unicorn
ASSET MANAGEMENT

# Free Spirit Fund

**Short Report 30 September 2013**

## Investment Objective and Policy

The Unicorn Free Spirit Fund aims to achieve long term capital growth through investment in a portfolio of UK equities. 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 twelve month period to 30 September 2013, the Fund's Retail (A) and Institutional (B) shares produced total returns of 36.4% and 36.7% respectively. Pleasingly the performance of the Fund during the period was ahead of the average total return of 22.1% delivered by the UK All Companies peer group over the same period. The second half of the period under review was particularly strong, with the Fund rising by 17.5%, comfortably ahead of the average gain from the UK All Companies peer group of 6.7%.

Increasingly positive economic data has helped to drive strong performance on global equity markets. Economic conditions in the US have been showing signs of improvement for some time but we are now starting to see welcome upward revisions in growth forecasts for the UK economy. This has had a positive impact on domestic share indices, with UK small and mid cap stocks in particular generating strong returns. The Alternative Investment Market (AIM) has again lagged the main equity markets; however there was a noticeable improvement towards the end of the period as the decision to allow AIM stocks to be held in ISAs had a positive impact on performance. The decision to remove stamp duty on AIM stocks early next year should also help to improve the attractiveness of AIM. In recent months, there has also been a noticeable increase in IPO (Initial Public Offering) activity on AIM and, looking ahead, the IPO pipeline remains encouraging. Over 50% of the Free Spirit Fund by value is currently invested in AIM stocks – ranging in size from ASOS with a market capitalisation in excess of £4bn to Versarien, a recent IPO, with a market cap of just £12m.

The Fund continues to follow the strategy outlined in previous reports – investing in innovative companies, many of which are driven by strong secular growth themes in the burgeoning global digital economy. In the UK, the digital economy represents a larger percentage of GDP than in any other G20 country. The UK also leads the way in e-commerce; spending more online per capita than anywhere else in the world. On a global view, digital capital is estimated to represent around 1/3 of global GDP growth. As an investor in UK Equities, this presents a number of opportunities, both in the infrastructure needed to support the growth of the digital economy and in the continued innovation that this growth encourages. Some of the broad secular growth themes we have identified, and sought exposure to, include; cloud computing, big data, e-commerce, cyber security, mobile computing and online video content.

The combination of sound financials and strong end markets continues to generate attractive investment opportunities in the IT sector. As a consequence, the relatively large technology weighting in the Fund has been maintained. Given this consistent approach to investing, the characteristics of our investee companies remain largely unchanged. All of the current holdings are profitable, two thirds have net cash on the balance sheet and around two thirds will pay a dividend in their current financial year. This figure includes maiden dividend payments from three of our investee companies.

The average dividend yield of our investee companies remains well below the market yield; however dividend cover in excess of 3 times provides ample capacity for further growth. Average forecast dividend growth in the portfolio for the year to 30 September 2014 is comfortably above 10%. The Fund has retained its strong international exposure with around half of the weighted investee company earnings generated outside the UK. This figure is slightly lower than last year and reflects the strong performance of larger holdings with limited current overseas exposure such as Iomart, dotDigital and Utilitywise and also the addition of Cineworld and UK Mail which both operate solely in the UK.

The number of stocks held in the Fund increased from 31 to 34 during the period with the disposal of 12 existing holdings and the initiation of 15 new positions. An interesting feature of the period under review is the return of the IPO market. The Fund participated in three new issues during the period. M&A activity has remained subdued, with only one holding exited as a result of a corporate activity.

For the second year in succession, the largest individual contribution to performance came from Iomart (37%). Iomart continues to deliver impressive growth and is now emerging as one of the key players in the UK managed hosting market. Another significant contributor to performance was Blinkx (87%), which was added the Fund during the period. Blinkx has developed powerful and innovative video search engine technology and the business is now benefitting from the rapid growth in online video advertising. ARM also performed robustly over the past 12 months. Strong demand for low power processing chips in both the mobile computing and server markets continues to drive impressive growth, resulting in ARM 's' share price rising by 52% during the period. Shares in Arm continue to trade at a relatively high forward PE ratio. However, given its strong market position and opportunities for continued growth, we remain supportive long term holders of this outstanding UK technology business. Shares in virtual queuing experts Lo-Q also enjoyed a strong run (+59%). During the year, Lo-Q announced a number of new contracts as well as the acquisition of a US digital ticketing business called Accesso. Optimal Payments, a provider of online payment services and another recent addition to the Fund also registered a meaningful contribution to performance, rising by 71%. As more and more transactions take place online, the operational gearing benefits of running an established payment platform can be significant.

