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Results in focus: Majedie Investments

Majedie Investments (MAJE) released its interim results for the half year to 31 March 2020 this morning, including a major overhaul of its valuation methodology for funds business Majedie Asset Management...

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LAST UPDATE 27 MAY 2020

Majedie Investments (MAJE) released its interim results for the half year to 31 March 2020 this morning, reporting a fall in NAV over the period of 22.4% and a share price fall of 30.2% over the same period. Over the six months the FTSE All-Share index fell by 22.0% and the MSCI All Country World Index fell by 14.9% in sterling terms.

The board also announced an interim dividend of 4.4p, in line with the company's 2019 interim dividend, to be paid to shareholders on the register as of the 5 June 2020.

MAJE invests in funds managed by Majedie Asset Management (MAM), alongside holding a 17.2% stake in the asset manager itself. The latter investment has seen an overhaul of its valuation methodology in these results, with the board applying a new formula which it suggests gives a more relevant valuation than the previous methodology, which focused on longer-term historic earnings. As a result, the valuation of the trust's stake in MAM has fallen from £37.8m at 31 December 2019 to £30.6m at 31 March 2020. A full breakdown of this methodology can be seen below.

On the whole, the performance of several of the underlying funds detracted from overall performance, including the trust's UK and US allocations. However, in December 2019 MAJE did invest in a newly-launched MAM fund, the International Equity Fund, which outperformed its benchmark by over 8% over the period from launch to 31 March 2020. The Majedie Global Equity Fund outperformed by 1.4% over the interim results period.

Click here to read the full results

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Kepler view

With its asset allocation skewed marginally towards the UK, the board noted that the latter stages of 2019 and beginning of 2020 looked promising for the trust. Brexit uncertainty had subsided in the UK, with a new, stable government prompting a surge in the local market.

However, the latter two months of the reporting period were marred on a global basis by the impact of the COVID-19 pandemic. With economies – including the UK's – locking down, all previous market assumptions and outlooks stalled, with the impact still being felt across the asset management industry. While the full impact of the pandemic on the trust will not be seen until next quarter's results, it is fair to say that it has scuppered the long-anticipated resurgence in UK value stocks, which would have been positive for the trust.

Of particular interest for investors is the revised valuation methodology for MAM. The trust's 17.2% stake in the business represents 22.2% of the trust's own assets. In the past, the valuation has been based on historic three year average earnings, combined with a single digit multiple of AuM, after deducting surplus cash over and above the firm's minimum regulatory capital.

The impact of this methodology was that the asset manager's valuation had been especially conservative in rising markets and that the board had felt it necessary to manually adjust it when, for example, the asset management industry as a whole experienced increased downward pressure on fees.

The board's new valuation methodology should offer a more dynamic basis, more representative of MAM's recent condition, as well as removing the necessity for the directors to manually adjust the valuation. In particular, it incorporates the impact of potential industry-wide pressures through the application of a peer group average multiple and reduces the role of volatile performance fees in the valuation by applying a specific discount to these. It also routinely incorporates the company's private status. The fact that a new valuation will be published quarterly means that visibility and disclosure are also improved.

This new methodology has resulted in a fall in the MAM stake's valuation, despite the asset manager seeing net inflows in the most recent quarter, particularly through the appointment to manage Edinburgh Investment Trust PLC.

NEW VALUATION METHODOLOGY FOR MAJEDIE ASSET MANAGEMENT

"The revised basis for valuation annualises the most recent quarterly earnings of MAM, applies a median of a peer group price earnings multiple with an unlisted liquidity discount of 20% (although the Directors may adjust the discount depending on market conditions). Performance fee earnings multiples are further discounted by 50%. Surplus net assets are then added, having deducted 200% of Regulatory Capital.

It is intended that the valuation is updated each quarter and will be announced to the market. The Board believes the new valuation methodology will enhance the disclosure and transparency of the Company's investment in MAM for investors."

About MAJE

Majedie Investments (MAM) aims to maximise total shareholder return while increasing dividends by more than the rate of inflation over the long term.

The portfolio is divided into seven funds, all of which are managed by the well-respected boutique fund managers at Majedie Asset Management. MAM was launched in 2002 using finance provided by the investment trust and was led by a team that previously worked at Mercury Asset Management and Merrill Lynch. The strategy was to manage UK equities on behalf of institutional clients, but this has since been broadened to include global equities and an absolute return strategy, and clients now include wealth managers and endowments alongside institutions. The trust has a 17.2% stake in the privately-owned asset management company itself.

Alongside capital growth, dividend growth is an important part of the trust's investment proposition. The board re-set the dividend in 2014 and, since then, shareholders have seen compound progression in excess of 10% pa. The trust is currently yielding 4.6%.

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