

Keep Them Coming

Stockholm (HedgeNordic) – Sector Zen, an Oslo-based long/short equity fund focused on the Japanese stock market, has received another takeover bid for one of its holdings. Machinery and electronics maker Toshiba just announced plans to buy out the minority shareholders of its 52.4-owned subsidiary NuFlare Technology, one of Sector Zen's holdings. This represents the 36th takeover in the fund's portfolio since launching in the first half of 2006.

According to the Sector Zen team, comprised of investment manager Trond Hermansen (*pictured*) and analyst Lars Solberg, more than two-thirds of the fund's long portfolio include attractively-valued subsidiaries and affiliates of larger parent companies. Japan has long been known for the practice of cross-shareholdings, where firms maintain equity stakes in each other to strengthen business ties. However, there is increasing pressure on companies to reduce cross-shareholdings, which can create a conflict of interest between parent companies and minority shareholders. Firms with cross-shareholdings, therefore, are increasingly encouraged to either sell their stakes in listed affiliates or buy out minority shareholders.

Hermansen and Solberg expect that "buy-ins and spin-offs within this space will continue to be a driver of portfolio returns going forward." Sector Zen gained 18.4 percent year-to-date to the end of October. The minority shareholders of NuFlare Technology received a cash bid of 11,900 yen per share, which represents a 6.4 percent premium over the pre-announcement close. The shares of NuFlare rallied during the previous trading sessions on financial media speculation of an imminent takeover bid. The real premium, therefore, amounts to 45.5 percent, according to the Sector Zen team.

Sector Zen's position in NuFlare accounted for 3.7 percent of its net assets before the media speculation about the takeover, with the holding expected to contribute an estimated 1.7 percent to the fund's overall return on a gross basis. NuFlare had been a strong performer for Sector Zen before the takeover, with its shares having gained 124.3 percent year-to-date.