

SPECIAL OPPORTUNITIES FUND, INC.
Form N-CSR
March 08, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-07528

Special Opportunities Fund, Inc.
(Exact name of registrant as specified in charter)

615 East Michigan Street
Milwaukee, WI 53202
(Address of principal executive offices) (Zip code)

Andrew Dakos
Bulldog Investors, LLC
Park 80 West
250 Pehle Avenue, Suite 708
Saddle Brook, NJ 10570
(Name and address of agent for service)

Copy to:
Thomas R. Westle, Esp.
Blank Rome LLP
The Chrysler Building
405 Lexington Avenue
New York, NY 10174

1-877-607-0414
Registrant's telephone number, including area code

Date of fiscal year end: 12/31/2018

Date of reporting period: 12/31/2018

Item 1. Reports to Stockholders.

Special Opportunities Fund, Inc.
(SPE)
Annual Report
For the year ended
December 31, 2018

Beginning on January 1, 2021, as permitted by regulations adopted by the U.S. Securities and Exchange Commission, paper copies of the Fund's shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary (such as a broker-dealer or bank). Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications by contacting your financial intermediary (such as a broker-dealer or bank) or, if you are a direct investor, by calling the Fund's Transfer Agent, American Stock Transfer & Trust Company, LLC, at 1-800-937-5449.

You may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports; if you invest directly with the Fund, you can call the Fund's Transfer Agent, American Stock Transfer & Trust Company, LLC, at 1-800-937-5449. Your election to receive reports in paper form will apply to all funds held in your account with your financial intermediary.

Special Opportunities Fund, Inc.

February 27, 2019

Dear Fellow Shareholders:

After paying a year-end dividend of \$1.45, the net asset value (NAV) of Special Opportunities Fund closed the year at \$13.78. In the second half of 2018, the NAV decreased by 9.24% from \$16.78 to \$15.23 (after adding back the \$1.45 dividend) vs. a decline of 6.85% by the S&P 500 Index. For the entire year, the NAV decreased by 8.79% vs. a loss of 4.38% by the S&P 500 Index. Our underperformance in 2018 is due in part to being overweight in foreign or emerging market closed-end funds like the China Fund, Delaware Enhanced Global Dividend and Income Fund, and Aberdeen Emerging Markets Equity Income Fund, discussed below.

Here are updates on some of our significant positions.

In July 2017 Emergent Capital (EMGC.PK), which owns a large portfolio of life insurance policies, completed its recapitalization. We participated in the recap. We eventually sold our common stock and currently own secured and convertible notes. In a strategic move, a subsidiary of Emergent recently filed for bankruptcy protection to put pressure on its lender, claiming the lender tried “to coerce [Emergent and the subsidiary] into selling their valuable portfolio of life insurance policies to defendants for well below its true value.” We are closely following the case and are cautiously optimistic that a settlement will be reached that will lead to a full recovery by the noteholders.

In our last letter, we reported that shareholders of The Swiss Helvetia Fund (SWZ) had approved our proposal to conduct a large self-tender offer at or close to NAV and elected two additional directors who were committed to implementing that proposal. As a result, after receiving a large capital gain distribution and participating in a self-tender offer that was completed in November, Special Opportunities Fund disposed of more than 95% of its investment at an average price of more than 98% of NAV.

We have stock in Hill International (HIL), a construction management firm that has been under new management since mid-2017 and has made significant progress in reducing expenses and rationalizing its business. A number of large shareholders want to see Hill sold (which we think would be at a significant premium to its market price). Hill’s board has installed a new CEO whom we have met. His primary goal is to increase revenues, which would enhance Hill’s value and may prime the company for a sale.

The dividends on our 7.625% Series A Cumulative Redeemable Preferred Stock of Brookfield DTLA Fund Office Trust Investor Inc. (DTLA-), the owner of several high-rise office buildings and a shopping mall in downtown Los Angeles, have been in

Special Opportunities Fund, Inc.

arrears for several years. The sum of the face value of the preferred shares and accrued dividends is more than \$40 per share, well above the current stock price of about \$21. Andy Dakos and I have seats on the board. Although patience is likely to be required, we believe Brookfield is making the right moves to increase the value of the properties and that preferred shareholders will ultimately be rewarded by payment of the accrued dividends or being taken out at a premium to the current market price.

After Aberdeen Emerging Markets Equity Income Fund (AEF) completed a sizeable self-tender offer at 99% of NAV (in which we participated), we elected to sell our remaining shares. We have re-established a position at a double-digit discount because management has committed to take further measures including conducting another self-tender offer if the discount persists.

