

# The GAMCO Growth Fund

## Shareholder Commentary March 31, 2018



**Howard F. Ward, CFA**  
**Portfolio Manager**



**Christopher D. Ward, CFA**  
**Research Analyst**

### **To Our Shareholders,**

Thank you for your investment in the GAMCO Growth Fund.

For the quarter ended March 31, 2018, the net asset value (“NAV”) per Class I Share of The GAMCO Growth Fund increased 3.3% compared with a decrease of 0.8% for the Standard & Poor’s (“S&P”) 500 Index and an increase of 1.4% Russell 1000 Growth Index. Other classes of shares are available. See page 2 for performance information for all classes.

After an unprecedented stretch of investor complacency, the first quarter of 2018 saw volatility return with a vengeance. The Tax Cuts and Jobs Act of 2017 (The Tax Act) fueled optimism to extreme levels entering the year. The American Association of Individual Investors (“AAII”) Bullish sentiment reached its highest reading since 2010. This optimism was reflected in the stock market as the S&P posted a price gain of 5.6% in January, the best in years. More often than not January sets the tone for how stocks do in the coming year. This phenomenon is known as The January Barometer, devised by Yale Hirsch in 1972 and published by the Stock Traders’ Almanac. Like other indicators, it isn’t perfect, but has been good enough to merit a mention here.

Unfortunately, January’s gains did not hold during February and March. Rising interest rates, fear of an accelerated Federal Reserve tightening pace and growing trade tensions weighed on the macro backdrop. Social media companies faced scrutiny over data sharing practices. Facebook (5.0% of net assets as of March 31, 2018) shares, which we own, stumbled when it was reported that a British political consulting firm, Cambridge Analytica, acquired Facebook user data in violation of Facebook’s policies. Meanwhile, Amazon (5.9%) has been the flavor of the month in the President’s Tweet storm. This confluence of events resulted in a down first quarter for the S&P for the first time since 2009. While the earnings outlook remains positive, we are concerned about the potential for a further derating of market valuation levels such as we saw in the first quarter. Investors are going to be tested this year.

**Average Annual Returns through March 31, 2018 (a)**

	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception (4/10/87)
<b>Class I (GGCIX)</b> .....	3.32%	22.80%	12.29%	14.57%	9.01%	10.36%
S&P 500 Index .....	(0.76)	13.99	10.78	13.31	9.49	9.80(b)
Russell 1000 Growth Index .....	1.42	21.25	12.90	15.53	11.34	9.55(b)
<b>Class AAA (GABGX)</b> .....	3.26	22.51	12.00	14.29	8.74	10.27
<b>Class A (GGCAX)</b> .....	3.24	22.48	12.00	14.29	8.74	10.28
With sales charge (c) .....	(2.69)	15.44	9.81	12.94	8.10	10.07
<b>Class C (GGCCX)</b> .....	3.08	21.58	11.17	13.43	7.93	9.89
With contingent deferred sales charge (d) .....	2.08	20.58	11.17	13.43	7.93	9.89
<b>Class T (GGTXX)</b> .....	3.26	22.49	12.00	14.28	8.74	10.27
With sales charge (e) .....	0.68	19.43	11.06	13.71	8.47	10.16

**In the current prospectuses dated April 30, 2018, the expense ratios for Class AAA, A, C, I, and T Shares are 1.41%, 1.41%, 2.16%, 1.16%, and 1.41%, respectively. Class AAA and Class I Shares do not have a sales charge. The maximum sales charge for Class A Shares, Class C Shares, and Class T Shares is 5.75%, 1.00%, and 2.50%, 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. 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 A Shares and Class C Shares on December 31, 2003, Class I Shares on January 11, 2008, and Class T Shares on July 5, 2017. The actual performance of the Class A Shares, Class C Shares, and Class T Shares would have been lower due to the additional fees and expenses associated with these classes of shares. The actual performance of the Class I Shares would have been higher due to lower expenses related to this class of shares. The S&P 500 Index is a market capitalization weighted index of 500 large capitalization stocks commonly used to represent the U.S. equity market. The Russell 1000 Growth Index measures the performance of the large cap growth segment of the U.S. equity market. Dividends are considered reinvested. You cannot invest directly in an index.*
- (b) S&P 500 Index and Russell 1000 Growth Index since inception performance results are as of March 31, 1987.
- (c) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.
- (d) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.
- (e) Performance results include the effect of the maximum 2.50% sales charge at the beginning of the period.

