

# Acorn Income Fund

Income and growth with UK small-cap bias

Acorn Income Fund (AIF) is relatively unusual in that it seeks to generate a high income from investing predominantly in smaller companies, a sector more often seen as high-growth and lower yielding. The fund has a dual-portfolio structure, with c 70-80% invested in a portfolio of up to 50 well-financed, cash-generative UK small-caps (biased to those under £500m market cap), and the balance in an income portfolio of securities such as bonds, investment companies and structured notes. While the unexpected failure in March of former largest holding Conviviality highlights the risks inherent in equity investment, strong growth in capital and income from the rest of the portfolio has compensated in absolute terms. AIF's long-term performance record remains impressive, with an NAV total return almost 150pp above that of its closest peer over 10 years. AIF currently yields 4.0%.

12 months ending	Share price (%)	NAV (%)	Acorn ZDPs (%)	Numis Smaller Cos ex-ICs (%)	FTSE All-Share (%)
31/05/14	24.6	28.8	4.5	19.1	8.9
31/05/15	3.1	6.4	6.5	10.4	7.5
31/05/16	7.5	2.5	2.4	(1.6)	(6.3)
31/05/17	22.2	36.1	7.2	23.9	24.5
31/05/18	12.7	0.7	4.3	5.2	6.5

Source: Thomson Datastream. Note: All % on a total return basis in GBP.

## Investment strategy: Bottom-up stock selection

AIF's two portfolios are run by different managers, with Simon Moon and Fraser Mackerie at Unicorn Asset Management looking after the c 70-80% invested in UK smaller companies, while Paul Smith and team at Premier Fund Managers run the c 20-30% invested in the absolute return-biased income portfolio. All the investment advisers follow a bottom-up process, with the small-cap managers looking for cash-generative companies with strong positions in growing end markets, and the income portfolio managers seeking to diversify income while limiting downside risk. The fund is structurally geared through an issue of zero-dividend preference shares (ZDPs).

## Market outlook: Dividends increasingly important?

Markets have largely recovered from the broad-based sell-off seen in the first quarter of 2018, with the large-cap UK FTSE 100 index pushing on to achieve a new all-time high. However, with the equity market cycle arguably nearer the end than the beginning, and a range of geopolitical and macro risks to consider, investors may prefer to focus on well-financed companies whose dividends provide support to their total return potential.

## Valuation: Discount below historical averages

At 4 June 2018, AIF's ordinary shares traded at a 1.7% discount to cum-income NAV. This is narrower than both short and longer-term averages (4.2%, 5.4%, 5.0% and 9.8% respectively over one, three, five and 10 years), though wider than a 12-month low of 0.1% seen in mid-March. The 4.0% dividend yield (supported by strong dividend growth coming from the small-cap portfolio) arguably helps limit the discount, which could narrow further if the positive performance record is maintained.

## Investment companies

6 June 2018

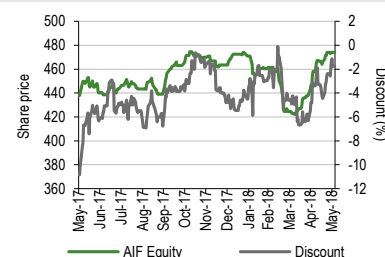
**Price** 474.0p  
**Market cap** £75.5m  
**AUM** £105.5m

NAV\* 479.0p  
Discount to NAV 1.0%  
NAV\*\* 482.4p  
Discount to NAV 1.7%

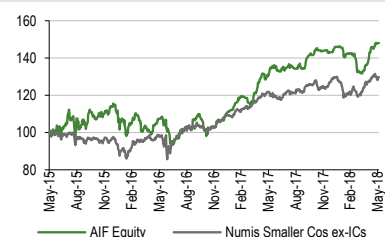
\*Excluding income. \*\*Including income. As at 1 June 2018.

