

# The Miton UK MicroCap Trust

Preparing for the start of a new UK-centric microcap super-cycle?

FOR INVESTMENT PROFESSIONALS ONLY. CAPITAL AT RISK.

Thinking ahead of the curve

# Agenda

1

With passive strategies increasingly dominating the global stock markets, what are the constraints (if any) to further megacap outperformance?

2

If globalisation drives up market liquidity and nationalism drains it, then should we expect the past trend of rising asset valuations and profit margins to be reversed from here?

3

If asset valuations are indeed peaking, and strong asset returns do become more difficult to access, why should this prompt global investors to massively step up their UK equity allocations?

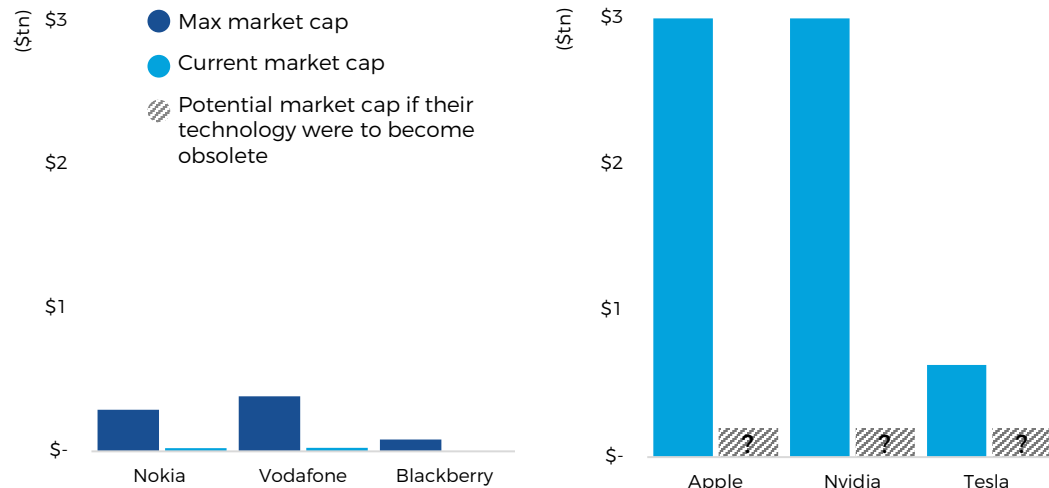
4

The prospects for the UK economy are probably no better than others, so how can it be that genuinely micro, UK-quoted companies are set to become one of the best performing assets worldwide?

# Obsolescence risks can be hugely miscalibrated within technology stocks – but now that they are megacap in scale...

- During globalisation, stock market momentum often became so strong that companies generating rapid sales and profit growth sometimes rose to impressive market capitalisations, that then left them vulnerable to enormous downside obsolescence risks.
- Good examples include Nokia and Vodafone, that were capitalised at \$246bn and \$340bn in March 2000, and Blackberry at \$66bn in June 2008.
- On 30 June 2024 these companies were capitalised at \$21.4bn, \$23.6bn and \$1.5bn respectively.
- In this context, it is worth noting that the market capitalisation of Apple was \$3230bn, Nvidia was \$3039bn and Tesla was \$631 bn as at 30 June 2024.
- Between 2000 and 2023 US cumulative inflation was 79.2% which is considerably less than current scale of the US mega caps relative to some other leading companies in their markets in 2000

**Peak market capitalisation of some past high profile technology companies, compared with their current market capitalisation, along with some high profile companies currently**



**...it means that any misjudgements from here will potentially have a giant impact on the returns of mainstream indices**

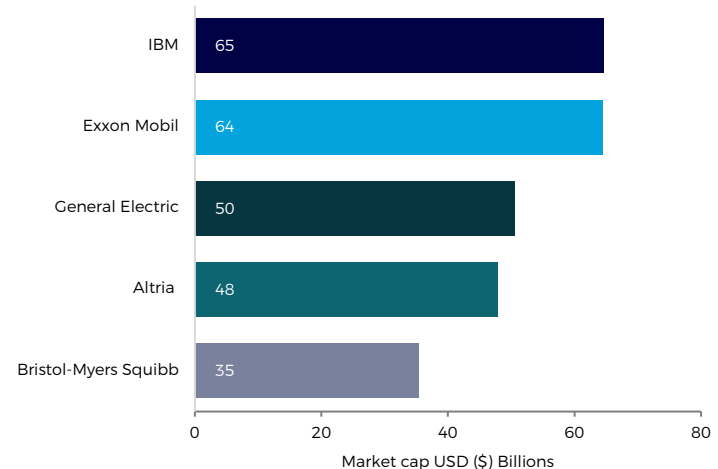
# The Law of Large Numbers identifies that real-world constraints tend to hinder the expansion of bigness...

A look back at the past largest companies on the US stock market highlights just how much real-world constraints hinder the expansion of bigness

1. Exxon Mobil was one of the largest US companies in 1990, and subsequently it has underperformed in the broader market
2. Alongside, even though technology has been a winning industry sector since 1990, IBM itself has lost out and underperformed the broader market- possibly due to a calcification of its management team
3. General Electric, has also heavily underperformed the broader market since 1990 as conglomerates have been outpaced by others
4. Altria, has also heavily underperformed the broader market since 1990
5. Although the Healthcare industry sector has outperformed the broader market substantially since 1990, Bristol-Myer Squibb itself has underperformed It substantially over the period

In general, as listed stocks become large, their returns are typically outpaced by younger businesses with nimbler, innovative management teams – even many of the large caps that operate in winning industry sectors lose out

Largest five US companies by market cap in 1990

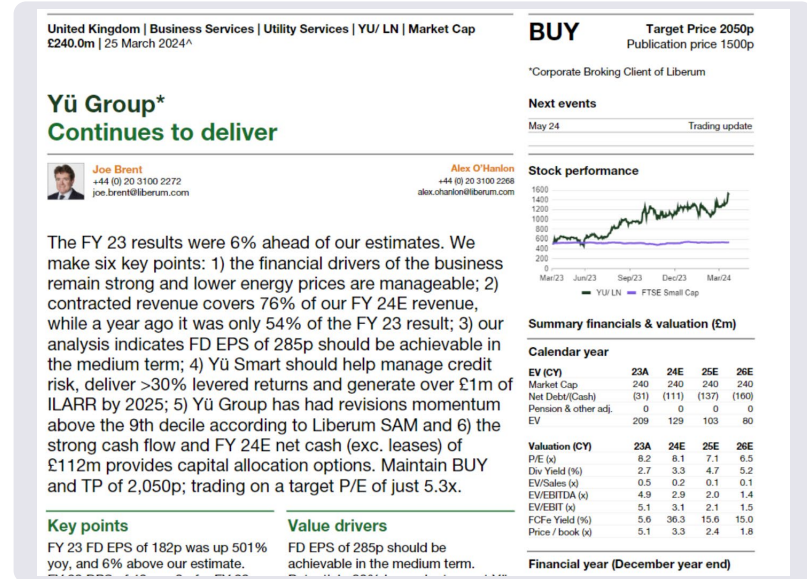


**...so, with near-record profit margins and valuations, mainstream stock markets appear set to deliver sub-normal returns from here**

