

CHARTWELL DIVIDEND & INCOME FUND INC

Form N-30D

January 30, 2002



**CHARTWELL DIVIDEND AND INCOME FUND, INC.**

**ANNUAL REPORT TO SHAREHOLDERS DATED November 30, 2001**



**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

## **INVESTMENT OBJECTIVES & STRATEGY**

The Chartwell Dividend and Income Fund's [the Fund] primary investment objective is to seek high current income. Capital appreciation is a secondary objective. The Fund will seek to achieve its objectives by investing, under normal circumstances, at least 50% of its total assets in income generating equity securities, including dividend paying common stocks, convertible securities, preferred stocks and other equity-related securities. In addition, the Fund may invest the balance of its total assets in non-convertible debt securities, consisting primarily of corporate bonds. The Fund attempts to minimize individual security risk by diversifying the portfolio with approximately 150 securities, which is subject to change. The Chartwell Dividend and Income Fund is a closed-end mutual fund which trades on the New York Stock Exchange under the symbol CWF.

### **High-Yield Corporate Bonds**

High-yield bonds are non-investment grade corporate debt obligations rated Ba1 or lower by Moody's Investors Service, Inc. or BB+ or lower by Standard and Poor's Ratings Group; they typically have a higher risk level than investment-grade bonds. These securities have historically compensated investors with higher levels of income for that risk. Prices usually are less sensitive to interest rate fluctuations than higher rated bonds because of the high income levels. However, the prices of these bonds are more sensitive to changes in the economy.

### **Convertible Securities**

The Fund can invest in both convertible preferred stock and convertible bonds. Both pay fixed rates of income, but because they can be converted into common stock, they are indirectly tied to the common stock's performance. As a result, convertible securities generally offer higher income than common stocks and an opportunity for price appreciation when the value of the underlying security rises. The Fund buys convertibles when the underlying common stock offers strong growth potential as well.

### **Common stock**

The Fund invests in the common stocks of utility companies, Real Estate Investment Trusts (REITs) and other industrial and financial companies as well as other equity securities. Both utilities and REITs tend to offer a premium dividend yield with steady growth that can lead to capital appreciation. Industrial and financial stocks are primarily purchased for capital appreciation based on the fundamental value of the underlying company.

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

---

## LETTER TO SHAREHOLDERS

Dear Shareholders,

We are pleased to present the annual report for the Chartwell Dividend and Income Fund ( CWF or the Fund ) for the fiscal year ended November 30, 2001. The Fund returned 23.95% assuming reinvestment of dividends in additional shares. The net asset value ( NAV ) return was 6.15%. The Fund ended the period at a premium to NAV of 8.1% versus beginning the period at a discount of 7.4% to NAV. The distribution rate at November 30, 2001 was 1.24 per share, paid, monthly. The Fund traded on the NYSE between a range of \$9.3125 to \$12.15 during the past year.

	1 Year**	6 Months**
CWF	24.0%	-4.2%
S&P 500	-12.2%	-8.7%
High Yield Bonds*	7.7%	-0.8%

---

\* Merrill Lynch High Yield Master Index

\*\* Period Ending 11/30/01

### Key events of the past year

Clearly the tragedy of September 11, 2001 must dominate any conversation regarding the events of the past year. Our hearts and thoughts go out to the victims in New York City, Pennsylvania and Washington, DC. However, it is the nature of our country and of the markets to rise higher out of the greatest challenges. The S&P 500 index bottomed on September 21 at 966 and has since advanced 19.5% to 1139 as of November 30, 2001. This is a clear demonstration of the resilience of the markets.

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

However, the past year has been tumultuous for many investors. The best broad areas of investment were high grade and Government bonds, which benefited from a flight to quality and declining interest rates. The S&P 500 stock index was down 12.2% while the Treasury Bond index was up 9.3%. This demonstrates that investors had a weak appetite for risk last year and preferred riskless Treasury securities to stocks and other types of bonds, especially high yield or junk bonds. Currently, the 10-year U.S. Treasury yield is 5.13%, already up from its lows of 4.6% earlier this year. We seriously question whether long-term Treasuries can have another strong year of performance. As the economy slowly heals and again begins to grow, investors will again look toward equities and higher yielding bonds in order to gain better long-term returns.

An economic event of the past year was declining short-term interest rates. The Federal Reserve Board lowered short-term interest rates 11 times since the beginning of the year in an attempt to invigorate the faltering U.S. economy. We think it is quite likely that the Fed has reached the end of its need to restart the economy and to boost growth. The Fed Funds Target Rates now stand at 2%, leaving little room left to cut.

4

---

CHARTWELL

---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

**Fed Funds Target Rate (source: Bloomberg)**

In addition, lower rates can ultimately lead to inflationary pressures and, we are already seeing signs that the economy is positioned for better times. Energy costs have plummeted over the past year from incredibly high levels. As a major input for most commercial enterprises and a big cost for most households lower energy costs are effectively a tax cut for all of America.

Also, buoying the economy is consumer spending, which has held up as a result of lower mortgage rates and resilient employment. This is demonstrated in

5

---

CHARTWELL

---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

continued strong auto and home sales and a surprising strong holiday shopping season. Because of this we believe the recession has a high probability of being relatively shallow and short in duration.

Further, inventories throughout the economy have plummeted to the point where many retailers were not over stocked as feared for the holiday season. A major reason for the stock market and economic bubble in 2000 involved corporate buyers who over-ordered inventory in anticipation of ever-higher demand for their products, especially in technology and telecom. Corporations were left with high levels of inventory that resulted in cancelled orders once demand started to falter. Now that the overhang of inventory has been eaten up, companies are again seeing new orders.

In terms of historical precedent, Jeremy Seigel, Professor Emeritus at The Wharton Business School of The University of Pennsylvania, conducted a study that shows the average recession lasts approximately 11 months. Government agencies have indicated that the current recession officially started in March of 2001. If Professor Seigel is correct, February will be the bottom of the economy. In addition, Professor Seigel has found that the stock market bottoms five months before the broad economy. Considering the September 21 low of the S&P 500, this again points to early spring as a likely bottom for the economy. While picking the exact day or month of the bottom is beyond our means, we do feel that the economy is positioned for better times in 2002.

**Economic perspective and the positioning of the portfolio**

The portfolio targets specific ranges of weightings between the main asset classes depending on their ability to generate income and to provide diversification. High yield bonds consist of 40-50% of the portfolio based on their high income levels. Currently, the Fund is in the middle of the range. The high yield market suffered three years of flat or negative total yearly returns between 1998-2000, while distributing 10% in coupon payments. This negative scenario is wholly unprecedented in the history of the asset class. This year investors were rewarded with a positive return in higher yield bonds after this lengthy period of negative returns.

Additionally, the high yield market has been cleansed of a number of weaker companies whose debt repayment was based on the growth of the various technology and telecommunications markets. Looking at the high yield portfolio today, you will find cash-generating companies that may be going through difficult times with the rest of the economy, but we anticipate the vast majority will make their interest payments. We are more confident in high yield at this time and we will continue to see positive returns as the economy strengthens.

6

---

CHARTWELL

---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

The Fund usually holds between 5-10% of the equities in dividend generating REITs, or Real Estate Investment Trusts. These holdings are much like common stock, but are generally more stable, have higher dividend yields, and are valued largely off of the net asset value of the actual real estate they command. We are currently close to the top of that range based on the strong performance of REITs recently. Many REITs are now under pressure as rental rates have fallen and there is less demand for office, industrial and retail properties. We anticipate reducing our weighting in REITs over the next six months.

The portfolio is at the bottom of our 5-10% holdings target for utilities. Utilities have had a bad stretch as many utilities failed to deliver on promises of high returns from trading natural gas and electricity. In addition, dividends have lost some of their focus within the group, again making it less attractive to an income fund such as yours. We will moderately increase the weight in higher yielding stable utilities based upon low current prices and modest expectations.

The balance of the portfolio is contained in predominantly large cap value equities paying reasonable dividend yields. Currently, we view this portion of the broad markets as somewhat undervalued, especially those stocks trading at substantial multiple discounts to the broader market. From a risk/return standpoint, we believe this asset class will perform well, especially with the complement of a conservative buy-write program.

