

Q&A



OLIVER BROWN

LEAD FUND MANAGER
MFM UK PRIMARY
OPPORTUNITIES FUND
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COULD YOU EXPLAIN YOUR INVESTMENT FRAMEWORK?

We look to buy into companies when there is a natural institutional primary opportunity, typically when a company is raising money. These companies issue new shares because often they're looking to expand their operations by increasing growth or buying other businesses. They may also be seeking to reduce debt or increase their working capital. We look at most IPOs that come to the UK market as this is the start of the company's listed life and is one example of a primary opportunity. We only invest in a small number of IPOs that we see and even if we don't invest there are likely to be many further primary opportunities available if the company is successful. We're always looking to buy into companies that tick a lot of the valuation metrics that other investment managers also consider. Ultimately, we're looking to purchase when there is a natural institutional opportunity to do so and often we're buying free of stamp duty and commission.

APART FROM IPOs, WHAT SORT OF OPPORTUNITIES DO YOU LOOK FOR?

There are four strands to our buying approach. The first involves primary placings - when a company already listed issues some new shares. The second strand is secondary placings when we are buying from

a known seller at a discount. The third is IPO's. And finally, the fourth strand looks at rights issues and sub-underwriting.

DO YOU WANT TO OUTLINE SOME EXAMPLES OF SOME OF THOSE OPPORTUNITIES?

We recently participated in a placing for Marston's, a pub company who raised £79 million. It issued 10% of its share capital in order to purchase Charles Wells, a UK brewer that owns brands such as Young's, Courage and Wells. It also owns distribution rights in the UK of the lagers, Estrella and Erdinger and many others besides. They bought the business for £55 million in addition to this they bought large pub sites, for a consideration of £16m. The shares were offered at a discount of 4% to where they had previously been trading. In our opinion Marston's is a well-run pub company - it is a stable business with a dividend yield of 5.5% that is 1.9x covered.

Despite the IPO being over 10x oversubscribed we were allocated a holding in Alfa Financial Software, a market leader in the fast growing asset finance industry, providing software solutions for a broad range of banks, manufacturer financed financial arms and independents. Alfa's software is increasingly in demand as the trend for renting rather than buying products grows and regulation becomes more onerous. It is expected to consolidate its market position in a fragmented market place.

Eve Sleep was also acquired at IPO. Eve is the UK market leader in selling mattresses and bedroom ware online. By selling direct to the consumer, its premium mattresses are considerably cheaper than buying a similar quality mattress from a department store. The company is growing rapidly and aims to be the European market leader.

WHAT IS YOUR POLICY TOWARDS DIVIDENDS?

We look to buy into companies that are profitable and pay dividends or in the case of the IPO that have the intention to pay dividends in the foreseeable future. We are often buying into companies with impressive growth levels who have the ability to grow dividends strongly going forward. Overall, most companies we hold pay dividends with the portfolio yielding over 3%.

BEING AN OPPORTUNITIES FUND, IS PERFORMANCE VOLATILE? WHAT'S YOUR STANDARD DEVIATION AND DRAWDOWN LIKE?

Our standard deviation and drawdown has been impressive. Over five years we are top quartile for performance, standard deviation and drawdown according to Citywire data, including being ranked 12/216 for standard deviation over this period. The past three months we are also top quartile performance again, returning 10%, but are ranked 1/254 for standard deviation.

This shows that our risk controls do work, even as our long-term and short-term performance remains strong. It is an on-going process, too. One of the biggest changes we made recently was allocating less to small caps. Previously, we would have a 2.5% allocation to a small cap company, often with a market cap of around £100 million. This has the potential to yield big rewards. But there are downsides and it's not a strategy that I want to repeat, so we now take up to 1.5% initial position in small caps. In 2008, only 30% of the portfolio was in the FTSE 100 and unfortunately we really suffered as there was not sufficient liquidity and small caps hugely underperformed. It has been a steep learning experience that has really made the fund a lot stronger and more robust and we now look to hold at least 50% in large cap stocks.

FINALLY, WHAT SORT OF INVESTORS DO YOU THINK MIGHT BE INTERESTED IN THE FUND?

Our fund is the only fund that focuses on providing investors access to primary markets, investors benefit from discounts to the prevailing market price of company's shares, which are often purchased free of stamp duty and broker commission. Managed by an experienced team for over two decades, financial professionals should consider this fund as a staple in their clients' portfolios. This is mainly because, as well as our strong performance, together with a consistent dividend yield, the fund is very different to anything else out there. We are the only fund that focuses on primary opportunities allowing investors exposure to this area of the market.

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

The past is not necessarily a guide to future performance. Investments and the income derived from them can fall as well as rise and the investor may not get back the amount originally invested. The fund is subject to an initial charge and consequently charges are not made uniformly throughout the period of the investment. Forward looking statements are based on Marlborough's current opinions and opinions expressed are subject to change without notice. Details of the risks relevant to each fund can be found in the Prospectus. This document is provided for information purposes only and should not be interpreted as investment advice. The Key Investor Information Document and the Full Prospectus for all schemes is available free of charge and can be obtained by contacting us via our website at www.marlbroughfunds.com. Please note that for your protection telephone calls may be recorded. This material is a communication to professional advisers only and should not be disclosed by such advisers to their customers or other non-professional individuals without first contacting Marlborough for permission to communicate this material as a Financial Promotion. It has not been approved by Marlborough Fund Managers Limited for this purpose.

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