

# Unicorn Asset Management

Q1 Fund Commentary

Outstanding British Companies Fund

## Market Review

Following a strong end to 2023, global equity markets were relatively subdued during the first three months of 2024. The main factors that are fuelling investor concerns are inflation and an increasing threat of further regional conflict. Mixed inflation data has forced investors to reassess the speed and extent of interest rate cuts, while geopolitical risk remains extremely high.

In the UK, GDP data confirmed that the UK experienced a technical recession in the fourth quarter of 2023, but economic growth forecasts for 2024 and 2025 have recently been revised upwards, to +0.5% and +0.7% respectively.

Following a strong end to 2023, global equity markets were relatively subdued during the first three months of 2024. The main factors that are fuelling investor concerns are inflation and an increasing threat of further regional conflict. Mixed inflation data has forced investors to reassess the speed and extent of interest rate cuts, while geopolitical risk remains extremely high.

Despite muted returns from equity markets in general, the UK's largest quoted companies continued to outperform their small-cap peers during the quarter under review.

## Performance, Activity & Fund Commentary

The Unicorn Outstanding British Companies Fund returned -0.1% in the quarter under review, underperforming the IA UK All Companies sector total return of +2.9%. The FTSE All-Share Index recorded a total return of +3.7% over the same period.

The Fund's underperformance can largely be attributed to the negative share price returns of two holdings, namely; Reckitt Benckiser and Genus. Reckitt's share price fell following news that Mead Johnson (its US subsidiary) had been ordered to pay \$60 million in compensation to a mother whose premature baby had died from an intestinal disease after being fed Enfamil formula. While Reckitt strongly contests the findings of this court case, including the assertion that any of its products could cause Necrotising Enterocolitis (NEC), the recent decision opens the gate for further possible litigation and prolonged uncertainty regarding a potential final liability. As a consequence, we fully exited the holding in Reckitt Benckiser.

Genus issued its interim results during the quarter, which highlighted challenging market conditions, primarily for its pig business in China where demand for pork, and thereby pig prices, remain depressed. Its bovine (cow) division also reported difficult trading conditions due to the low milk price impacting on farmers' demand for Genus' products. Despite these short-term headwinds, management action, including measures to improve profitability and enhance returns from investment projects, should deliver benefits in the second half of the fiscal year.

The relative underperformance of the Fund can also be attributed to its lack of exposure to Aerospace & Defence stocks, which was the second largest sector in terms of contribution to Index returns during the quarter (contribution was +1.0%). Aerospace & Defence shares rallied, driven by a cyclical upswing in aircraft manufacturing, and by heightened geopolitical tensions around the world including the ongoing war in Ukraine.

Notable contributors to performance during the quarter included; Mattioli Woods and Renishaw, which added +1.0% and +0.6% respectively to the Fund's total return. During the period, a private equity firm, Pollen Street Capital, agreed to buy Mattioli Woods for £432 million in cash. The transaction, if approved via a Scheme of



Arrangement, values Mattioli Woods at £8.04 per share, equivalent to a 34.0% premium to its closing price immediately prior to the offer announcement.

Meanwhile, Renishaw guided towards an improved financial performance in the second half of its fiscal year, given improving market conditions.

A new holding was initiated in Rightmove during the period. Rightmove is the UK's market leading estate agency portal, which is benefiting from scale and significant market share, including the biggest number of property listings and an 80% share of property portal viewings. We believe that Rightmove is likely to benefit from positive tailwinds, including an improving outlook for the UK's housing market. Management's ability to leverage the company's substantial dataset to create new, innovative products, should further bolster Rightmove's competitive market position.

## **Outlook & Positioning**

Equity market conditions appear to be turning more favourable, with the rate of inflation seemingly in steady decline and interest rates therefore predicted to commence a downward trend before the end of 2024. The re-emergence of inflation in 2021 created an exceedingly difficult environment for smaller quoted companies. A reversal in direction for interest rates should provide a much more supportive backdrop for equity investors, particularly for more highly valued, high-quality shares in which this Fund is invested.

In recognition of the improving economic outlook, one which we believe is yet to be reflected in the valuations of many mid-cap and AIM listed companies, we are increasingly optimistic about the prospects for shares in this part of the UK stock market. We therefore expect a greater proportion of future performance to be driven by the Fund's exposure to small and mid-cap companies, including both existing holdings and possible new additions.

