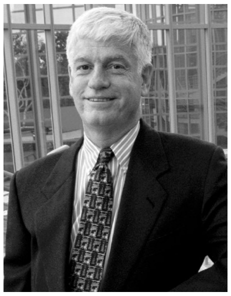


Mario Gabelli, CFA,
Portfolio Manager

An Update from Fund Management

In 2008, the Gabelli Capital Asset Fund (the "Fund") posted a decline of (40.43)% versus (36.99)% for the S&P 500 Index.

The collapse in economic activity in the fourth quarter was extraordinary and weighed heavily on our performance for the quarter, and hence the year, as the fourth quarter was the worst quarter for stocks in many years. This was such a miserable year, with the Dow's decline of 31.9%, its worst showing since 1931, and the S&P 500's decline of 37.0%, its poorest performance since 1937. All ten industry sectors in the S&P 500 posted declines, which might be a first. The three best performing sectors were consumer staples, down 15%, health care, down 23%, and utilities, with a decline of 29%.

Cereal maker General Mills (0.3% of net assets as of December 31, 2008) and trash collector Waste Management (1.8%) were major positive contributors to performance. Griffin Land & Nurseries (1.7%), the real estate and landscape nursery operator, was also up for the year and outperformed.

The Fund benefited from mergers and acquisitions, albeit muted, during the year. Holdings of Wm. Wrigley Jr. Co. and Rohm and Haas (0.7%) were the subjects of strategic buyouts during the year.

Several of the Fund's long-time media holdings were negatively impacted by the severe downturn in advertising with News Corp. (0.2%) Viacom (1.8%), Liberty Media (0.1%), and CBS Corp. (0.4%) among the biggest detractors from performance. One of the Fund's largest financial holdings, American Express (1.5%) suffered from its exposure to strained consumers and more costly funding, despite its premium positioning.

The views expressed above are those of the Fund's portfolio manager as of December 31, 2008 and are subject to change without notice. They do not necessarily represent the views of Gabelli Funds. The views expressed herein are based on current market conditions and are not intended to predict or guarantee the future performance of any Fund, any individual security, any market or market segment. The composition of each Fund's portfolio is subject to change. No recommendation is made with respect to any security discussed herein.

Objective:
Growth of capital. Current income is a secondary objective

Portfolio:
At least 80% common stocks and securities convertible into common stocks

Inception Date:
May 1, 1995

Net Assets at December 31, 2008:
$108,862,763

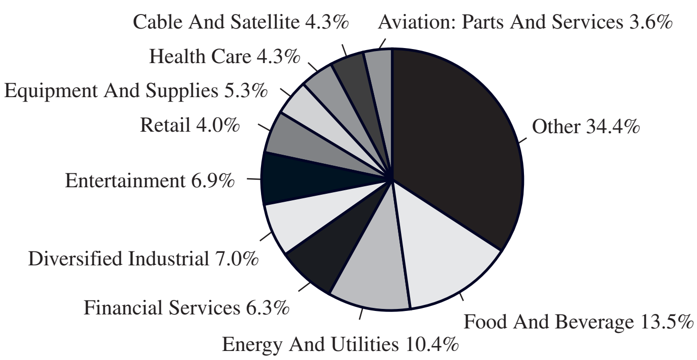
About information in this report:

- It is important to consider carefully the Fund's investment objectives, risks, fees, and expenses before investing. All funds involve some risk, including possible loss of the principal amount invested.
- The S&P 500 Index is an index of 500 primarily large cap U.S. stocks, which is generally considered to be representative of U.S. stock market activity. Index returns are provided for comparative purposes. Please note that the index is unmanaged and not available for direct investment and its returns do not reflect the fees and expenses that have been deducted from the Fund.

Top Ten Holdings *(As of 12/31/2008)* (Unaudited)

Company	Percentage of Total Net Assets
Diageo plc, ADR	2.5%
Honeywell International Inc.	2.5%
The Coca-Cola Co.	2.2%
Cablevision Systems Corp., Cl. A	2.2%
Pfizer Inc.	2.1%
Newmont Mining Corp.	1.9%
Allegheny Energy Inc.	1.9%
Waste Management Inc.	1.8%
Viacom Inc., Cl. A	1.8%
Griffin Land & Nurseries Inc.	1.7%

Sector Weightings *(Percentage of Total Net Assets as of 12/31/2008)* (Unaudited)



Average Annual Total Returns *(For periods ended 12/31/2008)*

	1 Yr	5 Yrs	10 Yrs	Since Inception 5/1/1995
Gabelli Capital Asset Fund	(40.43)%	(1.35)%	3.47%	7.52%
S&P 500 Index	(36.99)%	(2.19)%	(1.38)%	6.06%

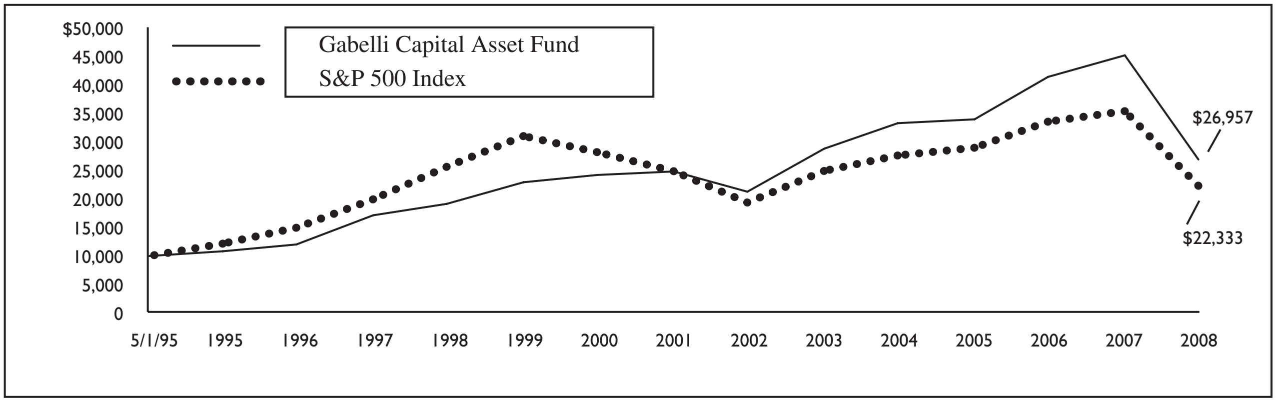
About information in this report:

All performance data quoted is historical and the results represent past performance and neither guarantee nor predict future investment results. To obtain performance data current to the most recent month (availability within seven business days of the most recent month end), please call us at (800) 221-3253 or visit our website at *www.guardianinvestor.com*. Current performance may be higher or lower than the performance quoted here. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.

