

STATEMENT OF ADDITIONAL INFORMATION

The Gabelli Utility Trust (the "Fund") is a non-diversified, closed-end management investment company that seeks long-term growth of capital and income by investing primarily in a portfolio of equity securities selected by Gabelli Funds, LLC, the investment adviser to the Fund (the "Adviser"). It is the policy of the Fund, under normal market conditions, to invest at least 80% of its total assets in common stock and debt and equity securities of foreign and domestic companies involved to a substantial extent (e.g., at least 50% of the assets, gross income or net profits of a company is committed to or derived from) in providing products, services or equipment for (i) the generation or distribution of electricity, gas and water and (ii) telecommunications services or infrastructure operations, such as airports, toll roads and municipal services.

This Statement of Additional Information ("SAI") is not a prospectus, but should be read in conjunction with the Prospectus for the Fund dated August 20, 2003 (the "Prospectus"). This SAI does not include any information that a prospective investor should consider before purchasing shares of the Fund, and investors should obtain and read the Prospectus prior to purchasing shares. A copy of the Prospectus may be obtained without charge, by calling the Fund at 800-GABELLI (800-422-3554) or (914) 921-5070. This SAI incorporates by reference the entire Prospectus.

The Prospectus and this SAI omit certain of the information contained in the registration statement filed with the Securities and Exchange Commission, Washington, D.C. The registration statement may be obtained from the Securities and Exchange Commission (the "Commission") upon payment of the fee prescribed, or inspected at the Commission's office or via its website (www.sec.gov) at no charge.

This Statement of Additional Information is dated August 20, 2003.

INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives

The Fund's primary investment objectives are long-term growth of capital and income. Under normal market conditions, the Fund will invest at least 80% of its total assets in common stock and debt and equity securities of foreign and domestic companies involved to a substantial extent (e.g., at least 50% of the assets, gross income or net profits of a company is committed to or derived from) in providing products, services or equipment for (i) the generation or distribution of electricity, gas and water and (ii) telecommunications services or infrastructure operations, such as airports, toll roads and municipal services. See "Investment Objectives and Policies" in the Prospectus.

Investment Practices

Securities Subject to Reorganization. The Fund may invest without limit in securities of companies for which a tender or exchange offer has been made or announced and in securities of companies for which a merger, consolidation, liquidation or reorganization proposal has been announced if, in the judgment of the Investment Adviser, there is a reasonable prospect of high total return significantly greater than the brokerage and other transaction expenses involved.

In general, securities which are the subject of such an offer or proposal sell at a premium to their historic market price immediately prior to the announcement of the offer or may also discount what the stated or appraised value of the security would be if the contemplated transaction were approved or consummated. Such investments may be advantageous when the discount significantly overstates the risk of the contingencies involved; significantly undervalues the securities, assets or cash to be received by shareholders of the prospective portfolio company as a result of the contemplated transaction; or fails adequately to recognize the possibility that the offer or proposal may be replaced or superseded by an offer or proposal of greater value. The evaluation of such contingencies requires unusually broad knowledge and experience on the part of the Adviser which must appraise not only the value of the issuer and its component businesses as well as the assets or securities to be received as a result of the contemplated transaction but also the financial resources and business motivation of the offer and/or the dynamics and business climate when the offer or proposal is in process. Since such investments are ordinarily short-term in nature, they will tend to increase the turnover ratio of the Fund, thereby increasing its brokerage and other transaction expenses. The Adviser intends to select investments of the type described which, in its view, have a reasonable prospect of capital appreciation which is significant in relation to both risk involved and the potential of available alternative investments.

Temporary Investments. Although under normal market conditions at least 80% of the Fund's total assets will consist of common stock and other securities of foreign and domestic companies involved in the utility industry, when a temporary defensive posture is believed by the Adviser to be warranted ("temporary defensive periods"), the Fund may without limitation hold cash or invest its assets in money market instruments and repurchase agreements in respect of those instruments. The money market instruments in which the Fund may invest are obligations of the United States government, its agencies or instrumentalities ("U.S. Government Securities"); commercial paper rated A-1 or higher by Standard & Poor's Corporation ("S&P") or Prime-1 by Moody's Investors Service, Inc. ("Moody's"); and certificates of deposit and bankers' acceptances issued by domestic branches of U.S. banks that are members of the Federal Deposit Insurance Corporation. During temporary defensive periods, the Fund may also invest to the extent permitted by applicable law in shares of money market mutual funds. Money market mutual funds are investment companies and the investments in those companies in some cases by the Fund are subject to certain fundamental investment restrictions and applicable law. See "Investment Restrictions." As a shareholder in a mutual fund, the Fund will bear its ratable share of its expenses, including management fees, and will remain subject to payment of the fees to the Adviser, with respect to assets so invested. See "Management of the Fund-Investment Advisory and Administration Arrangements."

Lower-Rated Securities. The Fund may invest up to 25% of its total assets in fixed-income securities rated in the lower rating categories of recognized statistical rating agencies, such as securities rated "CCC" or lower by S&P or "Caa" or lower by Moody's, or non-rated securities of comparable quality. These debt securities are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are rated lower than "BBB" by S&P or "Baa" by Moody's are often referred to in the financial press as "junk bonds."

Generally, such lower-rated securities and unrated securities of comparable quality offer a higher current yield than is offered by higher-rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the

obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher-quality bonds. In addition, such lower-rated securities and comparable unrated securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such lower-rated securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. In light of these risks, the Adviser, in evaluating the credit-worthiness of an issue, whether rated or unrated, will take various factors into consideration, which may include, as applicable, the issuer's operating history, financial resources and its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer's management and regulatory matters.

In addition, the market value of securities in lower-rated categories is more volatile than that of higher-quality securities, and the markets in which such lower-rated or unrated securities are traded are more limited than those in which higher-rated securities are traded. The existence of limited markets may make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing its portfolio and calculating its net asset value. Moreover, the lack of a liquid trading market may restrict the availability of securities for the Fund to purchase and may also have the effect of limiting the ability of the Fund to sell securities at their fair value to respond to changes in the economy or the financial markets.

Lower-rated debt obligations also present risks based on payment expectations. If an issuer calls the obligation for redemption (often a feature of fixed income securities), the Fund may have to replace the security with a lower-yielding security, resulting in a decreased return for investors. Also, as the principal value of bonds moves inversely with movements in interest rates, in the event of rising interest rates the value of the securities held by the Fund may decline proportionately more than a portfolio consisting of higher-rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay interest currently. Interest rates have recently been at the lowest levels in many years and, therefore, it is likely that they will rise in the future.

The Fund may invest up to 10% of its total assets in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection and the value of these securities will appreciate. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not appreciate.

In addition to using recognized rating agencies and other sources, the Adviser also performs its own analysis of issues in seeking investments that it believes to be underrated (and thus higher-yielding) in light of the financial condition of the issuer. Its analysis of issuers may include, among other things, current and anticipated cash flow and borrowing requirements, value of assets in relation to historical cost, strength of management, responsiveness to business conditions, credit standing and current anticipated results of operations. In selecting investments for the Fund, the Adviser may also consider general business conditions, anticipated changes in interest rates and the outlook for specific industries.

Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced. In addition, it is possible that statistical rating agencies might change their ratings of a

particular issue or reflect subsequent events on a timely basis. Moreover, such ratings do not assess the risk of decline in market value. None of these events will require the sale of the securities by the Fund, although the Adviser will consider these events in determining whether the Fund should continue to hold the securities.

Fixed-income securities, including lower-rated securities and comparable unrated securities, frequently have call or buy-back features that permit their issuers to call or repurchase the securities from their holders, such as the Fund. If an issuer exercises these rights during periods of declining interest rates, the Fund may have to replace the security with a lower-yielding security, thus resulting in a decreased return for the Fund.

The market for certain lower-rated and comparable unrated securities several years ago experienced a major economic recession. Past recessions have adversely affected the value of such securities as well as the ability of certain issuers of such securities to repay principal and pay interest thereon. The market for those securities could react in a similar fashion in the event of any future economic recession.

Options. A call option is a contract that, in return for a premium, gives the holder of the option the right to buy from the writer of the call option the security or currency underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation, upon exercise of the option, to deliver the underlying security or currency upon payment of the exercise price during the option period. A put option is the reverse of a call option, giving the holder the right to sell the security to the writer and obligating the writer to purchase the underlying security from the holder.

A written call option is "covered" if the writer owns the underlying security covered by the call or has an absolute and immediate right to acquire that security without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other securities held in its portfolio. A call option is also covered if the Fund holds a call on the same security as the call written where the exercise price of the call held is (1) equal to or less than the exercise price of the call written or (2) greater than the exercise price of the call written if the difference is maintained by the Fund in cash, U.S. Government Securities or other high grade short-term obligations in a segregated account held with its custodian. A written put option is "covered" if the Fund maintains cash or other high grade short-term obligations with a value equal to the exercise price in a segregated account held with its custodian, or else holds a put on the same security as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. However, once the Fund has been assigned an exercise notice, the Fund will be unable to effect a closing purchase transaction. Similarly, if the Fund is the holder of an option it may liquidate its position by effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option previously purchased. There can be no assurance that either a closing purchase or sale transaction can be effected when the Fund so desires.

The Fund will realize a profit from a closing transaction if the price of the transaction is less than the premium received from writing the option or is more than the premium paid to purchase the option;

the Fund will realize a loss from a closing transaction if the price of the transaction is more than the premium received from writing the option or is less than the premium paid to purchase the option. Since call option prices generally reflect increases in the price of the underlying security, any loss resulting from the repurchase of a call option may also be wholly or partially offset by unrealized appreciation of the underlying security. Other principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price and price volatility of the underlying security and the time remaining until the expiration date. Gains and losses on investments in options depend, in part, on the ability of the Adviser to predict correctly the effect of these factors. The use of options cannot serve as a complete hedge since the price movement of securities underlying the options will not necessarily follow the price movements of the portfolio securities subject to the hedge.

An option position may be closed out only on an exchange which provides a secondary market for an option of the same series or in a private transaction. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option. In such event, it might not be possible to effect closing transactions in particular options, so that the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of call options and upon the subsequent disposition of underlying securities for the exercise of put options. If the Fund, as a covered call option writer, is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying security until the option expires or it delivers the underlying security upon exercise or otherwise covers the position.

In addition to options on individual securities, the Fund may also purchase and sell call and put options on securities indices. A stock index reflects in a single number the market value of many different stocks. Relative values are assigned to the stocks included in an index and the index fluctuates with changes in the market values of the stocks. The options give the holder the right to receive a cash settlement during the term of the option based on the difference between the exercise price and the value of the index. By writing a put or call option on a securities index, the Fund is obligated, in return for the premium received, to make delivery of this amount. The Fund may offset its position in stock index options prior to expiration by entering into a closing transaction on an exchange or it may let the option expire unexercised.

The Fund also may buy or sell put and call options on foreign currencies. A put option on a foreign currency gives the purchaser of the option the right to sell a foreign currency at the exercise price until the option expires. A call option on a foreign currency gives the purchaser of the option the right to purchase the currency at the exercise price until the option expires. Currency options traded on U.S. or other exchanges may be subject to position limits which may limit the ability of the Fund to reduce foreign currency risk using such options. Over-the-counter options differ from exchange-traded options in that they are two-party contracts with price and other terms negotiated between buyer and seller and generally do not have as much market liquidity as exchange-traded options. Over-the-counter options are illiquid securities.

