

## Investment Objective and Policy

The UK Smaller Companies Fund aims to achieve long-term capital growth by investing predominantly in shares in smaller UK companies where a smaller company is defined as a constituent of the Numis Smaller Companies Index. In addition, the Fund may invest up to 20% of the portfolio value in companies not included in the above, including those listed on the Alternative Investment Market. The Fund has issued both Retail (A) and Institutional (B) shares.

## Investment Manager's Report

for the period from 01 October 2012 to 30 September 2013

For the year ended 30 September 2013, the Fund's Retail (A) and Institutional (B) shares delivered total returns of 47.4% and 47.8% respectively. This compares with a total return on the benchmark index, the Numis Smaller Companies Index (Ex IT), of 34.4% over the same period.

As at 30 September 2013, the Fund held investments in 36 companies.

It is pleasing to see such strong outperformance for the UK Smaller Companies Sub-Fund given that the twelve month period ended 30 September 2013 saw such strong gains from equity markets in general. The appointment of a co-manager in March and the subsequent repositioning of the Sub-Fund meant that portfolio turnover was higher than in previous years. The key change to the Fund has been to position it to benefit from US economic recovery. As such, the focus has been on identifying British businesses that generate a substantial portion of their revenue and earnings in the US. Two additional themes for the Fund have resulted in increased exposure to companies benefitting from a recovery in UK consumer spending and a greater investment in businesses focused on advanced manufacturing.

The well documented US Energy Revolution is significantly reducing input costs for American businesses; fracking and tar sand exploitation have caused natural gas prices to halve in the US since 2007, whilst they've doubled in Western Europe over the same period. The US is now the world's second largest oil producer and is rapidly becoming a significant net exporter of petroleum products. We are confident that the nascent US economic recovery will continue to gather momentum.

During the twelve month period under review there were four holdings in the portfolio that performed particularly strongly:

**Xaar (+147.6%)**, a specialist manufacturer of inkjet printheads, has seen continued strong demand for its ceramic printing product and has subsequently released consecutive upgrades in the period. Future opportunities remain strong as the company has a good pipeline of products currently in development

**Liontrust Asset Management (+69.0%)**, an independent fund management group, has delivered strong and consistent performance from its range of funds and continues to experience healthy fund inflows as a result. Assets under management were now stand at £3.4bn.

**Pendragon (+52.8%)**, a UK focused motor retail group, is delivering significantly improved levels of profitability as it benefits from a recovery in UK vehicle sales. We anticipate further growth from Pendragon as the replacement cycle of an ageing UK car fleet gathers pace.

**Acal (+36.8%)**, has rationalised its business in recent years and is now firmly focused on the supply of specialist electronics. Acal's

management team also pursued a strategy of consolidating the specialist supply sector during a difficult period for European electronic component suppliers. The business is now well placed to grow as market conditions stabilise.

As mentioned above, investment activity was more pronounced than normal with eleven outright disposals (**Air Partner, Domino Printing Sciences, Devro, Chemring, Phoenix IT, Elementis, Greencore, Mattioli Woods, Mears, Sportingbet and Zetar**) and twenty-two new investments made in the period. It is pleasing to see that sixteen of the new holdings have delivered a positive contribution to performance since their introduction to the portfolio.

A brief description of each of the new investments follows:-

**Goodwin (+22.2%)** is a manufacturer of valves for the oil & gas industry. The company also manufactures components to increase the efficiency of power stations.

**CentralNic (+46.4%)** is a domain name specialist, which is set to benefit from the release of over one thousand new top level domain names (the suffixes to web addresses; .com .co.uk etc) by the governing body of the internet, ICANN.

**Somero Enterprises (+16.2%)** manufactures laser-guided machinery used on the horizontal placement of concrete. Somero's machines improve the productivity, flatness and efficiency of a jobsite.

**Versarien (+30.1%)** is a producer of porous metallic materials which have superior heat transfer properties and a vast array of applications from computers to F1 engines.

**NCC (+13.9%)** is an independent provider of software testing services. NCC has a significant opportunity to benefit from an IT industry initiative which aims to set the standard in internet security.

**Cineworld (+15.5%)** is the UK's largest cinema chain by box office. The company operates a roll-out model which it is able to fund through internal resources.

**Renishaw (+8.4%)** is a specialist manufacturer of metrological equipment. Renishaw's measurement control probes are exceptionally precise and are used in various advanced manufacturing applications.

**Diploma (+8.9%)** is a supplier of specialised technical components to a variety of industries. Diploma focuses on providing essential products and services across a range of industries which are funded by a customer's operating rather than capital budget. As a result, the business is able to generate and maintain a healthy margin of profitability.

**Delcam (+4.6%)** is a global leader in the development and provision of CAD/CAM software used in automated manufacture of complex items.

