

Unicorn



Investing with conviction

Unicorn Asset Management

ESG Investment Policy

March 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 determine the true value of a business and it's potential.

Our investment approach is high conviction, with fundamental, bottom-up analysis and research conducted in house and portfolios built sustainably for the long term.

Our expectation is that we will hold stakes in our investee companies for several years. The decision to invest is like that of an owner-manager's business decision to participate in a quality business franchise.



Our approach to ESG investing

Unicorn believes a positive and active approach to ESG considerations from management teams is a leading indicator of long-term value creation within 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. Businesses that act with a keen eye on ESG considerations will, in doing so, create meaningful value for the future.

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.

This privileged corporate access provides a strong platform for engagement with management, through ongoing dialogue and through active voting. The combination of these key attributes make us particularly well-suited to assessing and engaging with businesses on ESG matters.

Unicorn is a signatory of the United Nations Principles of Responsible Investment (UN PRI) and seeks to adhere to the six principles, which are to:

1) Incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes

How we adhere:

- *The consideration of ESG issues is embedded in the Unicorn investment process when looking at any business. It can most simply be summed up using a three-stage approach (Assess, Avoid, Engage)*
- *The ESG Assessment is strictly applied by the investment managers. Companies which fail this assessment are precluded from investment or disinvested.*
- *Additional screening criteria and increased prudence is applied to explicitly Responsible & Ethical portfolios*

2) Be active owners and incorporate ESG issues into our ownership policies and practices

How we adhere:

- *Engage directly with the Senior Management and Board of Directors of investee companies through regular meetings and other channels of corporate access*
- *Actively vote on all resolutions*



3) Seek appropriate disclosure on ESG issues by the entities in which we invest

How we adhere:

- *Assess the ESG framework and disclosure of a company prior to investment and on an ongoing basis*
- *Encourage investee companies to improve disclosure where necessary*

4) Promote acceptance and implementation of the Principles within the investment industry

How we adhere:

- *Attend and participate in industry events, which promote sustainable and responsible investment*
- *Engage with third party ratings agencies sharing knowledge and understanding of investee companies*

5) Work together to enhance our effectiveness in implementing the Principles

How we adhere:

- *Internal ESG Officer and ESG Analyst provide oversight of ESG issues and maintain the relevance of the firm's approach*
- *Continue to review and improve our approach where necessary*

6) Report on our activities and progress towards implementing the Principles

How we adhere:

- *Quarterly formal ESG Report produced and discussed at ESG Committee meetings (independent and separate from the Portfolio Review Committee)*
- *ESG findings are reviewed and challenged at board level*
- *Full transparency of voting records (published on the website)*



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. Consideration toward ESG factors have long formed part of Unicorn's investment philosophy and this approach is applied across the business, taking into account the differing needs and practicalities of each strategy. The ESG process is implemented by the group's ESG Officer and ESG Analyst and is overseen by the ESG Committee.

The ESG Committee comprises:

- *ESG Officer*
- *ESG Analyst*
- *Director of Operations*
- *Risk Officer*
- *Further members of the investment team*
- *Compliance Officer*

Any required actions arising from the ESG Committee meetings are implemented as soon as is practicable. The ESG Committee formally reviews and updates Unicorn's ESG policy on at least an annual basis, for formal sign off by the Investment Committee.

Adherence to the Firm's ESG investing and stewardship approach is assessed as part of the firm's Compliance Monitoring Programme undertaken by our Compliance Officer.

All staff members understand and are supportive of Unicorn's commitment to responsible investing.

Definitions

The three areas of focus for our ESG analysis relate to the environmental and social impact of any business's activity, and the manner in which a business is managed. Together, these factors are known as Environmental, Social and Corporate Governance ('ESG'). We define these factors as follows:

Environmental: *How does a company interact with the physical environment? Considerations include, but are not limited to; climate change, natural resources, carbon emissions, air and water pollution*

Social: *How does a company interact with society? Considerations include, but are not limited to; human rights, health and safety issues, labour standards, customer and supplier relationships and competitive practices*

Governance: *How is the company run? Considerations include, but are not limited to; transparency, ownership, board independence, ethics, diversity and executive compensation*



Accountability Mechanisms

The ESG team produces a quarterly ESG report detailing interactions with the management teams of investee companies and providing a record of Unicorn’s voting history and any other notable ESG engagements. The report and meeting minutes are then circulated and discussed by Investment Committee, as a formal agenda item.

