

# Gabelli ESG Fund, Inc.

## Shareholder Commentary June 30, 2017

(Y)our Portfolio Management Team



Christopher C. Desmarais



Kevin V. Dreyer



Christopher J. Marangi

### To Our Shareholders,

For the quarter ended June 30, 2017, the net asset value (“NAV”) per Class AAA Share of the Gabelli ESG Fund increased 2.4% compared with increases of 3.1% and 3.0% for the Standard & Poor’s (“S&P”) 500 Index and the Russell 3000 Index, respectively. See page 2 for additional performance information.

### Environmental, Social, and Governance (ESG) Investing

Environmental, social and governance (ESG) refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a business. Incorporating ESG factors into company research can help understand risks and opportunities that may otherwise have been overlooked, and improve the return profile of investment portfolios. ESG analysis differs from a traditional SRI screen in that it does not apply a “negative screen”, excluding companies that engage in specific unwanted activities (such as selling tobacco or weapons). Instead, it takes a holistic approach, evaluating a company’s performance in a variety of areas, including carbon emissions, energy efficiency, water stress, human capital development, chemical safety, board independence, management pay practices, and business ethics.

### Politics, the Economy and the Markets

Stocks performed strongly during the first half of 2017. The S&P 500 Index rose 8.2% before dividends, despite a seemingly endless amount of noise from Washington and abroad. Markets responded positively to the election of Donald Trump in late 2016, partly in anticipation of a relaxation of the regulatory regime, reformation of corporate and individual taxes, and additional stimulus. To date, progress has only been made on the first of these items, which raises the possibility that what the market really desires is slow and

## Comparative Results

### Average Annual Returns through June 30, 2017 (a)(b)

	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception (6/1/07)
<b>Class AAA (SRIGX)</b> .....	2.44%	11.01%	5.98%	10.63%	6.47%	6.30%
S&P 500 Index .....	3.09	17.90	9.61	14.63	7.18	6.90
Russell 3000 Index .....	3.02	18.51	9.10	14.58	7.26	6.95
<b>Class A (SRIAX)</b> .....	2.51	11.01	5.98	10.64	6.49	6.31
With sales charge (c) .....	(3.39)	4.63	3.91	9.34	5.86	5.69
<b>Class C (SRICX)</b> .....	2.27	10.18	5.16	9.81	5.69	5.51
With contingent deferred sales charge (d) .....	1.27	9.18	5.16	9.81	5.69	5.51
<b>Class I (SRIDX)</b> .....	2.58	11.36	6.25	10.91	6.74	6.57

In the current prospectuses dated July 29, 2016, the gross expense ratios for Class AAA, A, C, and I Shares are 1.68%, 1.68%, 2.43%, and 1.43%, respectively. and, the net expense ratios for these share classes after contractual reimbursements by Gabelli Funds, LLC, (the "Adviser") are 1.25%, 1.25%, 2.00%, and 1.00%, respectively. Class AAA and 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](http://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](http://www.gabelli.com). 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 Russell 3000 Index is an unmanaged indicator that measures the performance of the 3,000 largest U.S. traded stocks, in which the underlying companies are incorporated in the U.S. Dividends are considered reinvested. You cannot invest directly in an index.
- (b) The Fund's fiscal year ends March 31.
- (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.

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. Both the commentary and the financial statements, including the portfolio of investments, are available on our website at [www.gabelli.com](http://www.gabelli.com).

incremental change, i.e., business as usual in Washington. Or perhaps the dissonance between the market's march forward and Washington's lurch sideways is an indication that fiscal policy really isn't as impactful as some believe.

Indeed, the most powerful market levitating force from Washington over the last decade did not originate from the White House or the Capitol, but from the Eccles Building, home to the Federal Reserve. Through open market activity and three rounds of quantitative easing (QE), the Federal Reserve slashed short term interest rates from 4.5% before the 2008-2009 financial crisis to nearly zero, lifting asset prices everywhere. The Fed began tapping the brakes by tapering QE in October 2014, and has now raised rates four times, the latest of which took the Federal Funds rate to a target range of 1.0%-1.25% in June 2017. The Federal Reserve has indicated it will begin shrinking its balance sheet later this year, and current expectations are for one additional quarter point increase in 2017 and three in each of 2018 and 2019, which would put the Federal Funds rate at 3.0%, still well below the prior peak.

