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Miton UK MicroCap Trust plc

How the retreat in globalisation affects capital allocation, and why UK-quoted microcap strategies are prime beneficiaries?

Thinking ahead of the curve

Investment team

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Gervais Williams
Head of Equities & Fund manager

- Gervais Williams joined Premier Miton in March 2011. He is Head of Equities and manages a number of funds and trusts.
- His fund management career extends over 30 years including 17 years at Gartmore Group Ltd, where he was head of UK Small Companies investing in UK smaller companies and Irish equities.
- Gervais is a member of the AIM Advisory Council, and a board member of the Quoted Companies Alliance. He was a member of the Patient Capital Review panel with the Chancellor of the Exchequer where the recommendations were put into legislation in the subsequent budget.
- Gervais has published three books, 'Slow Finance' in the autumn of 2011 (Bloomsbury), 'The Future is Small' was published in November 2014 (Harriman House) and 'The Retreat of Globalisation' published in December 2016 (Harriman House).

Martin Turner
Fund manager

- Martin Turner joined Premier Miton in May 2011.
- Martin's career began in 1992 with Arthur Andersen where he qualified as a Chartered Accountant.
- He has previously worked at Rothschild and as Head of Pan European Mid and Small Cap Sales at Merrill Lynch. Following this, Martin was Head of Sales at Teathers/Landsbanki before taking the Head of Small/Mid Cap Equities role covering research, sales and trading at Collins Stewart.
- Martin graduated from Warwick University with a degree in Accounting and Financial Analysis.

Agenda

- Why inflationary pressures have such significant implications for capital allocation trends
- Where do UK-quoted microcaps fit in?
- How the Miton UK Microcap Trust strategy contrasts with other smallcap peers
- The nature of the performance characteristics of the Miton UK Microcap Trust
- The reasons why a virtuous spiral might develop in UK equities, and quoted microcaps in particular

As debt became less costly, its increased use generated extra incremental demand...

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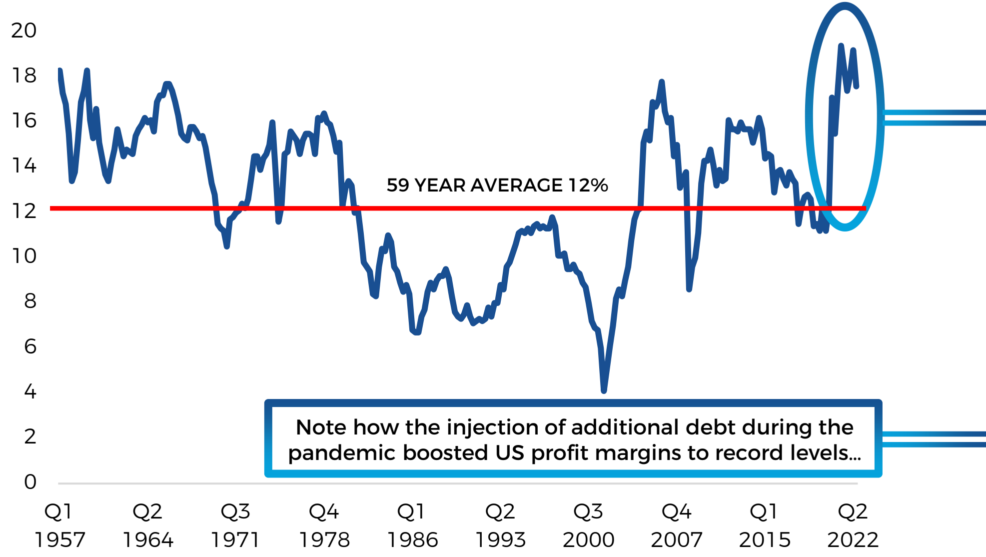
- The surge of low-cost imports known as globalisation has offset local inflation, so for decades the cost of debt has fallen
- Initially, consumers, corporates and governments were cautious about taking on too much additional, low-cost debt, as they knew that when inflation returned its cost could increase again
- But as memories faded and low inflation persisted for decades, consumers, corporates and governments began to use more debt progressively, which generated incremental demand and enhanced corporate profit margins and augmented stock market appreciation further
- Note how corporate profit margins increased from 2005 as demand for additional debt remained persistent - other than briefly dipping during the Global Financial Crisis
- During the global pandemic, governments used debt in industrial scale, whilst simultaneously started to rely less on the ongoing surge of low-cost imports via reshoring
- US corporate profit margins appear to have reached super-normal levels, whilst the increased cost of debt might prompt some to start using it less
- We are working on the assumption that corporate profit margins will return to prior norms over time

Pretax profits as a percentage of gross product of non-financial corporate business – US



...and both enhanced corporate profit margins and augmented stock market appreciation

Source: Refinitiv Datastream.

These kinds of challenges have happened before...

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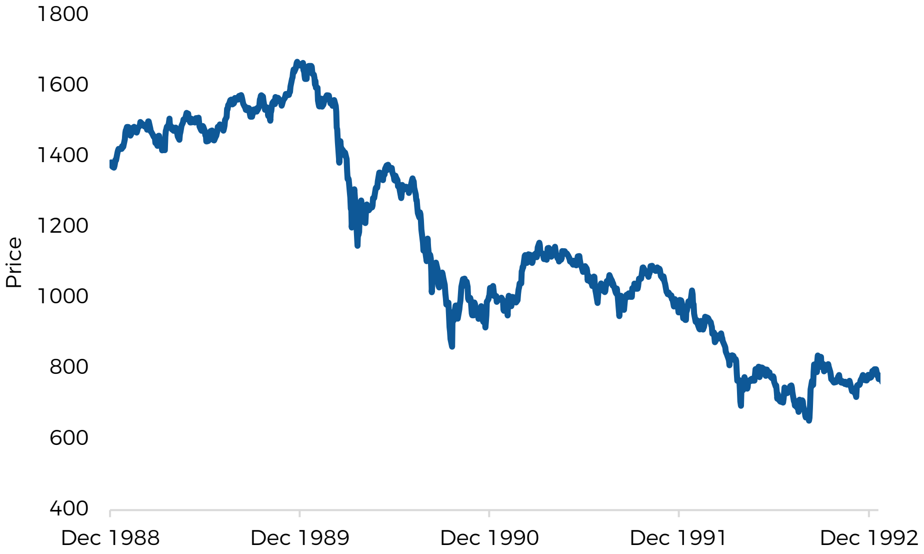
- As corporates had delivered a long period of successful returns prior to the end of 1989, most investors were comfortable with the risks they were running
- However, after the Japanese markets peaked, the corporate downgrades weren't just related to slower sales or margin compression
- Unfortunately, as various private businesses became insolvent, bad debts led to larger corporate profit downgrades and many quoted companies were obliged to reduce their debt via dilutive share issuance, and via asset sales at very distressed prices
- Overall, the downgrades fell at a faster pace than share prices, so the net effect was that the valuation of the Japanese stock market actually rose, implying little recovery potential for the Japanese stock market after it had declined
- The net effect was that many equity investors suffered substantial, near-permanent loss of capital over this period, with cashflow negative stocks often delivering the most adverse returns

MSCI Japan Index between December 1988 and December 1992



...but they bring to mind a question – Are there any assets that still have the potential to deliver outstanding returns from here?

