

EQUUS TOTAL RETURN, INC.  
Form DEF 14A  
April 30, 2014

**SCHEDULE 14A INFORMATION**

**Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant  Filed by Party other than the Registrant

Check the appropriate box:

- Preliminary proxy statement
- Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))**
- Definitive proxy statement
- Definitive additional materials
- Soliciting materials pursuant to Rule 14a-11(c) or Rule 14a-12

**EQUUS TOTAL RETURN, INC.**

**(Name of Registrant as Specified in Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(2) Form, Schedule, or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**Notice of the 2014**

**Annual Meeting of Stockholders**

**Meeting Date:** June 24, 2014

**Meeting Time:** 11:00 a.m., EDT  
Jenner & Block LLP

**Location:** 919 Third Avenue  
New York, NY 10022-3908

**Purpose of the Meeting**

- To elect 9 directors, each for a term of one year;
- To ratify the appointment of UHY LLP as the Fund's independent auditor for the fiscal year ending December 31, 2014;
- To approve, on a non-binding advisory basis, the compensation paid to the Fund's named executive officers in 2013; and
- To transact such other business as may properly come before the annual meeting.

**Voting**

All holders of record of shares of the Fund's common stock (NYSE: EQS) at the close of business on May 22, 2014 (the "Record Date"), or their legal proxy holders, are entitled to vote at the meeting and any postponements or adjournments of the meeting.

Please submit a proxy as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy online, by phone, or by mail. For specific instructions, please refer to the Questions and Answers in this proxy statement and the instructions on the proxy card.

We are distributing this proxy statement and proxy form to stockholders on or about May 23, 2014.

By order of the Board of Directors,

JOHN A. HARDY

*Chief Executive Officer*

April 30, 2014

Houston, Texas

**Important Notice Regarding the Availability of Proxy Materials**

**for the Fund's Annual Meeting of Stockholders to be held on June 24, 2014**

This proxy statement, proxy card and the Fund's Annual Report to Stockholders for the fiscal year ended December 31, 2013 are available free of charge at the following website: [http://www.equuscap.com/investor\\_reports.htm](http://www.equuscap.com/investor_reports.htm) or by calling Georgeson, Inc., our proxy solicitor, at (866) 856-2826.

**EIGHT GREENWAY PLAZA**

**SUITE 930**

**HOUSTON, TX 77046**

**EQUUS TOTAL RETURN, INC.**

**Eight Greenway Plaza**

**Suite 930**

**Houston, Texas 77046**

**PROXY STATEMENT**

This proxy statement contains information relating to the annual meeting of Equus Total Return, Inc. (“EQS” or the “Fund”). The annual meeting of stockholders (the “Meeting”) or any postponement or adjournment thereof will be held on June 24, 2014, beginning at 11:00 a.m., Eastern Daylight Time, at Jenner & Block LLP, 919 Third Avenue, New York, NY 10022-3908. The Board of Directors (sometimes referred to hereinafter as the “Board”) is sending stockholders this proxy statement to solicit proxies to be voted at the annual meeting. It is being mailed to stockholders on or about May 23, 2014.

**ABOUT THE MEETING**

***What is the purpose of the Meeting?***

At the Meeting, stockholders will be asked to elect Fund directors (see Proposal 1), ratify the selection of the Fund’s independent registered public accounting firm (see Proposal 2), and approve, on a non-binding advisory basis, compensation paid to the Fund’s named executive officers in 2013 (see Proposal 3).

***Who is entitled to vote at the Meeting?***

If you owned shares of the Fund on the Record Date, you are entitled to receive notice of and to participate in the Meeting. A list of stockholders on the Record Date will be available for inspection at the Fund’s office at Eight Greenway Plaza, Suite 930, Houston, Texas 77046 for ten days before the Meeting.

***What are the voting rights of holders of the Fund’s common stock?***

You may cast one vote per share of the Fund's common stock that you held on the Record Date on each proposal considered at the Meeting. These shares are: (a) held directly in your name as the stockholder of record or (b) held for you as the beneficial owner through a stockbroker, bank, or other nominee.

