

The Gabelli Equity Income Fund

Shareholder Commentary December 31, 2017

To Our Shareholders,

For the quarter ended December 31, 2017, the net asset value (“NAV”) per Class AAA Share of The Gabelli Equity Income Fund increased 4.2% compared with an increase of 6.6% for the Standard & Poor’s (“S&P”) 500 Index. See page 2 for additional performance information.

In Review

In 2017, 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. This growth in U.S. equities has been accompanied by surprisingly little drama, or 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. However, 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. 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 Value (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.

Monthly Distributions – \$0.10 per share

The Gabelli Equity Income Fund has a \$0.10 per share monthly distribution policy in place. For more specific dividend and tax information, please visit our website at www.gabelli.com or call 800-GABELLI (800-422-3554). **Shareholders should be aware that a portion of the distribution may represent a non-taxable return of capital.** Such distributions will reduce the cost basis of your shares if you hold them in a taxable account. The distributions should not be confused with the yield or total return of the Fund.

Comparative Results

Average Annual Returns through December 31, 2017 (a) (b) (Unaudited)

	Quarter	1 Year	5 Year	10 Year	15 Year	Since Inception (1/2/92)
Class AAA (GABEX)	4.23%	15.12%	11.01%	6.66%	9.34%	10.07%
S&P 500 Index	6.64	21.83	15.79	8.50	9.92	9.61(c)
Nasdaq Composite Index	6.57	29.80	19.50	11.35	12.81	9.94(c)
Lipper Equity Income Fund Average	5.51	16.43	12.98	6.96	8.91	8.66
Class A (GCAEX)	4.21	15.10	11.01	6.66	9.33	10.06
With sales charge (d)	(1.78)	8.48	9.70	6.03	8.90	9.81
Class C (GCCEX)	4.05	14.28	10.19	5.87	8.58	9.63
With contingent deferred sales charge (e)	3.05	13.28	10.19	5.87	8.58	9.63
Class I (GCIEX)	4.28	15.38	11.29	6.94	9.52	10.17
Class T (GCTEX)	4.19	15.07	11.00	6.66	9.33	10.06
With sales charge (f)	1.59	12.19	10.44	6.39	9.15	9.89

In the current prospectuses dated January 26, 2018, the expense ratios for Class AAA, A, C, I, and T Shares are 1.39%, 1.39%, 2.14%, 1.14%, and 1.39%, 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. 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 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. 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 Nasdaq Composite Index is an unmanaged indicator of stock market performance. The Lipper Equity Income Fund Average includes the 30 largest equity funds in this category tracked by Lipper, Inc. Dividends are considered reinvested, except for the Nasdaq Composite Index. You cannot invest directly in an index.*
- (b) The Fund's fiscal year ends September 30.
- (c) S&P 500 Index and Nasdaq Composite Index since inception performance are as of December 31, 1991.
- (d) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.
- (e) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.
- (f) Performance results include the effect of the maximum 2.50% sales charge at the beginning of the period.

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. Both the commentary and the financial statements, including the portfolio of investments, are available on our website at www.gabelli.com.

The Economy

After a sluggish start to the year, the U.S. economy grew at a faster than anticipated 3.1% and 3.3% during 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; at 101 months, this is the third longest expansion, trailing only 1961-1969 and 1991-2001, which 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%, and China (by design), is likely to post growth of 6.7%. All of this bodes well for U.S. exporters and their employees.

The State of Washington

During late 2017, a rising stock market was based on a “Trump Bump,” consisting of: (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. The new tax bill, which lowers the Federal corporate tax rate to 21%, will make U.S. corporate taxes very competitive with other OECD countries, which is a major positive for the U.S. economy and the U.S. stock market. (Y)our portfolio should be well positioned to capture the benefits of the lower corporate taxes, as it includes a disproportionate weighting of smaller and mid-size U.S. firms, which are currently paying higher effective rates and whose revenues are centered on domestic operations. 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) geographies could see an increase. Deregulation in the energy, financial, and media/telecom sectors has already unleashed corporate animal spirits. We expect more deregulation to come from this administration.

The State of the Federal Reserve

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 Capital, but from the Eccles Building, home to the Federal Reserve. Through open market activity and three rounds of quantitative easing (QE), the Fed 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 move in December, 2017, which took the Federal Reserve Funds rate to a range of 1.25% – 1.50%. Current expectations are for three additional increases in each of 2018 and 2019, which would ratchet the Fed Funds rate to 3.0%. Newly appointed Federal Reserve Chair, Jerome H. (“Jay”) Powell, a centrist and former banker, will likely continue on 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 clear, however, is that monetary policy has gone from being a tailwind to being a headwind for the economy and the market.

Dividends

Dividends are an important element in the historical returns of stocks. They provide current income and a growing income stream over time. During the fourth quarter of 2017, U.S. companies continued to increase their dividends. At the end of the quarter, the dividend yield on the S&P 500 was approximately 1.9%, which was below the yield on the 10-year U.S. Treasury, which was closer to 2.5%.