Yield 4.0%  
Ordinary shares in issue 15.9m  
ZDPs in issue 21.4m  
Code AIF  
Primary exchange LSE  
AIC sector UK Equity & Bond Income

## Share price/discount performance



## Three-year performance vs index



52-week high/low 474.5p 422.0p  
NAV\*\* high/low 499.7p 441.8p

\*\*Including income.

## Gearing

Gross\* 41.4%  
Net\* 38.0%

\*As at 30 April 2018.

## Analysts

Sarah Godfrey +44 (0)20 3681 2519  
Mel Jenner +44 (0)20 3077 5720

[investmenttrusts@edisongroup.com](mailto:investmenttrusts@edisongroup.com)

[Edison profile page](#)

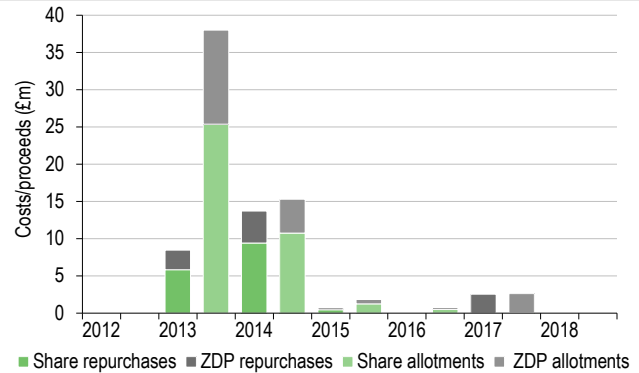
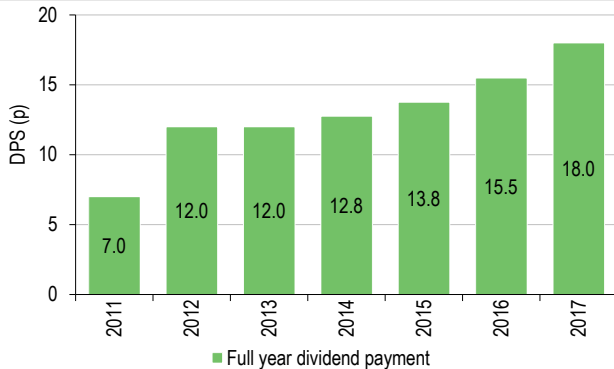
**Acorn Income Fund is a research client of Edison Investment Research Limited**

### Exhibit 1: Company at a glance

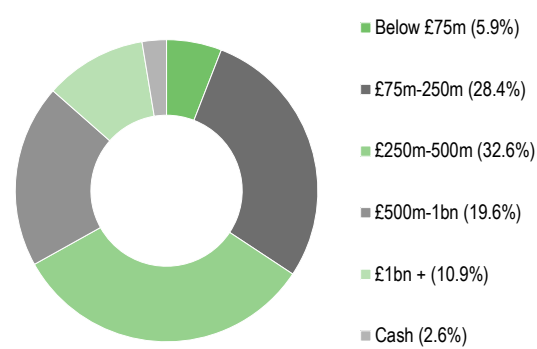
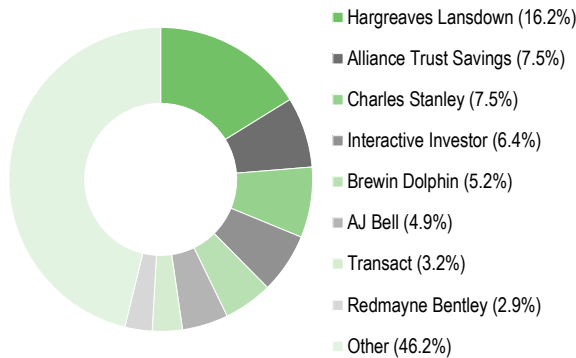
Investment objective and fund background	Recent developments
<p>AlF's objective is to provide shareholders with a high income and the opportunity for capital growth. The portfolio is split into two pools: one (c 70-80% of assets) is invested in UK small-cap equities; the other is an income portfolio containing fixed income instruments, convertibles and high-yielding shares in other investment companies. Performance is measured against the Numis Smaller Companies (excl. investment companies) index and other UK equity indices.</p>	<ul style="list-style-type: none"> <li>25 April 2018: Annual report for the year ended 31 December 2017. Ordinary share NAV total return +24.2% and share price total return +34.5% versus +19.5% for the Numis Smaller Companies (ex ICs) index. Total return on gross assets (including ZDPs) +17.9%.</li> <li>24 April 2018: Second quarterly dividend of 4.95p declared for the year ending 31 December 2018, payable on 29 June (Q217: 4.50p).</li> </ul>

