The Gabelli Asset Fund

Shareholder Commentary – December 31, 2017

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To Our Shareholders,

For the quarter ended December 31, 2017, the net asset value ("NAV") per Class AAA Share of The Gabelli Asset Fund increased 5.4% compared with an increase of 6.6% for the Standard & Poor's ("S&P") 500 Index. See page 2 for additional performance information.

In a year marred by acts of man and acts of nature, the prices for assets, including equities, real estate, art, and cryptocurrencies marched to record highs in 2017. This growth in U.S. equities has been accompanied by surprisingly little drama, and without even a 5% correction, for over 14 months. On the surface, it would appear the world suffers from a severe case of cognitive dissonance. A closer look at the global economic data – low unemployment, improving trade, housing and consumer trends and rising corporate profits – would suggest that optimism is not misplaced, however. Although not always efficient, the market is an effective discounting machine capable of separating meaningful signals from distracting noise. Our job is similar: to identify securities that are improperly reflecting future prospects and trading with a Margin of Safety relative to Private Market Values (PMV).

Absolute returns in (y)our Fund were strong in 2017, and we look forward to an acceleration in earnings growth and deal activity in 2018. Volatility, while present in many industrial stocks but absent in the general market, will at some point return, driven by real or imagined noise. Market corrections and economic recessions are inevitable and indeed necessary for the proper functioning of our capitalist system. We remain alert and prepared for most eventualities, and believe our PMV with a Catalyst™ approach should continue to deliver superior risk-adjusted results over the long term.

Comparative Results

Average Annual Returns through December 31, 2017 (a)

	Quarter	1 Year	5 Year	10 Year	15 Year	Since Inception (3/3/86)
Class AAA (GABAX)	5.37%	20.16%	11.87%	7.40%	10.42%	11.99%
S&P 500 Index	6.64	21.83	15.79	8.50	9.92	10.55(b)
Dow Jones Industrial Average	10.94	28.07	16.31	9.24	10.24	11.62(b)
Nasdaq Composite Index	6.57	29.80	19.50	11.35	12.81	9.60(b)
Class A (GATAX)	5.37	20.18	11.87	7.40	10.41	11.99
With sales charge (c)	(0.69)	13.27	10.56	6.77	9.98	11.77
Class C (GATCX)	5.18	19.27	11.04	6.61	9.65	11.62
With contingent deferred sales charge (d)	4.18	18.27	11.04	6.61	9.65	11.62
Class I (GABIX)	5.45	20.48	12.15	7.67	10.60	12.08
Class T (GATTX)	4.40	20.21	11.88	7.41	10.42	11.99
With sales charge (e)	2.77	17.20	11.32	7.13	10.23	11.75

In the current prospectuses dated April 28, 2017, the expense ratios for Class AAA, A, C, I, and T Shares are 1.36%, 1.36%, 2.11%, 1.11%, and 1.36%, respectively. Class AAA and Class 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 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 for periods prior to December 31, 1988. 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. 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 Dow Jones Industrial Average and the Nasdaq Composite Index are unmanaged indicators of stock market performance. Dividends are considered reinvested, except for the Nasdaq Composite Index. You cannot invest directly in an index. The Class AAA Share NAVs are used to calculate performance for the periods prior to the issuance of Class A Shares and Class C Shares on December 31, 2003, Class I Shares on January 11, 2008, and Class T Shares on July 5, 2017. The actual performance of the Class A Shares, Class C Shares, and Class T Shares would have been lower due to the additional fees and expenses associated with these classes of shares. The actual performance of the Class I Shares would have been higher due to lower expenses related to this class of shares.*

(b) S&P 500 Index, Dow Jones Industrial Average, and Nasdaq Composite Index since inception performance results are as of February 28, 1986.

(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.

The Political Economy of 2017

State of the Consumer

After a sluggish start to the year, the U.S. economy grew at a faster than anticipated 3.1% and 3.3% in the second and third quarters, respectively. At 4.1%, unemployment stands at a ten-year low, while consumer wealth of nearly $97 trillion is at an all-time high. Housing starts of 1.3 million units continue their steady increase, but remain comfortably below the prior peak of 2.2 million units. The U.S. is in its ninth year of economic expansion, making this the third longest expansion at 101 months, trailing only 1961-1969 and 1991-2001 (those expansions were 106 and 120 months, respectively). Perhaps as important, the global economy is in synchronized expansion. For all of 2017, the eurozone is set to grow 2.2%, its fastest since 2007, while Japan has accelerated to 1.5%; China (by design), is likely to post growth of 6.7%. All of this bodes well for U.S. exporters and their employees.

State of the "Swamp"

Last year we wrote that the "Trump bump" in the market was premised on (a) tax reform (b) deregulation and (c) fiscal stimulus. To date, the Trump administration appears to be delivering on the first two objectives, with an infrastructure bill planned for early 2018. Deregulation in the energy, financial, and media/telecom sectors has already unleashed corporate animal spirits. A change to the existing tax regime – we will resist calling the imperfect bill "reform" – should make U.S. corporate taxes more competitive with other OECD countries. Many individuals will see lower taxes with reduced rates and an increased standard deduction, but higher income households in higher state and local tax (SALT) locations could see an increase. The government has picked a new set of winners and losers (tax lawyers remain winners). The impact this change in taxes could have on the economy is dependent on myriad factors: will the marginal propensity of the "winners" to spend to offset that of the "losers"? How will corporations redeploy increased cash flow? Will lower corporate taxes be competed away, lowering prices to customers but also profits to companies? Will increased government deficits cause interest rates to rise, "crowding out" other investment? For now, we would put these factors in the knowable unknowns category.