Process

Unicorn’s disciplined investment process seeks to identify the risks associated with any potential investment and identify the factors that may impact long-term returns. The assessment of ESG factors is integral to this framework and helps to provide a holistic understanding of a business.

Our integrated approach to ESG, places responsibility for ESG analysis onto Unicorn’s investment team. The application of and adherence to the policy is overseen by the firm’s ESG Officer and ESG Analyst who report to Unicorn’s ESG Committee, however, it is crucial to note that the ESG credentials are not seen as separate from the “investment case”.

If an investee company changes to be considered outside the firm’s ESG philosophy, the relevant Investment Manager will be expected to disinvest, and will aim to sell that holding within 90 days of being made aware of the information.

The practice of evaluating a company’s ESG credentials is highly subjective and is also not static, but rather evolves through time. The simplest way to understand UAMs ESG approach across funds is as two distinct activities:

- *Evaluate*
- *Engage*

This process is then enhanced with additional criteria for specific Responsible, Ethical or Impact strategies and for segregated mandates where required.

Evaluate



Assess company impact on the environment, society and its approach to governance. Look for those striving to improve on these measures and which have a clear plan to deliver better outcomes

Engage



Engage via management interaction and active ownership to encourage positive change (full voting records online)

Enhance



Enhance the threshold for Ethical, Responsible and Impact mandates builds on the existing process with additional criteria, either looking to avoid companies best on revenue exposure or back businesses actively having a positive effect



Evaluate

As part of the detailed investment appraisal, ESG factors are considered for all potential investments prior to an introduction to any portfolio. This review aims to prohibit investment in any company which is deemed to have inadequate considerations towards long term sustainability. Further examination more specifically regarding a company's harmful or detrimental characteristics both within a sector context and more broadly is then undertaken. This offers a more holistic mapping of material issues, enhancing decision-making from the outset. Examples include:

- *Operational Environmental and Ecosystem Damage*
- *Negative Social Impact*
- *Corruption*

The review covers the following areas:

- *ESG controversies or areas of strength/weakness*
- *Environmental policies and considerations*
- *Sustainability policies*
- *Health and safety policies*
- *Social value policies*
- *Human rights policies*
- *Corporate governance policies and management behaviour*

Each of the above areas are reviewed and the integration of those policies into tangible KPIs is sought.

Any issues are discussed with the company management teams. Companies are also encouraged to improve disclosure and reporting if appropriate.

The identification of any significant controversies, or evidence of poor ESG practices, will take precedence over other financial and investment considerations and will be scored a "Fail", which will result in the exclusion of that potential investment from any of Unicorn's Funds.

Engage

Engagement is a key component of our investment process and ongoing investment appraisal. We hold regular, typically biannual, meetings with investee company management teams in order to discuss their strategic, operational and governance approach. ESG issues and concerns are raised and discussed as a key part of these meetings. These are recorded and the progress against such issues are monitored.

Company site visits are an important part of the investment process and allow the investment team to further scrutinise the ESG practices of investee companies. We aim to visit as many of our investee companies as possible.



Another mechanism of engagement is the exercising of voting rights. Unicorn actively votes on all resolutions and challenges management by voting against recommendations, which are inconsistent with our ESG expectations or disadvantage investors in UAM funds. Full voting records are available on our website.

Engagement is embedded in our investment process. This commitment to Engagement is reinforced by Unicorn's policy that all investee company voting decisions are taken by Unicorn's Fund Managers.

We also actively engage with third party ESG rating providers to inform and enhance their understanding of our investee companies especially for smaller companies where ratings agencies can often leverage our in-depth understanding of the company business models.