# In contrast to largecaps, quoted microcaps by definition start small, so when they succeed...

- Few professional investors (including professional smallcap investors), tend to research stocks below an arbitrary market capitalisation such as £150m, and as such they overlook the upside potential of more than half of all the UK quoted companies
- A good example is Yu Group, that during 2020 was standing at a market capitalisation of £16m despite having sales of £101m, net cash balances of £12m, and rapid growth potential<sup>1</sup>
- Subsequently, Yu Group has reported accelerating sales and profit growth, such that it has now started to pay good and growing dividends
- One of the advantages of a microcap strategy is that the fund can invest in companies like Yu Group as they start to generate considerable surplus cash, when they may be set to pay a rapidly growing stream of dividends
- Hence, as soon as Yu Group started to generate abundant surplus cash, and could pay a healthy stream of dividends in future the fund was quick to invest, and participate in its outperformance
- In summary, when maturing quoted microcaps succeed, sometimes they can deliver quite exceptional returns over years

## The Liberium analyst's assessment of Yu



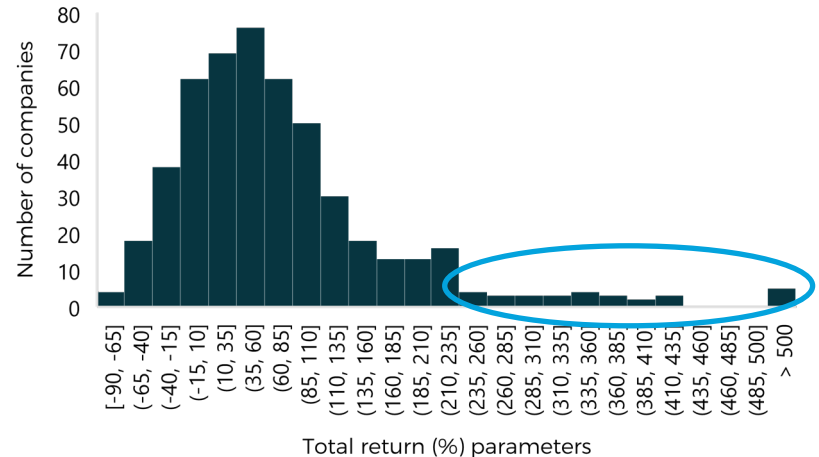
...they have much greater scope to keep succeeding for numerous years, and deliver a quite exceptional stream of good and growing dividends

# Generating abundant surplus cashflow can deliver an upside a bit like a ‘permanent option’...

- One of the great advantages of investing in equities, is that whilst the downside risk can be a 100% loss, the upside potential is almost unlimited
- The practical reality though, is that many successful stocks have periods of growth, and some of retrenchment, with their annualised returns being relatively close to the annualised return of the market overall
- Outliers on the upside in terms of annualised return are rare amongst largecaps, and typically are associated with periods of strong market momentum such as during the early stages of the dot.com event
- Whilst outliers on the upside in terms of annualised return are also somewhat infrequent within quoted microcaps, overall, they occur much more frequently than amongst largecaps, and tend to occur during a wider range of market conditions
- The key point is that these option-like upsides are imbedded in the portfolio holdings, they can greatly enhance its overall portfolio return, and importantly their potential is perpetual, in contrast to traded options that fall in value towards the end of their term

**Equity annualised returns tend to group around the average of market returns, and outliers on the upside are relatively rare**

**Bloomberg 500 Index- underlying company returns 2 years post COVID**  
23 February 2020 to 23 February 2024

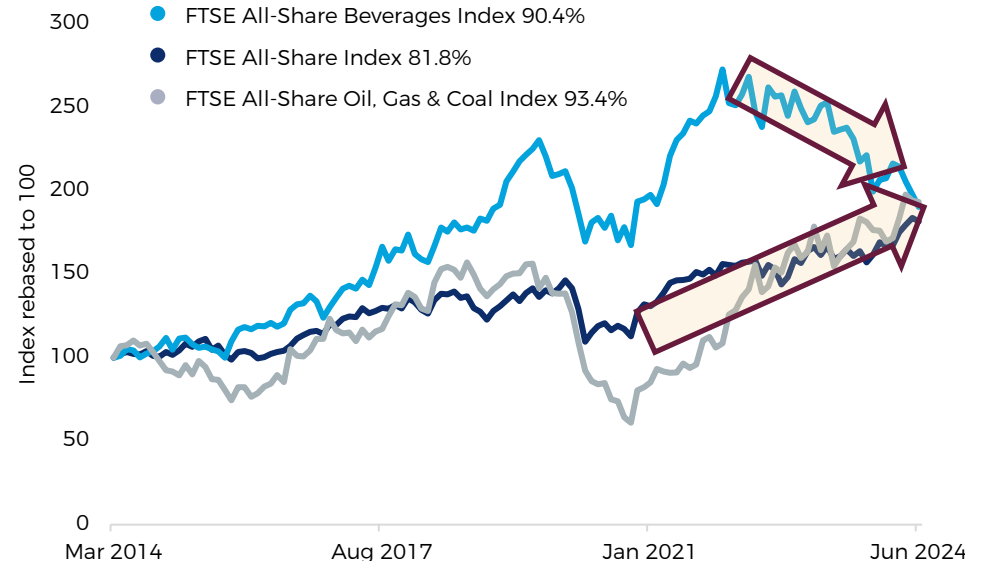


**...which can occasionally occur within largecaps, but happens more frequently amongst quoted small and microcaps**

## Specifically, if global relationships continue to fragment and geopolitical downsides become more of an issue...

- Those outside of the the financial services sector often assume that portfolio management is merely about investing in a number of stocks with upward price momentum, and taking profits before their share prices fall back significantly
- But this assumption overlooks event risk, where the prospects for numerous stocks can suddenly become quite weak
- When an unexpected event occurs, whilst the prospects for some portfolio holdings might be much weaker, across a portfolio hopefully there may be other relatively uncorrelated holdings where the event leads to their prospects becoming more upbeat
- In the example alongside, the prospects for many stocks in the Beverages sector are somewhat correlated to bond valuations, whereas the prospects for the Oil, Gas and Coal sector are principally correlated with the price of energy
- Following the invasion of Ukraine, and the revival of inflation, bond valuations declined whereas the energy price increased, so a portfolio containing holdings in these two sectors through the unexpected challenge, together delivered a less volatile return than either of the two industry sectors individually.