In addition to earning income from dividends and interest payments on our investments, the Fund is actively engaged in generating incremental income from a buy-write program. This program involves selling a call option on a stock that is held in the Fund. In covered call options writing, the Fund is paid a premium that can be used to bolster the Funds income needs. The buyer of the call then has the right to purchase the stock at a pre-determined price. The benefit of this program for the Fund is that it can generate significant extra income on stocks and stabilize returns. However, we must sacrifice some upside potential in exchange. The program is especially useful in down or flat markets, and we use it when we feel securities are fully priced.

In conclusion, we are happy that the Fund had a successful year. The Fund is positioned to provide a continuation of the high returns over the next year. While we certainly do not anticipate the volatility of the past year, we believe the Fund is positioned to prosper, through generating high levels of income and modest capital appreciation.

7

---

CHARTWELL

---



**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

Thank you for your investment and interest in the Chartwell Dividend and Income Fund.

Sincerely,

Bernard P. Schaffer

Portfolio Manager

Leslie M. Varrelman

Portfolio Manager

**Portfolio Management Team**

Bernard P. Schaffer

*Portfolio Manager  
Equities*

Doster J. Esh

*Portfolio Analyst  
Equity and Convertible Securities*

Leslie M. Varrelman

*Portfolio Manager  
Fixed Income*

Christine F. Williams

*Portfolio Manager  
Fixed Income*

Andrew S. Toburen

*Portfolio Manager  
Fixed Income*

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

## **FIXED INCOME RESULTS**

### **High Yield Recap**

High yield corporate bonds turned in solid performance over the past year, with the Merrill Lynch High Yield Cash Pay Index returning 9.3% for the twelve months ended November 30, 2001. Strong inflows into public mutual funds and the Federal Reserve's aggressive interest rate cuts provided healthy technical support to the overall market. The market's average yield declined from 14.2% to 12.2% and the spread-over-treasuries narrowed by 128 basis points.

### **High Yield Premium over Treasuries ( Spread )**

**Source: Merrill Lynch, Bloomberg**

The market's performance would have been even better had it not been for a rising default rate, which increased from 4.5% in 2000 to nearly 10% today. Moody's Investor Service expects the default rate to peak in the first quarter of 2002 and to start declining thereafter, which we believe, is an encouraging sign.

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

**Quarterly High Yield Default Rates, Annualized**

(Source: CS First Boston)

Amidst rising default rates, a weakening U.S. economy and declining interest rates, higher quality credits strongly outperformed lower quality credits. The BB-rated index returned 14.3%, versus 6.1% for the B-rated index and 3.2% for CCC-rated index. Sector performance was extremely dispersed. The services, healthcare, and building materials sectors outperformed, while steel, textiles, and telecommunications (the markets largest sector) underperformed.

**High Yield Sector Performance**

(11/30/00-11/30/01, source: Merrill Lynch)

We had winning bond investments in Pliant Corporation, Leap Wireless International, Inc. and Euramax International plc, all of which did extremely well for the Fund. On the other hand, we were off the mark with our positions in Orius Capital Corp., 360networks Inc., and Pac-West Telecomm, Inc. Given the volatility and dispersion of market returns, we were pleased with the consistency of our high yield corporate bond performance. The fixed income portion of your

10

---

CHARTWELL

---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

Fund generates a substantial percentage of the Fund's income. We position this section of the Fund conservatively, aiming to capture high yield's excess income while minimizing principal losses.

**Outlook**

High yield bonds have historically performed very well in the early stages of an economic recovery. As seen below, 2001 was the first year since 1998 that the high yield market has posted positive fund flows. It is likely this will continue based on the current high yields and economic recovery.

**High Yield Mutual Fund Flows**

(source: CS First Boston, \*through 11/30/01)

As we navigate through the current economic weakness, our bottom-up, research intensive style should perform well. Many of our investments are generating strong free cash flow and improving their credit profiles in this environment. When the economy begins to respond positively to recent monetary and fiscal stimulus, we expect these issuers to be among the top performers. We presently favor the cable television, building materials and food sectors for their consistent cash flow generation. Examples of current investments in these sectors include Charter Communications Holdings, LLC, Juno Lighting, Inc. and Land O' Lakes Inc. For now, we will continue to underweight telecommunications and technology, due to the expected volatility of profits in these sectors. While we always look to improve the credit quality of the bond portfolio, we like the current composition and are encouraged by the outlook for many of our fixed income investments.

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

**EQUITY RETURNS**

The equity portion of the fund had a negative return of 2.23% in one of the most volatile and difficult years in recent memory for the broader equity markets. While we are never satisfied with negative returns, this compares to the S&P 500 return of 12.22% and the Russell 1000 Value return of 3.14%. As we have mentioned previously, we have positioned the portfolio expecting positive returns for the upcoming year.

**S&P 500 Sector Total Return**

	<b>Total Return(%)</b>
Basic Materials	
20.79	
Capital Goods	
-12.90	
Communication Services	
-20.68	
Consumer Cyclicals	
14.55	
Consumer Staples	
-6.98	
Energy	
-16.10	
Financials	
-2.83	
Healthcare	
-6.66	
Technology	
-31.46	
Transportation	
0.74	
Utilities	
-17.06	
<hr/>	
Total	
-12.2	
<hr/>	

Among the Funds best sectors were basic materials, financials and technology stocks. Basic material stocks continued their sharp upward revaluation after severely underperforming during the prior year. Alcoa Inc. was especially successful. Alcoa Inc. was purchased at \$25 in late November and has benefited from industry capacity shutdowns and a secular move toward increasing aluminum demands. Financials were a difficult sector in the broad markets, but our value bias pushed us toward fundamentally sound companies trading at low multiples. Bank of America Corporation is an excellent example. After a merger with NationsBank Corporation, they could seemingly do nothing right: they had

CHARTWELL

---

**Chartwell Dividend and Income Fund, Inc.****November 30, 2001**

to boost reserves for bad loans, their equity trading and investment banking business suddenly fell apart, and they were forced to change management. At their bottom they traded at 8.3x earnings and yielded 5.7%. Currently, Bank of America Corporation trades at 11.3x earnings a healthy upward revaluation. Within technology, Electronic Data Systems has been a steady, strong performer. As the high-flying technology companies spent billions of dollars racing toward the next big innovation, Electronic Data Systems Corporation under the leadership of Dick Brown has actually benefited from the technology speed bump as large companies outsource more and more of their computing requirements. We think this stock will be very successful going forward.

**Best & Worst Equity Performers**

	<b>Total Return</b>
<b>Top Stocks</b>	
Alcoa Inc.	
86%	
Bank of America Corporation	
50%	
Household International	
30%	
Philip Morris Companies, Inc.	
29%	
Electronic Data Systems Corporation	
22%	
<b>Bottom Stocks</b>	
Schering-Plough Corporation	
-39%	
United Technologies Corporation	
-31%	
SBC Communications Inc.	
-30%	
Transocean Sedco Forex Inc.	
-26%	
Bristol-Myers Squibb Company	
-22%	

Switching to the negative side, our underperformers came largely in the capital goods, healthcare and telecommunications sectors. Within the capital goods our biggest disappointment was United Technologies Corporation, which is one of the biggest manufacturers of aerospace components, helicopters, air conditioning and elevators. United Technology Corporation experienced little growth in most of these areas, with especially lack-luster results in Carrier Aircon Limited (air conditioning) and Otis Elevator Company Limited. The biggest reason for our loss, however, came because we sold United Technology Corporation soon after the September tragedy, thinking that much of their already troubled businesses would be getting worse. Like many crisis points in the market, this was a bad time to sell. Our condolence comes from the fact that we quickly re-deployed the cash in other equities such as Ace Limited that rebounded nicely. Healthcare and especially large drug manufacturers were weak in general during the past year after a blockbuster year 2000 performance. However, valuation was not our greatest problem as we have consistently looked for cheaper ways to access the burgeoning healthcare market. Schering-Plough Corporation was our weakest healthcare company, down about 30%, on operational difficulties related to the manufacture of Clarinex, the heir to their blockbuster anti-histamine Claritin. The main issues at Schering-Plough Corporation failed to improve, forcing us to sell the stock and reinvest in other more attractive investments.





**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

## **UTILITY RESULTS**

Utilities have been nothing short of disappointing, as the S&P Utilities index fell 17.06% while our portfolio of utilities fell 18.66%. The reasons for the underperformance came from three primary areas. First and foremost, natural gas prices plummeted from an all time high of \$10 per MCF last year to under \$3 currently. Second, the California debacle focused tremendous political and regulatory focus on the entire industry, yielding a difficult operating environment and bad investor sentiment. Third and finally, the bankruptcy of Enron Corp. has created a negative view the entire sector with a red hue of warning, warning, warning! The vast majority of our investments have very little to do with Enron Corp. At the moment the sector is inexpensive. However, the specter of Enron is still creating a negative viewpoint of the sector. In addition, many investors worry that electric generation facilities are being overbuilt, which could result in a nationwide glut of electric power in coming years. We will continue to invest in high yielding, conservative utilities with good cash flows.

