PETROLEUM & RESOURCES CORP
Form N-CSR
February 26, 2014

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number: 811-02736**
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**PETROLEUM & RESOURCES CORPORATION**
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(Exact name of registrant as specified in charter)

**7 Saint Paul Street, Suite 1140, Baltimore, Maryland 21202**
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(Address of principal executive offices)

**Lawrence L. Hooper, Jr.**
**Petroleum & Resources Corporation**
**7 Saint Paul Street, Suite 1140**
**Baltimore, Maryland 21202**
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(Name and address of agent for service)

**Registrant's telephone number, including area code:** (410) 752-5900
**Date of fiscal year end:** December 31
**Date of reporting period:** December 31, 2013

**Item 1. Reports to Stockholders.**

# 2013 AT A GLANCE

## THE FUND

a closed-end equity investment company specializing in energy and resources stocks
objectives: preservation of capital
reasonable income

opportunity for capital gain

internally-managed
annual distribution rate of at least 6%

## STOCK DATA (12/31/13)

| | |
|---|---|
| NYSE Symbol ........... | PEO |
| Market Price .............. | $27.38 |
| 52-Week Range ......... | $24.11 $29.00 |
| Discount ..................... | 15.1% |
| Shares Outstanding ..... | 26,775,228 |

## SUMMARY FINANCIAL INFORMATION

| | Year Ended December 31, | |
|---|---|---|
| | **2013** | **2012** |
| Net asset value per share | $ 32.26 | $ 27.84 |
| Total net assets | 863,689,833 | 732,988,462 |
| Unrealized appreciation on investments | 402,483,744 | 284,191,650 |
| Net investment income | 11,590,396 | 12,359,977 |
| Net realized gain | 37,428,311 | 30,465,396 |
| Total return (based on market price) | 22.7% | 4.3% |
| Total return (based on net asset value) | 24.2% | 4.0% |
| Ratio of expenses to average net assets | 0.78% | 0.65% |
| Annual distribution rate | 7.2% | 6.4% |

## 2013 DIVIDENDS AND DISTRIBUTIONS

| **Paid** | **Amount (per share)** | **Type** |
|---|---|---|
| March 1, 2013 | $ 0.04 | Long-term capital gain |
| March 1, 2013 | 0.03 | Short-term capital gain |
| March 1, 2013 | 0.03 | Investment income |
| June 3, 2013 | 0.10 | Investment income |
| September 3, 2013 | 0.10 | Investment income |

| | | |
|---|---|---|
| December 27, 2013 | 1.27 | Long-term capital gain |
| December 27, 2013 | 0.08 | Short-term capital gain |
| December 27, 2013 | 0.23 | Investment income |
| | $ 1.88 | |

**2014 ANNUAL MEETING OF SHAREHOLDERS**

*Location*: Four Seasons Hotel, Baltimore, Maryland

*Date*: April 10, 2014

*Time*: 10:00 a.m.

**PORTFOLIO REVIEW**

*December 31, 2013*

*(unaudited)*

**TEN LARGEST EQUITY PORTFOLIO HOLDINGS**

| | *Market Value* | *% of Net Assets* |
|---|---|---|
| Exxon Mobil Corp. | $ 150,123,116 | 17.4% |
| Chevron Corp. | 95,331,312 | 11.0 |
| Schlumberger Ltd. | 56,318,750 | 6.5 |
| Occidental Petroleum Corp. | 38,515,500 | 4.5 |
| EOG Resources, Inc. | 29,372,000 | 3.4 |
| LyondellBasell Industries N.V. (Class A) | 27,696,600 | 3.2 |
| Phillips 66 | 26,631,061 | 3.1 |
| Halliburton Co. | 25,063,903 | 2.9 |
| Dow Chemical Co. | 24,309,000 | 2.8 |
| Anadarko Petroleum Corp. | 23,796,000 | 2.8 |
| Total | $ 497,157,242 | 57.6% |

**SECTOR WEIGHTINGS**

**LETTER TO SHAREHOLDERS**

Dear Fellow Shareholders,

By any measure, 2013 was a banner year for the U.S. stock market. Few would have expected such a robust stock market in the face of the many things that transpired during 2013. Markets experienced a strong start to 2013 as the fiscal cliff and the potential consequences of federal spending cuts and tax increases were averted. Concerns of a weakening U.S. economy subsided with the flow of solid corporate earnings growth and a modest economic recovery. High unemployment rates and low inflation reinforced the Federal Reserve s (Fed) resolve to continue accommodative monetary policy, keeping a lid on interest rates. Stabilization in Europe and a managed slowdown in China fostered optimism for investors.

The rally was sustained in February, but at a significantly reduced rate. Investor enthusiasm was tempered as retailers expressed caution, economic growth slowed in China, and many European countries were in a recession. However, slow but positive growth in the U.S. was sufficient to offset sequestration cuts and the Fed meeting minutes that revealed discussions of winding down asset purchases. The S&P 500 gained 10.6% through the first quarter as cash flowed back into the equity markets.

The second quarter presented a different story. Despite weakened labor markets, slowing retail sales, and an easing in manufacturing growth, investor sentiment remained bullish through April. The market s exuberance started to diminish as China s growth rate continued to contract. Investors balanced economic news with a myopic focus on the Fed s stimulus program. Comments in May suggesting an end to the stimulus program roiled markets. By the end of the second quarter, dovish comments by the Fed had calmed investor uncertainty.