Source: Bloomberg, data from 30.12.1988 to 29.12.1992.

Dividend compounding strategies for example, can generate absolute returns even if stock markets don't appreciate much…

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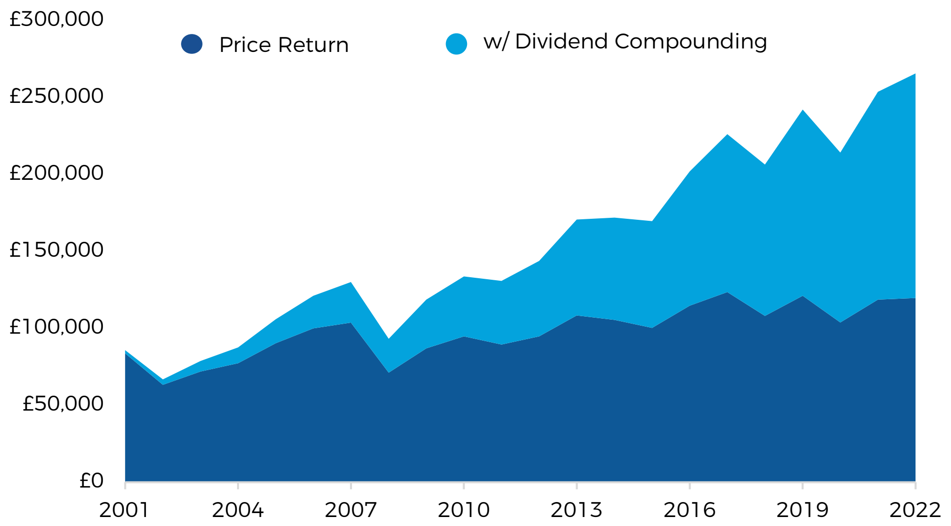
- Initially with inflation, the preliminary economic upswing inflates the profitability of stocks
- But when interest rates constrain demand the largest companies with large market positions can't dodge the economic bullets of global recessions
- Hence, during inflationary phases, the real return of mainstream stock exchanges can struggle for years
- Institutional investors can't completely avoid holding mainstream stocks, as they are liquid and typically incur low fees
- Hence, during inflationary periods, institutional interest often moves towards strategies that have upside potential even when equity markets are flatlining, and a return profile that is genuinely diversifying from strategies relying the appreciation of the mainstream stock market indices

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 2022)



…as dividends can be used to purchase additional equities potentially at increasingly attractive valuations, enhancing the growth of income further

Source: Bloomberg, data as at 30.12.2022. **Past performance is not a reliable indicator of future returns.**

The UK stock market is special as it principally comprises well-established, capital-intensive businesses…

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- UK-quoted stocks contrast with other international stock exchanges, in that they typically are well-established, capital-intensive businesses where a large part of their return is delivered by a stream of good and growing dividend payments
- Alongside, the UK's investment universe is also characterised by a large number of quoted small and microcaps, that use institutional capital to build new businesses that plan to generate cash surpluses in time, and when they mature they often pay out a stream of good and growing dividends as well
- During globalisation, institutions typically have reduced weightings in equity income stocks (such as the UK stock market), to increase participation in capital appreciation strategies such as highly-geared private equity, or ambitious cash-negative unicorns where returns have been better
- This allocation trend has been in place during the globalisation decades and as capital has been progressively withdrawn from the UK stock market, its valuation has fallen well behind others

…where a large portion of their return is generated by the compounding of good and growing dividends

Where do quoted microcaps fit in?
They have persistently outperformed the UK majors...

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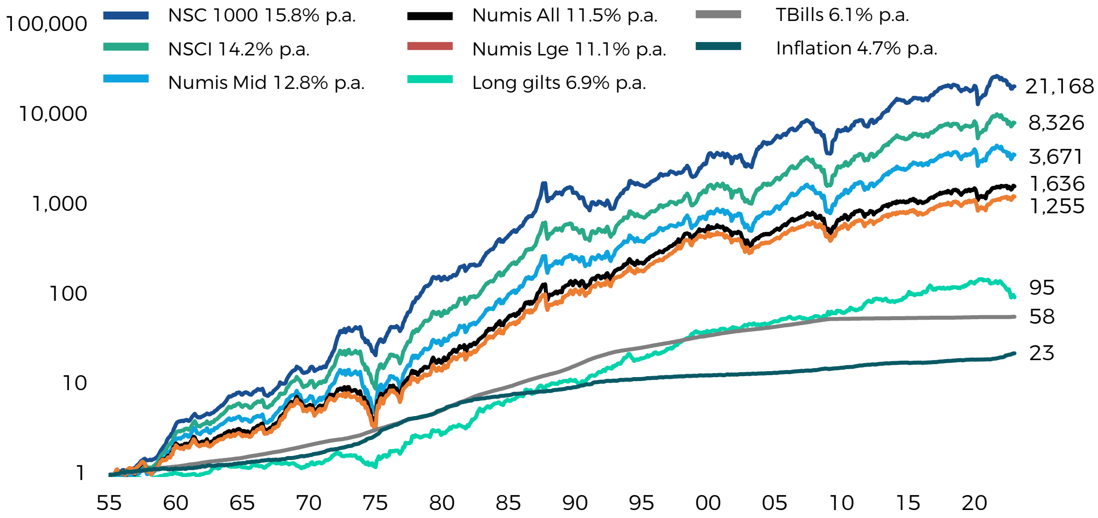
- The London School of Economics have comprehensive data on the performance of every UK listed company since 1955
- The largest 80% of UK-quoted companies had an annualised total return of 11.1% per annum
- Interestingly, although the cash compounding nature of the UK stock market was a popular for generating attractive returns through inflationary periods, UK-quoted smallcaps typically outperformed as they could boost their cash surpluses even more rapidly through acquiring insolvent business debt-free from the receiver
- Hence, the smallest 2% of UK-quoted companies had an annualised total return of 15.8% per annum since 1955
- 4.7% per annum, which is the difference between the return of the mainstream stocks and the microcaps, equates to a substantial additional return over a period of 67 years

The UK is near-unique in having a universe of genuine small caps

Total return of the Numis family of UK stock market indices (1955-2023)



...including through inflationary periods, as microcaps enhanced their cash surpluses by acquiring debt-free businesses from the receiver

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

The performance information presented on this page relates to the past. Past performance is not a reliable indicator of future returns.

