Unicorn AIM VCT

UNICORN AIM VCT PLC

VCT type:	AIM VCT	Charges:	
Issue details:	Top-up offer	Annual Management Charge	2.0%
Max sought:	£50m	Standard Initial Charge	5.5%
Min investment:	£2,000	EQ Investors Discount	
Offer Closes:	26 Sept 2017	New Investors	3.25% up to 7 Sept
		Existing Investor	3.50% up to 7 Sept

EXECUTIVE SUMMARY

Unicorn AIM VCT is raising £30 million through a top-up offer, with an over-allotment facility of up to a further £20 million. This follows a very successful fundraise in January 2017, which was over-subscribed and closed 15 days after launch.

The Unicorn AIM VCT, as the name suggests, will predominantly invest in companies quoted on the Alternative Investment Market (AIM), the UK's junior stock exchange.

This is the largest AIM-focused VCT, c. £162 million in size, having merged with Unicorn AIM VCT 2 in 2010 and Rensburg AIM VCT in January 2016. It is also one of the most diverse VCTs, currently invested in c. 95 companies across 17 different sectors.

Given the maturity of the portfolio, investors will gain immediate exposure to some of the larger and more established AIM listed companies, and will benefit from the prospects of capital growth and tax-free dividends.

The objectives are simple and transparent, to preserve capital in the short term, provide an attractive and sustainable dividend income in the medium term and finally produce high capital growth and superior total returns over the long term.

Funds raised in this offer will be used to make both new and follow-on investments, as well as to meet annual running costs such as the payment of dividends and market purchase of shares (share buybacks).

Shares will be allotted every couple of weeks during the offer period, and will be based on the latest net asset value available.

BACKGROUND

VCT	Launch date	Size (Millions)
Unicorn AIM VCT	March 2010	£162.2

Although Unicorn AIM VCT was initially launched by Unicorn Asset Management in November 2001, it merged with Unicorn AIM VCT 2 in 2010, and therefore we analyse the VCT from this point. Most recently, in January 2016, the VCT acquired the assets of the Rensburg AIM VCT. The latter added £11.51 million of net assets and 32 investments to the portfolio, now fully integrated.

Pros	Cons
Offers immediate access to a mature portfolio, invested in a number of the larger and more established AIM-listed companies	There is no target discount within the discount management policy, and the VCT currently trades at the widest discount compared to other AIM VCTs.
One of the most diverse portfolios, invested in c. 95 companies across 17 different sectors	The largest holding, Abcam, accounts for 9% of the VCT portfolio, which is significant. However, as new funds are raised it is likely this position will become diluted.
The lead manager, Chris Hutchinson, is very experienced. He is backed by a well-resourced team within Unicorn Asset Management, which have over £300 million invested in AIM quoted companies.	Given the merger with Unicorn AIM VCT 2 in March 2010, it is not possible to perform accurate performance analysis prior to this date.

Impact of latest regulations

Unicorn have stated they have *"been successful in adapting its investment approach to meet the new VCT investment restrictions, and has made a number of new investments in promising companies with the objective of further diversifying the portfolio while generating both growth and income".* However, the prospectus notes that *"Shareholders should be aware that as a result of the new qualifying conditions introduced… new capital raised by the Company under the current and future offers may be directed towards earlier stage investments which may or may not be profitable at the point of investment.*

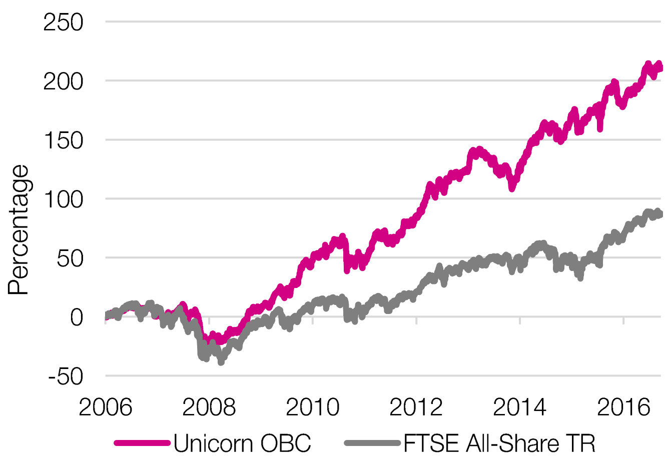
ORGANISATION & MANAGEMENT

Unicorn Asset Management was established in 2000, as a UK small and mid-cap boutique specialising in investment in UK companies quoted on AIM and fledgling markets. It currently manages over £1 billion, within an OEIC range, an Investment Trust, this VCT and an AIM IHT service. Importantly, Unicorn have over £302.5 million of their assets invested in AIM quoted companies.

