

GAMCO INVESTORS, INC. ET AL

Form 10-K

March 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-14761

GAMCO Investors, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-4007862

(I.R.S. Employer Identification No.)

One Corporate Center, Rye, NY

(Address of principal executive offices)

10580-1422

(Zip Code)

Registrant's telephone number, including area code (914) 921-3700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Class A Common Stock, par value \$0.001 per share

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act Yes No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes No

The aggregate market value of the class A common stock held by non-affiliates of the registrant as of June 30, 2016 (the last business day of the registrant’s most recently completed second fiscal quarter) was \$198,505,389.

As of March 1, 2017, 10,251,182 shares of class A common stock and 19,092,201 shares of class B common stock were outstanding. 18,373,741 shares of class B common stock were held by a subsidiary of GGCP, Inc.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant’s definitive proxy statement relating to the 2017 Annual Meeting of Shareholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

GAMCO Investors, Inc.

Annual Report on Form 10-K For the
Fiscal Year Ended December 31, 2016

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PART I

Forward-Looking Statements

Our disclosure and analysis in this report and in documents that are incorporated by reference contain some forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements because they do not relate strictly to historical or current facts. You should not place undue reliance on these statements. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words and terms of similar meaning. They also appear in any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance of our products, expenses, the outcome of any legal proceedings, and financial results.

Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ from our expectations or beliefs include, without limitation: the adverse effect from a decline in the securities markets; a decline in the performance of our products; a general downturn in the economy; changes in government policy or regulation; changes in our ability to attract or retain key employees; and unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations. We also direct your attention to any more specific discussions of risk contained in Item 1A below and in our other public filings or in documents incorporated by reference here or in prior filings or reports.

We are providing these statements as permitted by the Private Litigation Reform Act of 1995. We do not undertake to update publicly any forward-looking statements if we subsequently learn that we are unlikely to achieve our expectations or if we receive any additional information relating to the subject matters of our forward-looking statements.

ITEM 1: BUSINESS

Unless we have indicated otherwise, or the context otherwise requires, references in this report to “GAMCO Investors, Inc.,” the “Company,” “GBL,” “Gabelli,” “we,” “us” and “our” or similar terms are to GAMCO Investors, Inc., its predecessor or its subsidiaries.

Overview

GAMCO Investors, Inc. (New York Stock Exchange (“NYSE”): GBL), a company incorporated under the laws of Delaware, is a widely-recognized provider of investment advisory services to open and closed-end funds, institutional and private wealth management investors principally in the United States. We generally manage assets on a discretionary basis and invest in securities through various investment styles. Our revenues are based primarily on assets under management (“AUM”) and to a lesser extent, incentive fees.

Since our inception in 1977, we are identified with our research driven approach to equity investing and our proprietary Private Market Value (PMV) with a Catalyst™ stock selection process. Over the last 39 years, the firm has generated over \$25.2 billion in investment returns for our institutional and private wealth management clients.

As of December 31, 2016, we had \$39.7 billion of AUM, of which 95% is invested in equities, principally through our two registered investment advisers: GAMCO Asset Management Inc. (“Institutional and Private Wealth Management”) and Gabelli Funds, LLC (“Funds”). G.distributors, LLC (“G.distributors”) acts as an underwriter and distributor of our open-end funds.

Our AUM are organized into three groups:

Institutional and Private Wealth Management: We provide advisory services to a broad range of investors, including corporate retirement plans, foundations, endowments, jointly-trusted plans and public funds, private wealth clients and also serve as sub-advisor to third party investment funds including registered investment companies (“Institutional and Private Wealth Management”). On December 31, 2016, we had \$17.3 billion of Institutional and Private Wealth Management AUM.

Open and Closed-End Funds: We provide advisory services to twenty-one open-end funds, fifteen closed-end funds and one exchange traded managed fund under the Gabelli, GAMCO and Comstock brands (collectively, the “Funds”). The Funds had \$22.4 billion of AUM on December 31, 2016. Additionally, we provide administrative services to seven open-end funds, with AUM of \$1.3 billion on December 31, 2016, under the TETON Westwood brand.

