

The Gabelli Equity Income Fund

Shareholder Commentary December 31, 2016



Mario J. Gabelli, CFA
Portfolio Manager

To Our Shareholders,

For the quarter ended December 31, 2016, the net asset value (“NAV”) per Class AAA Share of The Gabelli Equity Income Fund increased 3.1% compared with an increase of 3.8% for the Standard & Poor’s (“S&P”) 500 Index. See page 2 for additional performance information.

During the fourth quarter of 2016, the U.S. election dominated the national conscience to such an extent that it even impacted football ratings and retail spending. A conclusion to this quadrennial process (some might say ordeal) and greater political certainty would most likely have sparked a market rally no matter who was elected, but the 5% rise in the S&P 500 since November 8 has the potential to rank as the largest market post-election move for a new president since the 1961 inauguration of JFK. The so-called Trump rally has been fueled by the potential for increased fiscal stimulus, lower corporate and individual taxes, and deregulation. Taken together, these elements could drive U.S. GDP growth well above 2%, deferring the inevitable end to the current 90 month old expansion.

Corporate tax reform has been on the Washington agenda for many years, but with the Executive and Legislative branches in the hands of one party, it could finally become a reality. With many details to be reconciled, a reduction in corporate tax rates from 35% to 25% or even lower, combined with a change to the current global system that taxes profits wherever they are earned, should lead to higher earnings. Similarly, a reduction in individual tax brackets and rates has the potential to stoke consumption and increase the incentive for work. Both of these reforms will have to be accompanied by offsetting limits to deductions, including the potential elimination of the deductibility of corporate interest expense, which could have broad consequences and somewhat limit the impact of lower rates. Increased fiscal stimulus, in the form of increased infrastructure and defense spending, should also boost GDP growth, but it may be limited by Republican concerns about the size of the deficit and the practical scarcity of shovel-ready projects. Finally, a rollback in the regulatory creep

Monthly Distributions – \$0.10 per share

The Gabelli Equity Income Fund has a \$0.10 per share monthly distribution policy in place. For more specific dividend and tax information, please visit our website at www.gabelli.com or call 800-GABELLI (800-422-3554). **Shareholders should be aware that a portion of the distribution may represent a non-taxable return of capital.** Such distributions will reduce the cost basis of your shares if you hold them in a taxable account. The distributions should not be confused with the yield or total return of the Fund.

Comparative Results

Average Annual Returns through December 31, 2016 (a) (b) (Unaudited)

	Quarter	1 Year	5 Year	10 Year	15 Year	Since Inception (1/2/92)
Class AAA (GABEX)	3.13%	10.21%	10.62%	6.07%	7.74%	9.87%
S&P 500 Index	3.82	11.96	14.66	6.95	6.69	9.15(e)
Nasdaq Composite Index	1.69	8.92	17.16	9.58	8.13	9.27(e)
Lipper Equity Income Fund Average	5.03	14.34	12.44	5.66	6.52	8.37
Class A (GCAEX)	3.15	10.21	10.62	6.08	7.73	9.87
With sales charge (c)	(2.79)	3.87	9.32	5.45	7.31	9.61
Class C (GCCEX)	2.92	9.39	9.79	5.28	7.05	9.45
With contingent deferred sales charge (d)	1.92	8.39	9.79	5.28	7.05	9.45
Class I (GCIEX)	3.20	10.51	10.90	6.32	7.90	9.97

In the current prospectuses dated January 28, 2016, the 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. The Fund imposes a 2% redemption fee on shares sold or exchanged within seven days of purchase. Performance returns for periods of less than one year are not annualized. Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectuses contain information about these and other matters and should be read carefully before investing. To obtain a prospectus, please visit our website at www.gabelli.com. The Class AAA Share NAVs are used to calculate performance for the periods prior to the issuance of Class A Shares and Class C Shares on December 31, 2003 and Class I Shares on January 11, 2008. The actual performance of the Class A Shares and Class C Shares would have been lower due to the additional fees and expenses associated with these classes of shares. The actual performance of the Class I Shares would have been higher due to lower expenses related to this class of shares. The S&P 500 Index is a market capitalization weighted index of 500 large capitalization stocks commonly used to represent the U.S. equity market. The Nasdaq Composite Index is an unmanaged indicator of stock market performance. The Lipper Equity Income Fund Average includes the 30 largest equity funds in this category tracked by Lipper, Inc. Dividends are considered reinvested, except for the Nasdaq Composite Index. You cannot invest directly in an index.
- (b) The Fund's fiscal year ends September 30.
- (c) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.
- (d) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.
- (e) S&P 500 Index and Nasdaq Composite Index since inception performance are as of December 31, 1991.

