The Gabelli Utilities Fund

Shareholder Commentary
June 30, 2018

Mario J. Gabelli, CFA
Portfolio Manager

Timothy M. Winter, CFA
Portfolio Manager

To Our Shareholders,

For the quarter ended June 30, 2018, the net asset value ("NAV") per Class AAA Share of The Gabelli Utilities Fund increased 3.9% compared with an increase of 3.7% for the Standard & Poor's ("S&P") 500 Utilities Index (SPU). Other classes of shares are available. See page 2 for performance information for all classes.

Powering Through Federal Reserve Rate Hikes

Through the first six months of 2018, the S&P Utility Index (SPU) returned a modest 0.3%, compared with a 2.7% return for the S&P 500 Index. The period saw considerable volatility, driven by a growing economy, Federal Reserve rate hikes, and a global trade war. Utility stocks continue to be positively impacted by strong fundamentals, including 5%-6% earnings and dividend growth, offset by the potential for a higher U.S. Treasury yield curve. After reaching an all-time high, the SPU fell 16.3% between November 14, 2017 and February 9, 2018, marking its worst decline in over a decade, due to interest rate concerns and historically high valuation multiples. In June, the SPU rose 2.8% and recovered some of the decline (still down 6.3% from its high) as its defensive characteristics appealed to investors in the midst of geopolitical risk and Washington, D.C. politics.

Table 1: Total Return Performance

	2016	2017	YTD 2018	Since All-Time High 11/14/2017	Since Tightening 12/14/2015
S&P 500 Utilities	16.3%	12.1%	0.3%	-6.3%	36.3%
S&P 500 Index	12.0	21.8	2.7	6.7	41.7
10-Year Treasury Yield (Beginning of Period)	2.31	2.45	2.41	2.38	2.16
10-Year Treasury Yield (End of Period)	2.45	2.41	2.85	2.85	2.85

Source: Thomson One

Comparative Results

Average Annual Returns through June 30, 2018 (a)

	Quarter	1 Year	5 Year	10 Year	15 Year	Since Inception (8/31/99)
Class AAA (GABUX)	3.86%	2.74%	6.89%	6.41%	8.23%	7.52%
S&P 500 Utilities Index	3.74	3.41	10.57	6.64	9.98	6.69
S&P 500 Index	3.43	14.37	13.42	10.17	9.30	5.93
Lipper Utility Fund Average	4.84	5.96	8.35	6.25	9.74	6.57
Class A (GAUAX)	3.80	2.59	6.89	6.42	8.23	7.53
With sales charge (b)	(2.17)	(3.31)	5.63	5.79	7.80	7.20
Class C (GAUCX)	3.67	1.80	5.78	5.61	7.42	6.86
With contingent deferred sales charge (c)	2.67	0.80	5.78	5.61	7.42	6.86
Class I (GAUIX)	3.91	2.95	7.16	6.67	8.40	7.67
Class T (GAUTX)	3.87	2.63	6.87	6.40	8.22	11.44
With sales charge (d)	1.27	0.06	6.33	6.13	8.03	7.51

In the current prospectuses dated April 30, 2018, the gross expense ratios for Class AAA, A, C, I, and T Shares are 1.37%, 1.37%, 2.12%, 1.12%, and 1.37%, 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. 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, 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 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.

(d) Performance results include the effect of the maximum 2.50% sales charge at the beginning of the period.

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.

The June 13, 2018 Federal Reserve Funds increase of 0.25% to 1.75%-2.0% marked the seventh increase since December 2015. In addition, the Federal Reserve expects more increases as it continues its long term efforts to keep inflation under control (~2.0%) as economic growth accelerates and the labor market tightens. During the 200 basis point tightening period, the SPU returned 36.3%, the S&P 500 returned 41.7%, and the long end of the yield curve flattened. Since the first rate hike, the 2-year U.S. Treasury yield rose 116 basis points to 2.53% from 1.37%, the 10-year yield rose a modest 54 basis points to 2.85% from 2.31%, and the 30-year U.S. Treasury yield rose only 13 basis points to 3.02% from 2.89%. We continue to emphasize that while utility stocks are sensitive to interest rates, they are by no means bond proxies. Earnings and dividend growth rates primarily determine long term total returns and mitigate the negative impact of higher interest rates.