Over the long term, the Federal Reserve's "normalization" of rates is healthy for the economy, but the timing of this process has been the subject of debate, given lackluster GDP growth and a lack of inflation. The last two rate hike cycles ended in market dislocations in 2001 and 2007, but the circumstances in each were very different from today. A future recession may be unavoidable, but it need not be triggered by the Federal Reserve anytime soon. What is unquestionably unavoidable is that monetary policy has gone from being a tailwind to being a headwind for the economy and the market. Further increases in stock prices are more likely to be driven by better earnings versus multiple expansions, as had been the case over the last several years. Ironically, some sources of future earnings growth – lower taxes, defense and infrastructure investment, and a general rekindling of a propensity to spend – depend on the events taking place a few blocks east of the Federal, so it remains worth watching what happens this summer in the swamp.

## **Deals, Deals and More Deals**

Worldwide merger and acquisition (M&A) activity rose 2% to \$1.6 trillion in the first half of 2017, as a vibrant Europe offset a 16% decline in U.S. M&A volume. Activity in the U.S., concentrated in the Energy, Healthcare, and Real Estate sectors, may have been impeded by uncertainty around tax reform and unfamiliarity with new faces at the Department of Justice and other regulatory agencies. We believe these elements will soon fall into place, and that the solid underpinnings of the Fifth Wave of M&A continue to exist.

Among the deals announced in the second quarter was Amazon's purchase of Whole Foods for \$42 per share in cash. After several years of underperformance, Whole Foods (1.9% of net assets as of June 30, 2017) faced, and initially resisted, pressure from activist Jana Partners. It appears that founder and CEO John Mackey was eventually persuaded to sell because of the benefits of continuing to grow the chain with the cover and support of Amazon. This deal had far reaching repercussions, as fears that Amazon would increase competition and deflationary pressures weighed on grocers, pharmacies, food distributors, and consumer

goods companies, among others. While Amazon's impact remains to be seen, we do believe its presence underscores the need for consolidation in the food space. Having shown a willingness to invest aggressively in the brick and mortar world, Amazon could also become an acquirer of other retailers and distributors.

## **Investment Scorecard**

The largest contributor to performance in the second quarter was Whole Foods (1.9% of net assets as of June 30, 2017, +43%), due to its acquisition by Amazon, discussed above. European food companies Danone (3.4%, +13%) and Nestle (2.0%, +17%) also performed well in the quarter as Danone closed its acquisition of organic products maker WhiteWave Foods, and news that activist investor Third Point owned a \$3.5 billion stake in Nestle. Nestle responded just days later with a CHF 20 billion share buyback program, and may look to make further acquisitions and divestitures going forward. Xylem (5.0%, +11%) saw strong growth as the need for water solutions globally continues. Paypal (2.6%, +25%), the payment technology spin-off from eBay, posted strong results as it benefits from the expansion of e-commerce. Finally, Sony (1.9%, +13%) rose in anticipation of a strong summer movie slate and inclusion of its chips on the next iPhone release.

The flipside of Amazon's purchase of Whole Foods was the negative impact it had on the stocks of food processors and distributors including United Natural Foods (1.4%, -15%), Conagra (4.0%, -11%) and Post Holdings (1.4%, -11%). The perception of further encroachment by Amazon into auto parts hurt retailers including O'Reilly Automotive (1.3%, -19%); subsequent to the quarter O'Reilly fell sharply after reporting Q2 same store sales grew 1.7% versus expectations of 3%+. Although mindful of Amazon's potential impact, we believe a warm winter was the biggest factor in O'Reilly's "miss" and continue to believe the stock is attractive. Detractors from performance also included media companies Twenty-First Century Fox (0.9%, -12%) and Viacom (0.5%, -22%) where concerns that a slowdown in advertising would add to pressures from a possible acceleration in cord cutting.

