

Acorn Income Fund



Fund Information as at 31 May 2020

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 Portfolio: between approximately 70% and 80% of the assets will be invested predominantly in smaller UK companies. Income Portfolio: 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	-5.4%	-28.9%	-28.4%	-29.7%	-6.8%
Net Asset Value (NAV) ¹	3.6%	-24.8%	-24.7%	-26.7%	2.3%
ZDP share price	2.0%	-2.9%	-2.9%	4.3%	14.5%
Comparator benchmark**	2.7%	-14.1%	-10.0%	-9.7%	8.4%

Ordinary shares 31.05.2015 to 31.05.2020



Discrete year performance to quarter end

	31.03.2015-31.03.2016	31.03.2016-31.03.2017	31.03.2017-31.03.2018	31.03.2018-31.03.2019	31.03.2019-31.03.2020
Ordinary share price	18.9%	13.8%	15.7%	-11.1%	-21.6%
Ordinary NAV ¹	13.7%	16.8%	6.9%	-1.2%	-31.7%
ZDP share price	1.8%	8.0%	5.2%	1.0%	-4.9%
Comparator benchmark**	3.3%	16.5%	4.3%	0.1%	-19.1%

Key facts

Gross assets	£82.8m
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 capital, 25% to revenue)
Fund managers	Simon Moon, Fraser Mackersie (Unicorn: Smaller Companies portfolio) Chun Lee, Robin Willis (Premier Miton: Income portfolio)
Directors	Nigel Ward (Chairman), Sharon Parr, David Warr, Nigel Sidebottom
Capital structure ZDP:	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): GG00(BYMJ7X4)8 Epic: AIFZ
Ordinary shares:	ISIN (Sedol): GB00(0482943)7 Epic: AIF

Dividend data

Ordinary shares

Dividend yield	8.3% ²
Revenue reserve as at 31.12.19	21.61 p per share
Expected payment dates:	March, June, Sept, Dec.

Dividend payments

	1st interim	2nd interim	3rd interim	4th interim	Total
2020	5.75p	5.75p			11.5p
2019	5.20p	5.20p	5.20p	5.20p	20.80p
2018	4.95p	4.95p	4.95p	4.95p	19.80p
2017	4.50p	4.50p	4.50p	4.50p	18.00p
2016	3.50p	4.00p	4.00p	4.00p	15.50p
2015	3.25p	3.50p	3.50p	3.50p	13.75p

Dividend policy

The Company aims to pay a higher total annual dividend relative to the average dividend yield of the Numis Smaller Companies Index ex Investment Companies.

**Comparator benchmark represents 25% Bank of America Merrill Lynch Sterling Non-Gilts Index / 75% Numis Smaller Companies ex IT Index. Performance: bid to bid, total return (net income re-invested), net of fees, UK sterling basis. Performance source: FE Analytics. ¹Source: Numis / Morningstar. ²Source: Premier Miton. The share price and the level of income can go down as well as up and there is the possibility that you could lose some of your investment. Please see Investment risks on page 4 for further details.

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Smaller companies portfolio

Fund managers' comments

- The Acorn equity portfolio registered a total return of +3.9% in May, compared to the benchmark Numis Smaller Companies (ex. IT) Index, which recorded a total return of +4.3% over the same period.
- The top contributor to performance was Numis, which added +0.7% to portfolio performance. The company reported robust interim results covering the six months ended 31 March including a significant increase in trading commissions, reflecting the heightened levels on market activity. Group revenue for the six month period increased by 13.3% to £63.1m and the company declared an interim dividend of 5.5p. The next largest contributor was Clipper Logistics Group, adding +0.7% to performance, which announced that it was working to supply personal protective equipment (PPE) to GP surgeries and adult social care providers in addition to NHS Hospital Trusts.
- The primary detractor during the month was Wincanton, costing -0.5% from portfolio performance, which reported that recent trading had been varied across its business areas, with strength in distribution channels for grocery retailers offset by a weaker demand for logistics services in the construction business and the requirement to cease its two-person home delivery services, in line with government social distancing guidelines. Management has taken steps to prudently manage cash and the balance sheet remains robust.
- During the month a new position in Liontrust Asset Management was added to the portfolio and a small holding in Alpha FX Group was exited, on grounds of yield compression.

Simon Moon & Fraser Mackerisie

Income portfolio

Fund managers' comments

- Risk assets continue to rally, as a combination of large central bank stimulus and easing of lockdowns has helped sustain optimism that a reasonably swift recovery can be engineered. We feel valuations have run too far, too fast given the uncertainty that remains and expect corporate defaults and unemployment to provide a challenging environment going forward.
- Credit spreads have continued to tighten as the ultra-low yield environment looks set to persist for a considerable amount of time, driving demand for income. The absolute level of corporate bond yields is modest but more secure than equity dividends, while uncertainty persists and this should remain supportive of bonds from stronger issuers.
- Within the portfolio of investment companies investing in alternative asset classes, we continued to see recovery from the sell-off in March. Hipgnosis Songs and SDCL Energy Efficiency Income Trust were notable contributors as investors took comfort in the dividend dependability and robustness of their portfolios in this uncertain environment.