Fundamental Outlook: Super Investment Cycle Continues

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 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.

Strong earnings growth is premised on investment opportunity, constructive regulatory environments, and satisfied customers. The utility sector is undergoing a multi-year "super" investment cycle, and capital investment is likely to remain at high levels for some time as the sector transforms its power generation fleet, modernizes and electrifies the power grid, and the replaces/expands its natural gas and water pipes. The high capital investment translates into earnings growth as regulators allow fair returns on investment. Customers are generally satisfied, given that low natural gas prices, more efficient generation, and tax reform have combined to minimize electric rate increases. Further, the sector continues to consolidate where smaller and mid-size utilities are bought by larger utilities. Finally, the 6.35% correction since mid-November leaves utility stocks trading at more reasonable valuation multiples.

2018 Performance Snapshot

While the SPU was flat year-to-date, some utility/power stocks have experienced more dramatic moves. The top performers in the Fund included AES Corp (2.0% of net assets as of June 30, 2018), which returned 27%, FirstEnergy (0.7%) (20%) Vectren (1.5%) (11%), Connecticut Water (less than 0.1%), Unitil Corp. (0.1%) and NRG Energy (0.2%).

Table 2: Top Performers Year-to-Date

	Symbol	6/29/2018 Closing Price	Percent Return YTD	P/E 2018	12 Months High	12 Months Low
AES Corp (2.0%)*	**AES**	13.41	26.7	11.2	13.56	9.86
First Energy (0.7%)	**FE**	35.91	19.9	18.1	36.71	28.83
Connecticut Water Svc. Gp. (less than 0.1%)	**CTWS**	65.32	15.0	28.4	69.72	48.86
Vectren (1.5%)	**VVC**	71.45	11.4	24.8	71.55	57.48
Unitil (0.1%)	**UTL**	51.04	13.7	23.9	52.84	40.92
NRG Energy (0.2%)	**NRG**	30.70	8.0	9.5	35.17	15.95

**Of net assets as of June 30, 2018*

Source: Thomson One

The stronger performers have either been involved or are likely to be involved in a merger or restructuring. Vectren Corp. and Connecticut Water each agreed to be bought, while Unitil remains a takeover candidate. First Energy and NRG Energy experienced investments from activist investors (Elliott Management and Bluescape Resources) with intentions of influencing performance, as did AES Corp with Value Act. In 2017, NRG rose 152% following an Elliott/Bluescape investment and restructuring. Elliott and Bluescape target undervalued and more complex utilities with the intent to re-focus and simplify, while Value Act is promoting an environmental influence. 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.

Regulated utilities offer investors a simple “success formula” (investment + rate recognition = earnings growth), which attracts buyers, including larger U.S. utilities, global utilities, value oriented investors, activist investors, and private entities. Since 1995, there have been over 140 utility acquisitions, often completed at premium prices. 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.

For value oriented investors, a handful of utilities currently trade at significant discounts to the sector, including Edison International (1.9%) (EIX-63.27, down 12%), PG&E (0.3%) (PCG-42.56, down 40.3%), SCANA Corp (0.9%) (SCG-38.52, down 44%), and independent power company Ormat (0.2%) (ORA-$53.19, down 24%).

Table 3: Depressed Utility Stocks

	Symbol	Closing Price	Decline from 12 Month High	P/E 2018	12 Months High	12 Months Low
Edison International (1.9%)*	**EIX**	63.27	-23.8	15.5	83.38	57.63
PG&E Corp. (0.3%)	**PCG**	42.56	-40.3	11.2	71.57	37.3
SCAN A Corp. (0.9%)	**SCG**	38.52	-43.7	11.7	68.35	33.61
Ormat (0.2%)	**ORA**	53.19	-24.0	28.6	70.68	50.43

**Of net assets as of June 30, 2018* *Source: Thomson One*

EIX and PCG declined significantly on potential liabilities associated with California wildfires in October and November, while ORA’s decline is primarily related to an active Hawaii volcano covering its geothermal plant on the big island. SCANA’s discount relates to political fallout and potential lack of investment recovery following its decision to abandon the VC Summer Nuclear expansion after investing $4.9 billion ($9.0 billion total) in the project. On January 3, 2018, SCG agreed to be purchased by Dominion Energy (D) (0.5%) for 0.6690 D shares, or $45 per share.

