The Gabelli Equity Income Fund

Shareholder Commentary
December 31, 2018

To Our Shareholders,

For the quarter ended December 31, 2018, the net asset value (NAV) per Class AAA Share of The Gabelli Equity Income Fund decreased 13.1% 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.

In Review

During the fourth quarter of 2018, the stock market suffered a major pullback, with the S&P 500 Index down over 13% on a total return basis. That weak showing pushed the S&P 500 down for the full year, after a very strong showing in 2017. As has been the case for many years now, growth stocks continued to outperform value stocks. For all of 2018, growth stocks, as measured by the S&P/Citigroup Growth Index, were flat on a total return basis. Value stocks, on the other hand, were down by 9% for 2018, as measured by the S&P 500/Citigroup Value Index. 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.

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 December 31, 2018 (a) (b) (Unaudited)

	Quarter	1 Year	5 Year	10 Year	15 Year	Since Inception (1/2/92)
Class AAA (GABEX)	(13.11)%	(11.00)%	2.97%	10.06%	6.70%	9.20%
S&P 500 Index	(13.52)	(4.38)	8.49	13.12	7.77	9.06 (c)
Nasdaq Composite Index	(17.28)	(2.80)	11.05	16.85	9.56	10.23 (c)
Lipper Equity Income Fund Average	(10.78)	(6.61)	5.96	10.98	6.76	8.05
Class A (GCAEX)	(13.14)	(11.02)	2.96	10.02	6.70	9.20
With sales charge (d)	(18.13)	(16.13)	1.75	9.37	6.28	8.96
Class C (GCCEX)	(13.32)	(11.69)	2.20	9.23	5.91	8.75
With contingent deferred sales charge (e)	(14.19)	(12.57)	2.20	9.23	5.91	8.75
Class I (GCIEX)	(13.08)	(10.76)	3.23	10.23	6.91	9.32

In the current prospectuses dated January 28, 2019, the expense ratios for Class AAA, A, C, and I Shares are 1.41%, 1.41%, 2.16%, and 1.16%, 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. 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, 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. 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 information is 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.

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.

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.

Mario J. Gabelli is the Chairman and Chief Investment Officer — Value Portfolios of GAMCO Investors, Inc. and Portfolio Manager of various investment products at the firm. The securities mentioned in the article are not representative of any portfolio, and the views expressed are subject to change at any time. As a percentage of its net assets, of December 31, 2018, The Gabelli Equity Income Fund held positions in: 0.1% in Herc Holdings, 0.5% in Navistar International, 0.4% in Madison Square Garden Company, 0.8% in Davide Campari, 0.6% in Textron, 0.1% in Energizer Holdings, 0.2% in MGM Resorts International, 0.3% in Zimmer Biomet Holdings, and 0.2% in Paccar.

The views expressed in this article reflect those of the Chief Investment Officer only through the date of the interview. Minor edits were made. The Chief Investment Officer's views are subject to change at any time based on market and other conditions. Favorable earnings or EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization) growth prospects do not necessarily translate into higher stock prices, but they do express a positive trend which we believe will develop over time. The information contained in this article is not an offer to sell or a solicitation to buy any security. No security or other product is offered or will be sold in any jurisdiction in which such offer or solicitation, purchase or sale would be unlawful under the securities, or other laws of the jurisdiction.

Stocks are subject to market, economic and business risks that cause their prices to fluctuate. Consequently, you can lose money by investing in the Fund.

Investors should consider the investment objectives, risks, sales charges and expense of the Fund carefully before investing. The prospectus contains more information on this and other matters.

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The Economy

For most of the last decade, we have lived in what has often been referred to as the “Goldilocks economy,” with economic growth and inflation being neither too hot nor too cold. 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. Notwithstanding the recent stumble, U.S. equities are 119 months into the longest ever bull market, led by growth stocks riding a global wave of technological innovation and expanding prosperity. 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. 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.

