

# The Gabelli Focus Five Fund

## Shareholder Commentary

June 30, 2017

### To Our Shareholders,

The Gabelli Focus Five Fund (GWSIX) was +4.8% in the 2Q17, net of fees and expenses, bringing the year-to-date return to 12.9%.

This compares to year-to-date returns of 9.3% for the S&P 500 Index, 5.0% for the Russell 2000 Small Cap Index, and just 0.5% for Russell 2000 Value Index.

The S&P 500 continued to be driven higher by a handful of large cap technology stocks. Excluding the performance of Apple, Amazon, Facebook, Microsoft and Alphabet, the S&P 500 would have been up just 6.8% in the first six months of 2017.

Small cap valuations fell in June from 13.6x to 12.7x current year EBITDA, and are now close to their five-year median (12.0x). The forward P/E of the Russell 2000, however, rose from 19.5x to 19.7x in June, and is 25% above its historical average.

The Focus Five Fund continues to overweight small cap stocks, and at quarter-end, had 57% of the portfolio invested in 20 positions with market capitalizations less than \$5 billion.

We believe this increases our potential to create alpha over time, particularly as a complement for those shareholders that buy large cap stocks for income or predominantly use ETFs to gain market exposure.

Our portfolio also remains skewed toward value stocks, which have substantially lagged the broader market this year. We have been nibbling at energy and retail during the quarter, and had about 13% of our assets under management invested in both sectors at quarter-end. We also had about 13% in Treasury Bills, reflecting our view that more attractive entry points might be ahead.

Our top 10 positions represent 52% of our assets, and we believe they are trading at significant discounts to Private Market Value (PMV, the price an informed industrialist might pay to acquire the entire business). In fact, we estimate more than 50% upside to 2018 Private Market Value estimates, on average, for our top 10 investments, with a multitude of company specific catalysts on the horizon.

## Our Strategy

As background for some of our more recent Fund shareholders, we thought the following brief overview of the Focus Five investment strategy might be helpful.

In 2006, we began publishing the *Gabelli Focus Five* research report, a quarterly publication of 5 stock ideas that our team believed to be trading at large discounts to Private Market Value.

In order for a stock idea to make the list, however, it needed to have a near-term potential catalyst, or event, that might surface value for shareholders.

It was a way to illustrate the Gabelli value investing principles that have worked so well for our firm since 1977. We published this report for 6 years, during which time our ideas outperformed the broad market by a wide margin, although not without some short-term challenges. For example, during the 2nd quarter of 2010, our picks trailed the S&P 500 by nearly 10%.

As a way to offer a similar concentrated “best ideas” strategy to clients, we repositioned an existing Gabelli mutual fund that had approximately \$5 million in assets at the time (January 2012), and re-named it the Gabelli Focus Five Fund.

Our aim was to fill a large void in the mutual fund market by offering a relatively concentrated portfolio, with high active share. Academic evidence has routinely confirmed that funds run by managers with conviction in their “best ideas” tend to earn very attractive risk-adjusted returns over long periods of time.

We determined that a portfolio of 25-35 companies was optimal, compared to the average actively managed equity mutual fund that’s comprised of over 175 positions. There is a wealth of information to support the virtues of concentrated portfolios, particularly as a complement to a basket of ETFs.

John Maynard Keynes once said “The right method is to put large sums into enterprises and management in which one thoroughly believes.” Put simply another way, “Why own your 85th best idea?”

In his 1997 letter to Berkshire Hathaway Shareholders, Warren Buffett writes:

*“We try to exert a Ted Williams kind of discipline. In his book *The Science of Hitting*, Ted explains that he carved the strike zone into 77 cells, each the size of a baseball. Swinging only at balls in his “best” cell, he knew, would allow him to bat .400; reaching for balls in his “worst” spot, the low outside corner of the strike zone, would reduce him to .230. In other words, waiting for the fat pitch would mean a trip to the Hall of Fame; swinging indiscriminately would mean a ticket to the minors.”*

We continue to believe the Focus Five Fund works as it should, offering a concentrated portfolio of high conviction ideas that should benefit from value-surfacing events in a 3-18 month timeframe.

Our stated goal of earning risk-adjusted returns over a 2-3 year holding period by allocating capital to a handful of businesses that offer meaningful upside, where we have confidence in management and anticipate near-term catalysts likely to surface value, remains the same.