***What is the difference between holding shares as a stockholder of record and as a beneficial owner?***

Many stockholders of the Fund hold their shares in "street name" through a stockbroker, bank or other nominee rather than directly in their own name. There are some important distinctions in how Fund shares are held.

*Stockholder of Record.* If your shares are registered directly in your name with the Fund's transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the stockholder of record; therefore, these proxy materials are being sent directly to you by the Fund. As the stockholder of record, you have the right to vote in person at the Meeting, or to grant your voting proxy directly to the Fund. You may vote online, by phone, or by mail.

*Beneficial Owner.* If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in "street name." Your broker or nominee, who is considered the stockholder of record with respect to those shares, has forwarded these proxy materials to you. As the beneficial owner, you have the right to provide your broker with instructions on how to vote and are also invited to attend the Meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the Meeting (unless you have a signed proxy from the record holder, as described below). Your broker or nominee has enclosed a voting instruction card for you to use in directing the broker or nominee regarding how to vote your shares.

*Broker Discretionary Voting.* New York Stock Exchange ("NYSE") rules permit a broker member to vote on certain "routine" matters, including the ratification of auditors, without instructions from the beneficial owner of the shares. The election of directors and the non-binding vote concerning compensation of the Fund's named executive officers in 2013 are considered non-routine; therefore, brokers are not permitted to vote in respect of these matters without instructions from the beneficial owners. If you hold your stock in street name and you do not instruct your broker how to vote in the election of directors and these three proposals described in more detail herein, no votes will be cast on your behalf. Therefore, it is important that you cast your vote if you want it to count in respect of these matters.

***What constitutes a quorum?***

A quorum must be present at the Meeting for any business to be conducted. The presence at the Meeting, in person or by proxy, of a majority of the shares of common stock outstanding on the Record Date, or 5,280,823 shares, will constitute a quorum. As of the Record Date, 10,561,646 shares of the Fund's common stock, representing the same number of votes, were outstanding.

If there are not enough votes for a quorum or to approve a proposal at the Meeting, the stockholders who are represented in person or by proxy may adjourn the Meeting to permit the further solicitation of proxies. The persons named as proxies will vote proxies held by them for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

***What are the Board's recommendations?***

The Board recommends a vote "**For**" the election of the nominated slate of directors (see Proposal 1), "**For**" the ratification of the appointment of UHY LLP ("UHY") as the Fund's independent registered public accounting firm (see Proposal 2), and "**For**" the approval, on a non-binding advisory basis, of compensation paid to the Fund's named executive officers in 2013 (see Proposal 3). Unless you give other instructions in your proxy, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board. With respect to any other matter that properly comes before the Meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

***What vote is required to approve the proposals?***

*Election of Directors.* A plurality of votes cast at the Meeting at which a quorum is present is required to elect a director. Abstentions will not be counted as votes cast and will have no effect on this proposal. Brokers may not vote uninstructed shares held in street name for this proposal.

*Ratification of Public Accounting Firm.* The affirmative vote of a majority of all of the votes cast at the Meeting at which a quorum is present is required to ratify the selection of the public accounting firm. Abstentions will not be counted as votes cast and will have no effect on this proposal. Brokers may vote uninstructed shares held in street name for this proposal, and their votes will count as present for quorum purposes.

*Non-Binding Advisory Vote Approving Executive Compensation in 2013.* The affirmative vote of a majority of all of the votes cast at the Meeting at which a quorum is present is required to approve, on a non-binding advisory basis, compensation paid to the Fund's named executive officers in 2013. Abstentions will not be counted as votes cast and will have no effect on this proposal. Brokers may not vote uninstructed shares held in street name for this proposal.

