

January 16, 2009

Dear Fellow Shareholders:

During the past quarter our Fund's net asset value declined 29.37% versus decreases of 21.94% in the Standard & Poor's 500 and 26.12% in the Russell 2000, each on a total return basis.* The Fund's net asset value as of December 31, 2008 was \$15.10 per share, which was after an ordinary income dividend of \$0.0741 per share, while no short-term nor long-term capital gain distribution was declared.

For the year as a whole, the Fund's net asset value declined 37.62% versus decreases of 37.00% in the Standard & Poor's 500 and 33.79% in the Russell 2000, each on a total return basis. At the beginning of the year our commitment to equities was roughly 90.8%, while at year-end it was close to 81.2% and our total net assets amounted to \$404,859,901.

We began our January letter last year with a reference to [A Tale of Two Cities](#). With apologies to Charles Dickens, 2008 was indeed the worst of times for the global financial system. In that letter we discussed many of the issues which concerned us about the economic and market outlook. We also questioned whether we were about to enter a recession, and worried about the increased volatility exhibited by the stock market. In retrospect we worried about many of the issues which were to plague us with increasing intensity as this past year drew to a close. However, we failed to anticipate the magnitude of delevering required and the dismal quality of financial instruments which had been sold to the sophisticated and unsophisticated alike. And, of course, we failed to understand the precarious position of the banking industry, nor the impact all of these factors would have on global stock and bond markets.

2008 was a terrible year. The Standard & Poor's 500 recorded its second worst year since the mid 1920s, only exceeded by the decline in 1931. While the decline in the Dow Jones Industrial Average was only substantially exceeded by the decline of 52.7% in 1931, and was only a hair less than the declines in 1930 and 1937.

Despite this year's decline, our Fund has shown compound growth of 7.88% over the past 10 years versus an increase of 1.70% for the Dow Jones Industrial Average, a decline of 1.38% for the Standard & Poor's 500 and an increase of 3.02% for the Russell 2000, all on a total return basis.

Ahead of us lies a difficult year. Economies around the world are declining, especially in the United States and Europe, while even growth in China will be substantially reduced.

In America, consumers will be pinched by credit card debt, automobile loans, home equity loans and mortgages despite the expected mortgage relief and stimulus packages which we expect to be enacted in early 2009. Consumer sentiment has plunged to very low levels. It seems likely that as unemployment increases in early 2009 and mutual fund and 401k statements are received showing substantial declines in value, most consumers will trade down and attempt to increase savings.

Reduced consumer demand has already led to a substantial reduction in commodity prices and to an effort by most businesses to reduce inventory levels. This inventory liquidation has been massive, with many companies throughout the world closing plants during the month of December and some announcing plans to keep plants closed well into January. These decisions are formulated by a desire to strengthen corporate balance sheets and in the belief that prices will continue to fall. Until price stability has been achieved, businesses will have little reason to replenish inventories, thus delaying any economic rebound.

* The performance data quoted above represents past performance. Past performance does not guarantee future results. The investment return and principle value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. The current performance may be lower or higher than performance data quoted.

Governments around the world will continue to try to pressure financial institutions to rework mortgages to affordable levels and employment programs will be enhanced. In the meantime, the system is slowly beginning to purge itself as has been seen in the states of California, Massachusetts, Arizona and Nevada, where year-over-year house sales increased significantly in the second half of the year (although this trend reversed in November). Likely these were low priced houses, nonetheless mortgages were available.

Massive government stimulation should help to reliquify the banks, ameliorate mortgage problems, increase public works and reduce unemployment, but this will take time to become evident and eventually will lead to inflation. But that will likely be a problem for another year.

On the positive side world economies are not irreparably shattered, and excesses will be purged. Population growth in China, India and Latin America will help to increase demand. Public corporation balance sheets are generally in good shape. The massive inventory correction we referred to earlier will eventually come to an end. Commodities should reach price stability and begin to recover. Although corporate earnings are likely to be substantially lower in 2009 than in 2008 and companies will be challenged by pension fund losses, good-will write-offs and restructuring charges, we believe markets have already anticipated these developments. The massive decline in the price of oil has been calculated at the equivalent of a \$250 billion tax cut for consumers. Finally, we are seeing a broad based trend of insiders purchasing their company's shares. This is normally a sign that prices have reached a level from which there is little market risk.

