

Acorn Income Fund





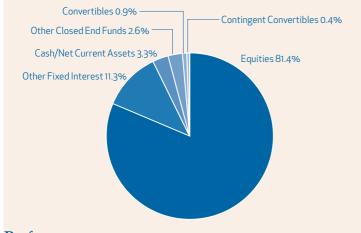
## **Investment Objectives and Policy**

The Company's objective is to provide a high level of income with the opportunity for income growth and capital growth over the life of the Company.

#### The Company invests in two portfolios:

- Smaller Companies portfolio: between 70% to 80% of the assets will be invested predominantly in smaller capitalised UK companies. The focus will be on companies with experienced and well motivated management, products or services supplying growth markets, sound operational and management controls, good cash generation and a progressive dividend.
- Income portfolio: between 20% to 30% of the assets will comprise fixed interest securities, including convertible securities and structured investments across a range of asset classes. However, not all of these investments are necessarily held in this portfolio at any one time. The Income Portfolio may also contain shares of other investment companies, including property investment companies, not exceeding 15% of the overall portfolio at the time of investment, and investments in open-ended fixed interest funds. It may also contain instruments denominated in other currencies in respect of which the currency exposure is generally hedged.

### Asset Allocation



#### **Fund Facts** as at 31.05.2017

**Gross Assets** £108.1m (Asset Allocation and other analysis in

this document have been based on this figure)

**Launch Date** 11 February 1999

**Domiciled** Guernsey **Year End** 31 December

**Dividends paid on** March, June, September, and December.

Management Fee 0.70% (charged 75% to Capital and 25% to

Revenue) plus performance fee.

**Fund Managers** Simon Moon, Fraser Mackersie (Unicorn: Smaller

Companies portfolio)

Paul Smith (Premier: Income portfolio).

**Directors** Helen Green (Chairman), Nigel Ward, David Warr

**Capital Structure** 

21,365,221 Zero Dividend Preference Shares redeeming at

167.20p on 28/02/2022.

15,916,687 Ordinary shares

(excluding shares held in Treasury).

The Company has a continuation vote at the Note:

Annual General Meeting in 2021.

#### Recent Announcements

06 June The Company announced a second interim

dividend of 4.5p per ordinary share made payable

on 30 June 2017.

# Performance as at 31.05.2017

	Repayment	Mid Price	NAV*	Redemption Price	Yield	Zero	Hurdle	Cover %	Share Price Performance % (TR)		
	Date	(P)	(P)	) (P)	%	GRY %	Rate %		1m	1yr	3yr
Zero Dividend Preference Shares	28/02/2022	144.75	139.73	167.20	-	3.1	-60.0	2.9***	0	+7.2	+16.9
Ordinary Shares	-	438.00	491.33**	-	4.1	-	-8.9	-	+3.3	+22.2	+36.6

Source: JP Morgan Cazenove/Morningstar. Past performance is not a guide to future performance. \*NAV figure as published by the company, \*\*Cum-income. \*\*\*Non-Cum Cover

## Dividends (last 5 years)

	1st Interim		2nd Interim		3rd Interim		4th Interim		5th Interim		Total
Year Ending	Payment Date	Amount (pence)	Dividend (pence)								
31-Dec-17	31-Mar-17	4.50	30-Jun-17	4.5							9.0
31-Dec-16	29-Mar-16	3.50	28-Jun-16	4.0	30-Sep-16	4.0	30-Dec-16	4.0	-	-	15.5
31-Dec-15	27-Mar-15	3.25	27-Jun-15	3.50	29-Sep-14	3.50	30-Dec-15	3.50	-	-	13.75
31-Dec-14	31-Mar-14	3.0	27-Jun-14	3.25	30-Sep-14	3.25	31-Dec-14	3.25	-	-	12.75
31-Dec-13	31-Mar-13	3.0	28-Jun-13	2.0	28-Jun-13	1.0	30-Sept-13	3.0	27-Dec-13	3.0	12.0

