The Gabelli Asset Fund

Shareholder Commentary – December 31, 2018

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To Our Shareholders,

For the quarter ended December 31, 2018, the net asset value (NAV) per Class AAA Share of The Gabelli Asset Fund decreased 12.9% compared with a decrease of 13.5% for the Standard & Poor's (S&P) 500 Index. Other classes of shares are available. See page 2 for additional performance information for all classes.

Introduction

For most of the last decade we have lived in what has often been termed a "Goldilocks economy." Much as the fair-haired, home-invading subject of the children's story found one bowl of porridge to be "just right," economic growth and inflation has been neither too hot nor too cold[1]. During this time, coordinated action by the world's central banks kept interest rates near zero and the prices of nearly all asset classes high. The U.S. economy is in its 113th month of expansion, seven months short of the record. Until the fourth quarter stumble, U.S. equities were 119 months into the longest-ever bull market, led mostly by growth stocks riding a global wave of technological innovation and expanding prosperity. Except for growth scares in 2011, 2015, and perhaps one day in November 2016, the market's volatility has been low and its upward trajectory largely uninterrupted. There are signs, however, that the narrative may be changing, as a turn in the aging business cycle may be accompanied by a wholesale shift in socio-political regimes from globalism to nationalism and capital to labor. Populism is on the march around the world with long-term effects that are unclear, but unlikely to be positive for equities. As in the story, the bears will eventually return home; their timing and mood is uncertain, as is how much of this eventuality the market has already discounted. Against this backdrop we believe bottom-up, fundamental stock selection of the type we have practiced for over 40 years remains more important than ever.

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[1] "Goldilocks and the Three Bears" was a hoary tale first recorded by poet Robert Southey in 1837. Market commentator use of the analogy dates to at least the late-1990s expansion.

Comparative Results

Average Annual Returns through December 31, 2018 (a)

	Quarter	1 Year	5 Year	10 Year	15 Year	Since Inception (3/3/86)
Class AAA (GABAX)	(12.94)%	(7.69)%	4.09%	11.62%	7.89%	11.33%
S&P 500 Index	(13.52)	(4.38)	8.49	13.12	7.77	10.07(b)
Dow Jones Industrial Average	(11.31)	(3.50)	9.65	13.11	8.17	11.13(b)
Nasdaq Composite Index	(17.28)	(2.80)	11.05	16.85	9.56	9.85(b)
Class A (GATAX)	(12.94)	(7.69)	4.09	11.62	7.89	11.33
With sales charge (c)	(17.95)	(13.00)	2.87	10.96	7.47	11.12
Class C (GATCX)	(13.10)	(8.38)	3.31	10.79	7.09	10.95
With contingent deferred sales charge (d)	(13.97)	(9.30)	3.31	10.79	7.09	10.95
Class I (GABIX)	(12.88)	(7.46)	4.35	11.90	8.09	11.42

In the current prospectuses dated April 30, 2018, the expense ratios for Class AAA, A, C, and I Shares are 1.35%, 1.35%, 2.10%, and 1.10%, respectively. Class AAA and Class I Shares do not have a 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 for performance information as of the most recent month end. Returns would have been lower had Gabelli Funds, LLC (the "Adviser") not reimbursed certain expenses of the Fund for periods prior to December 31, 1988. 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, 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.* 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 Dow Jones Industrial Average and the Nasdaq Composite Index are unmanaged indicators of stock market performance. Dividends are considered reinvested, except for the Nasdaq Composite Index. You cannot invest directly in an index. The Class AAA Share NAVs are used to calculate performance for the periods prior to the issuance of Class A Shares and Class C Shares on December 31, 2003, and Class I Shares on January 11, 2008. The actual performance of the Class A Shares, and Class C Shares would have been lower due to the additional fees and expenses associated with these classes of shares. The actual performance of the Class I Shares would have been higher due to lower expenses related to this class of shares.

(b) S&P 500 Index, Dow Jones Industrial Average, and Nasdaq Composite Index since inception performance results are as of February 28, 1986.

(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.

We have separated the portfolio managers' 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 managers' 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.

Barron’s 2019 Roundtable

Mario J. 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 2019 Roundtable Part 1 and Part 2, published on January 12 and January 19, 2019, respectively.

Mario, head of Gabelli Funds and its parent firm, is a Wall Street legend, for good reason. He’s a shrewd thematic investor with a love of deals, an eye for steals, and an encyclopedic knowledge of multiple businesses and the people who built them.

Barron’s: What is the stock market telling us now, and should we believe it? Mario, what are your thoughts?

