The Gabelli U.S. Treasury Money Market Fund

Shareholder Commentary – March 31, 2018

(Y)our Portfolio Management Team

Judith A. Raneri Ronald S. Eaker

To Our Shareholders,

After a strong finish in 2017, the U.S. economy eased a notch in the first quarter of this year suggesting a slight pullback in growth. However, the moderate data released did not reflect a change in the economy's underlying fundamental momentum. Despite the clear deceleration at the start of the year, the economy appears to have shifted into a higher gear during the current cycle, and is entering a new period of self-sustaining regularity.

Extreme weather played havoc with data in late February and early March, which disrupted economic activity in major sectors of the economy, prompting a downgrade to first quarter's gross domestic product (GDP) growth. Monthly reports, including personal consumption spending and Industrial Production, imply the rate of growth slowed to less than 2% annualized in the first quarter of 2018. Inflation adjusted consumer spending, which drives two-thirds of the economy, fell 0.1% (+2.7% year-over-year). Ex-transportation, durable goods orders fell 0.3%. Single-family building permits fell 1.7%. Factory output edged up a mere 0.1% (+2.0% year-over-year) while core retail sales was flat. The labor market was also impacted, as seen in the March jobs report stepping back from the strengths of prior months, as Nonfarm payrolls increased by just 103,000 jobs, the worst showing since September of 2017. The uninspiring start to the year also fits the pattern that historically, first quarter GDP growth tends to be on the weak side due to residual seasonality.

Nonetheless, even with a projected first quarter slowdown, the trend is expected to be temporary. Underlying fundamentals and economic momentum remain positive and reveal a solid economy growing at a self-sustaining pace. The economic landscape consists of rising household net worth along with upbeat consumer and business confidence. Recent solid gains in cyclical sectors like construction and manufacturing are very much consistent with continued economic expansion. And although March payroll data disappointed expectations, employment has risen by an average 202,000 jobs per month, compared to an average 182,000 per month in 2017. While jobs and income growth continue to bring potential buyers to the market even as mortgage rates rose, making residential investment a bright spot in the outlook for first quarter's GDP growth. What's more, consumer spending has started to perk up in March as auto sales rose 2.4%, marking the first rise in three months and stronger foreign demand, oil prices and a softer dollar are also adding to the positive outlook.

Aside from recent sound fundamentals, fiscal stimulus is playing a major role in reinforcing the strength and wellbeing of the economy. The recently enacted tax reform package creates potential upside risks for the economy in the near term, it reduces household taxes and encourages spending as well as savings. The increase in income will lead to more demand. It creates a recurring cycle that drives further economic growth. The Bipartisan Budget Act will increase discretionary spending by nearly $300 billion over the next two years. Together, they will add ½%-¾% to growth in 2018 and 2019.

The current state of the economy has given the Federal Reserve justification this year to accelerate its pace of interest rate increases. The strengthening jobs market has been core to the Federal Reserve's debates on whether to raise interest rates. As the economy approaches full employment, the committee believes wage growth will rise and inflation could accelerate above the central bank's 2% target, leading to further tightening. According to the summary of economic projections that the FOMC releases each quarter, three rate hikes in total is still the baseline for 2018.

Given this bright outlook, possible risks to growth exist. High on the list is the potential for aggressive monetary tightening from the Federal Reserve, if signs of over heating begin to appear, mainly due to the impact of the House Tax plan. The large amount of stimulus can fuel inflation when added to an economy already operating near full capacity. Currently however, inflation has not shown any warning signs. The Federal Reserve's preferred measure of inflation, the Personal Consumption Expenditures (PCE) 12-month increase, was unchanged at 1.7% for the third consecutive month. Supporting the conclusion that inflation is sufficiently low and stable. Another risk to economic growth is trade protectionism. The trade battle between the U.S. and China could escalate into a trade war that could rebound negatively on financial conditions and economic activity, not just in the U.S., but globally. Lastly, there are signs that growth is moderating in Europe and that emerging markets will experience less strengthening during the second half of 2018 than initially expected.

Still, these downside risks together with a weak start to the year do not skew the overall strength of the economy. The Conference Board measures of consumer and CEO confidence remain near ten-year highs, the unemployment rate is at its lowest level in a decade, fundamentals are strong and together with the simulative effects of the recent tax cuts and additional government spending, the economy is poised for more robust growth in the months to come.

April 27, 2018

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Portfolio Management Team Biographies

Ronald S. Eaker joined GAMCO Investors, Inc. in 1987. Currently he is a Managing Director of Gabelli Fixed Income, Inc. and a portfolio manager of Gabelli Funds, LLC and the Fund. Mr. Eaker manages short term cash products and high grade intermediate fixed income products. Prior to joining Gabelli, Mr. Eaker was affiliated with Frank Henjes & Co. He is a graduate of Pennsylvania State University with a B.S. in Finance.

Judith A. Raneri joined GAMCO Investors, Inc. in 1989. Currently she is the Vice President and Senior Portfolio Manager of Gabelli Funds, LLC responsible for managing the Fund. Ms. Raneri received a B.S. with honors in Finance from Iona College.

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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.

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