



Liontrust UK Micro Cap Fund

February 2023 review

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The Liontrust UK Micro Cap Fund returned 3.6%* in February. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned 0.6% and -0.9% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -0.2%.

This year's investor excitement over the prospect of an imminent interest rate 'pivot' failed to extend throughout February. Rate hikes from key central banks – 50 basis point increments from the European Central Bank and Bank of England, and a slowdown to 25 basis points by the US Federal Reserve – were as expected, but several US macro releases later in the month pointed to unexpected economic strength and inflation persistence.

As markets priced in roughly an extra 50 basis points of US hikes this year – with a peak above 5.0% - equities lost momentum and bond yields moved higher. The S&P 500 and MSCI World Index of developed markets both dropped 0.8% in sterling terms in February. The UK stockmarket was able to buck this trend, helped by its sector constitution as energy alone accounted for 0.9% percentage points of the FTSE All-Share Index's 1.5% gain. This sizeable contribution reflects the sector's 12% index weighting coupled with a bumper quarterly reporting season for oil & gas giants BP and Shell.

Large-caps drove the UK market's positive monthly return, with the FTSE 100 index recording a 1.8% gain. Returns were weaker further down the market cap scale, with the FTSE 250 mid-cap index gaining 0.4%, the FTSE Small Cap (ex-IT) index rising 0.6%, and the FTSE AIM All-Share returning -0.9%.

Adept Technology Group (+70%) was comfortably the Fund's strongest gainer, after it recommended a 201p per share offer from a telecoms and technology subsidiary of private equity group Macquarie.

Over the years, the fund managers have become very familiar with takeover interest around fund holdings, with the intangible barriers to competition the Economic Advantage process seeks out also frequently proving attractive to acquirers. The Fund saw two holdings exit due to takeovers in 2022 (Attract and Charles Stanley), and this year has already seen **K3 Capital** leave the portfolio for the same reason.

Kitwave Group (+29%) released a set of full-year results that showed very strong growth in revenues and profits, in-line with the upgraded guidance issued at the half-year stage. The independent wholesale delivery business grew revenue 32% to £503m while adjusted operating profit trebled to £21.5m. Much of the company's growth has been acquisitive, as it seeks to consolidate what it sees as a fragmented UK wholesale market. Since the end of its financial year on 31 October 2022, it has completed the £29m cash purchase of WestCountry Food Holdings and is on the lookout for more bolt-on acquisitions.

In a trading update, platform law firm **Keystone Law Group (+23%)** commented that revenues and profits for the year to 31 January had marginally exceeded market expectations as client demand remained robust.

Although 2022 revenues at **EKF Diagnostics (-32%)** were in line with expectations, earnings were slightly below the anticipated level due to falling profitability at two of its units: Contract Manufacturing and Laboratory Testing. A trading update revealed that both divisions have been affected by a drop in demand for Covid testing and have struggled to successfully transition to alternative revenue streams. This combined with supply chain delays in the life science division regarding fermentation capacity build out in the South Bend Indiana plant.

Cumulatively, these setbacks prompted downgrades to brokers' medium-to-longer term forecasts, triggering EKF's share price fall

In December, **Tribal Group** (-15%) issued a profit warning due to an underperforming contract with Nanyang Technology University. This month, the software provider to the education sector commented that 2022 results would be in line with the lower guidance issued in December, but also warned that the contract dispute is ongoing with no resolution likely in the short term. Nevertheless, Tribal commented that good momentum in the rest of its business should return it to profitable growth this year.

Positive contributors included:

Adept Technology Group (+70%), Kitwave Group (+29%), Bigblu Broadband (+27%), Keystone Law Group (+23%) and Totally (+19%).

Negative contributors included:

EKF Diagnostics Holdings (-32%), Tribal Group (-15%), Churchill China (-12%), Bioventix (-7.3%) and Mercia Asset Management (-6.4%).

Discrete years' performance (%), to previous quarter-end:**
Past performance does not predict future returns

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust UK Micro Cap I Acc	-17.1%	33.6%	12.1%	29.1%	3.0%
FTSE Small Cap ex ITs	-17.3%	31.3%	1.7%	17.7%	-13.8%
IA UK Smaller Companies	-25.2%	22.9%	6.5%	25.3%	-11.7%
Quartile	1	1	1	2	1

*Source: Financial Express, as at 28.02.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 31.12.22, 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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