



R.C.B. Primary Opportunities

OPPORTUNITY KNOCKS WHATEVER THE WEATHER

Back in 2009, companies flocked to capital markets to raise money to pay down their debt. Nowadays, companies are turning to investment markets to raise capital for a wider range of reasons – to provide working capital, undertake research and development or make an acquisition.

Oliver Brown, Lead Manager of the MFM UK Primary Opportunities Fund, the only Fund dedicated to investing at the point a company is raising money, said: ‘2009 was a record year in terms of opportunities – nearly ever property company and every bank needed to raise money – and a fantastic year for us in terms of performance, but different market conditions bring about different opportunities. Importantly, there are primary opportunities in all economic cycles.’

Brown and his two co-managers consider a couple of hundred opportunities every year and typically invest in 40 to 50 of them. Some 10% are typically initial public offerings (IPOs), with the remainder made up of fundraisings by already listed companies, rights issues and secondary sell-downs by existing shareholders (such as private equity backers).

For example, the Fund recently participated in a rights issue by Cineworld, when it raised £1.7 billion to buy Regal Entertainment, the second largest cinema chain in America. It has also bought Lloyds Banking Group stock in a secondary placing by the UK government.

Its best investment in recent years, however, is in Fever-Tree, the producer of premium drink mixers. It was valued at £154 million when it floated in November 2014; today it is valued at £2.9 billion and the MFM UK Primary Opportunities Fund has made a more than 1,700% return for investors.

‘That’s the exception rather than the rule,’ said Brown, who has taken profits on the position but still retains a shareholding. ‘Fever-Tree has under-promised and over-delivered in a big way. If you make two of these [types of investments] in your career you’re doing okay.’

He conceded that the stock is now expensive with a price/earnings (P/E) ratio of 60, but still has conviction in the Company’s management and believes the shares could have further to run amid a

push into the US where Fever-Tree hopes its rum mixers will fare well. ‘If it goes anything like it’s gone in this country, its shares will go significantly higher; the US is a massive market,’ added Brown.

KEY METRICS

Bob Brown founded R.C. Brown Investment Management in 1990. Client demand for a retail fund led to the launch of the MFM UK Primary Opportunities Fund in 1996, (formally known as the Quantock Fund, named after the local range of hills), to give retail investors the opportunity to access investments hitherto available only to institutional investors. He remains co-manager alongside Alan Beaney. Collectively, the three managers have almost 100 years’ experience in investing in primary opportunities.

Valuation is one of a number of key metrics that the trio use when making investment decisions: they look for good quality businesses that are profitable, have positive cashflows, a good growth profile, ideally pay a dividend and that they are crucially able to buy at a reasonable discount.

‘Broadly speaking, because companies are issuing a large amount of stock, to attract investors it has to be done at a discount – say, 5, 6 or even 10% – to what the shares were previously trading at,’ said Brown. ‘It’s important for us to buy at a discount to the prevailing market price as it gives us a buffer against market volatility; that’s what runs throughout our whole process.’

Before raising funds, companies need to disclose their current trading position, so their process allows the managers to buy stock when full information is available to the market.

‘We’ll have spoken to the company; we’ll have spoken to analysts and done our own due diligence. The investment banks will have done their due diligence, solicitors will have done the same. We’ll be as comfortable as we can be that we know the full picture of a company – we’re not buying from other investors and buying blind,’ said Brown, who has been Lead Manager since 2013. Likewise, valuation is key to the fund’s sell discipline. A P/E ratio of more than 25x’s would typically put a company on the team’s watch list.



OLIVER BROWN
Lead Fund Manager
MFM UK Primary Opportunities Fund

Other reasons to sell include; a belief that the discount has unwound and difficulty foreseeing where the next 10% upside will come from; buying another company that is similar or in the same sector within which the managers don’t want to be overweight; disappointing results or a profits warning; and share price volatility.

PIQUING THE INTEREST

The result is a portfolio that is currently made up of 75 positions across a broad spectrum of sectors. It remains the only Fund that gives retail investors unfettered access to primary opportunities in the UK.

It is this differentiation from mainstream UK equities funds that is piquing the interest of private and professional investors alike.

‘Lots of fund managers do similar things and perform in a similar way,’ added Brown, a Citywire AA-rated manager. ‘Because of the way we are buying opportunities, our profile is quite different. We can provide an area of expertise and specialism to a portfolio. If an investor holds four or five UK equity funds, we’d like to be one of them.’

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Fund/Benchmark Name	28/02/2017 to 28/02/2018	28/02/2016 to 28/02/2017	28/02/2015 to 28/02/2016	28/02/2014 to 28/02/2015	28/02/2013 to 28/02/2014
MFM UK Primary Oppor-tunities P Acc	11.56	25.11	-2.63	1.78	16.09
IA UK All Companies	6.59	19.18	-5.42	3.76	19.43
FTSE All Share	4.40	22.88	-7.37	5.56	13.29