## **Conclusion**

While valuations are somewhat elevated and interest rates are rising, we see some cause for continued optimism, as employment and the housing market are improving, and the consumer remains healthy. We continue to believe we are well positioned for almost any economic backdrop by focusing on companies possessing pricing power, skilled management, and flexible balance sheets that trade at meaningful discounts to the Private Market Values. Our investment environment remains catalyst rich with financial engineering and still low borrowing costs, driving acquisition activity.

July 20, 2017

**Top Ten Holdings (Percent of Net Assets)**  
**June 30, 2017**

Xylem Inc.	5.0%	Johnson Controls International Plc	3.2%
Edgewell Personal Care Co.	4.2%	Paypal Holdings Inc.	2.6%
Mondelez International Inc.	4.2%	Kellogg Co.	2.5%
Conagra Brands Inc.	4.0%	Waste Connections Inc.	2.5%
Danone SA	3.4%	Macquarie Infrastructure Corp.	2.3%

**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 Shareholder Commentary represents the opinions of the 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](http://www.gabelli.com)**

Please visit us on the Internet. Our homepage at [www.gabelli.com](http://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](mailto: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](http://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](http://www.gabelli.com).

**Multi-Class Shares**

Class AAA Shares are no-load shares offered directly through selected broker/dealers. Class A and Class C Shares are targeted to the needs of investors who seek advice through financial consultants. Class I Shares are available directly through the Fund's distributor or brokers that have entered into selling agreements specifically with respect to Class I Shares. The Board of Directors determined that expanding the types of Fund shares available through various distribution options would enhance the ability of the Fund to attract additional investors.

**GABELLI ESG FUND, INC.**  
**One Corporate Center**  
**Rye, NY 10580-1422**

**Portfolio Management Team Biographies**

**Christopher C. Desmarais** joined GAMCO Investors, Inc. in 1993. Currently he is a Managing Director of GAMCO Asset Management Company, a portfolio manager of Gabelli Funds, LLC, as well as the Director of Socially Responsive Investments. His responsibilities also include marketing and client service of GAMCO's Value, Growth, and International capabilities for institutional, endowment, and family office clients as well as direct oversight of all of the Firm's SRI equity products. He is a graduate of Fairfield University with a B.A. in Economics.

**Kevin V. Dreyer** joined Gabelli in 2005 as a research analyst covering companies within the consumer sector. Currently he is a Managing Director and Co-Chief Investment Officer for GAMCO Investors, Inc.'s Value team. In addition, he serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Dreyer received a B.S.E. from the University of Pennsylvania and an MBA from Columbia Business School.

**Christopher J. Marangi** joined Gabelli in 2003 as a research analyst. Currently he is a Managing Director and Co-Chief Investment Officer for GAMCO Investors, Inc.'s Value team. In addition, he serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Marangi graduated magna cum laude and Phi Beta Kappa with a B.A. in Political Economy from Williams College and holds an MBA with honors from Columbia Business School.

## GABELLI ESG FUND, INC.

One Corporate Center  
Rye, NY 10580-1422

t 800-GABELLI (800-422-3554)

f 914-921-5118

e [info@gabelli.com](mailto:info@gabelli.com)

[GABELLI.COM](http://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.

Clarence A. Davis  
Former Chief Executive Officer,  
Nestor, Inc.

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

William F. Heitmann  
Former Senior  
Vice President of Finance,  
Verizon Communications, Inc.

Anthonie C. van Ekris  
Chairman,  
BALMAC International, Inc.

