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INVESTORS

The Miton UK MicroCap Trust

As nationalism displaces globalisation, why does this specifically favour a UK multicap income strategy?

FOR INVESTMENT PROFESSIONALS ONLY. CAPITAL AT RISK.

Thinking ahead of the curve

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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 small, 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…

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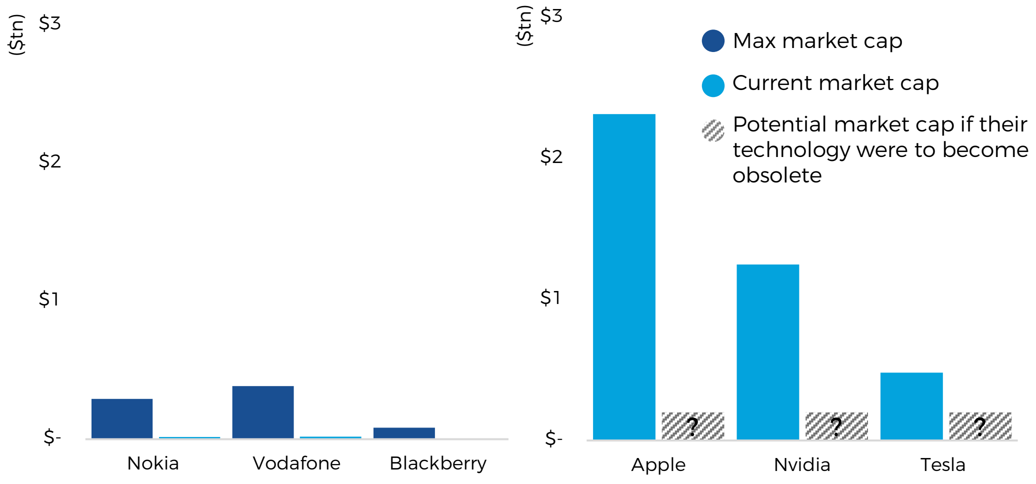
- During globalisation, stock market momentum often became so strong that companies generating rapid sales and profit growth sometimes rose to impressive market capitalisations, that then left them vulnerable to enormous downside obsolescence risks.
- Good examples include Nokia and Vodafone, that were capitalised at $246bn and $340bn in March 2000, and Blackberry at $66bn in June 2008.
- On 11 April 2024 these companies were capitalised at $15.4bn, $18.2bn and $1.5bn respectively.
- In this context, it is worth noting that the market capitalisation of Apple was $2315bn, Nvidia was $1248bn and Tesla was $482bn as at 11 April 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

Source: Bloomberg, data as at 11.04.2024.

Past performance is not a reliable indicator of future returns.

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

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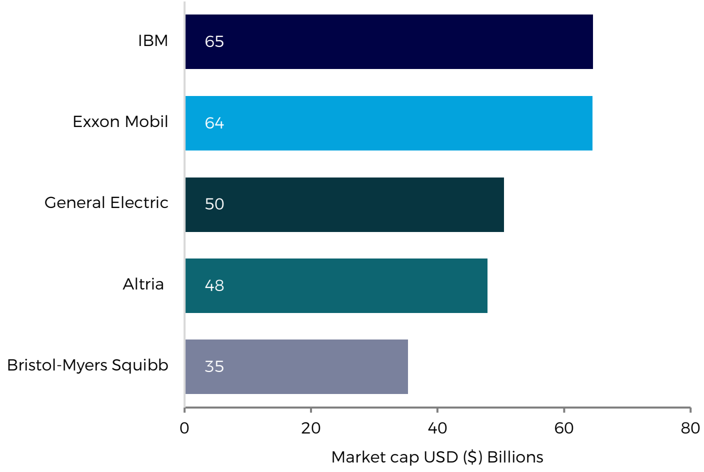
A look back at the past largest companies on the US stock market highlights just how much real-world constraints hinder the expansion of bigness

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

Source: Bloomberg, as at 31.12.1990.

In contrast to largecaps, quoted smallcaps by definition start small, so when they succeed…

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- 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[1]
- 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 multicap 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 smallcaps succeed, sometimes they can deliver quite exceptional returns over years

The Liberium analyst's assessment of Yu

United Kingdom | Business Services | Utility Services | YU/ LN | Market Cap £240.0m | 25 March 2024^

BUY Target Price 2050p
Publication price 1500p

*Corporate Broking Client of Liberum

Yü Group*
Continues to deliver

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The FY 23 results were 6% ahead of our estimates. We make six key points: 1) the financial drivers of the business remain strong and lower energy prices are manageable; 2) contracted revenue covers 76% of our FY 24E revenue, while a year ago it was only 54% of the FY 23 result; 3) our analysis indicates FD EPS of 285p should be achievable in the medium term; 4) Yü Smart should help manage credit risk, deliver >30% levered returns and generate over £1m of ILARR by 2025; 5) Yü Group has had revisions momentum above the 9th decile according to Liberum SAM and 6) the strong cash flow and FY 24E net cash (exc. leases) of £112m provides capital allocation options. Maintain BUY and TP of 2,050p; trading on a target P/E of just 5.3x.

Key points

FY 23 FD EPS of 182p was up 501% yoy, and 6% above our estimate.

Value drivers

FD EPS of 285p should be achievable in the medium term.

