The Gabelli Utilities Fund

Shareholder Commentary
December 31, 2018

Mario J. Gabelli, CFA
Portfolio Manager

Timothy M. Winter, CFA
Portfolio Manager

To Our Shareholders,

For the quarter ended December 31, 2018, the net asset value (NAV) per Class AAA Share of The Gabelli Utilities Fund decreased 4.4% compared with an increase of 1.4% for the Standard & Poor's (S&P) 500 Utilities Index (SPU). Other classes of shares are available. See page 2 for additional performance information for all classes.

Utility Performance and Outlook

In 2018, the S&P 500 Utilities Index (SPU) returned 4.1% including dividends, compared with a 4.4% decrease in the S&P 500 Index (S&P 500). Since the S&P 500 market peak on September 20, 2018, the utility index outperformed by over 15% as the SPU returned 1.1% through year-end, compared to the 14.0% loss for the S&P 500. The SPU has also outperformed over the past 3 and 5-year periods. Utility stocks continue to benefit from strong fundamentals, including 5%-6% earnings growth and merger activity, but we attribute the most recent outperformance to defensive appeal and the fourth quarter decline in long term interest rates. Since late September 2018, investors have grown increasingly worried that the long U.S. economic expansion could slow as a result of Federal Reserve (Fed) rate hikes, a global trade war, and other geopolitical issues.

Table 1 Utilities Outperformed Over the Past Several Periods

	2018	2017	2016	Since Market All-Time High 9/20/18	Since First Tightening 12/14/15	3-Year Total Return	5-Year Total Return
S&P 500 Utilities	4.1%	12.1%	16.3%	1.1%	41.5%	34.1%	67.4%
S&P 500 Index	(4.4)	21.8	12.0	(14.0)	32.0	28.3	50.9
10-Year Treasury Yield (Beginning of Period)	2.41	2.45	2.27	2.38	2.23	2.27	3.04
10-Year Treasury Yield (End of Period)	2.69	2.41	2.45	2.69	2.69	2.69	2.69

Source: Thomson One

Comparative Results

Average Annual Returns through December 31, 2018 (a)

	Quarter	1 Year	5 Year	10 Year	15 Year	Since Inception (8/31/99)
Class AAA (GABUX)	(4.37)%	(2.15)%	4.50%	8.21%	7.39%	7.24%
S&P 500 Utilities Index	1.36	4.11	10.74	10.46	9.73	6.71
S&P 500 Index	(13.52)	(4.38)	8.49	13.12	7.77	5.38
Lipper Utility Fund Average	(2.50)	2.38	6.69	10.08	9.18	6.40
Class A (GAUAX)	(4.30)	(2.00)	4.50	8.22	7.39	7.25
With sales charge (b)	(9.80)	(7.64)	3.27	7.58	6.97	6.93
Class C (GAUCX)	(4.53)	(2.74)	3.43	7.41	6.60	6.59
With contingent deferred sales charge (c)	(5.49)	(3.71)	3.43	7.41	6.60	6.59
Class I (GAUIX)	(4.27)	(1.84)	4.77	8.48	7.58	7.38

In the current prospectuses dated April 30, 2018, the gross expense ratios for Class AAA, A, C, and I Shares are 1.37%, 1.37%, 2.12%, and 1.12%, 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, 2002. 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 value of utility stocks generally changes as long term interest rates change. Funds investing in a single sector, such as utilities, may be subject to more volatility than funds that invest more broadly. The utilities industry can be significantly affected by government regulation, financing difficulties, supply or demand of services or fuel, and natural resources conservation.* 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, 2002, 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 Utilities Index is an unmanaged market capitalization weighted index of large capitalization stocks that may include facilities generation and transmission or distribution of electricity, gas, or water. The S&P 500 Index is a market capitalization weighted index of 500 large capitalization stocks commonly used to represent the U.S. equity market. The Lipper Utility Fund Average reflects the average performance of mutual funds classified in this particular category. Dividends are considered reinvested. You cannot invest directly in an index.

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

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

Monthly Distributions – $0.07 per share

The Gabelli Utilities Fund has a $0.07 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.

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, will be available on our website at www.gabelli.com.

On December 19, 2018, the Fed raised the Federal Funds rate 0.25% to 2.5%, marking the ninth rate increase in three years (four times in 2018; three times in 2017). The 250 basis points of tightening has resulted in a flattened yield curve, with a significant 111-basis point increase in the 2-year U.S. Treasury yield to 2.48% (from 1.37%), a more modest 38-basis increase in the 10-year yield to 2.69% (from 2.31%), and a muted 13-basis point increase in the 30-year U.S. Treasury yield to 3.02% (from 2.89%). The Fed now considers its monetary policy to be "neutral" and risks to its economic outlook are balanced.

