

MERGERS & ACQUISITIONS

18 MAY, 2023

Abrdn Japan to merge with Nippon Active Value

Faced with a continuation vote after its share price underperformed, sub-scale £73m Abrdn trust agrees to combine with larger and more successful activist smaller companies fund.

BY [GAVIN LUMSDEN](#)

The winnowing out of Abrdn investment trusts continues with the board of Abrdn Japan ([AJIT](#)), a small, poorly performing large company fund, announcing a merger with the top-performing smaller company activist Nippon Active Value ([NAVF](#)).

Shareholders in the £86m AJIT, whose stock trades at a 15% discount to asset value, giving it a market capitalisation of just £73m, will be given a 25% cash exit and the opportunity to roll the rest of their money into the £164m NAVF.

Managed by James Rosenwald of Rising Sun Management, an affiliate of Dalton Investments in Los Angeles, NAVF has, according to AJIT, been the best-performing Japanese investment trust since its launch in February 2020, delivering an underlying total investment return of 52.8% up to 31 March.

According to the latest data from Numis Securities, as of yesterday NAVF's net asset value (NAV) had grown 48.5% in the past three years, underpinning a total shareholder return of 53.4%. Both figures beat the 10 other London-listed Japan closed-end funds and the country's stock market indices: the TSE 1st Section which rose 19.7% and the Topix Small Cap which gained 12.4%.

AJIT, lead managed by Abrdn's head of Japanese equities Chern-Yeh Kwok, has grown its NAV by just 6.6% over the same period with the lowly-rated shares providing a return of only 4.4%.

Karen Brade, the chair of AJIT, said the merger would give investors access to a 'focused and differentiated investment opportunity with a strong track record' and a larger, more highly-rated and liquid investment trust. Its shares currently stand on a 2% premium to NAV.

Brade, who also sits on the boards of Augmentum Fintech ([AUGM](#)) and chairs Keystone Positive Change ([KPC](#)), said she and her fellow non-executive directors consulted major shareholders and began a formal review after the trust's discount exceeded the 10% average threshold in the 90 days to 31 March. This would have required a continuation vote at this month's annual general meeting which will be delayed as approval from both trusts' shareholders for the combination is sought.

Brade and David Warren, the other non-exec with shares in AJIT, will both roll their stakes into NAVF. Institutions representing around 30% of AJIT shares have also indicated their support. They are likely to be the discount-hunting value investors 1607 Capital Partners and Allspring Global Investments which, according to Refinitiv, are the trust's top shareholders owning 19% and 11% of the shares.

NAVF will issue new shares to incoming AJIT investors on a formula asset value basis with the NAVs of both trusts adjusted for costs, dividends and the cash exit. The cash exit will be priced at 2% below asset value.

Reconstruction costs

Rising Sun, the Dalton affiliate that is NAVF's investment adviser, has agreed to pay up to £800,000 in costs for the reconstruction.

'After a very thorough and comprehensive review and selection process, your board has concluded that the proposal represents a highly desirable opportunity for shareholders. We believe the most compelling Japanese strategy, to achieve strong, uncorrelated returns, is active engagement with undervalued small and mid-cap companies. NAVF is already pursuing this strategy and we believe is well positioned to deploy our additional capital and to generate superior performance for shareholders.

'We expect that the combination with NAVF will also result in enhanced liquidity and a stronger rating, with fees set at competitive levels. I commend the proposal to shareholders,' said AJIT chair Brade.

NAVF chair Rosemary Morgan said: 'The increased assets which the transaction would deliver will continue the growth and success of the company, benefiting both our existing shareholders, but also the AJIT shareholders who become part of a larger entity with an excellent track record and greater economies of scale.'

The announcement came as the £35m Abridged Latin American Income ([ALAI](#)) trust updated investors on the [liquidation it announced in March](#), saying the process would cost £320,000. Shareholders will vote on the windup next month.

In February the £68m Abridged Smaller Companies Income ([ASCI](#)) launched a [strategic review](#) to find another investment trust to merge with. ■