Line chart highlighting how industry sector diversification within a portfolio can sometimes moderate the volatility of overall portfolio return



**...genuine portfolio diversification is a great advantage**

# Mercia Asset Management has recently announced that it will liquidate its investment portfolio...

## Mercia Asset Management

- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Mercia Asset Management share price 30 June 2019 to 30 June 2024



- Mercia has grown AuM at 27% pa as government has encouraged BBB<sup>1</sup>, VCTs, pension funds and local authorities to allocate UK capital regionally
- AuM is projected to reach circa 3.0bn over the coming three years, and broker's anticipate Mercia's underlying profitability might double<sup>2</sup>
- Mercia has recently announced it will liquidate its own regional portfolio valued at £117m, which along with its cash of £47m, means in time its cash balance sheet could be expected to exceed its market capitalisation<sup>2</sup>

**...and hence its underlying AuM momentum should start to be valued, in a vehicle where its cash balances may exceed its market cap**

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 30.06.2019 to 30.06.2024. <sup>1</sup>Singer Capital Markets, Corporate Client Report, published on 02 July 2024. <sup>2</sup>Canaccord Genuity, Capital Markets UK Equity Research, published on 02 July 2024.  
**Past performance is not a reliable indicator of future returns. Forecasts are not reliable indicators of future returns.**

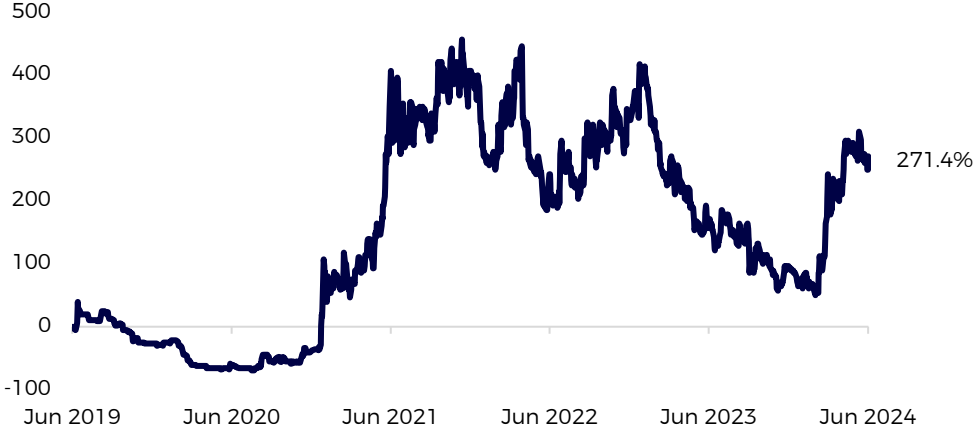


# Energy companies operating onshore tend to incur lower carbon intensities than offshore wells...

## Zephyr Energy

- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Zephyr Energy share price 30 June 2019 to 30 June 2024



- Zephyr used government funding to prove up the Paradox Energy Basin in Utah, where it has now assembled extensive acreage
- Following the first well, Zephyr now have the option of drilling numerous similar wells, that analysts forecast might drive up daily production volumes to 5000 barrels of oil equivalent each day
- Zephyr has used its geological knowledge to farm into Salt Wash field in Utah.

**...and sometimes can generate abnormally large upsides, when a new fairway is identified**

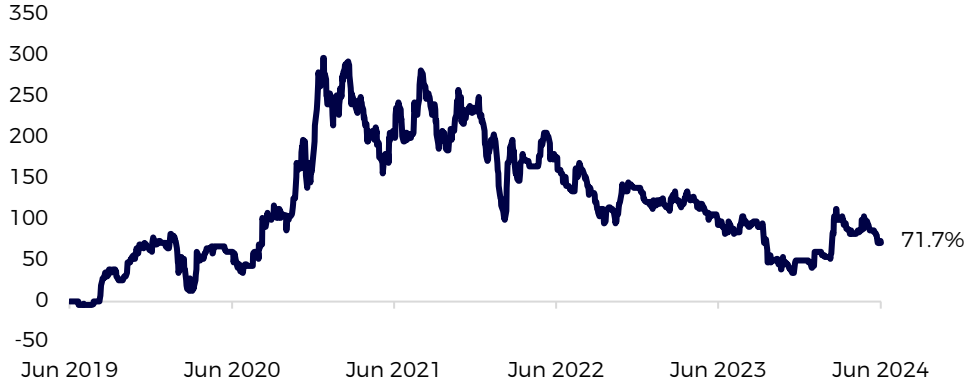
Source: FE Analytics, on a UK Sterling basis, bid to bid, from 30.06.2019 to 30.06.2024.  
**Past performance is not a reliable indicator of future returns.**

# The cash generative nature of MTI Wireless Edge means it has funded considerable growth....

## MTI Wireless Edge

- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

MTI Wireless Edge share price 30 June 2019 to 30 June 2024



- MTI operates a one stop shop for flat and parabolic antennas, wireless control systems for irrigation and water distribution management, and has some electronic component franchises
- MTI has a long history of sales and profit growth, that has been reflected in abundant cash surpluses, that have funded progressive dividend growth and share buybacks
- Although its corporate record is progressive, its valuation has fluctuated considerably, with a yield of 6.3% and a net cash balance sheet\*

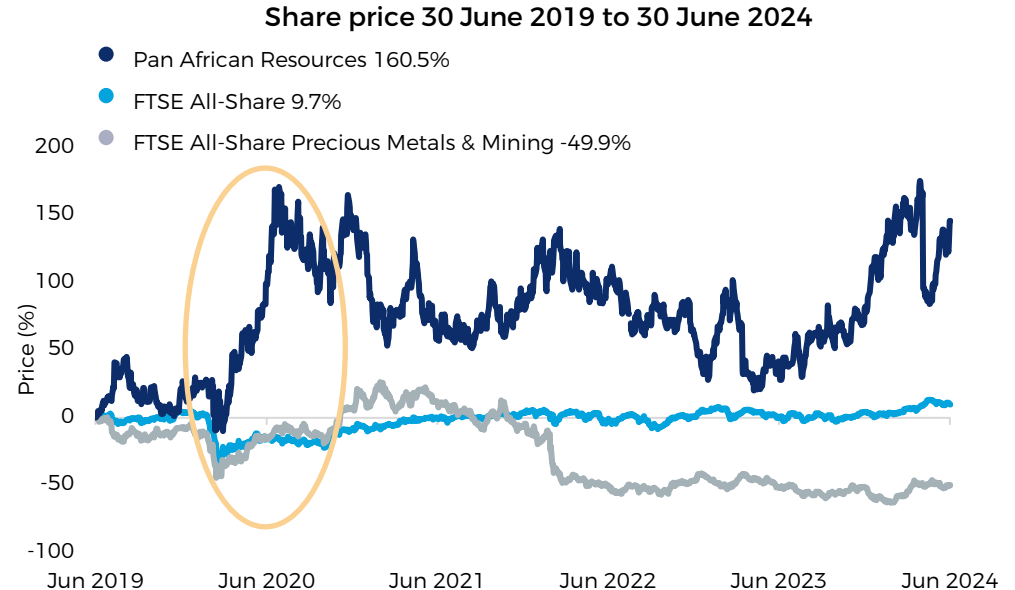
**...whilst maintaining a net cash balance sheet, and funding a progressive dividend and share buyback**

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 30.06.2019 to 30.06.2024. \*The historic yield reflects distributions declared over the past twelve months as a percentage of the holding price as at 23.07.2024.