Use of options on securities indices entails the risk that trading in the options may be interrupted if trading in certain securities included in the index is interrupted. The Fund will not purchase these options unless the Adviser is satisfied with the development, depth and liquidity of the market and the Adviser believes the options can be closed out.

Price movements in the portfolio of the Fund are unlikely to correlate precisely with movements in the level of an index and, therefore, the use of options on indices cannot serve as a complete hedge and will depend, in part, on the ability of the Adviser to predict correctly movements in the direction of the stock market generally or of a particular industry. Because options on securities indices require settlement in cash, the Adviser may be forced to liquidate portfolio securities to meet settlement obligations. The staff of the SEC considers over-the-counter options such as options on indices illiquid securities.

Although the Adviser will attempt to take appropriate measures to minimize the risks relating to the Fund's writing of put and call options, there can be no assurance that the Fund will succeed in any option-writing program it undertakes.

Futures Contracts and Options on Futures. The Fund will not enter into futures contracts or options on futures contracts unless (i) the aggregate initial margins and premiums do not exceed 5% of the fair market value of its assets and (ii) the aggregate market value of its outstanding futures contracts and the market value of the currencies and futures contracts subject to outstanding options written by the Fund do not exceed 50% of the market value of its total assets. It is anticipated that these investments, if any, will be made by the Fund solely for the purpose of hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase. Such investments will only be made if they are economically appropriate to the reduction of risks involved in the management of the Fund. In this regard, the Fund may enter into futures contracts or options on futures for the purchase or sale of securities indices or other financial instruments including but not limited to U.S. Government Securities.

A "sale" of a futures contract (or a "short" futures position) means the assumption of a contractual obligation to deliver the securities underlying the contract at a specified price at a specified future time. A "purchaser" of a futures contract (or a "long" futures position) means the assumption of a contractual obligation to acquire the securities underlying the contract at a specified future time. Certain futures contracts, including stock and bond index futures, are settled on a net cash payment basis rather than by the sale and delivery of the securities underlying the futures contracts.

No consideration will be paid or received by the Fund upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit with the broker an amount of cash or cash equivalents equal to approximately 1% to 10% of the contract amount (this amount is subject to change by the exchange or board of trade on which the contract is traded and brokers or members of such board of trade may charge a higher amount). This amount is known as "initial margin" and is in the nature of a performance bond or good faith deposit on the contract. Subsequent payments, known as "variation margin," to and from the broker will be made daily as the price of the index or security underlying the futures contract fluctuates. At any time prior to the expiration of the futures contract, the Fund may elect to close the position by taking an opposite position, which will operate to terminate its existing position in the contract.

An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time to the expiration of the option. Upon exercise of an option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account attributable to that contract, which represents the amount by which the market price of

the futures contract exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract. The potential loss related to the purchase of an option on futures on contracts is limited to the premium paid for the option (plus transaction costs). Because the value of the option purchased is fixed at the point of sale, there are no daily cash payments by the purchaser to reflect changes in the value of the underlying contract; however, the value of the option does change daily and that change would be reflected in the net assets of the Fund.

Futures and options on futures entail certain risks, including but not limited to the following: no assurance that futures contracts or options on futures can be offset at favorable prices, possible reduction of the yield of the Fund due to the use of hedging, possible reduction in value of both the securities hedged and the hedging instrument, possible lack of liquidity due to daily limits on price fluctuations, imperfect correlation between the contracts and the securities being hedged, losses from investing in futures transactions that are potentially unlimited and the segregation requirements described below.

In the event the Fund sells a put option or enters into long futures contracts, under current interpretations of the 1940 Act, an amount of cash, obligations of the U.S. government and its agencies and instrumentalities or other liquid securities equal to the market value of the contract must be deposited and maintained in a segregated account with the custodian of the Fund to collateralize the positions, in order for the Fund to avoid being treated as having issued a senior security in the amount of its obligations. For short positions in futures contracts and sales of call options, the Fund may establish a segregated account (not with a futures commission merchant or broker) with cash obligations of the U.S. government and its agencies and instrumentalities or other high grade debt securities that, when added to amounts deposited with a futures commission merchant or a broker as margin, equal the market value of the instruments or currency underlying the futures contracts or call options, respectively (but are no less than the stock price of the call option or the market price at which the short positions were established).

Forward Currency Transactions. The Fund may hold currencies to meet settlement requirements for foreign securities and may engage in currency exchange transactions to protect against uncertainty in the level of future exchange rates between a particular foreign currency and the U.S. dollar or between foreign currencies in which its securities are or may be denominated. Forward currency contracts are agreements to exchange one currency for another at a future date. The date (which may be any agreed-upon fixed number of days in the future), the amount of currency to be exchanged and the price at which the exchange takes place will be negotiated and fixed for the term of the contract at the time that the Fund enters into the contract. Forward currency contracts (1) are traded in a market conducted directly between currency traders (typically, commercial banks or other financial institutions) and their customers, (2) generally have no deposit requirements and (3) are typically consummated without payment of any commissions. The Fund, however, may enter into forward currency contracts requiring deposits or involving the payment of commissions. To assure that its forward currency contracts are not used to achieve investment leverage, the Fund will segregate liquid assets consisting of cash, U.S. Government Securities or other liquid securities with its custodian, or a designated sub-custodian, in an amount at all times equal to or exceeding its commitment with respect to the contracts.

The dealings of the Fund in forward foreign exchange are limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of one forward foreign currency for another currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities or its payment of dividends and distributions. Position hedging is the purchase or sale of one forward foreign currency for another

currency with respect to portfolio security positions denominated or quoted in the foreign currency to offset the effect of an anticipated substantial appreciation or depreciation, respectively, in the value of the currency relative to the U.S. dollar. In this situation, the Fund also may, for example, enter into a forward contract to sell or purchase a different foreign currency for a fixed U.S. dollar amount where it is believed that the U.S. dollar value of the currency to be sold or bought pursuant to the forward contract will fall or rise, as the case may be, whenever there is a decline or increase, respectively, in the U.S. dollar value of the currency in which its portfolio securities are denominated (this practice being referred to as a "cross-hedge").

In hedging a specific transaction, the Fund may enter into a forward contract with respect to either the currency in which the transaction is denominated or another currency deemed appropriate by the Adviser. The amount the Fund may invest in forward currency contracts is limited to the amount of its aggregate investments in foreign currencies.

The use of forward currency contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract, and such use may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover. The Fund will only enter into forward currency contracts with parties which it believes to be creditworthy institutions.

When Issued, Delayed Delivery Securities and Forward Commitments. The Fund may enter into forward commitments for the purchase or sale of securities, including on a "when issued" or "delayed delivery" basis, in excess of customary settlement periods for the type of security involved. In some cases, a forward commitment may be conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, corporate reorganization or debt restructuring, i.e., a when, as and if issued security. When such transactions are negotiated, the price is fixed at the time of the commitment, with payment and delivery taking place in the future, generally a month or more after the date of the commitment. While it will only enter into a forward commitment with the intention of actually acquiring the security, the Fund may sell the security before the settlement date if it is deemed advisable.

Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Fund prior to the settlement date. The Fund will segregate with its custodian cash or liquid securities in an aggregate amount at least equal to the amount of its outstanding forward commitments.

Short Sales. The Fund may make short sales of securities. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. The market value of the securities sold short of any one issuer will not exceed either 5% of the Fund's total assets or 5% of such issuer's voting securities. The Fund also will not make a short sale, if, after giving effect to such sale, the market value of all securities sold short exceeds 25% of the value of its assets or the Fund's aggregate short sales of a particular class of securities exceeds 25% of the outstanding securities of that class. The Fund may also make short sales "against the box" without respect to such limitations. In this type of short sale, at the time of the sale, the Fund owns, or has the immediate and unconditional right to acquire at no additional cost, the identical security.

The Fund expects to make short sales both to obtain capital gains from anticipated declines in securities and as a form of hedging to offset potential declines in long positions in the same or similar securities. The short sale of a security is considered a speculative investment technique. Short sales "against the box" may be subject to special tax rules, one of the effects of which may be to accelerate income to the Fund.

When the Fund makes a short sale, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale in order to satisfy its obligation to deliver the security upon conclusion of the sale. The Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any payments received on such borrowed securities.

The Fund's obligation to replace the borrowed security will be secured by collateral deposited with the broker-dealer, usually cash, U.S. Government Securities or other highly liquid debt securities. The Fund will also be required to deposit similar collateral with its custodian, State Street Bank and Trust Company ("State Street"), and, to the extent, if any, necessary so that the value of both collateral deposits in the aggregate is at all times equal to the greater of the price at which the security is sold short or 100% of the current market value of the security sold short. Depending on arrangements made with the broker-dealer from which it borrowed the security regarding payment over of any payments received by the Fund on such security, the Fund may not receive any payments (including interest) on its collateral deposited with such broker-dealer. If the price of the security sold short increases between the time of the short sale and the time the Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a capital gain. Any gain will be decreased, any loss increased, by the transaction costs described above. Although the Fund's gain is limited to the price at which it sold the security short, its potential loss is theoretically unlimited.

To secure its obligations to deliver the securities sold short, the Fund will deposit in escrow in a separate account with the custodian, an amount at least equal to the securities sold short or securities convertible into, or exchangeable for, the securities. The Fund may close out a short position by purchasing and delivering an equal amount of securities sold short, rather than by delivering securities already held by the Fund, because the Fund may want to continue to receive interest and dividend payments on securities in its portfolio that are convertible into the securities sold short.

Repurchase Agreements. The Fund may engage in repurchase agreement transactions involving money market instruments with banks, registered broker-dealers and government securities dealers approved by the Adviser. The Fund will not enter into repurchase agreements with the Adviser or any of its affiliates. Under the terms of a typical repurchase agreement, the Fund would acquire an underlying debt obligation for a relatively short period (usually not more than one week) subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed price and time, thereby determining the yield during its holding period. Thus, repurchase agreements may be seen to be loans by the Fund collateralized by the underlying debt obligation. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the holding period. The value of the underlying securities will be at least equal to at all times to the total amount of the repurchase obligation, including interest. The Fund bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations and the Fund is delayed in or prevented from exercising its rights to dispose of the collateral securities, including the risk of a possible decline in the value of the underlying securities during the period in which it seeks to assert these rights. The Adviser, acting under the supervision of the Board of Trustees of the Fund, reviews the creditworthiness of those banks and dealers with which

the Fund enters into repurchase agreements to evaluate these risks and monitors on an ongoing basis the value of the securities subject to repurchase agreements to ensure that the value is maintained at the required level.