We continue to emphasize that, while utility stocks are sensitive to interest rates, they are by no means bond proxies. Earnings and dividend growth primarily determine long term total returns and mitigate the negative impact of higher interest rates. The 1-year, 3-year and 5-year utility outperformance reflects the low risk 5% earnings and dividend growth delivered over the last several years, as well as the even higher 5%-6% growth rate expected over the next several years. Utility stocks represent a compelling investment opportunity above and beyond the "safe haven" and "interest rate sensitive" label.

Fundamental Outlook: Super Investment Cycle Continues

We believe that the combination of strong utility fundamentals, the Fed's vigilance, the flattened yield curve, and the potential for escalating geopolitical volatility and/or domestic economic slowdown bode well for the relative performance of utilities. Strong fundamentals include focused strategies, opportunities for infrastructure investment, improved regulatory principles, low natural gas prices, healthy balance sheets, and investment grade credit ratings. Our universe of electric utility stocks offers a median current return of 3.2% and 5%-6% annual earnings and dividend growth, which is higher than forecast inflation and historical 3%-4% growth rates. Further, the sector continues to consolidate as smaller and mid-size utilities are bought by larger utilities relative to other sectors.

The utility sector is undergoing unprecedented change, resulting in a multi-year "super" investment cycle. The U.S. power generation fleet is rapidly moving from high carbon coal generation to low carbon natural gas and zero carbon renewables. Electric utilities are modernizing the power grid to incorporate renewables, distributed generation, electric vehicle charging stations, and increased safety and reliability. Natural gas and water utilities have accelerated pipe investment programs to replace aging and unsafe pipe, as well as to expand service to incorporate the growing demand for natural gas. The high capital investment is likely to progress for several years and translates into earnings growth, as regulators allow fair returns on investment. Despite the significant investment in infrastructure, electric bill increases have been mitigated by low natural gas prices, more efficient generation, lower financing costs, and tax reform. In September 2018, the average U.S. retail electric rate of 10.56 cents/kWH was nearly unchanged from the 10.70 cents/kWH in July 2008. (U.S. Energy Information Administration)

Valuation Multiples

At year-end 2018, electric, gas and water utility stocks traded near historically high multiples. Electric utilities traded at 19.6x, 18.6x and 17.5x 2018, 2019, and 2020 earnings estimates, while gas utilities were at 21.4x, 21.0x and 20.0x, and water utilities traded at estimates of 28.1x, 26.4x, and 23.6x, respectively. The 10 and 30-year U.S. Treasuries yielded 2.69% and 3.02%, compared to year end 2017 levels of 2.41% and 2.74%, respectively. Water utilities trade at higher multiples than other utility subgroups, reflecting potential consolidation growth, lower risk profiles, and scarcity value. Gas utilities also trade at relatively high multiples, reflecting potential takeovers and strong potential natural gas demand growth, as well as the pipeline and storage infrastructure growth potential. Adjusted for interest rates, utility P/E multiples appear reasonable, considering the strong fundamental outlook, which includes stronger than historical growth rates (5%-6% over the next several years vs. 3%-4% in the 1990's), and lower risk profiles.

We favor utility stocks with: above-average earnings and dividend growth potential; reasonable prices; and potential catalysts. In 2018, the stronger performers have either experienced or are expected to experience an extraordinary catalyst, such as a merger, spin-off or activist investor.

Table 2 **Top Performing Power and Utility Stocks in 2018**

	Symbol	12/31 Closing Price	2018 Total Return	P/E 2019	12-Months (mos) High	12-Months (mos) Low
NRG Energy	NRG	39.60	39.6	11.3	43.08	23.75
AES Corp	AES	14.46	39.0	11.1	16.28	9.86
First Energy	FE	37.55	27.8	15.0	39.88	29.33
Vistra Energy	VST	22.89	25.0	10.4	26.29	17.31
OGE Energy	OGE	39.19	23.9	18.5	41.80	29.59
SCANA Corp.	SCG	47.78	23.1	16.5	51.27	33.61
Connecticut Water Svc. Gp.	CTWS	66.87	18.8	27.9	70.30	48.86
Exelon	EXC	45.10	18.3	14.3	47.40	35.57
Otter Tail Power	OTTR	50.64	15.1	23.0	51.88	39.00
Unitil	UTL	50.64	14.5	22.7	53.07	40.92
Nextera Energy	NEE	173.82	14.3	21.2	184.20	145.10
Ameren	AEE	65.23	14.0	19.8	70.95	51.89
Vectren	VVC	50.64	13.7	16.6	72.18	58.00
Evergy	EVRG	65.23	9.3	23.3	67.06	47.10

Source: Thomson One

The top three 2018 performers, NRG (0.2% of net assets as of December 31, 2018), AES (2.3%), and FE (0.7%), all have been targeted by activist investors, particularly Elliott Management and Bluescape, and eight of the top 15 performers have either been involved in a recent merger, a pending merger, or are speculated to be in a future merger (NRG, VST, SCG (1.1%), CTWS (less than 0.1%), OTTR (1.8%), UTL (0.1%), VVC (0.8%), and EVRG (3.5%)). The Elliott/Bluescape pair target under-valued and more complex utilities, with the intent to re-focus and simplify. We note that Elliott's Value Act Capital is promoting an environmental influence with its AES investment, and has also invested in Hawaiian Electric (1.7%) for environmental reasons. The presence of large value-oriented and activist players is encouraging for utility investors as it offers comfort that even an underperforming utility can provide return potential.