**Past performance is not a reliable indicator of future returns.**

# When capital becomes costly, the 'option-like' upsides on capital-intensive businesses can become more substantial...

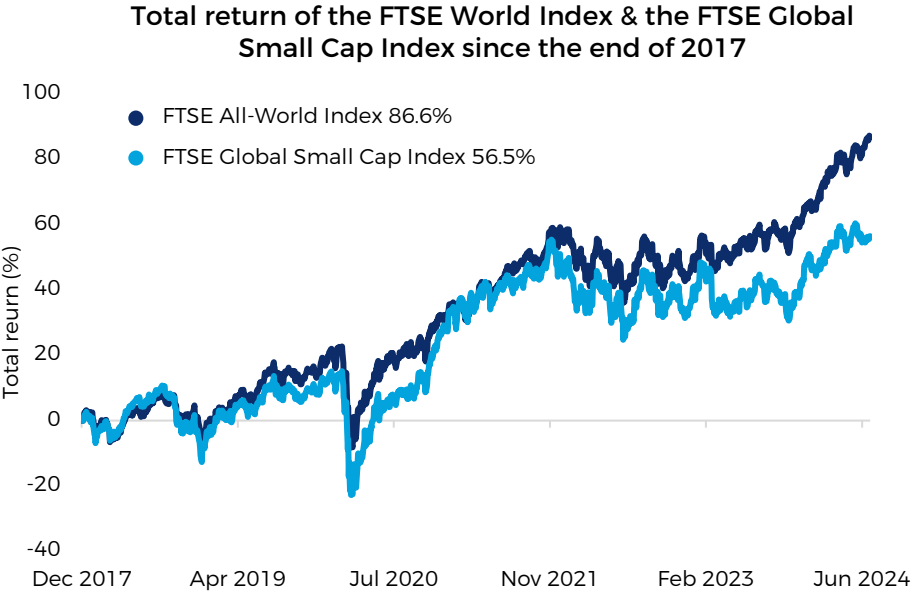
- Many fund managers choose to avoid considering some industry sectors such as complex financials or various mining or energy stocks, on the basis that they don't have any particular insight as to the imminent commodity prices
- To some degree, we believe this overlooks including stocks that are often more uncorrelated with the fluctuations of most mainstream portfolio holdings
- Better still, because the supply/demand characteristics of many of these industries, when they succeed, their profitability and potential cash generation can sometimes increase dramatically
- If anything, because some smallcap operators are immature, the scope for profitability increases can be even greater than those of the mainstream stocks
- A good example Pan African Resources, a gold mining business, where its share price appreciated during the global pandemic and recently, although its returns were less uncorrelated during the 2022



...because if demand is sustained, then their 'corporate moats' notionally widen, and hence their profitability can sometimes increase dramatically

# Whilst the megacap trend may have obscured the ‘perpetual option’ upside of a microcap strategy at present...

- As global capital has gravitated into megacaps, most other parts of equity markets have underperformed, especially microcaps
- The UK equity market has underperformed most others over recent decades, so the capital withdrawal has been more severe than most others
- Fortunately, much of the withdrawal of capital from the UK majors has been offset by unusually large corporate buybacks, along with some international investors who have selected for UK equities in preference to international comparatives on the basis of their lower valuations
- Unfortunately, as UK-quoted microcaps tend to have many fewer buybacks, and international investors very rarely buy into them, they now stand on absurdly low valuations in our view
- The net effect is that the FTSE AIM All Share Index has fallen by 30% from the end of 2020 to the end of June 2024, whereas the FTSE100 Index has risen by 44%
- During this period of redemption headwinds, when microcap share prices have been falling, their upside option values haven't always come through even when they succeed
- In our view, all this means that there are all the more yet to come through in future



...all this means is there should be a new wave of them queuing up to come through in future

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 29.12.2017 to 30.06.2024.  
**Past performance is not a reliable indicator of future returns.**

## Overall, the trust's portfolio comprises a highly diversified list of holdings...

- The portfolio principally comprises UK quoted stocks with a market capitalisation below £150m at the time of investment.
- The portfolio also includes both local businesses as well as many with operations that are principally operating internationally
- Furthermore, it also includes stocks that are innovating or others operating in novel markets that often means that they can prosper even when the global economy is in recession
- Specifically, some of the most diversifying holdings are AIM-listed financials, energy stocks and mineral businesses, that also tend to stand at the greatest valuation discounts and hence can deliver very substantial capital appreciation as well as income

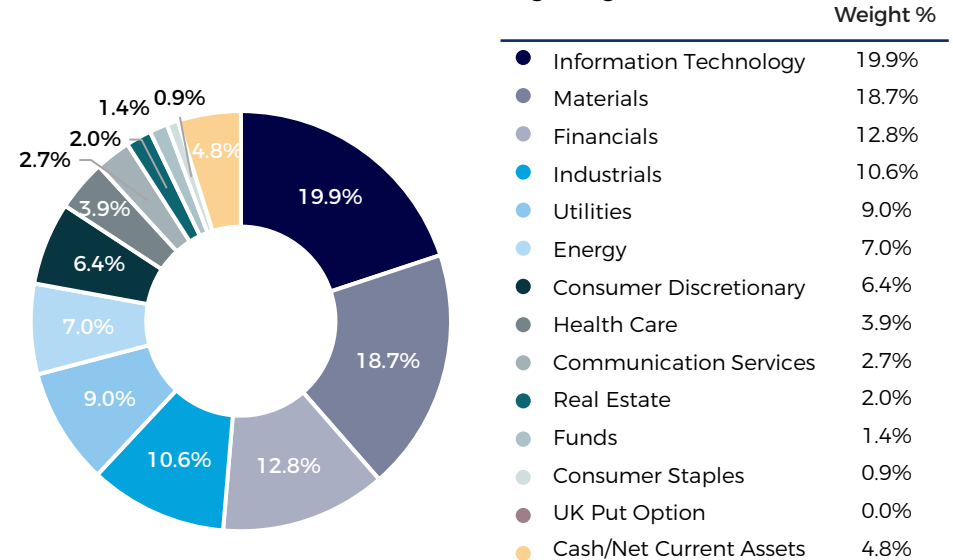
Top 20 trust holdings	Weight %
Yu Group	8.4%
Trufin	3.1%
MTI Wireless Edge	2.8%
Zoo Digital Group	2.7%
Zephyr Energy	2.2%
Serabi Gold	2.0%
CyanConnote	2.0%
Concurrent Technologies	1.8%
Braemar	1.7%
Zinc Media Group	1.6%
Savannah Resources	1.6%
Frontier IP Group	1.6%
Invinity Energy Systems	1.5%
STM Group	1.5%
Ultimate Products	1.4%
Beeks Financial Cloud Group	1.4%
Marwyn Value Investors	1.4%
Capital Limited	1.4%
Record	1.4%
Incanthera	1.3%

**... that since launch has delivered a modest capital appreciation at a time when the downside risks have been numerous and ongoing in nature**

## Importantly, the trust's portfolio also comprises a near-comprehensive list of industry sectors...

- One of the advantages of portfolio investing, is that the volatility of individual stocks are reduced, due any absolute stock specific losses being offset by others that generate absolute stock specific gains
- The share price volatility of a portfolio with numerous portfolio holdings with very uncorrelated returns tends to be less than a portfolio where the portfolio holding are more correlated
- At times when geopolitical and economic risks are elevated, portfolios with better diversification are more likely to deliver a sustained return, than those that have much higher levels of correlation between holdings
- A microcap portfolio with a near comprehensive list of industry sectors, is also to be more diversified than those with a narrower range

Trust sector weightings



...so that when geopolitical events occur, there's a good chance that some downside risks are offset by some extra upsides

# The upside potential of trust's returns have been obscured over recent years due to the Brexit, covid and heavy ongoing local selling of UK OEICs...