Forthcoming		Capital structure		Fund details	
AGM	August 2018	Ongoing charges	1.53% (31 December 2017)	Group	Premier Fund Managers
Interim results	August 2018	Gross gearing	41.4% (via ZDPs)	Manager	Simon Moon, Fraser Mackersey (Unicorn), Paul Smith & team (Premier)
Year end	31 December	Annual mgmt fee	0.7% of total assets	Address	Eastgate Court, High Street, Guildford, GU1 3DE
Dividend paid	Quarterly	Performance fee	Yes (see page 7)	Phone	+44 (0) 1483 30 60 90
Launch date	11 February 1999	Company life	Indefinite, subject to vote	Website	<a href="http://www.premierfunds.co.uk">www.premierfunds.co.uk</a>
Continuation vote	Five-yearly, next 2021	Loan facilities	None		

Dividend policy and history	Share buyback policy and history
<p>Quarterly dividends are paid in March, June, September and December; higher dividends since 2011 were facilitated by ZDP issue, eliminating interest costs.</p>	<p>ZDPs are issued and bought back at the same time as ordinary shares in quantities such that the ratio of ZDPs to ordinary shares is maintained.</p>



Shareholder base (as at 30 April 2018)	Portfolio exposure by market capitalisation (as at 31 December 2017)
----------------------------------------	----------------------------------------------------------------------



Top 10 holdings* (as at 30 April 2018)		Portfolio exposure by market capitalisation (as at 31 December 2017)				
Company	Sector	Market cap (£m)	% of gross		% of portfolio	
		11 May 2018	30 April 2018	30 April 2018	30 April 2017**	30 April 2017**
Somero Enterprises	Industrial engineering	223.6	3.2	3.9	2.9	3.5
Macfarlane Group	General industrials	144.9	3.1	3.8	2.3	2.8
discoverIE***	Electronic & electrical equip't	311.0	3.0	3.6	2.6	3.1
Secure Trust Bank	Banks	364.6	2.5	3.0	2.4	2.9
Numis Corporation	Financial services	456.0	2.3	2.8	2.0	2.4
Clipper Logistics	Distribution	447.1	2.2	2.7	2.7	3.3
Mucklow A&J Group	Real estate investment trusts	355.7	2.0	2.4	N/A	N/A
Amino Technologies	Tech hardware & equipment	150.5	2.0	2.4	N/A	N/A
FDM Group	Software & computer services	1,090.2	1.9	2.3	2.3	2.8
Warpaint London	Personal goods	159.3	1.9	2.3	N/A	N/A
<b>Top 10 (% of holdings)</b>			<b>23.9</b>	<b>29.2</b>	<b>24.5</b>	<b>29.6</b>

Source: Acorn Income Fund, Edison Investment Research, Bloomberg, Morningstar. Note: \*All of the top 10 at 30 April 2018 are constituents of the smaller companies portfolio. \*\*N/A where not in end-April 2017 top 10. \*\*\*Formerly Acal.

