

# Gabelli ESG Fund, Inc.

## Shareholder Commentary September 30, 2017

(Y)our Portfolio Management Team



**Christopher C. Desmarais**



**Kevin V. Dreyer**



**Christopher J. Marangi**

### To Our Shareholders,

For the quarter ended September 30, 2017, the net asset value (“NAV”) per Class AAA Share of the Gabelli ESG Fund increased 2.4% compared with increases of 4.5% and 4.6% for the Standard & Poor’s (“S&P”) 500 Index and the Russell 3000 Index, respectively. See page 2 for additional performance.

### Environmental, Social, and Governance (ESG) Investing

Environmental, social and governance (ESG) refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a business. Incorporating ESG factors into company research can help understand risks and opportunities that may otherwise have been overlooked, and improve the return profile of investment portfolios. ESG analysis differs from a traditional SRI screen in that it does not apply a “negative screen”, excluding companies that engage in specific unwanted activities (such as selling tobacco or weapons). Instead, it takes a holistic approach, evaluating a company’s performance in a variety of areas, including carbon emissions, energy efficiency, water stress, human capital development, chemical safety, board independence, management pay practices, and business ethics.

### Third Quarter Commentary

The U.S. stock market advanced to record highs in September, with the S&P 500 in positive territory for an eighth consecutive quarter. The fundamental narrative remains favorable, thanks in large part to an upswing in global growth and still supportive global monetary policy. Economic indicators continue to point upwards around the world, with low inflation, falling unemployment and rising consumer spending all contributing to the stock market’s rise. Reported second quarter earnings were, by and large, better than expected, with many companies beating sales and earnings forecasts and reaffirming or raising full year guidance. Furthermore, the weak dollar is helping to increase reported overseas profits for U.S. based multinationals, and could potentially boost U.S. exports.

## Comparative Results

### Average Annual Returns through September 30, 2017 (a)(b)

	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception (6/1/07)
<b>Class AAA (SRIGX)</b> .....	2.38%	10.18%	8.13%	10.07%	6.83%	6.39%
S&P 500 Index .....	4.48	18.61	10.81	14.22	7.44	7.19
Russell 3000 Index .....	4.57	18.71	10.74	14.23	7.57	7.24
<b>Class A (SRIAX)</b> .....	2.38	10.19	8.13	10.08	6.85	6.40
With sales charge (c) .....	(3.50)	3.85	6.02	8.78	6.22	5.79
<b>Class C (SRICX)</b> .....	2.22	9.36	7.32	9.25	6.04	5.60
With contingent deferred sales charge (d) .....	1.22	8.36	7.32	9.25	6.04	5.60
<b>Class I (SRIDX)</b> .....	2.40	10.39	8.36	10.34	7.09	6.65
<b>Class T (SRIWX)</b> .....	2.38	10.18	8.13	10.07	6.83	6.39
With sales charge (e) .....	(0.18)	7.43	7.22	9.52	6.56	6.13

**In the current prospectuses dated July 28, 2017, the gross expense ratios for Class AAA, A, C, I, and T Shares are 1.67%, 1.67%, 2.42%, 1.42%, and 1.67%, respectively, and the net expense ratios for these share classes after contractual reimbursements by Gabelli Funds, LLC, (the "Adviser") are 1.25%, 1.25%, 2.00%, 1.00%, and 1.25%, respectively. Class AAA and I Shares do not have a sales charge. The maximum sales charge for Class A Shares, Class C Shares and Class T Shares is 5.75%, 1.00%, and 2.50%, respectively.**

- (a) *Returns represent past performance and do not guarantee future results. Total returns and average annual returns reflect changes in share price, reinvestment of distributions, and are net of expenses. Investment returns and the principal value of an investment will fluctuate. When shares are redeemed, 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](http://www.gabelli.com) for performance information as of the most recent month end. Returns would have been lower had Gabelli Funds, LLC, the Adviser not reimbursed certain expenses of the Fund. The Fund imposes a 2% redemption fee on shares sold or exchanged within seven days of purchase. 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 prospectuses contain information about these and other matters and should be read carefully before investing. To obtain a prospectus, please visit our website at [www.gabelli.com](http://www.gabelli.com). The Class AAA Share NAVs are used to calculate performance for periods prior to the issuance of Class T Shares on July 28, 2017. The actual performance of the Class T Shares would have been lower due to the additional fees and expenses associated with the class of shares. The S&P 500 Index is a market capitalization weighted index of 500 large capitalization stocks commonly used to represent the U.S. equity market. The Russell 3000 Index is an unmanaged indicator that measures the performance of the 3,000 largest U.S. traded stocks, in which the underlying companies are incorporated in the U.S. Dividends are considered reinvested. You cannot invest directly in an index.*
- (b) The Fund's fiscal year ends March 31.
- (c) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.
- (d) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.
- (e) Performance results include the effect of the maximum 2.50% sales charge at the beginning of the period.

