

Investment objective

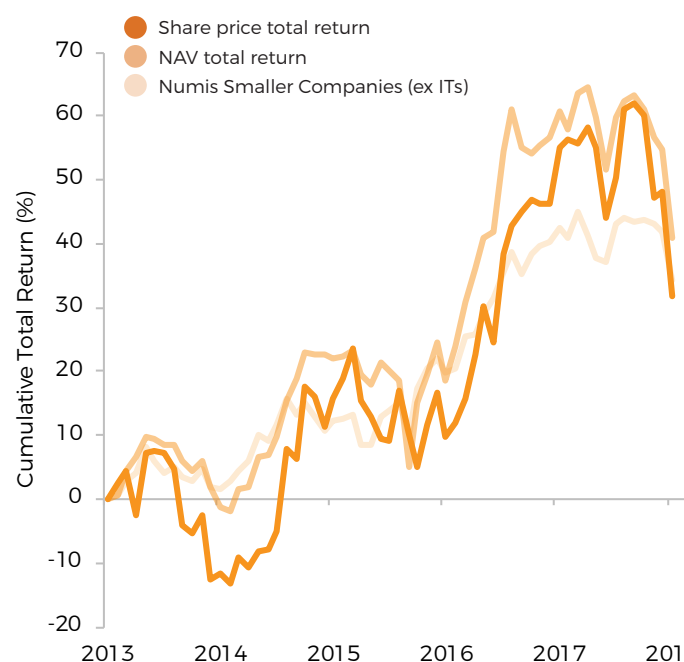
The investment objective of the Company is to provide shareholders with a high income and also the opportunity for capital growth. The Company invests in two portfolios: Smaller Companies: between approximately 70% and 80% of the assets will be invested predominantly in smaller UK companies. Income: between approximately 20% and 30% of the assets will comprise fixed interest securities, including convertible securities, investment company shares and structured investments across a range of asset classes.

Performance

Cumulative performance total return

	1m	6m	1yr	3yrs	5yrs
Ordinary share price	-11.0%	-12.4%	-15.1%	14.1%	31.9%
Net Asset Value (NAV)	-9.0%	-11.8%	-12.4%	15.5%	41.0%
Zero Dividend Preference share price	0.3%	0.3%	2.5%	15.6%	27.2%
Benchmark*	-5.3%	-6.2%	-5.8%	19.7%	34.3%

Ordinary shares 31.10.2013 to 31.10.2018



Discrete year performance to quarter end

	30.09.2013-30.09.2014	30.09.2014-30.09.2015	30.09.2015-30.09.2016	30.09.2016-30.09.2017	30.09.2017-30.09.2018
Ordinary share price	-10.4%	27.5%	4.8%	25.3%	1.4%
Ordinary NAV	5.8%	20.5%	1.7%	25.6%	-1.1%
ZDP share price	7.1%	3.5%	4.4%	6.5%	3.8%
Benchmark*	5.5%	8.7%	10.2%	14.7%	1.1%

Fund facts

Gross assets	£95.8m
Launch date	11 February 1999
Continuation vote	2021
Domiciled	Guernsey
Year end	31 December
ISA eligible	Yes
Management fee	0.70% per annum (charged 75% to revenue, 25% to capital)
Fund managers	Simon Moon, Fraser Mackerzie (Unicorn: Smaller Companies portfolio) Paul Smith (Premier: Income portfolio)
Directors	Helen Green (Chairman), Nigel Ward, David Warr
Capital structure	Zero Dividend Preference Shares (ZDPs) 21,230,989 redeeming at 167.20p on 28/02/2022. Ordinary shares (excluding shares held in Treasury) 15,816,687
Share codes:	ZDPs ISIN (Sedol): GG00BYMJ7X48 Epic: AIFZ Ordinary shares ISIN (Sedol): GB00(0482943)7 Epic: AIF

Dividend data

Ordinary shares

Dividend yield	5.2% ¹
Revenue reserve as at 31.12.17	18.14p per share
Expected payment dates:	June, Sept, Dec, March

Dividend payments

	1st interim	2nd interim	3rd interim	4th interim	Total
2018	4.95p	4.95p	4.95p	-	14.85p
2017	4.5p	4.5p	4.5p	4.5p	18.00p
2016	3.5p	4.0p	4.0p	4.0p	15.50p
2015	3.25p	3.50p	3.25p	3.50p*	13.75p
2014	3.0p*	2.65p*	2.65p*	5.45p*	13.40p
2013	1.7p	2.65p*	2.65p*	5.25p*	12.25p

Please note that the share price of the fund and the level of income generated from it can go down as well as up and there is the possibility that you could lose some of your investment. Please see Important information on page 4 for further details. ¹Source: JP Morgan Cazenove. *Benchmark represents 25% BofAML STG Non-Gilts Index / 75% Numis Smaller Companies ex IT Index.

Smaller companies portfolio

Fund managers' comments

- The equity portfolio registered a total return of -7.7% in October, which compares to the benchmark Numis Smaller Companies (ex. IT) Index total return of -7.2% over the same period.
- October was a challenging month for equity markets as risk aversion took hold in the US, where further interest rate rises are now expected. Heightened political risks, including an escalating trade war between the US and China, and uncertainty surrounding the UK's Brexit negotiations, also contributed to a deterioration in investor sentiment. The market correction was led by the largest and most highly-valued growth stocks.
- Warpaint was the largest detractor, costing the Fund -1.6% in performance. During October, Warpaint warned that challenging trading conditions in the UK would result in full-year profits being below expectations. The company, which supplies low priced cosmetics, is dependent on sales over Christmas. Although UK retailers have reduced stock levels, the company has continued to achieve strong international growth. The group remains profitable.
- Amino Technologies was the second largest detractor from performance, costing the Fund -1.0%. Amino warned that challenging economic conditions in emerging markets, has resulted in lower than anticipated customer orders. This issue, combined with a material increase in the cost of components, is expected to result in full year profits being below forecast. Despite these headwinds, the company intends paying an increased dividend.
- The largest positive contributors to performance included Telecom Plus and Park Group, which, in aggregate, contributed +0.7% to total portfolio performance.