Unicorn AM remains an independently owned and managed company. We deem this a positive, as it further incentivises consistent and strong performance.

Chris Hutchinson has been lead manager since 2005 when he joined Unicorn, with over 20 years' experience of investing in UK smaller companies. He is also the lead manager of the Unicorn Outstanding British Companies fund (performance highlighted in **Figure 1**), and senior member of the Investment Committee.

Figure 1: Performance of the Unicorn OBC fund since inception



He is backed by a well-resourced team of five investment professionals, with over 100 years' of combined experience. Paul Harwood is Chairman of the Investment Committee, while Fraser Mackersie and Simon Moon support Chris and manage the other open-ended funds at Unicorn. The team are assisted by Alex Game and Max Ormiston.

The Unicorn AIM VCT Board consists of four independent directors: Peter Dicks (Chairman), Charlotta Ginman, Jeremy Hamer and Jocelin Harris.

INVESTMENT STRATEGY

The Unicorn AIM VCT, as the name suggests, will predominantly invest in companies quoted on the Alternative Investment Market (AIM), the UK's junior stock exchange. While the VCT may invest in unquoted companies, this will not be the main focus, and such a company would need to have a clear "route to market".

The team follow a bottom-up stock selection process, based on fundamental research. The approach is sector agnostic, rather the manager looks to identify companies displaying certain characteristics. These include backing experienced and well-motivated management teams, focusing on companies that provide products or services to growing markets, those with sound operational and financial controls and those with an established history of profitability and cash generation which are in turn capable of delivering sustained growth, allied with a progressive dividend policy.

Opportunities are sourced from the team's experience, as well as a broad network of industry contacts, including brokers. Given the current size of the VCT, companies with a market-cap of less than £5 million are unlikely to be pursued, with the main focus on those with a market-cap of £15-30 million. Given the nature of the strategy, these will typically be equity investments, compared to other VCT strategies which may employ loan notes and preference shares alongside an equity investment.

It is improbable that the VCT would invest in start-up companies, those focused on acquisition-led growth rather than organic growth, or companies with significant key-man risk.

The non-qualifying element of the VCT will be invested in direct listed equities, a number of Unicorn open-ended funds, unquoted companies and cash. Using this portion to invest in UK small-caps is deemed at the higher end of the risk spectrum, with others holding cash or more defensive assets to focus on risk mitigation.

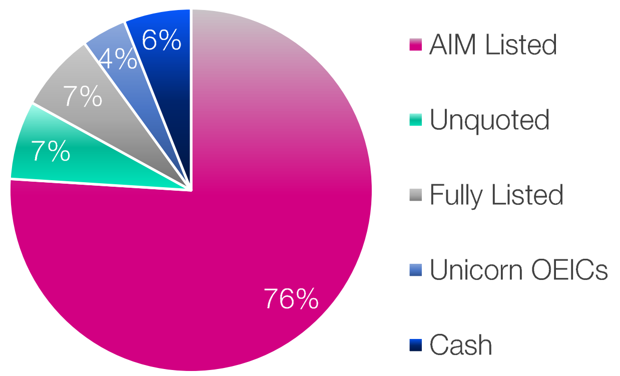
PORTFOLIO CONSTRUCTION & ACTIVITY

This is a diverse portfolio, with 95 investee companies. Of these, 72 are VCT qualifying investments, or 77.5% of assets, which is suitably in excess of the 70% HMRC threshold.

Given the maturity of the VCT, many of the holdings will be large and established AIM listed companies. "*The companies in the portfolio have, on a simple average basis, a market capitalisation of £123 million, a turnover of £64 million per annum and a pre-tax profit of £4 million per annum, with over 50% of the companies having paid a dividend in the last 12 months"*. Further to this, 70% of the holdings are forecast to deliver profit growth in the current financial year.

