Results analysis: Majedie Investments plc

We examine the potential for MAJE if sentiment toward the UK improves in 2021...

Kepler Trust Intelligence

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Today Majedie Investments announced its annual report for the year ending 30 September 2020. Over the period, the NAV fell by 11.7% on a total return basis, while the share price fell by 27.6% as the discount widened from 12.4% to 28.7%. In comparison, the FTSE All-Share Index lost 16.6% while the MSCI World rose by 5.3% over the same period. Stock markets have been dominated for the most of 2020 by the implications of COVID-19. However, the board believe that the wide discount at the close of the year "reflected general disinterest in UK assets in the second half of the year".

Total income received from investments was £6.0m compared to £8.0m in the 12 months to 30 September 2019. The interim dividend was maintained at 4.4p and the board is recommending a final dividend of 7.0p which is the same as last year. The board noted that they are "very aware of the importance of dividends to shareholders especially when other sources of investment income are scarce". As such they have dipped into their substantial revenue reserves to support the dividend, although only 5% of the total reserves was required.

Over the long term, the board continues to believe that the significant holdings in MAM and a broad exposure to MAM Funds will be beneficial to shareholders. This has been demonstrated in the improved performance of the trust in the second half of the year, also narrowing the discount as we discuss below.

Kepler view

Majedie Investments (MAJE) is a highly-diversified, self-managed investment trust offering exposure to a range of equity strategies – managed by Majedie Asset Management (MAM). Previously the trust sat in the AIC Global Growth sector, however it has recently moved into the AIC Global Equity Income sector which the board believes is a more appropriate peer group.

MAM was appointed to the trust in 2014 and retains a 17.2% stake in the asset management company itself, which currently represents 20.4% of NAV. During the year to September 2020, MAM's AUM fell from £10.8bn to £8.1bn principally due to market movements and outflows from its UK equity strategies. The chairman has recognised that "while the outflow reflects an ongoing trend of de-risking by pension fund trustees, it is encouraging that MAM continues to attract new clients notably the £900m Edinburgh Investment Trust which has performed well under MAM's management from March 2020".

In addition to its holding in MAM, the portfolio is split across six funds offering broad diversification. Predominantly this is via equities, but it includes an element of absolute return via the Majedie Tortoise Fund which is otherwise inaccessible to private investors.

Over the year to 30 September 2020, the main funds in which the company is invested performed well in relative terms versus comparable funds, particularly the UK Equity Segregated Portfolio, Global Equity Fund and the International Equity Fund (which make up close to 70% of the trust's fund investments).

UK equities have performed poorly versus the wider world however, and this means the UK equity weighting in the trust – its largest exposure – was the biggest detractor to MAJE's performance overall versus competitors in its previous global peer group. It is crucial at this point to consider the nature of the trust, however, and the position the UK is now in. The flexible investment process that MAM adopts, and the detailed fundamental analysis at its core, mean it is well placed in periods of uncertainty. In the market disruption that ensued following the lockdown the managers were able to obtain exposure to high quality companies that have significant competitive advantages that they believe will persist for several years to come, at attractive prices. Their view is that while many companies have been badly affected in the short term, they will emerge from the crisis stronger and fewer competitors. Poor investor sentiment toward the UK since the Brexit vote, as well as the low weighting of technology stocks in the index, are the main reasons behind the UK's relative underperformance. However, the managers continue to believe that the UK market offers an attractive number of opportunities and point out that it is currently trading at its cheapest level in forty years relative to the global indices.

Since the end of the resulting period, all long-only funds in which the company is invested have outperformed their respective index benchmarks and the global equity long/short Tortoise Fund is up over 20% in absolute terms. In addition, the discount has narrowed to the current level of 18%, from almost double this.

Given the significant discount of the trust and improving investment performance investor sentiment improving for the UK market they say there is the potential for a 'triple whammy' – a better environment for UK equities which provides a fairer wind for the NAV, and a consequent narrowing of the discount.

In the meantime investors can enjoy a yield of 5.1%, with substantial reserves behind it. MAJE has very significant reserves, equivalent to four years of dividends at the current level even if underlying income were to dry up entirely. In the uncertain conditions of 2020, few trusts have been able to maintain their dividends, and this makes MAJE an interesting option for those seeking a reliable source of equity income when many other sources have dried up.

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