The weaker performers were also subject to extraordinary events, including the California wildfires of 2017 and 2018 (EIX (1.8%) and PCG (0.2%)), a potentially terminated merger (AVA (0.5%)), and a volcanic eruption (ORA (0.2%)). The Canadian utilities have underperformed for various reasons, including higher leverage, lower ROE's, recent acquisitions, and political interference.

Table 3 **Depressed Utility Stocks**

	Symbol	12/31 Closing Price	Decline From 12-Month High	P/E 2019	12-Months (mos) High	Low
Alta-Gas	ALA-T	13.90	-72.9	13.6	51.27	33.61
PG&E Corp.	PCG	23.75	-51.9	5.9	49.42	17.26
Ormat	ORA	52.30	-26.0	24.3	70.68	45.79
Edison International	EIX	56.77	-20.0	12.6	71.00	45.50
Avista	AVA	42.48	-19.7	19.3	52.91	42.13
Canadian Utilities	CU-T	31.32	-16.4	13.9	37.47	29.12

Source: Thomson One

EIX and PCG declined significantly on potential liabilities associated with 2017 and 2018 wildfires, while ORA's decline is primarily related to an active Hawaii volcano covering its geothermal plant on the big island. California's unique inverse condemnation law has resulted in the utilities being liable for property and other damages associated with the devastating fires. In 2018, California passed wildfire legislation to provide the California Public Utilities Commission with greater authority and flexibility to assign and allocate fault as well as to allow for a financial solvency stress test and securitization of liabilities above the stress test. However, the inverse condemnation law remains in place, another round of wildfires hit in late 2018, investigation continues, and the CPUC treatment remains uncertain.

Merger and Acquisition Activity Update

Since 1995, the electric utility sector has experienced over 145 acquisition announcements among Edison Electric Institute (EEI) member utilities, and roughly 120 completed deals. In 2018, five deals were announced, including SCG/Dominion (0.6%), VVC/CenterPoint (0.1%), Gulf Power/NextEra Energy (5.4%), Peoples Gas/AquaAmerica (0.9%), Infrareit/SRE, and seven deals closed (SCG/D, NEE/Gulf Power, Oncor/Sempra, Calpine/Energy Capital, Dynegy/Vistra Energy, Great Plains/Westar, and AltaGas/WGL) (see below).

In 2018, merger activity slowed somewhat, which is not all that surprising, considering there were twenty-eight deals announced in the 2014-2017 time frame, with twenty-five of them completed. The more acquisitive utilities have been busy integrating recent acquisitions. In addition, tax reform may have slowed some deal making, given uncertainty about details and then the non-deductibility of holding company interest expense.

Consolidation activity is outlined below:

Date	Buyer	Target Entity	Enterprise Value	Premium*
10/23/2018	AquaAmerica (0.9%**)	Peoples Gas	$4,250	NA
10/18/2018	Sempra Energy	Infrareit	$1,275	18%
4/23/2018	CenterPoint Energy (0.1%)	Vectren (0.8%)	$8.1 billion	17%
2/15/2018	SJW Corp. (0.4%)	Connecticut Water Svc.	$750 million	18%
7/19/2017	Hydro One	Avista (0.5%)	$5.3 billion	24%

Deals Closed in 2016/2017/2018

Date	Buyer	Target Entity	Enterprise Value	Premium*
12/31/2018	NextEra Energy (5.4%)	Gulf Power	$5.8 billion	NA
12/31/2018	Dominion Energy (0.6%)	SCANA (1.1%)	$14.6 billion	31%
7/6/2018	AltaGas	WGL Resources	$6.4 billion	12%
4/9/2018	Dynegy	Vistra Energy	$11.1 billion	12%
3/9/2018	Sempra Energy	Oncor	$18.8 billion	NA
3/8/2018	Energy Capital	Calpine	$5.6 billion	23%
9/20/2017	Steel River	DeltaGas	$258 million	17%
8/4/2017	First Reserve	Gas Natural	$196 million	39%
1/2/2017	Algonquin PU (0.2%)	Empire District Electric	$2.4 billion	21%
10/14/16	Fortis (0.3%)	ITC Holdings	$11.3 billion	14%
10/3/16	Duke Energy (1.3%)	Piedmont Natural Gas	$6.7 billion	42%
9/16/16	Dominion Res.	Questar Corp.	$6.0 billion	22%
9/12/16	Spire (0.5%)	Energy South	$344 million	Private
7/1/16	Emera (0.3%)	TECO Energy	$10.4 billion	31%
7/1/16	Southern Co. (1.0%)	AGL Resources	$12 billion	38%
3/30/16	Macquarie (0.2%)	CLECO	$4.7 billion	15%
3/23/16	Exelon (0.8%)	Pepco Hldgs.	$11.9 billion	20%
2/12/16	Black Hills (1.5%)	Source Gas	$1.89 billion	Private