31 May 2017

Smaller Companies Portfolio	83.3% of Gross Assets
1 Conviviality Retail	3.8%
2 Clipper Logistics	3.5%
3 Acal	3.3%
4 Warpaint London	3.3%
5 Somero Enterprises	3.2%
6 Safestyle UK	2 7%
7 Secure Trust Bank	2.7%
8 FDM Group	2.7%
9 Gateley Holdings	2.6%
10 Macfarlane Group	2.6%
Top 10 Total Percentage	30.3%
Total No. of Holdings	51

## Fund Manager's Comments-Smaller Companies Portfolio

#### **April**

The smaller companies' portfolio enjoyed a strong month in April, recording a total return of +8.0%, which compared favourably with a rise of 3.9% by the benchmark Numis Smaller Companies (ex. IC) Index

Investor appetite for UK Small and Mid-Caps appeared to increase in a fairly meaningful way in April as a number of portfolio holdings moved higher despite limited company specific news flow during the period. The surprise decision by Theresa May to call a general election in June was taken well by financial markets and viewed as a positive step for the UK economy. Unsurprisingly the more domestically focused small and mid-caps responded well to the news.

The primary contributor to performance during the month was Warpaint London, which contributed 0.55% to Fund performance. Shares in the specialist supplier of colour cosmetics and owner of the W7 make up brand, continued to perform strongly following its IPO at the end of 2016. The second largest contributor to performance was Secure Trust Bank, which added 0.52%. Other positive contributors to performance included Hostelworld Group and Acal, contributing 0.47% and 0.42% respectively to fund performance.

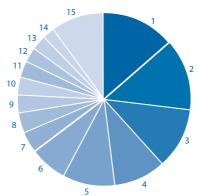
Two new stocks were added to the portfolio in April. We participated in the IPO of Alpha FX, a provider of bespoke FX solutions to small and medium sized companies. Despite commanding a relatively small initial position in the portfolio a strong first month of trading saw the stock contribute 0.41% to performance. A new position was also initiated in Polar Capital, the specialist asset manager, during the period.

#### March

The smaller companies portfolio recorded a total return of +0.8% in March, compared to the benchmark Numis Smaller Companies (ex. IT) Index, which registered a total return of +2.5% over the same period.

The principal contributor to performance was Somero Enterprises which added 0.77% to Fund performance. Somero announced full year results which included record revenues driven by robust demand from core markets in the US and Europe, as well as strong growth in new product sales. Good levels of cash conversion resulted in net cash on the balance sheet increasing to over \$20m, providing scope for a potential future return of cash to shareholders. The full year dividend for the reported financial year increased by 61%.

# Smaller Companies Portfolio Sector Analysis



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1	Support Services	13.9%
2	Financial Services	13.3%
3	Construction & Materials	11.4%
4	General Retailers	9.7%
5	Industrial Transportation	9.7%
6	Industrial Engineering	6.8%
7	Real Estate Investment Trusts	4.1%
8	Travel & Leisure	3.7%
9	Fixed Line Telecommunications	3.5%
10	Personal goods	3.3%
11	Media	3.1%
12	Software & Computer Services	2.7%
13	Banks	2.7%
14	Cash	2.3%
15	Other	9.9%

FDM Group was the second largest contributor to performance, adding 0.34% to Fund performance. The provider of professional IT services reported full year results which included growth in revenues of 18%, driven by strong demand for its IT professionals in the North American and Asia Pacific regions. The group continues to invest in its training academies to support future growth in deployment of trained IT consultants.

The principal detractor from performance was Van Elle Holdings, which cost the Fund 0.64% of performance. The geo-technical contractor issued a trading update which reported that trading across its General Piling, Ground Engineering Services and Ground Engineering Products was expected to be in line with expectations. However, a number of contracts in its Specialist Piling division were likely to slip into the next financial year, or be revised in terms, leading to a 5% reduction in expected group revenue for the current financial year. The long-term opportunity for the company remains attractive, including the requirement for maintenance work and capital investment programmes in the UK's rail network.