Gabelli: A year ago, no one thought the economy could grow by 4% on a real [inflation adjusted] basis. This rate unfolded in the second and third quarters of last year. Forecasters missed the cyclical improvement. Now everyone expects the economy to slow, and some even forecast a recession. I’m in the camp that says we’ll see 4% to 4.2% nominal GDP growth this year. Plenty of Democrats and some Republicans are going to run for president in 2020, and everyone is going to ask, “How do we stimulate the economy?” Within that context, job growth is strong, wages are rising, and the consumer is feeling better. The only hiccup is that stock markets took $10 trillion out of global wealth in the fourth quarter, of which $5.4 trillion came out of the U.S. consumer.

In the industrial sector, housing is a challenge. As Bill discussed, student loans crimp the ability to buy houses. But there is latent demand for housing, based on cyclical and secular trends. Then, there is a need to repair infrastructure. We have 614,000 bridges in this country. The American Society of Civil Engineers says 39% are over 50 years old and 9% are structurally deficient as of 2016. The first time a bridge collapses, how will legislators of either party be able to look constituents in the eye and say they voted against an infrastructure bill? I see action on infrastructure spending as a plus for the economy in the second half of 2019 and into 2020.

Meanwhile, stocks are discounting a lot. I’m able to buy companies again at six times EBITDA [earnings before interest, taxes, depreciation, and amortization], a sustainable multiple, whereas nine-times-plus EBITDA wasn’t sustainable, especially if long interest rates are going up. On tariffs, Bill got it right, except for Abby's comment that the Chinese haven't played fair. Then, there are interest rates. The 10-year Treasury note yield is down to 2.66% from a high of 3.23% in November. Last year, I thought rates would climb to 3%, and I'm still at 3%.

Corporate tax cuts are a game changer. The U.S. used to collect around $300 billion of taxes from $3.3 trillion of tax revenue. The tax cut has taken out less than $100 billion of that. It isn't a big drop, relative to the benefits. You have to fasten your seat belt this year and keep it fastened, but at the end of the year, I expect the market to be up.

Barron's: Mario, it's your turn at bat.

Gabelli: Baseball! Sports, to me, is baseball, football and hockey, so I'm recommending Liberty Braves Group [ticker: BATRA], which I have mentioned here before. The stock is selling for $25.There are 60 million shares, for a market cap of $1.5 billion, and $400 million of net debt. The company, a holding of John Malone's Liberty Media, owns the Atlanta Braves and related minor league franchises; SunTrust Park, where the Braves play; and real estate around the park. Everyone should own a baseball team, and this is a way to do it cheaply.

Two new developments are noteworthy about Liberty Braves. The Supreme Court effectively struck down the Professional and Amateur Sports Protection Act last year, which limited sports betting. This is a game changer for professional sports. The National Football League recently decided to allow franchise owners to buy another professional team in the same market. Liberty Braves could buy the Atlanta Falcons, or the Falcons could buy the Braves, which is more likely. We look for the stock to increase 50% over the next several years. Also, John Malone is likely to undertake a transaction involving Liberty Braves.

Next, a couple of people recommended Walt Disney [DIS] today. I'm going to recommend new Fox, the company that will be spun off after 21st Century Fox [FOX] is bought by Disney. [Fox and Barron's parent, News Corp, share common ownership.]

Are you recommending the Class A or Class B shares?

Gabelli: I would buy the B. These are the voting shares, and they are cheaper than the A. Fox trades for $48 a share and holders have the option of $38 a share in cash or Disney shares when the deal closes, probably in the next 90 days. You're creating new Fox at $10 a share. Multiply that by 1.8 billion shares outstanding and the market cap is $18 billion, and add

Photograph by ioulex; grooming by Gina Marie Picciotto

about $4.7 billion of net debt. So what do you get? The Fox television network, TV stations, Fox News, and Fox Business. The 2020 election is going to create a tsunami of advertising for broadcasters.

New Fox will generate about $10 billion of revenue and $2.9 billion of EBITDA for the fiscal year ending on June 30. I assume the new company will have about $4.7 billion of net debt, and it has some additional assets, including a stake in Roku [ROKU] and some Los Angeles real estate. The spinoff is structured as a taxable transaction.

Will you elect to take cash or Disney paper?

Gabelli: I have no problem owning Disney, I expect new Fox to trade up to $18 to $20 a share two years from now.

Henry Ellenbogen: Are you valuing Fox based on EBITDA?

