



FIRST MOVER ADVANTAGE: THE MFM UK PRIMARY OPPORTUNITIES FUND

There are many ways to invest in equities and fund managers are continually trying to find the best opportunities to include in their portfolios. At RC Brown, the management team of the MFM UK Primary Opportunities fund have honed a strategy that highlights the importance of buying into companies at a discount to the prevailing market price and aims to add value in all market conditions.

As the name suggests, the fund focuses on 'primary opportunities' and acts in a similar way to a special situations fund. However, whereas a special situations fund will specifically target distressed or weakened corporates ripe for a turnaround, the MFM UK Primary Opportunities fund looks at companies seeking to raise capital for expansion, acquisition or debt reduction.

When a company decides to raise money, it can either issue debt or shares. While both options have their merits, high levels of debt are not considered attractive by the stock market. Conversely issuing equity is an attractive option for many companies and it is permanent capital, unlike debt it does not need repaying, nor is there an interest charge.

The MFM UK Primary Opportunities fund team, headed up by Oliver Brown, who took over as lead manager in May 2013 from Robert C Brown, who has managed the fund for over two decades, leverage their unrivalled access to the wholesale equity market and identify companies looking to raise capital. They have identified four main areas of opportunities:

- Initial Public Offerings (IPOs) - a company goes public for the first time
- Primary Placings - an already listed company issues new shares
- Secondary Placings - sale of existing shares where we know who the seller is and the reason for selling
- Sub-Underwriting & Rights Issues - Sub-underwriting can produce useful income and buying the rump following a rights issue provides an opportunity to buy in at often a depressed share price level

Whatever the opportunity, Oliver Brown and his team use their status to be at the front of the queue and take part in these events. Unlike distressed businesses, these companies will



OLIVER BROWN
Lead Fund Manager,
R.C. Brown

usually be in good shape and are pursuing further growth. The team use these events to strategically initiate footholds in these businesses and gain vital access to potential upside. This tactic also allows the managers to take advantage and buy shares at a discount to their current market price more often than not free of commission and stamp duty, greatly reducing the fund's transaction costs which aids performance and limits the downside.

In terms of portfolio construction, the MFM UK Primary Opportunities fund employs a flexible approach. The fund can invest in any company size, however the team prefer companies whose market cap is in excess of £100m, for liquidity purposes. The nature of this process leads to a majority share (albeit underweight its benchmark) in large caps, a neutral mid-cap weighting and an overweight small cap position, the latter reflecting a large number of opportunities in the small cap arena.

Many different sectors feature in the fund, with its largest over-weights in health care followed by technology, industrials and consumer services, with underweight positions in financials and oil & gas. The fund however does not look to take large sector bets compared with the FTSE All-Share instead it seeks to participate in a broad array of primary opportunities across different sectors. Unlike an income fund, the UK Primary Opportunities fund does not have a strict dividend policy. But because the team seek profitable and thriving businesses, most companies are either paying a dividend or have the intention of paying one in the foreseeable future. As a result, nearly every stock the fund holds (ranging from 50 to 70 names at any given time) is paying a dividend.

There are numerous examples of cases where it has successfully taken part in primary opportunities and initiated holdings in valuable

companies. For instance, the fund has been involved in numerous IPOs, including Alpha Financial Software, Eve Sleep and Eddie Stobart Logistics. The latter (Eddie Stobart) was seeking to repay expensive private equity debt and raise additional funds for acquisitions. Though not the most glamorous sector, the business has sector leading utilisation rates and a compelling valuation of a 14x P/E and a 3.5% dividend yield that is forecast to grow.

The fund also bought into HSBC in 2009 when it carried out a rights issue, and has continued to hold it throughout the financial crisis up until today. While many have concerns about banks, HSBC has continued to offer international exposure and a dividend yield of 5%, thus justifying its ongoing presence.

This unique approach means that the MFM UK Primary Opportunities fund's cumulative performance makes impressive reading. Over five years to 26th June 2017, the fund has produced a return of 85.1% compared to 72.6% in the IA UK All Companies sector. And performance has further improved recently, with the fund returning 36.2% over the past year compared to the sector average of 25.6%.

CONTACT DETAILS

R C Brown Investment Mgt PLC
No.1 The Square
Temple Quay
Bristol BS1 6DG

Contact: +44 (0)117 925 6073
Email: myri.prior@rcbpo.co.uk
Mobile: +44 (0)07961 164 750
Website: www.rcbpo.co.uk

Source: FE Analytics

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Fund	30/06/2012 to 30/06/2013	30/06/2013 to 30/06/2014	30/06/2014 to 30/06/2015	30/06/2015 to 30/06/2016	30/06/2016 to 30/06/2017
MFM UK Primary Opportunities P Acc	14.99	12.35	4.67	-0.52	33.21
Sector : IA UK All Companies	22.26	13.99	7.03	-4.10	22.53