Our wish list for the new year includes a hope that all investors, including hedge funds, Warren Buffett and others, will have to live with the same degree of disclosure. We hope that adequate capital requirements for financial institutions will be enacted to prevent any person or institution from leveraging holdings to the extent that they can, once again, cause a massive economic meltdown. We hope that housing relief for consumers does not extend to builders, since what is needed is to consume the excess supply of houses which is depressing values. We further hope that no serious impediments are put in the way of free trade. Finally, we hope that volatility declines and that investors return to investing for the long term. To put volatility into some perspective, we recently received a research report which indicates that between 1950 and 2000 the market moved up or down more than 5% during one trading day in only 27 days. From 2000 to 2006 this occurred in only 7 days; between January 1st, 2008 to September 30th, 2008 this occurred in 20 days and from October 1st to December 3rd of last year, when we received the report, there had been an additional 22 days of such volatility. Clearly this is not in the long-term investors' interest.

For a broad based recovery of the market, liquidity needs must be met and this will take time. Institutions, even the Commonfund serving many institutions, have found their cash reserves insufficient. The downward pressure of the stock and bond markets has forced liquidation by hedge funds and endowments; and given the scope of Mr. Madoff's apparent massive fraud, additional liquidation has undoubtedly been required. Individuals must begin to feel comfortable before they begin to accelerate their spending. Corporations which are funded short term will need to extend the maturities of their borrowing; and banks will have to regain the ability to syndicate loans and to meet legitimate borrowing requests from qualified customers.

Accordingly we will all need patience, but we believe that, over time, the value of our investments will not only rebound to former levels, but increase and fulfill our expectations.

It seems worth reiterating the strategy which we employ that is designed to protect your capital and to enhance its growth. This approach has resulted in above average returns for many years. We believe it is logical and we will continue to seek to provide attractive returns in the years ahead.

1. We search for companies that we believe are selling at prices which seem modest in relationship to the company's intrinsic value.
2. We meet with management, visit plants, talk to their competitors, consider the makeup of the Board of Directors and make a judgment as to whether we wish to be in business with the management. In other words, we try to understand the business of the companies in which we invest and the individuals who direct the company's future.

3. We search for companies wherein something may change which will alter that company's future for the better. These can be simple matters ranging from a change in the management or management's attitude toward how they run the business, to a change in control, to a change in business opportunity, or to a change in the dynamics of a company's cash flow and its use.
4. If we perform our analysis correctly, the value added we bring to you is an earlier and better understanding of the companies in our portfolio than that of other investors. Then, if the companies begin to improve, their earnings should increase and they should be valued at a higher price earnings multiple.
5. We have never worried about the profits that we did not make. We worry much more about what we might lose. We believe that stock selection is much more relevant to successful investing than total commitment to equities. In the volatile markets which have developed over the last 15 to 20 years, we have come to believe that the long-term investors' best hedge against volatility is to have cash with which to invest in companies when prices seem unduly depressed.

This fall, Barnes Group Inc. shares came under selling pressure largely due to the company's withdrawal of earnings guidance in light of the Boeing strike. While the strike has been settled, the aerospace segment will likely post a poor 4th quarter due to downtime surrounding the strike. It also appears that certain programs, such as the Boeing 787, are being pushed out and that the commercial aftermarket business is slowing. Despite the near-term softness, the company is building a strong aerospace platform. Their revenue sharing program on GE engines is growing which should add more stability to earnings. Also, while their recent exposure to the 787 has been disappointing, the program should be a meaningful contributor in the coming years. Non-aerospace markets, especially those served by the company's industrial segment, have also weakened. We would expect the industrial space to remain slow, reflecting the underlying weakness in the economy. We applaud management's decision to exit its money losing UK distribution business. This should put the international operation in a profitable position in 2009.

Flextronics International Ltd. shares sold down in the quarter as demand for consumer electronics, computers, and mobile devices waned. As production declined, negative operating leverage impacted already thin operating margins. The company and the industry are in the process of reacting to this weakness by adjusting production schedules and idling plants.

In their 3rd fiscal quarter the company repurchased \$260 million of their \$500 million convertible debenture at a discounted price of \$226 million. In the prior quarter the company repurchased 30 million common shares, but due to an imminent goodwill write-down, management was unable to continue this program. Even during a weak macro environment we expect Flextronics to generate substantial free cash flow which we anticipate will be used to strengthen their balance sheet.

MPS Group's results have deteriorated in recent quarters as the markets served by the staffing company in the U.S. and Europe have contracted. However, the company is well positioned for this recession with nearly \$55 million of net balance sheet cash and the ability to generate solid free cash flow even in a down market. We have known the MPS management for a number of years and are confident in their ability to manage the company through this difficult environment. The company has continued to expand its penetration into more attractive and less cyclical markets, including health care, legal and engineering. At current prices, the shares trade at a reasonable 5x EV/EBITDA.