*Represents the premium to the closing share price on the last trading day prior to the announcement of the deal.

** of net assets as of December 31, 2018.

Larger U.S. utilities, global utilities, value-oriented investors, activist investors, and private entities find regulated utilities attractive for the compelling investment opportunity known as the "utility compact". The utility compact assures that investment in prudent utility infrastructure is recognized and allowed a fair return. As a result, investors benefit from the simple "success formula" (investment + rate recognition = earnings growth).

The renowned value investor Berkshire Hathaway has vowed to be the largest utility in the U.S. Since its 1999 acquisition of MidAmerican Energy, Berkshire Energy has acquired several utilities, including Pacificorp (2005), NV Energy (2013), AltaLink (2014), and attempted others, including Constellation Energy (2008) and ONCOR (2017). Several private equity and infrastructure entities, including KKR, Macquarie, and BlackRock have acquired power generation and electric, gas and water utilities over the years.

The forces driving utility consolidation remain in place, and include stagnant demand growth, economies of scale, and efficiency. The electric and gas utility sector remains fragmented, with over fifty electric utilities and twenty gas utilities and ten water utilities.

More significant takeover premiums are normally associated with fundamentally sound, reasonably priced, mid cap and small cap utilities. Attractive takeover characteristics include constructive regulatory environments, healthy service areas, transmission growth potential, low carbon footprints, strategic geographies, or a particularly stressful situation. Given the significant long term demand for natural gas, we consider most gas distribution utilities, particularly those with pending pipeline development projects, to be highly coveted. Our Fund holds numerous small-to-mid-cap utilities with potential takeover characteristics.

An increasing number of midstream/pipeline master limited partnerships (MLPs) have converted or are converting into C-corporations, including ONEOK (1.4%), Kinder Morgan (0.2%), Enbridge (0.9%), and Williams, due to changes in federal corporate tax policy and Federal Energy Regulatory Commission (FERC) income tax allowance treatment. The tax changes led to a significant weakening of the U.S. MLP capital markets, which hampers MLP growth opportunities as they are dependent on consistent access to capital markets at an effective cost of capital to fund projects to grow their distributions. We consider pipeline and storage assets to be utilities or “utility-like” in risk profile with potentially higher growth opportunities. The conversion to non-MLP corporate structures makes many pipeline/midstream companies more appropriate for our utility Fund, as well as providing potential asset acquisition opportunities.

EPS Growth of 5%-6%, Above Historical Averages

We forecast utilities to grow EPS (and dividends) at a 5.5% CAGR over 2017-2020, which is at the high end of the recent 4%-6% CAGR, driven by ongoing infrastructure investment, or rate base growth. We believe 2018 earnings growth will be above the 5.5% rate, given warm summer temperatures across the nation, and the median dividend growth of 6.4%, both of which were higher than historical averages of approximately 3%-4%. The successful formula driving the strong earnings outlook remains: Investment Opportunities + Constructive Regulation = Earnings Growth.

In 2018, EEI member electric utilities are forecast to have invested $127.1 billion, which compares to a record $122.8 billion (revised up from $113.6 billion) in 2017, marking the seventh consecutive year of record investment. The investment opportunity serves as the basis for earnings growth for the foreseeable future.

- Clean energy transformation as coal retires and is replaced by natural gas, wind, and solar;
- Electric transmission (FERC incentives allow favorable returns);
- Distribution investment via grid modernization, reliability, and expansion (automatic rate recovery);
- Natural gas infrastructure, including pipeline expansion and replacement.

The Great Power Generation Transformation

The global power sector, including North America, has accelerated the transformation from carbon intensive coal power generation to cleaner burning natural gas and renewable power generation. Cleaner generation is driven by the economics and efficiency of new gas plants and low gas prices, increasing state renewable portfolio standards, federal tax credits, public demands, and technology improvement. Cost declines have made large scale wind and solar farms competitive with new combined cycle gas plants.

