

# The Equus Fund:

## UNDERVALUED AT CURRENT LEVELS

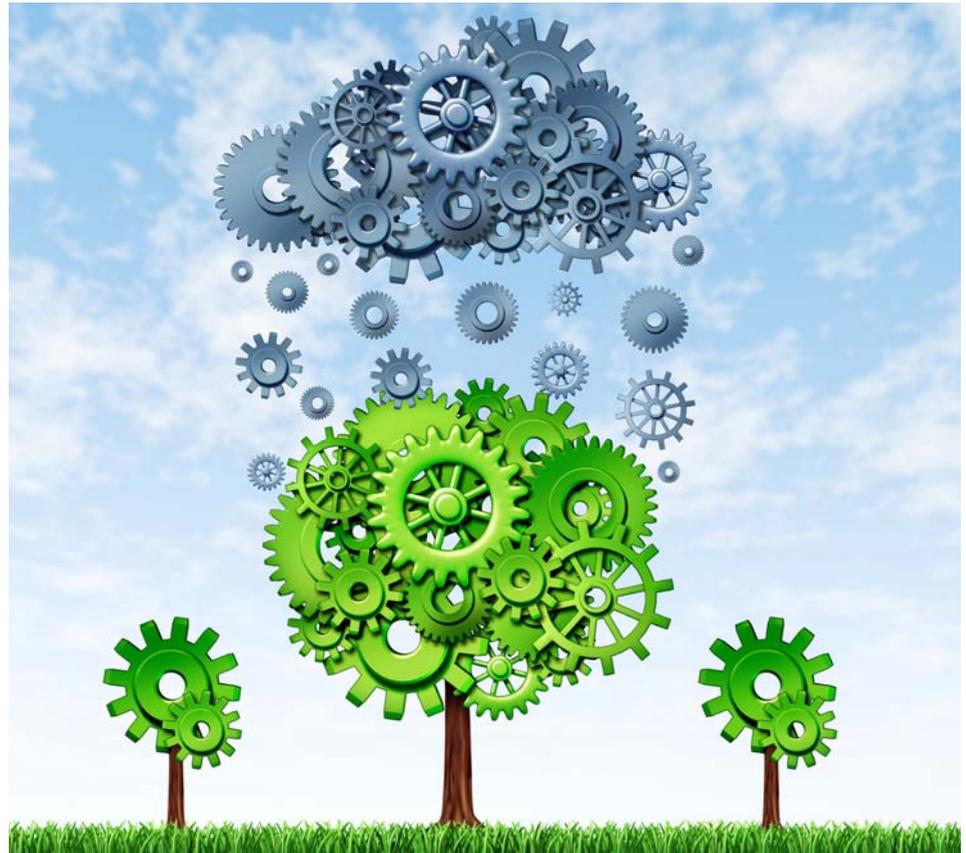
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By **Richard Cox**, Global Editor of Global Investor Spotlight



With macroeconomic uncertainties weighing on equity markets for most of this month, the prudent investor will find the most benefit looking for value relative to longer term averages. One key indication of this type of value in a closed-end fund (CEF) is seen in trading prices relative to a fund's Net Asset Value (NAV). When trading prices are seen below the NAV, the fund is said to be trading at a "discount," which means that investors have an opportunity to buy the CEF at a price cheaper than the value of the fund's underlying assets.

One example of this can be seen in the Equus Total Return Fund, which is a closed-end management investment product that focuses on privately-held middle market and small cap companies that are pursuing growth organically or through acquisitions. The Fund looks to produce long term income using various types of debt securities (such as subordinate debt or debt that is convertible into common or preferred stock), and since its creation in the early 1980s Equus has



emerged as a leading private equity asset management company.

The managerial team at Equus looks to utilize the qualities that make closed-end funds advantageous over other investments options, and to center its attention on the performance driven small to mid-cap arena, as this section of the market represents the greatest potential for long

term growth returns. Capturing this investment growth requires an identification of companies with knowledgeable managerial teams, solid earnings performance, and a stable position within its industry. Recent events in the performance of the Equus holdings has drawn the attention of investors in recent weeks and here we will outline a few of these examples. ▶

