



THE GDL FUND

Shareholder Commentary
September 30, 2011



Our cover icon represents the underpinnings of Gabelli. The Teton mountains in Wyoming represent what we believe in in America – that creativity, ingenuity, hard work, and a global uniqueness provide enduring values. They also stand out in an increasingly complex, interconnected, and interdependent economic world.

Investment Objective:

The GDL Fund is a non-diversified, closed-end management investment company. The Fund's investment objective is to achieve absolute returns in various market conditions without excessive risk of capital. Absolute returns are defined as positive total returns, regardless of the direction of securities markets. The Fund will seek to achieve its objective by investing primarily in merger arbitrage transactions and, to a lesser extent, in corporate reorganizations involving stubs, spin-offs, and liquidations.

We have separated the portfolio manager's commentary from the financial statements and investment portfolio due to corporate governance regulations stipulated by the Sarbanes-Oxley Act of 2002. We have done this to ensure that the content of the portfolio manager's commentary is unrestricted. The financial statements and investment portfolio are mailed separately from the commentary. Both the commentary and the financial statements, including the portfolio of investments, are available on our website at www.gabelli.com.

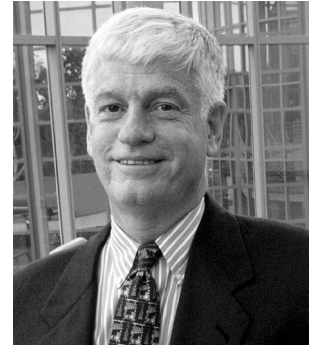
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To Our Shareholders,

The goal of The GDL Fund, formerly named The Gabelli Global Deal Fund, is to earn absolute returns in excess of short-term interest rates, with less volatility than usually experienced in traditional equity investing. Over time, a consistent and disciplined arbitrage investment strategy seeks to produce attractive rates of return that are not correlated with the overall equity markets.

Our investment strategy is a classic merger arbitrage approach. In its basic form, this entails the purchase of shares of a target acquisition company at a discount to the expected value of the shares once the merger or acquisition is completed. We aim to earn the “spread” between the purchase price and the offer price for the target company.

For the quarter ended September 30, 2011, the net asset value (“NAV”) total return of The GDL Fund (the “Fund”) was (5.2)%, compared with the total return of 0.01% of the 3 Month U.S. Treasury Bill Index. The total return for the Fund’s publicly traded shares was (8.8)%. On September 30, 2011, the Fund’s NAV per share was \$13.97, while the price of the publicly traded shares closed at \$11.92 on the New York Stock Exchange (“NYSE”).



Mario J. Gabelli, CFA



Comparative Results

Average Annual Returns through September 30, 2011 (a)

	Quarter	Year to Date	1 Year	3 Year	Since Inception (01/31/07)
GDL Fund					
NAV Total Return (b)	(5.21)%	(0.79)%	(0.07)%	1.95%	1.54%
Investment Total Return (c)	(8.78)	(4.11)	(5.29)	4.19	(1.85)
3 Month U.S. Treasury Bill Index	0.01	0.05	0.08	0.14	1.21

- (a) **Returns represent past performance and do not guarantee future results.** Investment returns and the principal value of an investment will fluctuate. When shares are sold, they may be worth more or less than their original cost. Current performance may be lower or higher than the performance data presented. Visit www.gabelli.com for performance information as of the most recent month end. Performance returns for periods of less than one year are not annualized. **Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing.** The 3 Month U.S. Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into the outstanding Treasury Bill that matures closest to, but not beyond three months from the re-balancing date. To qualify for selection, an issue must have settled on or before the re-balancing (month end) date. Dividends are considered reinvested except for the 3 Month U.S. Treasury Bill Index. You cannot invest directly in an index.
- (b) Total returns and average annual returns reflect changes in the NAV per share and reinvestment of distributions at NAV on the ex-dividend date and are net of expenses. Since inception return is based on an initial NAV of \$19.06.
- (c) Total returns and average annual returns reflect changes in closing market values on the New York Stock Exchange and reinvestment of distributions. Since inception return is based on an initial offering price of \$20.00.

