

Unicorn
Investing with conviction



Unicorn Asset Management

*UK Ethical Income Fund Responsible
Investment Policy*

August 2023

Introduction

Unicorn is an independent asset manager focused on delivering long-term value for investors. Based in the historic Charterhouse, a relative oasis in the City of London, we focus on shutting out the noise in markets and look to deliver superior returns over the long term through fundamental company analysis.

Established in 2000, we specialise in UK Equity investing via a range of actively managed funds, with a structural bias towards the opportunity in small and mid-sized companies. With well over 150 years' collective investment experience, we are well placed to identify the most attractive investment opportunities.

Unicorn believes a positive and active approach to ESG from management teams is a leading indicator of long-term value creation within our investee companies. ESG considerations remain a key priority for Unicorn Asset Management and are an integral part of our investment appraisal.

Unicorn UK Ethical Income Fund Responsible Investment Policy

Strategy

The UK Ethical Income Fund’s ethical strategy is to apply a robust ethical screening process to the successful, longstanding Unicorn investment process, removing any stocks with business exposures which are incompatible with the fund’s ethical screening criteria.

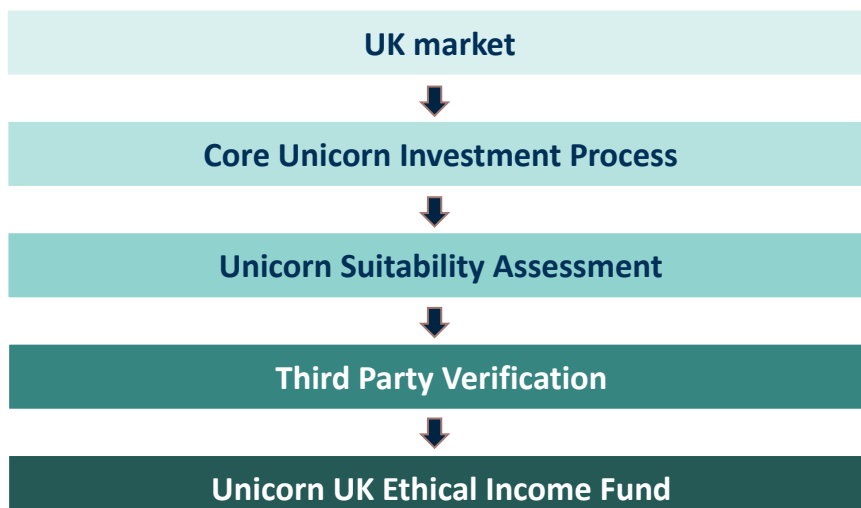
Ethical Criteria

In addition to the Firm level consideration of broader ESG issues (*covered in depth in Unicorn Asset Management Sustainability and Stewardship Report*), the Fund will not invest in companies which derive strategic revenues from the following business areas:

Business Involvement
Adult Entertainment
Alcohol
Animal welfare
Defence & weapons
Genetic engineering
Gambling
Tobacco manufacture
Fossil fuel extraction & production

Process

The investment process applied to the Fund leverages Unicorn’s longstanding expertise in investing in small and mid-cap income stocks (Core Unicorn Investment Process), but which also applies an additional Unicorn Suitability Assessment to all potential investments. The result of these assessments are then verified by an independent third party check provided by MSCI.



Responsibility and Oversight

Unicorn's approach to responsible investing is fully embraced by its Board of Directors, who act as the Firm's governing body. The ethical screening process is fully integrated into the Fund's investment process and the application of and adherence to the Ethical policy is overseen by the Firm's ESG Officer and ESG Analyst who report to Unicorn's ESG Committee. All staff members understand and are supportive of Unicorn's commitment to responsible investing.

Core Unicorn Investment Process

Unicorn's high conviction, stock-picking approach results in levels of portfolio turnover that are typically considerably lower than average. As long term shareholders, we often hold meaningful stakes in the companies in which we choose to invest. Unicorn's investment team therefore tends to benefit from excellent corporate access to the senior management teams and Boards of our investee companies.

ESG considerations are a key priority for Unicorn Asset Management and are an integral part of our investment appraisal. We are of the view that companies should behave well, exhibit a strong understanding of any negative impacts they may have whilst working to address them, and treat all stakeholders responsibly. Implementation of robust ESG due diligence will enable a more holistic mapping of material issues, enhancing decision-making from the outset. Unicorn believes a positive and active approach to ESG is a leading indicator of long-term multi-stakeholder value creation within our investee companies.

Unicorn Suitability Assessment

The Unicorn Suitability Assessment builds on the Core Unicorn Investment Process and is designed to ensure that when it comes to excluded activities, companies must adhere to the spirit of the law, not just the letter of the law. The assessment removes companies which generate strategic revenues from the excluded business areas as per the Fund's ethical criteria. An additional level of prudence is applied and companies which derive revenues through meaningful involvement to the excluded business practises, regardless of whether the exposure is direct or indirect, are also excluded. This additional level of prudence is afforded by Unicorn's detailed understanding of the underlying business exposures and direct access to senior level management enables accurate and prompt assessment.

Third Party Verification

The third party verification is an independent check provided by MSCI. The verification comprises a Business Involvement Screen and ESG Controversies Screen. In practice, no stocks are removed by the third-party verification, which serves as a final check and balance to the Unicorn Suitability Assessment, which makes the necessary exclusions.

MSCI Business Involvement Screen

The screen confirms those stocks with strategic revenue exposures incompatible with the fund's ethical criteria.

MSCI ESG Controversies Screen

The screen Identifies cases which may have a reputational risk for a company. Controversies are organised into three pillars (Environmental, Social and Governance) and are measured according to 28 underlying 'Key Performance Indicators'. Any controversies are highlighted via the MSCI 'flagging system'. Significant controversies, as measured by the award of a "Red Flag", are excluded from the portfolio