NSCI

Spectacular performance in 2012 from small- and mid-cap UK companies

Wednesday 16 January 2013: The Numis Smaller Companies Index ("NSCI") Annual Review is published today by Numis Corporation. The authors, London Business School emeritus professors Elroy Dimson and Paul Marsh, present detailed analysis of the NSCI. They report that 2012 was a spectacular year for investors in small and mid-sized UK companies.

Will Wallis, Head of Research at Numis Securities, said:

"Last year, investment returns from the NSCI were excellent, substantially ahead of larger company indices, aided by good performance from value stocks. Looking ahead, the listed UK smaller companies sector offers investors exposure to a diverse range of high quality companies, many with global operations. As Professors Dimson and Marsh once again report, this sector of the market has demonstrated long-term outperformance. Furthermore, there are a number of fund managers with excellent long-term track records in this sector who can potentially further enhance investor returns."

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 2013, the NSCI contained 751 companies, the average market capitalisation of its constituents was £267 million, and the index's largest constituent (Debenhams) had a value of £1,428 million. The Numis index family also includes other indices, such as a version of the NSCI that incorporates AIM stocks.

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

- During 2012, the NSCI XIC had a total return of 29.9% compared to 12.3% for the FTSE All Share.
- Since 1955, the index has achieved a compound return of 15.5%, as compared to 11.9% on the FTSE All-Share.
- During 2012, in 28 out of 30 global markets monitored by the authors, smaller companies achieved a positive return.
- Over 2000–2012, smaller companies beat larger ones in 26 of the 30 markets, with an average premium (the excess of smaller- over larger-company stock returns) of 5.0% per year.
- Over the long haul, value stocks have beaten growth stocks, but value can sometimes underperform. After a five-year losing streak from 2007–11 during which value stocks underperformed growth stocks by 9.4% per year, value stocks had a good year in 2012, outperforming by 13%.
- In 2012, companies with a high dividend yield gave a total return of 32%, as compared to low-yielders which had a return of 24%. Since 1955, high-yielders within the NSCI XIC gave an annualised return of 18.4%, well above low-yielders (13.6%) or non-dividend paying stocks (9.1%).
- During 2012, a strategy of buying prior-year winners outperformed buying prior-year losers by 21%. The average annual return since 1956 from buying prior-year winners and going short prior-year losers would have been a mouth-watering 20.3% (before trading costs).
- Over the last 34 years, index stocks with higher levels of firm-specific risk have underperformed. The authors find that low-volatility stocks generated an annualised return that was 5.4% above the return on high-volatility stocks.

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

“We could not have chosen a better home for the NSCI than Numis, the top-ranked UK broker for small- and mid-cap companies. The transfer to Numis coincided with celebrations of 25 years of continuous index production and was crowned by the new all-time highs achieved by the Numis indices.”

Oliver Hemsley, Chief Executive of Numis, said:

"We are delighted that the Numis Smaller Companies Index has joined the extensive body of research that we provide to investors. The NSCI (formerly the Hoare Govett Smaller Companies Index) is the definitive benchmark for monitoring smaller companies. Working closely with the Professors, Numis is now delivering frequent and comprehensive data and new analytical support to our clients.”

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 2013 is also attached as PDF.

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