## Let's Talk Stocks

In the 2nd quarter of 2017, we added four new positions to the portfolio, representing 6% of our assets.

There were also 3 additions to the top 10 as of quarter-end: *Delphi Automotive (3.0% of net assets as of June 30, 2017) (DLPH)*, *Gogo Inc. (2.9%) (GOGO)*, and *Newell Brands (3.3%) (NWL)*.

We began buying shares of Delphi in October 2016. Delphi is focused on Safe, Green, and Connected in the automotive industry. In early May, DLPH announced the spin-off of the Powertrain business, an anticipated catalyst that should allow greater focus on high-growth segments.

Delphi's other two segments, Electrical Architecture and Electronics & Safety, will cater to OEMs from sensors to V2X Intelligent Driving. The company also has exposure to transformative segments of the auto industry, including autonomous driving and EV. Delphi is currently trading at about 8.5x our 2018 EBITDA estimate and a discount to our PMV of \$118.

We made an initial investment in Newell Brands in January 2017. Following the combination of Jarden and Newell last year, strong brands include *Sharpie*, *Rubbermaid*, *Yankee Candle*, *Marmot*, *Crock-Pot* and *Mr. Coffee*.

We believe that the company stands to benefit from \$500 million+ of synergies and will continue to improve on operations with an 11% EPS CAGR over the next few years. Our 2018 PMV is \$74 on a sum-of-the-parts basis.

We began buying GOGO shares in February 2015 and have traded around the volatility during the 2Ku development cycle. The company currently provides service to 7,000 aircraft with 1,600 aircraft in backlog for 2Ku service.

The increased need for functional inflight connectivity has created a competitive environment where GOGO has proven that the speed of their offering as well as their leading install time for retrofitting aircraft has put them ahead of competitors.

GOGO has several wins from major airlines, most recently Virgin Australia, and has installed over 170 aircraft with 2Ku to date. Along with retrofit, GOGO has now signed a contract with Airbus to offer 2Ku OEM installs. More importantly, the addressable market for connected aircraft is currently 10,000 with an additional 9,000 expected by 2025. We believe the shares are worth approximately \$20 in 2018 using a 13x EBITDA multiple.

During the quarter, we trimmed our holdings in *Take-Two Interactive (1.5%) (TTWO)* and *Post Holdings (2.4%) (POST)*. We have owned TTWO since late 2013 with an average cost around \$16. The company has thrived under the leadership of CEO Strauss Zelnick, leveraging core brands like Grand Theft Auto and NBA2K.

*Post Holdings* has been a core position since September 2014 and has an average cost of \$33. POST's management team has been terrific allocators of capital, investing in the business and accretive

acquisitions. Both TTWO and POST are examples of our intended multi-year ownership of businesses that can deliver multi-bagger growth.

In sum, we are confident in the portfolio to deliver risk-adjusted returns over the next several years.

Despite small cap value lagging the overall market year-to-date, the Fund is performing given improving company specific fundamentals. We appreciate your continued confidence, and look forward to sharing more detail with you in the coming months.

Best regards,

Dan Miller

August 11, 2017

**Top Ten Holdings (Percent of Net Assets)**

**June 30, 2017**

Bioscrip Inc.	9.8%	Blackhawk Network Holdings Inc.	3.8%
MGM Resorts International	7.7%	Maple Leaf Foods Inc.	3.7%
Liberty Global plc	7.2%	Newell Brands Inc.	3.3%
Edgewell Personal Care Co.	5.6%	Delphi Automotive plc	3.0%
Alphabet Inc.	5.2%	GoPro Inc.	2.9%

**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.

## **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 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](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**

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 June 30, 2017 (a)(b)