Next events

May 24	Trading update

Stock performance

Summary financials & valuation (£m)

Calendar year

EV (CY)	23A	24E	25E	26E
Market Cap	240	240	240	240
Net Debt/(Cash)	(31)	(111)	(137)	(160)
Pension & other adj.	0	0	0	0
EV	209	129	103	80

Valuation (CY)	23A	24E	25E	26E
P/E (x)	8.2	8.1	7.1	6.5
Div Yield (%)	2.7	3.3	4.7	5.2
EV/Sales (x)	0.5	0.2	0.1	0.1
EV/EBITDA (x)	4.9	2.9	2.0	1.4
EV/EBIT (x)	5.1	3.1	2.1	1.5
FCFe Yield (%)	5.6	36.3	15.6	15.0
Price / book (x)	5.1	3.3	2.4	1.8

Financial year (December year end)

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

Source: [1]Bloomberg as at 31.12.2020. [2]Liberium

Generating an exceptional stream of dividends can deliver an upside a bit like that of a 'perpetual option'...

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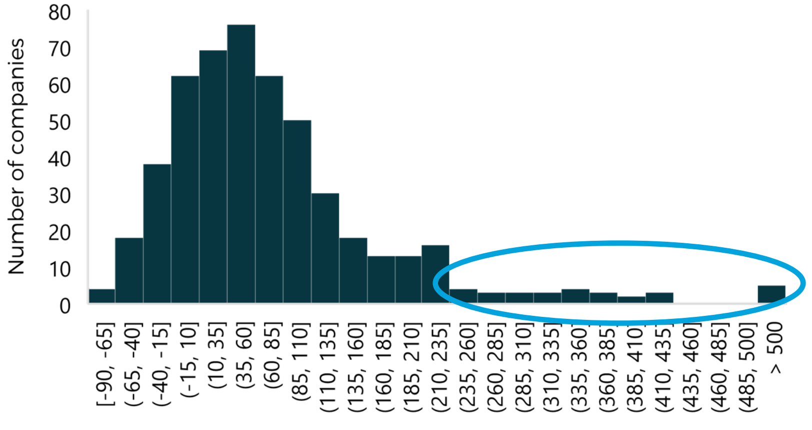
- One of the great advantages of investing in equities, is that whilst the downside risk can be a 100% loss, the upside potential in almost unlimited
- The practical reality though, is that many successful equity income stocks have periods of growth, and some of retrenchment, with their annualised returns 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 smallcaps, 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

Source: Bloomberg, from 23.02.2020 to 23.02.2024.

Past performance is not a reliable indicator of future returns.

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

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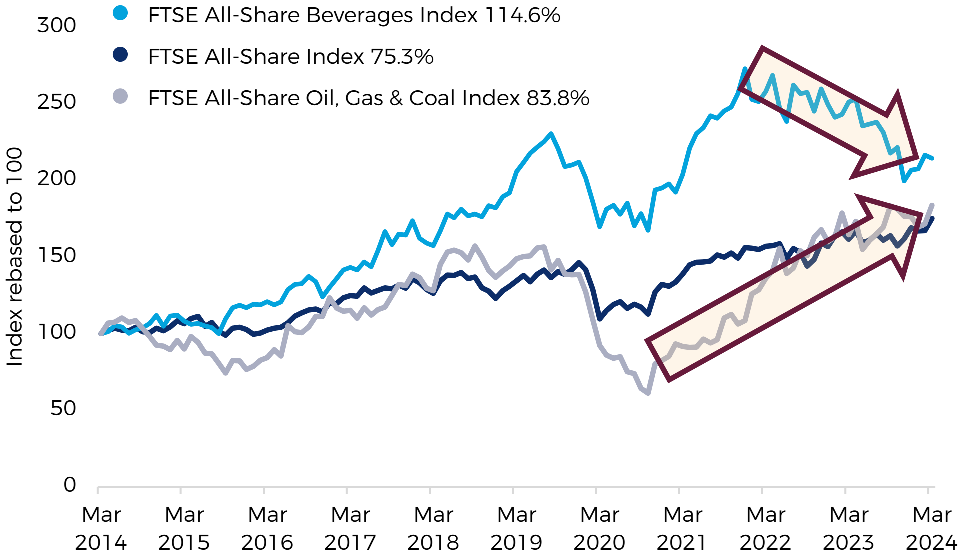
- Those outside of the the financial services sector often assume that portfolio management is merely about investing in a number of stocks with upward price momentum, and taking profits before their share prices fall back significantly
- But this assumption overlooks event risk, where the prospects 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, delivered both sustained dividend income growth, and a return that was less volatile 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

Source: Bloomberg, from 31.03.2014 to 31.03.2024.
Past performance is not a reliable indicator of future returns.

A multicap investment universe offers much wider potential for portfolio diversification…

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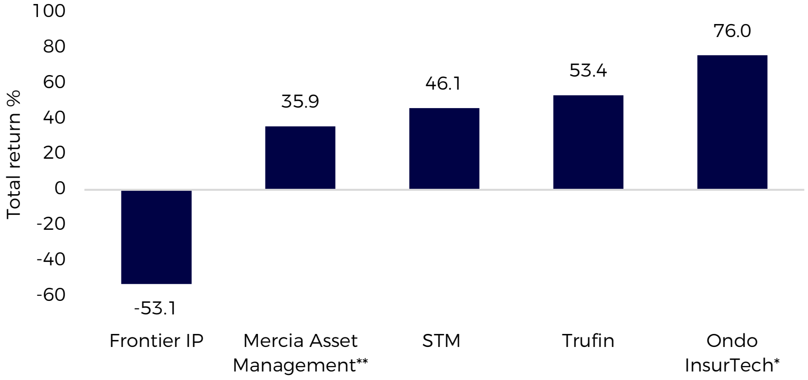
The bar chart details the returns of the five largest portfolio financial sector holdings over the five-year period to March 2024

1. Frontier IP supports university technology start ups by offering services such as marketing and accounting, that help them build up to a stage where they list on an exchange (such as ExScienticia on the NASDAQ Exchange) or are acquired by an industry partner.
2. Mercia Asset Management is allocated capital by UK regional funds and VCTs that it raises, to support local businesses via its network of offices around the UK. Over recent years, it has won a series of new fund mandates.
3. STM is a financial advisor that principally offers ISAs to UK residents working overseas, so they have them in place when the return to the UK. It has recently agreed to be acquired at a very substantial premium to its prior share price.
4. Trufin was bought when overlooked five years ago, and has built up acquisitions bought from insolvency such that they now have substantial contracted revenues in the case of Oxygen, or substantial customer support such as Satago
5. Ondo InsurTech was an IPO in July 2021, which offers a LeakBot that clips onto the water mains, to detect household pipe leaks. It is so effective, that numerous home insurance companies are now offering them free to their customers.