### OFFICERS

Bruce N. Alpert  
President

John C. Ball  
Treasurer

Andrea R. Mango  
Secretary

Agnes Mullady  
Vice President

Richard J. Walz  
Chief Compliance Officer

**DISTRIBUTOR**  
G.distributors, LLC

**CUSTODIAN**  
The Bank of New York Mellon

**TRANSFER AGENT AND  
DIVIDEND DISBURSING AGENT**  
State Street Bank and Trust Company

**LEGAL COUNSEL**  
Paul Hastings LLP

---

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

---



GABELLI  
FUNDS

# GABELLI ESG FUND, INC.

*Shareholder Commentary*  
*June 30, 2017*



# Gabelli ESG Fund, Inc.

## First Quarter Report — June 30, 2017

### (Y)our Portfolio Management Team



Christopher C. Desmarais



Christopher J. Marangi



Kevin V. Dreyer

### To Our Shareholders,

For the quarter ended June 30, 2017, the net asset value (“NAV”) per Class AAA Share of the Gabelli ESG Fund increased 2.4% compared with increases of 3.1% and 3.0% for the Standard & Poor’s (“S&P”) 500 Index and the Russell 3000 Index, respectively. See below for additional performance information.

Enclosed is the schedule of investments as of June 30, 2017.

### Comparative Results

#### Average Annual Returns through June 30, 2017 (a)(b) (Unaudited)

	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception (6/01/07)
<b>Class AAA (SRIGX)</b> . . . . .	2.44%	11.01%	5.98%	10.63%	6.47%	6.30%
S&P 500 Index . . . . .	3.09	17.90	9.61	14.63	7.18	6.90
Russell 3000 Index . . . . .	3.02	18.51	9.10	14.58	7.26	6.95
MSCI AC World Index . . . . .	4.27	18.78	4.82	10.54	3.71	3.59
<b>Class A (SRIAX)</b> . . . . .	2.51	11.01	5.98	10.64	6.49	6.31
With sales charge (c) . . . . .	(3.39)	4.63	3.91	9.34	5.86	5.69
<b>Class C (SRICX)</b> . . . . .	2.27	10.18	5.16	9.81	5.69	5.51
With contingent deferred sales charge (d) . . . . .	1.27	9.18	5.16	9.81	5.69	5.51
<b>Class I (SRIDX)</b> . . . . .	2.58	11.36	6.25	10.91	6.74	6.57

In the current prospectuses dated July 28, 2017, the expense ratios for Class AAA, A, C, and I Shares are 1.67%, 1.67%, 2.42%, and 1.42%, respectively, and the net expense ratios for these share classes after contractual reimbursements by Gabelli Funds, LLC, (the Adviser) are 1.25%, 1.25%, 2.00%, and 1.00%, respectively. Class AAA and I Shares do not have a sales charge. The maximum sales charge for Class A Shares and 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](http://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 after the date 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](http://www.gabelli.com). 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 Russell 3000 Index is an unmanaged indicator that measures the performance of the 3,000 largest U.S. traded stocks, in which the underlying companies are incorporated in the U.S. The MSCI AC World Index is an unmanaged market capitalization weighted index representing both developed and emerging markets. Dividends are considered reinvested. You cannot invest directly in an index.

(b) The Fund’s fiscal year ends March 31.

(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.