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SICAV: We provide advisory services to one fund under the GAMCO brand, the GAMCO International SICAV (the “SICAV”). The SICAV has two sub-fund strategies, the GAMCO Merger Arbitrage Fund and the GAMCO All Cap Value Fund. The GAMCO All Cap Value strategy had \$50 million of AUM on December 31, 2016. The GAMCO Merger Arbitrage strategy is managed by Associated Capital Group, Inc. (“AC”).

GBL is a holding company incorporated in April 1998 in advance of our initial public offering (“Offering”) in February 1999. GGCP Holdings, LLC, a subsidiary of GGCP, Inc. owns a majority of the outstanding shares of Class B Common Stock (“Class B Stock”) of GBL. Such ownership represented approximately 91% of the combined voting power of the outstanding common stock and approximately 62% of the equity interest on December 31, 2016. Gabelli & Company Investment Advisers Inc. (“GCI”) (formerly called Gabelli Securities, Inc.), a majority controlled subsidiary of AC, owns 4,393,055 shares of Class A Common Stock (“Class A Stock”) representing approximately 15% of the equity interest and approximately 2% of the combined voting power on December 31, 2016. GGCP, Inc. is majority-owned by Mr. Mario J. Gabelli (“Mr. Gabelli”). AC is majority-owned by GGCP Holdings, LLC. Accordingly, Mr. Gabelli is deemed to control GBL.

Our principal executive offices are located at One Corporate Center, Rye, New York 10580. Our telephone number is (914) 921-3700. We post or provide a link on our website, www.gabelli.com, to the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (“Commission” or “SEC”): our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings on our website are available free of charge.

On March 20, 2009, we distributed our ownership in Teton Advisors, Inc. (“Teton”), the advisor to the TETON Westwood funds, to our shareholders. At the time of the distribution the stock price of Teton was \$2.75 per share. At December 31, 2016 the stock price of Teton was \$41.00 per share.

On November 30, 2015, we distributed our ownership in AC along with certain cash and other assets, to our shareholders. AC owns and operates, directly or indirectly, the alternatives and the institutional research businesses previously owned and operated by GBL. Subsequent to the Spin-off, GAMCO no longer consolidates the financial results of AC for the purposes of its own financial reporting and the historical financial results of AC have been reflected in the Company’s consolidated financial statements as discontinued operations for 2015 and 2014 within this report. Historical AUM have similarly been adjusted to remove AUM managed by AC.

During 2016, we returned \$13.2 million to shareholders through dividends and our stock buyback program. We paid \$2.4 million, or \$0.08 per share, in cash dividends to our common shareholders and repurchased 348,687 shares at an average investment of \$30.88 per share or \$10.8 million.

Since the Offering, we have returned to shareholders \$1.9 billion in total, of which \$1.0 billion was in the form of spin-offs of Teton and AC, \$488.6 million was from dividends and \$438.8 million was through stock buybacks.

Business Strategy

Our business strategy targets global growth of the franchise through continued leveraging of our proven asset management strengths including our brands, long-term performance record, diverse product offerings and experienced investment, research and client relationship professionals. In order to achieve performance and growth in AUM and profitability, we are pursuing a strategy which includes the following key elements:

Gabelli “Private Market Value (PMV) with a Catalyst™” Investment Approach. While we have expanded our investment product offerings, our “value investing” approach remains the core of our business. This method is based on and has evolved from the value investing principles articulated by Graham & Dodd in 1934 and enhanced by Roger

Murray and Bruce Greenwald, and has been further augmented by Mr. Gabelli, CFA, with his development of Private Market Value (PMV) with a CatalystTM value investment methodology..