Total return figures are historical and assume the reinvestment of dividends and distributions and the deduction of all Fund expenses. The actual total returns for owners of variable annuity contracts or variable life insurance policies that provide for investment in the Fund will be lower to reflect separate account and contract/policy charges. The return figures shown do not reflect the deduction of taxes that a contractowner may pay on distributions or redemption of units.

Growth of a Hypothetical $10,000 Investment (Unaudited)

To give you a comparison, this chart shows you the performance of a hypothetical $10,000 investment made in the Fund and in the S&P 500 Index. Index returns do not include the fees and expenses of the Fund, but do include the reinvestment of dividends.



Past performance is not predictive of future results. The S&P 500 Index is an unmanaged indicator of stock market performance.

The Fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission (the "SEC") for the first and third quarters of each fiscal year on Form N-Q, the last of which was filed for the quarter ended September 30, 2008. The Fund's Form N-Q is available on the SEC's website at www.sec.gov and may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Proxy Voting

The Fund files Form N-PX with its complete proxy voting record for the 12 months ended June 30th, no later than August 31st of each year. A description of the Fund's proxy voting policies, procedures, and how the Fund voted proxies relating to portfolio securities is available without charge, upon request, by (i) calling 800-GABELLI (800-422-3554); (ii) writing to The Gabelli Funds at One Corporate Center, Rye, NY 10580-1422; or (iii) visiting the SEC's website at www.sec.gov.

Disclosure of Fund Expenses (Unaudited)

For the Six Month Period from July 1, 2008 through December 31, 2008

Expense Table

We believe it is important for you to understand the impact of fees and expenses regarding your investment. All mutual funds have operating expenses. As a shareholder of a fund, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a fund's gross income, directly reduce the investment return of a fund. When a fund's expenses are expressed as a percentage of its average net assets, this figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your Fund and to compare these costs with those of other mutual funds. The examples are based on an investment of $1,000 made at the beginning of the period shown and held for the entire period.

The Expense Table below illustrates your Fund's costs in two ways:

Actual Fund Return: This section provides information about actual account values and actual expenses. You may use this section to help you to estimate the actual expenses that you paid over the period after any fee waivers and expense reimbursements. The "Ending Account Value" shown is derived from the Fund's **actual** return during the past six months, and the "Expenses Paid During Period" shows the dollar amount that would have been paid by an investor who started with $1,000 in the Fund. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number given for your Fund under the heading "Expenses Paid During Period" to estimate the expenses you paid during this period.

Hypothetical 5% Return: This section provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio. It assumes a hypothetical annualized return of 5% before expenses during the period shown. In this case – because the hypothetical return used is **not** the Fund's actual return – the results do not apply to your investment and you cannot use the hypothetical account value and expense to estimate the actual ending account balance or expenses you paid for the period. This example is useful in making comparisons of the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as sales charges (loads), redemption fees, or exchange fees, if any, which would be described in the Prospectus. If these costs were applied to your account, your costs would be higher. Therefore, the 5% hypothetical return is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. The "Annualized Expense Ratio" represents the actual expenses for the last six months and may be different from the expense ratio in the Financial Highlights which is for the year ended December 31, 2008.

	Beginning Account Value July 1, 2008	Ending Account Value December 31, 2008	Annualized Expense Ratio	Expenses Paid During Period*
Gabelli Capital Asset Fund				
Actual Fund Return	$1,000.00	$ 698.70	1.17%	$5.00
Hypothetical 5% Return	$1,000.00	$1,019.25	1.17%	$5.94

* Expenses are equal to the Fund's annualized expense ratio for the last six months multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year, then divided by 366.