Merger and Acquisition Activity Update

Merger activity slowed somewhat recently, which is not all that surprising considering there were 28 deals announced in the 2014-2017 time frame, with 23 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.

In the first half of 2018, the utility sector saw three electric utility deals announced (SCG/Dominion, VVC/CenterPoint, and Gulf Power/NextEra Energy, and four deals closed (Oncor/Sempra, Calpine/Energy Capital, Dynegy/Vistra Energy, and Great Plains/Westar). A fifth deal (AltaGas/WGL) closed on July 6, 2018, and another five deals are pending approvals (see below).

Consolidation activity is outlined below:

Date	Buyer	Target Entity	Enterprise Value	Premium*
5/21/2018	NextEra Energy (5.0%)**	Gulf Power	$5.8 billion	NA
4/23/2018	CenterPoint Energy (0.1%)	Vectren (1.5%)	$8.1 billion	17%
2/15/2018	SJW Corp (0.5%)	Connecticut Water Svc (less than 0.1%)	$750 million	18%
1/3/2018	Dominion Energy (0.5%)	SCANA (0.9%)	$14.6 billion	31%
7/19/2017	Hydro One	Avista (0.7%)	$5.3 billion	24%

Deals Closed in 2016/2017/2018

Date	Buyer	Target Entity	Enterprise Value	Premium*
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	Empire District Electric	$2.4 billion	21%
10/14/16	Fortis (0.3%)	ITC Holdings	$11.3 billion	14%
10/3/16	Duke Energy (1.1%)	Piedmont Natural Gas	$6.7 billion	42%
9/16/16	Dominion Res. (0.5%)	Questar Corp.	$6.0 billion	22%
9/12/16	Spire (0.4)	Energy South	$344 million	Private
7/1/16	Emera	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 (0.7%)	Pepco Hldgs.	$11.9 billion	20%
2/12/16	Black Hills (1.4%)	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 June 30, 2018.

The water utility sector has consolidated into only ten publicly traded companies, and recent activity highlights the value of the remaining water utility franchises. On March 15, 2018, SJW agreed to buy Connecticut Water Service (CTWS-65.32-NYSE) for 1.1375 SJW shares or $73.20 per share. On April 19, 2018, Eversource Energy (2.3%) (ES-58.61-NYSE) announced an unsolicited proposal to acquire CTWS for $63.50 per share in cash and/or in ES common shares. On June 7, 2018, CWT commenced a tender offer to acquire all outstanding shares of SJW ($66.22) for $68.25 per share in cash. It is unclear how all of this will unfold.

The forces driving consolidation remain in place, and include stagnant demand growth, economies of scale, and efficiency. Since 1995, the electric utility sector has experienced over 145 acquisition announcements, among Edison Electric Institute (EEI) member utilities, and roughly 120 completed deals. Consolidation activity peaked from 1996-2000, when it appeared that the industry would deregulate. The electric and gas utility sector remains fragmented, with over fifty electric utilities and twenty gas utilities.

How Long Can Utilities Grow EPS at 4%-6%?

In 2017, electric utilities grew EPS and dividends at 6.1% and 5.9%, respectively, which is higher than historical averages of roughly 3%-4%. According to Thomson One, consensus 2017-2020 estimates call for 5.5% EPS CAGR, which is at the high end of the recent 4%-6% CAGR and driven by ongoing infrastructure investment, or rate base growth. The successful formula driving the strong earnings outlook remains: Investment Opportunities + Constructive Regulation = Earnings Growth.