Tyco International Ltd. issued a disappointing fiscal 2009 outlook during the quarter. At over \$8 billion in revenue, Tyco's ADT Worldwide security business represents roughly 40% of total company revenue. Organic growth is likely to be reduced in the current environment, as recurring revenue growth slows while new installation activity declines. However, the segment should remain nicely profitable and cash flow generative. The ongoing restructuring efforts should yield eventual margin expansion in an improved demand environment. Similarly, the company's \$4+ billion flow control business will slow as the oil and gas industry contracts, yet will continue to generate low double-digit margins. Tyco also has strong, defensible franchises in its fire protection, safety products, and electrical and metal products businesses (perhaps to be sold or spun-off), which together contribute about 38% of total revenue. Management has prudently paused its share repurchase program to bolster the company's already strong balance sheet, and with about \$1 billion in free cash expected in 2009, liquidity seems more than ample. The shares currently trade at less than 5x EV/EBITDA and represent a compelling value.

We are aware that many shareholders have not been receiving our quarterly letters since they may not be distributed to those who are not direct shareholders of the Fund. Accordingly, anyone who wishes to be on our mailing list should either call Cleo Kotis or write to us and we will be happy to add you to the list. Cleo can be reached at 212.830.5452.

With very best wishes.

Sincerely,



J. Dennis Delafield
Chairman
Tel. 212.830.5454



Vincent Sellecchia
President
Tel. 212.830.5456

P.S. The net asset value per share of the Fund is determined as of the close of regular trading on the New York Stock Exchange (normally 4:00 P.M., Eastern Time) on each Fund Business Day (as fully described in the Fund prospectus). In addition to the Fund's published NASDAQ listing (symbol: DEFIX), you may check its net asset value by calling 800.221.3079 (or, 212.830.5220) to speak directly to a Fund representative during the normal business hours of 8:30 A.M. - 5:30 P.M., Eastern Time. During off business hours, you may use the same telephone numbers for a pre-recorded message. The 3-digit code number for the Delafield Fund is 819.

Our website address is: www.delafieldfund.com.

TOTAL RETURN WITH INCOME*

	Delafield Fund**	Indices	
		S&P 500 Total†	Russell 2000 Total‡
Cumulative			
Quarter ended December 31, 2008	(29.37)%	(21.94)%	(26.12)%
One year ended December 31, 2008	(37.62)	(37.00)	(33.79)
Inception, November 19, 1993 to December 31, 2008	291.26	158.57	143.51
Annual Average			
One year ended December 31, 2008	(37.62)	(37.00)	(33.79)
Three years ended December 31, 2008	(7.64)	(8.36)	(8.29)
Five years ended December 31, 2008	0.18	(2.19)	(0.93)
Ten years ended December 31, 2008	7.88	(1.38)	3.02
Inception, November 19, 1993 to December 31, 2008	9.44	6.49	6.07

TEN LARGEST HOLDINGS‡

Company	% of Net Assets
Flextronics International Ltd.	3.48%
Acuity Brands Inc.	3.32
Kennametal Inc.	2.77
Honeywell International Inc.	2.72
Barnes Group Inc.	2.51
(The) Stanley Works	2.32
Albany International Corp.	2.16
Rockwell Automation, Inc.	2.11
Brady Corporation	2.10
Eastman Chemical Company	2.04
TOTAL	25.53%

FEES^(a)

Shareholder Fees	
(fees paid directly from your investment)	
Maximum Sales Charge Imposed on Purchases	None
Maximum Deferred Sales Charge	None
Maximum Sales Charge Imposed on Reinvested Dividends	None
Redemption Fee for Shares held 90 days or less	2.00%
(as a percent of amount redeemed)	
Annual Fund Operating Expenses ^(b)	
(expenses that are deducted from Fund assets)	
Management Fee	0.75%
Distribution and Service (12 b-1) Fees	0.25%
Other Expenses	0.33%
Administrative Fees	0.21%
Total Annual Fund Operating Expenses	1.33%

ASSET MIX

	12/31/08	9/30/08	6/30/08	3/31/08	12/31/07
Equities	81.21%	81.79%	81.65%	88.02%	90.84%
Warrants	0.00	0.00	0.01	0.02	0.02
Cash Equivalents	18.79	18.21	18.34	11.96	9.14
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

* The performance data quoted above represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. The current performance may be lower or higher than performance data quoted. Please visit our website (www.delafieldfund.com) to obtain the most recent month-end performance data.