All else being equal, corporate earnings would rise in 2018 as a result of lower tax rates. However, the market likely anticipated most of this increase in the 30% rally since the November 2016 election. In addition, all else is never equal and, depending on the answers to the questions posed above, growth could either accelerate or slow. Long term, demographics and productivity growth, which are not necessarily altered by corporate tax regimes, are far more important drivers of GDP. That being said, in the near term, higher profits and a higher market are the base case, and fortunately (y)our portfolio is well positioned to capture the benefits of lower corporate taxes, as it includes a disproportionate weighting of small and mid-sized U.S. firms which are currently paying higher effective rates and whose revenues are centered on domestic operations.

State of the Fed

Notwithstanding excitement about potential tax windfalls, the most powerful market levitating force from Washington over the last decade did not originate from the White House or the Capitol, but from the Eccles Building, home to the Federal Reserve. Through open market activity and three rounds of quantitative easing (QE), the Federal Reserve slashed short-term interest rates from 4.5% before the 2008-2009 financial crisis to nearly zero, lifting asset prices everywhere. The Federal Reserve began tapping the brakes by tapering QE in October 2014, and has now raised rates five times, the latest of which took the Fed Funds rate to a range of 1.25%-1.50% in December 2017. The Federal Reserve started shrinking its balance sheet, with current expectations for three additional increases in each of 2018 and 2019, which would ratchet the Federal Reserve

Funds rate to 3.0%, still well below the prior peak. Newly appointed Fed Chair Jerome H. (“Jay”) Powell, a centrist and former banker, will likely continue this path.

Over the long term, the Federal Reserve’s “normalization” of rates is healthy for the economy, but the timing of this process has been the subject of debate, given a lack of inflation. The last two rate hike cycles ended in market dislocations in 2001 and 2007, but the circumstances in each were very different from today. A future recession may be unavoidable, but it need not be triggered by the Federal Reserve anytime soon. What is unquestionably unavoidable is that monetary policy has gone from being a tailwind to being a headwind for the economy and the market.

Mr. Market

Global Stocks

For 2017 the S&P 500 Index rose 20%. Since the March 9, 2009 low, the U.S. market is up 360%. At approximately 18x forward earnings, the market is not cheap by historical standards. Taken in the context of low interest rates, with the added prospect of lesser-taxed earnings, valuation seems less stretched. Importantly, we are not buying “the market” on your behalf. We pick individual stocks, and we can still uncover bargains, though admittedly with the need to turn over more stones than a few years ago.

Among the areas that worked in (y)our Fund were Industrials, which benefited from some combination of higher capital investment (e.g., water infrastructure company Xylem (1.2% of net assets as of December 31, 2017) and truck maker Navistar (0.6%)) or defense spending (e.g., Aerojet Rocketdyne (0.6%) and Honeywell (1.5%)). Other areas were challenged by changing consumer preferences, including Consumer Staples and Media (although the announced acquisition of Fox (2.6%), discussed below, was an early Christmas gift). We think those companies could be poised to rebound in 2018, especially in the event of consolidation.

In any given year, certain areas are more in favor than others, and 2017 saw the third highest concentration in market movers (after 1999 and 2004) in over two decades. The five stocks of the FAANG – Facebook, Apple (.04%), Amazon, Netflix, and Google (now Alphabet (0.2%)) – comprised an average S&P 500 weighting of 10% and drove nearly five points (25%) of performance. The current period strikes us more akin to the “one decision” stocks of the Nifty Fifty of the late 1960’s than the Internet Bubble of 1999, in that the FAANG as a whole are generating large and accelerating amounts of cash flow and possess deep moats. Apple, Google, and Facebook are merely expensive with no “absurdly” or “outrageously” attached. In our view, the biggest threats to those businesses are the law of large numbers (Google and Facebook already account for 40% of U.S. advertising spend) and regulatory/antitrust pressure. Google and Facebook are under investigation in Europe and facing scrutiny over their roles in the Presidential election in the U.S.; we imagine that Amazon may be on the radar as well. Just as we look for bargains, there are pockets of exuberance in this market that we normally avoid.

A Bit on Bitcoin

Speaking of exuberance, it may be worth mentioning Bitcoin, which over the last year has risen 2,200%. All the bitcoin mined to date would be worth $295 billion, a large number to be sure, but a mere shade of the $8 trillion value of all gold mined to date. Bitcoin and other cryptocurrencies are based on the “blockchain,” a secure, distributed method of storing information that could be valuable across many functions. Bitcoin itself may have a place in the future as a store of value in an environment of eroding faith in central banks. Like gold, Bitcoin is in limited supply and is no one else’s liability; it is cheaper to store, transport, and handle than gold, though it lacks a few thousand years of gold’s history. For the moment, however, its usefulness as a currency or asset class is limited by its extreme volatility and lack of wide acceptance. Bitcoin's explosion in value seems based on a greater fool being willing to pay more for it – almost the very definition of a bubble. Much like the Tulip Mania of 1637 or the Mississippi Bubble of 1720, this bubble will also pop. Unlike those classic bubbles of yore, Bitcoin is a global phenomenon, as accessible as a touch of one's cellphone, which gives it the potential to get much bigger, but perhaps limits the collateral damage to any one economy. Bitcoin and blockchain will be with us in some shape or form for a very long time, and are certainly worth monitoring.

