

## 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 31 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 63 years, 1955–2017. 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 2017

Over 2017, the NSCI gave a total return of 18.8%, versus 13.1% for the FTSE All-Share, an outperformance of 5.7%. The equivalent figures for other key Numis indices were NSCI XIC, 19.5% (6.4% outperformance), NSC 1000, 19.2% (6.1% outperformance) and Numis Alternative markets index, 27.4% (14.3% outperformance). During 1955–2017, the NSCI gave an annualised return of 15.2%, which is 3.4% above the FTSE All-Share; the NSCI XIC returned an annualised 15.4%, and the NSC 1000 gave an annualised return of 16.7%, 4.9% above the FTSE All-Share.

### Index composition for 2018

At the start of 2018, the NSCI has 703 constituent companies, of which 350 are non-investment companies. The NSC plus AIM index has 1,655 constituent companies, the NSC 1000 index has 531, and the Numis Alternative Markets index has 958. At the turn-of-the-year rebalancing, the largest NSCI constituent (Polar Capital Technology) had a value of £1527 million, while the largest NSC 1000 company (Nostrum Oil & Gas) was worth £611 million. The average market-cap of NSCI companies is £387 million; for the NSC 1000 it is £191 million.

### Sector weightings

The NSCI has a significant weighting in industrials and investment instruments, which together comprise just over a half (53.9%) of the NSCI index and almost two-thirds (63.1%) 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 volatility of the NSCI has fallen recently. It is now at a record low of 8.7% and is below that of 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 2018, the dividend yield on the NSCI was 2.80% (ex-investment companies, 2.76%) and the P/E multiple, ex-loss makers, was 16.48 (ex-investment companies, 14.32). The dividend yield on the NSC 1000 was 2.94% (ex-investment companies, 2.61%) and the P/E ratio was 17.25 (ex-investment companies, 13.17).

### New topics in this year's Review

This year's Review introduces the newly launched Numis Alternative Markets index; provides an analysis of the trends in research coverage of smaller companies and the relationship between analyst recommendations and investor returns; and reviews when small-caps have done well (and badly) historically in terms of different market, economic, monetary and political conditions.

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