, management is evaluating the implications of ASU No. 2011-11 and its impact on the financial statements has not yet been determined.

**NOTE 6 SUBSEQUENT EVENT EVALUATIONS**

Management has evaluated the impact of all subsequent events on the Fund through the date the financial statements were issued, and has determined that there are no subsequent events that require recognition or disclosure in these financial statements.

**KEY INFORMATION**

**Zweig Shareholder Relations: 1-800-272-2700**

For general information and literature, as well as updates on net asset value, share price, major industry groups and other key information

**REINVESTMENT PLAN**

Many of you have questions about our reinvestment plan. We urge shareholders who want to take advantage of this plan and whose shares are held in Street Name, to consult your broker as soon as possible to determine if you must change registration into your own name to participate.

**REPURCHASE OF SECURITIES**

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may from time to time purchase its shares of common stock in the open market when Fund shares are trading at a discount from their net asset value.

**PROXY VOTING INFORMATION (FORM N-PX)**

The Adviser votes proxies relating to portfolio securities in accordance with procedures that have been approved by the Fund's Board of Directors. You may obtain a description of these procedures, along with information regarding how the Fund voted proxies during the most recent 12-month period ended June 30, 2012, free of charge, by calling toll-free 1-800-272-2700. This information is also available through the Securities and Exchange Commission's website at <http://www.sec.gov>.

**FORM N-Q INFORMATION**

The Fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission (the SEC) for the first and third quarters of each fiscal year on Form N-Q. Form N-Q is available on the SEC's website at <http://www.sec.gov>. Form N-Q may be reviewed and copied at the SEC's Public Reference Room. Information on the operation of the SEC's Public Reference Room can be obtained by calling toll-free 1-800-SEC-0330.