EEI member utilities invested a record $113.6 billion in 2017, which will mark the seventh consecutive year of record investment. According to Regulatory Research Associates (RRA), 2018 capital expenditures are forecast to be $131.1 billion. The investment opportunity serves as the basis for earnings growth for the foreseeable future. Higher capital investment related to:

- 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, is experiencing an accelerated transformation as carbon intensive coal power generation is replaced with cleaner burning natural gas and renewables. 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 2017, 36% (up from 33% in 2016) of U.S. generation came from zero carbon emitting nuclear (20% of nuclear), hydro (7%), and renewables (9%), 32% from natural gas, and 31% was derived 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

GW's of capacity was added, including 12 GW's of gas, 7.3 GW's of wind, 6.0 and GW's of solar. In December 2016, Rhode Island became home to the first U.S. offshore wind farm, a 30-MW project 4 miles off of Block Island.

Over 2018-2020, EEI forecasts 248 GW's of new generation, including 91 GW's of gas, 85 GW's of wind, and 48.5 GW's of solar to the existing 1,200 GW's of U.S. capacity. Over the same period, EEI expects 49 GW's of capacity to retire, including 21.5 GW's of coal, 22.8 GW's of gas, and 5.8 GW's of nuclear. Some forecasts show $700 billion, or $30 billion per year, of investment in renewable generation, resulting in 40% of total generation by 2040.

Currently, 29 states have renewable portfolio standards (RPS), including 80% in California and Hawaii requiring 100% by 2045, with many pushing for ever more aggressive standards. Several coastal states recently conducted major offshore wind RFP's, including Massachusetts (1,600 MW's by 2027), Connecticut (200-MW's), and Rhode Island (400-MW's). Avangrid (0.5% of net assets as of June 30, 2018) won round one of the Massachusetts bid with 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 plan 2,400 MW's and 3,500 MW's, respectively, 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. The California Public Utilities Commission (CPUC) requested that the state's utilities procure 1.3 GW's electric storage capacity by 2020, and the utilities have requested approval of several large scale storage projects.

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 about 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. 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 2017, electric utilities invested nearly $30 billion in distribution system improvement and replacement, including storm hardening, grid technology, and advanced meters. Utility management's expect investment to continue to grow, given the need to modernize and adapt to the potential for the electric vehicle (EV).

Electric demand growth has been relatively flat for several years, due primarily to conservation and efficiency efforts. However, an increased push for EVs could create new demand for electricity, which will require a modernized electric grid. 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.

In January 2017, Pacific Gas & Electric, Sempra Energy, and Edison International proposed investing more than $1 billion on transportation electrification projects. Pacific Gas & Electric currently operates the largest utility-sponsored EV charging program in the country, with a budget of $130 million to build 7,500 Level 2 chargers. Pacific Gas & Elect initially proposed a $654 million charging program in February 2015, but the CPUC rejected the plan. In June of 2018, Edison International requested CPUC approval to invest $760 million to install 48,000 additional electric charging ports over four years. 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 the utility said provides downward pressure on costs and eventually on rates.

Separately, natural gas distribution pipeline replacement is accelerating, in light of recent explosions and new standards. Given that many states are moving to frequent rate adjustments to replace pipe, it becomes a great source of consistent earnings growth.

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 EPS growth.

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

In the first quarter of 2018, electric and gas utilities were authorized average ROEs of 9.75% and 9.68%, 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 700-basis points and it has ranged between 700-850 basis points over the past few years. During the 1990's, 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 200-basis point rise in short term rates and over 100-basis point rise in the 10-year U.S. Treasury since its all-time low, we believe allowed ROE's have bottomed and will likely rise should rates continue to rise.