***How are votes counted?***

In the election of directors, you may vote "**For**" all of the nominees or your vote may be "**Withheld**" with respect to one or more of the nominees. To ratify the selection of the independent auditor, you may vote "**For**" the ratification, "**Against**," or you may "**Abstain**." To cast your vote concerning the remaining proposal – the non-binding approval of compensation paid to the Fund's executive officers in 2013 – you may also vote "**For**" or "**Against**" this proposal, or you may "**Abstain**" from voting in respect of this proposal. If you execute your proxy or provide broker voting instructions without specifying further your preference as to the nominees, your shares will be voted in accordance with the recommendations of the Board.

***Who can attend the Meeting?***

All stockholders as of the Record Date, or their duly appointed proxies, may attend the Meeting. Each stockholder may be asked to present valid identification. Cameras, recording devices, and other electronic devices will not be permitted at the Meeting.

Please note that if you hold your shares in "street name" (that is, through a broker, bank, or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the Record Date.

***How can I vote my shares in person at the Meeting?***

Shares held directly in your name as the stockholder of record may be voted in person at the Meeting. If you choose to do so, please bring proof of identification. Even if you plan to attend the Meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the Meeting. Shares held in street name may be voted in person by you only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

***How can I vote my shares without attending the Meeting?***

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct your vote without attending the Meeting by granting your voting proxy to the Fund (if you are the stockholder of record) or by providing voting instructions to your broker or nominee (if you hold shares beneficially in street name). You may vote online, by phone, or by mail. Please refer to the enclosed voting instruction card for details.

***Can I change my vote after I execute my proxy?***

Yes. You may change your proxy instructions at any time prior to the vote at the Meeting. You may accomplish this by granting a new proxy or new broker voting instructions at a later date (which automatically revokes the earlier proxy instructions) or by attending the Meeting and voting in person. Attendance at the Meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

***What does it mean if I receive more than one notice of the Meeting?***

It means your shares are registered differently or are in more than one account. Please grant a voting proxy and/or provide voting instructions for all accounts that you hold.

***Where can I find the voting results of the Meeting?***

We will publish final results of the Meeting in a Fund Form 8-K within four business days after the day on which the Meeting ended.

***Who can I call if I have a question?***

If you have any questions about this proxy statement, please call our proxy solicitor, Georgeson, Inc., toll-free at 1-866-856-2826.



**STOCK OWNERSHIP*****Who are the largest owners of the Fund's stock?***

Based on a review of filings with the SEC and other records of the Fund, the Fund is aware of four beneficial owners of more than 5% of the outstanding shares of the Fund's common stock: (i) Mobiquity Investments Limited and Versatile Systems Inc.; (ii) Philip Goldstein, Andrew Dakos, Bulldog Investments and Brooklyn Capital Management; (iii) Khan Investments Ltd. and Christian Kruppa; and (iv) SPQR Capital Holdings S.A., Lansdowne Capital Ltd. and Bertrand des Pallieres.

***How much stock do the Fund's directors and executive officers own?***

The following table shows the amount of the Fund's common stock beneficially owned (unless otherwise indicated) as of April 23, 2014, by (1) any person known to the Fund to be the beneficial owner of more than 5% of the outstanding shares of the Fund's common stock, (2) each director/director nominee of the Fund, (3) each named executive officer, and (4) all directors/director nominees and executive officers as a group.

The number of shares beneficially owned by each entity, person, director/director nominee, or executive officer is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the entity or individual has sole or shared voting power or investment power and also any shares that the entity or individual had the right to acquire as of April 23, 2014, or within 60 days after April 23, 2014, through the exercise of any stock option or other right. Unless otherwise indicated, to our knowledge each individual has sole investment and voting power, or shares such powers with his spouse, with respect to the shares set forth in the table.

