

Unicorn UK Income B Inc

November 2021
Investment Research



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 Expected Outcome

We believe that outperforming the FTSE All Share index by 3-4% p.a. over rolling five year periods would be a reasonable expectation for this fund.

Active/Passive: Active	Domicile: United Kingdom
Asset Class: Equity	IA Sector: IA UK Equity Income
Launch Date: 24/05/2004	Fund Size (as at 04 Nov 2021): £493.9m
Yield: 3.49%	Distribution Pay Date: Jan 02 (Final), Apr 01, Jul 01, Oct 01
Fund Manager: Fraser Mackersie , Simon Moon	Ongoing Charge Figure: 0.81%
	Transaction Cost ex Ante: 0.11%



Fund 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 Description

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. 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. Mr Moon and Mr Mackersie also manage other strategies independently, but there is a high level of stock commonality across the firm's product range.

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 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. A maximum position size of 5% is therefore 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.

Risk Summary

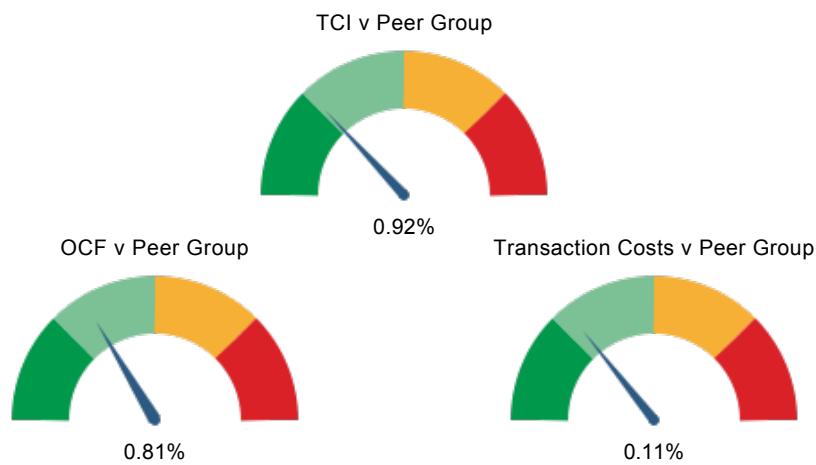
This is an equity based fund typically investing in UK listed companies. The fund is exposed to moves in the UK stock market, which can exhibit significant volatility.

The managers typically invest in UK listed companies somewhat 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.

Value for Money

The fund's ongoing charge figure (OCF), transaction costs and total cost of investment (TCI) are all lower than the UK equity income peer group median. Therefore, in our view, the overall cost structure of this strategy provides investors with good 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. This step is at the discretion of each fund group, but it is one that a number of firms have followed.



ESG Integration

Company Assessment	0	1	2	3
The company has some, but limited, consideration of ESG factors across some of its investment teams but these are not a formal part of its investment process.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Information

Annualised Return	8.10%
Annualised Volatility	18.91%
Max Drawdown	-38.25%
Max Gain	12.90%
Max Loss	-37.54%
Sharpe Ratio	0.36
Sortino Ratio	0.30

