Unicorn Asset Management Limited

Pillar 3 Disclosure
27 April 2018

Introduction

The Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD"), which together comprise CRD IV, came into force on 1 January 2014. It establishes the requirements for the quality and quantity of capital to be held by financial institutions. Under CRD IV, Unicorn Asset Management ("Unicorn") is defined as an IFPRU Collective Portfolio Management Investment firm and needs to comply with the EU CRR and the FCA's IFPRU Handbook.

The framework consists of three 'pillars':

- Pillar 1 sets out the minimum amount of capital required to meet the firm's credit, market and operational risk;
- Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital. Pillar 2 is also known as the Internal Capital Adequacy Assessment Process "ICAAP"; and
- Pillar 3 requires public disclosure of qualitative and quantitative information about underlying risk management controls and processes. Pillar 3 also incorporates the provisions of SYSC 19 in the FCA Handbook related to remuneration.

The changes arising from CRD IV have been considered by Unicorn in its latest ICAAP, which shows that the firm remains comfortably in excess of its minimum capital requirements. This document is designed to provide material information for market participants to assess key information about the Company's risk management framework, its remuneration policies and its capital position.

Scope

Unicorn is an investment management firm registered and regulated by the FCA. The firm holds client money as part of its OEIC operations and is categorised as a Collective Portfolio Management Investment firm with a minimum base own funds requirement under IFPRU of €125,000. Unicorn is not subject to consolidated reporting.

Unicorn's board of directors determine the business strategy and risk appetite and are responsible for the design, implementation and monitoring of the risk management framework.

Risk Appetite

The board has little appetite for taking on risks which are inconsistent with the business of managing the funds and seeks to safeguard the ability of the firm to continue as a going concern and provide returns for shareholders while maintaining a significant surplus over the regulatory capital requirement. The firm accepts that that there is a possibility of certain catastrophic events occurring which would in all probability lead to an orderly wind up of the business and does not seek to mitigate against those risks more than is reasonably practical.

Risk Management Policies and Objectives

Sources of Risk

Unicorn endeavours to manage all the risks that arise from its operations. The firm maintains a risk management policy and risk register to identify risks to the business and ensure these are appropriately managed and mitigated. The main areas of risk that have been identified are as follows:

Operational Risk

Operational risk is the risk of a loss arising from failed or inadequate internal processes or systems, human error or other external factors. The ways in which we manage these risks include identifying and regularly testing key control procedures, and obtaining and reviewing key management information and trend analyses on operational occurrences.

In order to ensure it has sufficient capital to cover some of these operational risks Unicorn also takes out insurance policies to cover eventualities such as errors and omissions, business interruption, crime.

Any material operational issues and failures are brought to the attention of the board as appropriate.

Credit Risk

Credit Risk is refers to the potential risk of loss arising from a client or counterparty failing to meet its obligations to pay amounts due.

Unicorn's exposure to credit risk is limited. It does not undertake any principal trades related to its own balance sheet. Cash is placed on deposit with highly rated banks. The risk of default on Debtors for shares issued in the open ended funds is mitigated by the ability to cancel shares issued. Fees due from clients are subject to formal agreements. The company has no history of bad debts from clients.

Market Risk

Market risk is the risk that the value of, or income arising from, Unicorn's business activities varies as a result of changes in stock markets, interest rates or exchange rates. Changes in interest rates and exchange rates have little direct impact on Unicorn's business. Stock market levels directly impact on the level of Unicorn's assets under management (and hence profitability) but are beyond its control. It is Unicorn's policy to understand and accept that this is an inherent risk within the business.

Liquidity Risk

Liquidity risk is the risk that in the short term Unicorn has insufficient liquid assets to meet its payment obligations, despite being fundamentally solvent or can only obtain such facilities at excessive cost.

Liquidity risk within Unicorn could arise in the following instances:

a) Risk of a bank counterparty not honouring a deposit obligation;
b) Counterparty risk exposure from a client or fund not being able to pay fees;

c) Risk of the company paying trustees for creation of shares ahead of receipt of investor subscription;
d) Risk of a significant or unplanned corporate expense, such as a litigation or compensation claim;
e) Risk of the company becoming loss-making and draining cash resources.

Unicorn's liquidity policy is to maintain assets in such proportion and type as will at all times enable it to meet its liabilities as they arise. Unicorn is a cash generative business and will usually be able to meet all payment obligations out of operating income in the short. However, detailed management accounts and cash flow budgets are produced and reviewed by the Board on a regular basis to demonstrate this.

