Economic Advantage

March 2024 review

Liontrust UK Micro Cap Fund

Anthony Cross
Head of Economic Advantage

Julian Fosh
Fund Manager

Matt Tonge
Fund Manager

Victoria Stevens
Fund Manager

Alex Wedge
Fund Manager

The Liontrust UK Micro Cap Fund returned 1.3%* in March. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned 2.7% and 1.0% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 3.1%.

The FTSE All-Share was one of a number of major stock indices globally to hit all-time highs in March as the latest forecasts from the US central bank painted a benign picture for the world's largest economy. Although the Federal Reserve left rates unchanged as expected, it still plans to cut by 75 basis points – three quarter-point reductions – over the course of 2024. At the start of 2024, investors had been forecasting a cut in March followed by three or four further reductions during the year. Together with a lift in the Fed's 2024 economic growth forecast to 2.1% from 1.4% previously, the prospects of a market-friendly 'soft landing' or even 'no landing' appear to have risen. At the same time, recessionary 'hard landing' fears associated with central banks' attempts to bring down inflation have eased.

The Fund's largest monthly riser was **Zoo Digital Group** (+51%), the provider of localisation and dubbing services to globalise TV and movie content, via an innovative, cloud-based platform. Last year, trading was heavily affected by the Hollywood writers' and actors' strike, leading the shares to tumble. They weakened further in January of this year after warning that entertainment projects were taking longer than expected to regain traction, resulting in it downgrading guidance for the year to 31 March 2024. It staged a partial recovery in March after a full-year trading update noted that visibility on future projects had improved, with its pipeline expanding for March and April. This means that financial results will be better than feared in January, with revenue of around $38 million and an adjusted EBITDA loss of $14 million.

CML Microsystems (-23%) is a developer of mixed-signal, RF and microwave semiconductors for the global communications market. A full-year trading update warned of lower-than-expected shipments from its core business during the second half of its year (to 31 March), due to customers continuing to reduce inventory levels. CML expects hits headwind to persist into the second half of 2024. While sales from recently acquired

Microwave Technology have been strong, pushing annual revenues to £23 million, broadly in-line with forecasts, these revenues are lower margin. Pre-tax profits for the year will be under £3m, below analysts' prior expectations.

Bioventix (-9.2%) slid on the release of interim results. The company develops high-affinity monoclonal antibodies for applications in clinical diagnostics. In the six months to 31 December, revenues rose 13% to £6.7 million as the core business performed well, with good sales of its vitamin D antibody and strong demand from China. However, sales relating to troponin antibodies were a little below its expectations, which Bioventix attributes to operational difficulties at its partner customers. It still expects troponin sales to meet growth expectations in the longer term. March's share price weakness nonetheless represented only a partial reversal of the strong mid-teen percentage gains posted by the shares since November, which have been driven by excitement around Bioventix's co-development of assays relating to the early detection of the "Tau" blood biomarker associated with the onset of Alzheimer's disease. Recent advances in the development of treatments for Alzheimer's have increased focus on the importance of early testing and detection, given that such treatments have shown success in significantly slowing the progress of the disease, but not reversing it.

There was some positive news for defence and security technology mini-conglomerate Cohort (+25%), as it announced new contracts. Its Systems Engineering and Assessment (SEA) business has been awarded a contract with the Royal Navy worth at least £135 million over more than a decade to supply its trainable decoy launcher system. Earlier in the month, Cohort's Chess Dynamics unit was awarded a £15.7 million contract to supply surveillance systems for Royal Australian Navy frigates.

Delivered wholesale goods business Kitwave Group (+22%) rose as it announced the purchase of Total Foodservice Solutions, a catering supplies group operating in the north of England. Net of a £4 million cash balance, the purchase price was £17 million; Total Foodservice generated £2 million of profit before tax in the year to 20 April 2023. Kitwave has been a remarkably reliable performer since its modestly valued IPO in 2021, and the latest update continues its track record of carefully considered bolt-on acquisitions.

Fintech provider Fintel (+14%) acquired stakes in Mortgage Brain, a provider of software to over 15,000 mortgage intermediaries, and ifaDASH, a customer relationship management solution helping IFAs meet their regulatory requirements. Fintel also released 2023 results showing growth in adjusted revenues and earnings as increased penetration of fintech software compensates for volume weakness in the UK housing market. In addition to these two new investments, Fintech has completed six acquisitions since the start of 2023 as it seeks to execute its acquisitive growth strategy.

Belvoir Group dropped off the portfolio holdings list during March on completion of its all-share merger with The Property Franchise Group (TPFG) – another Fund holding. The deal, which was announced in January, has created a combined group with £215 million market capitalisation; the merger was effected in a 48:52 ratio between Belvoir and TPFG shareholders. TPFG now operates one of the UK's largest multi-brand lettings and estate agency networks, which we believe represents a significant intangible barrier to competition.

Positive contributors included:

Zoo Digital Group (+51%), Cohort (+25%), Kitwave Group (+22%), Hvivo (+17%) and Fintel (+14%).

Negative contributors included:

Essensys Group (-32%), Calnex Solutions (-25%), CML Microsystems (-23%), Inspiration Healthcare (-20%) and Bioventix (-9.2%).

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust UK Micro Cap I Acc	5.8%	-7.1%	2.0%	67.6%	-8.2%
FTSE Small Cap ex ITs	11.0%	-12.9%	5.5%	74.9%	-24.4%
FTSE AIM All Share	-6.3%	-21.2%	-12.1%	76.9%	-24.5%
IA UK Smaller Companies	5.0%	-16.6%	-1.7%	65.7%	-17.9%
Quartile	2	1	1	2	1

*Source: Financial Express, as at 31.03.24, total return (net of fees and income reinvested), bid-to-bid, institutional class. **Source: Financial Express, as at 31.03.24, 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.

Disclaimer