Note that over the five period as a whole, these somewhat less correlated multicap share prices have helped to better diversify stock specific risk, and deliver a stream of good and growing dividend income

The returns of the trust's largest weightings as if they had been held for the last five years



Please note that whilst some of these holdings were held for the full five year term, some others are new holdings, and others were trimmed or added to over the period. *Ondo InsurTech first listed 28.07.2021

…such that its stream of dividend income has the potential for greater growth & greater resilience

Source: FE Analytics. Based on UK sterling, total return from 31.03.2019 to 31.03.2024. *Data from 28.07.2021 to 31.03.2024. **Source: Blomberg, based on UK sterling,

Past performance is not a reliable indicator of future returns.

Whilst the UK may be suffering a headwind, we continue to pick out stocks with good and growing dividends…

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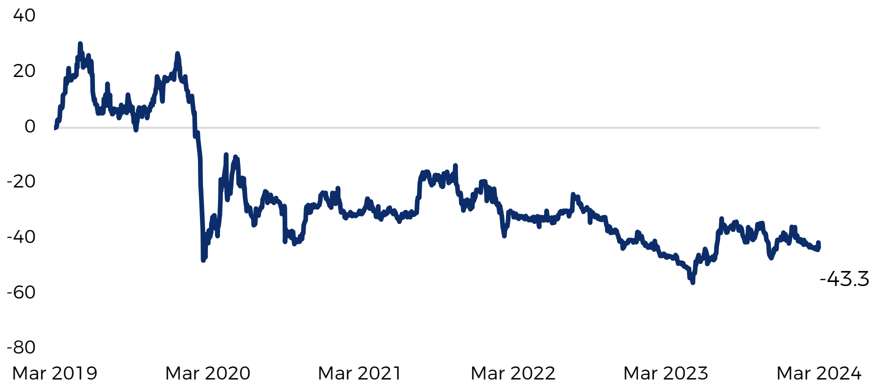
Paypoint Plc

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

Paypoint share price 29 March 2019 to 28 March 2024



- Paypoint Plc is a national network for collecting payments typically over the counter in newsagents, convenience stores, supermarkets and forecourts
- Its extended its network via Multipay, that is bringing in a wider range of customers such as local authorities, charities and housing associations
- The acquisition of Appreciate plc broadens its offering further to include consumer vouchering, gifting/reward solutions
- Investec forecast that its free-cash-flow will rise from 6.7% in 2022 to 17.9% in 2026
- This is expected to drive the dividend yield up from 7.0% in 2022 to 9,8% in 2026

…because whilst their share prices might drift for now, in our view their 'option-like' upsides remain in place

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 29.03.2014 to 28.03.2024. Paypoint Plc was first purchased on 18.03.2020.

Past performance is not a reliable indicator of future returns. Forecasts are not reliable indicators of future returns.

Stocks like Cerillion, that built a strong record of good and growing dividend income over several years....

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- Cerillion first listed in March 2016, with a market capitalisation of £34m and our clients were foundation shareholders
- Whilst the Cerillion share price didn't appreciate significantly for some years after issue, it gradually built an increasingly significant market share in providing billing software for mobile network businesses
- Over time, as the growth of its business accelerated, and as its market capitalisation increased, it rose to be large enough to be researched by a wider range of institutional shareholders
- Given its growth characteristics, and the potential to map out the future profitability and cash generative potential, along with a decline in the discount rate, its valuation rose dramatically
- This appreciation made it easy to take very substantial profits for our clients, and reallocate capital in other overlooked small and microcaps standing on very overlooked valuations with what we consider to be disproportionate upside option value
- Some will highlight that in this case, our clients may have sold too early, but we would argue that stock standing on demanding valuations carry disproportionate downside were their profitability to peak out for some reason

Cerillion share price 18 March 2016 to 28 March 2024

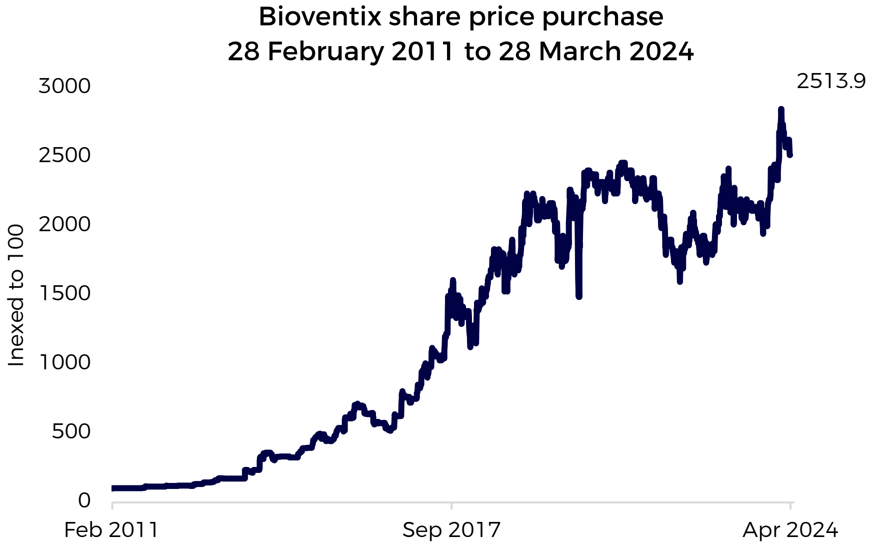
...that only came to the attention of a wider pool of institutional investors somewhat later, and ended up driving up its valuation dramatically

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 18.03.2016 to 28.03.2024. Cerillion first listed in March 2016.

