4 CEFS OUTPERFORMING THE MARKET IN 2013

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With the growth and popularity of ETFs in recent years, closed-end funds have fallen off the radar screens of many investors. However, investors seeking a dependable income stream should take a closer look at this misunderstood investment class. The recent spike in interest rates and attendant interest rate increase "panic" has helped create some bargains in the business development company (BDC) sector. BDCs are generally "regulated investment companies" (RICs) and operate under special tax and regulatory provisions and are generally subject to tax rules under which the BDC pays no federal income tax but must pay 90% of income to shareholders who are, in turn, required to pay taxes on the BDC dividend at the ordinary income tax rate rather than the lower rate generally applicable to corporate dividends.

BDCs that offered investors the opportunity to invest in a very different mix of assets from those contained in the portfolio of a "typical" BDC. BDCs generally make loans to small and middle-sized businesses and generally try to diversify by region and industry to control risk. The typical portfolio throws off interest income, which can be enhanced by a limited amount of leverage. Reasonably regular dividends are distributed producing a nice investment for a yield-oriented investor. These five BDCs march to a different drummer and have put together different portfolios offering a different mix of risks and rewards.

Keating Capital Inc. (Nasdaq: KIPO)

Equity Partners for Companies Primed to Become Public©

Keating Capital's investment objective is capital appreciation. Keating Capital Inc. is specializes in making pre-IPO investments in innovative, emerging growth companies that are committed to and capable of becoming public. Keating Capital is managed by Keating Investments, LLC, an SEC-registered investment adviser founded in 1997.KIPO currently trades near $6.10 and it is trading at 20% discount to its NAV.

Keating Capital, like other BDCs, believes this strong IPO activity is built on the momentum carried over from Q4 2012. During Q1 2013, 132 companies began the IPO registration process, seeking an average of $287 million in gross proceeds per filing.

The Equus Fund (NYSE: EQS)

One such company that has steadily performed in recent months is Equus Total Return, Inc.(NYSE : EQS).It is a PE (Private Equity) firm specializing in small capitalization companies and structured as a closed end fund. It has been in operation since 1983 and public since 1991.

The Equus Fund seeks to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately owned companies. EQS trades at $1.85 nearly 30% of discount to its NAV. This is a small BDC, which has stubbed its toe on some equity investments over the years, but now they have really good companies in the portfolio and can reap the benefits in the coming years. EQS has roughly $20 million or $1.95 a share net cash on its balance sheet, so investor are getting the rest of the assets at an enormous discount to book value, but because they are largely in the form of equity in small companies it is very hard to determine their value.

MVC Capital ,Inc. (NYSE: MVC)

MVC CAPITAL

MVC has had relatively high holdings of equity in middle-sized companies - some of which have worked out very well. Management seems to be implementing a strategy of redeploying capital in the more traditional direction of loans to middle market companies (especially at the smaller end of the middle market spectrum). This will tend to produce more yield and higher dividends as time passes and capital is redeployed. MVC also has a share repurchase program. MVC trades near $12.7. MVC recently realized a large gain on the sale of Summit Research Laboratories; the next few quarters will give us a better window on the "new MVC" as that capital is redeployed.
A recent investor presentation available on the company website highlights two portfolio companies that could likely be sold with substantial gains leading to a potential large distribution to shareholders.

First Trust Specialty (NYSE: FGB)

The First Trust Specialty Fund (FGB) is a non-diversified, closed-end management investment company. The Fund's primary investment objective is to seek a high level of current income. The Fund seeks an attractive total return as a secondary objective. It trades near $8.22 which is a slight premium to NAV of $8.14.The Fund will seek to achieve its investment objectives by investing at least 80% of its Managed Assets in a portfolio of securities of specialty finance and other financial companies that the Fund's sub-advisor believes offer attractive opportunities for income and capital appreciation.

Each of these four companies is interesting in its own unique way. These companies are trading at discounts to NAV, which should close up over the next year or so. Opportunistic investors should look for market pull backs to open up even more attractive entry points for each of these companies. Investors are advised to take a long position at current prices on each of these but, of course, would be more inclined to "back up the truck" if the market creates even bigger discounts.