We don't need no NVIDIA

How Rockwood is finding the twenty-baggers in the UK micro-cap sector.

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Let's start with a quick quiz. Cast your mind back over the last five years and name the best-performing shares. Let me guess, you've plumped for NVIDIA or some other Magnificent Seven smorgasbord, and frankly you'd be in good company given the relentless coverage of the current AI darlings.

But perception can bear little resemblance to reality. True, NVIDIA has served up a stellar 900% five-year total return but I suspect most investors wouldn't have pointed to the even more stellar 2,300%-plus return from UK small-cap Filtronic. Neither is the UK a one-trick pony, with almost 50 listed companies eclipsing Alphabet's 200% return (the second-highest Magnificent Seven performer).

We Brits, it must be said, have a complicated relationship with self-deprecation. While our flag-waving cousins across the Atlantic wear their national pride on their sleeves, we tend towards a more complex emotional register. Which is to say, we're rather good at talking ourselves into a cycle of perpetual pessimism: the weather, the economy, our prime ministers and, so it would seem, our own stock market.

Patriotic sentiment aside, the numbers suggest investors may well be missing a trick.

Playing the long game

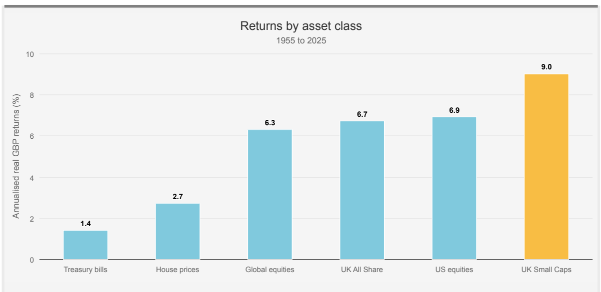
That said, the most powerful argument for UK small caps isn't about the last few years but their outperformance over a much longer time horizon.

Over the last seventy years, UK small caps have delivered an annualised real return of 9% (after stripping out the flattering effects of inflation). By comparison, the all-singing, all-dancing US equity market delivered 7%, followed by 6% for global equities, while house prices (that most cherished of British conversation topics) managed less than 3%.

And the returns become even more striking further down the market cap spectrum: investing £1,000 in the Deutsche Numis UK Large Cap Index in 1955 would have grown to £1.9 million by the end of 2025 (on a nominal total return basis). Possibly even enough to buy a garage in Chelsea.

But that same £1,000 invested in the very smallest UK companies, the DNSC 1000 index covering the bottom 2% of the listed market, would have delivered a remarkable £29 million. Provided you have the patience to let it work its magic, the power of long-term compounding is difficult to argue with.

Fig.1: UK Small Caps Have Meaningfully Outperformed



Source: Deutsche Numis 2026 Annual Review. Based on Deutsche Numis indices (ex-investment companies for UK indices).
Past performance is not a reliable indicator of future results.

From little acorns

So why have UK small caps outperformed their large cap peers?

Well, it starts with a simple arithmetic advantage: doubling revenue is significantly easier from a

£50 million base than the lofty perch of a FTSE 100 giant already commanding a substantial market share.

But it's also about culture. Smaller companies tend to have flatter management structures, faster decision-making and greater agility to capture market opportunities without the drag of corporate bureaucracy.

At this point, we should probably address the elephant in the room: it's fair to say that the UK economy isn't in the rudest of health. But it's still the fifth-largest economy in the world and it's important not to conflate buying British stocks with buying the British economy. Many UK small caps have carved out highly successful niches in high-growth markets, with a growing number generating the majority of their revenues from overseas.

Meanwhile, UK small caps are still trading at a discount to long-term averages and international peers. Despite its superior long-term track record, the MSCI UK Small Cap Index currently trades 25% below the World Small Cap Index. Should investor sentiment towards UK equities continue to build, the potential for a meaningful re-rating could be significant.

Separating the wheat from the chaff

With hundreds of listed businesses to choose from, the UK small-cap sector offers a fertile universe for active stock-pickers.

However, not all small caps are created equal: the higher prevalence of low-quality, speculative companies means active stock-picking tends to pay off in a way that passive index-tracking does not. The relative scarcity of analyst research, while an obstacle for retail investors, also provides a genuine alpha opportunity for active managers willing to do their own due diligence.

The best-performing UK small-cap fund over five years - across both the Investment Association and the AIC sectors - is **Rockwood Strategic (RKW)**, with a share price total return of almost 130% over this period.

Manager Richard Staveley runs a concentrated portfolio, with the top ten holdings accounting for just over 60% of assets, enabling private equity-style engagement with management teams.

The strategy is deliberately value-focused: Richard looks for businesses trading at a significant discount to their underlying value, whether due to operational challenges, management issues or external events that have weighed on sentiment and share price. The target is companies capable of doubling in value over five years, with Richard seeking out a clear catalyst to drive each recovery story.

Which brings us back to Filtronic - a twenty-bagger for Rockwood, having first invested at 12 pence a share (the share price has risen by 85% over the last year and is now trading around 280 pence). Based in County Durham, Filtronic makes specialist hardware components for satellite communications networks, signing a strategic partnership with SpaceX to supply Starlink in 2024, followed by a record £47 million contract last year.

Funding Circle has been another notable success. Rockwood initiated a position in early 2024 at 34 pence per share. Subsequent catalysts, including a share buyback programme, a cost-cutting drive and the disposal of its loss-making US division, have driven the share price to almost 150 pence.

And these are not isolated cases, with Vanquis Banking Group and Capital Limited rising over 90% in Rockwood's annual results to 31/03/2026.

This concentrated, best ideas strategy means that strong performers like these can drive returns in a way that a hundred-plus holding fund will struggle to replicate.

Hiding in plain sight

The AI trade has been spectacular - until it isn't. With priced-for-perfection valuations at eye-watering levels and doubts growing over the AI spending boom that underpins them, investors chasing yesterday's winners may find themselves disappointed.

UK small caps remain cheap, under-researched and largely ignored, which, as any contrarian will tell you, is usually a rather good place to start.

Numbers as at 01/07/2026 unless stated otherwise.

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