- The overall returns of the Miton UK Microcap Trust are not closely correlated with mainstream UK share prices, or even most other UK mid and smallcap trusts
- The outcome is a trust that has the potential to not only deliver exceptionally strong returns when small and microcap share prices are recovering, but to deliver attractive returns on a sustained basis even at a time when global markets may not be delivering very much return at all

Cumulative performance %	1 year	3 years	5 years	Since launch <sup>1</sup>
Trust NAV	-4.1	-45.3	4.1	15.7
Trust share price	-9.7	-46.4	0.1	-0.5
IT UK Smaller Companies sector	14.0	-7.1	30.1	100.6
Deutsche Numis 1000 Index	17.2	-8.6	26.5	62.8

Discrete annual performance %	2019	2020	2021	2022	2023	2024 ytd <sup>2</sup>
Trust NAV	-8.2	50.0	20.0	-29.1	-20.2	2.2
Trust share price	-0.9	33.3	28.6	-28.7	-24.9	4.8
IT UK Smaller Companies sector	22.2	1.3	26.0	-20.4	3.7	10.4
Deutsche Numis 1000 Index	15.3	-1.5	25.0	-20.1	6.6	9.8

... but when UK microcap share prices did recover between March 2020 and June 2021, the full scale of the trusts upside potential was evident

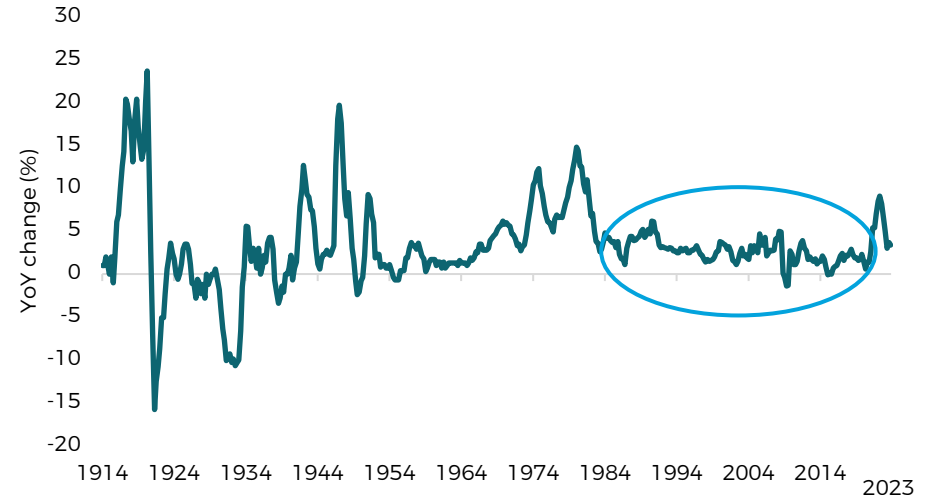
Source: Morningstar™, as at 30.06.2024, net income reinvested, bid to bid basis. ©2024 Morningstar. All Rights Reserved. The information contained herein; is proprietary to Morningstar and/or its content providers; may not be copied or redistributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. <sup>1</sup>Trust launched on 30.04.2015. <sup>2</sup>2024 ytd to 30.06.2024.

Past performance is not a reliable indicator of future returns.

## But what of the future from here? Some consider that low inflation will be the norm again...

- The period of globalisation led to deflating imports surging into the developed economies, that neatly offset local inflation in services such as housing costs
- In the absence of inflation, whenever there was an economic setback, central banks could inject additional stimulus and boost asset valuations via interest rate cuts and QE, so the recessions were always very short-lived
- Over the last ten years, the electorate have come to distrust the compromises that come with globalisation, and this is reflected in nationalistic politicians taking an increasing share of the vote, and additional geopolitical risks
- Furthermore, policies such as reshoring and restricting immigration boost inflation, whilst the increasing cost of capital will impede capex and further boost inflationary pressures from here
- In our view, the profound change in economic patterns will be linked with an equally profound change in investor preferences from here

US inflation has a history of being spikey  
(other than during the period of globalisation)



...although when its history is reviewed, the recent period can be seen as being something of an exception

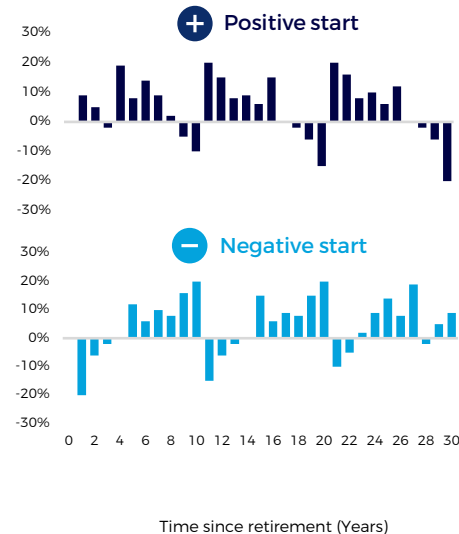


# Producing retirement income via unit encashment may have worked during globalisation...

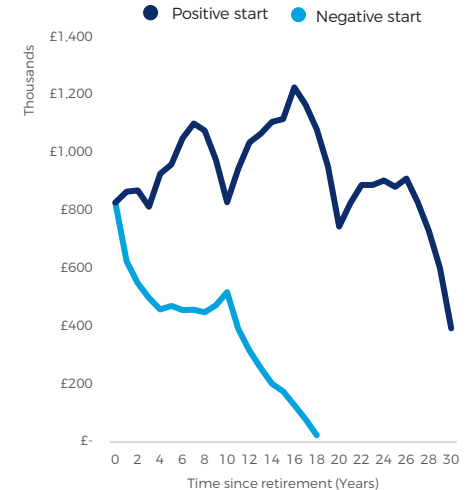
- During globalisation, funds generating regular capital appreciation have outperformed other strategies, and hence it has become customary to use regular unit encashment to provide a retirement income from an initial capital sum
- At times other than globalisation however, market valuations can be a lot more volatile, and sometimes recessions need to be tolerated to bring inflationary pressures back under control
- A capital sum that is subject to unit encashment is incredibly vulnerable to running out early for example, if market returns in the early years are poor, because the impact of the early drawdown is so damaging
- Hence beyond globalisation, we believe that it will become customary to generate retirement income from the dividends of an equity income fund, (known as natural income) where unit encashment can either be avoided entirely, or massively reduced, along with the drawdown risks that go with it
- Specifically, an equity income fund that grows its income, will avoid the risk of resorting to unit encashment, perhaps for years or even decades