U.S. equities hit record highs in July as positive earnings reports by companies coincided with improving economic indicators. The unemployment rate fell to the lowest level in five years and interest rates remained low. The S&P 500 exited July with a 19.6% year-to-date gain.

Turbulence quickly followed as investors struggled to balance Fed comments, economic news, and escalating worldwide geopolitical tensions. Volatility stemmed from civil war in Syria and violence in Egypt following a military coup. Rising geopolitical instability in the Middle East/North Africa region put upward pressure on oil prices, creating a headwind for global economic growth. By late September, violence in Egypt subsided and Syria s risks diminished, supporting a recovery in U.S. markets back to July levels. Europe showed evidence of an upturn, China s growth stabilized, and the Fed s tapering was delayed.

The fall also brought the roll-out of the Affordable Care Act (ACA). Rarely has a law been as divisive as the ACA. The online exchange proved difficult with a poor design and under-resourced engine which made it almost impossible for people interested in signing up to do just that. The White House promised fixes that ultimately made the experience more acceptable.

A 16-day shutdown by the U.S. Government in early October and concerns of a budget resolution did little to slow the rise of the markets for the remainder of the year. Stocks hit a new high as government funding was restored. Key economic data, corporate earnings, and labor market results buoyed investors sentiment. Reflected in the equity market gains was approval of Janet Yellen s nomination to head the Fed. As a Bernanke loyalist, she makes continuity at the Fed likely in 2014. The passing by Congress of a two-year budget deal near year-end enhanced the outlook, contributing to the full year gain of 32.4% for the S&P 500.

The slow growing economy and Fed watch yielded diverse results for commodity returns. The prices of various energy commodities increased from 2012 levels as prices of many non-energy commodities fell significantly, responding to oversupply and limited demand growth. Building on a 4-year turn-around in oil production, domestic production increased 15% in 2013. U.S. crude oil production rose to its highest level in 24 years, exceeding net imports of crude for the first time in almost two decades. Rising crude oil production in Texas and North Dakota contributed to relatively stable crude oil prices in 2013. West Texas Intermediate (WTI) spot price averaged $98 per barrel (bbl) in 2013, slightly above its 2012 average price, as new pipeline and railroad infrastructure alleviated transportation constraints that had put downward pressure on WTI prices. The International Brent spot price averaged $109/bbl, down 3% from its 2012 average price.

Widespread turmoil in the Middle East/North Africa caused global supply disruptions. As the United States reduced imports, more crude oil became available to foreign markets, offsetting the unplanned outages and OPEC curtailment decisions. The spread in domestic and global prices and location differentials within domestic prices influenced investor decisions. Refining stocks benefited from these periods of wide differentials in crude costs.

## LETTER TO SHAREHOLDERS (CONTINUED)

Dry natural gas production grew just 1% in the year as producers shifted capital spending to focus on more profitable oil drilling. Prompted by extreme weather conditions, gas prices rose over 30% from very low 2012 year-end levels, but the economics for oil drilling remained more attractive than those for gas drilling.

The stabilization of oil and gas prices at a high level and an improving economy yielded a 26.1% increase in the Dow Jones U.S. Oil & Gas Index and a return of 20.4% in the Dow Jones U.S. Basic Materials Index. Petroleum & Resources distributed 7.2% to its shareholders and generated a 24.2% total return on net asset value. By contrast, our diverse peer group, the Lipper Global Natural Resources Funds Index, returned 13.0%.

Exploration and Production companies held by Petroleum & Resources provided the greatest return, rising 30%. A series of promising well results were announced in the Permian basin and Marcellus shale region. The Fund s overweight positions in producers in these basins, including Pioneer Natural Resources, Energen and EQT, contributed substantially to performance. Similarly, the Fund was rewarded by our holding in Oasis Petroleum, a Bakken oil shale company with strong operational execution and complementary acquisitions. Investing in companies such as Hess, that demonstrated the willingness to shed nonperforming assets, focus on strategic locations and repurchase shares, provided solid results for the Fund. Excellent returns were also captured by overweights in Oil Service industry leaders, namely positions in Halliburton, Oil States International, and Schlumberger. Additionally, Refiners benefited from wide crude spreads and our Phillips 66 holding was a top performer.

Basic Materials stocks significantly underperformed Energy stocks. Within the Basic Materials sector, the Chemical industry group was the strongest performer. Portfolio names that benefited from access to lower cost energy, including Dow Chemical, LyondellBasell and DuPont, surpassed the benchmark returns. We significantly reduced our exposure to Industrial Metals during the year, but our holdings in Cliffs Natural Resources and Teck Resources in the first quarter detracted from returns.

### LOOKING FORWARD TO 2014

We start 2014 in a cautious mode as commodity markets are well supplied and tepid oil demand growth is forecasted. Despite the apparent balance in markets, social and political tensions in key commodity producing regions have the potential to create price spikes. At the end of 2013, the Fund maintained large positions in well-diversified Integrated Companies, best-in-class Oil Service names, attractive Exploration and Production companies, and cost-advantaged Refiners and Chemical companies. We expect that domestic and international crude prices are likely to be stable, within a narrow range, early in the year. Natural gas prices will reflect production and inventory statistics with spikes around weather conditions. The catalysts for the Fund s investments in this environment include companies that offer differentiating fundamentals, create value through asset transactions, exhibit capital spending discipline, and demonstrate shareholder focus through share repurchases and dividend increases.

The Fund was active in repurchasing its shares in 2013 and repurchased a total of 278,774 shares. The Board of Directors has approved the repurchase of up to 5% of the outstanding shares for 2014.

