NSCI

Another record-breaking year for UK small- and mid-cap stocks

Wednesday 15 January 2014: The Numis Smaller Companies Index ("NSCI") Annual Review 2014 is published today by Numis Corporation. The authors, London Business School emeritus professors Elroy Dimson and Paul Marsh, report in their detailed analysis that 2013 was a second consecutive year of remarkable returns for investors in small and mid-sized UK companies.

The highlights for the NSCI, ex-investment companies (XIC), the main benchmark used by institutional investors, are as follows:

- During 2013, the NSCI XIC had a total return of 36.9% compared to 20.8% for the FTSE All Share.
- Since 1955, the index has achieved a compound return of 15.8%, as compared to 12.0% on the FTSE All-Share.
- Launched in 1987 at a level of 1000, the NSCI XIC returns index reached an all-time high on 31 December 2013 of 15,818. The Professors estimate a 50% probability of hitting 25,000 by late 2018.
- In 2013, in 26 out of 31 global markets, smaller companies achieved a positive return. Over 2000–13, smaller companies outperformed larger ones in 28 of the 31 markets, by an average 5.2% / year.

Commenting on the NSCI 2014 Annual Review, Will Wallis, Head of Research at Numis Securities, said:

"The UK smaller companies sector has once again been an excellent hunting ground for investors over the past year and the NSCI has proven to be an invaluable resource for analysing this part of the market. From every starting point through to the present day, the professors' work demonstrates that smaller companies have outperformed the overall UK market. In addition to this track record for the sector as a whole, we believe that there are a number of outstanding fund managers covering this part of the market who can further enhance investor returns."

London Business School professors Elroy Dimson and Paul Marsh, the authors of the report, said:

"Last year's small-cap performance was outstanding, and we entered 2014 with new all-time highs for the Numis indices. Among constituents of the NSCI, micro-cap stocks, value investments and momentum trades performed particularly strongly."

Oliver Hemsley, Chief Executive of Numis, said:

"The NSCI is the definitive benchmark for monitoring UK smaller companies and forms part of the extensive body of research that Numis provides to investors. Working closely with the Professors, Numis is continuing to develop the range of data available. The smaller companies sector forms a key part of Numis's overall business, and we are delighted to be able to provide this vital service to smaller company investors."

The highlights of the 2014 Annual Review also include:

- Smaller constituents of the NSCI XIC gave a return of 47.5%, far better than bigger companies (33.7%). Value stocks in the index provided a return of 46.6%, far better than growth stocks (34.4%).
- Over the course of 2013, the prior year's best performers turned £1 into £1.55. The prior year's worst performers turned £1 into £0.89. Past winners beat past losers by 74%.

- AIM had a 2013 return of 21.3%, close to the All-Share (20.8%) but behind the NSCI XIC (36.9%). AIM was hurt by the resource-stock collapse. Non-resource stocks on AIM had a return of 39.6%.
- When stocks are promoted to a full list does AIM lose its higher-return constituents? The authors find that AIM stocks that transferred to the main market underperformed over the next two years by 21%.
- In 2013, the value of IPOs had a year-on-year increase of 136%. Between the end of the first day of trading and the year-end, NSCI flotations had an average after-market return of 17%.
- In contrast to IPOs, the value of M&A transactions fell to at a 59-year low, 29% below the previous all-time low. A rise in activity could provide encouragement to investors who are seeking latent value.
- Rebalancing involves selling stocks that have appreciated. In 2013, this involved 26% of NSCI value. Is it costly to delay? Averaged over 1956–2013, a one-year delay would have cut returns by 0.6%.
- Since 1956, there has been a tendency for low NSCI yields to be followed by smaller returns. Currently, the NSCI yield is low. The authors foresee more modest performance than in the past, over the medium to longer term.

A brief description of the NSCI may be viewed at www.numiscorp.com/x/NSCIhome.html.

A summary and the highlights of NSCI Annual Review 2014 are attached with this release.

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Notes to Editors

About the Numis Smaller Companies Index

The NSCI covers the bottom tenth by value of the main UK equity market. It is unique in having been calculated on a consistent basis from 1955 to date. At the start of 2014, the NSCI contained 715 companies, the average market capitalisation of its constituents was £326 million, and the index's largest constituent (AZ Electronic Materials) had a value of £1,503 million. The Numis index family also includes other indices, such as a version of the NSCI that incorporates AIM stocks.

About Numis

Numis is a leading independent investment banking and stockbroking group offering a full range of research, execution, corporate broking and corporate finance services to companies quoted in the UK and their investors.