

# Acorn Income Fund



## 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	1.4%	24.2%	20.9%	25.0%	71.8%
Net Asset Value (NAV) <sup>2</sup>	0.3%	15.9%	20.9%	26.9%	69.8%
ZDP share price	0.0%	0.0%	2.6%	10.5%	20.3%
Comparator benchmark**	-2.0%	8.4%	13.1%	20.5%	43.2%

### Ordinary shares 31.01.2015 to 31.01.2020



### Discrete year performance to quarter end

	31.12.2014-31.12.2015	31.12.2015-31.12.2016	31.12.2016-31.12.2017	31.12.2017-31.12.2018	31.12.2018-31.12.2019
Ordinary share price	36.0%	-6.3%	34.5%	-24.5%	28.6%
Ordinary NAV <sup>2</sup>	21.5%	6.2%	24.9%	-17.3%	27.4%
ZDP share price	1.9%	5.8%	8.5%	0.2%	2.6%
Comparator benchmark**	8.5%	10.8%	15.6%	-12.0%	21.2%

## Key facts

Gross assets	£107.0m
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 Mackerisie (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	5.1% <sup>3</sup>
Revenue reserve as at 31.12.18	20.09p per share
Expected payment dates:	June, Sept, Dec, March

### Dividend payments

	1st interim	2nd interim	3rd interim	4th interim	Total
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	3.25p	3.50p*	13.50p
2014	3.00p*	2.65p*	2.65p*	5.45p*	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.

\*Includes 0.75p additional dividend.

\*\*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. <sup>1</sup>Please note, Chun Lee and Robin Willis were appointed co-managers of the Income portfolio on 15 August 2019, following the decision by Paul Smith to step down as co-manager. <sup>2</sup>Source: Numis /Morningstar. <sup>3</sup>Source: 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.

# Acorn Income Fund

Fund Information as at 31 January 2020

## Smaller companies portfolio

### Fund managers' comments

- The Acorn equity portfolio recorded a total return of +0.2% in January, compared to the benchmark Numis Smaller Companies (ex. IT) Index, which registered a total return of -3.6% over the same period. UK equity markets declined during the second half of the month, as investors became increasingly concerned about the international spread of Coronavirus and the potential impact that the epidemic may have on global economic activity.
- The top contributor during January was Goodwin, adding +0.5% to portfolio performance, as its share price recovered strongly following the prior month's correction. The company had previously reported interim results in December which included a modest reduction in half-year profits due to a decline in end-market activity. Management remained confident of delivering an improved performance following greater clarity over Brexit, which resulted from the General Election result. The second largest contributor was Hostelworld which also added +0.4% to portfolio performance. The company reported that its full year results would be in line with the Board's expectations.
- The largest detractor during the month was Card Factory, costing -0.6% in portfolio performance terms, following a weak trading update. The company reported that trading was challenging over the Christmas period and that like-for-like sales declined by -0.6%, compared to the prior year. Notwithstanding its reduced profit outlook for the full year, management plan to make strategic investments to capitalise on medium term growth opportunities.
- During January, the holdings in Marshalls and LondonMetric were fully exited and a new investment was added in Topps Tiles.

Simon Moon &amp; Fraser Mackersie

### Top 10 holdings (Total number 47)

Portfolio %

Telecom Plus	3.7
Secure Trust Bank	3.2
Hollywood Bowl Group	3.1
Regional REIT Limited	3.0
Severfield	3.0
Goodwin	2.9
Polar Capital Holdings	2.9
Sabre Insurance Group	2.8
Ocean Wilson Holdings	2.7
Numis	2.6

### Sector breakdown

Portfolio %

Industrials	42.5
Financials	32.9
Consumer Services	13.3
Technology	5.6
Telecommunications	3.7
Consumer Goods	1.2
Cash/Net current assets	0.8

### Portfolio split

78.6%

## Income portfolio

### Fund managers' comments

- The mixed global economic signals are being further complicated by disruption caused by the Coronavirus. Nonetheless, investors in risk assets appear to be rather sanguine that either growth will remain on an improving path, or that central banks will step in with further easing if not.
- Despite this increased optimism, albeit from a low base, it is critical to remind ourselves that in periods such as this, a very supportive technical backdrop can cloud fundamentals and relative value.
- The corporate bond new issue market continues to dumbfound with deals for weak credits being priced at hugely unattractive levels. Everything from subordinated Greek bank debt, to cash-burning high yield companies, are tapping a hot market. It is a reminder that yield is a scarce commodity but the amount of incremental risk being taken for a few extra basis points, feels unwise to us at this late stage of the cycle.
- The focus of the portfolio remains on diversifying risk away from traditional fixed income instruments to alternative investments, where risk-reward appears more compelling. The position in Fondul Proprietatea continued to contribute positively, following the release of a strong NAV and details of a tender offer. Elsewhere, the positions in Real Estate Investors and SDCL Energy Efficiency Income Trust were trimmed, following strong performance.

Chun Lee &amp; Robin Willis

### Top 10 holdings (Total number 64)

Portfolio %

Pershing Square Holdings Ltd	3.8
Value & Income Trust 11% Mar 2021	3.5
Pershing Square Holdings 5.5% Jul 2022	3.5
APQ Global 3.5% CULS Sep 2024	3.5
Real Estate Investors Plc	2.9
Credit Suisse Group AG 2.75% Aug 2025	2.8
Santander 1.875% MTN 17/02/2020	2.6
AT&T 2.90% Apr 2026	2.4
Citigroup 1.75% Oct 2026	2.2
British Land 0% Convertible Bond Jun 2020	2.2

### Sector breakdown

Portfolio %

Financials	41.2
Equity	23.5
Industrials	17.5
Sovereign	4.2
Utility	3.3
Cash/Net current assets	10.4

21.4%

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.

# Acorn Income Fund

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## Share class information

Ordinary shares	
Share price <sup>1</sup>	411.5p
NAV <sup>1</sup>	469.5p
Discount	-12.3%
Gearing <sup>3</sup>	44.5%
ZDP shares	
Repayment date	28/02/2022
Share price <sup>1</sup>	155.5p
NAV <sup>1</sup>	154.6p
Premium	+0.6%
Redemption value	167.2p
Gross Redemption Yield <sup>2</sup>	3.6%
Hurdle rate <sup>2</sup>	-65.8%
Cover <sup>2</sup>	2.8x

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.

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

## Announcements

There were no announcements made over the period.

## 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.

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

# Acorn Income Fund

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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.

**NAV:** Net Asset Value per share is the total of a company's assets minus its liabilities, divided by the number of shares in issue

**Yield:** Dividend payments made in the preceding 12 months, divided by the share price at the end of the month, expressed as a percentage.

**Zero Dividend Preference Shares 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.

## Investment risks

### 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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