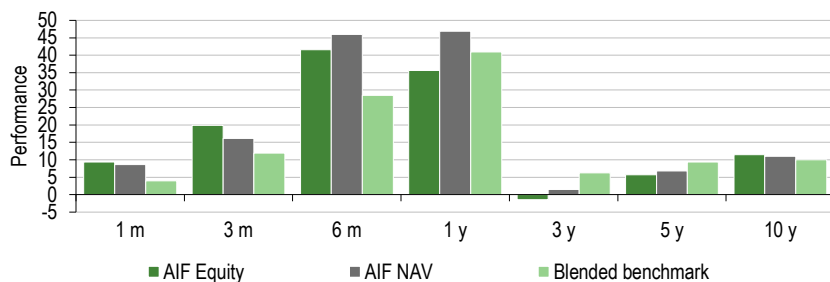


Acorn Income Fund

Board proposes change of mandate and manager

The board of Acorn Income Fund (AIF) has announced the results of its strategic review ahead of the company's five-yearly discontinuation vote in August. It is proposing to change the mandate from its present c 75% in UK smaller companies and c 25% in income-producing assets to a global equity income fund focused on sustainability and positive impact, managed by BMO Global Asset Management rather than the current partnership between Unicorn Asset Management and Premier Miton. AIF's approach of investing in well-financed, income-generating and often domestically oriented small caps had led to a period of underperformance, partly attributable to Brexit uncertainty but compounded by last year's COVID-19 induced dividend cuts. However, returns have rebounded strongly in the past year (see chart) as investors have begun to reassess the UK equity market. The board advises that shareholders who favour the move to BMO should vote against discontinuation and in favour of the proposals at the AGM and EGM in August. A circular will be published in due course.

Strong rebound yet to lift Brexit-hit medium-term performance numbers



Source: Refinitiv, Edison Investment Research. Note: Percentage total returns in sterling. Three-, five- and 10-year figures annualised. For blended benchmark see Fund objective.

Key points of the announcement

- The board considered the forthcoming discontinuation vote as offering a good catalyst for a reappraisal of the strategy.
- While it has performed well over the long term (total returns of c 10% pa over 10 years), AIF remains a small fund and is trading at a c 14% discount to NAV.
- The board sees the growing appetite for sustainable investment as offering an opportunity for the fund to attract new investors and grow its share base over time. BMO Global Asset Management (through predecessor company Friends Provident) pioneered sustainable investment for UK retail investors through its Stewardship funds.
- The renamed BMO Global Sustainable Equity Income Fund proposes to offer a sustainable portfolio yield of c 3.5% pa (compared with AIF's currently uncovered 6.4% dividend yield) at a reduced annual management fee (65bps on net assets from 70bps on gross assets) and with no performance fee.

Investment companies
UK small-cap and income

18 May 2021

Price 359.0p

Market cap £56.8m

AUM £100.3m

NAV* 417.6p

Discount to NAV 14.0%

*Including income. At 14 May 2021.

Yield 6.4%

Ordinary shares in 15.8m

ZDPs in issue 21.2m

Code AIF

ISIN GB0004829437

Primary exchange LSE

AIC sector UK Equity & Bond Income

52-week high/low 371.0p 230.0p

NAV* high/low 425.3p 288.8p

*Including income.

Gearing

Gross gearing at 14 May 2021 52.2%

Fund objective

Acorn Income Fund'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 a composite benchmark: 75% of the Numis Smaller Companies (excluding investment companies) Index and 25% ICE BofAML Sterling Non-Gilts Index.

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

A sustainable future for AIF's investors?

While we await further detail in the forthcoming circular, it seems likely that AIF's structure (it is currently highly geared through zero-dividend preference shares) would be simplified under the proposed new mandate. The gearing has been beneficial for ordinary shareholders in the past but has proved a drag on performance in the difficult market conditions for higher-yielding UK small-cap equities in recent years.

Sustainable investment is currently a hot topic, and the proposals would bring together two of BMO Global Asset Management's historical claims to fame for the first time: as F&C (formerly Foreign & Colonial) it launched the very first investment trust in 1868, and as Friends Provident it pioneered ethical investment in the UK with the launch of the Stewardship fund in 1984. The proposed global sustainable equity income strategy – managed by Sacha El Khoury, a member of BMO's 15-strong global equities team – would invest in a portfolio of publicly listed global companies that make a positive impact on society and the environment. The strategy is overseen by BMO's responsible investments team, whose 20 members have over 275 years' combined experience.

We note the recent announcement that BMO Global Asset Management's Europe, Middle East & Africa (EMEA) operations are to be acquired by Columbia Threadneedle, a division of US-listed Ameriprise Financial (expected to complete in late 2021). This may lead to changes in corporate branding across BMO's fund range, although no such changes have yet been made public.

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