

Liontrust UK Micro Cap Fund

August 2022 review

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The Liontrust UK Micro Cap Fund returned -2.2%* in August. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned -4.0% and -4.2% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -4.7%.

A further surge saw European gas prices breach the €250/MWh level intra-month, taking them to around ten times their normal levels prior to the spikes seen over the last year.

The Bank of England cited Russia's restriction of gas supplies as the major factor in an escalation in inflationary pressures over the summer months. While its decision to raise rates by 50 basis points to 1.75% was expected, the tone of its accompanying comments was even more downbeat than most had expected. It noted that the UK is projected to enter recession in the fourth quarter, with real household income expected to fall sharply in 2022 and 2023.

Consumer confidence data from GfK confirmed a gloomy macroeconomic backdrop, with the August index score hitting its lowest level (-44) since the dataset began in 1974. Investors' assessment of the UK's economic prospects was reflected in a 3% fall in the trade-weighted value of sterling, taking its year-to-date depreciation to 5.7%.

The deterioration in economic outlook prompted another bout of risk-off investor behaviour, resulting in a -1.7% FTSE All-Share Index return. The weakness was most acute among the mid-cap FTSE 250 index, which returned -5.2% for the month.

In August, portfolio newsflow once again seemed to take a back seat to other factors in driving individual share price moves, although a handful of stocks showed signs that investors were still digesting late-July announcements. One of these was **Microlise** (+24%), which issued an upbeat trading update on 28th July. The provider of transport management software to fleet operators announced 11% year-on-year growth in annual recurring revenues in the six months to 30 June, 60 new customers and a very low customer churn rate of 0.1%, while also reaffirming 2022 revenue and profit guidance.

musicMagpie (-32%) suffered a heavy share price drop earlier this year after flagging that sales trends were softening in-line with consumer spending. Shares in the consumer technology, books and disc media recommerce specialist slid further after July's interims results revealed a slight year-on-year fall in revenues, missing consensus analyst expectations. However, the company expects a pickup in revenues in the second half of the year as its growing rental subscribers business makes an increased contribution.

Virgin Wines (-16%) has had a similar experience this year, warning in February that profits would be held back by slowing customer acquisition and cost pressures. Shares in the company have weakened since a July trading update, despite the online wine retailer giving a promising update on customer acquisition. It says it now has strong momentum in customer acquisition heading into its new financial year (ending 30 June 2023) with final quarter acquisitions up 37% year-on-year.

Among the August company announcements, the most significant was contract news from **Sopheon** (+21%). It has secured a \$11.2m five-year contract with the US Navy to modernise the engineering, manpower and training processes for new submarines. The enterprise innovation management software provider also released interim results later in the month. Although revenue fell to \$15.7m from \$16.5m last year, the company notes that it

signed eight new multi-year SAAS (software-as-a-service) contracts, which defers revenue recognition to later periods. Including the US Navy deal, year-to-date total contract value is now at \$22m, over 60% higher than this time last year and almost equal to 2021's full-year total.

Positive contributors included:

Microlise (+24%), Sopheon (+21%), Keystone Law Group (+17%), FRP Advisory Group (+13%) and Crimson Tide (+13%).

Negative contributors included:

MusicMagpie (-32%), Gear4Music (-21%), Cerillion (-18%), Virgin Wines (-16%) and Vianet Group (-13%).

Discrete years' performance (%), to previous quarter-end:**

Past performance does not predict future returns

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust UK Micro Cap I Acc	-15.9%	59.5%	4.6%	3.1%	21.4%
FTSE Small Cap ex ITs	-14.6%	65.2%	-12.3%	-8.6%	6.4%
FTSE AIM All Share	-29.0%	42.5%	-2.8%	-13.9%	13.5%
IA UK Smaller Companies	-22.1%	53.1%	-6.5%	-6.2%	17.2%
Quartile	1	2	1	1	1

*Source: Financial Express, as at 31.08.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 30.06.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

For a comprehensive list of common financial words and terms, see our glossary at:

<https://www.liontrust.co.uk/glossary>.

Key Risks:

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

The portfolio is primarily invested in smaller companies and companies traded on the Alternative Investment Market. These stocks may be less liquid and the price swings greater than those in, for example, larger companies.

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