Gabelli: Yes. I am applying a multiple of what I think the TV stations and cable networks and news and sports assets are worth. You can't get all of this on Netflix. I expect Fox to be a sizable cash generator over the next four or five years.

Next, equipment rental is a $55 billion industry in the U.S. It is growing by 6% a year. Herc Holdings [HRI] was spun out of Hertz Global Holdings [HTZ] 2½ years ago at $33 a share. I recommended the stock two years ago at about $40. It rose to just over $70. Last month, it dropped to $24 and now it's around $30, partly due to tax-selling pressure and liquidation by a major holder. The market cap is $850 million. The management is terrific; CEO Lawrence Silber has transformed the fleet toward capital equipment that brings higher dollar utilization and infrastructure end-market exposure. The knock on Herc is debt; the company inherited $2 billion of debt when it was spun out of Hertz. Annual revenue is about $2.1 billion. EBITDA in 2019 will be about $750 million, and capital expenditure around $500 million is still elevated for Herc's fleet refresh. We think the stock could double. The industry is highly fragmented and consolidation has been increasing, with United Rentals (URI) so far being the most acquisitive. Also, we expect incremental spending on infrastructure.

My next pick is MGM Resorts International [MGM]. I recommended it last year and the stock fell, partly due to concerns about gambling license renewals in Macau. They come up in two years, and one question is what percentage of gross gambling revenues the Chinese government might take. That said, MGM has recently completed upgrades in Las Vegas. The stock trades for $25, and there are 527 million shares outstanding. On a marked-to-market basis, the company's Macau properties are worth approximately $6 a share. The real estate assets, or MGM Properties, are worth $9, so I am creating the rest of the business for $10. The debt on their U.S. operations is $7 billion. EBITDA for the U.S. will be around $1.8 billion this year. The company has 11 Las Vegas properties; it recently renovated the Monte Carlo into the NoMad and Park MGM. MGM opened a casino in Springfield, Massachusetts, last year, and is buying Yonkers Raceway in New York for $850 million and the Hard Rock Rocksino near Cleveland. Now, why would they want to own Yonkers Raceway and the Hard Rock Rocksino?

You tell us.

Gabelli: In anticipation of New York State and Ohio allowing online sports gambling. MGM also cut partnership deals with Major League Baseball, the National Hockey League, and the National Basketball Association that give it marketing rights and access to data. And it formed a joint venture with London-based GVC, the owner of Ladbrokes, to create a sports-betting and interactive gaming platform in the U.S. The key to sports gambling for MGM isn't making a bet on a pitch. It is making a bet on the eyeballs betting on pitches, so that the advertiser stays longer. That's the big money maker for some of these sports teams.

MGM management has said that for them, sports betting is about using the interactions that sports create to complement the other gaming and entertainment elements of its business.

MARIO GABELLI'S PICKS

Company	Ticker	Price 1/4/2019
Liberty Braves Group	BATRA	$24.90
Twenty-First Century Fox	FOX	47.78
Herc Holdings	HRI	29.48
MGM International	MGM	25.77
Navistar International	NAV	27.16
Griffon	GFF	11.30
Energizer Holdings	ENR	46.53

Source: Bloomberg

Next, we like Navistar International [NAV]. There are 98.9 million shares outstanding. The stock trades for $27. Carl Icahn owns 16.7 million shares, Mark Rechesky owns 16.2 million, and Volkswagen [VOW3.Germany] owns 16.6 million. Volkswagen is spinning off its truck and bus business as Traton Group. Volkswagen, through Traton, controls 30% of the European 16-ton heavy truck market, selling MAN and Scania trucks. Volvo [VOLV.A.Sweden] has 24%. Volkswagen wants to own Navistar. Why? Because they have no commercial truck presence in the United States and want to leverage their engine technology on a global basis. The U.S. has 2.8 million Class 8 trucks on the road. The average age is six years, a little higher than it had been. This is partly because of tax rules; trucking companies can write off 100% of new and used purchased equipment. We expect Traton to buy Navistar within 18 months.

At what price?

Gabelli: I'll let Carl and the board negotiate that and we'd comment after. I'll note that cash flow is improving, and earnings are improving dramatically. Brazil and other Navistar markets are improving, and the company has cut an intriguing deal for buses with electric engines.