In this context, we are particularly enthusiastic about the potential for the Miton UK Microcap Trust...

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A vehicle that has the potential to deliver attractive absolute returns, even during inflationary periods
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
MINI's capital structure regularly clears the register of overhanging 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 typically trades closer to the underlying NAV than others
The trusts Annual Redemption Mechanism encourages short-term buyers to become investors if its share price drifts too far from its underlying NAV

Competitive costs[1]
The trust doesn't have a formal benchmark so there aren't any performance fees. The current ongoing charge figure (OCF) is 1.41% would be greatly reduced when 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

...as if UK-quoted microcaps thrive in the coming decades, then as an investment trust, it has the potential to be the vehicle of choice

Source: Premier Miton. The management fee was reduced to 0.90% (from 1.00%) with effect from 01.09.2020. Trust OCF calculated as at 30.04.2022. 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.

Specifically, the Miton UK Microcap Trust strategy contrasts with others in the smallcap peer group…

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The Miton UK Microcap Trust strategy has a number of features that differentiate it from many others in the smallcap investment universe

1. The trust's investment universe focuses on UK-quoted microcap stocks, which have a history of outperforming the UK-quoted smallcap stocks
2. Specifically, the trust's strategy focuses on microcaps that are concluding a period of investment, in anticipation that the businesses will subsequently generate significant cash surpluses in the coming years
3. Stock specific risk is moderated by investing in a portfolio of around 140 stocks, with prospects that are relatively uncorrelated
4. Stock specific risk is further moderated though a preference for investing in stocks with relatively strong balance sheets, so that should progress turn out to be slower than expected, the company is still anticipated to remain relatively well funded
5. As the UK-quoted microcap universe is under-researched by most fund managers, we believe some microcaps have almost option-like upside potential. In short, there are opportunities to identify stocks with particularly attractive risk/reward ratios

…in five areas

Yu Group for example, has prospered at a time when many others have become insolvent...

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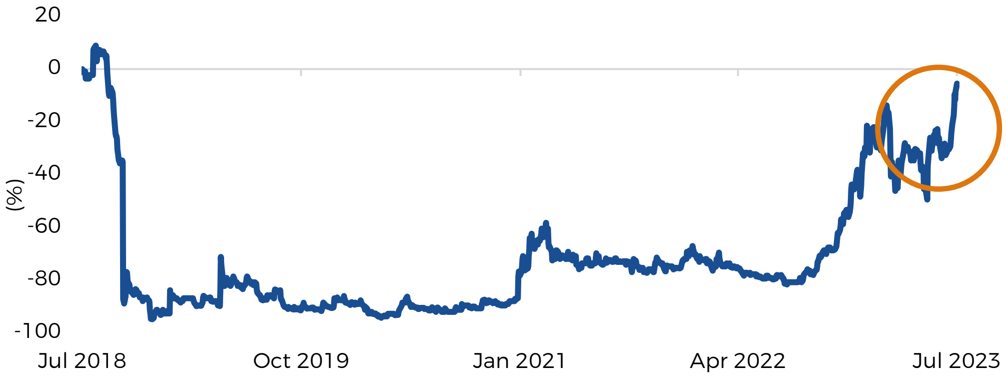
Yu Group

- 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 real intrinsic value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price returns 31 July 2018 to 31 July 2023



- Yu Group is an energy utility, in that it purchases electricity and gas from the suppliers, it hires the use of the utility lines, and companies buy their energy supply for companies like theirs
- Yu Group aims to outcompete the competitors via better service standards, and it has increased sales significantly over many years
- The Yu Group share price remained overlooked for some years, even though it generated ongoing profitable growth
- Yu Group hasn't been affected by the problems of some of the consumers utilities and underlined this by starting to pay dividends, which may have been one of the reasons its share prices has risen substantially recently.

...but it remained overlooked for some years - until a recognition of its forthcoming cash surpluses suddenly brought in a surge of new investors

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.07.2018 to 31.07.2023. Yu group was first purchased on 19.07.2016.

The Miton UK Microcap Trust actively focuses on quoted microcaps with these characteristics…

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- As quoted microcaps are by their nature small, the Trust's portfolio comprises around120 positions
- Specifically, the stocks selected for the trust are those that in our view are well funded and are set to generate good cash surpluses imminently
- Importantly, the Miton UK Microcap Trust differs from most other smallcap strategies, in that it focuses on UK quoted microcaps that are often overlooked by competing funds
- Generally, we seek to invest in stocks that won't need additional funding in future, which means that even when they progress less rapidly than hoped, the longer term upside still remains in place undiluted by additional capital issuance

Top 20 Trust holdings	Weight %
Yu Group	6.8
Andrada Mining	3.0
MTI Wireless Edge	2.8
Shield Therapeutics	2.8
Trufin	2.6
CyanConnode Holdings	2.6
Accrol Group	2.4
Frontier IP Group	1.9
Zinc Media Group	1.6
Savannah Resources	1.6
Zephyr Energy	1.5
Supreme	1.5
Braemar	1.4
Touchstone Exploration	1.4
DX (Group)	1.4
Kistos Holdings	1.3
STM Group	1.3
Van Elle	1.3
Smarttech247 Group	1.2
Tirupati Graphite	1.2

…whilst individual stock specific risk is moderated by actively selecting for holdings with prospects that are not closely correlated

Source: Premier Miton/ Bloomberg as at 31.07.2023.

