

# The Gabelli Equity Income Fund

## Shareholder Commentary – September 30, 2011



*Morningstar® rated The Gabelli Equity Income Fund Class AAA Shares 5 stars overall and 5 stars for the five and ten year periods and 4 stars for the three year period ended September 30, 2011 among 1,114, 964, 545, and 1,114 Large Value funds, respectively.†*



**Mario J. Gabelli, CFA**

### To Our Shareholders,

For the quarter ended September 30, 2011, the net asset value (“NAV”) per Class AAA Share of The Gabelli Equity Income Fund (the “Fund”) declined 14.4% compared with the decrease of the Standard & Poor’s (“S&P”) 500 Index of 13.9%. See page 2 for additional performance information.

### The Economy

Macroeconomic news this year has been dominated by the “sovereigns” – primarily the governments of the European Union, the United States, and China. The formation of the EU under the Maastricht Treaty of 1992 was an historic step in unifying a continent that had been fragmented since the fall of the Roman Empire, including establishing the criteria for a single currency under the European Monetary Union (EMU). The legacy of the treaty – which left members with control over fiscal policy but centralized authority over monetary policy – is now in question, as weaker governments lack the exchange rate tools that would allow adjustment to a more competitive footing. European leaders are working to balance the interests of distressed countries such as Greece and Portugal against those of healthier economies such as Germany and Finland within the current framework. The task is difficult and likely painful, but we believe at this point that the EMU will survive.

### 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](http://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.

## Comparative Results

### Average Annual Returns through September 30, 2011 (a)(b) (Unaudited)

	<u>Quarter</u>	<u>1 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception (1/2/92)</u>
<b>Class AAA (GABEX)</b> .....	(14.43)%	1.05%	0.97%	5.75%	9.24%
S&P 500 Index .....	(13.87)	1.14	(1.18)	2.82	7.31(f)
Nasdaq Composite Index .....	(12.70)	(2.99)	2.30	5.67	7.43
Lipper Equity Income Fund Average .....	(14.04)	0.27	(1.64)	3.24	6.84
<b>Class A (GCAEX)</b> .....	(14.42)	1.06	0.99	5.75	9.23
With sales charge (c) .....	(19.34)	(4.75)	(0.20)	5.12	8.91
<b>Class B (GCBEX)</b> .....	(14.61)	0.26	0.20	5.13	8.91
With contingent deferred sales charge (d) .....	(18.88)	(4.74)	(0.20)	5.13	8.91
<b>Class C (GCCEX)</b> .....	(14.60)	0.31	0.22	5.15	8.92
With contingent deferred sales charge (e) .....	(15.46)	(0.69)	0.22	5.15	8.92
<b>Class I (GCIEX)</b> .....	(14.42)	1.26	1.17	5.86	9.29

**In the current prospectus dated January 28, 2011, the expense ratios for Class AAA, A, B, C, and I Shares are 1.44%, 1.44%, 2.19%, 2.19%, and 1.19%, respectively. Class AAA and Class I Shares do not have a sales charge. The maximum sales charge for Class A, B, and C Shares is 5.75%, 5.00%, and 1.00%, 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. The Fund imposes a 2% redemption fee on shares sold or exchanged within seven days after the date of purchase. Current performance may be lower or higher than the performance data presented. Performance returns for periods of less than one year are not annualized. Visit [www.gabelli.com](http://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 information about these and other matters and should be read carefully before investing.** The Class AAA Share NAVs 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 A Shares, Class B Shares, and Class C Shares would have been lower and Class I Shares would have been higher due to differences in expenses associated with these classes 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 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) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.
- (d) Assuming payment of the maximum contingent deferred sales charge ("CDSC"). The maximum CDSC for Class B Shares is 5% and is gradually reduced to 0% after six years.
- (e) Assuming payment of the 1% maximum CDSC imposed on redemptions made within one year of purchase.
- (f) S&P 500 Index since inception performance is as of December 31, 1991.