My next pick is a small-cap—Griffon [GFF], which makes home and building products. The stock is trading for $11.30 a share, and there are 45.7 million shares outstanding. Net debt, unfortunately, is $1 billion. Revenue for the fiscal year ending on Sept. 30 will be about $2.1 billion, compared with $1.98 billion in fiscal 2018. Next year, the company could do $2.3 billion, even with a flattish housing market, in part because it is making acquisitions around the world. Over the next few years, EBITDA could total $800 million, and capital spending about $200 million. Griffon will be able to pay down about $300 milllion of debt. Management has done OK, but not great, with deals. In addition to building products, Griffon has a defense electronics business that makes surveillance solutions for detection of submarines. If I ran the company, I would sell it.

Scott Black: Is this the same Griffon that made diaper linings?

Gabelli: Yes. The company sold that business to Berry Plastics for around $410 million and used the proceeds to fund two acquisitions.

Abby Joseph Cohen: What is the catalyst for the stock?

Gabelli: There has been confusion about the changing nature of the business. The stock was dumped at year end for tax-selling concerns. It's a cheap stock, and we think it could double in the next two or three years as earnings come through and debt is paid down.

Energizer Holdings [ENR] is my last name. The company bought Spectrum Brands ' [SPB] battery and portable lighting business for $2 billion, notably the Rayovac battery brand. Energizer is required to sell Rayovac's Varta operations as part of the acquisition. We think the operation will be sold for around $550 million. The most intriguing part of the Rayovac deal is a rapidly growing $200 million hearing-aid battery business. Energizer is also buying Spectrum's auto care business for cash and stock, which will increase shares outstanding to 74 million, pro forma. Debt is $3 billion after the acquisitions. Spectrum Brands, which fell from $100 a share to $40, is also intriguing, but that's a discussion for another day.

We see enormous EBITDA growth for Energizer, and de minimis capital spending. Over the next three years, EBITDA could approach $700 million and capex around $50 million. Debt will be reduced at a significant rate. The stock trades for $47 and eventually could fetch 18 times estimated earnings of $3.95 a share, or around $67. Management is excellent; they understand marketing and distribution. That's it.

Thanks, Mario.

A Fresh Look at the 2018 Barron's Roundtable's Worst Stock Picks

Mario Gabelli: GCP Applied Technologies [GCP] is a producer of cement, concrete additives, and weatherproofing, mostly for commercial construction. It still benefits from the overall construction environment. Furthermore, Swiss-based Sika [SIKA. Switzerland] is acquiring France's Parex, and its CEO mentioned the company's intention to participate in the industry consolidation. As a small player, GCP is a potential target. The stock has fallen from $33 to $25 and I am a buyer.

I'm a buyer of Textron [TXT] at $46. The long cycle in business jets will continue with new models being introduced, and Textron is continuing to gradually take share. The Future Vertical Lift opportunity [to develop a family of military helicopters for the U.S. Armed Forces] could be worth well into the billions, although selection might not be until 2023. The company has excellent management.

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The Political Economy of 2018

The most salient issue for the market is growth - with corporate tax cuts behind us and little slack left in the economy, real growth will almost certainly slow from the 3.4% posted in Q3 2018. That does not necessarily imply a recession, defined as two consecutive quarters of contraction, is on the immediate horizon. How far above or below the approximately 2% real growth that population and productivity gains suggest is "just right" depends on many factors, including what we have described variously as Three T's: Trade, Treasuries, and Trump.

Trade

President Trump made "fair trade" the centerpiece of his election campaign, and he has thus far made good on his promise to challenge the prevailing post-war "free trade" orthodoxy (however illusory that reality might have been). Hope for a trade deal with China rose when the administration renegotiated NAFTA, now called USMCA (the initials of its U.S., Mexican and Canadian signatories), the market understandably zags with each hint that a China deal could emerge since China accounts for nearly half of the $600 billion U.S. trade deficit, and remains our third largest export destination. The situation takes on even greater significance due to China's role as an engine for global growth. China is slowing as it faces domestic structural imbalances. Pressure from President Trump exacerbates those issues, but a deal will not solve them nor heal the lasting damage done to the Sino-American symbiosis.

Treasuries

Also critical to the outlook for the economy and stocks are the level and trajectory of interest rates. Since the Federal Reserve began its taper four years ago in October 2014, the ten-year U.S. Treasury rate breached 3% this year for the first time since 2013, standing now just below that level. Higher interest rates have real world impacts – they make the purchases of new homes, cars, capital equipment, and companies more expensive to finance. All else equal, higher rates reduce the value of risk assets by making the alternative home for capital, "riskless" Treasuries, more attractive. The term structure of interest rates (aka the yield curve) has also been ascribed predictive powers. Inverted curves – situations in which the two-year yield exceeds the ten-year yield – have predicted all nine recessions since 1955, albeit with two false positives and a wide variation in timing. The virtually flat yield curve today thus worries some observers.