We have separated the portfolio manager's commentary from the financial statements and investment portfolio due to corporate governance regulations stipulated by the Sarbanes-Oxley Act of 2002. We have done this to ensure that the content of the portfolio manager's commentary is unrestricted. Both the commentary and the financial statements, including the portfolio of investments, are available on our website at www.gabelli.com.

Barron's 2017 Roundtable

Mario J. Gabelli, our Chief Investment Officer, has appeared in the prestigious Barron's Roundtable discussion annually since 1980. Many of our readers enjoyed the inclusion of selected and edited comments from Barron's Roundtable in previous reports to shareholders. As is our custom, we are including selected comments of Mario Gabelli from Barron's 2017 Roundtable Part 1 and Part 2, published on January 16 and January 23, 2017, respectively.

Market Week Pullout

Stocks Slide Slightly on Week as Trump Takes Office Page M3

BARRON'S

The Dow Jones Business and Financial Weekly Vol. XCVII No. 4

barrons.com

Google Looks
Good: Time To
Buy Alphabet
Page 13

January 23, 2017

\$5.00

UP & DOWN WALL ST. • 5
**Trump will make
the world grate**

STREETWISE • 9
**Market says: Show
me the tax cut**

WINNERS IN CHIPS • 17
**Applied Materials,
ASML to prosper**

FUND PROFILE • 18
**Jensen likes Nike,
Ecolab, Becton**

TECH SAGA • 25
**20% upside in
Yahoo! wind-down**

THE RATE STUFF • M8
**11 REIT plays for
income investors**

LATEST MARVEL • 22
**Vacheron unveils
\$1 million watch**

ROUNDTABLE

PART 2

Our experts see values in housing, health care, auto parts, and infrastructure plays. Where to find 6% yields in a 2% world. A sunny outlook for India and Japan.



OUR
PANELISTS
from left:
Jeffrey Gundlach,
Meryl Witmer,
Scott Black,
Mario Gabelli

22 SMART
PICKS

Mario Gabelli, head of Gabelli Funds and its parent firm, is a Wall Street legend for good reason. He's a shrewd thematic investor with a love of deals, an eye for steals, and an encyclopedic knowledge of multiple businesses and the people who built them.

Speaking of opportunities, how about sharing your ideas, Mario?

Gabelli: To echo my comments this morning, in electing Donald Trump, the U.S. is moving away from creeping socialism toward the reinvigoration of capitalism. We are seeing a wave of confidence in America, which will spark a wave of innovation. Individual tax rates could fall from 39% to 33%; a new tax plan could create only three tax tiers, and the earned income credit could rise, returning money to the working class. Also, regulatory reform could help improve the tone of business. The U.S. consumer had a record net worth of \$105 trillion as of September 30. Minus debt, that's \$90 trillion. There are two pockets of concern: auto loans are up substantially in the past ten years, and student loans have ballooned to \$1.3 trillion. That's a big drag.

That's the macro backdrop. On stocks, I recommended CBS last year and it rose nicely. I expected CBS to buy **Viacom** (VIAB), but it didn't happen. Viacom has 397 million shares outstanding. About 50 million are Class A, controlled by the Redstone family's National

Amusements. The rest are Class B. With the B shares around \$38, Viacom has an equity valuation of \$15 billion. The enterprise value, including debt, is \$25 billion. Viacom's Paramount movie studio is a great brand, but it lost about \$400 million last year. It must revitalize its theatrical and television production, and it will. Viacom could also do some creative financing with Paramount – selling assets, entering joint ventures, and such.

Viacom's cable TV networks aren't performing well either. How can the company turn those around?