The U.S. faces its own fiscal challenges as \$15 trillion of federal debt, nearing 100% of GDP, reaches levels not seen since the end of World War II. Unlike captives of the EU, however, the U.S. can (for a time) improve competitiveness by devaluing the dollar, and possesses the special privilege of repaying its debts in the currency it controls. That did not stop Standard & Poor's on August 5, 2011 from issuing its first downgrade of U.S. debt, from AAA to AA+, citing the "political brinksmanship" of a summer budget debate that ultimately failed to reduce the country's long-term debt load. We see little hope for reconciliation on the domestic front until after the 2012 elections. Political tensions and popular discontent parallel both sides of the Atlantic. Troubles in Athens, Greece may seem distant for Americans in Athens, Georgia, but global market movements spurred by the S&P downgrade and EU bailouts are proof of how interconnected the world has become. We see efforts to diminish globalization as futile at best and a grave danger to recovery at worst.

In contrast to these macroeconomic dynamics, the picture painted by everyday participants in the economy, the companies we follow, appears less bleak. Demand is not robust, but reasonably stable. Margins remain high and balance sheets are stronger than before the 2008 crisis. Nevertheless, the market seems to be discounting a slowdown, the depth and length of which remains in question.

Against this backdrop, Mr. Market has returned to his hyperactive ways. Market volatility, as measured by the VIX index, ended the quarter with a reading of 43, below the reading of 80 at the height of the crisis in October 2008, but well-above the more "normal" 20-25 range into which the VIX settled during 2010. Large intraday moves and high correlations among stocks, which we suspect have been exacerbated by high frequency traders (HFTs) and exchange traded funds (ETFs), have at once made investment frustrating in the short-term but attractive for the patient-minded. Indeed, if the mindless investing of HFTs and ETFs are setting the marginal prices for securities, then those focused on fundamental research, such as (y)our team should deliver superior returns over the long term.

### **Deals, Deals and More Deals: Breaking-up Is Easy to Do**

Among the most effective tactics for surfacing value is the corporate spin-off. The strategy has been especially popular this year with over 35 spin-offs announced or completed (a partial list is below) as of this writing, already the highest number since 2002.

#### **Completed**

Cablevision (0.1%)\*  
 Fortune Brands (0.7%)\*  
 Liberty Media  
 Marathon Oil (0.1%)\*  
 Mosaic Co (less than 0.1%)\*  
 Motorola  
 ConocoPhillips (0.7%)\*

#### **Announced**

El Paso Corp. (0.7%)\*  
 Expedia  
 IDT Corp.  
 ITT Corp. (0.1%)\*  
 Kraft (1.9%)\*  
 Loral Space & Communications (0.1%)\*  
 Marriott International

McGraw Hill (0.1%)\*  
 Ralcorp  
 Sara Lee (1.0%)  
 Tyco International (0.6%)\*  
 Williams Cos.

\* Current Fund holding, % of net assets as of September 30, 2011

Spin-offs offer several attractions, including: (a) the tax-efficient isolation of businesses which may hold appeal to acquirers; (b) capital structures better-tailored for each business; (c) better alignment of incentives for management of former subsidiaries; and (d) the opportunity to highlight smaller operations for investors. In the past, the Fund has profited from its ownership of companies that have announced spin-offs, including companies that have been spun-off and later acquired. We expect the same for the future.

## Investment Scorecard

Despite the double digit decline in the broad stock market averages during the quarter, a number of the holdings in the Fund were able to actually post gains. Some of those gainers included the Coca-Cola Company (2.0%) (+1%) and Costco Wholesale (1.0%) (+1%). Both of these companies are consumer staples and investors were attracted to the defensive nature of their business models, as well as their positive fundamental outlook. In addition, some of the utility stocks in the Fund, such as Duke Energy (0.2%) (less than +1%) and Dominion Resources (0.3%) (+6%) were also up in the quarter.

Some of the larger detractors in the quarter were stocks concentrated in the industrial and energy sectors, since these stocks are most vulnerable to a potential slowdown in the global economy. Halliburton (0.6%) (−40%), which is an energy services company, was down meaningfully in the quarter due to concerns global drilling activity would slow down because of a drop in oil prices. In addition, a number of industrial companies, such as Honeywell (0.6%) (−26%) and Navistar (0.3%) (−43%), a trucking company, were down due to concerns about global economic growth.