Other notable contributors to performance came from Utilitywise (+59%), SQS (+65%), ASOS (+67%) and dotDigital (+33%).

As highlighted in the interim report one of the largest disappointments during the period came from SDL, a provider of translation software and services, which fell by 40% following a series of poor trading updates and an unexpected management change. The decision was therefore taken to exit this small position in full during the first half of the year under review. A small position in digital marketing specialist Next Fifteen Communications was also exited in full following the disclosure of disappointing operational issues at a US subsidiary. This investment fell in value by 21% up to the date of disposal. One other position that underperformed during

# Investment Manager's Report

continued

the period but which remains in the Fund is Carclo, the specialist plastics business. In partnership with Atmel Corporation (NASDAQ listed), Carclo has commercialised an innovative touch screen technology, which now appears to be gaining traction with smart phone and tablet manufacturers. Carclo's share price fell by 12% during the period, however we took the opportunity to increase our holding at lower prices, which resulted in an overall contribution to performance of -8%.

The new positions initiated during the period reflect the greater number of opportunities emerging in our investment universe. Of particular note is the return of the IPO market, with three of these new additions to the Fund floating on AIM during the period. We initiated positions in CentralNIC, a domain name specialist; Digital Globe Services, an innovative digital marketing company and Versarien, an early stage specialist metals business. After taking into account subsequent share purchases these positions generated impressive average returns in excess of 30%, despite their relatively short period as portfolio constituents.

The fifteen new positions were spread across eight different sectors, demonstrating the variety of new investment opportunities in our universe. In addition to the IPOs noted above, the new investments were Perform Group, a FTSE 250 sports media business; Utilitywise, the provider of energy consultancy and procurement services; GB Group, a provider of online identity verification; UK Mail, a parcel and mail delivery business; Entertainment One, a FTSE 250 entertainment content specialist; First Derivatives, a provider of data analysis tools to the financial services sector; Cineworld, the UK cinema operator; Aveva Group, an engineering software business; Zotefoams, an innovative foam plastics company and Telit Communications, a specialist in machine to machine communications. Despite this relatively high level of turnover, the overall characteristics of the Fund outlined earlier remain largely unchanged.

Twelve positions were exited in full during the period. This figure included the disposal of Endace, which was acquired by NASDAQ listed Emulex Corporation during the period. Significant profits were also locked in following the exit of positions in Oxford Instruments and Telecity. Whilst we continue to invest with a long term investment horizon, existing investments are assessed on an ongoing basis to ensure they continue to meet our investment criteria and are able to deliver growth at a sensible valuation. In order to maintain a balanced but high conviction portfolio, a number of smaller holdings were also sold during the period in order to fund new investments which are more closely aligned to our investment strategy.

In previous statements we have highlighted the attractiveness of the structural growth characteristics of the technology sector when faced with limited domestic economic growth. With the economic outlook now improving, both domestically and overseas, we believe technology related businesses remain highly compelling. Growth of the digital economy, both domestically and globally, continues to outpace the broader levels of economic expansion. In the UK, where the digital economy is particularly strong, opportunities exist for investors to participate in both the innovation of new products and services and in the growing need for robust infrastructure. The largest individual sector in the Fund remains Software and Computer Services, which represents around one third of the Fund. Despite this large weighting, we believe the diversity within the sector is broad with its constituents serving a variety of different end markets. We remain mindful of the higher earnings multiples that such businesses can command however, we continue to believe that careful stock selection within the sector can deliver strong growth and outperformance over the longer term. We also remain confident that the current positioning of the Fund leaves it well placed to benefit from any uptick in M&A activity given the cash rich nature of the technology sector and our preference for business that are backed by intellectual property.