Deals, Deals, Deals

U.S. deal activity has slowed slightly to $1.1 trillion in the fourth quarter. Nevertheless, as we look into 2018, the underpinnings of "merger mania" – low interest rates, scarce organic growth, and rising corporate confidence – are even more powerful. Uncertainty around tax structures (now resolved) and a challenge to the AT&T/Time Warner (0.03%) merger may have given some pause. Historically, the Department of Justice has been loath to challenge vertical combinations, like distributor AT&T buying supplier Time Warner. The transaction was cruising for approval until Makan Delrahim, President Trump's nominee as Assistant Attorney General for Antitrust who took office in September, rejected proposed behavioral remedies and is suing to block the merger. If the cynics are right and this is motivated by Time Warner-owned CNN's negative coverage of the President, then this may not be worrisome for future mergers (albeit a blow to the rule of law); if the attempted block is a broader populist backlash against big corporations, it may be a problem. Nevertheless, the controversy did not dissuade Disney from attempting a purchase of Fox's assets, a security we own on your behalf. With Disney and AT&T's potentially broader reach and the entry into the entertainment arena by tech companies, including Amazon and Facebook, the need for scale becomes an even stronger impetus for consolidation in media. These same forces are being felt in other industries undergoing change, in particular consumer products. We are well represented in those sectors, and expect to see more deals in the new year.

Conclusion

Surmounting a Wall of Worry

Our process tends to be very respectful of risk – we look down before we look up. A list of things that could go wrong in the larger economy is easy to compose, but, short of a hot war, major terrorist attack, or social unrest, the two biggest risks to the U.S. economy would seem to be an inflationary spike and a Federal Reserve that raises rates too fast because it finds itself behind the curve, and/or a 1930's style trade war. A little inflation might be good for the economy and (y)our Fund, as we tend to own companies with pricing power. The impact of a collapse of NAFTA or an escalation of trade tensions with China and Europe (which are not happy with the new tax plan) is difficult to gauge, and the fallout for most companies would be hard to avoid. One would hope that good sense prevails on the topic.

A different kind of risk is underestimating what could go right. What if deregulation and changes to the tax code really do spur renewed investment, while inflation is kept at bay by technology and globalization (basically the goldilocks scenario of the last year)? Ultimately the health of the U.S. economy is not reliant on who occupies the White House; the stock market is not the President's report card. Growth and markets are driven by the collective efforts of entrepreneurs and hardworking individuals, and we remain as bullish as ever on those factors. We also remain confident that our time-tested investment process and methodology should ensure you share in this prosperity.

Investment Scorecard

Performance in 2017 was led by industrial companies benefiting from some combination of accelerating manufacturing activity, strong aerospace and defense spending, and lower corporate tax rates. These names included Ametek (2.0%, +47%), Idex (1.1%, +49%), Deere (1.3%, +55%), Honeywell (+35%) and Xylem (1.2%, +40%). Spirits makers had plenty to toast as Brown-Forman (2.6%, +47%), maker of Jack Daniels whiskey, and Diageo (1.5%, +44%), the world's largest distiller, both had strong years, driven by category growth in both developed and emerging markets. Sony Corp. (1.5%, +61%) continued its resurgence under CEO Kaz Hirai with robust PlayStation activity, a rebirth in music sales and a position as a leading supplier of mobile phone camera chips. Finally, long-time holding Twenty-First Century Fox (+25%) surprised many with its deal to sell its entertainment assets to Walt Disney Co.

The largest detractor from performance in 2017 was Edgewell Personal Care (0.8%, -19%), which faced headwinds in its Schick wet shave business resulting from a shift in consumer purchasing habits to online and unusually aggressive promotional activity by its chief branded competitor. DISH Network (0.6%, -18%) declined as a result of concerns over consumer cord-cutting and increased uncertainty regarding the fate of its large spectrum position. Other media companies, including Discovery Communications (0.6%, -21%), CBS Corp. (0.6%, -7%), and Viacom (0.5%, -7%) were also shaken by ratings and cord-cutting fears. Finally, not all industrial companies rose: Flowserve (0.8%, -11%) and Circor (0.2%, -25%) suffered from the overhang of lower oil prices in early 2017.

Let's Talk Stocks

The following are stock specifics on selected holdings of (y)our Fund. Favorable earnings prospects do not necessarily translate into higher stock prices, but they do express a positive trend that we believe will develop over time. Individual securities mentioned are not necessarily representative of the entire portfolio. For the following holdings, the share prices are listed first in United States dollars (USD) and second in the local currency, where applicable, and are presented as of December 31, 2017.

AMETEK (2.0% of net assets as of December 31, 2017) (AME – $72.47 – NYSE) is a diversified supplier of highly engineered equipment used in a broad array of industrial end markets. The company offers a diverse product portfolio including test and measurement, metrology, and precision motion control equipment in addition to specialty materials and aftermarket services. AMETEK is benefitting from an accelerating global economy as well as the company's strong pricing power and operational excellence initiatives. The company has recently built out its M&A team to include 10 dedicated professionals and has developed a pipeline of smaller ($50 - $150 million in revenue) acquisition targets, while management has also indicated a willingness to pursue larger ($200 - $300 million in revenue) deals.

Bank of New York Mellon Corp. (1.3%) (BK – $53.86 – NYSE) is a global leader in providing financial services to institutions and individuals. The company operates in more than 100 markets worldwide and strives to be the global provider of choice for investment management and investment services. As of September 2017, the firm had $32.2 trillion in assets under custody and $1.8 trillion in assets under management. Going forward, we expect BK to benefit from rising global incomes and the cross border movement of financial transactions. We believe BK is also well positioned to grow earnings in a rising interest rate environment, given its large customer cash deposits and significant loan book.

