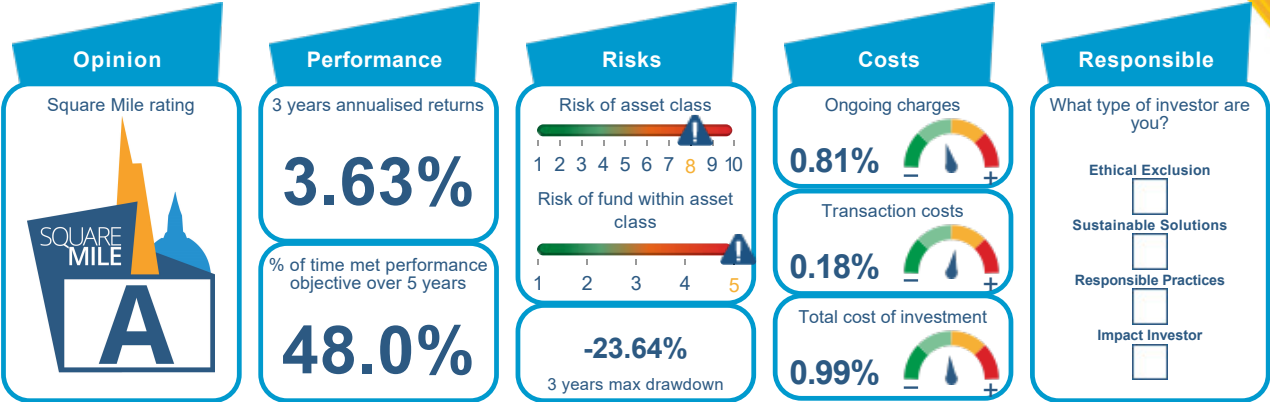


Unicorn UK Income B Inc

September 2024



Source: Square Mile and Refinitiv, Data as at: 31st July 2024.

Overview

The managers aim to provide investors with a high and rising level of income from a portfolio of UK equities, with a bias towards small and medium sized companies.

Equity income funds are a suitable capital accumulation strategy when income is reinvested.

Square Mile’s Expected Outcome

We believe that this fund should be able to outperform the Deutsche Numis Smaller Companies plus AIM (excluding investment companies) index by 2% pa over rolling periods of at least five years

Square Mile’s Opinion

With Simon Moon and Fraser Mackersie at the helm, this fund is run by a pair of managers who appear to have established a strong working relationship and an acute focus on the needs of their investors. We acknowledge that they are part of a reasonably small team of fund managers and analysts, but their approach naturally reduces the number of potential investment ideas significantly. Essentially, the process, which combines both quantitative and qualitative analysis, has been designed to highlight higher quality companies that are committed to paying and delivering sustainable dividends.

The fund differs from many of its dividend paying competitors as it has a natural bias to small and medium sized companies and so is less reliant on the dividends from large, blue chip companies. It should be noted therefore, that the fund's performance is likely to be far more aligned to the smaller cap portion of the UK market. This could result in a more volatile return profile, particularly when viewed against the FTSE All Share index, for example. However, the attributes sought in the companies held should provide some defensive characteristics during more troubled periods. The managers are also aware of the risks of investing in this specialist asset class and construct the portfolio with a sensible balance of conviction and providing adequate diversification.

Overall, we feel this strategy should appeal to investors who are keen to diversify their UK equity income streams away from the market's more significant distributors, but are prepared to accept some additional volatility over shorter time frames.

Fund Manager’s Formal Objective

The Unicorn UK Income Fund aims to provide an income by investing in UK companies

Outcome: Capital Accumulation, Income	Domicile: UK
Active/Passive: Active	Benchmark: Deutsche Numis Smaller Companies + AIM (ex IT) Index
Asset Class: Equity	IA Sector: IA UK Equity Income
Yield: 4.54%	Fund size: £276 M
Fund Manager: Fraser Mackersie, Simon Moon	Distribution Pay Date: February, May, August, November
Fund Price: 2.6 Pounds	Dividend Frequency: Quarterly
Currency of Share Class: GBP	Share Class Launch Date: 24/05/2004

Source: Square Mile and Refinitiv, Data as at: 31st July 2024

Asset Manager Overview

Incorporated in 2000, Unicorn Asset Management is a boutique investment house, which focuses on running money with a bias to UK listed small and medium sized companies.

Fund Manager/Team Overview

This particular fund, the firm's flagship strategy, was launched in May 2004 and has been co-managed by Simon Moon and Fraser Mackersie since early 2014. Both joined the group in 2008 and are part of a small but collegiate team of fund managers and analysts, with the UK team currently comprising of six members. Mr Moon and Mr Mackersie also manage the Ethical Income, UK Growth and UK Smaller Companies funds, but there is a high level of stock commonality across the firm's product range.

