NATIONAL POST

Saturday, December 08, 2007

Middlefield looks to make a Mint

Barry Critchley

Off the Record

Middlefield Capital Corp. wants to join the ranks of structured product issuers that have raised capital by way of a rights offering.

Through MINT Income Fund, Middlefield hopes to raise $46.8-million from a rights offering, the record date for which is next Wednesday.

The offer expires on Jan. 10 and ownership of three rights --Middlefield is issuing 14.7 million of them -- allows the holder to purchase another unit at $9.75 per unit. After the 15c subscription fee is paid, the fund will receive $9.60 per unit.

The subscription price turns out to be 84.1% of the net asset value the day the deal was announced but 89.4% of the trading price of the units.

This deal marks the first time that Middlefield has used a rights offering, a process that gives all unitholders the right to participate. Unitholders can either take up their rights -- and hence maintain their percentage stake-- or they can sell them and pocket a little cash. The rights are expected to start trading on Thursday.

But Middlefield has merged funds as part of a plan to make them bigger. Back in 2005, it acquired the investment portfolio of SAGE Income Fund and this year acquired the portfolio of MATRIX Income Fund. In both cases, it issued units on June 30; MINT had assets of $200.8-million and net assets of $169.6-million.

By offering rights, Middlefield isn't being abusive to its existing shareholders. The reason: All shareholders are offered a chance to participate in what is an attractive deal given that the units are being sold at a discount to the fund NAV. Accordingly, while everybody gets gouged a little, existing shareholders also do the benefiting.

On the other hand, a similar statement can't be made about exchange offerings. In those situations, a fund offers to "buy in" holdings -- typically of income trusts, but this year, for the first time regular common shares, --and issues its own units. (Enervest did such a transaction a few months back.) Given that the exchange takes place at market prices -- which are typically for a closed-end fund below NAV-- the benefit flows to the "new" unitholders, the group that swapped their holdings in for new units.

"It is a great deal for those who trade in their units/shares of something else for Enervest units … it's just not a good deal for existing Enervest unitholders who are effectively on the other side of the trade," noted one Enervest unitholder, who was angered by the decision to issue units when the gap between the fund's trading price and net asset value was at record levels.

Quite simply, when the units are trading at prices significantly below NAV, issuing more units means a reduction in NAV.

But exchange offerings are good for management -- given that they receive a fee based on the amount of assets under management.

Financial Post
bcritchley@nationalpost.com