

Economic Advantage

February 2024 review



Liontrust UK Micro Cap Fund



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The Liontrust UK Micro Cap Fund returned 0.7%* in February. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned -1.4% and -2.3% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -1.5%.

The UK market's lack of impetus in February coincided with the official confirmation that the UK entered a technical recession at the end of 2023 – a fate that is yet to befall the US despite being expected to arrive for most of the last year. However, investors and therefore share prices are famously forward looking, and none of this year's lack of stock market direction is attributable to last year's economic contraction, which is both minimal in scale (-0.3% in Q3 and -0.1% in Q4) and very much in the rear-view mirror.

Instead, expectations regarding the future direction of interest rates once again seem largely responsible, with the late-2023 confidence in imminent rate cuts starting to ebb away under pressure from stubbornly high inflation readings.

It was a quieter month for portfolio news flow than January, but there were still a number of company updates for us to stay abreast of.

In a trading update covering the six months to 31 December 2023 (the first half of its financial year), **Beeks Financial Cloud** (+73%) commented on positive trading momentum, with revenues up 25% year-on-year. As a result of a number of recent contract wins, Beeks Financial Cloud now expects trading in the year to 30 June 2025 to be significantly ahead of its prior expectations. The company provides cloud computing and coactivity services to the financial sector. In November 2023, Beeks signed a contract with a large investment manager for its Proximity Cloud product, and this has already been upgraded by the customer, more than doubling the contract value to \$3.6 million over four years. Beeks also announced a new contract for its Exchange Cloud service, as part of an intended multi-year partnership with a large global exchange group.

Animalcare (+25%) announced the disposal of a non-core, majority shareholding in UK-based pet microchipping company Identicare for a cash consideration of £24.9m. The price obtained for the business positively surprised

investors, and now allows Animalcare to focus on growth on its animal pharmaceuticals business – in keeping with the strategic decision in 2021 to separate the two units into different operating divisions.

We have spoken in previous reviews about unusually low valuations triggering an acceleration in merger and acquisition activity across the market. **Sopheon** exited the portfolio in February on completion of its £10-a-share cash purchase by Wellspring, a US private equity investor in technology companies.

Positive contributors included:

Beeks Financial Cloud (+73%), Animalcare (+25%), Nexteq (+17%), Vianet (+17%) and Bioventix (+12%).

Negative contributors included:

Zoo Digital (-39%), James Cropper (-25%), Churchill China (-23%), Hvivo (-14%) and Cohort (-10%).

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

| | Dec-23 | Dec-22 | Dec-21 | Dec-20 | Dec-19 |
|-------------------------------------|--------|--------|--------|--------|--------|
| Liontrust UK Micro Cap I Acc | 1.0% | -17.1% | 33.6% | 12.1% | 29.1% |
| FTSE Small Cap ex ITs | 10.4% | -17.3% | 31.3% | 1.7% | 17.7% |
| FTSE AIM All Share | -6.4% | -30.7% | 6.1% | 21.7% | 13.3% |
| IA UK Smaller Companies | 0.5% | -25.2% | 22.9% | 6.5% | 25.3% |
| Quartile | 2 | 1 | 1 | 1 | 2 |

* Source: Financial Express, as at 29.02.24, total return (net of fees and income reinvested), bid-to-bid, institutional class. ** Source: Financial Express, as at 31.12.23, 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/benefits-of-investing/guide-financial-words-terms>

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

As the Fund is primarily exposed to smaller companies there may be liquidity constraints from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares. In addition the spread between the price you buy and sell units will reflect the less liquid nature of the underlying holdings.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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