

Economic Advantage

December 2023 review



Liontrust UK Micro Cap Fund



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The Liontrust UK Micro Cap Fund returned 6.1%* in December. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned 8.8% and 7.0% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 7.0%.

November's broad rally extended into December as investor risk appetite continued to improve, helped along, once again, by expectations of a 'pivot' from central banks towards lower rates.

Since the prior consensus of 'higher-for-longer' rates began to break down at the start of November, the FTSE All-Share has rallied from a calendar year-to-date loss of 121 points, or 3.0%, to a gain of 157 points, or 3.9%. In total return terms the performance improved from 0.3% at the end of October to 7.9% at the end of the year.

As we observed last month, one particularly encouraging characteristic of the recent rally is the strength of small-cap and mid-cap stocks, which have underperformed for much of the last two years. The mid-cap FTSE 250, FTSE Small-Cap (ex-investment trusts) and FTSE AIM All-Share returned 8.2%, 6.3% and 7.0% respectively in December, versus the 3.9% from the FTSE 100. We are optimistic that this trend may continue during 2024 as depressed share prices lower down the market cap scale could bounce strongly as investors gain sufficient confidence on inflation being under control, rates having peaked and macroeconomic gloom lifting.

Again echoing our comments from November, the rally was global in nature and extended beyond equities, so the UK stockmarket's discount to international peers remains substantial and, in our view, too wide. The catalyst to December's gains was the US Federal Reserve's publication of forecasts for interest rates to be reduced by 75 basis points in 2024, with more cuts to follow in 2025.

In this market environment, resurgent investor confidence was responsible for the majority of share price gains. This is reflected within the Fund's monthly contributors, with some large gainers rallying without issuing any new information to investors.

Of those that did provide updates, **On The Beach Group** (+59%) rose the most following a bullish update on trading. As well as reporting a 19% recovery in revenues in the year to 30 September 2023, the travel group noted that its new financial year has got off to a flying start. So far, total transaction value on its holidays is up 26% in the first nine weeks, while its forward order book is at record levels. As a result, it expects the key summer 2024 season to be "significantly ahead" of 2023.

Netcall's (+23%) rise was aided by a short AGM update which outlined positive trading momentum. The customer engagement software group has continued to see rising demand for its Liberty Cloud product, driving double-digit growth in annual contract value in the first half of its current financial year.

Among the detractors, **Tribal Group** (-13%) slid after the largest shareholder increased its holding in order to block an acquisition by Ellucian. **Science Group** (-0.8%) fell slightly despite an inline trading statement at the end of November; sales were under pressure but costs effectively managed. A research analyst took a more cautious view though, trimming its operating profit forecast for this financial year.

Concurrent was sold out of the portfolio after its senior management equity ownership level fell below the 3% threshold required of all smaller companies in the Economic Advantage investment process.

Positive contributors included:

On The Beach Group (+59%), Fonix Mobile (+28%), Brickability Group (+27%), Churchill China (+27%) and Netcall (+23%).

Negative contributors included:

Surgical Innovations (-33%), Tribal Group (-13%), Calnex Solutions (-9.4%), Eagle Eye Solutions (-6.7%) and Record (-5.8%).

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust UK Micro Cap I Acc	1.0%	-17.1%	33.6%	12.1%	29.1%
FTSE Small Cap ex ITs	10.4%	-17.3%	31.3%	1.7%	17.7%
FTSE AIM All Share	-6.4%	-30.7%	6.1%	21.7%	13.3%
IA UK Smaller Companies	0.5%	-25.2%	22.9%	6.5%	25.3%
Quartile	2	1	1	1	2

*Source: Financial Express, as at 31.12.23, total return (net of fees and income reinvested), bid-to-bid, institutional class. **Source: Financial Express, as at 31.12.23, 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/benefits-of-investing/guide-financial-words-terms>

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

As the Fund is primarily exposed to smaller companies there may be liquidity constraints from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares. In addition the spread between the price you buy and sell units will reflect the less liquid nature of the underlying holdings.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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