	Quarter(c)	1 Year(c)	3 Year(c)	Since (1/1/12)(c)	5 Year	10 Year	Since Inception (12/31/02)
<b>Class I (GWSIX)</b> . . . . .	4.77%	13.25%	(0.58)%	10.46%	9.73%	5.37%	8.17%
<b>Class AAA (GWSVX)</b> . . . . .	4.83	13.02	(0.80)	9.57	9.48	5.12	8.00
Russell 2500 Index . . . . .	2.13	19.84	6.93	14.33(d)	14.04	7.42	11.43
Russell 1000 Index . . . . .	3.06	18.03	9.26	15.11	14.67	7.29	9.74
MSCI AC World Index Ex-U.S. . . . .	5.99	21.00	1.27	7.58	7.70	1.59	8.74
Blended Index . . . . .	3.29	19.70	6.06	12.78	12.56	5.91	10.32
<b>Class A (GWSAX)</b> . . . . .	4.78	12.96	(0.82)	10.19	9.47	5.13	8.02
With sales charge (e) . . . . .	(1.25)	6.47	(2.75)	9.01	8.18	4.49	7.57
<b>Class C (GWSCX)</b> . . . . .	4.58	12.15	(1.54)	9.38	8.65	4.35	7.23
With contingent deferred sales charge (f) . .	3.58	11.15	(1.54)	9.38	8.65	4.35	7.23

**In the current prospectuses dated January 27, 2017, the expense ratios for Class AAA, A, C, and I Shares are 1.42%, 1.42%, 2.17%, and 1.17%, 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](http://www.gabelli.com) for performance information as of the most recent month end. Returns would have been lower had 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 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 a 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, 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.

**THE GABELLI FOCUS FIVE FUND**  
**One Corporate Center**  
**Rye, NY 10580-1422**

**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.**  
**THE GABELLI FOCUS FIVE FUND**

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Net Asset Value per share available daily  
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**GABELLI**  
FUNDS

# THE GABELLI FOCUS FIVE FUND

*Shareholder Commentary*  
*June 30, 2017*

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

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# The Gabelli Focus Five Fund

## Third Quarter Report — June 30, 2017

### To Our Shareholders,

For the quarter ended June 30, 2017, the net asset value (“NAV”) per Class I Share of The Gabelli Focus Five Fund increased 4.8% compared with the Fund’s benchmark, the Blended Index, which increased 3.3%. The benchmark consists of 50% of the Russell 2500 Index, 25% of the Russell 1000 Index, and 25% of the MSCI AC World Ex-U.S. Index. 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)

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# The Gabelli Focus Five Fund