Tax Reform Positive for the Utility Industry:

We view U.S. tax reform as a modest positive for utilities. The corporate tax rate of 21%, down from 35%, does not directly help utility earnings as the benefits are being passed through to customers via lower rates. Lower rates are a positive because they create "headroom" for future rate increases to recognize investment and grow earnings. The reform included a "carve out" for regulated utilities to continue to deduct interest expense, as well as state and local taxes. In addition, utilities are not required to expense 100% of capital investments like other sectors, and thus can continue to grow rate base. On the negative side, the deductibility of holding company interest expense is subject to the 30% of EBITDA parameter, and cash flow was negatively impacted by the lower contribution from deferred taxes and depreciation. The lower tax rate will help the non-regulated businesses of some utility companies, including Avangrid (0.5% of net assets as of June 30, 2018), NextEra Energy (5.0%), Southwest Gas Holdings (3.4%) , Vectren Corp. (1.5%), Hawaiian Electric Industries (1.5%) and Otter Tail Corp. (1.6%).

Interest Rates and the Federal Reserve

We expect the Federal Reserve to continue its vigilant fight against inflation, which puts downward pressure on the mid-to-long end of the yield curve. However, should economic growth accelerate, we 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, given that 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 2017, electric utilities increased the annual dividend by a median of 5.9%.

- **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 100-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.

While utility dividend yields and 10-year U.S. Treasury yields are highly correlated, and will likely remain so in the future, utility dividends have risen over time (most on annual basis) while the Treasury yield remains fixed. Utility stock prices, unlike Treasury bond prices, are likely to rise should earnings and dividends grow over time.

Utility Valuations Reasonable Relative to Interest Rates Valuation Multiples

At June 30, 2018, electric utilities trade at 18.9x and 17.9x 2018 and 2019 earnings estimates, and the 10- and 30-year U.S. Treasuries yield 2.85% and 3.02%, compared to year end 2017 levels of 2.41% and 2.74%, respectively. From the March 2009 market bottom to November 2017, electric utility multiples climbed from roughly 10x forward earnings to over 20x, driven by improving fundamentals and lower interest rates. Adjusted for interest rates, the P/E multiples appear reasonable, considering the strong fundamental outlook, which includes stronger than historical growth rate (5%-6% over the next several years vs. 3%-4% in the 1990's) and lower risk profiles.

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 3.3% and 5%-6% annual earnings and dividend growth. Solid fundamentals include healthy balance sheets, credit ratings, improved regulatory principles, focused strategies, low natural gas prices, and opportunities to invest in rate base. We believe valuation multiples are supported by strong fundamentals, low interest rates and ongoing takeover potential.

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 June 30, 2018.

American Electric Power Co. Inc. (2.3% of net assets as of June 30, 2018) (AEP – $69.25 – 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 recent non-regulated power plant sales,

AEP is focused on the regulated utility business with plans to invest nearly $18 billion over the 2018-2020 time period in regulated assets, including 72% to transmission and distribution. Management expects 5%-7% annual earnings growth from $3.68 per share earned in 2017, 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 $2.48 per share representing a payout ratio of roughly 68% (using $3.65 per share, midpoint of the 2018 earning guidance of $3.55-$3.75 per share), right at the targeted payout ratio of 60%-70%.

El Paso Electric Co. (2.3%) (EE – $59.10 – 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. On December 14, 2017, the Public Utility Commission of Texas (PUCT) approved EE's settlement with the City of El Paso (and others) calling for a $14.5 million revenue increase based on a 9.65% ROE, retroactive to July 18, 2017. We expect EE to file a New Mexico rate case sometime in the second half of 2018 or early 2019. In 2020, we expect EE to achieve full earnings power of $2.80 per share reflects rate recognition of the new peaking Units 3 and 4 and a stronger cash flow position.

Eversource Energy (2.3%) (ES – $58.61 – 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. (4.9%) (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.

NextEra Energy Inc. (5.0%) (NEE – $167.03 – 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, NEE 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 (less than 0.1%), a yield focused on renewable development and acquisitions. NEE is also developing several 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 (3.0%) (PNM – $38.90 – NYSE) (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. 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 (0.4%) (SVT LN – $22.22/£19.80 – London Stock Exchange) is an international provider of water and wastewater services. Severn Trent Water, the U.K.-based utility, provides water to 8 million people and wastewater services to 9 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. Additionally, 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 Corp. (3.4%) (SWX – $76.27 – 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 and has broken the $1 billion revenue milestone. 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. (1.9%) (WEC – $64.65 – 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. 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.

