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Gabelli Financial Services Opportunities Fund (NYSE: GABF)

Investor Commentary June 2022 – Portfolio Manager, Macrae Sykes

We launched the Gabelli Financial Services Opportunities Fund (NYSE: GABF) in May of this year and directly into a perfect storm of heightened inflation expectations, potential recession, Fed policy uncertainty and macro concerns about the Ukraine/Russian War. (Did we leave anything out?) We would note, there have been 26 bear markets since the 1920s and each time challenging for investor stamina, but with resets in valuation that presented new opportunities for investment and future returns.

Our confidence in this new strategy is based on a belief that over the *long-term* markets sync with what has been a long-term economic prosperity trend that Warren Buffett calls the “American Tailwind.” This growth in capital stock and living standards has enabled the US to distinguish itself among modern global economies. By example, US Household Wealth, which in 1971 totaled \$5 trillion, has risen to \$150 trillion at the end of 2021 (Source: US Federal Reserve). Financial services institutions remain a key element of facilitating this prosperity and benefitting from this growth.

The “Opportunities” component to the fund name reflects a flexible view about taking advantage of some notable fundamental themes. First, we are likely to see a more normalized rate environment which will help boost interest income. We believe this potential impact is still underappreciated since investors have been accustomed to a low rate environment for such a long-time, while earnings sensitivity remains high among most of the major money center institutions which derive over 50% of revenue from balance sheet income. Second, significant demographic change is occurring and will produce one of the largest generational wealth transfers resulting in continued strong demand for wealth advice and asset management capabilities. Third, globalization and especially digitization are boosting innovation around retail and institutional payments services. Last, technology in general is transforming all financial services models through improved operating efficiency (digitalization), more productive client engagement and lower customer acquisition costs.



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Let's Talk Stocks:

Interactive Brokers (NASDAQ: IBKR) is a global, online brokerage founded by Thomas Peterffy, who emigrated from Hungary and was one of the first entrepreneurs to create and implement an electronic trading platform. The company has an impressive history of growth and a global scaled operating moat that would be difficult to replicate. The firm is located in 33 countries, has 150 market centers and can settle in 27 different currencies. Due to its unique automation approach and technology efficiency, pretax profit margins have trended above 60% since the start of 2018. With approximately 2 million client accounts, Interactive Brokers remains well positioned to continue high growth rates of client acquisition within a TAM of about 80 million. We estimate approximately 70% of total pretax comes from recurring revenue from client interest balances. The rise in rates this year is also expected to power year-over-year earnings gains for the firm which trades at less than 15x EPS. In summary, we believe investors are getting the fundamental progress of a software company, at the compelling value of a financial services company.

IMPORTANT DISCLOSURES

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.

As of June 30, 2022 GAMCO and its affiliates own less than 1% of Interactive Brokers.

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