

**GABELLI UTILITIES FUND  
MANAGED DISTRIBUTION POLICY  
FAQ**

**What is a managed distribution policy?**

A managed distribution policy is a fund's commitment to shareholders to provide a predictable, but not assured, level of cash flow. This distribution policy typically takes the form of regular fixed cash payments or payments based on a percentage of a fund's assets, generally on a monthly or quarterly basis.

The Gabelli Utilities Fund has paid a distribution of \$0.07 per share per month since 2000. This monthly cash flow is a combination of net investment income, short-term capital gains, long-term capital gains, and return of capital.<sup>1</sup> For 2012, the year's distributions were identified on a tax basis as follows: net investment income – 9.93%; short term capital gains – 5.54%; long term capital gains - 5.98%; and return of capital – 80.34%

**Why do we use a managed distribution?**

The main advantage of a managed distribution policy is that it gives an investor the opportunity to participate in equity returns while enjoying a current and consistent stream of cash flow.

**What are the disadvantages of a managed distribution?**

There are drawbacks to managed distribution policies as well. A regular distribution provides shareholders with dependable cash inflows but conversely results in consistent cash outflows from a fund. Although many of the shareholders reinvest their distributions, these cash outflows from a fund are "lost assets" that would otherwise remain available for investment by a fund's Adviser. Also, a fund may need to hold an above average cash position in anticipation of regular distributions. Investors should not consider the distributions as arising from realized gains or profits nor should they consider them as a reflection of performance of the Fund.

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<sup>1</sup> This policy may be changed by the Board at any time. To the extent that distributions are in excess of the Fund's current and accumulated earnings and profits, the distributions will be treated as a non-taxable return of capital. There can be no assurance that the Fund will realize any capital gains or other income with which to pay dividends and distributions. Dividend sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund. The tax treatment of dividends and distributions may be different for different classes of shares of the Fund.



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### **How will the managed distribution affect the cost basis of an account?**

The investor must first understand the tax consequences of return of capital. Return of capital, which represents the client's own principal being returned to them, is non-taxable. However, a distribution representing return of capital would reduce the cost basis of the shares held in a taxable account.

### **When do we determine the dividend, capital gain, and return of capital portions?**

For this Fund, we do not declare a distribution of net realized long term capital gains until the end of the year. We do provide a breakdown of the components based on current earnings on a book basis (see the below section for when we declare capital gains). This information is included on the dividend notice on direct fund investment confirmation statements and posted on our website (link below) on the ex-dividend, payment, and reinvestment date.

<http://gabelli.com/dividend.html>

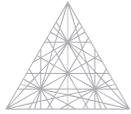
The final determination of the proportion of capital gains, ordinary income, and non-taxable return of capital, if any, distributed in any given tax year will be made after year end. All taxable shareholders will receive written notification regarding the components and tax treatment for all distributions early in the following year via Form 1099-DIV.

### **Why are the components not finalized until after year-end?**

As with any Fund, this Fund must make distributions of ordinary taxable income (dividends and interest received, net of expenses, and net realized short-term capital gains) and net realized long-term capital gains in order to qualify for favorable tax treatment under the Internal Revenue Service Code. To avoid double taxation (both at the fund level and for shareholders), a fund will generally distribute substantially all of its ordinary taxable income and net realized long-term capital gains each year.

Under the Investment Company Act of 1940, the Fund is able to offset net realized gains on the books through the end of the year. The Fund is limited in the number of long term capital gain distributions it can declare with respect to a fiscal year. Distributions of realized short term capital gains are not limited. This is one reason the Gabelli Utilities Fund does not declare capital gain distributions until it is determined near year end. If the Fund were to declare a capital gain distribution at any point during the year, it is possible that such gains would be not be available at year end and such distribution would be treated differently than originally reported.

When we determine that we will have capital gains to distribute, we identify the components and communicate the breakdown to shareholders. However, such amount may differ from what needs to be reported for tax purposes due to other factors. Below, you will find details of the



December 2012 distribution from the Gabelli Utilities Fund which included a long term capital gain component (link to the press release below)<sup>2</sup>:

<u>Fund#</u>		<u>Cusip</u>	<u>Total</u>	<u>Net Investment Income(a)</u>	<u>Short Term Capital Gains(a)</u>	<u>Long Term Capital Gains</u>	<u>Return of Capital</u>
470	Gabelli Utilities Fund - Class AAA (GABUX)	36240E103	\$0.0700	\$0.0110	\$0.0020	\$0.0470	\$0.0100
1653	Gabelli Utilities Fund - Class A (GAUAX)	36240E202	\$0.0700	\$0.0110	\$0.0020	\$0.0470	\$0.0100
1654	Gabelli Utilities Fund - Class B (GAUBX)	36240E301	\$0.0700	\$0.0110	\$0.0020	\$0.0470	\$0.0100
1655	Gabelli Utilities Fund - Class C (GAUCX)	36240E400	\$0.0700	\$0.0110	\$0.0020	\$0.0470	\$0.0100
1561	Gabelli Utilities Fund - Class I (GAUIX)	36240E806	\$0.0700	\$0.0110	\$0.0020	\$0.0470	\$0.0100

[http://gabelli.com/Gab\\_pdf/dist\\_notices/470div\\_27Dec2012.pdf](http://gabelli.com/Gab_pdf/dist_notices/470div_27Dec2012.pdf)

## Questions?

We have a team of professionals ready to assist you with any questions at 800-422-3554 or you can visit our website at [gabelli.com](http://gabelli.com).

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<sup>2</sup> The final determination of the proportion of capital gains, ordinary income, and non-taxable return of capital, if any, distributed in 2012 will be made after year end. All taxable shareholders will receive written notification regarding the components and tax treatment for all 2012 distributions in early 2013 via Form 1099-DIV.

The Gabelli Utilities Fund is managed by Gabelli Funds, LLC and distributed by G.distributors, LLC, subsidiaries of GAMCO Investors, Inc. (NYSE: GBL).

Funds investing in a single sector, such as utilities, may be subject to more volatility than funds that invest more broadly. The utilities industry can be significantly affected by government regulation, financing difficulties, supply or demand of services or fuel and natural resources conservation. The value of utility stocks changes as long-term interest rates change.

***Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. The prospectus, which contains more complete information about this and other matters, should be read carefully before investing.***

***For a prospectus, current performance, and additional information, visit our website at [www.gabelli.com](http://www.gabelli.com) or call 800-GABELLI. Distributed by G.distributors, LLC One Corporate Center, Rye, NY 10580***