## Schedule of Investments — June 30, 2017 (Unaudited)

Shares		Market Value	Shares		Market Value
	<b>COMMON STOCKS — 87.0%</b>			<b>Health Care Equipment and Supplies — 1.3%</b>	
	<b>Automotive: Parts and Accessories — 3.4%</b>		43,750	Alere Inc.†	\$ 2,195,813
10,000	Adient plc. . . . .	\$ 653,800			
55,100	Delphi Automotive plc. . . . .	<u>4,829,515</u>	400,000	<b>Hotels and Gaming — 7.7%</b>	
		<u>5,483,315</u>		MGM Resorts International. . . . .	<u>12,516,000</u>
	<b>Building and Construction — 4.3%</b>		45,000	<b>Pharmaceuticals — 0.9%</b>	
240,212	Armstrong Flooring Inc.† . . . . .	4,316,609		Akorn Inc.† . . . . .	<u>1,509,300</u>
68,100	Herc Holdings Inc.† . . . . .	<u>2,677,692</u>	40,000	<b>Retail — 4.0%</b>	
		<u>6,994,301</u>	75,000	Advance Auto Parts Inc. . . . .	4,663,600
	<b>Business Services — 0.0%</b>		40,000	Hertz Global Holdings Inc.† . . . . .	862,500
3,200	Gerber Scientific Inc., Escrow† . . . . .	<u>0</u>		Macy's Inc. . . . .	<u>929,600</u>
	<b>Cable and Satellite — 9.4%</b>				<u>6,455,700</u>
59,001	EchoStar Corp., Cl. A† . . . . .	3,581,360	67,500	<b>Semiconductors — 1.8%</b>	
375,000	Liberty Global plc, Cl. C† . . . . .	<u>11,692,500</u>	46,300	Integrated Device Technology Inc.† . . . . .	1,740,825
		<u>15,273,860</u>		Nanometrics Inc.† . . . . .	<u>1,170,927</u>
	<b>Computer Software and Services — 7.8%</b>				<u>2,911,752</u>
9,250	Alphabet Inc., Cl. C† . . . . .	8,405,753		<b>Specialty Chemicals — 0.9%</b>	
50,000	Hewlett Packard Enterprise Co. . . . .	829,500	35,000	Methanex Corp. . . . .	<u>1,541,750</u>
950,000	Internap Corp.† . . . . .	<u>3,486,500</u>	405,000	<b>Telecommunications — 2.9%</b>	
		<u>12,721,753</u>		Gogo Inc.† . . . . .	<u>4,669,650</u>
	<b>Consumer Products — 8.9%</b>			<b>TOTAL COMMON STOCKS . . . . .</b>	<u>141,742,971</u>
120,000	Edgewell Personal Care Co.† . . . . .	9,122,400			
100,000	Newell Brands Inc. . . . .	<u>5,362,000</u>		<b>Principal Amount</b>	
		<u>14,484,400</u>		<b>U.S. GOVERNMENT OBLIGATIONS — 13.0%</b>	
	<b>Energy and Utilities — 5.3%</b>		\$21,257,000	U.S. Treasury Bills, 0.786% to 1.111%††, 07/27/17 to 12/14/17 . . . . .	<u>21,225,082</u>
195,000	Patterson-UTI Energy Inc. . . . .	3,937,050		<b>TOTAL INVESTMENTS — 100.0%</b>	
1,200,000	Weatherford International plc† . . . . .	<u>4,644,000</u>		(Cost \$141,297,952) . . . . .	<u>\$162,968,053</u>
		<u>8,581,050</u>			
	<b>Entertainment — 1.5%</b>			Aggregate tax cost. . . . .	\$142,259,055
33,500	Take-Two Interactive Software Inc.† . . . . .	<u>2,458,230</u>		Gross unrealized appreciation . . . . .	\$ 26,513,728
	<b>Financial Services — 7.6%</b>			Gross unrealized depreciation . . . . .	<u>(5,804,730)</u>
140,000	Blackhawk Network Holdings Inc.† . . . . .	6,104,000		Net unrealized appreciation/depreciation . . . . .	<u>\$ 20,708,998</u>
55,000	Interactive Brokers Group Inc., Cl. A . . . . .	2,058,100			
775,000	Och-Ziff Capital Management Group LLC, Cl. A . . . . .	1,984,000			
75,000	Synchrony Financial. . . . .	<u>2,236,500</u>			
		<u>12,382,600</u>			
	<b>Food and Beverage — 9.5%</b>				
790,233	Inventure Foods Inc.† . . . . .	3,405,904			
241,500	Maple Leaf Foods Inc. . . . .	6,097,093			
50,000	Mondelēz International Inc., Cl. A . . . . .	2,159,500			
50,000	Post Holdings Inc.† . . . . .	<u>3,882,500</u>			
		<u>15,544,997</u>			
	<b>Health Care Equipment and Services — 9.8%</b>				
5,900,000	BioScrip Inc.† . . . . .	<u>16,018,500</u>			

† Non-income producing security.  
†† Represents annualized yield at date of purchase.

See accompanying notes to schedule of investments.

## The Gabelli Focus Five Fund

### Notes to Schedule of Investments (Unaudited)

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As an investment company, the Fund follows the investment company accounting and reporting guidance, which is part of U.S. generally accepted accounting principles (“GAAP”) that may require the use of management estimates and assumptions in the preparation of its schedule of investments. 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 the 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).

## The Gabelli Focus Five Fund

### 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	Level 3 Significant Unobservable Inputs	
<b>INVESTMENTS IN SECURITIES:</b>				
<b>ASSETS (Market Value):</b>				
Common Stocks				
Business Services	—	—	\$ 0	\$ 0
Other Industries (a)	\$141,742,971	—	—	141,742,971
Total Common Stocks	141,742,971	—	0	141,742,971
U.S. Government Obligations	—	\$21,225,082	—	21,225,082
<b>TOTAL INVESTMENTS IN SECURITIES – ASSETS</b>	<b>\$141,742,971</b>	<b>\$21,225,082</b>	<b>\$ 0</b>	<b>\$162,968,053</b>

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

#### 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

## The Gabelli Focus Five Fund

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

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in the value of its portfolio securities and in the value of securities it intends to purchase, or hedging against 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 the 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 option positions.

**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

## The Gabelli Focus Five Fund

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

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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.

**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 Equity Series Funds, Inc.

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Flom LLP

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

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GABELLI  
FUNDS

# THE GABELLI FOCUS FIVE FUND

*Third Quarter Report  
June 30, 2017*