During the month, positions in Sprue Aegis, Harvey Nash Group and Morses Club were exited in full and a new position in Berendsen was initiated. Cash was raised in March in anticipation of an IPO which was due to start trading in early April.



31 May 2017

In	Income Portfolio 16.7% of Gros			
1	Real Estate Credit Investment Pref 8% Sept 2017	5.2%		
2	DW Catalyst Fund	3.4%		
3	JPMorgan Global Convertibles	3.3%		
4	UK Treasury 2.5% Index Linked 16/04/2020	2.9%		
5	Longbow Senior Secured UK Property	2.9%		
6	HSBC Holdings 6.00% 29/03/2040	2.2%		
7	Burford Capital 6.5% Aug 2022	2.1%		
8	ITV 2.125% 21/09/2022	2.0%		
9	F&C Global Smaller Companies 3.5% CULS 31/7/19	2.0%		
10	Glencore Finance Dubai 2.625% 19/11/2018	2.0%		
Top	o 10 Total Percentage	28.1%		

The Portfolio has a hedged position via government bond futures. The hedge acts to reduce the duration of the portfolio, limiting interest rate risk.

**75** 

# Fund Manager's Comments-Income Portfolio

#### May

**Total No. of Holdings** 

Markets continue to move higher in the face of numerous global uncertainties which could yet threaten what we see as complacent valuations seen across many asset classes. Within fixed income, both real yields and credit spreads continue to look expensive meaning that it is important to maintain investor discipline and try not to chase yield at any cost.

Closed-ended vehicles have proved to be a relatively attractive way of investing in the current environment. For instance over the last few months the JP Morgan Global Convertibles Income Fund has offered well managed access to the asset class at a material discount relative to NAV making it especially attractive compared to investing directly in the current environment. The vehicle performed strongly over the month following the revision of its discount control mechanism by the board, triggering a sharp tightening of the discount.

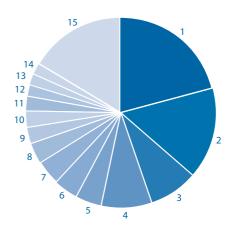
#### **April**

As French election risk fades from view, the coming months may see the European Central Bank (ECB) refocus on the Eurozone's increasingly robust expansion and shift to a more neutral stance on the balance of risks to growth. Given the huge amount of monetary stimulus injected over the last few years, this could also signal that it is preparing to scale back its significant easing in the near future.

Given that the ECB has bought around 10% of its eligible universe of its corporate bond buyback programme, artificially suppressing credit spreads to very tight levels, the withdrawal of technical support should be something that corporate bond holders should be cautious of. The resulting low, manipulated, yields have been partly responsible for driving up the prices in other bond markets, as the search for yield expanded.

Sterling corporate bonds have been one such beneficiary of the ECB's policies but have also enjoyed more direct support, as the Bank of England initiated their own corporate bond buybacks as part of its post-referendum emergency measures last year. This month the Bank announced it has now completed its £10bn repurchase target with no plans to extend it.

# Sector Analysis of the Income Portfolio



1	Closed-end Funds	21.1%
2	<b>Diversified Financial Services</b>	15.3%
3	Cash/Net Current Assets	8.5%
4	Banks	8.5%
5	Communications	4.5%
6	Electric	4.2%
7	Structured Notes	4.1%
8	Water	3.6%
9	Gilts	2.9%
10	Real Estate	2.8%
11	Property	2.3%
12	Publishing & Broadcasting	2.0%
13	Mining	2.0%
14	Travel & Leisure	2.0%
15	Other	16.2%

Despite this marginal buyer dropping out, robust investor demand for credit has meant that the impact on spreads so far, has been muted. But given the rich valuations for corporate bonds are a function of low yields within sovereign bonds, downside risks could yet emerge from various potential outcomes; risk aversion could see pressure put on credit spreads, whilst a more constructive view of growth or inflationary pressures, could see the value of corporate bonds suffering from rising yields in underlying government bonds. Therefore, as the technical supports which have driven complacency in bond markets are beginning to be tested, we remain diversified away from traditional fixed income instruments and maintain minimal duration exposure.