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

## **The Economy**

Since our last quarterly commentary at year end, growth expectations have modestly improved. According to the Bloomberg economic survey, real gross domestic product ("GDP") growth is now pegged at 2.8% for this year, compared to expectations of 2.6% three months ago. The first quarter is looking like 2.5% but a seasonal bounce is expected in the second quarter, which may represent peak growth for the year at or around 3.0%. Despite a low 4.1% unemployment rate, which could drop below 4.0% by the time you read this, consumer spending has been disappointing, falling below trend-line in recent months. We still expect capital expenditures to get a boost from corporate tax reform but CEO confidence has rolled over and may slip further in the wake of the ongoing battle over the terms of trade.

Earnings should be a positive influence on stocks this year but may not be positive enough if interest rates waggle their way much higher. S&P operating earnings were about \$132 last year (reported earnings were lower mostly due to taxes required on foreign profits to pave the way for repatriation of overseas cash). Prior to tax reform the estimate for 2018 was about \$145 or a gain of 10%. Tax reform boosted expected earnings by about 7.5%, to \$156, for a gain of 18% for 2018 operating income. While it is a little early to focus on expected earnings in 2019, we must work that number into our thoughts as it is paramount to understanding where the market should be trading at year end. Right now earnings estimates for 2019 look like \$172, for a gain of about 10% from the \$156 expected this year. Let me emphasize that any 2019 estimates are quite tentative at this point. With the Federal Reserve slowly taking away the punch bowl and trade negotiations heating up, we must be cognizant of the potential for some negative earnings estimate revisions.

The Federal Reserve Board began tightening monetary policy in December 2015. The Federal Reserve has raised the Federal Funds rate six times so far, with the latest boost in March. The Federal Reserve has telegraphed at least two more increases this year and it continues to slowly shrink its balance sheet via quantitative tightening ("QT"). While the exact path of interest rates is uncertain, especially for longer dated maturities, we expect a tightening of monetary conditions, expressed primarily via rising rates, to become a headwind for stocks at some point. This happens as rising rates slows economic activity and ultimately makes bonds and/or short-term money instruments more attractive relative to stocks, especially for risk averse investors. We note that the yield on ten year Treasury bonds was 2.0% last September, 2.4% at year end and is currently 2.8%.

## **The Markets**

Volatility will remain elevated as the market adjusts to a tighter monetary background that has already resulted in higher rates across the yield curve spectrum and a softening in global PMIs. Last quarter we warned of an imminent pullback in stocks of at least 5%. The good news is we got a full 10% correction which was a painful but necessary evil. We know from history that price to earnings multiples have contracted eight of the last eight Federal Reserve tightening cycles. So far this year we have lost two multiple points, bringing forward multiples close to historic averages, so it looks like the most recent Federal Reserve tightening cycles are now nine for nine in terms of clipping stock valuations.

Right now we don't believe bond yields are headed materially higher anytime soon. Core inflation readings remain subdued and wage rate gains, which feed core inflation, have yet to spike to levels like 4% which would warrant greater concern. Additionally, long term bond yields are correlated with global economic growth prospects, which seem to have declined, given three consecutive declines in the Global PMI. It is unlikely the ten year Treasury will reach a yield as much as 3.25% over the balance of this year unless wage rates surge in a manner we have not seen and are not expecting at this time. The last time the ten year yield reached 3.0% was 2013 and stocks sold at 15 times forward earnings, not far from where they are today.

If the market can maintain its current multiple of 16.5 times next 12 months earnings and if 2019 earnings expectations are realized (\$172 per share), this would suggest a year end S&P target of 2838, about 6.5% higher than today's level of 2667. This is a nice rate of return if not heroic. We have been spoiled by the 19% compound growth rate of stock prices since the March, 2009 bottom. That level of return is grossly unsustainable.