Our best performers in this sector came from The Southern Company, NiSource Inc. and Dominion Resources Inc. Among our worst performers were Exelon Corporation, Constellation Energy Group, Inc. and Reliant Energy Incorporated.

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

**REAL ESTATE INVESTMENT TRUST (REIT) RESULTS**

REITs had a very good year, with the REIT portfolio returning 19.12% vs. the Morgan Stanley REIT index which was up 17.8%. REITs benefited from falling interest rates, relatively resilient earnings streams and a dearth of high yielding securities in the marketplace.

Our best performers were Healthcare Realty Trust, Inc., Hospitality Properties Trust and Duke-Weeks Realty Corporation. Our worst performers were Boston Properties, Inc., Host Marriott Corporation and Reckson Associates Realty Corporation.

15

---

CHARTWELL

---

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

---

#### Utilization of Leverage

The Chartwell Dividend and Income Fund has utilized leverage through the issuance of commercial paper. As of November 30, 2001, the Fund had \$60 million in leverage outstanding in the form of commercial paper rated A1/P1 by Moody's Investors Service, Inc./ Standard & Poor's Ratings Group. These ratings should enhance the marketability and reduce the interest costs associated with the issuance of the commercial paper. However, it must be noted that the utilization of leverage involves the risk of lower portfolio returns if the cost of leverage is higher than the resulting yields on assets or if the Fund experiences capital losses in excess of the yield spread, if any. Therefore, the addition of leverage also increases the potential volatility of the Fund. The Fund has the ability to leverage to a maximum of 33% of the Fund's gross assets.

The Fund utilizes leveraging to seek to enhance the yield and net asset value of its Common Stock. However, these objectives cannot be achieved in all interest rate environments. To leverage, the Fund issues Commercial Paper, which is issued at a discount equivalent to short-term interest rates, and invests the proceeds in long-term securities. The interest earned on these investments is paid to Common Stock shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share net asset value of the Fund's Common Stock. However, in order to benefit Common Stock shareholders, the yield curve must be positively sloped; that is, short-term interest rates must be lower than long-term interest rates. At the same time, a period of generally declining interest rates will benefit Common Stock shareholders. *If either of these conditions change, then the risks of leveraging will begin to outweigh the benefits.*

To illustrate these concepts, assume a fund's common stock capitalization of \$100 million and the issuance of commercial paper for an additional \$50 million, creating a total value of \$150 million available for investment in long-term securities. If prevailing short-term interest rates are approximately 3% and long-term interest rates are approximately 6%, the yield curve has a strongly positive slope. The fund pays a discount on the \$50 million of commercial paper based on the lower short-term interest rates. At the same time, the fund's total portfolio of \$150 million earns the income based on long-term interest rates.

In this case, the discount paid to Commercial Paper holders is significantly *lower* than the income earned on the Fund's long-term investments, and therefore the Common Stock shareholders are the beneficiaries of the incremental yield. However, *if short-term interest rates rise*, narrowing the differential between short-term and long-term interest rates, *the incremental yield pick-up on the Common Stock will be reduced or eliminated completely.* At the same time, the market value on the Fund's Common Stock (that is, its price as listed on the New York Stock Exchange), may, as a result, decline. Furthermore, *if long-term interest rates rise*, *the Common Stock's net asset value will reflect the full decline in the price of the portfolio's investments, since the value of the Fund's Commercial Paper does not fluctuate.* In addition to the decline in net asset value, the market value of the Fund's Common Stock may also decline.

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

## SCHEDULE OF INVESTMENTS

	Number of Shares	Market Value (Note 1)
<b>COMMON STOCK 72.1%</b>		
<b>Banking 7.0%</b>		
Bank of America Corporation		
40,000		\$2,455,200
Citigroup Inc.		
29,336		1,405,194
Comerica Incorporated		
32,485		1,668,430
FleetBoston Financial Corporation		
64,465		2,369,089
KeyCorp.		
27,000		618,300
PNC Financial Services Group, Inc.		
20,000		1,159,000
Wells Fargo & Company		
25,000		1,070,000
		10,745,213
<b>Basic Materials 2.9%</b>		
Alcoa Inc.		
73,000		2,817,800
Praxair, Inc.		
30,000		1,587,600
		4,405,400
<b>Capital Goods 1.8%</b>		
General Electric Company		
30,000		1,155,000
Pitney Bowes Inc.		
40,000		1,659,200
		2,814,200
<b>Consumer Cyclical 3.3%</b>		
General Motors Corporation		
37,000		1,838,900
Goodyear Tire & Rubber Company		
60,000		1,344,000

Limited Inc.  
138,960 1,934,323

---

5,117,223

---

**Consumer Non-Durable 5.1%**

Kimberly-Clark Corporation  
18,000 1,047,060  
McGraw-Hill Companies, Inc.  
53,200 3,005,800  
Philip Morris Companies Inc.  
80,700 3,806,619

---

7,859,479

---

**Energy 11.6%**

Baker Hughes Incorporated  
82,000 2,703,540  
Conoco Inc.  
40,000 1,094,800  
El Paso Corporation  
20,000 890,000  
Exxon Mobil Corporation  
38,000 1,421,200  
GlobalSantaFe Corporation  
100,000 2,420,000  
Halliburton Company  
70,000 1,500,100  
KeySpan Corporation  
30,000 993,900  
Transocean Sedco Forex Inc.  
66,000 1,867,800

*See Accompanying Notes to Financial Statements.*

17

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

## SCHEDULE OF INVESTMENTS (continued)

	Number of Shares	Market Value (Note 1)
<b>COMMON STOCK (continued)</b>		
<b>Energy (concluded)</b>		
USX-Marathon Group		
82,800		\$2,268,720
Williams Companies, Inc.		
101,900		2,722,768
<hr/>		
		17,882,828
<hr/>		
<b>Financial Services 11.4%</b>		
ACE Limited		
79,632		3,033,979
American International Group, Inc.		
26,055		2,146,932
Capital One Financial Corporation		
50,000		2,501,500
Chubb Corporation		
11,780		825,307
Fannie Mae		
20,300		1,595,580
Hartford Financial Services Group, Inc.		
28,500		1,687,200
Household International, Inc.		
61,640		3,636,144
Morgan Stanley Dean Witter & Co.		
13,090		726,495
Principal Financial Group, Inc.		
63,230		1,451,128
<hr/>		
		17,604,265
<hr/>		
<b>Healthcare 6.1%</b>		
American Home Products Corporation		
50,000		3,005,000
Merck & Co., Inc.		
45,000		3,048,750
Pharmacia Corporation		
75,000		3,330,000
<hr/>		
		9,383,750
<hr/>		

**Real Estate\* 11.5%**

Arden Realty, Inc.  
40,000 1,030,000  
Boston Properties, Inc.  
50,700 1,886,040  
BRE Properties, Inc.  
40,000 1,254,000  
Duke-Weeks Realty Corporation  
108,820 2,672,619  
Healthcare Realty Trust, Inc.  
92,587 2,499,849  
Hospitality Properties Trust  
50,000 1,371,500  
Host Marriott Corporation  
170,000 1,431,400  
ProLogis Trust  
126,400 2,774,480  
Reckson Associates Realty Corporation.  
80,000 1,788,800  
SL Green Realty Corp.  
35,000 1,060,500