The Political Economy of 2018

The salient issue for the market is growth – with corporate tax cuts behind us and little slack left in the economy, growth will almost certainly slow from the 3%-4% posted in 2018. That does not necessarily imply a recession is on the immediate horizon. How far above or below the 2% real growth trend line we have been experiencing over the past few years depends on many factors, including what we have described as the Three T’s: Trade, Treasuries, and Trump.

Trade

President Trump made “fair trade” the center piece 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). China is at the heart of new trade deals and, until a new trade deal is signed, the stock market will be jumpy and volatility will continue. Hopefully, after all the posturing and negotiations, a deal can be reached which will force China to comply with the World Trade Organization deal it signed years ago.

Treasuries

Also critical to the outlook for the economy and stock markets is the level and trajectory of interest rates. The Federal Reserve began its taper four years ago in October 2014, and the ten-year U.S.Treasury rate breached 3% this year, for the first time since 2013. Higher interest rates have real world impacts – they make the purchases of new homes, cars, and capital equipment, and companies’ and the U.S. deficit more expensive to finance. If all else is 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 yield curves – situations in which the ten-year yield exceeds the two-year yield – have predicted all nine recessions since 1955, albeit with two false positives and a wide variation in timing. The 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 and other actions make him a major player for the markets. With the House of Representatives now under the control of the Democrats, many issues will be front and center and have an impact on the markets, not the least of which will be various investigations the Democrats will push against the President.

Dividends

Dividends are an important element in the historical returns of stocks, providing both current income and a growing income stream over time. During the fourth quarter of 2018, U.S. companies continued to increase their dividends, and the dividend payout ratio stood at about 40%. At the end of the quarter, the dividend yield on the S&P 500 was just over 2%, while the ten-year U.S. treasury yielded approximately 2.7%

Investment Scorecard

During the fourth quarter of 2018, the S&P 500 was down about 13.5% on a total return basis, and all but one of the eleven sectors that make up the S&P 500 index were down. The three best performing sectors were Utilities (the only sector that was up) at 1.4%, Real Estate (down 3.8%), and Staples (down 5.2%). The three worst performing sectors, all of which were down sharply, were Industrials and Technology, (both down 17.3%), and the worst performing sector was Energy (down 23.8%).

Some of the stocks that helped performance the most during the fourth quarter were Merck (0.9% of net assets as of December 31, 2018), Procter & Gamble*, and Verizon (1.7%). Merck is a major pharmaceutical company with a promising pipeline of products. Procter & Gamble is a consumer products company that is viewed as defensive during times of market turmoil, as is Verizon, the large telecom company.

Among the worst performing stocks in the Fund during the fourth quarter were Halliburton, Anadarko (0.6%), and Hess (0.4%). These three stocks were each down well over 10%. Halliburton (1.1%) is a large energy services company that serves the oil and natural gas industries. Anadarko and Hess are exploration and production energy companies. These three companies were hurt in the fourth quarter when the price of oil fell from approximately $70 per barrel during the third quarter to under $50 per barrel by the end of the fourth quarter.

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.

* No longer held as of December 31, 2018

Bank of New York Mellon Corp. (2.8% of net assets as of December 31, 2018) (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.

CBS Corp. (1.8%) (CBS – $43.85 – 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.

Diageo plc (1.5%) (DEO –$141.80 – NYSE) is the leading global producer of alcoholic beverages, with brands including Smirnoff, Johnny Walker, Ketel One, Captain Morgan, Crown Royal, J&B, Baileys, Tanqueray, and Guinness. The company has a balanced geographic presence in both mature and emerging markets, and it benefits from the trend of consumers around the world trading up to premium products. Over the past several years, Diageo made acquisitions that enhanced its presence in emerging markets: a majority stake in United Spirits, the leading spirits producer in India; Mey Icki, the leading spirits company in Turkey; Shui Jing Fang, a leading Chinese baiju producer; Ypioca, the leading cachaca producer in Brazil; and an increased stake in Halico, the leading domestic spirits producer in Vietnam. While economic conditions in emerging markets have created headwinds for some of these investments recently, the long term fundamentals of the spirits industry remain very favorable, and Diageo will be one of the largest beneficiaries of industry growth.