31 May 2017

# **Fund Managers**



## Simon Moon Manager, Unicorn Asset Management

Simon Joined Unicorn in 2008 from JM Finn stockbrokers where he worked as a research analyst. Before moving to the City, Simon spent three years on the NHS graduate finance scheme. He is Co-Manager of the Unicorn UK Smaller Companies Fund and was appointed Co-Manager of the Unicorn UK Income and Acorn Income Fund in December 2013



#### Fraser Mackersie

Manager, Unicorn Asset Management
Fraser joined Unicorn Asset Management in 2008
and has been an active member of Investment
Committee at Unicorn since joining the firm. He
has been manager of the Unicorn UK Growth fund
since February 2011 and co-manager of the
Unicorn UK Income Fund & Acorn Investment fund
since 2013. Prior to joining Unicorn Fraser held
positions at F&C Asset Management and
Geoghegan & Co Chartered Accountants. Fraser is



# Accountants. Paul Smith,

### **Manager, Premier Fund Managers Limited**

a Fellow of the Association of Chartered Certified

Paul Smith joined Premier in 2006 and his responsibilities include the management of a number of open and closed ended funds. Paul's management of lower risk mandates has over the last decade been recognised at the Money Observer Investment Trust Awards, Investment Week Fund Manager of the Year Awards, and membership of the Investment Adviser 100 Club. Paul has a First Class BA (Hons) degree in Economics, and an MA in Finance and Investment (with Distinction) from Exeter University.

#### Statement regarding non mainstream investment products.

The company currently conducts its affairs so that both the Ordinary shares and Zero Dividend Preference shares issued by the Company can be recommended by IFAs to retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. Acorn Income Fund's shares fall outside the regulations which apply to non-mainstream investment products because Acorn Income Fund invests substantially in shares, debentures or government and public securities and also because Acorn Income Fund would qualify for approval as an investment trust if it was resident in the United Kingdom.

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Share Codes	ISIN (Sedol)	Epic
Zero Dividend Preference Shares	GG00BYMJ7X48	AIFZ
Ordinary Income Shares	GB00(0482943)7	AIF

#### **Definitions**

**NAV** The NAV is the Net Asset Value per share as announced by the company.

**Yield** The yield quoted is the annual net/gross dividend (computed using actual dividends paid and/or forecast or estimated dividends) divided by the current share price, expressed as a percentage.

**Zero GRY** Gross Redemption Yield is the internal rate of return, expressed as an annual percentage, assuming the share is bought at the current share price and repaid at the pre-determined redemption price.

**Hedge** A hedge is an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

**Hurdle Rate** This shows the compound annualised growth rate in total assets required to return the pre-determined redemption price or, for shares without a pre-determined redemption price, to repay the current share price.

#### **Important Notes**

**The level of risk** is constantly fluid. Risk levels can change significantly due to movements in gross assets and the level of market volatility and through corporate actions.

**This Fund uses gearing** as an investment strategy which means that movements in the price of the ordinary shares may be more volatile than the movements in the price of the underlying investments if the investment is subject to sudden and large falls in value and investors may get back nothing at all if there is a sufficiently large fall in value in the investment.

The Fund invests, to a limited extent, in overseas markets which introduces a currency risk. Changes in exchange rates may affect the value of overseas investments

**Data information:** Top 10 holdings are calculated as a percentage of the total assets in each portfolio. Performance data based on estimated figure calculated by JP. Morgan Cazenove. All figures quoted are as at 30.04.2017. FTSE International Limited ("FTSE") © FTSE 2017. FTSE® is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

**Past performance** is not a guide to future performance. The value of shares and the income produced by them, can go down as well as up, especially over the short-term. There is always the risk that you will not get back your original investment.

**Dividends** may be subject to downward revision.

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