

GABELLI UTILITY TRUST

Form N-2

March 20, 2009

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As filed with the Securities and Exchange Commission on March 20, 2009  
Securities Act File No. 333-  
Investment Company Act File No. 811-09243

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-2**

**(Check Appropriate Box or Boxes)**

- REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**
- Pre-Effective Amendment No.**
- Post-Effective Amendment No.**
- and/or**
- REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**
- Amendment No. 15**

**THE GABELLI UTILITY TRUST**  
(Exact Name of Registrant as Specified in Charter)

**One Corporate Center  
Rye, New York 10580-1422**

(Address of Principal Executive Offices)

**Registrant's Telephone Number, including Area Code: (800) 422-3554**

**Bruce N. Alpert  
The Gabelli Utility Trust  
One Corporate Center  
Rye, New York 10580-1422**

**(914) 921-5100**

(Name and Address of Agent for Service)

*Copies to:*

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Approximate date of proposed public offering: From time to time after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box)

When declared effective pursuant to section 8(c).

If appropriate, check the following box:

This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement for the same offering is

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Title of Securities</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Offering Price Per Share</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee</b>
Common Shares of Beneficial Interest	0 Shares	\$ 0	\$100 million	\$ 5,580

(1) Estimated pursuant to Rule 457 solely for the purpose of calculating the registration fee. In no event will the aggregate offering price of all shares offered from time to time pursuant to a Prospectus Supplement and this Registration Statement exceed \$100 million. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with

the sale by the  
Registrant of the  
securities  
registered under  
this Registration  
Statement.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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Subject to Completion,  
Base Prospectus dated [\_\_\_\_\_, \_\_\_\_], 2009

PROSPECTUS

\$100,000,000

The Gabelli Utility Trust

Common Shares of Beneficial Interest

*Investment Objective.* The Gabelli Utility Trust (the Fund) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is long-term growth of capital and income. The Fund will invest at least 80% of its assets, under normal market conditions, in common stocks and other securities of foreign and domestic companies involved in providing products, services, or equipment for (i) the generation or distribution of electricity, gas, and water and (ii) telecommunications services or infrastructure operations (collectively, the Utility Industry). A company will be considered to be in the Utility Industry if it derives at least 50% of its revenues or earnings from, or devotes at least 50% of its assets to, the indicated activities or utility-related activities. Gabelli Funds, LLC (the Investment Adviser) serves as investment adviser to the Fund. The Fund was organized under the laws of the State of Delaware on February 25, 1999. An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's investment objective will be achieved.

We may offer, from time to time, in one or more offerings, our common shares, par value \$0.001 per share. Shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our shares.

Our shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. We may not sell any of our shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our shares. Our common shares are listed on the New York Stock Exchange (the NYSE) under the symbol GUT. Our 5.625% Series A Cumulative Preferred Shares are listed on the NYSE under the symbol GUTPrA. On [\_\_\_\_\_, \_\_\_\_], 2009, the last reported sale price of our common shares on the NYSE was \$\_\_\_\_. The net asset value of the Fund's common shares at the close of business on \_\_\_\_\_, 2009 was \$\_\_\_\_\_ per share.

**Shares of closed-end funds often trade at a discount from net asset value. This creates a risk of loss for an investor purchasing shares in a public offering.**

**Investing in the Fund's shares involves risks. See Risk Factors and Special Considerations on page [18] for factors that should be considered before investing in shares of the Fund.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

This Prospectus may not be used to consummate sales of shares by us through agents, underwriters or dealers unless accompanied by a Prospectus Supplement.

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus, which contains important information about the Fund, before

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deciding whether to invest in the shares, and retain it for future reference. A Statement of Additional Information, dated [\_\_\_\_\_] , 2009, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus. You may request a free copy of our annual and semi-annual reports, request a free copy of the Statement of Additional Information, the table of contents of which is on page 45 of this Prospectus, request other information about us and make shareholder inquiries by calling (800) GABELLI (422-3554), by accessing our web site (<http://www.gabelli.com>) or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission s web site (<http://www.sec.gov>).

Our shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

**You should rely only on the information contained or incorporated by reference in this Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any state where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date of this Prospectus.**

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE FUND MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

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**PROSPECTUS SUMMARY**

*This is only a summary. This summary may not contain all of the information that you should consider before investing in our shares. You should review the more detailed information contained in this Prospectus and the Statement of Additional Information, dated [ \_\_\_\_\_ ], 2009 (the SAI ).*

**The Fund**

The Gabelli Utility Trust is a non-diversified, closed-end management investment company organized under the laws of the State of Delaware on February 25, 1999. Throughout this Prospectus, we refer to The Gabelli Utility Trust as the Fund or as we. See The Fund.

The Fund's outstanding common shares, par value \$0.001 per share, are listed on the New York Stock Exchange ( NYSE ) under the trading or ticker symbol GUT, and any newly issued common shares issued will trade under the same symbol. As of December 31, 2008, the net assets of the Fund attributable to its common shares were \$154,898,035. As of December 31, 2008, the Fund had outstanding 30,430,021 common shares; 1,173,024 shares of 5.625% Series A Cumulative Preferred Shares, liquidation preference \$25 per share (the Series A Preferred ); and 900 shares of Series B Auction Market Preferred Shares, liquidation preference \$25,000 per share (the Series B Preferred ). The Series A Preferred and the Series B Preferred have the same seniority with respect to distributions and liquidation preference. On [ \_\_\_\_\_ ], 2009, the last reported sale price of our common shares on the NYSE was \$\_\_. The net asset value of the Fund's common shares at the close of business on \_\_\_\_\_, 2009 was \$\_\_\_\_\_ per share.

**The Offering**

We may offer, from time to time, in one or more offerings, our common shares, \$0.001 par value per share. The shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement ). The offering price of our common shares will not be less than the net asset value of our common shares at the time we make the offering, exclusive of any underwriting commissions or discounts. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our shares. Our shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. We may not sell any of our shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our shares.

**Investment Objective and Policies**

The Fund's primary investment objective is long-term growth of capital and income. The Fund will invest at least 80% of its assets, under normal market conditions, in common stocks and other securities of foreign and domestic companies involved in providing products, services, or equipment for (i) the generation or distribution of electricity, gas, and water and



(ii) telecommunications services or infrastructure operations (collectively, the Utility Industry ). A company will be considered to be in the Utility Industry if it derives at least 50% of its revenues or earnings from, or devotes at least 50% of its assets to, the indicated activities or utility-related activities.

No assurance can be given that the Fund s investment objective will be

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achieved. See Investment Objective and Policies.

**Common Shares**

The Fund is authorized to issue an unlimited number of shares of beneficial interest, par value \$0.001 per share, in multiple classes and series thereof as determined from time to time by the Board of Trustees of the Fund (the Board). The Board has authorized issuance of an unlimited number of shares of two classes, the common shares and preferred shares. Each share within a particular class or series thereof has equal voting, dividend, distribution and liquidation rights. The common shares are not redeemable and have no preemptive, conversion or cumulative voting rights. In the event of liquidation, each common share is entitled to its proportion of the Fund's assets after payment of debts and expenses and the amounts payable to holders of the Fund's preferred shares ranking senior to the common shares of the Fund as described below.

**Preferred Shares**

Currently, an unlimited number of the Fund's shares have been classified by the Board as preferred shares, par value \$0.001 per share. The terms of each series of preferred shares may be fixed by the Board and may materially limit and/or qualify the rights of holders of the Fund's common shares. If the Board determines that it may be advantageous to the holders of the Fund's common shares for the Fund to utilize additional leverage, the Fund may issue additional series of fixed rate preferred shares (Fixed Rate Preferred Shares) or additional series of variable rate preferred shares (Variable Rate Preferred Shares). Only common shares are offered in this Prospectus and one or more applicable Prospectus Supplements. Any Fixed Rate Preferred Shares or Variable Rate Preferred Shares issued by the Fund will pay, as applicable, distributions at a fixed rate or at rates that will be reset frequently based on short-term interest rates. (As of December 31, 2008, 1,173,024 shares of Series A Preferred and 900 shares of Series B Preferred were outstanding.) Leverage creates a greater risk of loss as well as a potential for more gains for the common shares than if leverage were not used. See Risk Factors and Special Considerations Leverage Risk and Certain Investment Practices Leveraging. The Fund may also engage in investment management techniques, which will not be considered senior securities if the Fund establishes in a segregated account cash or other liquid securities equal to the Fund's obligations in respect of such techniques. The Fund may borrow money in accordance with its investment restrictions, including as a temporary measure for extraordinary or emergency purposes. The Fund will not borrow for investment purposes.

**Dividends and Distributions**

*Common Share Distributions.* In order to allow its common shareholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically on their investment without having to sell shares, the Fund has adopted a managed distribution policy, which may be modified at any time by the Board. The Fund pays to its common shareholders a distribution of \$0.06 per share each month and, if necessary, an adjusting distribution in December which includes any additional income and net realized capital gains in excess of the monthly distributions for that year to satisfy the

minimum distribution requirements of the Internal Revenue Code of 1986, as amended (the Code). In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's preferred shares. Any return of capital that is a component of a distribution is not sourced from realized or unrealized profits of the Fund and that portion

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should not be considered by investors as yield or total return on their investment in the Fund. Shareholders should not assume that a distribution from the Fund is comprised exclusively of net profits.

For the fiscal year ended December 31, 2008, the Fund made distributions of \$0.72 per common share, of which \$0.56712 per share is deemed a return of capital. The Fund has made monthly distributions with respect to its common shares since October 1999. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each distribution may change based on the Fund's investment activity through the end of the calendar year. The Board monitors and reviews the Fund's common share distribution policy on a regular basis.

*Limitations on Distributions.* If at any time the Fund has borrowings outstanding, the Fund will be prohibited from paying any distributions on any of its common shares (other than in additional shares), and from repurchasing any of its common shares or preferred shares, unless the value of its total assets, less certain ordinary course liabilities, exceed 300% of the amount of the debt outstanding and exceed 200% of the sum of the amount of the debt and preferred shares outstanding. In addition, in such circumstances the Fund will be prohibited from paying any sister distributions on its preferred shares unless the value of its total assets, less certain ordinary course liabilities, exceed 200% of the amount of the debt outstanding. See Dividends and Distributions.

**Use of Proceeds**

The Fund will use the net proceeds from the offering to purchase portfolio securities in accordance with its investment objective and policies. See Use of Proceeds. Proceeds will be invested as appropriate investment opportunities are identified, which is anticipated to be substantially completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending as long as six months.

we are somewhat agnostic to different geographies they all hold some appeal, depending on what part of the geography you're interested in we are not particularly interested in large markets, large indications of primary care, but large markets in smaller indications would be attractive and vice versa.

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VALIGN="top">

And we still do like some very specific, unique science things.

<sup>10</sup> Calculation assumes that US\$5 is distributed to each Elan Shareholder (which implies a total cash distribution of US\$3.0 billion based on 602.0 million fully diluted shares in issue at the Proposal Price) and that there is no impact of cash distribution on 2015E Broker Projected Earnings Per Share.

<sup>11</sup> Sourced from CallStreet transcript of the Tysabri Conference Call.

<sup>12</sup> Royalty Pharma has underscored certain portions of the passages for emphasis.



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At the right time and in the right manner, we would intend to provide some portion of this capital back to shareholders over time.

we are not going to satisfy all investors on every category. So anyway, everyone can vote with their feet.

The Elan Stock price fell by approximately 10 percent on the day of the Tysabri Conference Call.

*Elan's announcements since its receipt of Royalty Pharma's Proposal*

Royalty Pharma believes that Elan has changed its messages since receiving Royalty Pharma's Proposal, particularly with regard to shareholder returns.

Having previously said that shareholders can vote with their feet, on February 22, 2013 Elan announced a US\$1 billion share repurchase programme and noted that "We greatly value our shareholder relationships and the access to equity capital these relationships give us and we appreciate the time horizon of many of our long term holders. We will continue to work on ways to unlock incremental value to their direct benefit." Notably, Elan failed to disclose that it had received Royalty Pharma's Proposal.

On February 25, 2013, after Royalty Pharma released the Proposal Announcement, Elan stated publicly that it would consider any credible proposal, implying that Royalty Pharma's Proposal was not credible.

On March 4, 2013, Elan announced a plan to distribute 20 percent of the Tysabri Royalty to shareholders through dividends. Deutsche Bank and RBC Capital Markets have calculated that this would imply a dividend yield of only 1-2 percent<sup>13</sup> in the short term, and this announcement provides no further clarity about Elan's plans for the remaining 80 percent of the Tysabri Royalty. The Elan CEO made a number of remarks in an interview<sup>14</sup> on that day that rejected entertaining any discussions with Royalty Pharma, stating that:

We're not in any discussions with [Royalty Pharma] at all on any topic and we don't see any need to have those discussions.

We don't see Royalty Pharma as a credible counterparty to have any strategic discussions with. We're not looking for any price. Accordingly, Royalty Pharma believes that Elan is still not focused on maximising shareholder value, and that Elan Shareholders should treat Elan's recent change of heart regarding returning cash to Elan Shareholders with scepticism.

*The reaction of analysts to the Tysabri Transaction*

Following the announcement of the Tysabri Transaction, four analysts (AlphaValue, Deutsche Bank, RBC Capital Markets, and UBS) cut their ratings on the Elan Stock and nine

<sup>13</sup> Sourced from equity research reports published by RBC Capital Markets and Deutsche Bank on March 4, 2013.

<sup>14</sup> Sourced from Reuters article published March 4, 2013 titled, "Elan offers special dividend to fend off Royalty" and Bloomberg article published March 4, 2013.

analysts (AlphaValue, Berenberg Bank, Deutsche Bank, Exane BNP Paribas, Morgan Stanley, RBC Capital Markets, Spin-Off Research, Standard & Poor's and UBS) lowered their price targets<sup>5</sup>. At the time of the Proposal Announcement, a significant majority of analysts had price targets at or below the Proposal Price.

A majority of analysts that have released comments on the Tysabri Transaction included at least some commentary expressing uncertainty on Elan's acquisition strategy or track record<sup>6</sup>.

Royalty Pharma also believes that the Elan Stock price prior to the Proposal Announcement was, to an extent, inflated by takeover speculation, as supported by the fact that a number of analysts also included at least some commentary mentioning the possibility of Elan being a potential acquisition target<sup>17</sup>.

#### **Higher value attributed to the Tysabri Royalty than that implied by the Tysabri Transaction**

Royalty Pharma believes that it is offering Elan Shareholders a value for the Tysabri Royalty that is higher than the value implied by the Tysabri Transaction. This is despite the fact that Royalty Pharma would not gain control of Tysabri through an acquisition of Elan, and the fact that the tiered Tysabri Royalty structure allocates more value to Biogen on the lower risk cash flows accruing from Tysabri (the first US\$2 billion of annual sales from the drug) and makes the value accruing to Elan more dependent on the higher risk cash flows (the incremental annual sales from the drug above US\$2 billion).

The Tysabri Transaction, in which Elan was a willing seller, set an implied value on the residual Tysabri Royalty held by Elan. The implied value of the residual Tysabri Royalty held by Elan depends on the percentage of Elan's economic interest in Tysabri that was acquired by Biogen in the Tysabri Transaction (the Disposed Tysabri Percentage). Elan and Biogen have not disclosed what they believe this percentage to be, but it may be estimated on the basis of projected cash flows accruing to Elan from the Pre-Restructuring Tysabri Participation (before the completion of the Tysabri Transaction) and the residual Tysabri Royalty (after the completion of the Tysabri Transaction).

Royalty Pharma has prepared an illustrative calculation which assumes that the Disposed Tysabri Percentage is between 46 percent and 54 percent (the Disposed Tysabri Percentage Range). This illustrative calculation was prepared solely based upon Royalty Pharma's analysis of the terms of the Tysabri Transaction and publicly available forecasts for Tysabri. Biogen paid US\$3.25 billion for the Disposed Tysabri Interest.

Based on the Disposed Tysabri Percentage Range and Royalty Pharma's assumptions, the Tysabri Transaction ascribed a value of between US\$2.77 billion and US\$3.81 billion to the residual Tysabri Royalty. Using the mid-point of the Disposed Tysabri Percentage Range of 50 percent would indicate that the Tysabri Transaction ascribed a value of US\$3.25 billion to the residual Tysabri Royalty. The Proposal Enterprise Value of US\$3.56 billion<sup>18</sup> represents a 9.6 percent premium to this value.

<sup>15</sup> Based on broker notes released after the announcement of the Tysabri Transaction and prior to February 25, 2013.

<sup>16</sup> Comments made in notes by Berenberg Bank, Davy, Deutsche Bank, Exane BNP Paribas, Leerink Swann, Morgan Stanley, RBC Capital Markets and UBS released after the announcement of the Tysabri Transaction and prior to February 25, 2013.

<sup>17</sup> Comments made in notes by Leerink Swann, RBC Capital Markets and UBS released after the announcement of the Tysabri Transaction and prior to February 25, 2013.

<sup>18</sup> Calculated in Appendix VI.

In its calculations above, Royalty Pharma makes no adjustment for the value of synergies that may be realized by Biogen. Biogen has stated that its annual operating synergies from the Tysabri Transaction will be approximately US\$30 million<sup>19</sup>. No other buyer could have realized such synergies and no further similar synergies are now available.

Royalty Pharma believes that these synergies can be viewed as reducing the effective net cost to Biogen. As such, Royalty Pharma believes that its calculation may over-state the value ascribed by the Tysabri Transaction to the standalone value of the Disposed Tysabri Interest, and by implication may over-state the value of the residual Tysabri Royalty.

In its calculation, Royalty Pharma ascribes minimal value to Elan's non-cash assets other than to the residual Tysabri Royalty. The Proposal Enterprise Value therefore closely reflects the value that Royalty Pharma is ascribing to the Tysabri Royalty.

Royalty Pharma's calculation framework, analysis and assumptions, derived from publicly available information, are contained in Appendix IV.

#### **Elan will have little or no strategic value following the Tysabri Transaction**

Following the completion of the Tysabri Transaction, Royalty Pharma believes that the field of likely acquirors of Elan will have narrowed sharply.

Royalty Pharma does not believe that pharmaceutical or biotech companies would be interested in acquiring Elan given that its material assets (in the context of the assets of the Elan Group, taken as a whole), following the completion of the Tysabri Transaction, will consist of cash and the Tysabri Royalty. As such, Royalty Pharma believes that the only companies that would be interested in acquiring Elan would be financial buyers. As the world's largest investor in pharmaceutical royalties, Royalty Pharma believes that it may be the only credible buyer capable of acquiring the whole of Elan.

#### **Conclusion: the choice for Elan Shareholders is clear**

Royalty Pharma's Proposal provides a clear choice for Elan Shareholders:

Receive what Royalty Pharma believes is the full value for Elan Stock now, in cash; or

Trust that Elan's acquisition strategy will succeed by remaining invested in a company with two material assets: a royalty interest in Tysabri and cash, the majority of which Elan has stated will be used for acquisitions.

**IF ELAN SHAREHOLDERS SUPPORT THE ROYALTY PHARMA PROPOSAL, THEN THEY SHOULD ENCOURAGE THE BOARD OF ELAN TO ENGAGE WITH ROYALTY PHARMA.**

<sup>19</sup> Sourced from the Biogen presentation made to investors on February 6, 2013 which states on slide 13 that Asset Purchase Structure Enables: Approximately US\$30M in annual operating synergies relatively seamlessly.



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**ELAN SHAREHOLDERS MAY NEVER GET ANOTHER OPPORTUNITY TO MAKE THIS CHOICE.**

**FURTHER INFORMATION ON ROYALTY PHARMA**

Royalty Pharma is a private entity founded in 1996 and is the investment manager to entities investing in royalty interests in marketed and late stage biopharmaceutical products, with a portfolio of royalty interests in 37 approved and marketed products (including Abbott's Humira®, Johnson and Johnson's Remicade®, Merck's Januvia®, Gilead's Atripla®, Truvada®, and Emtriva®, Pfizer's Lyrica®, Amgen's Neupogen® and Neulasta®, and Genentech's Rituxan®) and 3 products pending approval. Royalty Pharma's product portfolio is well-diversified across biopharmaceutical products and treatment areas and consists of stable and long-dated assets. Royalty Pharma's portfolio includes royalties on 8 of the top 20 selling pharmaceutical and biotech drugs by expected worldwide 2016 sales<sup>20</sup>, and 9 products with over US\$1 billion in annual sales.

These entities have a longer than fifteen year history of providing value to holders of royalty interests, including a US\$400 million purchase of 80 percent of Memorial Sloan-Kettering Cancer Center's Neupogen®/ Neulasta® royalty, a US\$525 million joint acquisition with Gilead Sciences of Emory University's emtricitabine royalty interest, a US\$650 million purchase of New York University's Remicade® royalty, a US\$700 million acquisition of AstraZeneca's Humira® royalty, a US\$700 million purchase of a portion of Northwestern University's Lyrica® royalty, a US\$609 million acquisition of Astellas Pharma's patent estate and associated royalty stream relating to the use of dipeptidyl peptidase IV (DPP-IV) inhibitors for the treatment of type 2 diabetes including Januvia® and Janumet®, and most recently a US\$761 million purchase of a portion of an interest in Biogen's Tecfidera (formerly BG-12) for the treatment of multiple sclerosis held by the former shareholders of Fumapharm AG. These entities are well diversified across biopharmaceutical products and treatment areas with unaudited revenue of US\$1.39 billion for the 2012 financial year and unaudited EBITDA for the 2012 financial year of US\$1.35 billion.

A breakdown of these entities' revenues by therapeutic area may be found in Appendix V.

**Important notice**

The Proposal is subject to the following pre-conditions, which will need to be satisfied or waived prior to any announcement of the Possible Offer under Rule 2.5 of the Irish Takeover Rules:

- (i) being granted access to and completion of satisfactory due diligence into the business of Elan, including management meetings;
- (ii) no acquisitions, dispositions, restructuring activities, debt refinancing, stock buybacks or other extraordinary transactions by Elan apart from the completion of the Tysabri Transaction;
- (iii) the Tysabri Transaction shall have closed and the terms shall not have been amended or altered in any material respect from the terms announced on February 6, 2013;

<sup>20</sup> Based on Evaluate Pharma estimates for 2016.

- (iv) unanimous recommendation of the Possible Offer, if made, by the directors of Elan;
- (v) each of the directors of Elan giving firm irrevocable undertakings to accept the Possible Offer, if made, or to vote in favour of the scheme of arrangement (as applicable) in respect of all the Elan Stock in which they have an interest;
- (vi) the entry into an expense reimbursement agreement in a form acceptable to Royalty Pharma in respect of an amount equal to the maximum allowable under the terms of the Irish Takeover Rules and the financial advisor to Elan confirming to the Irish Takeover Panel that such agreement is in the best interests of Elan's Shareholders;
- (vii) Elan's assistance, as appropriate, in obtaining support from its major institutional shareholders for the Possible Offer, if made; and
- (viii) execution of an appropriate implementation agreement to govern the conduct of a scheme of arrangement if the transaction is to be structured in that manner.

Royalty Pharma reserves the right to waive any or all of the pre-conditions described in this announcement and to implement the Possible Offer by means of either a general offer or a scheme of arrangement.

Royalty Pharma reserves the right to reduce the Possible Offer price in the event that:

- (i) Elan announces, declares or pays a dividend or any other distribution to its shareholders or announces or makes any share buyback or redemption; or
- (ii) Elan agrees to or undertakes any extraordinary transaction, including an acquisition, in-licensing, or debt refinancing. Customary terms and conditions under the Irish Takeover Rules will attach to the Possible Offer if made.

#### **Sources and Bases**

- (i) Save where otherwise stated, financial and other information concerning Elan and Royalty Pharma has been extracted from published sources or from Royalty Pharma's unaudited financial results for the year ended December 31, 2012;
- (ii) calculation of Broker Median Price Target from third party reports – the median of price targets released following the announcement of the Tysabri Transaction on February 6, 2013 and prior to the Proposal Announcement by Alphavalue, Berenberg Bank, Deutsche Bank, Exane BNP Paribas, Jefferies, Leerink Swann, Morgan Stanley (base case scenario), RBC Capital Markets, S&P, Spin-Off Research and UBS, and sourced from Bloomberg and broker notes;
- (iii) calculation of Broker Projected Earnings Per Share from third party reports – the median of revised earnings per share forecasts sourced from broker reports published following the announcement of the Tysabri Transaction on February 6, 2013 and prior to the Proposal Announcement by Berenberg Bank, Cowen, Davy Research, Deutsche Bank, Morgan Stanley, RBC Capital Markets and UBS;
- (iv) calculation of Broker Projected EBITDA from third party reports – the median of revised EBITDA forecasts sourced from broker reports published following the announcement of the Tysabri Transaction on February 6, 2013 and prior to the Proposal Announcement by Berenberg Bank, Davy Research, Deutsche Bank, Morgan Stanley and UBS;



- (v) calculation of Broker Projected Revenue from third party reports – the median of revised revenue forecasts sourced from broker reports published following the announcement of the Tysabri Transaction on February 6, 2013 and prior to the Proposal Announcement by Berenberg Bank, Cowen, Davy Research, Deutsche Bank, Morgan Stanley, RBC Capital Markets and UBS;
- (vi) calculation of median projected EBITDA, earnings per share and revenue multiples for the Large Cap Biotech Companies and the Specialty Pharma Companies is based on multiples sourced from I/B/E/S consensus as downloaded from FactSet on 22-Feb-2013, FactSet on 22-Feb-2013 (for share prices and numbers of shares outstanding) and company filings (for balance sheet data);
- (vii) Biogen’s presentation made to investors on February 6, 2013 following the announcement of the Tysabri Transaction;
- (viii) CallStreet transcript of Tysabri Conference Call on February 6, 2013;
- (ix) Elan’s 20-F SEC filing on February 12, 2013 for the financial year ended December 31, 2012; and
- (x) Alkermes plc (ALKS) 13-D SEC filing on February 6, 2013.  
J.P. Morgan is lead financial advisor to Royalty Pharma with BofA Merrill Lynch and Groton Partners acting as co-advisors.

**This announcement does not amount to a firm intention to announce an offer and there can be no certainty that an offer will be forthcoming (even if the pre-conditions noted above are satisfied or waived) or, if made, as to the conditions of any offer.**

**ENQUIRIES**

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**FURTHER INFORMATION**

This announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to this announcement or otherwise.

The distribution of this announcement in jurisdictions other than Ireland and the Proposal may be affected by the laws of relevant jurisdictions. Therefore any persons who are subject to the laws of any jurisdiction other than Ireland or Elan Shareholders who are not resident in Ireland will need to inform themselves about, and observe, any applicable requirements.

**Additional Information**

This announcement does not constitute an offer to buy or the solicitation of an offer to sell any securities. This announcement relates to a potential business combination transaction with Elan proposed by Royalty Pharma and is not a substitute for any tender offer statement or any other document in the event that Royalty Pharma files such a document with the SEC in connection with the proposed transaction. INVESTORS AND SECURITY HOLDERS ARE URGED TO READ ANY SUCH DOCUMENTS FILED WITH THE SEC CAREFULLY IN THEIR ENTIRETY IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. Any such documents will be available free of charge through the website maintained by the SEC at [www.sec.gov](http://www.sec.gov) or by directing a request to the persons listed above.

**General**

THIS ANNOUNCEMENT DOES NOT CONSTITUTE AN OFFER TO SELL, OR AN INVITATION TO SUBSCRIBE FOR OR PURCHASE OR EXCHANGE, ANY SECURITIES OR THE SOLICITATION OF ANY VOTE OR APPROVAL IN ANY JURISDICTION.

**Responsibility Statements**

The member of RP Management, LLC accepts responsibility for the information contained in this announcement, save that the only responsibility accepted by the member of RP Management, LLC in respect of the information in this announcement relating to Elan, the Elan Group, the Board of Elan and the persons connected with them, which has been compiled from published sources, has been to ensure that such information has been correctly and fairly reproduced or presented (and no steps have been taken by the member of RP Management, LLC to verify this information). To the best of the knowledge and belief

of the member of RP Management, LLC (having taken all reasonable care to ensure that such is the case), the information contained in this announcement for which he accepts responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

J.P. Morgan, together with its affiliate J.P. Morgan Limited (which is authorised and regulated by the Financial Services Authority in the United Kingdom), is acting exclusively for Royalty Pharma and for no one else in connection with the matters described in this announcement and is not, and will not be, responsible to anyone other than Royalty Pharma for providing the protections afforded to clients of J.P. Morgan or its affiliates, or for providing advice in connection with the matters described in this announcement.

Merrill Lynch International ( BofA Merrill Lynch ), a subsidiary of Bank of America Corporation, is acting exclusively for Royalty Pharma in connection with the possible offer and for no one else and will not be responsible to anyone other than Royalty Pharma for providing the protections afforded to its clients or for providing advice in relation to the possible offer.

### **Rule 8 Dealing Disclosure Requirements**

Under the provisions of Rule 8.3 of the Irish Takeover Rules, if any person is, or becomes, interested (directly or indirectly) in one per cent. or more of any class of relevant securities of Elan, all dealings in any relevant securities of Elan (including by means of an option in respect of, or a derivative referenced to, any such relevant securities ) must be publicly disclosed by not later than 3.30 pm (Dublin time) on the business day following the date of the relevant transaction. This requirement will continue until the date on which the Possible Offer becomes effective, lapses or is otherwise withdrawn or on which the Offer Period otherwise ends. If two or more persons co-operate on the basis of any agreement, either express or tacit, either oral or written, to acquire an interest in relevant securities of Elan, they will be deemed to be a single person for the purpose of Rule 8.3 of the Irish Takeover Rules.