As we stated in our last letter, in the second quarter of 2018 Winthrop Realty Liquidating Trust paid distributions totaling \$5.65 from the sale of its interest in a retail/hotel construction project in the tourist-heavy Times Square area of Manhattan. The balance of Winthrop's real estate will be sold in due course and the proceeds distributed to unitholders. Since the value of Fund's investment in Winthrop is now much smaller, we do not intend to provide further updates on it.

Primarily due to concerns about the adverse tax consequences for a registered investment company like Special Opportunities Fund that receives significant income from a liquidating trust, we elected to dispose of our shares of New York REIT (NYRT) before it converted to a (non-traded) liquidating trust.

Our Fund is a member of a group that gained control of the board of trustees of Putnam High Income Securities Fund (PCF) in 2018 and dropped "Putnam" from its name. Substantially all of PCF's portfolio securities have been sold and the proceeds have been invested in money market funds. We expect to sell substantially all of our shares in a self-tender offer that is currently in progress at 99% of NAV.

Faced with the prospect of a proxy contest, management of Delaware Enhanced Global Dividend and Income Fund (DEX) authorized a self-tender offer for 20% of the outstanding shares at 98% of NAV. The discount narrowed after the tender offer commenced and we were able to sell most of our shares prior to expiration of the tender offer or in the tender offer itself.

In our last letter, we discussed our investment in Tropicana Entertainment (TPCA), a casino operator then controlled by Carl Icahn. We said: "TPCA stock, which had previously been trading in the \$55 range, is now about \$73.50 per share and could go higher if, as we think, its remaining casino property in Aruba is sold at a good price." Shortly thereafter, that sale took place and TPCA shareholders received \$75.14 per share.

Special Opportunities Fund, Inc.

We sold our stock of Barings BDC, Inc. (BBDC) in the second half of 2018. Barings has an outstanding long-term track record of lending to private companies, having generated returns of more than 12% per annum over a 25-year period and has a reputation for being shareholder friendly. Barings is targeting a yield of 8% on NAV for BBDC and we are looking for an opportunity to re-establish a position at an attractive valuation.

Although we predicted that The China Fund (CHN) would conduct a large self-tender offer by the end of 2018, the offer, which was for 30% of its outstanding shares at 99% of NAV, actually commenced in early January 2019. Between sales after the announcement and tendering the balance of our shares, we disposed of the bulk of our position at a relatively narrow discount from NAV.

Not every activist foray is successful. For example, after we accumulated a sizeable stake in Aberdeen Japan Equity Fund (JEQ) at a double-digit discount, we set our sights on a proxy contest. However, after speaking with management and canvassing some large shareholders who seemed lukewarm, we elected to abandon the idea. Consequently, we have been opportunistically reducing our position. Like Gary Cooper in “High Noon,” who had to face a bunch of gunfighters without support, launching a proxy contest without stockholder support is not a project we would be eager to take on.

As far as our pipeline, we continue to acquire a handful of income oriented closed-end funds that trade at discounts from NAV and have shareholders that we think would support measures to narrow the discount. One such investment that has worked out well is Alliance California Municipal Income Fund (AKP). We had acquired a sizable stake in AKP at a double-digit discount. On August 2, 2018, AKP issued a press release that, as a result of an anticipated assignment of the advisory agreement, a proposal to approve new advisory agreements “will be submitted to...stockholders...on October 11, 2018.” We quickly decided to solicit proxies against that proposal. On December 17, 2018, after several adjournments, AKP announced that the Board had “resolved to cancel the Fund’s plan to [seek stockholder approval] of new investment advisory agreements with AllianceBernstein L.P.” and that it “intends to consider the outcome of the meeting of stockholders, and whether any action would be in the best interests of the Fund, at a future time.” On February 7, 2019, AKP announced that it would be liquidated, which will result in all shareholders including the Fund realizing NAV for their shares.

Lastly, we continue to deploy the leverage provided by the convertible preferred stock to maintain a sizable position in SPACs or blank check companies. We expect our diversified portfolio of SPACs to generate an annualized rate of return in the high single digits, which is attractive considering that there is virtually no risk of loss on any one SPAC.

* * *

Special Opportunities Fund, Inc.

We expect the SEC to approve our application to implement a so-called managed distribution plan to allow us to pay monthly or quarterly dividends. Paying dividends more frequently than once a year (1) may help to narrow the discount by attracting income-oriented investors, and (2) should aid in managing the portfolio by smoothing out changes to the Fund's asset base necessitated by the tax code.