---

17,769,188

---

**Technology 0.7%**

Dell Computer Corporation(a)  
40,965 1,144,152

---

*See Accompanying Notes to Financial Statements.*

18

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

**SCHEDULE OF INVESTMENTS** *(continued)*

	<b>Number of Shares/Principal Amount</b>	<b>Market Value (Note 1)</b>
<b>COMMON STOCK</b> <i>(continued)</i>		
<b>Telecommunications 4.2%</b>		
AT&T Corp.		
26,845	\$469,519	
SBC Communications Inc.		
50,860	1,901,147	
Sprint Corporation		
100,000	2,179,000	
Verizon Communications Inc.		
40,000	1,880,000	
<hr/>		
	6,429,666	
<hr/>		
<b>Utilities 6.5%</b>		
AES Corporation(a)		
20,000	330,400	
Allegheny Energy, Inc.		
25,000	871,250	
Constellation Energy Group, Inc.		
43,910	1,042,862	
Duke Energy Corporation		
28,000	1,012,200	
Dynegy Inc.		
55,000	1,669,250	
Exelon Corporation		
44,755	1,996,521	
Kinder Morgan Energy Partners L.P.		
30,000	1,080,000	
Reliant Energy Incorporated		
79,000	2,018,450	
<hr/>		
	10,020,933	
<hr/>		
<b>Total Common Stock (cost \$114,560,563)</b>		
	<b>111,176,297</b>	
<hr/>		
<b>NON-CONVERTIBLE BONDS 63.8%</b>		
<b>Aerospace &amp; Defense 0.6%</b>		
Sequa Corporation 9.000%, 8/01/09		



\$1,000,000 990,000

---

**Automobile 2.1%**

AutoNation, Inc. 9.000%, 8/01/08

2,150,000 2,214,500

Sonic Automotive, Inc. 11.000%, 8/01/08

1,000,000 1,045,000

---

3,259,500

---

**Basic Materials 3.9%**

Airgas, Inc. 9.125%, 10/01/11

1,000,000 1,075,000

Avecia Group plc 11.000%, 7/01/09

1,000,000 970,000

ICO, Inc. 10.375%, 6/01/07

1,500,000 1,110,000

Resolution Performance 13.500%, 11/15/10

1,000,000 1,107,500

Resolution Performance 13.500%, 11/15/10

500,000 534,855

U.S. Can Corporation 12.375%, 10/01/10

1,500,000 1,147,500

---

5,944,855

---

**Building, Products & Services 6.4%**

Atrium Companies, Inc. 10.500%, 5/01/09

1,000,000 882,500

Dayton Superior Corporation 13.000%, 6/15/09

1,500,000 1,537,500

*See Accompanying Notes to Financial Statements.*

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

## SCHEDULE OF INVESTMENTS (continued)

	Principal Amount	Market Value (Note 1)
<b>NON-CONVERTIBLE BONDS (continued)</b>		
<b>Building, Products &amp; Services (concluded)</b>		
Integrated Electrical Services, Inc. 9.375%, 2/01/09		
\$1,500,000	\$1,395,000	
KB Home 9.500%, 2/15/11		
1,500,000	1,560,000	
MMI Products, Inc. 11.250%, 4/15/07		
1,000,000	890,000	
Orius Capital Corp. 12.750%, 2/01/10		
2,500,000	512,500	
Ryland Group, Inc. 9.125%, 6/15/11		
1,500,000	1,567,500	
Schuler Homes, Inc. 9.375%, 7/15/09		
1,500,000	1,575,000	
	9,920,000	
<b>Cable, Media &amp; Publishing 6.1%</b>		
Alliance Atlantis Communications Corporation 13.000%, 12/15/09		
1,750,000	1,868,125	
Charter Communications Holdings, LLC		
10.750%, 10/01/09		
2,000,000	2,150,000	
Echostar Broadband Corp. 10.375%, 10/01/07		
1,500,000	1,616,250	
Key3Media Group, Inc. 11.250%, 6/15/11		
950,000	764,750	
Mediacom LLC 11.000%, 7/15/13		
1,000,000	1,110,000	
NTL Communications Corp. 11.875%, 10/01/10		
1,500,000	547,500	
Young Broadcasting Inc. 8.500%, 12/15/08		
1,400,000	1,400,000	
	9,456,625	
<b>Consumer Cyclical 1.0%</b>		
Evenflo Company, Inc. 11.750%, 8/15/06		
750,000	41,250	
Phillips-Van Heusen Corporation 9.500%, 5/01/08		
1,500,000	1,526,250	

1,567,500

---

**Containers, Packaging & Glass 1.5%**

Huntsman Packaging Corporation 13.000%, 6/01/10

1,250,000 1,306,250

Tekni-Plex, Inc. 12.750%, 6/15/10

1,000,000 990,000

---

2,296,250

---

**Energy 4.2%**

Frontier Oil Corporation 11.750%, 11/15/09

2,000,000 2,130,000

Lone Star Technologies, Inc. 9.000%, 6/01/11

1,000,000 816,250

Parker Drilling Company 9.750%, 11/15/06

1,500,000 1,507,500

Statia Terminals Group 11.750%, 11/15/03

1,000,000 1,037,500

*See Accompanying Notes to Financial Statements.*

20

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

**SCHEDULE OF INVESTMENTS** *(continued)*

	<b>Principal Amount</b>	<b>Market Value (Note 1)</b>
<b>NON-CONVERTIBLE BONDS</b> <i>(continued)</i>		
<b>Energy</b> <i>(concluded)</i>		
Tri-Union Development Corporation 12.500%, 6/01/06		
\$1,000,000	\$965,000	
<hr/>		
	6,456,250	
<hr/>		
<b>Farming &amp; Agriculture 1.0%</b>		
Premium Standard Farms, Inc. 9.250%, 6/15/11		
1,500,000	1,567,500	
<hr/>		
<b>Financial Services 3.5%</b>		
CB Richard Ellis Services, Inc. 11.250%, 6/15/11		
1,000,000	795,000	
Conseco, Inc. 8.750%, 2/09/04		
1,500,000	772,500	
iStar Financial Inc. 8.750%, 8/15/08		
900,000	928,969	
Metris Companies Inc. 10.125%, 7/15/06		
1,500,000	1,380,000	
Rent-A-Center, Inc. 11.000%, 8/15/08		
1,500,000	1,500,000	
<hr/>		
	5,376,469	
<hr/>		
<b>Food, Beverage &amp; Tobacco 2.0%</b>		
Fleming Companies, Inc. 10.125%, 4/01/08		
1,500,000	1,578,750	
Land O Lakes Inc. 8.750%, 11/15/11		
1,500,000	1,500,000	
<hr/>		
	3,078,750	
<hr/>		
<b>Gaming 3.2%</b>		
Alliance Gaming Corporation 10.000%, 8/01/07		
1,000,000	1,045,000	
Boyd Gaming Corporation 9.250%, 8/01/09		

Edgar Filing: CHARTWELL DIVIDEND & INCOME FUND INC - Form N-30D

1,250,000 1,293,750  
Isle of Capri Casinos, Inc. 8.750%, 4/15/09  
1,000,000 976,250  
Mandalay Resort Group 10.250%, 8/01/07  
1,500,000 1,603,125

---

4,918,125

---

**Hotels 2.3%**

Extended Stay America, Inc. 9.150%, 3/15/08  
1,500,000 1,530,000  
Sun International Hotels Limited 9.000%, 3/15/07  
2,000,000 1,970,000

---

3,500,000

---

**Industrials 7.8%**

Actuant Corporation 13.000%, 5/01/09  
2,000,000 2,170,000  
Better Minerals & Aggregates Company 13.000%, 9/15/09  
1,000,000 840,000  
Euramax International plc 11.250%, 10/01/06  
2,000,000 1,870,000  
International Wire Group, Inc. 11.750%, 6/01/05  
1,500,000 1,245,000  
Juno Lighting, Inc. 11.875%, 7/01/09  
1,500,000 1,447,500

*See Accompanying Notes to Financial Statements.*

21

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

SCHEDULE OF INVESTMENTS *(continued)*

	Principal Amount	Market Value (Note 1)
<b>NON-CONVERTIBLE BONDS</b> <i>(continued)</i>		
<b>Industrials</b> <i>(concluded)</i>		
Knowles Electronics, Inc. 13.125%, 10/15/09		
\$1,500,000	\$1,432,500	
MDC Corporation Inc. 10.500%, 12/01/06		
1,000,000	745,000	
United Rentals (North America), Inc. 10.750%, 4/15/08		
2,000,000	2,195,000	
	11,945,000	
<b>Real Estate 3.5%</b>		
FelCor Lodging Limited Partnership 8.500%, 6/01/11		
1,850,000	1,789,875	
Intrawest Corporation 9.750%, 8/15/08		
2,000,000	1,990,000	
LNR Property Corporation 10.500%, 1/15/09		
1,500,000	1,552,500	
	5,332,375	
<b>Retail 1.2%</b>		
Mothers Work Inc. 12.625%, 8/01/05		
2,000,000	1,900,000	
<b>Technology 1.6%</b>		
ASAT (Finance) LLC 12.500%, 11/01/06		
1,137,500	807,625	
Seagate Technology International 13.500%, 11/15/07		
1,500,000	1,657,500	
	2,465,125	
<b>Telecommunications 6.0%</b>		
Allegiance Telecom, Inc. 12.875%, 5/15/08		
1,500,000	1,132,500	
Crown Castle International Corp. 9.375%, 8/01/11		

