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Discipline, Consistency Leads Next Century Through The Years

Growth equity investment manager Next Century Growth Investors is continuing to put in the work after nearly a quarter cen-tury of existence.

The Plymouth, Minn.-based firm, which was launched in 1998 by Chair and CEO Thomas Press and the late Don Longlet, is 80% employee-owned, stands at $1 billion in assets under management and launched its first mutual fund offering last month after working primarily in the insti-tutional space for the first 25 years.

The decision to launch a mutual fund was the result of "wanting to make our products available to a much wider audience … we thought we could accomplish that through a mutual fund and being part of some of the big platforms," President Robert Scott said.

Finding a partner firm to administer the mutual fund was of the utmost importance and took a while before NCG found the right fit with New York-based RiverPark Funds. The RiverPark Next Century Small-Cap Growth Fund is available on the Fidelity and Schwab platforms.

"We don't want to be administering mutual funds. We're a lean operation focused entirely on portfolio management and investment performance. So, we needed a partner to help us do that for the mutual fund world, and RiverPark was a great fit. Once we started talking, we realized it was a great match, great partnership, great combination," Scott said, adding that the mutual fund's launch in June came within a few months of connecting with RiverPark.

Scott, who joined NCG in 2000 and was named president in 2013 while also serving as coo from 2013 to 2021, is one of five partners and portfolio managers that serve on all strategies. The investment team also includes President and COO Peter Capouch as well as Partners and Portfolio Managers Kaj Doerring and Tom Dignard.

The firm's investment team has seen zero personnel turnover and Dignard, its most recent addition, joined in 2013, highlighting a longstanding and stable team that Scott believes has been integral to the firm's success.

NCG's growth equity strategy runs across the capitalization spectrum with dedicated micro-cap, small-cap, small- to mid-cap and large-cap products, according to Scott, who noted the large-cap portfolio has a concentrated number of 40 stocks, while the other three portfolios can range between 40 and 60 holdings.

"It's deliberate that we manage across the cap spectrum. Our goal is to find companies today that will grow to become much bigger companies 10, 15 years down the road. And we can own those stocks for a long time, and we'll start them in our micro-cap and then migrate them to our small-cap and into our smid and hopefully ultimately to our large-cap. In fact, many of the companies in our bigger cap portfolios we've owned either in our micro-cap or our small-cap portfolios in the past," Scott said.

The team has a simple focus of investing in the highest quality, fastest growing companies in America and executing that strategy, relying on its own research and the long track record of experience working together to put together a diversified portfolio across sectors, according to Scott.

"We go where the high growth, best growth opportunities are at any point in time … We've built up a lot of knowledge about the American economy and how the different industries work and a lot of the companies that operate within them. We also run screens to make sure we're not missing small, fast-growing companies. We run those on a quarterly basis to make sure that we're getting a good look at all the companies that are growing quickly," he said.

In addition to doing their own research, the NCG team has a streamlined decision-making process where the "same people who do the research, make investment decisions" so that nothing is lost in translation, Scott added.

"We work as a team and we've been together for a long time, and we understand each other, and we are well versed in this high-growth world that we that we operate in," he said.

The mutual fund was launched for small-cap growth, which has significantly outperformed the Russell 2000 Growth Index over the one-, two-, three- and five-year periods as well as since inception, per the PSN Informa database. The firm's performance includes 35.62% over the one-year period ending June 30 compared to 18.53% from the benchmark.

Meanwhile, the micro-cap strategy, which has roughly $413 million in assets, returned 26.94% for the one-year period compared to 12.41% for the Russell Micro-Cap Growth Index and has also significantly outperformed the benchmark over the trailing two-, three- and five-year periods.

"It's a very disciplined and consistent investment process in investing in the highest quality, highest growth companies that we can find in the respective market cap categories that we productize: micro, small, smid and large cap," Scott said. "We have a very strong sell discipline. We keep our portfolios very clean and with companies that are performing and growing well."

Moving forward, the firm sees plenty of room for growth as Scott estimates the micro-cap strategy's capacity at $1 billion, $4 billion to $5 billion in small-cap, upwards of $10 billion in smid-cap and even further beyond in large-cap.

"The firm was built around one idea and that was to have a very specific investment philosophy managed across the market-cap spectrum and focus entirely on delivering good performance for our clients. And I think that's what we've done," Scott said.