There is obviously headline risk, or should I say Tweet risk, associated with the trade war banter flying between Washington and Beijing. We have already experienced that. It is hard to speculate on the final outcome given the posturing and negotiating taking place not just with China but on multiple fronts with multiple trading partners. The stock market is no fan of tariffs and trade wars. The unintended consequences are risky. With trade comprising 60% of global GDP you get a sense of how a trade war could negatively impact global growth. Trade could be a game changer for our relatively constructive view on the economy and stocks. We cannot adequately handicap this ongoing very public drama.

## **Portfolio Observations**

We eliminated four holdings during the quarter and added 13 for a net increase of nine, making 62 companies in the portfolio. We sold Blue Buffalo after they agreed to be acquired by General Mills. We sold Lockheed Martin after its shares reached a very full valuation. We sold Ecolab when it too appeared to attain a lofty price. Finally, we exited Biogen given pipeline concerns which raise questions about the rate of future growth.

New positions were established in health care names Edwards Lifesciences (1.6% of net assets as of March 31, 2018) (less invasive heart surgery technology), Intuitive Surgical (0.5%) (robotic surgical devices), Illumina (1.0%) (next gen DNA sequencing) and Align Technology (0.5%) (innovative dental appliances). In financial services, we acquired new positions in BlackRock (0.6%) (asset management – mutual funds, ETFs & separate accounts), Blackstone (0.4%) (largest private equity firm), S&P Global (1.0%) (owner of Standard & Poor's ratings and indices), Broadridge Financial Solutions (0.2%) (financial services outsourcing) and Square Inc. (0.2%) (mobile payment solutions, software for small businesses).

Additionally, we established positions in Accenture (0.9%) and Cognizant (1.0%), two of the leading providers of technology consulting and outsourcing. Finally, we started positions in Cognex (0.3%) (builds machine vision systems for factory automation) and Autodesk (1.0%), the leader in computer aided design software and tools for architectural and mechanical design. We typically start new positions on the small side but anticipate some of these names becoming much larger over time.

We increased a number of positions with the biggest increases in Starbucks (3.0%), Palo Alto Networks (1.8%) and First Republic Bank (1.5%). We also reduced a number of positions, including Parker – Hannifin (0.4%), Boeing (1.4%), Home Depot (2.7%), Crown Castle (1.4%), American Tower (1.1%) and Adobe Systems (3.7%).

At quarter end we were overweight (relative to the Russell 1000 Growth Index) technology, health care and financial services. We were relatively neutral in consumer discretionary and underweight consumer staples, energy, materials, producer durables and utilities. Our 15 largest holdings represent about 58% of total assets.

## **Performance Commentary**

Our top 5 contributors to performance last quarter came from some of our largest holdings. Holdings with the most positive impact on performance for the quarter (based upon price change and the size of the holding), were, in order, Amazon.com (5.9% of net assets as of March 31, 2018), Adobe Systems (3.7%), MasterCard (4.4%), Zoetis (3.2%), and Microsoft (6.2%). Smaller positions that pulled above their weight were Netflix (1.1%), NVIDIA (1.0%), Boeing (1.4%), Edwards Lifesciences (1.6%) and Blue Buffalo Pet Products\*.

Holdings that hurt performance the most were Comcast (1.6%), Facebook (5.0%), PepsiCo (2.0%), Disney\*, Home Depot (2.7%), Charter Communications (0.9%), Rockwell Automation (0.5%), UnitedHealth Group (3.9%), 3M Company (1.1%) and Cognex (0.3%).

## **In Conclusion**

This is the most challenging environment we have had as investors since 2008. Expectations for earnings growth are high. Stock valuations are vulnerable to earnings disappointments and macro shocks. Should economic growth surprise to the upside – possible with tax cuts – interest rates may rise faster and farther than we expect, causing more P/E multiple contraction. With the unemployment rate hitting multiyear lows, wage rate gains may surprise to the upside. A trade war could ignite, and slow global growth. The Federal Reserve could over tighten as Federal Boards often do. Interest rates may surge higher in the second half of the year in response to the scheduled acceleration in both the Federal Reserve’s QT and the Treasury’s borrowing needs. What about the Mueller investigation? What about the mid-term elections? Will the nuclear deal with Iran be scuttled? Will new NSA head John Bolton be confrontational with Iran and (or) North Korea?

