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Economic Advantage

April 2024 review

Liontrust UK Micro Cap Fund

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The Liontrust UK Micro Cap Fund returned 4.3%* in April. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned 4.0% and 2.5% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 3.0%.

During Q1, UK markets went through a somewhat muted re-run of the pattern of 2022 – when the performance of mega caps and large caps diverged from mid and small caps, and AIM stocks in particular. The FTSE 100 returned 4.0%, compared with with the 1.6% and -1.0% respective returns of the mid-cap FTSE 250 and the FTSE Small Cap (ex-investment trusts). The FTSE AIM All-Share once again brought up the rear with a -2.3% return.

In April there were some welcome signs of a reversal of small-cap and AIM underperformance, reminiscent of a pattern briefly seen in late-2023. The FTSE Small Cap (ex-ITs) index returned 4.0% while the FTSE AIM All-Share returned 2.5%, largely keeping pace with the FTSE 100's 2.7% rise.

The UK market's positive mood bucked the trend for global equities, which largely struggled with the prospect of fewer US interest rates cuts which was raised by unexpectedly strong economic data.

Among the top contributors to the Fund's April rise, gift wrap and greetings card manufacturer IG Design Group (+35%) rallied strongly on evidence that its restructuring efforts are reaping benefits ahead of schedule.

The new management team has taken action to improve the financial position of the business and it is beginning to bear fruit. While a backdrop of ongoing consumer caution contributed to a 10% decline in sales to $800 million in the year to 31 March – in line with expectations – profitability improved markedly. A focus on cost efficiencies allowed a 200 basis point recovery in operating margin to 3.8%. This lifted adjusted profit before tax to $25.9 million, ahead of consensus expectations. The improved profitability led to a $45 million increase in net cash to $95 million, again well ahead of forecasts.

James Cropper (+38%) also issued an upbeat trading update. It expects to report profits slightly ahead of guidance for the year to 30 March, while its outlook for the new financial year includes a return to growth for both its advanced materials and paper & packaging divisions. Its core advanced materials business saw demand growth from aerospace and automotive sectors, but revenues contracted overall due to a slowdown in fuel cell demand. Its paper business was affected by supply chain destocking during the year, but order intake points to early sings of market recovery in the upcoming year.

Microlise (+19%) provides telematics software and hardware to vehicle fleet operators. Having rallied in January after the release of an upbeat 2023 trading update, the shares moved higher again on the release of full results. As previously disclosed, an improvement in new vehicle availability in the second half of the year allowed Microlise to speed up its pipeline delivery against a record order book level. Revenues rose 13% to almost £72 million and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) grew 14% to £9.4 million. The company provided bullish outlook comments; it expects organic growth to improve as it moves through the year, while operating margins should trend upwards this year and beyond.

Shares in Essensys (-33%), the cloud services provider for flexible workspaces, have had a tough time since early 2022, when it became clear that its short-term pursuit of growth at the expense of profitability wasn't yielding the desired results. The refocusing of the business was beginning to show results with annual recurring revenue stabilising and the focus on profitability leading to EBITDA losses reducing from £-4.2m to £-0.5m. However, progress was dampened by news that their largest customer is moving to a dual-vendor solution.

Promotional products specialist Pebble Group (-12%) slid during April although it regained some ground on the last day of the month due to an AGM update which confirmed that trading so far in 2024 is in line with full-year market expectations. Shares in Pebble had previously fallen heavily in late-2023 after cutting its revenue guidance, but 2024 sales have stabilised and are tracking at similar levels to a year earlier.

During April we completed the sale of Tatton Asset Management, after it had grown to exceed the £275 million market cap level at which the Fund begins a managed exit from positions.

Positive contributors included:

IG Design Group (+35%), James Cropper (+38%), CML Microsystems (+22%), Tribal Group (+20%) and Microlise Group (+19%).

Negative contributors included:

Essensys (-33%), Quartix Technologies (-15%), On The Beach Group (-13%), Pebble Group (-12%) and Eagle Eye Solutions (-12%).

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