Edgar Filing: CHARTWELL DIVIDEND & INCOME FUND INC - Form N-30D

1,500,000 1,451,250  
Leap Wireless International, Inc. 12.500%, 4/15/10  
1,500,000 1,147,500  
Madison River Capital 13.250%, 3/01/10  
2,500,000 1,862,500  
Nextel Communications, Inc. 9.375%, 11/15/09  
2,000,000 1,660,000  
NTELOS Inc. 13.000%, 8/15/10  
1,000,000 735,000  
PAC-West Telecomm, Inc. 13.500%, 2/01/09  
2,000,000 430,000  
Spectrasite Holdings, Inc. 10.750%, 3/15/10  
1,500,000 862,500

---

9,281,250

---

*See Accompanying Notes to Financial Statements.*

22

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

SCHEDULE OF INVESTMENTS *(continued)*

	Principal Amount	Market Value (Note 1)
<b>NON-CONVERTIBLE BONDS</b> <i>(concluded)</i>		
<b>Transportation &amp; Shipping 2.0%</b>		
Kansas City Southern Railway Company 9.500%, 10/01/08		
\$1,500,000	\$1,627,500	
North American Van Lines, Inc. 13.375%, 12/01/09		
1,500,000	1,389,375	
		3,016,875
<b>Utilities 3.9%</b>		
AES Corporation 10.250%, 7/15/06		
2,500,000	2,462,500	
Calpine Corporation 8.750%, 7/15/07		
2,000,000	2,025,976	
PSEG Energy Holdings, Inc. 8.625%, 2/15/08		
1,500,000	1,537,731	
		6,026,207
<b>Total Non-Convertible Bonds (cost \$105,411,372)</b>		<b>98,298,656</b>

	Number of Shares/ Contracts
<b>Warrants 0.1%</b>	
Dayton Superior Corporation(a)(b)	
1,500	22,500
Leap Wireless International, Inc. (a)(c)	
2,000	80,250
NTELOS Inc.(a)(d)	
2,000	10,250
Pliant Corporation(a)(e)	
1,500	3,188
<b>Total Warrants (cost \$664,729)</b>	



116,188

---

**Total Investments 136.0%**  
**(cost \$220,636,664)**  
**209,591,141**

---

**Covered Call Options Written (0.4%)**

ACE Limited Dec. 40 Call  
(500) (45,000)  
American Home Products Corporation Dec. 60 Call  
(500) (70,000)  
American International Group, Inc. Dec. 85 Call  
(150) (13,500)  
Dell Computer Corporation Jan. 27.5 Call  
(400) (86,000)  
Dynegey Inc. Dec. 40 Call  
(450) (13,500)  
Goodyear Tire & Rubber Company Jan. 20 Call  
(200) (55,000)  
Household International, Inc. Dec. 60 Call  
(200) (36,000)  
Limited Inc. Dec. 12.5 Call  
(500) (78,750)  
McGraw-Hill Companies, Inc. Dec. 60 Call  
(250) (10,625)  
Merck & Co., Inc. Jan. 70 Call  
(220) (35,200)  
Pharmacia Corporation Jan. 45 Call  
(500) (97,500)

*See Accompanying Notes to Financial Statements.*

23

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

## SCHEDULE OF INVESTMENTS (CONCLUDED)

	Number of Contracts	Market Value (Note 1)
<b>Covered Call Options Written (concluded)</b>		
Philip Morris Companies Inc. Dec. 50 Call (400) \$(8,000)		
Praxair, Inc. Dec. 50 Call (200) (72,000)		
Sprint Corporation Dec. 22.5 Call (300) (10,500)		
Transocean Sedco Forex Inc. Dec. 30 Call (300) (24,000)		
<hr/>		
<b>Total options (premium received \$643,668)</b> <b>(655,575)</b>		
<hr/>		
<b>Other Liabilities in Excess of Other Assets (35.6%)</b> <b>(54,796,986)</b>		
<hr/>		
<b>Net Assets 100%</b> <b>\$154,138,580</b>		

\* Real Estate Investment Trust.

Securities exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At November 30, 2001, these securities amounted to \$13,745,918 or 8.9% of net assets.

(a) Non-income producing.

(b) Each warrant entitles the holder to purchase 0.69 non-public shares at an exercise price of \$0.01 per share. The warrants are exercisable until 6/15/09.

(c) Each warrant entitles the holder to purchase 5.146 shares of common stock at an exercise price of \$96.80 per share. The warrants are exercisable until 4/15/10.

(d) Each warrant entitles the holder to purchase 1.8 shares common stock at an exercise price of \$47.58 per share. The warrants are exercisable until 8/15/10.

(e) Each warrant entitles the holder to purchase 1.0 shares of common stock at an exercise price of \$0.01 per share. The warrants are exercisable until 6/01/10.

See Accompanying Notes to Financial Statements.

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

**STATEMENT OF ASSETS AND LIABILITIES**

AS OF NOVEMBER 30, 2001

**Assets:**

Investments, at value (cost  
 \$220,636,664) (Note 1)  
 \$209,591,141  
 Cash  
 7,818,515  
 Interest receivable  
 3,195,367  
 Receivable for securities  
 sold  
 1,010,000  
 Dividends receivable  
 247,758  
 Prepaid expenses and  
 other assets  
 42,807

---

Total assets  
 221,905,588

---

**Liabilities:**

Commercial paper  
 (Note 4)  
 59,923,383  
 Payable for securities  
 purchased  
 6,826,214  
 Options written, at value  
 (premiums  
 received \$643,668)  
 (Note 1)  
 655,575  
 Payable for investment  
 management fees (Note 2)  
 167,361  
 Payable for administration  
 fees (Note 2)  
 26,425  
 Accrued expenses and  
 other liabilities  
 168,050

---

Total liabilities  
 67,767,008

---

**Net Assets**  
**\$154,138,580**

---

**Net Assets Consist of:**

Common Stock, \$0.01 par  
value (authorized  
100,000,000 shares)  
\$157,976  
Additional paid-in capital  
213,253,760  
Distributions in excess of  
net investment income  
(244,107)  
Accumulated net realized  
losses on investments and  
options  
(47,971,619)  
Net unrealized  
depreciation on  
investments and options  
(11,057,430)

---

**Net Assets**  
**\$154,138,580**

---

**Net Asset Value per  
share:**

\$154,138,580 ÷  
15,797,562 shares of  
Common Stock issued and  
outstanding  
\$9.76

---

*See Accompanying Notes to Financial Statements.*

25

---

CHARTWELL

---

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

---

**STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED**

**NOVEMBER 30, 2001**

**Investment Income:**

(Note 1)

Interest  
\$12,995,572  
Dividends (net of \$2,191  
foreign withholding tax)  
3,026,130

---

Total investment income  
16,021,702

---

**Expenses:**

Investment management fees  
(Note 2)  
2,135,743  
Administration fees (Note 2)  
337,222  
Commercial paper fees  
205,060  
Professional fees  
107,100  
Printing and shareholder  
reports  
106,064  
Custodian fees  
43,661  
Registration fees  
35,668  
Transfer agent fees  
29,513  
Directors' fees and expenses  
12,200  
Pricing fees  
7,758  
Other operating expenses  
40,274

---

Total operating expenses  
3,060,263  
Interest expense  
2,822,554

---

Total expenses  
5,882,817

---

**Net Investment Income**  
10,138,885

---

**Realized and Unrealized  
Gain (Loss) on Investments:  
(Note 1)**

Net realized loss on  
investments  
(28,648,512)  
Net realized gain on call  
options written  
6,740,135

---

(21,908,377)  
Change in net unrealized  
depreciation on investments  
and options  
22,056,666

---

Net realized and unrealized  
gain on investments and  
options  
148,289

---

**Net Increase in Net Assets  
Resulting from Operations**  
**\$10,287,174**

---

*See Accompanying Notes to Financial Statements.*

26

---

CHARTWELL

---

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

---

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED**

**NOVEMBER 30, 2001**

**Increase (Decrease) in Cash**

Cash flows provided from  
(used for) operating activities:

Interest and dividends received  
\$16,506,928

Operating expenses paid  
(3,006,060)