**Gabelli ESG Fund, Inc.**  
**Schedule of Investments — June 30, 2017 (Unaudited)**

<b>Shares</b>		<b>Market Value</b>	<b>Shares</b>		<b>Market Value</b>
	<b>COMMON STOCKS — 95.9%</b>				
	<b>Automotive: Parts and Accessories — 5.8%</b>		22,000	Twenty-First Century Fox Inc., Cl. B	\$ 613,140
2,500	Adient plc	\$ 163,450	8,000	Viacom Inc., Cl. A	304,400
15,000	Genuine Parts Co.	1,391,400	20,000	Vivendi SA	445,211
4,000	O'Reilly Automotive Inc.†	874,960			<u>1,864,801</u>
25,000	Tenneco Inc.	1,445,750		<b>Environmental Services — 2.5%</b>	
		<u>3,875,560</u>	25,500	Waste Connections Inc.	1,642,710
	<b>Beverage — 5.7%</b>			<b>Equipment and Supplies — 4.0%</b>	
30,000	Danone SA	2,254,951	15,000	Flowsolve Corp.	696,450
10,000	PepsiCo Inc.	1,154,900	45,000	Mueller Water Products Inc., Cl. A	525,600
9,000	Suntory Beverage & Food Ltd.	417,693	23,000	Watts Water Technologies Inc., Cl. A	1,453,600
		<u>3,827,544</u>			<u>2,675,650</u>
	<b>Broadcasting — 4.2%</b>			<b>Financial Services — 4.7%</b>	
12,000	Liberty Broadband Corp., Cl. C†	1,041,000	14,000	American Express Co.	1,179,360
20,000	Liberty Media Corp. - Liberty Braves, Cl. C†	479,400	8,000	Kinnevik AB, Cl. B	244,899
30,000	Liberty Media Corp. - Liberty SiriusXM, Cl. C†	1,251,000	32,000	PayPal Holdings Inc.†	1,717,440
		<u>2,771,400</u>			<u>3,141,699</u>
	<b>Building and Construction — 6.4%</b>			<b>Food — 20.2%</b>	
20,000	Armstrong Flooring Inc.†	359,400	75,000	Conagra Brands Inc.	2,682,000
20,000	Fortune Brands Home & Security Inc.	1,304,800	22,000	General Mills Inc.	1,218,800
12,001	Herc Holdings Inc.†	471,866	24,000	Kellogg Co.	1,667,040
50,000	Johnson Controls International plc	2,168,000	30,000	Lamb Weston Holdings Inc.	1,321,200
		<u>4,304,066</u>	20,000	Maple Leaf Foods Inc.	504,935
			65,000	Mondelēz International Inc., Cl. A	2,807,350
			15,000	Nestlé SA	1,305,402
20,000	Macquarie Infrastructure Corp.	1,568,000	12,000	Post Holdings Inc.†	931,800
25,000	The Interpublic Group of Companies Inc.	615,000	20,000	Unilever plc, ADR	1,082,400
		<u>2,183,000</u>			<u>13,520,927</u>
	<b>Cable and Satellite — 7.4%</b>			<b>Health Care — 0.9%</b>	
40,000	Comcast Corp., Cl. A	1,556,800	10,000	Zoetis Inc.	623,800
17,000	DISH Network Corp., Cl. A†	1,066,920		<b>Machinery — 6.0%</b>	
13,000	EchoStar Corp., Cl. A†	789,100	60,000	CNH Industrial NV	682,800
50,000	Liberty Global plc, Cl. C†	1,559,000	60,000	Xylem Inc.	3,325,800
		<u>4,971,820</u>			<u>4,008,600</u>
	<b>Computer Software and Services — 3.4%</b>			<b>Retail — 4.5%</b>	
10,000	Blucora Inc.†	212,000	10,000	CVS Health Corp.	804,600
35,000	eBay Inc.†	1,222,200	25,000	United Natural Foods Inc.†	917,500
42,000	Hewlett Packard Enterprise Co.	696,780	30,000	Whole Foods Market Inc.	1,263,300
45,000	Internap Corp.†	165,150			<u>2,985,400</u>
		<u>2,296,130</u>		<b>Specialty Chemicals — 2.2%</b>	
	<b>Consumer Products — 8.0%</b>		15,000	H.B. Fuller Co.	766,650
37,000	Edgewell Personal Care Co.†	2,812,740	5,000	International Flavors & Fragrances Inc.	675,000
25,000	Energizer Holdings Inc.	1,200,500			<u>1,441,650</u>
34,000	Sony Corp., ADR	1,298,460		<b>Telecommunications — 2.2%</b>	
		<u>5,311,700</u>	26,000	Altice USA Inc., Cl. A†	839,800
			15,000	Loral Space & Communications Inc.†	623,250
5,000	Time Warner Inc.	502,050			<u>1,463,050</u>

See accompanying notes to schedule of investments.



## Gabelli ESG Fund, Inc.

### Notes to Schedule of Investments (Unaudited)

---

The Fund's schedule of investments is prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), which may require the use of management estimates and assumptions. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its schedule of investments.

