GABELLI FUNDS

ESG Investing

The Investment & Business Case

- ESG Investing: $8.7 trillion in the US according to a US SIF report, 2016[1].
- Academic studies suggest that stocks of companies that integrate ESG factors perform better long term[2].
- Sustainable investing resonates with individuals, most acutely with millennial and women investors[3].

Long term active, fundamental investors – such as Gabelli – are uniquely positioned to evaluate relevant, fundamental ESG issues inherent in firms which add or detract from a company's value.

Environmental, Social & Governance (ESG) investing considers non-traditional criteria in order to enhance investment analysis and decision-making. Academic studies sugget that this leads to improved risk adjusted performance. Historically, exclusionary screening was used by investors to avoid owning certain companies or industries. Today, the emphasis of ESG investing is more positively focused on both the investment and business case of a company. Fundamental research analysts take into account ESG issues on a company specific basis that may vary by industry. While the factors continue to evolve, some of the most relevant ones today include:

Environmental- carbon emissions, energy efficiency, water scarcity, waste management & product lifecycle.

Social- worker health & safety, product safety, supply chains, community relations and human rights.

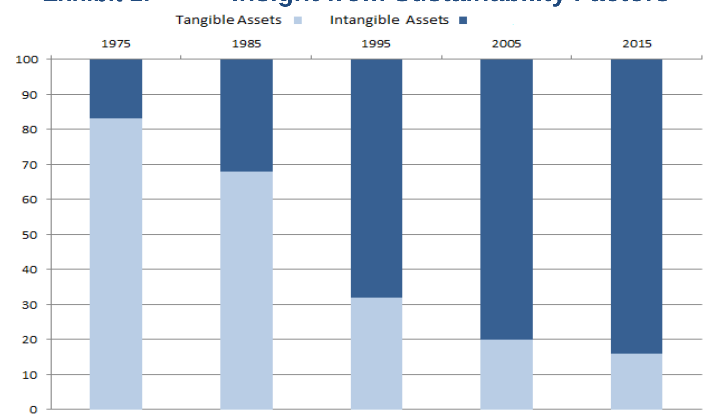
Governance- transparency, business ethics, corruption, board diversity, board independence.

[1] US SIF: Forum for Sustainable and Responsible Investment, 2016. "US Sustainable, Responsible and Impact Investing Trends, 2016"
[2] Mozaffar Khan, George Serafeim, Aaron Yoon, Harvard Business School, March 2015. "Corporate Sustainability: First Evidence of Materiality,"
[3] US Trust Suvey of HNW Investors, 2014

One can argue analysts should always have been taking many of these factors into account while conducting fundamental, bottom-up research. While that has been the case at Gabelli Funds, it has not been the case at all firms.

It is first worth highlighting the changes in the market that have occurred over the last 30 years. Today more than 80% of the market value of the S & P 500 is attributable to intangible assets compared to 1975 when intangible assets represented only 17% of market value. (Exhibit 1).

Exhibit 1: Insight from Sustainability Factors



Source: Intangible Asset Market Value Study, Ocean Tomo 2015

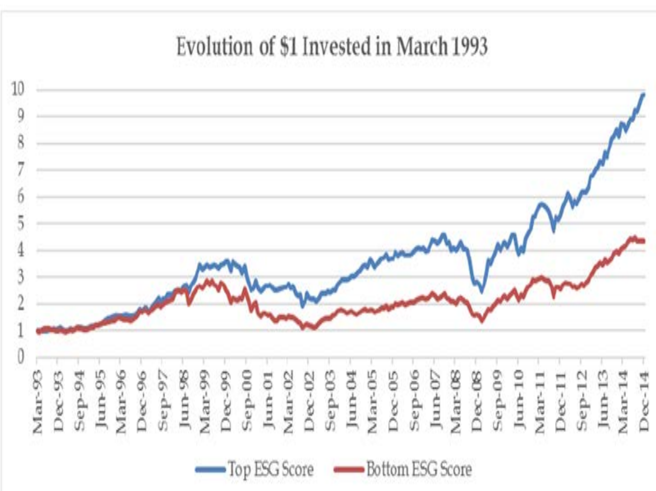
This evidence supports the theory that as the majority of a companies' public market valuation is now attributable to intangible assets, that an expanded set of metrics and inputs are needed to value the company. Many measures fall within ESG issues and help provide more insight into brand, culture, human capital development and reputation which in turn sustain the company's performance. Such factors, while not on the financial balance sheet, provide insight to fundamental investors who are willing to spend the time to research and understand them.