Simon Moon & Fraser Mackersie

Top 10 holdings (Total number 48)

Portfolio %

Company	Portfolio %
Somero Enterprises	3.4
Ocean Wilson Holdings	3.2
Marshalls	3.1
Macfarlane Group	2.8
Park Group	2.8
Telecom Plus	2.8
Polar Capital Holdings	2.8
Mucklow A&J Group	2.8
James Halstead	2.7
Dairy Crest	2.7

Sector breakdown

Portfolio %

Sector	Portfolio %
Industrials	42.8
Consumer Goods	4.3
Consumer Services	10.2
Telecommunications	4.6
Financials	31.2
Technology	5.3
Cash	1.6

Income portfolio

Fund manager's comments

- October saw a market sell-off within equities as trade tensions, a continued indication of tightening monetary policy from the U.S. Federal Reserve with the prospect of further rises in interest rates and rich valuations saw risk assets hit hard.
- Whilst Government bonds remained unattractive on a valuation basis, they saw some support given the risk aversion in the market. It should be noted though, that periods which have seen both equities and bonds fall simultaneously have increased in recent times, as global monetary policy is pared back.
- Credit spreads have moved wider and although the weakness was not as pronounced as observed in equities, spreads still feel vulnerable, regardless of whether growth stabilises, or weakens, as technical supports fade.
- We continue to favour a defensive profile, especially within bond markets, whilst utilising a broader range of absolute return strategies to aid stability.

Paul Smith

Top 10 holdings (Total number 81)

Portfolio %

Company	Portfolio %
Investec Bank USD Kick OUT Notes Aug 2022	4.5
APQ Global 3.5% CULS Sep 2024	3.5
ST Modwen Properties 2.875% Convertible Bond Mar19	3.5
Value & Income Trust 11% Mar 2021	3.3
UK Treasury 1.25% Index Linked Nov 2032	3.0
Pershing Square Holdings Ltd	2.5
Tesco Personal Finance 1% Dec 2019	2.5
Credit Suisse Group AG 2.75% Aug 2025	2.3
Burford Capital 6.5% Aug 2022	2.3
BAT International Finance 4% Sep 2026	2.1

Sector breakdown

Portfolio %

Sector	Portfolio %
Financial	35.7
Equity	16.8
Industrials	32.4
Securitized/Collateralized	1.9
Utility	2.1
Sovereign	5.0
Cash	6.2

Share class information

Ordinary shares	
Share price ¹	379.5p
NAV ¹	407.87p
Discount	-7.0%
Gearing	48.5%

ZDP shares	
Repayment date	28/02/2022
Share price ¹	152.0p
NAV ⁴	147.4p
Premium	+3.1%
Redemption value ⁴	167.2p
Gross Redemption Yield ⁴	2.9%
Hurdle rate ²	-27.3%
Cover ³	2.5x

The ordinary shares are geared by the ZDP shares which have a fixed entitlement to capital and rank ahead of the ordinary shares for repayment on any winding up of the Company. The current gearing level is shown in the table above.

The effect of gearing is that the NAV of the ordinary shares is expected to rise faster than the increase in the gross assets of the Company in a rising market but fall faster than the decline in gross assets in a falling market. This increases the risks associated with investing in the ordinary shares but enhances the potential return. As the ZDPs have no entitlement to a dividend, the ordinary shares will have potential for a higher dividend than would be the case if the Company was ungeared.

The ZDPs can be considered as a more defensive and lower risk investment than the ordinary shares but their potential return is limited by their fixed capital entitlement on the repayment date. The potential return, if held to redemption, is shown by the Gross Redemption Yield. The cover and hurdle rate are shown to enable the risk characteristics of these shares to be assessed.

² This shows the compound annualised rate of growth or decline in total assets required to return the pre-determined redemption price applicable to the ZDP shares.

³ The ratio by which the shareholder's redemption value is currently covered by those assets of the company available at wind-up.

¹ Source: Bloomberg. ^{2,3&4} Source: JP Morgan Cazenove/Morningstar, estimated data as at the previous nights close. Past performance is not a guide to future performance.

Non complex investments

The Directors of the Acorn Income Fund consider that both the ordinary shares and the ZDPs are non-complex investments for the purpose of the MiFID II regulations. The directors took legal advice in reaching this conclusion and a copy of that advice can be made available to prospective investors on request.

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.

Important notes

Risk levels can change significantly due to movements in gross assets and through corporate actions.

This Fund uses gearing as an investment strategy which means that movements in the value of the ordinary shares may be more volatile than the movements in the value of the underlying investments. Investors may get back nothing at all if there is a sufficiently large fall in value in the portfolio.

The Fund invests in overseas markets which involves currency risks. Changes in exchange rates may affect the value of overseas investments.

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.

There is always the chance that you will not get back your original investment.

Announcements

There were no major announcements this month.

Definitions

NAV: The NAV is the Net Asset Value per share.

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 Gross Redemption Yield: 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 rate of growth or decline 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.

Data information: Top holdings are calculated as a percentage of gross assets. Performance data source: FE Analytics, unless stated otherwise. Ordinary shares NAV performance source: Northern Trust. Based on a bid to bid, total return (net income reinvested), net of fees, UK Sterling basis.

All data quoted to 31 October 2018, unless stated otherwise.

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Important information

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