



Equus Offers Unique Exposure For Value Investors

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The Equus Total Return Fund is a BDC, one of the smallest, trading on the New York Stock Exchange as a closed end fund. The fund was first launched in the mid '80's and is one of the earliest BDC's to incorporate. As a BDC it has a unique approach

to investing; it focuses on smaller, earlier stage business than the average. Another unique feature is its size, about \$36 million, invested among 5 portfolio companies.

This is done primarily through subsidiaries but also through direct investment. The portfolio is diversified across a number of sectors, including energy, media, technology, financial and industry.

- 5th Element Tracking, LLC is a technology holding company headquartered in Boston, it holds

controlling interest in several companies including Spectrum Management, LLC of Dallas, TX.

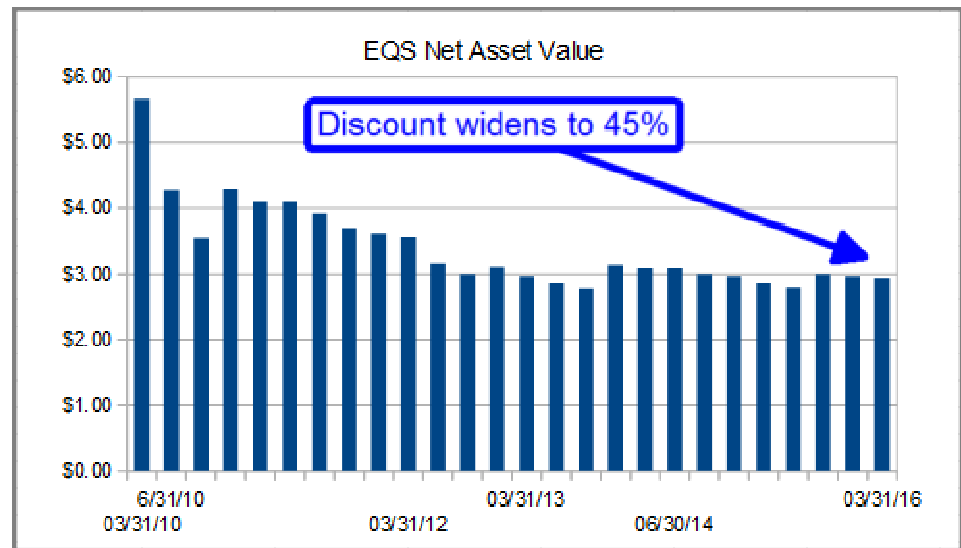
- Equus Energy is a wholly owned subsidiary whose purpose is investment in the energy sector. To date the fund has invested just over \$7 million, primarily in oil and gas wells leased to major operators.
- Equus Media Development (EMDC) is another wholly owned subsidiary, its purpose is to pursue investment in the entertainment arena.
- MVC Capital is another BDC traded on the NYSE, part of potential merger plans with Equus.
- Pallet One, Inc is one of the largest manufacturer of shipping pallets in the US. It operates in 11 states with 16 facilities.

◀ The fund has been able to maintain NAV over the long term despite the past few years of global financial uncertainty. At last report net asset value was \$2.94, down only -1% from the previous quarter but up 2.8% year-over-year. Over the past four years NAV has held steady in the range of \$2.86 to \$3.11; a point to take note of is that it weathered the decline in oil prices rather well, maintaining NAV in the mentioned range the whole time. Ironically, share prices were affected by the decline in oil prices even if NAV wasn't, falling -33% from a high set in mid-2014 and widening an already substantial discount. The average discount runs in the range of 25%, today's discount to NAV is quite large, about 45%, providing a very cheap entry for a speculative position.

Pallet One had the most impact on NAV in the recent quarter. It is experiencing a notable increase in 12 month trailing EBITDA, leading to an increase in fair value. As a near 19% owner of the company this means a gain in value of nearly \$2.1 million, or 28%, for Equus. The two segments with the most negative impact were Equus Energy, not too surprising, and MVC. Value of Equus Energy fell \$2 million to \$5.5 million, nearly erasing gains made with Pallet One. MVC Capital is a BDC in which Equus owns an 18.5% stake. Shares of the stock declined by nearly a dollar during the period, resulting in a \$0.3 million unrealized loss. MVC did pay dividends in the quarter, \$0.31 or 4.2%, so losses were minimized.

Possibilities For Long Term Investors

The best potential of this fund may be spin-off's and divestitures. Any or all of the portfolio companies



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could produce a business worthy of sale on the open market, if not a sale or spin of the portfolio companies themselves. Investment in Pallet One alone makes this fund interesting, the company is established and leading in a field with long term demand and could be the target of takeovers or buyouts.

5th element is another prime example. It is a growing managed security business that has been actively purchasing in recent years. The latest, Spectrum Management, is in the business of digital tracking and holds 28 patents in that field. The company is leader in bank services ie tracking stolen money and is expanding into the pharma and retail sectors as well. Company insiders were quoted in the press

release saying this about the addition of . . .

"The acquisition of Spectrum positions 5th Element to deliver a wide range of managed security solutions, including tracking of critical assets, which complements our solutions for our core companies, LPI and PCG. Our ability to deliver robust tracking solutions to combat Organized Retail Crime and for Controlled Substance tracking during robbery or burglary events is a powerful new tool for the retail, pharmaceutical and banking industry. As we add to our managed solutions we will be coupling our audit and compliance services with both tracking and video monitoring solutions as we work to position 5th Element as the go to Managed Security provider in the industry."

Equus could also be a nice long term play on oil prices. The fund owns a substantial position in working and non-working oil and gas rigs with proven reserves. Assuredly this position has been hurting NAV and share price over the past year or two but that was then, this is now. Now the fund is trading at a -44% discount to NAV, accounting for the severest mark-down of asset values and

◀ the possibility of long term low oil prices, providing one of the cheapest entries into the energy market currently available.

Some new investment is being made that may also pay off in spades. The most recent quarter saw the addition of Biogenic Reagents, a developer and producer of high value carbon from renewable biomass. Basically, instead of using coal they use a lower cost method to produce

renewable carbon for products like filters, fertilizer and metallurgical. This business is expected to expand on all fronts as the market realizes the benefits of cost and quality.

The Bottom Line

The bottom line is that this fund offers average investors an opportunity to invest in companies they otherwise never would. The portfolio is speculative, akin to a private equity firm, and banks on

hitting a home run with one of a number of projects. These projects are well diversified across a number of sectors with a fair chance that more than one will pay off in time. The caveat is that it is a speculative position and one that does not even offer a dividend. That being said, it is an interesting speculation and one easily afforded at today's prices. Add in to that a hefty discount to NAV and the Equus Fund almost begs to be bought.