

Quick Guide to the Numis Smaller Companies Index

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

The definitive benchmarks with a long-run history

The Numis indices were launched at the start of 1987. They have been published continuously for 34 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. With the introduction of the Numis Large Cap index in 2020, the Numis family of indices now covers all UK stocks listed on both the LSE main market and AIM. Numis index 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 66 years. 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 Large Cap index covers the top 80% by market value of the main UK equity market. The Numis Alternative Markets Index includes all companies listed on qualifying UK alternative markets. Currently only AIM qualifies.

Performance in 2020

Over 2020, the total returns on the Numis indices were as follows (performance relative to the FTSE All-Share in brackets): NSCI, 1.1% (+10.9%); NSCI XIC, -4.3% (+5.5%); NSC 1000, 3.6% (+13.4%); Numis Mid Cap, -5.7% (+4.2%); Numis Large Cap, -10.8% (-0.5%); Numis Alternative markets index, 19.3% (+29.2%).

Long-run performance

Over the last 66 years, from 1955–2020, the NSCI gave an annualised return of 14.6%, which is 3.4% above the FTSE All-Share; the NSCI XIC returned an annualised 14.7%, and the NSC 1000 gave an annualised return of 16.1%, 4.9% above the FTSE All-Share.

Index composition for 2021

At the start of 2021, the number of constituent companies in the indices are: NSCI, 680 (334 XIC); NSC plus AIM, 1,483 ; NSC 1000, 529; Numis Mid Cap, 213; Numis Large Cap, 115; Numis Alternative Markets index, 818. At the end-2020 rebalancing, the largest NSCI constituent had a value of £1,500 million; the largest NSC 1000 company was worth £608 million; the Numis Mid Cap included all companies between £765 million and £3,731 million, while the Numis Large Cap included all companies larger than £3,731 million.

Industry weightings

The NSCI has a significant weighting in industrials, financials, consumer services and investment instruments, which together comprise over 80% of the NSCI and over 85% of the NSC 1000. In relative terms, the NSCI and NSC 1000 are heavy in industrials, technology, and investment instruments. They are light in oil and gas, basic materials consumer goods, health care, utilities and financials (excluding investment companies).

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. Volatility rose across the market in 2020, but it increased more for small-caps. 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 2021, the dividend yield on the NSCI was 2.09% (XIC, 1.49%) and the P/E multiple, ex-loss makers, was 14.24 (XIC, 10.83). The dividend yield on the NSC 1000 was 2.45% (XIC, 1.39%) and the P/E ratio was 14.89 (XIC, 10.38).

New topics in this year's Review

This year's Review looks at some of the surprises and challenges that the global pandemic brought to bear on the UK equity market. This includes dividend cuts, fund raising, the failure of factor investing, the performance of AIM and of investment companies and how UK small- and large caps performed in an international context.