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

Accrol has invested heavily in supplying supermarkets with own brand toilet paper…

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Accrol Group

- 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 real intrinsic value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price returns 31 July 2018 to 31 July 2023

- Accrol Group listed in 2016 and has invested heavily over recent years in efficient manufacturing of own brand toilet paper, and improving automation
- Furthermore, Accrol has also acquired a non-plastic wet wipe manufacturer with products suitable for use in the loo
- The government is set to ban plastic wet wipes, and Accrol appears to be a prime beneficiary

…and as this investment matures, we look forward to its potential of generating a growing cash surplus in the coming years

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.07.2018 to 31.07.2023. Accrol group was first purchased on 31.05.2016.

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Going forward, with globalisation in retreat, disinflationary trends are fading...

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- With globalisation in retreat, governments and large corporates are typically prioritising the security of supply over the lowest cost of supply. In short, the policy of reshoring is inflationary
- With globalisation in retreat, politics has become more nationalistic. Policies such as bearing down on immigration end up increasing wages especially in the context of an aging population. In short, nationalistic politics is often inflationary
- When there are inflationary pressures, Quantitative Easing becomes unviable, and 100% of government bond issues have to be funded by investors. Increasing supply to an exchange tends to displace the equilibrium. Furthermore, additional issuance of government debt can end up crowding out other borrowers such as corporates.
- As long-dated bond yields increase, asset valuations decline. The increased cost of corporate debt and equity supresses capex that in turn reduces the ability to supply, all of which adds yet more to inflationary pressures

...whilst inflationary pressures appear to be on the rise

Energy inventories were declining even prior to the Russian invasion and the energy windfall taxes...

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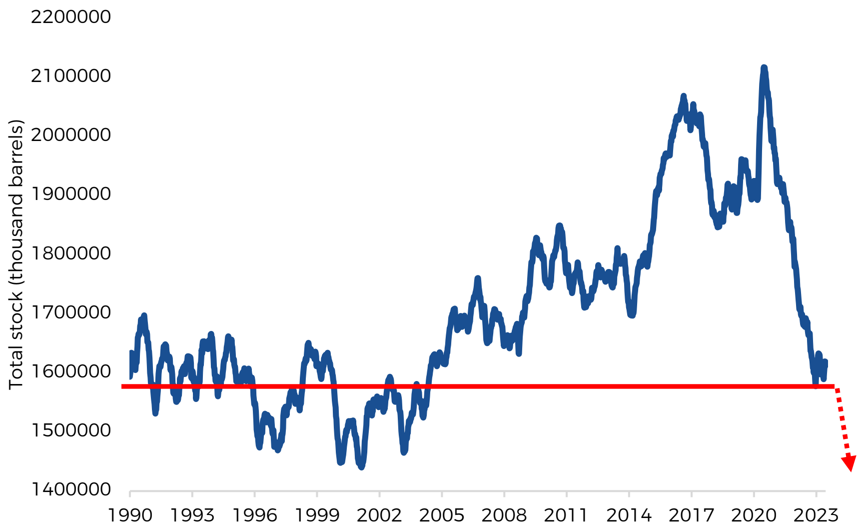
- Following the collapse of the oil price in 2014, energy majors scaled back energy exploration budgets. These were further cut late in the decade due to political commitments to phase out carbon-based energy by 2050. Furthermore, with the pandemic, and declines in global demand, many energy companies reduced their exploration budgets further
- Given this background, there were price spikes and potential shortfalls of European gas supply even prior Ukrainian invasion and the Russian sanctions that came with it
- Initially, there was an urgent need to rebuild winter energy inventories that led to global energy prices rising considerably over the middle of 2022, with European gas prices in particular moving up to remarkably elevated price levels
- During the second half of 2022 however, interest rates rises have cooled global energy demand somewhat. In addition, President Biden has run down the US's crude oil strategic stockpiles as well, to help reduce US petrol prices, and curry political favour over the Midterm elections
- The bottom line is that a global shortfall of new carbon-based energy could suddenly occur, at a time when global inventories are very depleted. If global demand were to pick up faster than expected, then carbon-based energy prices could spike dramatically from here

US Crude and Product Inventories since 1990



...so if global demand were to increase more than expected from here, inflationary pressures could surprise again

Source: MacroStrategy, data from 05.01.1990 to 09.06.2023.

With inflation, the largest UK stocks have now started to outpace many international exchanges again...

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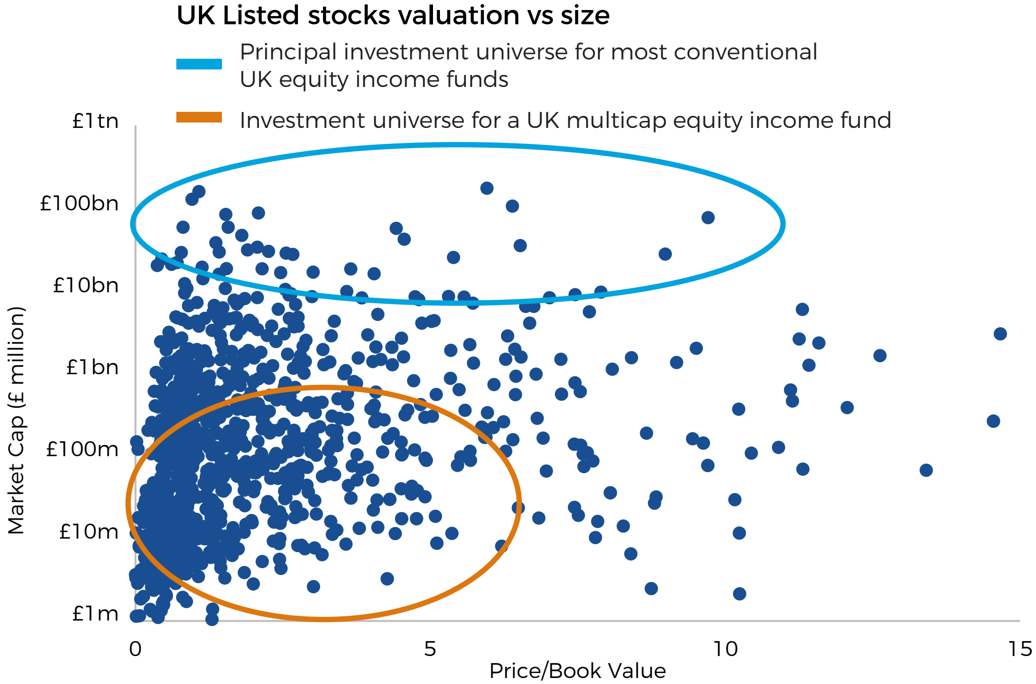
- With Brexit, and the Trust budget, local investors have reduced their UK weightings very significantly over recent years
- UK valuations have progressively fallen to relatively low levels, but with inflation, there has been renewed international institutional interest in UK stocks given their cash compounding characteristics
- The net effect is that over the last 30 months, the mainstream UK equity indices have started to outperform many international exchanges
- As shown in the blue oval, the valuations of some the more attractive UK mainstream stocks have started to move ahead of the others
- Conversely, as so few international institutions have any interest in UK-quoted microcaps, the ongoing UK OEIC redemptions have led to a bunching of microcap valuations at unusually low levels, with little differentiation for those with superior prospects
- Interestingly, even relatively small sums of inflowing capital could now precipitate a very substantial period of microcap outperformance