Interest paid  
(2,940,929)

Purchase of long-term  
portfolio investments  
(295,290,743)

Proceeds from sale of  
long-term portfolio  
investments  
288,964,974

Net premiums received from  
written options transactions  
7,304,302

---

Net cash provided from  
operating activities  
11,538,472

---

Cash flows provided from  
(used for) financing activities:

Net cash provided from  
commercial paper issuance  
391,092

Cash dividends paid to  
shareholders  
(16,931,148)

---

Net cash used for financing  
activities  
(16,540,056)

---

Net decrease in cash  
(5,001,584)

Cash at beginning of year  
12,820,099

---

Cash at end of year  
\$7,818,515

---

**Reconciliation of Net  
Increase in Net Assets  
Resulting from Operations to  
Net Cash Provided from  
Operating Activities**

Net increase in net assets  
resulting from operations  
\$10,287,174

---

Increase in investments  
(6,612,087)  
Net realized loss on  
investments transactions  
21,908,377  
Net change in unrealized  
depreciation on investments  
and options  
(22,056,666)  
Decrease in receivable for  
securities sold  
1,493,862  
Decrease in interest and  
dividend receivable  
501,113  
Decrease in commercial paper  
discount  
(118,375)  
Decrease in other assets  
43,874  
Increase in payable for  
securities purchased  
6,080,871  
Increase in accrued expenses  
and other liabilities  
10,329

---

Total adjustments  
1,251,298

---

Net cash provided for  
operating activities  
\$11,538,472

---

**Supplemental Cash Flow  
Information**



Edgar Filing: CHARTWELL DIVIDEND & INCOME FUND INC - Form N-30D

Cash paid during the year for  
interest  
\$2,940,929

---

*See Accompanying Notes to Financial Statements.*

27

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

**STATEMENTS OF CHANGES IN NET ASSETS**

	For the Year Ended November 30,	
	2001	2000
<b>Operations:</b>		
Net investment income		
\$10,138,885	\$12,496,035	
Net realized loss on investments	(28,648,512)	(19,935,282)
Net realized gain on call options written	6,740,135	4,417,001
Change in net unrealized depreciation on investments and options	22,056,666	(12,107,968)
<hr/>		
<hr/>		
Net increase (decrease) in net assets resulting from operations	10,287,174	(15,130,214)
<hr/>		
<hr/>		
<b>Dividends and distributions to shareholders from:</b>		
Net investment income	(10,175,121)	(12,425,463)
Tax return of capital	(9,222,550)	(6,834,290)
<hr/>		
<hr/>		
Net decrease in net assets resulting from dividends and distributions	(19,397,671)	(19,259,753)
<hr/>		
<hr/>		
<b>Capital Stock Transactions:</b>		
Reinvestment of dividends resulting in the issuance of Common Stock transactions		

2,780,356

---

---

Net increase in net assets resulting from  
Common Stock transactions  
2,780,356

---

---

Total decrease in net assets  
(6,330,141) (34,389,967)

---

---

**Net Assets:**

Beginning of year  
160,468,721 194,858,688

---

---

End of year  
\$154,138,580 \$160,468,721

---

---

*See Accompanying Notes to Financial Statements.*

28

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

**FINANCIAL HIGHLIGHTS**

THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN  
DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL  
STATEMENTS

For the Year Ended  
November 30,

2001	2000	1999
------	------	------

**Net asset value, beginning of period**

\$10.33 \$12.54 \$14.17

**Income gain (loss) from investment operations:**

Net investment income (1)

0.65 0.80 0.88

Net realized and unrealized gain (loss) on  
investment transactions

0.02 (1.77) (1.27)

Total from investment operations

0.67 (0.97) (0.39)

**Less dividends and distributions:**

Dividends from net investment income

(0.65) (0.80) (0.86)

Distributions from realized short-term gains

(0.03)

Tax return of capital

(0.59) (0.44) (0.35)

---

Total dividends and distributions  
(1.24) (1.24) (1.24)

---

---

**Net asset value, end of period**  
\$9.76 \$10.33 \$12.54

---

---

**Market value, end of period**  
\$10.55 \$9.56 \$10.50

---

**Total return based on: (2)**

Net asset value  
6.15% (7.72)% (2.47)%

---

---

Market value  
23.95% 2.02% (18.44)%

---

**Ratios and supplemental data: (3)**

Net assets, end of period (000 omitted)  
\$154,139 \$160,469 \$194,859

---

---

Total expenses  
2.62% 3.76% 2.03%  
Total operating expenses (4)  
1.36% 1.66% 1.35%  
Commercial paper expenses  
1.26% 2.10% 0.68%  
Net investment income  
4.51% 6.51% 6.51%  
Portfolio turnover  
132% 161% 119%

**Leverage analysis:**

Aggregate amount outstanding at end of period  
(000 omitted)  
\$60,000 \$60,000 \$60,000  
Average daily balance of amortized cost of  
commercial paper outstanding (000 omitted)  
\$59,690 \$59,579 \$59,689  
Asset coverage per \$1,000 at end of period  
\$3,703 \$3,743 \$4,378

---

\* Commencement of operations.

Net of offering costs of \$0.04 charged to paid-in capital with respect to issuance of common shares.

- (1) Based on average shares outstanding.
- (2) Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of each period reported. Total investment return does not reflect brokerage commissions. Dividends and distributions, if any, are assumed for the purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. The total investment returns calculated based on market value and net asset value for a period of less than one year have not been annualized.
- (3) Ratios are stated as a percentage of average weekly net assets which includes any liabilities constituting indebtedness in connection with financial leverage.
- (4) Exclusive of commercial paper expenses.
- (5) Annualized.

*See Accompanying Notes to Financial Statements.*

29

---

CHARTWELL

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

**FINANCIAL HIGHLIGHTS** (concluded)

	<b>For the Period from June 29, 1998* to November 30, 1998</b>
<b>Net asset value, beginning of period</b>	\$ 14.96
<b>Income gain (loss) from investment operations:</b>	
Net investment income (1)	0.40
Net realized and unrealized gain (loss) on investment transactions	(0.78)
	<hr/>
Total from investment operations	(0.38)
	<hr/>
<b>Less dividends and distributions:</b>	
Dividends from net investment income	(0.41)
Distributions from realized short-term gains	
Tax return of capital	
	<hr/>
Total dividends and distributions	(0.41)
	<hr/>
<b>Net asset value, end of period</b>	<b>\$14.17</b>

**Market value, end of period**  
\$14.19

---

**Total return based on: (2)**

Net asset value  
(2.48)%

---

Market value  
(2.62)%

---

**Ratios and supplemental data: (3)**

Net assets, end of period  
(000 omitted)  
\$219,152

---

Total expenses  
1.32%(5)

Total operating expenses (4)  
1.32%(5)

Commercial paper expenses  
N/A

Net investment income  
6.99%(5)

Portfolio turnover  
27%

**Leverage analysis:**

Aggregate amount outstanding at end of period (000 omitted)  
N/A

Average daily balance of amortized cost of commercial paper outstanding (000 omitted)  
N/A

Asset coverage per \$1,000 at end of period  
N/A

---

\* Commencement of operations.

Net of offering costs of \$0.04 charged to paid-in capital with respect to issuance of common shares.

(1) Based on average shares outstanding.

(2) Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of each period reported. Total investment return does not reflect brokerage commissions. Dividends and distributions, if any, are assumed for the purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially



Edgar Filing: CHARTWELL DIVIDEND & INCOME FUND INC - Form N-30D

different returns. The total investment returns calculated based on market value and net asset value for a period of less than one year have not been annualized.

- (3) Ratios are stated as a percentage of average weekly net assets which includes any liabilities constituting indebtedness in connection with financial leverage.
- (4) Exclusive of commercial paper expenses.
- (5) Annualized.

*See Accompanying Notes to Financial Statements.*

30

---

CHARTWELL

---

---

Chartwell Dividend and Income Fund, Inc.

November 30, 2001

---

## NOTES TO FINANCIAL STATEMENTS

Chartwell Dividend and Income Fund, Inc. (the Fund) was incorporated under the laws of the State of Maryland on April 6, 1998 and is registered under the Investment Company Act of 1940 (the Act), as amended, as a closed-end, diversified management investment company. The Fund had no operations until June 17, 1998 when it sold 6,667 shares of common stock for \$100,005 to Chartwell Investment Partners, L.P. (the Manager). Investment operations commenced on June 29, 1998. The Fund's primary investment objective is to seek high current income. Capital appreciation is a secondary objective.