Under the provisions of Rule 8.1 of the Irish Takeover Rules, all dealings in relevant securities of Elan by Elan or Royalty Pharma, or by any of their respective associates must also be disclosed by no later than 12 noon (Dublin time) on the business day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose relevant securities dealings should be disclosed can be found on the Irish Takeover Panel's website at [www.irishtakeoverpanel.ie](http://www.irishtakeoverpanel.ie).

Interests in securities arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an interest by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the Irish Takeover Rules, which can be found on the Irish Takeover Panel's website.

If you are in any doubt as to whether or not you are required to disclose a dealing under Rule 8, please consult the Irish Takeover Panel's website at [www.irishtakeoverpanel.ie](http://www.irishtakeoverpanel.ie) or contact the Irish Takeover Panel on telephone number +353 (0)1 678 9020; fax number +353 (0)1 678 9289.

### **Forward Looking Statements**

This announcement may include certain forward looking statements with respect to the business, strategy and plans of Elan and Royalty Pharma and their respective expectations relating to the Possible Offer and their future financial condition and performance. Statements that are not historical facts, including statements about Elan or Royalty Pharma or their respective management's beliefs and expectations, are forward looking statements. Words such as believes, anticipates, estimates, expects, intends, aims, potential, will, would, could, variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur.

Examples of such forward looking statements include, but are not limited to, statements about expected benefits and risks associated with the Possible Offer; projections or expectations of profit attributable to shareholders; anticipated provisions or write-downs, economic profit, dividends, capital structure or any other financial items or ratios; statements of plans, objectives or goals of Elan, Royalty Pharma or the combined company following the Possible Offer; statements about the future trends in interest rates, liquidity, foreign exchange rates, stock market levels and demographic trends and any impact that those matters may have on Elan, Royalty Pharma or the combined company following the Possible Offer; statements concerning any future Irish, U.S. or other economic environment or performance; statements about strategic goals, competition, regulation, regulatory approvals, dispositions and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Forward looking statements only speak as of the date on which they are made, and the events discussed in this announcement may not occur. Subject to compliance with applicable law and regulation, Royalty Pharma is not under any obligation to update publicly or revise forward looking statements, whether as a result of new information, future events or otherwise.

### **No Profit Forecast / Asset Valuations**

No statement in this announcement constitutes a profit forecast for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for either Royalty Pharma or Elan as appropriate. No statement in this announcement constitutes an asset valuation.

**APPENDIX I:**

**Definitions**

The following definitions apply throughout this announcement unless the context otherwise requires:

Alkermes Shares	the 7.75 million ordinary shares of Alkermes plc sold by Elan Science Three Limited on February 6, 2013;
BofA Merrill Lynch	Merrill Lynch International, a subsidiary of Bank of America Corporation;
Biogen	Biogen Idec Inc.;
Board of Elan	the board of directors of Elan at the date of this announcement;
Broker Median Price Target	the median of the price targets given by the brokers named in the Sources and Bases section that have published price targets following the announcement of the Tysabri Transaction on February 6, 2013 and prior to the Proposal Announcement;
Broker Projected Earnings Per Share	the median of earnings per share forecasts made by the brokers named in the Sources and Bases section that published revised earnings per share forecasts following the announcement of the Tysabri Transaction on February 6, 2013 and prior to the Proposal Announcement;
Broker Projected EBITDA	the median of EBITDA forecasts made by the brokers named in the Sources and Bases section that have published revised EBITDA forecasts following the announcement of the Tysabri Transaction on February 6, 2013 and prior to the Proposal Announcement;
Broker Projected Revenue	the median of revenue forecasts made by the brokers named in the Sources and Bases section that have published revised revenue forecasts following the announcement of the Tysabri Transaction on February 6, 2013 and prior to the Proposal Announcement;
Current Enterprise Value	the enterprise value of Elan as at February 15, 2013, calculated by Royalty Pharma in accordance with Appendix VI;
Disposed Tysabri Interest	the interest in Tysabri that will be sold by Elan to Biogen upon the completion of the Tysabri Transaction;
Disposed Tysabri Percentage	the percentage of the economic value of the Pre-Restructuring Tysabri Participation that will be sold by Elan to Biogen upon the completion of the Tysabri Transaction;
Disposed Tysabri Percentage Range	46 percent to 54 percent, being the range that Royalty Pharma has used for the preparation of its illustrative calculation of the value of the residual Tysabri Royalty;



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Elan or the Company	Elan Corporation plc;
Elan ADS s	Elan American Depositary Shares, each representing one (1) Elan Share;
Elan Group	Elan and each of its subsidiaries and subsidiary undertakings;
Elan Shareholders	the registered holders of Elan Shares and the holders of Elan ADS s; Elan Shareholder means any of such holders;
Elan Shares	the ordinary shares of 0.05 each in the capital of Elan and Elan Share means any one of them;
Elan Stock	Elan Shares and/or Elan ADS s;
Irish Takeover Rules	the Irish Takeover Panel Act 1997, Takeover Rules 2007 (as amended);
Jazz	Jazz Pharmaceuticals plc;
J.P. Morgan	J.P. Morgan Securities LLC;
Large Cap Biotech Companies	Amgen Inc., Biogen, Celgene Corporation and Gilead Sciences, Inc.;
Offer Period	the period commencing on the date of the Proposal Announcement and ending on such date as the Irish Takeover Panel may decide or the Irish Takeover Rules dictate;
Possible Offer	an offer for Elan of US\$11 for every Elan Share and every Elan ADS which Royalty Pharma is proposing, on an indicative basis, to make;
Pre-Restructuring Tysabri Participation	Elan s interest in Tysabri through a 50/50 collaboration with Biogen prior to the Tysabri Transaction;
Proposal	an indicative proposal to enquire the entire issued and to be issued share capital of Elan at a price of US\$11 for every Elan Share and Elan ADS;
Proposal Announcement	the announcement made by Royalty Pharma on February 25, 2013 stating its Proposal;
Proposal Enterprise Value	the enterprise value of Elan implied by the Proposal, calculated by Royalty Pharma in accordance with Appendix VI;
Proposal Price	the US\$11 for each Elan Share and Elan ADS referred to in Royalty Pharma s Proposal;
Prothena	Prothena Corporation plc;
SEC	Securities and Exchange Commission;

Specialty Pharma Companies	Alkermes plc, Allergan, Inc., Cubist Pharmaceuticals, Inc., Endo Health Solutions Inc., Forest Laboratories, Inc., Jazz Pharmaceuticals plc, The Medicines Company, Salix Pharmaceuticals, Ltd., Shire plc, Valeant Pharmaceuticals International, Inc. and Warner Chilcott Plc;
Tysabri Conference Call	the February 6, 2013 conference call following the announcement of the Tysabri Transaction;
Tysabri Consideration	the consideration of US\$3.249 billion payable by Biogen to Elan Group upon the completion of the Tysabri Transaction;
Tysabri Royalty	the royalty on Tysabri payable by Biogen to members of the Elan Group following the completion of the Tysabri Transaction;
Tysabri Transaction	the transaction between Elan and Biogen in relation to the restructuring of Elan's Tysabri collaboration with Biogen which was announced by Elan on February 6, 2013; and
Valeant	Valeant Pharmaceuticals International, Inc.

**APPENDIX II:**

**Chronology of Events**

The following chronology of recent events is provided as further background to the Proposal.

September 2011: Sale of Elan Drug Technologies (EDT) to Alkermes plc.

Summer 2012: Post-bapineuzumab clinical failure and announcement of spin-off of Prothena, Royalty Pharma developed an interest in Elan and Tysabri.

October to December 2012: Royalty Pharma had in-person meeting and several subsequent communications with Elan discussing ways in which Elan and Royalty Pharma might be able to work together, including Royalty Pharma's interest in potentially acquiring Elan.

6 February 2013: Biogen and Elan announced Tysabri Transaction and Elan discussed its acquisition strategy.

18 February 2013: Royalty Pharma called Elan's Chairman requesting an in-person meeting to discuss the Proposal.

20 February 2013: In-person meeting with Elan's Chairman; offer letter containing the Proposal delivered to Elan's Chairman.

22 February 2013: Elan issued press release reiterating its acquisition strategy, and announcing a US\$1 billion share buy-back programme and debt refinancing. Elan failed to disclose that it has received Royalty Pharma's Proposal.

25 February 2013: Royalty Pharma announced the Proposal to acquire Elan for US\$11 per Share / ADS; Elan confirms receipt of Proposal and characterizes it as highly conditional. Royalty Pharma has had no formal response to its Proposal to date.

4 March 2013: Elan announced plan to distribute 20 percent of the Tysabri Royalty to Elan Shareholders through dividends.

This week: Royalty Pharma is meeting Elan Shareholders to move towards a recommended transaction.

**APPENDIX III:**

**Royalty Pharma's track record of raising capital in the debt and equity markets**

The following chronology of recent events is provided as further background to Royalty Pharma's Proposal and representative of its ability to access the debt and equity markets.

In November 2012, Royalty Pharma raised a US\$705 million senior secured term loan A facility.

In October 2012, Royalty Pharma raised US\$2,718 million in senior secured term loan facilities.

In May 2012, Royalty Pharma raised US\$600 million of incremental term loan B debt.

In November 2011, Royalty Pharma raised US\$345 million in new equity.

In August 2011, Royalty Pharma raised a US\$2,750 million senior secured term loan B facility due in 2016 and 2018.

In August 2011, Royalty Pharma raised a US\$850 million senior secured term loan A facility.

In July 2011, Royalty Pharma raised a US\$400 million add-on term loan B facility.

In November 2008, Royalty Pharma raised US\$262 million of private equity.

In May 2008, Royalty Pharma raised a US\$150 million senior unsecured fixed rate term loan.

In May 2008, Royalty Pharma raised a US\$150 million incremental senior secured term loan B facility.

In December 2007, Royalty Pharma raised a US\$700 million incremental secured term loan B facility.

In October 2007, Royalty Pharma raised a US\$400 million term loan B facility swapped to a fixed rate.

In May 2007, Royalty Pharma raised a US\$1,400 million term loan B facility.

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**APPENDIX IV:**

**Basis for statement about value of Tysabri Royalty implied by the Tysabri Transaction**

An estimate of the value of the Tysabri Royalty implied by the Tysabri Transaction can be calculated principally by making assumptions around the percentage of the economic value of the Pre-Restructuring Tysabri Participation acquired by Biogen in the Tysabri Transaction, through which it acquired the Disposed Tysabri Interest (the percentage being the Disposed Tysabri Percentage ).

Based on an assumed value for the Disposed Tysabri Interest, one can infer the value of the Tysabri Royalty. Based on an assumed value for the Tysabri Royalty, it is also possible to infer an enterprise valuation for Elan as a whole by making an assumption about the value of Elan's other non-cash assets and attributes. Royalty Pharma ascribes minimal value to these other assets as discussed elsewhere in this announcement.

*Assumption on Disposed Tysabri Percentage*

The Disposed Tysabri Percentage can be estimated by comparing, on an annual basis, forecasts for the profit that would have accrued to Elan under the Pre-Restructuring Tysabri Participation (before the Tysabri Transaction) and the profit that will accrue to Elan under the residual Tysabri Royalty (following the Tysabri Transaction).

Royalty Pharma has prepared an illustrative calculation which assumes that the Disposed Tysabri Percentage is between 46 percent and 54 percent (the Disposed Tysabri Percentage Range ). This illustrative calculation was prepared solely based upon Royalty Pharma's analysis of the terms of the Tysabri Transaction and publicly available forecasts for Tysabri. Biogen paid US\$3.25 billion for the Disposed Tysabri Interest.

Elan or Biogen have not disclosed what they believe the relevant percentage to be. In the event that the calculation below were undertaken assuming that Biogen will acquire a higher or lower percentage of the Pre-Restructuring Tysabri Royalty, the effect would be to increase or decrease the implied premia calculated in Table 1 respectively.

*Assumption on synergies*

In its calculations, Royalty Pharma makes no adjustment for the value of synergies that may be realized by Biogen. Biogen has stated that its annual operating synergies from the Tysabri Transaction will be approximately US\$30 million<sup>21</sup>. No other buyer could have realized such synergies and no further similar synergies are now available.

Royalty Pharma believes that these synergies can be viewed as reducing the effective net cost to Biogen. As such, Royalty Pharma believes that its calculation may over-state the value ascribed by the Tysabri Transaction to the standalone value of the Disposed Tysabri Interest, and by implication may over-state the value of the residual Tysabri Royalty.

In the event that the calculation below ascribed a value to Biogen's synergies, the effect would be to increase the implied premia set out in Table 1.

<sup>21</sup> Sourced from the Biogen presentation made to investors on February 6, 2013 which states on slide 13 that Asset Purchase Structure Enables: Approximately US\$30M in annual operating synergies relatively seamlessly

*Assumption on Elan's other non-cash assets*

As discussed elsewhere in this announcement, Royalty Pharma ascribes minimal value to Elan's non-cash assets other than to the residual Tysabri Royalty, and the Proposal Enterprise Value therefore closely reflects the value that Royalty Pharma is ascribing to the residual Tysabri Royalty.

In the event that the calculation below ascribed a higher value to Elan's non-cash assets other than the residual Tysabri Royalty, the effect would be to decrease the implied premia calculated in Table 1.

*Calculation of implied value of Elan's residual Tysabri Royalty*

Based on the assumptions above, the table below calculates the implied value of Elan's residual Tysabri Royalty and sets out how this value compares with the Proposal Enterprise Value.

Using a mid-point of the Disposed Tysabri Percentage Range of 50 percent would indicate that the Tysabri Transaction ascribed a value of US\$3.25 billion to the residual Tysabri Royalty. The Proposal Enterprise Value of US\$3.56 billion represents a 9.6 percent premium to this value.

This is despite the fact that Royalty Pharma would not gain control of Tysabri through an acquisition of Elan, and the fact that the tiered Tysabri Royalty structure allocates more value to Biogen on the lower risk cash flows accruing from Tysabri (the first US\$2 billion of annual sales from the drug) and makes the value accruing to Elan more dependent on the higher risk cash flows (the incremental annual sales from the drug above US\$2 billion).

**Table 1 Illustrative calculation of implied value of Elan's residual Tysabri Royalty**

<b>Disposed Tysabri Percentage</b>	<b>46%</b>	<b>48%</b>	<b>50%</b>	<b>52%</b>	<b>54%</b>
Purchase price paid by Biogen in Tysabri Transaction	US\$ 3.25 billion	US\$ 3.25 billion	US\$ 3.25 billion	US\$ 3.25 billion	US\$ 3.25 billion
<b>Implied value of Elan's residual Tysabri Royalty</b>	<b>US\$ 3.81 billion</b>	<b>US\$ 3.52 billion</b>	<b>US\$ 3.25 billion</b>	<b>US\$ 3.00 billion</b>	<b>US\$ 2.77 billion</b>
Proposal Enterprise Value	US\$ 3.56 billion	US\$ 3.56 billion	US\$ 3.56 billion	US\$ 3.56 billion	US\$ 3.56 billion
% premium	(6.6)%	1.2%	9.6%	18.7%	28.7%

**APPENDIX V:**

**Revenue by therapeutic area for Royalty Pharma product portfolio**

**Table 2 2012 revenue by therapeutic area**

<b>Therapeutic Area</b>	<b>Percent</b>
Rheumatology	31 percent
HIV	18 percent
Oncology	13 percent
Diabetes	11 percent
Neurology	10 percent
Cardiology	8 percent
Antibiotics	7 percent
Other	2 percent

## APPENDIX VI:

## Calculation of Current Enterprise Value and Proposal Enterprise Value

Table 3 Enterprise Value (US\$m unless stated)

	Current Enterprise Value	Proposal Enterprise Value
Price of Elan Stock	US\$ 10.35 <sup>22</sup>	US\$ 11.00
Fully diluted number of Elan Stock outstanding (m) Table 4	601.6	602.0
Market capitalization	6,226.9	6,622.4
Elan net cash Table 5	3,061.5	3,061.5
<b>Enterprise value</b>	<b>3,165.4</b>	<b>3,560.9</b>
% premium to Current Enterprise Value		12.5%

Table 4 Fully diluted shares (m unless stated)

	Current Enterprise Value	Proposal Enterprise Value
Price of Elan Stock	US\$ 10.35	US\$ 11.00
Total voting rights <sup>23</sup>	595.3	595.3
Dilution from options and restricted stock units <sup>24</sup>	6.3	6.7
<b>Fully diluted shares outstanding</b>	<b>601.6</b>	<b>602.0</b>

Table 5 Elan net cash position (US\$m unless stated)

	Net cash
Cash and cash equivalents	431.3
Proceeds from sale of Alkermes Shares <sup>25</sup>	169.7
Restricted cash and cash equivalents current	2.6
Long-term debt	(600.0)
Janssen AI funding commitment <sup>26</sup>	(123.1)
Restructuring accruals	(27.6)
Accrued transaction costs	(12.5)
Cambridge Collaboration termination <sup>27</sup>	(8.0)
Unfunded pension liability <sup>28</sup>	(39.1)
Value of Prothena stake <sup>29</sup>	19.1
Proceeds to come from Tysabri Transaction <sup>30</sup>	3,249.0
<b>Net cash pro forma for Tysabri Transaction</b>	<b>3,061.5</b>

Note: Where not otherwise cited, figures are extracted from Elan's balance sheet as at December 31, 2012 and are sourced from Elan's 20-F SEC filing on February 12, 2013 for the financial year ended December 31, 2012. This calculation has been amended from the calculation included in Appendix II of the Proposal Announcement to include the impact of the US\$29.9 million funding provided to Janssen AI in January 2013 (after the end of Elan's last reported financial year).



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- 22 The closing share price of Elan ADS s on the New York Stock Exchange on February 15, 2013.
- 23 Sourced from Elan s Total Voting Rights announcement filed on January 31, 2013 and adjusted for restricted stock units vested between that date and the date of the Proposal Announcement.
- 24 Dilutive impact calculation based on the treasury share method.
- 25 Per Alkermes plc (ALKS) 13-D SEC filing on February 6, 2013.
- 26 Elan s remaining funding commitment to Janssen AI as at February 2013 plus the amount provided in January 2013, as disclosed in Elan s 20-F SEC filing on February 12, 2013.
- 27 Extracted from Elan s 20-F SEC filing on February 12, 2013 for the financial year ended December 31, 2012.
- 28 Extracted from Elan s 20-F SEC filing on February 12, 2013 for the financial year ended December 31, 2012.
- 29 Calculated as the closing share price of Prothena s ordinary shares of US\$6.01 on the NASDAQ Stock Market on February 15, 2013 times 3,182,253 ordinary shares owned by Elan as disclosed in Elan s Form 3 SEC filing on December 20, 2012.
- 30 Expected cash upfront payment by Biogen to the Elan Group on closing of the Tysabri Transaction which was announced by Biogen on February 6, 2013.

All amounts contained within this document referred to by "US\$" and "c" refer to the US dollar and US cents.

Any reference to "subsidiary undertaking", "associated undertaking" and "undertaking" have the meanings given by the European Communities (Companies: Group Accounts) Regulations, 1992.

Any reference to "subsidiary" has the meaning given to it by Section 155 of the Irish Companies Act 1963, as amended.

Any references to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof. Any reference to any legislation is to Irish legislation unless specified otherwise.

**Words importing the singular shall include the plural and vice versa and words supporting the masculine shall include the feminine or neuter gender.**

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Fixed income securities purchased by the Fund may be rated as low as C by Moody's or D by S&P or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date.

The market value of lower rated securities may be more volatile than the market value of higher rated securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than more highly rated securities, which primarily reflect fluctuations in general levels of interest rates.

Ratings are relative and subjective, and are not absolute standards of quality. Securities ratings are based largely on the issuer's historical financial condition and the rating agencies' analysis at the time of rating. Consequently, the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition.

As part of its investment in lower grade securities, the Fund may invest in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

#### **Foreign Securities**

Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with investments in securities of domestic issuers. Foreign companies are not generally subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to United States companies. Foreign securities exchanges, brokers and listed companies may be subject to less government supervision and regulation than exists in the United States. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments. There may be difficulty in obtaining or enforcing a court judgment abroad. In addition, it may be difficult to effect repatriation of capital invested in certain countries. In addition, with respect to certain countries, there are risks of expropriation, confiscatory taxation, political or social instability or diplomatic developments that could affect assets of the Fund held in foreign countries. Dividend income that the Fund receives from foreign securities may not be eligible for the special tax treatment applicable to qualified dividend income.

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There may be less publicly available information about a foreign company than a United States company. Foreign securities markets may have substantially less volume than United States securities markets and some foreign company securities are less liquid than securities of otherwise comparable United States companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing loss. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio because of the increased transaction costs on non-United States securities markets and the increased costs of maintaining the custody of foreign securities.

The Fund also may purchase sponsored American Depositary Receipts ( ADRs ) or United States dollar denominated securities of foreign issuers. ADRs are receipts issued by United States banks or trust companies in respect of securities of foreign issuers held on deposit for use in the United States securities markets. While ADRs may not necessarily be denominated in the same currency as the securities into which they may be converted, many of the risks associated with foreign securities may also apply to ADRs. In addition, the underlying issuers of certain depository receipts, particularly unsponsored or unregistered depository receipts, are under no obligation to distribute shareholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

**Special Risks of Derivative Transactions**

Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser's prediction of movements in the direction of the securities, foreign currency and interest rate markets are inaccurate, the consequences to the Fund may leave the Fund in a worse position than if such strategies were not used. Risks inherent in the use of options, foreign currency, futures contracts and options on futures contracts, securities indices and foreign currencies include:

- dependence on the Investment Adviser's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets;

- imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged;

- the fact that skills needed to use these strategies are different from those needed to select portfolio securities;

- the possible absence of a liquid secondary market for any particular instrument at any time;

- the possible need to defer closing out certain hedged positions to avoid adverse tax consequences; and

- the possible inability of the Fund to purchase or sell a security at a time that otherwise would be favorable for it to do so, or the possible need for the Fund to sell a security at a disadvantageous time due to a need for the Fund to maintain cover or to segregate securities in connection with the hedging techniques.

See Risk Factors and Special Considerations Futures Transactions.

**Futures Transactions**

- Futures and options on futures entail certain risks, including but not limited to the following:
  - no assurance that futures contracts or options on futures can be offset at favorable prices;

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possible reduction of the yield of the Fund due to the use of hedging;

possible reduction in value of both the securities hedged and the hedging instrument;

possible lack of liquidity due to daily limits or price fluctuations;

imperfect correlation between the contracts and the securities being hedged; and

losses from investing in futures transactions that are potentially unlimited and the segregation requirements for such transactions.

For a further description, see Investment Objective and Policies Investment Practices in the SAI.

**Forward Currency Exchange Contracts**

The use of forward currency exchange contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract and that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover. For a further description of such investments, see Investment Objective and Policies Investment Practices in the SAI.

**Dependence on Key Personnel**

The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund's investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser.

**Market Disruption Risk**

Certain events have a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events. The Fund cannot predict the effects of similar events in the future on the U.S. economy. Lower rated securities and securities of issuers with smaller market capitalizations tend to be more volatile than higher rated securities and securities of issuers with larger market capitalizations so that these events and any actions resulting from them may have a greater impact on the prices and volatility of lower rated securities and securities of issuers with smaller market capitalizations than on higher rated securities and securities of issuers with larger market capitalizations.

**Anti-Takeover Provisions of the Fund's Governing Documents**

The Fund's Governing Documents include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See Anti-Takeover Provisions of the Fund's Governing Documents.

**Special Risks Related to Preferred Securities**

There are special risks associated with the Fund's investing in preferred securities, including:

*Deferral.* Preferred securities may include provisions that permit the issuer, at its discretion, to defer dividends or distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring its dividends or distributions, the Fund may be required to report income for tax purposes although it has not yet received such income.

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***Non-Cumulative Dividends.*** Some preferred securities are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to its shareholders. Should an issuer of a non-cumulative preferred security held by the Fund determine not to pay dividends or distributions on such security, the Fund's return from that security may be adversely affected. There is no assurance that dividends or distributions on non-cumulative preferred securities in which the Fund invests will be declared or otherwise made payable.

***Subordination.*** Preferred securities are subordinated to bonds and other debt instruments in an issuer's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt security instruments.

***Liquidity.*** Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.

***Limited Voting Rights.*** Generally, preferred security holders (such as the Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may be entitled to elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights.

***Special Redemption Rights.*** In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws. A redemption by the issuer may negatively impact the return of the security held by the Fund.

## **Investment Companies**

The Fund may invest in the securities of other investment companies to the extent permitted by law. To the extent the Fund invests in the common equity of investment companies, the Fund will bear its ratable share of any such investment company's expenses, including management fees. The Fund will also remain obligated to pay management fees to the Investment Adviser with respect to the assets invested in the securities of other investment companies. In these circumstances holders of the Fund's common shares will be subject to duplicative investment expenses.

## **Counterparty Risk**

The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

## **Loans of Portfolio Securities**

Consistent with applicable regulatory requirements and the Fund's investment restrictions, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions, provided that such loans are callable at any time by the Fund (subject to notice provisions described in the SAI) and are at all times secured by cash or cash equivalents, which are maintained in a segregated account pursuant to applicable regulations and that are at least equal to the market value, determined daily, of the loaned securities. The advantage of such loans is that the Fund continues to receive the income on the loaned securities while at the same time earning interest on the cash amounts deposited as collateral, which will be invested in short-term obligations. The Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale. The Fund's loans of portfolio securities will be collateralized in accordance with applicable regulatory requirements.

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For a further description of such loans of portfolio securities, see Investment Objective and Policies Certain Investment Practices Loans of Portfolio Securities.

**Management Risk**

The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

**Status as a Regulated Investment Company**

The Fund has qualified, and intends to remain qualified, for federal income tax purposes as a regulated investment company under Subchapter M of the Code. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common shares if the Fund fails to satisfy the 1940 Act's asset coverage requirements could jeopardize the Fund's ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem preferred shares to the extent necessary in order to maintain compliance with such asset coverage requirements. See Taxation for a more complete discussion of these and other federal income tax considerations.

**Leverage Risk**

The Fund uses financial leverage for investment purposes by issuing preferred shares. As of December 31, 2008, the amount of leverage represented approximately 25% of the Fund's total assets. The Series A Preferred and Series B Preferred have the same seniority with respect to distributions and liquidation preference. Preferred shares have seniority over common shares.

The Fund's use of leverage, which can be described as exposure to changes in price at a ratio greater than the amount of equity invested, either through the issuance of preferred shares or other forms of market exposure, magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objective and policies.

**Preferred Share Risk.** The issuance of preferred shares causes the net asset value and market value of the common shares to become more volatile. If the dividend rate on the preferred shares approaches the net rate of return on the Fund's investment portfolio, the benefit of leverage to the holders of the common shares would be reduced. If the dividend rate on the preferred shares plus the management fee annual rate of 1.00% (as applicable) exceeds the net rate of return on the Fund's portfolio, the leverage will result in a lower rate of return to the holders of common shares than if the Fund had not issued preferred shares.

Any decline in the net asset value of the Fund's investments would be borne entirely by the holders of common shares. Therefore, if the market value of the Fund's portfolio declines, the leverage will result in a greater decrease in net asset value to the holders of common shares than if the Fund were not leveraged. This greater net asset value decrease will also tend to cause a greater decline in the market price for the common shares. The Fund might be in danger of failing to maintain the required asset coverage of the preferred shares or of losing its ratings on the preferred shares or, in an extreme case, the Fund's current investment income might not be sufficient to meet the dividend requirements on the preferred shares. In order to counteract such an event, the Fund might need to liquidate investments in order to fund a redemption of some or all of the preferred shares.

In addition, the Fund would pay (and the holders of common shares will bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred shares, including the advisory fees on the incremental assets attributable to such shares.

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Holders of preferred shares may have different interests than holders of common shares and may at times have disproportionate influence over the Fund's affairs. Holders of preferred shares, voting separately as a single class, would have the right to elect two members of the Board at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the Trustees until such arrearage is completely eliminated. In addition, preferred shareholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion of the fund to open-end status, and accordingly can veto any such changes.

Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of the Fund's common shares and preferred shares, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem its preferred shares to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements.

*Portfolio Guidelines of Rating Agencies for Preferred Shares and/or Credit Facility.* In order to obtain and maintain attractive credit quality ratings for preferred shares or borrowings, the Fund must comply with investment quality, diversification and other guidelines established by the relevant rating agencies. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act.

*Impact on Common Shares.* The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on common share total return, assuming investment portfolio total returns (comprised of net investment income of the Fund, realized gains or losses of the Fund and changes in the value of the securities held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns experienced or expected to be experienced by the Fund. See Risks. The table further reflects leverage representing 17% of the Fund's total assets, the Fund's current projected blended annual average leverage dividend or interest rate of 3.90%, a management fee at an annual rate of 1.00% of the liquidation preference of any outstanding preferred shares and estimated annual incremental expenses attributable to any outstanding preferred shares of 0.01% of the Fund's net assets attributable to common shares.

Assumed Portfolio Total Return (Net of Expenses)	(10)%	(5)%	0%	5%	10%
Common Share Total Return	(13.05)%	(7.02)%	(1.00)%	5.02%	11.05%

Common share total return is composed of two elements—the common share distributions paid by the Fund (the amount of which is largely determined by the taxable income of the Fund (including realized gains or losses) after paying interest on any debt and/or dividends on any preferred shares) and unrealized gains or losses on the value of the securities the Fund owns. As required by SEC rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy total return. For example, to assume a total return of 0% the Fund must assume that the income it receives on its investments is entirely offset by expenses and losses in the value of those investments. The Fund's shares are leveraged, and the risks and special considerations related to leverage described in this prospectus apply. Such leveraging of the shares cannot be fully achieved until the proceeds resulting from the use of leverage have been invested in accordance with the Fund's investment objectives and policies.