**Security Valuation.** Portfolio securities listed or traded on a nationally recognized securities exchange or traded in the U.S. over-the-counter market for which market quotations are readily available are valued at the last quoted sale price or a market's official closing price as of the close of business on the day the securities are being valued. If there were no sales that day, the security is valued at the average of the closing bid and asked prices or, if there were no asked prices quoted on that day, then the security is valued at the closing bid price on that day. If no bid or asked prices are quoted on such day, the security is valued at the most recently available price or, if the Board of Directors (the "Board") so determines, by such other method as the Board shall determine in good faith to reflect its fair market value. Portfolio securities traded on more than one national securities exchange or market are valued according to the broadest and most representative market, as determined by Gabelli Funds, LLC (the "Adviser").

Portfolio securities primarily traded on a foreign market are generally valued at the preceding closing values of such securities on the relevant market, but may be fair valued pursuant to procedures established by the Board if market conditions change significantly after the close of the foreign market, but prior to the close of business on the day the securities are being valued. Debt obligations for which market quotations are readily available are valued at the average of the latest bid and asked prices. If there were no asked prices quoted on such day, the security is valued using the closing bid price, unless the Board determines such amount does not reflect the securities' fair value, in which case these securities will be fair valued as determined by the Board. Certain securities are valued principally using dealer quotations. Futures contracts are valued at the closing settlement price of the exchange or board of trade on which the applicable contract is traded. OTC futures and options on futures for which market quotations are readily available will be valued by quotations received from a pricing service or, if no quotations are available from a pricing service, by quotations obtained from one or more dealers in the instrument in question by the Adviser.

Securities and assets for which market quotations are not readily available are fair valued as determined by the Board. Fair valuation methodologies and procedures may include, but are not limited to: analysis and review of available financial and non-financial information about the company; comparisons with the valuation and changes in valuation of similar securities, including a comparison of foreign securities with the equivalent U.S. dollar value American Depositary Receipt securities at the close of the U.S. exchange; and evaluation of any other information that could be indicative of the value of the security.

The inputs and valuation techniques used to measure fair value of the Fund's investments are summarized into three levels as described in the hierarchy below:

- Level 1 — quoted prices in active markets for identical securities;
- Level 2 — other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.); and
- Level 3 — significant unobservable inputs (including the Board's determinations as to the fair value of investments).

**Gabelli ESG Fund, Inc.**  
**Notes to Schedule of Investments (Unaudited) (Continued)**

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input both individually and in the aggregate that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of the Fund's investments in securities by inputs used to value the Fund's investments as of June 30, 2017 is as follows:

	Valuation Inputs		Total Market Value at 6/30/17
	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	
<b>INVESTMENTS IN SECURITIES:</b>			
<b>ASSETS (Market Value):</b>			
Common Stocks (a)	\$64,061,287	—	\$64,061,287
Closed-End Funds	817,200	—	817,200
U.S. Government Obligations	—	\$1,914,210	1,914,210
<b>TOTAL INVESTMENTS IN SECURITIES – ASSETS</b>	<b>\$64,878,487</b>	<b>\$1,914,210</b>	<b>\$66,792,697</b>

(a) Please refer to the Schedule of Investments for the industry classifications of these portfolio holdings.

There were no Level 3 investments at June 30, 2017 or March 31, 2017.

**Additional Information to Evaluate Qualitative Information.**

**General.** The Fund uses recognized industry pricing services – approved by the Board and unaffiliated with the Adviser – to value most of its securities, and uses broker quotes provided by market makers of securities not valued by these and other recognized pricing sources. Several different pricing feeds are received to value domestic equity securities, international equity securities, preferred equity securities, and fixed income securities. The data within these feeds are ultimately sourced from major stock exchanges and trading systems where these securities trade. The prices supplied by external sources are checked by obtaining quotations or actual transaction prices from market participants. If a price obtained from the pricing source is deemed unreliable, prices will be sought from another pricing service or from a broker/dealer that trades that security or similar securities.