■ Gabelli Capital Asset Fund

Schedule of Investments

December 31, 2008

Common Stocks — 100.1%

Shares		Cost	Market Value
Aerospace — 1.3%			
4,500	HEICO Corp.	$ 107,359	$ 174,735
44,000	Herley Industries Inc.†	744,877	540,320
150,000	Rolls-Royce Group plc†	1,273,743	723,549
8,580,000	Rolls-Royce Group plc, Cl. C†	13,378	12,336
		2,139,357	1,450,940
Agriculture — 1.3%			
50,000	Archer-Daniels-Midland Co.	1,324,216	1,441,500
500	The Mosaic Co.	10,688	17,300
		1,334,904	1,458,800
Automotive — 0.6%			
60,000	General Motors Corp.	1,046,859	192,000
20,000	Navistar International Corp.†	504,789	427,600
		1,551,648	619,600
Automotive: Parts and Accessories — 2.0%			
1,000	BERU AG	106,336	102,863
10,000	BorgWarner Inc.	198,525	217,700
32,000	CLARCOR Inc.	295,800	1,061,760
85,000	Earl Scheib Inc.†	483,196	52,700
30,000	Midas Inc.†	555,276	314,700
12,000	Modine Manufacturing Co.	247,615	58,440
20,000	Proliance International Inc.†	93,443	7,200
100,000	Standard Motor Products Inc.	921,909	346,000
		2,902,100	2,161,363
Aviation: Parts and Services — 3.6%			
34,000	Curtiss-Wright Corp.	491,261	1,135,260
80,000	GenCorp Inc.†	747,293	294,400
50,000	Kaman Corp.	623,073	906,500
26,000	Precision Castparts Corp.	800,795	1,546,480
115,000	The Fairchild Corp., Cl. A†	424,824	34,500
		3,087,246	3,917,140
Broadcasting — 2.0%			
50,000	CBS Corp., Cl. A	985,124	412,000
10,000	Cogeco Inc.	195,072	201,701
54,000	Fisher Communications Inc.	2,673,403	1,114,560
115,000	Gray Television Inc.	832,255	46,000
18,000	Liberty Media Corp. - Capital, Cl. A†	150,773	84,780
70,000	LIN TV Corp., Cl. A†	627,707	76,300
80,000	Sinclair Broadcast Group Inc., Cl. A	672,744	248,000
		6,137,078	2,183,341
Business Services — 2.1%			
2,500	Ascent Media Corp., Cl. A†	43,340	54,600
40,000	Diebold Inc.	1,500,622	1,123,600
55,000	Intermec Inc.†	1,046,429	730,400
75,000	Nashua Corp.†	623,470	393,750
		3,213,861	2,302,350
Cable and Satellite — 4.3%			
5,000	Adelphia Communications Corp., Cl. A† (a)	5,250	0
5,000	Adelphia Communications Corp., Cl. A, Escrow† (a)	0	0
5,000	Adelphia Recovery Trust†	0	2
140,000	Cablevision Systems Corp., Cl. A	913,899	2,357,600
10,000	DISH Network Corp., Cl. A†	$ 241,539	$ 110,900
2,000	EchoStar Corp., Cl. A†	53,021	29,740
25,000	Liberty Global Inc., Cl. A†	363,484	398,000
9,315	Liberty Global Inc., Cl. C†	155,984	141,402
5,000	Scripps Networks Interactive Inc., Cl. A	212,424	110,000
65,000	The DIRECTV Group Inc.†	1,540,273	1,489,150
		3,485,874	4,636,794
Communications Equipment — 1.7%			
78,000	Corning Inc.	505,460	743,340
43,000	Nortel Networks Corp., New York†	141,799	11,180
44,000	Thomas & Betts Corp.†	1,047,018	1,056,880
		1,694,277	1,811,400
Computer Software and Services — 1.4%			
125,000	Furmanite Corp.†	434,644	673,750
4,000	NCR Corp.†	108,982	56,560
64,000	Yahoo! Inc.†	1,995,758	780,800
		2,539,384	1,511,110
Consumer Products — 1.5%			
15,000	Pactiv Corp.†	152,305	373,200
14,000	Procter & Gamble Co.	892,133	865,480
7,000	Revlon Inc., Cl. A†	184,193	46,690
65,000	Schiff Nutrition International Inc.†	178,934	388,050
		1,407,565	1,673,420
Consumer Services — 1.5%			
5,000	Liberty Media Corp. - Interactive, Cl. A†	93,974	15,600
88,000	Rollins Inc.	453,101	1,591,040
		547,075	1,606,640
Diversified Industrial — 7.0%			
29,000	Ampco-Pittsburgh Corp.	469,223	629,300
70,000	Baldor Electric Co.	2,306,374	1,249,500
25,000	Cooper Industries Ltd., Cl. A	814,394	730,750
30,000	Crane Co.	605,650	517,200
4,000	Greif Inc., Cl. A	46,099	133,720
82,000	Honeywell International Inc.	2,497,596	2,692,060
24,000	ITT Corp.	1,081,200	1,103,760
23,000	Katy Industries Inc.†	62,153	26,450
65,000	Myers Industries Inc.	693,228	520,000
		8,575,917	7,602,740
Electronics — 1.6%			
30,000	Cypress Semiconductor Corp.†	130,598	134,100
20,000	Intel Corp.	416,200	293,200
30,000	LSI Corp.†	154,117	98,700
75,000	Texas Instruments Inc.	1,772,274	1,164,000
		2,473,189	1,690,000
Energy and Utilities — 10.4%			
60,000	Allegheny Energy Inc.	601,525	2,031,600
13,000	Cameron International Corp.†	187,927	266,500
9,000	Chevron Corp.	562,320	665,730
22,000	ConocoPhillips	615,765	1,139,600
10,000	Devon Energy Corp.	322,357	657,100
38,000	DPL Inc.	1,032,670	867,920
90,000	El Paso Corp.	807,999	704,700

See accompanying notes to financial statements.

Schedule of Investments (Continued)