Brown-Forman Corp. (2.6%) (BF/A – $67.24 / BF/B $68.67 – NYSE) is a leading global distilled spirits producer. Spirits is an advantaged category that enjoys high margins, low capital requirements, strong free cash flow generation and good pricing power. The company's global brands include Jack Daniel's Tennessee whiskey, Finlandia vodka, Woodford Reserve bourbon, and el Jimador and Herradura tequilas. Jack Daniel's is one of the world's most valuable spirits brands, enjoying strong growth both in the U.S. and internationally as consumers increasingly choose to drink American whiskies. The company has also successfully expanded the brand into the fast growing flavored whiskey category. While Brown-Forman does face some near term headwinds from negative foreign currency exposure, emerging market sales have returned to growth, and the company is positioned to grow revenues and profits substantially over the next several years, and has significant balance sheet flexibility. While the company is family controlled, we believe that if it ever became available for sale it would be highly coveted by other large global spirits players. This was evidenced when the stock rose on news that Constellation Brands made an overture for the company, which was rejected by Brown-Forman's board.

Crane Co. (1.1%) (CR – $89.22 – NYSE) based in Stamford, Connecticut, is a diversified manufacturer of highly engineered industrial products comprised of four business segments: Fluid handling, Aerospace & Electronics, Engineered Materials, and Payments & Merchandising Systems, with over 11,000 employees across 26 countries. The company recently acquired Crane Currency, a producer of currency products for more than 200 years and is entrusted by more than 50 central banks to play an integral role in the design and manufacture of their nations' banknotes. Crane Currency is the fastest growing fully integrated global currency provider and is an excellent complement to Crane Co.'s expanding presence in the currency and payment markets.

Deere & Co. (1.3%) (DE – $156.51 – NYSE), headquartered in Moline, Illinois, is a leading global manufacturer of machinery for agricultural, construction, and forestry usage. Its dominant position in North American agricultural equipment markets optimally positions the company for what is expected to be an increase in demand for agricultural equipment both in the near term given cycle dynamics as well as for the long term, as global population and income growth drive crop demand in the coming decades.

Honeywell International Inc. (1.5%) (HON – $153.36 – NYSE) operates as a diversified technology company with highly engineered products, including turbine propulsion engines, auxiliary power units, turbochargers, brake pads, environmental and combustion controls, sensors, security and life safety products, resins and chemicals, nuclear services, and process technology for the petrochemical and refining industries. One of the key drivers of HON's growth is acquisitions that increase the company's growth profile globally, creating both organic and inorganic opportunities. The company recently announced its plan to spin-off its Homes product portfolio and ADI Global Distribution businesses as well as its Transportation Systems business into two publicly-traded companies.

Kindred Healthcare (0.03%) (KND – $9.70 – NYSE) is the largest provider of post-acute care in the country, providing home nursing and hospice care as well as rehabilitation services to a largely Medicare-eligible population. In December, the company agreed to be taken private by two private equity firms and the health insurer Humana for $9 per share, a very modest premium to where the stock was trading. This appeared to value the company at a very low multiple of cash flow and was immediately viewed as too low of a price by investors. One activist investor is publicly opposing the deal and the stock has traded above the deal price consistently since it was announced. We believe the investor group will have to significantly raise their bid if they wish to take Kindred private later this year.

Republic Services Inc. (1.5%) (RSG – $67.61 – NYSE), based in Phoenix, Arizona, became the second largest solid waste company in North America after its acquisition of Allied Waste Industries in December 2008. Republic provides nonhazardous solid waste collection services for commercial, industrial, municipal, and residential customers in 39 states and Puerto Rico. Republic serves more than 2,800 municipalities and operates 193 landfills, 203 transfer stations, 341 collection operations, and 64 recycling facilities. Since the Allied merger, Republic has benefited from synergies driven by route density, beneficial use of acquired assets, and reduction in redundant corporate overhead. Republic is committed to its core solid waste business. While other providers have strayed into alternative waste resource technologies and strategies, we view Republic's plan to remain steadfast in the traditional solid waste business positively. We expect continued solid waste growth acquisitions, earnings improvement, and incremental route density and internalization growth in already established markets to generate real value in the near to medium term, highlighting the company's potential.

Ryman Hospitality Properties Inc. (0.2%) (RHP – $69.02 – NYSE) is the owner/operator of four large convention-centric hotels under the Gaylord brand. It also owns the Opryland brand and entertainment complex in Nashville, the city of its origin. As such, it has benefited from the growth in country music and consumer preference for live entertainment. The company's hotels are group-centric, and revenues and bookings have remained strong due to its long and steady economic expansion in the United States. Future growth should come from new hotels (probably established as joint ventures) as well as development of additional live entertainment venues, one of which will open in Times Square in New York City later this year. The company is structured as a REIT (real estate investment trust), providing an extra level of tax efficiency to enhance its investment attraction. Given the low level of interest rates, the company's tax efficient dividend stream provides significant investor protection, as does the consistency of its cash flow

Sony Corp. (1.5%) (SNE – $44.95 – NYSE) is a diversified electronics and entertainment company based in Tokyo, Japan. The company manufactures image sensors, televisions, PlayStation game consoles, mobile phone handsets, and cameras. It also operates the Columbia film studio and Sony Music entertainment group. We expect growth opportunity in image sensor and the Game business and operational improvements in consumer electronics and entertainment to generate EBITDA growth through 2018. We also think the potential spinoff of the entertainment assets could be a catalyst.