Trump

While there has always been a healthy interplay between markets and political figures, President Trump's twitter habit, unpredictability, and the potential legal challenges to his presidency have made him more of a focus than past leaders. Among the concerns for the next two years is how a Democratic Congress with no interest in helping Trump get re-elected approves the USMCA, a debt ceiling extension, and further fiscal stimulus, especially when the ask may be a tweak to the tax cuts. Interestingly, the War on Tech (i.e., privacy and anti-trust investigations of Facebook, Google (0.2% of net assets as of December 31, 2018), Amazon, and others) seems to be one of the few issues with bipartisan support and worth watching in 2019. Geopolitical disruption is not unique to the U.S.: if and how the U.K. exits the European Union, the precarious positions of leaders in Germany, France, and Italy, not to mention the typical entanglements in the Middle East, also remain a focus.

Skeptics Could Be Wrong If Things Go Right

Not all news – whether real or fake – is bad of course. In fact, many economic indicators are quite strong, with 3.7% unemployment the lowest since the tumult of 1969, record consumer net worth ($109 trillion) and interest rates and inflation that, viewed over a longer time frame, remain quite tame. The Federal Reserve and the President are probably not past the point of no return and still have not lost policy control: President Trump, who possesses a keen sensitivity to the stock market, could resolve the trade war and the Fed could blink on 2019 rate hikes. That would leave reason to believe the expansion could continue and that the current state of the market is the pause, like the previous ones in this cycle, that refreshes.

Mr. Market

Causation, Correlation or Neither

The S&P 500 finished 2018 down 4.4% and the small capitalization Russell 2000 index was down 11%, with each off 13.5% and 20.2% in the fourth quarter, respectively. The performance of the S&P 500, dominated by six technology stocks (Facebook, Amazon, Netflix, Google, Microsoft (less than 0.1%), and Apple (0.1%) – the “FANGMA”) that comprise 15% of its weight, masked the more significant declines posted by a broader group of stocks. Approximately two-thirds of stocks in the S&P 500 are negative this year, with one-third down more than 20%. Even the vaunted FANGMA is now 25% off its highs, adding credence to the notion that the global growth trend may be broken. “Buy the Dip” has morphed to “Sell the Rip.”

Market declines of this magnitude could be expected to impart a negative wealth effect, i.e., consumers with slimmer brokerage statements feeling less inclined to make discretionary purchases, which could exacerbate an economic slowdown, but market declines are more often simply a precursor, not a trigger, of recessions. Since 1929, there have been sixteen bear markets with most, though not all, pacing a recession by approximately one year, with the recession-less crash of October 1987 a notable exception. It is also worth stating that the market does not equal the economy. Just as some have suggested Wall Street prospered without much of Main Street over the last decade, the reverse could conceivably prove true.

Valuation Today vs. Five Years Out

In any case, stocks are already pricing a slowdown and/or higher rates. A flat year-to-date equity market, compared with estimated EPS gains of 22% in 2018 and 8% in 2019, implies a contraction in forward multiples from 18x at the end of 2017 to roughly 15x today. That is at the low end of historical multiples during periods with inflation in the 0%-3% area. This suggests that the market as a whole does not appear expensive. We do not buy the “market,” but we are finding a lot of bargains in individual stocks recently.

Rx for Investors

What is an investor in a choppy environment, lacking a reliable crystal ball, to do? Historically, it has proven foolish to attempt to time the market, especially based on macroeconomic data. In 2009, for example, the market rallied 36% between its bottom in March and the June end to the recession. None of this is to suggest investors should ignore their positioning in an evolving environment.

Indeed, we believe we are poised to capitalize from change. Historically we have gravitated toward companies with characteristics such as pricing power, stable cash flows, solid managements and resilient balance sheets – factors which may not have been appreciated in a zero inflation, easy money world. Higher interest rates and greater market volatility substantially increase the cost of capital even for the large internet companies. Combined with a possible economic slowdown, this should flush excess capital from the system, eliminating many of the seemingly disruptive companies backed by venture capital and accommodative capital markets to the benefit of those with truly sound business models and actual cash flow, rather than the promise of future cash flow. Finally, a change in market structure over the last decade, with an estimated 15% of U.S. equities managed passively, could accentuate any downside as withdrawals from ETFs retrace what was relentlessly bought on the way up. Our portfolio, which tends not to resemble what is represented in the popular ETFs, should be less susceptible to those forces, and the volatility that could be caused by a rush to the exit would present buying opportunities for active managers who conduct old fashioned research to uncover value.

