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January 4, 2024

Gabelli Financial Services Opportunities Fund (NYSE: GABF)

Investor Commentary December 2023 – Portfolio Manager, Macrae Sykes

Last year, all the cool kids wanted to talk like economists and offer dramatic forecasts for rates. Pick your favorite topic – "sticky inflation," "higher for longer," "the Fed has lost control," or "we need a recession." Interestingly though, after several major bank failures, 100bps of Fed hikes and all the prognostications, the 10-Year yield finished the year almost exactly, where it started.

The landscape for markets and picking stocks remains fluid, but our research process remains well entrenched. We look for great companies trading below our estimate of intrinsic value and a catalyst to narrow that discount. We follow a bottom-up, fundamental process. At the start of 2024, the GABF portfolio in aggregate had an expected P/E of 15.4x and estimated 3-Yr EPS growth rate of 13.8% *(Source: FactSet)*. In comparison, the S&P 500 and the S&P Financials Indices' P/E ratios were 21.4x and 15.5x, respectively, and both with lower expected EPS growth rates than GABF *(Source: FactSet)*.

We look to qualify management teams by demonstration of "entrepreneurial thinking." We prefer author Bill Schley's *("The Unstoppables", 2013)* definition. . . "Many of the best entrepreneurs in the world are risk mitigators, not risk lovers. They avoid risks except when absolutely necessary, and rather than pro-producing earth shaking industry disruptions, they just make small, fundamental changes in a business model that turn out to produce good results." Steve Squeri, CEO of American Express (NYSE: AXP), accelerated marketing and spending during the Pandemic when others were pulling back, and shareholders today have been rewarded with share gains and new account growth with desirable younger cohort clients. Rob Berkley, CEO of WR Berkley Insurance (NYSE: WRB), along with his father (founder) have a long-tenure of smart capital allocation. By optimizing capital deployment to written premium, firm investments, repurchases and dividends, the duo generated a 23.7% annual gain for shareholders from 1974 to 2022 vs. 12.4% for the S&P 500 *(Source: Page 11, 2022 W.R. Berkley Corporation Annual Report)*. Not bad for a boring insurance operation and an entrepreneurial mindset.

Charlie Munger passed away right before the end of the year. He was still running intellectual marathons of giving advice and picking stocks right up until his death at age 99. Every Berkshire enthusiast knew he was great investor, full of wisdom, and enormously successful. The first part of his life was filled with tragedy though, and could have stopped anyone from achieving in the future. He divorced his wife, lost the vision in one eye due to a failed cataract surgery and witnessed the death of his 9-year old child from Leukemia. Charlie was an incredible person in many respects.

Berkshire Hathaway (NYSE: BRK'B) remains a top holding. Even at its size today, the future looks strong. In the 3Q, the firm generated over $800 million per week in operating earnings. In 4Q, we estimate the firm generated over $35bn of investment gains on a securities portfolio of $318bn. Combined with $152bn of cash, the Omaha conglomerate has lots of firepower for capital allocation and a deep leadership bench that is full of inspiration to continue to drive shareholder returns.

The fund does not have a specific ESG mandate. Many of the portfolio companies reside on acclaimed lists – "America's Best Large Employers," "World's Most Admired Companies" and "100 Best Companies to Work For in

2023." In our opinion, for the most part, winning cultures and outperformance seem to have high correlations with treating employees and clients well, responsible capital allocation and environmental awareness. We concur with Mark Twain's wisdom and believe it is a good compass direction. "Always do right. This will gratify some people and astonish the rest."

Like Charlie, I understand it is a privilege to come to work each day. Thank you for the opportunity to manage a portion of your capital and best wishes for a pleasant start to the 2024.

Respectfully,

Mac

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This ETF is different from traditional ETFs. Traditional ETFs tell the public what assets they hold each day. This ETF will not. This may create additional risks for your investment. For example:

- You may have to pay more money to trade the ETFs shares. This ETF will provide less information to traders, who tend to charge more for trades when they have less information.
- The price you pay to buy ETF shares on an exchange may not match the value of the ETF's portfolio. The same is true when you sell shares. These price differences may be greater for this ETF compared to other ETFs because it provides less information to traders.
- These additional risks may be even greater in bad or uncertain market conditions. The differences between this ETF and other ETFs may also have advantages. By keeping certain information about the ETF secret, this ETF may face less risk that other traders can predict or copy its investment strategy. This may improve the ETF's performance. If other traders are able to copy or predict the ETF's investment strategy, however, this may hurt the ETF's performance. For additional information regarding the unique attributes and risks of the ETF, see the ActiveShares prospectus/registration statement.
- Financial services companies operate in heavily regulated industries, which are subject to change. The underlying securities are subject to credit and interest rate sensitivity risk, which could affect earnings. Additionally, since financial services firms are correlated to GDP, a decline in the economic environment could impact profitability.

As of December 31, 2023 GAMCO and its affiliates own less than 1% of American Express Company, Berkshire Hathaway Inc., and W. R. Berkley Corporation.

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To obtain a Prospectus, please call 888-GABELLI or visit https://www.gabelli.com/funds/etfs/intro

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