

Premier Miton UK Smaller Companies Fund

Fund facts

Fund size	£40.1m
Launch dates	Fund - 14 Dec 2012 Share class - 14 Dec 2012
Fund structure	Open Ended Investment Company (OEIC)
Reporting dates	Final - 31 May Interim - 30 Nov
Base currency	GBP
Valuation point	12:00 noon
ISA eligible	Yes

Investment Association sector
IA UK Smaller Companies

Performance comparators
FTSE AIM All-Share Index
FTSE Small Cap (ex IT) Index
IA UK Smaller Companies

Investment team



Fund manager
Gervais Williams
Joined Premier Miton
Mar 2011
Manager since
Dec 2012



Fund manager
Martin Turner
Joined Premier Miton
May 2011
Manager since
Dec 2012

Market Review

Since taking office President Trump's numerous executive orders have led to US stock market weakness. Investors trimmed volatile holdings, particularly US listed holdings. Meanwhile, they increased participation in companies with somewhat more resilient characteristics, such as equity income stocks that are mostly listed in the UK and Europe.

FTSE 100 Index stocks were already buying back their shares in volume, and with the renewed global interest in equity income stocks, demand more than offset the ongoing UK OEIC redemption selling. The FTSE 100 Index rose 6.11% over the quarter. Unfortunately, UK-quoted smallcaps normally invest for the future, so few have abundant surplus cashflow to buyback shares. Therefore, the ongoing UK OEIC redemptions weighed on smallcap share prices with the FTSE 250 Index down 5.03% and the FTSE AIM All-Share Index down 4.89% over the quarter.

Performance

	31.03.20	31.03.21	31.03.22	31.03.23	28.03.24	31.03.25
Discrete annual performance (%)						
Fund	160.60	-9.85	-29.46	-1.63	-0.31	
FTSE AIM All-Share Index	76.89	-12.14	-21.16	-6.32	-6.50	
FTSE Small Cap (ex IT) Index	74.91	5.50	-12.91	11.03	7.40	
IA UK Smaller Companies sector	65.72	-1.71	-16.65	4.98	-2.55	

Source: FE Analytics. Based on Sterling class B - Accumulation shares, on a total return basis to 31 March 2025. Performance is shown net of fees with income reinvested. On 30.11.2020, this fund moved from a single pricing basis (mid) to a swing pricing basis.

Past performance is not a reliable indicator of future returns.

Performance

Over the quarter, the fund fell 3.32%, whilst the FTSE AIM All-Share Index fell 4.89%. The FTSE Small Cap Index (excluding Investment Companies) fell 6.55% while the IA UK Smaller Companies sector fell 7.24%.

Whilst many UK smallcap share prices drifted lower during the quarter, there were some that bucked the general trend. Meanwhile, energy stocks were the greatest detractor to the fund's returns this quarter.

Portfolio Activity

Quite a few holdings were sold – Alkemy Capital, Capital Ltd, Ensilica, National World, Orosur Mining with XP Factory and Good Energy sold following takeover bids.

With the unsettled political and economic background, and our ongoing caution about global growth, the prospects for the new holdings - EDX Medical, MJ Gleeson, Tiger Royalties and Wellnex Life are in our view largely unaffected by the trade tariffs.

Outlook

During the latter years of globalisation, the returns on megacaps were incredibly strong and consistent. With aggressive protectionist policies however, the future is now clouded by uncertainty, and reduced market liquidity. All global companies face an uncertain future, of course, but cash generative quoted smallcaps have additional advantages. When competitors fail for example, these kinds of stocks can use their surplus cashflow to fund expansion into the vacated markets. During setbacks, they can then acquire overleveraged, but otherwise viable businesses debt-free from the receiver often for £1. For smallcaps specifically, these types of deals can generate potentially transformational earnings upgrades.

So, at a time when the prospects of most majors are under pressure, we believe that the smallcap sector now has the potential to buck the wider trend. The smallcap effect as it is known means the smaller the company the better its long-term returns.