In 2018, EIA forecast 37% of U.S. generation to come from zero carbon emitting nuclear (20%), hydro (7%), and renewables (10%), 34% from natural gas, and 28% from coal. In 1986, 58% of generation was from coal. There hasn't been a coal plant built in more than five years and, absent technological breakthroughs, there may never be another built. The nation's nuclear plants continue to age, and the low cost of natural gas and renewables challenge the ongoing economics of upgrades. In 2017, 26 GWs of capacity was added, including 12 GWs of gas, 7.3 GWs of wind, 6.0 GWs of solar.

Over 2018-2020, EEI forecasts 248 GWs of new generation, including 91 GWs of gas, 85 GWs of wind, and 48.5 GWs of solar to the existing 1,200 GWs of U.S. capacity. Over the same period, EEI expects 49 GWs of capacity to retire, including 21.5 GWs of coal, 22.8 GWs of gas, and 5.8 GWs of nuclear.

Currently, 29 states have renewable portfolio standards (RPS), including 100% mandates in California and Hawaii by 2045. Several coastal states recently conducted major offshore wind RFP's, including Massachusetts (1,600 MWs by 2027), Connecticut (200-MWs), and Rhode Island (400-MWs). Avangrid (0.5%) won round one of the Massachusetts bid with the 800-MW Vineyard Wind Project (2022), and Deepwater Wind won both the Rhode Island and Connecticut RFPs with its 600-MW project Revolution Wind project (2023). New York and New Jersey each plan 2,400 MWs and 3,500 MWs of wind by 2030, with an 800-MW New York RFP in 2018-2019. Several other states, including Virginia, Maryland, and North Carolina, are also considering plans.

Many utilities and developers are rushing to meet the safe harbor provisions of the late 2015 tax credit extensions, which allow the wind production tax credit (PTC) to continue, but to phase out through 2020 (2016-100%, 2017-80%, 2018-60%, 2019-40%). Importantly, the safe harbor feature allows a project started in 2016 through 2019 and finished in 2020 through 2023 to qualify for 100%/80%/60%/40% of the PTC. The 30% solar investment tax credit extends through 2019, and will decline to 26% in 2020, 22% in 2021, and then permanently to 10% for commercial and 0% for residential.

Finally, the large commercial and industrial customer base is increasingly seeking to advertise progressive sustainable strategies, including owned or contracted renewable generation. The RE100 is a collaborative, global initiative uniting more than 100 influential businesses (Apple, AB InBev, Bank of America, Bloomberg, etc.) committed to 100% renewable electricity.

Battery Storage to Revolutionize Power Generation

We believe large scale battery storage has the potential to revolutionize the power sector. The unique beneficial qualities of storage include the ability to absorb excess renewable energy and discharge that same energy when renewable resources are less available. Storage can provide peaking power, frequency, and voltage support, as well as seasonal load shifting capabilities. The pace of development and deployment is accelerating, and lithium ion battery prices have declined significantly over the last several years. Many utilities are requesting energy storage options in resource plans (nearly 9 GW's of RFP's requesting battery storage) and energy consultant Navigant forecasts 2.7 GWs of annual storage by 2027.

Transmission

According to EEI, transmission investment is expected to grow to $23.9 billion in 2018 ($22.9 billion in 2017) from $12.0 billion in 2011. FERC's favorable, incentive-oriented regulations make transmission investment one of the more compelling uses of capital for electric utilities, but complaints about lower returns on equity (ROE) have dampened enthusiasm over the last few years. Allowed-ROEs had ranged as high as 14%, but recent rate decisions reset the benchmark at a lower level, and several complaints, recommendations, and orders are tied up in the regulatory/legal process. On October 16, 2018, FERC outlined a new ROE-setting methodology that averages four separate methods, which would result in a roughly 10.41% ROE and allow for a higher zone of reasonableness. We consider it likely that the new FERC commissioners will award constructive ROEs, as well as implement policy to end the pancaking of complaints, which would be favorable for future utility earnings growth.

Grid Modernization and Electrification

In 2018, electric utilities invested $37.5 billion in distribution system improvement and replacement, including storm hardening, grid technology, and advanced meters. Natural gas distribution pipeline replacement is accelerating in light of recent explosions and new standards. Because many states are moving to frequent rate adjustments to replace pipe, pipe investment has become a favored source of consistent earnings growth.

In addition, utility managements expect increased investment to modernize and adapt to the electric vehicle (EV). Bloomberg New Energy Finance forecasts that EVs will represent 9% of electric demand by 2050, up from 0.2% today. As expected, California is leading the way and on pace to have a total of 2.8-4.2 million light duty, zero emission vehicles on the road by 2030 (California Energy Commission December 2017 forecast), compared to approximately 350,000 in use in 2017. By shifting EV load to hours of the day when there is excess generation on the grid, driven by large and small scale solar projects, the load is less costly to serve, which puts downward pressure on rates.

