

# Unicorn Asset Management

Q4 Fund Commentary

UK Ethical Income Fund

## Market Review

Global equity markets finished the year strongly as inflation data came in below forecasts and interest rate expectations moderated markedly in the final quarter. This dynamic was particularly supportive for UK small and medium sized companies, which outperformed their larger quoted peers during the period. The strong performance in the final two months of the period contrasted with a weak October, which saw a rapid escalation of the conflict in Gaza.

## Performance, Activity & Fund Commentary

The Unicorn UK Ethical Income Fund had a strong quarter to the end of 2023, generating a return of +8.7% against the IA UK Equity Income sector average return of +4.4%.

As mentioned above the market returned to oversold assets as confidence returned, benefitting UK small and mid-caps which had been firmly out of favour, as such positive moves were seen from the majority of the portfolio. Notably our two largest REIT holdings, LondonMetric and Primary Health Properties, generated a combined contribution to performance of 142bps, rising by +12.8% and +13.7% respectively, as the outlook for interest rates improved. Another strong performer was Somero, the manufacturer of machinery used in the automated screeding of concrete, which delivered a share price return of +38.9%, contributing 80bps. Although there were a handful of negative performers over the period, none were significant enough to warrant analysis here.

A position in Diageo, the global leader in premium drinks, was initiated in the quarter. The decision was taken following a trading update which highlighted weaker sales in Latin America, sending the shares sharply lower. This represented a rare opportunity to add this high-quality company with an excellent long-term record of dividend growth (over 30 years of consecutive growth) on a dividend yield of around 3%.

## Outlook & Positioning

The outlook for 2024, while remaining uncertain, shows signs of promise, and at the point of writing, the prospect of runaway inflation appears to be in the rearview mirror. The phase of rapidly rising bond yields and the consequential compression of equity valuations seems to be over, and the next challenge for investors will be to navigate an uncertain earnings backdrop. Higher interest rates have had the desired effect of reducing inflation, and to date, economies have performed resiliently.

It is widely expected that interest rate cuts will be required in the current calendar year to avoid a recession, the timing and magnitude of which will pose a considerable challenge for central banks. Not to mention a volatile geopolitical backdrop, with war raging in both Ukraine and the Middle East, and a busy year of elections, with more people set to vote in 2024 than in any other year of recorded history. Notwithstanding this somewhat dramatic backdrop, we are confident that our diversified portfolio remains well positioned to withstand current headwinds and thrive when market conditions improve.

The underlying holdings of the Fund are generally anticipating dividends ahead of the prior year. As such we look forward to another year of dividend growth (following growth of approximately 5% in 2023), this being evident at such an early stage in the year gives us confidence that they are well positioned for the current environment.

*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. A key objective of the Income Funds is to provide income, therefore, some or all of the annual management charge is taken from capital rather than income. This can reduce the potential for capital growth.*