**Table of Contents****Common Share Distribution Policy Risk**

The Fund has adopted a policy, which may be changed at any time by the Board, of paying distributions on its common shares of \$0.06 per share per month. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's preferred shares. Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. Shareholders should not assume that a distribution from the Fund is comprised exclusively of net profits. For the fiscal year ended December 31, 2008, the Fund made distributions of \$0.72 per common share, of which \$0.56712 per share is deemed a return of capital. The Fund has made monthly distributions with respect to its common shares since October 1999. A portion of the distributions to holders of common shares during five of the ten fiscal years since the Fund's inception has constituted a return of capital. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through the end of the calendar year.

**Investment Restrictions**

The Fund has adopted certain investment limitations designed to limit investment risk and maintain portfolio diversification. These limitations are fundamental and may not be changed without the approval of the holders of a majority, as defined in the 1940 Act, of the outstanding shares of common shares and preferred shares voting together as a single class. The Fund may become subject to guidelines that are more limiting than the investment restrictions set forth above in order to obtain and maintain ratings from Moody's or S&P on its preferred shares. See "Investment Restrictions" in the SAI for a complete list of the fundamental and non-fundamental investment policies of the Fund.

**Interest Rate Transactions**

The Fund has entered into an interest rate swap transaction with respect to its outstanding Series B Preferred in order to manage the impact on its portfolio of changes in the dividend rate of such shares. Through these transactions the Fund may, for example, obtain the equivalent of a fixed rate for such Variable Rate Preferred Shares that is lower than the Fund would have to pay if it issued Fixed Rate Preferred Shares. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the "counterparty") periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on its Variable Rate Preferred Shares. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred shares dividends or distributions when due in accordance with the Statement of Preferences of the relevant series of the Variable Rate Preferred Shares even if the counterparty defaulted. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, such a default could negatively affect the Fund's ability to make dividend or distribution payments on the Variable Rate Preferred Shares. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend or distribution payments on the Variable Rate Preferred Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, resulting in a decline in the asset coverage for the Variable Rate Preferred Shares. A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. Under the Statement of Preferences for each series of the preferred shares, if the Fund fails to maintain the required asset coverage on the outstanding preferred shares or fails to comply with other covenants, the Fund may be





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required to redeem some or all of these shares. The Fund generally may redeem any series of Variable Rate Preferred Shares, in whole or in part, at its option at any time (usually on a dividend or distribution payment date), other than during a non-call period. Such redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transactions. Early termination of a swap could result in a termination payment by the Fund to the counterparty, while early termination of a cap could result in a termination payment to the Fund.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to segregate cash or liquid securities having a value at least equal to the value of the Fund's net payment obligations under any swap transaction, marked to market daily. The Fund will monitor any such swap with a view to ensuring that the Fund remains in compliance with all applicable regulatory investment policy and tax requirements.

**Table of Contents****MANAGEMENT OF THE FUND****General**

The Board (who, with its officers, are described in the SAI) has overall responsibility for the management of the Fund. The Board decides upon matters of general policy and reviews the actions of the Investment Adviser, Gabelli Funds, LLC, located at One Corporate Center, Rye, New York 10580-1422, and the Sub-Administrator (as defined below). Pursuant to an Investment Advisory Contract with the Fund, the Investment Adviser, under the supervision of the Board, provides a continuous investment program for the Fund's portfolio; provides investment research and makes and executes recommendations for the purchase and sale of securities; and provides all facilities and personnel, including officers required for its administrative management and pays the compensation of all officers and trustees of the Fund who are its affiliates.

**The Investment Adviser**

Gabelli Funds, LLC acts as the Fund's Investment Adviser pursuant to the Investment Advisory Agreement with the Fund. The Investment Adviser is a New York limited liability company with principal offices located at One Corporate Center, Rye, New York 10580-1422. The Investment Adviser was organized in 1999 and is the successor to Gabelli Funds, Inc., which was organized in 1980. As of December 31, 2008, the Investment Adviser acted as registered investment adviser to 25 management investment companies with aggregate net assets of \$11.4 billion. The Investment Adviser, together with the other affiliated investment advisers noted below had assets under management totaling approximately \$20.7 billion as of December 31, 2008. GAMCO Asset Management Inc., an affiliate of the Investment Adviser, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments, and as a sub adviser to management investment companies having aggregate assets of \$8.5 billion under management as of December 31, 2008. Gabelli Securities, Inc., an affiliate of the Investment Adviser, acts as investment adviser for investment partnerships and entities having aggregate assets of approximately \$295 million as of December 31, 2008. Gabelli Fixed Income LLC, an affiliate of the Investment Adviser, acts as investment adviser for separate accounts having aggregate assets of approximately \$22 million under management as of December 31, 2008. Teton Advisors, Inc., an affiliate of the Investment Adviser, acts as investment manager to the GAMCO Westwood Funds having aggregate assets of approximately \$450 million under management as of December 31, 2008.

The Investment Adviser is a wholly owned subsidiary of GAMCO Investors, Inc., a New York corporation whose Class A Common Stock is traded on the NYSE under the symbol GBL. Mr. Mario J. Gabelli may be deemed a controlling person of the Investment Adviser on the basis of his ownership of a majority of the stock of GGCP, Inc., which owns a majority of the capital stock of GAMCO Investors, Inc.

**Payment of Expenses**

The Investment Adviser is obligated to pay expenses associated with providing the services contemplated by the Investment Advisory Agreement between the Fund and the Investment Adviser (the Advisory Agreement) including compensation of and office space for its officers and employees connected with investment and economic research, trading and investment management and administration of the Fund, as well as the fees of all trustees of the Fund who are affiliated with the Investment Adviser.

In addition to the fees of the Investment Adviser, the Fund is responsible for the payment of all its other expenses incurred in the operation of the Fund, which include, among other things, expenses for legal and independent accountant's services, stock exchange listing fees, expenses relating to the offering of preferred shares, rating agency fees, costs of printing proxies, share certificates and shareholder reports, charges of the custodian, any subcustodian, auction agent, transfer agent(s) and dividend disbursing agent expenses in connection with its respective automatic dividend reinvestment and voluntary cash purchase plan, SEC fees, fees and expenses of unaffiliated trustees, accounting and printing costs, the Fund's pro rata portion of membership fees in trade organizations, fidelity bond coverage for the Fund's officers and employees, interest, brokerage costs, taxes, expenses of qualifying the Fund for sale in various states, expenses of personnel performing shareholder servicing functions, litigation and other extraordinary or non-recurring expenses and other expenses properly payable by the Fund.

**Table of Contents****Advisory Agreement**

Under the terms of the Advisory Agreement, the Investment Adviser manages the portfolio of the Fund in accordance with its stated investment objective and policies, makes investment decisions for the Fund, and places orders to purchase and sell securities on behalf of the Fund and manages the Fund's other business and affairs, all subject to the supervision and direction of its Board. In addition, under the Advisory Agreement, the Investment Adviser oversees the administration of all aspects of the Fund's business and affairs and provides, or arranges for others to provide, at the Investment Adviser's expense, certain enumerated services, including maintaining the Fund's books and records, preparing reports to its shareholders and supervising the calculation of the net asset value of its shares. All expenses of computing the Fund's net asset value, including any equipment or services obtained solely for the purpose of pricing shares or valuing the Fund's investment portfolio, will be an expense of the Fund under the Advisory Agreement unless the Investment Adviser voluntarily assumes responsibility for such expense. During fiscal year 2008, the Fund reimbursed the Investment Adviser \$45,000 in connection with the cost of computing the Fund's net asset value.

The Advisory Agreement combines investment advisory and administrative responsibilities in one agreement. For services rendered by the Investment Adviser on behalf of the Fund under the Advisory Agreement, the Fund pays the Investment Adviser a fee computed weekly and paid monthly, equal on an annual basis to 1.00% of the Fund's average weekly net assets including the liquidation value of preferred shares. The fee paid by the Fund may be higher when leverage in the form of preferred shares are utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the preferred shares during the fiscal year if the total return of the net asset value of the common shares of the Fund, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred shares for the period. In other words, if the effective cost of the leverage for any series of preferred shares exceeds the total return (based on net asset value) on the Fund's common shares, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred shares to mitigate the negative impact of the leverage on the common shareholder's total return. This fee waiver is voluntary and, except in connection with the waiver applicable to the portion of the Fund's assets attributable to Series A Preferred and Series B Preferred, may be discontinued at any time. For Series A Preferred and Series B Preferred, the waiver will remain in effect as long as any shares in a series are outstanding. The Fund's total return on the net asset value of the common shares is monitored on a monthly basis to assess whether the total return on the net asset value of the common shares exceeds the stated dividend rate or corresponding swap rate of each particular series of preferred shares for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred shares is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets.

For the year ended December 31, 2008, the Fund's total return on the net asset value of the common shares did not exceed the stated dividend rate or corresponding swap rate on any of the outstanding preferred shares. Thus, management fees with respect to the liquidation value of the preferred share assets were reduced by \$542,062.

The Advisory Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties thereunder, the Investment Adviser is not liable for any error or judgment or mistake of law or for any loss suffered by the Fund. As part of the Advisory Agreement, the Fund has agreed that the name Gabelli is the Investment Adviser's property, and that in the event the Investment Adviser ceases to act as an investment adviser to the Fund, the Fund will change its name to one not including Gabelli.

Pursuant to its terms, the Advisory Agreement will remain in effect with respect to the Fund from year to year if approved annually (i) by the Board or by the holders of a majority of the Fund's outstanding voting securities and (ii) by a majority of the Trustees who are not interested persons (as defined in the 1940 Act) of any party to the Advisory Agreement, by vote cast in person at a meeting called for the purpose of voting on such approval.

A discussion regarding the basis of the Board's approval of the Advisory Agreement is available in the Fund's semi-annual report to shareholders for the six months ended June 30, 2008.



**Table of Contents****Selection of Securities Brokers**

The Advisory Agreement contains provisions relating to the selection of securities brokers to effect the portfolio transactions of the Fund. Under those provisions, the Investment Adviser may (i) direct Fund portfolio brokerage to Gabelli & Company, Inc. ( Gabelli & Company ) or other broker-dealer affiliates of the Investment Adviser and (ii) pay commissions to brokers other than Gabelli & Company that are higher than might be charged by another qualified broker to obtain brokerage and/or research services considered by the Investment Adviser to be useful or desirable for its investment management of the Fund and/or its other advisory accounts or those of any investment adviser affiliated with it. The SAI contains further information about the Advisory Agreement, including a more complete description of the advisory and expense arrangements, exculpatory and brokerage provisions, as well as information on the brokerage practices of the Fund.

**Portfolio Manager**

Mario J. Gabelli is currently and has been primarily responsible for the day-to-day management of the Fund since its inception. Mr. Gabelli has served as Chairman and Chief Executive Officer of GAMCO Investors, Inc. and its predecessors since 1976. Mr. Gabelli is the Chief Investment Officer Value Portfolios for the Investment Adviser and GAMCO Asset Management Inc. Mr. Gabelli serves as portfolio manager for several funds in the Gabelli fund family and is a director of several funds in the Gabelli fund family. Because of the diverse nature of Mr. Gabelli's responsibilities, he will devote less than all of his time to the day-to-day management of the Fund. Mr. Gabelli is also Chief Executive Officer of GGCP, Inc., as well as Chairman of the Board of Lynch Interactive Corporation, a multimedia and communication services company.

The SAI provides additional information about the Portfolio Manager's compensation, other accounts managed by the Portfolio Manager and the Portfolio Manager's ownership of securities in the Fund.

**Sub-Administrator**

PNC Global Investment Servicing ( PNC ), with its principal office located at 400 Bellevue Parkway, Wilmington, Delaware 19809, serves as sub-administrator for the Fund. The Sub-Administrator provides certain administrative services necessary for the Fund's operations which do not include the investment advisory and portfolio management services provided by the Investment Adviser. For these services and the related expenses borne by PNC, the Investment Adviser pays a prorated monthly fee at the annual rate of 0.0275% of the first \$10 billion of the aggregate average net assets of the Fund and all other funds advised by the Investment Adviser and administered by PNC, 0.0125% of the aggregate average net assets exceeding \$10 billion, and 0.01% of the aggregate average net assets in excess of \$15 billion.

**Regulatory Matters**

On April 24, 2008, the Investment 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 Investment 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 Investment 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 will not have a material adverse impact on the Investment 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 Investment Adviser, alleging violations of certain federal securities laws arising from the same matter. The officer is also an officer of the Fund, the Global Growth Fund and other funds in the Gabelli/GAMCO fund complex. The officer denies the allegations and is continuing in his positions with the Investment Adviser and the funds. The Investment Adviser currently expects that any resolution of the action against the officer will not have a



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material adverse impact on the Investment 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 Investment Adviser involving compliance with Section 19(a) of the Investment Company 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 that 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 Investment 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 Investment Adviser neither admits nor denies the findings by the SEC, the Investment 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 Investment Adviser.

**PORTFOLIO TRANSACTIONS**

Principal transactions are not entered into with affiliates of the Fund. However, Gabelli & Company, an affiliate of the Investment Adviser, may execute portfolio transactions on stock exchanges and in the over-the-counter markets on an agency basis and receive a stated commission therefor. For a more detailed discussion of the Fund's brokerage allocation practices, see "Portfolio Transactions" in the SAI.

**DIVIDENDS AND DISTRIBUTIONS**

The Fund has a policy, which may be modified at any time by its Board, of paying distributions on its common shares of \$0.06 per share per month. This policy permits common shareholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically with respect to their common shares without having to sell their shares. A portion of the Fund's distributions on its common shares to date have included or have been estimated to include a return of capital. Any return of capital that is a component of a distribution is not sourced from realized or unrealized profits of the Fund and that portion should not be considered by investors as yield or total return on their investment in the Fund. Shareholders should not assume that a distribution from the Fund is comprised exclusively of net profits. The Fund pays on its common shares a distribution of \$0.06 per share each month and, if necessary, an adjusting distribution in December which includes any additional income and net realized capital gains in excess of the monthly distributions for that year to satisfy the minimum distribution requirements of the Code. Each quarter, the Board reviews the amount of any potential distribution and the income, capital gain or capital available. The Fund may retain for reinvestment, and pay the resulting federal income taxes on, its net capital gain, if any. To avoid paying income tax at the corporate level, the Fund distributes substantially all of its investment company taxable income and net capital gain.

If, for any calendar year, the total distributions exceed current and accumulated earnings and profits, the excess will generally be treated as a tax-free return of capital up to the amount of a shareholder's tax basis in the shares. The amount treated as a tax-free return of capital will reduce a shareholder's tax basis in the shares, thereby increasing such shareholder's potential gain or reducing his or her potential loss on the sale of the shares. Any amounts distributed to a shareholder in excess of the basis in the shares will be taxable to the shareholder as capital gain.

In the event the Fund distributes amounts in excess of its investment company taxable income and net capital gain, such distributions will decrease the Fund's total assets more than otherwise and, therefore, have the likely effect of increasing its expense ratio more than otherwise, as the Fund's fixed expenses will become a larger percentage of the Fund's average net assets. In addition, in order to make such distributions, the Fund might have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action.



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The Fund, along with other closed-end registered investment companies advised by the Investment Adviser, has obtained an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder permitting it to make periodic distributions of long-term capital gains provided that any distribution policy of the Fund with respect to its common shares calls for periodic (e.g., quarterly or semi-annually, but in no event more frequently than monthly) distributions in an amount equal to a fixed percentage of the Fund's average NAV over a specified period of time or market price per share of common shares at or about the time of distribution or pay-out of a fixed dollar amount. The exemption also permits the Fund to make distributions with respect to its preferred shares in accordance with such shares' terms. If the total distributions required by the proposed periodic pay-out policy exceeds the Fund's current and accumulated earnings and profits, the excess will be treated as a return of capital. If the Fund's net investment income (including net short-term capital gains) and net long-term capital gains for any year exceed the amount required to be distributed under the periodic pay-out policy, the Fund generally intends to pay such excess once a year, but may, in its discretion, retain and not distribute net long-term capital gains to the extent of such excess. The Fund reserves the right, but does not currently intend, to retain for reinvestment and pay the resulting U.S. federal income taxes on the excess of its net realized long-term capital gains over its net short-term capital losses, if any.

**AUTOMATIC DIVIDEND REINVESTMENT AND VOLUNTARY CASH PURCHASE PLAN**

Under the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan (the "Plan"), a shareholder whose common shares are registered in his or her own name will have all distributions reinvested automatically by Computershare, which is agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in "street name") will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own common shares registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to investors who do not participate in the Plan will be paid by check mailed directly to the record holder by Computershare as dividend-disbursing agent.

**Enrollment in the Plan**

It is the policy of the Fund to automatically reinvest dividends payable to common shareholders. As a registered shareholder, you automatically become a participant in the Fund's Plan. The Plan authorizes the Fund to credit common shares to participants upon an income dividend or a capital gains distribution regardless of whether the shares are trading at a discount or a premium to NAV. All distributions to shareholders whose shares are registered in their own names will be automatically reinvested pursuant to the Plan in additional shares of the Fund. Plan participants may send their share certificates to Computershare to be held in their dividend reinvestment account. Registered shareholders wishing to receive their distribution in cash must submit this request in writing to:

The Gabelli Utility Trust  
c/o Computershare  
P.O. Box 43010  
Providence, RI 02940-3010

Shareholders requesting this cash election must include the shareholder's name and address as they appear on the share certificate. Shareholders with additional questions regarding the Plan, or requesting a copy of the terms of the Plan may contact Computershare at (800) 336-6983.

If your shares are held in the name of a broker, bank, or nominee, you should contact such institution. If such institution is not participating in the Plan, your account will be credited with a cash dividend. In order to participate in the Plan through such institution, it may be necessary for you to have your shares taken out of "street name" and re-registered in your own name. Once registered in your own name, your dividends will be automatically reinvested. Certain brokers participate in the Plan. Shareholders holding shares in "street name" at

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participating institutions will have dividends automatically reinvested. Shareholders wishing a cash dividend at such institution must contact their broker to make this change.

The number of common shares distributed to participants in the Plan in lieu of cash dividends is determined in the following manner. Under the Plan, whenever the market price of the Fund's common shares is equal to or exceeds NAV at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividends or capital gains distribution, participants are issued common shares valued at the greater of (i) the NAV as most recently determined or (ii) 95% of the then current market price of the Fund's common shares. The valuation date is the dividend or distribution payment date or, if that date is not a NYSE trading day, the next trading day. If the NAV of the common shares at the time of valuation exceeds the market price of the common shares, participants will receive shares from the Fund valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, Computershare will buy common shares in the open market, or on the NYSE or elsewhere, for the participants' accounts, except that Computershare will endeavor to terminate purchases in the open market and cause the Fund to issue shares at NAV if, following the commencement of such purchases, the market value of the common shares exceed the then current NAV.

The automatic reinvestment of dividends and capital gains distributions will not relieve participants of any income tax which may be payable on such distributions. A participant in the Plan will be treated for U.S. federal income tax purposes as having received, on a dividend payment date, a dividend or distribution in an amount equal to the cash the participant could have received instead of shares.

The Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days' written notice to participants in the Plan.

**Voluntary Cash Purchase Plan**

The Voluntary Cash Purchase Plan is yet another vehicle for our shareholders to increase their investment in the Fund. In order to participate in the Voluntary Cash Purchase Plan, shareholders must have their shares registered in their own name.

Participants in the Voluntary Cash Purchase Plan have the option of making additional cash payments to Computershare for investments in the Fund's shares at the then current market price. Shareholders may send an amount from \$250 to \$10,000. Computershare will use these funds to purchase shares in the open market on or about the 1st and 15th of each month. Computershare will charge each shareholder who participates \$0.75, plus a pro rata share of the brokerage commissions. Brokerage charges for such purchases may be less than the usual brokerage charge for such transactions. It is suggested that any voluntary cash payments be sent to Computershare, P.O. Box 43010, Providence, RI 02940-3010 such that Computershare receives such payments approximately 10 days before the 1st and 15th of the month. Funds not received at least five days before the investment date shall be held for investment until the next purchase date. A payment may be withdrawn without charge if notice is received by Computershare at least 48 hours before such payment is to be invested.

Shareholders wishing to liquidate shares held at Computershare must do so in writing or by telephone. Please submit your request to the above mentioned address or telephone number. Include in your request your name, address and account number. The cost to liquidate shares is \$2.50 per transaction as well as the brokerage commission incurred. Brokerage charges may be less than the usual brokerage charge for such transactions.

For more information regarding the Plan, brochures are available by calling (914) 921-5070 or by writing directly to the Fund.

The Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days' written notice to participants in the Plan.

**Table of Contents****DESCRIPTION OF THE SHARES**

*The following is a brief description of the terms of the Fund's shares. This description does not purport to be complete and is qualified by reference to the Fund's Governing Documents. For complete terms of the shares, please refer to the actual terms of such series, which are set forth in the Governing Documents.*

**Common Shares**

The Fund is authorized to issue an unlimited number of shares of beneficial interest, par value \$0.001 per share, in multiple classes and series thereof as determined from time to time by the Board. The Board has authorized issuance of an unlimited number of shares of two classes, the common shares and preferred shares. Each share within a particular class or series thereof has equal voting, dividend, distribution and liquidation rights. The common shares are not redeemable and have no preemptive, conversion or cumulative voting rights. In the event of liquidation, each common share is entitled to its proportion of the Fund's assets after payment of debts and expenses and the amounts payable to holders of the Fund's preferred shares ranking senior to the common shares of the Fund as described below.

The common shares of the Fund are listed on the NYSE under the symbol GUT and began trading July 9, 1999. The average weekly trading volume of the common shares on the NYSE during the period from January 1, 2007 through December 31, 2007 was 31,689 shares. The average weekly trading volume of the common shares on the NYSE during the period from January 1, 2008 through December 31, 2008 was 44,304 shares.

Shares of closed-end investment companies often trade on an exchange at prices lower than NAV. Over the Fund's nine year history, the range fluctuated from a 59% premium in July 2003 to a 3% discount in November 2000. Shortly after the inception of the Fund, the market price of the Fund exceeded the NAV and the premium continues today. As of December 31, 2008, the Fund trades at a 15.9% premium to its NAV. Because the market value of the common shares may be influenced by such factors as dividend and distribution levels (which are in turn affected by expenses), dividend and distribution stability, NAV, market liquidity, relative demand for and supply of such shares in the market, unrealized gains, general market and economic conditions and other factors beyond the control of the Fund, the Fund cannot assure you that common shares will trade at a price equal to or higher than NAV in the future. The common shares are designed primarily for long-term investors and you should not purchase the common shares if you intend to sell them soon after purchase.

The Fund is a closed-end, management investment company and, as such, its shareholders do not, and will not, have the right to redeem their shares. The Fund, however, may repurchase its common shares from time to time as and when it deems such a repurchase advisable. The Board has determined that such repurchase may be made when the common shares are trading at a discount of 10% (or such other percentage as the Board may determine from time to time) or more from NAV. Pursuant to the 1940 Act, the Fund may repurchase its shares on a securities exchange (provided that the Fund has informed its shareholders within the preceding six months of its intention to repurchase such shares) or as otherwise permitted in accordance with Rule 23c-1 under the 1940 Act. Under Rule 23c-1, certain conditions must be met for such alternative purchases regarding, among other things, distribution of net income for the preceding fiscal year, asset coverage with respect to the Fund's senior debt and equity securities, identity of the sellers, price paid, brokerage commissions, prior notice to shareholders of an intention to purchase shares and purchasing in a manner and on a basis which does not discriminate unfairly against the other shareholders through their interest in the Fund. In addition, Rule 23c-1 requires the Fund to file notices of such purchase with the SEC.

When the Fund repurchases its common shares for a price below its NAV, the NAV of the common shares that remains outstanding will be enhanced. This does not, however, necessarily mean that the market price of the Fund's remaining outstanding common shares will be affected, either positively or negatively. Further, interest on any borrowings made to finance the repurchase of common shares will reduce the net income of the Fund.

Shareholders whose common shares are registered in their own name will have all distributions reinvested pursuant to the Plan. For a more detailed discussion of the Plan, see Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan.

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The common shares sold through this offering will initially be held in the name of Cede & Co. as nominee for the Depository Trust Company ( DTC ). The Fund will treat Cede & Co. as the holder of record of the common shares for all purposes. In accordance with the procedures of DTC, however, purchasers of common shares will be deemed the beneficial owners of shares purchased for purposes of distributions, voting and liquidation rights. Purchasers of common shares may obtain registered certificates by contacting the transfer agent.

**Preferred Shares**

Currently, an unlimited number of the Fund's shares have been classified by the Board as preferred shares, par value \$0.001 per share. The terms of each series of preferred shares may be fixed by the Board and may materially limit and/or qualify the rights of the holders of the Fund's common shares. As of December 31, 2008, the Fund had outstanding 1,173,024 shares of Series A Preferred and 900 shares of Series B Preferred.

At all times, holders of shares of the Fund's preferred shares outstanding, voting as a single class, will be entitled to elect two members of the Board, and holders of the preferred shares and common shares, voting as a single class, will elect the remaining directors. See Anti-Takeover Provisions of the Fund's Governing Documents.

Distributions on the Series A Preferred accumulate at an annual rate of 5.625% of the liquidation preference of \$25 per share, are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Series A Preferred is rated Aaa by Moody's. The Fund's outstanding Series A Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund beginning July 31, 2008. The Series A Preferred is listed and traded on the NYSE under the symbol GUT PrA.

Distributions on the Series B Preferred accumulate at a variable rate, usually set at a weekly auction. The Series B Preferred is rated Aaa by Moody's and AAA by S&P. The liquidation preference of the Series B Preferred is \$25,000 per share. The Fund generally may redeem the outstanding Series B Preferred, in whole or in part, at any time other than during a non-call period. The Series B Preferred is not traded on any public exchange.

The following table shows (i) the classification of shares, (ii) the number of shares authorized in each class and (iii) the number of shares outstanding in each class as of December 31, 2008.

Title Of Class	Amount Authorized	Amount Outstanding
Common Shares	unlimited	30,430,021
Series A Preferred	unlimited	1,173,024
Series B Preferred	unlimited	900

As of December 31, 2008, the Fund does not hold any shares for its account.

Upon a liquidation, each holder of preferred shares will be entitled to receive out of the assets of the Fund available for distribution to shareholders (after payment of claims of the Fund's creditors but before any distributions with respect to the Fund's common shares or any other class of capital shares of the Fund ranking junior to the preferred shares as to liquidation payments) an amount per share equal to such share's liquidation preference plus any accumulated but unpaid distributions (whether or not earned or declared, excluding interest thereon) to the date of distribution, and such shareholders shall be entitled to no further participation in any distribution or payment in connection with such liquidation. Each series of preferred shares ranks on a parity with any other series of preferred shares of the Fund as to the payment of distributions and the distribution of assets upon liquidation, and is junior to the Fund's obligations with respect to any outstanding senior securities representing

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debt. The preferred shares carries one vote per share on all matters on which such shares are entitled to vote. The preferred shares will, upon issuance, be fully paid and nonassessable and will have no preemptive, exchange or conversion rights. The Board may by resolution classify or reclassify any authorized but unissued capital shares of the Fund from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions or terms or conditions of redemption. The Fund will not issue any class of capital shares senior to the preferred shares.

**Recent Market Events.** Since February 2008, most auction-rate preferred shares, including our Series B Preferred, have been unable to hold successful auctions and holders of such shares have suffered reduced liquidity. The number of Series B Preferred subject to bid orders by potential holders has been less than the number of Series B Preferred subject to sell orders. Therefore, the weekly auctions have failed, and the dividend rate has been the maximum rate. Holders that have submitted sell orders have not been able to sell any or all of the Series B Preferred for which they have submitted sell orders. The current maximum rate is 125% of the seven day Telerate/British Bankers Association LIBOR on the day of such auction. These failed auctions have been an industry wide problem and may continue to occur in the future. Any current or potential holder of auction-rate preferred shares faces the risk that auctions will continue to fail, or will fail again at some point in the future, and that he or she may not be able to sell his or her shares through the auction process.

**Asset Maintenance Requirements.** In addition to maintaining agency guidelines established by Moody's and S&P, the Fund must also satisfy asset maintenance requirements under the 1940 Act with respect to its preferred shares. Under the 1940 Act, debt or additional preferred shares may be issued only if immediately after such issuance the value of the Fund's total assets (less ordinary course liabilities) is at least 300% of the amount of any debt outstanding and at least 200% of the amount of any preferred shares and debt outstanding. The Fund is required under the Statement of Preferences of each series of preferred shares to determine whether it has, as of the last business day of each March, June, September and December of each year, an asset coverage (as defined in the 1940 Act) of at least 200% (or such higher or lower percentage as may be required at the time under the 1940 Act) with respect to all outstanding senior securities of the Fund that are debt or shares, including any outstanding preferred shares. If the Fund fails to maintain the asset coverage required under the 1940 Act on such dates and such failure is not cured on or before 60 days, in the case of the Fixed Rate Preferred Shares, or 10 business days, in the case of the Variable Rate Preferred Shares, the Fund may, and in certain circumstances will be required to, mandatorily redeem shares of preferred shares sufficient to satisfy such asset coverage.