Gabelli: The basic business includes Nickelodeon, MTV, and other networks. The new CEO, Bob Bakish, must trim the portfolio and energize product development. We look for Viacom to report \$13 billion of revenue and \$3.7 billion of EBITDA in this fiscal year ending September 30. The stock trades for seven times enterprise value to EBITDA. If I'm **Apple** (AAPL) and want to get into the entertainment business and have a market cap of \$600 billion, Viacom wouldn't be hard to buy. But Shari Redstone [president of National Amusements] likely won't sell.

Black: Don't you think Viacom is a value trap? It has been depressed for several years.

Gabelli: You are correct. The assets weren't managed right by the previous management team. The company's ratings are starting

to improve. Viacom stations, in the aggregate, have more viewers than ESPN, notwithstanding millennials' penchant for cord-cutting [cancellation of cable service]. The stock potentially could double in three years. The rules are changing in the media business. The industry will consolidate globally.

Schafer: The problems are priced into the stock.

Gabelli: Thank you. A year ago Congress passed the FAST Act – Fixing America's Surface Transportation. Stocks like **Astec Industries** (ASTE) and **Gencor Industries** (GENC), which make machinery used in highway construction, surged. If we get more visibility on infrastructure spending, vendors to industrial companies will do well. We like the rental equipment business, the Uber of the industry. It is a \$47 billion business in the U.S., growing at 4.5% a year.

Which stock are you picking?

Gabelli: **Herc Holdings** (HRI), a rental equipment supplier, was spun out of **Hertz Global Holdings** (HTZ) on July 1, 2016. The company is a work in progress, but should have a significant tail wind if the Trump administration launches a big infrastructure initiative. Herc has an EBITDA margin of 38%. The stock is trading for \$40, and the market cap is \$1.2 billion. Herc has \$2.1 billion of debt, courtesy of Hertz, but it isn't overleveraged.

Construction equipment companies also are well positioned. My pick today is **CNH Industrial** (CNHI), formerly Case New Holland. The company has 1.36 billion shares, and the stock is trading for about \$9. Exor, the Agnelli family's holding company, controls CNH since its merger with Fiat Industrial in 2013. CNH has a large global presence in the construction equipment business. It is also known for farming equipment and engines. Profits have been slim in the construction business, but that could change. CNH recently struck a deal with **Hyundai Heavy Industries** [009540.Korea Stock Exchange] to make mini excavators. Through the Fiat merger, it owns Iveco, a European truck maker. The class A truck market in Europe is improving. The stock could double in the next two years.

About ten years ago, I identified the single-serve coffee market as an exciting growth opportunity.

You were hardly alone.

Gabelli: Today, I like the prospects for sparkling water — in particular, **National Beverage** (FIZZ), which markets LaCroix. The company is based in Florida and has 47 million shares outstanding. The stock sells for \$49. The CEO, Nick Caporella, is 80.

Sugary soft drinks are perceived to be bad for you, and in some places they're being taxed. But LaCroix has no sugar or additives. Carbonated soft drinks are a \$90

billion business, and sparkling water is the fastest growing subset. It is growing by 30% a year. LaCroix gets significant floor space at grocers, and has a 13% market share in its category.

Cohen: What are the profit margins on this?

Gabelli: Let me give you the math first. The fiscal year ends April 30. National Beverage has been rolling up beverage companies. It bought the Shasta brand — which is popular in the West — and Faygo, and others. Energy drinks are a small part of the business. LaCroix should generate \$340 million in revenue this fiscal year, and \$90 million of EBITDA, so the profit margin isn't as high as you would expect. The CEO is tax-sensitive. The company declared a dividend of \$1.50 a share in late November, but it isn't payable until Jan. 27, after Trump becomes president. If Congress abolishes the estate tax, and the tax on long term capital

gains comes down, would he be likely to sell the company? I doubt it. But eventually **Coca-Cola** (KO) or **PepsiCo** (PEP) or **Dr Pepper Snapple Group** (DPS) will knock on the door.

Rogers: Is LaCroix nationally distributed?

Gabelli: Yes, more or less. National Beverage has significant bottling capacity. LaCroix is their premier brand.

