

Small companies with  
**big prospects**



Make the most of our

# small company investment expertise



**Small companies can offer excellent investment opportunities. However, they're often ignored by investment and wealth management companies, who may lack the expertise and experience to evaluate small businesses, spot opportunities and invest on your behalf.**

At Canaccord Genuity Wealth Management (CGWM), we do have that expertise. In fact, we are among the most experienced independent UK wealth managers in this area. And we believe smaller companies can be a very important part of a truly diversified and well balanced portfolio – whether you're investing directly in the shares of smaller companies or via a specialist fund.

We will draw on this expertise to help you benefit from the superior returns that can be available from small companies, and include this niche area within your portfolio if we believe it's appropriate.

#### **Important information**

**Investments in smaller companies, including AIM stocks, carry a higher degree of risk than investing in the more liquid shares of larger companies, so they may be difficult to sell at the time you choose. Investments in smaller companies are more volatile and, while they can offer great potential, growth is not guaranteed. Please refer to page 9 for more information.**

**Investment involves risk. The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested.**

**This is a marketing communication under FCA rules.**

# How we define a small company

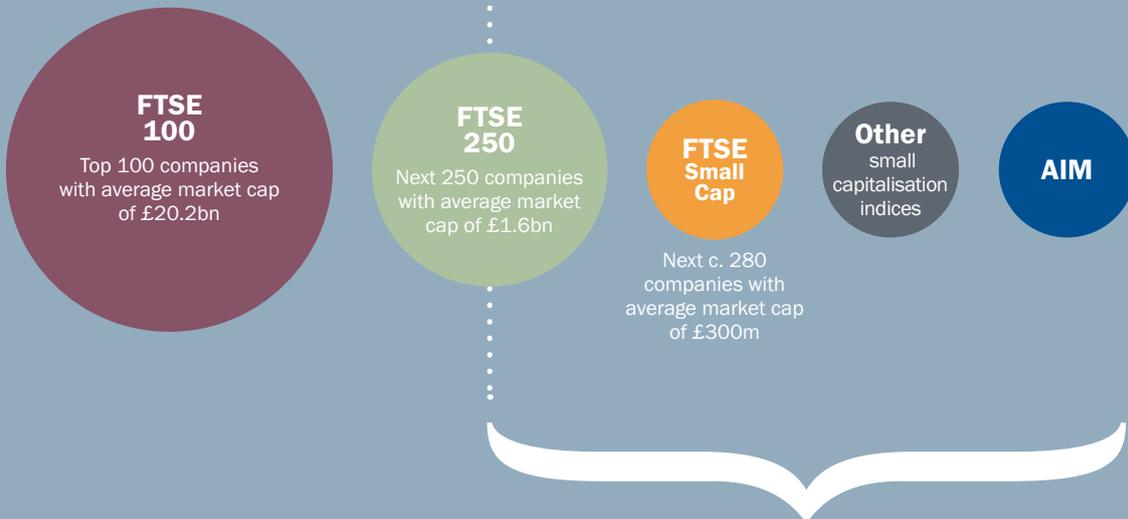


**London Stock Exchange**

c.2,000 companies



**FTSE All-Share**



**Businesses with market capitalisation of less than  
£2bn or listed on AIM = small companies**

There are more than 2,000 companies listed on the London Stock Exchange, of which around 600 are in the FTSE All-Share Index.

The FTSE All-Share is made up of:

1. FTSE 350 – a combination of:
  - a. FTSE 100 – the 100 biggest companies, such as HSBC, Tesco and BP
  - b. FTSE 250 – the next 250 companies, including Wetherspoons and WHSmith
2. FTSE SmallCap – all the remaining FTSE All-Share companies, including Hilton Foods and McColl's.

Beyond this is the AIM (Alternative Investment Market) where smaller companies, such as Asos, Fever-Tree and Boohoo.com, can float shares within a more flexible regulatory system.

When we talk about investing in small companies, we mean companies listed on AIM or those with a market capitalisation of less than £2bn, which are not within the FTSE 100. This includes companies within the FTSE 250, FTSE SmallCap and FTSE Fledgling indices. The companies listed on AIM can have market capitalisations above £2bn.

Small companies are often referred to as 'small cap', an abbreviation of 'small market capitalisation'.

## Specialists in small company investing

Our specialist team has a wealth of experience and a great track record. They continually research and analyse small companies and equity fund managers, and their findings are backed by our rigorous, robust central investment office (CIO) team, which includes a dedicated smaller company investment committee.

We understand the risks involved in investing in small companies, and will monitor and adjust your portfolio if necessary. Our Investment Managers won't rush to invest all your money at once; instead they'll invest your money as and when they spot attractive opportunities.

Our Investment Managers regularly meet the management of small companies, equity fund managers and investment banks – and have done so for many years. Thanks to this personal contact, we've developed a breadth of relationships within the industry in an under-researched area; these can allow us to access opportunities that are not available to you as an individual.

It also means we're often among the first to be offered shares in companies coming to the market and can react quickly on your behalf.