**Liquidation Rights**

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Fund, the holders of preferred shares then outstanding will be entitled to receive a preferential liquidating distribution, which is expected to equal the original purchase price per preferred share plus accumulated and unpaid dividends, whether or not declared, before any distribution of assets is made to holders of common shares. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of preferred shares will not be entitled to any further participation in any distribution of assets by the Fund.

**Voting Rights**

Except as otherwise stated in this Prospectus, specified in the Fund's Governing Documents or resolved by the Board or as otherwise required by applicable law, holders of preferred shares shall be entitled to one vote per share held on each matter submitted to a vote of the shareholders of the Fund and will vote together with holders of common shares and of any other preferred shares then outstanding as a single class.

In connection with the election of the Fund's Trustees, holders of the outstanding preferred shares, voting together as a single class, will be entitled at all times to elect two of the Fund's Trustees, and the remaining Trustees will be elected by holders of common shares and holders of preferred shares, voting together as a single class. In addition, if (i) at any time dividends and distributions on outstanding preferred shares are unpaid in an amount equal to at least two full years' dividends and distributions thereon and sufficient cash or specified securities have not been deposited with the applicable paying agent for the payment of such accumulated dividends and distributions or (ii) at any time holders of any other series of preferred shares are entitled to elect a majority of the Trustees of the Fund under the 1940 Act or the applicable Statement of Preferences creating such shares, then the number of Trustees



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constituting the Board will be adjusted such that, when added to the two Trustees elected exclusively by the holders of preferred shares as described above, would then constitute a simple majority of the Board as so adjusted. Such additional Trustees will be elected by the holders of the outstanding preferred shares, voting together as a single class, at a special meeting of shareholders which will be called as soon as practicable and will be held not less than ten nor more than twenty days after the mailing date of the meeting notice. If the Fund fails to send such meeting notice or to call such a special meeting, the meeting may be called by any preferred shareholder on like notice. The terms of office of the persons who are Trustees at the time of that election will continue. If the Fund thereafter pays, or declares and sets apart for payment in full, all dividends and distributions payable on all outstanding preferred shares for all past dividend periods or the holders of other series of preferred shares are no longer entitled to elect such additional Trustees, the additional voting rights of the holders of the preferred shares as described above will cease, and the terms of office of all of the additional Trustees elected by the holders of the preferred shares (but not of the Trustees with respect to whose election the holders of common shares were entitled to vote or the two Trustees the holders of preferred shares have the right to elect as a separate class in any event) will terminate at the earliest time permitted by law.

So long as any preferred shares are outstanding, the Fund will not, without the affirmative vote of the holders of a majority (as defined in the 1940 Act) of the preferred shares outstanding at the time, and present and voting on such matter, voting separately as one class, amend, alter or repeal the provisions of the Fund's Governing Documents whether by merger, consolidation or otherwise, so as to materially adversely affect any of the rights, preferences or powers expressly set forth in the Governing Documents with respect to such preferred shares, unless the Fund obtains written confirmation from Moody's, S&P or any such other rating agency then rating the preferred shares that such amendment, alteration or repeal would not impair the rating then assigned by such rating agency to the preferred shares, in which case the vote or consent of the holders of the preferred shares are not required. Also, to the extent permitted under the 1940 Act, in the event shares of more than one series of preferred shares are outstanding, the Fund will not approve any of the actions set forth in the preceding sentence which materially adversely affect the rights, preferences or powers expressly set forth in the Charter with respect to such shares of a series of preferred shares differently than those of a holder of shares of any other series of preferred shares without the affirmative vote of the holders of at least a majority of the preferred shares of each series materially adversely affected and outstanding at such time (each such materially adversely affected series voting separately as a class to the extent its rights are affected differently). For purposes of this paragraph, no matter shall be deemed to adversely affect any right, preference or power unless such matter (i) adversely alters or abolishes any preferential right of such series; (ii) creates, adversely alters or abolishes any right in respect of redemption of such series; or (iii) creates or adversely alters (other than to abolish) any restriction on transfer applicable to such series.

Unless a higher percentage is required under the Governing Documents or applicable provisions of the Delaware Statutory Trust Act or the 1940 Act, the affirmative vote of a majority of the votes entitled to be cast by holders of outstanding preferred shares, voting together as a single class, will be required to approve any plan of reorganization adversely affecting the preferred shares or any action requiring a vote of security holders under Section 13(a) of the 1940 Act, including, among other things, changes in the Fund's investment objective or changes in the investment restrictions described as fundamental policies under Investment Objective and Policies and Investment Restrictions in this Prospectus and the SAI. For purposes of the preferred share voting rights described in the foregoing sentence, except as otherwise required under the 1940 Act, the phrase vote of the holders of a majority of the outstanding preferred shares (or any like phrase) means, in accordance with Section 2(a)(42) of the 1940 Act, the vote, at the annual or a special meeting of the shareholders of the Fund duly called (i) of 67% or more of the preferred shares present at such meeting, if the holders of more than 50% of the outstanding preferred shares are present or represented by proxy, or (ii) more than 50% of the outstanding preferred shares, whichever is less. The class vote of holders of preferred shares described above in each case will be in addition to a separate vote of the requisite percentage of common shares, and any other preferred shares, voting together as a single class, that may be necessary to authorize the action in question. An increase in the number of authorized preferred shares pursuant to the Governing Documents or the issuance of additional shares of any series of preferred shares pursuant to the Governing Documents shall not in and of itself be considered to adversely affect the rights and preferences of the preferred shares.

The calculation of the elements and definitions of certain terms of the rating agency guidelines may be modified by action of the Board without further action by the shareholders if the Board determines that such modification is necessary to prevent a reduction in rating of the preferred shares by Moody's and/or S&P (or such



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other rating agency then rating the preferred shares at the request of the Fund), as the case may be, or is in the best interests of the holders of common shares and is not adverse to the holders of preferred shares in view of advice to the Fund by the relevant rating agencies that such modification would not adversely affect its then-current rating of the preferred shares.

The foregoing voting provisions will not apply to any series of preferred shares if, at or prior to the time when the act with respect to which such vote otherwise would be required will be effected, such shares will have been redeemed or called for redemption and sufficient cash or cash equivalents provided to the applicable paying agent to effect such redemption. The holders of preferred shares will have no preemptive rights or rights to cumulative voting.

**Limitation on Issuance of Preferred Shares**

So long as the Fund has preferred shares outstanding, subject to receipt of approval from the rating agencies of each series of preferred shares outstanding, and subject to compliance with the Fund's investment objective, policies and restrictions, the Fund may issue and sell shares of one or more other series of additional preferred shares provided that the Fund will, immediately after giving effect to the issuance of such additional preferred shares and to its receipt and application of the proceeds thereof (including, without limitation, to the redemption of preferred shares to be redeemed out of such proceeds), have an asset coverage for all senior securities of the Fund which are shares, as defined in the 1940 Act, of at least 200% of the sum of the liquidation preference of the shares of preferred shares of the Fund then outstanding and all indebtedness of the Fund constituting senior securities and no such additional preferred shares will have any preference or priority over any other preferred shares of the Fund upon the distribution of the assets of the Fund or in respect of the payment of dividends or distributions.

The Fund will consider from time to time whether to offer additional preferred shares or securities representing indebtedness and may issue such additional securities if the Board concludes that such an offering would be consistent with the Fund's Charter and applicable law, and in the best interest of existing common shareholders.

**ANTI-TAKEOVER PROVISIONS OF THE FUND'S GOVERNING DOCUMENTS**

The Fund presently has provisions in its Governing Documents which could have the effect of limiting, in each case, (i) the ability of other entities or persons to acquire control of the Fund, (ii) the Fund's freedom to engage in certain transactions, or (iii) the ability of the Fund's trustees or shareholders to amend the Governing Documents or effectuate changes in the Fund's management. These provisions of the Governing Documents of the Fund may be regarded as anti-takeover provisions. The Board is divided into three classes, each having a term of no more than three years (except, to ensure that the term of a class of the Fund's trustees expires each year, one class of the Fund's trustees will serve an initial one-year term and three-year terms thereafter and another class of its trustees will serve an initial two-year term and three-year terms thereafter). Each year the term of one class of trustees will expire. Accordingly, only those trustees in one class may be changed in any one year, and it would require a minimum of two years to change a majority of the Board. Such system of electing trustees may have the effect of maintaining the continuity of management and, thus, make it more difficult for the shareholders of the Fund to change the majority of trustees. See

Trustees and Officers. A trustee of the Fund may be removed with or without cause by 66 2/3% of the votes entitled to be cast for the election of such trustees. Special voting requirements also apply to mergers into or a sale of all or substantially all of the Fund's assets and conversion of the Fund into an open-end fund (or other closed-end fund commonly known as an interval fund). These special voting requirements are 75% of the outstanding voting shares (together with a separate vote by the holders of any preferred shares outstanding). In addition, 80% of the holders of the outstanding voting securities of the Fund voting as a class is generally required in order to authorize any of the following transactions:

the merger or consolidation of the Fund with or into any other corporation;

the issuance of any securities of the Fund to any person or entity for cash;

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the sale, lease or exchange of all or any substantial part of the assets of the Fund to any entity or person (except assets having an aggregate fair market value of less than \$1,000,000);

the sale, lease or exchange to the Fund, in exchange for securities of the Fund, of any assets of any entity or person (except assets having an aggregate fair market value of less than \$1,000,000);

the purchase of the Fund's common shares by the Fund from any other person or entity; if such corporation, person or entity is directly, or indirectly through affiliates, the beneficial owner of more than 5% of the outstanding shares of the Fund. However, such vote would not be required when, under certain conditions, the Board approves the transaction. Reference is made to the Governing Documents of the Fund, on file with the SEC, for the full text of these provisions.

The provisions of the Governing Documents described above could have the effect of depriving the owners of shares in the Fund of opportunities to sell their shares at a premium over prevailing market prices, by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a principal shareholder.

**CLOSED-END FUND STRUCTURE**

The Fund is a non-diversified, closed-end management investment company (commonly referred to as a closed-end fund). Closed-end funds differ from open-end funds (which are generally referred to as mutual funds) in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their shares at the request of the shareholder. This means that if you wish to sell your shares of a closed-end fund you must trade them on the market like any other shares at the prevailing market price at that time. In a mutual fund, if the shareholder wishes to sell shares of the Fund, the mutual fund will redeem or buy back the shares at NAV. Also, mutual funds generally offer new shares on a continuous basis to new investors, and closed-end funds generally do not. The continuous inflows and outflows of assets in a mutual fund can make it difficult to manage the Fund's investments. By comparison, closed-end funds are generally able to stay more fully invested in securities that are consistent with their investment objective, to have greater flexibility to make certain types of investments and to use certain investment strategies such as financial leverage and investments in illiquid securities.

Shares of closed-end funds often trade at a discount to their NAV. Because of this possibility and the recognition that any such discount may not be in the interest of shareholders, the Board might consider from time to time engaging in open-market repurchases, tender offers for shares or other programs intended to reduce a discount. We cannot guarantee or assure, however, that the Board will decide to engage in any of these actions. Nor is there any guarantee or assurance that such actions, if undertaken, would result in the shares trading at a price equal or close to NAV per share. The Board might also consider converting the Fund to an open-end mutual fund, which would also require a supermajority vote of the shareholders of the Fund and a separate vote of any outstanding preferred shares. We cannot assure you that the Fund's common shares will not trade at a discount.

**NET ASSET VALUE**

For purposes of determining the Fund's NAV per share, 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 such 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 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 the Investment Adviser.

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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 to the valuation and changes in valuation of similar securities, including a comparison of foreign securities to 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.

The Fund obtains valuation on the basis of prices provided by one or more pricing services approved by the Board. All other investment assets, including restricted and not readily marketable securities, are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Board. In addition, whenever developments in one or more securities markets after the close of the principal markets for one or more portfolio securities and before the time as of which the Fund determines its NAV would, if such developments had been reflected in such principal markets, likely have had more than a minimal effect on the Fund's asset value per share, the Fund may fair value such portfolio securities based on available market information as of the time the Fund determines its NAV.

**TAXATION**

The following discussion is a brief summary of certain U.S. federal income tax considerations affecting the Fund and its shareholders. This discussion reflects applicable tax laws of the United States as of the date of this Prospectus, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (the IRS) retroactively or prospectively. No attempt is made to present a detailed explanation of all U.S. federal, state, local and foreign tax concerns affecting the Fund and its shareholders (including shareholders owning a large position in the Fund), and the discussions set forth herein do not constitute tax advice.

**The discussion set forth herein does not constitute tax advice and potential investors are urged to consult their own tax advisers to determine the tax consequences to them of investing in the Fund.**

**Taxation of the Fund**

The Fund has elected to be treated and has qualified, and intends to continue to qualify, as a regulated investment company under Subchapter M of the Code. Accordingly, the Fund must, among other things, meet the following requirements regarding the source of its income and the diversification of its assets:

- (i) The Fund must derive in each taxable year at least 90% of its gross income from the following sources, which are referred to herein as Qualifying Income: (a) dividends, interest (including tax-exempt interest), payments with respect to certain securities loans, and gains from the sale or other disposition of shares, securities or foreign currencies, and other income (including but not limited to gain from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or foreign currencies; and (b) interests in publicly traded partnerships that are treated as partnerships for U.S. federal income tax purposes and that derive less than 90% of their gross income from the items described in (a) above (each a Qualified Publicly Traded Partnership).

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- (ii) The Fund must diversify its holdings so that, at the end of each quarter of each taxable year (a) at least 50% of the market value of the Fund's total assets is represented by cash and cash items, U.S. government securities, the securities of other regulated investment companies and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of the Fund's total assets and not more than 10% of the outstanding voting securities of such issuer and (b) not more than 25% of the market value of the Fund's total assets is invested in the securities (other than U.S. government securities and the securities of other regulated investment companies) of (I) any one issuer, (II) any two or more issuers that the Fund controls and that are determined to be engaged in the same business or similar or related trades or businesses or (III) any one or more Qualified Publicly Traded Partnerships.

As a regulated investment company, the Fund generally will not be subject to U.S. federal income tax on income and gains that the Fund distributes to its shareholders, provided that it distributes each taxable year at least the sum of (i) 90% of the Fund's investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain, reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) 90% of the Fund's net tax-exempt interest (the excess of its gross tax-exempt interest over certain disallowed deductions). The Fund intends to distribute substantially all of such income at least annually. The Fund will be subject to income tax at regular corporation rates on any taxable income or gains that it does not distribute to its shareholders.

The Code imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year an amount at least equal to the sum of (i) 98% of its ordinary income (not taking into account any capital gain or loss) for the calendar year and (ii) 98% of its capital gain in excess of its capital loss (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made to use the Fund's fiscal year). In addition, the minimum amounts that must be distributed in any year to avoid the excise tax will be increased or decreased to reflect any under-distribution or over-distribution, as the case may be, from the previous year. While the Fund intends to distribute any income and capital gain in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's taxable income and capital gain will be distributed to entirely avoid the imposition of the excise tax. In that event, the Fund will be liable for the excise tax only on the amount by which it does not meet the foregoing distribution requirement.

If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) will be subject to tax at regular corporate rates without any deduction for distributions to shareholders.

**Taxation of Shareholders**

Distributions paid to you by the Fund from its net realized long-term capital gains, if any, that the Fund designates as capital gains dividends ( capital gain dividends ) are taxable as long-term capital gains, regardless of how long you have held your shares. All other dividends paid to you by the Fund (including dividends from short-term capital gains) from its current or accumulated earnings and profits ( ordinary income dividends ) are generally subject to tax as ordinary income.

Special rules apply, however, to ordinary income dividends paid to individuals with respect to taxable years beginning on or before December 31, 2010. If you are an individual, any such ordinary income dividend that you receive from the Fund generally will be eligible for taxation at the Federal rates applicable to long-term capital gains (currently at a maximum rate of 15%) to the extent that (i) the ordinary income dividend is attributable to qualified dividend income (i.e., generally dividends paid by U.S. corporations and certain foreign corporations) received by the Fund, (ii) the Fund satisfies certain holding period and other requirements with respect to the stock on which such qualified dividend income was paid and (iii) you satisfy certain holding period and other requirements with respect to your shares. There can be no assurance as to what portion of the Fund's ordinary income dividends will constitute qualified dividend income.

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Any distributions you receive that are in excess of the Fund's current or accumulated earnings and profits will be treated as a tax-free return of capital to the extent of your adjusted tax basis in your shares, and thereafter as capital gain from the sale of shares. The amount of any Fund distribution that is treated as a tax-free return of capital will reduce your adjusted tax basis in your shares, thereby increasing your potential gain or reducing your potential loss on any subsequent sale or other disposition of your shares.

Dividends and other taxable distributions are taxable to you even if they are reinvested in additional common shares of the Fund. Dividends and other distributions paid by the Fund are generally treated under the Code as received by you at the time the dividend or distribution is made. If, however, the Fund pays you a dividend in January that was declared in the previous October, November or December and you were the shareholder of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by you on December 31 of the year in which the dividend was declared.

The Fund will send you information after the end of each year setting forth the amount and tax status of any distributions paid to you by the Fund.

The sale or other disposition of shares of the Fund will generally result in capital gain or loss to you, and will be long-term capital gain or loss if you have held such shares for more than one year at the time of sale. Any loss upon the sale or exchange of shares held for six months or less will be treated as long-term capital loss to the extent of any capital gain dividends received (including amounts credited as an undistributed capital gain dividend) by you with respect to such shares. Any loss you realize on a sale or exchange of shares will be disallowed if you acquire other shares (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after your sale or exchange of the shares. In such case, your tax basis in the shares acquired will be adjusted to reflect the disallowed loss.

The Fund may be required to withhold, for U.S. federal backup withholding tax purposes, a portion of the dividends, distributions and redemption proceeds payable to shareholders who fail to provide the Fund (or its agent) with their correct taxpayer identification number (in the case of individuals, generally, their social security number) or to make required certifications, or who have been notified by the IRS that they are subject to backup withholding. Certain shareholders are exempt from backup withholding. Backup withholding is not an additional tax and any amount withheld may be refunded or credited against your U.S. federal income tax liability, if any, provided that you furnish the required information to the IRS.

**CUSTODIAN, TRANSFER AGENT, AUCTION AGENT AND DIVIDEND DISBURSING AGENT**

The Bank of New York Mellon Corporation, located at 135 Santilli Highway, Everett, Massachusetts 02149, serves as the custodian of the Fund's assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund's assets in compliance with the 1940 Act. For its services, the Custodian receives a monthly fee based upon the average weekly value of the total assets of the Fund, plus certain charges for securities transactions.

Computershare, located at 250 Royall Street, Canton, Massachusetts 02021, serves as the Fund's dividend disbursing agent, as agent under the Plan and as transfer agent and registrar with respect to the common shares of the Fund.

Computershare also serves as the Fund's transfer agent, registrar, dividend paying agent and redemption agent with respect to the Series A Preferred.

The Bank of New York, located at 100 Church Street, New York, New York 10286, also serves as the Fund's auction agent, transfer agent, registrar, dividend paying agent and redemption agent with respect to the Series B Preferred.

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**PLAN OF DISTRIBUTION**

We may sell shares through underwriters or dealers, directly to one or more purchasers, through agents, to or through underwriters or dealers, or through a combination of any such methods of sale. The applicable Prospectus Supplement will identify any underwriter or agent involved in the offer and sale of our shares, any sales loads, discounts, commissions, fees or other compensation paid to any underwriter, dealer or agent, the offering price, net proceeds and use of proceeds and the terms of any sale.

The distribution of our shares may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share in the case of common shares, must equal or exceed the NAV per share, exclusive of any underwriting commissions or discounts, of our common shares.

We may sell our shares directly to, and solicit offers from, institutional investors or others who may be deemed to be underwriters as defined in the Securities Act of 1933 (the Securities Act ) for any resales of the securities. In this case, no underwriters or agents would be involved. We may use electronic media, including the Internet, to sell offered securities directly.

In connection with the sale of our shares, underwriters or agents may receive compensation from us in the form of discounts, concessions or commissions. Underwriters may sell our shares to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our shares may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of our shares may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable Prospectus Supplement. The maximum commission or discount to be received by any FINRA member or independent broker-dealer will not exceed eight percent. We will not pay any compensation to any underwriter or agent in the form of warrants, options, consulting or structuring fees or similar arrangements.

If a Prospectus Supplement so indicates, we may grant the underwriters an option to purchase additional shares at the public offering price, less the underwriting discounts and commissions, within 45 days from the date of the Prospectus Supplement, to cover any over-allotments.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our shares may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with us, or perform services for us, in the ordinary course of business.

If so indicated in the applicable Prospectus Supplement, we will ourselves, or will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our shares from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contacts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligation of any purchaser under any such contract will be subject to the condition that the purchase of the shares shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the Prospectus Supplement, and the Prospectus Supplement will set forth the commission payable for solicitation of such contracts.

To the extent permitted under the 1940 Act and the rules and regulations promulgated thereunder, the underwriters may from time to time act as brokers or dealers and receive fees in connection with the execution of our portfolio transactions after the underwriters have ceased to be underwriters and, subject to certain restrictions, each may act as a broker while it is an underwriter.

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A Prospectus and accompanying Prospectus Supplement in electronic form may be made available on the websites maintained by underwriters. The underwriters may agree to allocate a number of securities for sale to their online brokerage account holders. Such allocations of securities for Internet distributions will be made on the same basis as other allocations. In addition, securities may be sold by the underwriters to securities dealers who resell securities to online brokerage account holders.

In order to comply with the securities laws of certain states, if applicable, our shares offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

**LEGAL MATTERS**

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, New York 10019 in connection with the offering of the preferred shares. Counsel for the Fund will rely, as to certain matters of Delaware law, on [\_\_\_\_\_].

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

[\_\_\_\_\_] serves as the Independent Registered Public Accounting Firm of the Fund and audits the financial statements of the Fund. [\_\_\_\_\_] is located at [\_\_\_\_\_].

**ADDITIONAL INFORMATION**

The Fund is subject to the informational requirements of the Securities Act of 1934 (the 1934 Act ) and the 1940 Act and in accordance therewith files, or will file, reports and other information with the SEC. Reports, proxy statements and other information filed by the Fund with the SEC pursuant to the informational requirements of the 1934 Act and the 1940 Act can be inspected and copied at the public reference facilities maintained by the SEC, 100 F Street, N.E., Washington, D.C. 20549. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants, including the Fund, that file electronically with the SEC.

The Fund's common shares and Series A Preferred are listed on the NYSE. Reports, proxy statements and other information concerning the Fund and filed with the SEC by the Fund will be available for inspection at the NYSE, 20 Broad Street, New York, New York, 10005.

This Prospectus constitutes part of a Registration Statement filed by the Fund with the SEC under the Securities Act and the 1940 Act. This Prospectus omits certain of the information contained in the Registration Statement, and reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Fund and the shares offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the SEC. Each such statement is qualified in its entirety by such reference. The complete Registration Statement may be obtained from the SEC upon payment of the fee prescribed by its rules and regulations or free of charge through the SEC's web site (<http://www.sec.gov>).

**PRIVACY PRINCIPLES OF THE FUND**

The Fund is committed to maintaining the privacy of its shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Fund collects, how the Fund protects that information and why, in certain cases, the Fund may share information with select other parties.

Generally, the Fund does not receive any non-public personal information relating to its shareholders, although certain non-public personal information of its shareholders may become available to the Fund. The Fund does not disclose any non-public personal information about its shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third party administrator).

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The Fund restricts access to non-public personal information about its shareholders to employees of the Fund's Investment Adviser and its affiliates with a legitimate business need for the information. The Fund maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its shareholders.



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**TABLE OF CONTENTS OF STATEMENT OF ADDITIONAL INFORMATION**

An SAI dated as of [\_\_\_\_\_, \_\_\_\_], 2009, has been filed with the SEC and is incorporated by reference in this Prospectus. An SAI may be obtained without charge by writing to the Fund at its address at One Corporate Center, Rye, New York 10580-1422 or by calling the Fund toll-free at (800) GABELLI (422-3554). The Table of Contents of the SAI is as follows:

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<u>INVESTMENT OBJECTIVE AND POLICIES</u>	A-1
<u>INVESTMENT RESTRICTIONS</u>	A-11
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<u>PORTFOLIO TRANSACTIONS</u>	A-21
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<u>Appendix A Proxy Voting Policies and Procedures</u>	A-31

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No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this Prospectus in connection with the offer contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Fund, the Investment Adviser or the underwriters. Neither the delivery of this Prospectus nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Fund since the date hereof or that the information contained herein is correct as of any time subsequent to its date. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities to which it relates. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy such securities in any circumstance in which such an offer or solicitation is unlawful.

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**\$100,000,000  
The Gabelli Utility Trust  
Common Shares of Beneficial Interest**

**PROSPECTUS  
[\_\_\_\_\_] , 2009**

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Filed Pursuant to Rule 497  
Registration Statement No. 333-

**PROSPECTUS SUPPLEMENT**

(To Prospectus dated [\_\_\_\_], 2009)

\_\_\_\_\_ Shares  
[GRAPHIC OMITTED]

**Common Shares of Beneficial Interest**

We are offering for sale \_\_\_\_\_ shares of our common shares. Our common shares are traded on the New York Stock Exchange under the symbol GUT. Our 5.625% Series A Cumulative Preferred Shares are listed on the New York Stock Exchange under the symbol GUTPrA. The last reported sale price for our common shares on \_\_\_\_\_, \_\_\_\_\_ was \$\_\_\_\_\_ per share. The net asset value of the Fund's common shares at the close of business on \_\_\_\_\_, \_\_\_\_\_ was \$\_\_\_\_\_ per share.

You should review the information set forth under Risk Factors and Special Considerations on page \_\_\_\_\_ of the accompanying Prospectus before investing in our common shares.

	Per Share	Total (1)
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

(1) The aggregate expenses of the offering are estimated to be \$\_\_\_\_\_, which represents approximately \$\_\_\_\_\_ per share.

The underwriters may also purchase up to an additional \_\_\_\_\_ common shares from us at the public offering price, less underwriting discounts and commissions, to cover over-allotments, if any, within 30 days after the date of this Prospectus Supplement. If the over-allotment option is exercised in full, the total proceeds, before expenses, to the Fund would be \$\_\_\_\_\_ and the total underwriting discounts and commissions would be \$\_\_\_\_\_. The common shares will be ready for delivery on or about \_\_\_\_\_, \_\_\_\_\_.

You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest in our common shares and retain it for future reference. The Prospectus Supplement and the accompanying Prospectus contain important information about us. Material that has been incorporated by reference and other information about us can be obtained from us by calling 1-800-GABELLI (422-3554) or from the Securities and Exchange Commission's (SEC) website (<http://www.sec.gov>).

Neither the SEC nor any state securities commission has approved or disapproved these securities or determined if this Prospectus Supplement is truthful or complete. Any representation to the contrary is a criminal offense.

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Prospectus Supplement

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<u>UNDERWRITING</u>	P-4
<u>LEGAL MATTERS</u>	P-5

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**TABLE OF FEES AND EXPENSES**

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our common shares as a percentage of net assets attributable to common shares. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses, including preferred share offering expenses.

**Shareholder Transaction Expenses**

Sales Load (as a percentage of offering price)	[_____]%
Offering Expenses (as a percentage of offering price)	[_____]%
Dividend Reinvestment Plan Fees	None <sup>(1)</sup>

**Percentage of  
Net Assets  
Attributable to  
Common  
Shares**

**Annual Expenses**

Management Fees	% <sup>(2)</sup>
Interest on Borrowed Funds	None
Other Expenses	% <sup>(2)</sup>
Total Annual Expenses	% <sup>(2)</sup>

(1) You will be charged a \$1.00 service charge and pay brokerage charges if you direct the plan agent to sell your common shares held in a dividend reinvestment account.

(2) The Investment Adviser's fee is 1.00% annually of the Fund's average weekly net assets, with no deduction for the liquidation preference of

any outstanding preferred shares. Consequently, if the Fund has preferred shares outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common shares will be higher than if the Fund does not utilize a leveraged capital structure.

Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.

**Example**

The following example illustrates the expenses you would pay on a \$1,000 investment in common shares, assuming a 5% annual portfolio total return.\*

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Total Expenses Incurred				

\* **The example should not be considered a representation of future expenses.** The example assumes that the amounts set forth in the Annual Expenses table are accurate and that all

distributions are  
reinvested at net  
asset value.

Actual expenses  
may be greater  
or less than  
those assumed.

Moreover, the  
Fund's actual  
rate of return  
may be greater  
or less than the  
hypothetical 5%  
return shown in  
the example

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**Table of Contents****USE OF PROCEEDS**

We estimate the total net proceeds of the offering to be \$\_\_\_\_\_, based on the public offering price of \$\_\_\_\_\_ per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The Investment Adviser expects that it will initially invest the proceeds of the offering in high-quality short-term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months.