### ◀ Undervalued Holdings to Watch

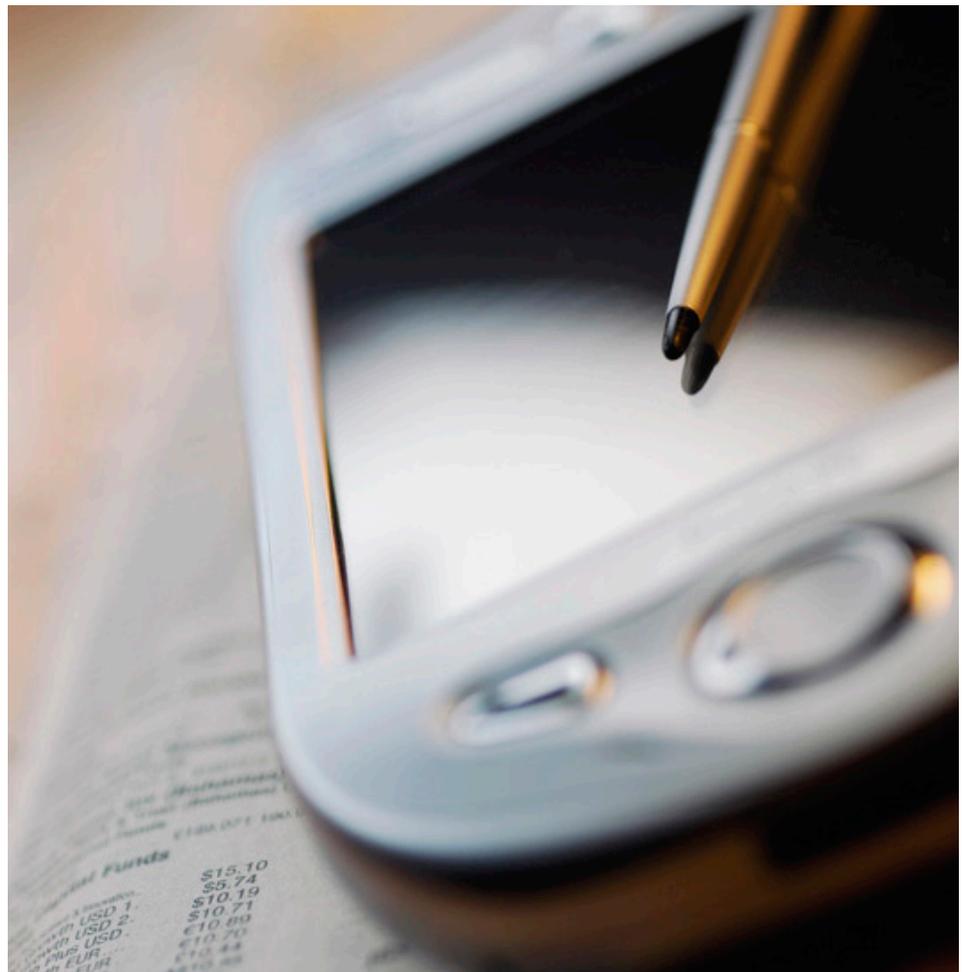
ConGlobal Industries Holdings has been a focus of the Equus Fund since 1997, with modest investment restructuring occurring along the way. ConGlobal operates 22 container repair and storage depots that are used by US and South American shipping depots. With the company's storage capacities continuing to grow, ConGlobal's EBITDA did manage to show improvement in the first quarter of 2012.

But when we look at these figures on an historical basis, these numbers continue remain below long term averages and while losses of two substantial client accounts in the Northwest could negatively affect cash flows in the coming months, the EBITDA improvements have increased the company's fair value to \$6.0 million as of March 31, 2012. When we consider the fact that these figures do not include unpaid receivable interest (valued at \$1.9 million), the company should be viewed as a good value on any weakness and new opportunities could be created by any short term downside that is created by changes in cash flow.

### Foreign Bond Conversions

Another key Equus holding that will have a large impact on performance throughout the remainder of 2012 is seen in Orco Germany, which is a

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Berlin-based real estate investment company and property developer for both commercial and multi-family residential units. In early May, holders of a majority of all Orco Germany bonds approved a joint restructuring of selected debt investment where roughly 84.5% of the Orco Germany bonds held by each bondholder were converted into Obligations Convertibles en Actions ("OCA"). The OCA will be converted into an aggregate of 26.2 million shares of Orco's parent company.

The remaining 15.5% of the Orco Germany bonds held by bondholders will be converted into newly-issued 6-year bonds with a face value of €20.0 million bearing cash and PIK interest each at 5% annually. At the end of the first quarter of 2012, Equus

held 8,890 Orco Germany bonds, which equals roughly 6% of all Orco Germany bonds outstanding. These changes are expected to result in Equus receiving more than a million and a half shares of Orco Property Group and corporate bonds valued at just under 1.2 million Euros.