| <b>Name</b>                                     | <b>Sole Voting and Investment Power</b> | <b>Other Beneficial Ownership</b> | <b>Total</b> | <b>Percent of Class Outstanding</b> |
|---|---|-----------------------------------|--------------|-------------------------------------|
| Fraser Atkinson <sup>(1)</sup>                  | 1,889                                   | 970,087                           | 971,976      | 9.20 %                              |
| Alessandro Benedetti <sup>(1) (2)</sup>         | —                                       | 1,370,087                         | 1,370,087    | 12.97 %                             |
| Richard F. Bergner                              | —                                       | —                                 | —            | —                                   |
| Kenneth I. Denos                                | 15,754                                  | —                                 | 15,754       | *                                   |
| Gregory J. Flanagan                             | 4,514                                   | —                                 | 4,514        | *                                   |
| Philip Goldstein, <i>et. al.</i> <sup>(3)</sup> | 432,282                                 | 169,865                           | 602,147      | 5.70 %                              |
| Henry W. Hankinson                              | —                                       | —                                 | —            | —                                   |

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|   |         |           |           |       |   |
|---|---------|-----------|-----------|-------|---|
| John A. Hardy <sup>(1)</sup>  | —       | 970,087   | 970,087   | 9.18  | % |
| L' Sheryl D. Hudson <sup>(4)</sup>  | —       | —         | —         | —     |   |
| Robert L. Knauss  | 40,670  | —         | 40,670    | *     |   |
| Christian Kruppa <sup>(5)</sup>   | 850,000 | —         | 850,000   | 8.05  | % |
| Bertrand des Pallieres <sup>(1) (6)</sup>   | 923,238 | 2,102,762 | 3,026,000 | 28.65 | % |
| All directors/director nominees and executive officers as a group<br>(10 persons) | 986,065 | 2,502,762 | 3,488,827 | 33.03 | % |

\* Indicates less than one percent.

Includes 970,087 shares held directly by Mobiquity Investments Limited and indirectly by Mobiquity Investments Corp. and Versatile Systems Inc. Each individual disclaims beneficial ownership of the securities held directly by (1) Mobiquity Investments Limited and Versatile Systems Inc. and nothing herein shall be construed as an admission that such individual is, for the purpose of Section 13(d) or 13(g) of the Securities Exchange Act of 1934, the beneficial owner of any such securities.

Also includes 400,000 shares held directly by EB Finance S.A. Mr. Benedetti disclaims beneficial ownership of the securities held directly by EB Finance S.A. and nothing herein shall be construed as an admission that Mr. (2) Benedetti is, for the purpose of Section 13(d) or 13(g) of the Securities Exchange Act of 1934, the beneficial owner of any such securities.

Includes shares beneficially held by Philip Goldstein, Andrew Dakos, Bulldog Investors, and Brooklyn Capital (3) Management. The power to dispose of and vote these securities resides either with Mr. Goldstein, Mr. Dakos, or with clients.

- (4) Ms. Hudson serves as the Fund's Vice President and Chief Financial Officer. Ms. Hudson is not a director or director nominee of the Fund.
- (5) Includes 850,000 shares held directly by Khan Investments Ltd. which is owned and controlled by Mr. Kruppa. Mr. Kruppa's business address is RAK Offshore, P.O. Box 333 558, Dubai, United Arab Emirates.
- (6) Includes 923,238 shares held directly by Mr. des Pallieres. Also includes 145,833 shares held directly by SPQR Capital Holdings S.A., a Luxembourg *societe anonyme* in which Mr. des Pallieres is a minority stockholder and serves as a director. Also includes 986,842 shares held directly by Lansdowne Capital S.A., a Luxembourg *societe anonyme* that is indirectly wholly-owned by Mr. des Pallieres.

***Section 16(a) beneficial ownership compliance***

Under the federal securities laws, our directors, executive officers, and any persons beneficially owning more than ten percent of our common stock are required to report their ownership of our common stock and any changes in that ownership to the Fund and the SEC. Specific due dates for these reports have been established by regulation. Based solely upon a review of reports furnished to the Fund and written representations of certain persons that no other reports were required, we believe that all of our directors and executive officers complied during 2013 with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), with the exception that one member of our board of directors, Bertrand des Pallieres, filed a late report on Form 4 on July 26, 2013 with respect to purchases of an aggregate of 3,066 shares of the Fund's common stock, which occurred during the period of July 22-23, 2013.





