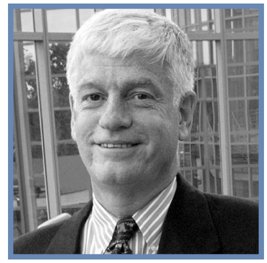
The Gabelli Equity Income Fund

Shareholder Commentary – December 31, 2009

★ ★ ★ ★ ★

Morningstar® rated The Gabelli Equity Income Fund Class AAA Shares 5 stars overall and 5 stars for the three, five and ten year periods ended December 31, 2009 among 1,104; 1,104; 912; and 459 Large Value funds, respectively.



Mario Gabelli, CFA

To Our Shareholders,

For the fourth quarter of 2009, the net asset value ("NAV") per Class AAA Share of The Gabelli Equity Income Fund rose 4.6%, versus an increase of 6.0% for the Standard & Poor's (S&P) 500 Index. The Fund's annualized total returns for the one year, five year, ten year, fifteen year, and since inception periods were 29.1%, 3.0%, 5.5%, 9.8%, and 9.8%, respectively.

Comparative Results

Average Annual Returns through December 31, 2009 (a)(b)

	Quarter	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception (1/2/92)
Gabelli Equity Income Fund Class AAA	**4.62%**	**29.14%**	**(2.93)%**	**3.01%**	**5.52%**	**9.82%**	**9.75%**
S&P 500 Index	6.04	26.47	(5.62)	0.42	(0.95)	8.04	7.75
Nasdaq Composite Index	6.64	46.72	(5.80)	(1.22)	(2.45)	7.64	7.81
Lipper Equity Income Fund Average	5.77	22.87	(5.43)	1.10	2.77	7.73	7.78

The expense ratio in the current prospectus is 1.50% for the Fund's Class AAA Shares. Class AAA Shares do not have a sales charge.

(a) ***Returns represent past performance and do not guarantee future results.*** *Total returns and average annual returns reflect changes in share price and 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. Performance returns for periods of less than one year are not annualized. 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.* ***Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.*** *See page 10 for performance of other classes of shares. The S&P 500 Index and the Nasdaq Composite Index are unmanaged indicators of stock market performance, while the Lipper Equity Income Fund Average reflects the average performance of mutual funds classified in this particular category. 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.*

Monthly Distributions — $0.03 per share

The Gabelli Equity Income Fund has a $0.03 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.

Morningstar Rating™ is based on risk-adjusted returns. The Overall Morningstar Rating is derived from a weighted average of the performance figures associated with a fund's three, five, and ten year (if applicable) Morningstar Rating metrics. For funds with at least a three year history, a Morningstar Rating is based on a risk-adjusted return measure (including the effects of sales charges, loads, and redemption fees) placing more emphasis on downward variations and rewarding consistent performance. That accounts for variations in a fund's monthly performance. The top 10% of funds in each category receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Morningstar Rating is for the AAA Share class only; other classes may have different performance characteristics. Ratings reflect relative performance. Results for certain periods were negative.

Barron's 2010 Roundtable

Mario 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 2010 Roundtable, published on January 18, 2010.

BARRON'S

ROUNDTABLE

MARIO GABELLI

Chairman and Chief Investment Officer – Value Portfolios

GAMCO Investors, Inc.

New Strategies For A New Era

Yes, times are tough, but opportunities remain for nimble investors. Where to put your money in 2010.

By Lauren R. Rublin

Barron's: What does all this mean for the stock market this year?

Gabelli: Today I heard that Job No. 1 for the President, which he ignored last year, is to create jobs. Three themes will influence the market outlook for 2010: Beijing, Ben, and Barack – the three Bs. The economy will be quite strong in the first quarter, and profits will be extraordinarily good, because companies haven't added extra workers. Stocks will have a few good months, and then we'll see what President Obama will do to prevent the Democrats from losing the midterm elections in a landslide. Will he propose another stimulus package? My sense is, he will.

Black: To the contrary. We had lunch in Boston a few weeks ago with [Speaker of the House of Representatives] Nancy Pelosi.

MacAllaster: What was first prize?

Black: She said there is no way Congress could pass a second stimulus bill.

Gabelli: So they'll put lipstick on it and call it something else.

Barron's: That's all fine, but if you buy a stock today, Mario, what can you expect by the end of the year?

Gabelli: You should be up 5% to 10% in the first half of the year. Then the market may have a major correction, and you could be up 5% for the full year. The first half of 2011 looks very challenging. Interest rates at some point will top 4%, and it's all about picking specific stocks.