Our investment philosophy and process is very focused on free cash flow generation, earnings growth, valuation, and being properly paid for the risks we are taking. Within this framework we strive to identify high quality companies we can own for an extended period of time. We look for opportunities to take advantage of market anomalies for the benefit of our shareholders. We are encouraged by the increasing strength in the economy both home and abroad and remain optimistic about what that will mean for the Fund in 2014.

By order of the Board of Directors,

Mark E. Stoeckle
*Chief Executive Officer*

January 24, 2014

**STATEMENT OF ASSETS AND LIABILITIES**

*December 31, 2013*

| | | |
|---|---|---|
| **Assets** | | |
| Investments* at value: | | |
| Common stocks (cost $461,286,486) | $ 864,155,248 | |
| Short-term investments (cost $865,740) | 865,740 | |
| Securities lending collateral (cost $7,980,044) | 7,980,044 | $ 873,001,032 |
| Cash | | 241,350 |
| Dividends and interest receivable | | 739,209 |
| Prepaid pension cost | | 683,412 |
| Prepaid expenses and other assets | | 1,148,357 |
| *Total Assets* | | 875,813,360 |
| **Liabilities** | | |
| Open written option contracts* at value (proceeds $1,002,142) | | 1,387,160 |
| Obligations to return securities lending collateral | | 7,980,044 |
| Accrued pension liabilities | | 1,393,834 |
| Accrued expenses and other liabilities | | 1,362,489 |
| *Total Liabilities* | | 12,123,527 |
| **Net Assets** | | $ 863,689,833 |
| | | |
| **Net Assets** | | |
| Common Stock at par value $0.001 per share, authorized 50,000,000 shares; issued and outstanding 26,775,228 shares (includes 43,335 nonvested restricted shares, 9,600 nonvested or deferred restricted stock units, and 8,793 deferred stock units) (note 6) | | $ 26,775 |
| Additional capital surplus | | 459,809,751 |
| Accumulated other comprehensive income (note 5) | | (1,043,354) |
| Undistributed net investment income | | 585,938 |
| Undistributed net realized gain on investments | | 1,826,979 |
| Unrealized appreciation on investments | | 402,483,744 |
| **Net Assets Applicable to Common Stock** | | $ 863,689,833 |
| **Net Asset Value Per Share of Common Stock** | | $32.26 |

* See Schedule of Investments on page 14 and Schedule of Outstanding Written Option Contracts on page 17.

*The accompanying notes are an integral part of the financial statements.*

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## STATEMENT OF OPERATIONS

*Year Ended December 31, 2013*

| | |
|---|---|
| **Investment Income** | |
| Income: | |
| Dividends (net of $70,023 in foreign taxes) | $ 17,582,923 |
| Other income | 276,060 |
| *Total income* | 17,858,983 |
| Expenses: | |
| Investment research | 2,984,384 |
| Administration and operations | 1,586,589 |
| Travel, training, and other office expenses | 429,366 |
| Directors fees | 391,466 |
| Reports and shareholder communications | 198,922 |
| Investment data services | 164,449 |
| Transfer agent, registrar, and custodian | 158,136 |
| Audit and accounting services | 104,294 |
| Occupancy | 103,344 |
| Insurance | 71,558 |
| Legal services | 52,622 |
| Other | 23,457 |
| *Total expenses* | 6,268,587 |
| **Net Investment Income** | 11,590,396 |
| **Realized Gain and Change in Unrealized Appreciation on Investments** | |
| Net realized gain on security transactions | 34,673,135 |
| Net realized gain on written option contracts | 2,755,176 |
| Change in unrealized appreciation on securities | 119,260,743 |
| Change in unrealized appreciation on written option contracts | (968,649) |
| **Net Gain on Investments** | 155,720,405 |
| **Other Comprehensive Income (note 5)** | |
| Defined benefit pension plans: | |
| Net actuarial loss arising during period | (20,621) |
| Amortization of net loss | 278,362 |
| Effect of settlement (non-recurring) | 641,408 |
| **Other Comprehensive Income** | 899,149 |
| **Change in Net Assets Resulting from Operations** | $ 168,209,950 |

*The accompanying notes are an integral part of the financial statements.*

## STATEMENTS OF CHANGES IN NET ASSETS

| | For the Year Ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| **From Operations:** | | |
| Net investment income | $ 11,590,396 | $ 12,359,977 |
| Net realized gain on investments | 37,428,311 | 30,465,396 |
| Change in unrealized appreciation on investments | 118,292,094 | (18,061,920) |
| Change in accumulated other comprehensive income (note 5) | 899,149 | 91,182 |
| *Increase in net assets resulting from operations* | 168,209,950 | 24,854,635 |
| **Distributions to Shareholders from:** | | |
| Net investment income | (12,044,136) | (10,772,359) |
| Net realized gain from investment transactions | (37,060,004) | (30,264,253) |
| *Decrease in net assets from distributions* | (49,104,140) | (41,036,612) |
| **From Capital Share Transactions:** | | |
| Value of shares issued in payment of distributions (note 4) | 18,698,338 | 16,022,167 |
| Cost of shares purchased (note 4) | (7,441,145) | |
| Deferred compensation (notes 4, 6) | 338,368 | 337,580 |
| *Increase in net assets from capital share transactions* | 11,595,561 | 16,359,747 |
| **Total Increase in Net Assets** | 130,701,371 | 177,770 |
| **Net Assets:** | | |
| Beginning of year | 732,988,462 | 732,810,692 |
| End of year (including undistributed net investment income of $585,938 and $1,210,241, respectively) | $ 863,689,833 | $ 732,988,462 |