Past performance is not a reliable indicator of future returns.

Helpfully many AIM-listed equity income stocks also operate in relatively specialist industry sectors…

- BioVentix was originally listed on the Offex market, and despite its ongoing profitability and highly cash generative business model, its share valuation was dominated by a venture capital holding that need to liquidated as the fund matured
- Given these factors, our clients were able to invest in the business at a discount to the then share price
- BioVentix is an example of a microcap business that serves a very narrow market – the supply of hospital test reagents in technically difficult areas
- When they develop a successful test, they progressively displace other suppliers, and thereafter layer on addition profit streams as new tests come to market
- The net effect is that the profitability and cash generation of the BioVentix has progressively risen along with its dividend, delivering a quite exceptionally large return to our client portfolios



…so, their prospects are sometimes be less affected by global recessions, and their dividends can sometimes grow even through a downturn

Source: Bloomberg, on a UK Sterling basis, bid to bid, from 28.02.2011 to 28.03.2024.

Past performance is not a reliable indicator of future returns.

If corporate liquidations were to become more numerous, then stocks generating surplus cash would have extra advantages…

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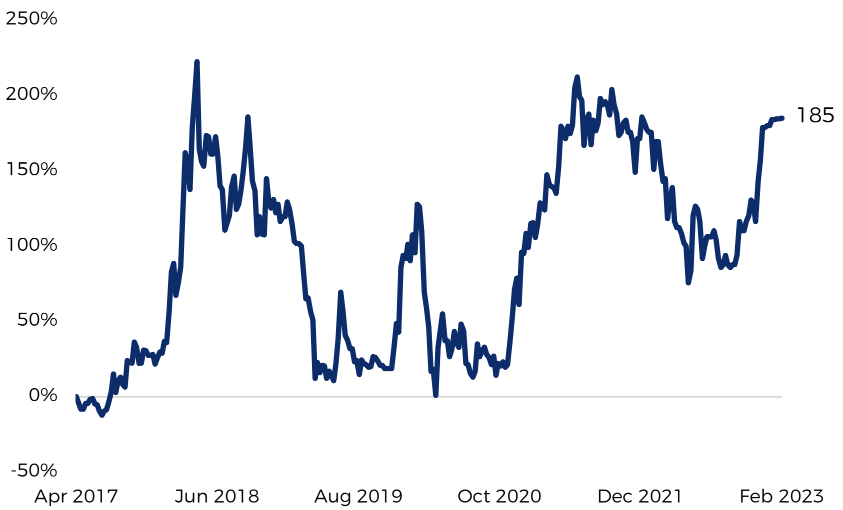
- One of the problems of having a large market position during a global recession, is that as demand declines, it is difficult to take enough additional market share from others to offset the setback
- Since less immature stocks often have lesser market shares, if they are adept, sometimes they can take more than enough market share from others during the downturn, so their overall profitability continues to grow
- Furthermore, those with access to capital (such as plc's) can acquire over-leveraged but otherwise viable businesses from the receiver often for a nominal price, where the upside can be substantial
- When a largecap acquires businesses from the receiver, often the added value in absolute terms is a small percentage of their market cap
- In contrast, when a smallcap does an identical deal, the absolute added value is a much larger percentage of their market capitalisation, so these deals can greatly enhance their upside potential, sometimes in transformational deals

K3C share price 14 April 2017 to 13 February 2023



…especially quoted smallcaps, because their acquisitions made at distressed prices can sometimes deliver transformational upsides

Source: Bloomberg, on a UK Sterling basis, from 14.04.2017 to 13.02.2023. K3 Capital were acquired by Sun European Partners LLP in 2023.
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…

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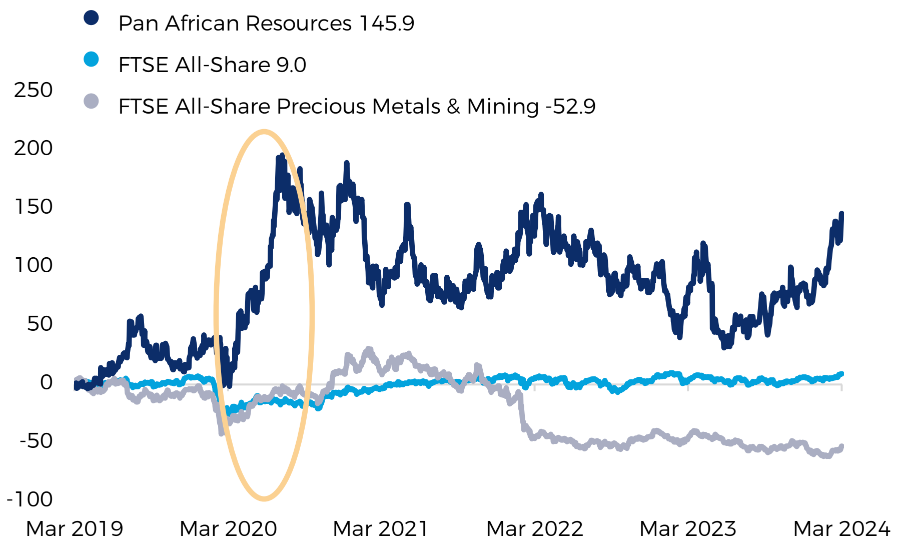
- Many fund managers choose to avoid considering some industry sectors such as complex financials or various mining or energy stocks, on the basis that they don't have any particular insight as to the imminent commodity prices
- To some degree, we believe this overlooks including stocks that are often 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

Share price 29 March 2019 to 28 March 2024



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

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 29.03.2019 to 28.03.2024.
Past performance is not a reliable indicator of future returns.