We've had five waves of financial restructuring in this country in the past 50 years. The first one started in the 1960s, with the Charlie Bludhorns [head of the former Gulf+Western] building conglomerates. In the 1980s, Michael Milken facilitated the buying of companies for 10 cents on the dollar, and energized lazy assets. The 1990s saw telecom, media, and technology deals. Ten years ago, on the day of the Barron's Roundtable, **Time Warner** [TWX] and **AOL** [AOL] announced their huge merger. The fourth centered on the private-equity guys of three or four years ago, and this morning [Jan. 11] **Heineken** [HINKY] said it would buy the beer business of **Femsa** [FMX]. This underscores the beginning of the fifth wave. There will be an extraordinary number of transactions this year because companies want to grow.

Barron's: Mario, you're next.

Gabelli: President Obama's No. 1 job is to create jobs. That takes innovation, ideas, invention, and technology. I'll start with a tech company. It is more than 100 years old and has a business that is a great cash generator. It is based in the Buffalo, N.Y., area. About 75 years ago, diversification meant buying a million acres of land. A new technology has made that land extraordinarily valuable. A large portion of this acreage is in the Marcellus Field, and the company is **National Fuel Gas** [NFG]. It has 80 million shares outstanding, and the stock is at $50.

The new technology specializes in vertical drilling and fracturing of rock formations. The company has 727,000 utility customers, and a gas pipeline and storage business. It owns land mostly in Pennsylvania, including 620,000 acres on which it pays no royalties. NFG started drilling in these areas in the past two to three years. The utility, pipeline, midstream business and oil-and-gas properties not in the Marcellus are worth about $40 to $45 a share. You are creating the Marcellus acreage for $10 a share, or $800 million. That's about $1,200 an acre. If gas stays at $5 per thousand cubic feet, they will make a lot of money. They would break even around $3.50 per Mcf. At some point, the company should spin out its gas assets to shareholders. In addition it could monetize the pipeline business by creating a master limited partnership. Either way, with a $1.34 dividend and 2.6% yield, this is a wonderful play on technology uncovering a valuable asset.

Barron's: But "fracking" is a controversial technology.

Gabelli: If you are prudent, there is no reason not to allow the technology to be tested further.

It is time to look at the auto industry again. The strong could get stronger, and original equipment makers that supply the industry could benefit from the second and third tier suppliers going out of business. There are 800 million cars in the world, including 71 million in China and about 250 million in the U.S. This year, we estimate 11.5 million passenger vehicles will be sold in the U.S. and 10.2 million in China. In the U.S. there has been a substantial drawdown of cars on dealers' lots. OEMs will enjoy three or four years of steadily rising production globally. I am focusing on **Federal Mogul** [FDML]. The company was forced into bankruptcy proceedings related to an acquisition tainted by asbestos, and came out in December 2007. Carl Icahn owns 75 million of the 99.6 million shares.

Barron's: What does the stock sell for?

Gabelli: It is around $18. The market cap is $1.8 billion, and the company has about $2 billion of net debt. It can earn 90 cents a share this year, marching straight up to $3 by 2013. Revenue this year should be $5.6 billion, growing to $6.2 billion. Among other things, the company makes components for diesel engines.

Millicom International Cellular [MICC] is a cheap company that participates in the growth of emerging markets. It has about 29 million wireless customers in Central America, South America and Africa. It sold off its wireless business in Southeast Asia. The stock sells for $80, and there are 108 million shares. The company is controlled by **Kinnevik** [KINVB.Sweden], a Swedish concern. Millicom has a billion dollars of debt, and revenue is expected to be $3.5 billion this year. EBITDA [earnings before interest, taxes, depreciation, and amortization] is $1.6 billion. The company trades for 5.8 times EBITDA. Cash will build up dramatically in the next four or five years, because capital spending is flattening out. EBITDA could grow to $2.1 billion and earnings could grow to near $10 a share in 2013 from $6 this year.

Millicom has 11.2 million customers in Central America, out of an available population of 28 million. Its African markets have a population of 163 million, and it has nine million customers there. The potential for growth remains significant. At some point, a larger company could buy them, such as **MTN** [MTN.South Africa] or **Vivendi** [VIV.France]. One of Kinnevik's last surviving founders died. The company is controlled by his daughter, Christina Stenbeck, who is in her early 30s. She is very smart and aggressive, and something could happen.

Barron's: What is your next pick?

Gabelli: At the end of last year, the combined global market value of debt and equities was about $110 trillion. That is going to grow, and money managers will benefit.

I will focus on **Legg Mason** [LM]. At the end of November, it had $694 billion of assets under management. The peak was about $1 trillion. In the mutual funds business it has several brands. Some, like Royce, have done extremely well. Some are up and down. Legg Mason took a big hit in the fixed income business, but it has enough scale to overcome its challenges. The company had net operating losses, which helped recover taxes paid, and that helped its balance sheet. As of September 30, it had 163 million shares. The stock is $30, so that's a $5 billion market cap. Cash and debt are now about equal.

Legg Mason stock traded above $130 in 2006. Like the rest of us, Legg is worried about regulatory issues, but the company has great distribution and some terrific brands. Nelson Peltz owns 9.6 million shares and has a seat on the board.

MacAllaster: What are they going to earn this year?