### 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 policies are in conformity with accounting principles generally accepted in the United States of America.

**Portfolio Valuation:** Portfolio securities listed or traded on a national securities exchange, except for debt securities, are valued at the last sale price as of the close of regular trading on the New York Stock Exchange. Securities not traded on a particular day, over-the-counter securities and government and agency securities are valued at the mean value between bid and asked prices. Long-term debt securities are valued on the basis of valuations provided by a pricing service when such prices are believed to reflect the fair value of such securities. All securities and assets for which quotations are not readily available are valued at fair value as determined in good faith and pursuant to a method approved by the Board of Directors. Short-term investments having a maturity of less than 60 days are valued at amortized cost.

**Cash and Cash Equivalents:** Idle cash is swept into a money market fund at PFPC Trust Company, the Fund's custodian, and is classified as a cash equivalent. Amounts so invested are generally available on the same business day.

**Written Options:** When the Fund writes a covered call option, an amount equal to the premium received by the portfolio is included in the Fund's statement of assets and liabilities as a liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written.

When a covered written call expires on its stipulated expiration date, or if the portfolio enters into a closing purchase transaction, the Fund will realize a gain (or loss if the cost of the closing purchase transaction exceeds the premium received when the call option was written) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option will be extinguished. When a covered written call option is exercised, the Fund will realize a gain or loss from the sale of the underlying security and the proceeds of the sale are increased by the premium originally received. The Fund as writer of

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

an option has no control over whether the underlying securities may be sold (call) and as a result bears the market risk of an unfavorable change in the price of the securities underlying the written option.

**Federal Income Taxes:** It is the Fund's intention to continue to meet the requirements under Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to shareholders. Therefore, no provision for Federal income tax or excise tax is required.

**Dividends and Distributions:** The Fund will declare and pay dividends to shareholders on a monthly basis. Long-term capital gains, if any, in excess of loss carryforwards are distributed to shareholders annually. Dividends from net investment income and capital gain distributions are determined in accordance with U.S. Federal income tax regulations, which may differ from generally accepted accounting principles. Dividends and distributions to shareholders are recorded on the ex-dividend date.

The Fund currently intends to distribute a monthly fixed amount to shareholders. The Fund's final distribution for each calendar year will exceed that amount, however, to the extent necessary for the Fund to have distributed all of its net investment company taxable income and net capital gains recognized during the year, if any. If, for any calendar year, the total distributions exceed net investment company taxable income and net capital gain, the excess, distributed from the Fund's assets, will generally be treated as a tax-free return of capital and will result in a reduction in the shareholder's basis. The Board of Directors reserves the right to change the aforementioned dividend policy from time-to-time.

**Borrowings:** The Fund issues short-term commercial paper at a discount from par. The discount is amortized to interest expense over the life of the commercial paper using the straight line method.

**Security Transactions and Investment Income:** Security transactions are recorded on the trade date. Realized gains and losses on sales of securities are calculated on the identified cost basis.

Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. The Fund accretes original issue discount on securities using the effective interest method.

In November 2000, the American Institute of Certified Public Accountants issued new accounting guidelines for investment companies which will require the Fund to amortize discounts and premiums on fixed income securities effective for the fiscal year ending November 30, 2002. This accounting change will not affect the Fund's net asset value, total return, or distributions to shareholders but will result in certain amounts being reclassified from realized and unrealized gain to interest income for financial statement purposes. The Fund estimates that the initial

**Chartwell Dividend and Income Fund, Inc.****November 30, 2001**

adjustment required upon adoption of premium and discount amortization will increase the recorded cost of its investments by approximately \$47,320.

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

**Note 2. Investment Management, Administration Agreements and Other Transactions with Affiliates**

The Fund has entered into an investment management agreement with the Manager. The Manager manages the Fund's portfolio and makes investment decisions. For these services, the Fund pays the Manager a monthly fee at an annual rate of 0.95% of the Fund's Managed Assets.

Managed Assets means the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities, which liabilities exclude debt related to leverage, short-term debt and the aggregate liquidation preference of any outstanding preferred stock.

The Fund has entered into an administration agreement with Princeton Administrators, L.P. (the Administrator). Under such agreement, the Administrator performs or arranges for the performance of certain administrative services necessary for the operation of the Fund. For these services, the Fund pays the Administrator a monthly fee at an annual rate of 0.15% of the Fund's average weekly Managed Assets, subject to a monthly minimum fee of \$12,500.

Certain officers and/or directors of the Fund are officers and/or directors of the Manager. The Fund pays each director who is not an affiliated person as defined in the Act a fee of \$4,000 per year plus \$250 for each meeting attended.

For the year ended November 30, 2001, the Fund incurred fees, of which \$42,356 has been expensed, to Drinker Biddle & Reath LLP, counsel for the Fund. A partner of the firm is an officer of the Fund.

**Note 3. Purchase and Sales of Investments**

For the year ended November 30, 2001, purchases and sales of investments, excluding short-term investments, totaled \$299,744,413 and \$287,471,112, respectively.

At November 30, 2001, the cost and unrealized appreciation/depreciation of investments for federal income tax purposes was as follows:

Cost of investments  
\$220,485,069

---

Gross unrealized appreciation  
\$4,464,556  
Gross unrealized depreciation  
(16,014,059)

---

Net unrealized depreciation  
\$(11,549,503)

---

---

CHARTWELL

---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

The following table summarizes the Fund's call options written for the year ended November 30, 2001.

	<b>Number of Contracts</b>	<b>Premiums</b>
Options outstanding November 30, 2000	5,193	\$ 1,706,702
Options written		
49,750 9,520,359		
Options expired		
(27,299) (5,269,811)		
Options exercised		
(7,384) (1,627,201)		
Options closed		
(15,190) (3,686,381)		
<hr/>		
<hr/>		
Options outstanding November 30, 2001		
5,070 \$643,668		
<hr/>		
<hr/>		

**Note 4. Commercial Paper**

As of November 30, 2001, \$60,000,000 of commercial paper was outstanding with an amortized cost of \$59,923,383. The average discount rate of commercial paper outstanding at November 30, 2001 was 3.09%. The average daily balance of commercial paper outstanding for the year ended November 30, 2001 was \$59,689,761 at a weighted average discount rate of 4.84%. The maximum amount of commercial paper outstanding at any time during the year ended was \$60,000,000. In conjunction with the issuance of the commercial paper, the Fund entered into a line of credit arrangement with a bank for \$30,000,000. Interest on borrowing is based on market rates in effect at the time of borrowing. The commitment fee is computed at the rate of 0.15% per annum on the unused balance. During the year ended November 30, 2001, there were no borrowings under this arrangement.

**Note 5. Capital Stock**

There are 100,000,000 shares of \$0.01 par value common stock authorized. Of the 15,797,562 shares of common stock outstanding at November 30, 2001, the Manager owned 9,520 shares.

For the years ended November 30, 2001 and November 30, 2000 the Fund issued 260,491 and -0- shares respectively, in connection with the Fund's dividend reinvestment plan.

**Note 6. Market and Credit Risks**

The Fund may invest in high-yielding fixed-income securities, which carry ratings of BB or lower by S&P and/or Ba1 or lower by Moody's. Investments in these higher-yielding securities may be accompanied by a greater degree of credit risk than higher rated securities. Additionally, lower-rated securities may be more susceptible to adverse economic and competitive industry conditions than investment-grade securities. The

Edgar Filing: CHARTWELL DIVIDEND & INCOME FUND INC - Form N-30D

Fund may invest up to 15% of its total assets in illiquid securities and other securities which may not be readily marketable. In addition, the Fund may purchase securities sold in reliance of Rule 144A of the Securities Act of 1933. The relative illiquidity of some of the Fund's portfolio

34

---

CHARTWELL

---

**Chartwell Dividend and Income Fund, Inc.****November 30, 2001**

securities may adversely affect the ability of the Fund to dispose of such securities in a timely manner and at a fair price at times when it might be necessary or advantageous for the Fund to liquidate portfolio securities.