Perhaps even more importantly, a portfolio of multicap holdings with strong cashflow, and 'option-like' upsides…

- There is an assumption that a portfolio with a low portfolio Beta, is unlikely to generate an attractive added value Alpha
- But this assumption overlooks the nature of portfolio Beta, which is typically driven by the correlation breadth of its holdings, alongside their stock specific risks
- Often there is greater upside potential in stocks that are overlooked by the bulk of investors, especially the case in smallcaps where most investors eschew them on the basis that they won't be able to get a large enough sum of capital invested
- As our investment process prioritises stocks with stocks with strong balance sheets and cashflow, with the potential for option-like upsides, means the portfolio itself can deliver an unusually high Alpha
- This explains why the Miton UK MicroCap Trust can deliver both a sub-normal portfolio Beta and a peer-group leading Alpha

The Miton UK MicroCap Trust Alpha since launch, 30.04.2015

-0.1

…can also generate an exceptional Alpha as well

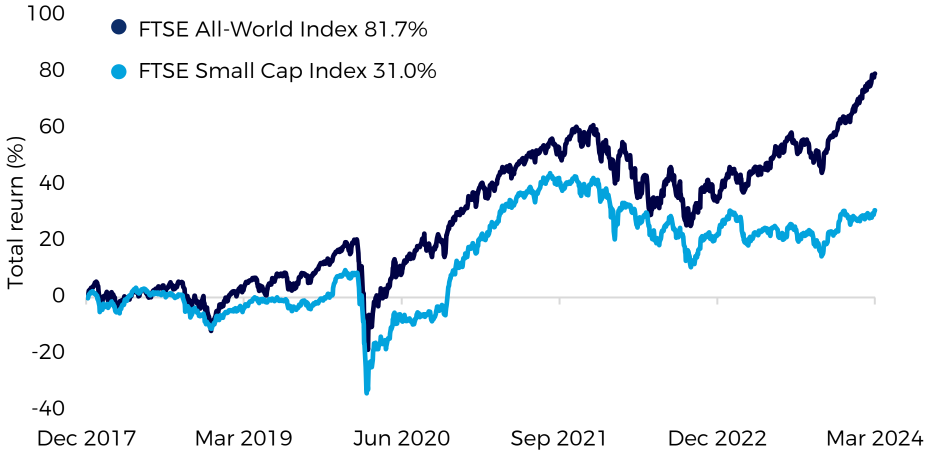
Source: Morningstar™, as at 31.05.2024, net income reinvested, bid to bid basis. Annualised alpha since Trust launch for Deutsche Numis 1000 Index; 3.5.

Past performance is not a reliable indicator of future returns.

Whilst the megacap trend may have obscured the 'perpetual option' upside of a multicap strategy at present…

- As global capital has gravitated into megacaps, most other parts of equity markets have underperformed, especially smallcaps
- 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 smallcaps 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 33% from the end of 2020 to the end of March 2024, whereas the FTSE100 Index has risen by 39%
- During this period of redemption headwinds, when smallcap share prices have been falling, their upside option values haven't always come through even when the succeed
- In our view, all this means that there are all the more yet to come through in future

Total return of the FTSE World Index & the FTSE Small Cap Index since the end of 2017



…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 31.03.2024.
Past performance is not a reliable indicator of future returns.

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

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- The trust's portfolio comprises both largecap equity income stocks, and less mature AIM-listed equity income stocks
- It 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	8.9%
Trufin	3.1%
MTI Wireless Edge	3.0%
Serabi Gold	2.3%
Zephyr Energy	2.2%
Zoo Digital Group	2.2%
CyanConnode Holdings	1.9%
Braemar	1.8%
Concurrent Technologies	1.7%
Invinity Energy Systems	1.7%
Frontier IP Group	1.6%
Zinc Media Group	1.6%
Zotefoams	1.6%
Ingenta	1.5%
STM Group	1.5%
Marwyn Value Investors	1.4%
Beeks Financial Cloud Group	1.4%
CT Automotive Group	1.4%
Amaroq Minerals	1.4%
Andrada Mining	1.4%

...that since launch has delivered a resilient and growing stream of dividend income, along with good capital appreciation

Source: Premier Miton, data as at 31.05.2024. In certain market conditions, companies may reduce or even suspend paying dividends until conditions improve. This will impact the level of income distributed by the trust.

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

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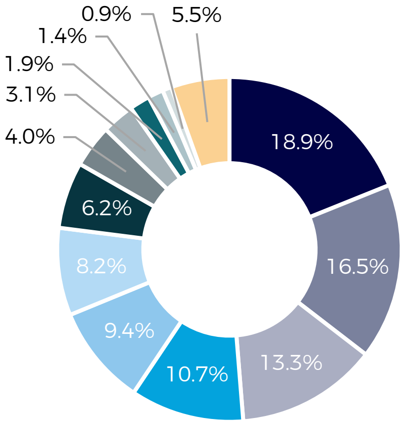
- One of the advantages of portfolio investing, is that the volatility of individual stocks are reduced, due any absolute stock specific losses being offset by others that generate absolute stock specific gains
- The share price volatility of a portfolio with numerous portfolio holdings with very uncorrelated 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 multicap portfolio includes individual holdings that are largely mature, along with others that are less mature
- In addition, a portfolio with a near-comprehensive list of industry sectors, is also likely to be more diversified than those with a narrower range
- We believe that the long list of diversified holdings generating the trusts income, reflects its relatively diverse list of holdings, and hence its potential to better manage downside risks

Trust sector weightings



	Weight %
Information Technology	18.9%
Materials	16.5%
Financials	13.3%
Industrials	10.7%
Utilities	9.4%
Energy	8.2%
Consumer Discretionary	6.2%
Health Care	4.0%
Communication Services	3.1%
Real Estate	1.9%
Funds	1.4%
Consumer Staples	0.9%
UK Put Option	0.0%
Cash/Net Current Assets	5.5%

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

Source: Premier Miton, data as at 31.05.2024.