December 31, 2008

Shares		Cost	Market Value
Energy and Utilities (Continued)			
27,000	El Paso Electric Co.†	$ 242,555	$ 488,430
16,000	Exxon Mobil Corp.	589,965	1,277,280
6,500	Florida Public Utilities Co.	51,350	68,315
15,408	Great Plains Energy Inc.	399,375	297,837
20,000	Mirant Corp., Escrow† (a)	0	0
27,000	NSTAR	642,662	985,230
17,000	Progress Energy Inc., CVO† (a)	7,800	5,610
15,000	Royal Dutch Shell plc, Cl. A, ADR	937,915	794,100
75,000	RPC Inc.	715,212	732,000
9,000	Southwest Gas Corp.	253,261	226,980
3,291	Sunpower Corp., Cl. B†	187,651	100,178
		8,158,309	11,309,110
Entertainment — 6.9%			
25,000	Discovery Communications Inc., Cl. A†	229,703	354,000
25,000	Discovery Communications Inc., Cl. C†	160,359	334,750
100,000	Grupo Televisa SA, ADR	1,404,653	1,494,000
72,000	Liberty Media Corp. - Entertainment, Cl. A†	791,557	1,258,560
140,000	Time Warner Inc.	2,239,377	1,408,400
95,000	Viacom Inc., Cl. A†	3,980,097	1,911,400
25,000	Vivendi	833,081	808,486
		9,638,827	7,569,596
Environmental Services — 1.8%			
60,000	Waste Management Inc.	2,096,890	1,988,400
Equipment and Supplies — 5.3%			
32,000	AMETEK Inc.	218,856	966,720
38,000	Baldwin Technology Co. Inc., Cl. A†	52,525	60,800
16,000	Belden Inc.	244,993	334,080
40,000	Capstone Turbine Corp.†	70,880	33,600
15,000	CIRCOR International Inc.	496,757	412,500
120,000	CTS Corp.	1,040,515	661,200
12,000	Flowserve Corp.	294,857	618,000
14,500	Franklin Electric Co. Inc.	144,478	407,595
40,000	GrafTech International Ltd.†	352,242	332,800
40,000	IDEX Corp.	753,182	966,000
46,000	L.S. Starrett Co., Cl. A	677,849	740,600
1,000	Robbins & Myers Inc.	20,783	16,170
13,000	The Eastern Co.	119,954	111,800
6,000	Watts Water Technologies Inc., Cl. A	82,477	149,820
		4,570,348	5,811,685
Financial Services — 6.3%			
90,000	American Express Co.	2,813,015	1,669,500
12,000	Argo Group International Holdings Ltd.†	339,230	407,040
20,000	BKF Capital Group Inc.	102,267	16,000
68,000	Citigroup Inc.	2,216,727	456,280
12,000	Deutsche Bank AG	691,279	488,280
150,000	Epoch Holding Corp.	362,726	1,138,500
6,350	JPMorgan Chase & Co.	263,889	200,215
40,000	Marsh & McLennan Companies Inc.	1,190,259	970,800
20,151	The Bank of New York Mellon Corp.	$ 664,517	$ 570,878
30,000	Wells Fargo & Co.	900,652	884,400
		9,544,561	6,801,893
Food and Beverage — 13.5%			
28,000	Brown-Forman Corp., Cl. A	716,621	1,417,360
6,250	Brown-Forman Corp., Cl. B	193,489	321,812
37,000	Cadbury plc, ADR	2,149,249	1,319,790
15,000	Corn Products International Inc.	286,480	432,750
48,000	Diageo plc, ADR	1,921,883	2,723,520
20,000	Dr. Pepper Snapple Group Inc.†	568,746	325,000
20,000	Fomento Economico Mexicano SAB de CV, ADR	673,389	602,600
5,000	General Mills Inc.	247,450	303,750
140,000	Groupe Danone, ADR	1,505,770	1,691,200
5,000	H.J. Heinz Co.	157,866	188,000
90,000	PepsiAmericas Inc.	1,656,875	1,832,400
54,000	The Coca-Cola Co.	2,344,478	2,444,580
8,000	The Hershey Co.	299,455	277,920
32,001	Tootsie Roll Industries Inc.	564,005	819,546
		13,285,756	14,700,228
Health Care — 4.3%			
110,000	Advanced Medical Optics Inc.†	2,296,096	727,100
95,000	Boston Scientific Corp.†	1,317,435	735,300
1,000	DENTSPLY International Inc.	21,925	28,240
6,000	Henry Schein Inc.†	190,312	220,140
6,000	Laboratory Corp. of America Holdings†	425,913	386,460
4,000	Life Technologies Corp.†	69,870	93,240
10,000	Patterson Companies Inc.†	293,978	187,500
130,000	Pfizer Inc.	3,442,329	2,302,300
		8,057,858	4,680,280
Hotels and Gaming — 2.1%			
40,000	Boyd Gaming Corp.	596,065	189,200
16,000	Canterbury Park Holding Corp.	201,300	94,560
19,800	Churchill Downs Inc.	797,510	800,316
2,000	Dover Downs Gaming & Entertainment Inc.	12,605	6,360
70,000	Dover Motorsports Inc.	446,303	91,000
14,000	Gaylord Entertainment Co.†	394,352	151,760
14,000	International Game Technology	365,678	166,460
50,000	Las Vegas Sands Corp.†	820,709	296,500
35,000	MGM Mirage†	1,614,162	481,600
		5,248,684	2,277,756
Machinery — 1.1%			
50,000	CNH Global NV	951,228	780,000
12,000	Deere & Co.	365,420	459,840
		1,316,648	1,239,840
Manufactured Housing and Recreational Vehicles — 0.2%			
4,000	Cavco Industries Inc.†	113,920	107,560
50,000	Champion Enterprises Inc.†	428,275	28,000
4,000	Skyline Corp.	144,238	79,960
		686,433	215,520

See accompanying notes to financial statements.

Schedule of Investments (Continued)

December 31, 2008

Shares		Cost	Market Value
Metals and Mining — 2.2%			
15,000	Freeport-McMoRan Copper & Gold Inc.	$ 636,573	$ 366,600
50,000	Newmont Mining Corp.	2,089,093	2,035,000
		2,725,666	2,401,600
Publishing — 0.5%			
80,000	Journal Communications Inc., Cl. A	773,811	196,000
40,000	Media General Inc., Cl. A	67,400	70,000
7,000	Meredith Corp.	150,900	119,840
20,000	News Corp., Cl. A	284,866	181,800
10,000	The E.W. Scripps Co., Cl. A	72,850	22,100
		1,349,827	589,740
Real Estate — 1.7%			
50,000	Griffin Land & Nurseries Inc.	753,028	1,843,000
Retail — 4.0%			
32,000	Aaron Rents Inc., Cl. A	266,360	702,400
50,000	CVS Caremark Corp.	1,838,475	1,437,000
10,000	Ingles Markets Inc., Cl. A	125,475	175,900
15,000	Safeway Inc.	307,433	356,550
10,000	The Great Atlantic & Pacific Tea Co. Inc.†	109,631	62,700
64,000	Walgreen Co.	2,359,758	1,578,880
		5,007,132	4,313,430
Specialty Chemicals — 3.5%			
70,000	Ferro Corp.	1,446,718	493,500
45,000	Hawkins Inc.	627,063	688,050
22,000	International Flavors & Fragrances Inc.	1,051,207	653,840
130,000	Omnova Solutions Inc.†	838,833	84,500
5,000	Quaker Chemical Corp.	87,063	82,250
13,000	Rohm and Haas Co.	677,644	803,270
40,000	Sensient Technologies Corp.	843,930	955,200
		5,572,458	3,760,610
Telecommunications — 2.5%			
220,000	Cincinnati Bell Inc.†	1,085,157	424,600
17,000	Nortel Networks Corp., Toronto†	724,875	4,407
80,000	Qwest Communications International Inc.	423,450	291,200
12,000	Rogers Communications Inc., Cl. B	164,214	360,960
160,000	Sprint Nextel Corp.†	2,159,237	292,800
30,000	Telephone & Data Systems Inc.	1,107,385	952,500
8,000	Telephone & Data Systems Inc., Special	239,516	224,800
5,000	Verizon Communications Inc.	166,104	169,500
		6,069,938	2,720,767
Transportation — 0.4%			
15,000	GATX Corp.	602,933	464,550
Wireless Communications — 1.5%			
30,000	Price Communications Corp., Escrow† (a)	0	0
38,000	United States Cellular Corp.†	1,446,637	1,643,120
		1,446,637	1,643,120
	Total Common Stocks	**127,221,408**	**108,956,763**

Shares		Cost	Market Value
Warrants — 0.0%			
Energy and Utilities — 0.0%			
1,000	Mirant Corp., Ser. A, expire 01/03/11†	$ 2,199	$ 3,500
TOTAL INVESTMENTS — 100.1%		**$127,223,607**	**108,960,263**
Other Assets and Liabilities (Net) — (0.1)%			**(97,500)**
NET ASSETS — 100.0%			**$108,862,763**

(a) Security fair valued under procedures established by the Board of Directors. The procedures may include reviewing available financial information about the company and reviewing valuation of comparable securities and other factors on a regular basis. At December 31, 2008, the market value of fair valued securities amounted to $5,610 or 0.01% of net assets.