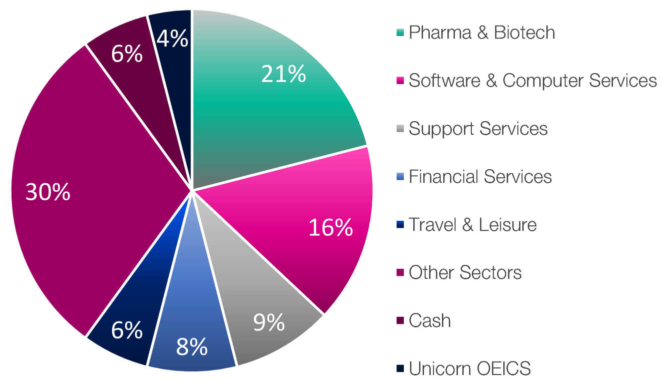
As highlighted in **Figure 2** below, the current portfolio has 76% invested in AIM listed companies, 5% in unquoted (both equity and loan stock / preference shares), 7% in FTSE-listed companies and the remainder held in the Unicorn OEICs & cash.

Figure 2: Current portfolio split by investment type (30 June 2017)



While the portfolio is well diversified across 17 sectors, highlighted in part in **Figure 3**, there is a concentration in the Top 10 holdings, which accounts for 40.1% of the portfolio.

Figure 3: Current portfolio split by sector



Abcam is the largest position in the portfolio, at 9%, and is our only concern regarding the current portfolio. However, we expect that a proportion of the funds raised within this top-up offer will be deployed into new investment opportunities, increasing the diversification.

DISCOUNT CONTROL MECHANISM

The discount to NAV at which shares will be bought back is agreed and continually reviewed by the Board. There is no target discount, instead the Board employ a flexible approach, which is disappointing to us. Best in class within the industry target a 5% discount, while many others will target a 5-10% range.

During the last 12 months, the VCT's average discount has been 14.5%, the highest out of the AIM VCT sector. This is despite £2.2 million shares buybacks in the last financial year.

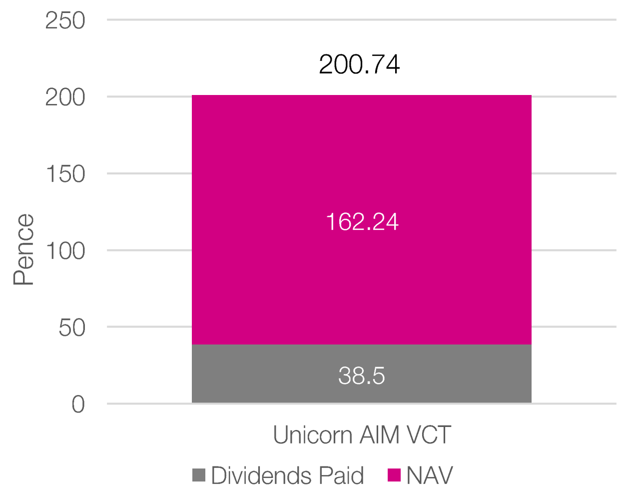
VCT	12m discount
Unicorn AIM VCT	14.49%

Source: AIC

HISTORIC RETURNS

Given the merger with Unicorn AIM VCT 2 on 31 March 2010, any returns analysis is as of this date. Since this time, the VCT has paid out 38.5p (with a further 3p announced) in dividends. During this same period, the NAV per share has increased from 91.8p to 162.24p. Therefore the total return to shareholders has been 108.94p, representing 38.5p of cumulative dividends and NAV growth of 70.44p.

