

Unicorn Asset Management Limited (Unicorn) is an independent, specialist fund management group, established in July 2000.

Unicorn focuses on long term, long only, investment in UK quoted companies and aims to achieve superior absolute returns through the application of traditional, fundamental principles of investment.

### **Fund Objective**

The Company's objective is to provide Shareholders with an attractive return from a diversified portfolio of investments, predominantly in the shares of AIM quoted companies, by maintaining a steady flow of dividend distributions to Shareholders from the income as well as capital gains generated by the portfolio.

It is also an objective that the Company should continue to qualify as a Venture Capital Trust, so that Shareholders benefit from the taxation advantages that this brings. To achieve this at least 70% of the Company's total assets are to be invested in qualifying investments of which 30% by VCT value (70% for funds raised after 6 April 2011) must be in ordinary shares carrying no preferential rights (save as permitted under VCT rules) to dividends or return of capital and no rights to redemption.

### **Fund Commentary**

The Company has prepared this factsheet for the three month period ended 30 September 2018 with information from the Half Yearly Report, together with relevant information up to the date of publication.

### **Performance**

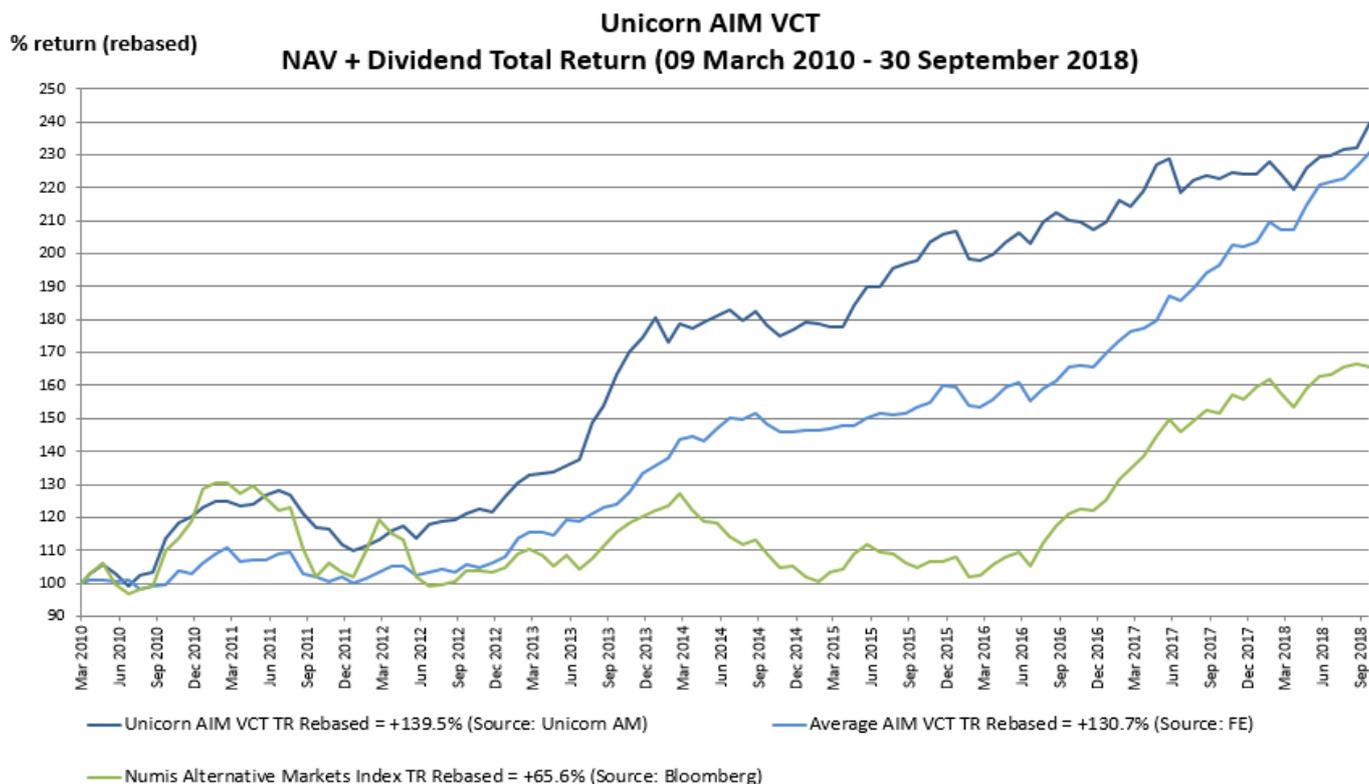
During the third quarter of 2018, Net Asset Value per share increased from 165.7p to 171.8p. After adding back the interim dividend paid of 3p per share, the return amounted to 9.1p, equating to a total return of +5.5%. This compares to a total return from the FTSE AIM All-Share Index of +1.7% over the same three month period. It is pleasing to report on a strong period of absolute and relative performance for the investment portfolio, which benefited in part from an uplift in the audited carrying value of two of the privately owned business held. The two businesses involved were; Hasgrove and Interactive Investor. Hasgrove has achieved strong and consistent growth in recurring revenues from sales of its corporate intranet software, which is offered to customers as a monthly billed service. The rapid growth in Hasgrove's recurring revenues has translated into significantly improved profits and cash flow, and it was agreed by the VCT's auditors that the value of the VCT's holding should be increased by 207% during the recent year-end audit. The valuation uplift equated to an unrealised capital gain of £4.3m on this investment. The VCT's holding in Interactive Investor was also revalued, in this case, in order to reflect the transformational impact of two successful acquisitions, which have significantly increased Interactive's scale, enabling it to become one of the largest providers of self-managed investment services in the UK. The uplift in the value of Interactive Investor was further under-pinned by the price paid for Interactive Investor shares during a recent transaction between two existing shareholders. This valuation uplift was also agreed by the VCT's auditors and resulted in an increase in the carrying value of 101% and an unrealised capital gain of £3.1m.