**PRICE RANGE OF COMMON SHARES**

The following table sets forth for the quarters indicated, the high and low sale prices on the New York Stock Exchange per share of our common shares and the net asset value and the premium or discount from net asset value per share at which the common shares were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

Quarter Ended	Market Price		Corresponding Net Asset Value ( NAV ) Per Share		Corresponding Premium or Discount as a % of NAV	
	High	Low	High	Low	High	Low
March 31, 2007	\$ 10.20	\$ 9.61	\$ 8.41	\$ 8.08	21.284%	18.936%
June 30, 2007	\$ 10.28	\$ 9.35	\$ 8.61	\$ 8.28	19.396%	12.923%
September 30, 2007	\$ 9.83	\$ 8.71	\$ 8.13	\$ 7.59	20.910%	14.756%
December 30, 2007	\$ 9.50	\$ 8.95	\$ 8.18	\$ 8.15	16.137%	9.816%
March 31, 2008	\$ 9.60	\$ 8.83	\$ 7.45	\$ 7.24	28.859%	21.961%
June 30, 2008	\$ 9.41	\$ 9.16	\$ 7.27	\$ 7.13	29.436%	28.471%
September 30, 2008	\$ 9.59	\$ 9.12	\$ 6.58	\$ 6.07	45.763%	50.247%
December 30, 2008	\$ 9.12	\$ 5.35	\$ 6.07	\$ 4.28	50.247%	25.003%
First Quarter through March 19, 2009	\$ 7.50	\$ 4.39	\$ 4.36	\$ 3.35	72.018%	31.045%

The last reported price for our common shares on \_\_\_\_\_, \_\_\_\_\_ was \$\_\_\_\_\_ per share. The net asset value on \_\_\_\_\_ was \$\_\_\_\_\_ per share

**UNDERWRITING**

[\_\_\_\_\_]

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**LEGAL MATTERS**

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, New York 10019, counsel to the Fund in connection with the offering of the common shares. Counsel for the Fund will rely, as to certain matters of Delaware law, on [\_\_\_\_\_]. Certain legal matters in connection with this offering will be passed upon for the underwriters by \_\_\_\_\_.

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**SUBJECT TO COMPLETION  
Dated [\_\_\_\_ \_], 2009  
THE GABELLI UTILITY TRUST**

**STATEMENT OF ADDITIONAL INFORMATION**

THE INFORMATION IN THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT COMPLETE AND MAY BE CHANGED. THE FUND MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

The Gabelli Utility Trust (the Fund ) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act ). The Fund s primary investment objective is long-term growth of capital and income. The Fund will invest at least 80% of its assets, under normal market conditions, in common stocks and other securities of foreign and domestic companies involved in providing products, services, or equipment for (i) the generation or distribution of electricity, gas, and water and (ii) telecommunications services or infrastructure operations (collectively, the Utility Industry ). The Fund commenced investment operations on July 9, 1999. Gabelli Funds, LLC (the Investment Adviser ) serves as investment adviser to the Fund.

This Statement of Additional Information (the SAI ) does not constitute a prospectus, but should be read in conjunction with the Fund s Prospectus relating thereto dated [\_\_\_\_ \_], 2009, and as it may be supplemented. This SAI does not include all information that a prospective investor should consider before investing in the Fund s shares, and investors should obtain and read the Fund s prospectus prior to purchasing such shares. A copy of the Fund s Registration Statement, including the prospectus and any supplement, may be obtained from the SEC upon payment of the fee prescribed, or inspected at the SEC s office or via its website (<http://www.sec.gov>) at no charge.

This SAI is dated [\_\_\_\_ \_], 2009.

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The Prospectus and this SAI omit certain information contained in the registration statement filed with the SEC, Washington D.C. The registration statement may be obtained from the SEC upon payment of the fee prescribed, or inspected at the SEC's office at no charge.

**THE FUND**

The Fund was organized under the laws of the State of Delaware on February 25, 1999 and is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund's investment operations commenced on July 9, 1999. The common shares of the Fund are listed and traded on the New York Stock Exchange (the NYSE) under the symbol GUT. The Fund's 5.625% Series A Cumulative Preferred Shares (the Series A Preferred) are listed and traded on the NYSE under the symbol GUT PrA.

**INVESTMENT OBJECTIVE AND POLICIES**

**Investment Objective**

The Fund's primary investment objective is long-term growth of capital and income. The Fund will invest at least 80% of its assets, under normal market conditions, in common stocks and other securities of foreign and domestic companies involved in providing products, services, or equipment for (i) the generation or distribution of electricity, gas, and water and (ii) telecommunications services or infrastructure operations (collectively, the Utility Industry). See Investment Objective and Policies in the Prospectus.

**Investment Practices**

*Securities Subject to Reorganization.* The Fund may invest without limit in securities of companies for which a tender or exchange offer has been made or announced and in securities of companies for which a merger, consolidation, liquidation or reorganization proposal has been announced if, in the judgment of the Investment Adviser, there is a reasonable prospect of high total return significantly greater than the brokerage and other transaction expenses involved.

In general, securities which are the subject of such an offer or proposal sell at a premium to their historic market price immediately prior to the announcement of the offer or may also discount what the stated or appraised value of the security would be if the contemplated transaction were approved or consummated. Such investments may be advantageous when the discount significantly overstates the risk of the contingencies involved; significantly undervalues the securities, assets or cash to be received by shareholders of the prospective portfolio company as a result of the contemplated transaction; or fails adequately to recognize the possibility that the offer or proposal may be replaced or superseded by an offer or proposal of greater value. The evaluation of such contingencies requires unusually broad knowledge and experience on the part of the Adviser which must appraise not only the value of the issuer and its component businesses as well as the assets or securities to be received as a result of the contemplated transaction but also the financial resources and business motivation of the offer and/or the dynamics and business climate when the offer or proposal is in process. Since such investments are ordinarily short-term in nature, they will tend to increase the turnover ratio of the Fund, thereby increasing its brokerage and other transaction expenses. The Adviser intends to select investments of the type described which, in its view, have a reasonable prospect of capital appreciation which is significant in relation to both risk involved and the potential of available alternative investments.

*Temporary Investments.* Although under normal market conditions at least 80% of the Fund's total assets will consist of common stock and other securities of foreign and domestic companies involved in the Utility Industry, when a temporary defensive posture is believed by the Investment Adviser to be warranted (temporary defensive periods), the Fund may without limitation hold cash or invest its assets in money market instruments and repurchase agreements in respect of those instruments. The money market instruments in which the Fund may invest are obligations of the United States government, its agencies or instrumentalities (U.S. Government Securities); commercial paper rated A-1 or higher by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. (S&P) or Prime-1 by Moody's Investors Service, Inc. (Moody's); and certificates of deposit and bankers' acceptances issued by domestic branches of U.S. banks that are members of the Federal Deposit Insurance

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Corporation. During temporary defensive periods, the Fund may also invest to the extent permitted by applicable law in shares of money market mutual funds. Money market mutual funds are investment companies and the investments in those companies in some cases by the Fund are subject to certain fundamental investment restrictions and applicable law. See *Investment Restrictions*. As a shareholder in a mutual fund, the Fund will bear its ratable share of its expenses, including management fees, and will remain subject to payment of the fees to the Investment Adviser, with respect to assets so invested.

*Lower Grade Securities.* The Fund may invest up to 25% of its total assets in fixed income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's are referred to in the financial press as junk bonds.

Generally, such lower grade securities and unrated securities of comparable quality offer a higher current yield than is offered by higher rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher quality securities. In addition, such securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such lower grade securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. In light of these risks, the Investment Adviser, in evaluating the creditworthiness of an issue, whether rated or unrated, will take various factors into consideration, which may include, as applicable, the issuer's operating history, financial resources and its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer's management and regulatory matters.

In addition, the market value of securities in lower grade securities is more volatile than that of higher quality securities, and the markets in which such lower grade or unrated securities are traded are more limited than those in which higher rated securities are traded. The existence of limited markets may make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing its portfolio and calculating its net asset value (NAV). Moreover, the lack of a liquid trading market may restrict the availability of securities for the Fund to purchase and may also have the effect of limiting the ability of the Fund to sell securities at their fair value in response to changes in the economy or the financial markets.

Lower grade securities also present risks based on payment expectations. If an issuer calls the obligation for redemption (often a feature of fixed income securities), the Fund may have to replace the security with a lower yielding security, resulting in a decreased return for investors. Also, as the principal value of nonconvertible bonds and preferred stocks moves inversely with movements in interest rates, in the event of rising interest rates, the value of the securities held by the Fund may decline proportionately more than a portfolio consisting of higher rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay regular income streams.

The Fund may invest up to 10% of its total assets in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

In addition to using recognized rating agencies and other sources, the Investment Adviser also performs its own analysis of issues in seeking investments that it believes to be underrated (and thus higher yielding) in light of the financial condition of the issuer. Its analysis of issuers may include, among other things, current and anticipated cash flow and borrowing requirements, value of assets in relation to historical cost, strength of management, responsiveness to business conditions, credit standing, and current anticipated results of operations. In selecting



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investments for the Fund, the Investment Adviser may also consider general business conditions, anticipated changes in interest rates, and the outlook for specific industries.

Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced. In addition, it is possible that statistical rating agencies may change their ratings of a particular issue to reflect subsequent events. Moreover, such ratings do not assess the risk of a decline in market value. None of these events will require the sale of the securities by the Fund, although the Investment Adviser will consider these events in determining whether the Fund should continue to hold the securities.

The market for lower grade and comparable unrated securities has experienced several periods of significantly adverse price and liquidity, particularly at or around times of economic recessions. Past market recessions have adversely affected the value of such securities as well as the ability of certain issuers of such securities to repay principal and pay interest thereon or to refinance such securities. The market for those securities may react in a similar fashion in the future.

*Options.* The Fund may, subject to guidelines of the Board of Trustees of the Fund (the Board), purchase or sell (i.e., write) options on securities, securities indices and foreign currencies which are listed on a national securities exchange or in the United States over-the-counter (OTC) markets as a means of achieving additional return or of hedging the value of the Fund's portfolio.

A call option is a contract that gives the holder of the option the right to buy from the writer (seller) of the call option, in return for a premium paid, the security or currency underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation, upon exercise of the option, to deliver the underlying security or currency upon payment of the exercise price during the option period.

A put option is the reverse of a call option, giving the holder the right, in return for a premium, to sell the underlying security or currency to the writer, at a specified price, and obligating the writer to purchase the underlying security or currency from the holder at that price. The writer of the put, who receives the premium, has the obligation to buy the underlying security or currency upon exercise, at the exercise price during the option period.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. There can be no assurance that a closing purchase transaction can be effected when the Fund so desires.

An exchange-traded option may be closed out only on an exchange that provides a secondary market for an option of the same series. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option.

A call option is covered if the Fund owns the underlying instrument covered by the call or has an absolute and immediate right to acquire that instrument without additional cash consideration upon conversion or exchange of another instrument held in its portfolio (or for additional cash consideration held in a segregated account by its custodian). A call option is also covered if the Fund holds a call on the same instrument as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written or (ii) greater than the exercise price of the call written if the difference is maintained by the Fund in cash, direct obligations of the United States or by its agencies or instrumentalities that are entitled to the full faith and credit of the United States and that, other than United States Treasury Bills, provide for the periodic payment of interest and the full payment of principal at maturity or call for redemption or other high-grade short-term obligations in a segregated account with its custodian. A put option is covered if the Fund maintains cash or other high grade short-term obligations with a value equal to the exercise price in a segregated account with its custodian, or else holds a put on the same instrument as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written. If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. However, once the Fund has been assigned an exercise notice, the Fund will be unable to effect a closing purchase transaction. Similarly, if the Fund is the holder of an option it may liquidate its position by



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effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option previously purchased. There can be no assurance that either a closing purchase or sale transaction can be effected when the Fund so desires.

The Fund will realize a profit from a closing transaction if the price of the transaction is less than the premium received from writing the option or is more than the premium paid to purchase the option; the Fund will realize a loss from a closing transaction if the price of the transaction is more than the premium received from writing the option or is less than the premium paid to purchase the option. Since call option prices generally reflect increases in the price of the underlying security, any loss resulting from the repurchase of a call option may also be wholly or partially offset by unrealized appreciation of the underlying security. Other principal factors affecting the market value of a put or call option include supply and demand, interest rates, the current market price and price volatility of the underlying security and the time remaining until the expiration date. Gains and losses on investments in options depend, in part, on the ability of the Investment Adviser to predict correctly the effect of these factors. The use of options cannot serve as a complete hedge since the price movement of securities underlying the options will not necessarily follow the price movements of the portfolio securities subject to the hedge.

An option position may be closed out only on an exchange that provides a secondary market for an option of the same series or in a private transaction. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option. In such event, it might not be possible to effect closing transactions in particular options, so the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of call options and upon the subsequent disposition of underlying securities for the exercise of put options. If the Fund, as a covered call option writer, is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying security until the option expires or until the Fund delivers the underlying security upon exercise or otherwise covers the position.

In addition to options on securities, the Fund may also purchase and sell call and put options on securities indices. A stock index reflects in a single number the market value of many different stocks.

Relative values are assigned to the stocks included in an index and the index fluctuates with changes in the market values of the stocks. The options give the holder the right to receive a cash settlement during the term of the option based on the difference between the exercise price and the value of the index. By writing a put or call option on a securities index, the Fund is obligated, in return for the premium received, to make delivery of this amount. The Fund may offset its position in the stock index options prior to expiration by entering into a closing transaction on an exchange, or it may let the option expire unexercised.

Use of options on securities indices entails the risk that trading in the options may be interrupted if trading in certain securities included in the index is interrupted. The Fund will not purchase these options unless the Investment Adviser is satisfied with the development, depth and liquidity of the market and the Investment Adviser believes the options can be closed out.

Price movements in the portfolio of the Fund may not correlate precisely with the movements in the level of an index and, therefore, the use of options on indices cannot serve as a complete hedge and will depend, in part, on the ability of the Investment Adviser to predict correctly movements in the direction of the stock market generally or of a particular industry. Because options on securities indices require settlement in cash, the Fund may be forced to liquidate portfolio securities to meet settlement obligations.

The Fund may also buy or sell put and call options on foreign currencies. A put option on a foreign currency gives the purchaser of the option the right to sell a foreign currency at the exercise price until the option expires. A call option on a foreign currency gives the purchaser of the option the right to purchase the currency at the exercise price until the option expires. Currency options traded on U.S. or other exchanges may be subject to position limits which may limit the ability of the Fund to reduce foreign currency risk using such options. Over-the-counter options differ from exchange-traded options in that they are two-party contracts with price and other terms negotiated between buyer and seller and generally do not have as much market liquidity as exchange-traded options. Over-the-counter options are considered illiquid securities.



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Although the Investment Adviser will attempt to take appropriate measures to minimize the risks relating to the Fund's writing of put and call options, there can be no assurance that the Fund will succeed in any option writing program it undertakes.

*Futures Contracts and Options on Futures.* The Fund will not enter into futures contracts or options on futures contracts unless (i) the aggregate initial margins and premiums do not exceed 5% of the fair market value of its assets and (ii) the aggregate market value of its outstanding futures contracts and the market value of the currencies and futures contracts subject to outstanding options written by the Fund do not exceed 50% of the market value of its total assets. It is anticipated that these investments, if any, will be made by the Fund solely for the purpose of hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase. Such investments will only be made if they are economically appropriate to the reduction of risks involved in the management of the Fund. In this regard, the Fund may enter into futures contracts or options on futures for the purchase or sale of securities indices or other financial instruments including but not limited to U.S. government securities.

A sale of a futures contract (or a short futures position) means the assumption of a contractual obligation to deliver the assets underlying the contract at a specified price at a specified future time. A purchase of a futures contract (or a long futures position) means the assumption of a contractual obligation to acquire the assets underlying the contract at a specified price at a specified future time. Certain futures contracts, including stock and bond index futures, are settled on a net cash payment basis rather than by the sale and delivery of the assets underlying the futures contracts. No consideration will be paid or received by the Fund upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit with the broker an amount of cash or cash equivalents equal to approximately 1% to 10% of the contract amount (this amount is subject to change by the exchange or board of trade on which the contract is traded and brokers or members of such board of trade may charge a higher amount). This amount is known as initial margin and is in the nature of a performance bond or good faith deposit on the contract. Subsequent payments, known as variation margin, to and from the broker will be made daily as the price of the index or security underlying the futures contracts fluctuates. At any time prior to the expiration of a futures contract, the Fund may close the position by taking an opposite position, which will operate to terminate its existing position in the contract.

An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time prior to the expiration of the option. Upon exercise of an option, the delivery of the futures positions by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account attributable to that contract, which represents the amount by which the market price of the futures contract exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract. The potential loss related to the purchase of an option on futures contracts is limited to the premium paid for the option (plus transaction costs). Because the value of the option purchased is fixed at the point of sale, there are no daily cash payments by the purchaser to reflect changes in the value of the underlying contract; however, the value of the option does change daily and that change would be reflected in the net assets of the Fund.

Futures and options on futures entail certain risks, including but not limited to the following: no assurance that futures contracts or options on futures can be offset at favorable prices, possible reduction of the yield of the Fund due to the use of hedging, possible reduction in value of both the securities hedged and the hedging instrument, possible lack of liquidity due to daily limits on price fluctuations, imperfect correlation between the contracts and the securities being hedged, losses from investing in futures transactions that are potentially unlimited and the segregation requirements described below.

In the event the Fund sells a put option or enters into long futures contracts, under current interpretations of the 1940 Act, an amount of cash, obligations of the U.S. government and its agencies and instrumentalities or other liquid securities equal to the market value of the contract must be deposited and maintained in a segregated account with the custodian of the Fund to collateralize the positions, thereby ensuring that the use of the contract is unleveraged. For short positions in futures contracts and sales of call options, the Fund may establish a segregated account (not with a futures commission merchant or broker) with cash or liquid securities that, when added to amounts deposited with a futures commission merchant or a broker as margin, equal the market value of the



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instruments or currency underlying the futures contract or call option or the market price at which the short positions were established.

*Forward Currency Exchange Contracts.* The Fund may engage in currency transactions other than on futures exchanges to protect against future changes in the level of future currency exchange rates. The Fund will conduct such currency exchange transactions either on a spot (i.e., cash) basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into forward contracts to purchase or sell currency. A forward contract on foreign currency involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract, at a price set on the date of the contract. Dealing in forward currency exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward currency with respect to specific receivables or payables of the Fund generally arising in connection with the purchase or sale of its portfolio securities and accruals of interest receivable and Fund expenses. Position hedging is the forward sale of currency with respect to portfolio security positions denominated or quoted in that currency or in a currency bearing a high degree of positive correlation to the value of that currency.

The Fund may not position hedge with respect to a particular currency for an amount greater than the aggregate market value (determined at the time of making any sale of forward currency) of the securities held in its portfolio denominated or quoted in, or currently convertible into, such currency. If the Fund enters into a position hedging transaction, the Fund's custodian or subcustodian will place cash or other liquid securities in a segregated account of the Fund in an amount equal to the value of the Fund's total assets committed to the consummation of the given forward contract. If the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account so that the value of the account will, at all times, equal the amount of the Fund's commitment with respect to the forward contract.

At or before the maturity of a forward sale contract, the Fund may either sell a portfolio security and make delivery of the currency, or retain the security and offset its contractual obligations to deliver the currency by purchasing a second contract pursuant to which the Fund will obtain, on the same maturity date, the same amount of the currency which it is obligated to deliver. If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund, at the time of execution of the offsetting transaction, will incur a gain or a loss to the extent that movement has occurred in forward contract prices. Should forward prices decline during the period between the Fund's entering into a forward contract for the sale of a currency and the date it enters into an offsetting contract for the purchase of the currency, the Fund will realize a gain to the extent the price of the currency it has agreed to purchase is less than the price of the currency it has agreed to sell. Should forward prices increase, the Fund will suffer a loss to the extent the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell. Closing out forward purchase contracts involves similar offsetting transactions.

The cost to the Fund of engaging in currency transactions varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. Because forward transactions in currency exchange are usually conducted on a principal basis, no fees or commissions are involved. The use of foreign currency contracts does not eliminate fluctuations in the underlying prices of the securities, but it does establish a rate of exchange that can be achieved in the future. In addition, although forward currency contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result if the value of the currency increases.

If a decline in any currency is generally anticipated by the Investment Adviser, the Fund may not be able to contract to sell the currency at a price above the level to which the currency is anticipated to decline.

*Interest Rate Futures Contracts and Options Thereon.* The Fund may purchase or sell interest rate futures contracts to take advantage of, or to protect the Fund against fluctuations in interest rates affecting the value of debt securities which the Fund holds or intends to acquire. For example, if interest rates are expected to increase, the Fund might sell futures contracts on debt securities the values of which historically have a high degree of positive correlation to the values of the Fund's portfolio securities. Such a sale would have an effect similar to selling an equivalent value of the Fund's portfolio securities. If interest rates increase, the value of the Fund's portfolio securities will decline, but the value of the futures contracts to the Fund will increase at approximately an equivalent rate, thereby keeping the NAV

of the Fund from declining as much as it otherwise would have. The Fund could

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accomplish similar results by selling debt securities with longer maturities and investing in debt securities with shorter maturities when interest rates are expected to increase. However, since the futures market may be more liquid than the cash market, the use of futures contracts as a risk management technique allows the Fund to maintain a defensive position without having to sell its portfolio securities.

Similarly, the Fund may purchase interest rate futures contracts when it is expected that interest rates may decline. The purchase of futures contracts for this purpose constitutes a hedge against increases in the price of debt securities (caused by declining interest rates) which the Fund intends to acquire. Since fluctuations in the value of appropriately selected futures contracts should approximate that of the debt securities that will be purchased, the Fund can take advantage of the anticipated rise in the cost of the debt securities without actually buying them. Subsequently, the Fund can make its intended purchase of the debt securities in the cash market and concurrently liquidate its futures position. To the extent the Fund enters into futures contracts for this purpose, it will maintain, in a segregated asset account with the Fund's custodian, assets sufficient to cover the Fund's obligations with respect to such futures contracts, which will consist of cash or other liquid securities from its portfolio in an amount equal to the difference between the fluctuating market value of such futures contracts and the aggregate value of the initial margin deposited by the Fund with its custodian with respect to such futures contracts.

The purchase of a call option on a futures contract is similar in some respects to the purchase of a call option on an individual security. Depending on the pricing of the option compared to either the price of the futures contract upon which it is based or the price of the underlying debt securities, it may or may not be less risky than ownership of the futures contract or underlying debt securities. As with the purchase of futures contracts, when the Fund is not fully invested it may purchase a call option on a futures contract to hedge against a market advance due to declining interest rates.

The purchase of a put option on a futures contract is similar to the purchase of protective put options on portfolio securities. The Fund will purchase a put option on a futures contract to hedge its portfolio against the risk of rising interest rates and consequent reduction in the value of portfolio securities.

The writing of a call option on a futures contract constitutes a partial hedge against declining prices of the securities that are deliverable upon exercise of the futures contract. If the futures price at expiration of the option is below the exercise price, the Fund will retain the full amount of the option premium, which provides a partial hedge against any decline that may have occurred in the its portfolio holdings. The writing of a put option on a futures contract constitutes a partial hedge against increasing prices of the securities that are deliverable upon exercise of the futures contract. If the futures price at expiration of the option is higher than the exercise price, the Fund will retain the full amount of the option premium, which provides a partial hedge against any increase in the price of debt securities that it intends to purchase. If a put or call option the Fund has written is exercised, the Fund will incur a loss which will be reduced by the amount of the premium it received. Depending on the degree of correlation between changes in the value of its portfolio securities and changes in the value of its futures positions, the Fund's losses from options on futures it has written may to some extent be reduced or increased by changes in the value of its portfolio securities.

*Currency Futures and Options Thereon.* Generally, foreign currency futures contracts and options thereon are similar to the interest rate futures contracts and options thereon discussed previously. By entering into currency futures and options thereon, the Fund will seek to establish the rate at which it will be entitled to exchange U.S. dollars for another currency at a future time. By selling currency futures, the Fund will seek to establish the number of dollars it will receive at delivery for a certain amount of a foreign currency. In this way, whenever the Fund anticipates a decline in the value of a foreign currency against the U.S. dollar, the Fund can attempt to lock in the U.S. dollar value of some or all of the securities held in its portfolio that are denominated in that currency. By purchasing currency futures, the Fund can establish the number of dollars it will be required to pay for a specified amount of a foreign currency in a future month. Thus, if the Fund intends to buy securities in the future and expects the U.S. dollar to decline against the relevant foreign currency during the period before the purchase is effected, the Fund can attempt to lock in the price in U.S. dollars of the securities it intends to acquire.

The purchase of options on currency futures will allow the Fund, for the price of the premium and related transaction costs it must pay for the option, to decide whether or not to buy (in the case of a call option) or to sell (in

the case of a put option) a futures contract at a specified price at any time during the period before the option  
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expires. If the Investment Adviser, in purchasing an option, has been correct in its judgment concerning the direction in which the price of a foreign currency would move as against the U.S. dollar, the Fund may exercise the option and thereby take a futures position to hedge against the risk it had correctly anticipated or close out the option position at a gain that will offset, to some extent, currency exchange losses otherwise suffered by the Fund. If exchange rates move in a way the Fund did not anticipate, however, the Fund will have incurred the expense of the option without obtaining the expected benefit; any such movement in exchange rates may also thereby reduce, rather than enhance, the Fund's profits on its underlying securities transactions.

*Securities Index Futures Contracts and Options Thereon.* Purchases or sales of securities index futures contracts are used for hedging purposes to attempt to protect the Fund's current or intended investments from broad fluctuations in stock or bond prices. For example, the Fund may sell securities index futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of the its securities portfolio that might otherwise result. If such decline occurs, the loss in value of portfolio securities may be offset, in whole or part, by gains on the futures position. When the Fund is not fully invested in the securities market and anticipates a significant market advance, it may purchase securities index futures contracts in order to gain rapid market exposure that may, in part or entirely, offset increases in the cost of securities that it intends to purchase. As such purchases are made, the corresponding positions in securities index futures contracts will be closed out. The Fund may write put and call options on securities index futures contracts for hedging purposes.

*Limitations on the Purchase and Sale of Futures Contracts and Options on Futures Contracts.* The Investment Adviser has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act and therefore is not subject to registration under the Commodity Exchange Act. Accordingly, the Fund's investments in derivative instruments described in the Prospectus and this SAI are not limited by or subject to regulation under the Commodity Exchange Act or otherwise regulated by the Commodity Futures Trading Commission. Nevertheless, the Fund's investment restrictions place certain limitations and prohibitions on the Fund's ability to purchase or sell commodities or commodity contracts. See "Investment Restrictions." Under these restrictions, the Fund may not enter into futures contracts or options on futures contracts unless (i) the aggregate initial margins and premiums do not exceed 5% of the fair market value of the Fund's total assets and (ii) the aggregate market value of the Fund's outstanding futures contracts and the market value of the currencies and futures contracts subject to outstanding options written by the Fund, as the case may be, do not exceed 50% of the market value of the Fund's total assets. In addition, investment in futures contracts and related options generally will be limited by the rating agency guidelines applicable to any of the Fund's preferred shares.

*Special Risk Considerations Relating to Futures and Options Thereon.* The ability to establish and close out positions in futures contracts and options thereon will be subject to the development and maintenance of liquid markets. Although the Fund generally will purchase or sell only those futures contracts and options thereon for which there appears to be a liquid market, there is no assurance that a liquid market on an exchange will exist for any particular futures contract or option thereon at any particular time.

In the event no liquid market exists for a particular futures contract or option thereon in which the Fund maintains a position, it will not be possible to effect a closing transaction in that contract or to do so at a satisfactory price and the Fund would have to either make or take delivery under the futures contract or, in the case of a written option, wait to sell the underlying securities until the option expires or is exercised or, in the case of a purchased option, exercise the option. In the case of a futures contract or an option thereon which the Fund has written and which the Fund is unable to close, the Fund would be required to maintain margin deposits on the futures contract or option thereon and to make variation margin payments until the contract is closed.

Successful use of futures contracts and options thereon and forward contracts by the Fund is subject to the ability of the Investment Adviser to predict correctly movements in the direction of interest and foreign currency rates. If the Investment Adviser's expectations are not met, the Fund will be in a worse position than if a hedging strategy had not been pursued. For example, if the Fund has hedged against the possibility of an increase in interest rates that would adversely affect the price of securities in its portfolio and the price of such securities increases instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements,

it may have to sell securities to meet the requirements. These sales may be, but will

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not necessarily be, at increased prices which reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so.

*Additional Risks of Foreign Options, Futures Contracts, Options on Futures Contracts and Forward Contracts.* Options, futures contracts and options thereon and forward contracts on securities and currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the U.S., may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities. The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the U.S. of data on which to make trading decisions, (iii) delays in the Fund's ability to act upon economic events occurring in the foreign markets during non-business hours in the U.S., (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the U.S. and (v) lesser trading volume.

Exchanges on which options, futures and options on futures are traded may impose limits on the positions that the Fund may take in certain circumstances.

*Risks of Currency Transactions.* Currency transactions are also subject to risks different from those of other portfolio transactions. Because currency control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be adversely affected by government exchange controls, limitations or restrictions on repatriation of currency, and manipulation, or exchange restrictions imposed by governments. These forms of governmental action can result in losses to the Fund if it is unable to deliver or receive currency or monies in settlement of obligations and could also cause hedges it has entered into to be rendered useless, resulting in full currency exposure as well as incurring transaction costs.

*Repurchase Agreements.* The Fund may engage in repurchase agreements as set forth in the Prospectus. A repurchase agreement is an instrument under which the purchaser, i.e., the Fund, acquires a debt security and the seller agrees, at the time of the sale, to repurchase the obligation at a mutually agreed upon time and price, thereby determining the yield during the purchaser's holding period. This results in a fixed rate of return insulated from market fluctuations during such period. The underlying securities are ordinarily U.S. Treasury or other government obligations or high quality money market instruments. The Fund will require that the value of such underlying securities, together with any other collateral held by the Fund, always equals or exceeds the amount of the repurchase obligations of the counter party. The Fund's risk is primarily that, if the seller defaults, the proceeds from the disposition of the underlying securities and other collateral for the seller's obligation are less than the repurchase price. If the seller becomes insolvent, the Fund might be delayed in or prevented from selling the collateral. In the event of a default or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. To the extent that the proceeds from any sale of such collateral upon a default in the obligation to repurchase are less than the repurchase price, the Fund will experience a loss.

