Unicorn

Investing with conviction

Unicorn Asset Management

UK Growth Fund

Q1 2025 Team Commentary

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 UK Growth Fund delivered a total return of -6.8% during the period, ahead of the UK All Companies Peer Group which generated 0.3%. The Fund's underperformance was in part due to its long-standing overweight in growth stocks, whose valuations were hit by worsening sentiment, and heightened risk aversion amid inflation, rate hikes, and geopolitical tensions.

The Fund closed the period with 45 holdings, following three disposals and five new additions: Fevertree, Boku, Cohort, Goodwin, and 4imprint. Fevertree, a producer of premium carbonated mixers, recently entered a strategic partnership with Molson Coors to enhance its market presence in the United States. Boku, a global local payments platform, reported strong financial results and expanded its share buyback programme. Cohort, a technology group focused on defence and security, and Goodwin, an engineering firm operating across defence, aerospace, mining, and construction, both benefited from substantial growth in their respective defence segments. 4imprint, a direct marketer of promotional merchandise, continued to deliver growth through strategic investment and leadership development amid evolving market conditions.

Marshalls, Conduit Holdings, and FD Technologies were exited during the period. While Unicorn remains confident in the underlying fundamentals of these companies, prevailing market volatility has prompted a shift in focus toward opportunities offering stronger growth potential at this time.

Notable contributors to performance during the period were Alpha Group International and Ocean Wilsons Holdings. Alpha Group International, a non-bank financial services firm specialising in foreign exchange risk management and banking solutions, continues to demonstrate strong growth momentum. The company reported a 23% increase in revenue to £135.6 million, driven by solid performance across both its Corporate and Private Markets divisions. Ocean Wilsons Holdings, an investment holding company with interests in maritime services and global investments, made significant progress in the planned divestment of its 56% stake in Wilson Sons. The transaction is expected to complete by the third quarter of 2025, following which the company intends to undertake a tender offer for up to 20% of its shares. The board is actively considering options for the strategic deployment of the $595 million in expected net proceeds, including potential capital returns to shareholders.

The period was marked by a broad-based sell-off across growth stocks within the market. Notable detractors to performance came from Gamma Communications and MPAC. Gamma's recent underperformance appears to reflect broader market conditions and subdued investor sentiment, rather than company-specific fundamentals. MPAC's recent share price weakness can largely be attributed to growing concerns over capital expenditure amid escalating U.S. tariffs and broader economic uncertainties.

	YTD	2024	2023	2022	2021	2020	2019
UK Growth	**-6.8**	**17.9**	**1.7**	**-24.2**	**20.9**	**-2.1**	**33.9**
IA UK All Companies	0.3	7.9	7.4	-9.1	17.3	-6.0	22.2
FTSE All Share Index (ex IT)	5.0	9.5	8.1	1.6	18.7	-11.4	19.0

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.

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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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