## 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. The share prices of the following holdings are stated in U.S. dollars or U.S. dollar equivalent terms as of September 30, 2011.

*American Express Co. (0.9%) (AXP - \$44.90 - NYSE)* is the largest closed-loop credit card company in the world. The company operates its eponymous premiere branded payment network and lends to its largely affluent customer base. American Express has 89 million cards in force and \$53 billion in loans, while its customers charged nearly \$715 billion of spending on their cards during 2010. The company's strong consumer brand has allowed American Express to enter the deposit gathering market as an alternate source of funding, while the company's affluent customers have begun to see slight improvements in spending. Longer-term, American Express should capitalize on its higher spending customer base and continue to expand into other payment related businesses like corporate purchasing while also growing in emerging markets. Similarly, the company is looking at the growing success of social media as an opportunity to expand its product base and payment options.

*Coca-Cola Co. (2.0%) (KO - \$67.56 - NYSE)* headquartered in Atlanta, GA, is the global leader in non-alcoholic beverages, anchored by its iconic Coca-Cola brand. The company owns or licenses nearly 500 brands and sells close to 3,500 different sparkling and still beverages in over 200 countries. As the global beverage leader, we believe the Coca-Cola Company stands to benefit from the expected volume growth in emerging markets, and continued improvements in the U.S., where volumes returned to organic growth in 2010 and earnings should benefit from bottling acquisition synergies. We expect KO's EPS to grow at 11% per annum through 2015, and find the current Coca-Cola shares valuation compelling, including the 2.8% current return.

*Danone (0.5%) (BN FP - \$61.90 - Paris Stock Exchange)* is a global leader in yogurt, baby nutrition, bottled water, and clinical nutrition. As a "pure play" health and wellness focused company, we estimate that Danone has one of the strongest potential top line growth rates among major food and beverage companies due to

competing in higher growth categories and having significant emerging markets exposure. As a result, Danone expects top line growth of 6%-8% along with an improvement in EBIT margin in 2011, and we believe that the company can exceed these targets over time. In addition to increasing per capita yogurt consumption in emerging countries, the company is focused on significant growth from its baby nutrition business, especially in China. Following the acquisition of dairy producer Unimilk in 2010, Russia is now tied with France as the company's largest market, and Danone expects significant growth and synergies from the acquisition.

*General Electric Co. (1.1%) (GE - \$15.24 - NYSE)* is an industrial conglomerate based in Fairfield, CT, with leading positions in energy, healthcare, and aviation equipment, services, and financing. In addition, the company has a 49% interest in NBC Universal. GE Capital, GE's commercial and consumer lending business, suffered losses during the financial crisis, but should provide uplift to GE's operating profits, as the credit and financing environment improves over time. Over the next 3 - 5 years, we expect GE can grow its earnings per share by at least 10% annually, and dividends to increase in line with earnings. Further, given the strong cash flow from its businesses, we expect the company to continue buying back its stock and make acquisitions, particularly within the energy and infrastructure sectors.

*Genuine Parts Co. (1.5%) (GPC - \$50.80 - NYSE)*, based in Atlanta, GA, is a distributor of automotive and industrial replacement parts, office products, and electrical and electronic components. We expect Genuine Parts to benefit from continued tailwinds in the automotive aftermarket, including dealer consolidation and increasing vehicular age. Additionally, sales at the company's non-automotive related segments should rise as industrial capacity utilization increases and employment levels improve. Genuine Parts' management has shown consistent dedication to shareholder value via share repurchases and increasing its dividend.

*Home Depot, Inc. (1.0%) (HD - \$32.87 - NYSE)* is world's largest home improvement retailer with fiscal 2010 revenues of \$68 billion and EBITDA of \$7.5 billion. Home Depot has 2,245 retail stores and sells 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 an improvement in the housing market fundamentals and the general economy to provide uplift to Home Depot's business. Notably, the company generates significant cash flow, has a strong balance sheet, and is attractively valued. To make use of its available cash flow, we expect Home Depot to continue buying back its stock.