...but as yet the historic pattern of UK-quoted small and microcaps outperformance hasn't returned

Source: Bloomberg, data as at 31.07.2023.

As the UK has underperformed for so long, many OEIC investors have taken advantage of the UK stock market recovery...

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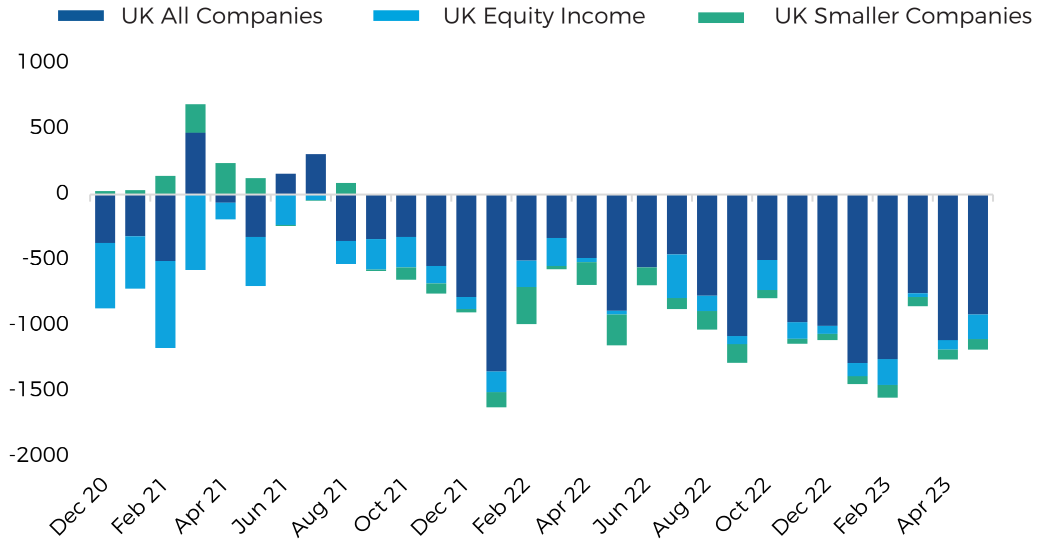
- During globalisation, as corporates, consumers and governments adopted more debt, this had the effect of generating more cash that could be invested into assets
- Hence, globalisation was accompanied by very significant growth in the capital markets, with Open Ended Investment Capital structures being one of the preferred instruments
- Whilst there was considerable growth in OEICs during globalisation, generally the percentage held in UK equities declined as allocators invested in other asset classes that generated much higher returns
- As the pattern of UK stock market underperformance became consensual, many investors chose to actively withdraw capital and invest it elsewhere
- Even though the FTSE100 Index has started to outperform many international indices over the last 30 months, some investors have become so conditioned to the past trend, that they have used the uptick to sell UK OEICs at a considerable rate

Net Retail Sales £m



...to reduce weightings further, and fund allocations into asset classes such as corporate debt where valuations have moderated

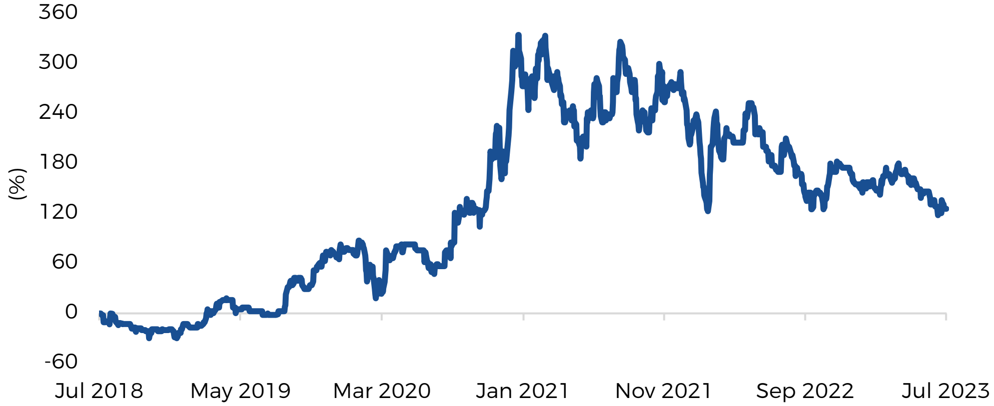
Source: The Investment Association. Data from 30.11.2020 to 31.07.2023. **Past performance is not a reliable indicator of future returns.**

MTI Wireless Edge has a long history of investing to generate good and growing cash surpluses…

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 real intrinsic value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price returns 31 July 2018 to 31 July 2023



- Originally, MTI was a manufacturer of specialist aerials, although over the years it has widened its operations to irrigation and electronic component supply
- MTI has a history of generating progressively more profits, and of paying gradually increasing dividends, and keeping a very conservatively financed balance sheet
- Whilst MTI's share price has risen considerably since the trust first invested, in our view its prospects remain considerably stronger than implied by its current forecasts

…and yet its share price fluctuates significantly compared to its relatively stable and growing stream of dividends

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.07.2018 to 31.07.2023. MTI Wireless Edge was first purchased on 20.05.2016.

Reference to any particular stock does not constitute a recommendation to buy or sell the stock. Past performance is not a reliable indicator of future returns.