† Non-income producing security.

ADR – American Depositary Receipt
CVO – Contingent Value Obligation

See accompanying notes to financial statements.

Statement of Assets and Liabilities

December 31, 2008

ASSETS:	
Investments, at value (cost $127,223,607)	$108,960,263
Foreign currency, at value (cost $20)	18
Cash	793
Receivable for investments sold	67,245
Receivable for Fund shares sold	284,675
Dividends receivable	160,989
Prepaid expense	5,492
Total Assets	109,479,475
LIABILITIES:	
Payable for investments purchased	67,400
Payable for Fund shares redeemed	224,460
Payable for investment management fees	88,308
Payable for accounting fees	7,501
Payable for legal and audit fees	52,754
Line of credit payable	150,000
Other accrued expenses	26,289
Total Liabilities	616,712
Net Assets applicable to 10,014,447 shares outstanding	$108,862,763
NET ASSETS CONSIST OF:	
Paid-in capital, at $0.001 par value	$132,452,129
Accumulated net realized loss on investments and foreign currency transactions	(5,326,020)
Net unrealized depreciation on investments	(18,263,344)
Net unrealized depreciation on foreign currency translations	(2)
Net Assets	$108,862,763
Net Asset Value, offering, and redemption price per share ($108,862,763 ÷ 10,014,447 shares outstanding; 500,000,000 shares authorized)	$10.87

Statement of Operations

For the Year Ended
December 31, 2008

INVESTMENT INCOME:	
Dividends (net of foreign taxes of $40,562)	$ 3,248,720
Interest	8,101
Total Investment Income	3,256,821
EXPENSES:	
Management fees	1,701,400
Legal and audit fees	69,683
Accounting fees	45,000
Custodian fees	36,657
Directors' fees	23,343
Shareholder communications expenses	20,558
Shareholder services fees	18,443
Interest expense	18,186
Miscellaneous expenses	31,069
Total Expenses	1,964,339
Less: Custodian fee credits	(236)
Net Expenses	1,964,103
Net Investment Income	1,292,718
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS AND FOREIGN CURRENCY:	
Net realized loss on investments	(923,685)
Net realized loss on foreign currency transactions	(320)
Net realized loss on investments and foreign currency transactions	(924,005)
Net change in unrealized appreciation/ (depreciation) on investments	(83,762,977)
Net change in unrealized appreciation/ (depreciation) on foreign currency translations	(248)
Net change in unrealized appreciation/ (depreciation) on investments and foreign currency translations	(83,763,225)
Net Realized and Unrealized Loss on Investments and Foreign Currency	(84,687,230)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$(83,394,512)

See accompanying notes to financial statements.

Statement of Changes in Net Assets

	Year Ended December 31, 2008	Year Ended December 31, 2007
OPERATIONS:		
Net investment income	$ 1,292,718	$ 1,094,241
Net realized gain/(loss) on investments and foreign currency transactions	(924,005)	18,478,201
Net change in unrealized appreciation/(depreciation) on investments and foreign currency translations	(83,763,225)	1,794,539
Net Increase/(Decrease) in Net Assets Resulting from Operations	(83,394,512)	21,366,981
DISTRIBUTIONS TO SHAREHOLDERS:		
Net investment income	(1,292,835)	(1,085,270)
Net realized gain	(989,215)	(17,236,080)
Return of capital	—	(43,265)
Total Distributions to Shareholders	(2,282,050)	(18,364,615)
CAPITAL SHARE TRANSACTIONS:		
Net decrease in net assets from capital share transactions	(34,404,626)	(8,472,068)
Net Decrease in Net Assets	(120,081,188)	(5,469,702)
NET ASSETS:		
Beginning of period	228,943,951	234,413,653
End of period (including undistributed net investment income of $0 and $0, respectively)	$ 108,862,763	$228,943,951

See accompanying notes to financial statements.

■ Gabelli Capital Asset Fund

Financial Highlights

Selected data for a share of capital stock outstanding throughout the periods indicated:

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Operating Performance:					
Net asset value, beginning of period	$18.66	$18.58	$17.40	$18.28	$16.44
Net investment income	0.12	0.10	0.06	0.05	0.06
Net realized and unrealized gain/(loss) on investments	(7.68)	1.61	3.77	0.33	2.50
Total from investment operations	(7.56)	1.71	3.83	0.38	2.56
Distributions to Shareholders:					
Net investment income	(0.13)	(0.10)	(0.06)	(0.05)	(0.06)
Net realized gain on investments	(0.10)	(1.53)	(2.59)	(1.21)	(0.66)
Return of capital	—	(0.00)(c)	(0.00)(c)	—	—
Total distributions	(0.23)	(1.63)	(2.65)	(1.26)	(0.72)
Net Asset Value, End of Period	$10.87	$18.66	$18.58	$17.40	$18.28
Total Return †	(40.4)%	9.1%	21.9%	2.0%	15.5%
Ratios to Average Net Assets and Supplemental Data:					
Net assets, end of period (in 000's)	$108,863	$228,944	$234,414	$219,127	$240,035
Ratio of net investment income to average net assets	0.76%	0.45%	0.28%	0.26%	0.34%
Ratio of operating expenses to average net assets	1.15%(a)	1.10%	1.10%(b)	1.10%	1.10%
Portfolio turnover rate ††	11%	24%	40%	25%	27%

† Total return represents aggregate total return of a hypothetical $1,000 investment at the beginning of the period and sold at the end of the period including reinvestment of distributions.

†† Effective in 2008, a change in accounting policy was adopted with regard to the calculation of the portfolio turnover rate to include cash proceeds due to mergers. Had this policy been adopted retroactively, the portfolio turnover rate for the years ended December 31, 2007, 2005, and 2004 would have been 33%, 28%, and 37%, respectively. The portfolio turnover rate for the year ended 2006 would have been as shown.