Investment Philosophy & Process Overview

Furthermore, the fund's, and indeed the group's investment philosophy, centres around identifying companies with robust business models and strong balance sheets, with the intention of holding them for the long term. The initial stage of the process is based on a series of rudimentary screens, during this stage the industries that the managers do not believe offer long-term profitability, such as commodity-related and pharmaceutical companies, are removed. Listed property companies (i.e. real estate investment trusts) are viewed separately owing to their higher payout ratios. The remaining stock universe is then screened to highlight stocks with a market capitalisation in excess of £100m and, key for this income strategy, a dividend yield above 3% with a good level of dividend cover. This is a rather mechanical process but these parameters can occasionally be adjusted to reflect market conditions. Nonetheless, the screens reduce the universe from around 2800 companies to approximately 200. In addition, ideas can be generated from a variety of other sources, including the trade press and broker research; the managers also consider companies at their initial listing on to the public markets.

The next stage of the process is in depth qualitative analysis including a detailed review of a firm's financial statements. The managers are also always eager to meet with the management of a company in order to further understand its business model and so look to conduct site visits, at least annually, where a stock is held in the portfolio. Ultimately, the managers look for potential investments to comprise a number of the following characteristics: a niche franchise, good order visibility, a competitive advantage with pricing power, significant and growing market presence and long-term profit sustainability which supports a commitment to distributing and growing dividends. The board structure and sound corporate governance are also deemed critical.

The final portfolio is typically limited to a maximum of 50 holdings and aside from the standard UCITS regulations there are few formal limits. The characteristics and size of the companies held and the unconstrained nature of the portfolio's construction mean that it can look vastly dissimilar from the FTSE All Share index. Position sizes tend to be capped at 5%, but there can be exceptions to this rule. This is the primary method of ensuring a sensible level of diversification. Given the size of the firms invested in, the managers will generally not hold more than 5% of a company's issued equity.

In keeping with the long-term investment horizon, turnover tends to be low; the typical holding period is around five years. Sales tend to be undertaken for a number of reasons, including yield compression, when a company fails to meet expectations on an operational basis, or when the managers' conviction in the stock decreases.

ESG Integration

Fund ESG Integration

Within the fund's investment process and philosophy the managers place a reasonably high level of importance on ESG factors, as they believe that companies who behave responsibly, will in turn create lasting value. Therefore, the fund's managers abide by the company wide Responsible Investment Policy. For this fund, the policy is centred around three main pillars, those being, assessing company impact, avoiding companies not in line with the firm's values and engaging to encourage positive change.

We would note that engagement is of particular importance for this fund, given the fact that they have a bias to small and medium sized businesses, which tend to lag their larger peers in terms of reporting and disclosure. The managers, alongside Head of Sustainability and ESG officer, Cordelia Tahany and, Investment and ESG associate Anam Ajani, will look to engage with companies to help them improve their ESG standards.

Moreover, given that certain industries/companies tend to be avoided due to the risks stemming from their negative ESG attributes, the resultant portfolio naturally has a lower exposure to areas commonly associated with having a negative social and environmental impact. For example, industries such as oil & gas, mining and gambling are screened out during the investment process.

Risk Summary

This is an equity based fund typically investing in UK listed companies. The fund is exposed to moves in the UK stock market, which can exhibit significant volatility. The managers typically invest in UK listed companies someway down the market capitalisation scale. These holdings in smaller companies bring the potential of additional liquidity risks. As a result, the fund's returns may see increased levels of volatility over short time periods.

Additional Information

Annualised Return:	3.63%
Annualised Volatility:	14.18%
Max Drawdown:	-23.64%
Max Gain:	11.79%
Max Loss:	-10.76%
Sharpe Ratio:	0.13
Sortino Ratio:	0.13

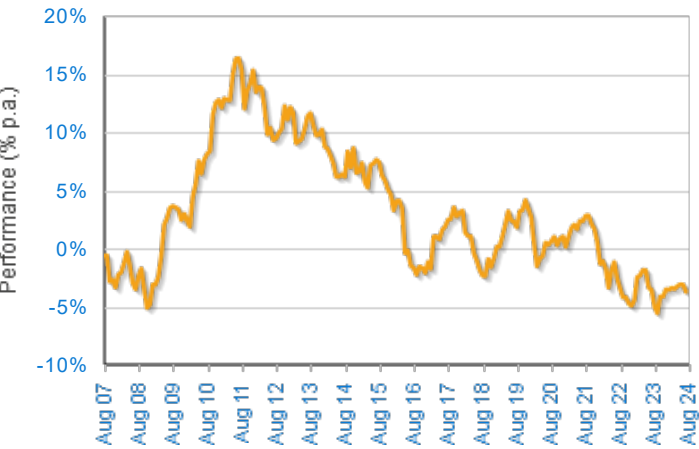
(3 years data to last month end unless otherwise stated)

Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			
Interest Rate Risk			
Credit Risk			
Exchange Rate Risk			
Liquidity Risk			
Emerging Markets Risk			
Derivative Risk			
Manager Risk			

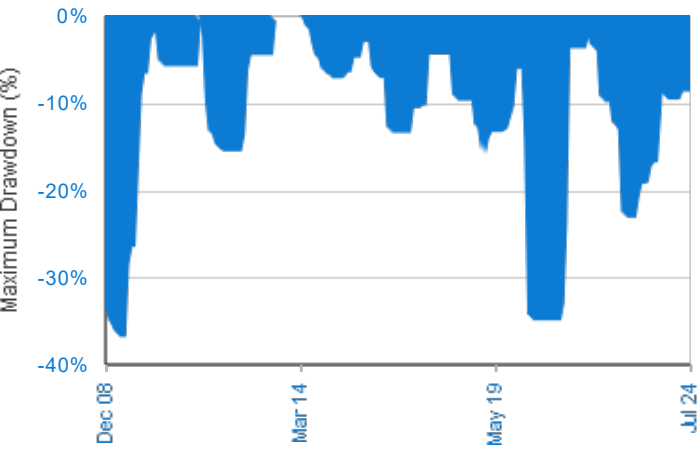
For the full summary of the risks, [click here](#)

3 Year Rolling Sector Outperformance



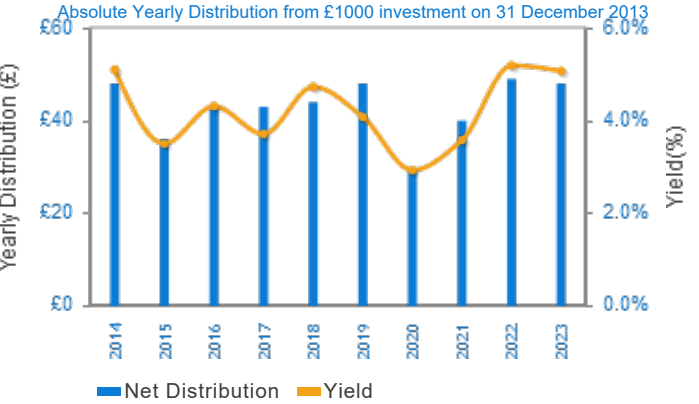
Source: Square Mile and Refinitiv, Data as at: 6th September 2024. Share price total return.

Maximum Drawdown (Rolling 12 Months)



Source: Square Mile and Refinitiv, Data as at: 6th September 2024

Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations. The fund's yield has been calculated by Square Mile by taking the price of the fund at the start of the year and dividing it by the distributions over the full calendar year.

Source: Square Mile and Refinitiv, Data as at:

Calendar Year Performance To Quarter End

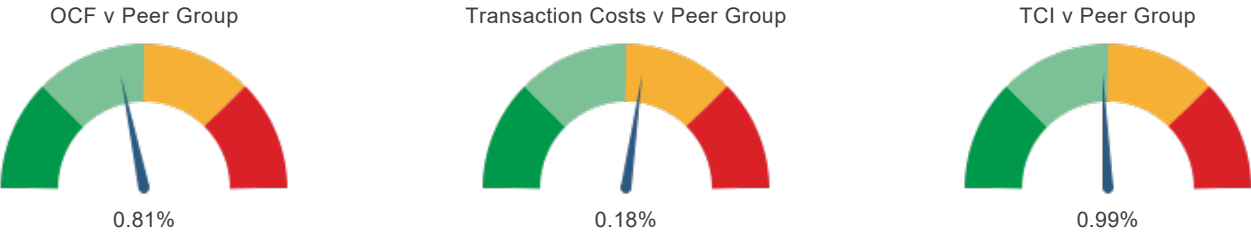
Period	Fund (%)	Sector (%)
2023	7.7	7.0
2022	-11.6	-2.0
2021	14.9	18.4
2020	-11.8	-10.8
2019	31.3	19.9

Source: Square Mile and Refinitiv, Data as at: 14th September 2024

Value for Money

Although the fund's ongoing charge figure (OCF) is lower than the peer group median, its transaction costs are above the average for the peer group. However, the total cost of investment (TCI) around the peer group median. Given the differentiated offering, with the managers investing predominantly down the market capitalisation spectrum, we would view the overall cost structure of this strategy providing investors with adequate value for money.

Furthermore, following the introduction of MiFID II regulations, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, Unicorn AM has absorbed the costs associated with its research, which slightly reduces the overall fee paid by investors.



Source: Square Mile and Refinitiv, Data as at: 31st July 2024.

The Square Mile ratings are reviewed every 6 months. For full details on the methodologies, [click here](#).

For a full list of all Square Mile rated funds, [click here](#).

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