Premium / Discount Discussion

As a refresher for our shareholders, the NAV of any fund is the total market value of the securities and other assets held by a fund, less any liabilities. The NAV is calculated each business day and often presented on a per share basis.

However, the price of a closed-end fund is determined in the open market by willing buyers and sellers. Shares of the Fund trade on the NYSE under the symbol “GDL” and may trade at a premium to (higher than) net asset value or at a discount to (lower than) net asset value.

Ideally, the Fund’s market price will generally track the NAV. However, the Fund’s premium or discount to NAV may vary over time. It is important to remember that “Mr. Market” is a pendulum that swings both ways, and that any number of factors can influence that swing on a day to day basis. This is also the case with our Fund, which invests in merger arbitrage deals, and therefore is not particularly correlated with the market in general.

Deal Environment and Outlook

With continued fears of the European debt situation weighing on the global financial markets, deal activity in the third quarter of 2011 declined from the second quarter. Total global merger and acquisition (“M&A”) activity, according to Thomson Reuters M&A Review, totaled \$569.2 billion compared with \$778 billion in the second quarter of 2011. Ongoing concerns about the future of the euro zone, the outlook for the global economy, and the growing domestic fiscal deficit contributed to the stagnant M&A market.

During the first nine months of the year, global M&A increased by 21.7% from the same period in the previous year, to a total of \$2.1 trillion. However, the third quarter decline of total announced deals represented the second consecutive quarterly decline since the first quarter of 2010. For the first nine months of 2011, cross border activity totaled \$702.7 billion, which accounted for approximately 34.2% of all M&A volume, down from 38.3% in the first nine months of 2010.

Energy was the leading sector in the U.S. M&A market, with deal volume totaling \$167.7 billion for the first nine months of the year. It accounted for 20% of all U.S. M&A activity during that time period and an increase of 12% from the prior year. The financial sector followed, with \$131.4 billion in deals announced.

With Greece on the verge of default and fears over slowing growth in China, the outlook for the fourth quarter of 2011 and the beginning of 2012 may seem quite bleak. Yet, with interest rates at record lows, companies trading at historically low multiples, and trillions of dollars in cash on corporate balance sheets, the wheels are in motion for a robust M&A environment. The slowdown in the economy should encourage companies to pay premiums for already established, cheaply priced competitors, and reduce investment in new infrastructure, which could be costly, time consuming, and risky. As this roller coaster of a market continues to keep investors from sleeping at night, the non market correlated, absolute return strategy of the Fund should help to keep our shareholders at ease during this turmoil.

Positions Closed in the Third Quarter 2011

BJ’s Wholesale Club Inc. is a wholesale warehouse chain that operates in the eastern United States. On June 29, 2011, the company announced that it had entered into an agreement to be acquired by private equity firms Leonard Green and CVC Capital Partners for \$51.25 per share in cash. The total transaction was valued at approximately \$2.8 billion and was completed on September 30, 2011 for an annualized rate of return of 6.44%.

National Semiconductor Corp. designs, develops, and manufactures analog and mixed signal integrated circuits and sub systems. On April 4, 2011, the company announced that it had entered into an agreement to be acquired by Texas Instruments for \$25.00 per share in cash, valuing the total transaction at approximately \$6.5 billion. The transaction was completed on September 23, 2011. The Fund realized an annualized rate of return of 7.89%.

Rhodia SA is a French specialty chemicals company that develops and produces various polymers and plastics. On April 4, 2011, Belgium based Solvay announced that it had made an offer to purchase Rhodia for 31.60 euros per share in cash, valuing the company at 3.4 billion euros. In addition, shareholders would also be entitled to receive a dividend of 0.50 euros. After receiving all required regulatory approvals, on August 31, 2011 the Fund received the deal proceeds for an annualized return of 5.22%.

