

Octopus UK Micro Cap Growth

UK Smaller Companies

Introduction

The fund aims to grow investors' capital through a portfolio of 60-100 UK smaller companies quoted on the LSE, AIM and Aquis Exchange. The managers seek to understand the alignment between shareholders and management of the companies and look for scalable, growing businesses.



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

Why RSMR Rate this Fund

- Exposure to the smallest companies in the market with a long-term multi-year outlook on investments.
- A patient management team who consider many qualitative inputs for investments to gain an understanding of a company's potential opportunity and how it expects to exploit this.
- The team often know companies very well through the wider Octopus businesses involvement in the AIM VCT and IHT strategies.
- There is often an alignment of founder shareholders and minority shareholders.

Fund Process

The fund operates a core / satellite strategy with around 75% of the fund invested in the core, which is companies that are profitable, growing and have scalable business plans. These companies will often have a founder at the helm of the business which aligns the objectives of management and minority shareholders - this is an important element of the strategy. The team are looking at companies where profits can be doubled of a period of 3-5 years. The satellite part of the fund (the remaining 25%) holds opportunities which are often more esoteric, have superior growth opportunities and are more volatile than the core component is expected to be. The team restrict the allocation to the satellite portion in order to restrain the volatility in the wider fund.

The micro-cap part of the market is inherently much more inefficient than their large cap peers and this is where the wider team assists in conducting meetings with companies, with around 1,000 undertaken over the year. The team feed back the output from these at formal weekly meetings and decide on further actions.

Investments are often known to the team given the wider solutions that the organisation operates, and this gives the managers comfort in understanding the track record and company management's ability to execute on their growth plans.

The managers do not constrain themselves by having to sell shareholdings in companies which grow past the micro-cap area of the market, their focus is on the ability to continue to double profits in coming years. There is a sell discipline where companies trade outside of their historic valuation bands and ensures the fund trims holdings. The ability to run the winners in the fund gives the fund managers a secondary source of liquidity – as companies grow, their liquidity profile improves. The managers are cognisant of liquidity and there is always a cash buffer in the fund.

Evaluation

The fund's focus on founder-owners, quality management teams, scalable businesses and, quite often, knowing the companies from other funds means that the fund benefits from a deep understanding of the investee companies. Targets for the underlying investment are for a doubling of profits over a 3-5 year timescale which means that, if successfully executed, the business will flourish and gain interest from the wider investment community. Once the underlying companies reach an inflection point, they can attract greater investment which benefits unitholders of the fund.

Application

This fund can be used at the core of a portfolio, but must be sized appropriately, and is suitable for those with a long-term investment horizon. High risk investors are the most suited to the strategy. However, given the volatility profile of the fund is lower than may be expected so it could be used (appropriately sized) as part of a portfolios with a medium or medium high risk tolerance.

Our Opinion

The fund provides access to companies off the radar of the vast majority of investors, with investments often made in companies ranging from £50-£250m market cap. The team conduct a large amount of hands-on qualitative due diligence in order to get to know management and understand how the company can scale its operations.

Octopus are well regarded in the VCT and smaller company space and have amassed a large amount of industry contacts since they began running this strategy.

The fund is suited to longer term investors who can tolerate the volatility that smaller company investing can bring. Cyclical tailwinds will benefit the smaller company sector in general, and the fund looks to ensure it retains a diversified portfolio for investors.



Important Notice

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