Twenty-First Century Fox Inc. (2.6%) (FOXA – $34.53 / FOX – $34.12 – NASDAQ) is a diversified media company with operations in cable network television, television broadcasting, and filmed entertainment. Fox is in the process of selling the company's cable, international and entertainment assets to Disney for $60 billion or ~$30 per share. Following the transaction Fox will consist of Fox News and The Fox Broadcasting Company. The company's concentration in live news and sports programming will be a significant advantage as it negotiates with both traditional and entrant distributors. Pro forma for the Disney transaction, Fox is trading at 4.8x EBITDA.

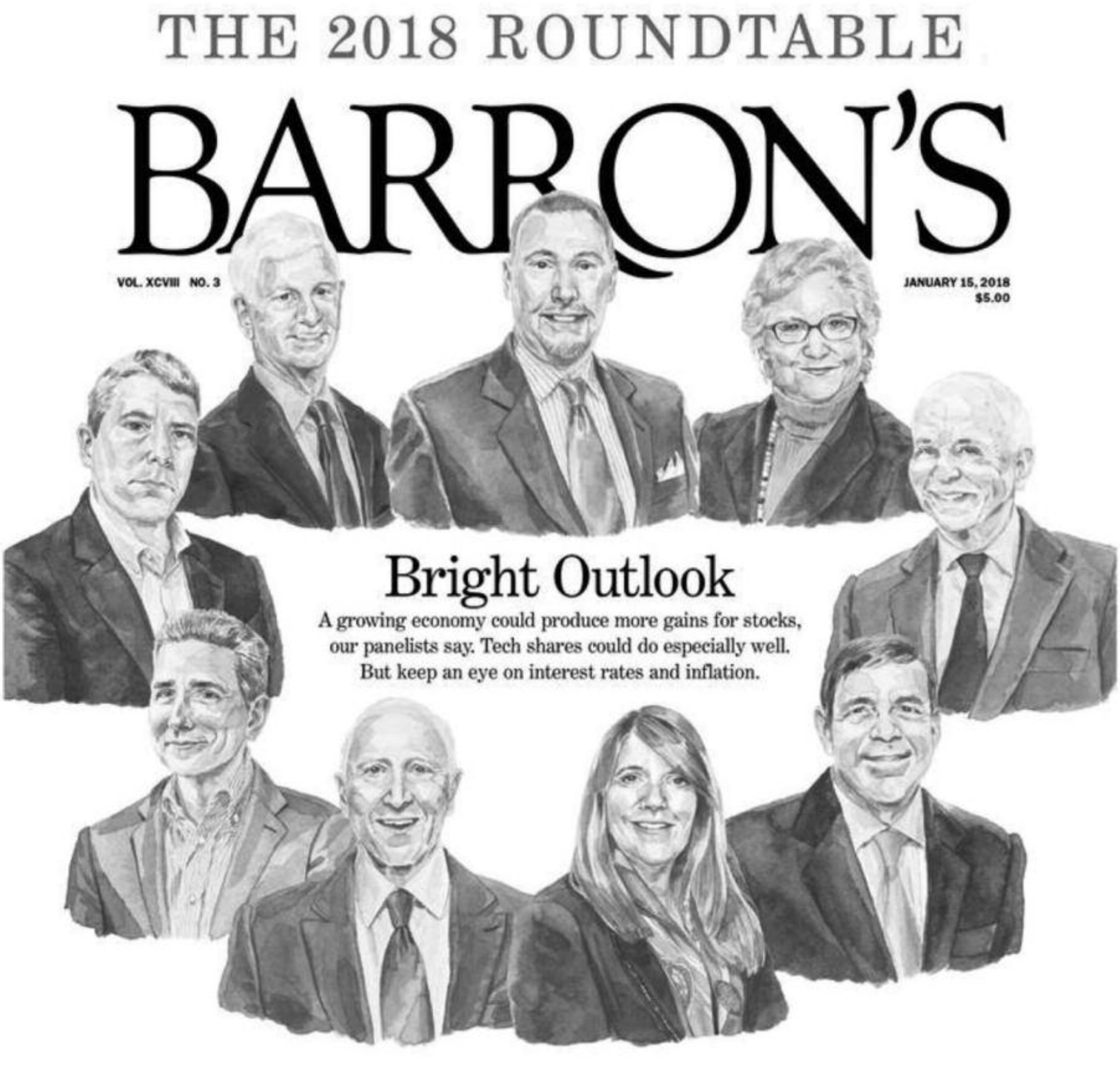
January 26, 2018

Top Ten Holdings **(Percent of Net Assets)**
December 31, 2017

Twenty-First Century Fox Inc.	2.6%	Genuine Parts Co.	1.5%
Brown – Forman Corp	2.6%	Sony Corp.	1.5%
AMETEK Inc.	2.0%	Diageo Plc.	1.5%
Berkshire Hathaway Inc.	1.6%	Republic Services Inc.	1.5%
Honeywell International Inc.	1.5%	Swedish Match AB	1.4%

Barron's 2018 Roundtable

Mario J. Gabelli, our Chief Investment Officer, has appeared in the prestigious Barron's Roundtable discussion annually since 1980. Many of our readers enjoyed the inclusion of selected and edited comments from Barron's Roundtable in previous reports to shareholders. As is our custom, we are including selected comments of Mario Gabelli from Barron's 2018 Roundtable Part 1 and Part 2, published on January 15 and January 22, 2018, respectively.



BARRON'S: ***Getting back to the economy, Mario, what are your assumptions for 2018?***

Gabelli: Global GDP will be about $83 trillion in 2018. The U.S. is about 25% of that, and Europe is about 25%. China and Japan combined are more than 22%. The global economy is growing, but Mario Draghi [president of the European Central Bank] will have to pull back the punch bowl at some point, much as we are doing here [through Fed rate hikes]. At some point, the ECB and the Bank of Japan will do the same.