The fund participates across the full range of industry sectors…

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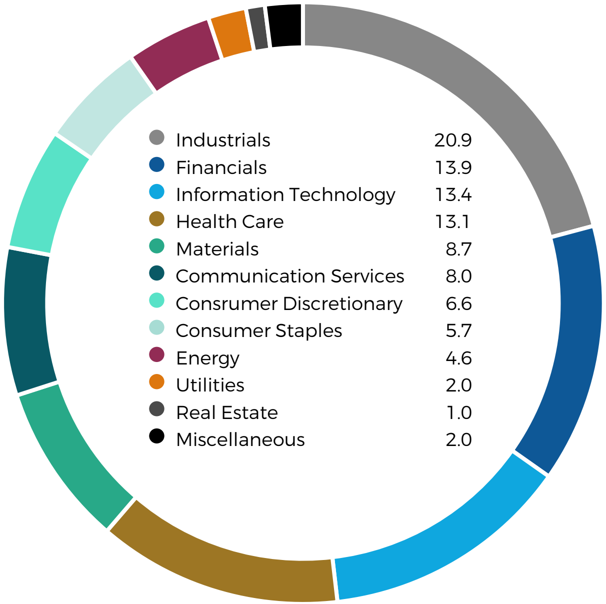
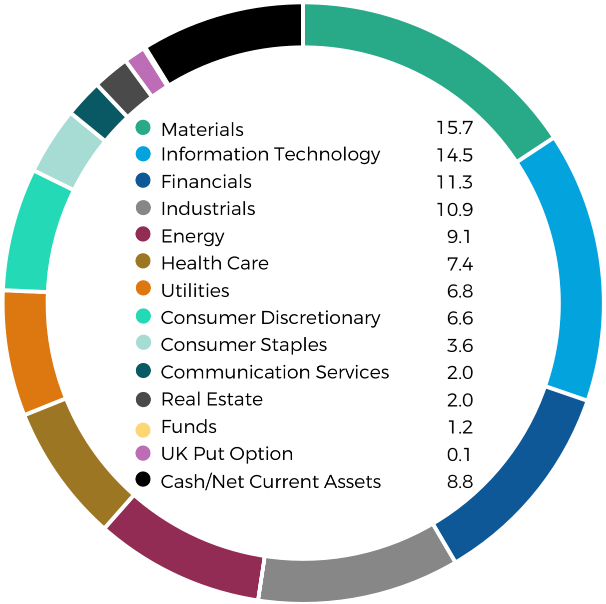
Sector breakdown
FTSE AIM All-Share Index (%)



Sector breakdown for the
Miton UK MicroCap Trust plc (%)



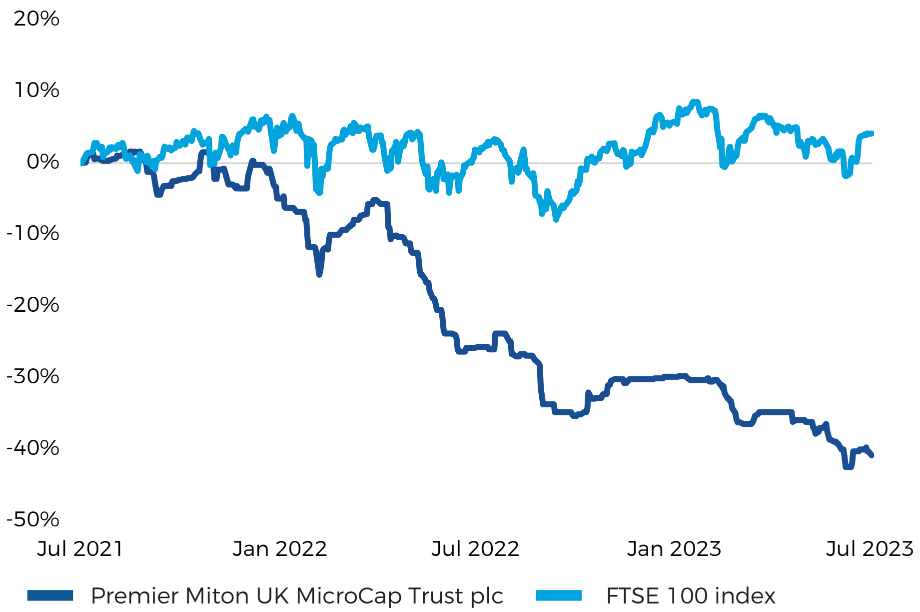
…and hence the portfolio isn't especially reliant on any particular sector, or a fashionable trend to deliver returns

Source: Premier Miton/Bloomberg as at 31.07.2023. Please note asset allocation may be above or below 100% due to rounding.

UK OEIC's have been sellers of mainstream stocks over the last two years, but these have more than offset by global investors...

- Although UK OEIC sellers have been running at significant volumes over recent quarters, it is noteworthy that the return on the FTSE100 Index has outperformed many international comparatives over the last 30 months
- Given the scale of the OEIC selling that implies that other investors must have stepped in to buy FTSE100 stocks at a pace that exceeds the local selling
- In our view, one of those parties might be international investors, who being heavily underweighted in dividend compounding strategies, have increased their weightings
- Meanwhile, the ongoing OEIC redemptions have also led to significant local selling of UK-quoted small and microcaps
- As this has been largely unmatched by increased interest by other investors, marginal sellers have led to the share prices of small and microcaps to underperform
- In the two years to July 2023, the UK MicroCap Trust has underperformed the FTSE 100 Index by 50%