Private Market Value (PMV) with a CatalystTM investing is a disciplined, research-driven approach based on intensive security analysis. In this process, we generally select stocks whose intrinsic value, based on our estimate of current asset value and future growth and earnings power, is significantly different from the value reflected in the public market. We then calculate the stock's PMV, which is defined as the price an informed industrial buyer would likely pay to acquire the business.

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Establishing Relationship Offices. We have nine offices including New York, Chicago, Greenwich, London, Morristown, Palm Beach, Reno, St. Louis, and Tokyo. We will continue to evaluate adding additional offices throughout the world.

Incentive Fees. Since a growing percentage of the firm's revenues may be directly linked to performance-based fees (largely recognized in the fourth quarter), this may increase the variability of our revenues and profits. As of December 31, 2016, approximately \$2.5 billion of our AUM are managed on a performance fee basis including \$1.4 billion of Institutional and Private Wealth Management assets, \$729 million of preferred issues of closed-end funds and \$348 million in The GDL Fund.

Expanding Mutual Fund Distribution. We continue to expand our distribution network primarily through national and regional brokerage firms and have developed additional classes of shares for most of our mutual funds for sale through these firms and other third party distribution channels. We have increased our wholesaling efforts to market the multi-class shares, which have been designed to meet the needs of investors who seek advice through financial consultants. During 2016, we launched our first exchange traded managed fund.

Increasing Presence in Private Wealth Management Market. Our private wealth management business focuses, in general, on serving clients who have established an account relationship of \$2.5 million or more with us. According to industry estimates, the number of households with over \$2.5 million in investable assets will continue to grow, subject to ups and downs in the equity and fixed income markets. With our 39-year history of serving this segment, long-term performance record, customized portfolios tax-sensitive investment strategy, brand name recognition and broad array of product offerings, we believe that we are well-positioned to capitalize on the growth opportunities in this market.

Increasing Marketing for Institutional and Private Wealth Management. The Institutional and Private Wealth Management business was principally developed through direct marketing channels. We plan to augment our institutional sales force through the addition of staff to market directly to the consultant community as well as through our traditional marketing channels.

Attracting and Retaining Experienced Professionals. We offer significant variable compensation that provides opportunities to our staff. The ability to attract and retain highly-experienced investment and other professionals with a long-term commitment to us and our clients has been, and will continue to be, a significant factor in our long-term growth.

Hosting of Institutional Investor Symposiums. We have a tradition of sponsoring institutional investor symposiums that bring together prominent portfolio managers, members of academia and other leading business professionals to present, discuss and debate current issues and topics in the investment industry. These symposiums have included:

- 2015 "Capital Allocation – The Tug of War"
- 2013 "Value Investing 20 Years Later: A Celebration of the Roger Murray Lecture Series"
- 2006 "Closed-End Funds: Premiums vs. Discounts, Dividends and Distributions"
- 2003 "Dividends, Taxable versus Non-Taxable Issues"
- 2001 "Virtues of Value Investing"
- 1998 "The Role of Hedge Funds as a Way of Generating Absolute Returns"
- 1997 "Active vs. Passive Stock Selection"

Capitalizing on Acquisitions, Alliances and Lift-outs. We intend to selectively and opportunistically pursue acquisitions, alliances and lift-outs that will broaden our product offerings and add new sources of distribution. On October 1, 1999, we completed our alliance with Mathers and Company, Inc. and now act as investment advisor to the GAMCO Mathers Fund, and in May 2000, we added Comstock Partners Funds, Inc., (renamed Comstock Funds,

Inc.). The Mathers and Comstock funds are part of our Non-Market Correlated mutual fund product line. In November 2002, we completed our alliance with Woodland Partners LLC, a Minneapolis-based investment advisor focused on investing in small capitalization companies. On March 11, 2008, Gabelli Funds, LLC (“Funds Advisor”) assumed the role of investment advisor to the AXA Enterprise Mergers and Acquisitions Fund, subsequently renamed Gabelli Enterprise Mergers and Acquisitions Fund, a fund that had been sub-advised by GAMCO since the fund’s inception on February 28, 2001. On August 1, 2010, the clients of Florida-based NMF Asset Management became part of the Institutional and Private Wealth Management operation of GAMCO Asset Management Inc. (“GAMCO Asset”). On November 2, 2015, the investment team of Dinsmore Capital, a specialist in convertible bond investing and formerly the manager of The Bancroft Fund and the Ellsworth Growth & Income Fund joined Gabelli Funds.

