



The minnows of the market roar for Liontrust

THE UK's smallest listed companies – with market values of £250 million or less – can provide exhilarating investment opportunities.

Often under-researched by analysts and fund managers, canny investors can frequently pick up shares at bargain prices – before the market wakes up to their true potential.

Since the tiniest companies can also quickly go up in smoke it means the sector also has a reputation for being high risk.

The fund management team behind Liontrust UK Micro Cap aims to smooth out the most serious investment risks by only selecting minnows – valued at under £150 million – that have already proven their money-making credentials as well as resilience to whatever the economic weather throws at them. According to Victoria Stevens, one of the four managers behind the £39 million fund, the initial stock selection process is three-pronged. She says: 'Every company has to be profitable, have directors who have a minimum 3 per cent shareholding – and be headquartered in the UK.'

Beyond these hurdles a company must have one or more of three key attributes: ownership of its intellectual property (patents and copyrights); a strong distribution network that makes it tricky for competitors to replicate; and a high proportion of revenues drawn from recurring income rather than one-off sales.

Currently, the fund is heavily skewed towards technology and software firms – a sector 'rich in intellectual property', says Stevens. One of the fund's 60 or so stocks is Statpro, a provider of analytic software to asset managers. She says: 'Its customers are sticky, meaning once they have the product they will not easily move away.' This means 70 per cent of Statpro's turnover is recurring.

FUND FOCUS

By **Sally Hamilton**

Another holding, Dotdigital – a provider of digital marketing software – also has plenty of loyal customers and a strong distribution model.

Most of the carefully selected companies make the grade because they generate a strong return on capital. Co-manager Matt Tonge says: 'They have more cash coming in than their costs.' The managers are risk averse and dismiss companies with high levels of debt. Tonge says: 'Some 72 per cent of the companies we hold are generating net cash.'

Above all, Liontrust's team ensures they do not overpay for shares they buy. One of its biggest success stories so far was a holding in YouGov. The market research company has performed strongly on the back of developing a huge database

of useful and sellable data.

Liontrust started buying YouGov shares in March 2016 at 134p and the last price they got when disposing of them was 282p in June 2017. By then the size of the company had hit £250 million so it was well beyond Liontrust's preferred maximum.

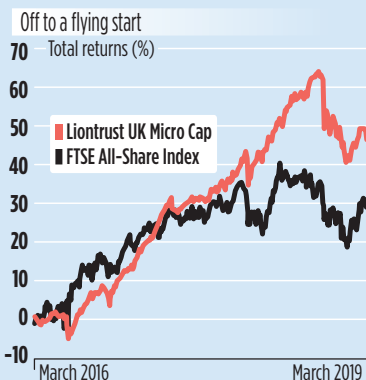
Jason Hollands, of broker Tilney, says the fund, nearly three years old, has 'got off to a flying start', outshining rivals and funds that focus on a wider pool of UK smaller and middle-sized companies shunned by Brexit-wary investors. He adds: 'The tiny end of the market of small and illiquid companies that Liontrust fishes in has been far less impacted.'

Since the risks involved in micro-companies are high, investors should aim to have no more than five per cent of their portfolio in such stocks. Liontrust UK Micro Cap has an annual ongoing charge of 1.4 per cent. Since launch in March 2016, it has generated a return of 49 per cent.

TOP 10 HOLDINGS (%)

1 NASSTAR	3.1
2 DOTDIGITAL	2.3
3 VIANET	2.2
4 OXFORD METRICS	2.2
5 TATTON ASSET MANAGEMENT	2.1
6 MATTIOLI WOODS	2.0
7 CURTIS BANKS	2.0
8 BIOVENTIX	2.0
9 SIMPLYBIZ	1.9
10 GATELEY HOLDINGS	1.8

LIONTRUST UK MICRO CAP



Sectors where the fund is invested (%)

