Liontrust UK Micro Cap Fund

April 2022 review

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The Liontrust UK Micro Cap Fund returned 2.4%* in April. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned -0.9% and -1.8% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -2.0%.

The narrative of rampant inflation and anticipation of the monetary response remained firmly entrenched during April. As US and UK consumer price inflation hit 8.5% and 7.0% respectively in March, consensus expectations for central bank rate hikes rose significantly. Much of this was due to the release of minutes from last month's US Federal Reserve rate-setting meeting which suggested some committee members would have preferred a 50bps rise to the 25bps implemented, were it not for uncertainty due to events in Ukraine.

News of fresh covid lockdown measures in parts of China also heightened existing concerns over global supply chains and input cost pressures for businesses.

The FTSE All-Share Index was able to register a monthly gain – led by the healthcare (+5.9%) and consumer staples (+4.4%) sectors - although it was notable that this strength derived from the large-caps: the FTSE 100 returned 0.8% while the FTSE 250 and FTSE Small Cap indices returned -1.8% and -1.2% respectively.

Amid an inflationary environment of relentless cost pressures, we believe the theme of pricing power will be critical. Our investment process specifically sets out to target those companies which possess enduring competitive advantage stemming from their intangible assets. As a consequence, many have strong pricing power which should stand the portfolio in good stead if inflation continues to spiral upwards.

From corporate newsflow and our meetings with companies, we believe that the majority of our holdings are proving resilient in their underlying trading so far this year, despite the well documented pressures of input cost inflation, supply chain shortages, logistical disruption and early signs of a squeeze on consumer spending and business sentiment.

Many have already proven themselves adept at leveraging their barriers to competition to pass on inflationary pressures to customers – something which will be critical to the relative success of companies over the coming months.

Frontline healthcare services provider **Totally** (+22%) rallied after commenting that earnings for the year to 31 March were "substantially" ahead of consensus forecasts. It has experienced very high demand during the pandemic, and the relaxation of Covid restrictions has pushed activity for certain services – such as NHS 111 and urgent treatment centres – to 'unprecedented' levels. Over the course of the year, Totally was awarded around £59m in new contracts, as well as extensions worth about £72m.

Although more measured in predicting trading to be "slightly" ahead of market expectations, **CML Microsystems** (+21%) also rose strongly. The developer of mixed-signal, RF and microwave semiconductors for global communications markets has a forward order book of shipments stretching forward more than 12 months. Positive recent trading has contributed to a high cash balance of £25m which will be used to support new product launches and other growth initiatives. While supply chain difficulties remain a feature of the global semiconductor market, CML Microsystems says it has minimised the impact on its customers.

By contrast, revenues for digital identity and credential management specialist **Intercede Group** (-16%) will fall short of market expectations due to delays with a number of large contracts that were expected to complete prior to year-end on 31 March. As a result, revenues will be about 9% lower than last year at around £10m. Despite these delays, Intercede comments that new deployments are the highest they have been for a number of years.

The portfolio's biggest fall came at **Gear4Music** (-41%), after a year-end trading update highlighted weaker-than-expected consumer demand during February and March 2022. As well as stating that earnings for the period to 31 March were slightly lower than consensus expectation, the retailer of musical instrument and music equipment also lowered its growth targets for the new financial year. It anticipates weak consumer confidence affecting trading through the first half of the year.

Multi-site managed IT and telecoms provider **Adept Technology Group** (+17%) expects revenue and earnings for the year to 31 March to be broadly in line with market forecasts despite global supply chain problems which have delayed the delivery of hardware-dependent projects. Encouragingly, the short-term demand outlook is very strong following the addition of 100 new customers during the year and a very strong order intake during the last four months.

Defence and security technology mini-conglomerate **Cohort** (+20%) experienced more share price strength as the conflict in Ukraine showed no sign of de-escalating. It also announced one of its businesses had received two UK Ministry of Defence orders worth more than £9m. The orders involve hearing protection systems for use in armoured fighting vehicles and by close combat personnel.

Eckoh (+16%), the provider of secure payment products and customer contact solutions, moved higher after issuing a full-year trading update. Results for the year to 31 March are expected to be in line with consensus expectations after Syntec – its £31m acquisition in December 2021 – integrated well and made a good three-month contribution.

Instem (-8.8%), the IT provider to the life sciences industry, also saw its shares slide after sounding a note of caution over the impact of wage inflation. It has reduced its profit expectations for 2022 due to the lag between current wage cost pressures and its ability to push through price rises as contracts renew over the course of the year. The company released 2021 results which showed 63% revenue growth to £46m following the acquisition of several businesses during the year. Organic growth was also very solid at 12% in constant currency terms.

Positive contributors included:
Totally (+22%), CML Microsystems (+21%), Cohort (+20%), Netcall (+17%) and Adept Technology Group (+17%).

Negative contributors included:
Gear4Music (-42%), Intercede Group (-16%), Quartix Technologies (-9.2%), Instem (-8.8%) and Oxford Metrics (-7.8%).

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 30.04.22, 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, institutional 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.