Gabelli: Earnings could rise substantially for the year ended March, and could have a run rate of $1.20 a share, and grow 15% or 20% thereafter. Top-line organic growth is around 5% to 6%. Margins should expand as equities rise faster than fixed income in their asset mix. The stock is awfully vulnerable to a selloff in the market.

Schafer: It is a play on the market both ways.

Gabelli: My next pick is **Cablevision Systems** [CVC], based on Long Island. There are 300 million shares. The stock is $26, and has a $7.8 billion market cap. Debt is about $11 billion. The company is spinning off Madison Square Garden, which includes the Garden, the New York Knicks and Rangers, Radio City Music Hall, and other properties. The Garden is probably worth $3.5 billion, or $11 per

Mario Gabelli's Picks

Company	Ticker	1/8/10 Price
National Fuel Gas	NFG	$51.09
Federal Mogul	FDML	18.79
Millicom Intl Cellular	MICC	80.19
Legg Mason	LM	30.77
Cablevision Systems	CVC	26.28
Viacom	VIA/B	30.04
Griffon	GFF	12.60
Hawk	HWK	18.58

Source: Bloomberg

Cablevision share. It will trade around $6. Thus, you're creating Cablevision for $20 a share. The company could sell its networks, including American Movie Classics, for $4 billion. You're left with one of the best managed cable systems in the world.

Cable-related-business EBITDA for 2010 is $2.3 billion. Cablevision operates assets in the Bronx and parts of Brooklyn. **Time Warner Cable** [TWC] has Queens, Manhattan, Staten Island, and parts of Brooklyn. Eventually, they will sit down to merge their assets in New York City. Internet-enabled television was the hottest product at the Consumer Electronics Show. Cable is a way to participate in that.

My next idea is **Viacom** [VIA/B], run by Sumner Redstone.

Barron's: He's got a great record.

Gabelli: The stock is $30, and the market cap is $18 billion. The company has $6.6 billion of debt and sells for 7.5 times EBITDA and 12 times earnings. This is a cash generator, supported by advertising and subscription revenue. Redstone owns 41 million of the 52 million A shares, which have all the votes. The company could earn about $2.50 a share this year, and earnings per share could grow by at least 12% for the next four or five years. In part, advertising will come back. Cash should be $2 billion in five years. Viacom also owns Paramount, and there is a lot of consolidation going on in the movie business. Patience pays. You could double your money in four years.

Next, diapers. [Loud groans as Mario hands out packages of same.] There are 135 million babies born in the world every year, a number unlikely to grow in the next 40 years.

Seventy-five percent of those children don't use diapers, according to trade sources. The global market for diapers is $30 billion. In the U.S., it is $5 billion. But I'm not interested in kids. I'm interested in people over the age of 80. Incontinence grows with age. That market is $6.8 billion today, and growing. There are eight parts to a diaper, and **Griffon** [GFF] supplies two components. It has 58 million shares. The stock is $12.50, and the market cap, $725 million. The company has $141 million of net cash. It could earn about 60 cents a share for the year ending September 30, and that could double in the next three or four years. The company generates a lot of cash. It also has other businesses, including garage doors.

Barron's: That's synergy for you.

Gabelli: Why not? **Hillenbrand** [HI], which makes caskets, announced today it is buying a company that shreds rocks.

My last pick is **Hawk** [HWK], based in Cleveland. The co-founder and CEO, Ron Weinberg, was an investment banker. He put together an interesting company. It has eight million shares, trading at $18. Hawk has $77 million of cash and the same amount of debt. However, the cash earns 1% and the debt costs 8¾%. They can start calling it as early as November.

The company is a global leader in selling friction products used in brakes. It has some new products and technology. Revenue is expected to be $175 million for 2009, and could reach $200 million this year, though that is down from a previous level of $270 million. Earnings could go from 80 cents to $1.20 to $2 a share. Hawk could become a potential takeover target for other companies looking to grow.

Barron's: 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, 2009, the Gabelli Equity Income Fund held, as a percentage of its net assets, the following companies mentioned in this article: Time Warner 0.3%, Heineken 0.5%, Femsa 0.5%, Kinnevik 0.1%, Vivendi 0.9%, National Fuel Gas 0.5%, Millicomm Intl Cellular 0.2%, Legg Mason 1.0%, Cablevision Systems 0.3%, Viacom 0.7%, and Griffon 0.5%.

A complete listing of the Fund's portfolio holdings as of December 31, 2009 and a current prospectus are available by calling the Fund at 800-GABELLI (800-422-3554) or by visiting our website at www.gabelli.com. ***Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.***

The views expressed in this article reflect those of the Portfolio Manager only through the date of the interview. Minor edits were made. The Portfolio Manager's views are subject to change at any time based on market and other conditions. Favorable earnings or EBITDA (earnings before interest, taxes, depreciation, and amortization) growth prospects do not necessarily translate into higher stock prices, but they do express a positive trend which we believe will develop over time. The information contained in this article is not an offer to sell or a solicitation to buy any security. No security or other product is offered or will be sold in any jurisdiction in which such offer or solicitation, purchase or sale would be unlawful under the securities, or other laws of the jurisdiction.