Chun Lee & Robin Willis

Portfolio Hedges

At the end of April, some exposure to FTSE 100 Index PUT options was purchased in order to provide a degree of protection in a period of market volatility.

Top 10 holdings (Total number 42)

Portfolio %

Company	Portfolio %
Telecom Plus	5.5%
Numis	4.9%
Primary Health Properties	4.5%
Sabre Insurance Group	4.3%
Chesnara	4.3%
Severfield	3.4%
James Halstead	3.3%
Goodwin	2.9%
Brewin Dolphin Holdings	2.8%
Polar Capital Holdings	2.8%

Sector breakdown

Portfolio %

Sector	Portfolio %
Financials	41.1%
Industrials	37.3%
Consumer services	8.1%
Technology	6.4%
Telecommunications	5.5%
Consumer goods	1.1%
Cash/Net current assets	0.5%

Portfolio split

73.7%

Top 10 holdings (Total number 62)

Portfolio %

Company	Portfolio %
Pershing Square Holdings Ltd	4.5%
Pershing Square Holdings 5.5% Jul 2022	3.8%
APQ Global 3.5% CULS Sep 2024	3.6%
Value & Income Trust 11% Mar 2021	3.4%
Credit Suisse Group AG 2.75% Aug 2025	2.9%
Leveraged Certificate on DB Credit European 0025 Index	2.7%
AT&T 2.90% Apr 2026	2.4%
Citigroup 1.75% Oct 2026	2.3%
British Land 0% Convertible Bond Jun 2020	2.3%
RM Secured Direct Lending ZDP Apr 2021	2.1%

Sector breakdown

Portfolio %

Sector	Portfolio %
Financials	38.6%
Equity	20.5%
Industrials	19.1%
Sovereign	5.0%
Utility	2.8%
Derivatives	1.3%
Cash/Net current assets	12.8%

26.3%

Top holdings are calculated as a percentage of portfolio assets. Please note that the figures above may be above or below 100% due to rounding.

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Share class information

Ordinary shares	
Share price ¹	265.0p
NAV ¹	313.4p
Discount	-15.5%
Gearing ³	67.0%
ZDP shares	
Repayment date	28/02/2022
Share price ¹	151.0p
NAV ¹	156.5p
Discount	-3.5%
Redemption value	167.2p
Gross Redemption Yield ²	6.0%
Hurdle rate ²	-56.2%
Cover ²	2.2x

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.

¹Source: FE Analytics ²Source: Premier Miton data as at 31 May 2020. ³Gearing calculated less the current period revenue. Past performance is not a guide to future performance.

Announcements

12 May 2020

The Company announced that the 2020 AGM will be held on 11 August 2020.

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.

Costs and charges

Ongoing charges figure*	1.79%
Of which annual management charge	0.70%
Transaction costs**	0.21%

*The ongoing charges figure (OCF) is not the same as the ongoing costs figure set out in the Company's key information document. The key differences are that gearing costs and portfolio transaction costs are not included in the OCF. In addition costs are calculated on slightly different bases. The OCF figure set out above mirrors that in the Reports and Accounts and is based on costs incurred in the year which are likely to recur in the foreseeable future. The ongoing costs figures in the key information document provide investors with the impact costs have had on returns averaged over the five year recommended holding period.

**The impact of the costs of the Company buying and selling underlying investments, based on the methodology used in the key information document.

For more information about the impact of costs and charges on your investment, please read the **Key Information Document**.

All data quoted to 31 May 2020, unless stated otherwise.

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Definitions

Cover: The ratio by which the shareholders' redemption value is currently covered by those assets of the Company available at wind-up.

Hedge: An investment which aims to reduce the risk of adverse price movements in an asset or group of assets. 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.

Investment risks

Reference to any particular stock does not constitute a recommendation to buy or sell the stock.

The value of investments may fluctuate which will cause fund prices to fall as well as rise and investors may not get back the original amount invested.

The performance of information presented in this document relates to the past. Past performance is not a reliable indicator of future returns.

Future forecasts are not reliable indicators of future returns.

General risks

All types of investment carry a degree of risk and it is important that you understand and are comfortable with the level of risk to which your capital could be exposed. We recommend that you consult with a financial adviser if unsure in any way.

Inflation could erode the relative value of your investment.

There is a risk that financial markets will fall, affecting the value of your investment.

There is no guarantee that the investment objective will be achieved.

