

The Gabelli Equity Income Fund

Shareholder Commentary

June 30, 2018

To Our Shareholders,

For the quarter ended June 30, 2018, the net asset value (“NAV”) per Class AAA Share of The Gabelli Equity Income Fund increased 0.9% compared with an increase of 3.4% for the Standard & Poor’s (“S&P”) 500 Index. Other classes of shares are available. See page 2 for performance information for all classes.

In Review

During the second quarter of 2018, the stock market continued its upward trajectory. With the exception of the first quarter of 2018, the U.S. stock market has been rising for many quarters in a row. So far in 2018 the overall market, as measured by the S&P 500, is up over 2% on a total return basis. However, growth stocks have been leading the market, not only year-to-date but also over the past five years, as value stocks have lagged. So far this year, value stocks, as measured by the S&P/Citigroup Value Index, are down over 2%. Many large cap, technology focused stocks have been driving the overall market and account for most of the gains that the market has seen. Some of these stocks do not even pay a dividend, a component we like to see in our holdings. The good news is that, although value investing has been out of favor for many years now, we feel the market is poised to start favoring value stocks once again, and we believe, (y)our portfolio is well positioned to benefit when that rotation occurs.

We anticipate that both earnings growth and deal activity will accelerate in 2018. We expect that earnings for the S&P 500 will be up by more than 10% in 2018, driven by fiscal stimulus, tax cuts, less regulation, and a favorable business climate. Deal activity should also increase in 2018, driven by large cash holdings on the balance sheets of corporate America, a stable regulatory environment, and modest interest rates.

Monthly Distributions – \$0.10 per share

The Gabelli Equity Income Fund has a \$0.10 per share monthly distribution policy in place. For more specific dividend and tax information, please visit our website at 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. The distributions should not be confused with the yield or total return of the Fund.

Comparative Results

Average Annual Returns through June 30, 2018 (a) (b) (Unaudited)

	Quarter	1 Year	5 Year	10 Year	15 Year	Since Inception (1/2/92)
Class AAA (GABEX)	0.88%	6.12%	7.86%	7.62%	8.42%	9.81%
S&P 500 Index	3.43	14.37	13.42	10.17	9.30	9.53(c)
Nasdaq Composite Index	6.61	23.71	18.61	13.96	12.01	10.93(c)
Lipper Equity Income Fund Average	1.85	8.64	9.99	8.27	8.19	8.46
Class A (GCAEX)	0.89	6.10	7.85	7.62	8.41	9.81
With sales charge (d)	(4.91)	0.00	6.58	6.98	7.99	9.56
Class C (GCCEX)	0.69	5.29	7.05	6.82	7.64	9.36
With contingent deferred sales charge (e)	(0.31)	4.29	7.05	6.82	7.64	9.36
Class I (GCIEX)	0.93	6.36	8.12	7.90	8.62	9.92
Class T (GCTEX)	0.84	6.07	7.85	7.61	8.42	9.81
With sales charge (f)	(1.68)	3.42	7.30	7.34	8.23	9.64

In the current prospectuses dated January 26, 2018, the expense ratios for Class AAA, A, C, I, and T Shares are 1.39%, 1.39%, 2.14%, 1.14%, and 1.39%, respectively. Class AAA and Class I Shares do not have a sales charge. The maximum sales charge for Class A Shares, Class C Shares, and Class T Shares is 5.75%, 1.00%, and 2.50%, 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. 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 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, Class I Shares on January 11, 2008, and Class T Shares on July 5, 2017. The actual performance of the Class A Shares, Class C Shares, and Class T 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. 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 in this category 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) S&P 500 Index and Nasdaq Composite Index since inception performance are as of December 31, 1991.
- (d) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.
- (e) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.
- (f) Performance results include the effect of the maximum 2.50% sales charge at the beginning of the period.

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. Both the commentary and the financial statements, including the portfolio of investments, are available on our website at www.gabelli.com.

The Economy

The U.S. economy grew at an impressive rate of almost 3%, in real terms, during 2017, and we expect that the economy will continue to grow by at least 3% during 2018. Inflation, as measured by the consumer price index, has begun to move up ever so slightly, and we expect that it will hover just above 2% for 2018, a level that central bankers should be comfortable with as they gradually raise short term rates. The unemployment rate, still hovering around 4%, stands at a ten year low. Housing starts of about 1.3 million units continue their steady increase, but remain comfortably below the prior peak of 2.2 million units.