*Honeywell International Inc. (0.6%) (HON - \$43.91 - NYSE)* is a leading producer of avionics, power, and electronic systems for the aerospace market, process automation, and security products for the industrial, residential, and commercial building markets. The company also makes turbochargers for the automotive industry and provides technologies to the energy market. HON has excellent products, a strong balance sheet, and generates substantial free cash flow that could be used for internal growth, acquisitions, and stock repurchases. In addition, the company is executing on its long-term strategy to expand in less costly regions of the world while reducing costs in more costly countries by closing plants, consolidated facilities, and implementing six sigma and lean manufacturing. These dynamics should position HON for bigger profitability gains in the future.

*Kraft Foods Inc. (1.9%) (KFT - \$33.58 - NYSE)* is the largest North American manufacturer and marketer of packaged food products with revenue of \$49 billion in 2010, including nearly \$10 billion of annual revenue Kraft acquired with the acquisition of Cadbury plc in February 2010. The company sells products in several categories, including confectionery, biscuits, cheese, and coffee. Kraft's business include several well known brands such as, Cadbury Dairy Milk, Trident, Oreo, Chips Ahoy!, Ritz, Wheat Thins, Maxwell House, Crystal

Light, Oscar Mayer, Jell-O, Cool Whip, Cracker Barrel, Kraft, Polly-O, and Velveeta cheeses. In September 2011, Kraft announced its intention to split the company into two independent entities. Grocery Co. will comprise of the North American operations, excluding the snack businesses with estimated revenue of approximately \$16 billion, focused on driving market growth, sustaining its high margins and returning cash to shareholders through dividends. Snack Co. will consist of the global snack businesses, as well as the international food businesses, generating over \$32 billion, which will focus on accelerating growth in the faster-growing snack businesses, building international scale and improving margins. The split is expected to be completed by late 2012 through a tax-free spin-off.

*National Fuel Gas Co. (0.8%) (NFG - \$48.68 - NYSE)* is a diversified natural gas company. NFG owns a regulated gas utility serving the region around Buffalo, NY, gas pipelines that move gas from the Midwest and Canada down to New York City and to New England, and an oil and gas exploration and production business. We see significant unrecognized value in NFG's ownership of 800,000 acres in the Marcellus shale. Advances in drilling technology have made the enormous gas reserve potential of the shale recoverable and we estimate the Marcellus acreage position could be worth well over \$4.0 billion based on recent comparable transactions. In late 2010, the company hired an adviser to pursue joint venture opportunities, and we expect a strategic announcement in mid 2011. The company has increased its dividend for forty consecutive years.

*Swedish Match AB (2.3%) (SWMA.SS - \$33.23 - Stockholm Exchange)* produces tobacco products that include snus and snuff, chewing tobacco, cigars, and lights. The company has been benefiting from the growth of the smokeless tobacco market in both Scandinavia and the U.S., as public smoking bans and health concerns are driving consumers to seek alternative tobacco products to cigarettes. In February 2009, Swedish Match created a joint venture with Philip Morris International in order to sell Swedish snus in markets around the world, taking advantage of Swedish Match's brands and production capabilities and Philip Morris International's distribution network. In September 2009, the company sold its South African pipe tobacco business to Philip Morris International for about 1.9 billion SEK, and is using most of the proceeds to repurchase shares. In October 2010, Swedish Match combined its European and premium cigar portfolios with Scandinavian cigar and pipe tobacco company STG, creating a new company that will benefit from enhanced scale and synergies. As a more focused company, we expect Swedish Match to grow sales and earnings over time as the smokeless tobacco category continues to develop.

## **Conclusion**

This is the eighth consecutive quarter of dividend increases that started in the fourth quarter of 2009, and since that time the total dividends paid by the companies that comprise the S&P 500 have increased 22%. This is a powerful reminder of what can be achieved by investing in stocks of companies that grow their dividends over time. An investor who had purchased a basket of stocks at the beginning of the fourth quarter of 2009, yielding 3% would now be earning almost 3.7%.

