Liontrust UK Micro Cap Fund

March 2022 review

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The Liontrust UK Micro Cap Fund returned -1.7%* in March. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned 0.6% and 0.3% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 0.3%.

Although geopolitical volatility and macroeconomic uncertainties continued to loom large in the form of Russia's ongoing invasion of Ukraine and the monetary policy response to rampant inflation, the UK market was able to notch up its first monthly gain of the year.

The potentially far-reaching economic impact of the war in Ukraine has combined with pre-existing inflationary concerns to trigger a sharp increase in discussion of the alarming prospect of stagflation. The FTSE All-Share's ability to post a positive return (+1.3%) in this environment was helped by 0.55% and 0.59% contributions from the energy and basic materials sectors respectively, both of which are benefiting from price rises as a result of supply disruption. Although still nursing year-to-date losses, the mid-cap FTSE 250 (+0.6%) and FTSE Small Cap ex-IT (+0.6%) indices were also able to record positive monthly returns.

While the macro backdrop provided plenty of topics to keep market commentators occupied, it was also a busy month for those – like us – who prefer to take a bottom-up approach to their analysis. March is usually very heavy on newsflow, with many companies with December year-ends reporting their full-year results. This year, with the volatile macroeconomic environment still feeding through to high levels of investor nervousness, earnings 'misses' and other disappointments were often met with quite an exaggerated share price reaction.

A profit warning from **essensys Group** (-68%) at the start of the month triggered a large share price drop. The software-as-a-service and cloud services specialist for the flexible workspace sector commented that Covid-related uncertainty continues to hamper its expansion and growth acceleration plans. In the six months to 31 January, sales bookings have been lower than expected due to extended sales cycles. As a result, essensys expects full-year trading to now fall short of consensus market expectations. It now expects full-year revenues of at least £23.5m – up only modestly on last year's £22m – while it is on course for an adjusted EBITDA loss of up to £7m. The company remains confident on its medium-term prospects and highlighted the strength of its pipeline for the next two years.

musicMagpie (-68%), the consumer technology, books and disc media recommerce specialist, saw its shares drop by the same proportion after its full-year results to 30 November flagged that sales volumes were moderating. While the year started with strong sales momentum carried over from the Black Friday period, volumes have since softened in line with consumer trends, while a higher proportion of products sourced from intermediary wholesalers has compressed margins. musicMagpie is aiming to supplement its long-term expansion via a new rental subscription service, although this will temporarily slow reported growth as a higher proportion of revenues are recognised as a monthly subscription rather than an upfront sale. The new service allows consumers to rent refurbished technology products such as games consoles and tablets.

Better trading news came in an update from **Calnex Solutions** (+27%). It said that strong trading in the first six months of its financial year (ending 31 March) had continued into the second half. Calnex Solutions supplies hardware solutions which enable customers in the telecommunications industry to test and validate the performance of critical network infrastructure equipment. It expects to meet analyst forecasts for the full year and enter the new financial year with a record order book across all product lines. This foundation gives it the confidence to predict that next year's revenue and operating profit will be "materially ahead" of market expectations.

Bigblu Broadband (+27%) made good ground after releasing results for the year to 30 November 2021. It is a provider of fixed wireless and satellite broadband solutions to rural areas, predominantly in Australia and the Nordic regions. Revenue from continuing operations rose by 16% to £27m, as the company added new customers and increased average revenue per user. Recurring revenue rose from 89% to 94%; alongside strength in its distribution network, this represents one of the core intangible assets we believe the company possesses. Bigblu Broadband commented that its new financial year has begun strongly with further revenue growth.

Having upgraded financial guidance during the year, most recently in January **Science Group** (+13%) delivered solid full-year growth, with revenue rising 10% to £81m. The company commented on good trends across its three divisions – R&D Consultancy, Regulatory & Compliance, and Frontier Smart Technologies – and made clear that its £34m cash balance gives it the firepower to pursue acquisitive growth opportunities.

Following the revelation earlier this year of accounting discrepancies, **Cake Box Holdings** (+39%) announced changes to its executive management team, including the replacement of the CFO and co-founder, Pardip Dass, and the appointment of a COO. In a short update, the company also commented that trading has remained strong through the second half of its financial year (ending 31 March) and it is on track to meet full-year market expectations.

Positive contributors included:
Cake Box Holdings (+39%), Bigblu Broadband (+27%), Calnex Solutions (+27%), Cerillion (+16%) and Science Group (+13%).

Negative contributors included:
Essensys Group (-68%), musicMagpie (-68%), Microlise Group (-20%), Gear4Music (-19%) and Cohort (-18%).

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

Past performance does not predict future returns

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust UK Micro Cap I Acc	2.0%	67.6%	-8.2%	5.7%	18.4%
FTSE Small Cap ex ITs	5.5%	74.9%	-24.4%	-3.1%	2.2%
FTSE AIM All Share	-12.1%	76.9%	-24.5%	-8.5%	10.5%
IA UK Smaller Companies	-1.7%	65.7%	-17.9%	-2.6%	14.9%
Quartile	2	2	1	1	1

*Source: Financial Express, as at 31.03.22, 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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