

The Gabelli Focus Five Fund

Shareholder Commentary September 30, 2018

To Our Shareholders,

The Gabelli Focus Five Fund Class I Shares (GWSIX) returned 0.42% in the quarter ended September 30, 2018. Other classes of shares are available. See page 5 for performance information for all classes.

This period marked the end of the Fund's fiscal year, providing an opportunity to prune a handful of positions with a focus on minimizing the taxable distribution to be made in November, estimated to be less than 1%.

Despite a variety of economic and geopolitical headwinds, the majority of our portfolio holdings reported strong fundamental improvements in their businesses during the third calendar quarter, with largely compelling outlooks for the next 12 months.

Coming into October, the Fund had 32 investments and a cash position of 2.1%. The top 10 positions represented approximately 51% of total assets. The "Focus Five" comprised almost 32% of Fund assets, and have a simple average upside of 54% to our 2019 Private Market Value estimates.

The most recent addition to the portfolio is PetIQ (PETQ), a manufacturer and distributor of veterinarian-grade pet prescription medications, over-the-counter flea and tick preventatives, and other wellness related products for cats and dogs.

The U.S. pet market will be approximately \$70 billion in 2018, up over 69% in the past decade. More than two-thirds of U.S. households have at least one pet (there are 89 million dogs and 94 million cats), eclipsing the number of homes with individuals under the age of 25. The demand for pet products and services continues to surge as "pet parents," including an increasing number of millennials, adopt natural diets and explore a variety of innovation treatments and services.

In January of 2018, PETQ announced a deal to acquire VIP Petcare, a leading operator of veterinary clinics located within major U.S. retailers, for \$220 million in cash, stock and contingent payments. VIP provides a comprehensive suite of services at approximately 2,900 community clinics and wellness centers across 31 states, including diagnostic tests, vaccinations, and microchipping. The company treated more than 1 million pets in 2017.

The transaction provided PetIQ with several strategic and financial benefits, including the ability to provide the company's retail partners with complementary products and services. In March of this year, the company announced that it would open 20 new veterinary service clinics inside Walmart stores, with plans to open 100 locations by the end of 2019, and almost 1,000 by the end of 2022.

This growth will help drive net sales to more than \$1 billion in 2023 from \$500 million today, with EBITDA margins of approximately 15%. The stock could be valued at \$40-\$45 per share in 2019 based on a modest 2x multiple on revenues, or 17x EBITDA.

Upside to our estimates would come from potential new legislation, the recently introduced “Fairness to Pet Owners Act,” which would make it easier for prescription medications to be purchased directly from retailers.

Third Quarter Contributors

Contributors to performance during the third quarter included BioScrip (10.0% of net assets as of September 30, 2018) (0.65% contribution), K2M Group (3.4%) (0.63%), PetIQ (1.5%) (0.53%) and Post Holdings (2.9%) (0.45%).

BioScrip continues to execute on a multi-year strategic and operational turnaround, having now produced three consecutive record quarterly performances under its new management team. EBITDA in 2018 should be approximately \$55 million, increasing to \$75-\$80 million in 2019, and north of \$100 million in 2020. Industry consolidation is likely to benefit the company long-term, and contribute to top line growth as a result. At 14x 2019 EBITDA, we believe the company would be worth almost \$6 per share if it were to be acquired, nearly double the current market price.

K2M Group Holdings, a global leader of complex spine and minimally invasive solutions, agreed to be acquired by Stryker in an all-cash deal for \$27.50 per share. K2M is the seventh largest company in the \$9 billion global market for spine, and had been growing revenues at almost 20% CAGR the prior decade. Our 2019 Private Market Value estimate is \$27 based on a 4x sales multiple. The Fund had an average cost of \$17.88 per share.

Post Holdings continues to be one of the best run companies in the consumer packaged foods industry. Post has executed on numerous acquisitions over the last several years, broadening verticals and building scale, while demonstrating an astute ability to manage capital allocation. The company recently confirmed its intent to monetize a portion of its Active Nutrition business via initial public offering. We have owned Post in the Focus Five Fund for several years, have an average cost of approximately \$33, and believe shares are worth about \$115.

We commented on Pandora Media (1.9%) last quarter, and since then, the company has reached a deal to be acquired by Sirius XM Holdings in a stock transaction.

Third Quarter Detractors

Detractors to performance during the quarter included Diebold (1.9% of net assets as of September 30, 2018) (-1.75%), Delphi Technologies (3.4%) (-1.18%) and Lennar (5.1%) (-0.71%).

Despite its decline from \$30 per share level a year ago, Diebold has continued to struggle with its turnaround, with continued pressure to reduce expenses and improve operating cash flow. The company has been forced to buy out the minority shareholders from the Nixdorf acquisition, putting further pressure on liquidity. We completed the sale of our position in October.

The U.S. equity markets continue to reach record highs despite a difficult macro environment (trade, interest rates, etc.), as share prices appear relatively fairly valued based on historical standards. Yet, we believe the Focus Five portfolio trades at a meaningful discount to Private Market Values, with potential near term catalysts.