## AUDIT COMMITTEE REPORT

The Audit Committee is appointed by the Board of Directors to review financial matters concerning the Fund. Each member of the Audit Committee meets the independence requirements established by the Investment Company Act of 1940 (hereafter, the "1940 Act") and under the applicable listing standards of the New York Stock Exchange. The Audit Committee is responsible for the selection, engagement, compensation, retention and oversight of the Fund's independent registered public accounting firm. We are also responsible for recommending to the Board of Directors that the Fund's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year.

In making our recommendation that the Fund's financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2013, we have taken the following steps:

We discussed with UHY LLP, the Fund's independent registered public accounting firm for the year ended December 31, 2013, those matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, issued by the Public Company Accounting Oversight Board, including information regarding the scope and results of the audit. These communications and discussions are intended to assist us in overseeing the financial reporting and disclosure process.

We conducted periodic executive sessions with UHY, with no members of Equus management present during those discussions. UHY did not identify any material audit issues, questions or discrepancies, other than those previously discussed with management, which were resolved to the satisfaction of all parties.

We received and reviewed the written disclosures and the letter from UHY required by the applicable requirements of the Public Company Accounting Oversight Board regarding UHY's communications with us concerning independence, and we discussed with UHY its independence from Equus. We also considered whether the provision of non-audit services to the Fund is compatible with UHY's independence.

We determined that there were no former UHY employees, who previously participated in the Fund's audit, engaged in a financial reporting oversight role at Equus.

We reviewed, and discussed with Equus management and UHY, the Fund's audited consolidated balance sheet at December 31, 2013, and consolidated statements of income, changes in net assets and cash flows for the year ended December 31, 2013.

Based on the reviews and actions described above, we recommended to the Board of Directors that the Fund's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2013 for filing with the Securities and Exchange Commission.

Fraser Atkinson

Robert L. Knauss

Richard F. Bergner

Gregory J. Flanagan

## COMPENSATION OF NAMED EXECUTIVE OFFICERS

### *Compensation Discussion and Analysis*

This Compensation Discussion and Analysis provides information about the fiscal year 2013 compensation policy for our named executive officers (“NEOs”). Our Compensation Committee determines the compensation terms for our Chief Executive Officer and the Board determines the fees that may be charged by our Secretary and Chief Compliance Officer for his services. Our Chief Executive Officer determines compensation for all other NEOs. This section explains how compensation decisions were made for our NEOs during the year. The discussion below also addresses the principal elements of our approach to compensation.

Our NEOs are compensated with a view to satisfying two objectives: (i) compensating the Fund’s NEOs appropriately for their contributions to the Fund’s growth, profitability and other goals and objectives; and (ii) linking the interests of the Fund’s NEOs to the long-term interests of the Fund’s equity owners. The compensation terms for our NEOs generally recognize both short-term and long-term success but these compensation arrangements also emphasize rewarding the intermediate and long-term performance of our NEOs, as measured by the Fund’s performance and relative shareholder return.

Most of our compensation arrangements with our NEOs consist primarily of two elements: base salary and possible annual cash bonus. In addition, while certain of our executives participate in a defined contribution retirement plan, we do not have any supplemental retirement benefits and generally do not provide perquisites to our executive officers. Our Chief Executive Officer and Secretary, for example, receive no health, retirement, or other employment-related benefits. Accordingly, we believe that the total level of compensation is critical to maintaining the competitiveness of our compensation arrangements, particularly given the absence of supplemental benefits and plans.