COMMENTARY

The Economy

One year ago, the demand shock triggered by the September 2008 collapse of Lehman Brothers had just begun to ripple through the economy. Visibility was limited and the near term bleak. The economy and the stock market were stuck in a negative feedback loop that was broken only when Federal Reserve Chairman Ben Bernanke pledged to stave off deflation by "starting the printing press." After bottoming at 666 on March 6, the S&P 500 staged a remarkable comeback, up 68% from this nadir.

As governments formulated their rescue attempts, we noted two risks to the economy: one – that governments would do too little, leading to systemic collapse and a deflationary downward spiral, or two – that they would do too much, igniting inflation. We see growing evidence, gathered by our research team on a company-by-company and industry-by-industry basis, that asset prices have stabilized and that growth is returning. With this backdrop, it appears that risk is weighted toward governments doing too much. Ben Bernanke may have proven himself the true "maestro" in providing the liquidity to prevent the economy from falling into the abyss, but withdrawing this liquidity without stalling the recovery may be a more demanding task. Likewise, policymakers in the U.S. and other developed economies are faced with rising entitlements and growing deficits and the unsavory alternatives, in an election year, of raising taxes and/or letting fiscal stimulus lapse.

Ultimately, the discipline of the market will be felt. If central bankers and elected officials are unable to retrace their stimulus efforts with nearly perfect precision, inflation will emerge, private borrowing will be crowded out, and interest rates will rise, posing renewed risk to the economy in 2011. Higher interest rates and taxes and greater levels of government regulation have historically certainly not been recipes for rising stock market multiples. Thus we begin the year with a cautionary tone. We think near-term corporate profits will be robust and the economic rebound could exceed expectations, but we wonder how long the recovery will last before new signs of trouble emerge. We believe stock selection will become increasingly important in this market, especially as much of the "easy money" has already been made.

Deals, Deals, Deals – The Fifth Wave

As we wrote here last quarter, we believe a "Fifth Wave" of global takeovers is underway. Deals were done in the 1960s by conglomerates to offset economic cycles. In the 1980s deals were a way to energize lazy assets. The 1990s saw serial acquirers and a technology fueled boom. More recently, the M&A scene was dominated by private equity.

Today corporate buyers are using acquisitions to add global growth and scale. The strong are taking advantage of low valuations and excess corporate cash to get stronger. This thesis was highlighted by Kraft's (0.9% of net assets as of December 31, 2009) unsolicited bid for Fund holding, Cadbury plc (0.6%). After some textbook M&A tactics, Cadbury eventually agreed to a sweetened $20 billion offer from Kraft (0.9%). In January 2010, Fund holding Broadview Security, the second largest alarm monitoring company in the U.S., announced it had reached a definitive agreement to be acquired by market leader Tyco International (0.5%) for $42.50 per share. We identified Broadview as an acquisition candidate upon its spin-off from The Brink's Company in October 2008. We believe additional financial engineering (e.g. spin-offs) among companies in the Fund will facilitate further deal making in the future.

Investment Scorecard

Strong contributors to return in the fourth quarter included agricultural and commercial manufacturer, Deere (+26%) (1.4% of net assets as of December 31, 2009), American Express (+20%) (0.9%), and Corning Inc. (+30%) (0.4%).

Detractors from performance were limited in the fourth quarter, but included Legg Mason (–3%) (1.0%), Wells Fargo (–4%) (1.0%), and Flowserve (–4%) (0.7%).

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 stated in U.S. dollar equivalents as of December 31, 2009.

The Boeing Company (0.9% of net assets as of December 31, 2009) (BA - $54.13 - NYSE) is one of two manufacturers of commercial aircraft. The commercial aerospace industry is in the midst of a strong recovery. While the current economic weakness has reduced air travel, we believe that emerging economies of China, Russia, India, and Brazil (CRIB nations) will create 3.5 billion new middle class consumers who will travel more and thereby increase the demand for new aircraft. The CRIB nations have considerable strengths that should allow their economies to snap back quickly, namely increased disposable income driven by the strong economic growth in the past decade, high levels of foreign exchange reserves, and lower inflation should boost consumption and economic growth. We continue to believe that this group should provide long-term growth opportunities for Boeing.

Cadbury plc (0.6%) (CBY - $51.39 - NYSE) is a global producer of chocolate, chewing gum, and candy, selling its products under brands including Cadbury, Dentyne, and Trident. The company spun off its Americas Beverages business in 2008 and sold its Australian Beverages business in April 2009, making the company a pure play confectioner. Cadbury has significant exposure to fast growing emerging markets, including Latin America, Eastern Europe, and Asia. Management has also laid out aggressive plans for cost reductions in order to substantially increase margins over the next several years while maintaining strong revenue growth. On January 19, 2010, Kraft Foods Inc. raised its offer to buy the company for £8.40 per share (about $55 per ADR), plus a 10 pence dividend to Cadbury shareholders. Cadbury's board now recommends the revised offer.

