

# GAMCO Mathers Fund

## Shareholder Commentary March 31, 2018



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### To Our Shareholders,

During his March 1<sup>st</sup> Senate testimony Q&A, Fed Chair Jerome Powell made the following statement –  
“It’s not our job to stop people from making money or losing money in the stock market”

Fed tightening cycles typically end with a financial crisis ‘event’. The Fed is tightening and other central banks are considering tightening just as the Fed’s QE ‘liquidity supernova’ is topping as shown on page three. The U.S Federal Reserve has signaled that it currently intends to continue raising the FOMC policy interest rate several more times during 2018 and 2019. “By year-end 2018 the Fed will have raised interest rates 8 times, 11 times by the end of 2019, to 2.75%-3.00%” according to BofAML shown below.

The decade ending December 31, 2009 was unique in two respects. According to Standard & Poor’s data starting in 1927, the 2000s was the first negative total return decade as the S&P 500 Index lost 9.11% over this period. The second is that two major bear markets occurred, each hammering the S&P 500 with 50% declines, one lasting from March 2000 to October 2002, and the other from October 2007 to March 2009. A powerful bear market in stocks that could take the S&P 500 down at least fifty percent is looming.

### Fed tightening cycles typically end with an ‘event’...



Source: BofA Merrill Lynch Global Investment Strategy, Global Financial Data, Bloomberg

## Investment Performance and Portfolio Highlights

The GAMCO Mathers Fund total return for the three months ended March 31, 2018 was (1.20)% versus (0.76%) for the S&P 500 Index. At quarter end, the gross equity exposure was 46.39% (longs plus shorts), comprised of 0.00% long and 46.39% in short positions, with a 46.39% net short exposure (longs minus shorts). The remainder of the portfolio, as has been the case for an extended time period, was invested in short-term U.S. Treasury bills and U.S. Treasury collateralized repurchase agreements. The short stock portfolio segment had a negative return for the quarter and the fixed income segment had a positive return. There were no arbitrage or long equity positions in the quarter. Historically low short-term U.S. Treasury bill yields have disadvantaged the Fund's overall performance. For its first hike since June 2006, the Fed raised the federal funds target range from 0.00 to 0.25 to 0.25 to 0.50 percent in December 2015 and has successively raised this key rate since then to 1.50 to 1.75 percent on March 21, 2018.

The Fund completed 52 years of operation during 2017 and since inception through December 31, 2017 its average annual total return was 5.84% versus 10.01% for its benchmark S&P 500 Index. During the 2008-09 credit crisis, the Fund's risk averse position preserved capital and outperformed the S&P 500 for the two, three, five, and ten year periods ended December 31, 2009. The Fund had positive returns for the one, two, three, five, and ten year periods ended December 31, 2008 versus the S&P 500, which had negative returns for each of those periods. Due to its high cash position, the Fund took substantially less risk and earned higher returns during those periods than a fully invested S&P 500 index fund.

The Fund's gross and net equity exposures and positions may vary significantly from week to week in an effort to control portfolio volatility under various market conditions. Accordingly, the quarter-end data may not be indicative of the gross and net equity exposures that precede and follow each reporting period.

A portion of the Fund's long common stock segment may be invested in takeover target companies subject to all cash tender or merger offers from an acquiring entity. Deal arbitrage stocks typically earn relatively attractive annualized returns, but are held for short time periods. The inherent risk of this investment strategy is if the announced merger or acquisition is not completed, or is renegotiated at a less attractive price, or does not close on the expected date, the price of the security may fall.

Since the SEC's portfolio turnover formula excludes fixed income securities with maturities of less than one year and short sale activity from its denominator, the Fund's turnover rate may appear very high, which can be misleading. This has been the case in some prior years when the Fund's U.S. Treasury bill position was a very high proportion of assets and had a maturity of less than one year, while the average month end dollar value of long stock positions (the denominator) was negligible and long positions were held for short time periods. This may occur in 2017 and beyond as cash positions are used to control risk.

*The GAMCO Mathers Fund performance for the 1-year, 5-year and 10-year periods ended March 31, 2018, was (9.02)%, (10.52)%, and (7.30)%, respectively. The expense ratio reported in the April 30, 2018 prospectus was 4.58% including dividend and interest expenses on securities sold short of 1.27%.*