INVESTMENT RESTRICTIONS

The Fund operates under the following restrictions that constitute fundamental policies that, except as otherwise noted, cannot be changed without the affirmative vote of the holders of a majority of the outstanding voting securities of the Fund along with the affirmative vote of a majority of the votes entitled to be cast by holders of outstanding preferred shares (including the Series A Preferred Shares and/or Series B Preferred Shares), voting together as a single class. For purposes of the preferred share voting rights described in the foregoing sentence, except as otherwise required under the 1940 Act, the majority of the outstanding preferred shares means, in accordance with Section 2(a)(42) of the 1940 Act, the vote of (i) of 67% or more of the preferred shares present at the shareholders meeting called for such vote, if the holders of more than 50% of the outstanding preferred shares are present or represented by proxy or (ii) more than 50% of the outstanding preferred shares, whichever is less. Except as otherwise noted, all percentage limitations set forth below apply immediately after a purchase or initial investment and any subsequent change in any applicable percentage resulting from market fluctuations does not require any action. The Fund may not:

- (1) invest 25% or more of its total assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry other than the Utility Industry. This restriction does not apply to investments in U.S. Government Securities.
- (2) purchase or sell commodities or commodity contracts except that the Fund may purchase or sell futures contracts and related options thereon if immediately thereafter (i) no more than 5% of its total assets are invested in margins and premiums and (ii) the aggregate market value of its outstanding futures contracts and market value of the currencies and futures contracts subject to outstanding options written by the Fund do not exceed 50% of the market value of its total assets. The Fund may not purchase or sell real estate, provided that the Fund may invest in securities secured by real estate or interests therein or issued by companies which invest in real estate or interests therein.
- (3) make loans of money, except by the purchase of a portion of private or publicly distributed debt obligations or the entering into of repurchase agreements. The Fund reserves the authority to make loans of its portfolio securities to financial intermediaries in an aggregate amount not exceeding 20% of its total assets. Any such loans will only be made upon approval of, and subject to any conditions imposed by, the Board of Trustees of the Fund. Because these loans are required to be fully collateralized at all times, the risk of loss in the event of default of the borrower should be slight.
- (4) borrow money except to the extent permitted by applicable law. The 1940 Act currently requires that the Fund have 300% asset coverage with respect to all borrowings other than temporary borrowings of up to 5% of the value of its total assets.
- (5) issue senior securities, except to the extent permitted by applicable law.

- (6) underwrite securities of other issuers except insofar as the Fund may be deemed an underwriter under the Securities Act 1933, (the "1933 Act") in selling portfolio securities; provided, however, this restriction shall not apply to securities of any investment company organized by the Fund that are to be distributed pro rata as a dividend to its shareholders.

MANAGEMENT OF THE FUND

Trustees and Officers

Overall responsibility for management and supervision of the Fund rests with its Board of Trustees. The Board of Trustees approves all significant agreements between the Fund and the companies that furnish the Fund with services, including agreements with the Adviser, the Fund's custodian and the Fund's transfer agent. The day-to-day operations of the Fund are delegated to the Adviser.

The names and business addresses of the trustees and principal officers of the Fund are set forth in the following table, together with their positions and their principal occupations during the past five years and, in the case of the trustees, their positions with certain other organizations and companies. Trustees who are "interested persons" of the Fund, as defined by the 1940 Act, are indicated by an asterisk.

Trustees

<u>Name (And Age), Position with the Fund and Business Address¹</u>	<u>Term of Office and Length of Time Served²</u>	<u>Principal Occupation During Past Five Years</u>	<u>Number of Portfolios in Fund Complex Overseen by Trustee</u>	<u>Other Directorships Held by Trustee</u>
<u>INTERESTED</u>				
<u>TRUSTEES:</u>				
Mario J. Gabelli (61) [†] Trustee and Chief Investment Officer	Since 1999 []	Chairman of the Board, Chief Executive Officer of Gabelli Asset Management Inc. and Chief Investment Officer of the Investment Adviser and GAMCO Investors, Inc.	23	Director of Morgan Group Holdings, Inc. (transportation services); Vice Chairman of Lynch Corporation (diversified manufacturing company) and Lynch Interactive Corporation (multimedia).
*John D. Gabelli (58) [†] Trustee	Since 1999 ^{***}	Senior Vice President of Gabelli & Company, Inc. and Director of Gabelli Advisers, Inc.	10	_____
*Karl Otto Pohl (73) Trustee	Since 1999 ^{***}	Member of the Shareholder Committee of Sal Oppenheim Jr. & Cie, Zurich (private investment bank); Former President of the Deutsche Bundesbank and Chairman of its Central Bank Council from 1980 through 1991.	32	Director of Gabelli Asset Management Inc.; Chairman, Incentive Capital and Incentive Asset Management (Zurich); Director at Sal Oppenheim Jr. & Cie, Zurich

Name (And Age), Position with the Fund and Business Address¹	Term of Office and Length of Time Served²	Principal Occupation During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
<u>DISINTERESTED TRUSTEES:</u>				
Dr. Thomas E. Bratter (63) Trustee	Since 1999*	Director, President and Founder, The John Dewey Academy (residential college preparatory therapeutic high school).	3	---
Anthony J. Colavita (67) Trustee	Since 1999**	President and Attorney at law in the law firm of Anthony J. Colavita, P.C. since 1961.	34	---
James P. Conn (65) Trustee	Since 1999***	Former Managing Director and Chief Investment Officer of Financial Security Assurance Holdings Ltd., 1992-1998.	11	Director of LaQuinta Corp. (hotels) and First Republic Bank
Vincent D. Enright (59) Trustee	Since 1999*	Former Senior Vice President and Chief Financial Officer of KeySpan Energy Corporation through 1998.	12	---
Frank J. Fahrenkopf, Jr. (63) Trustee	Since 1999**	President and CEO of the American Gaming Association since June 1995; Partner in the law firm of Hogan & Hartson; Chairman of International Trade Practice Group; Co-Chairman of the Commission on Presidential Debates; Former Chairman of the Republican National Committee.	3	---
Robert J. Morrissey (63) Trustee	Since 1999**	Partner in the law firm of Morrissey, Hawkins & Lynch.	10	---
Anthony R. Pustorino (77) Trustee	Since 1999***	Certified Public Accountant; Professor Emeritus, Pace University.	17	---

Name (And Age), Position with the Fund and Business Address¹	Term of Office and Length of Time Served²	Principal Occupation During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Salvatore J. Zizza (57) Trustee	Since 1999**	Chairman of Hallmark Electrical Supplies Corp.; Former Executive Vice President of FMG Group (a healthcare provider).	10	Director of Hollis Eden Pharmaceuticals

Officers

Name (And Age), Position with the Fund and Business Address¹	Term of Office and Length of Time Served	Principal Occupation During Past Five Years
Bruce N. Alpert (51) President	Since 2003	Executive Vice President and Chief Operating Officer of the Adviser since June 1988; Director and President of Gabelli Advisers, Inc.; Officer of all other registered investment companies in the Gabelli fund complex
Gus A. Coutsouros (40) Vice President and Treasurer	Since 2003	Vice President and Chief Financial Officer of the Adviser since 1998; Officer of all other registered investment companies in the Gabelli fund complex. Chief Financial Officer of Gabelli Advisers, Inc. Prior to 1998, Treasurer of Lazard Funds.
David I. Schachter (50) Vice President	Since 1999	Vice President of the Fund since 1999; Research Analyst of Gabelli & Company Inc. from October 1998 to July 1999; Prior to October, 1998, Vice President of Thomas J. Herzfeld Advisers, Inc., a registered investment adviser and noted closed-end fund authority.
James E. McKee (40) Secretary	Since 1999	Vice President, General Counsel and Secretary of Gabelli Asset Management Inc. (since 1999) and GAMCO Investors, Inc. (since 1993); Secretary of all other registered investment companies in the Gabelli fund complex.

* "Interested person" of the Fund, as defined in the 1940 Act. Mr. Mario Gabelli is an "interested person" of the Fund as a result of his employment as an officer of the Fund and the Adviser. Messrs. John and Mario Gabelli are registered representatives of an affiliated broker-dealer. Mr. Pohl is a director of the parent company of the Adviser.

† Mr. Mario Gabelli and Mr. John Gabelli are brothers.

¹ Address: One Corporate Center, Rye, NY 10580-1422, unless otherwise noted.

The Fund's Board of Trustees is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:
 *-- Term expires at the Fund's 2004 Annual Meeting of Shareholders and until their successors are duly elected and qualified.

**-- Term expires at the Fund's 2005 Annual Meeting of Shareholders and until their successors are duly elected and qualified.

***-- Term expires at the Fund's 2006 Annual Meeting of Shareholders and until their successors are duly elected and qualified.

The Board of Trustees of the Fund is divided into three classes, with each class having a term of three years. The terms of Messrs. Bratter, Enright and Mario Gabelli as trustees of the Fund expire in 2004; the terms of Messrs. Colavita, Fahrenkopf, Morrissey and Zizza as trustees of the Fund expire in 2005; the terms of Messrs. Conn, John Gabelli, Pohl and Pustorino as trustees of the Fund expire in 2006.

Name of Trustee	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen by Trustees in Family of Investment Companies
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Interested Trustees

Mario J. Gabelli	Over \$100,000	Over \$100,000
John D. Gabelli	None	Over \$100,000
Karl Otto Pohl	None	None

Disinterested Trustees

Dr. Thomas E. Bratter	None	Over \$100,000
Anthony J. Colavita	\$10,001-\$50,000	Over \$100,000
James P. Conn	\$10,001 - \$50,000	Over \$100,000
Vincent D. Enright	None	Over \$100,000
Frank J. Fahrenkopf, Jr.	None	\$1 - \$10,000
Robert J. Morrissey	None	\$10,001 - \$50,000
Anthony R. Pustorino	\$10,001 - \$50,000	Over \$100,000
Salvatore J. Zizza	\$50,001 - \$100,000	Over \$100,000

All shares were valued as of December 31, 2002.

The Trustees serving on the Fund's Nominating Committee are Messrs. Zizza (Chairman) and Colavita. The Nominating Committee is responsible for recommending qualified candidates to the Board in the event that a position is vacated or created. The Nominating Committee would consider recommendations by shareholders if a vacancy were to exist. Such recommendations should be forwarded to the Secretary of the Fund. The Nominating Committee did not meet during the year ended December 31, 2002. The Fund does not have a standing compensation committee.

Messrs. Pustorino (Chairman), Colavita and Enright serve on the Fund's Audit Committee and these Trustees are not "interested persons" of the Fund as defined in the 1940 Act. The Audit Committee generally is responsible for reviewing and evaluating issues related to the accounting and financial reporting policies and, as appropriate, internal controls of the Fund and the internal controls of certain service providers, overseeing the quality and objectivity of the Fund's financial statements and the audit thereof and to act as a liaison between the Board of Trustees and the Fund's independent accountants. During the year ended December 31, 2002, the Audit Committee met twice.

As of June 30, 2003, the trustees and officers of the Fund as a group beneficially owned approximately 1.55% of the outstanding shares of the Fund's Common Shares.

Remuneration of Trustees and Officers

The Fund pays each trustee who is not affiliated with the Adviser or its affiliates a fee of \$3,000 per year plus \$500 per meeting attended, together with each trustee's actual out-of-pocket expenses relating to attendance at such meetings.

The following table shows certain compensation information for the trustees and officers of the Fund for the fiscal year ended December 31, 2002. Mr. Schachter is employed by the Fund and his compensation is evaluated and approved by the trustees. Other officers who are employed by the Adviser receive no compensation or expense reimbursement from the Fund.