The Coca-Cola Company (2.3%) (KO - $57.00 - NYSE), headquartered in Atlanta, GA, is the global leader in non-alcoholic beverages. Anchored by its iconic Coca-Cola brand, the company holds double volume global share advantage over its nearest competitor. The company owns or licenses nearly 500 brands and sells close to 3,000 different sparkling and still beverages in over 200 countries. We expect the company to deliver 10% compounded annual growth in earnings per share through 2013, driven by continued volume growth in emerging markets and volume improvements in the U.S. We expect innovation, e.g., Coke Zero, and continued expansion of healthy drink offerings, e.g., Vitaminwater and low calorie drinks sweetened with natural sweetener Truvia, to help revive U.S. volume growth.

Curtiss-Wright Corp. (0.1%) (CW - $31.32 - NYSE) is a manufacturer of actuation and electronic devices for the aerospace and industrial markets. The company makes high performance actuation systems used in airplane wings, pumps, and valves for the nuclear power generation industry and provides laser and shot peening services to the aerospace, automotive, and general industrial markets. An area of strong growth for Curtiss-Wright is the nuclear power generation business. The company provides critical controlled pumps and valves. Currently, CW's growth is based on the plant life extension and maintenance of the 103 nuclear power plants in the U.S. Plant life extensions provide CW with substantial spare, repair, and engineering systems business. About thirty-nine plants have received licenses for an extended life. Another thirty-nine plants will be seeking plant life extension from now to 2012, and the remainder is expected to come afterwards. The company's nuclear business should increase CW's future earnings growth.

Danone (0.7%) (BN.FP - $61.40 - Paris Stock Exchange) is a global leader in yogurt, baby nutrition, bottled water, and clinical nutrition. Throughout 2009, price deflation in dairy, Danone's main cost input for its yogurt business, allowed the company to increase promotions and marketing spending in order to spur volume growth while increasing profitability. The company also completed a €3 billion rights offering in June 2009, resulting in a stronger balance sheet and giving the company the flexibility to invest in its business and pursue acquisitions. While Danone continues to see medium term growth somewhat challenged, it continues to target 8%–10% sales growth long term. As the largest health and wellness "pure play", we believe that Danone's long-term growth rate is superior to its food and beverage peers due to increasing per capita consumption in emerging markets, particularly for its core yogurt and baby nutrition products.

Eli Lilly & Co. (1.1%) (LLY - $35.71 - NYSE) is a leading pharmaceutical company, with a particular focus on mental health disorders. Lilly is aggressively diversifying and searching for new drugs to replace three major patent expirations through 2013. The 2008 acquisition of ImClone provided the company with an additional revenue stream and a biologics footprint. The company continues to seek opportunities to increase its exposure to biologics and other high growth market segments, such as diabetes and central nervous system disorders, while paying an attractive dividend to shareholders.

Genuine Parts (0.7%) (GPC - $37.96 - NYSE) Genuine Parts Company, located in Atlanta, Georgia, is a premier North American distributor of "consumables" such as automobile replacement parts, industrial bearings, mechanical power components, office products, and electrical and electronic components and replacement parts. The auto parts business encompasses a network of warehouses and jobber stores under the NAPA brand and is the company's largest and best known operating segment. We regard GPC as a strong cash flow generator that offers investors protection should the U.S. economy experience significant inflation. We expect GPC to benefit from positive auto aftermarket trends over the next five years.

Johnson & Johnson (1.5%) (JNJ - $64.41 - NYSE) is the world's largest and most diversified healthcare company. 2009 was a challenging year for the company, as two major drugs lost patent protection and the company was impacted by the recession. In 2010, the company should return to growth driven by a strong pipeline of new drug launches in its pharmaceutical division combined with steady growth in its consumer and medical device divisions. Cash flow remains strong and has been used to make tuck-in acquisitions, increase the dividend, and buy back stock. Johnson & Johnson should be able to manage the impact of healthcare reform, and the stock rallied during the fourth quarter as the political process drew toward a conclusion.

MasterCard Inc. (0.2%) (MA - $255.98 - NYSE) is a leading global payment company, operating a payment network and managing payment card brands including MasterCard, MasterCard Electronic, Maestro, and Cirrus. In 2008, the company processed almost 21 billion transactions on its network totaling over $2.5 trillion in Gross Dollar Volume (GDV) from almost one billion outstanding debit and credit cards. The company benefits from the globalization of electronic payments and the shift of consumer spending from paper based (cash) to plastic (both debit and credit). The incumbent payment networks like MasterCard have a significant advantage on new competitors because of the high cost of replicating a global payment network, which should allow the company to continue to generate significant cash flow while growing earnings rapidly.

