

INSIGHT MAY26

Tell them that it's human nature



Matthew Tillett and Michael Shives, Fund Managers of the Premier Miton UK Value Opportunities Fund and Premier Miton UK Focus Fund, explore how human nature continues to drive markets, even in an increasingly data-rich and AI-driven world. They highlight how narratives and behavioural biases can lead to dislocations between price and underlying fundamentals, shaping their disciplined, long-term investment approach.

Human nature

A family visit to the cinema to see the Hollywood biographical of Michael Jackson's early life was a reminder of the power of storytelling. The film exclusively focuses on his first circa 20 years of life and feels like a deliberate attempt to reshape the narrative of a life and legacy that became increasingly controversial in his later years. It is a reminder that narratives are shaped by where the light is shone. As an investor, it's hard to ignore his line "tell them that it's human nature." It feels particularly apt when reflecting on today's narrative-driven stock market.

Clients, commentators, colleagues and risk committees often ask how we are positioning the fund for the quarter(s) ahead, against a backdrop of war, elections, consumer confidence and commodity prices. These questions repeat themselves, cycle after cycle, across a career in investing. The form and the emphasis may change, but the thrust of the question remains the same.

The honest answer is that our investing framework already accounts for the uncertainty the future holds. As a result, our answers tend to be much the same each time. When asked how, in a fast changing and volatile world, we believe we can outperform, our answer is simple: **human nature**.

While tools, data and processing power continue to evolve, the underlying drivers of markets do not. Investors still chase what has worked and struggle to hold what is temporarily out of favour. They respond to narratives, incentives and short-term outcomes. Technology evolves rapidly. Market structure changes. But human nature does not.

Quants or Business Owners?

The stock market today appears increasingly driven by quantitative investors, systems that follow rules derived from price behaviour or broad themes, rather than underlying business fundamentals. This is not a criticism. It is simply a reflection of how markets have evolved: more data, faster processing, and tighter feedback loops. But it does mean that, at times, share prices can become wildly detached from the underlying reality of businesses.

Our ambition is to behave like business owners when making investment decisions. That mindset anchors us in the real world rather than in patterns on a Bloomberg terminal. We base our decisions on our estimate of a company's earnings power across a full cycle. This allows us to invest in businesses whose current earnings are depressed by temporary issues, but where the underlying economics remain intact and capable of recovery.

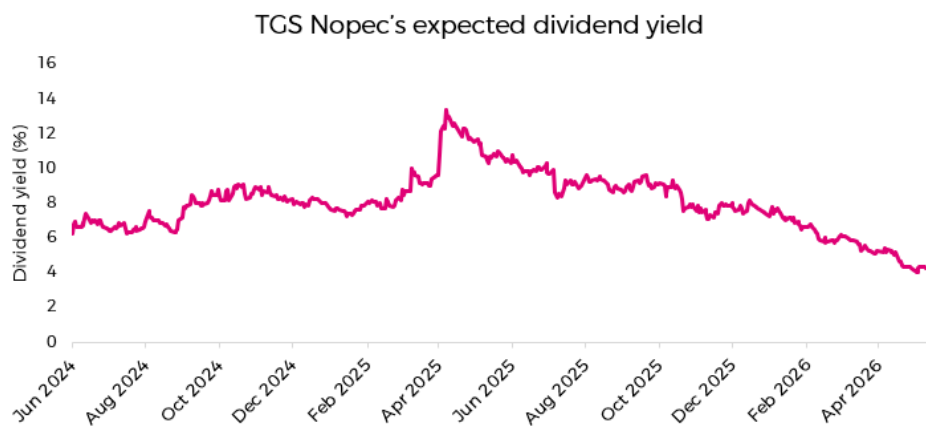
It sounds straightforward. In practice, it's hard. The greatest obstacle is not analytical, it is behavioural. Human nature makes it difficult to buy when sentiment is weak, hold or add when performance lags, and maintain conviction when price action contradicts your analysis. At the same time, markets often reward the opposite behaviour, at least in the short term.