The investment portfolio also registered a positive return as a whole from its AIM-quoted investments, several of which contributed strongly to performance during the quarter. The largest of these contributors were; Tracsis, Abcam and Creo Medical Group, which, in aggregate, added £4.4m in realised and unrealised capital gains. Tracsis released a strong trading update in August, confirming that full year profits were ahead of analysts' expectations. Abcam's share price also gained after the company reported full year results that were in line with consensus expectations, despite the management team warning that profit margins would come under pressure due to necessary, but higher than expected levels of investment. Creo Medical Group, which was introduced to the portfolio in August, subsequently announced positive interim results in September, which highlighted good progress in the commercialisation of its minimally invasive surgical device.

The principal detractors from performance during the third quarter period were Fusion Antibodies, VR Education and Sanderson Group, which, in aggregate, generated unrealised losses of c. £1.9m. Fusion Antibodies reported that trading had been weaker than expected due to competitive pricing pressure. The management team has reacted by focusing on sales and marketing, aimed at driving growth in new products and services. During the period, VR Education announced the launch of its Titanic virtual reality (VR) gaming experience and released maiden interim results. Full year results will be dependent on a positive second half-year performance, which includes the anticipated launch of Titanic VR on PlayStation. Sanderson Group's share price drifted lower during the quarter in the absence of newsflow.

During the weeks since the end of the quarter, global equity markets have experienced a sharp increase in volatility, with significant falls being recorded. UK Equities have been especially hard hit by the reversal in market direction, as investor aversion to risk increased markedly. The principal causes of the equity market correction have been political and economic. The ongoing uncertainties surrounding Brexit and an increasingly bitter trade war between the US and China are two notable examples. A failure to satisfactorily conclude Brexit negotiations, combined with increased political instability, will further undermine an already fragile UK economy. The correction in equity values has been particularly evident in highly valued technology stocks. Many AIM listed shares have also suffered sharp falls. It remains to be seen whether recent market volatility subsides, or becomes a precursor to a more serious equity market correction.

