Liontrust UK Smaller Companies Fund

March 2022 review

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The Liontrust UK Smaller Companies Fund returned 0.6%* in March. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned 0.6% and 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.

Starting with the positives, **Big Technologies** (+32%) rallied on the release of 2021 results, having already upgraded financial guidance in a January trading update. Big Technologies is a provider of integrated hardware/software solutions for the electronic monitoring of criminal offenders. It generated 27% revenue growth in 2021 and it is targeting a similar level of growth for 2022. The company recently commenced an eight-year contract with the New Zealand Department of Corrections and is committed to investing its £48m cash balance in pursuing organic and acquisitive growth.

Likewise, **Alpha FX** (+23%) upgraded forecasts in January before going to release full-year results this month. The FX risk management specialist grew 2021 revenue by 68% to £78m, boosted by exceptionally high levels of demand in November and December. It has continued to grow its UK market share and now aims to replicate this success overseas with the launch of offices in Italy, Luxembourg and Australia this year.

musicMagpie (-68%), the consumer technology, books and disc media recommerce specialist, saw its shares drop 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.

Omnichannel marketing automation specialist **Dotdigital** (-45%) suffered a large drop on the back of interim results which included a downgrade to full-year guidance. The company stated that a post-lockdown unwinding of customer buying behaviour contributed to a slowdown in SMS activity from its exceptionally high levels in the prior year. It also commented that its US growth is being hampered by a tight labour market which has restricted its pace of recruitment.

Translation and intellectual property services provider **RWS Holdings** (-20%) has very successfully executed an acquisitive growth strategy over the years, notably doubling its size with the 2020 acquisition of SDL. In March, it announced the acquisition of Liones Holding for up to €22.5m. Liones is a Dutch provider of a cloud-native, data-driven authoring solution for mission critical documents. Alongside the acquisition announcement, RWS held investor presentations in which it gave updated short and medium-term growth targets.

The company stated that results for the year to 30 September 2022 are on track to be at the lower end of analysts' range of forecasts, while a new investment programme is also expected to constrain earnings growth in the following two years. However, it expects this investment to yield market-beating sales growth from FY2024 to FY2026, with pre-tax profit margins benefitting by between 200 and 300 basis points.

A reassuring trading update pushed shares in **Focusrite** (+22%) higher. The company sells hardware and software for the high-quality production of recorded and live sound. While supply chain constraints are still a factor, Focusrite expects to meet consensus expectations for the year to 31 August.

Finally, **CareTech** (+20%) shares jumped on confirmation that its CEO and Chairman were in the early stages of forming a consortium via their family office (Sheikh Holdings) with a view to a possible buyout of the company. After the end of the month, it was disclosed that a takeover proposal of 725p a share had been submitted. However, a rival suitor– DBAY Advisors – emerged a couple of days later with a proposed offer of 750p.

Positive contributors included:
Big Technologies (+32%), Alpha FX (+23%), Focusrite (+22%), CareTech Holdings (+20%) and Hilton Food Group (+15%).

Negative contributors included:
musicMagpie (-68%), Dotdigital (-45%), Microlise (-20%), RWS Holdings (-20%) and On The Beach Group (-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 Smaller Companies I Inc	2.6%	56.7%	-5.8%	1.9%	17.1%
FTSE Small Cap ex ITs	5.5%	74.9%	-24.4%	-3.1%	2.2%
IA UK Smaller Companies	-1.7%	65.7%	-17.9%	-2.6%	14.9%
Quartile	1	3	1	1	2

*Source: Financial Express, as at 31.03.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.
**Source: Financial Express, as at 31.03.22, total return (net of fees and income reinvested), bid-to-bid, primary class.

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.

Disclaimer

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