Rockwell Automation (1.4%) (ROK - $46.98 - NYSE), based in Milwaukee, WI, is a leading global provider of industrial automation solutions that help end users and OEMs across industries to become more energy efficient, maximize asset utilization, and improve time to market. Rockwell's products include automation and control software and platforms, motion control systems, motor starters, sensors, and industrial computers. In fiscal year 2009, Rockwell generated revenues of $4.3 billion and EBITDA of roughly $500 million. With global energy and commodity prices rising, Rockwell's products should become more appealing to OEMs, as they reduce costs and enhance productivity by becoming more efficient. The company could also be potentially attractive to strategic buyers, particularly European industrial companies looking to expand in North America.

Wells Fargo & Co. (1.0%) (WFC - $26.99 - NYSE) is a diversified financial services company with over $1.2 trillion in assets funded by $747 billion in core deposits, giving it the second highest deposit market share in the U.S. of 11.2%. These deposits and loans are gathered and managed through a nationwide network of 6,610 retail stores providing banking, insurance, investments, mortgage, and consumer finance and through the Internet. Wells Fargo's recent merger with Wachovia has given it a nationwide presence and is expected to generate annual cost savings of $5 billion. Through the merger, Wells Fargo was able to writeoff much of Wachovia's most toxic assets, leaving current shareholders with a much cleaner balance sheet going forward. The company's strong consumer brand, nationwide branch network, and history of cross selling should drive earnings growth.

Conclusion

We think an environment in which generally flat market performance is punctuated by occasional corporate transactions is ideal for our Private Market Value ("PMV") with a Catalyst™ investment approach. We first and foremost select stocks based on their fundamentals. We seek an adequate margin of safety and one or more catalysts that can surface the intrinsic value of a security. To the extent that a takeover provides that catalyst, it adds an extra element of return to the portfolio.

Sincerely,

Mario J. Gabelli

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

January 29, 2010

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 Portfolio Managers' Shareholder Commentary represents the opinions of the individual 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.

Portfolio Manager Compensation

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

As founder and portfolio manager of The Gabelli Equity Income Fund, Mr. Gabelli received $3,578,127 in calendar 2008. In 1992, the Fund's first year of operation starting in January, Mr. Gabelli received less than $165,000. As beneficial owner, he had $5,775,083 invested in The Gabelli Equity Income Fund as of December 31, 2009, which includes the holdings of GBL and GGCP, Inc., GBL's parent holding company.

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 in seven days or less of a purchase. See the prospectus for more details.

www.gabelli.com

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

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

The Fund's daily net asset value is available in the financial press and each evening after 7:00 PM (Eastern Time) by calling 800-GABELLI (800-422-3554). The Fund's Nasdaq symbol is GABEX for Class AAA Shares. Please call us during the business day for further information.

Top Ten Holdings (Percent of Net Assets)

December 31, 2009

The Coca-Cola Co. 2.3%	Pfizer Inc. 1.4%
Swedish Match AB 2.3%	Deere & Co. 1.4%
International Business Machines Corp. 1.8%	IMS Health Inc. 1.3%
Johnson & Johnson 1.5%	Chevron Corp. 1.1%
Rockwell Automation Inc. 1.4%	Eli Lilly & Co. 1.1%

e-delivery

We are pleased to offer electronic delivery of Gabelli fund documents. Direct shareholders of our open-end mutual funds can now elect to receive their Annual, Semiannual, and Quarterly Fund 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.

Multi-Class Shares

The Gabelli Equity Income Fund began offering additional classes of Fund shares on December 31, 2003. Class AAA Shares are no-load shares offered directly by selected broker/dealers. Class A and Class C Shares are targeted to the needs of investors who seek advice through financial consultants. Class I Shares are available solely to certain institutions which initially invest directly with the Fund. The minimum initial investment amount for Class I Shares is $500,000. The Board of Directors determined that expanding the types of Fund shares available through various distribution options will enhance the ability of the Fund to attract additional investors.

Average Annual Returns – December 31, 2009 (a)(f)

	Class AAA Shares	Class A Shares	Class B Shares	Class C Shares	Class I Shares
1 Year	29.14%	29.15%	28.17%	28.19%	28.20%
		21.72(c)	23.17(d)	27.19(e)	
5 Year	3.01	3.00	2.24	2.24	3.13
		1.78(c)	1.87(d)	2.24	
10 Year	5.52	5.52	5.05	5.06	5.59
		4.89(c)	5.05	5.06	
Life of Fund (b)	9.75	9.74	9.47	9.48	9.79
		9.38(c)	9.47	9.48	
Current Expense Ratio	**1.50**	**1.50**	**2.25**	**2.25**	**1.25**
Maximum Sales Charge	**None**	**5.75**	**5.00**	**1.00**	**None**
Ticker Symbols	**GABEX**	**GCAEX**	**GCBEX**	**GCCEX**	**GCIEX**