### Energy Investments

Another area to watch within the Fund can be seen in Equus Energy, LLC which is a wholly-owned subsidiary at Equus that looks to capitalize on movements in the energy sector, particularly in oil and gas companies. Broader trend developments in this space have shown significant weakness in the last six to 12 months as demand expectations in emerging markets continue to be revised lower. Crude

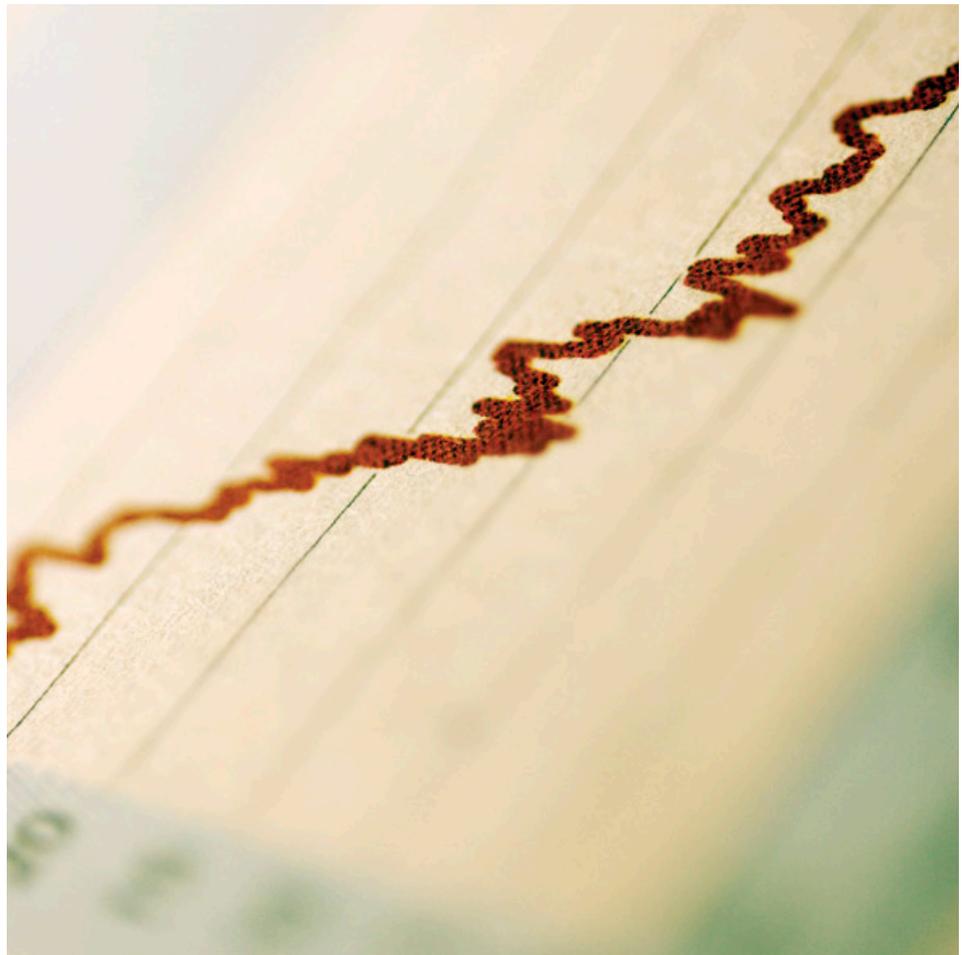
For investors looking to capitalize on the recent declines in equity markets, some of the value opportunities that can be seen in closed-end funds are difficult to overlook

◀ prices have started to stabilize in the \$90 per barrel region, however, and barring any major shocks to the recovery that is seen in these emerging economies manufacturing and construction increases will likely fuel energy demand and continue to raise prices back to their yearly averages.

In addition to these forecasted positives for the energy sector, the Equus Fund has initiated programs to attract private equity capital in a separate energy-oriented private limited partnership fund that will give Equus Energy status as general partner and Fund manager to control the direction of new investments. Equus looks to be changing its general focus to place more of its attention on the potential that is seen in the oil and gas space. Most macroeconomic factors fundamentally support this position and these new strategies look likely to improve the Fund's value going forward.

### Conclusion

For investors looking to capitalize on the recent declines in equity markets,



some of the value opportunities that can be seen in closed-end funds are difficult to overlook. The Equus Fund is trading at a discount of 42 percent to NAV, as is seen in the latest quarterly figures and this makes the Fund a tremendous value at current levels. There are relatively few examples of discounts this deep or of portfolio strategies that are positioned this well for medium to long term growth. Equus allows for investor participation in growth event opportunities that are normally restricted to institutions (such as those seen during IPOs or Sales), which makes the Fund relatively

unique.

Normally, individual investors are forced to accept higher prices during these events and this, taken alongside the value that is currently seen in the 10-company portfolio makes the Fund an attractive option at current levels. The Fund currently trades in the low \$2 range, which is not far from its 52-week low, suggesting that further downward price moves are limited. With the overall strategy focused on middle market and small cap companies that are pursuing growth organically, long term income prospects remain strong for new shareholders. ■