We have separated the portfolio managers' 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 managers' 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](http://www.gabelli.com).

The Trump administration's policies came back into focus during the quarter with the announcement of a deal to extend the debt ceiling and the release of a highly anticipated tax reform blueprint. More surprising than the across the aisle handshake from President Trump and Democrats on the debt ceiling agreement was the market's positive reaction to tax cut expectations, the possibility of which had been dwindling after several legislative setbacks on healthcare reform. The discussion around tax reform spurred renewed momentum around reflation trades and hope for fiscal stimulus. If a bill resembling the current plan is passed, it will likely be a boon for the U.S. economy and stock market, with industrial companies and domestic-oriented, full cash tax paying small cap stocks being among the biggest winners. Consumer spending may also get a boost from reductions in rates for individuals. Ultimately, the devil is in the details, and the Trump administration has not yet shown ability to advance much of its agenda, but we remain cautiously optimistic that taxes for individuals and corporations will be lower in 2018.

Of course, risks always remain, most notably the very public nuclear brinkmanship with North Korea. Any military conflict that could occur has the potential to carry with it an enormous human cost in terms of loss of life. While of lesser importance, it would likely result in a sharp decline in stock prices as well. We are hopeful that a diplomatic solution prevails, and note that in this new era of uncertain geopolitical dynamics, military spending will likely remain robust for years to come.

### **Deals, Deals & More Deals**

Merger and acquisition (M&A) activity, while still robust, has not meaningfully accelerated under the Trump administration, as CEOs and boards wait for more clarity on taxes and potential regulatory scrutiny. Worldwide M&A activity totaled \$2.4 trillion during the first nine months of 2017, a 3% increase compared to the first nine months of 2016. Overall, 35,360 worldwide deals were announced during the first nine months of 2017, flat compared to a year ago. As soon as policy uncertainties in Washington regarding corporate tax reform, international trade, and various industry reform and deregulation initiatives begins to lift, a resurgence in deal making may start.

### **Investment Scorecard**

Top contributors to performance during the quarter included Xylem (5.5% of net assets as of September 30, 2017) (+13%), which delivered strong revenue and profit growth in the second quarter, along with an 8% increase in orders and a double-digit growth in treatment orders, a strong harbinger for continued strength in the water utility sector; PayPal (3.0%) (+19%), which shifted strategy from an incumbent antagonist to an incumbent partner, signing multiple partnerships with key issuers, merchants and technology companies, dramatically increasing PayPal's addressable market and providing it with a more efficient customer acquisition model; Altaba (1.5%) (+22%), which rose in sympathy with the company's largest holding, Alibaba Group (BABA), and on improved prospect for U.S. corporate tax reform; Waste Connections (2.6%) (+9%), which has benefited from continued waste volume and pricing strength, particularly in the western region, where the company generates half its profits; and Watts Water Technologies (2.4%) (+10%), which delivered strong second quarter earnings growth, largely driven by record operating margins.

Detractors from performance included food manufacturers Kellogg (2.2%) (-9%), Mondelez International (3.9%) (-5%), and Conagra Brands (3.7%) (-5%), which all declined amid concerns about diminished pricing power in the face of increasing power of retailers, most notably Amazon/Whole Foods; Johnson Controls (3.0%) (-7%), whose shares declined as the company's June quarterly sales and profits disappointed, reflecting some Tyco personnel integration issues; results ultimately led to an acceleration of JCI's executive transition, with former Tyco CEO George Oliver becoming Chairman and CEO earlier than anticipated; and Dish Network (1.4%) (-14%), which declined due to increased concerns over Pay-TV subscriber losses amid increased competition from over-the-top services.

## Conclusion

Markets continue to climb, but risks – geopolitical and otherwise – as always remain. We continue to seek high-quality companies trading at a discount to Private Market Value – the price an informed industrialist would pay to own an entire business – and hope to use any opportunity “Mr. Market” provides to us. We also look for catalysts to surface value, such as industry consolidation, financial engineering, new management, regulatory changes, or a change in cash flow allocation. Finally, tax reform has the potential to increase consumer spending, corporate profits, and lead to an acceleration of deal making activity.

October 27, 2017

**Top Ten Holdings (Percent of Net Assets)**  
**September 30, 2017**

Xylem Inc.	5.5%	Paypal Holdings Inc.	3.0%
Edgewell Personal Care Co.	4.0%	Johnson Controls International	3.0%
Mondelez International Inc.	3.9%	Waste Connections Inc.	2.6%
Conagra Brands Inc.	3.7%	Liberty Global Plc	2.4%
Danone SA	3.5%	Watts Water Technologies Inc.	2.4%

**Note:** The views expressed in this Shareholder Commentary reflect those of the Portfolio Managers only through the end of the period stated in this Shareholder Commentary. The Portfolio Managers' views are subject to change at any time based on market and other conditions. The information in this Shareholder Commentary represents the opinions of the Portfolio Managers 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 Managers 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.