## How long does your money last with unit encashment?

Sequence of 5% average returns



How long does your money last? 30 year case study



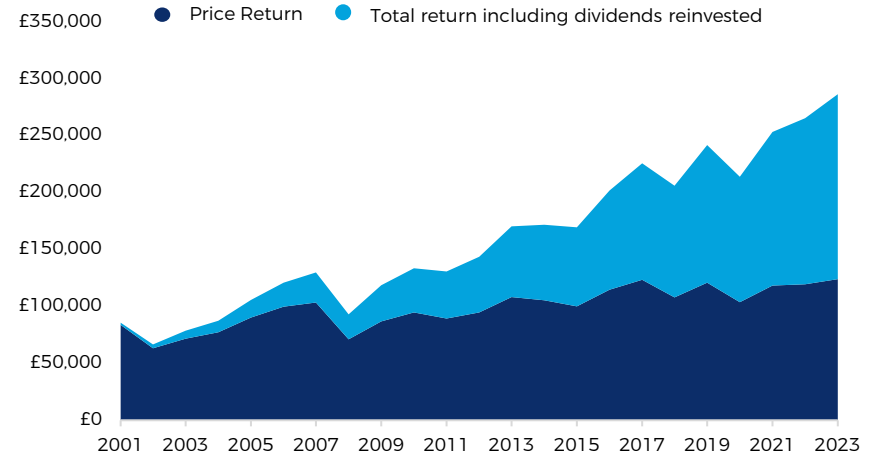
**...but when capital returns are more volatile, its risks are too high, and natural income delivers a much better outcome**

# Since the UK stock market happens to be dominated by stocks generating good & growing equity income...

- The UK stock market is dominated by capital intensive stocks, that typically invest substantial sums of capital, and then provide a return via a stream of good and growing dividends
- Interestingly, when economic conditions are testing, equity income stocks not only start with a greater margin of safety, but if conditions get very testing some can use their surplus cashflow to improve their income by expanding into markets vacated by insolvent competitors
- Better still, some can acquire overindebted but otherwise viable businesses, debt-free from the receivers often for a nominal sum, and greatly enhance their prospective cashflow and dividends
- Specifically, when economic conditions are unsettled, dividend compounding strategies have a history of generating better returns than those that rely on capital appreciation, because some capital growth stocks run out of capital, or are obliged to raise new capital at very dilutive share prices
- Specifically, when the stock market indices flatline, we believe that even investors seeking total returns will start to buy equity income funds

## The UK is near-unique in its large universe of dividend compounding stocks

Value of £100,000 invested in the FTSE 100 Index, in terms of the capital return and the total return with dividends reinvested (2001 to 2023)



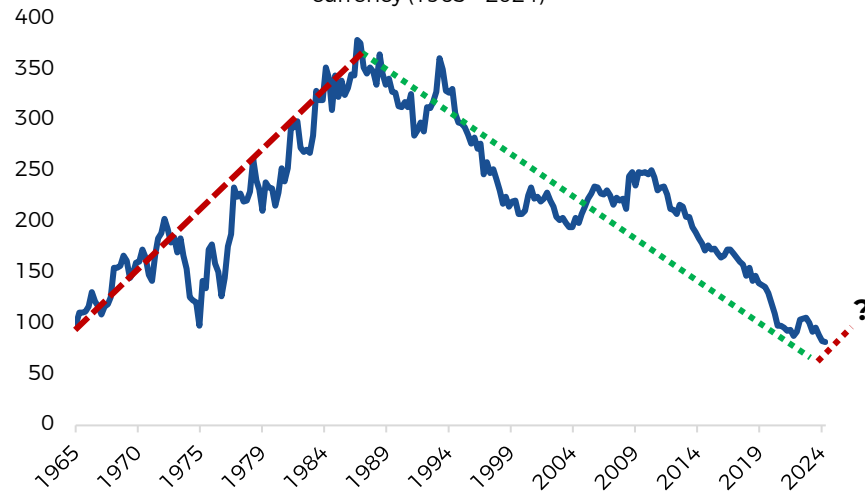
**...we believe that the pursuit of natural income strategies will start a new self-feeding virtuous spiral that will drive UK stock market outperformance**

## Reassuringly, when there were inflationary pressures before, the UK stock market outperformed the US for decades...

- After decades of UK equity market underperformance, most local investors have scar tissue that influences their assessment of the prospects of the market in future
- Interestingly, UK equities look very different from the perspective of international investors
- As many have very modest low-beta weightings, they welcome return generated by income compounding instead of capital gain alone, as this represents genuine portfolio diversification
- The UK market mainly comprises equity income stocks, that have higher margins of safety if economic conditions remain testing
- Its valuations are standing below equivalent stocks quoted on other exchanges, so they may have greater upside potential
- Importantly, as most global investors are so heavily underweight the UK stock market, that it is starting from a very undemanding valuation, which gives it even greater scope to surprise on the upside in scale and duration

### We anticipate the outperformance of the UK stock market will surprise in both scale and duration

A chart of the FTSE All-Share Index versus the S&P 500 Index, both in a common currency (1965 – 2024)

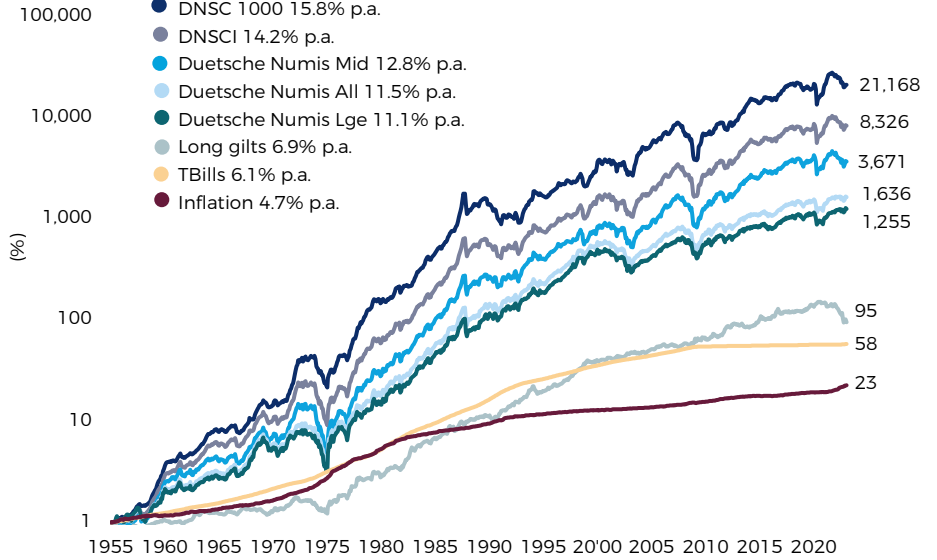


...and over time global investors came to hold increasingly large UK stock market weightings