LaCroix's revenue could rise to \$670 million over the next several years, driving overall revenue to more than \$1.1 billion. Shasta is doing okay, and the other brands are small. National Beverage is likely to earn \$2 a share this year, rising to \$2.45 in the year ending April 2018. Capital expenditure is de minimis, maybe \$11 million. The company doesn't put money into trucks or delivery routes.

Priest: What is the market cap?

MARIO GABELLI'S PICKS

Company	Ticker	Price 1/6/17
Viacom	VIA.B	\$37.79
Herc Holdings	HRI	\$40.00
CNH Industrial	CNHI	\$8.94
National Beverage	FIZZ	\$49.34
Davide Campari-Milano	COR.Italy	€9.31
Liberty Braves Group	BATRK	\$20.65
Live Nation Entertainment	LYV	\$27.68
Mueller Water Products	MWA	\$13.35

Source: Bloomberg



Mario Gabelli: "We look for new products and new channels of distribution. The one I kick myself for is Amazon.com. If only we'd known Jeffrey Bezos back when he worked on Wall Street." Photo: Jenna Bascom for Barron's

Gabelli: It is about \$2.5 billion. We look for new products and new channels of distribution. The one I kick myself for is **Amazon.com** (AMZN). If only we'd known Jeffrey Bezos [Amazon's founder] back when he worked on Wall Street.

Moving on to the booze market, known as spirits in the trade, we own **Davide Campari-Milano** [CPR.Italian Stock Exchange]. It is selling for €9.30 and has 580 million shares outstanding. The Garavoglia family owns 50% of the company, but it is professionally managed. Management uses cash flow smartly. Campari will have about €2 billion of revenue in the current year. The company owns a number of brands, including Campari, Wild Turkey bourbon, Aperol, and Skyy Vodka. It recently

bought Grand Marnier. Campari acquires niche brands globally; they are huge cash generators with high gross profit margins.

Give us the numbers, please.

Gabelli: In 2017, EBITDA including Grand Marnier could total €470 million. The U.S. accounts for 25% of revenue. Italy is also 25%.

Next, millennials want experiences; they don't want goods. They are a sharing society. They go to concerts and other forms of live entertainment. They go to Burning Man and Coachella. Think about Las Vegas, which is undergoing a new life cycle. About 50 years ago, it attracted gamblers. Then it went into the family entertainment business. Now Las Vegas is a big

venue for sports. So, how do you play this?

We're asking you.

Gabelli: **Liberty Media** LMCA, controlled by Dr. John Malone, was launched in 2001 as a spinoff of **AT&T** (T). I have prepared a family tree for you, showing every company that has Malone's fingerprints. [Gabelli holds up a laminated poster illustrating Malone's corporate "family tree"]. This represents \$340 billion of equity value. It's not as big as Apple or Amazon, but it is significant. If you had bought a basket of everything Malone touched since 2001, it would have grown at a compound annual rate of 13.5%. That exceeds the performance of the Standard & Poor's 500. Warren Buffett and Malone are the two most tax-sensitive CEOs I have ever encountered. Their philosophy is pay less, pay later, or pay nothing. Buffett doesn't advertise it, but Malone is upfront about it. Malone has about \$7 billion of his own money tied up in Liberty-related companies.

Last April, Liberty created a tracking stock called **Liberty Braves Group** [BTRK], which represents an investment in the Atlanta Braves. Now you can buy a baseball team at a discount. Liberty Braves also has a real estate business that owns 82 acres in Georgia. The stock began trading around \$17. It now trades at \$20.

Live Nation Entertainment (LYV) is another play on interest in live

events. Liberty Media owns 35%. Live Nation has 201 million shares; it closed Friday [Jan. 6] at \$27. The company has about \$1.8 billion in net debt. It is a concert promoter and ticket seller. It owns Ticketmaster. The company could have about \$700 million of EBITDA in 2017.

Is that all, Mario?

Gabelli: Mueller Water Products (MWA) has 161 million shares out-

standing, and trades for \$13. It has no debt.

Witmer: Do you like the management team?