The Delafield Fund may invest in the stocks of smaller companies which carry special risks including, narrower markets, limited financial and management resources, less liquidity, and greater volatility than the stocks of larger companies. The Fund's investments, which are often value or special situations, are likely to not correlate with the overall market averages. Hence, there may be periods when the Fund's performance may lag these measures.

Kindly consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. Please contact us to obtain a prospectus, which should be read carefully before investing.

Delafield Fund, Inc. is distributed by Natixis Distributors, L.P., 399 Boylston Street, Boston, MA 02116.

** Delafield Fund, Inc. performance is stated after fees.

† The S&P 500 Index is an unmanaged broad market-weighted average of U.S. blue-chip companies and the Russell 2000 Index is an unmanaged, market-weighted index, with dividends reinvested, of 2,000 small companies, formed by taking the largest 3,000 companies and eliminating the largest 1,000 of those companies. You may not invest directly in the S&P 500 Index or the Russell 2000 Index and, unlike the Fund, they do not incur fees and expenses.

‡ Holdings are expressed as a percentage of total investments and will vary over time. Because the Fund is actively managed there can be no assurances the Fund continues to invest in the securities referenced. Additionally, references to specific securities or industries should not be considered a recommendation for investors.

(a) Represents information from the most current prospectus, dated April 29, 2008.

(b) The Gross Expense Ratio of 1.33% does not reflect any potential reimbursement/waiver of expenses as stated in the most recent Fund prospectus. The Net Expense Ratio of 1.28% reflects the reimbursement/waiver of expenses, if any, as stated in the most recent Fund prospectus. Please Note: Fund Expenses and Expense Reductions are subject to change. Expense Reductions are voluntary and investors should consult the most recent Fund prospectus for more detail information.

STATEMENT OF NET ASSETS

December 31, 2008

(Unaudited)