I am optimistic about the U.S. economy. I expect real GDP [adjusted for inflation] to grow by 3%. Many companies I speak with have been paying an effective cash tax rate of 35%. Lower tax rates will drive growth. The U.S. consumer will have gross assets of about $117 trillion at year end, and debt of about $17 trillion, of which two areas are troublesome: car loans and student debt. Outstanding car loans should result in a significant slowdown in the growth of car sales. Student loans are a major social problem.

We talked about rising wages. I see it, too. Also, higher heating bills this winter should have a short-term impact on consumer spending, but could have a bigger psychological impact. We haven't talked yet about the new rules allowing full expensing of certain capital investments, effective on Sept. 27, 2017. In the last week of December, even used planes were being bought.

Now that the tax bill has passed, is an infrastructure bill next?

Gabelli: It could be announced in the next two weeks. It will be a powerful stimulus to certain sectors of the economy, including inland waterways, the railroad industry, surface transportation, and avionics — even airport construction.

Give us your best ideas for 2018, Mario.

Gabelli: [wheeling a model of a skeleton on a stand to the front of the table]: This is an active manager.

Very funny! But reports of his death are premature.

Gabelli: Last year was the year of As: Alphabet [ticker: GOOGL], Amazon.com [AMZN], Apple [AAPL], Alibaba [BABA]. I am focusing this year on Bs. First, basketball [throws a ball across the room]. Madison Square Garden [MSG] has 23.5 million shares outstanding. The stock trades for $213, and the equity capitalization is about $5 billion. The company has about $1.1 billion of net cash. MSG is a sports and entertainment holding company. It owns the New York Knicks, an exciting basketball team. They beat Dallas last night. Other brands include the Radio City Rockettes, and the New York Rangers ice hockey team. The company owns a variety of live-entertainment venues, including the Garden and the Beacon Theater in New York, and the Forum in California. Millennials and the Gen Z population love live entertainment.
MSG also owns real estate. One of the hottest places in the U.S. is the Hudson Yards development on the West Side of Manhattan. MSG has air rights above Madison Square Garden. Adding up the value of the company's assets, the stock could be worth $280 to $300 a share.

How might MSG achieve that value, or something close to it?

Gabelli: Deal making has been a big part of MSG's history, and that of its CEO, James Dolan. Madison Square Garden was spun out of Cablevision, which was then sold to Altice [ATC. Netherlands], the European telecom company. Several opportunities for deal making exist. You have entertainment and the sports teams.

Next B is baseball [throws a baseball across the room; Gundlach catches it]. Look at that catch! Liberty Braves Group [BATRA] is another media and entertainment company. It is part of John Malone's ecosystem. Liberty Braves is a tracking stock that owns Liberty Media's interest in the Atlanta Braves. Malone is as tax sensitive an investor as Warren Buffett, but he is more visible about it. With Liberty Braves, you're also getting the new SunTrust Park built in Cobb County, an Atlanta suburb.

Attendance has gone from roughly 25,000 to 31,000 per game. The team is improving, too. Plus, the company owns land.

How has the stock performed?

Gabelli: Liberty Braves has about 58.5 million shares outstanding. At $22 apiece, the market cap is $1.3 billion. This is a small-cap stock. Based on prices paid for other sports teams, coupled with the stadium and the Battery Atlanta, a mixed-use property, the company could be worth $35 a share in two years.

My next B is betting. MGM Resorts International [MGM] is based in Las Vegas and owns casinos in the U.S. and Macau. It is run by James Murren, who has done a great job coordinating as CEO. The company has 566 million shares outstanding, and the stock is trading for $33. The market cap is $19 billion. MGM put most of its U.S. properties into a REIT [real estate investment trust], MGM Growth Properties [MGP], in 2016. This is worth about $10.50 a share at market. If I value the publicly traded Macau properties, or MGM China Holdings [2282. Hong Kong] at $10.50 and MGM's stake in the REIT at $10.50, I'm paying only $12 a share for the U.S. business. Assuming an exChina, ex-MGM enterprise value [market value plus net debt] of $14 billion, and 2018 EBITDA [earnings before interest, taxes, depreciation, and amortization] of $1.8 billion, the stock is selling for about eight times EV (Enterprise Value) to EBITDA.

MGM is opening a new casino in Springfield, Mass. Steve Wynn [founder, chairman, and CEO of Wynn Resorts (WYNN)] is opening one in Everett, Mass. Once MGM's new Macau casino and the Springfield property come online, capex [capital expenditures] will be de minimus. Then, it's a question of what Murren will do next.

What is your bet?

Gabelli: The next transformation of Las Vegas will focus on e-sports and e-gaming, and MGM will participate and benefit.

Paul Wick: There has been a lot of insider selling at MGM by the executive management team.

Gabelli: I'm delighted. That increases liquidity.

What was the rationale for the REIT's creation?