**Fair Valuation.** Fair valued securities may be common or preferred equities, warrants, options, rights, or fixed income obligations. Where appropriate, Level 3 securities are those for which market quotations are not available, such as securities not traded for several days, or for which current bids are not available, or which are restricted as to transfer. When fair valuing a security, factors to consider are recent prices of comparable securities that are publicly traded, reliable prices of securities not publicly traded, the use of valuation models, current analyst reports, valuing the income or cash flow of the issuer, or cost if the preceding factors do not apply. The circumstances of Level 3 securities are frequently monitored to determine if fair valuation measures continue to apply.

The Adviser reports quarterly to the Board the results of the application of fair valuation policies and procedures. These may include backtesting the prices realized in subsequent trades of these fair valued securities to fair values previously recognized.

**Derivative Financial Instruments.** The Fund may engage in various portfolio investment strategies by investing in derivative financial instruments for the purposes of increasing the income of the Fund, hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase, or hedging against

## Gabelli ESG Fund, Inc.

### Notes to Schedule of Investments (Unaudited) (Continued)

---

a specific transaction with respect to either the currency in which the transaction is denominated or another currency. Investing in certain derivative financial instruments, including participation in the options, futures, or swap markets, entails certain execution, liquidity, hedging, tax, and securities, interest, credit, or currency market risks. Losses may arise if the Adviser's prediction of movements in the direction of the securities, foreign currency, and interest rate markets is inaccurate. Losses may also arise if the counterparty does not perform its duties under a contract, or, in the event of default, the Fund may be delayed in or prevented from obtaining payments or other contractual remedies owed to it under derivative contracts. The creditworthiness of the counterparties is closely monitored in order to minimize these risks. Participation in derivative transactions involves investment risks, transaction costs, and potential losses to which the Fund would not be subject absent the use of these strategies. The consequences of these risks, transaction costs, and losses may have a negative impact on the Fund's ability to pay distributions.

The Fund's derivative contracts held at June 30, 2017, if any, are not accounted for as hedging instruments under GAAP and are disclosed in the Schedule of Investments together with the related counterparty.

**Options.** The Fund may purchase or write call or put options on securities or indices for the purpose of increasing the income of the Fund. As a writer of put options, the Fund receives a premium at the outset and then bears the risk of unfavorable changes in the price of the financial instrument underlying the option. The Fund would incur a loss if the price of the underlying financial instrument decreases between the date the option is written and the date on which the option is terminated. The Fund would realize a gain, to the extent of the premium, if the price of the financial instrument increases between those dates.

As a purchaser of put options, the Fund pays a premium for the right to sell to the seller of the put option the underlying security at a specified price. The seller of the put has the obligation to purchase the underlying security upon exercise at the exercise price. If the price of the underlying security declines, the Fund would realize a gain upon sale or exercise. If the price of the underlying security increases or stays the same, the Fund would realize a loss upon sale or at expiration date, but only to the extent of the premium paid.

If a written call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether there has been a realized gain or loss. If a written put option is exercised, the premium reduces the cost basis of the security. In the case of call options, the exercise prices are referred to as "in-the-money," "at-the-money," and "out-of-the-money," respectively. The Fund may write (a) in-the-money call options when the Adviser expects that the price of the underlying security will remain stable or decline during the option period, (b) at-the-money call options when the Adviser expects that the price of the underlying security will remain stable, decline, or advance moderately during the option period, and (c) out-of-the-money call options when the Adviser expects that the premiums received from writing the call option will be greater than the appreciation in the price of the underlying security above the exercise price. By writing a call option, the Fund limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option. Out-of-the-money, at-the-money, and in-the-money put options (the reverse of call options as to the relation of exercise price to market price) may be utilized in the same market environments that such call options are used in equivalent transactions. At June 30, 2017, the Fund held no investments in options contracts.

