

# Gabelli Enterprise Mergers and Acquisitions Fund

## Shareholder Commentary

October 31, 2018

### To Our Shareholders,

For the quarter ended October 31, 2018, the net asset value (“NAV”) per Class A Share of the Gabelli Enterprise Mergers and Acquisitions Fund decreased 1.6% compared with a decrease of 3.3% for the Standard & Poor’s (“S&P”) 500 Index. The performance of the ICE Bank of America Merrill Lynch 3 Month U.S. Treasury Bill Index for the quarter was 0.5%. Other classes of shares are available. See page 2 for performance information for all classes.

So far, 2018 has been a historically strong year for M&A activity. Through the first nine months of the year, global deal volume totaled \$3.3 trillion, which represented a 37% increase over the same period in 2017<sup>1</sup>. Mega deals, or deals whose announced value is greater than \$5 billion, accounted for 43% of the volume. This phenomenon helped offset the 9% year over year decline in the number of deals announced during the period. Although total volumes for the year have been strong, there has been a substantial slowdown in deal making activity as of late. Third quarter volumes declined 32% sequentially from second quarter levels, due in part to global trade tensions.

Along with mega deals, cross-border deal activity was a major driver of 2018 volume. Cross-border M&A increased 56% year over year to \$1.3 trillion, the highest level since 2007. Deal making in the U.S. and Europe also contributed to the strong deal volume seen in 2018. U.S. M&A increased 50% year over year to \$1.3 trillion and European M&A increased 64% year over year to \$941.2 billion.

The Energy & Power sector continued its strong start to the year and helped push deal volumes to record levels. Volumes in the sector totaled \$548.1 billion through the first nine months of the year, up 56% from last year. Deals in the Healthcare and Technology sectors also made meaningful contributions to 2018 numbers as each sector accounted for 11% of announced volume. Industrials rounded out the group of top sector contributors, accounting for 10% of the deal activity announced this year.

As the Federal Reserve continues to raise rates, it is important to recall that historically there has been a positive correlation between interest rates and arbitrage spreads. This is due to the fact that the spread is driven by the risks inherent to a particular deal as well as the risk-free rate. Typically, as the risk-free rate rises, so do annualized spreads. Corporations have had high cash balances and an appetite to grow inorganically since quantitative easing took effect in 2008. Tax reform further propels deal making. Management teams will deploy the additional excess capital in shareholder friendly ways and we anticipate that this will continue to drive M&A into the future.

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<sup>1</sup>Thomson Reuters Mergers & Acquisitions Review – First Nine Months 2018

## Comparative Results

### Average Annual Returns through October 31, 2018 (a)(b)

	Quarter	Year to Date	1 Year	5 Year	10 Year	Since Inception (2/28/01)
<b>Class A (EMAAX)</b> .....	(1.63)%	(1.43)%	(0.33)%	3.15%	6.51%	4.28%
With sales charge (c) .....	(7.29)	(7.10)	(6.06)	1.94	5.88	3.93
<b>Class AAA (EAAAX)</b> .....	(1.54)	(1.21)	(0.12)	3.37	6.70	4.38
<b>Class C (EMACX)</b> .....	(1.78)	(1.93)	(0.88)	2.57	5.93	3.71
With contingent deferred sales charge (d) .....	(2.77)	(2.91)	(1.88)	2.57	5.93	3.71
<b>Class Y (EMAYX)</b> .....	(1.52)	(1.08)	0.08	3.62	7.00	4.75
S&P 500 Index .....	(3.25)	3.01	7.35	11.34	13.24	6.62
Lipper U.S. Treasury Money Market Average ...	0.43	1.15	1.26	0.33	0.18	1.07
ICE Bank of America Merrill Lynch 3 Month U.S. Treasury Bill Index .....	0.51	1.48	1.68	0.55	0.35	1.46

