Unicorn

Investing with conviction

# Unicorn Asset Management

**Outstanding British Companies Fund**

**Q1 2025 Team Commentary**

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**Market Review**

The first quarter of 2025 was a challenging period for UK equities, with small and mid-cap segments significantly underperforming large caps. The FTSE 250 and AIM Index were both weak compared to the FTSE 100's +6% return, reflecting acute pressure on smaller companies. Persistent core inflation and interest rates held at restrictive levels squeezed margins, while a sharp rise in UK gilt yields—mirroring global bond markets—drove up discount rates, heavily impacting the longer-duration growth assets prevalent in the small and mid-cap space.

The looming cost pressures from increases in employer National Insurance contributions and the minimum wage, set to take effect in April 2025, weighed heavily on confidence, particularly for labour-intensive small and mid-caps. Weaker trading updates triggered broad-based de-ratings, with cyclical sectors hit hardest due to their sensitivity to UK consumer and construction activity.

Despite government commitments to renewable energy and infrastructure, small and mid-caps in these growth areas were caught in the broader sell-off, reflecting subdued investor risk appetite. Globally, sentiment was unsettled by anticipated U.S. trade tensions, with markets pricing in tariff risks during Q1—though domestically focused small and mid-caps faced greater pressure from local cost concerns than international trade uncertainties.

**Performance, Activity & Fund Commentary**

The Unicorn Outstanding British Companies Fund declined by -5.2% in Q1 2025, underperforming the IA UK All Companies sector total return of +0.2% over the same period. The Fund's underperformance was primarily driven by negative returns from Renishaw and Tristel, which detracted -0.9% and -0.8%, respectively. In addition, an underweight position in large banking stocks and Oil & Gas companies negatively impacted relative performance.

The largest contributors to Fund performance during the quarter were:

- **Genus (+0.6% contribution to Fund performance) -** Genus's shares rallied (+20.9%) after the firm reported robust interim results with broad-based growth in its porcine (PIC) and bovine (ABS) divisions and a 21% rise in operating profit. Management also cited confidence in the outlook, forecasting full-year profit growth of ~13%, and highlighted strategic wins in China alongside progress toward FDA approval of its innovative PRRSv-resistant pigs.
- **Schroders (+0.5% contribution to Fund performance) -** the global asset manager, reported better than anticipated FY24 results, which included a 4% rise in assets under management and a 7% increase in earnings per share, buoyed by record inflows.

The largest detractors from Fund performance during the quarter were:

- **Renishaw (-0.9% detraction from Fund performance)** - was the largest detractor, experiencing a share price decline of -24.2%. Despite reporting growth in revenue, it issued weaker-than-expected guidance, forecasting full-year profits below market expectations. Renishaw also highlighted £7 million in additional labour costs due to wage inflation and changes announced in the UK Budget, contributing to a downgrade in its profit outlook.
- **Tristel (-0.8% detraction from Fund performance)** - While the company reported interim results broadly in line with expectations, supported by stronger-than-anticipated gross margins, progress in the US market has lagged behind expectations. Following a particularly strong prior year, the company has returned to a more typical growth rate, which led to some investor disappointment.

The Fund concluded the period with 30 holdings, following the addition of Renew Holdings and Fevertree, and the full disposal of Tracsis. Fevertree, a producer of premium mixers, recently partnered with Molson Coors to expand its US presence—an attractive growth catalyst and compelling opportunity for the Fund. Renew Holdings represents a high-quality, compounding growth story, backed by a strong track record of consistent earnings. The position in Tracsis was sold due to concerns over limited visibility on pipeline conversion and a lack of progress in revitalising slower-growth areas of the business.

| | YTD | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|---|
| OBC | -5.2 | -1.6 | 1.8 | -14.7 | 11.6 | -12.1 |
| FTSE All Share Index (ex IT) | 5.0 | 9.5 | 8.1 | 1.6 | 18.7 | -11.4 |
| IA UK All Companies | 0.3 | 7.9 | 7.4 | -9.1 | 17.3 | -6.0 |

*Figures as at 31/03/2025*

*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*

**Outlook & Positioning**

Since the end of the period, global markets have been digesting the formal implementation of aggressive US trade measures. A 145% tariff has been imposed on imports from China, prompting retaliatory tariffs of 125%, while a 10% baseline tariff has been applied to most other countries. Additionally, new 25% tariffs have been introduced across targeted sectors including autos, steel, and certain electronics. While the UK is not directly targeted, its close economic ties to global trade partners mean it is exposed to indirect pressure through supply chains and capital flows.

Nonetheless, the UK may prove relatively resilient. As a services-led economy, it is less directly affected by goods-based tariffs than many of its peers, and it could benefit from playing a bridging role—both politically and commercially—between the US and EU. This shifting global dynamic may also create opportunities in areas aligned with the broader themes of reindustrialisation and supply chain diversification. If policy and capital flows begin to favour these trends, companies enabling reshoring and infrastructure build-out could stand to benefit. The Fund's overweight exposure to industrials positions it well in this context. In addition, the Fund's overweight to financials may be advantageous if capital begins to rotate away from the US and into other developed markets, including the UK.

While near-term volatility is likely to persist, recent market weakness has opened up valuation opportunities across several high-quality businesses. The Fund remains focused on resilient, well-managed companies and stands ready to respond to further shifts in the global macro and policy environment.

***Important Information***

***Investing in smaller companies, including AIM listed companies and unlisted companies, can carry greater risks than those associated with larger capitalized companies. Your capital is at risk.***

***Except where otherwise stated, the source of the information in this document is Unicorn Asset Management.***

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