We are not market timers so we will stay the course but continue with a modest defensive tilt. This means we will remain underweighted in cyclical areas like industrials, materials and energy. The economy and stock market are exhibiting late cycle tendencies. At this stage, we prefer companies with less earnings variability and strong secular growth stories. Market timing is difficult and dangerous. We don’t recommend it or practice it. For all of our concerns, the economy is doing pretty well and over time we believe stocks will too. That is not to say there won’t be bumps along the way. Be prepared.

\*No longer held

## Let's Talk Stocks

The following are stock specifics on selected holdings of our Fund. Favorable earnings prospects do not necessarily translate into higher stock prices, but they do express a positive trend that we believe will develop over time. Individual securities mentioned are not necessarily representative of the entire portfolio. For the following holdings, the percentages of net assets, and their share prices are stated as of March 31, 2018.

*Adobe Systems Inc. (3.7% of net assets as of March 31, 2018) (ADBE – \$216.08 – NASDAQ)* is the global leader in digital marketing and digital media solutions. Adobe has the most comprehensive end-to-end solution for digital marketing. Its tools allow customers to create digital content, deploy it across media and devices, and measure and optimize it over time. Adobe has successfully transitioned from a product-based desktop business to a cloud-based subscription business. Over 80% of total revenue is now recurring and that number is poised to climb higher as 7 million customers worldwide are yet to migrate. The demand for design capabilities continues rising at a dramatic pace, as reflected in Adobe's large and growing total addressable market of \$64 billion in 2019.

*Alphabet Inc. (6.0%) (GOOG/GOOGL – \$1,031.79/\$1,037.14 – NASDAQ)* is the parent company of Google, the world's leading Internet search engine. The company benefits from a powerful competitive moat in one of the best secular markets, digital advertising, in which Google maintains ~45% market share. The company generates revenue by providing advertisers the opportunity to deliver targeted and measurable advertising. Alphabet's healthy core search business has allowed the company to pursue new market opportunities such as streaming video (YouTube Red), life sciences (Verily), autonomous driving (Waymo) and a variety of other "moonshot" projects.

*Apple Inc. (6.0%) (AAPL – \$167.78 – NASDAQ)* designs computers, mobile phones and other hardware, along with personal and professional software. Apple inspired the digital music revolution with the iPod and iTunes, redefined the mobile phone with the iPhone and App Store, invented an entirely new category (tablets) with the iPad, and continues to be at the forefront of mobile technology with the Apple Watch, Apple Pay and Apple Music. Perhaps Apple's greatest innovation has been its integrated ecosystem, which retains customers and produces a "halo effect" for other Apple devices. At about 13% of total revenue, Apple's less cyclical Services business is growing ~20%, is accretive to margins, and the stock should command a higher multiple as Services becomes a bigger portion of overall revenue.

*Amazon.com Inc. (5.9%) (AMZN – \$1,447.34 – NASDAQ)* launched in 1995 as an online book retailer and has evolved into a dominant e-commerce platform and public cloud provider. Amazon's competitive advantage within e-commerce is Amazon Prime, which benefits from a virtuous cycle as the continuously expanding selection of inventory drives traffic, which attracts more sellers, who add yet more selection. Amazon continues to invest in the Prime value proposition (free and faster shipping, free video and music streaming, libraries of free books and magazines, and a host of other benefits). Prime members spend more than non-Prime customers and their purchasing volume tends to increase over time. In addition to its retailing operations, Amazon pioneered the concept of hyperscale public cloud with its Amazon Web Services (AWS) and continues to be the dominant market share leader within that rapidly growing industry. Amazon is benefitting from the secular trend of e-commerce (still only 13% of U.S. retail ex-gas, food and autos) and the transition from on-premise to public cloud data centers (only 10% of workloads have transition to the cloud).

*Facebook Inc.'s (5.0%) (FB – \$159.79 – NASDAQ)* mission is to give people the power to share and make the world more open and connected. Facebook's unique cache of user profiles creates a powerful targeted advertising platform. Facebook has over 2.1 billion monthly active users (MAUs) worldwide. Facebook continues to grow its worldwide user base largely driven by the proliferation of mobile devices in the emerging markets. Facebook is able to drive pricing power by continuously improving the effectiveness of its ads. Meanwhile, there remains runway to further monetize Facebook properties Instagram, Messenger and WhatsApp.