Investment Scorecard

During the fourth quarter of 2017, the S&P 500 was up over 6% on a total return basis and all of the eleven sectors that make up the S&P 500 index were also up. The best performing sectors were consumer discretionary (up about 10%) and information technology (up about 9%). The worst performing sector was the utility sector (barely up at all) as rising interest rates hurt the attractiveness of utility stocks, which usually have above average current returns. The next worst performing sector was health care (up just over 1%).

Some of the stocks that helped performance the most in the Gabelli Equity Income Fund during the fourth quarter were Deere (0.9% of net assets as of December 31, 2017), Home Depot (1.1%) and JP Morgan (0.3%).

Deere, a manufacturer of agriculture and construction equipment, continues to benefit from an improving economy and expectations for increased infrastructure spending in the United States. Home Depot, the largest home improvement company in the U.S., is benefiting from an improved housing market and more home construction in the U.S. Finally, JP Morgan, the large bank, has an exceptionally strong balance sheet and is benefiting from less onerous government regulation of the banking industry.

A few of the worst performing stocks in the Fund during the fourth quarter were Edgewell Personal Care (0.3%), General Electric (0.6%) and CVS Health (1.4%). These three stocks were each down over 10%.

Edgewell is a manufacturer of various personal care products in the wet shave, sun and skin care, as well as feminine and infant care areas. Many of these product categories have been experiencing pricing pressures, which has put downward pressure on the stock. Despite these short term issues, we continue to think a number of large global companies would be interested in buying the company at a meaningful premium at some point in the future. General Electric recently hired a new CEO, who has cut the dividend and lowered profit forecasts for the company. We expect the new CEO will begin the process of beating these new lower profit expectations over the years ahead. During the quarter, CVS Health announced it plans to buy the health insurance company Aetna (0.4%). Although we think the deal will work out well in the long term, the deal announcement has put some short term pressure on the stock price of CVS Health.

Let's Talk Stocks

The following are stock specifics on selected holdings of 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.

Bank of New York Mellon Corp. (3.0% of net assets as of December 31, 2017) (BK – \$53.86 – NYSE) is a global leader in providing financial services to institutions and individuals. The company operates in more than one hundred 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

Bristol Myers (1.3%) (BMY – \$61.23 – NYSE) has revolutionized the treatment of many types of cancer by harnessing the body's own immune system to fight malignancies. The company's lead drug, Opdivo, can be used alone and in combination with other drugs to treat a broad range of cancers. While the immune oncology space is highly competitive, Bristol is willing to partner its drug with any and all peers in order to find the most effective course of treatment for each tumor type. Bristol Myers also has a very successful blood thinning medication, Eliquis, that is winning significant market share from peers. The company continues to invest heavily in research and development to sustain its strong growth prospects while remaining committed to paying a healthy dividend to shareholders.

CBS Corp. (1.5%) (CBS – \$59.34 – NYSE) operates the CBS television network and the premium cable network Showtime. It also owns 29 local television stations and 130 radio stations. We believe that CBS has a number of opportunities to generate incremental non-advertising revenue from the sale of existing content through its OTT platforms, online video distributors and retransmission agreements with traditional distributors. In addition, we expect a continued recovery in advertising to contribute to earnings growth. Finally, we believe that financial engineering, including the split-off of its radio business or combination with Viacom, could act as a catalyst for shares.

Genuine Parts Co. (2.1%) (GPC – \$95.01 – NYSE) is an Atlanta, Georgia-based distributor of automotive and industrial replacement parts, office products, and electrical and electronic components. We expect GPC's well known NAPA Auto Parts group to benefit as an aged vehicle population, which includes the highest percentage of off warranty vehicles in history, helps drive sales of automotive aftermarket products over the next several years. Additionally, economic indicators remain supportive of the company's industrial and electrical parts distribution businesses amid steady economic expansion. Finally, GPC's management has shown consistent dedication to shareholder value via share repurchases and dividend increases.

Halliburton Co. (1.2%) (HAL – \$48.87 – NYSE), based in Houston, Texas, is one of the leading providers of services and products to the energy industry related to the exploration, development, and production of oil and natural gas. With WTI crude prices now over \$60/bbl, U.S. drilling and completion activity is in full recovery and will drive HAL's earnings growth in 2018. As the market leader in pressure pumping, HAL is well positioned to take advantage of favorable supply/demand dynamics. Further, the company has a strong market position in completion equipment, which should benefit from the eventual drawdown of drilled but uncompleted wells (DUCs) in the U.S. Our Private Market Value for Halliburton is \$63 per share.

Home Depot Inc (1.1%) (HD – \$189.53 – NYSE) based in Atlanta, Georgia, is the world's largest home improvement retailer, with fiscal 2016 revenue of \$94.6 billion and EBITDA of \$15.2 billion. Home Depot has 2,278 retail stores, which sell a range of building materials, home improvement products, and lawn and

garden products, to do-it-yourself, do-it-for-me, and professional customers. We expect the continued improvement in the housing market to provide uplift to Home Depot's business, encouraging consumers to invest in their homes. Notably, the company generates significant cash flow, has a strong balance sheet, and will continue to benefit as the housing recovery improves. To make use of its available cash flow, we expect Home Depot will continue to repurchase stock and pay dividends.

