

## Liontrust UK Micro Cap Fund

### May 2023 review

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**The Liontrust UK Micro Cap Fund returned -2.0%\* in May. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned -1.7% and -5.5% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -1.8%.**

The UK market's negative monthly return followed a sharp drop over the final week as negotiations on extending the US debt limit came very close to the wire, before ultimately being resolved at the start of June, avoiding a painful default process.

Interest rate uncertainty remained a feature of markets, with expectations at the start of the month tempered by the contractionary impact of this year's banking crisis, before more strong economic data and evidence of inflation persistence led to additional rate hikes being priced back in for later this year. UK, European and US base rates were all raised by a 25 basis point margin in May, with the US Federal Reserve indicating that rates would now pause at the 5.0 – 5.25% level.

A trading update from **Cohort** (+13%) announced that performance in the year to 30 April was slightly ahead of expectations, with revenues boosted by strong demand from the UK Ministry of Defence. Order intake over the year was 1.2x revenues, growing the order book out further; over 80% of next year's consensus revenue forecast is now covered by the order book. The defence and security technology mini-conglomerate expects further demand strength next year as the conflict in Ukraine and tensions around Taiwan drive increased investment in defence.

**On The Beach** (-26%) weakened as interim results showed softer-than-expected trading in the six months to 31 March and flagged an uncertain second-half outlook. Although revenues rose 38% year-on-year to £73m, it recorded a loss before tax. Holiday booking volumes in its value segment have yet to recover to pre-pandemic levels due to the cost-of-living crisis. On The Beach invested heavily in the brand during the first half, a strategy which it hopes this will pay dividends during the second half of the year, which typically accounts for the majority of full-year volumes.

**Tristel** (+9.2%) moved higher without any obvious newsflow catalyst in May, although early in June it was subsequently announced that the US Food and Drug Administration has approved the classification of Tristel's ULT product as a high level disinfectant. Tristel is well-placed to move quickly on the back of the announcement, with a key US manufacturing and distribution partner already in place in the form of Parker Labs, the market leader in the manufacture and sale of the gel used in ultrasound scans, a complementary product to Tristel's disinfectant. The ULT high-level disinfectant complements Tristel's existing DUO intermediate level disinfectant, allowing it to target the whole of the US ultrasound market, where around 215 million scans are carried out each year.

Shares in **Zoo Digital Group** (-23%) continued to soften after the April announcement of a placing and retail share offer to raise acquisition funds. The company is buying one of its partners in Japan, a media localisation subsidiary of a Japanese technology company. The Fund participated in the placing as it built out its position in Zoo Digital towards target size. The company provides subtitling, dubbing, and other media localisation services to the TV and movie industry. We believe it possesses strong intellectual property in the software tools it has developed, including Zoo Studio, a vendor order management system embedded within end clients. Furthermore, it has a global distribution network through an extensive freelancer base, and an increasing physical presence in key geographies.

**K3 Business Technology** left the Fund during May after its senior management equity ownership level fell below the 3% threshold required of all smaller companies in the Economic Advantage investment process. The fund managers believe that high senior manager equity ownership gives them 'skin in the game' and helps encourage good alignment of incentives between shareholders and company management. Another small portfolio change saw **Quixant** changed its name to **Nexteq**, to reflect the growth of its software and hardware solutions into industries outside of its initial core gaming market.

**Positive contributors included:**

Surgical Innovations Group (+15%), James Cropper (+13%), Cohort (+13%), Netcall (+12%) and Tristel (+9.2%).

**Negative contributors included:**

On The Beach (-26%), Zoo Digital Group (-23%), Eckoh (-22%), IG Design Group (-17%) and Intercede Group (-16%).

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

***Past performance does not predict future returns***

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust UK Micro Cap I Acc	-7.1%	2.0%	67.6%	-8.2%	5.7%
FTSE Small Cap ex ITs	-12.9%	5.5%	74.9%	-24.4%	-3.1%
IA UK Smaller Companies	-16.6%	-1.7%	65.7%	-17.9%	-2.6%
Quartile	1	1	2	1	1

\*Source: Financial Express, as at 30.04.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.

\*\*Source: Financial Express, as at 31.03.23, 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>.

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**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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