COMPENSATION TABLE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NAME OF PERSON AND POSITION	AGGREGATE COMPENSATION FROM THE FUND	TOTAL COMPENSATION FROM THE FUND AND FUND COMPLEX PAID TO TRUSTEES/OFFICERS*
MARIO J. GABELLI Chairman of the Board	\$0	\$0 (22)
DR. THOMAS E. BRATTER Trustee	\$5,000	\$31,000 (3)
ANTHONY J. COLAVITA Trustee	\$6,000	\$152,286 (33)
JAMES P. CONN Trustee	\$5,000	\$53,500 (11)
VINCENT D. ENRIGHT Trustee	\$6,000	\$54,536 (11)
FRANK J. FAHRENKOPF, JR. Trustee	\$5,000	\$31,000 (3)
JOHN D. GABELLI Trustee	\$0	\$0 (9)
ROBERT J. MORRISSEY Trustee	\$5,000	\$45,500 (9)
KARL OTTO POHL Trustee	\$0	\$0 (31)
ANTHONY R. PUSTORINO Trustee	\$6,000	\$132,286 (17)
SALVATORE J. ZIZZA Trustee	\$5,000	\$73,750 (9)

* Represents the total compensation paid to such persons during the calendar year ended December 31, 2002 by investment companies (including the Fund) or portfolios thereof from which such person receives compensation that are considered part of the same fund

complex as the Fund because they have common or affiliated investment advisers. The number in parenthesis represents the number of such investment companies and portfolios.

For his services as Vice President of the Fund, Mr. Schachter received compensation in 2002 of \$130,000.

Limitation of Officers' and Trustees' Liability

The Governing Documents of the Fund provide that the Fund will indemnify its trustees and officers and may indemnify its employees or agents against liabilities and expenses incurred in connection with litigation in which they may be involved because of their positions with the Fund, to the fullest extent permitted by law. However, nothing in the Governing Documents of the Fund protects or indemnifies a trustee, officer, employee or agent of the Fund against any liability to which such person would otherwise be subject in the event of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her position.

Investment Advisory and Administrative Arrangements

Gabelli Funds, LLC acts as the Fund's investment adviser pursuant to an advisory agreement with the Fund (the "Advisory Agreement"). The Adviser is a New York corporation with principal offices located at One Corporate Center, Rye, New York 10580-1422. The Adviser was organized in 1999 and is the successor to Gabelli Funds, Inc., which was organized in 1980. As of June 30, 2003, the Adviser acted as registered investment adviser to 19 management investment companies with aggregate net assets of \$9.3 billion. The Adviser, together with other affiliated investment advisers set forth below, had assets under management totaling approximately \$21.9 billion, as of June 30, 2003. GAMCO Investors, Inc., an affiliate of the Adviser, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments and as a sub-adviser to management investment companies, having aggregate assets of \$10.8 billion under management as of June 30, 2003. Gabelli Fixed Income LLC, an affiliate of the Adviser, acts as investment adviser for The Treasurer's Fund and separate accounts having aggregate assets of \$1.2 billion under management as of June 30, 2003. Gabelli Advisers, Inc., an affiliate of the Adviser, acts as investment manager to the Gabelli Westwood Funds, having aggregate assets of \$493 million under management as of June 30, 2003.

The Adviser is a wholly-owned subsidiary of Gabelli Asset Management Inc., a New York corporation, whose Class A Common Stock is traded on the New York Stock Exchange under the symbol "GBL." Mr. Mario J. Gabelli may be deemed a "controlling person" of the Adviser on the basis of his ownership of a majority of the stock of Gabelli Group Capital Partners, Inc., which owns a majority of the capital stock of Gabelli Asset Management Inc.

Under the terms of the Advisory Agreement, the Adviser manages the portfolio of the Fund in accordance with its stated investment objective and policies, makes investment decisions for the Fund, places orders to purchase and sell securities on behalf of the Fund and manages its other business and affairs, all subject to the supervision and direction of the Fund's Board of Trustees. In addition, under the Advisory Agreement, the Adviser oversees the administration of all aspects of the Fund's business and affairs and provides, or arranges for others to provide, at the Adviser's expense, certain enumerated services, including maintaining the Fund's books and records, preparing reports to the Fund's shareholders and supervising the calculation of the net asset value of its shares. All expenses of computing the net asset value of the Fund, including any equipment or services obtained solely for the purpose of pricing

shares or valuing its investment portfolio, will be an expense of the Fund under its Advisory Agreement unless the Adviser voluntarily assumes responsibility for such expense.

The economic terms of the Advisory Agreement between the Fund and its Adviser were unanimously approved by the Fund's Board of Trustees at its February 19, 2003 meeting. The Board's approval included a majority of the Trustees who are not parties to the Advisory Agreement or interested persons of any such party (as such term is defined in the 1940 Act). In considering whether to approve the Advisory Agreement, the Fund's non-interested trustees considered, among other factors, (i) the services provided to the Fund by the Adviser and the sub-administrator, (ii) the Fund's absolute and comparative investment performance, (iii) the Fund's fee and expense data as compared to various benchmarks and a peer group of closed-end funds in the same asset range as the Fund, and (iv) the Adviser's profitability with respect to its management of the Fund. The non-interested trustees indicated that the primary factors in their determination to approve the Advisory Agreement were the high quality of service provided by the Adviser, including the experience of the Fund's portfolio manager, and the Fund's comparative investment performance.

The Advisory Agreement combines investment advisory and administrative responsibilities in one agreement. For services rendered by the Adviser on behalf of the Fund under the Advisory Agreement, the Fund pays the Adviser a fee computed daily and paid monthly at the annual rate of 1.00% of the average weekly net assets of the Fund. The Adviser has voluntarily agreed to waive the portion of its investment advisory fee attributable to an amount of assets of the Fund equal to the aggregate stated value of the applicable series of its preferred shares for any calendar year in which the net asset value total return of the Fund allocable to the Common Shares, including distributions and the advisory fee subject to potential waiver, is less than the stated annual dividend rate of such series, prorated during the year such series is issued and the final year such series is outstanding. This waiver will apply separately to the portion of the Fund's assets attributable to the Series A Preferred Shares and Series B Preferred Shares, respectively, for so long as any shares of such series remain outstanding.

For each of the years ended December 31, 2000, December 31, 2001 and December 31, 2002, the Adviser was paid \$861,678, \$855,435 and \$878,549, respectively, for advisory and administrative services rendered to the Fund.

The Advisory Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard for its obligations and duties thereunder, the Adviser is not liable for any error or judgment or mistake of law or for any loss suffered by the Fund. As part of the Advisory Agreement, the Fund has agreed that the name "Gabelli" is the Adviser's property, and that in the event the Adviser ceases to act as an investment adviser to the Fund, the Fund will change its name to one not including "Gabelli."

Pursuant to its terms, the Advisory Agreement will remain in effect with respect to the Fund until the second anniversary of shareholder approval of such Agreement, and from year to year thereafter if approved annually (i) by the Fund's Board of Trustees or by the holders of a majority of its outstanding voting securities and (ii) by a majority of the Trustees who are not "interested persons" (as defined in the 1940 Act) of any party to the Advisory Agreement, by vote cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement terminates automatically on its assignment and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by a vote of a majority (as defined in the 1940 Act) of the Fund's outstanding shares.

Code of Ethics

The Fund and the Adviser have adopted a code of ethics (the "Code of Ethics") under Rule 17j-1 of the 1940 Act. The Code of Ethics permits personnel, subject to the Code of Ethics and its restrictive provisions, to invest in securities, including securities that may be purchased or held by the Fund. The Code of Ethics can be reviewed and copied at the United States Securities and Exchange Commission's Public Reference Room in Washington, D.C. Information on the operations of the Reference Room may be obtained by calling the Securities and Exchange Commission at (202) 942-8090. The Code of Ethics is also available on the EDGAR database on the Securities and Exchange Commission's web site at <http://www.sec.gov>. Copies of the Code of Ethics may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the Securities and Exchange Commission's Public Reference Room Section, Washington, D.C. 20549- 0102.

PORTFOLIO TRANSACTIONS

Subject to policies established by the Board of Trustees of the Fund, the Adviser is responsible for placing purchase and sale orders and the allocation of brokerage on behalf of the Fund. Transactions in equity securities are in most cases effected on U.S. stock exchanges and involve the payment of negotiated brokerage commissions. In general, there may be no stated commission in the case of securities traded in over-the-counter markets, but the prices of those securities may include undisclosed commissions or mark-ups. Principal transactions are not entered into with affiliates of the Fund. However, Gabelli & Company may execute transactions in the over-the-counter markets on an agency basis and receive a stated commission therefrom. To the extent consistent with applicable provisions of the 1940 Act and the rules and exemptions adopted by the SEC thereunder, as well as other regulatory requirements, the Fund's Board of Trustees have determined that portfolio transactions may be executed through Gabelli & Company and its broker-dealer affiliates if, in the judgment of the Adviser, the use of those broker-dealers is likely to result in price and execution at least as favorable as those of other qualified broker-dealers, and if, in particular transactions, those broker-dealers charge the Fund a rate consistent with that charged to comparable unaffiliated customers in similar transactions. The Fund has no obligations to deal with any broker or group of brokers in executing transactions in portfolio securities. In executing transactions, the Adviser seeks to obtain the best price and execution for the Fund, taking into account such factors as price, size of order, difficulty of execution and operational facilities of the firm involved and the firm's risk in positioning a block of securities. While the Adviser generally seeks reasonably competitive commission rates, the Fund does not necessarily pay the lowest commission available.

Subject to obtaining the best price and execution, brokers who provide supplemental research, market and statistical information to the Adviser or its affiliates may receive orders for transactions by the Fund. The term "research, market and statistical information" includes advice as to the value of securities, and advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities, and furnishing analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts. Information so received will be in addition to and not in lieu of the services required to be performed by the Adviser under the Advisory Agreement and the expenses of the Adviser will not necessarily be reduced as a result of the receipt of such supplemental information. Such information may be useful to the Adviser and its affiliates in providing services to clients other than the Fund, and not all such information is used by the Adviser in connection with the Fund. Conversely, such information provided to the Adviser and its affiliates by brokers and dealers through whom other clients of the Adviser and its affiliates effect securities transactions may be useful to the Adviser in providing services to the Fund.

Although investment decisions for the Fund are made independently from those of the other accounts managed by the Adviser and its affiliates, investments of the kind made by the Fund may also be made by those other accounts. When the same securities are purchased for or sold by the Fund and any of such other accounts, it is the policy of the Adviser and its affiliates to allocate such purchases and sales in the manner deemed fair and equitable to all of the accounts, including the Fund.

For the fiscal years ended December 31, 2000, December 31, 2001 and December 31, 2002, the Fund paid a total of \$125,729, \$81,313, and \$140,917, respectively, in brokerage commissions, of which Gabelli & Company, Inc. and its affiliates received \$116,973, \$70,203, and \$123,636, respectively. The amount received by Gabelli & Company, Inc. and its affiliates from the Fund in respect of brokerage

commissions for the fiscal year ended December 31, 2002 represented approximately 87.74% of the aggregate dollar amount of brokerage commissions paid by the Fund for such period and approximately 75.29% of the aggregate dollar amount of transactions by the Fund for such period. The brokerage commissions in 2002 reflect, in part, the Fund's investment of proceeds from its rights offering, completed in June, 2002. The variance between the percentage of brokerage commissions received by Gabelli & Company, Inc. and the percentage of transactions executed by Gabelli & Company, Inc. reflects the Fund's practice of generally directing bulk trades to unaffiliated broker-dealers.

