Results analysis: Majedie Investments

MAJE's highly differentiated portfolio offers investors a diversified source of returns...

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- **Majedie Investments (MAJE) has released its annual results for the year ending 30/09/2023, the first following the transfer of portfolio management responsibilities to Marylebone Partners in January 2023. Over the period, MAJE's NAV total return increased by 14.1%. The managers report that investment performance between February 2023 (when they assumed investment management responsibility) and the financial year-end was effectively flat.**

- **Over the course of the financial year, MAJE generated a share price total return of 26.2%, which is reflected in the discount narrowing from 25.8% to 18.7%. Subsequently, MAJE's discount has narrowed to 12.1%, as at 29/12/2023.**

- **The dividend policy has changed following the introduction of the new investment policy which will see equal quarterly dividends paid, equating to approximately 3% of NAV over the year - the board hopes this will ensure greater clarity for shareholders. However, this has led to a 48.1% reduction in the dividend from the previous financial year reflecting the reduced focus on income.**

- **The new managers have largely completed the transition of the portfolio, and at the end of the year it comprised: External Managers (62%), Direct Investments (20%) and Special Investments (9%). The remaining 9% was in cash and UK gilts pending investment into additional Special Investment opportunities, which are expected to total around 20% of the portfolio in time, while there is also expected to be a reduction in the exposure to External Managers.**

- **The ongoing charges ratio increased over the period from 1.34% in the previous financial year to 1.98%, as at 30/09/2023. In part, this reflects the significant use of external managers in the portfolio. The board expects these associated costs to fall over time as the exposure to special investments grows, as they typically have lower management fees.**

- **Chairman Cristopher D Getley commented that MAJE's new investment manager, Marylebone Partners, "believes that this is an excellent juncture at which to be deploying capital." He also noted that "the board expects the period ahead to be defined by structurally higher rates, variable liquidity, more geopolitical and cyclical volatility, and greater fundamental price dispersion within markets", adding "this is precisely the sort of environment in which a highly selective, fundamental approach that features distinctive bottom-up investments should thrive."**

Kepler View

Majedie Investments (MAJE) aims to provide investors with a liquid endowment-like investment strategy. With the appointment of the new investment manager, Marylebone Partners, in January 2023, we believe MAJE now offers investors a truly differentiated investment proposition. The managers' ambition over the long term is to provide shareholders with an alternative to generic investment strategies whose historic success depended on cheap leverage, abundant liquidity, and rising asset prices. Although the strategy is focused on equities, the managers have an unrestricted multi-asset approach which could provide some stability and reduce volatility over time. Although it is too early to analyse performance, we think the portfolio includes some diversifying allocations which we don't think many investors will have exposure to, in addition to the prospect of new, alternative investment ideas.

We believe the mix of special investments, specialist external fund managers and public equities, could offer investors a diversified set of returns which could appeal in a tighter economic environment characterised by higher inflation, an increased cost of capital and persistent geopolitical and market volatility. The new total returns target of CPI +4% over five-year rolling periods is ambitious, but we think may prove achievable as inflation subsides. The use of specialist external managers that are either unknown or inaccessible to most allocators offers potential to generate alpha. And although the portfolio is equity-focused, the less correlated exposures to specialist credit strategies also offers diversification and balance across the portfolio. Combined with the liquid, direct investments they could help minimise extreme drawdowns whilst providing liquidity to increase the allocation to specialist investments as opportunities arise – an allocation which is only halfway to the long-term target allocation of 20%.

The managers believe that the 'equity risk premium' is low by historic standards with the projected earnings yield on equities very close to the yield on long dated government bonds suggesting that stocks are expensive at the aggregate level. Lead portfolio manager and CIO of Marylebone Partners, Dan Higgins reports finding lots of attractive bottom-up situations that meet their selection criteria – especially in the areas of the market they have access to off the beaten track. In our view, the narrowing of the discount since Marylebone took over the management of the trust, reflects the interest in such a differentiated strategy as investors have become more aware of what MAJE now offers, and we note the incentive for the managers is to maintain a narrow discount given the management fee is tied to the market cap. We believe MAJE's mix of fundamental bottom-up ideas with lower levels of cross-correlation to one another has the potential to offer investors an investment proposition capable of performing across the market cycle and acting as a complementary investment for shareholders' often generic equity portfolios.

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