*The accompanying notes are an integral part of the financial statements.*

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**NOTES TO FINANCIAL STATEMENTS**

### 1. SIGNIFICANT ACCOUNTING POLICIES

Petroleum & Resources Corporation (the Fund) is registered under the Investment Company Act of 1940 as a non-diversified investment company. The Fund is an internally-managed closed-end fund specializing in petroleum and other natural resource investments. The investment objectives of the Fund are preservation of capital, the attainment of reasonable income from investments, and an opportunity for capital appreciation.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates made by Fund management. Management believes that estimates and security valuations are appropriate; however, actual results may differ from those estimates, and the security valuations reflected in the financial statements may differ from the value the Fund ultimately realizes upon sale of the securities.

***Expenses*** The Fund shares certain costs for investment research and data services, administration and operations, travel, training, office expenses, occupancy, accounting and legal services, insurance, and other miscellaneous items with its non-controlling affiliate, The Adams Express Company. Shared expenses that are not solely attributable to one fund are allocated to each fund based on relative net asset values or, in the case of investment research staff and related costs, relative market values of portfolio securities in the particular sector of coverage. Expense allocations are updated quarterly, as appropriate, except for those related to payroll, which are updated annually.

***Security Transactions and Investment Income*** Investment transactions are accounted for on the trade date. Gain or loss on sales of securities and options is determined on the basis of specific identification. Dividend income and distributions to shareholders are recognized on the ex-dividend date, and interest income is recognized on the accrual basis.

***Security Valuation*** The Fund s investments are reported at fair value as defined under accounting principles generally accepted in the United States of America. Investments in securities traded on national security exchanges are valued at the last reported sale price on the day of valuation. Over-the-counter and listed securities for which a sale price is not available are valued at the last quoted bid price. Short-term investments (excluding purchased options and money market funds) are valued at amortized cost, which approximates fair value. Purchased and written options are valued at the last quoted bid and asked price, respectively. Money market funds are valued at net asset value on the day of valuation.

Various inputs are used to determine the fair value of the Fund s investments. These inputs are summarized in the following three levels:

Level 1 fair value is determined based on market data obtained from independent sources; for example, quoted prices in active markets for identical investments,
Level 2 fair value is determined using other assumptions obtained from independent sources; for example, quoted prices for similar investments,

Level 3 fair value is determined using the Fund s own assumptions, developed based on the best information available in the circumstances.

The Fund s investments at December 31, 2013 were classified as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Common stocks | $ 864,155,248 | $ | $ | $ 864,155,248 |
| Short-term investments | 865,740 | | | 865,740 |
| Securities lending collateral | 7,980,044 | | | 7,980,044 |
| Total investments | $ 873,001,032 | $ | $ | $ 873,001,032 |
| Written options | $ (1,387,160) | $ | $ | $ (1,387,160) |

There were no transfers into or from Level 1 or Level 2 during the year ended December 31, 2013.

***New Accounting Pronouncements*** In February 2013, the Financial Accounting Standards Board issued new guidance, effective for annual and interim periods beginning after December 15, 2012, requiring disclosure of items reclassified out of accumulated other comprehensive income. Adoption of this guidance had no effect on Fund net assets or results of operations and no material impact on the financial statements.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### 2. FEDERAL INCOME TAXES

No federal income tax provision is required since the Fund s policy is to qualify as a regulated investment company under the Internal Revenue Code and to distribute substantially all of its taxable income to its shareholders. Additionally, management has analyzed and concluded that tax positions included in federal income tax returns from the previous three years that remain subject to examination do not require any provision. Any income tax-related interest or penalties would be recognized as income tax expense. As of December 31, 2013, the identified cost of securities for federal income tax purposes was $470,132,270 and net unrealized appreciation aggregated $402,868,762, consisting of gross unrealized appreciation of $415,801,179 and gross unrealized depreciation of $12,932,417.

Distributions are determined in accordance with our annual 6% minimum distribution rate commitment, based on the Fund s average market price, and income tax regulations, which may differ from generally accepted accounting principles. Such differences are primarily related to the Fund s retirement plans and equity-based compensation. Differences that are permanent, while not material for the year ended December 31, 2013, are reclassified in the capital accounts of the Fund s financial statements and have no impact on net assets. For tax purposes, distributions paid by the Fund during the years ended December 31, 2013 and December 31, 2012 were classified as ordinary income of $14,916,062 and $11,021,223, respectively, and as long-term capital gain of $34,182,041 and $29,988,685, respectively. The tax basis of distributable earnings at December 31, 2013 was $907,706 of undistributed ordinary income and $1,543,208 of undistributed long-term capital gain.

### 3. INVESTMENT TRANSACTIONS

The Fund s investment decisions are made by the portfolio management team with recommendations from the research staff. Purchases and sales of portfolio securities, other than options and short-term investments, during the year ended December 31, 2013 were $150,113,656 and $166,636,066, respectively.

The Fund is subject to changes in the value of equity securities held ( equity price risk ) in the normal course of pursuing its investment objectives. The Fund may purchase and write option contracts to increase or decrease its equity price risk exposure or may write option contracts to generate additional income. Option contracts generally entail risks associated with counterparty credit, liquidity, and unfavorable equity price movements. The Fund has mitigated counterparty credit and liquidity risks by trading its options through an exchange. The risk of unfavorable equity price movements is limited for purchased options to the premium paid and for written options by writing only covered call or collateralized put option contracts, which require the Fund to segregate certain securities or cash at its custodian when the option is written. A schedule of outstanding option contracts as of December 31, 2013 can be found on page 17.