# Fund Facts

## Accounting & distribution dates

| | Accounting | Distribution |
|---|---|---|
| Final | 30 September | 30 November |
| Interim | 31 March | – |

## 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 | 362.68 | 265.82 | 36.44 |
| Institutional (B) Income Shares | 360.97 | 264.02 | 36.72 |

## 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 | 2,652,663 | 1,142,702 | 232.14 |
| 2012 | 2,712,849 | 1,020,573 | 265.82 |
| 2013 | 5,769,023 | 1,590,649 | 362.68 |

| As at 30 September | Institutional (B) Income Shares | | |
|---|---|---|---|
| | Net asset value (£) | Number of shares in issue | Net asset value (pence per share) |
| 2011 | 2,598,357 | 1,129,304 | 230.08 |
| 2012 | 2,903,153 | 1,099,603 | 264.02 |
| 2013 | 4,198,549 | 1,163,135 | 360.97 |

# Fund Facts
continued

## 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 | 234.80 | 138.08 | 2.1828 |
| 2009 | 200.66 | 137.73 | 1.4635 |
| 2010 | 234.70 | 180.82 | 1.8920 |
| 2011 | 273.73 | 224.35 | 0.0916 |
| 2012 | 283.36 | 238.32 | 0.0000 |
| 2013^ | 371.60 | 286.16 | 0.0000 |

| Year | Institutional (B) Income Shares Highest (pence) | Lowest (pence) | Net distribution (pence per share) |
|---|---|---|---|
| 2008 | 232.93 | 136.74 | 2.6822 |
| 2009 | 198.23 | 136.49 | 1.8367 |
| 2010 | 232.73 | 179.56 | 2.4430 |
| 2011 | 271.88 | 222.41 | 0.8298 |
| 2012 | 281.65 | 236.35 | 0.0421 |
| 2013^ | 369.83 | 284.44 | 0.0246 |

^ To 30 September 2013

## Ongoing charge

| Expense type | 30 September 2013 % |
|---|---|
| **Retail (A) Income Shares** | |
| ACD's Management charge | 1.50 |
| Other expenses | 0.28 |
| Transaction charge | 0.01 |
| **Ongoing charge** | **1.79** |
| **Institutional (B) Income Shares** | |
| ACD's Management charge^ | 1.25 |
| Other expenses | 0.28 |
| Transaction charge | 0.01 |
| **Ongoing charge** | **1.54** |

^ From 1 December 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.

| **Typically lower rewards, lower risk** ← | | | | | | → **Typically higher rewards, higher risk** |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | **5** | 6 | 7 |

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 5. 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 |
|---|---|
| Software & Computer Services | 33.45 |
| Support Services | 13.39 |
| Technology Hardware & Equipment | 12.69 |
| Media | 12.30 |
| Chemicals | 7.29 |
| Industrial Transportation | 2.91 |
| Fixed Line Telecommunications | 2.83 |
| General Retailers | 2.71 |
| Travel & Leisure | 2.57 |
| Financial Services | 2.32 |
| Electronic & Electrical Equipment | 2.17 |
| Net other assets | 5.37 |

| Sector | % of Fund as at 30.09.12 |
|---|---|
| Software & Computer Services | 30.71 |
| Electronic & Electrical Equipment | 17.41 |
| Support Services | 14.96 |
| Technology Hardware & Equipment | 12.01 |
| Media | 6.03 |
| Chemicals | 4.21 |
| Fixed Line Telecommunications | 2.67 |
| Travel & Leisure | 1.99 |
| Financial Services | 1.99 |
| General Retailers | 1.56 |
| Health Care Equipment & Services | 1.28 |
| Net other assets | 5.18 |

# Fund Facts
continued

## Major holdings
The top ten holdings at the end of each year are shown below.

| Holding | % of Fund as at 30.09.13 |
|---|---|
| Iomart | 5.24 |
| First Derivatives | 3.60 |
| Perform | 3.36 |
| Blinkx | 3.25 |
| dotDigital | 3.25 |
| ARM | 3.21 |
| Optimal Payments | 3.08 |
| Microgen | 3.01 |
| Murgitroyd | 3.01 |
| Entertainment One | 2.97 |

| Holding | % of Fund as at 30.09.12 |
|---|---|
| Iomart | 7.09 |
| Anite | 6.13 |
| Oxford Instruments | 6.09 |
| RWS | 4.76 |
| Carclo | 4.21 |
| ARM | 4.10 |
| Microgen | 4.00 |
| SQS Software Quality Systems AG | 3.65 |
| Renishaw | 3.53 |
| Ubisense | 3.45 |

# 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 026 4287 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 - Free Spirit 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, or from www.unicornam.com

## 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

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