Repurchase of Shares

The Fund is a closed-end, non-diversified, management investment company and as such its shareholders do not, and will not, have the right to redeem their shares. The Fund, however, may repurchase its shares from time to time as and when it deems such a repurchase advisable. Such repurchases will be made when the Fund's shares are trading at a discount of 10% or more (or such other percentage as the Board of Trustees of the Fund may determine from time to time) from the net asset value of the shares. Pursuant to the 1940 Act, the Fund may repurchase its shares on a securities exchange (provided that the Fund has informed its shareholders within the preceding six months of its intention to repurchase such shares) or as otherwise permitted in accordance with Rule 23c-1 under the 1940 Act. Under that Rule, certain conditions must be met regarding, among other things, distribution of net income for the preceding fiscal year, status of the seller, price paid, brokerage commissions, prior notice to shareholders of an intention to purchase shares and purchasing in a manner and on a basis which does not discriminate unfairly against the other shareholders through their interest in the Fund. When the Fund repurchases its shares for a price below their net asset value, the net asset value of those shares that remain outstanding will be enhanced, but this does not necessarily mean that the market price of those outstanding shares will be affected, either positively or negatively.

Portfolio Turnover

The portfolio turnover rates of the Fund for the fiscal years ending December 31, 2002 and 2001 were 29% and 41%, respectively. Portfolio turnover rate is calculated by dividing the lesser of an investment company's annual sales or purchases of portfolio securities by the monthly average value of securities in its portfolio during the year, excluding portfolio securities the maturities of which at the time of acquisition were one year or less. A high rate of portfolio turnover involves correspondingly greater brokerage commission expense than a lower rate, which expense must be borne by the Fund and, indirectly, by its shareholders. A higher rate of portfolio turnover may also result in taxable gains being passed to shareholders sooner than would otherwise be the case.

AUTOMATIC DIVIDEND REINVESTMENT AND VOLUNTARY CASH PURCHASE PLAN

Under the Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan adopted by the Fund (the "Plan"), a shareholder whose Common Shares are registered in his own name, including all Shares issued pursuant to the Rights Offering and all shares held by a shareholder participating in the Rights Offering, will have all distributions reinvested automatically by Equiserve Trust Company ("Equiserve"), which is agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in "street name") will be reinvested by the broker or nominee in additional shares under the Plan, unless the service

is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own Common Shares registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to investors who do not participate in the Plan will be paid by check mailed directly to the record holder by Equiserve as dividend disbursing agent.

Under the Plan, whenever the market price of the Common Shares is equal to or exceeds net asset value at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividend or capital gains distribution, participants in such plan are issued Common Shares, valued at the greater of (i) the net asset value as most recently determined or (ii) 95% of the then current market price of the Common Shares. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange trading day, the next preceding trading day. If the net asset value of the Common Shares at the time of valuation exceeds the market price of the Common Shares, participants will receive shares from the Fund, or acquired by the Plan agent in the open market, valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, Equiserve will buy the Fund's Common Shares for the Plan in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts, except that Equiserve will endeavor to terminate purchases in the open market and cause the Fund to issue shares at the greater of (i) net asset value or (ii) 95% of the market price of the Common Shares if, following the commencement of such purchases, the market value of its Common Shares exceeds net asset value.

Participants in the Plan have the option of making additional cash payments to Equiserve, twice per month for the Fund, for investment in the shares. Such payments may be made in any amount from \$250 to \$10,000. Equiserve will use all funds received from participants to purchase shares of the Fund in the open market on the 1st and 15th of each month. It is suggested that participants send voluntary cash payments to Equiserve in a manner that ensures that Equiserve will receive these payments approximately 10 days before the investment date. A participant may without charge withdraw a voluntary cash payment by written notice, if the notice is received by Equiserve at least 48 hours before such payment is to be invested. Equiserve maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account, including information needed by shareholders for personal and tax records. Common Shares in the account of each Plan participant will be held by Equiserve in noncertificated form in the name of the participant, and each shareholder's proxy will include those shares purchased pursuant to the Plan. A Plan participant may send his share certificates to Equiserve so that the shares represented by such certificates will be held by Equiserve in the participant's shareholder account under the Plan.

In the case of shareholders such as banks, brokers or nominees, which hold shares for others who are the beneficial owners, Equiserve will administer the Plan on the basis of the number of shares certified from time to time by the shareholder as representing the total amount registered in the shareholder's name and held for the account of beneficial owners who participate in the Plan. There is no charge to participants for reinvesting dividends or capital gains distributions payable in either stock or cash.

Equiserve's fees for handling the reinvestment of such dividends and capital gains distributions are paid by the Fund. There are no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable in stock or in cash. However, each participant bears a pro rata share of brokerage commissions incurred with respect to Equiserve's open market purchases in connection with the reinvestment of dividends or capital gains distributions.

With respect to purchases from voluntary cash payments, Equiserve will charge \$0.75 for each such purchase for a participant, plus a pro rata share of the brokerage commissions. Brokerage charges for purchasing small amounts of stock for individual accounts through the Plan are expected to be less than the usual brokerage charges for such transactions, as Equiserve will be purchasing shares for all participants in blocks and prorating the lower commission thus attainable. The automatic reinvestment of dividends and distributions will not relieve participants of any income tax which may be payable on such dividends or distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate its Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of such Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Equiserve on at least 90 days' written notice to the participants in such Plan. All correspondence concerning the Plan should be directed to Equiserve at P.O. Box 43025, Providence, R.I. 02940-3025.

TAXATION

The following discussion is a brief summary of certain United States federal income tax considerations affecting the Fund and its shareholders. No attempt is made to present a detailed explanation of all federal, state, local and foreign tax concerns affecting the Fund and its Shareholders (including Shareholders who own large positions in the Fund), and the discussions set forth here and in the Prospectus do not constitute tax advice. Investors are urged to consult their own tax advisers with any specific questions relating to federal, state, local and foreign taxes. The discussion reflects applicable tax laws of the United States as of the date of this SAI, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (the "IRS") retroactively or prospectively.

Taxation of the Fund

The Fund has qualified as and intends to continue to qualify as a regulated investment company (a "RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, the Fund will not be subject to U.S. federal income tax on the portion of its net investment income (i.e., its investment company taxable income as defined in the Code without regard to the deduction for dividends paid) and on its net capital gain (i.e., the excess of its net realized long-term capital gain over its net realized short-term capital loss), if any, which it distributes to its shareholders in each taxable year, provided that an amount equal to at least 90% of the sum of its net investment income and any net tax-exempt income for the taxable year is distributed to its shareholders.

Qualification as a RIC requires, among other things, that the Fund: (i) derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies or other income (including gains from options, futures or forward contracts) derived with respect to its business of investing in stock, securities or currencies and (ii) diversify its holdings so that, at the end of each quarter of each taxable year, subject to certain exceptions, (a) at least 50% of the market value of the Fund's assets is represented by cash, cash items, U.S. government securities, securities of other RICs and other securities with such other securities limited, in respect of any one issuer, to an amount not greater than

5% of the value of the Fund's assets and 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of its assets is invested in the securities (other than U.S. government securities or the securities of other RICs) of any one issuer or any two or more issuers that the Fund controls and which are determined to be engaged in the same or related trades or businesses. If the Fund were unable to satisfy the 90% distribution requirement or otherwise were to fail to qualify as a RIC in any year, it would be taxed in the same manner as an ordinary corporation with no deduction for dividends paid. In addition, distributions would be taxed to its shareholders as ordinary income.

The IRS has taken the position that if a regulated investment company has two classes of shares, it may designate distributions made to each class in any year as consisting of no more than such class's proportionate share of particular types of income, such as long-term capital gain. A class's proportionate share of a particular type of income is determined according to the percentage of total dividends paid by the regulated investment company during such year that was paid to such class. Consequently, the Fund will designate distributions made to the common shareholders and preferred shareholders as consisting of particular types of income in accordance with the classes' proportionate shares of such income. Because of this rule, the Fund is required to allocate a portion of its net capital gain, qualified dividend income and dividends qualifying for the dividends received deduction to common shareholders and preferred shareholders. The amount of net capital gain and qualified dividend income and dividends qualifying for the dividends received deduction allocable among common shareholders and the preferred shareholders will depend upon the amount of such net capital gain and qualified dividend income and dividends qualifying for the dividends received deduction realized by the Fund and the total dividends paid by the Fund on the Common Shares and the Preferred Shares during a taxable year.

Under the Code, amounts not distributed by a RIC on a timely basis in accordance with a calendar year distribution requirement are subject to a 4% excise tax. To avoid the tax, the Fund must distribute during each calendar year, an amount at least equal to the sum of (i) 98% of its ordinary income for the calendar year, (ii) 98% of its capital gain net income (both long-term and short-term) for the one year period ending on October 31 of such year, (unless an election is made to use the Fund's fiscal year), and (iii) all ordinary income and capital gain net income for previous years that were not previously distributed or subject to tax under Subchapter M. A distribution will be treated as paid during the calendar year if it is paid during the calendar year or declared by the Fund in October, November or December of the year, payable to shareholders of record on a date during such a month and paid by the Fund during January of the following year. Any such distributions paid during January of the following year will be deemed to be received on December 31 of the year the distributions are declared, rather than when the distributions are received. While the Fund intends to distribute its ordinary income and capital gain net income in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's ordinary income and capital gain net income will be distributed to avoid entirely the imposition of the tax. In such event, the Fund will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirements.

Gain or loss on the sales of securities by the Fund will be long-term capital gain or loss if the securities have been held by the Fund for more than one year. Gain or loss on the sale of securities held for one year or less will be short-term capital gain or loss.

Foreign currency gain or loss on non-U.S. dollar denominated bonds and other similar debt instruments and on any non-U.S. dollar denominated futures contracts, options and forward contracts that

are not section 1256 contracts (as defined below) generally will be treated as net investment income and loss.

Investments by the Fund in certain "passive foreign investment companies" ("PFICs") could subject the Fund to federal income tax (including interest charges) on certain distributions or dispositions with respect to those investments which cannot be eliminated by making distributions to stockholders. An election may be available to the Fund to mitigate the effect of this provision but the election generally accelerates the recognition of income without the receipt of cash. Dividends paid by PFICs will not qualify for the reduced tax rates discussed below under "Taxation of Shareholders."

The Fund may invest in debt obligations purchased at a discount with the result that the Fund may be required to accrue income for federal income tax purposes before amounts due under the obligations are paid. The Fund may also invest in securities rated in the medium to lower rating categories of nationally recognized rating organizations, and in unrated securities ("high yield securities"). A portion of the interest payments on such high yield securities may be treated as dividends for federal income tax purposes.

As a result of investing in stock of PFICs or securities purchased at a discount or any other investment that produces income that is not matched by a corresponding cash distribution to the Fund, the Fund could be required to include in current income, income it has not yet received. Any such income would be treated as income earned by the Fund and therefore would be subject to the distribution requirements of the Code. This might prevent the Fund from distributing 90% of its net investment income as is required in order to avoid Fund-level federal income taxation on all of its income, or might prevent the Fund from distributing enough ordinary income and capital gain net income to avoid completely the imposition of the excise tax. To avoid this result, the Fund may be required to borrow money or dispose of other securities to be able to make distributions to its shareholders.