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

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

273.8 pence

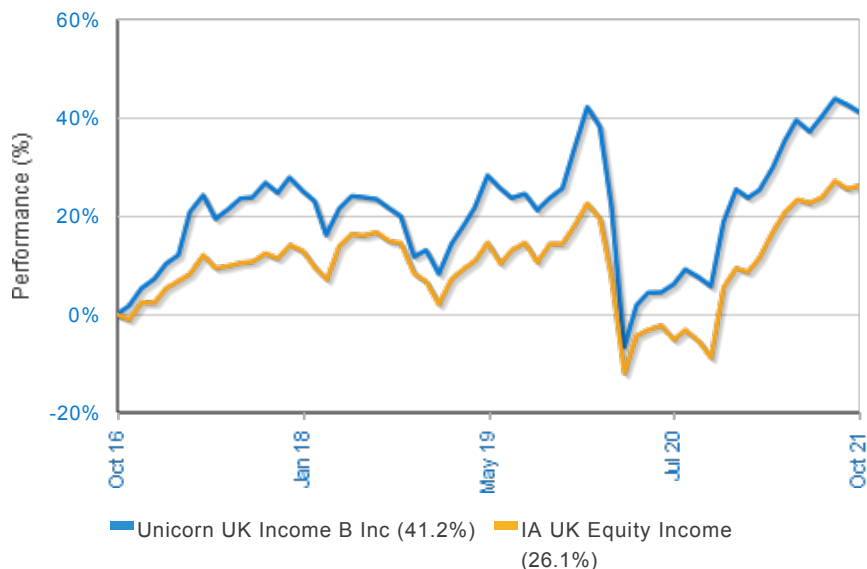
Benchmark

FTSE All Share

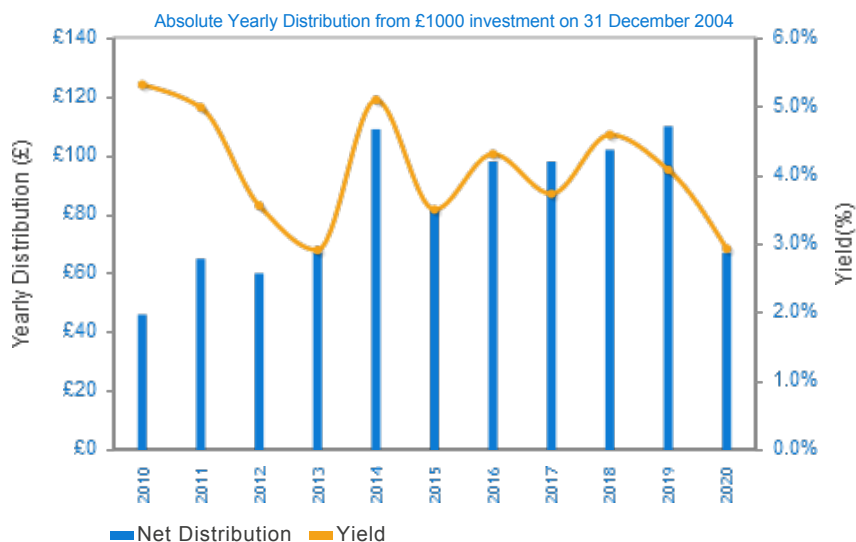
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	32.6	32.7	2
12-24m	-13.0	-17.2	2
24-36m	3.0	-0.2	1
36-48m	-3.0	3.4	4
48-60m	20.5	10.6	1

Capital Growth

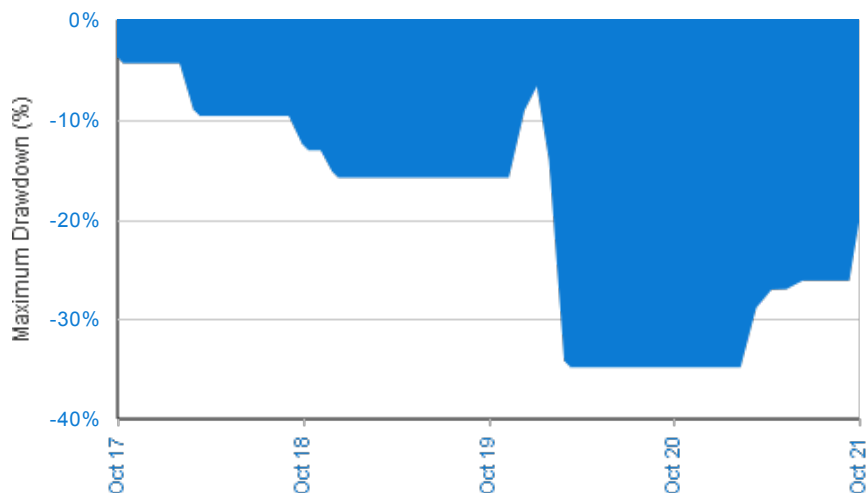


Income



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.

Maximum Drawdown (Rolling 12 Months)



Top Ten Holdings

(Data as at 29 Oct 2021)

Company Name	%
LONDONMETRIC PROPERTY PLC	5.3
BREWIN DOLPHIN HLDGS PLC	4.9
PHOENIX GROUP HLDGS PLC	4.9
TELECOM PLUS	4.8
POLAR CAPITAL HLDGS PLC	4.2
SABRE INSURANCE GROUP PLC	3.7
PRIMARY HEALTH PROPERTIES	3.5
VESUVIUS PLC	3.3
B & M EUROPEAN VALUE RETAIL SA	3.2
BOOT(HENRY)	3.0

Sector Breakdown

(Data as at 29 Oct 2021)



- Financial Services (19%)
- Industrials (13%)
- Property Shares (12%)
- Building & Construction (8%)
- Insurance (5%)
- Retailers - General (5%)
- Life Insurance (5%)
- Money Market (5%)
- Telecommunications Utilities (5%)
- Other (22.0%)

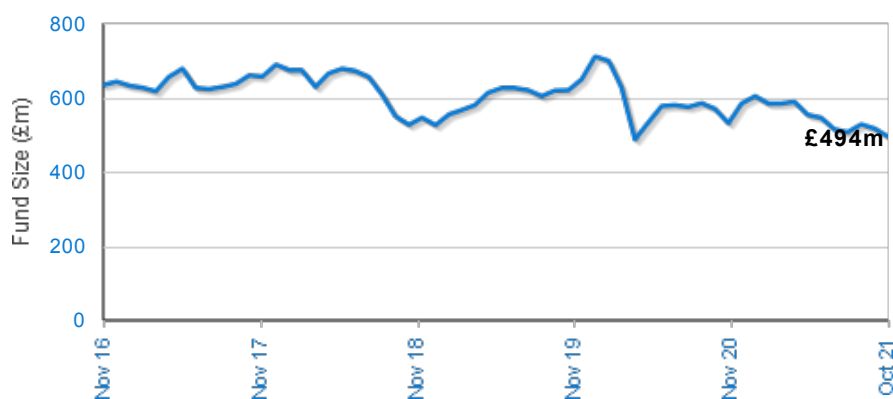
Geographic Breakdown

(Data as at 29 Oct 2021)



- UK (87%)
- Money Market (5%)
- USA (3%)
- Bermuda (2%)
- Guernsey (1%)
- Switzerland (1%)
- Ireland (1%)

Assets Under Management



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	●		

Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely impact the valuations of shares.

Credit Risk

This fund does not have significant exposure to corporate debt.

Exchange Rate Risk

The fund is predominantly invested in domestically listed assets.

Liquidity Risk

This fund invests in smaller companies which may, at times, be difficult to sell. The managers may need to resort to selling assets at below fair value in order to meet redemptions. The risk of this happening is most acute at times of financial distress.

Emerging Markets Risk

The fund predominantly invests in securities listed by organisations operating in developed markets.

Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

Manager Risk

The managers are seen as a critical element in Square Mile's rating of this fund. Square Mile is likely to downgrade the fund if there was a change to the management structure.

FE Risk Rating: 92.00

SRRI: 6

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