

Quick Guide to the Numis Smaller Companies Index

The NSCI is produced by Elroy Dimson, Scott Evans and Paul Marsh of London Business School

The definitive benchmark

Published continuously for 30 years, the Numis indices were launched at the start of 1987. Since then, they have provided the definitive benchmark for monitoring the performance of smaller UK companies. From 2012, the Numis indices have been a product of Numis Corporation. NSCI data and related research is distributed by Numis.

The Numis index family

The main version of the NSCI covers the bottom tenth by value of the main UK equity market. It has been calculated on a consistent basis for 62 years, 1955–2016. The NSC plus AIM index adds in AIM stocks that meet the NSCI size limit. The NSCI ex-investment companies (XIC) screens out investment instruments. In addition, the NSC 1000 index targets the bottom 2% of the UK market, on an XIC basis. The Numis Mid Cap covers the bottom 20% by value of the main UK equity market, excluding the bottom 5%. Its returns tend to be between the NSCI and the FTSE All-Share.

Performance in 2016

Over 2016, the NSCI gave a total return of 12.8%, compared with the FTSE All-Share return of 16.8%, a relative underperformance by the NSCI of 3.9%. The NSCI XIC gave a return of 11.1%, a relative underperformance of 5.7%. During 1955–2016, the NSCI gave an annualised return of 15.1%, which is 3.4% above the FTSE All-Share; and the NSCI XIC returned an annualised 15.3%. During 2016, the NSC 1000 provided a return of 16.1%, which is a relative underperformance of 0.7%. During 1955–2016, the NSC 1000 gave an annualised return of 16.7%, which is 4.9% above the FTSE All-Share.

Index composition for 2017

At the start of 2017, the NSCI has 701 constituent companies, of which 349 are non-investment companies. The NSC plus AIM index has 1678 constituent companies. The NSC 1000 index has 526 constituent companies. At the turn-of-the-year rebalancing, the largest NSCI constituent (Caledonia Investments) had a value of £1435 million, while the largest NSC 1000 company (Consort Medical) was worth £522 million. The average market-cap of NSCI companies is £351 million; for the NSC 1000 it is £169 million.

Sector weightings

The main market versions of the Numis indices emphasize industrials and investment instruments, which together comprise just over a half (52.4%) of the NSCI index and two-thirds (65.4%) of the NSC 1000. In relative term, the Numis indices are heavy in industrials, technology, and investment instruments. They are light in oil and gas, consumer goods, health care, telecommunications, and utilities. At the sector level, the NSCI and NSC 1000 have no constituents at all in forestry and paper, tobacco, or mobile telecoms.

Volatility and diversification

Individual index constituents have volatile share prices. However, a diversified portfolio of NSCI constituents has historically had similar variability to the FTSE All-Share. The relative risk of the Numis indices had fallen slightly below that of the All-Share over the last two years, and the NSCI's volatility is currently almost at parity (10.0% vs 10.1% for the FTSE All-Share). Smaller company returns are imperfectly correlated with larger company returns, and risk is reduced by diversifying across both segments of the market.

Ratings and investment style

At the start of 2017, the dividend yield on the NSCI was 2.82% (ex-investment companies, 2.77%) and the P/E multiple, ex-loss makers, was 15.09 (ex-investment companies, 12.51). The dividend yield on the NSC 1000 was 3.07% (ex-investment companies, 2.83%) and the P/E ratio was 15.72 (ex-investment companies, 11.50).

New topics in this year's Review

This year's Annual Review provides a detailed analysis of the impact of the Brexit vote on small-caps, as well as presenting evidence on the impact of overseas exposure and currency movements. We also examine the performance of small- and large-cap returns following major devaluations of sterling. We present evidence on style and value, international performance, and the correlation of small-caps across countries.