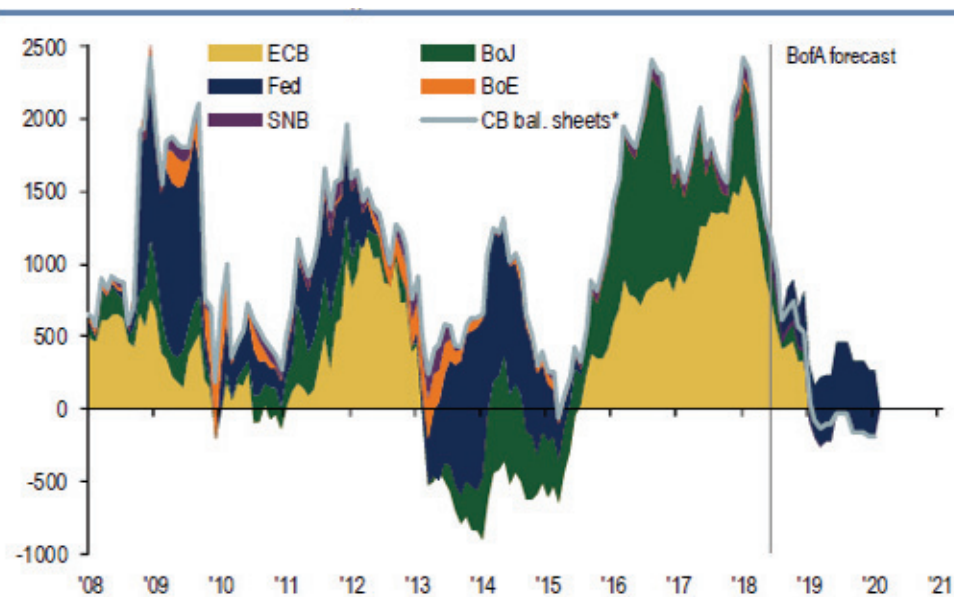
*Average annual returns reflect changes in share price and reinvestment of dividends and are net of expenses. **Returns represent past performance and do not guarantee future results.** Investment returns and the principal value of an investment will fluctuate. When shares are redeemed they may be worth more or less than their original cost. Current performance may be lower or higher than the performance data presented. The Standard & Poor's 500 Index is an unmanaged indicator of stock market performance. Please visit [www.gabelli.com](http://www.gabelli.com) to obtain performance information as of the most recent month end. Short selling of securities poses special risks and may not be suitable for certain investors. Short selling is the sale of a borrowed security and losses are realized if the price of a security increases between the date the security is sold and the date the Fund replaces it.*

## Why Are Asset Markets Struggling? \*

Because it's late-cycle, profits are peaking, and the Fed is tightening:

- On Aug 22nd the S&P500 bull market will become the longest of all-time
- July 2019 US economic expansion will become the longest since the Civil War
- From Feb'16 low to Jan'18 highs global equity market cap soared \$33tn (equates to one FedEx added each trading day)
- In 12 months IBES consensus forecasts the level of global corporate profits to be 1/3 higher than prior peak in 2008 (\$3.3tn vs \$2.4tn)
- US, UK, Germany, Japan unemployment rates are at multi-decade lows, and yet political populism is accelerating quicker than wage growth
- \$1.45tn of tax cuts have been enacted in USA, and yet volatility & interest rates have risen more than stocks & GDP forecasts this year
- Government bond supply set to triple to \$1.5tn by 2019, and yet 10-year UST yield can't break 3%, stock of negatively-yielding global debt still >\$10tn
- 2018 US corporate bond issuance on pace +\$1.5tn, US equity supply -\$0.9tn, and yet TINA theme (There Is No Alternative) to equities struggling
- By end-18 the Fed will be 8 hikes into a tightening cycle and central bank balance sheets, the dominant catalyst for credit & equity market bull markets, will be contracting

### The end of the Liquidity Supernova - Central bank balance sheets, 12-month rolling \$bn



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg; \* assume BoJ purchases continue at the current reduced pace vs stated level (given their increased ability to influence yields), and the ECB starts to reduce purchases in Sept'18 and ends net purchases Dec'18.

\* Source – Michael Hartnett, Chief Investment Strategist, MLPF&S - The Thundering Word – May 6, 2018

## Tax Loss Carryforwards Offset Capital Gains

The Fund's tax loss carryforwards from prior years are expected to at least partially offset any net realized portfolio capital gains in the future until the current carryforwards are either used up or expire. Tax losses incurred in fiscal years beginning 2011 have no expiration, but must be utilized first.

## www.gabelli.com

Please visit us on the Internet. The Gabelli home page at [www.gabelli.com](http://www.gabelli.com) contains information about GAMCO Investors, Inc., the Gabelli/GAMCO Mutual Funds, IRAs, 403(b)s, quarterly reports, closing prices and other current news. You can e-mail us at [info@gabelli.com](mailto:info@gabelli.com).

## Minimum Initial Investment

The Fund's minimum initial investment is \$1,000 for regular and \$250 for all retirement accounts, with no subsequent investment minimums. No initial minimum is required for accounts starting an Automatic Investment Plan. The Fund and other Gabelli/GAMCO Mutual Funds are available through no-transaction fee programs at many major brokerage firms. The Fund imposes a 2% redemption fee on shares sold within 7 days of a purchase. See the Fund's prospectus for more details.

## Percent Average Annual Total Returns through March 31, 2018\*

	<u>1 YR</u>	<u>5 YRS</u>	<u>10 YRS</u>	<u>20 YRS</u>	<u>30 YRS</u>	<u>52 YRS †</u>
GAMCO MATHERS	(9.02)	(10.52)	(7.30)	(3.57)	(0.94)	5.79
Standard & Poor's 500	13.99	13.31	9.49	6.46	10.46	9.96

The expense ratio is 4.58% (please see note on page 2)

† From start of investment operations on August 19, 1965

\* Average annual total returns reflect changes in share price and reinvestment of dividends and are net of expenses. Returns represent past performance and do not guarantee future results. 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. Please visit [www.gabelli.com](http://www.gabelli.com) to obtain performance information as of the most recent month end. The Standard & Poor's 500 Index is an unmanaged indicator of stock market performance. **Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus and summary prospectus contain more information about this and other matters and should be read carefully before investing.** To obtain a copy of the prospectus or summary prospectus, call 800-GABELLI (800-422-3554) or visit [www.gabelli.com](http://www.gabelli.com). Distributed by G.distributors, LLC.

**NOTE:** The opinions expressed in this report reflect those of the Portfolio Manager only through the date of the shareholder letter and are subject to change at any time based on market and other conditions.