



Liontrust UK Micro Cap Fund

June 2023 review

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The Liontrust UK Micro Cap Fund returned -0.4%* in June. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned 0.4% and -3.4% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -1.3%.

The direction of interest rates was once again the primary market narrative in June. The US Federal Reserve's decision to hold rates steady at a 5.0% to 5.25% target range after 10 consecutive hikes was communicated as merely a pause in the pace of tightening, and a hawkish one at that, with its rate-setting committee forecasting 50 basis points (bps) of additional increases by the end of the year.

There was no let up in the tightening cycle in Europe, where the European Central Bank increased rates by 25bps to 3.5%, or the UK, where the Bank of England surprised with a 50 basis point hike – its 13th consecutive increase - to 5.0% after headline consumer price inflation remained stubbornly high at 8.7% in May, the same level as April and defying forecasts of an easing to 8.4%. By the end of May, futures prices were suggesting the Bank of England base rate will continue to rise to a peak of 6.25% early in 2024.

The emergence of country-specific factors – such as Brexit-related labour shortages – which have driven expectations of UK inflation and interest rates higher than many other developed markets has coincided with a period of relative strength for the typically more internationally diversified FTSE 100 large-cap index. The FTSE 100 returned 1.4% in June, outperforming the FTSE 250 mid-cap index's -1.3% return. Since the start of 2022, the FTSE 100 has now outperformed the FTSE 250 by 23 percentage points.

Although the Fund is unavoidably affected by shifts in sentiment towards small caps, we believe many of our companies can already be considered genuinely global businesses, with all the benefits of geographic diversification and growth runway which that entails. Data from Factset estimates the portfolio's overseas sales exposure to be over 50%, which compares with 35% for the FTSE Small Cap ex-investment trust benchmark and 77% for the large-cap dominated FTSE All Share benchmark.

Portfolio newsflow was relatively light in June. Of the stocks to update investors on developments, **Oxford Metrics** (+27%) provided one of the most upbeat assessments. It referred to buoyant demand in all its market segments as it recorded 70% revenue growth to £21.3m in the six months to 31 March, with adjusted operating profit jumping from £0.3m to £4.1m. The specialist in high precision motion sensing technology also grew its order book by 70% to £22m and now believes full year results are on track to exceed market expectations. The company expects that its cost base will continue to rise but thinks that supply chain challenges are now largely behind it.

Surgical Innovations Group (-16%) is also facing supply chain issues that are impacting its manufacturing and increased lead times for some key products. But overall its AGM statement struck an upbeat tone, reiterating confidence in 2023 forecasts and longer-term growth prospects while pointing to an “extremely positive” order book position. June's share price move looks to be a retracement of recent gains. The company expects supply chain issues to improve in the second half of the year and in the meantime is mitigating them by maintaining inventory at higher levels than normal.

Inspiration Healthcare Group (+22%) gave an investor update and issued an AGM statement giving a positive take on recent trading. The first quarter of its new financial year saw gross margins recover as the sales mix tilted

towards its higher margin products, a trend which has been maintained into the second quarter. Revenues so far in the second quarter are also exceeding those achieved in the first quarter.

Positive contributors included:

Oxford Metrics (+27%), Inspiration Healthcare Group (+22%), Kitwave Group (+16%), Vianet Group (+16%) and Record (+14%).

Negative contributors included:

Essensys (-26%), Bango (-16%), Surgical Innovations Group (-16%), Netcall (-11%) and Frenkel Topping (-11%).

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

Past performance does not predict future returns

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust UK Micro Cap I Acc	-3.8%	-15.9%	59.5%	4.6%	3.1%
FTSE Small Cap ex ITs	-0.3%	-14.6%	65.2%	-12.3%	-8.6%
IA UK Smaller Companies	-5.5%	-22.1%	53.1%	-6.5%	-6.2%
Quartile	2	1	2	1	1

*Source: Financial Express, as at 30.06.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.

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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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