Past performance is not a guide to future returns. The price of shares and any income from them can go down as well as up and there is the possibility of a loss to your original investment.

The levels of taxation and of relief from taxation will depend upon individual circumstances.

There may be a variation in the performance between investments with similar objectives due to the different assets selected.

Performance will be affected by the fund managers' investment decisions.

Other investment risks

This investment trust may invest directly into, or be exposed to via its underlying investments, a variety of assets which carry specific risks which could impact the returns from the trust. The main risks are summarised here.

Alternative investments: Types of non-traditional investments such as commodities, private equity, specialist lending and hedge funds. These types of investment can help to diversify portfolios and are usually lowly correlated with traditional investments, such as bonds and equities, but can be more volatile in certain market conditions.

Collective investment schemes: This trust may be directly invested in, or have exposure to units in other collective investment schemes, such as commodity funds, hedge funds and property funds, which could expose the trust to increased levels of risk.

Counterparty credit: Where securities or financial derivative instruments require a specific entity, usually a bank, to honour its obligations.

Currency: Where investments are denominated in currencies other than sterling, changes in exchange rates may cause their sterling value to rise or fall.

Derivative: A financial contract whose value is related to the value of an underlying asset or index. Whilst their use is not necessarily expected to increase risk within the trust, they can be highly sensitive to changes in the value of the asset on which they are based and can increase the size of losses and gains, resulting in larger fluctuations in the value of the investment trust.

Equities: As an asset class, equities can experience high levels of fluctuation in prices.

Fixed interest securities: This type of asset, which includes government and corporate bonds, is particularly affected by movements in interest rates. If interest rates rise, their price may fall, and vice versa.

Currency forward contracts: Typically used to help reduce the impact of currency movements, but could also expose the trust to volatile returns from time to time.

Gearing / leverage: Investments that use gearing / leverage will experience higher price fluctuations.

Geographic concentration: Investment trusts that have a strong focus on a particular country or region, can carry a higher risk than those with a more diversified portfolio.

Inflation: Higher inflation can negatively impact investment markets, in particular, fixed interest securities such as government bonds and corporate bonds.

Interest rate: Unexpected movements in interest rates will affect all types of assets, in particular, fixed interest securities such as government bonds and corporate bonds. If interest rates go up, the value of the bond may fall, and vice versa.

Issuer credit: Where the issuer of a security is unable to make income payments or repay its debt.

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Legal/tax: Arising from a change in legal/tax regulations or the application of them.

Liquidity: During difficult market conditions, securities may become more difficult to sell and buy at a desired price.

Operational: Processes, systems and controls can fail. This is more likely to happen with more complex products or investments in overseas markets, such as emerging market countries, which may not have the same level of safekeeping, infrastructure or controls as more developed markets.

Sub-investment Grade Bonds: These have lower credit ratings than investment grade bonds and therefore carry a higher degree of issuer default risk.

Smaller companies: Investment in smaller companies is typically higher risk than investment in larger companies.

Structured investments: These investments have an embedded derivative and may, if certain criteria are met, experience a swift change in value.

Unregulated collective investment schemes: These investments, which include hedge funds, carry additional risks as they may not be subject to the same level of regulation as authorised or regulated schemes or under the regulation of a competent regulatory authority.

Zero dividend preference shares: Serious falls in market levels can alter their structure and adversely impact on returns.

Contact information

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Important information

Whilst every effort has been made to ensure the accuracy of the information contained within this document, we regret that we cannot accept responsibility for any omissions or errors. The information given and opinions expressed are subject to change and should not be interpreted as investment advice. Reference to any particular stock does not constitute a recommendation to buy or sell the stock.

All data is sourced to Premier Miton unless otherwise stated. Persons who do not have professional experience in matters relating to investments should not rely on the content of this document

We have produced this factsheet for potential investors and existing investors.

If you do not have professional experience in matters relating to investments, you should not rely solely on the information provided in this factsheet when making an investment decision. If any of the information provided is unclear, you should speak with a financial adviser.

The performance figures use information from the past and past performance is not a reliable indicator of future performance. The share price of a fund and any income generated by it are not guaranteed and can go down as well as up. There is the risk that you may get back less than you originally invested when you come to sell your investment.

The methodology and calculations used by the companies or organisations that provide the fund or fund manager awards and ratings are not verified by Premier Miton Investors and we therefore are unable to accept responsibility for their accuracy. Ratings and awards should not be relied upon for making an investment decision, nor are they an indication, promise or guarantee of future performance of a fund or fund manager.

A free, English language copy of the trust's full prospectus, the Key Information Document and Pre-investment Disclosure Document are available on the Premier Miton website, or you can request copies by calling us on 01483 306090. For your protection, calls may be monitored and recorded for training and quality assurance purposes.

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