With Trump's political flux injecting considerable uncertainty, we believe that global capital allocation is set to progressively move away from high-beta US megacaps, into stocks with greater resilience, such as equity income stocks listed in the UK. In that context, we see the UK's recent outperformance as presaging a new long-term trend. Between 1965 and 1985 when global uncertainty was rife, the FTSE All-Share Index outperformed the S&P 500 Index by a very, very considerable margin, even on a common currency basis.

Importantly, we believe that renewed UK capital allocation will in time be reflected in renewed UK-quoted smallcaps capital allocation too. Given that they stand on such low valuations currently,

then even the tiniest increase in interest now has the potential to drive up their share prices very considerably. We are incredibly upbeat about the potential for UK-quoted smallcaps.

Although we may be upbeat about the prospect of sustained UK stock market outperformance, aggressive protectionism could end up reducing corporate profit margins. If the profitability of largecaps were to fall significantly, then they may cease their stock market buybacks. If corporate profitability were to fall, then tax revenues might also disappoint, and government budget deficits might increase further as unemployment and defence expenditure increases. This might lead to extra bond issuance. Both factors could lead to unusually poor returns from global stock market indices.

Given this background, the portfolio also includes a FTSE 100 put option ('market insurance') to moderate the portfolio's drawdown were there to be a global stock market setback. Its exercise price is 6,800 and the put extends through to December 2025, covering just under 75% of the portfolio value.

Either way, the more unsettled the global economy becomes, the more we anticipate that additional capital allocations will flow into cash generative stocks such as equity income companies, and hence drive UK stock market outperformance. A pattern like this has the potential to transform the prospects for UK-quoted smallcaps. As they outpace the returns of UK largecaps, the strategy will then have scope to outpace the returns of most international comparatives too. In short, now that global stock markets are unsettled, we believe the performance latency of the strategy has become exceptional, and the strongest it has been for decades.

General risks

The value of stock market investments will fluctuate, which will cause fund prices to fall as

well as rise and investors may not get back the original amount invested.

Specific fund risks

Some of the main specific risks of investing in this fund are summarised here. Further detail is available in the prospectus for the fund.

Derivatives

Derivatives may be used within funds for different reasons, usually to reduce risk, which can be called "hedging". This can limit gains in certain circumstances as well. Derivatives can also be used to generate income or to increase the risk being taken, which can have positive or negative outcomes. The derivatives used can be options or futures which are types of contracts that are dealt on an exchange or negotiated with a third party. More complex derivatives may also be used. Derivatives can also introduce leverage to a fund, which is similar to borrowing money to invest.

Equities

Equities (company shares) can experience high levels of price fluctuation. Smaller company

shares can be riskier than the largest companies, companies in less developed countries (emerging markets) can be riskier than those in developed countries and funds focused on a particular country or region can be riskier than funds that are more geographically diverse. These risks can result in bigger movements in the value of the fund. Equities can be affected by changes in central bank interest rates and by inflation.

High volatility

This fund may experience high volatility due to the composition of the portfolio or the portfolio management techniques used.

Other investment risks

Funds may have holdings in investments such as commodities (raw materials), infrastructure and property as well as other areas such as specialist lending and renewable energy. These investments will be indirect, which

means accessing these assets by investing in companies, other funds or similar investment vehicles. These investments can also increase risk and experience sharp price movements. Funds focused on specific sectors or industries, such as property or infrastructure, may carry a higher level of risk and can experience bigger movements in value. Certain investments can be impacted by decisions made by third parties, such as governments or regulators.

Other risks

There are many other factors that can influence the value of a fund. These include currency movements, changes in the law, regulations or tax, operational systems or third-party failures, or financial market conditions that make it difficult to buy or sell investments for the fund.

Performance comparators

The fund is classified in the IA UK Smaller Companies sector, which we believe is a meaningful comparator to help investors assess

the performance of the fund. As the fund invests in UK smaller companies, we believe the FTSE Small Cap ex IT Index and FTSE AIM

All-Share index are also useful performance comparators.

Other information

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Please refer to the Prospectus and to the KIID before making any final investment decisions. A free, English language copy of the Prospectus, Key Investor Information Document and Supplementary Information Document are available on the Premier Miton website, or copies can be requested by calling 0333 456 4560 or emailing contactus@premiermiton.com.

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