July 27, 2018

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

NextEra Energy	5.0%	El Paso Electric Co.	2.3%
National Fuel Gas Co.	4.9%	American Electric Power Co. Inc.	2.3%
Evergy Inc.	3.7%	Eversource Energy	2.3%
Southwest Gas Holdings Inc.	3.4%	AES Corp.	2.0%
PNM Resources Inc.	3.0%	Edison International	1.9%

Note: The views expressed in this Shareholder Commentary reflect those of the Portfolio Managers only through the end of the period stated in this Shareholder Commentary. The Portfolio Managers' views are subject to change at any time based on market and other conditions. The information in this Portfolio Managers' Shareholder Commentary represents the opinions of the individual Portfolio Managers and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Views expressed are those of the Portfolio Managers and may differ from those of other portfolio managers or of the Firm as a whole. This Shareholder Commentary does not constitute an offer of any transaction in any securities. Any recommendation contained herein may not be suitable for all investors. Information contained in this Shareholder Commentary has been obtained from sources we believe to be reliable, but cannot be guaranteed.

Minimum Initial Investment – $1,000

The Fund's minimum initial investment for regular accounts is $1,000. There are no subsequent investment minimums. No initial minimum is required for those establishing an Automatic Investment Plan. Additionally, the Fund and other Gabelli/GAMCO Funds are available through the no-transaction fee programs at many major brokerage firms. The Fund imposes a 2% redemption fee on shares sold or exchanged within seven days after the date of purchase. See the prospectuses for more details.

www.gabelli.com

Please visit us on the Internet. Our homepage at www.gabelli.com contains information about GAMCO Investors, Inc., the Gabelli/GAMCO Mutual Funds, IRAs, 401(k)s, current and historical quarterly reports, closing prices, and other current news. We welcome your comments and questions via e-mail at info@gabelli.com.

The Fund's daily NAVs are available in the financial press and each evening after 7:00 PM (Eastern Time) by calling 800-GABELLI (800-422-3554). Please call us during the business day, between 8:00 AM – 7:00 PM (Eastern Time), for further information.

You may sign up for our e-mail alerts at www.gabelli.com and receive early notice of quarterly report availability, news events, media sightings, and mutual fund prices and performance.

e-delivery

We are pleased to offer electronic delivery of Gabelli fund documents. Direct shareholders of our mutual funds can elect to receive their Annual and Semiannual Reports, Manager Commentaries, and 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

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, 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.

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.

BOARD OF TRUSTEES

Mario J. Gabelli, CFA
Chairman and
Chief Executive Officer,
GAMCO Investors, Inc.
Executive Chairman,
Associated Capital Group Inc.

Anthony J. Colavita
President,
Anthony J. Colavita, P.C.

Vincent D. Enright
Former Senior Vice President
and Chief Financial Officer,
KeySpan Corp.

Mary E. Hauck
Former Senior Portfolio Manager,
Gabelli-O'Connor Fixed Income
Mutual Fund Management Co.

Kuni Nakamura
President,
Advanced Polymer, Inc.

Werner J. Roeder
Former Medical Director,
Lawrence Hospital

OFFICERS

Bruce N. Alpert
President

John C. Ball
Treasurer

Agnes Mullady
Vice President

Andrea R. Mango
Secretary

Richard J. Walz
Chief Compliance Officer

DISTRIBUTOR

G.distributors, LLC

CUSTODIAN

State Street Bank and Trust Company

TRANSFER AGENT AND
DIVIDEND DISBURSING AGENT

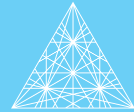
DST Asset Manager Solutions, Inc.

LEGAL COUNSEL

Skadden, Arps, Slate, Meagher &
Flom LLP

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

GAB470Q218SC



THE GABELLI UTILITIES FUND

Shareholder Commentary
June 30, 2018