

# Unicorn Asset Management

Q4 2023 Fund Commentary

Mastertrust Fund

## Market Review

Calendar 2023 proved to be the third year in succession in which the Investment Companies sector underperformed the FTSE All Share Index, delivering a total return of 4.9%. Mastertrust's NAV total return for the year was +6.8%. The upward shift in global inflation and interest rates weighed heavily on sentiment for much of the year and unsurprisingly led to the widening of discount ratings across the sector. Q4 2023 provided some respite as markets rallied into the year end in expectation of interest rate reductions in 2024

## Fund Performance and Portfolio Activity

Mastertrust's Net Asset Value appreciated by 6.83% over Q4 2023. The most significant positive contributors to performance were Pershing Square Holdings (share Price Total Return +20.5%), TR Property (+24%), Oakley Capital Investments (+10.3%), Rockwood Strategic (+15.5%), Herald Investment Trust (+12.1%), Aberforth Smaller Companies (+12%) and JPMorgan European Discovery (+14.3%).

The largest negative moves were attributable to Hipgnosis Songs Fund (-10.2%) which has announced a strategic review and City Natural Resources (-7.1%). Activity within the portfolio featured a tender offer for Atlantis Japan Growth where 33.8% of Mastertrust's holding was realised at a 2% discount to the post-cost NAV and the balance in Nippon Active Value Fund shares. A similar transaction relating to Aberdeen New Dawn resulted in a 35.1% cash return on the same terms with the remainder in Asia Dragon Shares. A full cash exit was also achieved at a significant uplift to the prevailing share price of Round Hill Music which was acquired by Concord Cadence Limited.

## Outlook & Positioning

Although Q4 2023 saw a modest improvement in the discount ratings of investment companies they remain wide by past standards. Mastertrust's look through size weighted discount narrowed from 19% to 17.4% over the quarter. Supply and demand dynamics certainly changed in 2023 and this trend looks set to continue. The year saw practically no IPO activity while share buy backs were the highest on record. According to JPMorgan Cazenove, after more than a decade of net inflows, the sector saw a net outflow of £4.2bn in 2023. As demonstrated by the corporate actions mentioned above, wide discounts inevitably lead to consolidation. We anticipate further mergers and returns of capital in 2024 with at least two of our investments expected to undertake tender offers and others attracting the attention of activist investors.

Mastertrust's long held structural bias towards Listed Private Equity trust and Smaller Companies trusts will continue into 2024. While our investments in LPE trusts such as Oakley Capital Investments and Pantheon International delivered strong share price returns in 2023, LPE trusts still trade at historically wide discounts, even though realisations continue to be made at premiums to carrying value. It may be the case that sentiment will only improve in a falling interest rate environment. We may need to be patient but eventually we believe that value will out. Similarly, our Smaller Companies trust exposure offer significant fundamental value.

*Source: Unicorn Asset Management, Numis, JPMorgan Cazenove, FE Analytics (mid-mid, total return), and Bloomberg, 31 December 2023.*

*Past performance is not a guide to future performance, performance is based on returns net of fees. Your capital is at risk, the value of investments and the income from them may go down as well as up. Investors may not get back the amount of their original investment.*