The trust's capital returns may have been comparatively weak over recent years due to UK OEIC redemptions…

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- The overall returns of the Miton UK MicroCap Trust are not closely correlated with that of most other UK equity income funds, and even relatively uncorrelated with most other UK equity multicap income funds
- The outcome is that the trust has a history of sometimes delivering returns when the mainstream equity indices are not

Cumulative performance %	1 year	3 years	5 years	Since launch[1]
Trust NAV	-4.5	-45.1	5.6	20.0
Trust share price	-8.3	-47.2	-1.0	6.0
IT UK Smaller Companies sector	13.6	-4.9	32.0	102.7
Deutsche Numis 1000 Index	19.2	-6.0	25.1	66.0

Discrete annual performance %	2019	2020	2021	2022	2023	2024 ytd[2]
Trust NAV	-8.2	50.0	20.0	-29.1	-20.2	6.0
Trust share price	-0.9	33.3	28.6	-28.7	-24.9	11.6
IT UK Smaller Companies sector	22.2	1.3	26.0	-20.4	3.7	11.6
Deutsche Numis 1000 Index	15.3	-1.5	25.0	-20.1	6.6	12.0

…but this hasn't greatly affected its long-term record which remains one of the best of its peer group since issue

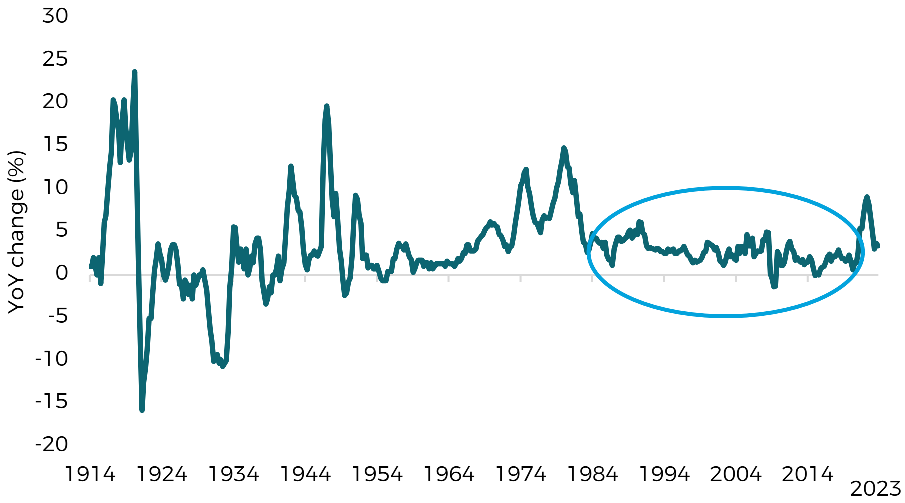
Source: Morningstar[TM], as at 31.05.2024, net income reinvested, bid to bid basis. [1]Trust launched on 30.04.2015. [2]2024 ytd to 31.05.2024.

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

Source: Bloomberg, US CPI Urban Consumers YoY Index, data from 31.03.1914 to 31.12.2023.

Producing retirement income via unit encashment may have worked during globalisation…

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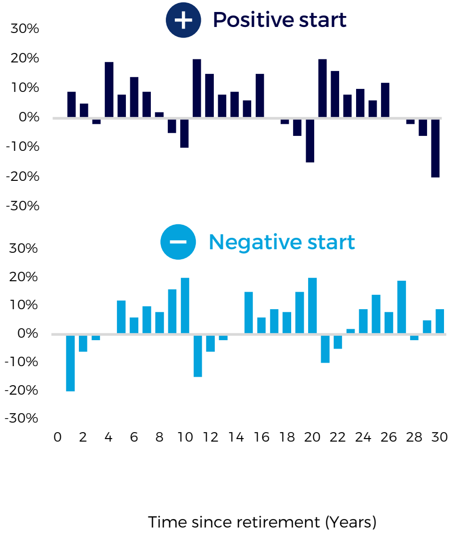
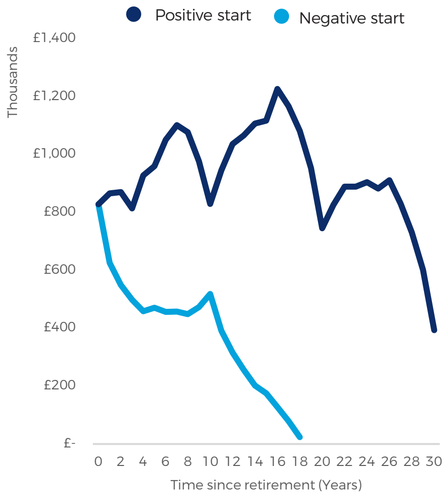
- During globalisation, funds generating regular capital appreciation have outperformed other strategies, and hence it has become customary to use regular unit encashment to provide a retirement income from an initial capital sum
- At times other than globalisation however, market valuations can be a 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

For illustrative purposes only. Remaining capital after 4.5%/£37,000 p.a withdrawals growing at 3% p.a