## Market outlook: Balance of risk and opportunity

Equity markets began 2018 in a continuation of the buoyant mood of 2017, before a spike in volatility saw a relatively sharp sell-off in February and March. Earnings growth was historically high in 2017, supporting higher share prices, but a number of geopolitical and macro factors have weighed on markets so far this year, including inflation, central bank policy, the UK's protracted negotiations to leave the EU, and the potential for a global trade war sparked by US protectionism. While markets have largely recovered from the dip in the first quarter of 2018, there is still potential for further upsets, with the higher level of volatility so far this year suggesting that fear may be overcoming greed in the minds of investors. The large-cap UK FTSE 100 index has recently reached a new all-time high, although Exhibit 2 shows that over time, smaller companies have outperformed the UK market as a whole. Dividends remain an important part of total returns, and are perhaps surprisingly higher among smaller companies than among mid-caps, with the FTSE Small Cap index yielding 3.1%, compared with 2.7% for the mid-cap FTSE 250.

**Exhibit 2: Total return performance of UK smaller companies versus wider UK market**



Source: Thomson Datastream, Edison Investment Research

## Fund profile: Dual portfolio for high income and growth

AIF was launched in 1999 as a Guernsey-domiciled closed-end fund and its two share classes (ordinary shares and zero-dividend preference shares, or ZDPs) are listed on the London Stock Exchange. It aims to achieve a high income and the potential for capital growth through a dual-portfolio structure split between UK smaller companies (c 70-80% of assets) and an absolute return-focused income portfolio offering a higher yield than conventional bonds (c 20-30%). The fund is managed by Premier Asset Management (Guernsey), which delegates portfolio management to two investment advisers: Unicorn Asset Management (Simon Moon and Fraser Mackerzie) runs the smaller companies portfolio, while the income portfolio is managed by Premier Fund Managers (Paul Smith and team). In line with the primary focus on UK smaller companies, AIF uses the Numis Smaller Companies (excluding investment companies) index (NSCI ex-ICs) as a benchmark. It also measures returns with reference to the FTSE All-Share, FTSE Small Cap and BofA Merrill Lynch Sterling non-Gilts indices. The fund is a member of the AIC's UK Equity & Bond Income sector. The portfolio is constructed without reference to any of these benchmarks, and the smaller companies portfolio is biased to the smaller end of the smaller companies universe (at 31 December 2017, two-thirds of the portfolio was invested in companies with a market capitalisation below £500m).

AIF is structurally geared through its ZDPs, which were issued as a rollover from the 2011 issue in January 2017, with a fixed life until February 2022 and a gross redemption yield of 3.85%. This structure gives AIF the benefit of gearing without the burden of interest costs, facilitating the payment of a higher dividend since the ZDPs were first introduced in 2011.

## The fund managers: Unicorn and Premier

---

### The managers' view: Opportunities from market volatility

Moon and Mackersie retain a bias to UK companies with domestic earnings (c two-thirds domestic versus one-third overseas), insulating the smaller companies portfolio from threats of a global trade war, while still diversifying some of the risk that may arise from Brexit negotiations. The managers say their portfolio companies are generally optimistic on the outlook for the negotiations and are taking a pragmatic and sensible view of any changes that may be necessary as a result of the UK's exit from the EU. Moon and Mackersie have added to consumer stocks that suffered in the market volatility earlier this year, increasing their position in Card Factory on share price weakness. The company subsequently reported strong like-for-like sales growth and announced a special dividend.

The managers expect dividend growth in line with earnings growth forecasts of c 10% for 2018 and report that they have seen many companies increase their payout ratios, including FDM and Hill & Smith. Dividend cover on the underlying portfolio is also strong, at 2x historic dividends, supporting further dividend increases within the portfolio and also underpinning AIF's own record of dividend growth. While the failure of Conviviality in March has had an impact on revenue income, this has been offset in absolute terms by strong growth and special dividends elsewhere in the portfolio.