Deals in the Pipeline – U.S. and Worldwide

Anvil Mining Ltd. (AVM - \$7.31 - Australia Stock Exchange) is an Australian based copper miner with operations focused in the Democratic Republic of Congo. The company is dual listed in both Australia and Canada. On September 29, 2011, Hong Kong based Minmetals Resources Ltd. announced that it had entered into an agreement to acquire Anvil for C\$8.00 per share or C\$1.3 billion in total. The deal is subject to customary foreign regulatory approvals and is expected to close by the end of the fourth quarter of 2011.

Autonomy Corp. plc (AU.LN - \$39.76 - London Stock Exchange) is a Cambridge, England based software development and distribution company whose technology allows computers to process information in “human friendly form,” such as emails and web pages. On August 18, 2011, the company announced it had entered into an agreement to be acquired by U.S. computer giant Hewlett Packard. Under the terms of the deal, Hewlett Packard would pay shareholders of Autonomy GBP 25.50 per share, which valued the company at GBP 7.09 billion. The deal is expected to close by the end of the year.

Cephalon Inc. (CEPH - \$80.70 - Nasdaq) is a biopharmaceutical company that develops products for the central nervous system, inflammatory diseases, pain, and oncology therapeutics. On May 2, 2011, the company announced that it had entered into an agreement with Teva Pharmaceuticals to be acquired for \$81.50 per share in cash, valuing the entire transaction at roughly \$6.8 billion. The merger is subject to regulatory approvals as well as a shareholder vote and is expected to close by the end of 2011.

Goodrich Corp. (GR - \$120.68 - NYSE) makes a variety of aircraft components including landing systems, wheels and brakes, and systems for military aircraft. On September 21, 2011, the company announced that it entered into an agreement with United Technologies Corp. to be acquired for \$127.50 per share in cash. The transaction, valued at approximately \$16.4 billion, is subject to regulatory and shareholder approval and is anticipated to close in the second quarter of 2012.

Sincerely,



Mario J. Gabelli, CFA
Portfolio Manager and
Chief Investment Officer

October 18, 2011

Top Ten Holdings **September 30, 2011**

Goodrich Corp.	Varian Semiconductor Equipment Associates Inc.
Arch Chemicals Inc.	Netlogic Microsystems Inc.
Cephalon Inc.	Southern Union Co.
Ameron International Corp.	Autonomy Corp. plc
DPL Inc.	Q-Med AB

Note: The views expressed in this Shareholder Commentary reflect those of the Portfolio Manager only through the end of the period stated in this Shareholder Commentary. The Portfolio Manager's views are subject to change at any time based on market and other conditions. The information in this Portfolio Manager's Shareholder Commentary represents the opinions of the individual Portfolio Manager and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Views expressed are those of the Portfolio Manager and may differ from those of other portfolio managers or of the Firm as a whole. This Shareholder Commentary does not constitute an offer of any transaction in any securities. Any recommendation contained herein may not be suitable for all investors. Information contained in this Shareholder Commentary has been obtained from sources we believe to be reliable, but cannot be guaranteed.

Portfolio Manager Compensation

Mr. Gabelli's incentive-based, variable compensation structure and dollar amount have been fully disclosed each year since April of 2000 in the annual proxy statement for GAMCO Investors, Inc. (NYSE:GBL). Mr. Gabelli receives no base salary, no annual bonus, and no stock options.

As founder and portfolio manager of The GDL Fund, Mr. Gabelli received \$1,949,170 in calendar year 2010. For the Fund's first twelve months of operation starting in January 2007, Mr. Gabelli did not receive any compensation for serving as portfolio manager of the Fund. Mario J. Gabelli and various entities he is deemed to control owned 1,367,698 and 625,248 common and preferred shares, respectively, of the Fund with a total value of \$16,302,963 and \$32,512,896 in the common and preferred shares, respectively, as of September 30, 2011. Mr. Gabelli may not have one hundred percent pecuniary interest in some of the entities he is deemed to control.

Common Share Repurchase Plan

On November 8, 2006, the Board of Trustees of the Fund (the "Board") voted to authorize the repurchase of the Fund's common shares in the open market from time to time when such shares are trading at a discount of 7.5% or more from NAV. Pursuant to this share repurchase plan, the Fund repurchased and retired 28,208 common shares in the third quarter of 2011. In total through September 30, 2011, the Fund has repurchased and retired 207,421 common shares in the open market under this share repurchase plan at an average investment of \$14.10 per share and an average discount of approximately 14% from its NAV.

