

Unicorn Asset Management

Q4 2023 Fund Commentary

Outstanding British Companies Fund

UK equity markets rose during Q4 2023, driven by a broad-based improvement in investor sentiment, declining levels of inflation and an expectation that interest rates may have peaked. This dynamic was particularly supportive for UK small and mid-cap companies, which outperformed large caps during the quarter. Smaller companies are often more exposed to the domestic UK economy, of which household consumption remains the largest element of expenditure. Therefore, the ongoing slowdown in inflation, as shown by the Consumer Prices Index (CPI) which dropped to 3.9% (year on year) in November from 6.7% in September, is good news for consumers as well as smaller companies, who have been subjected to sharp cost inflation and supply chain disruption over the past two years. Share prices of large, internationally diversified companies were held back during the quarter as the Pound strengthened relative to the US Dollar. Takeover activity for UK listed companies continued apace, with notable bids for Hotel Chocolat, City Pub Group and Smart Metering Systems to name three, as potential acquirers took advantage of relatively cheap UK equity valuations.

Fund Performance and Portfolio Activity

The fund registered a total return of +5.4% for Q4 2023, modestly outperforming the IA UK All Companies sector total return of +4.5%. The FTSE All-Share (ex. IT) Index recorded a total return of +2.9% over the same period. Contribution to positive fund performance was broadly spread across the portfolio's holdings, with only five stocks registering a negative total return over the quarter.

The largest contributor was VP, which announced interim results in November reporting a robust performance despite the challenges currently faced in UK construction markets. VP grew its half-year pre-tax profit by 11% to almost £20 million, supported by its diversified exposure to end markets including infrastructure. The next largest contributors were Experian, which reported solid interim results and Sage, which reported strong full-year results including double digit growth in revenue and adjusted earnings per share. The largest detractor was Reckitt Benckiser whose share price declined modestly despite the company reporting solid trading and an unchanged outlook for full-year profits. Other detractors included Diageo and Unilever, whose share prices also declined modestly during the quarter. Abcam's acquisition by Danaher Corporation completed in December and the fund received cash proceeds of \$2.8 million. A new holding was initiated in Schroders, which is a leading global asset manager with an exceptional track record of achieving positive, long-term returns for shareholders.

Outlook & Positioning

The fund managers look toward 2024 with a degree of cautious optimism. Our positive outlook for UK equities is driven by the indication that inflation is on a consistent downward trend and therefore should result in a turn in the interest rate cycle by the Bank of England later in the year. Markets may remain volatile in the short-term as investors digest the rapid, upward share price movements which occurred in the final two months of 2023. However, we believe that UK equity valuations generally remain attractive relative to their long-term averages and especially compared to US markets. This may support further takeover approaches for UK companies from international acquirers, who can take advantage of the so-called 'double-discount' - a cheap currency and an undervalued stock market.

While the near-term outlook for the UK economy remains uncertain, including a possible 'technical recession', we believe that the UK stock market remains home to an attractive number of high-quality companies which are well placed to deliver predictable and sustainable long-term growth. We are confident that opportunities will arise to add new names to the portfolio at attractive valuations in the coming months.

Source: Unicorn Asset Management 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.

