

## 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 32 years and have a 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 64 years, 1955–2018. 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 2018

Over 2018, the NSCI gave a total return of -11.0%, versus -9.5% for the FTSE All-Share, an underperformance of 1.5%. The equivalent figures for other key Numis indices were NSCI XIC, -15.3% (5.9% underperformance), NSC 1000, -9.5% (in-line performance) and Numis Alternative markets index, -17.5% (8.0% underperformance). During 1955–2018, the NSCI gave an annualised return of 14.7%, which is 3.3% above the FTSE All-Share; the NSCI XIC returned an annualised 14.8%, and the NSC 1000 gave an annualised return of 16.3%, 4.9% above the FTSE All-Share.

### Index composition for 2019

At the start of 2019, the NSCI has 707 constituent companies, of which 359 are non-investment companies. The NSC plus AIM index has 1,617 constituent companies, the NSC 1000 index has 527, and the Numis Alternative Markets index has 916. At the turn-of-the-year rebalancing, the largest NSCI constituent (Renewables Infrastructure) had a value of £1,334 million, while the largest NSC 1000 company (Vectura Group) was worth £465 million. The average market-cap of NSCI companies is £326 million; for the NSC 1000 it is £160 million.

### Sector weightings

The NSCI has a significant weighting in financials, industrials, consumer services and investment instruments, which together comprise just over two thirds of the NSCI index and almost three quarters of the NSC 1000. Compared with the FTSE All-Share, the Numis indices are very heavy in investment companies. On an XIC basis, the NSCI XIC is in relative terms heavy in industrials, consumer services and technology, and, to a lesser degree, financials. It is light in oil and gas, health care, telecoms and utilities, and somewhat light in consumer goods. The NSCI and NSC 1000 have no constituents in forestry and paper, tobacco, gas, water and multi-utilities or mobile telecoms.

### Volatility and diversification

On average, individual small-caps have more volatile share prices than large-caps. But the NSCI is a diversified portfolio, and has historically had similar variability to the FTSE All-Share. NSCI volatility has fallen recently and is now 8.9%, just above its record low, and below the FTSE All-Share. Small-cap returns are imperfectly correlated with large-cap returns, and risk is reduced by diversifying across both segments of the market.

### Ratings and investment style

At the start of 2019, the dividend yield on the NSCI was 3.46% (XIC, 3.57%) and the P/E multiple, ex-loss makers, was 12.91 (XIC, 10.91). The dividend yield on the NSC 1000 was 3.43% (XIC, 3.28%) and the P/E ratio was 13.21 (XIC, 10.20).

### New topics in this year's Review

This year's Review analyses global small-cap performance; long run factor premia within the NSCI XIC and AIM; IPOs and their performance in 2018; the extent to which AIM has matured; the prevalence and performance of foreign AIM stocks; the impact so far of MiFID II on research coverage and liquidity; and long run real asset returns.