Shifting Narratives

Recent months provide a useful illustration of how quickly narratives can shift. Much of 2025 was dominated by the idea of an oversupplied oil market and peak in demand that is coming ever closer. Despite the work of great thinkers such as Vaclav Smil demonstrating with reams of data that energy transitions are long and hard and often don't result in an absolute decline in use of the energy source in question (fun fact: the world uses more biomass today than it did in the 1800s), the prevailing narrative suggested that oil and gas exploration was in structural decline. The implication was clear: offshore exploration was a dying industry.

We disagreed but we didn't know when the market would come around to our view. TGS, the world's leading seismic acquisition and data company, is one of our strongest performers so far in 2026, but we were buying and holding the stock through a prolonged period when sentiment was firmly against it.

To give a sense for how the valuation has shifted, TGS was last year offering a dividend yield approaching 13%. Today, following a recovery in sentiment, the yield has compressed to approximately 4%. The dividend itself has remained broadly stable. What changed was not the underlying earnings power. It was the narrative.



Source: Bloomberg data from 03.06.2024 to 21.05.2026. **Past performance is not a reliable indicator of future returns.**

Some might argue that we just got lucky here - the Middle East war and the rise in the oil price is why the TGS share price has gone up. That may be true in the very short term.

The important point, however, is that the long-term underlying fundamentals were improving well before the events of 2026 catalysed a change in sentiment. The seismic industry had consolidated, capacity had reduced materially, costs were falling and the reserve lives of the major oil companies were declining – making future exploration increasingly necessary. In other words, the long-term investment case had been strengthening even as the share price weakened on the back of oil price concerns.

This illustrates a critical point about our investment philosophy when it comes to cyclical companies like TGS. We are not simply waiting around for a cyclical recovery or a clearly identifiable catalyst. Often, improvements in business or industry fundamentals occur well before they are recognised in a share price that is being driven by other, often short term, factors.

The opportunity lies in identifying these changes early and having the conviction to act—rather than waiting for price confirmation. The catalyst, when it comes, is rarely obvious in advance and often only becomes clear in hindsight.

Out of favour but essential

We see similar dynamics elsewhere. In the prime London commercial real estate market, fundamentals have been improving meaningfully for quite some time — limited supply, strengthening rental growth, investment demand returning, and yields resetting to more attractive levels. Meanwhile, the equity valuations of many listed companies active in this market continue to be deeply depressed and driven largely by movements in interest rates.

Importantly, our understanding is not derived solely from public market signals. Speaking directly with management teams and participants in the private market is often revealing. While public equity market valuations for London real estate remain subdued, there have been numerous transactions in the private market at valuations well in excess of what the equity market is implying.

Last year, Shaftesbury Capital, the owner of iconic mixed-use real estate across the West End, sold a 25% stake in Covent Garden to one of the world's largest investment funds at a valuation in line with their last reported net asset value. They then reported stellar 2025 results, showing double digit growth in earnings and dividends and a 9.1% total accounting return. The shares meanwhile continue to languish at a 40% discount to net asset value, as investors fret over the latest basis point move in interest rates or whatever drama in Westminster is occupying the headlines. Similar dynamics have been observed across transactions involving other prime London landlords, including Derwent London, Helical and Great Portland Estates.

This divergence matters. It highlights the difference between price and value and reinforces the importance of grounding our analysis in real-world evidence rather than relying solely on stock market signals. As the great Warren Buffett said, "Price is what you pay, value is what you get". In many cases, the private market—where capital is committed with a longer time horizon and without daily price feedback—can provide a clearer indication of underlying value.

What will be the catalyst to drive the equity valuations of these companies up to their intrinsic value? Honestly, we don't really know. It could be an improvement in the wider UK macro backdrop, although the London economy has already been outperforming for some time. Maybe a fall in interest rates. Corporate activity perhaps. Or it could be a combination of factors. We will only know the answer in hindsight. In the meantime, we are very happy holding shares in these companies.

Man versus machine

In a volatile world of artificial intelligence that feels increasingly uncertain, faster and more data-driven, the question inevitably arises: why should this old-fashioned focus on the intrinsic value of a business still work? To answer that, we turn to Michael Jackson...

If they say why, why...?

Tell 'em that it's human nature

Matthew Tillett and Michael Shrives

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Fund Manager and Assistant Fund Manager

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Forecasts are not reliable indicators of the future.

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