If the financial institution which is a party to the repurchase agreement petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund would suffer a loss.

*Loans of Portfolio Securities.* Consistent with applicable regulatory requirements and the Fund's investment restrictions, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions, *provided* that such loans are callable at any time by the Fund (subject to notice provisions described below), and are at all times secured by cash or cash equivalents, which are maintained in a segregated account pursuant to applicable regulations and that are at least equal to the market value, determined daily, of the loaned securities. The advantage of such loans is that the Fund continues to receive the income on the loaned securities while at the same time earns interest on the cash amounts deposited as collateral, which will be invested in short-term obligations. The Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale. The Fund's loans of portfolio securities will be collateralized in accordance with applicable regulatory requirements and no loan will cause the value of all loaned securities to exceed 20% of the value of the Fund's total assets. The Fund's ability to lend portfolio securities will be limited by the rating agency guidelines applicable to any of the Fund's outstanding preferred shares.



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A loan may generally be terminated by the borrower on one business day notice, or by the Fund on five business days notice. If the borrower fails to deliver the loaned securities within five days after receipt of notice, the Fund could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over collateral. As with any extensions of credit, there are risks of delay in recovery and in some cases even loss of rights in the collateral should the borrower of the securities fail financially. However, these loans of portfolio securities will only be made to firms deemed by the Fund's management to be creditworthy and when the income which can be earned from such loans justifies the attendant risks. The Board will oversee the creditworthiness of the contracting parties on an ongoing basis. Upon termination of the loan, the borrower is required to return the securities to the Fund. Any gain or loss in the market price during the loan period would inure to the Fund. The risks associated with loans of portfolio securities are substantially similar to those associated with repurchase agreements. Thus, if the counter party to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund would suffer a loss. When voting or consent rights which accompany loaned securities pass to the borrower, the Fund will follow the policy of calling the loaned securities, to be delivered within one day after notice, to permit the exercise of such rights if the matters involved would have a material effect on the Fund's investment in such loaned securities. The Fund will pay reasonable finder's, administrative and custodial fees in connection with a loan of its securities.

*When Issued, Delayed Delivery Securities and Forward Commitments.* The Fund may enter into forward commitments for the purchase or sale of securities, including on a when issued or delayed delivery basis, in excess of customary settlement periods for the type of security involved. In some cases, a forward commitment may be conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, corporate reorganization or debt restructuring, i.e., a when, as and if issued security. When such transactions are negotiated, the price is fixed at the time of the commitment, with payment and delivery taking place in the future, generally a month or more after the date of the commitment. While it will only enter into a forward commitment with the intention of actually acquiring the security, the Fund may sell the security before the settlement date if it is deemed advisable.

Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Fund prior to the settlement date. The Fund will segregate with its custodian cash or liquid securities in an aggregate amount at least equal to the amount of its outstanding forward commitments.

*Short Sales.* The Fund may make short sales of securities. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. The market value of the securities sold short of any one issuer will not exceed either 5% of the Fund's total assets or 5% of such issuer's voting securities.

The Fund will not make a short sale, if, after giving effect to such sale, the market value of all securities sold short exceeds 25% of the value of its assets or the Fund's aggregate short sales of a particular class of securities exceeds 25% of the outstanding securities of that class. The Fund may also make short sales against the box without respect to such limitations. In this type of short sale, at the time of the sale, the Fund owns, or has the immediate and unconditional right to acquire at no additional cost, the identical security. The Fund expects to make short sales both to obtain capital gains from anticipated declines in securities and as a form of hedging to offset potential declines in long positions in the same or similar securities. The short sale of a security is considered a speculative investment technique. Short sales against the box may be subject to special tax rules, one of the effects of which may be to accelerate income to the Fund.

When the Fund makes a short sale, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale in order to satisfy its obligation to deliver the security upon conclusion of the sale. The Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any payments received on such borrowed securities.

The Fund's obligation to replace the borrowed security will be secured by collateral deposited with the broker-dealer, usually cash, U.S. government securities or other highly liquid debt securities. The Fund will also be required to deposit similar collateral with its custodian to the extent, if any, necessary so that the value of both collateral deposits in the aggregate is at all times equal to the greater of the price at which the security is sold short



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or 100% of the current market value of the security sold short. Depending on arrangements made with the broker-dealer from which it borrowed the security regarding payment over of any payments received by the Fund on such security, the Fund may not receive any payments (including interest) on its collateral deposited with such broker-dealer. If the price of the security sold short increases between the time of the short sale and the time the Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a capital gain. Any gain will be decreased, any loss increased, by the transaction costs described above. Although the Fund's gain is limited to the price at which it sold the security short, its potential loss is theoretically unlimited.

To secure its obligations to deliver the securities sold short, the Fund will deposit in escrow in a separate account with its custodian, State Street Bank and Trust Company ( State Street ), an amount at least equal to the securities sold short or securities convertible into, or exchangeable for, the securities. The Fund may close out a short position by purchasing and delivering an equal amount of securities sold short, rather than by delivering securities already held by the Fund, because the Fund may want to continue to receive interest and dividend payments on securities in its portfolio that are convertible into the securities sold short.

*Repurchase Agreements.* The Fund may engage in repurchase agreement transactions involving money market instruments with banks, registered broker-dealers and government securities dealers approved by the Adviser. The Fund will not enter into repurchase agreements with the Investment Adviser or any of its affiliates. Under the terms of a typical repurchase agreement, the Fund would acquire an underlying debt obligation for a relatively short period (usually not more than one week) subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed price and time, thereby determining the yield during its holding period. Thus, repurchase agreements may be seen to be loans by the Fund collateralized by the underlying debt obligation. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the holding period. The value of the underlying securities will be at least equal to at all times to the total amount of the repurchase obligation, including interest. The Fund bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations and the Fund is delayed in or prevented from exercising its rights to dispose of the collateral securities, including the risk of a possible decline in the value of the underlying securities during the period in which it seeks to assert these rights. The Investment Adviser, acting under the supervision of the Board, reviews the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate these risks and monitors on an ongoing basis the value of the securities subject to repurchase agreements to ensure that the value is maintained at the required level.

**INVESTMENT RESTRICTIONS**

The Fund operates under the following restrictions that constitute fundamental policies that, except as otherwise noted, cannot be changed without the affirmative vote of the holders of a majority of the outstanding voting securities of the Fund along with the affirmative vote of a majority of the votes entitled to be cast by holders of outstanding preferred shares, voting together as a single class. For purposes of the preferred share voting rights described in the foregoing sentence, except as otherwise required under the 1940 Act, the majority of the outstanding preferred shares means, in accordance with Section 2(a)(42) of the 1940 Act, the vote of (i) 67% or more of the preferred shares present at the shareholders meeting called for such vote, if the holders of more than 50% of the outstanding preferred shares are present or represented by proxy or (ii) more than 50% of the outstanding preferred shares, whichever is less. Except as otherwise noted, all percentage limitations set forth below apply immediately after a purchase or initial investment and any subsequent change in any applicable percentage resulting from market fluctuations does not require any action. The Fund may not:

- (1) invest 25% or more of its total assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry other than the Utility Industry. This restriction does not apply to investments in U.S. government securities.
- (2) purchase or sell commodities or commodity contracts except that the Fund may purchase or sell futures contracts and related options thereon if immediately thereafter (i) no more than 5% of its total assets are invested in margins and premiums and (ii) the aggregate market value of its outstanding futures contracts and market value of the currencies and futures contracts subject to outstanding options written by the Fund do not exceed 50% of the

market value of its total assets. The Fund may not purchase or sell real estate,  
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provided that the Fund may invest in securities secured by real estate or interests therein or issued by companies which invest in real estate or interests therein.

- (3) make loans of money, except by the purchase of a portion of private or publicly distributed debt obligations or the entering into of repurchase agreements. The Fund reserves the authority to make loans of its portfolio securities to financial intermediaries in an aggregate amount not exceeding 20% of its total assets. Any such loans will only be made upon approval of, and subject to any conditions imposed by, the Board. Because these loans are required to be fully collateralized at all times, the risk of loss in the event of default of the borrower should be slight.
- (4) borrow money except to the extent permitted by applicable law. The 1940 Act currently requires that the Fund have 300% asset coverage with respect to all borrowings other than temporary borrowings of up to 5% of the value of its total assets.
- (5) issue senior securities, except to the extent permitted by applicable law.
- (6) underwrite securities of other issuers except insofar as the Fund may be deemed an underwriter under the Securities Act 1933, (the 1933 Act ) in selling portfolio securities; provided, however, this restriction shall not apply to securities of any investment company organized by the Fund that are to be distributed pro rata as a dividend to its shareholders.

With respect to (1) above, the Fund invests 25% or more of its total assets in the securities of issuers in the Utility Industry.

**MANAGEMENT OF THE FUND**

**Trustees and Officers**

The business and affairs of the Fund are managed under the direction of its Board, and the day-to-day operations are conducted through or under the direction of its officers.

The names and business addresses of the Trustees and principal officers of the Fund are set forth in the following table, together with their positions and their principal occupations during the past five years and, in the case of the Trustees, their positions with certain other organizations and companies. Trustees who are interested persons of the Fund, as defined by the 1940 Act, are listed under the caption Interested Trustee.

**Trustees**

NAME, POSITION WITH THE FUND, AGE AND BUSINESS ADDRESS <sup>1</sup>	TERM OF OFFICE AND LENGTH OF TIME SERVED <sup>2</sup>	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS	OTHER DIRECTORSHIPS HELD BY TRUSTEE	NUMBER OF PORTFOLIOS IN FUND COMPLEX
				BY TRUSTEE

**INTERESTED TRUSTEES<sup>3</sup>:**

Mario J. Gabelli <sup>(3)</sup> Trustee and Chief Investment Officer Age: 66	Since 1999*	Chairman and Chief Executive Officer of GAMCO Investors, Inc.; Chief Investment Officer Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc.;	Director of Morgan Group Holdings, Inc. (holding company); Chairman of the Board of LIC T Corporation (multimedia and communication services company)	26
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<b>NAME, POSITION WITH THE FUND, AGE AND BUSINESS ADDRESS<sup>1</sup></b>	<b>TERM OF OFFICE AND LENGTH OF TIME SERVED<sup>2</sup></b>	<b>PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS</b>	<b>OTHER DIRECTORSHIPS HELD BY TRUSTEE</b>	<b>NUMBER OF PORTFOLIOS IN FUND COMPLEX BY TRUSTEE</b>
John D. Gabelli <sup>(3)</sup> Trustee Age: 64	Since 1999**	Senior Vice President of Gabelli & Company, Inc. complex; Chairman and Chief Executive Officer of GGCP, Inc.	Director of GAMCO Investors, Inc.	10
<b>NON-INTERESTED TRUSTEES:</b>				
Thomas E. Bratter Trustee Age: 69	Since 1999*	Director, President and Founder of The John Dewey Academy (residential college preparatory therapeutic high school).	None	4
Anthony J. Colavita <sup>(4)</sup> Trustee Age: 73	Since 1999***	President of the law firm of Anthony J. Colavita, P.C.	None	36
James P. Conn <sup>(4)</sup> Trustee Age: 70	Since 1994**	Former Managing Director and Chief Investment Officer of Financial Security Assurance Holdings Ltd. (insurance holding company) (1992-1998).	None	18
Vincent D. Enright Trustee Age: 65	Since 1999*	Former Senior Vice President and Chief Financial Officer of KeySpan Energy Corporation (public utility) (1994-1998).	Director of Echo Therapeutics, Inc. (therapeutics and diagnostics)	16
Frank J. Fahrenkopf, Jr. Trustee Age: 69	Since 1999***	President and Chief Executive Officer of the American Gaming Association; Co-Chairman of the Commission on Presidential Debates; Chairman of the Republican National Committee (1983-1989).	None	6
	Since 1999***		None	6
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Robert J. Morrissey Trustee Age: 69		Partner in the law firm of Morrissey, Hawkins & Lynch.		
Anthony R. Pustorino Trustee Age: 83	Since 1999**	Certified Public Accountant; Professor Emeritus, Pace University.	Director of The LGL Group, Inc. (diversified manufacturing)	13
Salvatore J. Zizza Trustee Age: 63	Since 1994***	Chairman of Zizza & Co., Ltd. (consulting).	Director of Hollis-Eden Pharmaceuticals (biotechnology) and Earl Scheib, Inc. (automotive services)	26

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<b>Name, Positions with the Fund, Age, and Business Address<sup>(1)</sup></b>	<b>Length of time Served</b>	<b>Principal Occupation(s) During Past Five Years</b>
Bruce N. Alpert President Age: 57	Since 2003	Executive Vice President and Chief Operating Officer of Gabelli Funds, LLC since 1988; Officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex.+
Peter D. Goldstein Chief Compliance Officer Age: 55	Since 2004	Director of Regulatory Affairs for 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 to 2004.
Agnes Mullady Treasurer and Principal Financial Officer Age: 50	Since 2006	Vice President of Gabelli Funds, LLC since 2007; Officer of all 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 2004-2005.
David I. Schachter Vice President and Ombudsman Age: 55	Since 1999	Vice President of the Fund since 1999; Vice President of The Gabelli Global Utility & Income Trust since 2004.

1 Address: One Corporate Center, Rye, NY 10580, unless otherwise noted.

2 The Board is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year

term for each class expires as follows:

\* Term expires at the Fund's 2010 Annual Meeting of Shareholders and until his successors is duly elected and qualified.

\*\* Term expires at the Fund's 2012 Annual Meeting of Shareholders and until his successors is duly elected and qualified.

\*\*\* Term expires at the Fund's 2011 Annual Meeting of Shareholders and until his successors is duly elected and qualified.

+ Chairman of Teton Advisors Inc. (formerly Gabelli Advisors, Inc.) since 2008; Director and President from 1998 to 2008.

3 Interested person of the Fund is defined in the 1940 Act. Mr. Mario J. Gabelli is considered an interested person of the Fund because of

his affiliation with the Investment Adviser and Gabelli & Company, which executes portfolio transactions for the Fund, and as a controlling shareholder because of the level of his ownership of common shares of the Fund. Mr. John D. Gabelli is considered an interested person of the Fund because of his affiliation with Gabelli & Company. Mr. Mario J. Gabelli and Mr. John D. Gabelli are brothers.

- 4 As a Trustee, elected solely by holders of the Fund's preferred shares.

**Beneficial Ownership of Shares Held in the Fund and the Fund Complex for Each Trustee**

Set forth in the table below is the dollar range of equity securities in the Fund beneficially owned by each Trustee and the aggregate dollar range of equity securities in the Fund complex beneficially owned by each Trustee.

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<b>Name of Trustee</b>	<b>Dollar Range of Equity Securities in the Fund(1)</b>	<b>Aggregate Dollar Range of Equity Securities in all Registered Investment Companies in the Gabelli Fund Complex(1)(2)</b>
<b>Interested Trustees</b>		
Mario J. Gabelli	Over \$100,000	Over \$100,000
John D. Gabelli	None	Over \$100,000
<b>Disinterested Trustees</b>		
Thomas E. Bratter	None	Over \$100,000
Anthony J. Colavita	\$ 10,001-\$50,000	Over \$100,000
James P. Conn	\$50,001-\$100,000	Over \$100,000
Vincent D. Enright	None	Over \$100,000
Frank J. Fahrenkopf, Jr.	None	None
Robert J. Morrissey	None	Over \$100,000
Anthony R. Pustorino	\$ 10,001-\$50,000	Over \$100,000
Salvatore J. Zizza	\$ 10,001-\$50,000	Over \$100,000

(1) This information has been furnished by each Trustee as of December 31, 2008. Beneficial Ownership is determined in accordance with Section 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended.

(2) The Fund Complex includes all the funds that are considered part of the same fund complex as the Fund because they have a common or affiliated investment adviser.

The Trustees serving on the Fund's Nominating Committee are Messrs. Zizza (Chairman), Colavita, and Enright. The Nominating Committee is responsible for recommending qualified candidates to the Board in the event that a



position is vacated or created. The Nominating Committee would consider recommendations by shareholders if a vacancy were to exist. Such recommendations should be forwarded to the Secretary of the Fund. The Nominating Committee met once during the year ended December 31, 2008. The Fund does not have a standing compensation committee.

Messrs. Pustorino (Chairman), Colavita and Enright serve on the Fund's Audit Committee and these Trustees are not interested persons of the Fund as defined in the 1940 Act. The Audit Committee generally is responsible for reviewing and evaluating issues related to the accounting and financial reporting policies and, as appropriate, internal controls of the Fund and the internal controls of certain service providers, overseeing the quality and objectivity of the Fund's financial statements and the audit thereof and to act as a liaison between the Board and the Fund's independent registered public accounting firm. During the year ended December 31, 2008, the Audit Committee met twice.

**Remuneration of Trustees and Officers**

The Fund pays each Trustee who is not affiliated with the Investment Adviser or its affiliates a fee of \$6,000 per year plus \$1,000 per meeting attended in person and \$500 per telephonic meeting or Committee meeting, together with the Trustee's actual out-of-pocket expenses relating to his attendance at such meetings. In addition, the Lead Trustee receives an annual fee of \$1,000, the Audit Committee Chairman receives an annual fee of \$3,000 and the Nominating Committee Chairman receives an annual fee of \$2,000. Trustees who are trustees or employees of the Adviser or an affiliated company receive no compensation or expense reimbursement from the Fund.

The following table shows the compensation that the Trustees earned in their capacity as Trustees and in their capacity as Directors/Trustees for other funds in the Gabelli Fund Complex during the year ended December 31, 2008. The table also shows, for the year ended December 31, 2008, the compensation paid to the Fund's officer (in excess of \$60,000).

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**Table of Contents****Compensation Table for the Year Ended December 31, 2008**

<b>Name of Trustee/Officer</b>	<b>Compensation From the Fund</b>	<b>Aggregate Compensation From the Fund and Fund Complex Paid to Trustees*</b>
<b>Interested Trustee:</b>		
Mario J. Gabelli	\$ 0	\$ 0
John Gabelli	\$ 0	\$ 0
<b>Disinterested Trustees:</b>		
Thomas E. Bratter	\$ 8,000	\$ 41,000
Anthony J. Colavita	\$ 9,843	\$ 251,034
James P. Conn	\$ 8,750	\$ 122,590
Vincent D. Enright	\$ 10,767	\$ 123,423
Frank J. Fahrenkopf, Jr.	\$ 8,250	\$ 64,500
Robert J. Morrissey	\$ 8,000	\$ 44,500
Anthony R. Pustorino	\$ 11,863	\$ 147,000
Salvatore J. Zizza	\$ 10,806	\$ 187,326
<b>Officer:</b>		
David I. Schachter	\$ 180,000	

\* Represents the total compensation paid to such persons during the year ended December 31, 2008 by investment companies (including the Fund) or portfolios thereof from which such person receives compensation that are considered part of the same fund complex as the Fund because they have

common or  
affiliated  
investment  
advisers.

**Limitation of Trustees and Officers Liability**

Subject to limitations imposed by the 1940 Act, the Governing Documents of the Fund provide that the Fund will indemnify its trustees and officers and may indemnify its employees or agents against liabilities and expenses incurred in connection with litigation in which they may be involved because of their positions with the Fund, to the fullest extent permitted by law. However, nothing in the Governing Documents of the Fund protects or indemnifies a trustee, officer, employee or agent of the Fund against any liability to which such person would otherwise be subject in the event of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her position.

**Investment Management**

Gabelli Funds, LLC acts as the Fund's Investment Adviser pursuant to the Investment Advisory Agreement with the Fund. The Investment Adviser is a New York limited liability company with principal offices located at One Corporate Center, Rye, New York 10580-1422. The Investment Adviser was organized in 1999 and is the successor to Gabelli Funds, Inc., which was organized in 1980. As of December 31, 2008, the Investment Adviser acted as registered investment adviser to 25 management investment companies with aggregate net assets of \$11.4 billion. The Investment Adviser, together with the other affiliated investment advisers noted below had assets under management totaling approximately \$20.7 billion as of December 31, 2008. GAMCO Asset Management Inc., an affiliate of the Investment Adviser, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments, and as a sub adviser to management investment companies having aggregate assets of \$8.5 billion under management as of December 31, 2008. Gabelli Securities, Inc., an affiliate of the Investment Adviser, acts as investment adviser for investment partnerships and entities having aggregate assets of approximately \$295 million as of December 31, 2008. Gabelli Fixed Income LLC, an affiliate of the Investment Adviser, acts as investment adviser for separate accounts having aggregate assets of approximately \$22 million under management as of December 31, 2008. Teton Advisors, Inc., an affiliate of the Investment Adviser, acts as investment manager to the

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GAMCO Westwood Funds having aggregate assets of approximately \$450 million under management as of December 31, 2008.

The Investment Adviser is a wholly owned subsidiary of GAMCO Investors, Inc., a New York corporation, whose Class A Common Stock is traded on the NYSE under the symbol GBL. Mr. Mario J. Gabelli may be deemed a controlling person of the Investment Adviser on the basis of his ownership of a majority of the stock of GGCP, Inc., which owns a majority of the capital stock of GAMCO Investors, Inc.

The Investment Adviser will provide a continuous investment program for the portfolios of the Fund and oversee the administration of all aspects of the Fund's business and affairs. The Investment Adviser has sole investment discretion for the assets of the Fund under the supervision of the Board and in accordance with the Fund's stated policies. The Investment Adviser will select investments for the Fund and will place purchase and sale orders on behalf of the Fund.

### **Investment Advisory Agreements**

Affiliates of the Investment Adviser may, in the ordinary course of their business, acquire for their own account or for the accounts of their advisory clients, significant (and possibly controlling) positions in the securities of companies that may also be suitable for investment by the Fund. The securities in which the Fund might invest may thereby be limited to some extent. For instance, many companies in the past several years have adopted so-called "poison pill" or other defensive measures designed to discourage or prevent the completion of non-negotiated offers for control of the company. Such defensive measures may have the effect of limiting the shares of the company that might otherwise be acquired by the Fund if the affiliates of the Investment Adviser or their advisory accounts have or acquire a significant position in the same securities. However, the Investment Adviser does not believe that the investment activities of its affiliates will have a material adverse effect upon each the Fund in seeking to achieve its investment objective. Securities purchased or sold pursuant to contemporaneous orders entered on behalf of the investment company accounts of the Investment Adviser or the advisory accounts managed by its affiliates for their unaffiliated clients are allocated pursuant to principles believed to be fair and not disadvantageous to any such accounts. In addition, all such orders are accorded priority of execution over orders entered on behalf of accounts in which the Investment Adviser or its affiliates have a substantial pecuniary interest. The Fund may on occasion give advice or take action with respect to other clients that differs from the actions taken with respect to the Fund. The Fund may invest in the securities of companies that are investment management clients of GAMCO Asset Management Inc. In addition, portfolio companies or their officers or trustees may be minority shareholders of the Investment Adviser or its affiliates.

Under the terms of the Advisory Agreement, the Investment Adviser manages the portfolio of the Fund in accordance with its stated investment objective and policies, makes investment decisions for the Fund, places orders to purchase and sell securities on behalf of the Fund and manages its other business and affairs, all subject to the supervision and direction of the Board. In addition, under the Advisory Agreement, the Investment Adviser oversees the administration of all aspects of the Fund's business and affairs and provides, or arranges for others to provide, at the Investment Adviser's expense, certain enumerated services, including maintaining the Fund's books and records, preparing reports to the Fund's shareholders and supervising the calculation of the NAV of its shares. All expenses of computing the NAV of the Fund, including any equipment or services obtained solely for the purpose of pricing shares or valuing its investment portfolio, will be an expense of the Fund under its Advisory Agreement unless the Investment Adviser voluntarily assumes responsibility for such expense. During fiscal year 2008, the Fund paid or accrued \$45,000 to the Investment Adviser in connection with the cost of computing the Fund's NAV.

The Advisory Agreement combines investment advisory and administrative responsibilities in one agreement. For services rendered by the Investment Adviser on behalf of the Fund under the Advisory Agreement, the Fund pays the Investment Adviser a fee computed weekly and paid monthly, equal on an annual basis to 1.00% of the Fund's average weekly net assets including the liquidation value of preferred shares. The fee paid by the Fund may be higher when leverage in the form of preferred shares are utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the preferred shares during the fiscal year if the total return of the NAV of the common shares of the Fund, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred shares for the



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period. In other words, if the effective cost of the leverage for any series of preferred shares exceeds the total return (based on NAV) on the Fund's common shares, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred shares to mitigate the negative impact of the leverage on the common shareholder's total return, except in connection with the waiver applicable to the portion of the Fund's assets attributable to Series A Preferred and Series B Auction Market Preferred Shares (Series B Preferred), this fee waiver is voluntary and may be discontinued at any time. For Series A Preferred and Series B Preferred, the waiver will remain in effect as long as any shares in a series are outstanding. The Fund's total return on the NAV of the common shares is monitored on a monthly basis to assess whether the total return on the NAV of the common shares exceeds the stated dividend rate or corresponding swap rate of each particular series of preferred shares for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred shares is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets.

The Advisory Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard for its obligations and duties thereunder, the Investment Adviser is not liable for any error or judgment or mistake of law or for any loss suffered by the Fund. As part of the Advisory Agreement, the Fund has agreed that the name Gabelli is the Investment Adviser's property, and that in the event the Investment Adviser ceases to act as an investment adviser to the Fund, the Fund will change its name to one not including Gabelli.

Pursuant to its terms, the Advisory Agreement will remain in effect with respect to the Fund until the second anniversary of shareholder approval of such Agreement, and from year to year thereafter if approved annually (i) by the Board or by the holders of a majority of its outstanding voting securities and (ii) by a majority of the trustees who are not interested persons (as defined in the 1940 Act) of any party to the Advisory Agreement, by vote cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement was approved most recently by the Board on February 26, 2009. The Advisory Agreement terminates automatically on its assignment and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by a vote of a majority (as defined in the 1940 Act) of the Fund's outstanding shares.

A discussion regarding the basis of the Board's approval of the Advisory Agreement for the Fund is available in the semi-annual report to shareholders for the six months ended June 30, 2008.

For each of the years ended, December 31, 2006, December 31, 2007, and December 31, 2008, the Investment Adviser was paid \$2,739,387, \$3,002,900, and \$1,983,694 respectively, for advisory and administrative services rendered to the Fund.

**Portfolio Manager Information***Other Accounts Managed*

The information below lists other accounts for which the portfolio manager was primarily responsible for the day-to-day management during the year ended December 31, 2008.

Name of Portfolio Manager	Type of Accounts	Total # of Accounts Managed	Total Assets	# of Accounts Managed with Advisory Fee Based on Performance	Total Assets with Advisory Fee Based on Performance
Mario J. Gabelli	Registered Investment Companies:	24	\$10.3 billion	6	\$3.2 billion
		22	\$355.1 million	19	\$316.4 million

Other Pooled  
Investment  
Vehicles:

A-18

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<b>Name of Portfolio Manager</b>	<b>Type of Accounts</b>	<b>Total # of Accounts Managed</b>	<b>Total Assets</b>	<b># of Accounts Managed with Advisory Fee Based on Performance</b>	<b>Total Assets with Advisory Fee Based on Performance</b>
	Other Accounts:	2,049	\$8.1 billion	6	\$994.1 million

*Potential Conflicts of Interest*

Actual or apparent conflicts of interest may arise when the portfolio manager also has day-to-day management responsibilities with respect to one or more other accounts. These potential conflicts include:

*Allocation of Limited Time and Attention.* Because the portfolio manager manages many accounts, he may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as if he were to devote substantially more attention to the management of only a few accounts.

*Allocation of Limited Investment Opportunities.* If the portfolio manager identifies an investment opportunity that may be suitable for multiple accounts, the Fund may not be able to take full advantage of that opportunity because the opportunity may need to be allocated among all or many of these accounts or other accounts primarily managed by other portfolio managers of the Investment Adviser and its affiliates.

*Pursuit of Differing Strategies.* At times, the portfolio manager may determine that an investment opportunity may be appropriate for only some of the accounts for which he exercises investment responsibility, or may decide that certain of the accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may execute differing or opposite transactions for one or more accounts which may affect the market price of the security or the execution of the transactions, or both, to the detriment of one or more of his accounts.

*Selection of Broker/Dealers.* The portfolio manager may be able to select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds or accounts that he supervises. In addition to providing execution of trades, some brokers and dealers provide the Investment Adviser with brokerage and research services. These services may be more beneficial to certain funds or accounts of the Investment Adviser and its affiliates than to others. Although the payment of brokerage commissions is subject to the requirement that the Investment Adviser determine in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the Fund, the portfolio manager's decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds or other accounts that the Investment Adviser and its affiliates manage. In addition, with respect to certain types of accounts (such as pooled investment vehicles and other accounts managed for organizations and individuals), the Investment Adviser may be limited by the client concerning the selection of brokers or may be instructed to direct trades to particular brokers. In these cases, the Investment Adviser or its affiliates may place separate, non-simultaneous transactions in the same security for the Fund and another account that may temporarily affect the market price of the security or the execution of the transaction, or both, to the detriment of the Fund or the other account. Because of Mr. Gabelli's position with, and his indirect majority ownership interest in, an affiliated broker dealer, Gabelli & Company, he may have an incentive to use Gabelli & Company to execute portfolio transactions for the Fund even if using Gabelli & Company is not in the best interest of the Fund.

