

The Daily Telegraph

Thursday 10 January 2019 *The Daily Telegraph*

Business

Investment trust tip of the year: a basket of small stocks primed for rapid growth

Questor
Trust Bargains
Richard Evans

The team behind Augmentum Fintech has a strong record of seeking out businesses that can disrupt the financial services market



QUESTOR'S investment trust pick of the year, which we name today, aims to buy assets with the potential for "exponential" growth.

Those assets are stakes in "disruptive" start-up companies that have found new ways to offer financial services to consumers and business customers.

Such firms are sometimes described as "fintech" companies and the investment trust that focuses on finding the best of them is called Augmentum Fintech.

Readers may think such a "blue sky" approach is risky, and indeed it is – but the people behind the trust are hard-headed and experienced. Although the fund itself floated only in March last year, elements of it, managed by the same team that now runs the trust, have existed since 2010, and between that time and December 2017 returns

were excellent at about 17pc a year. The trust was effectively spun out of RIT Capital Partners, a popular listed fund set up to manage the wealth of part of the Rothschild family.

A portfolio of unlisted fintech stocks partly owned by RIT became the core of the new trust, while the flotation raised about £60m of new money, which is now being invested in similar opportunities.

The management team, led by Tim Levene and Richard Matthews, has decades of experience in private equity investing and as a result possesses the extensive networks of contacts crucial to getting access to the right potential investments.

"We have great confidence in this team," said Anthony Leatham, an investment trust analyst at Peel Hunt, the stockbroker. "A lot depends on how plugged in you are to the right networks and they have exceptional reach in their field."

Augmentum Fintech Buy
Managers have excellent access to deals but reject 99pc of them



Key numbers

- ◆ Market value: £92.5m
- ◆ Year of listing: 2018
- ◆ Discount: 5.4pc
- ◆ Ave discount over past year: n/a
- ◆ Yield: nil
- ◆ Most recent year's dividend: nil
- ◆ Gearing: nil
- ◆ Annual charge (Peel Hunt estimate): 2.2pc

with banks and financial services providers, we see fintech's market share increasing exponentially from here. Augmentum is well placed to participate in this growth."

The trust currently trades at a discount of 5.4pc. A trust that takes a similar approach to investing in healthcare companies, Syncona, trades at a premium of about 25pc.

Questor says: buy
Ticker: AUGM
Share price at close: 98.4p

Update: Tetragon Financial

We tipped Tetragon Financial, which has a diversified portfolio of assets including stakes in other asset management businesses, in October 2017 on the basis that the 34pc discount at the time was too wide. Unfortunately the discount has widened to 46pc and as a result the share price is about 9pc lower.

The trust recently sold a stake in one of its asset management businesses, GreenOak Real Estate. Tom Treanor, of Asset Value Investors, said his firm had increased its stake in Tetragon since our original article.

He said the investment case was unchanged, adding: "The GreenOak deal demonstrates Tetragon's conservative valuation methodology and provides some validation for its strategy within the asset management part of its portfolio. We intend to hold our stake for the foreseeable future." Hold.

Read Questor's rules of investment before you follow our tips: telegraph.co.uk/go/questorrules; twitter.com/DTquestor

It's not just a question of access to opportunities, however: it's vital to be discriminating about which ones you actually invest in. The Augmentum team's record suggests that they are just that.

Private equity insiders talk about the "look-to-book ratio" – the number of opportunities you look at relative to the number you put money into. Over the investment period of the precursor portfolio more than 1,100 leads were whittled down to only seven investments, said Peel Hunt, which is Augmentum Fintech's broker.

"Given the depth of opportunities for fintech business, the team can be

selective in its investments, isolating only those that have the greatest potential to generate multiples of invested capital," the broker added.

The portfolio currently has holdings in several well known businesses, such as Zopa, the "peer-to-peer" lender, and Interactive Investor, the investment shop. The managers believe in committing money once a business has established itself, rather than at the very beginning.

"Today we see the fintech sector reaching an important inflection point in terms of growth potential," Peel Hunt concluded. "As customers re-evaluate their relationships