

Unicorn Asset Management

Q1 Fund Commentary

UK Smaller Companies 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 Fund delivered a positive return of +2.6% during the quarter, outperforming the Numis Smaller Companies (ex IC) plus AIM Index and IA UK Smaller Companies peer group, which generated total returns of -0.8% and +1.4% respectively.

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.

There were a number of new additions to the portfolio during the quarter:-

- **AdvancedADVT** – a holding company for five mid-sized software businesses. These subsidiaries specialise in AI, digital transformation, data analytics, and business intelligence. ADVT seeks to transform these companies in order to maximise their growth potential
- **Mpac** - a rapidly growing packaging solutions business that provides efficient, bespoke automated packing solutions to a broad range of consumer-facing companies
- **Telecom Plus** – the UK's only multi-service provider of energy, broadband, and insurance, offering customers a 'one-stop shop' for essential services. Telecom Plus's customers enjoy the convenience of a single monthly bill, alongside consistently competitive pricing, and exceptional service standards
- **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
- **FD Technologies** – a consulting services and software business that focuses on helping companies to manage their data and drive digital transformation
- **AG Barr** – a manufacturer of branded soft drinks, which owns market-leading products such as IrnBru and Rubicon. With widespread popularity and a growing share of the UK soft drinks market AG Barr is well-positioned to deliver sustainable growth

The Fund's positions in Smart Metering Systems (acquired by KKR at a 40% premium) and Tortilla Mexican Grill were exited in full.



The largest contributor was Ocean Wilsons, during the quarter, which added +0.6% to the Fund's overall performance. Ocean Wilsons recently released full-year financial results, which confirmed a positive performance from both its key subsidiaries. Wilson Sons, Brazil's largest maritime operator, achieved record profit levels, with operations rebounding to pre-pandemic levels. Additionally, Ocean's investment portfolio also returned to profitability last year.

Other notable contributors during the quarter included; Microlise and Avon Protection, both adding +0.6% and +0.5% respectively. Microlise announced the signing of a lucrative 5-year contract, with a total value of approximately £10.6m. Avon released a strong trading update related to the first quarter of its financial year, in which management highlighted strong order intake and continued strategic progress.

The largest detractor during the month was James Cropper, which cost -0.7% in overall Fund performance. James Cropper's share price fell by 65%, as it warned 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 re-emergence of inflation in 2021 created an exceedingly difficult environment for smaller quoted companies. A reversal in direction for interest rates should provide a much more supportive backdrop for small-cap investors, despite the bleak geo-political backdrop. 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.