According to the National Bureau of Economic Research, the current U.S. economic expansion has been going on since June 2009, making this the second longest economic expansion in U.S. history, beating the 106 month expansion of the 1960s. The longest economic expansion was from 1991-2001; we will have to wait just one more year to see if we can beat that record, which goes back to before the Civil War.

The State of Washington

Since late 2017, a rising stock market was based on a “Trump Bump”, consisting of (a) tax reform, (b) deregulation, and (c) fiscal stimulus. The Trump administration has delivered on all of these objectives. Fiscal stimulus is being fueled by rising military spending, and the administration would also like to increase infrastructure spending. The new tax bill, which lowers the Federal corporate tax rate to 21%, will make U.S. corporate taxes very competitive with other OECD countries, which is a major positive for the U.S. economy and the U.S. stock market. We believe (y)our portfolio is well positioned to capture the benefits of the lower corporate taxes, as it includes a disproportionate weighting of smaller and mid-size U.S. firms, which previously were paying higher effective rates and whose revenues are centered on domestic operations. Many individuals will see lower taxes with reduced rates and an increased standard deduction, although higher income households in higher state and local tax (SALT) geographies could see an increase. Deregulation in the energy, financial and media/telecom sectors has already unleashed corporate animal spirits. We expect more deregulation to come from this administration.

The State of the Federal Reserve

Notwithstanding excitement about potential tax windfalls, the most powerful market force coming out of Washington during the past decade has come from the Federal Reserve. Through open market activity and three rounds of quantitative easing (QE), the Federal Reserve slashed short term interest rates from 4.5% before the 2008-2009 financial crisis to nearly zero, lifting assets prices everywhere. The Federal Reserve began tapping the brakes by tapering QE in October 2014, and has now raised rates seven times, the latest taking the Federal Reserve Funds rate to a range of 1.75% - 2.0%. Current expectations are for an additional rate increase in 2018 and maybe three in 2019, which would ratchet the Federal Reserve Funds rate to 3.0%. Newly appointed Federal Reserve Chair Jerome H. (“Jay”) Powell, a centrist and former banker, will likely be comfortable following this path.

Over the long term, the Federal Reserve's "normalization" of rates is healthy for the economy, but the timing of this process has been the subject of debate, given a lack of meaningful inflation. The last two rate hike cycles ended in market dislocations in 2001 and 2007, but the circumstances in each was very different from today. A future recession may be unavoidable, but it need not be triggered by the Federal Reserve anytime soon. What is clear, however, is that monetary policy has gone from being a tailwind to being a headwind for the economy and the market.

Dividends

Dividends are an important element in the historical returns of stocks. They provide current income and a growing income stream over time. During the second quarter of 2018, U.S. companies continued to increase their dividends and the dividend payout ratio stood at about 39%. At the end of the quarter, the dividend yield on the S&P 500 was approximately 1.9%, while the 10 year U.S. Treasury yielded just over 2.8%.

Investment Scorecard

During the second quarter of 2018, the S&P 500 was up about 3.4% on a total return basis and most of the eleven sectors that make up the S&P 500 Index were up, with the exception of four sectors. Telecom was down 0.9%, the staples sector was down 1.5%, while both the financial and industrial sectors were down 3.2%. The best performing sector was energy, up 13.5%, followed by discretionary, up 8.2%.

Some of the stocks that helped performance the most in the Gabelli Equity Income Fund during the second quarter were Merck (1.1% of net assets as of June 30, 2018), Chevron (1.0%) and Anadarko Petroleum (0.7%).

Merck is a large global pharmaceutical company that has extensive research and development for new drugs. One area where Merck is doing well with new potential products is oncology. During the second quarter, trial results for Keytruda showed improved survival in certain lung cancer patients. Both Chevron and Anadarko Petroleum are energy companies and benefited from rising oil prices during the quarter. All three of the companies were up over 10% during the quarter.

A few of the worst performing stocks in the Fund during the second quarter were Hewlett-Packard Enterprise (0.3%), Legg Mason (0.3%), and Morgan Stanley (0.6%). These three stocks were each down over 10%.