**In the current prospectuses dated February 28, 2018, the Fund's expense ratios are 1.51%, 1.71%, 2.26%, and 1.26% for the Class AAA, A, C, and Y Shares, respectively. Class AAA and Class Y Shares have no sales charge. The maximum sales charge for Class A Shares and Class C Shares is 5.75% 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. Current performance may be lower or higher than the performance data presented. Visit [www.gabelli.com](http://www.gabelli.com) for performance information as of the most recent month end. The Fund imposes a 2% redemption fee on shares sold or exchanged within seven days of purchase. Performance returns for periods of less than one year are not annualized. Investors should carefully consider the investment objectives, risks, sales charges, and expenses of the Fund before investing. The prospectuses contain information about these and other matters and should be read carefully before investing. To obtain a prospectus, please visit our website at [www.gabelli.com](http://www.gabelli.com). The Class A Share NAVs are used to calculate the performance for the periods prior to the issuance of Class AAA Shares on February 26, 2010. The actual performance for the Class AAA Shares would have been higher due to lower expenses associated with these share classes. 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 Lipper U.S. Treasury Money Market Fund Average reflects the average performance of mutual funds classified in this particular category. The ICE Bank of America Merrill Lynch 3 Month U.S. Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into the outstanding Treasury Bill that matures closest to, but not beyond three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the rebalancing (month end) date. Dividends are considered reinvested except for the ICE Bank of America Merrill Lynch 3 Month U.S. Treasury Bill Index. You cannot invest directly in an index.*

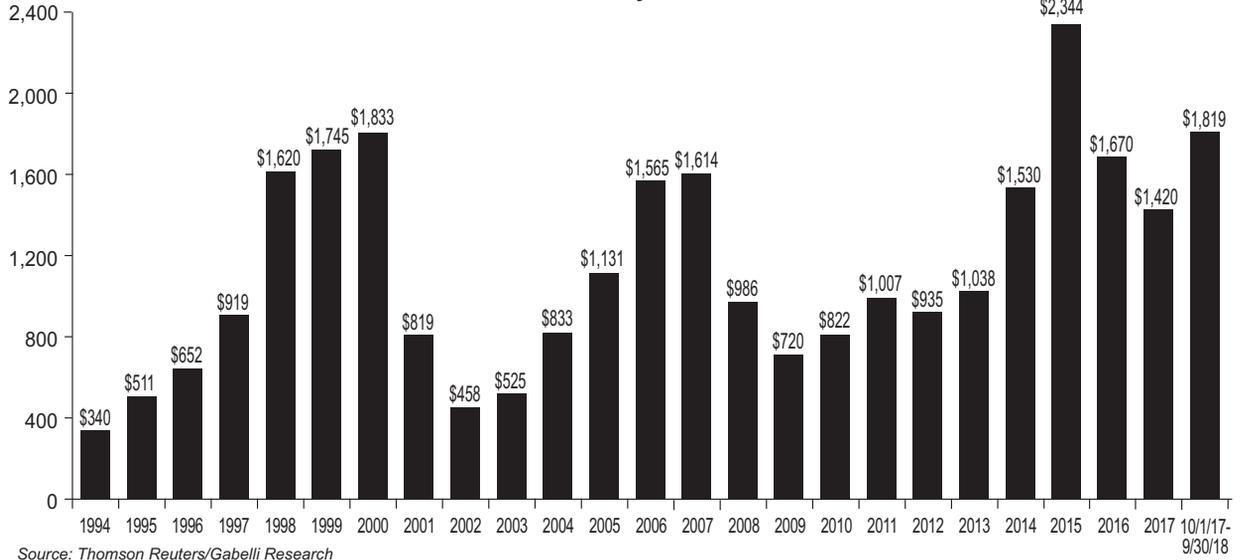
(b) The Fund's fiscal year ends October 31.

(c) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.

(d) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.