Currently, the Fund is prohibited from acquiring more than 3% of another closed-end fund's shares. On December 19, 2018, the SEC proposed a rule that would remove that limitation subject to certain conditions "designed to address historical abuses associated with fund of funds arrangements." Given our activist investment strategy, we think adoption of that rule would be a huge positive for the Fund for obvious reasons. The proposed rule is available at <https://www.sec.gov/rules/proposed/proposedarchive/proposed2018.shtml>.

We remind you that from time to time the Fund seeks instructions from shareholders for voting its proxies for certain closed-end funds whose shares the Fund owns. The instruction forms are available at http://www.specialopportunitiesfundinc.com/proxy_voting.html. If you would like to receive an email notification when the Fund seeks proxy voting instructions for a closed-end fund whose shares it owns, please email us at proxyinstructions@bulldoginvestors.com.

Sincerely yours,

Phillip Goldstein
Chairman

Special Opportunities Fund, Inc.

Performance at a glance (unaudited)

Average annual total returns for common stock for the periods ended 12/31/2018

Net asset value returns	1 year	5 years	Since 1/25/10	10 years*
Special Opportunities Fund, Inc.	-8.79%	1.85%	6.60%	8.10%
Market price returns				
Special Opportunities Fund, Inc.	-10.55%	1.02%	6.35%	9.13%
Index returns				
S&P 500® Index	-4.38%	8.49%	12.02%	13.12%

Share price as of 12/31/18

Net asset value	\$13.78
Market price	\$11.84

Past performance does not predict future performance. The return and value of an investment will fluctuate so that an investor's share, when sold, may be worth more or less than their original cost. The Fund's common stock net asset value ("NAV") return assumes, for illustration only, that dividends and other distributions, if any, were reinvested at the NAV on payable dates for dividends and other distributions payable through December 31, 2009 and reinvested at the NAV on the ex-dividend date for dividends and other distributions payable after December 31, 2009. The Fund's common stock market price returns assume that all dividends and other distributions, if any, were reinvested at prices obtained under the Fund's Dividend Reinvestment Plan (which was terminated on January 1, 2010) for dividends and other distributions payable through December 31, 2009 and reinvested at the lower of the NAV or the closing market price on the ex-dividend date for dividends and other distributions payable after December 31, 2009. NAV and market price returns for the period of less than one year have not been annualized. Returns do not reflect the deduction of taxes that a shareholder could pay on Fund dividends and other distributions, if any, or the sale of Fund shares.

The Fund's investment objective and investment adviser have changed. See Note 1 of the Notes to financial statements for more information about the change in investment objective and see Note 2 of the Notes to financial statements for more information about the change in investment adviser. On January 25, 2010, the Fund began investing using its new investment objective, therefore, performance prior to that date is not relevant.

The S&P 500® Index is a capital weighted, unmanaged index that represents the aggregate market value of the common equity of 500 stocks primarily traded on the New York Stock Exchange.

Special Opportunities Fund, Inc.

Portfolio composition as of 12/31/2018⁽¹⁾ (Unaudited)

	Value	Percent
Investment Companies	\$98,180,215	83.79 %
Special Purpose Acquisition Vehicles	40,811,585	34.83
Preferred Stocks	6,970,514	5.95
Money Market Funds	6,949,230	5.93
Corporate Notes	5,969,163	5.09
Other Common Stocks	5,715,047	4.88
Convertible Notes	2,206,700	1.88
Senior Secured Notes	1,600,000	1.37
Warrants	1,273,876	1.09
Exchange-Traded Funds	711,673	0.61
Rights	599,061	0.51
Liquidating Trusts	434,909	0.37
Corporate Bonds	15,000	0.01
Total Investments	\$171,436,973	146.31 %
Other Assets in Excess of Liabilities	1,335,476	1.14
Preferred Stock	(55,599,400)	(47.45)
Total Net Assets	\$117,173,049	100.00 %

⁽¹⁾As a percentage of net assets.

Special Opportunities Fund, Inc.