(a) The Fund incurred interest expense during the year ended December 31, 2008. If interest expense had not been incurred, the ratios of operating expenses to average net assets would have been 1.14%.

(b) The ratio does not include a reduction of expenses for custodian fee credits on cash balances maintained with the custodian. Including such custodian fee credits, the expense ratio for the year ended December 31, 2006 would have been 1.09%. For the years ended December 31, 2008 and 2007, the effect of the custodian fee credits was minimal.

(c) Amount represents less than $0.005 per share.

Notes to Financial Statements

December 31, 2008

1. Organization

The Gabelli Capital Asset Fund is a series of Gabelli Capital Series Funds, Inc. (the "Company"), which was organized on April 8, 1993 as a Maryland corporation. The Company is a diversified open-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's primary objective is growth of capital. Current income is a secondary objective. The Fund commenced investment operations on May 1, 1995. Shares of the Fund are available to the public only through the purchase of certain variable annuity and variable life insurance contracts issued by The Guardian Insurance & Annuity Company, Inc. ("Guardian") and other selected insurance companies.

2. Significant Accounting Policies

The preparation of financial statements in accordance with United States ("U.S.") generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. 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 financial statements.

Security Valuation

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

Portfolio securities primarily traded on a foreign market are generally valued at the preceding closing values of such securities on the relevant market, but may be fair valued pursuant to procedures established by the Board if market conditions change significantly after the close of the foreign market but prior to the close of business on the day the securities are being valued. Debt instruments with remaining maturities of 60 days or less that are not credit impaired are valued at amortized cost, 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. Debt instruments having a maturity greater than 60 days 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. Futures contracts are valued at the closing settlement price of the exchange or board of trade on which the applicable contract is traded.

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 ADR 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.

Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS 157") clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. The three levels of the fair value hierarchy under SFAS 157 are described 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 Fund's determinations as to the fair value of investments).

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, by inputs used to value the Fund's investments as of December 31, 2008 is, as follows:

Valuation Inputs	Investments in Securities (Market Value) Assets
Level 1 – Quoted Prices	$108,942,317
Level 2 – Other Significant Observable Inputs	12,336
Level 3 – Significant Unobservable Inputs	5,610
Total	$108,960,263

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	Investments in Securities (Market Value)
Balance as of 12/31/07	$ 5,610
Accrued discounts/(premiums)	—
Realized gain/(loss)	(144,933)
Change in unrealized appreciation/(depreciation)†	144,935
Net purchases/(sales)	0
Transfers in and/or out of Level 3	(2)
Balance as of 12/31/08	$ 5,610
Net change in unrealized appreciation/(depreciation) during the period on Level 3 investments held at 12/31/08†	$ 0

† Net change in unrealized appreciation/(depreciation) is included in the related amounts on investments in the Statement of Operations.

In March 2008, the Financial Accounting Standards Board (the “FASB”) issued Statement of Financial Accounting Standard No.161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”) that is effective for fiscal years beginning after November 15, 2008. SFAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity’s results of operations and financial position. Management is currently evaluating the implications of SFAS 161 on the Fund’s financial statement disclosures.

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 the 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 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 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 ability 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 those of 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.

Securities Transactions and Investment Income

Securities transactions are accounted for on the trade date with realized gain or loss on investments determined by using the identified cost method. Interest income (including amortization of premium and accretion of discount) is recorded on the accrual basis. Premiums and discounts on debt securities are amortized using the effective yield to maturity method. Dividend income is recorded on the ex-dividend date except for certain dividends which are recorded as soon as the Fund is informed of the dividend.

Expenses

Certain administrative expenses are common to, and allocated among, various affiliated funds. Such allocations are made on the basis of each Fund’s average net assets or other criteria directly affecting the expenses as determined by the Adviser pursuant to procedures established by the Board.

Custodian Fee Credits and Interest Expense

When cash balances are maintained in the custody account, the Fund receives credits which are used to offset custodian fees. The gross expenses paid under the custody arrangement are included in custodian fees in the Statement of Operations with the corresponding expense offset, if any, shown as “custodian fee credits.” When cash balances are overdrawn, the Fund is charged an overdraft fee equal to 2.00% above the federal funds rate on outstanding balances. This amount, if any, would be included in “interest expense” in the Statement of Operations.

Distributions to Shareholders

Distributions to shareholders are recorded on the ex-dividend date. Distributions to shareholders are based on income and capital gains as determined in accordance with federal income tax regulations, which may differ from income and capital gains as determined under U.S. generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities and foreign currency transactions held by the Fund, timing differences, and

Notes to Financial Statements (Continued)

December 31, 2008

differing characterizations of distributions made by the Fund. Distributions from net investment income include net realized gains on foreign currency transactions. These book/tax differences are either temporary or permanent in nature. To the extent these differences are permanent, adjustments are made to the appropriate capital accounts in the period when the differences arise. These reclassifications have no impact on the net asset value ("NAV") per share of the Fund. For the year ended December 31, 2008, reclassifications were made to decrease accumulated distributions in excess of net investment income by $117 and to increase accumulated net realized loss on investments and foreign currency transactions by $117.

The tax character of distributions paid during the years ended December 31, 2008 and December 31, 2007 was as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Distributions paid from:		
Ordinary income	$1,292,398	$ 2,625,614
Net long-term capital gains	989,652	15,695,736
Return of capital	—	43,265
Total distributions paid	$2,282,050	$18,364,615

Provision for Income Taxes

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 "Code"). It is the policy of the Fund to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of its net investment company taxable income and net capital gains. Therefore, no provision for federal income taxes is required.

At December 31, 2008, the difference between book basis and tax basis unrealized depreciation was primarily due to deferral of losses from wash sales for tax purposes.

As of December 31, 2008, the components of accumulated earnings/losses on a tax basis were as follows:

Undistributed long-term gains	$ 153,814
Net unrealized depreciation on investments and foreign currency translations	(23,743,180)
Total	$(23,589,366)

The following summarizes the tax cost of investments and the related unrealized appreciation/depreciation at December 31, 2008:

	Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Depreciation
Investments	$132,703,443	$18,982,519	$(42,725,699)	$(23,743,180)

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as a tax benefit or expense in the current year. In accordance with FIN 48, management has analyzed the Fund's tax positions taken on the federal and state income tax returns for all open tax years (the current and prior three tax years) and has concluded that no provision for income tax is required in the Fund's financial statements. Management's determination regarding FIN 48 may be subject to review and adjustment at a later date based on factors including, but not limited to, an on-going analysis of tax laws, regulations, and interpretations thereof.