Hewlett-Packard Enterprise is a provider of technology solutions. During the quarter, the company reported results that were generally in line with expectations, but cash flow was below expectations, and that put pressure on the stock. Legg Mason is an asset management firm, while Morgan Stanley is an investment bank with a large wealth management business. Both companies are part of the broader financial sector, which was down during the quarter, partly on concerns the yield curve was flattening a little bit.

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 June 30, 2018.

Bank of New York Mellon (3.1% of net assets as of June 30, 2018) (BK – \$53.93 – NYSE) is a global leader in providing financial services to institutions and individuals. The company operates in more than 100 markets worldwide and strives to be the global provider of choice for investment management and investment services. As of June 30, 2018, the firm had \$33.6 trillion in assets under custody and \$1.9 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. (1.4%) (BFA/BFB – \$48.86/\$49.01 – 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 negative foreign currency exposure, 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.

CBS Corp. (1.6%) (CBS – \$56.64 – NYSE) operates the CBS television network and the premium cable network Showtime. It also owns 29 local television stations and 130 radio stations. We believe that CBS has a number of opportunities to generate incremental non-advertising revenue from the sale of existing content through its OTT platforms, online video distributors, and retransmission agreements with traditional distributors. In addition, we expect a continued recovery in advertising to contribute to earnings growth. Finally, we believe a combination with Viacom could act as a catalyst.

Genuine Parts Co. (2.1%) (GPC – \$91.79 – NYSE) is an Atlanta, Georgia-based distributor of automotive and industrial replacement parts, and electrical and electronic components. We expect GPC's well known NAPA Auto Parts group to benefit as an aged vehicle population, which includes the highest percentage of off warranty vehicles in history, helps drive sales of automotive aftermarket products over the next several years. Additionally, economic indicators remain supportive of the company's industrial and electrical parts distribution

businesses amid steady economic expansion. Finally, GPC's management has shown consistent dedication to shareholder value via share repurchases and dividend increases, and most recently announced its intention to spin its Office Products division and merge it with Essendant in a Reverse Morris Trust transition.

Home Depot Inc. (1.1%) (HD – \$195.10 – NYSE) based in Atlanta, Georgia, is the world's largest home improvement retailer, with fiscal 2017 revenue of \$100.9 billion and EBITDA of \$16.5 billion. Home Depot has 2,285 retail stores as of April 30, 2018, which sell 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 the continued improvement in the housing market to provide uplift to Home Depot's business, encouraging consumers to invest in their homes. Notably, the company generates significant cash flow, has a strong balance sheet, and will continue to benefit as the housing recovery improves. To make use of its available cash flow, we expect Home Depot will continue to repurchase stock and pay dividends.

Honeywell (1.3%) (HON – \$144.05 – NYSE) operates as a diversified technology company with highly engineered products, including turbine propulsion engines, auxiliary power units, turbochargers, brake pads, environmental and combustion controls, sensors, security and life safety products, resins and chemicals, nuclear services, and process technology for the petrochemical and refining industries. One of the key drivers of HON's growth is acquisitions that increase the company's growth profile globally, creating both organic and inorganic opportunities. The company recently announced its plan to spin-off its Homes product portfolio and ADI Global Distribution businesses as well as its Transportation Systems business into two publicly-traded companies.

National Fuel Gas Co. (0.9%) (NFG – \$52.96 – NYSE) is a diversified natural gas company. NFG owns a regulated gas utility serving the region around Buffalo, New York, gas pipelines that move gas between the Midwest and Canada and from the Marcellus to the Northeast, gathering and processing systems, and an oil and gas exploration and production business. NFG's regulated utility and pipeline businesses, as well as its California oil production business, provide stable earnings and cash flows to support the dividend, while the natural gas production business offers significant upside potential. Natural gas prices have been depressed over the past few years, but NFG's net ownership of 785,000 acres in the Marcellus Shale, holds enormous natural gas reserve potential and the company has proven to be among the lower cost producers. We continue to expect above average long term earnings and cash flow growth from improving gas prices, growing gas production and strategically located pipeline expansion. The company has increased its dividend for 46 consecutive years.