*Microsoft Corp. (6.2%) (MSFT – \$91.27 – NASDAQ)* is the world's largest software company and develops software products for computing devices ranging from PC's to servers to its Xbox game console. Microsoft is transitioning into a subscription business with high recurring revenue. The transition from Office to cloud-based Office 365 is resulting in user base growth and per user pricing lift. Microsoft's Azure is emerging as a rapidly growing public cloud winner behind Amazon's AWS. The recent acquisition of LinkedIn will allow Microsoft to integrate data from LinkedIn's economic graph with Microsoft's professional cloud.

*Mastercard Inc. (4.4%) (MA – \$175.16 – NYSE)* operates a card payments network, connecting consumers, financial institutions, merchants, governments and businesses in more than 210 countries and territories. Mastercard benefits from the secular trend of cash-to-card conversion, the displacement of cash and checks with digital forms of payment. Global card payment penetration is only 42%, increasing 2 percentage points per year. Card payment penetration is substantially lower in emerging markets, such as Brazil (35%), Mexico (16%) and India (<10%).

*Starbucks Corp. (3.0%) (SBUX – \$57.89 – NASDAQ)* is a premier coffee roaster and restaurant operator. The company maintains a rare combination of unit growth, comparable store sales growth, double-digit earnings growth and exceptional management. Unit growth is being driven by China, where the company is opening 500+ stores annually to achieve its goal of 5,000 stores in the region by 2021. Starbucks was a pioneer in integrating technology, such as Mobile Order & Pay, into its restaurants. The My Starbucks Rewards loyalty program has accumulated over 14 million members and Starbucks is beginning to leverage this customer data to deliver individualized offerings.

*UnitedHealth Group Inc. (3.9%) (UNH – \$214.00 – NYSE)* is one of the largest and most diversified managed care companies in the United States. Its high growth Optum services business provides wellness and care management programs, financial services, information technology solutions and pharmacy benefit management (PBM) services to an additional 115 million customers.

*Zoetis Inc. (3.2%) (ZTS – \$83.51 – NYSE)* maintains a leadership position in animal health medicines and vaccines, with a focus on livestock and companion animals. Zoetis benefits from secular trends such as increasing animal protein consumption and rising standard of care for pets. Zoetis holds a unique position within the healthcare space as it has low exposure to third-party payers and generics.

April 25, 2018

**Top Ten Holdings (Percent of Net Assets)**  
**March 31, 2018**

Microsoft Corp.	6.2%	MasterCard Inc.	4.4%
Apple Inc.	6.0%	UnitedHealth Group Inc.	3.9%
Alphabet Inc.	6.0%	Adobe Systems Inc.	3.7%
Amazon.com	5.9%	Zoetis Inc.	3.2%
Facebook Inc.	5.0%	Starbucks Corp.	3.0%

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

**Minimum Initial Investment – \$1,000**

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

**[www.gabelli.com](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**

The GAMCO Growth Fund began offering additional classes of Fund shares on December 31, 2003. Class AAA Shares are no-load shares offered directly through selected broker/dealers. Class A, Class C, and Class T Shares are targeted to the needs of investors who seek advice through financial consultants. Class I Shares are available directly through the Fund's distributor or brokers that have entered into selling agreements specifically with respect to Class I Shares. The Board of Directors determined that expanding the types of Fund shares available through various distribution options will enhance the ability of the Fund to attract additional investors.

## **Gabelli/GAMCO Funds and Your Personal Privacy**

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### **Who are we?**

The Gabelli/GAMCO Funds are investment companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. We are managed by Gabelli Funds, LLC and GAMCO Asset Management Inc., which are affiliated with GAMCO Investors, Inc. GAMCO Investors, Inc. is a publicly held company that has subsidiaries and affiliates that provide investment advisory services for a variety of clients.

### **What kind of non-public information do we collect about you if you become a fund shareholder?**

If you apply to open an account directly with us, you will be giving us some non-public information about yourself. The non-public information we collect about you is:

- *Information you give us on your application form.* This could include your name, address, telephone number, social security number, bank account number, and other information.
- *Information about your transactions with us, any transactions with our affiliates, and transactions with the entities we hire to provide services to you.* This would include information about the shares that you buy or redeem. If we hire someone else to provide services—like a transfer agent—we will also have information about the transactions that you conduct through them.