Enhance

Additional criteria are considered for specific *Ethical* and *Responsible* products and for segregated mandates where requested. To learn more about the additional company scrutiny for the Unicorn UK Ethical Income Fund and Responsible AIM IHT & ISA portfolio services please refer to their supplementary documents.

Further to the above and In line with both the Ottawa Treaty and the Oslo Convention, Unicorn fully supports the international conventions on cluster munitions and controversial weapons including anti-personnel mines, cluster munitions and chemical & biological weapons. In line with our approach to responsible investment and our commitment to the UN PRI, we will not knowingly invest in any company that derives revenues from, or provides funding for, cluster munitions or controversial weapons. This exclusion parameter is imposed in relation to all of Unicorn's Funds or Mandates.

Stock Lending

Unicorn does not participate in stock lending.

Proprietary Research

Investment research is performed in house, which has been the case since the inception of Unicorn Asset Management in 2000. This approach demands thorough due diligence of all investments, which fosters an in depth understanding of company business models from an operational, financial and ESG perspective. This is especially important when investing in smaller companies where relevant information is often less readily available. Regular meetings with company management teams form an integral part of the proprietary appraisal of investments.



Third Party Providers

Specialist providers of ESG services may be utilised to provide independent analysis of Unicorn's investee companies. We are though mindful of the limitations of third party providers, both in terms of coverage and in terms of detailed understanding of company business models. The quality and breadth of coverage and understanding is particularly inconsistent further down the market cap scale. For these reasons, ESG research produced by third parties is only used as an indicative guide, and to inform, support and challenge our internal ESG assessment of a company. We work proactively with third party providers, often sharing our expertise to help inform and improve their assessment of companies that do not form part of their standard ESG coverage.

Stewardship

Unicorn aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. We believe that the companies we invest in should exhibit high standards of governance. Good governance should play an integral part in creating shareholder value and thereby helping us to deliver strong investment performance for our clients.

Unicorn is committed to ensuring that it operates in the best long-term interests of its clients.

The firm is committed to managing and resolving any conflicts that may arise because of the firm's ESG investment policy.

Consistent with the requirements of the FCA, the nature of our commitment to the 2012 or 2020 UK Stewardship Codes can be found in the firm's current Stewardship policy.

Corporate Governance

Unicorn invests in UK Companies and actively targets investment in those companies that employ strong corporate governance practices. Unicorn is committed to exercising responsible ownership. Our conviction is that companies which adopt best practice in corporate governance, will be more successful in their core activities and deliver enhanced returns for shareholders over the long term.

Unicorn is committed to following the principles of the UK Corporate Governance Code ("the Code") published by the Financial Reporting Council ("FRC").

Our approach to corporate governance is set out in detail in Unicorn Asset Management's Corporate Governance Policy document.



Proxy Voting

Unicorn will, to the extent we are authorised by our clients to do so, exercise proxy votes at all shareholder meetings. It is important to note, that Unicorn acts as an agent on behalf of its clients and is not the beneficial owner of the investee company's shares. Voting decisions are made by our Fund Managers and are based on their knowledge, and research of, the investee company concerned. In addition the management teams of our investee companies are also interrogated with regard to their approach to ESG matters.

Where contentious issues arise in relation to Shareholder Resolutions at company meetings, Unicorn will usually contact the management of the investee company in order to exchange views and give management teams the opportunity to articulate their position.

The long term nature of the relationships that we develop with the Boards of investee companies typically enable us to resolve any concerns that we may have over strategy, the management of risk or governance practices. However, in the event of an unsatisfactory explanation of contentious issues, Unicorn will vote against the recommended proposals put forward by the investee company Board.

Unicorn's proxy voting history is available on the company website. Unicorn's approach to proxy voting is set out in detail in Unicorn Asset Management's Voting Policy document.

Unicorn Asset Management believes it is important we hold ourselves accountable to the same high standards which we expect of our investee companies. Full detail of Unicorn Asset Management's company ESG practices are available in our UAM ESG Policy.