Gabelli: That's why I'm recommending it. They just hired a new CEO from **Textron** (TXT). He's taking over a company with \$800 million of revenue; \$200 million comes from fire hydrants, and \$500 million from valves. EBITDA is about \$275 million, and capex is

\$25 million to \$30 million. Those are the kinds of things I like. Today, the company announced the sale of its Anvil International piping system division.

There are so many attractive companies when you think about how a 25% tax rate would boost earnings. We expect more corporate takeovers, too. Romance is in the air.

Let's leave things there.

Thanks, Mario.

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 the Executive Chairman of the Board of Directors of Associated Capital Group, Inc. The securities mentioned in the article are not representative of any portfolio, and the views expressed are subject to change at any time.

As of December 31, 2016, affiliates of The Gabelli Equity Income Fund owned 1.4% of CBS Corp., 0.7% of Viacom Inc., 0.2% of Apple Inc., 0.1% of Herc Holdings Inc., 0.5% of The Coca-Cola Co., 0.6% of PepsiCo Inc., 0.3% of Dr Pepper Snapple Group Inc., 0.3% of Davide Campari-Milano SpA, less than 0.1% of AT&T Inc., and 0.3% of Textron Inc.

Investors should carefully consider the investment objectives, risks, sales 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 call 800 GABELLI or visit www.gabelli.com.

For more information, visit our website: www.gabelli.com or call:
800-GABELLI | 800-422-3554 | 914-921-5100 | Fax: 914-921-5118 | info@gabelli.com

Distributed by G.distributors, LLC., a registered broker-dealer and member of FINRA
One Corporate Center, Rye, New York 10580

of the Obama years seems most assured. A redesign of the healthcare system, a loosening of Dodd-Frank rules governing the banking system, a lighter touch toward Internet regulation, a different approach to domestic energy production and transportation, and a more accommodative vision for anti-trust enforcement appear to have awakened the animal spirits of the business community.

Trump as President

Trump will make mistakes, as all Presidents do. For better or worse, our federal constitutional system, with the checks and balances of Congress and the courts, and power dispersed through the states, modulates change by design. As we witness the evolution of candidate Trump into President-elect Trump, he has gathered some controversial but well-seasoned advisors, and seems humbled by the majesty of the office. Three areas bear continued watching. Protectionism is bad for consumers and businesses alike, but “free” trade is not always “fair” trade, and doesn’t mean that the President should not attempt to negotiate better deals with our trading partners. Second, a geopolitical crisis is a near certainty over the next four years – how will Trump balance a desire to project a strong America with a distaste for foreign entanglements? Lastly, it is worth noting that candidates who are populists are usually not unwaveringly pro-business; CEOs in all sectors should be alert for Twitter bombs, the modern form of jawboning, such as those lobbed by the incoming President at the pharmaceutical industry and several defense contractors.

Tailwinds and Headwinds

President Trump will inherit several interrelated macroeconomic shifts already in motion before the election and accentuated by its aftermath: higher interest rates, a stronger dollar, and increased inflation expectations. The ten-year U.S. Treasury note rose from a low of 1.4% in July to 2.5% (at the time of this writing), while the dollar has strengthened against its trade-weighted basket by about 5% over the same time frame. The Federal Reserve has signaled a willingness to raise rates multiple times in 2017. A divergence in monetary policy from still dovish central banks in Europe and Japan, not to mention a fraying of the European Union, will continue to propel the dollar and reduce the competitiveness of U.S. exports, an outcome neither Chairman Janet Yellen nor the new administration will relish. A tightening labor market and the promised fiscal stimulus may, however, force the hand of the Fed. With all else equal, higher interest rates and accelerating inflation are bad for all asset classes, including equities. But all else is never equal. The question is whether GDP, and consequently earnings growth, will accelerate enough to overcome the natural governors of higher rates (felt in the form of higher borrowing costs) and inflation (felt in the form of reduced purchasing power). Put simply, earnings estimates for S&P 500 may be revised upward, but may not overcome the pressure of a reduction in the market multiple, which at over 17x is already above historical norms.