When the Fund writes (purchases) an option, an amount equal to the premium received (paid) by the Fund is recorded as a liability (asset) and is subsequently marked to market daily in the Statement of Assets and Liabilities, with any related change recorded as an unrealized gain or loss in the Statement of Operations. Premiums received (paid) from unexercised options are treated as realized gains (losses) on the expiration date and are separately identified in the Statement of Operations. Upon the exercise of written put (purchased call) option contracts, premiums received (paid) are deducted from (added to) the cost basis of the underlying securities purchased. Upon the exercise of written call (purchased put) option contracts, premiums received (paid) are added to (deducted from) the proceeds from the sale of underlying securities in determining whether there is a realized gain or loss.

Transactions in written covered call and collateralized put options during the year ended December 31, 2013 were as follows:

| | Covered Calls | | Collateralized Puts | |
|---|---|---|---|---|
| | Contracts | Premiums | Contracts | Premiums |
| Options outstanding, December 31, 2012 | 6,515 | $ 753,921 | 4,053 | $ 854,856 |
| Options written | 25,177 | 2,705,617 | 19,393 | 2,269,638 |
| Options terminated in closing purchase transactions | (4,955) | (479,523) | (501) | (102,881) |
| Options expired | (18,962) | (1,934,852) | (18,245) | (2,427,732) |
| Options exercised | (3,235) | (452,206) | (1,050) | (184,696) |
| Options outstanding, December 31, 2013 | 4,540 | $ 592,957 | 3,650 | $ 409,185 |

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### 4. CAPITAL STOCK

The Fund has 5,000,000 authorized and unissued preferred shares, $0.001 par value.

On December 27, 2013, the Fund issued 705,273 shares of its Common Stock at a price of $26.48 per share (the average market price on December 9, 2013) to shareholders of record on November 25, 2013 who elected to take stock in payment of the distribution from 2013 capital gain and investment income. During 2013, 870 shares were issued at a weighted average price of $26.43 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

On December 27, 2012, the Fund issued 670,735 shares of its Common Stock at a price of $23.865 per share (the average market price on December 10, 2012) to shareholders of record on November 19, 2012 who elected to take stock in payment of the distribution from 2012 capital gain and investment income. During 2012, 612 shares were issued at a weighted average price of $24.59 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

The Fund may purchase shares of its Common Stock from time to time at such prices and amounts as the Board of Directors may deem advisable.

Transactions in Common Stock for 2013 and 2012 were as follows:

| | Shares | | Amount | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Shares issued in payment of distributions | 706,143 | 671,347 | $ 18,698,338 | $ 16,022,167 |
| Shares purchased (at a weighted average discount from net asset value of 14.5%) | (278,744) | | (7,441,145) | |
| Net activity under the 2005 Equity Incentive Compensation Plan | 22,228 | 13,236 | 338,368 | 337,580 |
| Net change | 449,627 | 684,583 | $ 11,595,561 | $ 16,359,747 |

### 5. RETIREMENT PLANS

**Defined Contribution Plans** The Fund sponsors a qualified defined contribution plan for all employees with at least six months of service and a nonqualified defined contribution plan for eligible employees to supplement the qualified plan. The Fund expensed contributions to the plans in the amount of $160,653, a portion thereof based on company performance, for the year ended December 31, 2013. The Fund does not provide postretirement medical benefits.

**Defined Benefit Plans** On October 1, 2009, the Fund froze its non-contributory qualified and nonqualified defined benefit pension plans. Benefits are based on length of service and compensation during the last five years of employment through September 30, 2009, with no additional benefits being accrued beyond that date. The process of terminating the plans will begin in 2014. Upon receiving the required regulatory approvals, all benefits under the Plans will be paid out and all related pension liabilities will be relieved.

The funded status of the plans is recognized as an asset (overfunded plan) or a liability (underfunded plan) in the Statement of Assets and Liabilities. Changes in the prior service costs and accumulated actuarial gains and losses are recognized as accumulated other comprehensive income, a component of net assets, in the year in which the changes occur and are subsequently amortized into net periodic pension cost. Non-recurring settlement costs are recognized in net periodic pension cost when a plan participant receives a lump-sum benefit payment and includes the amount of which is in excess of the present value of the projected benefit and any unamortized actuarial losses attributable to the portion of the projected benefit obligation being satisfied.

The Fund s policy is to contribute annually to the plans those amounts that can be deducted for federal income tax purposes, plus additional amounts as the Fund deems appropriate in order to provide assets sufficient to meet benefits to be paid to plan participants. The Fund contributed $0 to the qualified plan and $48,020 to the nonqualified plan in 2013 and anticipates making contributions of $98,457 to the nonqualified plan in 2014.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

The Fund uses a December 31 measurement date for its plans. Details in aggregate for the plans were as follows:

| | 2013 | 2012 |
|---|---|---|
| **Change in benefit obligation** | | |
| Benefit obligation at beginning of year | $ 7,224,455 | $ 6,847,353 |
| Interest cost | 219,235 | 235,120 |
| Actuarial loss | 68,167 | 593,010 |
| Benefits paid | (90,838) | (74,025) |
| Effect of settlement (non-recurring) | (2,200,177) | (377,003) |
| Benefit obligation at end of year | $ 5,220,842 | $ 7,224,455 |

| | 2013 | 2012 |
|---|---|---|
| **Change in qualified plan assets** | | |
| Fair value of qualified plan assets at beginning of year | $ 6,490,137 | $ 4,415,557 |
| Actual return on plan assets | 263,277 | 494,400 |
| Employer contributions | | 2,000,000 |
| Benefits paid | (42,817) | (42,817) |
| Settlement (non-recurring) | (2,200,177) | (377,003) |
| Fair value of qualified plan assets at end of year | $ 4,510,420 | $ 6,490,137 |
| Funded status | $ (710,422) | $ (734,318) |

The accumulated benefit obligation for all defined benefit pension plans was $5,220,842 and $7,224,455 at December 31, 2013 and 2012, respectively.

