

Long-term investing in UK smaller companies

In order for the UK economic recovery to be sustainable, many believe that small businesses need to have the support and confidence to innovate and grow. Investing in UK listed smaller companies offers the chance to provide this support and benefit from the growth of some of the best and fastest growing businesses in the UK. All great business ideas start somewhere. Great business ideas exploit unmet needs, or offer a superior proposition to the customer. Many of the largest businesses today started life driven by an entrepreneur who spotted a niche in an area which larger companies over-looked. By delivering a compelling product or service to the customer, this benefits those customers and society as a whole, as well as promoting the growth of the business. Whilst some of these ideas end up listing on the market at very large market capitalisations such as Google, a great many more seek funding from equity markets whilst they are still very small, enabling shareholders who back those entrepreneurs to potentially benefit from getting involved at a much earlier stage.

An overlooked investment universe

Many investors currently gain exposure to smaller companies through a broad-based UK equities fund which aims to outperform the FTSE All-Share Index. This could potentially leave investors underexposed to smaller companies which offer numerous interesting investment opportunities.

The UK Smaller Companies sector benefits from having a far greater number of options to choose from than the large cap sector. Whilst the majority of the FTSE All Share Index is comprised of just a relatively small number of mega-cap stocks, the smaller companies sector, as measured by the FTSE Small-cap exIT Index represents just 2% of the overall UK listed equity market, but covers approximately 800 firms. Investing in the UK smaller companies sector also offers exposure to a group of businesses which, by comparison with larger enterprises, are driven by different dynamics. For example, approximately one third of the FTSE 100 is comprised of commodity-related stocks. Therefore, the mix of industries and resultant economic sensitivities are different, leading to performance that may be uncorrelated with the larger market.

Accessing the best opportunities

Smaller companies tend to be under-researched in comparison to larger companies so this provides significant opportunities for an active specialist fund manager to add value and potentially outperform. However, smaller company performance also tends to be more volatile and their share prices can experience large fluctuations. In addition, it may not be possible to sell smaller company shares as easily as those of larger companies. All of these factors mean that, a dedicated active manager that meets regularly with the management of smaller companies can add value by aiming to sort the winners from the 'also-rans', and offers the potential to significantly outperform the market.

With so many companies in the small cap universe, it is essential to have an investment process that can do some of the 'heavy-lifting' in terms of screening the best investment ideas. The Investec UK Smaller Companies Fund is managed using a

proprietary investment process which is disciplined, systematic and robust. Portfolio Manager, Philip Rodriqs has been managing the Fund for over 5 years and together with our experienced UK Equity team, the disciplined investment process, enables him to build a focused portfolio of what he considers to be the best investment opportunities on a consistent basis.

Please remember that the value of this investment and any income generated from it may fall as well as rise and losses may be made.

IMPORTANT INFORMATION

All the information contained in this communication is believed to be reliable but may be inaccurate or incomplete. Any opinions stated are honestly held but are not guaranteed and should not be relied upon. This is not a buy, sell or hold recommendation for any particular security.

This communication is provided for general information only. It is not an invitation to make an investment nor does it constitute an offer for sale. The full documentation that should be considered before making an investment, including the prospectus and simplified prospectus, which set out the fund specific risks, is available from Investec Asset Management.

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