### **What information do we disclose and to whom do we disclose it?**

We do not disclose any non-public personal information about our customers or former customers to anyone other than our affiliates, our service providers who need to know such information, and as otherwise permitted by law. If you want to find out what the law permits, you can read the privacy rules adopted by the Securities and Exchange Commission. They are in volume 17 of the Code of Federal Regulations, Part 248. The Commission often posts information about its regulations on its website, [www.sec.gov](http://www.sec.gov).

### **What do we do to protect your personal information?**

We restrict access to non-public personal information about you to the people who need to know that information in order to provide services to you or the fund and to ensure that we are complying with the laws governing the securities business. We maintain physical, electronic, and procedural safeguards to keep your personal information confidential.

**THE GAMCO GROWTH FUND**  
**One Corporate Center**  
**Rye, NY 10580-1422**

**Portfolio Manager Biography**

**Howard F. Ward, CFA**, joined Gabelli Funds in 1995 and currently serves as GAMCO's Chief Investment Officer of Growth Equities as well as a Gabelli Funds, LLC portfolio manager for several funds within the Gabelli/GAMCO Funds Complex. Prior to joining Gabelli, Mr. Ward served as Managing Director and Lead Portfolio Manager for several Scudder mutual funds. He also was the Investment Officer in the Institutional Investment Department with Brown Brothers, Harriman & Co. for four years. Mr. Ward received his BA in Economics from Northwestern University.

**Christopher D. Ward, CFA**, joined the GAMCO Growth Team in 2015 as Vice President and Research Analyst. Prior to joining GAMCO, Mr. Ward spent five years at Morgan Stanley Private Wealth Management where he served as Director of Business Strategy for The Apollo Group. Before joining Morgan Stanley, he was with the GFI Group, Inc., a wholesale institutional brokerage firm. Mr. Ward is a Chartered Financial Analyst and a member of the New York Society of Security Analysts. He graduated from Boston College with a BA in economics.

## THE GAMCO GROWTH FUND

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.

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



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# THE GAMCO GROWTH FUND

*Shareholder Commentary*  
*March 31, 2018*

# The GAMCO Growth Fund

## First Quarter Report — March 31, 2018



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Enclosed is the schedule of investments as of March 31, 2018.

## Comparative Results

### Average Annual Returns through March 31, 2018 (a) (Unaudited)

	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception (4/10/87)
<b>Class I (GGCIX)</b> .....	3.32%	22.80%	12.29%	14.57%	9.01%	10.36%
S&P 500 Index .....	(0.76)	13.99	10.78	13.31	9.49	9.80(b)
Russell 1000 Growth Index .....	1.42	21.25	12.90	15.53	11.34	9.55(b)
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<b>Class A (GGCAX)</b> .....	3.24	22.48	12.00	14.29	8.74	10.28
With sales charge (c) .....	(2.69)	15.44	9.81	12.94	8.10	10.07
<b>Class C (GGCCX)</b> .....	3.08	21.58	11.17	13.43	7.93	9.89
With contingent deferred sales charge (d) .....	2.08	20.58	11.17	13.43	7.93	9.89
<b>Class T (GGGTX)</b> .....	3.26	22.49	12.00	14.28	8.74	10.27
With sales charge (e) .....	0.68	19.43	11.06	13.71	8.47	10.16

In the current prospectuses dated April 30, 2018, the expense ratios for Class AAA, A, C, I, and T Shares are 1.41%, 1.41%, 2.16%, 1.16%, and 1.41%, respectively. Class AAA and Class I Shares do not have a sales charge. The maximum sales charge for Class A, Class C, and Class T Shares is 5.75%, 1.00%, and 2.50%, 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. 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 A Shares and Class C Shares on December 31, 2003, Class I Shares on January 11, 2008, and Class T Shares on July 5, 2017. The actual performance of the Class A Shares, Class C Shares, and Class T Shares would have been lower due to the additional fees and expenses associated with these classes of shares. The actual performance of the Class I Shares would have been higher due to lower expenses related to this class of shares. The S&P 500 Index is a market capitalization weighted index of 500 large capitalization stocks commonly used to represent the U.S. equity market. The Russell 1000 Growth Index measures the performance of the large cap growth segment of the U.S. equity market. Dividends are considered reinvested. You cannot invest directly in an index.
- (b) S&P 500 Index and Russell 1000 Growth Index since inception performance results are as of March 31, 1987.
- (c) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.
- (d) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.
- (e) Performance results include the effect of the maximum 2.50% sales charge at the beginning of the period.