**Ubisense (+5.7%)** is a market leader in location based smart technology. The company's systems allow manufacturers to keep track of their assets in real-time. Deployment of a Ubisense system has been proven to deliver material savings for customers.

## Investment Manager's Report

continued

**BBA Aviation** (+4.8%) is a leading supplier of aviation services and after-market services. BBA Aviation has a significant and growing presence in the US aviation market.

**Brooks Macdonald** (+13.2%) is an integrated wealth management group that is well placed to continue strong growth given its national network of offices.

**Avon Rubber** (+3.7%) is a designer and manufacturer of respiratory protection systems. The company also has significant exposure to the global dairy market and is particularly benefitting from expansion in Chinese farming.

**Marston's** (+0.8%) is a pub chain and brewery that carefully manages the growth of its estate through the careful introduction of new sites and a unique franchise model.

**Lookers** (+0.5%) is a UK focused car dealer that is benefitting from an improvement in UK car sales.

**Porvair** (-1.0%) is a specialist filtration company focused on heavily regulated industrial markets. Porvair is benefitting from increased activity in aeronautical and automotive manufacturing.

**Ted Baker** (-1.8%) is a global fashion retailer with a strong focus on brand integrity and a growing global footprint.

**Ocean Wilson** (-2.5%) is a holding company for a Brazilian port operator and global investment company that appears to be valued by the market at a considerable discount to the sum of its parts.

**Tyman** (-2.4%) is a building products manufacturer and a significant supplier to the US construction market. The company is better positioned than it has been for several years after disposing of non-core businesses and strengthening its balance sheet.

**Zotefoams** (-3.8%) is a world leader in cellular material technology, which has developed innovative products designed to reduce total packaging costs for its customers. We believe that these new products can trigger a period of sustained growth for Zotefoams.

**Anite** (-6.4%) provides device and network testing services to the wireless market.

One new investment, a participation in the IPO of **Digital Globe Services** (+5.7%), an online customer acquisition specialist was disposed of shortly after its listing on the market for a small profit.

The Fund is now positioned to benefit from US economic recovery, global investment in advanced manufacturing, and selected exposure to recovery in UK consumer spending through investment in a diverse range of high quality, UK listed companies.

Aside from slanting the portfolio to benefit from these themes, our investment approach remains unchanged. We seek to identify smaller quoted companies run by management teams with a proven track record of creating shareholder value. Such businesses should be capable of delivering sustainable profit growth thus generating healthy free cash flows, and allowing balance sheets to remain robust.

The portfolio ended the twelve month period with top decile performance in its sector and is well positioned to generate superior absolute and relative performance over the longer term.

## Fund Facts

### Accounting & distribution dates

	Accounting	Distribution
Final	30 September	30 November
Interim	31 March	-

### Net asset values

As at 30 September	Retail (A) Income Shares		
	Net asset value (£)	Number of shares in issue	Net asset value (pence per share)
2011	2,066,080	904,783	228.35
2012	1,690,131	707,431	238.91
2013	12,415,534	3,525,466	352.17

### Fund performance

Share class	Net asset value as at 30.09.13 (pence per share)	Net asset value as at 30.09.12 (pence per share)	Net asset value % change
Retail (A) Income Shares	352.17	238.91	47.41
Institutional (B) Income Shares	344.00	232.81	47.76

As at 30 September	Institutional (B) Income Shares		
	Net asset value (£)	Number of shares in issue	Net asset value (pence per share)
2011	5,215,044	2,343,885	222.50
2012	5,182,000	2,225,859	232.81
2013	7,706,997	2,240,430	344.00

### Price history & distribution record

The table below shows the highest and lowest prices on a calendar year basis in pence per share for five full calendar years. Past performance is not necessarily a guide to the future performance.

Year	Retail (A) Income Shares		
	Highest (pence)	Lowest (pence)	Net distribution (pence per share)
2008	190.24	116.17	1.0823
2009	167.35	113.68	0.0338
2010	229.55	154.36	0.6140
2011	269.79	215.27	-
2012	259.10	218.06	1.3828
2013^	363.09	259.76	1.8995

Year	Institutional (B) Income Shares		
	Highest (pence)	Lowest (pence)	Net distribution (pence per share)
2008	182.10	111.04	1.4449
2009	163.10	108.72	0.3183
2010	223.47	147.59	1.0180
2011	263.13	217.70	0.4335
2012	253.22	212.64	1.9101
2013^	355.31	253.88	2.5583

^ To 30 September 2013

## Fund Facts

continued

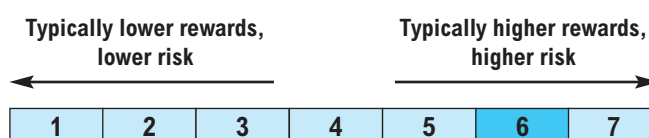
### Ongoing charge

Expense type	30 September 2013 %
<b>Retail (A) Income Shares</b>	
ACD's Management charge	1.50
Other expenses	0.13
Transaction charge	0.01
<b>Ongoing charge</b>	<b>1.64</b>
<b>Institutional (B) Income Shares</b>	
ACD's Management charge <sup>^</sup>	1.25
Other expenses	0.13
Transaction charge	0.01
<b>Ongoing charge</b>	<b>1.39</b>