Quarterly Distributions

The Fund paid a \$0.32 per share quarterly cash distribution on September 23, 2011 to common shareholders of record on September 16, 2011.

The Fund intends to make quarterly cash distributions of all or a portion of its investment company taxable income (which includes ordinary income and realized net short-term capital gains) to common shareholders. The Fund also intends to make annual distributions of its realized net long-term capital gains. Various factors will affect the level of the Fund's income, such as its asset mix and use of merger arbitrage strategies. To permit the Fund to maintain more stable distributions, the Fund may from time to time distribute more or less than the entire amount of income earned in a particular period. Because the Fund's current quarterly distributions are subject to modification by the Board at any time and the Fund's income will fluctuate, there can be no assurance that the Fund will pay distributions at a particular rate or frequency.

Each quarter, the Board reviews the amount of any potential distribution and the income, capital gain, or capital available. The Board will continue to monitor the Fund's distribution level, taking into consideration the Fund's net asset value and the financial market environment. The distribution rate should not be considered the dividend yield or total return on an investment in the Fund.

If the Fund does not generate sufficient earnings from dividends and interest received and realized net capital gains to satisfy the aggregate distributions paid by the Fund in a given year, then the amount distributed in excess of the Fund's investment income and realized net capital gains would be deemed a return of capital. Since this would be considered a return of a portion of a shareholder's original investment, it is generally not taxable and is treated as a reduction in the shareholder's cost basis. Despite the challenges of the extra record keeping, a distribution that is occasionally supplemented with a return of capital serves as a smoothing mechanism resulting in a more stable and consistent cash flow available to shareholders. A portion of the distribution may be treated as qualified dividend income for individuals, subject to the maximum federal income tax rate, which is currently 15% in taxable accounts for individuals.

Short-term capital gains, qualified dividend income, ordinary income, and paid-in capital, if any, will be allocated on a pro-rata basis to all distributions to common shareholders for the year. Based on the accounting records of the Fund as of September 16, 2011, each of the distributions paid in 2011 would include approximately 6% from net investment income, 45% from net capital gains, and 49% from paid-in capital. The estimated components of each distribution are updated and provided to shareholders of record in a notice accompanying the distribution and are available on our website (www.gabelli.com). The final determination of the sources of all distributions in 2011 will be made after year end and can vary from the quarterly estimates. All shareholders with taxable accounts will receive written notification regarding the components and tax treatment for all 2011 distributions in early 2012 via Form 1099-DIV.

Series B Cumulative Preferred Shares

The Fund's Series B Cumulative Preferred Shares paid a \$0.875 per share cash distribution on September 26, 2011 to preferred shareholders of record on September 19, 2011. The Series B Preferred Shares, which trade on the NYSE under the symbol "GDL Pr B," were issued on April 15, 2011 at \$50.00 per share and pay distributions quarterly. The Series B Preferred Shares have an annual dividend rate of 7.00% (\$3.50 per share) for the dividend periods ending on or prior to March 26, 2012 and thereafter will be reset by the Fund's Board and publicly announced in a notice at least sixty days prior to March 26, 2012 for the four dividend periods ending March 26, 2013, at least sixty days prior to March 26, 2013 for the eight dividend periods ending March 26, 2015, and at least sixty days prior to March 26, 2015 for all remaining dividend periods prior to the mandatory redemption date of March 26, 2018. The Series B Preferred Shares may be put back to the Fund during a period after announcement of the new rate for March 26, 2013 and March 26, 2015, and may be redeemed by the Fund at any time on or after March 26, 2014. Each reset date will take into account interest rates for debt securities with similar timeframes to put or maturity and may be substantially lower than 7.00% annually, but not less than 3.00% annually.