# Globalisation has favoured ‘bigness’ and nationalism will favour smallcaps in our view...

- The largest 80% of UK-quoted companies (known as the Deutsche Numis Largecap Index) underperforms the Deutsche Numis All Share Index on a near-permanent basis
- When the cost of capital rises, or when demand is being actively suppressed so if falls below supply, largecaps are vulnerable. Being large they find it harder to dodge the recessionary bullets,
- Hence if economic conditions were to become more challenging, the returns on largecaps might struggle to keep pace with inflation
- Furthermore, larger quoted companies also carry the risk that they typically operate in a narrow range of sectors, that are largely replicated on other developed market exchanges
- Overall, large weightings in quoted largecaps have near-permanent underperformance risks, elevated stock specific risks and narrow sector specific correlation that can become apparent were economic conditions are more testing

**Total return of the Duetsche Numis family of UK stock market indices, 1955-2021**



**...such that UK microcaps with their ‘option-like’ upsides and absurdly low valuations at present, are now set for a new super-cycle**

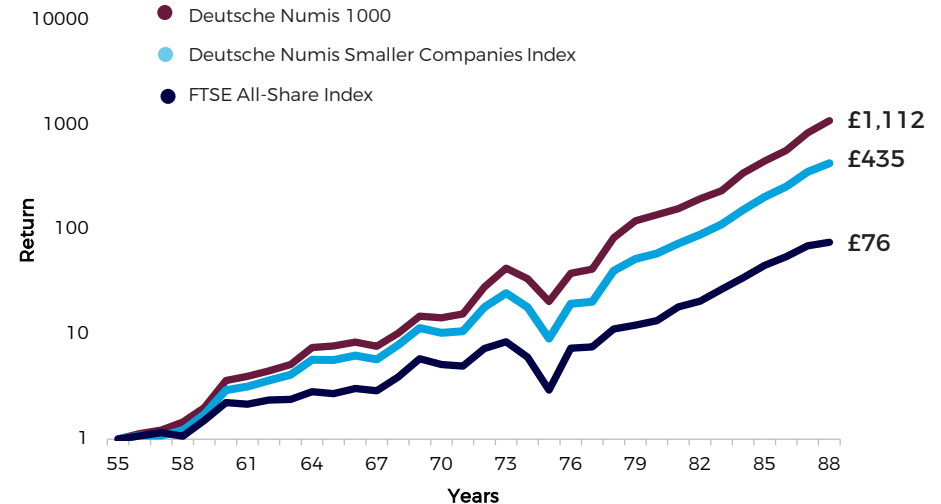
Source: Deutsche Numis; Evans and Marsh, Deutsche Numis Indices 2021. Annual Review; Dimson-Marsh-Staunton DMS Database, 2023.

**Past performance is not a reliable indicator of future returns.**

# When global economies were unsettled before, the UK's bias toward cash generative industries led it to outpace others...

- Economic conditions were very testing in the UK between the 1960's and the late 1980's, and the period was marked by relatively strong returns from the numerous equity income stocks within the FTSE All-Share Index
- Even so, despite the weakness of the Sterling exchange rate that favoured stocks with large international operations such as those in the FTSE100 Index, UK smallcaps outperformed considerably
- Specifically, as many stocks with large debts suffered, those with strong balance sheets had the advantage
- Whilst a low-cost acquisitions from the receiver might generate a good uplift in value for an individual largecap, the same uplift is so much more lucrative in the case of a quoted smallcap, and completely transformational for some quoted microcaps
- The bottom line is that, counterintuitively, the returns on quoted small and microcaps can be surprisingly strong during unsettled economic conditions

Performance of Deutsche Numis 1000 v Deutsche Numis Smaller Companies Index<sup>1</sup> vs FTSE All-Share Index 1955-1988

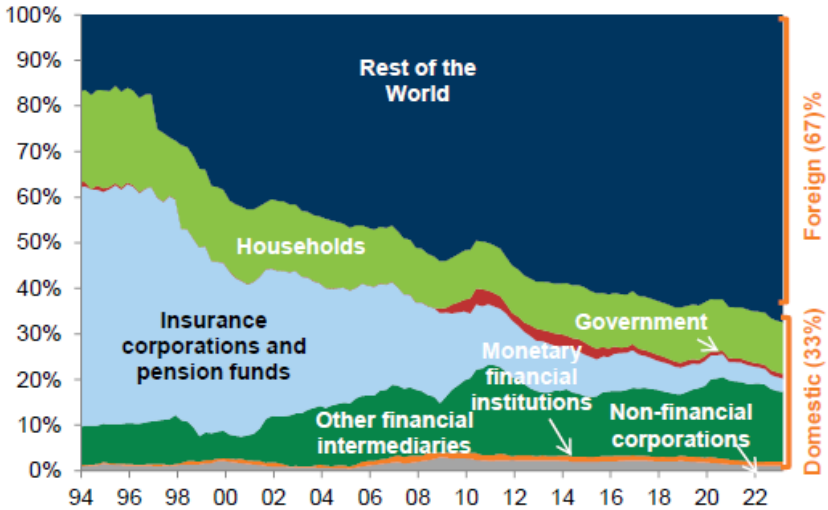


...with UK-quoted microcaps being one of the best performing parts of one of the best stock markets in the world

# In our view, the UK stock market is now set to outperform most international comparatives...

- Prior to the period of globalisation, local institutions held the vast majority of UK quoted companies
- With the ongoing underperformance of the UK stock market, progressively over time investors have reduced their UK weighting and reallocated the capital into other stock markets overseas
- When a trend like this becomes persistent over decades, then the capital outflows progressively depress the valuation of a less-favoured exchange
- When economic trends change however, then the current market trend may also change
- Specifically, capital intensive businesses generating cash surpluses which comprise most UK equities, appear better positioned for more unsettled economic times than others
- Therefore, we believe the UK stock market doesn't just have scope for a catch-up in performance as its valuations revert to international norms, but also could continue to outperform thereafter as investors grow to appreciate the extra upside potential within many UK quoted companies

...67% of UK equity is owned outside the UK – it was 17% in 1994  
UK equity market ownership



...and near-uniquely, it seems that numerous local investors might need to increase their UK weightings - along with all the international investors

Source: Haver Analytics, Goldman Sachs Global Investment Research.