Verizon (1.1%) (VZ – \$50.31 – NYSE) is one of the world's leading telecommunications services companies. Its wholly-owned subsidiary, Verizon Wireless (VZW), is the largest mobile operator in the United States with over 116 million retail customers. In April 2018, Verizon reported stronger than expected 1Q revenues and Adjusted EBITDA and reiterated 2018 guidance. The company is a beneficiary of the Tax Cuts and Jobs Act. VZ estimates savings from tax reform to generate net \$3.5-\$4.0 billion uplift to cash flow from operations. The incremental cash flow will be used primarily to strengthen the company's balance sheet. In late November 2017, VZ announced that it plans to launch 5G residential broadband services (via fixed wireless) in up to five

markets (including Sacramento and Los Angeles) in 2018 (expected to be followed by a broader rollout in 2019). The above commercial launch will be powered by millimeter-wave spectrum. Verizon estimates the market opportunity for initial 5G residential broadband services to be ~30 million households. VZ expects its capital expenditures for 2018 to be in the range of \$17.0-\$17.8 billion, including commercial launch of 5G. In June 2018, the company announced its CEO succession plan. Hans Vestberg, EVP, President of Global Networks, and CTO of Verizon will succeed Lowell McAdam as CEO effective August 1, 2018. Vestberg joined VZ in April 2017 after spending the bulk of his career with Ericsson (including a CFO position, and, ultimately, CEO role in 2010-2016).

Wells Fargo & Co. (1.8%) (WFC – \$55.44 – NYSE) is a diversified financial services company. Headquartered in San Francisco, California, the firm provides banking, insurance, investments, mortgage, and consumer and commercial finance through more than 9,000 stores and 12,000 ATMs. Wells Fargo serves one in three households in America, and as of March 2018, it had \$2.0 trillion in customer assets. Longer term, we expect Wells Fargo to continue to grow market share of domestic deposits due to its strong brand and diversified product base.

Conclusion

While change is constant, the fundamental underpinnings of common stock value investing remain unchanged. Our stock selection process is based on the investment principles first articulated in 1934 by the fathers of security analysis, Benjamin Graham and David Dodd. Their work provided the framework for value investing. Our firm contributed to the academic and empirical research on value investing by introducing the concept of Private Market Value (PMV) with a Catalyst™. This is our proprietary research methodology that focuses on individual stock selection by identifying stocks of firms selling at a discount to intrinsic value per share with a reasonable probability of realizing their PMVs. We define PMV as the price a strategic acquirer would likely be willing to pay for the entire enterprise. Catalysts are specific events or circumstances with varying time horizons that can trigger a narrowing of the difference between the market price of a stock and its estimated PMV per share. Price appreciation can occur instantly, as in the case in an announced takeover, or more gradually over time. There are a variety of catalysts that can cause change. Some general categories include: company specific, industry, regulatory, demographic, political, and economic. We continue to find good value in many companies that have some combination of long term growth prospects, strong cash flow generation, and good balance sheets, as well as shareholder friendly management teams. We thank you for your investment in the Fund, and we look forward to serving you in the future.

July 27, 2018

Top Ten Holdings (Percent of Net Assets)
June 30, 2018

Swedish Match AB	3.4%	CBS Corp.	1.6%
Bank of New York Mellon Corp.	3.1%	Marsh & McLennan Cos Inc.	1.5%
Genuine Parts Co.	2.1%	Mastercard Inc.	1.5%
Mondelez International Inc.	1.8%	Brown-Forman Corp.	1.4%
Wells Fargo & Co.	1.8%	M&T Bank Corp.	1.4%

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.

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 Prospectuses via e-delivery. For more information or to sign up for e-delivery, please visit our website at www.gabelli.com.

Multi-Class Shares

Class AAA Shares are no-load shares offered directly through selected broker/dealers. Class A, Class C, and Class T 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.

Gabelli/GAMCO Funds and Your Personal Privacy

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 and GAMCO Asset Management Inc., which are affiliated with GAMCO Investors, Inc. GAMCO Investors, Inc. is a publicly held company that has subsidiaries and affiliates that provide investment advisory 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.

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.

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 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.

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Net Asset Value per share available daily
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preceded or accompanied by an effective prospectus.



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FUNDS

THE GABELLI EQUITY INCOME FUND

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