Portfolio of investments—December 31, 2018

	Shares	Value
INVESTMENT COMPANIES—83.79%		
Closed-End Funds—81.85%		
Aberdeen Emerging Markets Equity Income Fund, Inc.	277,231	\$ 1,760,417
Aberdeen Japan Equity Fund, Inc.	128,872	836,379
Adams Diversified Equity Fund, Inc.	376,772	4,754,863
Alliance California Municipal Income Fund, Inc.	254,985	3,488,195
AllianzGI Convertible & Income 2024 Target	10,100	80,598
Asia Pacific Fund, Inc.	68,441	781,767
BlackRock Debt Strategies Fund, Inc.	87,213	852,071
BlackRock Income Trust, Inc.	180,356	1,017,208
BlackRock New York Municipal Income Quality Trust	194,261	2,346,673
Boulder Growth & Income Fund, Inc.	670,080	6,988,934
BrandywineGLOBAL Global Income Opportunities Fund, Inc.	461,592	4,791,325
Central Securities Corp.	342,815	8,512,096
China Fund, Inc.	406,481	6,865,464
Dividend and Income Fund	306,490	2,920,850
DTF Tax-Free Income, Inc.	149,607	1,852,135
Duff & Phelps Utility and Corporate Bond Trust, Inc.	265,006	2,178,349
Eaton Vance Municipal Bond Fund II	235,433	2,592,117
General American Investors Co., Inc.	275,205	7,826,830
High Income Securities Fund	397,476	3,537,536
Invesco High Income Trust II	240,478	3,013,189
Japan Smaller Capitalization Fund, Inc.	353,055	2,937,418
Latin American Discovery Fund Escrow (a)	71,179	0
Lazard World Dividend & Income Fund, Inc.	205,828	1,753,655
Mexico Equity & Income Fund, Inc.	175,606	1,768,352
Morgan Stanley Asia Pacific Fund, Inc.	153,312	2,521,982
Morgan Stanley East Europe Fund Escrow (a)	97,901	0
Morgan Stanley Emerging Markets Fund, Inc.	189,160	3,047,368
Nuveen Connecticut Quality Municipal Income Fund	311,930	3,512,332
Nuveen Credit Strategies Income Fund	29,100	215,340
Royce Value Trust, Inc.	87,500	1,032,500
Source Capital, Inc.	149,518	4,866,811
Taiwan Fund, Inc.	229,512	3,479,402
The Swiss Helvetia Fund, Inc.	61,192	422,225
Tri-Continental Corp.	142,680	3,355,834
Turkish Investment Fund, Inc. Escrow (a)	129,831	0
		95,910,215

The accompanying notes are an integral part of these financial statements.

Edgar Filing: SPECIAL OPPORTUNITIES FUND, INC. - Form N-CSR

Special Opportunities Fund, Inc.

Portfolio of investments—December 31, 2018

	Shares	Value
INVESTMENT COMPANIES—(continued)		
Business Development Companies—1.94%		
Equus Total Return, Inc. (a)	106,919	\$209,561
Great Elm Capital Corp.	11,496	90,244
MVC Capital, Inc.	239,975	1,970,195
		2,270,000
Total Investment Companies (Cost \$103,029,927)		98,180,215
PREFERRED STOCKS—5.95%		
Real Estate Investment Trusts—5.95%		
Brookfield DTLA Fund Office Trust Investor, Inc. – Series A, 7.625%	171,723	3,549,514
Preferred Apartment Communities, Inc. – Series A, 6.000% (c)(f)	3,421	3,421,000
Total Preferred Stocks (Cost \$7,651,736)		6,970,514
OTHER COMMON STOCKS—4.88%		
Consumer Finance—0.02%		
Emergent Capital, Inc. (a)	278,728	19,511
Internet & Direct Marketing Retail—0.02%		
Reebonz Holding Ltd. (a)(g)	11,379	23,668
Professional Services—3.14%		
Hill International, Inc. (a)	1,195,255	3,681,385
Real Estate Investment Trusts—0.97%		
Brookfield Property REIT, Inc.	70,751	1,139,091
Real Estate Management & Development—0.71%		
Trinity Place Holdings, Inc. (a)	190,851	828,293
Software—0.02%		
Smaaash Entertainment, Inc. (a)	11,379	23,099
Total Other Common Stocks (Cost \$7,871,371)		5,715,047
	Shares/Units	
SPECIAL PURPOSE ACQUISITION VEHICLES—34.83% (a)		
Alberton Acquisition Corp. Units (g)	70,000	702,100
Allegro Merger Corp.	200,080	1,950,780
AMCI Acquisition Corp. Units	50,000	497,500
Big Rock Partners Acquisition Corp.	111,602	1,138,341
Bison Capital Acquisition Corp. (g)	100,000	1,040,000
Black Ridge Acquisition Corp.	226,445	2,273,508
CF Finance Acquisition Corp. Units	40,000	400,000

The accompanying notes are an integral part of these financial statements.

8

Special Opportunities Fund, Inc.