Much as it is foolish to underestimate the dynamic nature of the economy, one cannot generalize changes in the political economic environment to all industries. This has spurred a “Great Rotation” in the equity markets, especially since the election, from Growth to Value, non-cyclical to cyclical, and large cap to small cap stocks. To

the extent that financial companies are overrepresented in value indices, all of these shifts can be understood as the pendulum swinging to those companies most levered to tax reform and domestic stimulus and least exposed to currency and trade disruptions. Indeed the FANG stocks (Facebook, Amazon, Netflix, Google/Alphabet) that dominated returns in 2015 trail the market slightly this year; they are up a weighted average ~8.7%, and appear out of favor both in Washington and on Wall Street. Whether the virtuous (vicious if you are a Value investor) cycle of flows into passive ETFs and these names has been broken remains to be seen.

Dividends

Dividends are an important element in the historical returns of stocks. They provide current income and a growing income stream over time. During the fourth quarter of 2016, U.S. companies continued to increase their dividends. At the end of the quarter, the dividend yield on the S&P 500 was about 2%. Of the 500 stocks that are represented in the S&P 500, 418 of them pay a dividend. For the full year of 2016, there were 344 companies that increased their dividend, and another 7 that initiated the paying of a dividend. These two figures are exactly the same as for the full 2015. Given the strength of corporate America's balance sheet, we are convinced that the trend of higher dividends will continue for the foreseeable future.

Investment Scorecard

Some of the best performing stocks in the Fund during the fourth quarter were financial stocks. JPMorgan Chase (1.3% of net assets as of December 31, 2016), PNC Financial (0.7%) and Wells Fargo (2.0%), were all up over 25% during the quarter. All of these stocks, along with the financial sector in general, performed well on the heels of the election results. With a Republican Congress and a Republican president, investors are hopeful that excessive regulation of the financial services industry will be rolled back. In addition, all of these companies will benefit from rising short term interest rates, which should improve net interest income. These companies also benefit from a stronger economy, as that should help to increase loan growth for all three of these banks.

Two of the worst performing stocks in the Fund during the fourth quarter were CVS Health (2.0%) and Swedish Match (1.9%), both of which were down about 10%. When CVS reported their third quarter earnings, they also lowered guidance for both the fourth quarter and for 2017. Part of the reason for lower guidance was that they expect to lose about 40 million retail prescriptions related to new restricted pharmacy networks. However, on a longer term basis, we still expect that CVS will be able to grow its earnings per share by about 10% annually. Part of the reason for the pullback in Swedish Match was that sales of snuff in Scandinavia were relatively flat in the third quarter. Although Swedish Match dominates the premium segment of the Scandinavian snuff market, they are losing a little share on the value segment, and the company does not expect any net price increases in 2016. In the U.S. moist snuff business, however, the company does expect higher prices for the full year 2016.

Let's Talk Stocks

The following are stock specifics on selected holdings of our Fund. Favorable earnings prospects do not necessarily translate into higher stock prices, but they do express a positive trend that we believe will develop over time. Individual securities mentioned are not necessarily representative of the entire portfolio. For the following holdings, the share prices are listed first in United States dollars (USD) and second in the local currency, where applicable, and are presented as of December 31, 2016.

Bank of New York Mellon Corp. (2.9% of net assets as of December 31, 2016) (BK – \$47.38 – NYSE) is a global leader in providing financial services to institutions and individuals. The company operates in more than one hundred markets worldwide and strives to be the global provider of choice for investment management and investment services. As of September 30, 2016, the firm had \$30.5 trillion in assets under custody and \$1.7 trillion in assets under management. Going forward, we expect BK to benefit from rising global incomes and the cross border movement of financial transactions. We believe BK is also well positioned to grow earnings in a rising interest rate environment, given its large customer cash deposits and significant loan book.

CBS Corp. (1.4%) (CBS – \$64.65 – NYSE) operates the CBS television network and the premium cable network Showtime. It also owns 29 local television stations and 130 radio stations. We believe that CBS has a number of opportunities to generate incremental non-advertising revenue from the sale of existing content through its OTT platforms, online video distributors and retransmission agreements with traditional distributors. In addition, we expect a continued recovery in advertising to contribute to earnings growth. Finally, we believe that financial engineering, including the split-off of its radio business, could act as a catalyst for shares.

