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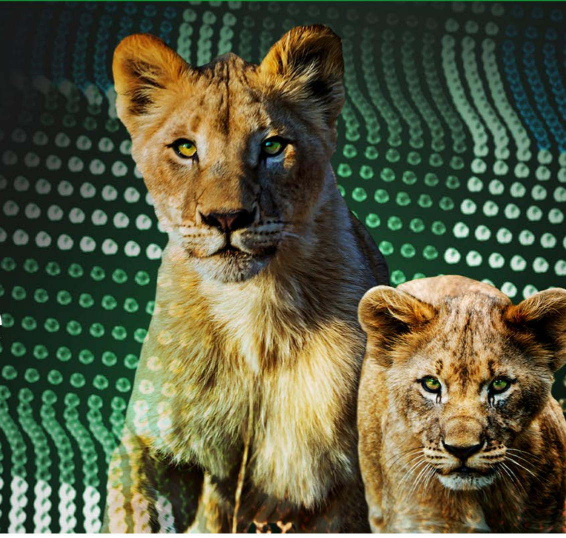

Economic Advantage

June 2024 review

Liontrust UK Micro Cap Fund

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The Liontrust UK Micro Cap Fund returned 0.8%* in June. The FTSE Small Cap (excluding investment trusts) Index and the FTSE AIM All-Share Index comparator benchmarks returned -1.5% and -4.9% respectively. The average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -1.7%.

Having set another all-time high in May, the FTSE All-Share index gave back some ground during June, with the materials (-4.5%), health care (-2.9%) and consumer discretionary (-2.7%) sectors among the weak spots.

However, index returns remain positive over Q2 (+3.7%) and year-to-date (+6.7%), reflective of improving sentiment towards UK equities as inflation returns to target while economic growth remains positive; we think July's removal of election uncertainty should also allow investors to look towards the likelihood of upcoming policy catalysts for the UK stockmarket.

In the meantime, private equity and corporate acquirers are likely to continue exploiting undervalued assets on the UK market through M&A, particularly among small and micro caps.

Crimson Tide (+66%), the provider of cloud-based mobile workflow solutions, became the latest holding to receive takeover interest. It was announced that Checkit, an augmented workflow and smart sensor automation company, had made an all-share offer of seven Checkit shares for each Crimson Tide share. This valued Crimson Tide shares at around 182p, a modest premium to its prior share price and a level which its board of directors viewed as too low. Subsequently Checkit upped its proposal to nine Checkit shares for each Crimson Tide share, but this news was overshadowed by the emergence of a potential cash bid from Ideagen. Disclosure of Ideagen's proposal of 312p a share saw shares in Crimson Tide soar to around 270p, with its board indicating it is considering the proposal. Ideagen itself is a former holding in the Economic Advantage funds which was bought out by a private equity group.

Cyber security software specialist Intercede Group (+23%) experienced strong trading in the year to 31 March, allowing it to upgrade its financial guidance earlier in 2024. In June it released results showing a 65% increase in revenues to £20 million after 17 new software deployments during the 12 months. Acquisitions have formed a core part of Intercede's growth strategy to-date – notably including the 2022 addition of Authlogics – and the company commented that it has a clear roadmap for further targets with high recurring revenue and complementary products. An upbeat outlook comment also noted a strong level of pipeline visibility heading into the new financial year.

Gear4Music (+22%) results supported its shares to continue their modest recovery from a period in 2021 and 2022 when they lost the majority of their value due to a run of downgrades as consumer demand weakened. Due to this soft demand backdrop, the online retailer of musical instruments is now focused on gross margin improvement and cuts to its cost base. Results for the year to 31 March 2024 show evidence this strategy is paying off: although revenues fell 5% to £144 million, gross margins expanded 160 basis points to 27.3% and adjusted EBITDA (earnings before interest, tax, depreciation and amortization) rose 34% to £9.9 million. The company is confident of meeting market expectations for growth next year, aided by its expansion into the trading of second-hand instruments.

Corporate training business Mind Gym (-19%) slipped as full-year results showed more evidence of soft demand as companies maintain cautious HR budgets. Over the year to 31 March, Mind Gym saw an 18% drop in sales to £44.9 million, which resulted in a small EBITDA loss. The company has responded by cutting costs, stripping out £11m of annualised expenditures. This helped it recover from a £4.1m EBITDA loss in the first half of the year to a £3.8m gain in the second half and sets it on course to regain profitability next year.

Oxford Metrics (-9.1%) issued a solid set of interim results. The designer of smart sensors grew revenues 11% to £23.5 million and believes it is on track to hit full-year expectations with visibility on over 90% of sales.

The holding in fintech provider Fintel was sold after the company grew to exceed the £250 million market cap level at which the fund managers begin a managed exit from positions.

Positive contributors included:

Crimson Tide (+66%), Essensys Group (+48%), Intercede Group (+23%), Gear4Music (+22%) and Zoo Digital Group (+19%).

Negative contributors included:

Mind Gym (-19%), Frenkel Topping Group (-12%), EKF Diagnostics (-12%), Nexteq (-11%) and Oxford Metrics (-9%).

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

	Jun-24	Jun-23	Jun-22	Jun-21	Jun-20
Liontrust UK Micro Cap I Acc	13.6%	-3.8%	-15.9%	59.5%	4.6%
FTSE Small Cap ex ITs	18.5%	-0.3%	-14.6%	65.2%	-12.3%
FTSE AIM All Share	3.4%	-12.5%	-29.0%	42.5%	-2.8%
IA UK Smaller Companies	14.1%	-5.5%	-22.1%	53.1%	-6.5%
Quartile	2	2	1	2	1

*Source: Financial Express, as at 30.06.24, total return (net of fees and income reinvested), bid-to-bid, institutional class. **Source: Financial Express, as at 30.06.24, 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