The primary investment objective of the Fund s qualified pension plan assets is capital preservation, achieved through a portfolio of mutual funds and pooled separate accounts ( PSA ). PSAs, like mutual funds, are made up of a wide variety of underlying investments in securities. The Fund s targeted asset allocation for 2014 is to maintain approximately 60% of plan assets invested in short-term fixed income securities and approximately 40% of plan assets invested in cash and money market securities. In 2013, the plan sold 26,271 shares of The Adams Express Company stock (an affiliated company) to The Adams Express Company for proceeds of $330,489, based on the closing market price on the date of the transaction.

The net asset value of mutual funds and PSAs are based on the fair value of its underlying investments. The fair value of the plan assets is determined using various inputs, summarized into the three levels described in footnote 1. The plan assets at December 31, 2013 were classified as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Fixed income securities | $ | $ 2,689,450 | $ | $ 2,689,450 |
| Money market securities | 1,817,402 | 3,568 | | 1,820,970 |
| Total | $ 1,817,402 | $ 2,693,018 | $ | $ 4,510,420 |

Items impacting the Fund s net investment income and accumulated other comprehensive income were:

| | 2013 | 2012 |
|---|---|---|
| **Components of net periodic pension cost** | | |
| Interest cost | $ 219,235 | 235,120 |
| Expected return on plan assets | (206,382) | (221,440) |
| Net loss component | 278,362 | 304,998 |
| Effect of settlement (non-recurring) | 641,408 | 112,241 |
| Net periodic pension cost | $ 932,623 | $ 430,919 |

| | 2013 | 2012 |
|---|---|---|
| **Accumulated other comprehensive income** | | |
| Defined benefit pension plans: | | |
| Balance at beginning of year | $ (1,942,503) | $ (2,033,685) |
| Net actuarial loss arising during period | (20,621) | (326,057) |
| Reclassifications to net periodic pension cost: | | |
| Amortization of net loss | 278,362 | 304,998 |
| Effect of settlement (non-recurring) | 641,408 | 112,241 |
| Balance at end of year | $ (1,043,354) | $ (1,942,503) |

Accumulated other comprehensive income was comprised of net actuarial losses of $(1,043,354) and $(1,942,503) at December 31, 2013 and 2012, respectively. In 2014, the Fund estimates that $96,519 of net losses will be amortized from accumulated other comprehensive income into net periodic pension cost. Any remaining net losses will be recognized upon termination of the plans.

Assumptions used to determine benefit obligations were:

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 3.82% | 3.64% |
| Rate of compensation increase | | |

The assumptions used to determine net periodic pension cost were:

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 3.62% | 4.00% |
| Expected long-term return on plan assets | 4.00% | 6.50% |
| Rate of compensation increase | | |

The assumption used to determine expected long-term return on plan assets was based on historical and future expected returns of multiple asset classes in order to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

The following benefit payments are eligible to be paid in the years indicated:

| | Pension Benefits |
|---|---|
| 2014 | $ 628,000 |
| 2015 | 161,000 |
| 2016 | 156,000 |
| 2017 | 2,000,000 |
| 2018 | 413,000 |
| Years 2019-2023 | 870,000 |

### 6. EQUITY-BASED COMPENSATION

The 2005 Equity Incentive Compensation Plan ( 2005 Plan ), adopted at the 2005 Annual Meeting and re-approved at the 2010 Annual Meeting, permits the grant of restricted stock awards (both performance and nonperformance-based), as well as stock options and other stock incentives, to all employees and non-employee directors. Performance-based restricted stock awards vest at the end of a specified three year period, with the ultimate number of shares earned contingent on achieving certain performance targets. If performance targets are not achieved, all or a portion of the performance-based restricted shares are forfeited and become available for future grants. Nonperformance-based restricted stock awards typically vest ratably over a three year period and nonperformance-based restricted stock units (granted to non-employee directors) vest over a one year period. Payment of awards may be deferred, if elected. The 2005 Plan provides for accelerated vesting in the event of death or retirement. Non-employee directors also may elect to defer a portion of their cash compensation, with such deferred amount to be paid by delivery of deferred stock units. Outstanding awards were granted at fair market value on grant date. The 2005 Plan provides for the issuance of up to 872,639 shares of the Fund s Common Stock, of which 751,783 shares remain available for future grants at December 31, 2013.