## **Minimum Initial Investment – \$1,000**

The Fund's minimum initial investment for regular accounts is \$1,000. There are no subsequent investment minimums. No initial minimum is required for those establishing an Automatic Investment Plan. Additionally, the Fund and other Gabelli/GAMCO Funds are available through the no-transaction fee programs at many major brokerage firms. The Fund imposes a 2% redemption fee on shares sold or exchanged within seven days after the date of purchase. See the prospectuses for more details.

## **www.gabelli.com**

Please visit us on the Internet. Our homepage at [www.gabelli.com](http://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 [info@gabelli.com](mailto:info@gabelli.com).

The Fund's daily NAVs are available in the financial press and each evening after 7:00 PM (Eastern Time) by calling 800-GABELLI (800-422-3554). Please call us during the business day, between 8:00 AM – 7:00 PM (Eastern Time), for further information.

You may sign up for our e-mail alerts at [www.gabelli.com](http://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. Direct shareholders of our mutual funds can elect to receive their Annual and Semiannual Reports, Manager Commentaries, and Prospectuses via e-delivery. For more information or to sign up for e-delivery, please visit our website at [www.gabelli.com](http://www.gabelli.com).

## **Multi-Class Shares**

Class AAA Shares are no-load shares offered directly through selected broker/dealers. Class A, Class C, and Class T Shares are targeted to the needs of investors who seek advice through financial consultants. Class I Shares are available directly through the Fund's distributor or brokers that have entered into selling agreements specifically with respect to Class I Shares. The Board of Directors determined that expanding the types of Fund shares available through various distribution options would enhance the ability of the Fund to attract additional investors.

## **Gabelli/GAMCO Funds and Your Personal Privacy**

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### **Who are we?**

The Gabelli/GAMCO Funds are investment companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. We are managed by Gabelli Funds, LLC and GAMCO Asset Management Inc., which are affiliated with GAMCO Investors, Inc. GAMCO Investors, Inc. is a publicly held company that has subsidiaries that provide investment advisory services for a variety of clients.

### **What kind of non-public information do we collect about you if you become a fund shareholder?**

If you apply to open an account directly with us, you will be giving us some non-public information about yourself. The non-public information we collect about you is:

- *Information you give us on your application form.* This could include your name, address, telephone number, social security number, bank account number, and other information.
- *Information about your transactions with us, any transactions with our affiliates, and transactions with the entities we hire to provide services to you.* This would include information about the shares that you buy or redeem. If we hire someone else to provide services—like a transfer agent—we will also have information about the transactions that you conduct through them.

### **What information do we disclose and to whom do we disclose it?**

We do not disclose any non-public personal information about our customers or former customers to anyone other than our affiliates, our service providers who need to know such information, and as otherwise permitted by law. If you want to find out what the law permits, you can read the privacy rules adopted by the Securities and Exchange Commission. They are in volume 17 of the Code of Federal Regulations, Part 248. The Commission often posts information about its regulations on its website, [www.sec.gov](http://www.sec.gov).

### **What do we do to protect your personal information?**

We restrict access to non-public personal information about you to the people who need to know that information in order to provide services to you or the fund and to ensure that we are complying with the laws governing the securities business. We maintain physical, electronic, and procedural safeguards to keep your personal information confidential.

**GABELLI ESG FUND, INC.**  
**One Corporate Center**  
**Rye, NY 10580-1422**

**Portfolio Management Team Biographies**

**Christopher C. Desmarais** joined GAMCO Investors, Inc. in 1993. Currently he is a Managing Director of GAMCO Asset Management Company, a portfolio manager of Gabelli Funds, LLC, as well as the Director of Socially Responsive Investments. His responsibilities also include marketing and client service of GAMCO's Value, Growth, and International capabilities for institutional, endowment, and family office clients as well as direct oversight of all of the Firm's SRI equity products. He is a graduate of Fairfield University with a B.A. in Economics.

**Kevin V. Dreyer** joined Gabelli in 2005 as a research analyst covering companies within the consumer sector. Currently he is a Managing Director and Co-Chief Investment Officer for GAMCO Investors, Inc.'s Value team. In addition, he serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Dreyer received a B.S.E. from the University of Pennsylvania and an MBA from Columbia Business School.

**Christopher J. Marangi** joined Gabelli in 2003 as a research analyst. Currently he is a Managing Director and Co-Chief Investment Officer for GAMCO Investors, Inc.'s Value team. In addition, he serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Marangi graduated magna cum laude and Phi Beta Kappa with a B.A. in Political Economy from Williams College and holds an MBA with honors from Columbia Business School.

## GABELLI ESG FUND, INC.

One Corporate Center  
Rye, NY 10580-1422

t 800-GABELLI (800-422-3554)

f 914-921-5118

e [info@gabelli.com](mailto:info@gabelli.com)

[GABELLI.COM](http://GABELLI.COM)

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