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

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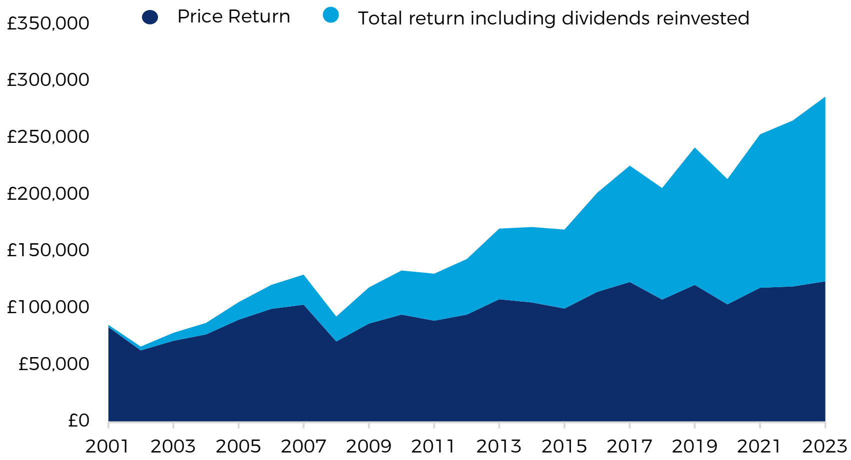
- The UK stock market is dominated by capital intensive stocks, that typically invest substantial sums of capital, and then provide a return via a stream of good and growing dividends
- Interestingly, when economic conditions are testing, equity income stocks not only start with a greater margin of safety, 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 overwise 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

Source: Bloomberg, data as at 31.12.2023.

Past performance is not a reliable indicator of future returns.

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

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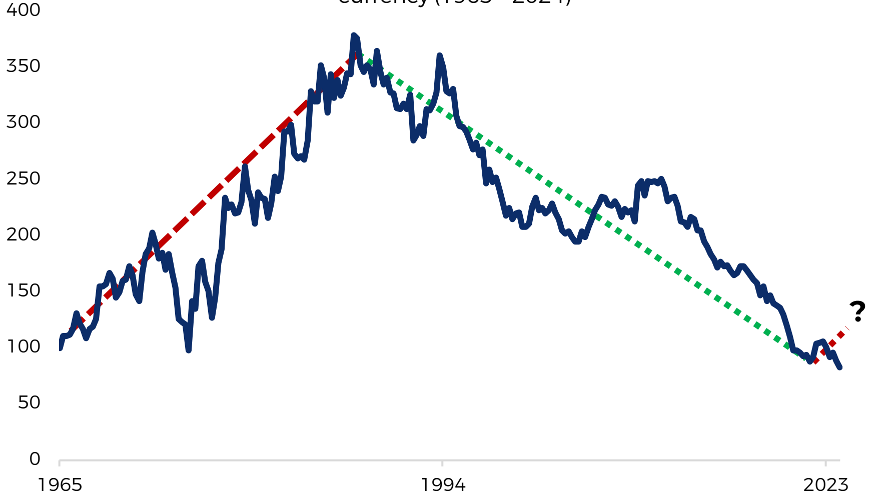
- After decades of UK equity market underperformance, most local investors have scar tissue that influences their assessment of the prospects of the market in future
- Interestingly, UK equities look very different from the perspective of international investors
- As many have very modest low-beta weightings, 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

Source: Bloomberg/ S&P Dow Jones Indices LLC., data from 31.03.1965 to 29.03.2024.

Past performance is not a reliable indicator of future returns.

Globalisation has favoured 'bigness' and nationalism will favour smallcaps in our view…

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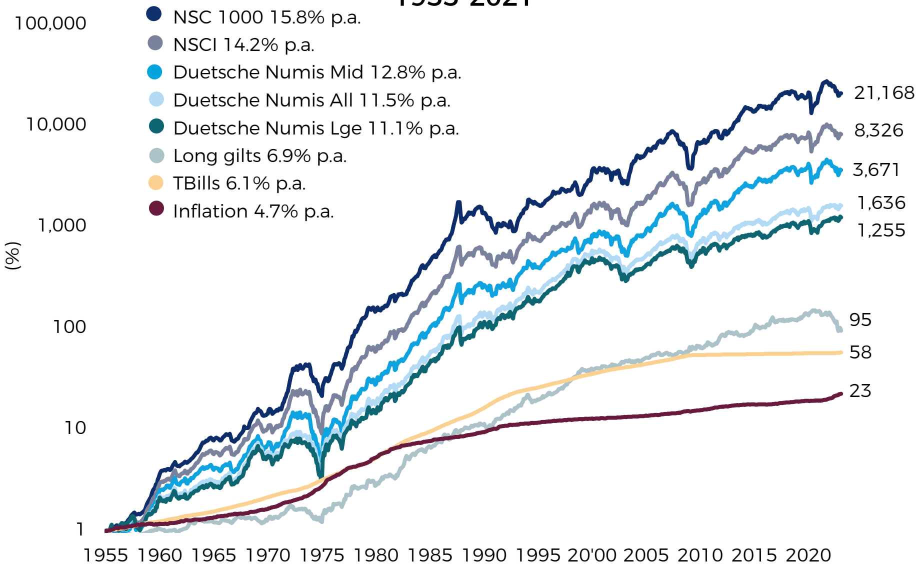
- The largest 80% of UK-quoted companies (known as the Deutsche Numis Largecap Index) underperforms the Deutsche Numis All Share Index on a near-permanent basis
- When the cost of capital rises, or when demand is being actively supressed so if falls below supply, largecaps are vulnerable. Being large 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 smallcaps 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...