CVS Health Corp. (2.0%) (CVS – \$78.91 – NYSE) is the leading pharmacy and pharmacy benefits manager in the country, with over \$150 billion in annual revenue. CVS faces some challenges in 2017, as a resurgent Walgreens has won several contracts totaling almost 40 million prescriptions annually. CVS will manage through this challenge and the associated lower store traffic, while continuing to return almost all its free cash flow to shareholders via dividends and share buybacks. After this adjustment, the company should still be able to grow earnings almost 10% annually.

Genuine Parts Co. (2.1%) (GPC – \$95.54 – NYSE) is an Atlanta, Georgia-based distributor of automotive and industrial replacement parts, office products, and electrical and electronic components. We expect GPC's well known NAPA Auto Parts group to benefit as an aged vehicle population, which includes the highest percentage of off warranty vehicles in history, helps drive sales of automotive aftermarket products over the next several years. Additionally, economic indicators remain supportive of the company's industrial and electrical parts distribution businesses amid steady economic expansion. Finally, GPC's management has shown consistent dedication to shareholder value via share repurchases and dividend increases.

Honeywell International Inc. (1.2%) (HON – \$115.85 – NYSE) operates as a diversified technology company with highly engineered products, including turbine propulsion engines, auxiliary power units, turbochargers, brake pads, environmental and combustion controls, sensors, security and life safety products, resins and chemicals, nuclear services, and process technology for the petrochemical and refining industries. One of the

key drivers of HON's growth is acquisitions that increase the company's growth profile globally, creating both organic and inorganic opportunities. The company recently acquired Elster Industries, a leading provider of thermal gas solutions, smart meters, software and data analytics for the commercial, industrial and residential heating market. Elster's gas business offers products in high demand among natural gas customers and brings a strong, global distribution network and numerous cross-selling opportunities for existing HON technologies to new customers. Elster's gas, electric, and water meters are highly valued for their reliability, safety and accuracy. The company maintains an installed base of more than 200 million meter modules deployed over the course of the last 10 years that generate significant recurring revenues. We believe acquisitions such as Elster should drive meaningful and sustained growth for HON spurred by global energy efficiency initiatives and natural resource management.

Johnson & Johnson (0.6%) (JNJ – \$41.19 – NYSE) is the world's largest and most diversified healthcare company. The company's pharmaceutical business is one of the fastest growing in the industry, driven by multiple new product launches in the areas of prostate cancer, HIV/AIDS, anti-inflammatory conditions, and blood thinners. The consumer division has almost fully recovered from several years of product recalls and manufacturing remediation, with a significant improvement in profitability. CEO Alex Gorsky has been selling off many non-core, slower growing businesses, but may finally make a large acquisition in 2017 to bolster growth.

M&T Bank Corp (1.3%) (MTB – \$156.43 – NYSE) is a regional bank operating in eight states across the Mid-Atlantic region. Following closure of MTB's acquisition of Hudson City Bank in 2015, management has focused on deepening the company's presence in New Jersey and repositioning the local loan portfolio from retail to higher-yielding commercial assets. With a demonstrated history of strong credit performance and profitability through the financial crisis, we anticipate continued strong results from M&T as the company consolidates and grows in a now-rising interest rate environment.

Mondelez International Inc. (2.0%) (MDLZ – \$44.33 – NASDAQ), headquartered in Deerfield, Illinois, is the renamed Kraft Foods Inc. following the tax-free spin-off to shareholders of the North American grocery business on October 1, 2012. Following the contribution of coffee into a new joint venture, nearly 85% of Mondelēz's \$27 billion of revenue is derived from snacking, including leading brands such as Oreo, LU and Ritz biscuits, Trident gum, and Cadbury and Milka chocolates. On July 2, 2015 Mondelēz combined its coffee business with D.E Master Blenders 1753 to form a new coffee company, Jacobs Douwe Egberts. Subsequently, MDLZ exchanged part of its stake in this coffee joint venture for 24% ownership in Keurig Green Mountain, which was acquired by an investor group led by JAB Holding Co. in March 2016. This narrows the company's product focus, as only 15% of revenue will be outside snacks – mostly Tang beverages and other products including Philadelphia cream cheese, which management may look to divest in the future as it executes on its plan to accelerate growth and improve margins in the faster growing snack business. On June 30, Hershey (less than 0.1%) confirmed that it received and rejected a preliminary indication of interest from Mondelēz to acquire Hershey for \$107 per share in cash and stock, demonstrating Mondelez's continued interest in pursuing acquisitions while remaining an independent company.

