ADVERTISEMENT FEATURE

R.C.B Primary Opportunities

SIX PRIME REASONS TO BACK PRIMARY OPPORTUNITIES

Primary opportunities – buying shares in a company at the point it is raising money – are a compelling proposition for advisers looking to diversify their clients equity portfolios and cushion them against market volatility.

'Companies raise money for a number of reasons – it may be to make an acquisition, increase research and development, provide working capital for expansion or reduce their debt,' said Oliver Brown, Lead Manager of the MFM UK Primary Opportunities Fund.

'Whatever the reason, we focus on quality companies that are profitable and stand to deliver strong returns to investors.'

Below, he outlines six reasons why an allocation to primary market opportunities can add value to clients portfolios:

1. INVEST WHEN FULLY INFORMED

Investing in primary opportunities enables Brown and his two Co-managers to back businesses when all known information is available to the market. 'At R.C. Brown we've applied our primary opportunities process to running client assets since 1990.' says Oliver 'We successfully run in excess of £100m via this strategy.' When a primary opportunity arises, he receives a wealth of information on a company's financial position and is able to talk directly to its management team.

'When companies come to potential investors they have to lay everything on the line,' said the Citywire AA-rated manager.

2. BUY AT A DISCOUNT

Because a company is releasing a large amount of stock into the market, it offers an incentive to potential investors by way of a discount – anything from 2-10%, but typically 5-7% – on where the shares were trading at, or in the case of IPO's where we feel they would trade once listed.

'Our institutional standing allows us to harness these discounts for the benefit of our investors. We are buying in at a lower price than most other investors, providing a buffer against market volatility,' said Brown. 'Recently, we've seen some fairly sharp falls and the fact that we've bought at a discount gives us an element of protection.'

'This has been proven during the recent market turbulence, our Fund has fallen less than the market as a whole, in part aided by our ability to purchase at a price lower than our peers.'

Similarly, when markets are rising Oliver and his team have on average a 6% head start in performance terms, significant enough to give this Fund an edge over other funds.

3. REDUCE INVESTMENT COSTS

Around 30% of the Fund is in companies it originally invested in at the initial public offering (IPO) stage – and in doing so, the manager's bought the shares without paying stamp duty or brokers' commission.

'Because these are new shares being issued, we save 0.5% by not paying stamp duty and another 0.1-0.2% in dealing commission,' said Brown. 'These costs can add up over the long run, particularly if you're a fairly active fund manager.'

The fund has an OCF of 0.89% - 0.75% is R.C. Brown's management fee and another 0.14% is administration and share dealing costs on investments where stamp duty and dealing commission may apply, such as a sell-down by existing shareholders, for example private equity or management. The important point is that the Fund is always looking to buy into companies at a lower overall cost than the market.

4. OBTAIN ACCESS TO INSTITUTIONAL MARKETS

These types of investments are typically only available to institutional investors and even then, only firms with dedicated resource to such a specialist area tend to participate.

'It can be quite time consuming and you need to have forged good relationships with the investment banks that are bringing these investments to market,' said Brown. 'If it's not what you do as your bread and butter, it can be quite difficult to know what you are looking at and what the "right" [purchase] price would be.'

He has worked on the MFM UK Primary Opportunities Fund, the only Fund dedicated to this area of investing, for 12 years (the past five as Lead Manager), while Co-managers Bob Brown and Alan Beaney have 45 and 35 years' experience respectively.

OLIVER BROWN
Lead Fund Manager,
MFM UK Primary
Opportunities Fund

5. DIVERSIFY UK EQUITY HOLDINGS

Investing in primary opportunities aids diversification in a UK equity portfolio. 'This is a Fund that does something different, so our active holdings will be different to other UK equity funds,' said Oliver Brown.

The Fund itself is well diversified with 75 holdings across a broad spectrum of sectors. 'We expect pretty much every company to have some sort of primary opportunity over an economic cycle and many companies will have more than one,' added Brown.

Active holdings include many growth companies, some of which have out-performed even the market's high expectations. FDM, a provider of quality IT graduates to a blue-chip client base, for example, was purchased at IPO in 2014 and has consistently beaten market expectations. The Fund's best-ever investment, Fever-Tree, the producer of premium drink mixers, has made a 2,000% return for investors since it floated in November 2014. Conversely, under-weight positions include the likes of oil giant Royal Dutch Shell and international banking giant HSBC, 'not particularly exciting' says Oliver, 'but they're in the portfolio for a reason, they serve a purpose; are good solid dividend payers, providing stability to the portfolio in volatile markets such as we have recently experienced.

6. COMBINATION OF INCOME AND GROWTH

When investing in a company at IPO, Brown typically expects there to be 15-20% upside in the share price over the medium term – 'once the company has floated and started to attract investor interest'.

One forthcoming IPO he is looking to invest in is Chargemaster, Britain's biggest name in electric vehicle charging. While companies like this may be more focused on aggressive expansion than paying an income, Brown believes distributing dividends to shareholders is an 'important discipline' for any company.

'We like companies that are profitable, paying a dividend and growing that dividend or those that have an ability to pay a dividend,' he said.

The Fund yields just over 2% and offers a steady source of income as well as the potential for capital growth. 'This is not an income fund, but offers a reasonable level of income. 'Because we're doing something different there should be no significant overlap with other UK equity fund holdings' said Brown.

The Fund boasts first quartile performance over 1 and 3 years and since its launch in 1996 – something it has achieved with lower volatility than its IA UK All Companies peer group.

Contact details: R.C. Brown Investment Management PLC, No.1 The Square, Temple Quay, BRISTOL BS1 6DG, Telephone: +44 (0)117 925 6073, Mobile 07961 164750, Email: myri.prior@rcbpo.co.uk, Website:www.rcbpo.co.uk