In recent years, our NEOs have assumed many of the administrative, reporting, and compliance duties and responsibilities that were previously outsourced to our law firms, accounting firms, and other advisors. While the overall compensation to our NEOs has increased, the Fund’s total expenses have decreased substantially. Excluding non-recurring expenses, including settlement expenses of \$0.5 million and legal expenses of \$0.2 million related to the various legal proceedings that occurred during 2013, total expenses of the Fund decreased \$0.8 million, or approximately 25%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. This decrease was in addition to a reduction in Fund expenses of approximately 22% for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

We pay base compensation to our NEOs, which constitutes the bulk of their total remuneration. While the NEOs' initial base compensation is determined by an assessment of competitive market levels, the factors used in determining changes to base compensation include individual performance, changes in role and/or responsibility and changes in the competitive market environment. The Fund may pay an annual cash bonus that results in cash payments to our NEOs. The amount of the cash bonus is determined by the individual agreements with our NEOs or by our Chief Executive Officer on a discretionary basis. In the case of our Secretary and Chief Compliance Officer or other members of our Board who provide services to the Fund, the Board has determined an hourly rate of \$250.00 for such services. Our Chief Executive Officer is the only NEO with whom we have a compensation agreement. The terms of this agreement are summarized on page 17 of this proxy statement.

In determining the structure of our executive compensation policies and the appropriate levels of incentive opportunities, the Compensation Committee or our Chief Executive Officer, as appropriate, considers whether the policies reward reasonable risk-taking and whether the incentive opportunities achieve the proper balance between the need to reward employees and the need to protect shareholder returns. We believe that the focus on total compensation provides incentives to create long-term value for shareholders while taking thoughtful and prudent risks to grow the Fund.

**Summary Compensation Table**

The following table summarizes the total compensation that the Fund paid during the fiscal years ended December 31, 2013 and 2012 to the NEOs, who are the Chief Executive Officer and the Chief Financial Officer, and our other most highly compensated executive officers who received more than \$100,000 in annual compensation from the Fund.

| Name and<br>Principal Position             | Year | Salary (\$) | Bonus<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$) | Change in<br>Pension Value<br>and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings (\$) | All Other<br>Compensation<br>(\$) * | Total (\$) |
|--|------|-------------|---------------|-------------------------|--------------------------|--|--|-------------------------------------|------------|
| John A.<br>Hardy-CEO                       | J013 | J00,000     | I50,000       | n/a                     | n/a                      | n/a  | n/a  |                                     | K50,000    |
|  | J012 | J00,000     | I50,000       | n/a                     | n/a                      | n/a  | n/a  |                                     | 350,000    |
| L' Sheryl D.<br>Hudson-CFO                 | J013 | I75,000     | 7,268         | n/a                     | n/a                      | n/a  | n/a  | M,468                               | I87,736    |
|  | J012 | I75,000     | 17,019        | n/a                     | n/a                      | n/a  | n/a  | M,761                               | I97,779    |
| Kenneth I. Denos -<br>Secretary and<br>CCO | J013 | K31,562     | n/a           | n/a                     | n/a                      | n/a  | n/a  |                                     | K31,562    |
|  | J012 | J49,813     | n/a           | n/a                     | n/a                      | n/a  | n/a  |                                     | J49,813    |

\* Reflects the Fund's contributions to vested and unvested defined contribution plans of the NEOs.

**Report of the Compensation Committee**

As part of our responsibilities, we have reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K, which begins on page 7 of this proxy statement. Based on such review and discussions, we have recommended to the Board of Directors the inclusion of the Compensation Discussion and Analysis in this proxy statement.

Henry W. Hankinson

Robert L. Knauss

Richard F. Bergner



## GOVERNANCE OF THE FUND

### *How is the Fund's management structured?*

The Board of Directors changed the Fund's operations to an internalized management structure on July 1, 2009. This means that, unlike many closed-end funds and business development companies, the Fund now directly employs its management team and incurs the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to the Fund under a fee-based advisory agreement, or an administrative organization charging the Fund for services rendered.

### *What are the duties of the Board of Directors?*

*Leadership Structure.* The Board provides overall guidance and supervision with respect to the operations of the Fund and performs the various duties specified for directors of business development companies under the Investment Company Act of 1940 (the "1940 Act"). Among other things, the Board supervises Fund management, the custodial arrangements for portfolio securities, the selection of accountants, fidelity bonding, and transactions with affiliates.