State Street Corp. (0.8%) (STT – \$77.72 – NYSE) is a global custodian and asset manager whose history dates back more than one hundred years. The firm has over \$29 trillion in assets under custody and \$2.5 trillion in assets under management. Although headquartered in the U.S., State Street continues to expand globally and has over 29,000 employees worldwide. As a leader in many aspects of financial services, they are well positioned to capture a greater share of managed assets.

Wells Fargo & Co. (2.0%) (WFC – \$55.11 – NYSE) is a diversified financial services company. Headquartered in San Francisco, California, the firm provides banking, insurance, investments, mortgage, and consumer and commercial finance through more than 9,000 stores and 12,000 ATMs. Wells Fargo serves one in three households in America, and as of September 2016, it had \$1.9 trillion in customer assets. Longer term, we expect Wells Fargo to continue to grow market share of domestic deposits due to its strong brand and diversified product base.

Conclusion

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

January 5, 2017

Top Ten Holdings (Percent of Net Assets)
December 31, 2016

The Bank of New York Mellon Corp.	2.9%	Wells Fargo & Co.	2.0%
Genuine Parts Co.	2.1%	Swedish Match AB	1.9%
CVS Health Corp.	2.0%	Bristol-Myers Squibb Co.	1.5%
The Home Depot Inc.	2.0%	CBS Corp.	1.4%
Mondelez International Inc.	2.0%	Citigroup Inc.	1.4%

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

Minimum Initial Investment – \$1,000

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

www.gabelli.com

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

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

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

e-delivery

We are pleased to offer electronic delivery of Gabelli fund documents. Direct shareholders of our mutual funds can elect to receive their Annual and Semiannual Reports, Manager Commentaries, and Prospectus 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 Equity Income Fund began offering additional classes of Fund shares on December 31, 2003. Class AAA Shares are no-load shares offered directly through selected broker/dealers. Class A and Class C Shares are targeted to the needs of investors who seek advice through financial consultants. Class I

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

Portfolio Manager Biography

Mario J. Gabelli, CFA, is Chairman, Chief Executive Officer, and Chief Investment Officer – Value Portfolios of GAMCO Investors, Inc. that he founded in 1977, and Chief Investment Officer – Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc. He is also Executive Chairman of the Board of Directors of Associated Capital Group, Inc. Mr. Gabelli is a summa cum laude graduate of Fordham University and holds an MBA degree from Columbia Business School, and Honorary Doctorates from Fordham University and Roger Williams University.

Gabelli Equity Series Funds, Inc.
THE GABELLI EQUITY INCOME 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 DIRECTORS

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.

John D. Gabelli
Senior Vice President,
G.research, Inc.

Robert J. Morrissey
Partner,
Morrissey, Hawkins & Lynch

Kuni Nakamura
President,
Advanced Polymer, Inc.

Anthony R. Pustorino
Certified Public Accountant,
Professor Emeritus,
Pace University

Anthonie C. van Ekris

Chairman,
BALMAC International, Inc.
Salvatore J. Zizza
Chairman,
Zizza & Associates Corp.

OFFICERS

Bruce N. Alpert
President

Andrea R. Mango
Secretary

Agnes Mullady
Treasurer

Richard J. Walz
Chief Compliance Officer

DISTRIBUTOR

G.distributors, LLC

**CUSTODIAN, TRANSFER
AGENT, AND DIVIDEND
DISBURSING AGENT**

State Street Bank and Trust Company

LEGAL COUNSEL

Skadden, Arps, Slate, Meagher &
Flom LLP



GABELLI
FUNDS

THE GABELLI EQUITY INCOME FUND

Shareholder Commentary
December 31, 2016

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