Gabelli: About 10-12 years ago, many casino stocks collapsed in price. Wynn did something brilliant. He said, let's arbitrage multiples on a global basis, and took his Macau casino company public in Hong Kong. That jump started the entire process. Sheldon Adelson [chairman and CEO of Las Vegas Sands (LVS)] followed suit with his Macau properties. Returning to MGM, the company spun off some properties into a separate

(2017 Report Card) MARIO GABELLI'S PICKS

Company	Ticker	Price 1/6/17	Price 12/29/17	Price Change	Total Return
Viacom	VIA.B	$37.79	$30.81	-18.5%	-16.5%
Herc Holdings	HRI	$40.00	62.61	56.5	56.5
CNH Industrial	CNHI	$8.94	13.40	49.9	51.6
National Beverage	FIZZ	$49.34	97.44	97.5	100.5
Davide Campari-Milano	CPR.Italy	€4.66	€6.45	38.5	39.5
Liberty Braves Group	BATRK	$20.65	$22.22	7.6	7.6
Live Nation Entertainment	LYV	$27.68	42.57	53.8	53.8
Mueller Water Products	MWA	$13.35	12.53	-6.1	-4.9

Total Return in USD: CPR.IM=58.9%

Source: Bloomberg

subsidiary in April 2016 and allowed outside investors to invest in the real estate. The properties had a capitalization rate [rate of return] of 8%. After creating the REIT and taking it public, MGM's multiple improved dramatically. MGM didn't put the Bellagio or MGM Grand into the REIT, so the company has other assets it can monetize. The Macau asset, MGM China, is undervalued in part because of concerns about what Chinese President Xi Jinping is going to do. Also, gaming company licenses in Macau are up for renewal in 2022. There is some question about the renewal process.

Are rising interest rates a risk to the REIT?

Gabelli: The stock could come down a bit if rates go up, but bear in mind that the new tax law allows for a 20% deduction on income from REITs. That would offset some of the negative hit from higher rates.

My next B involves booze. Beer is more than a $600 billion business globally. Wine is about $300 billion, and spirits are about $475 billion. Demand is increasing, as is the emphasis on premium products. This bottle of Jameson Irish Whiskey [holds up bottle] is about $18. Newer premium products are around $30. Booze companies have pricing power. While all are attractive, the stock I'm recommending today is Davide Campari-Milano [CPR.Italy], which I have mentioned before. The company is based in Milan. It is trading for 6.30 euros ($7.68), and there are 1.160 billion shares outstanding. We estimate that 2017 revenue totaled €1.8 billion. The company earned 17 euro cents a share two years ago and about 20 euro cents this past year. It could earn maybe 23 euro cents in 2018. Management is excellent. They are buying niche products, most recently Grand Marnier. Other company brands include Campari, Aperol, Wild Turkey, and SKYY Vodka. I like the booze business and, unfortunately, so does the rest of the world.

We can't wait to hear your next B.

Gabelli: Body parts! As the population ages, people are dealing with replacement body parts. It is a $38 billion business on a global basis. Knee and hip replacements are $14 billion. Spine parts are $9 billion. Trauma-related replacements are another $5.5 billion. My pick is Zimmer Biomet Holdings [ZBH], which makes products for knee replacements, spine surgery, and other uses. The industry is growing by 2%-3% a year. There are 202 million shares outstanding, and the stock trades around $125. Shares jumped recently when a new CEO came on board from Medtronic [MDT]. Zimmer's market cap is $25 billion, and the company has about $10 billion of net debt stemming from its $14 billion purchase of Biomet in June 2015. We expect that Zimmer should earn about $8.50 a share this year, and should do $9.50 next year and $14 over the next three or four years.

Moving on, let's talk about another B—building products. GCP Applied Technologies [GCP] was spun out of W.R. Grace in February 2016. It is based in Cambridge, Mass., and run by Gregory Poling, who has been with the company since 1977. GCP makes chemical additives for concrete and cement. It also makes waterproofing products used in construction. Its chief competitor is a Swiss company, Sika [SIK. Switzerland]. GCP has a transit management program called Verifi that allows it to monitor ready-mix trucks and get everything to the right place at the right time. GCP could generate revenue of about $1.2 billion this year. Earnings could climb in the next three or four years from $1.10 a share to nearly $2. The company has about $195 million in net cash before a year end transaction. Abby talked earlier today about how the tax law will create some background noise in calendar fourth quarter earnings, and that will be the case here.

Meryl Witmer: It's a great company.

Gabelli: You own it?

Witmer: I don't own it now.

Gabelli: CNH Industrial [CNHI], the former Case New Holland, is another construction play. Shares of Caterpillar [CAT] and Deere [DE] have gone up sharply, and appropriately so. CNH hasn't risen as much. CNH has 1.3 billion shares and is trading for $13.75. The company is controlled by Exor, the Agnelli family investment company that also controls Fiat Chrysler Automobiles [FCAU]. Both Deere and CNH under produced agricultural equipment to reduce inventory in the system. If demand stays flat, production will be rising. The construction business is turning around, too. The third part of CNH is Iveco, a European truck maker. It has about 6% of the European heavy duty truck market. Paccar [PCAR], based near Seattle, has 16%. It is logical for Paccar and Iveco to merge because of consolidation elsewhere in the European and U.S. markets. Second, Sergio Marchionne [chairman of CNH and CEO of Fiat Chrysler] spun Ferrari [RACE] out of Fiat Chrysler in 2016. The stock came public at $52, fell sharply, and now trades around $110. My thinking is that his mind set, before he steps down, is to do a transaction with Iveco. CNH earnings could go from 65 cents a share in 2018 to $1.25 by 2021-22. The stock could trade for 16 times those earnings, and you make a 50% profit in the next three years.

We'd take it.

Gabelli: Looking at intermodal transportation in the U.S., more than 71% is trucking, 13% is rails, 11% is pipelines, and 6% is inland waterways. There has been a surge in demand for truck components. In December alone, there was a 37% increase in Class 8 truck orders. Paccar, which makes two truck brands, Kenworth and Peterbilt, participated fully in that. I am recommending Paccar, as well. The stock is selling for $74. The company has a great balance sheet. It has been around a long time. The size of the Class 8 market in the U.S. could rise dramatically in the next 12 months. Europe will hold its own, and Latin America will do well. Paccar could report earnings of $4.40 a share for 2017. This year, they could do $5.10 to $5.20, and for 2019 our estimate is for $6.20 per share. I like both stocks as part of an infrastructure play.