According to long term studies by Ibbotsen Associates, since 1926 the S&P 500 has risen approximately 9.5% annually, with 45% of that return coming from dividends and 55% coming from capital appreciation. This does not take into account the impact of reinvested dividends, however; if dividends are reinvested year after year their contribution over time to the total return is much higher. This is the power of compound interest or, in this case, dividends, and makes the case for the long term power of reinvested dividends.

The dividend is a concrete reflection of the real strength of earnings. It is the compounding effect of these growing dividends, reinvested year after year, that has comprised almost half the long term return on the stock market, and we believe that these dividends are critical to long term future returns. We expect dividend policies to continue to trend back toward a longer term average and so this trend has a ways to go.

Sincerely,



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

October 17, 2011

**Top Ten Holdings (Percent of Net Assets)**  
**September 30, 2011**

Swedish Match AB 2.3%	The Boeing Co. 1.4%
The Coca-Cola Co. 2.0%	Pfizer Inc. 1.2%
Kraft Foods Inc. 1.9%	Johnson & Johnson 1.2%
International Business Machines Corp. 1.9%	Deere & Co. 1.2%
Genuine Parts Co. 1.5%	Newmont Mining Corp. 1.1%

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

### **Portfolio Manager Compensation**

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

As founder and portfolio manager of The Gabelli Equity Income Fund, Mr. Gabelli received \$3,243,767 in calendar 2010. In 1992, the Fund's first year of operation, Mr. Gabelli received less than \$165,000. As beneficial owner, he had \$6,726,198 invested in The Gabelli Equity Income Fund as of December 31, 2010, 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](http://www.gabelli.com)**

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

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

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, between 8:00 AM – 7:00 PM (Eastern Time), for further information.

## **e-delivery**

We are pleased to offer electronic delivery of Gabelli fund documents. Direct shareholders of our mutual funds can elect to receive their Annual, 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](http://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 through 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, directly through the Fund's distributor or brokers that have entered into selling agreements specifically with respect to Class I Shares. 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.

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. ©2011 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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

## Gabelli/GAMCO Funds and Your Personal Privacy

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### Who are we?

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

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

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

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

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

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

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

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

# GABELLI 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)

*Team Managed*

### **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 G. 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)

*Team Managed*

## SMALL CAP

### **Gabelli Small Cap Growth 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<sup>SM</sup> Fund**

Seeks to invest in micro-cap companies that have market capitalizations of \$500 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 R. 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 G. Marcin, CFA*

## SPECIALTY EQUITY

### **GAMCO Vertunus Fund (formerly 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)

*Portfolio Manager: Mario J. Gabelli, CFA*

### **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)

*Team Managed*

## 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)

*Portfolio Manager: Mario J. Gabelli, CFA*

## 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 Managers: Charles L. Minter*

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

Distributed by G.distributors, LLC, One Corporate Center, Rye, NY 10580.

Gabelli Equity Series Funds, Inc.  
**The Gabelli Equity Income Fund**

One Corporate Center  
Rye, New York 10580-1422

**800-GABELLI**

**800-422-3554**

**fax: 914-921-5118**

**website: www.gabelli.com**

**e-mail: info@gabelli.com**

Net Asset Value per share available daily by calling

**800-GABELLI** after 7:00 P.M.

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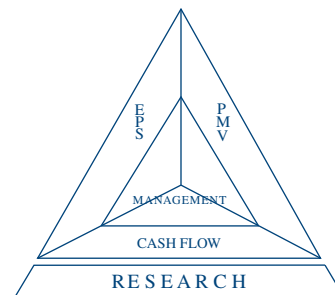
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Skadden, Arps, Slate, Meagher & Flom LLP



# The Gabelli Equity Income Fund

*Morningstar® rated The Gabelli Equity Income Fund Class AAA Shares 5 stars overall and 5 stars for the five and ten year periods and 4 stars for the three year period ended September 30, 2011 among 1,114, 964, 545, and 1,114 Large Value funds, respectively.†*

† Morningstar Rating™ is based on risk-adjusted returns.

This report is submitted for the general information of the shareholders of The Gabelli Equity Income Fund. It is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus.

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**SHAREHOLDER COMMENTARY**  
**SEPTEMBER 30, 2011**