

Unicorn Asset Management

Q1 Fund Commentary

Mastertrust

Market Review

The Investment Company sector rally over the last two months of 2023 proved to be something of a false dawn for discount ratings, despite a further modest improvement in net asset values in the first quarter of 2024. Discounts drifted wider across the board, as expectations of falling interest rates moderated, primarily due to evidence of more persistent inflationary pressures in the United States. Despite the 'higher for longer' interest rate narrative, investors continued to favour equities on Wall Street more than any other risk asset, other than gold and Bitcoin.

Performance, Activity & Fund Commentary

Mastertrust's Net Asset Value appreciated by 1.5% during the first quarter of 2024. The most significant positive contributors to performance were; Pershing Square Holdings (Share Price Total Return +14.3%), abrdn Private Equity (+16.0%), Herald (+10.0%), Fidelity European (+10.4%), JPMorgan European Discovery (+10.7%), Alliance Trust (+10.6%) and Biotech Growth (+11.3%). The largest negative moves were attributable to; BlackRock World Mining (-9.0%), Caledonia Investments (-7.7%), Oakley Capital (-4.4%) and North Atlantic Smaller Companies (-5.0%). Activity within the portfolio featured a tender offer for 15% of Mastertrust's shares in Fidelity Emerging Markets and a reduction in the Fund's holdings in abrdn Private Equity and Pershing Square Holdings. The position in Alliance Trust was realised towards the end of the period under review.

Outlook & Positioning

Mastertrust's 'look through', size weighted discount widened from 17.4% to 18.6% during the quarter. As anticipated in previous commentary, the supply and demand situation continued to tighten. Share buybacks totalled £1.6 billion in Q1 2024, which was an amount 85% higher than Q1 2023. Tenders and redemptions returned a further £0.3 billion, while new issuance remained almost non-existent.

The Mastertrust portfolio maintains a structural bias towards investment companies that our managers consider to be in a strong position to take advantage of their inherent structural benefits, namely, to invest for the long term, often in less liquid specialist assets. This policy leads to reasonably high weightings in smaller companies Trusts and Listed Private Equity Trusts. The latter exposure, which represented 18% of the portfolio as at 31 March 2024, comprises seven holdings that provide a broad exposure to international private markets via Direct, Secondary and Limited Partnership investments. The simple average discount of these holdings as at 31st March 2024 exceeded 34%, an excessively wide discount given the impressive long term performance records achieved by each of these Trusts. Despite the considerable headwinds faced by all companies in the 2020's, it is encouraging to note that the average underlying revenue and earnings growth achieved by these Trusts has been strongly positive over the last two years. Although the levels of realisations from Listed Private Equity Trust portfolios is running below trend, exits are still taking place at significant uplifts to carrying value, suggesting that over-valuation fears are misplaced. We would also note that our holdings, in aggregate, have minimal exposure to Venture Capital, are not particularly reliant on the IPO market when it comes to exits, and that their Managers understand the importance of having a clearly defined capital allocation policy.