In the income portfolio, the managers still see inflation and interest rate rises as the primary risks. Bond spreads (the difference between coupons on riskier corporate debt and safer government bonds) are still very tight, meaning any increase in central bank rates could make the risk/reward balance of some corporate debt look unattractive. As a result, Smith and the team are retaining their absolute return focus, holding a blend of short-dated bonds, high-yield issues and less mainstream assets, such as investment company BioPharma Credit, where the 7% yield is underwritten by royalty payments on drug sales. The managers continue to see the outlook for fixed income as challenging and as such the income portfolio remains below 20% of AIF's total assets.

### Asset allocation

---

#### Investment process: Bottom-up selection for growth and income

While the split between AIF's smaller companies and income portfolios is broadly in the range of 70-80% small-cap and 20-30% income, the opportunities available in each segment will determine the exact split, which is agreed between the board, the manager (Premier Asset Management) and the investment advisers at Unicorn and Premier. The smaller companies portfolio is expected to provide the majority of both capital growth and income, while the income portfolio aims to provide diversification of capital and income returns, potentially limiting the impact of equity market volatility, and to manage the level of structural gearing that exists through the ZDPs.

Moon and Mackersie begin the process of stock selection for the smaller companies portfolio using quantitative screens to filter their large investment universe (there are more than 800 companies in the small and mid-cap Numis Smaller Companies index, which covers the smallest 10% of UK-quoted stocks by market capitalisation). The screens allow the managers to assess factors such as profitability, growth potential, valuation, and income factors including yield, dividend cover and dividend growth. The managers also make a qualitative assessment of competitive factors and the attractiveness of companies' end markets. Company meetings are an essential part of the process, with Moon and Mackersie undertaking c 400 meetings and site visits each year with both current and potential holdings. Ideas often arise through the managers' own knowledge and networks; an example is the recent purchase of paving company Marshalls, a long-standing holding in the Unicorn UK Income fund, where a drop in the share price combined with continued progress in the dividend meant that it fell within AIF's remit for the first time.

The managers have a strict 50-stock limit, which keeps them focused on the companies with the best combination of yield and growth potential. All holdings must be profitable and well-financed, with high operating margins and strong positions in growing end markets. There is a strong preference for stocks offering a good yield, although companies that do not currently pay a dividend may be included as long as there is a clear path to their doing so. The most common reason for exiting a holding is where the share price has risen to the extent that the yield no longer looks compelling; in such cases the managers will rotate into better-value, higher-yielding alternatives.

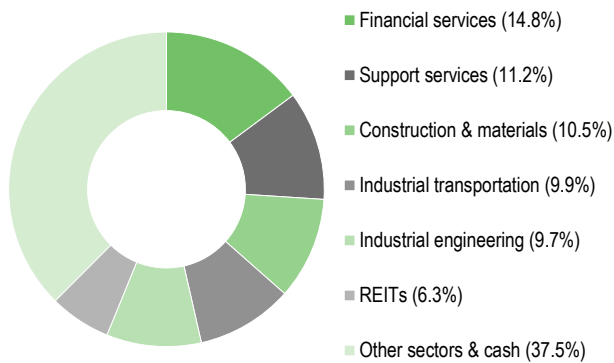
The income portfolio managers seek assets with attractive yields relative to bond market averages in a variety of areas, including government and corporate bonds, investment companies and structured notes. The relatively small size and diversified nature of the portfolio (which has a longer stock list than the small-cap allocation) means the managers are able to access small issues such as retail bonds, which often offer higher yields than those aimed at institutional investors.

Hedges may be used in order to limit downside risk in the equity portfolio or duration (interest rate sensitivity) in the income portfolio. There is currently a short position in long-dated gilts to limit interest rate risk in the income portfolio, but the smaller companies portfolio is unhedged.