Deals, Deals & More Deals

Deal activity slowed through the year as political uncertainty weighed, but the underpinnings for mergers (low interest rates and a lack of organic growth opportunities) remain and the potentially waning days of the present administration may encourage activity sooner rather than later. Spin-offs rebounded in 2018 (26 by our count), including two by Honeywell (1.6%) and one pre-takeover spin-off by KLX (less than 0.1%). Notable upcoming announced separations include Madison Square Garden's spin of its sports teams, Twenty-First Century Fox's pre-deal spin of its news and broadcast assets, and three-way spins by DowDuPont (0.1%) and United Technologies. As discussed in the past, we like spin-offs because they not only tend to surface value but often serve as the source of new ideas for the Fund.

Investment Scorecard

After strong performance in 2016 and 2017, 2018 was mostly forgettable from a stock perspective. On the positive side was the bidding war for large, long-time holding Twenty-First Century Fox (3.8% of net assets as of December 31, 2018) (+41% return) where the Walt Disney Co. prevailed over Comcast (0.6%) for Fox's global entertainment assets. That deal was itself facilitated by judicial clearance of the acquisition by AT&T of former holding Time Warner. Also during the year, Dr. Pepper Snapple (+49%) agreed to be acquired by coffee innovator Keurig Green Mountain. Outside of M&A, the Fund saw strong performance from sports/live entertainment investment Madison Square Garden (1.7%) (+27%), financial technology provider MasterCard (1.3%), (+25%), Japanese food products company Kikkoman (1.1%), (+34%) and automotive parts retailer O'Reilly Automotive (0.6%)(+43%). Less economically sensitive holdings, such as pest control company Rollins (0.7%) (+18%), Roto-Rooter owner Chemed (0.2%) (+18%), and waste disposal firm Republic Services (1.9%) (+9%), added stability to the Fund.

Detractors from performance were concentrated among industrial stocks with economic and trade sensitivity, including truck maker Navistar (0.5%) (-39%), truck components company Dana (0.2%) (-56%), diversified machinery company CNH Industrial (0.7%) (-30%), and equipment rental firm HERC Holdings (0.1%) (-58%). With some exceptions, consumer staples stocks such as General Mills (0.7%) (-32%), Conagra Brands (0.4%) (-42%), and Edgewell Personal Care (0.4%) (-37%) were weak as they faced changing consumer tastes, new competition and headwinds from higher interest rates as former "bond proxies." Banks, including Wells Fargo (0.8%) (-22%) and State Street (0.4%) (-34%), were the victims of the aforementioned flattening yield curve and more recent concerns around deteriorating credit. Another good idea at the time was DISH Network (0.4%) (-48%) which has accumulated the largest swath of unused spectrum in the U.S.; financial leverage, additional spectrum supply, and a potentially dwindling number of partners for a spectrum build are challenges DISH will have to overcome in 2019.

Conclusion

In our Q4 2017 letter we expressed surprise that a strong market was overlooking what seemed to be mounting risks late in the economic cycle. As many of those challenges - trade disputes, higher interest rates, political discord - play out, we wonder if the market is now ignoring what continue to be decent corporate fundamentals. Ultimately our job is to do the work on the microeconomic elements of each company and industry we cover, examine how the changing macroeconomic environment impacts those variables and make buy and sell decisions that balance the resulting opportunities and risks. Since the bears inevitably come home in each cycle, we have always erred on the side of capital preservation and that will especially be the case going forward. Children's stories don't always have happy endings but they serve as cautionary examples that we have heeded well.

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 listed first in United States dollars (USD) and second in the local currency, where applicable, and are presented as of December 31, 2018.

American Express Co. (1.2% of net assets as of December 31, 2018) (AXP – $95.32 – 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. As of December 2018, American Express has 114 million cards in force and nearly $82 billion in loans, while its customers charged approximately $1.2 trillion of spending on their cards in 2018. 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 picked up spending. Longer term, American Express should capitalize on its higher spending customer base and continue to expand into other payment related businesses, such as 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.