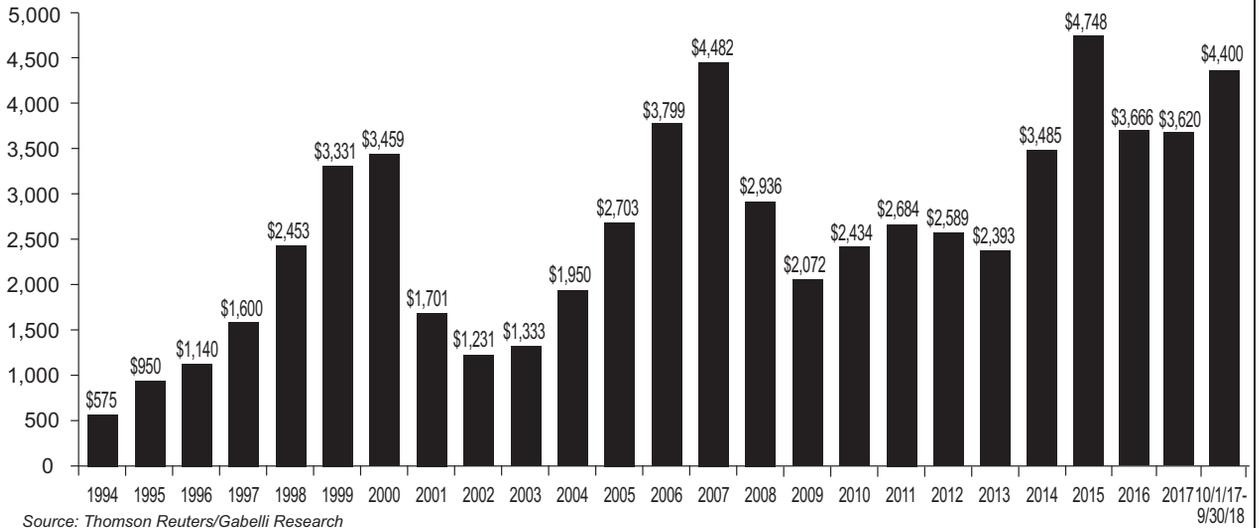
\$ Billions

### U.S. Deal Activity



US\$ Billions

### Global Deal Activity



## Pipeline

*CA, Inc. (3.2% of net assets as of October 31, 2018) (CA – \$44.36 – NASDAQ)* is a New York City based software company. On July 11, 2018 CA agreed to be acquired by Broadcom Inc. for \$44.50 per share in cash representing a \$18.4 billion total enterprise value. The deal is subject to shareholder and regulatory approvals and is expected to close in the fourth quarter of 2018.

*Dun & Bradstreet, Inc. (2.2%) (DNB – \$142.28 – NYSE)* is a Short Hills, New Jersey based data analytics company. On August 8, 2018 DNB agreed to be acquired by a consortium led by CC Capital, Thomas H. Lee Partners and Cannae Holdings for \$145 per share in cash representing a \$6.9 billion total enterprise value. The deal is subject to shareholder and regulatory approvals and is expected to close in the first quarter of 2019.

*K2M Group Holdings Inc. (2.8%) (KTWO – \$27.38 – NASDAQ)* is a Leesburg, Virginia based medical device company primarily focused on spinal treatments. On August 30, 2018 KTWO agreed to be acquired by Stryker Corporation for \$27.50 per share in cash representing a \$1.4 billion equity value. The deal is subject to shareholder and regulatory approvals and is expected to close late in the fourth quarter of 2018.

*Shire plc (0.2%) (SHPG – \$181.80 – NASDAQ)* is a Dublin, Ireland based biotech company focused on hematology, immunology, and oncology. On May 8, 2018 SHPG agreed to be acquired by Takeda Pharmaceutical Company Limited for \$30.33 per share in cash plus 0.839 new Takeda shares per ordinary share representing a £46 billion valuation. The deal is subject to shareholder and regulatory approvals and is expected to close in first half of calendar 2019.

*SodaStream International Ltd. (1.9%) (SODA – \$143.39 – NASDAQ)* is an Airport City, Israel based home beverage company. On August 20, 2018 SODA agreed to be acquired by PepsiCo, Inc. for \$144 per share in cash representing a \$3.2 billion transaction value. The deal is subject to shareholder and regulatory approvals and is expected to close by January 2019.

*The Navigators Group, Inc. (0.1%) (NAVG – \$69.15 – NASDAQ)* is a Stamford, Connecticut based property and casualty insurer. On August 22, 2018 NAVG agreed to be acquired by The Hartford for \$70 per share in cash representing a \$2.1 billion transaction value. The deal is subject to shareholder and regulatory approvals and is expected to close in the first half of 2019.

*USG Corp. (3.2%) (USG – \$42.22 – NYSE)* is a Chicago, Illinois based construction manufacturer. On June 11, 2018 USG agreed to be acquired by Gebr. Knauf KG for \$44 per share in cash representing a \$7.0 billion transaction value. The \$44 per share price is comprised of \$43.50 cash and a \$0.50 dividend. The deal is subject to shareholder and regulatory approvals and is expected to close in early 2019.

## Done Deals

*Abaxis, Inc. (ABAX)* is a Union City, California based medical company that provides point of care products to the veterinary industry. On May 16, 2018, ABAX agreed to be acquired by Zoetis Inc. for \$83 per share in cash representing a \$2 billion valuation. The deal was subject to shareholder and regulatory approvals and closed on August 1, 2018. The Fund earned a 2.15% annualized return.