Performance Continued



Source: Unicorn Asset Management/Financial Express, 30 September 2018, (since merger with Unicorn AIM VCT II on 9 March 2010). Past performance of Unicorn AIM VCT is not a guide to future performance.

**Material Transactions**

It was a busy quarter for investment activity, with seven investments being made in VCT qualifying companies. In total, over £11.6m was invested in qualifying opportunities, helping to boost the percentage of total assets invested in VCT qualifying companies, which now exceeds the 80% minimum requirement that, under new rules, will come into force from the start of the 2019/2020 tax year. Most of the new VCT qualifying investments have performed satisfactorily, however, as previously commented, new investment is now required to be targeted at earlier stage companies which inevitably tend to be loss-making.

Over recent years, the Government has continued to direct all venture capital investment away from low-risk areas and into early-stage businesses that genuinely require scale-up capital. In order to achieve this objective, the rules governing eligibility for State Aid have been tightened. We are fully supportive of this Government initiative, and we are confident that that we are already fully compliant with the new rules. By definition however, our new investments are inevitably higher risk and, as a consequence, we are likely to experience more binary investment outcomes. We are confident that the businesses in which we have invested over the past year, have the potential to deliver substantial investment returns over time, however it is also important to note that we do anticipate a higher percentage failure rate from these newer investments.

The largest investments made in the third quarter were; Bonhill Group (£3.0m), a media business focused on financial services, technology and diversity sectors; nkoda (£2.5m), a provider of digital sheet music and; Trackwise Designs (£1.75m), a manufacturer of radio frequency printed circuit technology. A number of partial disposals were made in non-qualifying investments during the quarter. The total proceeds from these disposals amounted to £9.6m.

## Material Events

Final dividend of 3.5p proposed for the financial year ended 30 September 2018. This payment will bring total dividends paid since the merger with Unicorn AIM VCT II plc on 9 March 2010 to 51.5p.

## Conclusion

In the two month period to the end of November, the Net Asset Value of the Unicorn AIM VCT has fallen by 13.3%. This decline in value is disappointing, albeit somewhat better than that experienced by the FTSE AIM All-Share Index, which has fallen by 15.1% over the same period. Difficult market conditions have persisted during December and unfortunately, investor confidence is unlikely to return until the outcome of Brexit is known. In the short-term, it is almost inevitable that a 'no-deal' Brexit would have further negative implications for UK equity markets.

Your Investment Manager has always adopted a long-term approach to investment and the portfolio has proven its resilience in the past by successfully weathering periods of extreme market turbulence. The majority of companies held in the portfolio remain in sound operational and financial health and their management teams remain optimistic of being able to maintain growth in revenues, profits and cash flows, notwithstanding a significantly more uncertain economic and political environment.

Top 10 Holdings	
Abcam	9.8%
Tracsis	5.8%
Anpario	4.8%
Mattioli Woods	4.0%
City Pub Group	3.7%
Hasgrove	3.1%
Interactive Investor	3.0%
Maxcyte	2.5%
Tristel	2.4%
Keywords Studios	2.4%
<b>Total</b>	<b>41.5%</b>

Fund Facts	
Fund Manager	Chris Hutchinson
Directors	Peter Dicks (Chairman)
	Charlotta Ginman
	Jeremy Hamer
	Jocelin Harris
Fund Size	£201.4m
Year End	30-Sep

Top 10 Sector Breakdown	
Pharmaceutical & biotechnology	20.8%
Software & computer services	17.6%
Support services	8.4%
Financial services	8.4%
Media	7.1%
Healthcare equipment & services	5.4%
Travel & leisure	5.3%
Industrial engineering	4.6%
Chemicals	3.5%
Technology hardware & equipment	2.4%
Cash	0.8%

Share Class Information	
Net Asset Value	171.8p
Ongoing Charges Figure	c. 2.2%
ISIN Code	GB00B1RTFN43
Sedol Code	B1RTFN4
Ticker	UAV

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