We believe that our growth to date is traceable to the following factors:

Strong Industry Fundamentals: According to data compiled by the U.S. Federal Reserve, the investment management industry has grown faster than more traditional segments of the financial services industry, including the banking and insurance industries. Since GBL began managing assets for institutional and private wealth management clients in 1977, world equity markets have grown at a 10.0% compound annual growth rate through December 31, 2016 to approximately \$66.9 trillion^(a). The U.S. equity market comprises about \$25.3 trillion^(a) or roughly 38% of world equity markets. We believe that demographic trends and the growing role of money managers in the placement of capital compared to the traditional role played by banks and life insurance companies will result in continued growth of the investment management industry.

Long-Term Performance: We have a superior long-term record of achieving relatively high returns for our Institutional and Private Wealth Management clients. We believe that our performance record represents a competitive advantage and a recognized component of our franchise.

Stock Market Gains: Since we began managing for institutional and private wealth management clients in 1977, our traditional value-oriented Institutional and Private Wealth Management composite has earned a compound annual return of 16.2% gross and 15.3% net of fees versus a compound annual return of 11.5% for the S&P 500 through December 31, 2016. For 2016, the GAMCO composite rose 16.7% gross and 16.3% net of fees versus a gain of 12.0% for the S&P 500.

Widely-Recognized “Gabelli” and “GAMCO” Brand Names: For much of our history, our portfolio managers and investment products have been featured in a variety of financial print media, including both U.S. and international publications such as The Wall Street Journal, Financial Times, Money Magazine, Barron's, Fortune, Business Week, Nikkei Financial News, Forbes Magazine, Consumer Reports and Investor's Business Daily. We also underwrite publications written by our investment professionals, including Deals...Deals...and More Deals, which examines the history and current practice of merger arbitrage and is published in English, Japanese, Chinese and Italian, Global Convertible Investing: The Gabelli Way, a comprehensive guide to effective investing in convertible securities.

Diversified Product Offerings: Since the inception of our investment management activities, we have sought to expand the breadth of our product offerings. We currently offer a wide spectrum of investment products and strategies, including product offerings in U.S. equities, U.S. fixed income, global and international equities, and convertible securities.

Business Description

Our AUM's are clustered in two groups: Institutional and Private Wealth Management and Funds.

Institutional and Private Wealth Management: At December 31, 2016, we had \$17.3 billion of AUM in approximately 1,700 Institutional and Private Wealth Management accounts, representing 43.6% of our total AUM. The Private Wealth Management clients – defined as individuals generally having minimum investable assets of \$5 million comprised approximately 79% of the total number of management accounts and approximately \$5.0 billion, or 29%, of the Institutional and Private Wealth Management assets as of December 31, 2016. We believe that Private Wealth Management clients for the taxable portion of their assets are attracted to us by our returns and the tax efficient nature of the underlying investment process. As of December 31, 2016, institutional client accounts represented approximately \$6.9 billion, or 40%, of the Institutional and Private Wealth Management assets and 9% of the accounts. Foundation and endowment fund assets represented 11% of the number of Institutional and Private Wealth Management accounts and approximately \$1.6 billion, or 9%, of the Institutional and Private Wealth Management AUM. The sub-advisory clients, (where we act as sub-advisor to third party investment funds) held approximately \$3.8 billion, or 22%, of total Institutional and Private Wealth Management assets with 1% of the total

number of accounts.