Currently, the asset management industry is in the process of recognizing the importance of these issues. The pervasive focus on short term investing, and quarter to quarter performance does not dovetail with these evolving issues. But attention on ESG and sustainability factors is increasing. It is notable, and important, that the CFA Institute - which is considered to be the high quality stamp of approval within investment management - is incorporating ESG issues into its curriculum beginning in 2017. The creation of the Sustainability Accounting Standards Board to guide investors on the recognition and disclosure of material ESG issues should further support incorporation.

As investors for nearly forty years, it is our opinion that ESG investing – in some way, shape and form – is not a marketing fad, but rather an essential part of the investment process for well-informed investors. Each year brings more definitive academic studies allowing investors to dig deeper into ESG.

Most notably, an academic study done by Harvard Business School suggests that companies which are more carefully integrating sustainability into their business operations perform better than those companies which do not manage sustainable issues relevant to their businesses (Exhibit 2). This academic study shows higher scoring companies generated alpha of +4.83% while poor scorers generated -2.2%.

Exhibit 2: Performance Implication of ESG Factors



Source: Mozaffar Khan, George Serafeim, Aaron Yoon, "Corporate Sustainability: First Evidence on Materiality," March 2015

It is not surprising to any fundamental research analyst that sustainability issues and management of ESG issues translate into a higher quality company. The largest mindset change is whether the importance of that information warrants closer, more explicit scrutiny. In this matter, industry debate is still underway. It is complicated by the following:

1) There are uniformity challenges on ESG issues as they tend to be different by industry. For example, the importance of carbon footprint is not the same to finance companies as it is to manufacturing companies.

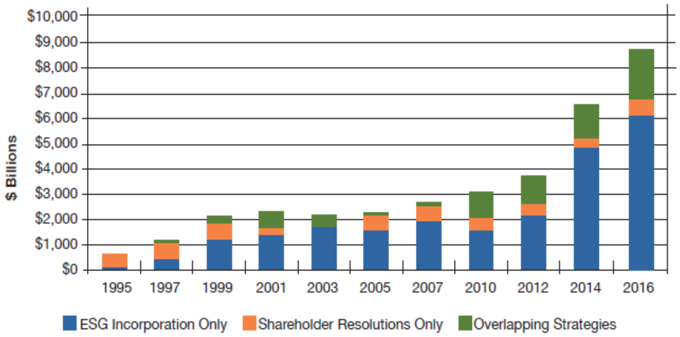
2) Companies in the U.S. are at different stages of voluntary disclosure and transparency on these issues. Europe is far ahead of the U.S. in mandating standard forms of disclosure. However, the momentum is clearly on the side of greater disclosure in the U.S. sooner rather than later.

3) Investors are at different stages of education. There is still historical association by many investors that ESG relates to what not to own – negative screening. However, more and more investors – most notably millennials and women – are demanding that their investments be more positively focused which aligns with corporate responsibility. This request dovetails with an ESG approach.

There is no doubt that ESG research into companies of all sizes is continuing to evolve. Furthermore, the evidence suggests that fundamental research is uniquely positioned to more completely integrate ESG into various research processes. Experienced judgement is required. Closer scrutiny of ESG factors and a methodical way of examining them will be an evolving process as asset owners, investors, research providers and companies become more aligned on a common process. Interestingly, because the nature of these issues is long term in nature as opposed to short term, it may help companies identify areas in their business operations for potential competitive advantage that they had not previously leveraged. In the long run, this effort may sustain and improve shareholder value.

Certainly, with the development of the Sustainability Accounting Standards Board (SASB) Materiality Map™ as well as increasing focus on ESG issues by the CFA Institute, we expect investors to continue to further incorporate ESG analysis. Exhibit 3 shows ESG and Impact Investing exceeds $8.7 trillion. The effort is accelerating but still evolving as companies are at different stages of disclosure around these issues, thereby making it still challenging for investors.

Exhibit 3: Sustainable Investing Trends



Source: US SIF Foundation; Report on US Sustainable, Responsible and Impact Investing Trends, 2016

Nonetheless, there is increasing research evidence supporting the case for ESG integrated investing. This is one reason the focus on Sustainability continues to grow. We highlight several research studies below:

"The Impact of Corporate Sustainability on Organizational Processes and Performance" written by *Robert G. Eccles, Ioannis Ioannou, George Serafeim, Harvard Business School, July 2013* shows that over 1993-2011 roughly 90 companies with strong sustainability policies outperformed a similar group of 90 companies with low sustainability policies. In this study there was a 4.8% higher annual above market average return.