*Cotiviti Holdings, Inc. (COTV)* is an Atlanta, Georgia based payments and spend management company focused on serving the healthcare sector. On June 19, 2018 COTV agreed to be acquired by Verscend Technologies, Inc. for \$44.75 per share in cash representing a total enterprise value of \$4.9 billion. The deal was subject to regulatory and shareholder approvals and closed on August 27, 2018. The Fund earned an 8.91% annualized return.

*XL Group, Ltd. (XL)* is a Hamilton, Bermuda based insurance and reinsurance company. On March 5, 2018, XL agreed to be acquired by The AXA Group for \$57.60 per share in cash representing a total consideration of \$15.3 billion to expand AXA's U.S. presence. The deal was subject to shareholder and regulatory approvals and closed on September 12, 2018. The Fund earned a 10.80% annualized return.

*General Cable Corp. (BGC)* is Highland Heights, Kentucky based cable manufacturer that sells fiber optic, copper, and aluminum cables to the telecom, industrial, and construction sectors. On December 4, 2017 BGC agreed to be acquired by Prysmian Group for \$30 per share in cash representing a \$3 billion total enterprise value. The transaction required shareholder and regulatory approvals and closed on June 6, 2018. The Fund earned a 5.07% annualized return.

*AveXis, Inc. (AVXS)* is a Chicago, Illinois based gene therapy company focused on various neuroscience uses. On April 9, 2018, AVXS agreed to be acquired by Novartis AG for \$218 per share in cash representing an \$8.7 billion total enterprise value. The transaction required a majority of AVXS shareholders to tender and regulatory clearances and closed on May 15, 2018. The Fund earned a 20.13% annualized return.

*Orbital ATK Inc. (OA)* is a Dulles, Virginia based aerospace and defense company. On September 18, 2017, OA agreed to be acquired by Northrop Grumman Corp. for \$134.50 per share in cash representing a \$7.8 billion equity valuation. OA received shareholder and regulatory approvals and the transaction closed on June 6, 2018. The Fund earned an 8.55% annualized return.

November 27, 2018

**Top Ten Holdings (Percent of Net Assets)**  
**October 31, 2018**

Lifepoint Health Inc.	3.5%	K2M Group Holdings Inc.	2.8%
Twenty-First Century Fox Inc.	3.2%	Mazor Robotics Ltd.	2.2%
CA Inc.	3.2%	Dun & Bradstreet Corp.	2.2%
USG Corp.	3.2%	Rockwell Collins Inc.	2.1%
Kapstone Paper and Packaging Co.	3.2%	SodaStream International Limited Ltd.	1.9%

**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.

**Merger Arbitrage Risk.** The principal risk associated with the Fund's investment strategy is that certain of the proposed reorganizations in which the Fund invests may involve a longer time frame than originally contemplated or be renegotiated or terminated, in which case losses may be realized. The Fund invests all or a portion of its assets to seek short term capital appreciation. This can be expected to increase the portfolio turnover rate and cause increased brokerage commission costs.

### **www.gabelli.com**

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). Please call us during the business day between 8:00 AM - 7:00 PM (Eastern Time), for further information. Please visit us on the Internet. Our homepage 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 performances.

### **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 and Semiannual 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**

Class AAA are no-load shares available directly through selected broker/dealers. Class A and C Shares are offered to investors who seek advice through financial consultants. Class Y Shares are available directly through the Fund's distributor or brokers that have entered into selling agreements specifically with respect to Class Y Shares. 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.

## Portfolio Manager Biography

**Mario J. Gabelli, CFA**, is Chairman, Chief Executive Officer, and Chief Investment Officer – Value Portfolios of GAMCO Investors, Inc. that he founded in 1977, and Chief Investment Officer – Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc. He is also Chief Executive Officer and Chairman of the Board of Directors of Associated Capital Group, Inc. Mr. Gabelli is a summa cum laude graduate of Fordham University and holds an MBA degree from Columbia Business School, and Honorary Doctorates from Fordham University and Roger Williams University.

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](http://www.gabelli.com).

**GABELLI ENTERPRISE MERGERS AND  
ACQUISITIONS FUND**

**A Portfolio of the Gabelli 787 Fund, Inc.**

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Net Asset Value per share available daily

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

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**GABELLI**  
FUNDS

# GABELLI ENTERPRISE MERGERS AND ACQUISITIONS FUND

*Shareholder Commentary*  
*October 31, 2018*