

Q&A



OLIVER BROWN

LEAD FUND MANAGER
 MFM UK PRIMARY
 OPPORTUNITIES FUND
 RC BROWN

CAN YOU EXPLAIN THE MFM UK PRIMARY OPPORTUNITIES FUND?

Knowing how primary markets work is key to understanding the manner in which we, R.C.Brown Investment Management, manage the MFM UK Primary Opportunities fund.

The primary market refers to the market where companies issue new shares in order to raise capital. The majority of newly issued shares are only made available to institutional investors – typically at a discount to the prevailing market price, free of stamp duty and commission and when all known information is disclosed to the market. Thus we have a price advantage from the outset as well as minimizing any transaction costs.

Since 1996, R.C.Brown have harnessed many years of experience in this market, together with our institutional standing, to create a fund that provides investment advisers access to these primary opportunities that are otherwise eluding them and therefore, their clients' portfolios. We are active fund managers, driven by our bottom-up process, therefore we look at all primary opportunities, but only invest in a few. Typically we hold between 50 and 70 stocks.

These opportunities manifest themselves in a number of ways and provide the catalyst for investing. Firstly, primary placings by existing quoted companies wanting to raise money by issuing new shares, usually for expansion or acquisition purposes. Then there are secondary placings by strategic or forced sellers, which is typically by private equity, founders, or management. Thirdly, we look at most IPO's that come to the London market, particularly those with a valuation in excess of £100 million, as it is prudent to manage the liquidity of the fund. We are highly selective, so even if we do not invest at IPO there should be more opportunities in the future by way of a primary or secondary placing, especially if

they're successful. Lastly, sub-underwriting and buying the rump of rights issues where sub-underwriting provides useful income and where we might look to buy the rump, i.e. those shares not taken up by existing shareholders. We are not merely buying second hand shares from other informed investors.

WHAT PERCENTAGE OF THE FUND IS SMALL AND MID-CAP?

Typically, 50% of the fund is invested outside of the FTSE100, about 15% is in the FTSE250 and 33% in small caps with the remainder in cash. We find a lot of our opportunities in the small and mid-cap space as these companies are often capital raising to fund future growth and acquisitions.

Whilst we like a balance in the portfolio, good quality small caps over the longer term have produced excellent returns for our portfolio and now form part of our mid and large-cap weightings. In order to reduce volatility we rarely invest in micro caps (sub £100 million market cap).

I took over as lead manager in 2013, we have since reduced our initial position in any one stock to around 1 - 1.5%. Our performance has steadily improved and the volatility has significantly reduced, giving investors a much smoother ride.

WHY DO YOU THINK SMALL-CAPS HAVE OUTPERFORMED, POST-BREXIT?

It's in part a rebound because smaller capitalised stocks underperformed so drastically in the days after the referendum. Also the fear of Brexit, at least so far, is greater than the reality.

Given a 20% fall in sterling, we favour small-cap companies that have a global footprint, they still export their services and goods overseas and a weaker Pound makes British companies more competitive. We have also seen reasonable levels of M&A. Overseas buyers have looked at some of our smaller companies and in currency terms they are more attractive.

MORE BROADLY, ARE YOU CONSTRUCTIVE ON UK GROWTH SINCE IT WILL HAVE A SIGNIFICANT EFFECT ON SMALL-CAPS?

We are constructive in terms of growth remaining positive in the UK, but nevertheless, we recognise that UK growth has slowed and we are no longer one of the fastest growing developed economies. No one knows what Brexit will look and feel like yet, it's a fluid situation.

Our base case is that it is in nobody's interest that we get to March 2019 with no agreement reached on our trade relationship with Europe. So yes, we're

constructive, but we are conscious that there is likely to be a veil over UK growth for a period of a few years. Nevertheless, we consider the UK reasonable value compared to other major developed markets.

DO YOU THINK THAT FAVOURS AN ACTIVE APPROACH, RATHER THAN JUST BUYING A FTSE ALL-SHARE INDEX TRACKER?

Absolutely. We can decide if there are companies that we feel are particularly exposed to uncertainty, whether that is because of their trading relationship with Europe or perhaps because they are very UK focused. Typically smaller companies trade at cheaper multiples than large international businesses. So in some ways you've got some protection already built in and if you really do your due diligence then you can limit any negative impact of Brexit – unlike buying an index tracker.

WHAT SORT OF INVESTORS DO YOU THINK WOULD BE INTERESTED IN THE FUND?

It ought to attract investors who want a UK fund manager who is offering a proven process and access to a different part of the market than other fund managers. R. C. Brown actively manages a unique fund, providing access to primary markets, thus giving retail investors access to transactions that are almost exclusively only offered to institutional investors.

Our performance has been very strong compared with our peers and the FTSE All-Share; we've been top quartile over three and six months, one year and three years; our managers are Citywire A-rated. We expect to continue to see a good level of primary opportunities going forward that should allow us to continue to add alpha to the portfolio.

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 R. C. Brown Investment Management'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 directly using the contact details contained in this document, alternatively the documents can also be obtained via www.marlbroughfunds.com. Please note that for your protection telephone calls may be recorded.

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Contact details: R.C. Brown Investment Mgt PLC, No.1 The Square Temple Quay Bristol BS1 6DG, Phone: +44 (0)117 925 6073, Mobile: +44 (0)7961 164 750, Email: myri.prior@rcbpo.co.uk, Website: www.rcbpo.co.uk

Fund/Benchmark Name	31/08/2012 to 31/08/2013	31/08/2013 to 31/08/2014	31/08/2014 to 31/08/2015	31/08/2015 to 31/08/2016	31/08/2016 to 31/08/2017
MFM UK Primary Opportunities P Acc	13.59	10.82	-1.27	13.98	23.51
IA UK All Companies	23.55	9.67	1.52	8.85	13.77
FTSE All Share	18.90	10.33	-2.34	11.73	14.33

Source: FE 2017