Johnson & Johnson (0.6%) (JNJ – \$139.72 – NYSE) is the world's largest and most diversified healthcare company. The company's pharmaceutical business is one of the fastest growing in the industry, driven by multiple new oncology products and the recent acquisition of Swiss biotech company Actelion. The consumer division is benefiting from an improving economy but must continue to innovate and reformulate its products to meet changing consumer tastes. While the medical device business has been losing some market share, management has been working to improve the business mix by divesting several declining or low-growth businesses. Johnson & Johnson will be a significant beneficiary of tax reform, gaining global access to its prodigious cash flow and likely increasing the dividend in 2018.

Mondelēz International Inc. (1.8%) (MDLZ – \$42.80 – NASDAQ), headquartered in Deerfield, Illinois, is the renamed Kraft Foods Inc., following the tax-free spin-off to shareholders of the North American grocery business on October 1, 2012. On July 2, 2015 Mondelēz combined its coffee business with D.E Master Blenders 1753 to form a new coffee company, Jacobs Douwe Egberts. Subsequently, MDLZ exchanged part of its stake in this coffee joint venture for 24% ownership in Keurig Green Mountain, which was acquired by an investor group led by JAB Holding Co. in March 2016. This narrows the company's product focus, as nearly 85% of Mondelēz's \$26 billion of revenue is derived from snacking, including leading brands such as Oreo, LU and Ritz biscuits, Trident gum, and Cadbury and Milka chocolates. The company continues to execute against its plan to accelerate growth and to improve margins, targeting 17%-18% in 2018. In November, CEO Irene Rosenfeld was succeeded by Dirk Van de Put, who joins the company after eight years as CEO of McCain Foods.

National Fuel Gas Co. (0.8%) (NFG – \$54.91 – NYSE) is a diversified natural gas company. NFG owns a regulated gas utility serving the region around Buffalo, New York, gas pipelines that move gas between the Midwest and Canada and from the Marcellus to the Northeast, gathering and processing systems, and an oil and gas exploration and production business. NFG's regulated utility and pipeline businesses, as well as its California oil production business, provide stable earnings and cash flows to support the dividend, while the natural gas production business offers significant upside potential. Natural gas prices have been depressed over the past few years, but NFG's net ownership of 785,000 acres in the Marcellus Shale, holds enormous natural gas reserve potential and the company has proven to be among the lower cost producers. We continue to expect above average long term earnings and cash flow growth from improving gas prices, growing gas production and strategically located pipeline expansion. The company has increased its dividend for 46 consecutive years.

Viacom Inc. (0.7%) (VIA – \$34.90 – NASDAQ) is a pure-play content company that owns a global stable of cable networks, including MTV, Nickelodeon, Comedy Central, VH1, BET, and the Paramount movie studio. Viacom's cable networks generate revenue from advertising sales, fixed monthly subscriber fees, and ancillary revenue from toy licensing, etc. We believe a low valuation and M&A potential outweigh the secular risks of cord-cutting.

Conclusion

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 1930s-style trade war. A little inflation might be good for the economy and (y)our portfolio, as we tend to own companies with pricing power. The impact of a collapse of NAFTA or an escalation of tensions with China and Europe (who 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 in 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 upon 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 in our time-tested investment process and methodology.

Thank you for entrusting part of your assets with us. Please accept our sincere wishes for a happy and healthy New Year.

January 26, 2018

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

Bank of New York Mellon Corp.	3.0%	Marsh & McLennan Cos. Inc.	1.7%
Swedish Match AB	2.7%	Brown-Forman Corp.	1.7%
Genuine Parts Co.	2.1%	CBS Corp.	1.5%
Well Fargo & Co.	2.1%	M&T Bank Corp.	1.5%
Mondelēz International Inc.	1.8%	CVS Health Corp.	1.4%

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.

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.

THE 2018 ROUNDTABLE BARRON'S

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Bright Outlook

A growing economy could produce more gains for stocks, our panelists say. Tech shares could do especially well. But keep an eye on interest rates and inflation.

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 Equity Income Fund owned 0.2% of Madison Square Garden Company, 0.5% of Davide Campari, 0.5% of Textron, 0.2% of Energizer Holdings, 0.7% of Viacom, 0.2% of Herc Holdings, 0.5% of Mueller Water Products, 0.2% of MGM Resorts International, 0.4% of Zimmer Biomet Holdings, 0.2% of Paccar and 0.7% of Viacom.

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Portfolio Manager Biography

Mario J. Gabelli, CFA, is 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.

Gabelli Equity Series Funds, Inc.
THE GABELLI EQUITY INCOME FUND

One Corporate Center
Rye, NY 10580-1422

t 800-GABELLI (800-422-3554)

f 914-921-5118

e info@gabelli.com

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