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What's Right About Rights

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Rights offerings historically have been a fair and efficient method to raise additional capital. This method is widely used in England. A traditional rights offering allows an issuer's shareholders to participate directly in the growth of that issuer by purchasing additional common shares at a set subscription price. We will discuss some of the basic issues of rights offerings and how they relate to our Gabelli Closed-End Funds in the question and answer format below.

Rights Offering – Q&A

Q: What are rights?

Rights are privileges granted to existing shareholders of a corporation (for example, a Gabelli Closed-End Fund) to subscribe to shares of a new issue of common or preferred stock. These rights represent short term options, granted by the corporation, which the shareholder has the option of exercising.

Q: What is the history of rights offerings?

Rights offerings have been used in Europe since the late 17th century, following the formation of the London Stock Exchange. In England, rights offerings are commonplace and well regarded by shareholders, and they represent an integral component of its capital markets. While underwritten public offerings have been the preferred method of raising capital in the U.S., rights offerings have become better understood and more widely used.

Q: What is a rights offering as it relates to closed-end funds?

A rights offering is an opportunity for shareholders to purchase additional shares of a publicly traded company or fund at a specified price, called the "subscription price." To attract shareholder interest, the subscription price is set at a discount to the current market price of the shares. Although shareholders are not required to purchase additional shares, they are given the opportunity, or "right" to purchase shares, based on the number of shares they own on the record date of the offering. Rights may either be transferable or non-transferable, and the offering may or may not be underwritten with a commitment by the underwriter to buy those shares that are not subscribed for.

Q: What are transferable rights versus non-transferable rights?

Non-transferable rights have no value other than that they may be exercised. They do not trade on any exchange.

Transferable rights may trade on an exchange. They afford the non-subscribing shareholder the option of selling his or her rights on the exchange or through the transfer agent for the Fund. Selling the rights may allow a non-subscribing shareholder to recoup some of the dilution that could otherwise occur. A non-transferable rights offering does not permit such an offset, so non-subscribing shareholders could experience full dilution.

Q: How is a rights offering beneficial to shareholders?

The Fund shareholder benefits from the opportunity to purchase additional shares with no commission if shares are held directly with the Fund, or, in some instances, with a nominal charge from their broker. Thus, an investor is able to put additional financial assets to work in an investment discipline in which she or he believes and which has performed well over an extended period of time. The additional capital raised by the Fund is used to position the portfolio to more fully take advantage of new investment opportunities. Increasing the asset base of the Fund may also result in lowering the Fund's expenses as a percentage of average net assets.

Q: How does the structure of a Gabelli Funds rights offering differ from the structure used by some other closed-end funds?

There are two types of rights offerings a closed-end fund may use to raise additional capital: the direct offering method and the firm-underwritten method. The Gabelli Funds utilize a direct offering method. The direct offering method avoids costly underwriting and distribution service fees that lessen shareholder value.

Q: Are the shareholders in favor of rights offerings?

Our shareholders have been in favor of rights offerings. This interest was evidenced by the seven oversubscribed rights offerings of Equity Trust held between 1991 and 2014. The Gabelli Global Multimedia Trust, which was spun-off from the Equity Trust in 1994, saw oversubscribed rights offerings in the four offerings conducted between 1995 and 2014. The Gabelli Utility Trust, spun-off from the Equity Trust in 1999, experienced oversubscribed rights offerings in the four offerings held from 2002 to 2012. The Gabelli Healthcare & Wellness Trust, spun off from the Equity Trust in 2007, had oversubscribed rights offering in 2011, 2013, and 2014. This strong interest was further confirmed in the responses we received to the four shareholder surveys conducted by The Equity Trust, in 1997, 2004, 2008, and 2013, in which results were in favor of conducting additional rights offerings.

Q: How did the Gabelli Funds fare in their previous rights offering?

To date, The Gabelli Funds have conducted twenty rights offerings for common shares. The following compares the total subscriptions received with the funds sought:

Year	Fund	Funds Sought ($ Millions)	Subscriptions Received ($ Millions)
1991	Equity Trust	$63	$137
1992	Equity Trust	$76	$165
1993	Equity Trust	$93	$176
1995	Multimedia Trust	$18	$44
1995	Equity Trust	$119	$200
2000	Multimedia Trust	$46	$86
2001	Equity Trust	$126	$225
2002	Utility Trust	$28	$50
2002	Convertible and Income Securities Fund	$22	$54

Year	Fund	Funds Sought ($ Millions)	Subscriptions Received ($ Millions)
2003	Utility Trust	$35	$97
2004	Utility Trust	$40	$90
2005	Equity Trust	$143	$197
2011	Healthcare & Wellness^{Rx} Trust	$18	$55
2011	Multimedia Trust	$32	$94
2012	Utility Trust	$54	$63
2013	Global Utility & Income Trust*	$70	$130
2013	Healthcare & Wellness^{Rx} Trust	$33	$85
2014	Healthcare & Wellness^{Rx} Trust	$44	$126
2014	Multimedia Trust	$54	$101
2014	Equity Trust	$157	$214

*Combination of a Common and Preferred Offering

Q: Why do members of the news media say that a rights offering is dilutive?

Dilution may be experienced by shareholders who do not fully exercise their rights. The dilution is the result of issuing new shares at a price lower than the current net asset value. This causes the number of shares outstanding to increase at a percentage rate greater than the increase in the Fund's assets. To avoid dilution, a shareholder should fully subscribe to all shares made available, based on the subscription ratio. If a shareholder does not exercise his or her rights, and sells the rights at their intrinsic value, the shareholder will not experience dilution. However, a failure to sell the rights or a sale below intrinsic value results in dilution when the subscription price is below the net asset value.

Q: Are shareholders able to sell their rights in the rights offerings from Gabelli Funds?

Record date shareholders of the Gabelli Funds Rights Offering have the option of selling all or a portion of their rights.

Q: What are the transaction costs for the sale of the rights?

Rights sold through the rights agent incur no fees and only a nominal commission; however, certain brokerage firms may charge a transaction fee to sell or exercise rights.

Q: What if my total number of rights is not evenly divisible by the number of rights required to purchase an additional share?

The Fund will automatically round up shareholder rights allocations, so that the total number of rights a shareholder is granted is evenly divisible by the number of rights required to purchase an additional share.