A summary of the status of the Fund s awards granted under the 2005 Plan as of December 31, 2013, and changes during the year then ended is presented below:

| Awards | Shares/ Units | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Balance at December 31, 2012 | 53,957 | $ 27.09 |
| Granted: | | |
| Restricted stock | 36,301 | 25.76 |
| Restricted stock units | 2,800 | 25.81 |
| Deferred stock units | 2,810 | 25.89 |
| Vested & issued | (19,177) | 25.78 |
| Forfeited | (14,963) | 25.61 |
| Balance at December 31, 2013 (includes 21,734 performance-based awards and 39,994 nonperformance-based awards) | 61,728 | $ 27.41 |

Compensation cost resulting from awards granted under the 2005 Plan are based on the fair value of the award on grant date (determined by the average of the high and low price on grant date) and recognized on a straight-line basis over the requisite service period. For those awards with performance conditions, compensation cost is based on the most probable outcome and, if such goals are not met, compensation cost is not recognized and any previously recognized compensation cost is reversed. The total compensation cost for restricted stock granted to employees for the year ended December 31, 2013 was $308,647. The total compensation cost for restricted stock units granted to non-employee directors for the year ended December 31, 2013 was $74,466. As of December 31, 2013, there was total unrecognized compensation cost of $607,832, a component of additional capital surplus, related to nonvested equity-based compensation arrangements granted under the 2005 Plan. That cost is expected to be recognized over a weighted average period of 1.53 years. The total fair value of shares and units vested and issued during the year ended December 31, 2013 was $484,953.

The Stock Option Plan of 1985 ( 1985 Plan ) has been discontinued and, as of December 31, 2013, there were no remaining grants of stock options and stock appreciation rights outstanding.

A summary of option activity under the 1985 Plan as of December 31, 2013, and changes during the year then ended, is presented below:

| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2012 | 4,344 | $ 6.42 | 1.00 | |
| Exercised | (4,344) | $ 6.42 | | $ 86,728 |
| Outstanding at December 31, 2013 | | | | |

Compensation cost resulting from stock options and stock appreciation rights granted under the 1985 Plan is based on the intrinsic value of the award, recognized over the award s vesting period, and remeasured at each reporting date through the date of settlement. The total compensation cost recognized for the year ended December 31, 2013 was $10,686.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### 7. OFFICER AND DIRECTOR COMPENSATION

The aggregate remuneration paid during the year ended December 31, 2013 to officers and directors amounted to $2,764,400, of which $345,951 was paid as fees to directors who were not officers. These amounts represent the taxable income to the Fund s officers and directors and therefore differ from the amounts reported in the accompanying Statement of Operations that are recorded and expensed in accordance with generally accepted accounting principles.

### 8. PORTFOLIO SECURITIES LOANED

The Fund makes loans of securities to approved brokers to earn additional income. It receives as collateral cash deposits, U.S. Government securities, or bank letters of credit valued at 102% of the value of the securities on loan. The market value of the loaned securities is calculated based upon the most recent closing prices and any additional required collateral is delivered to the Fund on the next business day. Cash deposits are placed in a registered money market fund. The Fund accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Fund also continues to receive interest or dividends on the securities loaned. Gain or loss in the fair value of securities loaned that may occur during the term of the loan will be for the account of the Fund. At December 31, 2013, the Fund had securities on loan of $7,805,282 and held cash collateral of $7,980,044. The Fund is indemnified by the Custodian, serving as lending agent, for loss of loaned securities and has the right under the lending agreement to recover the securities from the borrower on demand.

### 9. OPERATING LEASE COMMITMENTS

The Fund leases office space and equipment under operating lease agreements expiring at various dates through the year 2019. The Fund recognized rental expense of $106,878 in 2013, and its minimum rental commitments are as follows:

| | |
|---|---|
| 2014 | $ 137,692 |
| 2015 | 142,040 |
| 2016 | 89,786 |
| 2017 | 41,018 |
| 2018 & 2019 | 45,649 |
| Total | $ 456,185 |

## FINANCIAL HIGHLIGHTS

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| **Per Share Operating Performance** | | | | | |
| Net asset value, beginning of year | $27.84 | $28.58 | $30.73 | $26.75 | $22.49 |
| Net investment income | 0.44 | 0.48 | 0.41 | 0.35 | 0.28 |
| Net realized gains and increase (decrease) in unrealized appreciation | 5.93 | 0.48 | (0.42) | 4.97 | 5.37 |
| Change in accumulated other comprehensive income (note 5) | 0.03 | | (0.03) | 0.01 | 0.10 |
| Total from investment operations | 6.40 | 0.96 | (0.04) | 5.33 | 5.75 |
| Less distributions | | | | | |
| Dividends from net investment income | (0.46) | (0.42) | (0.39) | (0.32) | (0.37) |
| Distributions from net realized gains | (1.42) | (1.18) | (1.58) | (0.95) | (1.03) |
| Total distributions | (1.88) | (1.60) | (1.97) | (1.27) | (1.40) |
| Capital share repurchases | 0.05 | | | | 0.02 |
| Reinvestment of distributions | (0.15) | (0.10) | (0.14) | (0.08) | (0.11) |
| Total capital share transactions | (0.10) | (0.10) | (0.14) | (0.08) | (0.09) |
| Net asset value, end of year | $32.26 | $27.84 | $28.58 | $30.73 | $26.75 |
| Market price, end of year | $27.38 | $23.92 | $24.48 | $27.01 | $23.74 |
| **Total Investment Return** | | | | | |
| Based on market price | 22.7% | 4.3% | (2.3)% | 19.6% | 30.3% |
| Based on net asset value | 24.2% | 4.0% | 0.3% | 20.8% | 26.7% |
| **Ratios/Supplemental Data** | | | | | |
| Net assets, end of year (in 000 s) | $863,690 | $732,988 | $732,811 | $761,736 | $650,718 |
| Ratio of expenses to average net assets* | 0.78% | 0.65% | 0.56% | 0.64% | 0.96% |
| Ratio of net investment income to average net assets** | 1.44% | 1.67% | 1.29% | 1.32% | 1.18% |
| Portfolio turnover | 18.7% | 11.7% | 16.4% | 16.8% | 14.4% |
| Number of shares outstanding at end of year (in 000 s) | 26,775 | 26,326 | 25,641 | 24,790 | 24,327 |

* The ratios of expenses to average net assets were 0.70%, 0.64%, and 0.78% in 2013, 2012, and 2009, respectively, after adjusting for non-recurring pension expenses as described in footnote 5.