Portfolio of investments—December 31, 2018

	Shares/Units	Value
SPECIAL PURPOSE ACQUISITION VEHICLES—(continued)		
CM Seven Star Acquisition Corp. (g)	250,000	\$2,525,000
Constellation Alpha Capital Corp. (g)	98,341	1,004,062
Edtechx Holdings Acquisition Corp. Units	40,325	402,847
FlatWorld Acquisition Corporation (g)	105,702	2,114
Forum Merger II Corp.	68,439	660,436
GigCapital, Inc.	93,300	942,330
Gordon Pointe Acquisition Corp.	33,000	330,000
Graf Industrial Corp. Units	2,800	28,000
Haymaker Acquisition Corp.	30,716	307,467
Haymaker Acquisition Corp. Units	1	11
HL Acquisitions Corp. (g)	34,456	337,669
KBL Merger Corp. IV	303,000	3,090,600
Legacy Acquisition Corp.	50,000	491,000
Leisure Acquisition Corp.	61,288	601,848
Leisure Acquisition Corp. Units	1	10
LF Capital Acquisition Corp.	124,850	1,221,033
Longevity Acquisition Corp. (g)	63,286	636,024
Modern Media Acquisition Corp.	157,454	1,606,031
MTech Acquisition Corp.	73,968	746,337
Mudrick Capital Acquisition Corp.	49,182	485,426
Opes Acquisition Corp.	49,670	493,223
Pensare Acquisition Corp.	122,745	1,243,407
Pure Acquisition Corp. Units	1	10
Pure Acquisition Corp.	546,554	5,378,091
Schultze Special Purpose Acquisition Corp. Units	50,000	497,500
Tenzing Acquisition Corp. (g)	54,305	525,446
Thunder Bridge Acquisition Ltd. Units (g)	112,602	1,145,162
Tiberius Acquisition Corp.	113,800	1,115,240
TKK Symphony Acquisition Corp. (g)	212,439	2,050,036
Tottenham Acquisition I Ltd. (g)	12,474	122,245
Trident Acquisitions Corp.	175,020	1,744,950
Trinity Merger Corp.	74,616	745,414
Twelve Seas Investment Co. Units (g)	81,000	830,250
Union Acquisition Corp. (g)	112,054	1,128,384
VectoIQ Acquisition Corp.	38,325	371,753
Total Special Purpose Acquisition Vehicles (Cost \$39,107,415)		40,811,585

The accompanying notes are an integral part of these financial statements.

Special Opportunities Fund, Inc.

Portfolio of investments—December 31, 2018

	Shares	Value
LIQUIDATING TRUSTS—0.37% (a)(c)(f)(h)		
Crossroads Liquidating Trust	292,681	\$187,316
JP Morgan China Region Fund, Inc.	192,486	1,925
Winthrop Realty Trust	295,985	245,668
Total Liquidating Trusts (Cost \$1,603,926)		434,909
	Principal Amount	
CONVERTIBLE NOTES—1.88% (b)		
Emergent Capital, Inc.		
5.000%, 02/15/2023 (i)	\$3,206,898	1,932,894
Wheeler Real Estate Investment Trust (c)(f)		
9.000%, 01/31/2019	273,806	273,806
Total Convertible Notes (Cost \$3,330,201)		2,206,700
CORPORATE BONDS—0.01%		
Washington Mutual, Inc. (b)(c)(d)(f)		
0.000%, 03/17/2014	3,000,000	15,000
Total Corporate Bonds (Cost \$0)		15,000
CORPORATE NOTES—5.09% (b)		
Great Elm Capital Corp.		
6.500%, 09/18/2022	32,735	806,918
6.750%, 01/31/2025	6,685	162,245
MVC Capital, Inc.		
6.250%, 11/30/2022	200,000	5,000,000
Total Corporate Notes (Cost \$5,985,500)		5,969,163
SENIOR SECURED NOTES—1.37%		
Emergent Capital, Inc. (b)(c)(f)		
8.500%, 07/15/2021	1,600,000	1,600,000
Total Senior Secured Notes (Cost \$1,600,000)		1,600,000
	Shares	
WARRANTS—1.09% (a)		
Allegro Merger Corp.		
Expiration: January 2025		
Exercise Price: \$11.50	200,080	60,024

The accompanying notes are an integral part of these financial statements.

Special Opportunities Fund, Inc.

Portfolio of investments—December 31, 2018

	Shares	Value
WARRANTS—(continued)		
Big Rock Partners Acquisition Corp. Expiration: December 2022 Exercise Price: \$11.50	55,801	\$21,444
Bison Capital Acquisition Corp. Expiration: July 2022 Exercise Price: \$11.50 (g)	50,000	8,330
Black Ridge Acquisition Corp. Expiration: October 2022 Exercise Price: \$11.50	161,445	51,662
CM Seven Star Acquisition Corp. Expiration: November 2022 Exercise Price: \$11.50 (g)	125,000	31,250
Concrete Pumping Holdings, Inc. Expiration: August 2024		