November 27, 2018

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

Bioscrip Inc.	10.0%	Mondelez International Inc.	4.0%
MGM Resorts International	6.9%	Aptiv plc.	3.9%
Liberty Media Corp.	5.4%	Patterson-UTI Energy Inc	3.7%
Lennar Corp.	5.1%	Hain Celestial Group Inc.	3.7%
Maple Leaf Foods Inc.	4.5%	Mueller Water Products Inc.	3.6%

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

Minimum Initial Investment – \$1,000

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

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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 NAV is 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 Focus Five Fund 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 solely to certain institutions, directly through the Fund's distributor or brokers that have entered into selling agreements specifically with respect to Class I Shares. The Board of Directors determined that expanding the types of Fund shares available through various distribution options will enhance the ability of the Fund to attract additional investors.

Comparative Results

Average Annual Returns through September 30, 2017 (a)(b)

	Quarter	1 Year	3 Year	5 Year	Since 1/1/12)(c)	10 Year	Since Inception (12/31/02)
Class I (GWSIX)	0.42%	(4.50)%	5.74%	2.73%	8.28%	6.69%	7.43%
Class AAA (GWSVX)	0.29	(4.78)	5.46	2.47	8.00	6.41	7.24
Russell 2500 Index	4.70	16.19	16.13	11.37	14.82(d)	12.02	11.86
Russell 1000 Index	7.42	17.76	17.07	13.67	10.37	12.09	15.65
MSCI AC World Index Ex-U.S.	0.80	2.25	10.49	4.60	8.59	5.67	7.45
Blended Index	4.40	12.91	14.91	10.19	10.66	10.42	13.12
Class A (GWSAX)	0.29	(4.80)	5.46	2.46	8.00	6.42	7.26
With sales charge (e)	(5.48)	(10.27)	3.39	1.25	7.06	5.77	6.85
Class C (GWSCX)	0.08	(5.48)	4.67	1.70	7.20	5.63	6.48
With contingent deferred sales charge (f) ..	(0.92)	(6.43)	4.67	1.70	7.20	5.63	6.48

In the current prospectuses dated January 26, 2018, the expense ratios for Class AAA, A, C, and I Shares are 1.43%, 1.43%, 2.18%, and 1.18%, respectively. Class AAA and Class I Shares have no 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. The Fund imposes a 2% redemption fee on shares sold or exchanged within seven days of purchase. Performance returns for periods of less than one year are not annualized. Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectuses contain information about these and other matters and should be read carefully before investing. To obtain a prospectus, please visit our website at www.gabelli.com. The Class AAA Share NAVs are used to calculate performance for the periods prior to the issuance of Class I Shares on January 11, 2008. The actual performance of Class I Shares would have been higher due to lower expenses associated with this class of shares. The Russell 2500 Index is a market capitalization weighted index of 2,500 U.S. traded small and mid capitalization stocks. The Russell 1000 Index is a market capitalization weighted index of 1,000 U.S. traded large capitalization stocks. The Morgan Stanley Capital International All Country World Index excluding the U.S. (MSCI ACWI Ex-U.S.) is a market capitalization weighted index of small, mid, and large capitalization stocks across developed and emerging markets, excluding U.S. stocks. The Blended Index consists of 50% Russell 2500 Index, 25% Russell 1000 Index, and 25% MSCI ACWI Ex-U.S. Index. Dividends are considered reinvested. You cannot invest directly in an index.
- (b) The Fund's fiscal year ends September 30.
- (c) On January 1, 2012, the Fund began operating under its current name.
- (d) Russell 2500 Index performance is as of December 31, 2011.
- (e) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.
- (f) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.

Gabelli/GAMCO Funds and Your Personal Privacy

Who are we?

The Gabelli/GAMCO Funds are investment companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. We are managed by Gabelli Funds, LLC, which is affiliated with GAMCO Investors, Inc. GAMCO Investors, Inc. is a publicly held company that has subsidiaries and affiliates that provide investment advisory services for a variety of clients.

What kind of non-public information do we collect about you if you become a fund shareholder?

If you apply to open an account directly with us, you will be giving us some non-public information about yourself. The non-public information we collect about you is:

- *Information you give us on your application form.* This could include your name, address, telephone number, social security number, bank account number, and other information.
- *Information about your transactions with us, any transactions with our affiliates, and transactions with the entities we hire to provide services to you.* This would include information about the shares that you buy or redeem. If we hire someone else to provide services—like a transfer agent—we will also have information about the transactions that you conduct through them.

What information do we disclose and to whom do we disclose it?

We do not disclose any non-public personal information about our customers or former customers to anyone other than our affiliates, our service providers who need to know such information, and as otherwise permitted by law. If you want to find out what the law permits, you can read the privacy rules adopted by the Securities and Exchange Commission. They are in volume 17 of the Code of Federal Regulations, Part 248. The Commission often posts information about its regulations on its website, www.sec.gov.

What do we do to protect your personal information?

We restrict access to non-public personal information about you to the people who need to know that information in order to provide services to you or the fund and to ensure that we are complying with the laws governing the securities business. We maintain physical, electronic, and procedural safeguards to keep your personal information confidential.

THE GABELLI FOCUS FIVE FUND
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Portfolio Manager Biography

Daniel M. Miller has been the portfolio manager of The Gabelli Focus Five Fund since the inception of the investment strategy on January 1, 2012. He is also a Managing Director of GAMCO Investors, Inc. Mr. Miller joined the firm in 2002 after graduating magna cum laude with a degree in finance from the University of Miami in Coral Gables, Florida.

Gabelli Equity Series Funds, Inc.
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preceded or accompanied by an effective prospectus.



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THE GABELLI FOCUS FIVE FUND

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