INVESTMENT TRUSTS

The investment trusts with uncertain futures

Over the next month, shareholders in nine funds will decide whether or not their trusts should continue to exist

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Following four sets of continuation votes in May, the investment trust sector will face a more significant moment of truth in June, as the spectre of consolidation rears its head again.

Shareholders are typically given the opportunity to participate in a continuation vote every three or five years. But in some instances, if a trigger event occurs, then an additional continuation vote is held. The criteria for a trigger event will differ according to the constitutions of the individual funds, and the thresholds could differ significantly.

For example, **US Solar Fund (USF)** had an average discount to NAV of over 10 per cent in 2024, which brought on a continuation vote in accordance with the trust's articles of association.

If shareholders vote against the continuation of a trust, it will either be wound down or subject to other reform measures.

Which trusts are at risk?

Discounts remain wide across the investment trust sector and are a good starting point when it comes to evaluating the likelihood of a fund failing a continuation vote.

Upcoming votes

Investment trust	Date of continuation vote	Discount to NAV (%)
Nippon Active Value Fund	**5 June**	**-2.8**
Downing Renewables & Infrastructure	5 June	-28.1
BioPharma Credit	9 June	-12.4
Aurora UK Alpha	11 June	-11.5
Invesco Bond Income Plus	11 June	1.4
Octopus Renewables Infrastructure Trust	13 June	-28.8
JPMorgan US Smaller Companies	17 June	-5
Vietnam Enterprise Investments	18 June	-21.5
Maven Renovar VCT	19 June	-6.6

Source: AIC and Morningstar

Nippon Active Value Fund (NAVF), **Invesco Bond Income Plus (BIPS)** and **JPMorgan US Smaller Companies (JUSC)** are all trading either at a premium or a narrow discount, and, on this basis, are likely to survive their continuation votes.

In contrast, **Downing Renewables & Infrastructure (DORE)**, which is trading at a substantial 28 per cent discount, is at risk.

Mick Gilligan, head of manager portfolio services at Killik & Co, said that while the trust's board recently declared that the majority of its shareholders have expressed support for continuation, this should not be taken as assurance that the vote will pass.

"[DORE] also has the smallest market capitalisation [£146mn] in its peer group," Gilligan added, which is important to bear in mind as smaller trusts are especially vulnerable to corporate action.

Analysts are equally cautious about the prospects of **Octopus Renewables Infrastructure (ORIT)**, which is trading at a 29 per cent discount. While the trust does have some elements in its favour, including lower than average exposure to renewable energy certificates (ROCs), this may not be enough to secure sufficient continuation votes.

"ROCs are received in addition to revenue from the sale of energy, thereby providing two revenue streams for the same MWh of energy generation. Once these ROC schemes end, this revenue is lost. So, this arguably places ORIT at a competitive advantage to peers," Gilligan said. However, he noted "this feature does not appear to be sufficiently attractive to improve the rating versus the peer group. I think the vote could be a close call".

Added to this, Stifel analysts argued that the fact the trust only has a continuation vote every five years might work against it, as "shareholders have less opportunity to voice dissent, versus many peers which potentially can have a vote every year if the discount is wider than 10 per cent".

CQS Natural Resources (CYN) has gone down a different route.

The trust announced this week it would stop holding annual votes if shareholders back a plan that involves reducing management fees and do not take up a tender offer in great numbers. The tender offer has no cap.

The new strategy comes after the intervention of Saba Capital, however, which will tender its 29 per cent of the trust's shares as part of the plan. The next continuation vote will be in 2028, "in order to provide shareholders who remain invested . . . a period of stability".

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Outcomes so far

Continuation votes for several trusts have taken place in recent weeks. **Impax Environmental Markets (IEM)**, **US Solar Fund (USF)** and **BlackRock World Mining (BRWM)** emerged unscathed, securing 90 per cent, 81 per cent and 99.7 per cent of their respective votes.

However, **Fidelity Japan Trust (FJV)** found itself in hot water, with 82 per cent of votes cast against the continuation of the fund.

In anticipation of the continuation vote not passing, the trust's board had announced a formal review process April, as well as instructing Stifel to begin a process of inviting formal proposals to the board.

In a statement to the London Stock Exchange following the continuation vote, the trust's board said that it had "recently received formal written nonbinding proposals from a small number of London-listed investment companies focused on investing in Japan."

This follows an earlier public bid by **AVI Japan Opportunity Trust (AJOT)** to merge with the trust, which it claimed would allow shareholders to benefit from a larger, more liquid fund.

The proposed merger drew support from **City of London Investment Group (CLIG),** Fidelity Japan Trust's largest shareholder. However, the trust's board rejected the proposal at that time, arguing that shareholders should have the opportunity to participate in a continuation vote before a decision was reached.

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