

Liontrust UK Micro Cap Fund

October 2022 review

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

The Liontrust UK Micro Cap Fund returned 1.6%* in October. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks both returned 0.8% and 0.1% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 2.1%.

The UK equity market recovered from mid-month to post a solid gain in October, with the mid-cap FTSE 250 index (+4.5%) arresting its heavy year-to-date underperformance of large-caps although the FTSE Small Cap (ex lts) and FTSE AIM All-Share both lagged. The market rally was a global phenomenon, which was helped along in the UK by a conclusion to the latest episode of political turmoil with the resignation of Chancellor Kwasi Kwarteng, the reversal of his mini-budget measures by his successor Jeremy Hunt and the subsequent departure of Liz Truss as prime minister.

Billing, charging and customer relationship management company **Cerillion** (+17%) struck a very upbeat tone in its full-year trading update, listing several positive trends. It said it traded very well during the second half of the year, securing its largest ever contract in the final quarter. It also benefited from favourable exchange rates and higher resource utilisation, as well as lower-than-expected finance and depreciation costs. As a result, revenues are on course to be marginally higher than market expectations while profit before tax is expected to be materially ahead of forecast.

Arbuthnot Banking Group (+21%) announced that it is on track to exceed consensus expectations with full-year results after Bank of England base rate rises fed through strongly to profitability. The group has around £2.6bn of assets with variable interest linked to the base rate, so it expects to benefit from abnormally high net interest margins for around 12 months until the lagged increase in deposit rates.

Shares in **Intercede** (+43%) rallied strongly after it announced the acquisition of Authlogics, a provider of multi factor authentication (MFA) and password security software. This deal should allow Intercede to significantly increase its addressable market with a solution that can target smaller customers with less complex requirements. Intercede's existing MyID digital identity management product suite is aimed at larger customers with significantly more challenging requirements, but commensurately longer sales cycles and larger, lumpier deal sizes. Intercede also issued a short interim trading statement confirming that trading has been in line with management expectations, with revenue up by 23% in constant currency terms in the six months to 30 September.

Shares in **Essensys Group** (-20%), the cloud services provider for flexible workspaces, tumbled earlier in the year when it warned that full-year results would fall short of market expectations due to longer sales cycles and lower-than-expected bookings. From a much lower base, the shares lost some further ground on October's release of full-year results, although they were largely in-line with the indications given in March's profit warning. Although revenues rose 6% to £23.3m, the company slipped to a £7m EBITDA loss. While Essensys thinks that delays in sales cycles may persist in the near-term, it believes that it will reduce cash burn and regain profitability before it exhausts its £24m cash balance.

Advanced materials and paper products manufacturer **James Cropper** (-15%) has this year seen strong revenue growth (+26% in the first half of its year) undermined by its exposure to huge increases in energy costs (+148%) and other raw materials (+20%). While it is focused on passing these costs on via energy surcharges and higher prices, it has only managed to do so in a lagged manner. In the first half of the year it managed to break-even and for the full year it now expects profit before tax of around £2m, down from prior forecasts of over £5m.

In October, the position in **musicMagpie** was sold after the fund managers reappraised the business's possession of core Economic Advantage intangible assets (in this case, intellectual property and a strong distribution network). They found that a new market entrant's aggressive expansion has raised question marks over the strength of its barriers to competition, a key feature expected of all Fund holdings. Additionally, the managers had concerns over the scale of investment in musicMagpie's new rental business.

FRP Advisory also left the portfolio having exceeded the £275m market cap level at which the fund managers look to begin a managed exit.

Positive contributors included:

Intercede (+43%), Arbuthnot Banking Group (+21%), K3 Capital Group (+20%), Cerillion (+17%) and Kitwave Group (+17%).

Negative contributors included:

Youngene Health (-21%), Essensys Group (-20%), James Cropper (-15%), Avingtrans (-15%) and Property Franchise Group (-11%).

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

Past performance does not predict future returns

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust UK Micro Cap I Acc	-26.6%	63.2%	10.6%	-2.5%	24.0%
FTSE Small Cap ex ITs	-24.4%	72.4%	-12.7%	-7.8%	0.6%
IA UK Smaller Companies	-31.9%	51.1%	-0.4%	-7.1%	10.8%
Quartile	1	1	1	1	1

*Source: Financial Express, as at 31.10.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 30.09.22, 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.

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