Genuine Parts Co. (3.0%) (GPC – $96.02 – 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.

Honeywell International Inc. (0.6%) (HON – $132.12 – NYSE) operates as a diversified technology company with highly engineered products, including turbine propulsion engines, auxiliary power units, aircraft brake pads, environmental control systems, engine controls, communications and navigation systems, sensors, building automation, catalysts and absorbents and process technology for the petrochemical and refining industries and warehouse automation equipment and software. 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.

Mondelēz International Inc. (2.0%) (MDLZ – $40.03 – NASDAQ), headquartered in Deerfield, Illinois, is the renamed Kraft Foods Inc. following the tax-free spin-off to shareholders of the North American grocery business on October 1, 2012. On July 2, 2015, Mondelēz combined its coffee business with D.E Master Blenders 1753 to form a new coffee company, Jacobs Douwe Egberts. Subsequently, MDLZ exchanged part of its stake in this coffee joint venture for 24% ownership in Keurig Green Mountain, which was acquired by an investor group led by JAB Holding Co. in March 2016. This narrows the company's product focus, as nearly 85% of Mondelēz's $26 billion of revenue is derived from snacking, including leading brands such as Oreo, LU and Ritz biscuits, Trident gum, and Cadbury and Milka chocolates. The company continues to execute against its plan to accelerate growth and to improve margins, targeting 17% in 2018.

National Fuel Gas Co. (1.0%) (NFG – $51.18 – 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.

PNC Financial Services Group Inc. (1.4%) (PNC – $116.91 – NYSE) is one of the nation's largest diversified financial services organizations. From the company's Pittsburgh headquarters, PNC provides retail and commercial banking services throughout the Midwestern and Southeastern U.S. via a regional branch network of over 2,000 locations, along with mortgage and deposit businesses on a national basis. The company also operates a large asset management business, with over $159 billion in assets under management and $293 billion under administration as of September 2018. The firm has strong corporate leadership with a historically-conservative approach to loan origination and credit performance.

Swedish Match AB (3.4%) (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.

Verizon (1.7%) (VZ – $56.22 – 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 117 million retail customers. In October 2018, Verizon reported stronger than expected 3Q revenues and Adjusted EBITDA, driven by wireless outperformance. VZ reiterated most of its 2018 guidance components, while lowering CAPEX target range to $16.6-$17.0 billion (from prior expectation of lower end of the $17.0-$17.8 billion range). In early January 2019, Verizon preannounced stronger than expected postpaid net additions (1.2 million) and postpaid phone net additions (650K), driven by low churn. On October 1, 2018, Verizon launched the world's first commercial 5G service, although in a fixed-wireless setting. Verizon 5G Home is available in parts of Houston, Indianapolis, Los Angeles, and Sacramento. This fixed-wireless broadband service utilizes millimeter-wave spectrum and is expected to provide typical speeds of 300 Mbps and peak speeds up to 1 Gbps. This launch is expected to be followed by a broader rollout in 2019 (on standards-based equipment). Verizon estimates the market opportunity for initial 5G residential broadband services to be ~30 million households.

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, 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.

January 23, 2019

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

Swedish Match AB	3.4%	Mondelēz International Inc.	2.0%
Genuine Parts Co.	3.0%	CBS Corp.	1.8%
Bank Of New York Mellon Corp.	2.8%	Bristol-Myers Squibb C.	1.8%
Mastercard Inc.	2.0%	M&T Bank Corp.	1.7%
Brown-Forman Corp.	2.0%	Verizon Communications Inc.	1.7%

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.

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Multi-Class Shares

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 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 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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Shareholder Commentary
December 31, 2018