# The GAMCO Growth Fund

## Schedule of Investments — March 31, 2018 (Unaudited)

Shares		Market Value	Shares		Market Value
	<b>COMMON STOCKS — 99.6%</b>				
	<b>TECHNOLOGY - COMPUTER SOFTWARE AND SERVICES — 25.2%</b>				
105,800	Adobe Systems Inc. †	\$ 22,861,264	73,600	NIKE Inc., Cl. B	\$ 4,889,984
17,100	Alphabet Inc., Cl. A †	17,735,094	323,200	Starbucks Corp.	18,710,048
18,445	Alphabet Inc., Cl. C †	19,031,366	91,900	The Home Depot Inc.	16,380,256
48,000	Autodesk Inc. †	6,027,840	22,100	Netflix Inc. †	<u>6,527,235</u>
78,500	Cognizant Technology Solutions Corp., Cl. A	6,319,250			93,546,430
195,100	Facebook Inc., Cl. A †	31,175,029	221,600	<b>TECHNOLOGY - COMPUTER TECHNOLOGY, SEMICONDUCTORS, AND COMPONENTS — 9.3%</b>	
418,000	Microsoft Corp.	38,150,860	45,200	Apple Inc.	37,180,048
59,800	Palo Alto Networks Inc. †	10,854,896	18,100	Applied Materials Inc.	2,513,572
30,300	salesforce.com Inc. †	<u>3,523,890</u>	34,500	Broadcom Ltd.	4,265,265
		155,679,489	27,600	Cognex Corp.	1,793,655
			47,700	NVIDIA Corp.	6,391,884
				Texas Instruments Inc.	4,955,553
					<u>57,099,977</u>
	<b>HEALTH CARE — 19.8%</b>			<b>PRODUCER DURABLES — 5.7%</b>	
112,400	Abbott Laboratories	6,735,008	30,500	3M Co.	6,695,360
69,200	AbbVie Inc.	6,549,780	37,000	Accenture plc, Cl. A	5,679,500
12,800	Align Technology Inc. †	3,214,464	37,000	Honeywell International Inc.	5,346,870
42,900	Becton, Dickinson and Co.	9,296,430	14,600	Parker-Hannifin Corp.	2,497,038
56,300	Bristol-Myers Squibb Co.	3,560,975	17,400	Rockwell Automation Inc.	3,031,080
47,000	Danaher Corp.	4,601,770	13,200	Roper Technologies Inc.	3,705,108
71,000	Edwards Lifesciences Corp. †	9,905,920	25,900	The Boeing Co.	<u>8,492,092</u>
42,900	Humana Inc.	11,532,807			35,447,048
26,300	Illumina Inc. †	6,217,846		<b>CONSUMER DISCRETIONARY - MEDIA — 3.9%</b>	
7,600	Intuitive Surgical Inc. †	3,137,508	17,500	Charter Communications Inc., Cl. A †	5,446,350
21,600	Johnson & Johnson	2,768,040	282,000	Comcast Corp., Cl. A	9,635,940
27,900	Stryker Corp.	4,489,668	89,700	The Walt Disney Co.	<u>9,009,468</u>
29,800	Thermo Fisher Scientific Inc.	6,152,508			24,091,758
112,600	UnitedHealth Group Inc.	24,096,400		<b>CONSUMER STAPLES — 2.0%</b>	
239,500	Zoetis Inc.	<u>20,000,645</u>	115,100	PepsiCo Inc.	<u>12,563,165</u>
		122,259,769		<b>MATERIALS AND PROCESSING — 1.5%</b>	
				The Sherwin-Williams Co.	<u>9,293,244</u>
				<b>TOTAL COMMON STOCKS</b>	<u>615,680,870</u>
	<b>FINANCIAL SERVICES — 17.1%</b>		<b>Principal Amount</b>		
48,500	American Tower Corp., REIT	7,048,990	\$ 2,321,000	<b>U.S. GOVERNMENT OBLIGATIONS — 0.4%</b>	
7,000	BlackRock Inc.	3,792,040		U.S. Treasury Bills, 1.631% to 1.687% ††, 05/31/18 to 06/21/18	<u>2,314,566</u>
12,000	Broadridge Financial Solutions Inc.	1,316,280		<b>TOTAL INVESTMENTS — 100.0%</b>	
79,200	Crown Castle International Corp., REIT	8,681,112		(Cost \$380,922,096)	<u>\$617,995,436</u>
100,800	First Republic Bank	9,335,088			
125,400	Fiserv Inc. †	8,942,274			
154,400	Mastercard Inc., Cl. A	27,044,704			
124,000	PayPal Holdings Inc. †	9,407,880			
32,600	S&P Global Inc.	6,228,556			
13,900	SBA Communications Corp., REIT †	2,375,788			
21,000	Square Inc., Cl. A †	1,033,200			
68,000	The Blackstone Group LP	2,172,600			
51,000	The Charles Schwab Corp.	2,663,220			
130,900	Visa Inc., Cl. A	<u>15,658,258</u>			
		105,699,990			
	<b>CONSUMER DISCRETIONARY - OTHER — 15.1%</b>				
25,000	Amazon.com Inc. †	36,183,500	†	Non-income producing security.	
2,700	Booking Holdings Inc. †	5,617,053	††	Represents annualized yield at date of purchase.	
27,800	Costco Wholesale Corp.	5,238,354	REIT	Real Estate Investment Trust	