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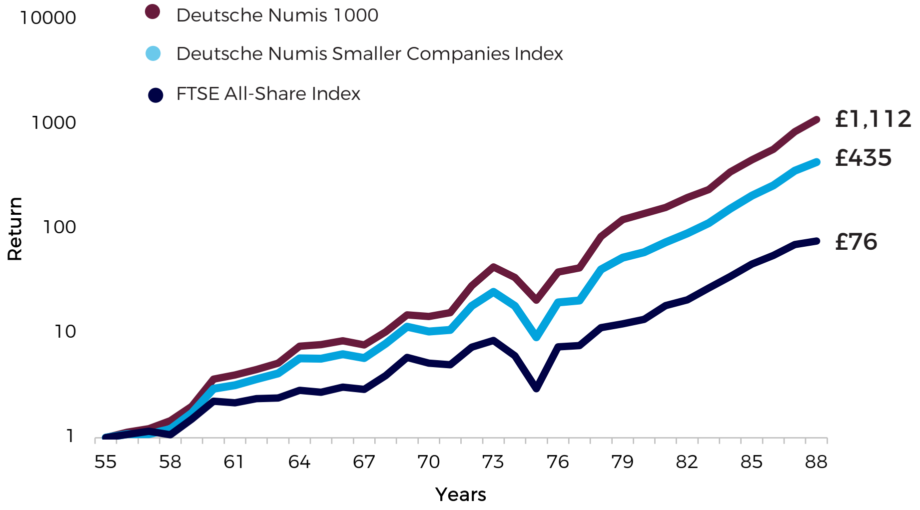
- Economic conditions were very testing in the UK between the 1960's and the late 1980's, and the period was marked by relatively strong returns from the numerous equity income stocks within the FTSE All-Share Index
- Even so, despite the weakness of the Sterling exchange rate that favoured stocks with 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[1] vs FTSE All-Share Index 1955-1988



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

Source: Deutsche Numis Securities, Elroy Dimson and Paul Marsh of London Business School. [1]Formerly RBS Hoare Govett Smaller Companies Index.
Past performance is not a reliable indicator of future returns.

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

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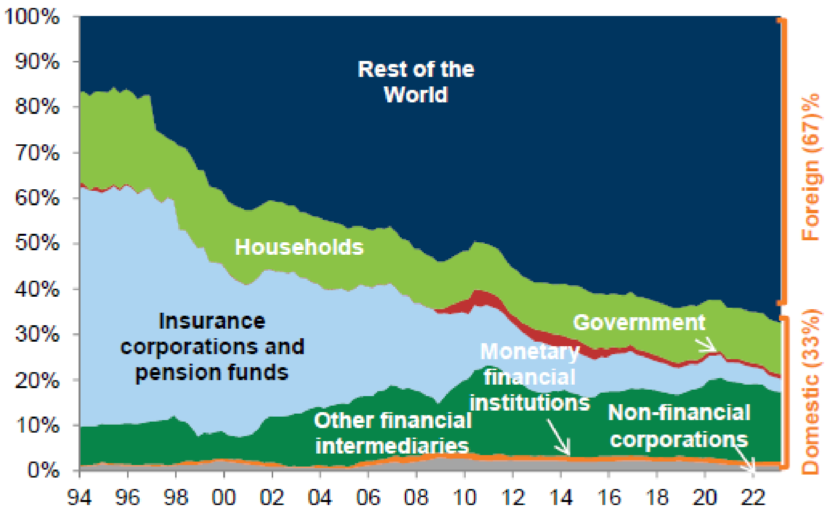
- Prior to the period of globalisation, local institutions held the vast majority of UK quoted companies
- With the ongoing underperformance of the UK stock market, progressively over time investors have reduced their UK weighting and reallocated the capital into other stock markets overseas
- When a 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…

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- **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.
- **Competitive costs**
  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

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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 smallcaps 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 smallcap valuations standing at simply absurdly low levels

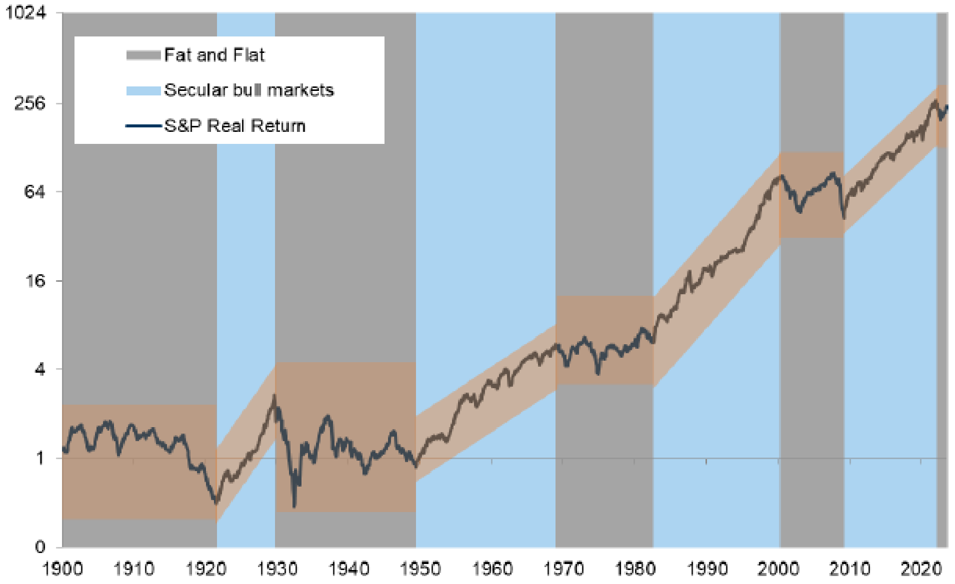
5

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 smallcaps 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

Source: Robert Shiller, Goldman Sachs Global Investment Research.
Past performance is not a reliable indicator of future returns.

Important information

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Whilst every effort has been made to ensure the accuracy of the information contained within this document, we regret that we cannot accept responsibility for any omissions or errors. The information given and opinions expressed are subject to change and should not be interpreted as investment advice.

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

All data is sourced to Premier Miton unless otherwise stated.

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.

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