

# Unicorn Asset Management

Q4 Fund Commentary

Unicorn UK Growth 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 was in contrast to a weak October, which saw markets fall following the escalation of the conflict in Gaza.

## Performance Activity & Fund Commentary

The fund generated a total return of 5.4% during the period, ahead of both the FTSE All-Share Index (2.9%) and the UK All Companies Sector (4.5%). The contribution to performance was relatively broad based, with a large number of companies contributing to the positive return. The largest individual contributor was the City Pub Company, which received a bid approach from Youngs, a larger quoted peer, during the period and added 113bps to performance. This position was exited in full following the approach. M&A activity remains an active dynamic in UK Small and mid-caps, with historically low valuations continuing to attract opportunistic acquirers. Other notable contributions to performance came from GB Group (+76bps), Mercia Asset Management (+64bps) and Ashtead Technology (+60bps). The largest negative contributor to performance was Alfa Financial Software, which saw the termination of early-stage takeover talks for the second time this year, costing the Fund 71bps during the quarter. FD Technologies also performed poorly, generating a negative contribution of 65bps.

Including the disposal of City Pubs four positions were exited in full and four new positions were initiated. The long term position in Frontier Developments was exited following another disappointing trading update. Experian and Spectris were also sold in favour of other more attractive growth opportunities elsewhere. The four new positions added to the Fund were Cranswick, Ocean Wilson, Eagle Eye and Advanced Medial Solutions. Three of these investments were well know to the team as a result of long term investments in other Unicorn Funds and the final quarter of the year was deemed a good entry point for the UK Growth Fund.

## 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 Unicorn UK Growth fund remains focussed on backing high quality companies capable of delivering above market levels of earnings growth over the long term. The disciplined approach of backing profitable, cash generative well capitalised companies ensures that organic growth opportunities can be largely self funded, without the need for additional dilutive capital raising. The Fund invests in growth companies that meet the strict investment criteria across a wide range of sectors. This style of investment has been out of favour with investors in a rising interest rate environment but with operational performance remaining resilient and interest rates now expected to fall markedly in 2024 the outlook for Unicorn UK Growth Fund now appears to be more favourable.

*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.*