### Current portfolio positioning

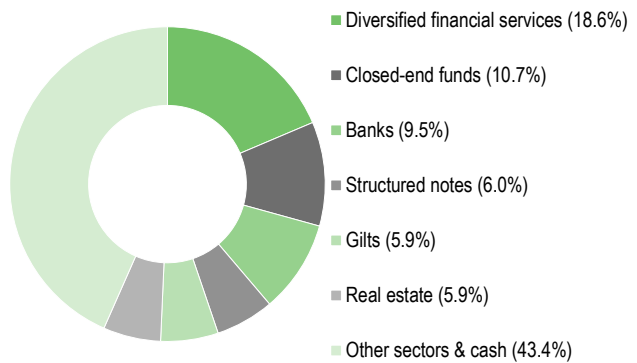
At the 31 December 2017 year-end there were 49 stocks in AIF’s smaller companies portfolio and 72 holdings in its income portfolio. The top 10 holdings at 30 April 2018 were all from the smaller companies portfolio, and made up 23.9% of the total portfolio compared with 24.5% a year earlier. The largest sector weightings in both portfolios (Exhibits 3 and 4) at 30 April were to financial services. This represented a small increase (+1.5pp) over 12 months for the smaller companies portfolio and a larger increase (+5.8pp) for the income portfolio. Support services, previously the largest sector in the small-cap portfolio, fell by 4.1pp over the year, while the income portfolio saw a reduction in its closed-end fund exposure, although this remains an interesting area of opportunity for the managers.

**Exhibit 3: Sector exposure of small-cap portfolio**



Source: Acorn Income Fund, as at 30 April 2018

**Exhibit 4: Sector exposure of income portfolio**



Source: Acorn Income Fund, as at 30 April 2018

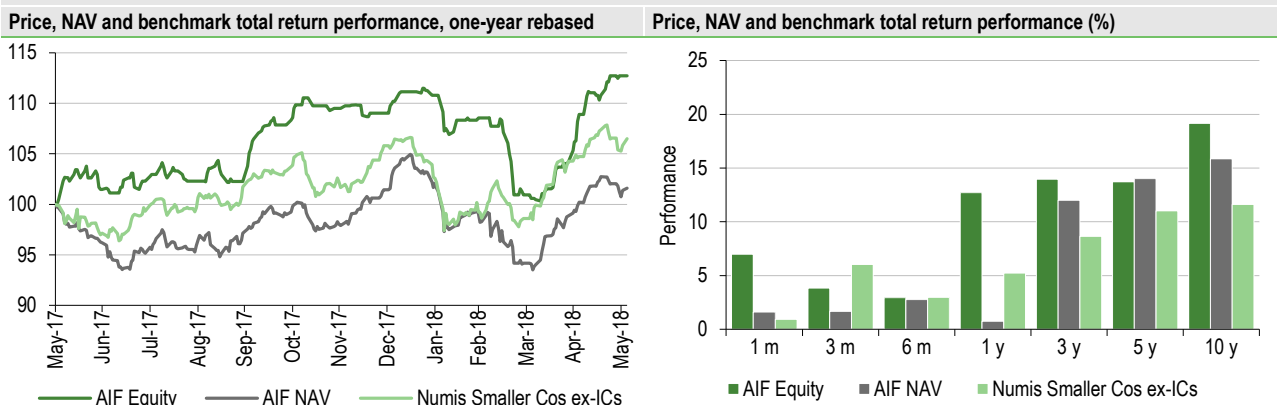
New holdings in the small-cap portfolio in recent months include two companies bought at IPO: adviser-focused investment platform Transact’s parent company IntegraFin (up c 40% since coming to the market in February 2018) and specialist motor insurance firm Sabre Insurance, which focuses on offering cover to drivers deemed too risky by mainstream insurers. The managers have also purchased tenpin bowling operator Hollywood Bowl, paving company Marshalls and specialist steel fabricator Severfield. These have all paid, or are likely to pay, special dividends and were purchased on 12-month forward yields of 3.6%, 3.3% and 3.5% respectively. Moon and Mackerisie exited positions in UPVC window firm Safestyle (held since IPO in 2013, it was sold at c 230p a share and the share price has since fallen to c 60p); publishing company Quarto, where operational issues meant the managers were less confident in the dividend; car dealer Pendragon and carpet

company Headlam, which were both sold in response to more difficult end-market conditions as consumers scale back on big-ticket purchases.

