

INVESTMENT FIREPOWER

The Citywire A-rated managers of the MFM UK Primary Opportunities fund have significant firepower in their arsenal to take advantage of current market volatility and forthcoming primary opportunities.

The trio – lead manager Oliver Brown alongside his two co-managers, Bob Brown and Alan Beaney – are holding 10% of the fund in cash, up from typically 3%, ready to deploy when markets sell-off and discounts rise.

‘We continue to consider the UK market to be unloved and offering value,’ says Brown. ‘With a UK market dividend yield in excess of 4%, regardless of the inevitable volatility, we are paid to wait and we believe greater certainty over Brexit and the health of the global economy will emerge in coming months.’

The Fund’s assets have more than doubled, from £10 million a year ago to £23 million today, as a growing band of wealth managers realise the downside protection that their approach offers.

‘Whilst the primary market affords us the ability to buy stock at a discount to the prevailing market price, or what the market considers to be fair value, it does not mean that prices will not fall during a market downturn,’ says Brown. ‘However, for our Fund any falls should be less, by virtue of having bought into stocks at lower levels than the typical investor.’

BUYING AT A DISCOUNT

The MFM UK Primary Opportunities fund, which was launched in January 1996 and aims to outperform the FTSE All-Share index, boasts a diversified portfolio of 80 stocks that are picked up at a discount to the market. Most of these are bought as primary placings (when listed companies raise new capital) and initial public offerings, but the managers also participate in secondary placings and sell downs.

‘There are always acyclical liquidity events in the form of secondary placings – founders and management selling stock to diversify their wealth, or forced sellers who need to liquidate assets to pay their tax bill, or even divorce,’ says Brown.

‘The important point for us when buying

already existing shares, is to know who is selling and why. As long as we are comfortable with the reasons and buying at a suitable discount to the prevailing market price, and of course it is a company we wish to invest in, then we will seek to make an investment.’

LEADING THE MARKET

The trio invest in companies when listing (IPOs) either on the main market or AIM, or in companies that are already listed that are looking to raise funds (primary placings). Unlike private equity managers, the managers of the fund are not investing in business plans. Rather, they prefer companies that are market leaders or have a special market position, a track record of meeting or exceeding market forecasts and a management culture of under-promising and over-delivering. They favour companies that are profitable, pay dividends, have solid balance sheets and strong cashflow.

Valuation is a key metric in the belief that companies that are modestly rated or trading at a discount to net asset value, are less likely to suffer sharp share price falls on worse-than-anticipated newsflow. The managers also like companies whose shares boast low levels of volatility, at least relative to the sector in which they sit.

It is this philosophy and process that makes the Fund less volatile than the average fund in the IA UK All Companies sector, while boasting a performance



OLIVER BROWN
LEAD MANAGER OF THE
MFM UK PRIMARY OPPORTUNITIES FUND

profile that ranks consistently in the top quartile.

Brown says that he and the other managers are ‘putting money to work as and when opportunities arise’ and anticipates 2019 being a bumper year for them.

‘What we can be sure of in 2019 is plentiful primary opportunities, and it is our job to select the best ones and maintain a well-diversified portfolio across sectors and the market cap spectrum that minimises the risks associated with equity investment,’ he adds.

FIRST MOVER ADVANTAGE

Discrete Annual Performance (Total Return %)- February 2019

Fund/Benchmark Name	28/02/2018 to 28/02/2019	28/02/2017 to 31/01/2018	29/02/2016 to 31/01/2017	28/02/2015 to 31/01/2016	28/02/2014 to 31/01/2015
MFM UK Primary Opportunities P Acc	0.05	11.58	25.22	-2.71	1.78
Quartile Ranking – IA UK All Cos	2	1	1	2	4
IA UK All Companies	-1.33	6.59	18.93	-5.22	3.76
FTSE All Share	1.70	4.40	22.81	-7.32	5.56

Source: FE 2019

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