My next B is business jets, and the company is Textron [TXT]. It has 263 million shares. Cessna is Textron's business jet brand. It introduced a new plane, the Cessna Citation Latitude, in 2015, and it has been doing extremely well. Next up is the Cessna Citation Longitude. Textron also owns Bell Helicopter, and makes aircraft parts and industrial products.

The big question I have about Textron is this: Boeing [BA] put an arm around Embraer [ERJ] the other day. [The U.S. and Brazilian aircraft makers are discussing a possible merger.] Textron has put a lot of money into the Scorpion, an ISR/Strike [Intelligence Surveillance Reconnaissance] jet used by the military. It is faster than a turboprop. Embraer makes a turboprop known as the A-29 Super Tucano. The U.S. Air Force seems ready to sign a contract for 300 new planes, and the Scorpion, which costs $20 million, is efficient and highly desired by the people who fly these things in combat. If Boeing buys Embraer, given its political clout, it is going to try to convince the Air Force to buy the Tucano instead.

MARIO GABELLI'S PICKS

Company	Ticker	Price 1/5/2018
Madison Square Garden	MSG	$212.87
Liberty Braves Group	BATRA	$22.27
MGM Resorts International	MGM	$33.89
Davide Campari-Milano	CPR.Italy	€6.36
Zimmer Biomet Holdings	ZBH	$125.98
CNH Industrial	CNHI	$14.05
GCP Applied Technologies	GCP	$33.60
Paccar	PCAR	$75.10
Textron	TXT	$58.50
Energizer Holdings	ENR	$51.59

Source: Bloomberg

And if Boeing succeeds?

Gabelli: Work in progress. For the data purists among you, there are 21,350 commercial and 36,700 business aircraft in the worldwide fleet. The Chinese own comparatively few. At some point, will the Chinese market open up? Textron, based in Providence, R.I., and run by Scott Donnelly, is an interesting play on global aviation. My last B is Energizer Holdings [ENR], the battery maker that was spun out of Edgewell Personal Care [EPC] in July 2015. Batteries are a $6 billion business globally. There is no growth. Duracell was bought by Berkshire Hathaway [BRK.A]. Spectrum Brands Holdings [SPB] is looking to sell its Rayovac unit. [After the Roundtable, Energizer announced its intention to buy Rayovac for $2 billion.] Meanwhile, the price of zinc, a major ingredient in batteries, has gone from 60 cents a pound to $1.30 in recent years. Energizer has a terrific management team. Last summer, the CEO of Post Holdings [POST], another company I have sometimes recommended, joined the board.

Energizer generates half its revenue overseas. The euro is strengthening against the dollar, as is the pound. Many companies will get a tailwind from currency translation. The stock is trading for $50, and earnings should rise sharply in the next three years.

You haven't said much today about media consolidation, one of your specialties. Any thoughts?

Gabelli: Let's look at 21st Century Fox [FOX] and Disney [DIS]. Everyone thinks Rupert Murdoch [executive chairman of Fox and Barron's parent, News Corp (NWS)] will sell much of 21st Century Fox to Disney and become a passive investor. But zebras don't change their stripes. Murdoch and his related interests, which I have followed for 40-odd years, will have about 100 million, or $11 billion worth, of Disney shares. This is a win-win for Disney and for Rupert.

Thank you, Mario.

Mario J. Gabelli is the Chairman and Chief Investment Officer — Value Portfolios of GAMCO Investors, Inc. and Portfolio Manager of various investment products at the firm. The securities mentioned in the article are not representative of any portfolio, and the views expressed are subject to change at any time. As of December 31, 2017, the Asset Fund owned 1.1% of Madison Square Garden Company, 0.2% of Davide Campari, 0.8% of CNH Industrial, 0.4% of Textron, 0.4 % of Energizer Holdings, 0.6% of Viacom, 0.2 % of Herc Holdings, 0.3% of Live Nation Entertainment, less than 0.1% of Mueller Water Products, 0.5% of MGM Resorts International, 0.2% of Zimmer Biomet Holdings, 0.2% of Paccar, and less than 0.1% of National Beverage.

Investors should carefully consider the investment objectives, risks, sales charges and expense of the Fund before investing. The prospectuses contain information about these and other matters and should be read carefully before investing.

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Mario J. Gabelli, CFA, Chairman, Chief Executive Officer, and Chief Investment Officer – Value Portfolios of GAMCO Investors, Inc. that he founded in 1977, and Chief Investment Officer – Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc. He is also Executive Chairman of the Board of Directors of Associated Capital Group, Inc. Mr. Gabelli is a summa cum laude graduate of Fordham University and holds an MBA degree from Columbia Business School, and Honorary Doctorates from Fordham University and Roger Williams University.

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 currently 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 BA in Political Economy from Williams College and holds an MBA with honors from Columbia Business School.

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 currently serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Dreyer received a BSE from the University of Pennsylvania and an MBA from Columbia Business School.

Jeffrey J. Jonas, CFA, joined Gabelli in 2003 as a research analyst. He focuses on companies in the cardiovascular, healthcare services, and pharmacy benefits management sectors, among others. He also serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Jonas was a Presidential Scholar at Boston College, where he received a BS in Finance and Management Information Systems.

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December 31, 2017