



Liontrust UK Micro Cap Fund

May 2022 review

Fund managers: Matthew Tonge, Anthony Cross, Julian Fosh, Victoria Stevens and Alex Wedge

The Liontrust UK Micro Cap Fund returned -2.7%* in May. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned -1.9% and -4.4% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -2.6%.

May's macroeconomic data showed further evidence of the inflationary pressures which are mounting as the year goes on. Consumer price inflation in the UK hit 9% in April, the highest level in 40 years, while the US equivalent was 8.3%. The central bank policy response was as expected: the Bank of England raised rates by 0.25% to 1.0% and the US Federal Reserve pushed through a 0.5% hike to a target range of 0.75% to 1.0%.

A market backdrop of geopolitical volatility and inflation concerns seems to be leading to a pickup in corporate takeover interest. A buoyant UK M&A market was one of the factors cited by specialist advisory firm **FRP Advisory Group** (+25%) in an upbeat full-year trading update. It expects to report revenues of £95m and EBITDA of £26m this year, both ahead of consensus forecasts. The company also commented that its restructuring services had seen more enquiries following the removal of government support measures.

Advisory services peer **K3 Capital Group** (+16%) saw its shares slide in March and April without any obvious cause for the weakness, so it put out a reassuring update in May. It noted the share price decline but commented that trading has continued to be strong since its interim results announcement in February, with the full-year outlook remaining positive. Recent acquisitions have performed in-line with expectations and various further bolt-on purchases are being assessed.

K3 Capital Group isn't alone in seeing its share price weaken without any explanatory newsflow. This month, none of the Fund's largest detractors had issued significant newsflow, although **Gear4Music** (-19%) continued to suffer the after-effects of its downbeat trading update in April. Gear4Music is an online retailer of musical instruments, with a leading market position in the UK and a growing share of the European market. It warned on weaker-than-expected consumer demand during February and March, and it is notable that this has been followed by a slew of similarly challenged updates from consumer facing businesses across the market as the cost of living crisis begins to bite. Gear4Music aside, the Fund typically has relatively low levels of exposure to consumer cyclical companies due to its focus on businesses with intangible asset strengths and high returns on capital

Returning to the positive contributors, **Eagle Eye Solutions** (+18%) was another large riser. It provides a B2B software platform allowing large retail clients to manage customer loyalty schemes, offers and promotions. In May, the company released a trading update that lifted revenue and earnings guidance for the year to 30 June by 7% and 10% respectively. The upgrade has been fuelled by significant new customer wins and an acceleration in the pace at which new services go live. The most significant is its three-year contract to provide digital promotion services for a national US grocer, which was announced in January and has already gone live.

The Fund disposed of its position in **Cakebox**, the franchise business selling eggless fresh-cream celebration cakes. It was bought last year on the basis of its strength in distribution via its growing network of over 175 UK stores but the revelation earlier this year of accounting discrepancies and the senior management overhaul that followed has adversely affected the managers' assessment of the investment's risk/return profile.

Positive contributors included:

FRP Advisory Group (+25%), Tristel (+19%), Eagle Eye Solutions (+18%), K3 Capital Group (+16%) and Fonix Mobile (+13%).

Negative contributors included:

Beeks Financial Cloud Group (-20%), Gear4Music (-19%), Property Franchise Group (-13%), Virgin Wines (-13%) and Bango (-13%).

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 31.05.22, 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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