**Please note this is not a recommendation to invest in any of the companies mentioned above. Names of companies are included for illustrative purposes only.**

# Why small companies can make attractive investments

Smaller companies can be attractive because they often generate better returns than companies in the FTSE 100.

Since the end of 1985, when comparative records begin, the FTSE 250 Index has risen at an annualised rate of 11.1% compared with 8.3% for the FTSE 100. This has generated a return of just over 2,800%, compared with a little under 1,160% for the larger index. The effect is equally marked in other countries, including Germany, France and the USA.



There are several reasons for this:

1. Firstly, small companies benefit from the law of large numbers. It's easier to multiply the size of a £100m company by ten than to grow a £100bn company to a £1tn company.
2. Smaller companies are more likely to be taken over, as their size makes them more digestible to the acquirer.
3. Sunset industries are more likely to be represented in the big indices, while smaller, innovative companies usually form part of smaller indices.
4. Companies outside the FTSE 100 Index come from a wider range of sectors. Even though smaller companies are seen as higher risk (and they do fail more frequently), the FTSE 100 companies tend to be concentrated within a limited range of sectors. This can lead to greater risk, as companies within the same sector tend to move together in the same direction.
5. Small companies tend to be under-researched, and diligent experts and researchers (including those at CGWM) can often discover hidden gems.

## How we invest your money

Because of the high-risk nature of most small company investments, we'll usually invest your money in a diversified portfolio, which can include smaller company direct equity names, or a specialist fund sourced by our fund research team.

If you choose our discretionary portfolio management service, your Investment Manager will build and run a personalised portfolio on your behalf – without the need to ask your permission each time they want to make an adjustment.

If you like to take an active interest in financial markets and want to buy and sell small company investments on your own behalf, our trading and dealing team can also offer you traditional stockbroking services. If you choose our advisory service, they'll offer you quality smaller company investment ideas, based on recommendations from our in-house smaller company investment committee.

Some clients come to CGWM just for our small company investing expertise. While we can run a smaller company portfolio for you, this is only suitable for clients with a very high tolerance to investment risk as well as the means to cope with significant losses and/or a lack of liquidity.





# Choosing the best

small companies for investment

When we're selecting direct equities to invest in, our specialist smaller company investment committee carries out extensive research and analysis. They then create a shortlist of companies which meet our criteria. We look for businesses with high-quality management, a history of consistent earnings, dividend growth, balance sheet strength, proven cash generation, high barriers to entry, reasonable valuation, strong earnings growth, and owner managers.

Building on the above criteria, we look for opportunities in businesses within these categories:

- **Niche businesses:** companies that satisfy a specific market need, such as Alpha FX, a foreign exchange hedging company, or Learning Technologies, Europe's leading business in workplace learning
- **Roll-out stories:** companies that are expanding, either in phases or store-by-store e.g. Hotel Chocolat, Footasylum
- **Market leaders:** companies that carry the largest market share in their peer group, such as Dechra, a veterinary pharmaceuticals business
- **IPOs:** companies raising initial capital to help them transform from a private company to a public listed entity e.g. Fever-Tree or Blue Prism, a UK multinational software corporation
- **Industry consolidators:** companies that are buying up their competitors, such as Restore Plc (workplace support services) and Victoria Plc, a carpet manufacturer.

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## Staying aware of the risks

Small companies are high risk, so we'll only suggest them as part of your portfolio if they're appropriate for your investment risk profile.

- There have been periods of as long as five years when they have underperformed their larger brethren
- They can be illiquid, which means they may be difficult to sell exactly when you want – or you may not be able to sell them at all
- They tend to fall further than the wider market when equities suffer from serious corrections
- They have a (possibly undeserved) reputation for being more financially fragile than large companies
- For income-seeking investors, larger companies are more likely to provide an income stream in the form of dividends, whereas smaller companies are more likely to reinvest profits back into the company
- They are more exposed to fluctuations in the domestic economy
- Their management team can often be opaque and hard to contact
- For the smallest companies, such as the AIM market in the UK, the performance track record has been much patchier.

How can we  
**help?**



Small companies tend to be high-risk investments, but can also be profitable. If you're interested in including some in your portfolio, talk to your Canaccord Genuity Wealth Manager. They will listen to your request and carefully assess your needs and preferences.

We always tailor our service to suit individual needs, and your Wealth Manager will be happy to include small company investments if they're right for you.

If you'd like to know more about how we can help with your investment needs, get in touch. We'll be delighted to answer your questions and provide details of our services.

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#### **Offices nationwide**

<b>Blackpool</b>	<b>Llandudno</b>	<b>Nottingham</b>
<b>Carlisle</b>	<b>London</b>	<b>Worcester</b>
<b>Lancaster</b>	<b>Norwich</b>	<b>York</b>

**[canaccordgenuity.com](http://canaccordgenuity.com)**

Telephone calls may be recorded.

## Important information

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Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The investments described in this brochure may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and, if in any doubt, should seek advice from an investment adviser.

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HHL has its registered office at Talisman House, Boardmans Way, Blackpool, FY4 5FY.

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