

Return on capital is underrated, says Euro small-cap duo

By Chris Sloley on 23 February 2015



Investors are too strongly focused on earnings growth and often overlook how effectively companies are allocating the capital they accrue.

That is according to European small-cap equity specialists [Lennart Smits](#) and [Frans Jurgens](#), who co-run the [Juno Selection Fund](#).

The duo, who co-founded Netherlands-based boutique Juno Investment Partners, said their highly concentrated approach has focused on firms which show the ability and willingness to put capital to work.

‘Some of the companies that contributed most to our performance over the past few years have shown that it is not just a matter of showing earnings growth but especially one where the management and their allocation of capital is key,’ Jurgens told *Citywire Global*.

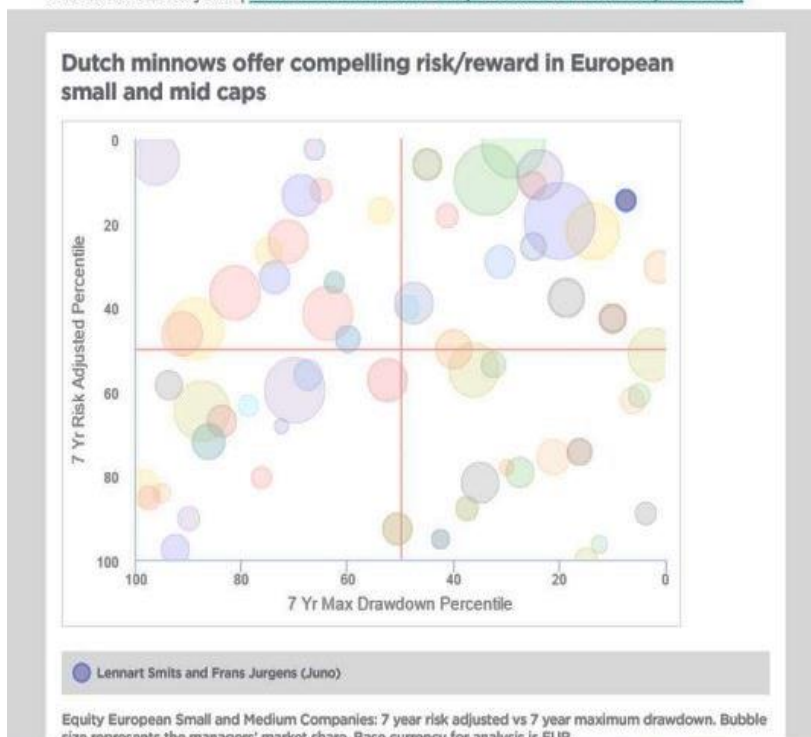
‘You can uncover a company which is sitting on a very solid balance sheet and you realise that its shareholders are sitting on a lot of the value, but if the returns it generates on those assets are unimpressive or worse, are eroding, it is unlikely those investors can expect to generate any decent returns.’

Jurgens said, while earnings growth is a factor, they also target companies showing at least a 15% return on capital. At present in the European equity fund, Smits and Jurgens have an average 27% return on capital across the portfolio.

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Frans Jurgens and Lennart Smits - Juno Selection Fund

Generating high returns while controlling drawdowns is a tough art to master in small and mid caps. This Dutch duo, from the Juno Investment Partners boutique, have delivered on both fronts over the last seven years | [Read more about their unique criteria for small-cap investing](#)



‘We are targeting very profitable companies which show good allocation discipline and that operate in areas where there continues to be a high barrier to entry,’ he said.

New additions

The fund managers invest in an exceptionally narrow band of 40 European stocks. These are drawn from a universe of 1500 companies applying the following criteria: cap size, family ownership, market leading position and long-term potential.

One of the most recent additions is an allocation to British biotech company Abcam. Jurgens said it is a stock the pair have followed for a number of years but only recently opted to invest in once the price reached an accessible level.

Smits added: ‘We always felt it would be a good long-term investment and, as a family-owned business, it does have longer-term ambitions, rather than seeing what the market is going to look like in one or two years’ time. It is instead looking at five-to-10 year.

‘Another positive is that Jonathan Milner, who founded the company but stepped down in September, recently increased his stake in the company. As family-focused investors, this meets an important criterion for us.’

The largest positions in the fund at present are Swiss food products group Aryzta, Danish payments and transaction specialist SimCorp and German tech company Dialog Semiconductor.

The Juno Selection Fund has returned 135.5% in euro terms over the seven years to the end of January 2015. This compares to a rise of 84.2% by its Citywire benchmark, the MSCI Europe Small Cap TR EUR, over the same period. www.citywireglobal.com