

# Unicorn Asset Management

Q1 Fund Commentary

UK Growth 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.

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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 UK Growth Fund started the year strongly, rising by +7.0% and outperforming the UK All Companies peer group by 4.1%. This outperformance was particularly pleasing given the Fund's weighting towards UK Small and Mid-Cap stocks which, as a whole, barely moved during the quarter.

The Fund's relative outperformance was mainly a result of strong operational and financial performance delivered by the portfolio of investee companies during a key reporting period for the UK equity market.

The Fund ended the period with 44 holdings. During the quarter, three new stocks were introduced to the portfolio and there were no outright disposals.

The new additions were:-

- Mpac - a rapidly growing packaging solutions business that provides efficient, bespoke automated packing solutions to a broad range of consumer-facing companies
- Craneware – a software business supplying billing software and analytical tools to US healthcare providers. The US healthcare market is large, highly fragmented and forecast to grow strongly over the next decade and beyond
- M&C Saatchi - an advertising agency, which currently appears to be significantly undervalued

Pleasingly, all three of these new investments have already made positive contributions to performance, with their share prices rising by 21%, 9% and 7% respectively since purchase. These share price gains translated into positive contribution to overall Fund performance of 57 basis points (bps) in aggregate.

In total, 33 holdings made positive contributions to performance. AdvancedADVT made the largest individual contribution to performance, rising by 55% and adding 215bps. Given the strong share price performance the position in Advanced ADVT was reduced during the period in order to maintain a balanced portfolio and to crystallise profits. Other notable contributors to performance included; Microlise (+37%, +87bps), a supplier of fleet



management software; Gamma Communications (+22%, +65bps), a provider of telecommunications services and; Clarkson (+27%, +65bps), a provider of shipbroking and other maritime services. James Cropper was the biggest disappointment during the period, with its share price declining by 65%, resulting in a negative contribution to overall Fund performance of 120bps. James Cropper warned the market that destocking in its paper business and project delays in its advanced materials division would have a material impact on earnings.

### **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 outlook for the Fund during the remainder of 2024 and beyond is favourable, especially if the growth in earnings of the investee companies is maintained. Should this earnings growth coincide with a prolonged period during which interest rates decline steadily, then the Fund is particularly well-placed to perform strongly.