(a) ***Returns represent past performance and do not guarantee future results.*** *Total returns and average annual returns reflect changes in share price and 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.* ***Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.*** *The Class AAA Shares' NAVs per share are used to calculate performance for the periods prior to the issuance of Class A Shares, Class B Shares, and Class C Shares on December 31, 2003 and Class I Shares on January 11, 2008. The actual performance for the Class B Shares and Class C Shares would have been lower and Class I Shares would have been higher due to the differences in expenses associated with these classes of shares.*

(b) *Performance is calculated from inception of Class AAA Shares on January 2, 1992.*

(c) *Includes the effect of the maximum 5.75% sales charge at the beginning of the period.*

(d) *Performance results include the deferred sales charges for the Class B Shares upon redemption at the end of the one year and five year periods of 5% and 2%, respectively, of the Fund's NAV per share at the time of purchase or sale, whichever is lower. Class B Shares are not available for new purchases.*

(e) *Performance results include the deferred sales charges for the Class C Shares upon redemption at the end of the one year period of 1% of the Fund's NAV per share at the time of purchase or sale, whichever is lower.*

(f) *The Fund's fiscal year ends September 30.*

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

GABELLI FAMILY OF FUNDS

VALUE

Gabelli Asset Fund
Seeks to invest primarily in a diversified portfolio of common stocks selling at significant discounts to their private market value. The Fund's primary objective is growth of capital. *(Multiclass)*
Portfolio Manager: Mario J. Gabelli, CFA

Gabelli Blue Chip Value Fund
Seeks long term growth of capital through investment primarily in the common stocks of established companies which are temporarily out of favor. The fund's objective is to identify a catalyst or sequence of events that will return the company to a higher value. *(Multiclass)*
Portfolio Manager: Barbara Marcin, CFA

GAMCO Westwood Equity Fund
Seeks to invest primarily in the common stock of well seasoned companies that have recently reported positive earnings surprises and are trading below Westwood's proprietary growth rate estimates. The Fund's primary objective is capital appreciation. *(Multiclass)* *Portfolio Manager: Susan M. Byrne*

FOCUSED VALUE

Gabelli Value Fund
Seeks to invest in securities of companies believed to be undervalued. The Fund's primary objective is long-term capital appreciation. *(Multiclass)*
Portfolio Manager: Mario J. Gabelli, CFA

SMALL CAP VALUE

Gabelli Small Cap Fund
Seeks to invest primarily in common stock of smaller companies (market capitalizations at the time of investment of $2 billion or less) believed to have rapid revenue and earnings growth potential. The Fund's primary objective is capital appreciation. *(Multiclass)*
Portfolio Manager: Mario J. Gabelli, CFA

GAMCO Westwood SmallCap Equity Fund
Seeks to invest primarily in smaller capitalization equity securities – market caps of $2.5 billion or less. The Fund's primary objective is long-term capital appreciation. *(Multiclass)*
Portfolio Manager: Nicholas F. Galluccio

Gabelli Woodland Small Cap Value Fund
Seeks to invest primarily in the common stocks of smaller companies (market capitalizations generally less than $3.0 billion) believed to be undervalued with shareholder oriented management teams that are employing strategies to grow the company's value. The Fund's primary objective is capital appreciation. *(Multiclass)* *Portfolio Manager: Elizabeth M. Lilly, CFA*

GROWTH

GAMCO Growth Fund
Seeks to invest primarily in large cap stocks believed to have favorable, yet undervalued, prospects for earnings growth. The Fund's primary objective is capital appreciation. *(Multiclass)*
Portfolio Manager: Howard F. Ward, CFA

GAMCO International Growth Fund
Seeks to invest in the equity securities of foreign issuers with long-term capital appreciation potential. The Fund offers investors global diversification. *(Multiclass)* *Portfolio Manager: Caesar Bryan*

AGGRESSIVE GROWTH

GAMCO Global Growth Fund
Seeks capital appreciation through a disciplined investment program focusing on the globalization and interactivity of the world's marketplace. The Fund invests in companies at the forefront of accelerated growth. The Fund's primary objective is capital appreciation. *(Multiclass)* *Team Managed*

MICRO-CAP

GAMCO Westwood Mighty Mites℠ Fund
Seeks to invest in micro-cap companies that have market capitalizations of $300 million or less. The Fund's primary objective is long-term capital appreciation. (*Multiclass)* *Team Managed*

EQUITY INCOME

Gabelli Equity Income Fund
Seeks to invest primarily in equity securities with above average market yields. The Fund pays monthly dividends and seeks a high level of total return with an emphasis on income. *(Multiclass)*
Portfolio Manager: Mario J. Gabelli, CFA