The Board meets in regularly scheduled meetings each year. All Board actions are taken by majority vote unless a higher percentage is required by law or the Fund's certificate of incorporation or by-laws require that the actions be approved by a majority of the directors who are not "interested persons" (as defined in the 1940 Act) of the Fund—referred to as "independent directors."

The 1940 Act requires that a majority of the Fund's directors be independent directors. The Board is currently composed of 9 directors, including 6 independent directors. As discussed below, the Board has established 4 Committees to assist the Board in performing its oversight responsibilities.

The Board has appointed Alessandro Benedetti as its Executive Chairman and John A. Hardy to serve as the Fund's Chief Executive Officer. In addition to being the principal executive officer of the Fund, one of the Chief Executive Officer's roles is to set the agenda of the Board and determine what information is provided to the Board with respect to matters to be acted upon by the Board.

The Board has also appointed Robert L. Knauss as its independent Chairman. The independent Chairman presides at all meetings of the Board and leads the Board through its various tasks. The Chairman also acts as a liaison with the Fund's principal executive officer in carrying out his functions. The Chairman may perform such other functions as

may be requested by the Board. The designation of Chairman does not impose on such independent director any duties, obligations or liability that is greater than the duties, obligations or liability imposed on such person as a member of the Board, generally.

The Fund has determined that the Board's leadership structure is appropriate given the characteristics and circumstances of the Fund, including such items as the business development company requirements, net assets of the Fund, and the committee structure of the Fund.

*Risk Oversight.* Through the Board's direct oversight role, and indirectly through its Committees, the Board performs a risk oversight function for the Fund consisting, among other things, of the following activities:

*General Oversight.* The Board meets with representatives of management and key service providers, including the custodian and the independent audit firm of the Fund, to review and discuss the operational activities of the Fund and to provide direction with respect thereto.

*Compliance Oversight.* The Board reviews and approves, as applicable, the compliance procedures of Fund. The Board is informed how the compliance procedures adhere to the operational requirements through its meeting with, and reports received from the Chief Compliance Officer. The Board also discusses the adequacy of internal controls and compliance procedures with the Fund's Chief Compliance Officer and independent auditors.

*Investment Oversight.* The Board monitors Fund performance during the year through regular performance reports from management with references to appropriate performance measurement indices and the performance of similar funds. The Board receives updates on industry developments and portfolio company matters on a regular basis. The Board also monitors the Fund's investment practices and reviews the Fund's investment strategies with management.

*Valuation Oversight.* The Board has approved the valuation methodologies used in establishing the fair value of the Fund's assets and monitors the accuracy with which the valuations are carried out. The Board receives regular reports on the use of fair value prices and monitors the effectiveness of the valuation procedures.

***What Committees has the Board established?***

The Board has four standing committees: an Audit Committee, a Governance and Nominating Committee, a Compensation Committee, and a Committee of Independent Directors.

***Who are the current Board members and what are their Committee memberships?***

The members of the Board of Directors on the date of this proxy statement and the Board Committees on which they serve are identified in the following table:

| <b>Director</b>                          | <b>Audit<br/>Committee</b> | <b>Compensation<br/>Committee</b> | <b>Committee<br/>of<br/>Independent<br/>Directors</b> | <b>Governance<br/>and<br/>Nominating<br/>Committee</b> |
|--|----------------------------|-----------------------------------|---|--|
| Alessandro Benedetti, Executive Chairman |                            |                                   |   |  |
| Robert L. Knauss, Independent Chairman   | *                          | *                                 | Chair   | *  |
| Fraser Atkinson                          | Chair                      | *                                 |   |  |
| Richard F. Bergner                       | *                          | *                                 | *   | Chair  |
| Kenneth I. Denos                         |                            |                                   |   |  |
| Gregory J. Flanagan                      |                            |                                   |   |  |