Risk Oversight

Unicorn's board of directors is responsible for establishing the risk framework and managing all risks undertaken by the business. The board formulate high level policies and objectives in relation to those risks and where necessary to puts in place detailed processes and controls or other mitigating action to ensure risks are adequately managed. Policies and procedures are kept up to date at all times and thoroughly reviewed bi-annually.

Capital Requirement

Pillar 1

Unicorn's approach to assessing the adequacy of its internal capital is recorded in the ICAAP. The ICAAP process includes an assessment of all material risks faced by the firm and the controls in place to identify, manage and mitigate these risks. The risks are identified and stress-tested against various scenarios to determine the level of capital that needs to be held. Unicorn is a limited license firm and is therefore exempt from the operational risk requirement of Pillar 1 and is not required to calculate an operational risk capital charge. As such, its minimum capital requirement is the greater of:

- The base capital requirement of €125,000;
- The sum of its market and credit risk requirements; and
- The fixed overhead requirement (FOR)

The FOR normally exceeds both the sum of market and credit risks and the base requirement. The FOR based on the results for the year ended 31 December 2017 was £946.000.

Pillar 2

Unicorn's approach to assessing the adequacy of its internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process. The fixed overhead requirement under Pillar 1 is deemed by the firm to be sufficient capital to meet its current needs. All known risks, including operational risks, have been assessed and appropriate stress tests and scenario analyses have been undertaken to help determine any additional capital required under Pillar 2. Additional capital of £55,000 is currently required for Pillar 2.

As at 31 December 2017 the Firm's regulatory capital position was:

Capital Item	£'000
Total Tier 1 capital after deductions	5,795
Pillar 1 requirement	946
Pillar 2 requirement	55
Total Pillar 1and Pillar 2 capital requirements	1,001
Capital Surplus	4,794
Capital Solvency Ratio	579%

Remuneration

Unicorn complies with the UCITS V Remuneration Code, as set out under SYSC 19E of the FCA's Handbook. The Remuneration Code is designed to ensure that firms do not encourage excessive risk taking and staff interests are aligned with those of its clients. Unicorn's remuneration policies are fully compliant with the FCA guidelines and requirements.

Objectives

The Remuneration for Code Staff is designed to deliver sound and effective risk management, consistent with the approach we take to investment management. The remuneration policy is in line with the business strategy, objectives, values and interests of Unicorn, the funds it manages, the investors in the funds and it includes measures to avoid conflicts of interest.

To ensure that the objectives of the remuneration policy are delivered by Unicorn, the following systems and controls are in place:

- **Measurement of performance:** Employees' performance is assessed continually and includes a review of fixed and variable remuneration is reviews. This assessment includes the following factors:
    - The performance of the firm as a whole
    - The performance of the funds managed by Unicorn
    - The performance of an individual against their own personal objectives, which includes non-financial elements such as compliance and risk elements

- **Governance/Oversight:** The Remuneration Policy is reviewed at least annually by the Compliance Officer, in conjunction with our independent external compliance consultants, to ensure that our remuneration is appropriately aligned with the interests of the investors in our funds and is fully compliant with all regulatory requirements. The Remuneration Policy is submitted to the Unicorn Board who is directly responsible for approving the Remuneration Policy and annually reviews the overall remuneration strategy.

- **Personal Investment Strategies:** All employees are prohibited from using any of the following, that could undermine the risk alignment effects embedded in the remuneration policy:
    - Personal hedging strategies
    - Remuneration-related insurance
    - Liability-related insurance

Remuneration Code Staff

Unicorn has determined that all of the following employees are included as Remuneration Code Staff:

- Senior Management of Unicorn and those with Significant Influence Functions
- All Senior Fund Managers who have the ultimate responsibility for investment decisions in Unicorn Funds
- All individuals whose total remuneration puts them on a par with senior management pay

Unicorn has identified 6 Code Staff for the previous financial year. In addition to the fixed remuneration offered to staff, Unicorn operates 3 reward schemes:

- A discretionary profit share available to all staff that is linked to the performance of the firm and the individual that is paid twice yearly
- Enterprise Management Incentive (EMI) Options that are issued to directors and key staff to encourage long term growth of the firm
- A Deferred Share Purchase Plan (DSPP) that the executive directors have participated in which encourages their commitment to the long term growth of the firm

Variable remuneration is adjusted in line with the firm's performance and its capital and liquidity requirements.

Disclosure of the aggregate remuneration for Code Staff permits firms to take account of the provisions of the Data Protection Directive (Directive 95/46/EC) regarding the protection of individuals in relation to the processing of personal data. Due to the low number of staff assessed as Code Staff, the directors of Unicorn have relied upon BIPRU 11.5.20R(2) and determined that the aggregate quantitative disclosure for Code Staff is inappropriate.