In the income portfolio, the managers have bought into small retail corporate bond issues from companies such as Helical and Workspace (both property-focused), which were offering yields of 2.5-3.0% for a two- or three-year maturity, compared with 1.4% for a 10-year gilt. While the overall investment company weighting has fallen, the team has taken part in several new issues, such as a ZDP issue from RM Direct Lending, and C shares from BioPharma Credit and SQN Asset Finance, as well as initiating positions in the ordinary shares of Tetragon Financial Group and UK Mortgages. Taking the view that inflation risk is under-appreciated, they also bought some long-dated US index-linked bonds (treasury inflation-protected securities, or TIPS). Sales have generally been from long-dated assets (such as 30-year EDF bonds), in line with the managers' desire to limit duration risk.

## Performance: Back on track after Q118 wobble

**Exhibit 5: Investment company performance to 31 May 2018**



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

AIF's share price and NAV bounced back strongly in April following widespread market declines in February and March. Total returns over all periods shown in Exhibit 5 are positive, and while the NAV total return lags the benchmark NSCI ex-ICs over three, six and 12 months, reflecting the impact of the collapse of former largest holding Conviviality in March, AIF has outperformed both its benchmark and the wider FTSE All-Share index over three, five and 10 years in share price and NAV total return terms (Exhibit 6). Over 12 months to early May, Conviviality was the only detractor of more than 100bp, costing 2.4pp of performance, although over the life of the holding total returns were positive and the managers of the smaller companies portfolio took profits in late 2017. The top five positive contributors together added 687bp to AIF's NAV, led by Midwich (share price up 120% over 12 months to 11 May, adding 185bp to AIF's performance), discoverIE (+68% and 150bp), Macfarlane Group (+43% and 130bp), Numis Corporation (+55% and 120bp) and Somero Enterprises (+20% and 102bp). The Midwich position has been trimmed into strength, while the others now make up four of the top five holdings. The managers of the income portfolio remain focused on absolute return opportunities and bonds offering positive real yields against a backdrop of rising inflation expectations.

**Exhibit 6: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Numis Smaller Cos ex-ICs	6.0	(2.1)	(0.0)	7.1	15.4	12.7	92.5
NAV relative to Numis Smaller Cos ex-ICs	0.7	(4.1)	(0.2)	(4.3)	9.5	14.2	45.4
Price relative to FTSE All-Share	4.1	(3.3)	(3.6)	5.8	19.1	30.8	193.5
NAV relative to FTSE All-Share	(1.1)	(5.3)	(3.7)	(5.4)	13.1	32.5	121.7

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2018. Geometric calculation.

## Discount: Narrower than short and longer-term average

At 4 June 2018, AIF's ordinary shares traded at a 1.7% discount to cum-income NAV. While this was wider than the 12-month low of 0.1% reached in mid-March, it is narrower than the averages over one, three, five and 10 years (4.2%, 5.4%, 5.0% and 9.8% respectively). In the past the fund has frequently traded at a premium and has the potential to do so again if the recent positive performance is sustained. No shares have been issued or repurchased since January 2017.

**Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)**



Source: Thomson Datastream, Edison Investment Research

## Capital structure and fees

AIF is a closed-end investment company incorporated in Guernsey and listed in London. It has two classes of share, with 15.9m ordinary shares and 21.4m ZDPs currently in issue. The ZDPs, which provide the fund with structural gearing (41.4% gross at 30 April 2018), mature in 2022 and have a gross redemption yield of 3.85%. Shares may be issued or repurchased in order to manage a premium or a discount; where this occurs, ZDPs will also be allotted or bought back in order to maintain the gearing ratio. No buybacks or allotments have occurred since January 2017.

