

Invesco Perpetual UK Smaller Companies Trust

UK Smaller Companies

Introduction

Invesco is a global investment management firm quoted on the New York Stock exchange which has over 8000 employees globally. The investment trust is run from the Henley on Thames office, which is the largest Invesco office in the UK.

[Click here to read the Invesco approach to ESG investing.](#)



Manager - Jonathan Brown & Robin West

Manager Since - 01/06/2014

Jonathan Brown is a member of the UK Equity team specialising in smaller companies and has been with Invesco for many years. He became the Portfolio Manager at the end of June 2014. Jonathan began his investment career with Lazard Asset Management in 1997, where he specialised in private client fund administration, before joining Invesco in a similar role in 2000. In 2004, Jonathan joined the UK Equities team as a trainee fund manager and, after three years specialising in the UK small cap sector, became a fund manager in his own right. Jonathan graduated with a BSc in Bio-Chemistry from UMIST and has also gained both the Investment Management Certificate from the CFA Society of the UK and the Securities Institute Diploma.

Robin West is the deputy Portfolio Manager. Robin started his career at KPMG and is a small company specialist who worked at Invesco initially, then Oriel Securities and Aviva Investors, before returning to Invesco in 2014.

Trust Objective

Invesco Perpetual UK Smaller Companies Investment Trust plc is an investment trust whose investment objective is to achieve long-term total returns for shareholders primarily by investment in a broad cross-section of small to medium sized UK quoted companies.

Investment Process

At the core of the investment philosophy is a belief in active investment management. The investment process is pragmatic which means that there are no inherent style biases within the investment process. Although the managers are looking for high quality growth companies there is a strong valuation element to the investment process.

Jonathan Brown runs the fund with Robin West, and both are stock pickers, selecting stocks based on their individual merits. The fund remains at the higher quality end of the spectrum preferring to focus on growing companies that have good quality durable products and services. They need to have balance sheet strength and an attractive share price although this is not the defining factor, (this is definitely a growth-based mandate). They screen stocks using quantitative information including Holt and other systems, combined with some sell-side input from trusted brokers as well as the UK and global desks at Invesco – other managers have smaller cap exposure in their funds and they use their knowledge.

They are stock pickers and are not influenced by macro information other than how it affects a particular stock. They retain a contrarian outlook looking for value in stocks misunderstood by the market. The contrarian approach is not across all holdings, but they will seek out and invest in specific opportunities that the research identifies. Stock ideas are generated from a number of sources, and can be classified as follows:

- Self Help: Good quality companies that have lost their way. These may have new management teams and looking to improve their business model.
- Roll - out: Companies aiming to roll out a successful business model more widely enabling the managers to have good visibility of growth.
- Roll - up: Consolidation scenarios where by smaller companies are consolidated into a wider network
- Structural Growth: Companies exposed to higher growth niches in the economy.
- Cash Compounders: Companies that generate high returns and are able to reinvest back into the company.

The aim of the construction process is to maximise exposure to what they believe are the most attractive stocks and sectors, within a portfolio structure that reflects the managers view of the macroeconomic environment. Portfolio construction is based on the outputs of their bottom-up stock research, which in turn, is informed by the top-down macro views.

Gearing

The manager can take borrowings exposure up to the lower of 30% of net asset value and £25 million but they have not used gearing since 2011.

Performance Fees

The trust does not charge a performance fee, having removed it 2019.

Discount Mechanism

The Board monitors the discount level at which the Company's shares trade and seeks to limit volatility through the use of both share issuance and share buybacks, as the circumstances require.

Our View

The managers have adopted a pragmatic common-sense approach, making long-term investments in companies with strong balance sheets that have attractive risk/reward profiles. The performance track record is strong and the fund has a disciplined investment process which we feel leads to a strong case for inclusion in a portfolio.

The approach taken by all Invesco managers focuses on taking advantage of the inefficiency of markets through active and pragmatic management. Including careful stock valuation with monitoring of the macro environment. The smaller companies team has been successful for some time in identifying the trends in this area of the market.

The portfolio will hold around 75 stocks with c65% of the portfolio having an average market cap below £1bn. The focus on quality has at times meant investing in companies which seem expensive, but over the long term the manager has made these selections work within the portfolio.

How to Use This Trust: The fund could provide a well-diversified portfolio of UK smaller companies within a broader portfolio of UK equity funds.

Key Strengths

Business

Invesco is one of the leading global investment companies and is able to allocate significant resources to the UK team.

Team

Invesco boasts a large and well-resourced team of investment professionals and analysts. Turnover has not been excessive.

Process

The team follow a well thought out process that focusses on the long-term growth prospects of companies. The trust takes a bottom up approach and has a good performance track record.

Product

Long-term performance has been strong. Although we believe gearing limits are flexible, the actual use of gearing has not taken up in the last ten years. The trust benefits from no performance fee and a yield of 4%, some of which is paid from capital.



Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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