LIONTRUST

ECONOMIC ADVANTAGE PROCESS

Liontrust UK Micro Cap Fund

April 2023 review

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The Liontrust UK Micro Cap Fund returned 0.9%* in April. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned 3.7% and 2.8% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 1.9%.

Stockmarkets continued their recovery from March's banking crisis, despite signs that confidence in US-based First Republic Bank had plummeted to levels that led to its collapse. Investors seemed content that systemic problems had been side-stepped through the swift action of regulators in the US and Europe. There was also increasing consensus around the view that the resulting tightening of lending conditions could stymy economic activity sufficiently to remove the need for many more central bank rate hikes.

Five portfolio holdings notched up gains of 20%+ against this benign backdrop. Firstly, **James Cropper** (+27%) – a global leader in advanced materials, luxury packaging and paper products – rallied on the back of an upgrade to profit guidance and a strategic shift to better align the business with a low carbon economy. It also announced an ambitious new growth strategy which will emphasise advanced materials such as those used in fuel cells, carbon capture, batteries and wind. Its historic paper production business will be reorganised, with the number of paper machines in operation reduced from four to three, with the company likely to shed around 10% of its workforce.

Eckoh (+27%), the provider of secure payment products and customer contact solutions, rose strongly after announcing adjusted operating profit of £7.6m in the year to 31 March, up 50% year-on-year and slightly ahead of market expectations. Revenues rose 23% to £39m, driven by growth in North America where it saw strong renewals, more cross-selling and large contract wins.

After March's profit warning, **Totally** (+35%) registered a bounce in April, helped along by the announcement of new urology contracts. The frontline healthcare services provider will deliver insourced urology services for the Saolta University Health Care Group, building on an existing relationship for delivery of endoscopy procedures. The contracts are worth over £2.0m, covering May 2023 to December 2023.

Full-year 2022 results from **Crimson Tide** (+24%) gave a positive impression of its trajectory. Although it recorded a £1.6m loss, there is evidence that recent investments have been successful in driving top line growth, allowing it to target an imminent return to profitability. Crimson Tide owns a cloud-based mobile workflow solution called mpro5. In 2022, revenue rose by 30% to £5.4m, with annual recurring revenue hitting £5.75m at year end. Its investment programme is now planned to level out, resulting in an expected swing to profitability in the second half of 2023.

Lastly, **Property Franchise Group** (+27%) rallied sharply. The company is a multi-brand franchised lettings, estate agency and property financial services business. In April, it reported on an 8% like-for-like increase in revenue to £15m in 2022 and a 13% like-for-like increase in adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation). Overall, revenues were up 13% to £27m, boosted by the acquisition of Hunters, the UK's third largest estate agency brand, and an improvement in its lettings revenues is core to Property Franchise Group's targets for 2023. So far the company has seen a positive start to the year, ahead of its expectations for both revenues and profits in what is usually a seasonally quiet first quarter.

It was not all good news in April, however, with some notable detractors within the Fund, although none issued investor updates that should cause any concern. For example, **Microlise Group** (-19%) gave up some ground in April as it unwound some of the gains notched up following an earnings forecast upgrade in January and a strong set of 2022 results in March.

The Fund began building a position in **Zoo Digital** (-19%) last month. The company provides subtitling, dubbing, and other media localisation services to the TV and movie industry. We believe it possesses strong intellectual property in the software tools it has developed, including Zoo Studio, a vendor order management system embedded within end clients. Furthermore, it has a global distribution network through an extensive freelancer base, and an increasing physical presence in key geographies.

Zoo Digital operates globally and in early April announced the acquisition of the 49% it did not already own in Zoo Korea. Later in the month, its shares dropped to reflect the dilution from a placing and retail share offer to raise £13m at 160p, a 14% discount to its prior price. The fund raise was undertaken in order to finance the acquisition of one of its partners in Japan, a media localisation subsidiary of a Japanese technology company. The Fund was able to participate in the placing, building out its position in Zoo Digital towards target size. Zoo Digital also provided an update on trading; revenues for the year to 31 March were around $90m, an increase of 28% (25% organic) while EBITDA rose 44% to at least $12m.

The Fund has also reinitiated a position in **IG Design** following a reassessment of the risk profile of the business, including the change of management and financial position. The gift wrap and greetings card manufacturer slid in April as a trading update for the year to 31 March stated that financial performance was ahead of expectations due to an improved margin and cash generation performance but warned that a number of markets had experienced year-on-year declines in sales in the second half of the year. The worst trends have been in the UK, prompting IG Design to plan a write-down to the balance sheet goodwill value associated with some of its UK units.

Adept Technology Group exited the portfolio upon completion of its takeover by a telecoms and technology subsidiary of private equity group Macquarie.

While there have inevitably been individual instances of stocks disappointing on short term earnings, the fund managers have been very encouraged overall by the trading resilience of the companies in the Fund, despite the wider macro economic challenges. By the end of April, almost 80% of the Fund's holdings have reported either an 'in line' set of numbers or delivered upgrades during the year to date.

Positive contributors included:
Totally (+35%), Eckoh (+27%), Property Franchise Group (+27%), James Cropper (+27%) and Crimson Tide (+24%).

Negative contributors included:
Microlise (-19%), Zoo Digital (-19%), Bigblu Broadband (-17%), IG Design (-12%) and Beeks Financial Cloud (-10%).

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust UK Micro Cap I Acc	-7.1%	2.0%	67.6%	-8.2%	5.7%
FTSE Small Cap ex ITs	-12.9%	5.5%	74.9%	-24.4%	-3.1%
IA UK Smaller Companies	-16.6%	-1.7%	65.7%	-17.9%	-2.6%
Quartile	1	1	2	1	1

*Source: Financial Express, as at 30.04.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.
**Source: Financial Express, as at 31.03.23, 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/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.

[23/295]