

## Liontrust UK Micro Cap Fund

### June 2022 review

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**The Liontrust UK Micro Cap Fund returned -4.5%\* in May. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned -8.0% and -10.0% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -8.8%.**

The UK market suffered its worst monthly fall of 2022 so far as investors increasingly viewed aggressive central bank action on inflation as likely to tip the economy into recession.

While the FTSE All-Share Index's total return is -4.6% year-to-date (and -6.4% in price terms), several other global equity indices – including the S&P500 – are close to, or below, the 20% drop which is often used to arbitrarily define a bear market.

In this risk-off environment, the more defensive areas of the UK market such as healthcare (+2.0%), telecoms (+0.1%) and consumer staples (-2.0%) were the most resilient. This year's trend of large-cap outperformance was also extended: the FTSE 100's -5.5% return takes its year-to-date performance to -1.0%, but the FTSE 250 returned -8.3%, taking it to -19.4% for 2022, with its price drop of 20.5% sitting the wrong side of that bear market line. The FTSE Small Cap ex-IT and FTSE AIM Index stats year-to-date returns are -16.4% and -27.4% respectively.

We've previously commented that the volatile macro backdrop has created an environment in which companies have been de-rated without any newsflow catalyst, while earnings 'misses' and other corporate disappointments have often been met by quite an exaggerated share price reaction. **Virgin Wines** (-26%), **Adept Technology** (-25%) and **Bigblu Broadband** (-17%) were among those to suffer a heavy de-rating without issuing any significant corporate news.

**James Cropper** (-20%) slid as the impact of energy price increases on the business became apparent. Although it grew revenues by 33% to £105m in the year to 26 March, its adjusted profit before tax was flat at £4.0m. The reason was a 70% jump in energy costs for Paper, its largest division, which pushed the unit to a pre-tax loss. James Cropper is now in the process of transitioning all its divisions away from natural gas and towards cleaner energy.

An **Inspiration Healthcare** (-12%) AGM statement struck an upbeat tone but investors may have been worried by the comment that ordering patterns are likely to result in a larger than normal second-half revenue weighting this year (to 31 January 2023). The medical technology company also disclosed it had been awarded a contract to supply ventilators and consumables to a company in Israel for a total of £650K, with further orders expected to follow.

The portfolio's largest riser was lifted by contract news. **Netcall** (+27%) announced that it had signed a deal putting it on track to exceed expectations for earnings in the year to June 2023. The customer engagement software group's Liberty platform will be used by a S&P500 constituent over an initial three-year contract. The contract value of \$19m is very significant in the context of Netcall's annual sales, which for the year to June 2022 are estimated to be around £30m.

**Bango** (+8.0%) also moved higher on contract news. It has signed an unnamed partner up to its carrier billing and bundling services platform for app store payments and subscriptions – which by a process of elimination was widely thought to be Apple, given they were the one large "leading, multinational technology company"

who had not previously appeared on Bango's customer list. While Bango says this won't have a significant effect on 2022 revenues and profits, it is reviewing the impact on future years to see if guidance should be upgraded.

**Solid State** (+7.1%) completed a trio of contract wins among the portfolio's largest risers in June, although no details of financial impact were given. The specialist electronics group has been awarded a contract with Transport for London to provide CCTV on the Piccadilly line which will provide real-time platform edge imagery to tube drivers.

In the year to 31 March, currency management specialist **Record** (+8.5%) generated a 38% increase in revenue to £35m and 76% improvement in profit before tax to £11m, boosted by inflows into higher margin products. Its Assets Under Management Equivalents (AUME) – for which Record manages the forex impact but not the underlying assets – has grown 4% to \$83.1bn. The company is very positive on its growth prospects as it looks to branch out from pure currency management into alternative asset management.

**Oxford Metrics** (+7.6%) emphasised 'unprecedented' levels of orders-in-hand as it moves into the second half of 2022. During the first six months, it reported 12% revenue growth to £12.5m as its Vicon business – providing high precision motion measurement analysis technology – recovered to pre-pandemic levels. Although it acknowledges that its cost base will rise in the remainder of the year and that it is still constrained by supply chain issues, the company stated it is still on track to hit its full-year targets.

**Positive contributors included:**

Netcall (+27%), Record (+8.5%), Bango (+8.0%), Oxford Metrics (+7.6%) and Solid State (+7.1%).

**Negative contributors included:**

Virgin Wines (-26%), Adept Technology (-25%), James Cropper (-20%), Bigblu Broadband (-17%) and Inspiration Healthcare (-12%).

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

***Past performance does not predict future returns***

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust UK Micro Cap I Acc	-15.9%	59.5%	4.6%	3.1%	21.4%
FTSE Small Cap ex ITs	-14.6%	65.2%	-12.3%	-8.6%	6.4%
FTSE AIM All Share	-29.0%	42.5%	-2.8%	-13.9%	13.5%
IA UK Smaller Companies	-22.1%	53.1%	-6.5%	-6.2%	17.2%
Quartile	1	2	1	1	1

\*Source: Financial Express, as at 30.06.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

\*\*Source: Financial Express, as at 30.06.22, 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>.

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**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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