Annual management fees of 0.7% of total assets are paid to Premier Asset Management, which in turn pays fees to the smaller companies and income portfolio investment advisers at Unicorn and Premier. A performance fee (15% of returns above the hurdle) may be paid if AIF's NAV per share plus dividends has increased at a compound annual rate of more than 10% since the last year-end at which a performance fee was paid. A performance fee of £559,967 was accrued in respect of FY17, the first time such a fee has been paid since FY13. Ongoing charges (excluding performance fees) were 1.53% at end-FY17.

## Dividend policy and record

AIF aims to provide its investors with a high level of income as well as potential capital growth and pays dividends on its ordinary shares quarterly, in March, June, September and December. Having historically increased the quarterly dividend at the second interim stage, FY18 has been the second consecutive year that the increase has been brought forward to the first interim payment. Four dividends of 4.5p (total 18.0p) were paid in respect of FY17, with the first interim dividend for FY18 having been set at 4.95p. If last year's pattern is maintained, this suggests total dividends for the year of c 19.8p, which would be a 10% y-o-y increase (FY17: 18.0p, FY16: 15.5p). Revenue returns per share in FY17 were 20.36p (FY16: 27.19p) and the company again added to its revenue reserve, which stood at c 1.0x the annual dividend at the year-end. Based on the 4 June 2018 share price and the last 12 months' dividends, AIF's ordinary shares currently yield 4.0%.

## Peer group comparison

AIF is a member of the AIC UK Equity & Bond Income sector, a small peer group made up of funds with an income focus that may invest in both equities and bonds. There are five funds in the sector, a reduction from seven since our last note, following the reclassification of one fund (F&C UK High Income) into an equity sector and the rollover of another (Jupiter Dividend & Growth into Jupiter UK Growth). Of the remaining peers (which may hold up to 100% in either equities or bonds, but must be at least 80% invested in the UK), the most comparable with AIF is Aberdeen Smaller Companies Income. Within the peer group, AIF's NAV total return performance ranks it fourth out of five over one year, first over three years, second over five years and first (by a margin of almost 150pp) over 10 years. Ongoing charges are above average and AIF is one of two funds to charge a performance fee. In a sector where two of the peers currently trade at a premium, AIF has the smallest discount to NAV. Gearing is the highest in the group because of AIF's structure (with structural gearing via its ZDPs). The dividend yield is below average for the sector but above that of the closest peer.

**Exhibit 8: AIC UK Equity & Bond Income peer group as at 4 June 2018\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield
<b>Acorn Income Fund</b>	<b>75.4</b>	<b>1.6</b>	<b>41.8</b>	<b>93.8</b>	<b>339.4</b>	<b>1.5</b>	<b>Yes</b>	<b>(1.0)</b>	<b>138</b>	<b>4.2</b>
Aberdeen Smaller Companies Inc	64.9	14.7	40.0	100.8	193.0	1.4	No	(14.6)	108	2.5
City Merchants High Yield	184.4	(0.2)	15.8	34.6	128.3	1.0	No	3.0	100	5.2
CQS New City High Yield	243.5	4.5	21.6	31.4	128.7	1.2	No	7.6	109	7.2
Henderson High Income	235.0	2.0	18.0	55.5	143.6	0.8	Yes	(4.6)	123	5.3
<b>Sector average</b>	<b>160.6</b>	<b>4.5</b>	<b>27.5</b>	<b>63.2</b>	<b>186.6</b>	<b>1.2</b>		<b>(1.9)</b>	<b>116</b>	<b>4.9</b>
<b>AIF rank in sector</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>		<b>3</b>	<b>1</b>	<b>4</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance to 31 May 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

## The board

There are three non-executive directors on AIF's board, all resident in Guernsey where the fund is incorporated. Helen Green was appointed as a director in 2007 and became chairman in 2012. Nigel Ward joined the board in 2011, while David Warr was appointed in 2012. The directors' professional backgrounds are in investment management and accountancy.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority ([Financial Conduct Authority](http://www.fca.org.uk)). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

### DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Acorn Income Fund and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.