** The ratios of net investment income to average net assets were 1.52%, 1.68%, and 1.36% in 2013, 2012, and 2009, respectively, after adjusting for non-recurring pension expenses as described in footnote 5.

**SCHEDULE OF INVESTMENTS**

*December 31, 2013*

| | Shares | Value (A) |
|---|---|---|
| **Common Stocks 100.1%** | | |
| **Energy 79.5%** | | |
| ***Exploration & Production 25.8%*** | | |
| Anadarko Petroleum Corp. | 300,000 | $ 23,796,000 |
| Cabot Oil & Gas Corp. | 330,000 | 12,790,800 |
| ConocoPhillips | 275,000 | 19,428,750 |
| Devon Energy Corp. (E) | 79,000 | 4,887,730 |
| Energen Corp. (E) | 175,000 | 12,381,250 |
| EOG Resources, Inc. | 175,000 | 29,372,000 |
| EQT Corp. | 160,000 | 14,364,800 |
| Marathon Oil Corp. | 396,000 | 13,978,800 |
| Newfield Exploration Co. (C) | 270,000 | 6,650,100 |
| Noble Energy, Inc. | 305,000 | 20,773,550 |
| Oasis Petroleum, Inc. (C) | 150,000 | 7,045,500 |
| Occidental Petroleum Corp. | 405,000 | 38,515,500 |
| Pioneer Natural Resources Co. | 75,000 | 13,805,250 |
| QEP Resources, Inc. (with attached rights) | 165,000 | 5,057,250 |
| | | 222,847,280 |
| ***Integrated Oil & Gas 30.8%*** | | |
| Chevron Corp. | 763,200 | 95,331,312 |
| Exxon Mobil Corp. (E)(F) | 1,483,430 | 150,123,116 |
| Hess Corp. | 250,000 | 20,750,000 |
| | | 266,204,428 |
| ***Pipelines 2.2%*** | | |
| Kinder Morgan Inc. | 250,000 | 9,000,000 |
| Williams Companies, Inc. | 250,000 | 9,642,500 |
| | | 18,642,500 |
| ***Refiners 3.7%*** | | |
| HollyFrontier Corp. | 110,000 | 5,465,900 |
| Phillips 66 | 345,275 | 26,631,061 |
| | | 32,096,961 |
| ***Services 17.0%*** | | |
| Baker Hughes, Inc. | 60,000 | 3,315,600 |
| FMC Technologies, Inc. (C) | 150,000 | 7,831,500 |
| Halliburton Co. | 493,870 | 25,063,903 |
| Nabors Industries Ltd. | 319,000 | 5,419,810 |
| National Oilwell Varco, Inc. (E) | 200,000 | 15,906,000 |
| Oil States International Inc. (C)(E) | 100,000 | 10,172,000 |

| | | |
|---|---|---|
| Schlumberger Ltd. | 625,000 | 56,318,750 |
| Seadrill Ltd. (B) | 200,003 | 8,216,123 |
| Transocean Ltd. (C) | 170,000 | 8,401,400 |
| Weatherford International, Ltd. (C) | 400,000 | 6,196,000 |
| | | 146,841,086 |

**SCHEDULE OF INVESTMENTS (CONTINUED)**

*December 31, 2013*

| | Principal/ Shares | Value (A) |
|---|---|---|
| **Basic Materials 19.7%** | | |
| ***Chemicals 16.5%*** | | |
| CF Industries Holdings, Inc. (E) | 84,069 | $ 19,591,440 |
| Dow Chemical Co. | 547,500 | 24,309,000 |
| Eastman Chemical Co. | 166,000 | 13,396,200 |
| E.I. du Pont de Nemours and Co. (E) | 125,000 | 8,121,250 |
| FMC Corp. | 100,000 | 7,546,000 |
| LyondellBasell Industries N.V. (Class A) | 345,000 | 27,696,600 |
| Monsanto Co. | 194,400 | 22,657,320 |
| Praxair, Inc. | 150,000 | 19,504,500 |
| | | 142,822,310 |
| ***Gold & Precious Metals 0.6%*** | | |
| SPDR Gold Trust (C)(E) | 45,000 | 5,227,650 |
| ***Industrial Metals 2.1%*** | | |
| Freeport-McMoRan Copper & Gold Inc. | 487,000 | 18,379,380 |
| ***Mining 0.5%*** | | |
| Peabody Energy Corp | 202,440 | 3,953,653 |
| **Utilities 0.9%** | | |
| National Fuel Gas Co. (E) | 100,000 | 7,140,000 |
| **Total Common Stocks** | | |
| (Cost $461,286,486) | | 864,155,248 |
| **Short-Term Investments 0.1%** | | |
| **Money Market Account 0.1%** | | |
| M&T Bank, 0.15% | $ 735,740 | 735,740 |
| **Money Market Funds 0.0%** | | |