*Variation in Compensation.* A conflict of interest may arise where the financial or other benefits available to the portfolio manager differ among the accounts that he manages. If the structure of the Investment Adviser's management fee or the portfolio manager's compensation differs among accounts (such as where certain accounts



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pay higher management fees or performance-based management fees), the portfolio manager may be motivated to favor certain accounts over others. The portfolio manager also may be motivated to favor accounts in which he has an investment interest, or in which the Investment Adviser or its affiliates have investment interests. In Mr. Gabelli's case, the Investment Adviser's compensation (and expenses) for the Fund is marginally greater as a percentage of assets than for certain other accounts and is less than for certain other accounts managed by Mr. Gabelli, while his personal compensation structure varies with near-term performance to a greater degree in certain performance fee-based accounts than with non-performance-based accounts. In addition, he has investment interests in several of the funds managed by the Investment Adviser and its affiliates.

The Investment Adviser and the Fund have adopted compliance policies and procedures that are designed to address the various conflicts of interest that may arise for the Investment Adviser and its staff members. However, there is no guarantee that such policies and procedures will be able to detect and address every situation in which an actual or potential conflict may arise.

*Compensation Structure.* Mr. Gabelli receives incentive-based variable compensation based on a percentage of net revenues received by the Investment Adviser for managing the Fund. Net revenues are determined by deducting from gross investment management fees the firm's expenses (other than Mr. Gabelli's compensation) allocable to the Fund. Additionally, he receives similar incentive-based variable compensation for managing other accounts within the firm. This method of compensation is based on the premise that superior long-term performance in managing a portfolio should be rewarded with higher compensation as a result of growth of assets through appreciation and net investment activity. Five closed-end registered investment companies managed by Mr. Gabelli have arrangements whereby the Investment Adviser will only receive its investment advisory fee attributable to the liquidation value of outstanding preferred shares (and Mr. Gabelli would only receive his percentage of such advisory fee) if certain performance levels are met. One of the other registered investment companies managed by Mr. Gabelli has a performance (fulcrum) fee arrangement for which his compensation is adjusted up or down based on the performance of the investment company relative to an index. Mr. Gabelli manages other accounts with performance fees. Compensation for managing these accounts has two components. One component of the fee is based on a percentage of net revenues received by the Investment Adviser for managing the account. The second component is based on absolute performance of the account, with respect to which a percentage of such performance fee is paid to Mr. Gabelli. As an executive officer of the Investment Adviser's parent company, GAMCO Investors, Inc., Mr. Gabelli also receives ten percent of the net operating profits of the parent company. Mr. Gabelli receives no base salary, no annual bonus and no stock options.

*Ownership of Shares in the Fund*

As of December 31, 2008, the portfolio manager of the Fund owned the following amounts of equity securities of the Fund.

Name	Dollar Range of Equity Securities Held in Fund
Mario J. Gabelli	Over \$1,000,000

*Portfolio Holdings Information*

Employees of the Investment Adviser and its affiliates will often have access to information concerning the portfolio holdings of the Fund. The Fund and the Investment Adviser have adopted policies and procedures that require all employees to safeguard proprietary information of the Fund, which includes information relating to the Fund's portfolio holdings as well as portfolio trading activity of the Investment Adviser with respect to the Fund (collectively, "Portfolio Holdings Information"). In addition, the Fund and the Investment Adviser have adopted policies and procedures providing that Portfolio Holdings Information may not be disclosed except to the extent that it is (a) made available to the general public by posting on the Fund's website or filed as a part of a required filing on Form N-Q or N-CSR or (b) provided to a third party for legitimate business purposes or regulatory purposes, that has agreed to keep such data confidential under forms approved by the Investment Adviser's legal department or outside counsel, as described below. The Investment Adviser will examine each situation under (b) with a view to determine that release of the information is in the best interest of the Fund and its shareholders and, if a potential



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conflict between the Investment Adviser's interests and the Fund's interests arises, to have such conflict resolved by the Chief Compliance Officer or the independent Board. These policies further provide that no officer of the Fund or employee of the Investment Adviser shall communicate with the media about the Fund without obtaining the advance consent of the Chief Executive Officer, Chief Operating Officer, or General Counsel of the Investment Adviser.

Under the foregoing policies, the Fund currently may disclose Portfolio Holdings Information in the circumstances outlined below. Disclosure generally may be either on a monthly or quarterly basis with no time lag in some cases and with a time lag of up to 60 days in other cases (with the exception of proxy voting services which require a regular download of data):

- (1) To regulatory authorities in response to requests for such information and with the approval of the Chief Compliance Officer of the Fund;
- (2) To mutual fund rating and statistical agencies and to persons performing similar functions where there is a legitimate business purpose for such disclosure and such entity has agreed to keep such data confidential at least until it has been made public by the Investment Adviser;
- (3) To service providers of the Fund, as necessary for the performance of their services to the Fund and to the Board; the Fund's anticipated service providers are its administrator, transfer agent, custodian, independent registered public accounting firm, and legal counsel;
- (4) To firms providing proxy voting and other proxy services, provided such entity has agreed to keep such data confidential until at least it has been made public by the Investment Adviser;
- (5) To certain broker dealers, investment advisers, and other financial intermediaries for purposes of their performing due diligence on the Fund and not for dissemination of this information to their clients or use of this information to conduct trading for their clients. Disclosure of Portfolio Holdings Information in these circumstances requires the broker, dealer, investment adviser, or financial intermediary to agree to keep such information confidential and is further subject to prior approval of the Chief Compliance Officer of the Fund and to reporting to the Board at the next quarterly meeting; and
- (6) To consultants for purposes of performing analysis of the Fund, which analysis (but not the Portfolio Holdings Information) may be used by the consultant with its clients or disseminated to the public, provided that such entity shall have agreed to keep such information confidential until at least it has been made public by the Investment Adviser.

Disclosures made pursuant to a confidentiality agreement are subject to periodic confirmation by the Chief Compliance Officer of the Fund that the recipient has utilized such information solely in accordance with the terms of the agreement. Neither the Fund nor the Investment Adviser, nor any of the Investment Adviser's affiliates will accept on behalf of itself, its affiliates, or the Fund any compensation or other consideration in connection with the disclosure of portfolio holdings of the Fund. The Board will review such arrangements annually with the Fund's Chief Compliance Officer.

**PORTFOLIO TRANSACTIONS**

Subject to policies established by the Board, the Investment Adviser is responsible for placing purchase and sale orders and the allocation of brokerage on behalf of the Fund. Transactions in equity securities are in most cases effected on U.S. stock exchanges and involve the payment of negotiated brokerage commissions. In general, there may be no stated commission in the case of securities traded in over-the-counter markets, but the prices of those securities may include undisclosed commissions or mark-ups. Principal transactions are not entered into with affiliates of the Fund. However, Gabelli & Company may execute transactions in the over-the-counter markets on an agency basis and receive a stated commission therefrom. To the extent consistent with applicable provisions of the 1940 Act and the rules and exemptions adopted by the SEC thereunder, as well as other regulatory requirements, the



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Board has determined that portfolio transactions may be executed through Gabelli & Company and its broker-dealer affiliates if, in the judgment of the Investment Adviser, the use of those broker-dealers is likely to result in price and execution at least as favorable as those of other qualified broker-dealers, and if, in particular transactions, the affiliated broker-dealers charge the Fund a rate consistent with that charged to comparable unaffiliated customers in similar transactions. The Fund has no obligations to deal with any broker or group of brokers in executing transactions in portfolio securities. In executing transactions, the Investment Adviser seeks to obtain the best price and execution for the Fund, taking into account such factors as price, size of order, difficulty of execution and operational facilities of the firm involved and the firm's risk in positioning a block of securities. While the Investment Adviser generally seeks reasonably competitive commission rates, the Fund does not necessarily pay the lowest commission available.

Subject to obtaining the best price and execution, brokers who provide supplemental research, market and statistical information, or other services (e.g., wire services) to the Investment Adviser or its affiliates may receive orders for transactions by the Fund. The term "research, market and statistical information" includes advice as to the value of securities, and advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities, and furnishing analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts. Information so received will be in addition to and not in lieu of the services required to be performed by the Investment Adviser under the Advisory Agreement and the expenses of the Investment Adviser will not necessarily be reduced as a result of the receipt of such supplemental information. Such information may be useful to the Investment Adviser and its affiliates in providing services to clients other than the Fund, and not all such information is used by the Investment Adviser in connection with the Fund. Conversely, such information provided to the Investment Adviser and its affiliates by brokers and dealers through whom other clients of the Investment Adviser and its affiliates effect securities transactions may be useful to the Investment Adviser in providing services to the Fund.

Although investment decisions for the Fund are made independently from those of the other accounts managed by the Investment Adviser and its affiliates, investments of the kind made by the Fund may also be made for those other accounts. When the same securities are purchased for or sold by the Fund and any of such other accounts, it is the policy of the Investment Adviser and its affiliates to allocate such purchases and sales in a manner deemed fair and equitable over time to all of the accounts, including the Fund.

For the fiscal years ended December 31, 2006, December 31, 2007 and December 31, 2008, the Fund paid a total of \$114,097, \$114,926, and \$38,268, respectively, in brokerage commissions, of which Gabelli & Company and its affiliates received, \$63,264, \$62,379, and \$29,726, respectively. The amount received by Gabelli & Company and its affiliates from the Fund in respect of brokerage commissions for the fiscal year ended December 31, 2008 represented approximately 77.68% of the aggregate dollar amount of brokerage commissions paid by the Fund for such period and approximately 70.56% of the aggregate dollar amount of transactions by the Fund for such period.

**REPURCHASE OF COMMON SHARES**

The Fund is a non-diversified, closed-end, management investment company and as such its shareholders do not, and will not, have the right to redeem their shares. The Fund, however, may repurchase its common shares from time to time as and when it deems such a repurchase advisable. Such repurchases will be made when the Fund's common shares are trading at a discount of 10% (or such other percentage as the Board may determine from time to time) or more from NAV. Pursuant to the 1940 Act, the Fund may repurchase its common shares on a securities exchange (provided that the Fund has informed its shareholders within the preceding six months of its intention to repurchase such shares) or as otherwise permitted in accordance with Rule 23c-1 under the 1940 Act. Under that Rule, certain conditions must be met regarding, among other things, distribution of net income for the preceding fiscal year, status of the seller, price paid, brokerage commissions, prior notice to shareholders of an intention to purchase shares and purchasing in a manner and on a basis that does not discriminate unfairly against the other shareholders through their interest in the Fund.

When the Fund repurchases its common shares for a price below NAV, the NAV of the common shares that remains outstanding will be enhanced, but this does not necessarily mean that the market price of the outstanding common shares will be affected, either positively or negatively.



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The portfolio turnover rates of the Fund for the fiscal years ending December 31, 2007 and December 31, 2008 were 13% and 14%, respectively. Portfolio turnover rate is calculated by dividing the lesser of an investment company's annual sales or purchases of portfolio securities by the monthly average value of securities in its portfolio during the year, excluding portfolio securities the maturities of which at the time of acquisition were one year or less. A high rate of portfolio turnover involves correspondingly greater brokerage commission expense than a lower rate, which expense must be borne by the Fund and its shareholders, as applicable. A higher rate of portfolio turnover may also result in taxable gains being passed to shareholders.

**TAXATION**

The following discussion is a brief summary of certain U.S. federal income tax considerations affecting the Fund and its shareholders. This discussion reflects applicable tax laws of the United States as of the date of this SAI, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (the IRS) retroactively or prospectively. No attempt is made to present a detailed explanation of all U.S. federal, state, local and foreign tax concerns affecting the Fund and its shareholders (including shareholders owning a large position in the Fund), and the discussions set forth herein do not constitute tax advice. Investors are urged to consult their own tax advisers to determine the tax consequences to them of investing in the Fund.

**Taxation of the Fund**

The Fund has qualified, and intends to continue to qualify, as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code) (a RIC). Accordingly, the Fund will, among other things, (i) derive in each taxable year at least 90% of its gross income from (a) dividends, interest (including tax-exempt interest), payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gain from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies and (b) net income derived from interests in certain publicly traded partnerships that are treated as partnerships for U.S. federal income tax purposes and that derive less than 90% of their gross income from the items described in (a) above (each a Qualified Publicly Traded Partnership); and (ii) diversify its holdings so that, at the end of each quarter of each taxable year (a) at least 50% of the value of its total assets is represented by cash and cash items, U.S. government securities, the securities of other regulated investment companies and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of the Fund's total assets and not more than 10% of the outstanding voting securities of such issuer and (b) not more than 25% of the value of the Fund's total assets is invested in the securities of (I) any one issuer (other than U.S. government securities and the securities of other RICs), (II) any two or more issuers in which the Fund owns more than 20% or more of the voting securities and that are determined to be engaged in the same business or similar or related trades or businesses or (III) any one or more Qualified Publicly Traded Partnerships.

The investments of the Fund in partnerships, including Qualified Publicly Traded Partnerships, may result in the Fund being subject to state, local, or foreign income, franchise or withholding tax liabilities.

As a RIC, the Fund generally is not or will not be, as the case may be, subject to U.S. federal income tax on income and gains that it distributes each taxable year to shareholders, if it distributes at least 90% of the sum of the Fund's (i) investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain, reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) its net tax-exempt interest (the excess of its gross tax-exempt interest over certain disallowed deductions). The Fund intends to distribute at least annually substantially all of such income.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax at the Fund level. To avoid the tax, the Fund must distribute during each calendar year an amount at least equal to the sum of (i) 98% of its ordinary income (not taking into account any capital gain or loss) for the calendar year, (ii) 98% of its capital gain in excess of its capital loss (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is





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made to use the fund's fiscal year), and (iii) certain undistributed amounts from previous years on which a fund paid no federal income tax. While the Fund intends to distribute any income and capital gain in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's taxable income and capital gain will be distributed to avoid entirely the imposition of the tax. In that event, the Fund will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirement.

A distribution will be treated as paid during the calendar year if it is paid during the calendar year or declared by the Fund in October, November or December of the year, payable to shareholders of record on a date during such a month and paid by the Fund during January of the following year. Any such distributions paid during January of the following year will be deemed to be received no later than December 31 of the year the distributions are declared, rather than when the distributions are received.

If the Fund were unable to satisfy the 90% distribution requirement or otherwise were to fail to qualify as a RIC in any year, it would be taxed in the same manner as an ordinary corporation and distributions to the Fund's shareholders would not be deductible by the Fund in computing its taxable income. To qualify again to be taxed as a RIC in a subsequent year, the Fund would be required to distribute to its shareholders its earnings and profits attributable to non-RIC years. In addition, if the Fund failed to qualify as a RIC for a period greater than two taxable years, then the Fund would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if the Fund had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years, in order to qualify as a RIC in a subsequent year.

Gain or loss on the sales of securities by the Fund will generally be long-term capital gain or loss if the securities have been held by the Fund for more than one year. Gain or loss on the sale of securities held for one year or less will be short-term capital gain or loss.

Foreign currency gain or loss on non-U.S. dollar-denominated securities and on any non-U.S. dollar-denominated futures contracts, options and forward contracts that are not section 1256 contracts (as defined below) generally will be treated as ordinary income and loss.

Investments by the Fund in certain passive foreign investment companies (PFICs) could subject such fund to federal income tax (including interest charges) on certain distributions or dispositions with respect to those investments which cannot be eliminated by making distributions to shareholders. Elections may be available to the Fund to mitigate the effect of this tax provided that the PFIC complies with certain reporting requirements, but such elections generally accelerate the recognition of income without the receipt of cash. Dividends paid by PFICs will not qualify for the reduced tax rates discussed below under Taxation of Shareholders.

The Fund may invest in debt obligations purchased at a discount with the result that the Fund may be required to accrue income for U.S. federal income tax purposes before amounts due under the obligations are paid. The Fund may also invest in securities rated in the medium to lower rating categories of nationally recognized rating organizations, and in unrated securities (high yield securities). A portion of the interest payments on such high yield securities may be treated as dividends for certain U.S. federal income tax purposes.

As a result of investing in stock of PFICs or securities purchased at a discount or any other investment that produces income that is not matched by a corresponding cash distribution to the Fund, the Fund could be required to include in current income, income it has not yet received. Any such income would be treated as income earned by the Fund and therefore would be subject to the distribution requirements of the Code. This might prevent the Fund from distributing 90% of its investment company taxable income as is required in order to avoid Fund-level federal income taxation on all of its income, or might prevent the Fund from distributing enough ordinary income and capital gain net income to avoid completely the imposition of the excise tax. To avoid this result, the Fund may be required to borrow money or dispose of securities to be able to make distributions to its shareholders.

If the Fund does not meet the asset coverage requirements of the 1940 Act and the Statement of Preferences, the Fund will be required to suspend distributions to the holders of common shares until the asset coverage is restored. Such a suspension of distributions might prevent the Fund from distributing 90% of its investment company taxable income as is required in order to avoid fund-level federal income taxation on all of its



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income, or might prevent the fund from distributing enough income and capital gain net income to avoid completely imposition of the excise tax.

Certain of the Fund's investment practices are subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gains into higher taxed short-term capital gains or ordinary income, (iii) convert ordinary loss or a deduction into capital loss (the deductibility of which is more limited), (iv) cause a fund to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (vi) adversely alter the characterization of certain complex financial transactions and (vii) produce income that will not qualify as good income for purposes of the 90% annual gross income requirement described above. The Fund will monitor its transactions and may make certain tax elections to mitigate the effect of these rules and prevent disqualification of the fund as a regulated investment company.

**Foreign Taxes**

Since the Fund may invest in foreign securities, income from such securities may be subject to non-U.S. taxes. The Fund expects to invest less than 35% of its total assets in foreign securities. As long as the Fund continues to invest less than 35% of its assets in foreign securities it will not be eligible to elect to pass-through to shareholders of a fund the ability to use the foreign tax deduction or foreign tax credit for foreign taxes paid with respect to qualifying taxes.

**Taxation of Shareholders**

The Fund will determine either to distribute or to retain for reinvestment all or part of its net capital gain. If any such gain is retained, the Fund will be subject to a tax of 35% of such amount. In that event, the Fund expects to designate the retained amount as undistributed capital gain in a notice to its shareholders, each of whom (i) will be required to include in income for tax purposes as long-term capital gain its share of such undistributed amounts, (ii) will be entitled to credit its proportionate share of the tax paid by the Fund against its federal income tax liability and to claim refunds to the extent that the credit exceeds such liability and (iii) will increase its basis in its shares of the Fund by an amount equal to 65% of the amount of undistributed capital gain included in such shareholder's gross income.

Distributions paid by the Fund from its investment company taxable income, which includes net short-term capital gain, generally are taxable as ordinary income to the extent of the Fund's earnings and profits. Such distributions, if designated by the Fund, may, however, qualify (provided holding period and other requirements are met by the Fund and its shareholders) (i) for the dividends received deduction available to corporations, but only to the extent that the Fund's income consists of dividend income from U.S. corporations and (ii) for taxable years beginning on or before December 31, 2010, as qualified dividend income eligible for the reduced maximum federal tax rate to individuals of generally 15% (currently 0% for individuals in lower tax brackets) to the extent that the Fund receives qualified dividend income. Qualified dividend income is, in general, dividend income from taxable domestic corporations and certain qualified foreign corporations (e.g., generally, foreign corporations incorporated in a possession of the United States or in certain countries with a qualifying comprehensive tax treaty with the United States, or whose shares with respect to which such dividend is paid is readily tradable on an established securities market in the United States). A qualified foreign corporation does not include a foreign corporation which for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a PFIC. If the Fund engages in certain securities lending transactions, the amount received by the Fund that is the equivalent of the dividends paid by the issuer on the securities loaned will not be eligible for qualified dividend income treatment. Distributions of net capital gain designated as capital gain distributions, if any, are taxable to shareholders at rates applicable to long-term capital gain, whether paid in cash or in shares, and regardless of how long the shareholder has held the Fund's shares. Capital gain distributions are not eligible for the dividends received deduction. The maximum federal tax rate on net long-term capital gain is currently 15% (for individuals in lower brackets). The maximum rate on long-term capital gain is scheduled to rise to 20% for gains realized in taxable years beginning after December 31, 2010. Unrecaptured Section 1250 gain distributions, if any, will be subject to a 25% tax. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gain to such holder (assuming the shares



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are held as a capital asset). Investment company taxable income (other than qualified dividend income) will currently be taxed at a maximum rate of 35%. For corporate taxpayers, both investment company taxable income and net capital gain are taxed at a maximum rate of 35%.

If an individual receives a dividend that is eligible for qualified dividend income treatment, and such dividend constitutes an extraordinary dividend, any loss on the sale or exchange of shares in respect of which the extraordinary dividend was paid, then the loss will be long-term capital loss to the extent of such extraordinary dividend. An extraordinary dividend for this purpose is generally a dividend (i) in an amount greater than or equal to 5% of the taxpayer's tax basis (or trading value) in a share of stock, aggregating dividends with ex-dividend dates within an 85-day period or (ii) in an amount greater than 20% of the taxpayer's tax basis (or trading value) in a share of stock, aggregating dividends with ex-dividend dates within a 365-day period.

The IRS currently requires that a registered investment company that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income, capital gains, dividends qualifying for the dividends received deduction ( DRD ) and qualified dividend income) based upon the percentage of total dividends paid out of current or accumulated earnings and profits to each class for the tax year. Accordingly, the Fund intends each year to allocate capital gain dividends, dividends qualifying for the DRD and dividends that constitute qualified dividend income, if any, between its common shares and preferred shares in proportion to the total dividends paid out of current or accumulated earnings and profits to each class with respect to such tax year. Distributions in excess of the Fund's current and accumulated earnings and profits, if any, however, will not be allocated proportionately among the common shares and preferred shares. Since the Fund's current and accumulated earnings and profits will first be used to pay dividends on its preferred shares, distributions in excess of such earnings and profits, if any, will be made disproportionately to holders of common shares.

Shareholders may be entitled to offset their capital gain distributions (but not distributions eligible for qualified dividend income treatment) with capital loss. There are a number of statutory provisions affecting when capital loss may be offset against capital gain, and limiting the use of loss from certain investments and activities. Accordingly, shareholders with capital loss are urged to consult their tax advisers.

The price of shares purchased at any time may reflect the amount of a forthcoming distribution. Those purchasing shares just prior to a distribution will receive a distribution which will be taxable to them even though it represents in part a return of invested capital.

Certain types of income received by the Fund from real estate investment trusts ( REITs ), real estate mortgage investment conduits ( REMICs ), taxable mortgage pools or other investments may cause the Fund to designate some or all of its distributions as excess inclusion income. To Fund shareholders such excess inclusion income may (1) constitute taxable income, as unrelated business taxable income ( UBTI ) for those shareholders who would otherwise be tax-exempt such as individual retirement accounts, 401(k) accounts, Keogh plans, pension plans and certain charitable entities; (2) not be offset by otherwise allowable deductions for tax purposes; (3) not be eligible for reduced U.S. withholding for non-U.S. shareholders even from tax treaty countries; and (4) cause the Fund to be subject to tax if certain disqualified organizations as defined by the Code are Fund shareholders.

Upon a sale, exchange, redemption or other disposition of shares, a shareholder will generally realize a taxable gain or loss equal to the difference between the amount of cash and the fair market value of other property received and the shareholder's adjusted tax basis in the shares. Such gain or loss will be treated as long-term capital gain or loss if the shares have been held for more than one year. Any loss realized on a sale or exchange will be disallowed to the extent the shares disposed of are replaced by substantially identical shares within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Any loss realized by a shareholder on the sale of Fund shares held by the shareholder for six months or less will be treated for tax purposes as a long-term capital loss to the extent of any capital gain distributions received by the shareholder (or amounts credited to the shareholder as an undistributed capital gain) with respect to such shares.

Ordinary income distributions and capital gain distributions also may be subject to state and local taxes.

Shareholders are urged to consult their own tax advisers regarding specific questions about federal (including the



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application of the alternative minimum tax rules), state, local or foreign tax consequences to them of investing in the Fund.

Shareholders will receive, if appropriate, various written notices after the close of each of the Fund's taxable years regarding the U.S. federal income tax status of certain dividends, distributions and deemed distributions that were paid (or that are treated as having been paid) by the Fund to its shareholders during the preceding taxable year.

If a shareholder recognizes a loss with respect to the Fund's shares of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder, the shareholder must file with the IRS a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in many cases exempted from this reporting requirement, but under current guidance, shareholders of a regulated investment company are not exempted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Dividends paid or distributions made by the Fund to shareholders who are non-resident aliens or foreign entities (foreign investors) are generally subject to withholding tax at a 30% rate or a reduced rate specified by an applicable income tax treaty to the extent derived from investment income and short-term capital gains. In order to obtain a reduced rate of withholding, a foreign investor will be required to provide an IRS Form W-8BEN certifying its entitlement to benefits under a treaty. The withholding tax does not apply to regular dividends paid or distributions made to a foreign investor who provides a Form W-8ECI, certifying that the dividends or distributions are effectively connected with the foreign investor's conduct of a trade or business within the United States. Instead, the effectively connected dividends or distributions will be subject to regular U.S. income tax as if the foreign investor were a U.S. shareholder. A non-U.S. corporation receiving effectively connected dividends or distributions may also be subject to additional branch profits tax imposed at a rate of 30% (or lower treaty rate). A foreign investor who fails to provide an IRS Form W-8BEN or other applicable form may be subject to backup withholding at the appropriate rate.

In general, United States federal withholding tax will not apply to any gain or income realized by a foreign investor in respect of any distributions of net long-term capital gains over net short-term capital losses, exempt-interest dividends, or upon the sale or other disposition of shares of the Fund.

**Backup Withholding**

The Fund may be required to withhold U.S. federal income tax on all taxable distributions and redemption proceeds payable to non-corporate shareholders who fail to provide the Fund with their correct taxpayer identification number or to make required certifications, or who have been notified by the IRS that they are subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be refunded or credited against such shareholder's U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury regulations presently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury regulations promulgated thereunder. The Code and the Treasury regulations are subject to change by legislative, judicial or administrative action, either prospectively or retroactively. Persons considering an investment in shares of the Fund should consult their own tax advisers regarding the purchase, ownership and disposition of shares of the Fund.

**BENEFICIAL OWNERS**

As of December 31, 2008, there were no persons known to the Fund to be beneficial owners of more than 5% of the Fund's outstanding common shares or preferred shares. The following person was known to the Fund to be beneficial owner of more than 5% of the Fund's outstanding shares of preferred shares as of the record date:

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<b>Name and Address of Beneficial Owner(s)</b>	<b>Title of Class</b>	<b>Amount of Shares and Nature of Ownership</b>	<b>Percent of Class</b>
Merrill Lynch, Pierce Fenner & Smith, Inc. 4 World Financial Center 250 Vesey Street New York, NY 10080	Series B Preferred		

As of December 31, 2008, the Trustees and Officers of the Fund as a group beneficially owned approximately 2% of the Fund's outstanding common shares and less than 1% of the Fund's outstanding Series A Preferred.

**GENERAL INFORMATION****Book-Entry-Only Issuance**

The Depository Trust Company ( DTC ) will act as securities depository for the securities offered pursuant to the Prospectus. The information in this section concerning DTC and DTC's book-entry system is based upon information obtained from DTC. The securities offered hereby initially will be issued only as fully-registered securities registered in the name of Cede & Co. (as nominee for DTC). One or more fully-registered global security certificates initially will be issued, representing in the aggregate the total number of securities, and deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly through other entities.

Purchases of securities within the DTC system must be made by or through direct participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of a security, a beneficial owner, is in turn to be recorded on the direct or indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the direct or indirect participants through which the beneficial owners purchased securities. Transfers of ownership interests in securities are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in securities, except as provided herein.

DTC has no knowledge of the actual beneficial owners of the securities being offered pursuant to the prospectus; DTC's records reflect only the identity of the direct participants to whose accounts such securities are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Payments on the securities will be made to DTC. DTC's practice is to credit direct participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has



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reason to believe that it will not receive payments on such payment date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices and will be the responsibility of such participant and not of DTC or the Fund, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of distributions to DTC is the responsibility of the Fund, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of direct and indirect participants. Furthermore each beneficial owner must rely on the procedures of DTC to exercise any rights under the securities.

DTC may discontinue providing its services as securities depository with respect to the securities at any time by giving reasonable notice to the Fund. Under such circumstances, in the event that a successor securities depository is not obtained, certificates representing the securities will be printed and delivered.

**Proxy Voting Procedures**

The Fund has adopted the proxy voting procedures of the Investment Adviser and has directed the Investment Adviser to vote all proxies relating to the Fund's voting securities in accordance with such procedures. The proxy voting procedures are attached. They are also on file with the Securities and Exchange Commission and can be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at 202-551-8090. The proxy voting procedures are also available on the EDGAR Database on the Securities and Exchange Commission's internet site (<http://www.sec.gov>) and copies of the proxy voting procedures may be obtained, after paying a duplicating fee, by electronic request at the follow E-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Securities and Exchange Commission's Public Reference Section, Washington, D.C. 20549-0102.

**Code of Ethics**

The Fund and the Investment Adviser have adopted a code of ethics (the Code of Ethics) under Rule 17j-1 under the 1940 Act. The Code of Ethics permits personnel, subject to the Code of Ethics and its restrictive provisions, to invest in securities, including securities that may be purchased or held by the Fund. The Code of Ethics can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operations of the Reference Room may be obtained by calling the SEC at 202-551-8090. The Code of Ethics is also available on the EDGAR database on the SEC's Internet web site at <http://www.sec.gov>. Copies of the Code of Ethics may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Room, Washington, D.C. 20549-0102.