Performance from 31 July 2021 to 31 July 2023



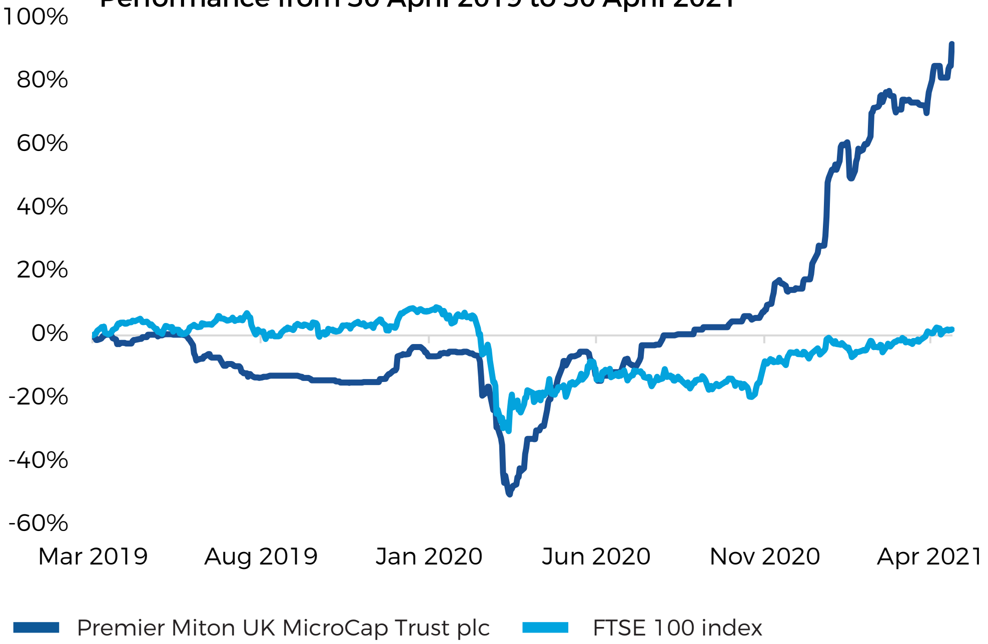
- it has been similar for microcaps, although without the global buyers, OEIC sellers have ended up driving down their share prices

Source: Bloomberg, data as at 31.07.2023.

But microcap interest appeared to be near non-existent four years ago, and then even small changes in flow…

- During 2018 and 2019, there was gridlock in Parliament as politicians were unable to agree on what kind of Brexit agreement with the EU was appropriate
- Whilst the Parliamentary gridlock was resolved by an General Election at the end of 2019, the problem was quickly eclipsed by problems with the global pandemic
- Although this precipitated a global recession, many UK-quoted microcaps were relatively resilient given the relative strong balance sheets, and many used their access to institutional capital to take advantage of the economic cross-currents at the time
- It is interesting to note that whilst the returns on the mainstream FTSE100 index was modest over the two years to March 2021, small and microcap returns were relatively strong
- Specifically, the returns on the Miton UK Microcap Trust were very strong over the two years to March 2021, and this return had the added advantage that it wasn't closely correlated with the return of the UK majors

Performance from 30 April 2019 to 30 April 2021



…led to the trust's NAV to increase substantially – and it delivered an uncorrelated return whilst the mainstream market was flatlining

Source: Bloomberg, data correct as at 31.07.2023

Braemar PLC has grown its market position so are in a position to scale up their cash generation rapidly…

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Braemar plc

- 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 real intrinsic value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price returns 31 July 2018 to 31 July 2023

- Braemar PLC is a shipbroker, which is growing well, and recently scaled up its market position considerably
- Last year it reported that it has been trading above expectations, and it also has a very strong balance sheet, and analysts forecast it is due to generate significant cash
- If it were a largecap, its valuation would be considerably higher than it is currently
- Furthermore, it is also well-positioned to take on further teams, and increase its market position

…and yet its valuation still reflects recent market weakness amongst UK–quoted microcaps

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.07.2018 to 31.07.2023. Braemar plc was first purchased on 12.05.2017.

Reference to any particular stock does not constitute a recommendation to buy or sell the stock. Past performance is not a reliable indicator of future returns.

When the cost of capital rises, stocks generating cash surpluses have the advantage…

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- When inflationary pressures are evident, central banks typically raise interest rates to cool demand, to bring it back into balance with supply
- Unfortunately, the combination of a reduction in demand and the price wars that this sometimes precipitate, together with the increased cost of debt, lead to companies being forced to sell parts of their business at distressed valuations, or risking corporate insolvency
- Some of these businesses can change hands for as little as £1, because normally the acquirer has to replace the working capital that has been withdrawn to repay bank debt
- Even so, many of these acquisitions can deliver very rapid cash paybacks
- Quoted companies generating cash surpluses are often well positioned to participate in these deals, and when they do they often greatly enhance their earnings

…as they can acquire overleveraged but otherwise viable businesses from the receiver, debt-free at knock down prices

Beyond globalisation, strategy risk can be diversified via cash compounding UK equities…

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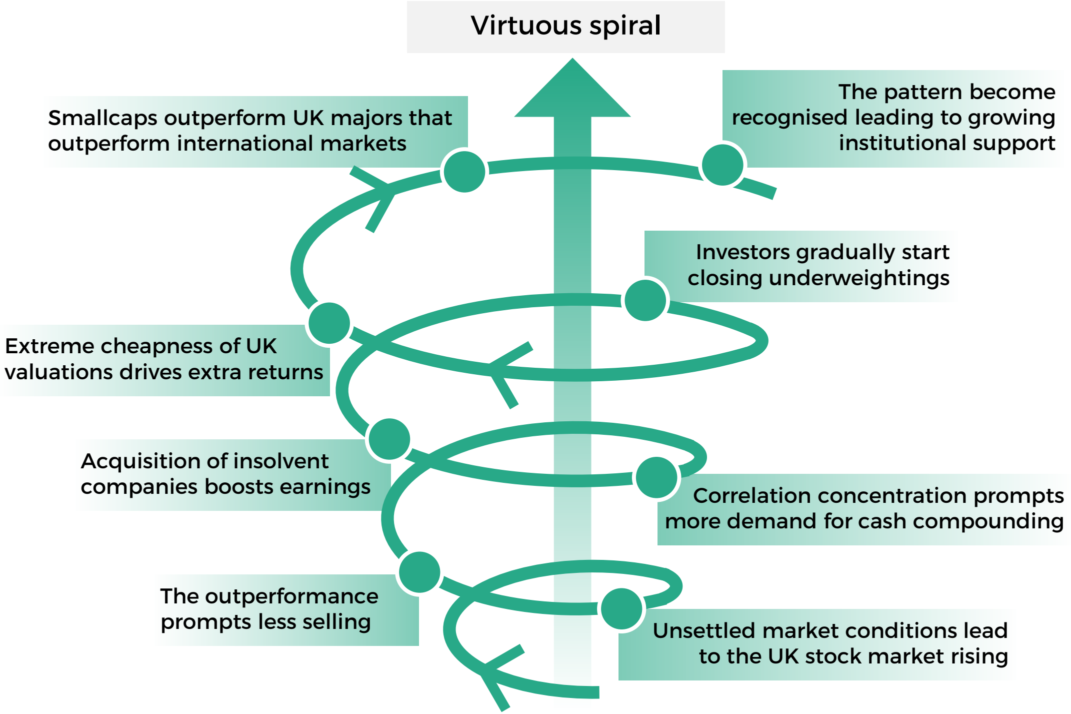
- After some decades of a vicious spiral within UK equities, few investors are anticipating that the market could outperform, let alone that the UK stock market might become a virtuous spiral
- In our view inflation changes everything, as concerns over correlation across numerous funds, and numerous asset classes drives investors to actively seek areas with different return characteristics
- In particular, if many stock exchanges flatline in future years, equities paying good and growing dividends wont just continue to deliver attractive returns, but also will help offset periods of additional inflation, because their dividend income can rise to reflect the increase in fiat money
- Furthermore, companies generating surplus cash not only carry lesser risk of insolvency, but better still can acquire over-leveraged businesses debt-free from the receiver at knock down prices, amplifying their ongoing growth potential
- In our view, the greatest upside potential lies with UK small and microcap stocks, as in their cases the acquisitions can sometime deliver transformational improvements to their prospects
- With the UK market starting unusually low valuations, and with most asset allocators being underweight, the new trend has the potential to turn into a virtuous spiral that could last for decades