		Value (Note 1)			Value (Note 1)
Common Stocks (81.21%)	Shares		Common Stocks (Continued)	Shares	
Aerospace & Defense (5.31%)			Machinery (10.28%)		
Esterline Technologies Corporation*	120,000	\$ 4,546,800	Albany International Corp.	680,000	\$ 8,731,200
Honeywell International Inc.	335,000	10,998,050	Barnes Group Inc.	700,000	10,150,000
Precision Castparts Corp.	100,000	<u>5,948,000</u>	Crane Co.	360,000	6,206,400
		<u>21,492,850</u>	Harsco Corporation	140,000	3,875,200
			Kennametal Inc.	505,000	11,205,950
Building Products (2.31%)			Lydall, Inc.*	250,000	<u>1,437,500</u>
Griffon Corporation*	468,700	4,372,971			<u>41,606,250</u>
NCI Building Systems, Inc.*	70,000	1,141,000			
Quanex Building Products Corporation	410,000	<u>3,841,700</u>	Metals & Mining (3.00%)		
		<u>9,355,671</u>	Commercial Metals Company	510,000	6,053,700
			Kaiser Aluminum Corporation	270,000	<u>6,080,400</u>
					<u>12,134,100</u>
Chemicals (9.84%)			Office Electronics (0.65%)		
Ashland Inc.	380,000	3,993,800	Zebra Technologies Corporation*	130,000	<u>2,633,800</u>
Chemtura Corp.	1,200,000	1,680,000			
Cytec Industries Inc.	360,000	7,639,200	Oil, Gas & Consumable Fuels (1.84%)		
Eastman Chemical Company	260,000	8,244,600	Southern Union Company	570,000	<u>7,432,800</u>
Ferro Corporation	500,000	3,525,000			
OM Group, Inc.*	310,000	6,544,100	Paper & Forest Products (1.06%)		
PolyOne Corporation*	575,000	1,811,250	Schweitzer-Mauduit International, Inc.	215,000	<u>4,304,300</u>
Solutia Inc.*	825,000	3,712,500			
Spartech Corporation	430,000	<u>2,691,800</u>	Professional Services (2.18%)		
		<u>39,842,250</u>	MPS Group, Inc.*	950,000	7,153,500
			Trueblue, Inc.*	175,000	<u>1,674,750</u>
					<u>8,828,250</u>
Commercial Services & Supplies (2.12%)			Real Estate Investment Trust (0.70%)		
Deluxe Corporation	275,000	4,114,000	Kimco Realty Corporation	154,750	<u>2,828,830</u>
R.R. Donnelley & Sons Company	330,000	<u>4,481,400</u>			
		<u>8,595,400</u>	Semiconductors & Semiconductor Equipment (3.52%)		
Computers & Peripherals (1.31%)			Fairchild Semiconductor International, Inc.*	1,075,000	5,256,750
Intermec Inc.*	400,000	<u>5,312,000</u>	International Rectifier Corp.*	245,000	3,307,500
			Teradyne, Inc.*	1,351,000	<u>5,701,220</u>
					<u>14,265,470</u>
Containers & Packaging (0.67%)			Specialty Retail (2.65%)		
Owen-Illinois, Inc.*	100,000	<u>2,733,000</u>	Collective Brands, Inc.*	525,000	6,153,000
			Foot Locker, Inc.	625,000	<u>4,587,500</u>
					<u>10,740,500</u>
Diversified Consumer Services (1.14%)			Textile, Apparel & Luxury Goods (1.02%)		
Brink's Home Security Holdings, Inc.*	210,000	<u>4,603,200</u>	Maidenform Brands, Inc.*	405,000	<u>4,110,750</u>
Electrical Equipment (9.97%)			Trading Companies & Distributors (4.12%)		
Acuity Brands Inc.	385,000	13,440,350	RSC Holdings Inc.*	515,000	4,387,800
Belden Inc.	175,000	3,654,000	Rush Enterprises, Inc. Class A*	650,000	5,570,500
Brady Corporation	355,000	8,502,250	WESCO International, Inc.*	350,000	<u>6,730,500</u>
Hubbell Incorporated	190,000	6,209,200			<u>16,688,800</u>
Rockwell Automation, Inc.	265,000	<u>8,543,600</u>	Total Common Stocks (Cost \$532,952,001)		\$ 328,803,821
		<u>40,349,400</u>	Warrants (0.00%)		
Electronic Equipment & Instruments (8.19%)			Clark Holdings Inc.*	410,000	<u>4,100</u>
Checkpoint Systems, Inc.*	810,000	7,970,400	Total Warrants (Cost \$465,970)		\$ 4,100
Flextronics International Ltd.*	5,500,000	14,080,000			
Gerber Scientific, Inc.*	700,000	3,577,000	Short-Term Investments (18.32%)	Face Amount	Value (Note 1)
LeCroy Corporation*	450,000	1,372,500	Investment Company (18.32%)		
Vishay Intertechnology Inc.*	1,800,000	<u>6,156,000</u>	Daily Income Fund – Money Market		
		<u>33,155,900</u>	Portfolio – Institutional Shares	\$74,154,000	<u>74,154,000</u>
			Total Short-Term Investments (Cost \$74,154,000)		\$ 74,154,000
Energy Equipment & Services (1.21%)			Total Investments (99.53%)(Cost \$607,571,971†)		402,961,921
Key Energy Services, Inc.*	500,000	2,205,000	Cash and other assets net of liabilities (0.47%)		1,897,980
Weatherford International Ltd.*	250,000	<u>2,705,000</u>	Net Assets (100.00%),		
		<u>4,910,000</u>	26,812,483 shares outstanding		\$ 404,859,901
			Net asset value, offering and redemption		
Health Care Equipment & Supplies (0.83%)			price per share:		\$ 15.10
Kinetic Concepts, Inc.*	175,000	<u>3,356,500</u>			
Household Durables (2.77%)					
Lifetime Brands, Inc.	525,000	1,858,500			
(The) Stanley Works	275,000	<u>9,377,500</u>			
		<u>11,236,000</u>			
Industrial Conglomerates (3.34%)					
Carlisle Companies Incorporated	340,000	7,038,000			
Tyco International Ltd.	300,000	<u>6,480,000</u>			
		<u>13,518,000</u>			
Life Science Tools & Services (1.18%)					
Thermo Fisher Scientific Inc.*	140,000	<u>4,769,800</u>			

* Non-income producing.

† Aggregate cost for federal income tax purposes is \$607,739,268. Aggregate gross unrealized appreciation and depreciation are based on cost for federal income tax purposes, \$9,749,514 and \$214,526,861 respectively, resulting in net depreciation of \$204,777,347.

Note 1: Securities traded on a national securities exchange are valued at the last recorded sales price on the last business day of the fiscal period.

Common stocks for which no sale was reported on that date and over-the-counter securities are valued at the mean between the last reported bid and asked prices. All short-term investments are valued at amortized cost which approximates market value.

DEL4Q2008