Rate Recognition of Investment

Public and political support of investment, combined with the low cost of natural gas and, more recently, tax-related rate reductions, have allowed for an increasingly constructive regulatory environment. State PUCs' regulatory principles have evolved to include numerous adjustments and mechanisms to address infrastructure investment, as well as rate design changes to address efficiency and distributed generation. Many state PUCs allow frequent (quarterly, semi-annual, or annual) rate adjustments for environmental, transmission, renewable, and other items, as well as "pass-through" for fuel, healthcare, and pension expenses. Given flattish demand growth and in order to encourage distributed generation and efficiency, many regulators have "decoupled," or separated revenues from sales. The improved regulatory treatment results in a greater opportunity to earn the ROEs allowed, and results in "stair-step" earnings growth. The supportive regulation has led utilities to ramp infrastructure investment budgets to deliver EPG growth.

Allowed Returns Lower but Favorable Relative to Interest Rates and Cost-of-Capital

In 2018, electric and gas utilities were authorized average ROEs of 9.65% and 9.55%, respectively. In 2017, the average authorized electric and gas utility allowed-ROEs were 9.74% and 9.72%, respectively, compared to 9.77% and 9.50% in 2016. While ROEs have declined over the years as U.S. Treasury yields declined, the decreases in utility costs-of-capital have been even greater. The spread between the allowed-ROE and the 10-year U.S. Treasury yield is currently 600-basis points, and it has ranged between 600-850 basis points over the past few years. During the 1990s, the utility sector averaged a roughly 400-600 basis points spread.

When combined with opportunities to invest and earn returns on a growing rate base, we consider the allowed-ROEs to be more than adequate to grow earnings and dividends at or above the consensus growth rates. Given the over 200-basis point rise in short term rates and over 150-basis point rise in the 10-year U.S. Treasury since its all-time low, we believe allowed-ROEs have bottomed and will likely rise should rates continue to rise.

Interest Rates and the Federal Reserve

Should economic growth accelerate, we would expect inflation concerns and higher 10- and 30-year U.S. Treasury yields, which would pressure utility valuation multiples. While utility stocks are not bond proxies, and share prices are a function of earnings and dividend growth rates, higher rates negatively impact equities because future cash flows are impacted by the assumed discount rate. In addition, current utility dividend returns become less compelling when returns on other investments increase, including U.S. Treasury yields. The factors below mitigate the negative impact of higher interest rates.

- **Annual dividend hikes:** Utilities target annual dividend increases, which serve to mitigate the negative impact of higher rates. In 2018, electric utilities increased the annual dividend by a median of 6.4%.
- **ROE is set based on interest rates:** A utility's cost-of-capital, including equity returns (ROEs), is set by state PUCs and increases (decreases) as interest rates rise (fall). The 10-year U.S. Treasury yield has risen 150 basis points from its bottom, which suggests allowed-ROEs have bottomed and PUCs could consider higher returns.
- **Annual riders minimize inflation risk:** State PUCs and FERC regulatory principles have improved to include more frequent rate adjustments, which mitigate inflation risk.
- **Utility stocks pay higher dividends than other sectors:** The present value of a higher near term dividend stream is less impacted by changes in interest rates than a lower near term dividend stream.

Conclusion

We continue to expect the utility sector to provide a low risk 8%-9% annual total return over the long term, based on the median current return of 3.2% and 5%-6% annual earnings and dividend growth. We believe valuation multiples are supported by strong fundamentals, low interest rates, and ongoing takeover potential. Solid fundamentals include healthy balance sheets, credit ratings, improved regulatory principles, focused strategies, low natural gas prices and opportunities to invest in rate base as well as the potential for takeovers. We believe that the combination of strong utility fundamentals, the Federal Reserve's vigilance, the flattened yield curve, and the potential for escalating geopolitical volatility and/or domestic economic slow-down bode well for the relative performance of utilities.

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 percentages of net assets and their share prices are stated as of December 31, 2018

AES Corp. (2.3% of net assets as of December 31, 2018) (AES – $14.46 – NYSE) is a global power company. Since late 2011, AES has been narrowing its strategic focus, which included the sale of over $3 billion in non-core assets, buying back stock and debt, and paying a dividend. Roughly 90% of earnings are now derived from only eight countries (compared to 30 several years ago) under four reporting segments, including U.S. (U.S., Puerto Rico, and El Salvador); South America (Chile, Colombia, Argentina, and Brazil); MCAC (Mexico, Panama, and Dominican Republic); and Eurasia. The acquisition of sPower enhanced the company's renewable platform by adding 1.3 GWs of solar and wind and a 10.0 GW renewable development pipeline. The company is adding 8.3 GWs of new generation (inlcuding 1,320 MWs of coal in India), investing in battery-based energy storage and targeting adjusted earnings, cash flow and dividend growth of 8%-10% through 2020. AES offers a 4.0% current return on a $0.52 per share annual dividend, which management expects to grow 10% annually. On January 18, 2018, AES announced the addition of activist investor Jeffrey Ubben of ValueAct Capital Management to the Board of Directors. We regard AES as one of the better securities to allow the Fund to gain exposure to utility markets both inside and outside of the U.S.