If the Fund does not meet the asset coverage requirements of the 1940 Act and the Statements of Preferences, the Fund will be required to suspend distributions to the holders of the Common Shares until the asset coverage is restored. Such a suspension of distributions might prevent the Fund from distributing 90% of its net investment income as is required in order to avoid Fund-level federal income taxation on all of its income, or might prevent the Fund from distributing enough income and capital gain net income to avoid completely imposition of the excise tax. Upon any failure to meet the asset coverage requirements of the 1940 Act or the Statements of Preferences, the Fund may, and in certain circumstances will, be required to partially redeem Preferred Shares in order to restore the requisite asset coverage and avoid the adverse consequences to the Fund and its shareholders of failing to qualify as a RIC. If asset coverage were restored, the Fund would again be able to pay dividends and would generally be able to avoid Fund-level federal income taxation on the income that it distributes.

Hedging Transactions

Certain options, futures contracts and options on futures contracts are "section 1256 contracts." Any gains or losses on section 1256 contracts are generally considered 60% long-term and 40% short-term capital gains or losses ("60/40"). Also, section 1256 contracts held by the Fund at the end of each taxable year are "marked-to-market" with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as 60/40 gain or loss.

Hedging transactions undertaken by the Fund may result in "straddles" for federal income tax purposes. The straddle rules may affect the character of gains (or losses) realized by the Fund. In addition, losses realized by the Fund on positions that are part of a straddle may be deferred under the straddle rules, rather than being taken into account in calculating the taxable income for the taxable year in which such losses are realized. Further, the Fund may be required to capitalize, rather than deduct currently, any interest expense on indebtedness incurred or continued to purchase or carry any positions that are part of a straddle.

The Fund may make one or more of the elections available under the Code which are applicable to straddles. If the Fund makes any of the elections, the amount, character and timing of the recognition of gains or losses from the affected straddle positions may be determined under rules that vary according to the election(s) made. The rules applicable under certain of the elections accelerate the recognition of gain or loss from the affected straddle positions.

Because application of the straddle rules may affect the character and timing of the Fund's gains, losses and deductions, the amount which must be distributed to shareholders, and which will be taxed to shareholders as ordinary income or long-term capital gain, may be increased or decreased substantially as compared to a fund that did not engage in such hedging transactions.

Foreign Taxes

Since the Fund may invest in foreign securities, its income from such securities may be subject to non-U.S. taxes. The Fund historically has invested less than 50% of its total assets in foreign securities. As long as the Fund continues to invest less than 50% of its assets in foreign securities it will not be eligible to elect to "pass-through" to shareholders of the Fund the ability to use the foreign tax deduction or foreign tax credit for foreign taxes paid with respect to qualifying taxes.

Taxation of Shareholders

The Fund will determine either to distribute or to retain for reinvestment all or part of its net capital gain. If any such gains are retained, the Fund will be subject to a tax of 35% of such amount. In that event, the Fund expects to designate the retained amount as undistributed capital gains in a notice to its shareholders, each of whom (i) will be required to include in income for tax purposes as long-term capital gains its share of such undistributed amounts, (ii) will be entitled to credit its proportionate share of the tax paid by the Fund against its federal income tax liability and to claim refunds to the extent that the credit exceeds such liability and (iii) will increase its basis in its shares of the Fund by an amount equal to 65% of the amount of undistributed capital gains included in such shareholder's gross income.

Distributions of ordinary income are taxable to a U.S. shareholder as ordinary income, whether paid in cash or shares. Such dividends (if designated by the Fund) may qualify (provided holding periods and other requirements are met) (i) for the dividends received deduction available to corporations, but only to the extent that the Fund's income consists of qualified dividends received from U.S. corporations and (ii) under the recently enacted Jobs and Growth Tax Relief Reconciliation Act of 2003 (effective for taxable years after December 31, 2002 through December 31, 2008) ("2003 Tax Act"), as qualified dividend income eligible for the reduced maximum rate to individuals of generally 15% (5% for individuals in lower tax brackets) to the extent that the Fund receives qualified dividend income. Qualified dividend income is, in general, dividend income from taxable domestic corporations and

certain foreign corporations (e.g., generally, foreign corporations incorporated in a possession of the United States or in certain countries with a comprehensive tax treaty with the United States, or the stock of which is readily tradable on an established securities market in the United States). Distributions of net capital gain designated as capital gain dividends, if any, are taxable to shareholders at rates applicable to long-term capital gains, whether paid in cash or in shares, regardless of how long the shareholder has held the Fund's shares, and are not eligible for the dividends received deduction. Under the 2003 Tax Act, the maximum tax rate on net long-term capital gain of individuals is reduced generally from 20% to 15% (5% for individuals in lower brackets) for such gain realized after May 6, 2003 and before January 1, 2009. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gain to such holder (assuming the shares are held as a capital asset). For non-corporate taxpayers, under the 2003 Tax Act, net investment income (other than qualified dividend income) will currently be taxed at a maximum rate of 35%, while net capital gain generally will be taxed at a maximum rate of 15%. For corporate taxpayers, both net investment income and net capital gain are taxed at a maximum rate of 35%.

Shareholders may be entitled to offset their capital gain dividends with capital losses. There are a number of statutory provisions affecting when capital losses may be offset against capital gains, and limiting the use of losses from certain investments and activities. Accordingly, shareholders with capital losses are urged to consult their tax advisers.

The price of shares purchased at any time may reflect the amount of a forthcoming distribution. Those purchasing shares just prior to a distribution will receive a distribution which will be taxable to them even though it represents in part a return of invested capital.

Upon a sale or exchange of shares, a shareholder will realize a taxable gain or loss depending upon his or her basis in the shares. Such gain or loss will be treated as long-term capital gain or loss if the shares have been held for more than one year. Any loss realized on a sale or exchange will be disallowed to the extent the shares disposed of are replaced within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Any loss realized by a shareholder on the sale of Fund shares held by the shareholder for six months or less will be treated for tax purposes as a long-term capital loss to the extent of any capital gain dividends received by the shareholder (or amounts credited to the shareholder as an undistributed capital gain) with respect to such shares.

Ordinary income dividends and capital gain dividends also may be subject to state and local taxes. Shareholders are urged to consult their own tax advisers regarding specific questions about the U.S. federal (including the application of the alternative minimum tax rules), state, local or foreign tax consequences to them of investing in the Fund.

Ordinary income dividends (but not capital gain dividends) paid to shareholders who are non-resident aliens or foreign entities will be subject to a 30% United States withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Non-resident shareholders are urged to consult their own tax advisers concerning the applicability of the United States withholding tax.

Backup Withholding

The Fund may be required to withhold federal income tax on all taxable distributions and redemption proceeds payable to non-corporate shareholders who fail to provide the Fund with their correct taxpayer identification number or to make required certifications, or who have been notified by the IRS that they are subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be refunded or credited against such shareholder's federal income tax liability, if any, provided that the required information is furnished to the IRS.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury regulations presently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury regulations promulgated thereunder. The Code and the Treasury regulations are subject to change by legislative, judicial or administrative action, either prospectively or retroactively. Persons considering an investment in Common Shares of the Fund should consult their own tax advisers regarding the purchase, ownership and disposition of Common Shares of the Fund.

NET ASSET VALUE

The net asset value of the Fund's shares will be computed, based on the market value of the securities it holds and determined daily as of the close of regular trading on the New York Stock Exchange.

Portfolio instruments of the Fund which are traded in a market subject to government regulation on which trades are reported contemporaneously generally will be valued at the last sale price on the principal market for such instruments as of the close of regular trading on the day the instruments are being valued, or lacking any sales, at the average of the bid and asked price on the principal market for such instruments on the most recent date on which bid and asked prices are available. Other readily marketable assets will be valued at the average of quotations provided by dealers maintaining an active market in such instruments. Securities and other assets for which market quotations are not readily available will be valued at fair value as determined in good faith by or under the direction of the Board of Trustees. Short-term investments that mature in more than 60 days are valued at the highest bid price obtained from a dealer maintaining an active market in that security or on the basis of prices obtained from a pricing service approved as reliable by the Board of Trustees. Short-term investments that mature in 60 days or fewer are valued at amortized cost, unless the Board of Trustees determines that such valuation does not constitute fair value. The Fund may employ recognized pricing services from time to time for the purpose of pricing portfolio instruments.

Trading takes place in various foreign markets on days which are not Business Days and therefore the Fund's respective net asset value per share is not calculated. The calculation of the Fund's net asset value may not take place contemporaneously with the determination of the prices of portfolio securities held by the Fund. Events affecting the values of portfolio securities that occur between the time their prices are determined and the close of the NYSE will not be reflected in the Fund's calculation of net asset value unless the Board of Trustees deems that the particular event would materially affect the net asset value, in which case the fair value of those securities will be determined by consideration of other factors by or under the direction of the Board of Trustees.

Net asset value per share is calculated by dividing the value of the securities held plus any cash or other assets minus all liabilities, including accrued expenses, by the total number of shares outstanding at such time.

GENERAL INFORMATION

COUNSEL AND INDEPENDENT ACCOUNTANTS

Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, New York 10036 is special counsel to the Fund in connection with the rights offering.

PricewaterhouseCoopers LLP, independent accountants, 1177 Avenue of the Americas, New York, New York 10036, serve as auditors of the Fund and will annually render an opinion on the financial statements of the Fund.

BENEFICIAL OWNERS

As of July 31, 2003, there are no persons known to the Fund who may be deemed beneficial owners of 5% or more of shares of the Fund's Common Shares because they possessed or shared voting or investment power with respect to the Fund's Common Shares.

FINANCIAL STATEMENTS

The audited financial statements included in the Annual Report to the Fund's Shareholders for the fiscal year ended December 31, 2002, together with the report of PricewaterhouseCoopers LLP thereon, are also incorporated herein by reference from the Fund's Annual Report to Shareholders. All other portions of the Annual Report to Shareholders and Semi-Annual Report to Shareholders are not incorporated herein by reference and are not part of the Registration Statement. A copy of the Annual Report to Shareholders may be obtained without charge by writing to the Fund at its address at One Corporate Center, Rye, New York 10580-1422 or by calling the Fund toll-free at 800-GABELLI (422-3554). The unaudited financial statements for the six months ended June 30, 2003, follow.