AMETEK (2.2%) (AME – $67.70 – NYSE) is a diversified supplier of highly engineered equipment used in a broad array of industrial end markets. The company offers a diverse product portfolio, including test and measurement, metrology, and precision motion control equipment, in addition to specialty materials and aftermarket services. Through November 2018, AMETEK has spent $1.1 billion acquiring six businesses (following $560 million spent on three acquisitions during full year 2017). The company still has approximately $1.3 billion of cash and availability under its revolver to deploy on future acquisitions, a key part of AMETEK's growth strategy. Organic sales growth has also been strong, up 8% year-over-year during the first nine months of 2018, and the company finished Q3 2018 with a solid backlog of $1.6 billion (in line with the record level of Q2 2018). The stock was weak during the fourth quarter, driven by concerns over the sustainability of global growth and a slowdown in China's industrial sector.

Bank of New York Mellon Corp. (1.4%) (BK – $47.07 – NYSE) is a global leader in providing financial services to institutions and individuals. The company operates in more than one hundred markets worldwide and strives to be the global provider of choice for investment management and investment services. As of December 2018, the firm had $33.1 trillion in assets under custody and $1.7 trillion in assets under management. Going forward, we expect BK to benefit from rising global incomes and the cross border movement of financial transactions. We believe BK is also well positioned to grow earnings in a rising interest rate environment, given its large customer cash deposits and significant loan book

Brown-Forman Corp. (2.6%) (BF/A and BF/B – $47.42/$47.58 – NYSE) is a leading global distilled spirits producer. Spirits is an advantaged category that enjoys high margins, low capital requirements, strong free cash flow generation, and good pricing power. The company's global brands include Jack Daniel's Tennessee whiskey, Finlandia vodka, Woodford Reserve bourbon, and el Jimador and Herradura tequilas. Jack Daniel's is one of the world's most valuable spirits brands, enjoying strong growth both in the U.S. and internationally, as consumers increasingly choose to drink American whiskies. The company has also successfully expanded the brand into the fast growing flavored whiskey category. While Brown-Forman does face some near term headwinds from ongoing trade disputes, emerging market sales have returned to growth, and the company is positioned to grow revenues and profits substantially over the next several years, and has significant balance sheet flexibility. While the company is family controlled, we believe that if it ever became available for sale it would be highly coveted by other large global spirits players.

CNH Industrial NV (0.7%) CNH Industrial NV (CNHI – $9.21/€7.85 – NYSE/Borsa Italiana Milan), with headquarters in London, England, and Burr Ridge, Illinois, is a global capital equipment manufacturer that was demerged from parent Fiat in 2013. CNHI is unique in that it has leading positions in a variety of global machinery markets. It is best known for its agricultural equipment business, consisting of Case IH, New Holland Agriculture, and Steyr brands. The company's other businesses include IVEVCO, a leading global truck and bus manufacturer, as well as Case and New Holland construction machinery. Finally, FPT Industrial provides engines and transmissions for the company's captive businesses and also sells to other machinery manufacturers. CNHI is well positioned, not only for a cyclical recovery in its agricultural and equipment end markets, but also for significant cash flow generation in the years ahead. We believe CNHI can surface value through financial engineering, with Iveco being a particularly attractive asset for other global machinery manufacturers.

Madison Square Garden Co. (1.7%) (MSG – $267.70 – NYSE) is an integrated sports and entertainment company that owns the New York Knicks, the New York Rangers, the Radio City Christmas Spectacular, The Forum, and that iconic New York venue, Madison Square Garden. These evergreen content and venue assets benefit from sustainable barriers to entry and long term secular growth. MSG completed the separation of its associated regional sports networks in September 2015, leaving a reliable cash flow stream for MSG to reinvest and repurchase shares. The company announced that it would spin-off of its teams in the middle of 2019, which we think could further surface value, especially as MSG expands its venue portfolio.

Republic Services Inc. (1.9%) (RSG – $72.09 – NYSE), based in Phoenix, Arizona, became the second largest solid waste company in North America after its acquisition of Allied Waste Industries in December 2008. Republic provides nonhazardous solid waste collection services for commercial, industrial, municipal, and residential customers in 40 states and Puerto Rico. Republic serves more than 2,800 municipalities and operates 191 landfills, 207 transfer stations, 348 collection operations, and 91 recycling facilities. Since the Allied merger, Republic has benefited from synergies driven by route density, beneficial use of acquired assets, and reduction in redundant corporate overhead. Republic is committed to its core solid waste business. While other providers have strayed into alternative waste resource technologies and strategies, we view Republic's plan to remain steadfast in the traditional solid waste business positively. We expect continued solid waste growth acquisitions, earnings improvement, and incremental route density and internalization growth in already established markets to generate real value in the near to medium term, highlighting the company's potential.