# Specifically, the Miton UK MicroCap Trust has a number of features...

- **A vehicle that has the potential to deliver premium returns**  
If UK microcaps do become a top performing sector, then a closed-end capital structure in our opinion is likely to become the investment vehicle of choice.
- **Ongoing stock market volumes**  
Miton UK MicroCap Trust plc's capital structure regularly clears the register of ongoing institutional sellers, which minimises the risk of a Mexican stand-off in the daily turnover of the trust's shares – (ie buyers not buying until institutional sellers have cleared).
- **A share price that trades near the underlying NAV**  
The trusts Annual Redemption Mechanism encourages short-term buyers to become investors if its share price drifts too far from its underlying NAV.
- **Trust costs are capped with a reduction in management fee if appropriate**  
The trust doesn't have a formal benchmark so there aren't any performance fees. The current ongoing charge figure (OCF) is 1.72% which would be greatly reduced if the trust becomes larger as the management costs are limited to 0.9% for the first £100m of market capitalisation, and 0.8% on anything beyond



...that we anticipate will help it to fully deliver on the advantages of its strategy

Source: Premier Miton. Trust OCF calculated as at 30.04.2023. The ongoing charges figure (OCF) is not the same as the ongoing costs figure set out in the Company's key information document. The key differences are that gearing costs and portfolio transaction costs are not included in the OCF. In addition costs are calculated on slightly different bases. The OCF figure set out above mirrors that in the Report and Accounts and is based on costs incurred in the year which are likely to recur in the foreseeable future. The ongoing costs figures in the key information document provide investors with the impact costs have had on returns averaged over the five year recommended holding period.

# Conclusions

1

During globalisation, stocks funded by their own cashflow were greatly outpaced by those funded by external capital that expanded much more rapidly – because capital market liquidity has been so consistently abundant

2

Indeed, asset market returns have been so strong for so long, that passive strategies ended up taking ever greater market share and the valuations of global megacaps have eventually skyrocketed

3

Since nationalism reverses globalisation, however, expect it to usher in shortages of market liquidity, so that equity income strategies outperform, with microcaps rather than megacaps typically delivering the best returns

4

As global investors have scaled down UK holdings for decades, it comes to this point with its valuations sub-normal, and UK microcap valuations standing at simply absurdly low levels

5

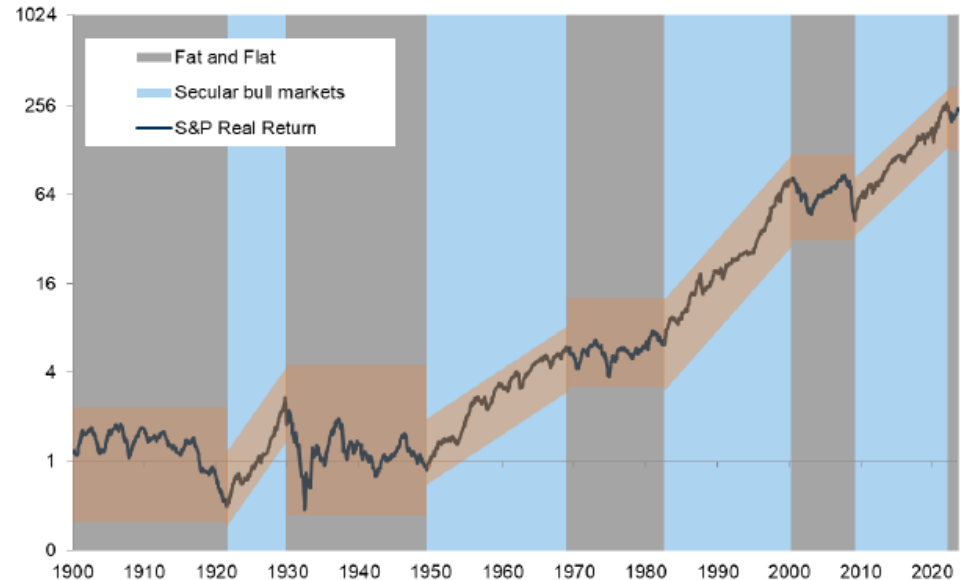
So, although the prospects for the UK economy may be no better than others, as investors increase their cash compounding weightings from here, we expect UK equity income stocks to enter something of a virtuous spiral, with UK microcaps becoming one of the best performing assets worldwide



## At times the mainstream indices deliver a series of years of strong appreciation as valuations and profit margins rise...

- Long term stock market returns can be sorted into multi-year segments where their returns were well above underlying inflation, and those where returns were not above underlying inflation
- During the buoyant periods, as return is relatively abundant, typically investors narrow their investment universe into the mainstream stocks given they also have the advantage of copious market liquidity
- When market returns are relatively poor, however, investors priorities change, given the urgency to generate an absolute return that doesn't rely on general market appreciation
- Specifically, when the returns on the mainstream indices are relatively poor, market correlation becomes a hinderance, as it specifically holds back the potential to deliver attractive absolute returns
- When market returns are relatively poor, investors often tolerate lesser market liquidity because absolute returns and portfolio diversification are so vital to get good client outcomes

Secular & non-trending bull markets - S&P 500 (log scale)



...although markets can flatline in real terms too, when investors need to identify specialist parts of the market that are continuing to perform

# Important information

## **For Investment Professionals only. No other persons should rely on any information contained within.**

Whilst every effort has been made to ensure the accuracy of the information provided, we regret that we cannot accept responsibility for any omissions or errors.

The views and opinions expressed here are those of the author at the time of writing and can change; they may not represent the views of Premier Miton and should not be taken as statements of fact, nor should they be relied upon for making investment decisions.

Reference to any particular stock/ investment does not constitute a recommendation to buy or sell the stock / investment.

All data is sourced to Premier Miton unless otherwise stated.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts, images (collectively, the "Information") is the property of Premier Portfolio Managers, ("Premier Miton") or any third party involved in providing or compiling any Information (collectively, with Premier Miton, the "Data Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, manipulated, reproduced or distributed in whole or in part without prior written permission from Premier Miton. All rights in the Information are reserved by Premier Miton and/or its Data Providers.

Source: FTSE International Limited ("FTSE") © FTSE 2024. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Copyright © 2024, S&P Dow Jones Indices LLC. Reproduction of S&P Indices in any form is prohibited except with the prior written permission of S&P. S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions, regardless of the cause or for the results obtained from the use of

such information. S&P DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P be liable for any direct, indirect, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with subscriber's or others' use of S&P Indices.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Premier Asset Management Limited. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages

A free, English language copy of the trust's full Prospectus, the Key Information Document and Pre-investment Disclosure Document are available on the Premier Miton website, or copies can be requested by calling 0333 456 4560 or emailing [contactus@premiermiton.com](mailto:contactus@premiermiton.com).

Financial Promotion issued by Premier Portfolio Managers Limited, (registered in England no. 01235867), authorised and regulated by the Financial Conduct Authority, a member of the Premier Miton Investors marketing group and a subsidiary of Premier Miton Group plc (registered in England no. 06306664). Registered office: Eastgate Court, High Street, Guildford, Surrey GU1 3DE.





**Premier Miton**  
INVESTORS



Premier Miton Investors

[premiermiton.com](http://premiermiton.com)

[info@premiermiton.com](mailto:info@premiermiton.com)

Watch our videos on **Asset TV**

[www.asset.tv/channel/premier-miton-investors](http://www.asset.tv/channel/premier-miton-investors)

Regular **INSIGHTS** on our website