**Joint Code of Ethics for Chief Executive and Senior Financial Officers**

The Fund and the Investment Adviser have adopted a code of conduct for the principal executive and financial officers. This code of conduct sets forth policies to guide the principal executive and financial officers in the performance of their duties. The code of conduct is on file with the SEC and can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling the Commission at 202-551-8090. The code of conduct is also available on the EDGAR Database on the SEC's Internet web site at <http://www.sec.gov>, and copies of the code of conduct may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Room, Washington, D.C. 20549-0102.

**Financial Statements**

The audited financial statements included in the annual report to the Fund's shareholders for the year ended December 31, 2008, together with the report of [\_\_\_\_\_], are incorporated herein by reference to the Fund's annual report. All other portions of the annual report are not incorporated herein by reference and are not part of the registration statement.

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**Independent Registered Public Accounting Firm**

[\_\_\_\_\_] serves as the Independent Registered Public Accounting Firm of the Fund and audits the financial statements of the Fund. [\_\_\_\_\_] is located at [\_\_\_\_\_].

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## APPENDIX A

## GAMCO INVESTORS, INC. and AFFILIATES

## The Voting of Proxies on Behalf of Clients

Rules 204(4)-2 and 204-2 under the Investment Advisers Act of 1940 and Rule 30b1-4 under the Investment Company Act of 1940 require investment advisers to adopt written policies and procedures governing the voting of proxies on behalf of their clients.

These procedures will be used by GAMCO Asset Management Inc., Gabelli Funds, LLC, Gabelli Securities, Inc., and Gabelli Advisers, Inc. (collectively, the Advisers) to determine how to vote proxies relating to portfolio securities held by their clients, including the procedures that the Advisers use when a vote presents a conflict between the interests of the shareholders of an investment company managed by one of the Advisers, on the one hand, and those of the Advisers the principal underwriter, or any affiliated person of the investment company, the Advisers, or the principal underwriter. These procedures will not apply where the Advisers do not have voting discretion or where the Advisers have agreed to with a client to vote the client's proxies in accordance with specific guidelines or procedures supplied by the client (to the extent permitted by ERISA).

**I. Proxy Voting Committee**

The Proxy Voting Committee was originally formed in April 1989 for the purpose of formulating guidelines and reviewing proxy statements within the parameters set by the substantive proxy voting guidelines originally published by GAMCO Investors, Inc. in 1988 and updated periodically, a copy of which are appended as Exhibit A. The Committee will include representatives of Research, Administration, Legal, and the Advisers. Additional or replacement members of the Committee will be nominated by the Chairman and voted upon by the entire Committee.

Meetings are held on an as needed basis to form views on the manner in which the Advisers should vote proxies on behalf of their clients.

In general, the Director of Proxy Voting Services, using the Proxy Guidelines, recommendations of Institutional Shareholder Corporate Governance Service (ISS), other third-party services, and the analysts of Gabelli & Company, Inc., will determine how to vote on each issue. For non-controversial matters, the Director of Proxy Voting Services may vote the proxy if the vote is (1) consistent with the recommendations of the issuer's Board of Directors and not contrary to the Proxy Guidelines; (2) consistent with the recommendations of the issuer's Board of Directors and is a non-controversial issue not covered by the Proxy Guidelines; or (3) the vote is contrary to the recommendations of the Board of Directors but is consistent with the Proxy Guidelines. In those instances, the Director of Proxy Voting Services or the Chairman of the Committee may sign and date the proxy statement indicating how each issue will be voted.

All matters identified by the Chairman of the Committee, the Director of Proxy Voting Services or the Legal Department as controversial, taking into account the recommendations of ISS or other third party services and the analysts of Gabelli & Company, Inc., will be presented to the Proxy Voting Committee. If the Chairman of the Committee, the Director of Proxy Voting Services or the Legal Department has identified the matter as one that (1) is controversial; (2) would benefit from deliberation by the Proxy Voting Committee; or (3) may give rise to a conflict of interest between the Advisers and their clients, the Chairman of the Committee will initially determine what vote to recommend that the Advisers should cast and the matter will go before the Committee.

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A. Conflicts of Interest.

The Advisers have implemented these proxy voting procedures in order to prevent conflicts of interest from influencing their proxy voting decisions. By following the Proxy Guidelines, as well as the recommendations of ISS, other third-party services and the analysts of Gabelli & Company, the Advisers are able to avoid, wherever possible, the influence of potential conflicts of interest. Nevertheless, circumstances may arise in which one or more of the Advisers are faced with a conflict of interest or the appearance of a conflict of interest in connection with its vote. In general, a conflict of interest may arise when an Adviser knowingly does business with an issuer, and may appear to have a material conflict between its own interests and the interests of the shareholders of an investment company managed by one of the Advisers regarding how the proxy is to be voted. A conflict also may exist when an Adviser has actual knowledge of a material business arrangement between an issuer and an affiliate of the Adviser.

In practical terms, a conflict of interest may arise, for example, when a proxy is voted for a company that is a client of one of the Advisers, such as GAMCO Asset Management Inc. A conflict also may arise when a client of one of the Advisers has made a shareholder proposal in a proxy to be voted upon by one or more of the Advisers. The Director of Proxy Voting Services, together with the Legal Department, will scrutinize all proxies for these or other situations that may give rise to a conflict of interest with respect to the voting of proxies.

B. Operation of Proxy Voting Committee

For matters submitted to the Committee, each member of the Committee will receive, prior to the meeting, a copy of the proxy statement, any relevant third party research, a summary of any views provided by the Chief Investment Officer and any recommendations by Gabelli & Company, Inc. analysts. The Chief Investment Officer or the Gabelli & Company, Inc. analysts may be invited to present their viewpoints. If the Director of Proxy Voting Services or the Legal Department believe that the matter before the committee is one with respect to which a conflict of interest may exist between the Advisers and their clients, counsel will provide an opinion to the Committee concerning the conflict. If the matter is one in which the interests of the clients of one or more of Advisers may diverge, counsel will so advise and the Committee may make different recommendations as to different clients. For any matters where the recommendation may trigger appraisal rights, counsel will provide an opinion concerning the likely risks and merits of such an appraisal action.

Each matter submitted to the Committee will be determined by the vote of a majority of the members present at the meeting. Should the vote concerning one or more recommendations be tied in a vote of the Committee, the Chairman of the Committee will cast the deciding vote. The Committee will notify the proxy department of its decisions and the proxies will be voted accordingly.

Although the Proxy Guidelines express the normal preferences for the voting of any shares not covered by a contrary investment guideline provided by the client, the Committee is not bound by the preferences set forth in the Proxy Guidelines and will review each matter on its own merits. Written minutes of all Proxy Voting Committee meetings will be maintained. The Advisers subscribe to ISS, which supplies current information on companies, matters being voted on, regulations, trends in proxy voting and information on corporate governance issues.

If the vote cast either by the analyst or as a result of the deliberations of the Proxy Voting Committee runs contrary to the recommendation of the Board of Directors of the issuer, the matter will be referred to legal counsel to determine whether an amendment to the most recently filed Schedule 13D is appropriate.



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**II. Social Issues and Other Client Guidelines**

If a client has provided special instructions relating to the voting of proxies, they should be noted in the client's account file and forwarded to the proxy department. This is the responsibility of the investment professional or sales assistant for the client. In accordance with Department of Labor guidelines, the Advisers' policy is to vote on behalf of ERISA accounts in the best interest of the plan participants with regard to social issues that carry an economic impact. Where an account is not governed by ERISA, the Advisers will vote shares held on behalf of the client in a manner consistent with any individual investment/voting guidelines provided by the client. Otherwise the Advisers will abstain with respect to those shares.

**III. Client Retention of Voting Rights**

If a client chooses to retain the right to vote proxies or if there is any change in voting authority, the following should be notified by the investment professional or sales assistant for the client.

Operations

Legal Department

Proxy Department

Investment professional assigned to the account

In the event that the Board of Directors (or a Committee thereof) of one or more of the investment companies managed by one of the Advisers has retained direct voting control over any security, the Proxy Voting Department will provide each Board Member (or Committee member) with a copy of the proxy statement together with any other relevant information including recommendations of ISS or other third-party services.

**IV. Voting Records**

The Proxy Voting Department will retain a record of matters voted upon by the Advisers for their clients. The Advisers' staff may request proxy voting records for use in presentations to current or prospective clients. Requests for proxy voting records should be made at least ten days prior to client meetings.

If a client wishes to receive a proxy voting record on a quarterly, semi-annual or annual basis, please notify the Proxy Voting Department. The reports will be available for mailing approximately ten days after the quarter end of the period. First quarter reports may be delayed since the end of the quarter falls during the height of the proxy season.

A letter is sent to the custodians for all clients for which the Advisers have voting responsibility instructing them to forward all proxy materials to:

[Adviser name]

Attn: Proxy Voting Department

One Corporate Center

Rye, New York 10580-1422

The sales assistant sends the letters to the custodians along with the trading/DTC instructions. Proxy voting records will be retained in compliance with Rule 204-2 under the Investment Advisers Act.

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**V. Voting Procedures**

1. Custodian banks, outside brokerage firms and First Clearing Corporation are responsible for forwarding proxies directly to GAMCO.

Proxies are received in one of two forms:

Shareholder Vote Authorization Forms (VAFs) Issued by Broadridge. VAFs must be voted through the issuing institution causing a time lag. Broadridge is an outside service contracted by the various institutions to issue proxy materials.

Proxy cards which may be voted directly.

2. Upon receipt of the proxy, the number of shares each form represents is logged into the proxy system according to security.

3. In the case of a discrepancy such as an incorrect number of shares, an improperly signed or dated card, wrong class of security, etc., the issuing custodian is notified by phone. A corrected proxy is requested. Arrangements are made to insure that a proper proxy is received in time to be voted (overnight delivery, fax, etc.). When securities are out on loan on record date, the custodian is requested to supply written verification.

4. Upon receipt of instructions from the proxy committee (see Administrative), the votes are cast and recorded for each account on an individual basis.

Since January 1, 1992, records have been maintained on the Proxy Edge system. The system is backed up regularly. From 1990 through 1991, records were maintained on the PROXY VOTER system and in hardcopy format. Prior to 1990, records were maintained on diskette and in hardcopy format.

PROXY EDGE records include:

Security Name and Cusip Number

Date and Type of Meeting (Annual, Special, Contest) Client Name

Adviser or Fund Account Number

Directors Recommendation

How GAMCO voted for the client on each issue The rationale for the vote when it is appropriate

Records prior to the institution of the PROXY EDGE system include:

Security name

Type of Meeting (Annual, Special, Contest)

Date of Meeting

Name of Custodian

Name of Client

Custodian Account Number

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Adviser or Fund Account Number

Directors' recommendation

How the Adviser voted for the client on each issue

Date the proxy statement was received and by whom Name of person posting the vote

Date and method by which the vote was cast

From these records individual client proxy voting records are compiled. It is our policy to provide institutional clients with a proxy voting record during client reviews. In addition, we will supply a proxy voting record at the request of the client on a quarterly, semi-annual or annual basis.

5. VAFs are kept alphabetically by security. Records for the current proxy season are located in the Proxy Voting Department office. In preparation for the upcoming season, files are transferred to an offsite storage facility during January/February.

6. Shareholder Vote Authorization Forms issued by Broadridge are always sent directly to a specific individual at Broadridge.

7. If a proxy card or VAF is received too late to be voted in the conventional matter, every attempt is made to vote on one of the following ways:

VAFs can be faxed to Broadridge up until the time of the meeting. This is followed up by the mailing of the original form.

When a solicitor has been retained, that person is called. At the solicitor's direction, the proxy is faxed.

8. In the case of a proxy contest, records are maintained for each opposing entity.

9. Voting in Person

a) At times it may be necessary to vote the shares in person. In this case, a legal proxy is obtained in the following manner:

Banks and brokerage firms using the services at Broadridge:

The back of the VAF is stamped indicating that we wish to vote in person. The forms are then sent overnight to Broadridge. Broadridge issues individual legal proxies and sends them back via overnight (or the Adviser can pay messenger charges). Lead time of at least two weeks prior to the meeting is needed to do this. Alternatively, the procedures detailed below for banks not using Broadridge may be implemented.

Banks and brokerage firms issuing proxies directly:

The bank is called and/or faxed and a legal proxy is requested. All legal proxies should appoint:

Representative of [Adviser name] with full power of substitution.

b) The legal proxies are given to the person attending the meeting, along with the following supplemental material:

A limited Power of Attorney appointing the attendee an Adviser representative.

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A list of all shares being voted by custodian only. Client names and account numbers are not included. This list must be presented, along with the proxies, to the Inspectors of Elections and/or tabulator at least one-half hour prior to the scheduled start of the meeting. The tabulator must qualify the votes (i.e. determine if the votes have previously been cast, if the votes have been rescinded, etc.).

A sample ERISA and Individual contract.

A sample of the annual authorization to vote proxies form.

A copy of our most recent Schedule 13D filing (if applicable).

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Appendix A  
Proxy Guidelines

**PROXY VOTING GUIDELINES**

***GENERAL POLICY STATEMENT***

It is the policy of GAMCO Investors, Inc. to vote in the best economic interests of our clients. As we state in our Magna Carta of Shareholders Rights, established in May 1988, we are neither *for* nor *against* management. We are for shareholders.

At our first proxy committee meeting in 1989, it was decided that each proxy statement should be evaluated on its own merits within the framework first established by our Magna Carta of Shareholders Rights. The attached guidelines serve to enhance that broad framework.

We do not consider any issue routine. We take into consideration all of our research on the company, its directors, and their short and long-term goals for the company. In cases where issues that we generally do not approve of are combined with other issues, the negative aspects of the issues will be factored into the evaluation of the overall proposals but will not necessitate a vote in opposition to the overall proposals.

***BOARD OF DIRECTORS***

The Advisers do not consider the election of the Board of Directors a routine issue. Each slate of directors is evaluated on a case-by-case basis.

Factors taken into consideration include:

Historical responsiveness to shareholders

This may include such areas as:

Paying greenmail

Failure to adopt shareholder resolutions receiving a majority of shareholder votes

Qualifications

Nominating committee in place

Number of outside directors on the board

Attendance at meetings

Overall performance

***SELECTION OF AUDITORS***

In general, we support the Board of Directors' recommendation for auditors.

***BLANK CHECK PREFERRED STOCK***

We oppose the issuance of blank check preferred stock.

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Blank check preferred stock allows the company to issue stock and establish dividends, voting rights, etc. without further shareholder approval.

***CLASSIFIED BOARD***

A classified board is one where the directors are divided into classes with overlapping terms. A different class is elected at each annual meeting.

While a classified board promotes continuity of directors facilitating long range planning, we feel directors should be accountable to shareholders on an annual basis. We will look at this proposal on a case-by-case basis taking into consideration the board's historical responsiveness to the rights of shareholders.

Where a classified board is in place we will generally not support attempts to change to an annually elected board.

When an annually elected board is in place, we generally will not support attempts to classify the board.

***INCREASE AUTHORIZED COMMON STOCK***

The request to increase the amount of authorized shares is considered on a case-by-case basis.

Factors taken into consideration include:

Future use of additional shares

Stock split

Stock option or other executive compensation plan

Finance growth of company/strengthen balance sheet

Aid in restructuring

Improve credit rating

Implement a poison pill or other takeover defense

Amount of stock currently authorized but not yet issued or reserved for stock option plans

Amount of additional stock to be authorized and its dilutive effect

We will support this proposal if a detailed and verifiable plan for the use of the additional shares is contained in the proxy statement.

***CONFIDENTIAL BALLOT***

We support the idea that a shareholder's identity and vote should be treated with confidentiality.

However, we look at this issue on a case-by-case basis.

In order to promote confidentiality in the voting process, we endorse the use of independent Inspectors of Election.

***CUMULATIVE VOTING***

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In general, we support cumulative voting.

Cumulative voting is a process by which a shareholder may multiply the number of directors being elected by the number of shares held on record date and cast the total number for one candidate or allocate the voting among two or more candidates.

Where cumulative voting is in place, we will vote against any proposal to rescind this shareholder right.

Cumulative voting may result in a minority block of stock gaining representation on the board. When a proposal is made to institute cumulative voting, the proposal will be reviewed on a case-by-case basis. While we feel that each board member should represent all shareholders, cumulative voting provides minority shareholders an opportunity to have their views represented.

***DIRECTOR LIABILITY AND INDEMNIFICATION***

We support efforts to attract the best possible directors by limiting the liability and increasing the indemnification of directors, except in the case of insider dealing.

***EQUAL ACCESS TO THE PROXY***

The SEC's rules provide for shareholder resolutions. However, the resolutions are limited in scope and there is a 500 word limit on proponents' written arguments. Management has no such limitations. While we support equal access to the proxy, we would look at such variables as length of time required to respond, percentage of ownership, etc.

***FAIR PRICE PROVISIONS***

Charter provisions requiring a bidder to pay all shareholders a fair price are intended to prevent two-tier tender offers that may be abusive. Typically, these provisions do not apply to board-approved transactions.

We support fair price provisions because we feel all shareholders should be entitled to receive the same benefits.

Reviewed on a case-by-case basis.

***GOLDEN PARACHUTES***

Golden parachutes are severance payments to top executives who are terminated or demoted after a takeover.

We support any proposal that would assure management of its own welfare so that they may continue to make decisions in the best interest of the company and shareholders even if the decision results in them losing their job. We do not, however, support excessive golden parachutes. Therefore, each proposal will be decided on a case-by-case basis.

Note: Congress has imposed a tax on any parachute that is more than three times the executive's average annual compensation.

***ANTI-GREENMAIL PROPOSALS***

We do not support greenmail. An offer extended to one shareholder should be extended to all shareholders equally across the board.

***LIMIT SHAREHOLDERS' RIGHTS TO CALL SPECIAL MEETINGS***

We support the right of shareholders to call a special meeting.

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*CONSIDERATION OF NONFINANCIAL EFFECTS OF A MERGER*

This proposal releases the directors from only looking at the financial effects of a merger and allows them the opportunity to consider the merger's effects on employees, the community, and consumers.

As a fiduciary, we are obligated to vote in the best economic interests of our clients. In general, this proposal does not allow us to do that. Therefore, we generally cannot support this proposal.

Reviewed on a case-by-case basis.

*MERGERS, BUYOUTS, SPIN-OFFS, RESTRUCTURINGS*

Each of the above is considered on a case-by-case basis. According to the Department of Labor, we are not required to vote for a proposal simply because the offering price is at a premium to the current market price. We may take into consideration the long term interests of the shareholders.

*MILITARY ISSUES*

Shareholder proposals regarding military production must be evaluated on a purely economic set of criteria for our ERISA clients. As such, decisions will be made on a case-by-case basis.

In voting on this proposal for our non-ERISA clients, we will vote according to the client's direction when applicable. Where no direction has been given, we will vote in the best economic interests of our clients. It is not our duty to impose our social judgment on others.

*NORTHERN IRELAND*

Shareholder proposals requesting the signing of the MacBride principles for the purpose of countering the discrimination of Catholics in hiring practices must be evaluated on a purely economic set of criteria for our ERISA clients. As such, decisions will be made on a case-by-case basis.

In voting on this proposal for our non-ERISA clients, we will vote according to client direction when applicable. Where no direction has been given, we will vote in the best economic interests of our clients. It is not our duty to impose our social judgment on others.

*OPT OUT OF STATE ANTI-TAKEOVER LAW*

This shareholder proposal requests that a company opt out of the coverage of the state's anti-takeover statutes.

Example: Delaware law requires that a buyer must acquire at least 85% of the company's stock before the buyer can exercise control unless the board approves.

We consider this on a case-by-case basis. Our decision will be based on the following:

State of Incorporation

Management history of responsiveness to shareholders

Other mitigating factors

*POISON PILL*

In general, we do not endorse poison pills.

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In certain cases where management has a history of being responsive to the needs of shareholders and the stock is very liquid, we will reconsider this position.

***REINCORPORATION***

Generally, we support reincorporation for well-defined business reasons. We oppose reincorporation if proposed solely for the purpose of reincorporating in a state with more stringent anti-takeover statutes that may negatively impact the value of the stock.

***STOCK OPTION PLANS***

Stock option plans are an excellent way to attract, hold and motivate directors and employees. However, each stock option plan must be evaluated on its own merits, taking into consideration the following:

Dilution of voting power or earnings per share by more than 10%

Kind of stock to be awarded, to whom, when and how much

Method of payment

Amount of stock already authorized but not yet issued under existing stock option plans

***SUPERMAJORITY VOTE REQUIREMENTS***

Supermajority vote requirements in a company's charter or bylaws require a level of voting approval in excess of a simple majority of the outstanding shares. In general, we oppose supermajority-voting requirements. Supermajority requirements often exceed the average level of shareholder participation. We support proposals' approvals by a simple majority of the shares voting.

***LIMIT SHAREHOLDERS RIGHT TO ACT BY WRITTEN CONSENT***

Written consent allows shareholders to initiate and carry on a shareholder action without having to wait until the next annual meeting or to call a special meeting. It permits action to be taken by the written consent of the same percentage of the shares that would be required to effect proposed action at a shareholder meeting.

Reviewed on a case-by-case basis.

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PART C  
OTHER INFORMATION

ITEM 25. FINANCIAL STATEMENTS AND EXHIBITS

- (1) Financial Statements(1)
  - (a) Statement of Assets and Liabilities
  - (b) Statement of Operations
  - (c) Statement of Changes in Net Assets
  - (d) Notes to Financial Statements
  - (e) Report of Independent Registered Public Accounting Firm
- (2) Exhibits
  - (a) (1) Amended and Restated Agreement and Declaration of Trust of Registrant(2)
    - (2) Statement of Preferences with respect to the 5.625% Series A Cumulative Preferred Shares(3)
    - (3) Statement of Preferences with respect to the Series B Auction Rate Cumulative Preferred Shares(3)
  - (b) Amended and Restated By-Laws of Registrant(4)
  - (c) Not applicable
  - (d) (1) Form of Registrant's Common Share Certificate(5)
    - (2) Form of Registrant's 5.625% Series A Cumulative Preferred Share Certificate(3)
    - (3) Form of Registrant's Series B Auction Market Preferred Share Certificate(3)
    - (4) Form of Subscription Certificate(5)
    - (5) Form of Notice of Guaranteed Delivery(5)
    - (6) Form of Subscription, Distribution and Escrow Agency Agreement(5)
  - (e) Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan of Registrant(6)
  - (f) Not applicable
  - (g) Form of Investment Advisory Agreement between Registrant and Gabelli Funds, LLC(6)
  - (h) Form of Underwriting Agreement(11)
  - (i) Not applicable
  - (j) (1) Form of Custodian Contract between Registrant and Boston Safe Deposit and Trust Company (later assigned to State Street Bank & Trust Company)(6)(8)
    - (2) Form of Custodian Fee Schedule between Registrant and Boston Safe Deposit and Trust Company(6)(8)
  - (k) (1)Form of Registrar, Transfer Agency and Service Agreement between Registrant and Equiserve Trust Company, N.A. (6)
    - (2) Form of Auction Agency Agreement(3)

- (3) Form of Broker-Dealer Agreement(3)
  - (4) Form of DTC Agreement(3)
  - (l) (1)Opinion and Consent of Willkie Farr & Gallagher LLP with respect to legality(7)
    - (2) Opinion and Consent of [\_\_\_\_\_](7)
  - (m) Not applicable
  - (n) (1) Consent of Independent Registered Public Accounting firm(7)
    - (2) Powers of Attorney(10)
  - (o) Not applicable
  - (p) Not applicable
  - (q) Not applicable
  - (r) Codes of Ethics of the Trust and the Advisor(9)
  - (1) Incorporated by reference to the Registrant's semi-annual report filed September 5, 2008 on Form N-CSRS (File No. 811-09243) and the Registrant's annual report filed March 9, 2009 on Form N-CSR (File No. 811-09243).
  - (2) Incorporated by reference from the Registrant's Registration Statement on Form N-2, filed with the Securities and Exchange Commission on May 21, 1999.
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- (3) Incorporated by reference from the Registrant's Registration Statement on Form N-2, filed with the Securities and Exchange Commission on July 24, 2003.
- (4) Incorporated by reference from the Registrant's Registration Statement on Form N-2, filed with the Securities and Exchange Commission on August 19, 1999.
- (5) Incorporated by reference from the Registrant's Registration Statement on Form N-2, filed with the Securities and Exchange Commission on October 14, 2004.
- (6) Incorporated by reference from Pre-Effective Amendment No. 1 to the Registrant's Registration Statement on Form N-14, filed with the Securities and

Exchange  
Commission on  
March 31, 1999.

- (7) To be filed by amendment.
- (8) Subsequently assigned to State Street Bank and Trust Company.
- (9) Incorporated by reference from the Registrant's Registration Statement on Form N-2, filed with the Securities and Exchange Commission on May 10, 2002.
- (10) Incorporated by reference from the Registrant's Registration Statement on Form N-2, File Nos. 333-149415 and 811-09243, as filed with the Securities and Exchange Commission on February 27, 2008.
- (11) To be filed by amendment.

Item 26. Marketing Arrangements

See Exhibit 2(h) to this Registration Statement.

Item 27. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses to be incurred in connection with the offering described in this Registration Statement:

SEC registration fees	\$ 5,580
New York Stock Exchange listing fee	\$ 30,000

Printing expenses	\$ 50,000
Accounting fees	\$ 25,000
Legal fees	\$ 150,000
Blue Sky fees	\$ 20,000
Miscellaneous	\$ 9,420
Total	\$ 290,000

Item 28. Persons Controlled by or Under Common Control with Registrant

NONE

Item 29. Number of Holders of Securities as of December 31, 2008

	Number of Record Title of Class Holders
Common Shares of Beneficial Interest	7,125 Registered 29,432 Beneficial
5.625% Series A Cumulative Preferred Shares	6 Registered 1,672 Beneficial
Series B Auction Market Preferred Shares	1

Item 30. Indemnification

The response of this Item is incorporated by reference to the caption Limitation of Officers and Trustees Liability in the Part B of this Registration Statement.

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Insofar as indemnification for liability arising under the 1933 Act may be permitted to trustees, officers and controlling persons of Registrant pursuant to the foregoing provisions, or otherwise, Registrant has been advised that, in the opinion of the Commission, such indemnification is against public policy as expressed in the 1933 Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by Registrant of expenses incurred or paid by a trustee, officer or controlling person of Registrant in the successful defense of any action, suit or proceeding) is asserted by such trustee, officer or controlling person in connection with the securities being registered. Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

**Item 31. Business and Other Connections of Investment Adviser**

The Investment Adviser, a limited liability company organized under the laws of the State of New York, acts as investment adviser to the Registrant. The Registrant is fulfilling the requirement of this Item 31 to provide a list of the officers and directors of the Investment Adviser, together with information as to any other business, profession, vocation or employment of a substantial nature engaged in by the Investment Adviser or those officers and directors during the past two years, by incorporating by reference the information contained in the Form ADV of the Investment Adviser filed with the SEC pursuant to the 1940 Act (Commission File No. 801-26202).

**Item 32. Location of Accounts and Records**

The accounts and records of the Registrant are maintained in part at the office of the Investment Adviser at One Corporate Center, Rye, New York 10580-1422, in part at the offices of the Custodian, The Bank of New York Mellon Corporation, 135 Santilli Highway, Massachusetts 02149, at the offices of the Fund's Administrator, PNC Global Investment Servicing, 400 Bellevue Parkway, Wilmington, Delaware, 19809, and in part at the offices of Computershare Trust Company, N.A., 250 Royall Street, Canton, Massachusetts 02021.

**Item 33. Management Services**

Not applicable.

**Item 34. Undertakings**

1. Registrant undertakes to suspend the offering of shares until the prospectus is amended, if subsequent to the effective date of this registration statement, its net asset value declines more than ten percent from its net asset value as of the effective date of the registration statement or its net asset value increases to an amount greater than its net proceeds as stated in the prospectus.

2. Not applicable.

3. Not applicable.

4. Registrant undertakes:

(a) to file, during and period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(1) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(2) to reflect in the prospectus any facts or events after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; and

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- (3) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.
- (b) that for the purpose of determining any liability under the Securities Act, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;
- (c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and
- (d) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.
- (e) that for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities:

The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

- (1) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act.
  - (2) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and
  - (3) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.
5. Registrant undertakes:
- (a) that, for the purpose of determining any liability under the Securities Act the information omitted from the form of prospectus filed as part of the Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 497(h) will be deemed to be a part of the Registration Statement as of the time it was declared effective.
  - (b) that, for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus will be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time will be deemed to be the initial bona fide offering thereof.

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6. Registrant undertakes to send by first class mail or other means designed to ensure equally prompt delivery, within two business days of receipt of a written or oral request, any Statement of Additional Information constituting Part B of this Registration Statement.

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SIGNATURES

As required by the Securities Act of 1933, this Registrant's Registration Statement has been signed on behalf of the Registrant, in the City of Rye, State of New York, on the 20th day of March, 2009.

THE GABELLI UTILITY TRUST

By: /s/ Bruce N. Alpert  
 Bruce N. Alpert  
 President

As required by the Securities Act of 1933 and the Investment Company Act of 1940, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
*	Trustee	March 20, 2009
Anthony J. Colavita		
*	Trustee	March 20, 2009
James P. Conn		
*	Trustee	March 20, 2009
Vincent D. Enright		
*	Trustee	March 20, 2009
John D. Gabelli		
/s/ Agnes Mullady	Treasurer	March 20, 2009
Agnes Mullady		
*	Trustee	March 20, 2009
Anthony R. Pustorino		
*	Trustee	March 20, 2009
Salvatore J. Zizza		
/s/ Bruce N. Alpert	President	March 20, 2009
Bruce N. Alpert Attorney-in-Fact		

\*

Pursuant to a  
Power of  
Attorney.