See accompanying notes to schedule of investments.

## The GAMCO Growth 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 Trustees (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).



## The GAMCO Growth 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 March 31, 2018 is as follows:

<u>Valuation Inputs*</u>	<u>Investments in Securities (Market Value)</u>
Level 1 - Quoted Prices	\$615,680,870
Level 2 - Other Significant Observable Inputs	<u>2,314,566</u>
Total	<u>\$617,995,436</u>

\* Portfolio holdings designated in Level 1 and Level 2 are disclosed individually in the Schedule of Investments ("SOI"). Please refer to the SOI for the industry classifications of these portfolio holdings. Level 1 consists of Common Stocks and Real Estate Investment Trusts. Level 2 consists of U.S. Government Obligations.

There were no Level 3 investments held at March 31, 2018 or December 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. Among the factors to be considered to fair value a security 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 include backtesting the prices realized in subsequent trades of these fair valued securities to fair values previously recognized.

**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 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

## The GAMCO Growth Fund

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

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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.

**THE GAMCO GROWTH FUND**  
**One Corporate Center**  
**Rye, NY 10580-1422**

**Portfolio Management Team Biographies**

**Howard F. Ward, CFA**, joined Gabelli Funds in 1995 and currently serves as GAMCO's Chief Investment Officer of Growth Equities as well as a Gabelli Funds, LLC portfolio manager for several funds within the Gabelli/GAMCO Fund Complex. Prior to joining Gabelli, Mr. Ward served as Managing Director and Lead Portfolio Manager for several Scudder mutual funds. He also was an Investment Officer in the Institutional Investment Department with Brown Brothers, Harriman & Co. Mr. Ward received his BA in Economics from Northwestern University.

**Christopher D. Ward, CFA**, joined the GAMCO Growth Team in 2015 as Vice President and Research Analyst. Prior to joining GAMCO, Mr. Ward spent five years at Morgan Stanley Private Wealth Management where he served as Director of Business Strategy for The Apollo Group. Before joining Morgan Stanley, he was with the GFI Group, Inc., a wholesale institutional brokerage firm. Mr. Ward is a Chartered Financial Analyst and a member of the New York Society of Security Analysts. He graduated from Boston College with a BA in economics.

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

## THE GAMCO GROWTH FUND

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.

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Skadden, Arps, Slate, Meagher &  
Flom LLP



# THE GAMCO GROWTH FUND

*First Quarter Report  
March 31, 2018*

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

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