GAMCO Westwood Balanced Fund
Seeks to invest in a balanced and diversified portfolio of stocks and bonds. The Fund's primary objective is both capital appreciation and current income. *(Multiclass)*
Co-Portfolio Managers: Susan M. Byrne
Mark Freeman, CFA

GAMCO Westwood Income Fund
Seeks to provide a high level of current income as well as long-term capital appreciation by investing in income producing equity and fixed income securities. (*Multiclass)* *Portfolio Manager: Barbara Marcin, CFA*

SPECIALTY EQUITY

GAMCO Global Convertible Securities Fund
Seeks to invest principally in bonds and preferred stocks which are convertible into common stock of foreign and domestic companies. The Fund's primary objective is total return through a combination of current income and capital appreciation. *(Multiclass)*
Team Managed

GAMCO Global Opportunity Fund
Seeks to invest in common stock of companies which have rapid growth in revenues and earnings and potential for above average capital appreciation or are undervalued. The Fund's primary objective is capital appreciation. *(Multiclass)* *Team Managed*

Gabelli SRI Green Fund
Seeks to invest in common and preferred stocks meeting guidelines for social responsibility (avoiding defense contractors and manufacturers of alcohol, abortifacients, gaming, and tobacco products) and sustainability (companies engaged in climate change, energy security and independence, natural resource shortages, organic living, and urbanization). The Fund's primary objective is capital appreciation. *(Multiclass)*
Co-Portfolio Managers: Christopher C. Desmarais
John M. Segrich, CFA

SECTOR

GAMCO Global Telecommunications Fund
Seeks to invest in telecommunications companies throughout the world – targeting undervalued companies with strong earnings and cash flow dynamics. The Fund's primary objective is capital appreciation. *(Multiclass)* *Team Managed*

GAMCO Gold Fund
Seeks to invest in a global portfolio of equity securities of gold mining and related companies. The Fund's objective is long-term capital appreciation. Investment in gold stocks is considered speculative and is affected by a variety of worldwide economic, financial, and political factors. *(Multiclass)*
Portfolio Manager: Caesar Bryan

Gabelli Utilities Fund
Seeks to provide a high level of total return through a combination of capital appreciation and current income. *(Multiclass)* *Team Managed*

MERGER AND ARBITRAGE

Gabelli ABC Fund
Seeks to invest in securities with attractive opportunities for appreciation or investment income. The Fund's primary objective is total return in various market conditions without excessive risk of capital loss.
(No-load) *Portfolio Manager: Mario J. Gabelli, CFA*

Gabelli Enterprise Mergers and Acquisitions Fund
Seeks to invest in securities believed to be likely acquisition targets within 12–18 months or in arbitrage transactions of publicly announced mergers or other corporate reorganizations. The Fund's primary objective is capital appreciation. *(Multiclass)*
Portfolio Manager: Mario J. Gabelli, CFA

CONTRARIAN

GAMCO Mathers Fund
Seeks long-term capital appreciation in various market conditions without excessive risk of capital loss.
(No-load) *Portfolio Manager: Henry Van der Eb, CFA*

Comstock Capital Value Fund
Seeks capital appreciation and current income. The Fund may use either long or short positions to achieve its objective. *(Multiclass)*
Portfolio Manager: Martin Weiner, CFA

FIXED INCOME

GAMCO Westwood Intermediate Bond Fund
Seeks to invest in a diversified portfolio of bonds with various maturities. The Fund's primary objective is total return. *(Multiclass)*
Portfolio Manager: Mark Freeman, CFA

CASH MANAGEMENT-MONEY MARKET

Gabelli U.S. Treasury Money Market Fund
Seeks to invest exclusively in short-term U.S. Treasury securities. The Fund's primary objective is to provide high current income consistent with the preservation of principal and liquidity. *(No-load)*
Co-Portfolio Managers: Judith A. Raneri
Ronald S. Eaker

An investment in the above Money Market Fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund.

The Funds may invest in foreign securities which involve risks not ordinarily associated with investments in domestic issues, including currency fluctuation, economic, and political risks.

To receive a prospectus, call ***800-GABELLI*** *(422-3554). Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.*

Gabelli Equity Series Funds, Inc.
The Gabelli Equity Income Fund
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800-GABELLI
800-422-3554
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e-mail: info@gabelli.com
Net Asset Value per share available daily by calling
800-GABELLI after 7:00 P.M.

Distributor
Gabelli & Company, Inc.

Custodian, Transfer Agent, and Dividend Agent
State Street Bank and Trust Company

Legal Counsel
Skadden, Arps, Slate, Meagher & Flom LLP

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EPS PMV MANAGEMENT CASH FLOW RESEARCH

The Gabelli Equity Income Fund

Morningstar® rated The Gabelli Equity Income Fund Class AAA Shares 5 stars overall and 5 stars for the three, five and ten year periods ended December 31, 2009 among 1,104; 1,104; 912; and 459 Large Value funds, respectively.

SHAREHOLDER COMMENTARY
DECEMBER 31, 2009