…that might lead to a virtuous spiral, that could include UK-quoted microcaps

Meanwhile, the current dribble of UK relistings overseas, could quickly become a stream and potentially a flood…

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- Over time, some plc's have recognised that one way to improve their cost of capital is to move their primary listing, (which also includes their index inclusion) away from London to another stock market – most often the US
- Generally, the early adopters had an addition, specific reason for moving, but more recently the flow has accelerated
- Given the potential for a near-immediate uplift in valuation, we believe the current dribble could quickly become a stream, and maybe a flood, precipitating a step down in the UK's weighting in the global stock market indices
- In the short term, as investors progressively anticipate the increasing number of stocks moving listing, there is scope for the UK, mainstream stock market indices to substantially revalue upwards
- Thereafter, even as the UK's weighting in global indices reduces, we anticipate that institutional interest will continue to increase as they seek diversification away from too much capital appreciation strategy risk to include greater participation in the UK's cash compounding strategies
- Furthermore, we also anticipate that politicians will consider policies that can enhance the recovery of the UK's stock market so it has the potential to become the leading equity market for quoted, smallness in the world

Why stock-market tourists flock to New York

THE WALL STREET JOURNAL.

FirstFT: CRH delivers fresh blow to London's capital market

BHP to delist in London as it centralises in Australia

Arm opts for New York stock listing in blow to London

FCA regulator blamed for Arm's decision to shun London listing

…driving the UK stock market recovery without delay, and an equally large potential change in the mood of regulation

Conclusions

- The UK stock market characteristics of cash compounding dividend returns have been popular during inflationary periods in the past

- UK-quoted microcaps have a history of outperforming the UK majors, including during inflationary periods, as they have enhanced their cash surpluses via low-cost debt-free acquisitions

- The Miton UK Microcap Trust strategy contrasts with others as stock selection is skewed towards overlooked stocks with strong balance sheets, that are set to generate cash surpluses

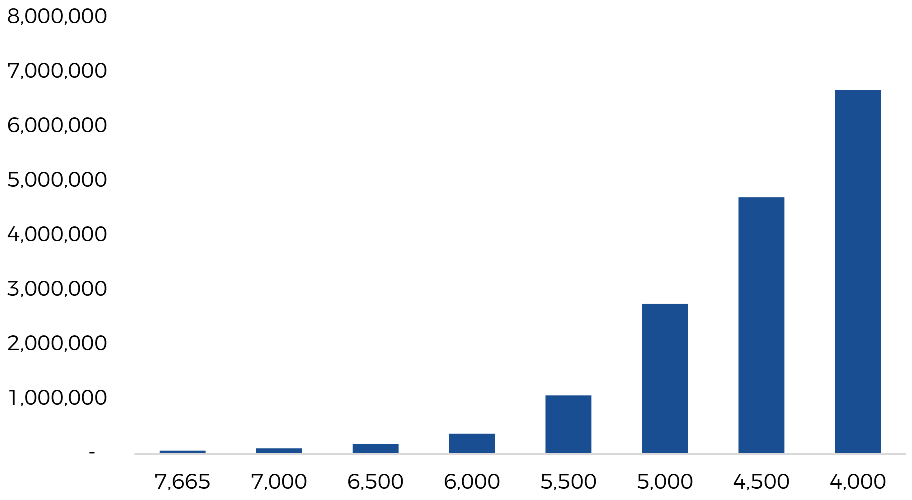
- To date, the valuations of quoted microcaps have been artificially supressed by ongoing UK OEIC selling, but there are signs that this may be moderating

- We anticipate a virtuous spiral will now develop in UK equities, and quoted microcaps in particular, as asset allocators increase their weightings, in a trend that could last for decades given that UK equities are starting at unusually low valuations, with few fully weighted in strategies that cash compound

A FTSE 100 Put Option continues to form part of the portfolio positioning…

- The trust held a FTSE 100 Put Option that appreciated rapidly when equity markets suffered a severe sell off in March 2020 due to a global pandemic
- Whilst the trust didn't hold a FTSE 100 Put Options Index for the subsequent five quarters, the position was reopened in the third quarter of 2021, with a term of extending to December 2022
- To date, the FTSE 100 Index has been resilient whilst most other mainstream stock market indices have fallen away, in part because it is dominated by capital intensive stocks, where profitability increases by multiples when there are shortages of energy and commodities, or when interest rates rise
- Whilst we anticipate that the UK stock market is well set for a long period of outperformance, at this stage sometimes other factors can lead to asset prices resetting at a lower level, and at a relatively small cost the FTSE100 Put option might add value

Interaction between term and strike price of a FTSE 100 Put Option[1]



…as no one knows that when US bond issuance restarts, whether global asset markets might suffer a period of indigestion

Source: Bloomberg, data correct as at 31.07.2023.

5 golden rules of stock picking

1. Judgements on stock specifics tend to be more valuable than assumptions on forthcoming economic trends
2. Chose your battles
3. Genuine diversification is a stock picker's best friend
4. Be super-sensitive to the risk of a permanent loss of capital
5. Know your blind spots

Importantly, these rules work just as well in volatile markets, as at other times when stock markets are flatlining

Important information

Premier Miton INVESTORS

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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.

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