A portion of the distribution may be treated as qualified dividend income for individuals, subject to the maximum federal income tax rate, which is currently 15% in taxable accounts for individuals. Short-term capital gains, qualified dividend income, and ordinary income, if any, will be allocated on a pro-rata basis to all distributions to preferred shareholders for the year. Based on the accounting records of the Fund as of September 16, 2011, each of the distributions to preferred shareholders paid in 2011 would include approximately 12% from net investment income and 88% from net capital gains. The estimated components of each distribution are updated and provided to shareholders of record in a notice accompanying the distribution and are available on our website (www.gabelli.com). The final determination of the sources of all distributions in 2011 will be made after year end and can vary from the quarterly estimates. All shareholders with taxable accounts will receive written notification regarding the components and tax treatment for all 2011 distributions in early 2012 via Form 1099-DIV.

www.gabelli.com

Please visit us on the Internet. Our homepage at www.gabelli.com contains information about GAMCO Investors, Inc., the Gabelli/GAMCO Mutual Funds, IRAs, 401(k)s, current and historical quarterly reports, closing prices, and other current news. We welcome your comments and questions via e-mail at closedend@gabelli.com.

You may sign up for our e-mail alerts at www.gabelli.com and receive early notice of quarterly report availability, news events, media sightings, and mutual fund prices and performance.

e-delivery

We are pleased to offer electronic delivery of Gabelli fund documents. Shareholders of our closed-end funds can now elect to receive e-mail announcements regarding available materials, including shareholder commentaries and fund reports. For more information or to register for e-delivery, please visit our website at www.gabelli.com.

AUTOMATIC DIVIDEND REINVESTMENT AND VOLUNTARY CASH PURCHASE PLANS

Enrollment in the Plan

It is the policy of The GDL Fund (the “Fund”) to automatically reinvest dividends payable to common shareholders. As a “registered” shareholder you automatically become a participant in the Fund’s Automatic Dividend Reinvestment Plan (the “Plan”). The Plan authorizes the Fund to credit common shares to participants upon an income dividend or a capital gains distribution regardless of whether the shares are trading at a discount or a premium to net asset value. All distributions to shareholders whose shares are registered in their own names will be automatically reinvested pursuant to the Plan in additional shares of the Fund. Plan participants may send their share certificates to American Stock Transfer (“AST”) to be held in their dividend reinvestment account. Registered shareholders wishing to receive their distributions in cash must submit this request in writing to:

The GDL Fund
c/o American Stock Transfer
6201 15th Avenue
Brooklyn, NY 11219

Shareholders requesting this cash election must include the shareholder’s name and address as they appear on the share certificate. Shareholders with additional questions regarding the Plan or requesting a copy of the terms of the Plan, may contact AST at (888) 422-3262.

If your shares are held in the name of a broker, bank, or nominee, you should contact such institution. If such institution is not participating in the Plan, your account will be credited with a cash dividend. In order to participate in the Plan through such institution, it may be necessary for you to have your shares taken out of “street name” and re-registered in your own name. Once registered in your own name your distributions will be automatically reinvested. Certain brokers participate in the Plan. Shareholders holding shares in “street name” at participating institutions will have dividends automatically reinvested. Shareholders wishing a cash dividend at such institution must contact their broker to make this change.

The number of common shares distributed to participants in the Plan in lieu of cash dividends is determined in the following manner. Under the Plan, whenever the market price of the Fund’s 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 dividends or capital gains distribution, participants 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 Fund’s common shares. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange (“NYSE”) trading day, the next 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 common shares from the Fund valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, AST will buy common shares in the open market, or on the NYSE, or elsewhere, for the participants’ accounts, except that AST will endeavor to terminate purchases in the open market and cause the Fund to issue shares at net asset value if, following the commencement of such purchases, the market value of the common shares exceeds the then current net asset value.

The automatic reinvestment of dividends and capital gains distributions will not relieve participants of any income tax which may be payable on such distributions. A participant in the Plan will be treated for federal income tax purposes as having received, on a dividend payment date, a dividend or distribution in an amount equal to the cash the participant could have received instead of shares.

