Quick Guide to the Numis Smaller Companies Index

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

The definitive benchmark

The Numis indices were launched at the start of 1987. They have been published continuously for 33 years and also have a 32-year back-history to 1955. Since their launch, they have provided the definitive benchmark for monitoring the performance of smaller UK companies. 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 65 years, 1955–2019. 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%. The Numis Alternative Markets Index includes all companies listed on qualifying UK alternative markets. Currently, only AIM qualifies.

Performance in 2019

Over 2019, the NSCI gave a total return of 22.3%, versus 19.2% for the FTSE All-Share, an outperformance of 3.1%. The equivalent figures for other key Numis indices were NSCI XIC, 25.2% (6% underperformance), NSC 1000, 15.9% (3.3% underperformance) and Numis Alternative markets index, 14.7% (4.5% underperformance). Over the last 65 years, from 1955–2019, the NSCI gave an annualised return of 14.8%, which is 3.3% above the FTSE All-Share; the NSCI XIC returned an annualised 15.0%, and the NSC 1000 gave an annualised return of 16.3%, 4.7% above the FTSE All-Share.

Index composition for 2020

At the start of 2020, the NSCI has 696 constituent companies, of which 346 are non-investment companies. The NSC plus AIM index has 1,547 constituent companies, the NSC 1000 index has 536, and the Numis Alternative Markets index has 859. At the turn-of-the-year rebalancing, the largest NSCI constituent (Worldwide Healthcare Trust) had a value of £1,678 million, while the largest NSC 1000 company (Saga) was worth £582 million. The average market-cap of NSCI companies is £375 million; for the NSC 1000 it is £186 million.

Sector weightings

The NSCI has a significant weighting in industrials, financials, consumer services and investment instruments, which together comprise 80% of the NSCI index and 85% of the NSC 1000. In relative terms, the NSCI and NSC 1000 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, and gas, water and multiutilities.

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 volatility of the NSCI has fallen in recent years. It is now at 9.3% which is slightly above its record low achieved two years ago and below 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 2020, the dividend yield on the NSCI was 3.07% (ex-investment companies, 3.16%) and the P/E multiple, ex-loss makers, was 18.13 (ex-investment companies, 14.90). The dividend yield on the NSC 1000 was 3.27% (ex-investment companies, 3.18%) and the P/E ratio was 16.45 (ex-investment companies, 12.10).

New topics in this year's Review

This year's Review looks back over the 65 years of the NSCI, how the composition of the index has changed, and which sectors have done best and worst. It provides a long run analysis of acquisitions and their impact; examines global small-cap returns; examines factor returns; and provides guidance on the likely magnitude of the future size premium.