FINANCIAL STATEMENTS

PORTFOLIO OF INVESTMENTS

June 30, 2003 (Unaudited)

<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>		
COMMON STOCKS – 87.9%							
Agriculture – 0.0%							
20,000	Cadiz Inc.†	\$ 3,000	\$ 2,700	45,000	NiSource Inc. (Sails)†	\$ 90,000	\$ 99,900
Communications Equipment – 0.2%							
60,000	Furukawa Electric Co. Ltd.	419,016	195,877	64,000	NSTAR	2,729,958	2,915,200
Energy and Utilities: Electric – 21.0%							
220,000	AES Corp.†	1,072,514	1,397,000	6,000	Otter Tail Corp.	167,121	161,880
20,000	Calpine Corp.†	52,600	132,000	50,000	PG&E Corp.†	625,746	1,057,500
55,000	Cinergy Corp.	1,727,502	2,023,450	10,000	PNM Resources Inc.	185,900	267,500
20,000	Cleco Corp.	364,947	346,400	45,000	Progress Energy Inc.	1,959,850	1,975,500
80,000	DPL Inc.	1,547,470	1,275,200	40,000	Progress Energy Inc., CVO†	20,800	4,200
19,000	DTE Energy Co.	807,570	734,160	12,000	Puget Energy Inc.	266,242	286,440
90,000	Edison International †	1,037,120	1,478,700	30,000	Sierra Pacific Resources†	227,798	178,200
160,000	El Paso Electric Co.†	1,462,191	1,972,800	30,000	TXU Corp.	483,015	673,500
22,000	FPL Group Inc.	1,192,215	1,470,700	10,000	Unitil Corp.	271,147	241,000
44,000	Great Plains Energy Inc.	919,607	1,270,720	10,000	Vectren Corp.	245,531	250,500
55,000	Maine Public Service Co.	1,750,455	1,788,050	215,000	Westar Energy Inc.	3,192,547	3,489,450
170,000	Northeast Utilities	3,354,147	2,845,800	10,000	Wisconsin Energy Corp.	257,794	290,000
55,000	SCANA Corp.	1,694,645	1,885,400	7,000	WPS Resources Corp.	204,319	281,400
118,000	TECO Energy Inc.	1,863,891	1,414,820	175,000	Xcel Energy Inc.	3,004,875	2,632,000
22,000	UIL Holdings Corp.	966,711	892,100			<u>34,973,950</u>	<u>36,081,637</u>
20,000	Unisource Energy Corp.	236,625	376,000	Energy and Utilities: Natural Gas – 14.9%			
		<u>20,050,210</u>	<u>21,303,300</u>	33,000	AGL Resources Inc.	805,954	839,520
Energy and Utilities: Integrated – 35.6%							
162,000	Allegheny Energy Inc.	1,462,197	1,368,900	3,000	Atmos Energy Corp.	66,880	74,400
13,000	ALLETE Inc.	222,463	345,150	13,800	Cascade Natural Gas Corp.	295,987	263,580
75,000	Alliant Energy Corp.	1,256,310	1,427,250	3,000	Chesapeake Utilities Corp.	55,515	67,800
150,000	Aquila Inc.	423,832	387,000	29,800	Delta Natural Gas Co. Inc.	496,324	700,002
500	Avista Corp.	5,575	7,075	40,000	Dynegy Inc., Cl. A †	250,000	168,000
18,000	Central Vermont Public Service Corp.	327,361	351,900	1,000	EnergySouth Inc.	26,780	32,800
48,000	CH Energy Group Inc.	2,186,400	2,160,000	38,000	National Fuel Gas Co.	890,728	989,900
165,000	CMS Energy Corp.	1,334,352	1,336,500	90,000	Nicor Inc.	1,982,877	3,339,900
75,000	Constellation Energy Group Inc.	2,109,100	2,572,500	15,000	NUI Corp.	174,468	232,800
2,000	Dominion Resources Inc.	80,310	128,540	65,000	ONEOK Inc.	1,121,404	1,275,950
180,000	DQE Inc.	3,128,555	2,712,600	19,000	Peoples Energy Corp.	665,481	814,910
150,000	Duke Energy Corp.	2,884,145	2,992,500	20,000	Piedmont Natural Gas Co. Inc.	588,123	776,200
100,000	El Paso Corp.	1,049,809	808,000	3,000	RGC Resources, Inc.	59,164	70,020
13,000	Empire District Electric Co.	259,961	282,750	115,000	SEMCO Energy Inc.	1,528,444	669,300
32,000	Energy East Corp.	595,433	664,320	102,566	Southern Union Co.†	1,458,095	1,737,468
5,000	Entergy Corp.	140,415	263,900	145,000	Southwest Gas Corp.	3,596,118	3,071,100
8,979	FirstEntergy Corp.	287,099	345,243			<u>14,062,342</u>	<u>15,123,650</u>
83,666	Florida Public Utilities Co.	1,051,557	1,367,939	Energy and Utilities: Water – 5.3%			
20,000	Green Mountain Power Corp.	416,731	400,000	12,000	American States Water Co.	266,173	327,600
30,000	MGE Energy Inc.	816,100	941,400	11,000	Artesian Resources Corp., Cl. A	257,250	395,989
110,000	Mirant Corp.†	900,482	319,000	20,500	BIW Ltd.	385,069	372,075
5,000	NiSource Inc.	103,120	95,000	20,520	California Water Service Group	566,928	577,022
				7,500	Connecticut Water Service Inc.	146,455	191,625
				38,500	Middlesex Water Co.	801,886	948,640
				20,066	Pennichuck Corp.	489,727	495,630
				12,000	Philadelphia Suburban Corp.	183,101	292,560
				18,300	SJW Corp.	1,768,527	1,560,075

See accompanying notes to financial statements.

PORTFOLIO OF INVESTMENTS (Continued)
June 30, 2003 (Unaudited)

<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>
COMMON STOCKS (Continued)			PREFERRED STOCKS – 1.2%		
Energy and Utilities: Water (Continued)			Telecommunications – 1.2%		
5,512 Southwest Water Co.	\$ 52,058	\$ 77,003	23,000 Citizens Communications Co.,		
6,000 York Water Co.	108,629	98,520	5.00% Cv. Pfd.	\$ 1,094,616	\$ 1,219,000
	<u>5,025,983</u>	<u>5,336,739</u>	Principal Amount		
Environmental Services – 0.1%			CORPORATE BONDS – 0.8%		
18,000 Catalytica Energy Systems Inc.†	179,986	48,600	Energy and Utilities: Integrated – 0.8%		
Equipment and Supplies – 0.0%			\$ 1,100,000 Mirant Corp., Sub. Deb. Cv.,		
10,000 Capstone Turbine Corp.†	13,980	10,900	2.500%, 06/15/21†	833,029	825,000
Exchange Traded Funds – 2.1%			REPURCHASE AGREEMENT – 10.0%		
28,000 Utilities HOLDRs Trust	2,015,370	2,088,800	10,089,000 Agreement with State Street		
Metals and Mining – 0.5%			Bank and Trust Co.,		
6,168 Fording Canadian Coal Trust (New York)	132,561	111,764	1.080%, dated 06/30/03,		
19,532 Fording Canadian Coal Trust (Toronto)	389,730	350,750	due 07/01/03, proceeds at maturity, \$10,089,303(a)	10,089,000	10,089,000
	<u>522,291</u>	<u>462,514</u>	TOTAL INVESTMENTS – 99.9%	<u>\$ 97,969,318</u>	<u>\$ 101,102,043</u>
Satellite – 0.6%			Other Assets in Excess of Liabilities – 0.1%		<u>150,362</u>
50,000 General Motors Corp., Cl. H†	870,553	640,500	NET ASSETS – 100.0%		
Telecommunications – 6.6%			(15,282,735 shares outstanding)		<u>\$ 101,252,405</u>
45,000 BellSouth Corp.	1,411,141	1,198,350	NET ASSET VALUE		
30,000 BT Group plc, ADR	1,094,015	1,009,800	(101,252,405 ÷ 15,282,735 shares outstanding)		<u>\$6.63</u>
24,000 CenturyTel Inc.	910,440	836,400			
140,000 Cincinnati Bell Inc.†	953,620	938,000	For Federal tax purposes:		
18,000 Citizens Communications Co.†	132,130	232,020	Aggregate cost		<u>\$ 97,227,406</u>
2,000 Commonwealth Telephone Enterprises Inc.†	65,002	87,940	Gross unrealized appreciation		\$ 10,072,345
19,788 D&E Communications Inc.	231,091	226,573	Gross unrealized depreciation		<u>(6,197,708)</u>
9,000 Deutsche Telekom AG, ADR †	162,149	136,800	Net unrealized appreciation		<u>\$ 3,874,637</u>
2,000 France Telecom SA, ADR ...	22,799	49,300			
40,000 Touch America Holdings Inc.†	38,488	2,680	(a) Collateralized by U.S. Treasury Note, 3.375%, due		
49,000 Verizon Communications Inc.	1,876,164	1,933,050	04/30/04, market value \$10,293,821.		
2,045 WilTel Communications Inc.†	53,526	30,143	† Non-income producing security.		
	<u>6,950,295</u>	<u>6,681,056</u>	ADR – American Depository Receipt.		
Wireless Communications – 1.0%			CVO – Contingent Value Obligation.		
39,000 mm02 plc, ADR†	405,354	359,970			
35,000 Nextel Communications Inc., Cl. A†	460,343	632,800			
	<u>865,697</u>	<u>992,770</u>			
TOTAL COMMON STOCKS	<u>85,952,673</u>	<u>88,969,043</u>			

See accompanying notes to financial statements.

THE GABELLI UTILITY TRUST

STATEMENT OF ASSETS AND LIABILITIES	
June 30, 2003 (Unaudited)	
Assets:	
Investments, at value (Cost \$97,969,318)	\$101,102,043
Cash	757
Dividends and interest receivable	308,141
Receivable for investments sold	489,920
Other assets	<u>3,465</u>
Total Assets	<u>101,904,326</u>
Liabilities:	
Payable for investments purchased	182,918
Payable for investment advisory fees	83,812
Payable for audit and legal fees	19,118
Other accrued expenses	366,073
Total Liabilities	651,921
Net Assets applicable to 15,282,735 shares outstanding	<u>\$101,252,405</u>
Net Assets consist of:	
Shares of beneficial interest, at par value	\$15,283
Additional paid-in capital	103,846,628
Accumulated net investment loss	(4,686,805)
Accumulated net realized loss on investments	(1,055,344)
Net unrealized appreciation on investments	3,132,643
Total Net Assets	<u>\$101,252,405</u>
Net Asset Value (\$101,252,405 ÷ 15,282,735 shares outstanding; unlimited number of shares authorized of \$0.001 par value)	<u>\$6.63</u>

STATEMENT OF OPERATIONS	
For the Six Months Ended June 30, 2003 (Unaudited)	
Investment Income:	
Dividends (net of foreign taxes \$4,647)	\$1,582,099
Interest	<u>106,091</u>
Total Investment Income	<u>1,688,190</u>
Expenses:	
Investment advisory fees	462,568
Shareholder communications expenses	146,113
Shareholder services fees	123,155
Payroll	66,335
Trustees' fees	22,582
Legal and audit fees	17,718
Custodian fees	7,448
Miscellaneous expenses	<u>48,770</u>
Total Expenses	<u>894,689</u>
Less: Custodian fee credit	<u>(147)</u>
Net Expenses	<u>894,542</u>
Net Investment Income	<u>793,648</u>
Net Realized and Unrealized Gain (Loss) on Investments	
Net realized loss in investments	(1,635,388)
Net change in unrealized appreciation on investments	<u>11,593,255</u>
Net Realized and Unrealized Gain (Loss) on Investments	<u>9,957,867</u>
Net Increase in Net Assets Resulting from Operations	<u>\$10,751,515</u>

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2003 (Unaudited)	Year Ended December 31, 2002
Operations:		
Net investment income	\$ 793,648	\$ 1,448,624
Net realized loss on investments	(1,635,388)	3,644,126
Net change in unrealized appreciations/depreciation on investments	<u>11,593,255</u>	<u>(11,989,550)</u>
Net Increase (Decrease) in Net Assets resulting from operations	<u>10,751,515</u>	<u>(6,896,800)</u>
Distributions to Common Stock Shareholders:		
Net investment income	(793,648)	(1,475,143)
Net realized gain on investments	—	(4,760,629)
Return of capital	<u>(4,686,805)</u>	<u>(3,261,058)</u>
Total Distributions to Common Stock Shareholders	<u>(5,480,453)</u>	<u>(9,496,830)</u>
Trust Share Transactions:		
Net increase in net assets from common shares issued in rights offering	—	27,737,238
Net increase in net assets from common shares issued upon reinvestment of dividends and distributions	<u>870,263</u>	<u>1,570,082</u>
Net Increase in Net Assets from Trust Share Transactions	<u>870,263</u>	<u>29,307,320</u>
Net Increase in Net Assets	<u>6,141,325</u>	<u>12,913,690</u>
Net Assets:		
Beginning of period	<u>95,111,080</u>	<u>82,197,390</u>
End of period	<u>\$101,252,405</u>	<u>\$ 95,111,080</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Organization. The Gabelli Utility Trust (the "Utility Trust") is a closed-end, non-diversified management investment company organized as a Delaware business trust on February 25, 1999 and registered under the Investment Company Act of 1940, as amended (the "1940 Act"), whose primary objective is long-term growth of capital and income. The Utility Trust had no operations prior to July 9, 1999, other than the sale of 10,000 shares of beneficial interest for \$100,000 to The Gabelli Equity Trust Inc. (the "Equity Trust") at \$10.00 per share. On July 9, 1999, the Utility Trust had a 4 for 3 stock split making the balance of Utility Trust shares held by the Equity Trust as 13,333. On July 9, 1999, the Equity Trust contributed \$79,487,260 in cash and securities in exchange for shares of the Utility Trust, and on the same date distributed such shares to Equity Trust shareholders of record on July 1, 1999 at the rate of one share of the Utility Trust for every ten shares of the Equity Trust. Investment operations commenced on July 9, 1999.