3. Agreements with Affiliated Parties

Pursuant to a management agreement (the "Management Agreement"), the Fund will pay Guardian Investor Services Corporation (the "Manager") a fee, computed daily and paid monthly, at the annual rate of 1.00% of the value of its average daily net assets. Pursuant to an Investment Advisory Agreement among the Fund, the Manager, and the Adviser, the Adviser, under the supervision of the Company's Board and the Manager, manages the Fund's assets in accordance with the Fund's investment objectives and policies, makes investment decisions for the Fund, places purchase and sale orders on behalf of the Fund, provides investment research, and provides facilities and personnel required for the Fund's administrative needs. The Adviser may delegate its administrative role and currently has done so to PNC Global Investment Servicing (U.S.) Inc. (formerly PFPC Inc.), the Fund's sub-administrator (the "Sub-Administrator"). The Adviser will supervise the performance of administrative and professional services provided by others and pays the compensation of the Sub-Administrator and all Officers and Directors of the Company who are its affiliates. As compensation for its services and the related expenses borne by the Adviser, the Manager pays the Adviser a fee, computed daily and paid monthly, at the annual rate of 0.75% of the value of the Fund's average daily net assets.

The Fund pays each Director who is not considered to be an affiliated person an annual retainer of $3,000 plus $500 for each Board meeting attended and they are reimbursed for any out of pocket expenses incurred in attending meetings. All Board committee members receive $500 per meeting attended and the Chairman of the Audit Committee and the Lead Director each receives an annual fee of $1,000. Directors who are directors or employees of the Adviser or an affiliated company receive no compensation or expense reimbursement from the Fund.

4. Portfolio Securities

Purchases and proceeds from the sales of securities during 2008, other than short-term securities and U.S. Government obligations aggregated $17,824,133 and $52,690,885, respectively.

Purchases and proceeds from the sales of U.S. Government obligations during 2008, other than short-term obligations, aggregated $338,455 and $337,931, respectively.

Notes to Financial Statements (Continued)

December 31, 2008

5. Transactions with Affiliates

During 2008, the Fund paid brokerage commissions on security trades of $84,235 to Gabelli & Company, Inc.

The cost of calculating the Fund's NAV per share is a Fund expense pursuant to the Investment Advisory Agreement between the Fund and the Adviser. During 2008, the Fund paid or accrued $45,000 to the Adviser in connection with the cost of computing the Fund's NAV.

The Fund is assuming its portion of the allocated cost of the Gabelli Funds' Chief Compliance Officer in the amount of $4,081 for the year ended December 31, 2008, which is included in miscellaneous expenses in the Statement of Operations.

6. Line of Credit

The Fund participates in an unsecured line of credit of up to $75,000,000 from which it may borrow up to 10% of its net assets from the custodian for temporary borrowing purposes. Borrowings under this arrangement bear interest at 0.75% above the federal funds rate on outstanding balances. This amount, if any, would be included in "interest expense" in the Statement of Operations. At December 31, 2008, borrowings outstanding under the line of credit amounted to $150,000.

The average daily amount of borrowings outstanding under the line of credit in 2008 was $500,134 with a weighted average interest rate of 3.60%. The maximum amount borrowed at any time during 2008 was $7,121,000.

7. Capital Stock Transactions

Transactions in shares of capital stock were as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2007
	Shares		Amount	
Shares sold	319,154	803,368	$ 4,959,818	$ 16,086,710
Shares issued upon reinvestment of distributions	221,344	979,446	2,282,050	18,364,615
Shares redeemed	(2,798,278)	(2,124,404)	(41,646,494)	(42,923,393)
Net decrease	**(2,257,780)**	**(341,590)**	**$(34,404,626)**	**$ (8,472,068)**

8. Indemnifications

The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

9. Other Matters

On April 24, 2008, the Adviser entered into an administrative settlement with the SEC to resolve the SEC's inquiry regarding prior frequent trading activity in shares of the GAMCO Global Growth Fund (the "Global Growth Fund") by one investor who was banned from the Global Growth Fund in August 2002. In the settlement, the SEC found that the Adviser had violated Section 206(2) of the Investment Advisers Act, Section 17(d) of the 1940 Act, and Rule 17d-1 thereunder and had aided and abetted and caused violations of Section 12(d)(1)(B)(i) of the 1940 Act. Under the terms of the settlement, the Adviser, while neither admitting nor denying the SEC's findings and allegations, agreed, among other things, to pay the previously reserved total of $16 million (including a $5 million penalty), of which at least $11 million will be distributed to shareholders of the Global Growth Fund in accordance with a plan to be developed by an independent distribution consultant and approved by the independent directors of the Global Growth Fund and the staff of the SEC and to cease and desist from future violations of the above referenced federal securities laws. The settlement is not expected to impact the Fund and will not have a material adverse impact on the Adviser or its ability to fulfill its obligations under the Advisory Agreement. On the same day, the SEC filed a civil action against the Executive Vice President and Chief Operating Officer of the Adviser, alleging violations of certain federal securities laws arising from the same matter. The officer is also an officer of the Global Growth Fund and other funds in the Gabelli/GAMCO fund complex including the Fund. The officer denies the allegations and is continuing in his positions with the Adviser and the funds. The Adviser currently expects that any resolution of the action against the officer will not have a material adverse impact on the Adviser or its ability to fulfill its obligations under the Advisory Agreement.