**Note 7. Subsequent Event**

The Board of Directors of the Fund declared the following dividends:

<b>Declaration Date</b>	<b>Ex-Date</b>	<b>Record Date</b>	<b>Payable Date</b>	<b>Dividend Rate</b>
December 3, 2001	December 18, 2001	December 20, 2001	December 31, 2001	\$0.1033
January 2, 2002	January 15, 2002	January 17, 2002	January 31, 2002	\$0.1033

**Note 8. Reclass of Capital Accounts**

In accordance with accounting pronouncements, the Fund has recorded several reclassifications in the capital accounts. These reclassifications have no impact on the net asset value of the Fund and are designed generally to present undistributed income and realized gains on a tax basis which is considered to be more informative to the shareholder. As of November 30, 2001, the Fund recorded the following reclassifications to increase (decrease) the accounts listed below:

<b>Undistributed Net Investment Income (Loss)</b>	<b>Accumulated Net Realized Gain (Loss)</b>	<b>Additional Paid-in Capital</b>
\$9,288,721	\$(66,171)	\$(9,222,550)

**Note 9. Capital Loss Carryforwards**

The following summarizes the capital loss carryforwards as of November 30, 2001. This capital loss carryforward is available to offset future gains.

<b>Expiring in Fiscal year</b>	<b>Amount</b>
2007	\$ 8,880,255
2008	\$ 9,509,213
2009	\$25,913,206

Under the current tax law, capital and currency losses realized after October 31, 2001 are deferred and treated as occurring on the first day of the following fiscal year. For fiscal year ended November 30, 2001, the Fund elected to defer capital losses occurring between November 1, 2001 and November 30, 2001 in the amount of \$3,148,870.



---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

**Report of Independent Accountants**

To the Board of Directors and Shareholders of

Chartwell Dividend and Income Fund, Inc.:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of cash flows and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Chartwell Dividend and Income Fund, Inc. (the Fund ) at November 30, 2001, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the three years in the period then ended and for the period June 29, 1998 (commencement of operations) through November 30, 1998, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements ) are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at November 30, 2001 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania

January 4, 2002

36

---

CHARTWELL

---

---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

**Automatic Dividend Reinvestment Plan (unaudited)**

Pursuant to the Fund's Automatic Dividend Reinvestment Plan (the Plan), unless a shareholder otherwise elects, all dividend and capital gains distributions will be automatically reinvested in additional shares of common stock of the Fund by PFPC Inc., as agent for shareholders in administering the Plan (the Plan Agent). Shareholders who elect not to participate in the Plan will receive all dividends and distributions in cash, paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name, then to such nominee) by PFPC Inc., as dividend paying agent. Such participants may elect not to participate in the Plan and to receive all distributions of dividends and capital gains in cash by sending written instructions to PFPC Inc., as dividend paying agent, at the address set forth below.

Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by written notice if received by the Plan Agent not less than ten days prior to any dividend record date. Otherwise such termination will be effective with respect to any subsequently declared dividend or distribution.

Whenever the Fund declares a distribution, an ordinary income dividend or a capital gain dividend (collectively referred to as dividends) payable either in shares or in cash, non-participants in the Plan will receive cash, and participants in the Plan will receive the equivalent in shares of common stock. The shares will be acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized shares of common stock from the Fund or (ii) by purchase of outstanding shares of common stock on the open market on the NYSE or elsewhere. If on the payment date of the dividend, the net asset value per share of the common stock is equal to or less than the market price per share plus estimated brokerage commissions (such condition being referred to herein as market premium), the Plan Agent will invest the dividend amount in newly issued shares on behalf of the participant. The number of newly issued shares of common stock to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value (such condition being referred to herein as market discount), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases.

In the event of a market discount on the dividend payment date, the Plan Agent will have until the last business day before the next date on which the shares trade on the ex-dividend basis or in no event more than 30 days after the dividend payment date to invest the dividend amount in shares acquired in open-market purchases. If, before the Plan Agent has completed its open-market

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

purchases, the market price of a share of common stock exceeds the net asset value per share, the average per share purchase price paid by the Plan Agent may exceed the net asset value of the Fund's shares, resulting in the acquisition of fewer shares than if the dividend had been paid in newly issued shares on the dividend payment date. The Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to market premium during the purchase period, the Plan Agent will cease making open-market purchases and will invest the uninvested portion of the dividend amount in newly issued shares at the close of business on the last purchase date.

The Plan Agent maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the Plan participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held pursuant to the Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the record shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are to participate in the Plan.

There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gain distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with reinvestment of dividends.

The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends.

Shareholders participating in the Plan may receive benefits not available to shareholders not participating in the Plan. If the market price plus commissions of the Fund's shares is above the net asset value, participants in the Plan will receive shares of the Fund at less than they could otherwise purchase them and will have shares with a cash value greater than the value of any cash distribution they would have received on their shares. If the market price plus commissions is below the net asset value, participants will receive distributions in shares with a net asset value greater than the value of any cash distribution they would have received on their shares. However, there may be insufficient shares available in the market to make distributions in shares at prices below the net asset value.

---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

Also, since the Fund does not redeem its shares, the price on resale may be more or less than the net asset value.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence concerning the Plan should be directed to the Plan Agent at PFPC Inc., P.O. Box 43027, Providence, RI 02940-3027, Attn: Closed-End Department.

**Federal Tax Information (unaudited)**

Information for Federal income tax purposes is presented as an aid to shareholders in reporting the dividend distributions for the year ended November 30, 2001.

11.80% of the ordinary income distributions paid by the Fund during the year ended November 30, 2001 qualifies for the dividends received deduction for corporations.

**Additional Information (unaudited)**

During the period, there have been no material changes in the Fund's investment objective or fundamental policies that have not been approved by the shareholders. There have been no changes in the Fund's charter or By-Laws that would delay or prevent a change in control of the Fund which have not been approved by the shareholders. There have been no changes in the principal risk factors associated with investment in the Fund. There have been no changes in the persons who are primarily responsible for the day-to-day management of the Fund's portfolio.

**Effects of Leverage**

Leverage of \$60 million in commercial paper was initially sold by the Fund on July 28, 1999. Through November 30, 2001, interest paid on the commercial paper ranged from 2.68% to 6.75%. As of November 30, 2001, the Fund had \$30 million outstanding at 3.50% per annum maturing on December 3, 2001, and \$30 million at 2.68% per annum maturing on January 3, 2002. All interest rates include fees due to the broker-dealer. The Fund must experience an annual return of 0.68% to cover interest payments on the commercial paper.

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

The following table explains the potential effects of leverage on the equity returns of common shareholders:

Assumed return on portfolio (net of expenses)	- 10.00%	- 5.00%	0.00%	5.00%	10.00%
Corresponding return to common stockholder	- 14.69%	- 7.81%	- 0.94%	5.94%	12.81%

Assumes \$160 million assets attributable to common shareholders; \$60 million aggregate leverage with an average interest rate of 2.50%. All figures appearing above are hypothetical returns generated to assist investors in understanding the effects of leverage. Actual returns may be greater or less than those appearing in the table.

[This page intentionally left blank]

---

**Chartwell Dividend and Income Fund, Inc.**

**November 30, 2001**

---

**Directors**

Winthrop S. Jessup, Chairman

George W. Grosz  
Kenneth F. Herlihy  
Kevin A. Melich  
C. Warren Ormerod  
Bernard P. Schaffer

**Officers**

Winthrop S. Jessup, President

Bernard P. Schaffer, Vice President  
Kevin A. Melich, Vice President  
Timothy J. Riddle, Vice President and Treasurer  
G. Gregory Hagar, Vice President  
Leslie M. Varrelman, Vice President  
Michael P. Malloy, Secretary  
Maria E. Pollack, Assistant Secretary

**Investment Manager**

Chartwell Investment Partners, L.P.

1235 Westlakes Drive, Suite 330  
Berwyn, PA 19312

**Administrator**

Princeton Administrators, L.P.

P.O. Box 9095  
Princeton, NJ 08543-9095

**Custodian**

PFPC Trust Company

Eastwick Center  
800 Tincum Blvd.  
Philadelphia, PA 19153

**Transfer Agent**

PFPC Inc.

P.O. Box 43027  
Providence, RI 02940-3027

**Independent Accountants**

PricewaterhouseCoopers LLP

Two Commerce Square, Suite 1700  
2001 Market Street  
Philadelphia, PA 19103-7042

**Legal Counsel**

Drinker Biddle & Reath LLP

One Logan Square  
18th & Cherry Streets  
Philadelphia, PA 19103

This report, including the financial statements herein, is transmitted to the shareholders of Chartwell Dividend and Income Fund, Inc. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in the report. Past performance results should not be considered a representation of future performance. Statements and other information contained in this report are as dated and are subject to change.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.