Sony Corp. (2.0%) (SNE – $48.28 – NYSE) is a diversified electronics and entertainment company based in Tokyo, Japan. The company manufactures image sensors, PlayStation videogame consoles, mobile devices, consumer electronics, and mirrorless and professional cameras. It also operates the Columbia film studio and Sony Music entertainment group, and holds majority ownership of Sony Financial Services. We expect growth opportunities in the image sensor and game businesses, and operational improvements in consumer electronics and entertainment to generate EBITDA growth through 2020.

Swedish Match AB (1.5%) (SWMA – $39.39/SEK349.10 – Stockholm Stock 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 October 2010, Swedish Match combined its European and premium cigar portfolios with Scandinavian cigar and pipe tobacco company STG, creating a new company that should benefit from enhanced scale and synergies. In February 2016, STG went public via an IPO on the Copenhagen Stock Exchange, with Swedish Match partially monetizing its stake. Swedish Match fully monetized its stake in STG in 2017. The company has a new tobacco-free nicotine pouch product called ZYN that is growing rapidly in the U.S. and Scandinavia, and is driving growth in its mass market cigar business through its new natural leaf products. We expect Swedish Match to continue to grow its cigar and smokeless business globally, and the company could be an attractive takeover candidate for a global tobacco company that wants to increase its presence in the smokeless segment.

Twenty-First Century Fox (3.7%) (FOXA/FOX – $48.12/$47.78 – NASDAQ) is a diversified media company with operations in cable network television, television broadcasting, and filmed entertainment. We expect FOX to complete the transaction with Disney early in 2019. On November 19, 2018, Disney received an approval from Chinese regulators to acquire FOX's assets. Given ongoing trade tensions with the U.S., some investors were concerned the deal could be held up for political reasons. With Department of Justice and European approval obtained, Brazil is left as the final jurisdiction remaining to make a decision. Even prior to obtaining Chinese approval, Disney felt confident the deal would close "meaningfully earlier" than the original target of June 2019. New Fox, the collection of assets not sold to Disney, will consist of: 1) Fox News, the most watched cable news channel in the U.S.; 2) The Fox Broadcast Network, one of the Big Four broadcast networks with substantial portfolio of sports rights including the NFL and MLB; 3) FS1, the national sports network launched in 2013 to compete with ESPN; and 4) other cable networks, such as the Big Ten Network. The company will be highly reliant on news and sports programming, which is watched live and not subject to the kind of ratings pressure seen in general entertainment networks. Given the "must carry" nature of both the Fox Broadcast Network and Fox News, we expect the company will be able to grow affiliate fees from distributors substantially faster than its peers.

January 23, 2019

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

Twenty-First Century Fox Inc.	3.8%	Genuine Parts Co.	1.8%
Brown-Forman Corp.	2.6%	Berkshire Hathaway Inc.	1.7%
Ametek Inc.	2.2%	Diageo plc	1.7%
Sony Corp.	2.0%	Madison Square Garden Co.	1.7%
Republic Services Inc.	1.9%	Honeywell International Inc.	1.6%

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.

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 or exchanged within seven days after the date of purchase. See the prospectuses 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.

The Fund's daily NAVs are 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.

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.

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 Prospectus 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 Asset 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 directly through the Fund's distributor or brokers that have entered into selling agreements specifically with respect to Class I Shares. The Board of Trustees determined that expanding the types of Fund shares available through various distribution options will enhance the ability of the Fund to attract additional investors.

THE GABELLI ASSET FUND
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Portfolio Management Team Biographies

Mario J. Gabelli, CFA, 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 Executive 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.

Christopher J. Marangi joined Gabelli in 2003 as a research analyst. Currently he is a Managing Director and Co-Chief Investment Officer for GAMCO Investors, Inc.'s Value team. In addition, he currently serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Marangi graduated magna cum laude and Phi Beta Kappa with a BA in Political Economy from Williams College and holds an MBA with honors from Columbia Business School.

Kevin V. Dreyer joined Gabelli in 2005 as a research analyst covering companies within the consumer sector. Currently he is a Managing Director and Co-Chief Investment Officer for GAMCO Investors, Inc.'s Value team. In addition, he currently serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Dreyer received a BSE from the University of Pennsylvania and an MBA from Columbia Business School.

Jeffrey J. Jonas, CFA, joined Gabelli in 2003 as a research analyst. He focuses on companies in the cardiovascular, healthcare services, and pharmacy benefits management sectors, among others. He also serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Jonas was a Presidential Scholar at Boston College, where he received a BS in Finance and Management Information Systems.

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Shareholder Commentary
December 31, 2018