Voluntary Cash Purchase Plan

The Voluntary Cash Purchase Plan is yet another vehicle for our shareholders to increase their investment in the Fund. In order to participate in the Voluntary Cash Purchase Plan, shareholders must have their shares registered in their own name.

Participants in the Voluntary Cash Purchase Plan have the option of making additional cash payments to AST for investments in the Fund's common shares at the then current market price. Shareholders may send an amount from \$250 to \$10,000. AST will use these funds to purchase shares in the open market on or about the 1st and 15th of each month. AST will charge each shareholder who participates a pro rata share of the brokerage commissions. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. It is suggested that any voluntary cash payments be sent to American Stock Transfer, 6201 15th Avenue, Brooklyn, NY 11219 such that AST receives such payments approximately 10 days before the investment date. Funds not received at least five days before the investment date shall be held for investment until the next purchase date. A payment may be withdrawn without charge if notice is received by AST at least 48 hours before such payment is to be invested.

Shareholders wishing to liquidate shares held at AST must do so in writing or by telephone. Please submit your request to the above mentioned address or telephone number. Include in your request your name, address, and account number. The cost to liquidate shares is \$1.00 per transaction as well as the brokerage commission incurred. Brokerage charges are expected to be less than the usual brokerage charge for such transactions.

For more information regarding the Automatic Dividend Reinvestment Plan and Voluntary Cash Purchase Plan, brochures are available by calling (914) 921-5070 or by writing directly to the Fund.

The Fund reserves the right to amend or terminate the 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 the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by AST on at least 90 days written notice to participants in the Plan.

**TRUSTEES AND OFFICERS
THE GDL FUND
One Corporate Center, Rye, NY 10580-1422**

Trustees

Mario J. Gabelli, CFA
*Chairman & Chief Executive Officer,
GAMCO Investors, Inc.*

Anthony J. Colavita
*President,
Anthony J. Colavita, P.C.*

James P. Conn
*Former Managing Director &
Chief Investment Officer,
Financial Security Assurance Holdings Ltd.*

Clarence A. Davis
*Former Chief Executive Officer,
Nestor, Inc.*

Mario d'Urso
Former Italian Senator

Arthur V. Ferrara
*Former Chairman & Chief Executive Officer,
Guardian Life Insurance Company of America*

Michael J. Melarkey
*Attorney-at-Law,
Avansino, Melarkey, Knobel & Mulligan*

Edward T. Tokar
*Senior Managing Director,
Beacon Trust Company*

Salvatore J. Zizza
Chairman, Zizza & Co., Ltd.

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Bruce N. Alpert
President

Carter W. Austin
Vice President

Peter D. Goldstein
Chief Compliance Officer

Laurissa M. Martire
Vice President & Ombudsman

Agnes Mullady
Treasurer & Secretary

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Custodian
The Bank of New York Mellon

Counsel
Skadden, Arps, Slate, Meagher & Flom LLP

Transfer Agent and Registrar
American Stock Transfer and Trust Company

Stock Exchange Listing

	<u>Common</u>	<u>Series B Preferred</u>
NYSE-Symbol:	GDL	GDL PrB
Shares Outstanding:	21,103,689	2,879,758

The Net Asset Value per share appears in the Publicly Traded Funds column, under the heading "Specialized Equity Funds," in Monday's The Wall Street Journal. It is also listed in Barron's Mutual Funds/Closed End Funds section under the heading "Specialized Equity Funds."

The Net Asset Value per share may be obtained each day by calling (914) 921-5070 or visiting www.gabelli.com.

The NASDAQ symbol for the Net Asset Value per share is "XGDLX."

For general information about the Gabelli Funds, call **800-GABELLI** (800-422-3554), fax us at 914-921-5118, visit Gabelli Funds' Internet homepage at: www.gabelli.com, or e-mail us at: closedend@gabelli.com

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may, from time to time, purchase its common shares in the open market when the Fund's shares are trading at a discount of 7.5% or more from the net asset value of the shares. The Fund may also, from time to time, purchase its preferred shares in the open market when the preferred shares are trading at a discount to the liquidation value.

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