In a separate matter, on January 12, 2009, the SEC issued an administrative action approving a final settlement of a previously disclosed matter with the Adviser involving compliance with Section 19(a) of the Investment Company Act of 1940 and Rule 19a-1 thereunder by two closed-end funds. These provisions require registered investment companies when making a distribution in the nature of a dividend from sources other than net investment income to contemporaneously provide written statements to shareholders, which adequately disclose the source or sources of such distribution. While the two funds sent annual statements and provided other materials containing this information, the shareholders did not receive the notices required by Rule 19a-1 with any of the distributions that were made for 2002 and 2003. The Adviser believes that the funds have been in compliance with Section 19(a) and Rule 19a-1 since the beginning of 2004. As part of the settlement, in which the Adviser neither admits nor denies the findings by the SEC, the Adviser agreed to pay a civil monetary penalty of $450,000 and to cease and desist from causing violations of Section 19(a) and Rule 19a-1. In connection with the settlement, the SEC noted the remedial actions previously undertaken by the Adviser.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Gabelli Capital Series Funds, Inc.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Gabelli Capital Asset Fund (the "Fund"), a series of Gabelli Capital Series Funds, Inc., as of December 31, 2008, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2008, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Gabelli Capital Asset Fund, a series of Gabelli Capital Series Funds, Inc., at December 31, 2008, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Philadelphia, Pennsylvania
February 24, 2009

Additional Information (Unaudited)

The business and affairs of the Fund are managed under the direction of the Company's Board of Directors. Information pertaining to the Directors and Officers of the Fund is set forth below. The Fund's Statement of Additional Information includes additional information about the Fund's Directors and Officers and is available without charge, upon request, by writing to Gabelli Capital Series Funds, Inc. at One Corporate Center, Rye, NY 10580-1422.

Name, Position(s) Address[1] and Age	Term of Office and Length of Time Served[2]	Number of Funds in Fund Complex Overseen by Director	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director[4]
Interested Directors[3]				
Mario J. Gabelli Director and Chief Investment Officer Age: 66	Since 1995	26	Chairman and Chief Executive Officer of GAMCO Investors, Inc. and Chief Investment Officer – Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc.; Director/Trustee or Chief Investment Officer of other registered investment companies in the Gabelli/GAMCO Funds complex; Chairman and Chief Executive Officer of GGCP, Inc.	Director of Morgan Group Holdings, Inc. (holding company); Chairman of the Board of LICT Corp. (multimedia and communication services company)
Arthur V. Ferrara Director Age: 78	Since 1995	8	Former Chairman of the Board and Chief Executive Officer of The Guardian Life Insurance Company of America (1993-1995)	—
Independent Directors				
Anthony J. Colavita Director Age: 73	Since 1995	36	Partner in the law firm of Anthony J. Colavita, P.C.	—
Anthony R. Pustorino Director Age: 83	Since 1995	13	Certified Public Accountant; Professor Emeritus, Pace University	Director of The LGL Group, Inc. (diversified manufacturing)
Werner J. Roeder, MD Director Age: 68	Since 1995	22	Medical Director of Lawrence Hospital and practicing private physician	—
Anthonie C. van Ekris Director Age: 74	Since 1995	20	Chairman of BALMAC International, Inc. (commodities and futures trading)	—

Additional Information (Unaudited) (Continued)

Name, Position(s) Address[1] and Age	Term of Office and Length of Time Served[2]	Principal Occupation(s) During Past Five Years
Officers		
Bruce N. Alpert President and Secretary Age: 57	Since 1995	Executive Vice President and Chief Operating Officer of Gabelli Funds, LLC and an officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex. Director and President of Teton Advisors, Inc. (formerly Gabelli Advisers, Inc.) since 1998
Agnes Mullady Treasurer Age: 50	Since 2006	Vice President of Gabelli Funds, LLC since 2007; Officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex; Senior Vice President of U.S. Trust Company, N.A. and Treasurer and Chief Financial Officer of Excelsior Funds from 2004 through 2005; Chief Financial Officer of AMIC Distribution Partners from 2002 through 2004
Peter D. Goldstein Chief Compliance Officer Age: 55	Since 2004	Director of Regulatory Affairs at GAMCO Investors, Inc. since 2004; Chief Compliance Officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex; Vice President of Goldman Sachs Asset Management from 2000 through 2004

1. Address: One Corporate Center, Rye, NY 10580-1422, unless otherwise noted.
2. Each Director will hold office for an indefinite term until the earliest of (i) the next meeting of shareholders, if any, called for the purpose of considering the election or re-election of such Director and until the election and qualification of his or her successor, if any, elected at such meeting, or (ii) the date a Director resigns or retires, or a Director is removed by the Board of Directors or shareholders, in accordance with the Fund's By-Laws and Articles of Incorporation. Each officer will hold office for an indefinite term until the date he or she resigns or retires or until his or her successor is elected and qualified.
3. "Interested person" of the Fund as defined in the 1940 Act. Mr. Gabelli is considered an "interested person" because of his affiliation with Gabelli Funds, LLC which acts as the Fund's investment adviser. Mr. Ferrara is considered an interested person because of his affiliation with The Guardian Life Insurance Company of America, which is the parent company of the Fund's Manager.
4. This column includes only directorships of companies required to report to the SEC under the Securities Exchange Act of 1934, as amended (i.e. public companies) or other investment companies registered under the 1940 Act.

2008 Tax Notice to Shareholders (Unaudited)

For the year ended December 31, 2008, the Fund paid to shareholders ordinary income distributions (comprised of net investment income) totaling $0.132 per share and long-term capital gains totaling $989,652. The distributions of long-term capital gains have been designated as capital gain dividend by the Fund's Board of Directors. For the year ended December 31, 2008, 100% of the ordinary income distribution qualifies for the dividends received deduction available to corporations. The Fund designates 100% of the ordinary income distribution as qualified dividend income pursuant to the Jobs and Growth Tax Relief Reconciliation Act of 2003. The Fund designates 0.50% of the ordinary income distribution as qualified interest income, pursuant to the American Jobs Creation Act of 2004.

U.S. Government Income

The percentage of the ordinary income distribution paid by the Fund during 2008 which was derived from U.S. Treasury securities was 0.25%. Such income is exempt from state and local tax in all states. However, many states, including New York and California, allow a tax exemption for a portion of the income earned only if a mutual fund has invested at least 50% of its assets at the end of each quarter of the Fund's fiscal year in U.S. Government securities. The Gabelli Capital Asset Fund did not meet this strict requirement in 2008. Due to the diversity in state and local tax law, it is recommended that you consult your personal tax adviser as to the applicability of the information provided to your specific situation.

All designations are based on financial information available as of the date of this annual report and, accordingly, are subject to change. For each item, it is the intention of the Fund to designate the maximum amount permitted under the Internal Revenue Code and the regulations thereunder.