<sup>^</sup> From 1 October 2013 the ACD's Management charge is 0.75%

### Synthetic risk & reward indicator

The risk and reward indicator measures the risk of price fluctuations. The risk assessment is based on the Fund's historical volatility calculated using weekly five year data. The higher the ranking the greater the risk of losing money but also the greater the potential reward. The risk category of the Fund is not guaranteed and may change over time. You should note that even the lowest category of risk is not risk free.



The shaded area above shows the Fund's ranking on the risk and reward indicator. The table uses a standard method as used by other EU Funds. The calculation puts the Fund in category 6. The indicator is not a measure of the possibility of losing your investment.

### Risk warning

An investment in an Open Ended Investment Company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the revenue from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

### Sector spread of investments

All sectors in percentage order are shown below.

Sector	% of Fund as at 30.09.13	Sector	% of Fund as at 30.09.12
Software & Computer Services	16.62	Food Producers	14.48
Support Services	11.29	Support Services	13.99
Industrial Engineering	11.16	Electronic & Electrical Equipment	12.76
General Retailers	8.07	Software & Computer Services	12.03
Financial Services	7.63	Financial Services	11.40
Electronic & Electrical Equipment	6.51	Chemicals	5.05
Construction & Materials	4.79	Construction & Materials	4.88
Industrial Transportation	4.73	Travel & Leisure	4.32
Chemicals	4.12	General Retailers	4.07
Travel & Leisure	4.10	Health Care Equipment & Services	4.03
Alternative Energy	4.05	General Industrials	4.03
General Industrials	3.14	Aerospace & Defense	3.07
Technology Hardware & Equipment	2.52	Industrial Engineering	2.67
Personal Goods	2.37	Net other assets	3.22
Health Care Equipment & Services	2.25		
Aerospace & Defense	0.70		
Net other assets	5.95		

## Fund Facts

continued

### Major holdings

The top ten holdings at the end of each period are shown below.

Holding	% of Fund as at 30.09.13	Holding	% of Fund as at 30.09.12
Pendragon	5.58	Devro	6.67
Liontrust Asset Management	5.47	Iomart	5.53
Goodwin	4.58	Xaar	5.24
Porvair	4.05	Elementis	5.05
NCC	3.29	Liontrust Asset Management	5.01
Somero Enterprises	3.29	Low & Bonar	4.88
Trifast	3.29	VP	4.70
Delcam	3.16	Zetar	4.68
British Polythene Industries	3.14	Pendragon	4.07
Renishaw	3.14	Arden Partners	4.06

## General Information

### Authorised Status

The Company is an Open-Ended Investment Company (OEIC) with variable capital, constituted under regulation 14 (authorisation) of the OEIC Regulations 2001, incorporated in England and Wales under Registered Number IC 000 143 and authorised by the Financial Conduct Authority with effect from 21 December 2001.

The Company is an umbrella company as defined in the Financial Conduct Authority's Collective Investment Schemes Sourcebook (COLL Sourcebook) and therefore, subject to approval from the Financial Conduct Authority, different Sub-Funds may be formed by the Authorised Corporate Director (ACD). The assets of each Sub-Fund are treated as separate from those of every other Sub-Fund and will be invested in accordance with that Sub-Fund's own investment objective and policy. Shareholders are not liable for the debts of the Company.

### Buying and Selling Shares

Applications may be made by completing an application form and delivering it to the Registrar, Phoenix Fund Services (UK) Ltd, PO Box 10602, Chelmsford, Essex CM1 9PD or by telephone between 8.30 am and 4.30 pm on any Business Day. The ACD may also, at its sole discretion, accept instructions by telephone or by facsimile on such terms as it may specify. Telephone applications should be made to the share dealers on 0845 026 4287 or through approved agents. Telephone instructions must be confirmed by delivering a duly completed and signed application form to the Registrar at the same address. Shares may be sold, either by telephoning the ACD's Order Desk on 0845 0264287 between 8.30 am and 4.30 pm on any dealing day, or in writing, to Phoenix Fund Services (UK) Ltd, PO Box 10602, Chelmsford, Essex CM1 9PD

### Report and Accounts

This document is a short report of the Unicorn Investment Funds - UK Smaller Companies Fund for the year ended 30 September 2013. The full Report and Accounts for the Fund is available upon written request to Phoenix Fund Services (UK) Ltd, PO Box 10602, Chelmsford, Essex CM1 9PD

### Other Information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the period it covers and the results of those activities at the end of the period.

## Directory

### Authorised Corporate Director & Investment Manager

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