American Electric Power Co. Inc. (2.7%) (AEP – $74.74 – NYSE) is one of the nation's largest electric utilities. It serves more than 5.4 million retail customers in eleven states (Ohio and Texas are the largest), owns approximately 26 GW of generating capacity, 40,000 miles of transmission lines (the nation's largest), and 223,000 miles of distribution lines. Following non-regulated power plant sales, AEP is focused on the regulated utility business, with plans to invest nearly $33 billion over the 2019-2023 time period in regulated assets, including 75% in transmission and distribution, and contracted renewable power. Management expects 5%-7% annual earnings growth from $3.85 per share (2018 earnings estimate) driven by capital investment and rate recovery, and sustainable cost controls. AEP Transco, a transmission development subsidiary, expects to grow earnings to $1.01-$1.04 per share by 2020 from $0.16 per AEP share in 2013, driven by a $4.5 billion transmission capital investment plan for 2018-2019. AEP currently pays an annual dividend of $2.68 per share, representing a payout ratio of roughly 70% or $3.85 per share.

El Paso Electric Co. (2.1%) (EE – $50.13 – NYSE) is a vertically integrated electric utility serving ~411,000 customers in and around El Paso, Texas and Las Cruces, New Mexico. Roughly 70% of capacity is natural gas and 30% nuclear. We consider El Paso Electric to be a well-managed, low risk, traditional utility investment, with solid earnings growth potential. We expect above average annual customer and sales growth, driven by military base expansion, increased cross border trade, customer additions, as well as an increased use of refrigerated air conditioning. Only 35% of El Paso residences have refrigerated air conditioning, but 99% of new residences install central air conditioning. We expect EE to file a New Mexico rate case sometime in early 2019. In 2020, we expect EE to achieve full earnings power of $2.70 per share, which reflects rate recognition of the new peaking Units 3 and 4 and a stronger cash flow position.

Evergy Inc. (3.5%) (EVRG – $56.77 – NYSE) was formed in June 2018 via the Great Plains Energy and Westar merger of equals. The combined company serves 1.6 million electric customers in Missouri and Kansas, with 13.1 GWs of generation, including 3.1 GWs of wind. The companies expect the transaction to be accretive (to respective stand-alone earnings) in the first year after closing and then generate 6%-8% annual earnings growth, which is higher than stand-alone 4%-6% projections. Management has identified $160 million in annual merger savings by 2022. EVRG has $1.25 billion in cash on its balance sheet, which the combined company plans to use to buy-back 30 million shares per year over the following two years.

Eversource Energy (2.7%) (ES – $65.04 – NYSE) is New England's largest electric and gas distribution utility and delivery system. ES is the product of a 2012 merger between Northeast Utilities, headquartered in Hartford, Connecticut, and NSTAR, headquartered in Boston, Massachusetts, creating a premier New England distribution utility. ES serves 3.6 million customers in Connecticut, New Hampshire, and Massachusetts. The company targets 5%–7% long term earnings growth, driven by transmission investment, cost cutting opportunities, and oil-to-gas heat conversions in the Northeast. In late 2017, ES completed the acquisition of Aquarion Water Company in Connecticut, Massachusetts and New Hampshire for $1.6 billion. The company expects further transmission development as aging nuclear and coal facilities are replaced with renewables, including offshore wind generation.

National Fuel Gas Co. (5.0%) (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.

NextEra Energy Inc. (5.4%) (NEE – $173.82 – NYSE) is the holding company for Florida Power & Light (FP&L), the largest electric utility in Florida, and NextEra Energy Resources, a leading wholesale renewables operator. Florida Power & Light operates one of the premier utility franchises in the nation, with favorable long term demographics and above average rate base growth potential due to power plant rate adjustments, flexible amortization, and other regulatory mechanisms. In late 2016, FP&L implemented a four year rate plan (2017-2020) based on a 10.6% (+/- 100 basis points) allowed-ROE. Additionally, NER owns and operates the nation's largest renewable power portfolio, with a significant pipeline of future growth opportunities, and owns 65% of the NextEra Energy Partners (0.1%), a yieldco focused on renewable development and acquisitions. NEE also owns and is developing gas pipeline projects designed to bring more natural gas into Florida. We regard NEE as one of the better positioned electric companies to grow earnings and dividends over the next several years.

