



Gabelli Funds, LLC

To: [Mutual Fund Directors - Each Individually]

From: Bruce N. Alpert

Date: September 3, 2003

RE: Toxic Trading in Mutual Funds

On September 3, 2003, New York Attorney General Eliot Spitzer announced that his office has obtained evidence of widespread illegal trading schemes that potentially cost mutual fund investors billions of dollars. Canary Capital Partners, LLC (“Canary”) a hedge fund, and related parties agreed to make restitution of \$30 million and pay a \$10 million fine.

The complaint filed by the New York State Attorney General alleged that Canary participated in two types of schemes both involved mutual fund companies.

The first scheme involved “late trading” of mutual fund shares. Certain financial intermediaries allowed Canary to place mutual fund orders after the 4:00 pm ET deadline. As a result, Canary capitalized on post-4:00 pm information to the detriment of the long-term shareholders.

The second scheme involved “timing” of mutual funds that was designed to exploit the way mutual fund companies with international or less liquid securities determine the price of fund shares. We have characterized this practice as “scalping” and it is also being referred to as “time zone arbitrage.”

Our Funds do not permit the illegal practice of late trading. All intermediaries have signed a selling or service agreement, which details the procedures required to place trades. Orders after 4:00 pm must receive the next day’s mutual fund price. We are in the process of having our transfer agent and the brokers, banks and other financial intermediaries who sell our funds confirm that they have had procedures in place to ensure their mutual fund orders are handled properly.

The Funds have no formal written policy about timing mutual funds. Over the past few years, a number of steps have been in place to discourage “scalping”.

- Since May 1998 for The Gabelli Gold Fund and since February 2001 for Global and International Funds, ADR prices were used in lieu of ordinary shares priced in foreign markets to more accurately reflect the Fund’s value as of 4:00 PM ET, which is after the close of foreign markets. This modified fair value procedures reduces the effect of “time zone arbitrage”.
- The Advisor monitors cash flow for all trades and in particular trades over \$100,000. For more than two years, scalpers have been identified and restricted or banned from making further trades. Purchases from accounts with a history of frequent trades were rejected. Since August 2002, large

transactions in the global, international and gold funds have been rejected without regard to the past history. While these procedures were in place they did not completely eliminate all timers.

- Effective May 1, 2003, our global, gold and international funds instituted a 2% redemption fee, payable to the fund, for redemptions of mutual fund shares held less than 60 days to discourage market timers.

With the latest revelations about the abuses noted, we are reviewing our policies and procedures to determine they were sufficient to prevent the abuses highlighted by today's revelations. We will keep you informed of any further developments.

We have attached a copy of the complaint for your information.