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Economic Advantage

April 2024 review

Liontrust UK Smaller Companies Fund





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The Liontrust UK Smaller Companies Fund returned 2.8%* in April. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned 4.0% and 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 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, 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. There were some tentative signs of respite from small-cap underperformance, with the FTSE Small Cap (ex-ITs) index return of 4.0% outstripping the FTSE 100's 2.7% rise, but the FTSE AIM All-Share still lagged with a 2.5% return.

The Fund's top riser in April was **Microlise** (+19%), a provider of 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.

A full-year trading update from **Brickability Group** (+12%) struck a reassuring tone. Although revenues in the year to 31 March will be down 18% on a like-for-like basis, Q4 trading was in line with management expectations and consistent with the trends seen in the first nine months of the year as demand in bricks and building products softened. While Brickability notes that activity levels remain subdued, it is confident that its dominant market position leaves it well placed to benefit when house-building activity picks up again.

Among the detractors, Learning Technologies Group (-14%) slipped on underwhelming outlook comments. The company specialises in workplace digital learning and talent management software. While over 70% of its revenues are on long-term service or recurring software-as-a-service (SaaS) contracts, providing good visibility and resilience, its remaining transactional or project-based sales are exposed to a subdued macroeconomic environment. As a result, it has focused on deleveraging and portfolio management rather than pursuing an acquisitive growth strategy that most notably included a £370 million deal for GP Strategies in 2021. The magnitude of the share price reaction despite only triggering low single digit downgrades demonstrates how unforgiving the market can be, while also highlighting opportunities brought about through these dislocations.

Another example of this is YouGov (-13%) which saw modest downgrades last month following a mixed trading picture continuing to be punished in share price terms.

Alpha Group International (+13%) rose as the FX risk management and alternative banking provider moved over from AIM to the Premium Segment of the Main Market with an expectation for it to join the FTSE250 at the next index review. Alpha demonstrates clearly how the UK equity market can provide vital support and funding to a small cap business during its high growth phase, as articulated by the founder and CEO, Morgan Tillbrook, in his statement in the company's full year results: "London's capital markets have endured a difficult period, with much conjecture surrounding their competitiveness. Without them however, we would not have been able to achieve nearly as much in such a short space of time, and certainly would not be the business we are today, now employing over 480 people globally. It is gratifying that we have been able to reward our shareholders handsomely and we will endeavour to continue doing so."

While UK smaller companies have had a difficult few years the team continues to take advantage of low valuations and market dislocations to position the fund for when things turn. The team is working to encourage Government initiatives to encourage a more supportive backdrop for UK equities. M&A activity continues across the market, representing a double-edged sword: while money coming back into the hands of fund managers to reinvest in the market is a potential catalyst to highlight depressed valuations and latent value, this needs to be balanced against the opportunity cost of forgone long-term compounding when a company is taken off the market.

Positive contributors included:

Microlise (+19%), GlobalData (+16%), Eckoh (+18%), Alpha Group International (+13%) and Brickability Group (+12%).

Negative contributors included:

Quartix Technologies (-15%), Learning Technologies Group (-14%), YouGov (-13%), On The Beach (-13%) and Eagle Eye Solutions (-12%).

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust UK Smaller Companies I Inc	3.8%	-14.7%	2.6%	56.7%	-5.8%
FTSE Small Cap ex ITs	11.0%	-12.9%	5.5%	74.9%	-24.4%
IA UK Smaller Companies	5.0%	-16.6%	-1.7%	65.7%	-17.9%
Quartile	3	2	1	3	1

*Source: Financial Express, as at 30.04.24, 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, primary 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