PNM Resources Inc. (3.4%) (PNM – $41.09 – NYSE) of Albuquerque, New Mexico, is the holding company for regulated electric utilities Public Service Company of New Mexico (PSNM) and Texas-New Mexico Power Company (TNMP). PSNM serves 524,000 customers in and around Albuquerque, Rio Rancho, and Santa Fe, and owns 2,600 MWs (15% nuclear) of generation. PSNM expects to be coal-free by 2031. TNMP is a distribution/transmission company and serves 250,000 customers in three non-contiguous areas of Texas. PSNM was recently authorized a two phase rate plan calling for a $32 million revenue increase in 2018 and an additional $30 million in 2019, based on a 9.575% allowed-ROE. Higher rates are necessary to recognize its environmental plan, the addition of Palo Verde 3 at $1,118/kW ($150 million) into rate base, other investments, and declining sales. Importantly, the request was based on a future 2018 test year, rather than the often used historical test year. In May of 2018, TNMP requested a rate increase, with new rates to be effective in early 2019. PNM targets earnings growth of 6% and provides 2018 and 2019 earnings guidance of $1.80-$1.92 per share and $2.04-$2.16 per share, respectively.

Severn Trent plc (0.6%) (SVT – $23.14/£18.16 – London Stock Exchange) is an international provider of water and wastewater services. Severn Trent Water, the U.K.-based utility, provides water to eight million people and wastewater services to nine million people in the Midlands and Mid-Wales. Severn Trent operates under a 2015-2020 five year rate plan that provides inflation adjusted annual rates increases approved by OFWAT, the U.K. water regulator. The plan allows SVT to achieve efficiencies and modestly growing returns. The utility has filed its plan for the 2020-2025 period and expected a final decision in late 2019. As one of the U.K.'s premier water and wastewater providers, Severn Trent is well positioned to provide expertise and infrastructure investment opportunities in less developed regions of the world. Severn Trent Services, the non-regulated water and waste water service division of the company, which focuses on water purification projects and operating plants and systems for municipalities, has a growing presence in Europe, the Middle East, and Asia.

Southwest Gas Holdings Inc. (3.6%) (SWX – $76.50 – NYSE) is a natural gas distribution utility serving 1.9 million customers in geographically diverse portions of Arizona (~1.0 million, or 53%), Nevada (~700,000, or 37%), and California (~185,000, or 10%). SWX serves one of the faster growing service areas with above average long term customer growth potential. SWX also owns Centuri Construction Group, a full service underground piping contractor that provides trenching and installation, replacement, and maintenance services for energy distribution systems. The pipeline construction business is growing strongly, given the industry's focus on safety related pipeline replacement programs. We consider SWX to be a high quality gas utility with a focused, low risk strategy and solid earnings outlook, driven by recent and future rate increases, expanded infrastructure tracking mechanisms, customer growth, and cost controls.

WEC Energy Group Inc. (2.1%) (WEC – $69.26 – NYSE) is based in Milwaukee, Wisconsin. Following Wisconsin Energy Company's mid-2015 acquisition of Integrys Energy Group, the combined company's assets include Wisconsin Electric, the state's largest electric utility, with over 1.1 million electric customers and 1.1 million gas customers in southeastern, east central, and northern Wisconsin, and 400,000 electric customers and 1.7 million gas customers in Illinois, Michigan, Minnesota, and Wisconsin. WEC is a well-managed, high quality, traditional utility operating in a constructive regulatory environment. Management forecasts the combined company growth rate at 5%-7% over the long term. The company recently established a non-regulated infrastructure subsidiary to invest in wind, solar and gas storage projects. Additionally, WEC has a 60% ownership stake in the American Transmission Corp., which provides another investment opportunity as well as financial engineering optionality.

January 16, 2019

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

Nextera Energy Gas Co.	5.4%	Eversource Energy	2.7%
National Fuel Gas Holdings Inc.	5.0%	American Electric Power Co. Inc.	2.7%
Southwest Gas Holdings Inc.	3.6%	AES Corp.	2.3%
Evergy Inc.	3.5%	WEC Energy Group Inc.	2.1%
PNM Resources Inc.	3.4%	El Paso Electric Co.	2.1%

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.

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Multi-Class Shares

The Gabelli Utilities Fund began offering additional classes of Fund shares on December 31, 2002. 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 UTILITIES FUND
One Corporate Center
Rye, NY 10580-1422

Portfolio Management Team Biographies

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.

Timothy M. Winter, CFA, joined Gabelli in April 2009 and covers the utility industry. He has over 25 years of experience as an equity research analyst covering the industry. Currently, he continues to specialize in the utility industry and also serves as a portfolio manager of Gabelli Funds, LLC. Mr. Winter received his BA in Economics in 1991 from Rollins College and MBA in Finance from Notre Dame in 1992.

THE GABELLI UTILITIES FUND
One Corporate Center
Rye, NY 10580-1422

t 800-GABELLI (800-422-3554)
f 914-921-5118
e info@gabelli.com
GABELLI.COM

Net Asset Value per share available daily
by calling 800-GABELLI after 7:00 P.M.

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Shareholder Commentary
December 31, 2018