June 2015

ConBrio Sanford DeLand UK Buffettology

ConBrio OEIC

ConBrio
THE SPIRIT OF INVESTMENT

| Fund Strategy |

The Fund Manager’s investment methodology is based upon the principle of Business Perspective Investing. We also run a concentrated portfolio of investments and try to keep portfolio turnover down. Companies selected for investment consideration must exhibit several important criteria:

- Comprehensible business model;
- Transparent financial statements;
- Enduring franchise with pricing power;
- Consistent operational performance with relatively predictable earnings;
- High returns on capital employed;
- Strong free cash flow;
- Strong balance sheet;
- Management focused on delivering shareholder value; and
- No undue reliance on acquisition-led growth.

| Fund Objectives |

To achieve an annual compounding rate of return over the long term which is superior to the performance of the UK stock market.

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Money Observer Fund Awards 2015
Best smaller UK growth fund
ConBrio Sanford DeLand UK Buffettology

FE CROWN FUND RATING

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Performance Record

28/03/2011 - 29/05/2015 Powered by data from FE

| Key Facts |

Fund Size:	£18.2m
Launch Date:	28 March 2011
Sector:	IA UK All Companies

| Top 10 Holdings |	**%**
Scapa Group	6.34
Trifast	6.09
Bioventix	5.48
Dart Group	5.15
Mattoli Woods	5.09
Provident Financial Group	4.80
Liontrust Asset Management	4.60
Dixons Carphone	4.57
NCC	4.35
International Personal Finance	4.07
TOTAL	**50.54**

| Asset Allocation |	**%**
Financials	21.4
Support Services	13.7
Chemicals	12.8
Travel & Leisure	12.0
Pharmaceuticals & Biotechnology	10.9
Industrial Engineering	8.9
Food & Beverages	4.9
Retailers	4.6
Software & Computer Services	4.4
Construction & Materials	3.5
Cash/Other	3.0

Discrete Annual Performance (%)

Share Type	2015(YTD)	2014	2013	2012	2011
Income	10.9	1.5	36.0	34.2	-

Discrete Annual Performance to Quarter End 31 March 2015 (%)

Share Type	31/03/2014 31/03/2015	31/03/2013 31/03/2014	31/03/2012 31/03/2013	31/03/2011 31/03/2012	31/03/2010 31/03/2011
Income	5.0	22.8	30.5	0.1	-

Cumulative Performance to 31 May 2015 (%)

Share Type	3 Months	6 Months	1 Year	3 Years	5 Years
Income	5.2	11.8	9.9	84.9	-
Official Sector	4.9	11.0	10.3	61.2	78.3

Performance quoted on a total return, bid to bid, UK sterling basis. Past performance is not a guide to the future. The price of units and shares and the income from them may go down as well as up and you may get back less than you invested.

Source: Financial Express. 26/06/2015

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Fund developments and comments

Keith Ashworth-Lord, Investment Director & Fund Manager, Sanford DeLand

I last explained a specific investment decision almost three years ago with Domino's Pizza and it's time I did this more often. Now, as then, this is not meant to be a recommendation to buy or sell shares in the company. So, let's look at Bioventix, our most recent new investment.

Bioventix develops and refines monoclonal antibodies harvested from immunised sheep. These are used by equipment manufacturers as the basis for clinical diagnostic tests. Fees are earned during the development phase and there is a perpetual royalty on sales of any diagnostic that uses these antibodies. The main clients are the large companies that manufacture blood testing equipment. The beauty of the royalty based revenue model is that it resembles an annuity payment. Every time a test is done, a payment is received. All development work is expensed as incurred, not capitalised. The company is therefore building deep long-term value whilst benefiting now from the annuity revenues already secured. There is no IPR per se. However, each monoclonal antibody is unique and cannot be copied. Any company raising its own antibody for a diagnostic assay must complete the full battery of tests to gain a new regulatory approval. Therefore it is the regulation of in-vitro diagnostics that is the key barrier to entry.

The main risk factors are as follows. Bioventix relies on a small team of ten highly educated, professional and dedicated research and production employees. Also, it is dependent on the diagnostic companies that licence its antibodies to bring assays to the market. All new antibodies are now licensed on a perpetual basis but this isn't the case with some of the older ones. Lastly, competitor risk in the area of sheep antibodies is low but not zero. The main competitors tend to be the diagnostic companies themselves using mice or rabbit antibodies.

Over the last five years, sales have doubled, not always smoothly, from £1.65m to £3.35m, a compound annual growth rate (CAGR) of 15.2%. The revenue mix is USA 44.6%, EU (ex UK) 44.3%, UK 3.3% and Rest of the World 7.8%. With most costs incurred in sterling, this renders Bioventix sensitive to currency movements. Margins are very high, typical for a business with a moat and pricing power. During each of the last five years, gross and operating margins have stood either side of 90% and 60%, respectively. The main costs are staff and R&D. Both have been falling as a percentage of sales as the business matures and more revenue streams are consolidated. Meanwhile, pre-tax profit has climbed from £877k to £2.22m – a CAGR of 20.4% – and EPS from 13.0p to 35.4p – a CAGR of 22.2%. Some two-thirds of earnings get paid out as dividend.

Almost all gross cash flow comes from operating profit. But working capital requirements are big, having absorbed an aggregate of £1.3m of cash to support the £1.7m increase in turnover. The bulk of the absorption is related to the y-o-y growth of royalty income. Both capex and depreciation are de minimis. Aggregate free cash of £5.0m has been generated over this time from £6.0m of accounting earnings (84%). The balance sheet is squeaky clean. On the assets side, there is no goodwill and the main item of tangible fixed assets is freehold land and property. On the capital side, retained earnings make up £4.9m (94%) of the £5.2m book value of shareholder equity. The return on average gross equity is 36.9% with the superior return down to the chunky earnings margin.

In 2003, Bioventix was an MBO out of Xenova, led by the present Chief Executive, Peter Harrison. Harrison is a scientist who has worked in the field of antibody technology since 1986. He has extensive experience of the development and commercialisation of antibody technologies. Post the MBO, he has led the commercial development of the company. He owns 12% of the equity. Hopefully this all shows how Bioventix comfortably passes most of our quality of business tests.

In May, the Fund share price rose by 3.5% from 173.01p to 179.07p. This was comfortably ahead of the 1.0% increase for the UK stock market. There were 19 risers with Lavendon (15.7%), Dixons Carphone (13.5%), Scapa (11.7%), James Halstead (11.1%) and Rotork (10.2%) posting double digit gains. Eight shares fell, all by single digits. With the phased redemption now complete, cash balances ended the month at just 0.2% of the Fund's assets.

Fund Information

Initial Charge	General & Institutional 0%
Investment Adviser Fee	General 1.5%pa & Institutional 1%
Annual Management Charge	Combined ACD & Admin fee 0.2%pa (min £45,000pa)
Accounting Dates	28 February, 31 August
Payment Dates	27 May, 27 November
Valuation Point	12 noon, daily
Sedol Code	General Inc: B3QQFJ6 Institutional Inc: BKJ9C67
Share Class	General Income & Institutional Income Shares
Published Price	www.theconbriofunds.co.uk
Min. Investment	General £500, £50pm & Institutional £250,000
ISA eligible	Yes, stocks & shares

Investment Team

I Sanford DeLand Asset Management Ltd I

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