Unicorn

Investing with conviction

Unicorn Asset Management

UK Smaller Companies 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

During the period, the Unicorn UK Smaller Companies Fund delivered a total return of -11.55%, which lagged its benchmark, the DNSCI + AIM (ex Investment Companies) index, at -5.18%. The fund also underperformed the IA UK Smaller Companies peer group average of -7.24%.

The disappointing period of performance reflected the Fund's long-standing overweight position in economically sensitive cyclical stocks, which had previously generated strong returns but underperformed during this period. While underwhelming trading results from holdings contributed to the negative returns, the share prices fell even further as worsening investor sentiment and heightened risk aversion—exacerbated by persistent inflation, higher interest rates, and geopolitical tensions—caused a sharper decline than fundamentals warranted.

The key detractors during the period included:

- **Severfield (-60.9**%), a leading structural steel specialist, issued a profit warning in March highlighting a broadly negative market backdrop in the UK and Europe, impacting performance by squeezing pricing and intensifying competitive pressures. This environment has been particularly harsh given the company's fixed cost base, which requires a minimum level of project volume to maintain profitability. Earnings declined more than expected, with project delays pushing key contracts back and prompting the cancellation of its share buyback programme. Despite these near-term headwinds, management remains optimistic about the long-term outlook, supported by a strong project pipeline and encouraging progress from its Indian joint venture.
- **Goodwin (-17.8%):** is a mechanical and refractory engineering firm that, despite posting a broadly positive trading update, saw its share price decline, costing the firm 127 bps to the Fund's performance. The downturn reflects broader market concerns over tariff uncertainties and the firm's exposure to more cyclical sectors like automotive and jewellery.

The top contributor to performance was, Ocean Wilsons Holdings, an investment holding company with diversified operations in maritime services and global investments. The company's share price rose following stronger-than-expected FY24 results from its investment fund, with year-end NAV coming in approximately £3m ahead of consensus. Additionally, the company announced plans to complete the sale of its majority stake in Wilson Sons in the second half of the year and proposed a significant tender offer of upto 20% of its issued share capital upon completion.

The Fund concluded the quarter with 43 holdings. While no positions were exited, two new holdings were added to the fund. We re-entered 4Imprint Group, a high-quality promotional products supplier that was previously exited after a significant price rally last year; the subsequent share price decline—driven by reduced small business sentiment—presented an attractive buying opportunity. In addition, we initiated a position in Avingtrans, a buy-and-hold engineering solutions provider previously held in other Unicorn funds. The company offers significant value realisation opportunities across its underlying businesses that are not yet reflected in its current share price, making it a compelling valuation play.

	YTD	2024	2023	2022	2021	2020
UK Smaller Companies	**-11.6**	**11.1**	**3.7**	**-16.3**	**19.3**	**-0.8**
NSCI + AIM (ex IC)	-3.6	5.0	3.2	-21.9	20	4.9
IA UK Smaller Companies Sector	-7.3	6.7	0.5	-25.2	22.9	6.5

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.

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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