Figure 4: Cumulative dividends paid & current NAV per share as at 30 June 2017 (unaudited)



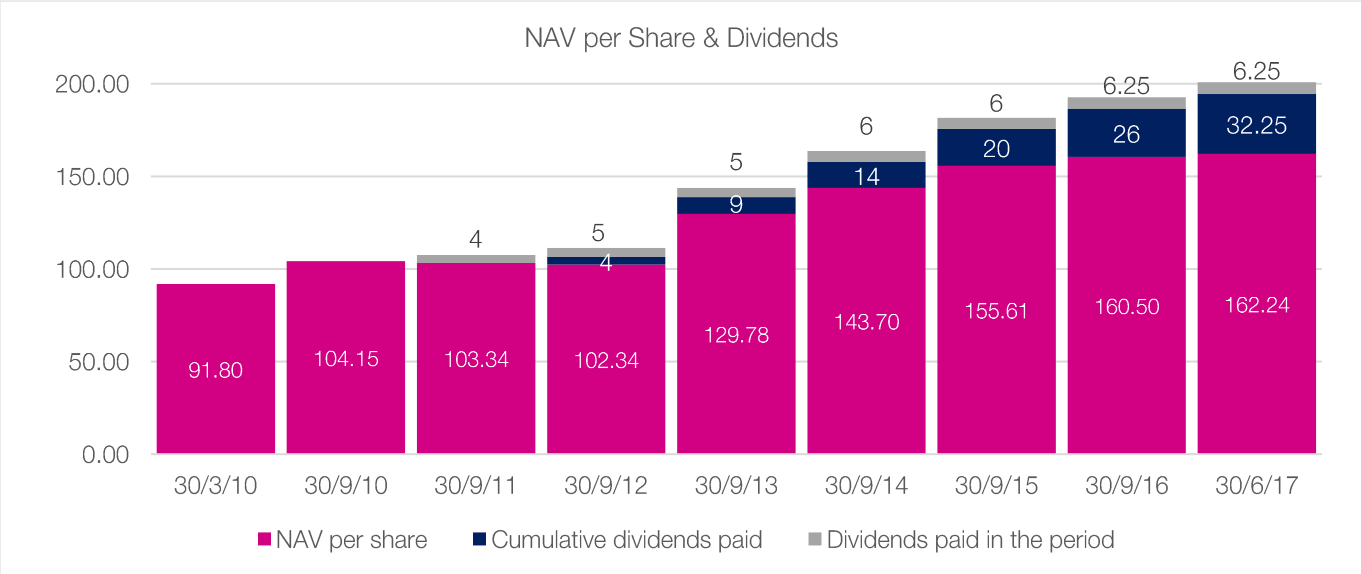
There is no defined dividend distribution objective, instead the manager attempts to enable a gently progressive and sustainable dividend over the longer term. This is evidenced by the increase in annual dividend from 4p to 6.25p over recent years. This has typically resulted in a yield of c. 4.5%, which is not the highest in the sector, but is in line with market expectations.

Figure 5 below summarises the NAV per share and cumulative dividends since the merger, which highlights consistent growth in NAV over recent years with a sustained dividend.

FUTURE RETURNS

The VCT does not have a specific dividend policy, but the Board do have a *"policy of maintaining a steady flow of dividend distributions to shareholders and intends to continue with this policy".* The Board has recently made the decision to make dividend payments twice yearly, with the first interim dividend, in relation to the 6m period ended 31 March 2017, of 3p paid to existing investors on 11 August 2017.

Figure 5: NAV per Share and Cumulative Dividends since March 2010 (merger with Unicorn AIM VCT 2).



Next steps

To download an application form please visit:

eqinvestors.co.uk/vct

Risk warning

The value of investments, and the income derived from them, can go down as well as up and you can get back less than you originally invested. Past performance is not a guide to future performance. This report does not constitute personal advice. Venture Capital Trusts (VCTs) should be regarded as higher risk investments, suitable only for experienced investors who are able to withstand losses. If you are in any doubt as to whether this is a suitable product for you, you should seek professional advice.

VCTs are only suitable for UK resident taxpayers who can tolerate higher risk investments with a time horizon of over five years. Owing to the nature of their underlying assets, VCTs are highly illiquid. Investors should be aware that they may have difficulty, or be unable to realise their shares at levels close to those that reflect the value of the underlying assets. Tax levels and reliefs may change and the availability of tax reliefs will depend on individual circumstances. You should only subscribe for new VCT shares on the basis of the relevant prospectus and must carefully consider the risk warnings contained in that prospectus.

EQ Investors, Centennium House, 100 Lower Thames Street, London EC3R 6DL

eqinvestors.co.uk | 020 7488 7110 | enquiries@eqinvestors.co.uk | @eqinvestors | EQ Investors

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