"Corporate Sustainability: First Evidence of Materiality," by *Mozaffar Khan, George Serafeim, Aaron Yoon, Harvard Business School, March 2015* researches 2,396 companies studied in conjunction with sustainability scores. This academic study shows higher scoring companies generated alpha of +4.83%.

In **"Can ESG add Alpha?"** by *Zoltan Nagy, Altaf Kassam and Linda Eling Lee, MSCI June 2015* research suggest that both ESG tilt and ESG momentum strategies outperform global benchmarks over an 8 year period.

"Corporate Social Responsibility and Access to Finance" by *Beiting Cheng, Ioannis Ioannou and George Serafeim, 2014,* suggests that companies with higher quality environmental and social practices face lower capital constraints.

Gabelli's Advantage in ESG

At Gabelli, research focus on ESG includes core criteria while additional material ESG issues are increasingly integrated (Exhibit 4). These are inputs to help identify risks and opportunities.

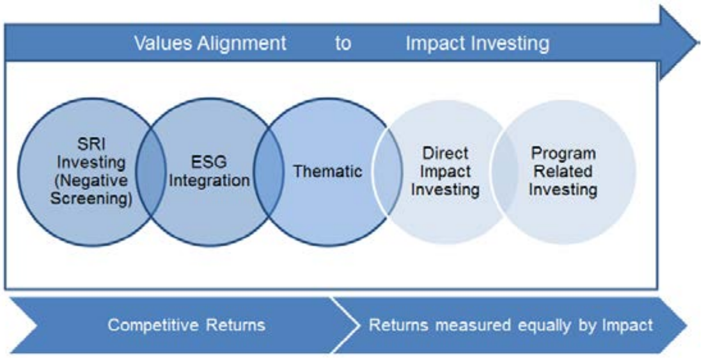
Exhibit 4: ESG Criteria

Analysts who are experts in their industry can connect the dots in terms of understanding the long term relevance of an ESG issue, and what financial metric it may impact in order to see how a company will benefit.

Gabelli's unique ESG strategy combines specific environmental and social themes along with ESG integration and select exclusionary screens, all focused on delivering long-term investment performance. Because we perform intensive, bottom up research, we are not only relying on external research firms in order to filter positive ESG scored companies. Rather, our bottom up research process starts with analysts who are experts in their respective industries and allows them to consider material ESG criteria to better understand the relevant risks on a company specific basis. The investment team additionally considers ESG factors within return expectations along with the investment thesis when constructing a portfolio. This focus results in a portfolio whose primary objective is competitive performance first, but also achieves an investors' desire for better values alignment and positive sustainable impact.

The dark circles shown in Exhibit 5 cover areas represented in our combined approach.

Exhibit 5: The Impact Investing Spectrum



Benefit to Investors

Investors today understand and are increasingly demanding, that their investments be sustainable – that managers consider the Environmental, Social and Governance risks inherent in every company. They want to invest in the same manner that they buy goods as consumers – without sacrificing investment performance. Many investors further aspire to make a positive impact with their investments, directly or even indirectly through experienced ESG investment managers.

At Gabelli, we have always based investment decisions on deep, fundamental research with a long term perspective. Our initial socially responsible investing strategy began in 1987 for investors who wanted to align their values with their investment portfolio. Today, our ESG investing capability dovetails our history of actively engaging companies on Governance issues, with our investing focus on sustainability themes like water or health & wellness and our ability to examine certain environmental and social issues that may be material to a company's ability to increase long term shareholder value.

Disclosure

Returns represent past performance and do not guarantee future results. Due to market volatility, current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so, upon redemption, shares may be worth more or less than their original cost. To obtain the most recent month end performance information and a prospectus, please call 800-GABELLI or visit www.gabelli.com

By concentrating in a small number of investments, the Fund's risks are increased because each investment has a greater effect on the Fund's performance than a fund which is more broadly diversified in a greater number of holdings. Investing in foreign securities involves risks not ordinarily associated with investment in domestic issues including currency fluctuations, economic and political risks. The Fund invests substantially all of its assets in the securities of companies that meet its socially responsible and sustainability criteria. As a result, the Fund may forego opportunities to buy certain securities when it might otherwise be advantageous for it to do so, or may sell securities when it might otherwise be disadvantageous for it to do so. Not FDIC Insured. May Lose Value.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. The prospectus, which contains more complete information about this and other matters, should be read carefully before investing. To obtain a prospectus, please call 800-GABELLI or visit www.gabelli.com.

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