Effective August 1, 2002, the Fund modified its non-fundamental investment policy (the "80% Policy") to increase, from 65% to 80%, the portion of its assets that it will invest, under normal market conditions, in common stocks and other securities of foreign and domestic companies involved in providing products, services or equipment for (i) the generation or distribution of electricity, gas and water and (ii) telecommunications services or infrastructure operations (the "Utility Industry").

The 80% Policy may be changed without shareholder approval. However, the Fund has adopted a policy to provide shareholders with at least 60 days' notice of the implementation of any change in the 80% Policy.

2. Significant Accounting Policies. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Utility Trust in the preparation of its financial statements.

Security Valuation. Portfolio securities listed or traded on a nationally recognized securities exchange, quoted by the National Association of Securities Dealers Automated Quotations, Inc. ("Nasdaq") or traded in the U.S. over-the-counter market for which market quotations are readily available are valued at the last quoted sale price on that exchange or market as of the close of business on the day the securities are being valued. If there were no sales that day, the security is valued at the average of the closing bid and asked prices or, if there were no asked prices quoted on that day, then the security is valued at the closing bid price on that day. If no bid or asked prices are quoted on such day, the security is valued at the most recently available price or, if the Board of Trustees so determines, by such other method as the Board of Trustees shall determine in good faith, to reflect its fair market value. Portfolio securities traded on more than one national securities exchange or market are valued according to the broadest and most representative market, as determined by Gabelli Funds, LLC (the "Adviser"). Portfolio securities primarily traded in foreign markets are generally valued at the preceding closing values of such securities on their respective exchanges or markets. Securities and assets for which market quotations are not readily available are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Board of Trustees. Short term debt securities with remaining maturities of 60 days or less are valued at amortized cost, unless the Board of Trustees determines such does not reflect the securities fair value, in which case these securities will be valued at their fair value as determined by the Board of Trustees. Debt instruments having a maturity greater than 60 days for which market quotations are readily available are valued at the latest average of the bid and asked prices. If there were no asked prices quoted on such day, the

NOTES TO FINANCIAL STATEMENTS (Continued) (Unaudited)

security is valued using the closing bid price on that day. Options are valued at the last sale price on the exchange on which they are listed. If no sales of such options have taken place that day, they will be valued at the mean between their closing bid and asked prices.

Repurchase Agreements. The Utility Trust may enter into repurchase agreements with primary government securities dealers recognized by the Federal Reserve Bank of New York, with member banks of the Federal Reserve System or with other brokers or dealers that meet credit guidelines established by the Adviser and reviewed by the Board of Trustees. Under the terms of a typical repurchase agreement, the Utility Trust takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Utility Trust to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Utility Trust's holding period. The Utility Trust will always receive and maintain securities as collateral whose market value, including accrued interest, will be at least equal to 102% of the dollar amount invested by the Utility Trust in each agreement. The Utility Trust will make payment for such securities only upon physical delivery or upon evidence of book entry transfer of the collateral to the account of the custodian. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to maintain the adequacy of the collateral. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Utility Trust may be delayed or limited.

Securities Sold Short. A short sale involves selling a security which the Utility Trust does not own. The proceeds received for short sales are recorded as liabilities and the Utility Trust records an unrealized gain or loss to the extent of the difference between the proceeds received and the value of the open short position on the day of determination. The Utility Trust records a realized gain or loss when the short position is closed out. By entering into a short sale, the Utility Trust bears the market risk of an unfavorable change in the price of the security sold short. Dividends on short sales are recorded as an expense by the Utility Trust on the ex-dividend date and interest expense is recorded on the accrual basis.

Foreign Currency Translation. The books and records of the Utility Trust are maintained in United States (U.S.) dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the exchange rates prevailing at the end of the period, and purchases and sales of investment securities, income and expenses are translated at the exchange rate prevailing on the respective dates of such transactions. Unrealized gains and losses, which result from changes in foreign exchange rates and/or changes in market prices of securities, have been included in unrealized appreciation/depreciation on investments and foreign currency transactions. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date on investment securities transactions, foreign currency transactions and the difference between the amounts of interest and dividends recorded on the books of the Utility Trust and the amounts actually received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the initial trade date and subsequent sale trade date is included in realized gain/(loss) on investments.

Securities Transactions and Investment Income. Securities transactions are accounted for as of the trade date with realized gain or loss on investments determined by using the identified cost method. Interest income (including amortization of premium and accretion of discount) is recorded as earned. Dividend income is recorded on the ex-dividend date.

NOTES TO FINANCIAL STATEMENTS (Continued) (Unaudited)

Dividends and Distributions to Shareholders. Distributions to shareholders are recorded on the ex-dividend date. Income distributions and capital gain distributions are determined in accordance with Federal income tax regulations, which may differ from accounting principles generally accepted in the United States.

Provision for Income Taxes. The Utility Trust intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended. As a result, a Federal income tax provision is not required.

Dividends and interest from non-U.S. sources received by the Utility Trust are generally subject to non-U.S. withholding taxes at rates ranging up to 30%. Such withholding taxes may be reduced or eliminated under the terms of applicable U.S. income tax treaties, and the Utility Trust intends to undertake any procedural steps required to claim the benefits of such treaties.

3. Agreements and Transactions with Affiliates. The Utility Trust has entered into an investment advisory agreement (the "Advisory Agreement") with the Adviser which provides that the Utility Trust will pay the Adviser on the first business day of each month a fee for the previous month equal on an annual basis to 1.00% of the value of the Utility Trust's average daily net assets. In accordance with the Advisory Agreement, the Adviser provides a continuous investment program for the Utility Trust's portfolio and oversees the administration of all aspects of the Utility Trust's business and affairs.

During the six months ended June 30, 2003, Gabelli & Company, Inc. and its affiliates received \$26,975 in brokerage commissions as a result of executing agency transactions in portfolio securities on behalf of the Utility Trust.

The cost of calculating the Trust's net asset value per share is a Trust expense pursuant to the Investment Advisory Agreement between the Trust and the Adviser. During the six months ended June 30, 2003, the Gabelli Utility Trust reimbursed the Adviser \$17,400 in connection with the cost of computing the Trust's net asset value.

4. Portfolio Securities. Cost of purchases and proceeds from sales of securities, other than short-term securities, for the six months ended June 30, 2003 aggregated \$13,736,614 and \$2,710,040, respectively.

5. Capital. The Board of Trustees of the Utility Trust has authorized the repurchase of its shares on the open market when the shares are trading at a discount of 10% or more (or such other percentage as the Board of Trustees may determine from time to time) from the net asset value of the shares. During the six months ended June 30, 2003, the Utility Trust did not repurchase any shares of beneficial interest in the open market.

On May 22, 2002, the Utility Trust distributed one transferable right for each of the 11,294,893 common shares outstanding to shareholders of record on that date. Three rights were required to purchase one additional common share at the subscription price of \$7.50 per share. The subscription period expired on June 27, 2002. The rights offering was fully subscribed resulting in the issuance of 3,764,965 common shares and proceeds of \$28,237,239 to the Utility Trust, prior to the deduction of estimated expenses of \$500,000. The net asset value per share of the Utility Trust common shareholders was enhanced by approximately \$0.15 per share as a result of the issuance of shares above net asset value.

Transactions in shares of beneficial interest were as follows:

NOTES TO FINANCIAL STATEMENTS (Continued) (Unaudited)

	Six Months Ended		Year Ended	
	June 30, 2003		December 31, 2002	
	(Unaudited)			
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Shares issued in rights offering	—	—	3,764,965	\$27,737,239
Shares issued upon reinvestment of dividends and distributions	<u>102,243</u>	<u>\$870,263</u>	<u>185,730</u>	<u>1,570,081</u>
Net increase	<u><u>102,243</u></u>	<u><u>\$870,263</u></u>	<u><u>3,950,695</u></u>	<u><u>\$29,307,320</u></u>

6. Industry Concentration. Because the Utility Trust primarily invests in common stocks and other securities of foreign and domestic companies in the Utility Industry, its portfolio may be subject to greater risk and market fluctuations than a portfolio of securities representing a broad range of investments.

CORPORATE BOND RATINGS

MOODY'S INVESTORS SERVICE, INC.

Aaa	Bonds that are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.
Aa	Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than in Aaa Securities.
A	Bonds that are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.
Baa	Bonds that are rated Baa are considered as medium-grade obligations i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
Ba	Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
B	Bonds that are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small. Moody's applies numerical modifiers (1, 2, and 3) with respect to the bonds rated "Aa" through "B." The modifier 1 indicates that the company ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the company ranks in the lower end of its generic rating category.
Caa	Bonds that are rated Caa are of poor standing. These issues may be in default or there may be present elements of danger with respect to principal or interest.
Ca	Bonds that are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C	Bonds that are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.
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STANDARD & POOR'S RATINGS SERVICES

AAA	This is the highest rating assigned by S&P to a debt obligation and indicates an extremely strong capacity to pay interest and repay principal.
AA	Debt rated AA has a very strong capacity to pay interest and repay principal and differs from AAA issues only in small degree. Principal and interest payments on bonds in this category are regarded as safe.
A	Debt rated A has a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
BBB	This is the lowest investment grade. Debt rated BBB has an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

Speculative Grade

Debt rated BB, CCC, CC and C are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation, and C the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions. Debt rated C1 is reserved for income bonds on which no interest is being paid and debt rated D is in payment default.

In July 1994, S&P initiated an "r" symbol to its ratings. The "r" symbol is attached to derivatives, hybrids and certain other obligations that S&P believes may experience high variability in expected returns due to non-credit risks created by the terms of the obligations.

"AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major categories.

"NR" indicates that no public rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular type of obligation as a matter of policy.