The ten largest Institutional and Private Wealth Management relationships comprised approximately 43% of GAMCO Asset Management AUM and approximately 19% of our total AUM and approximately 27% of GAMCO Asset Management revenues and approximately 8% of our total revenues for the year ended December 31, 2016.

In general, our Institutional and Private Wealth Management AUM are managed to meet the specific needs and objectives of each client by utilizing investment strategies that are within our areas of expertise: “all cap value”, “large cap value”, “small cap value”, “large cap growth”, “international growth” and “convertible”.

(a) Source: Birinyi Associates, LLC

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Investment advisory agreements for our Institutional and Private Wealth Management clients are typically subject to termination by the client without penalty on 30 days' notice or less.

Funds: We provide advisory services to twenty-one open-end funds, fifteen closed-end funds and one exchange traded managed fund. At December 31, 2016, we had \$22.4 billion of AUM in Fund AUM, representing 56.4% of our total AUM. Our equity funds and closed-end funds were \$20.6 billion in AUM on December 31, 2016, 1.5% ahead of the \$20.3 billion on December 31, 2015.

Open-end Funds

On December 31, 2016, we had \$13.5 billion of AUM in twenty open-end equity funds and \$1.8 billion in our Gabelli U.S. Treasury Money Market Fund. We market our open-end funds primarily through third party distribution programs, including no-transaction fee ("NTF") programs, and have developed additional share classes for many of our funds for distribution through additional third party distribution channels. At December 31, 2016, third party distribution programs accounted for approximately 79% of all assets in open-end equity funds. At December 31, 2016, approximately 21% of our AUM in open-end, equity funds was sourced through direct sales relationships.

Closed-end Funds

We act as investment advisor to fifteen closed-end funds, fourteen of which trade on the NYSE or its affiliated exchange: Gabelli Equity Trust (GAB), GDL Fund (GDL), Gabelli Multimedia Trust (GGT), Gabelli Healthcare & Wellness^{Rx} Trust (GRX), Gabelli Convertible and Income Securities Fund (GCV), Gabelli Utility Trust (GUT), Gabelli Dividend & Income Trust (GDV), Gabelli Global Utility & Income Trust (GLU), GAMCO Global Gold, Natural Resources & Income Trust (GGN), GAMCO Natural Resources, Gold & Income Trust (GNT), The Gabelli Global Small and Mid Cap Value Trust (GGZ), the Bancroft Fund Ltd. (BCV), the Ellsworth Growth and Income Fund Ltd. (ECF), and the Gabelli Go Anywhere Trust (GGO). In 2015, we launched the Gabelli Value Plus+ Trust Plc (GVP) that trades on the London Stock Exchange. As of December 31, 2016, the fifteen closed-end funds had total assets of \$7.2 billion, representing 32.1% of the total assets in our Funds business.

Exchange Traded Managed Funds

During 2016, we launched our first exchange traded managed fund ("ETMF"). The Gabelli Media Mogul NextShares trades on the Nasdaq Stock Market LLC under the symbol "MOGLC" and is the first member of the Gabelli NextShares Trust offered under an agreement with NextShares Solutions, LLC. As of December 31, 2016, the one ETMF had AUM of \$2.2 million.

Assets Under Management

The following table sets forth total AUM by product type as of the dates shown:

Assets Under Management

By Product Type

(Dollars in millions)

	At December 31,					% Change	
	2012 (b)	2013 (b)	2014 (b)	2015	2016	2016/2015	
Equity:							
Open-end Funds	\$12,502	\$17,078	\$17,684	\$13,811	\$13,462	(2.5	%)
Closed-end Funds	6,288	6,945	6,949	6,492	7,150	10.1	
Institutional & Private Wealth Management							
Direct	12,030	16,486	16,597	13,366	13,441	0.6	
Sub-advisory	2,924	3,797	3,704	3,401	3,783	11.2	
SICAV	-	-	-	37			