**Foreign Currency Translations.** The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments, and other assets and liabilities are translated into U.S. dollars at current exchange

**Gabelli ESG Fund, Inc.**  
**Notes to Schedule of Investments (Unaudited) (Continued)**

---

rates. Purchases and sales of investment securities, income, and expenses are translated at the exchange rate prevailing on the respective dates of such transactions. Unrealized gains and losses that result from changes in foreign exchange rates and/or changes in market prices of securities have been included in unrealized appreciation/depreciation on investments and foreign currency translations. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date on investment securities transactions, foreign currency transactions, and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amounts actually received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the initial purchase trade date and subsequent sale trade date is included in realized gain/(loss) on investments.

**Foreign Securities.** The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible revaluation of currencies, the inability to repatriate funds, less complete financial information about companies, and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than securities of comparable U.S. issuers.

**Foreign Taxes.** The Fund may be subject to foreign taxes on income, gains on investments, or currency repatriation, a portion of which may be recoverable. The Fund will accrue such taxes and recoveries as applicable, based upon its current interpretation of tax rules and regulations that exist in the markets in which it invests.

**Restricted Securities.** The Fund may invest up to 15% of its net assets in securities for which the markets are restricted. Restricted securities include securities whose disposition is subject to substantial legal or contractual restrictions. The sale of restricted securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Securities freely saleable among qualified institutional investors under special rules adopted by the SEC may be treated as liquid if they satisfy liquidity standards established by the Board. The continued liquidity of such securities is not as well assured as that of publicly traded securities, and accordingly the Board will monitor their liquidity. At June 30, 2017, the Fund held no restricted securities.

**Tax Information.** The Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended.



**GABELLI ESG FUND, INC.**  
**One Corporate Center**  
**Rye, NY 10580-1422**

**Portfolio Management Team Biographies**

**Christopher C. Desmarais** joined GAMCO Investors, Inc. in 1993. Currently he is a Managing Director of GAMCO Asset Management, Inc., a portfolio manager of Gabelli Funds, LLC, as well as the Director of Socially Responsive Investments. He is a co-portfolio manager of the Fund, and his responsibilities also include marketing and client service of GAMCO's Value, Growth, and International capabilities for institutional, endowment, and family office clients as well as direct oversight of all of the Firm's ESG equity products. He is a graduate of Fairfield University with a B.A. in Economics.

**Christopher J. Marangi** joined Gabelli in 2003 as a research analyst. Currently he is a Managing Director and Co-Chief Investment Officer for GAMCO Investors, Inc.'s Value team. In addition, he serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Fund Complex. Mr. Marangi graduated magna cum laude and Phi Beta Kappa with a BA in Political Economy from Williams College and holds an MBA degree with honors from Columbia Business School.

**Kevin V. Dreyer** joined Gabelli in 2005 as a research analyst covering companies within the consumer sector. Currently he is a Managing Director and Co-Chief Investment Officer for GAMCO Investors, Inc.'s Value team. In addition, he serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Fund Complex. Mr. Dreyer received a BSE from the University of Pennsylvania and an MBA degree from Columbia Business School.

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](http://www.gabelli.com).



## GABELLI ESG FUND, INC.

One Corporate Center  
Rye, New York 10580-1422

t 800-GABELLI (800-422-3554)

f 914-921-5118

e [info@gabelli.com](mailto:info@gabelli.com)

[GABELLI.COM](http://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.

Clarence A. Davis  
Former Chief  
Executive Officer,  
Nestor, Inc.

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

William F. Heitmann  
Former Senior Vice  
President of Finance,  
Verizon Communications, Inc.

Anthonie C. van Ekris  
Chairman,  
BALMAC International, Inc.

### OFFICERS

Bruce N. Alpert  
President

Agnes Mullady  
Vice President

Andrea R. Mango  
Secretary

John C. Ball  
Treasurer

Richard J. Walz  
Chief Compliance Officer

### DISTRIBUTOR

G.distributors, LLC

### CUSTODIAN

The Bank of New York Mellon

### LEGAL COUNSEL

Paul Hastings LLP

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



# GABELLI ESG FUND, INC.

*First Quarter Report  
June 30, 2017*