

Unicorn
Investing with conviction



Unicorn Asset Management

*UK Ethical Income Fund Responsible
Investment Policy*

January 2024

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

Ethical Strategy

The Unicorn UK Ethical Income Fund is a screened version of Unicorn's UK Income Fund that aims to deliver capital growth using additional values-based criteria alongside firmwide ESG assessment of stocks selection integrated within the investment process.

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

ESG Policy

ESG analysis remains an integral part of our investment appraisal and a key focus prior to and throughout the life of an investment. Implementation of robust ESG due diligence enables a more holistic mapping of material issues, enhancing decision-making from the outset and improving the sustainability and resilience of company business models. Businesses that act with a keen eye on ESG considerations will, in doing so, create meaningful value for the future.

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. All stages of this process can be evidenced upon request.

As meaningful long-term shareholders, Unicorn's investment team 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 active voting.

The practice of evaluating a company's ESG credentials is highly subjective and constantly evolving. The simplest way to understand Unicorn's ESG approach across funds is as two distinct activities: **Evaluate** and **Engage**. This process is then **Enhanced** with additional criteria for specific Responsible, Ethical or Impact strategies and for segregated mandates where required. *Further details can be found in our Sustainability and Stewardship report.*

Ethical Criteria

In addition to the Firm level consideration of broader ESG issues (*covered in depth in the Unicorn Asset Management Sustainability and Stewardship Report*), the Fund will not invest in companies which derive strategic revenues (defined as any material direct exposure which comprises the majority of revenues and internal investment into the business) from the following business areas:

Business Involvement	
Adult entertainment	<i>Any commercial establishment, business or service, or portion thereof, which offers sexually oriented material, devices, paraphernalia or specific sexual activities, services, performances or any combination thereof, or in any other form, whether printed, filmed, recorded or live</i>
Alcohol	<i>Sale and/or service of any liquor, wine, beer and other alcoholic beverages</i>
Animal welfare	<i>Companies involved in animal testing, factory farming, exhibiting animals, breeding animals, and ownership of or by a company in these categories</i>
Defence & weapons	<i>Research and development, as well as design, production, delivery, and maintenance of military systems, subsystems, and components or parts</i>
Genetically modified organism (GMO)	<i>Any organism whose genetic material has been altered using genetic engineering techniques</i>
Gambling	<i>Performance of activities consisting in execution of gambling for the purpose of earning profit; such activities include, without limitation, the receipt of bets and deposits for gambling; payouts of winnings</i>
Tobacco manufacture	<i>Manufacture and sale of cigarettes, hand-rolled tobacco, cigars and other forms of tobacco</i>
Pesticides	<i>A substance used for destroying insects or other organisms harmful to cultivated plants or to animals</i>
Fossil fuel extraction & production	<i>Companies that extract fossil fuels such as coal, gas, oil and tar sands</i>
Oil sands extraction	<i>Process of removing oil sand from the ground and extracting bitumen from it. This bitumen is later upgraded into a synthetic crude oil</i>
Palm oil	<i>Oil is used in food manufacturing, in beauty products, and as biofuel</i>
Thermal coal	<i>Coal that is used to provide heat energy in combustion primarily for electricity generation</i>

Changes to Ethical Criteria

(over the last twelve months ended 31st December 2023)

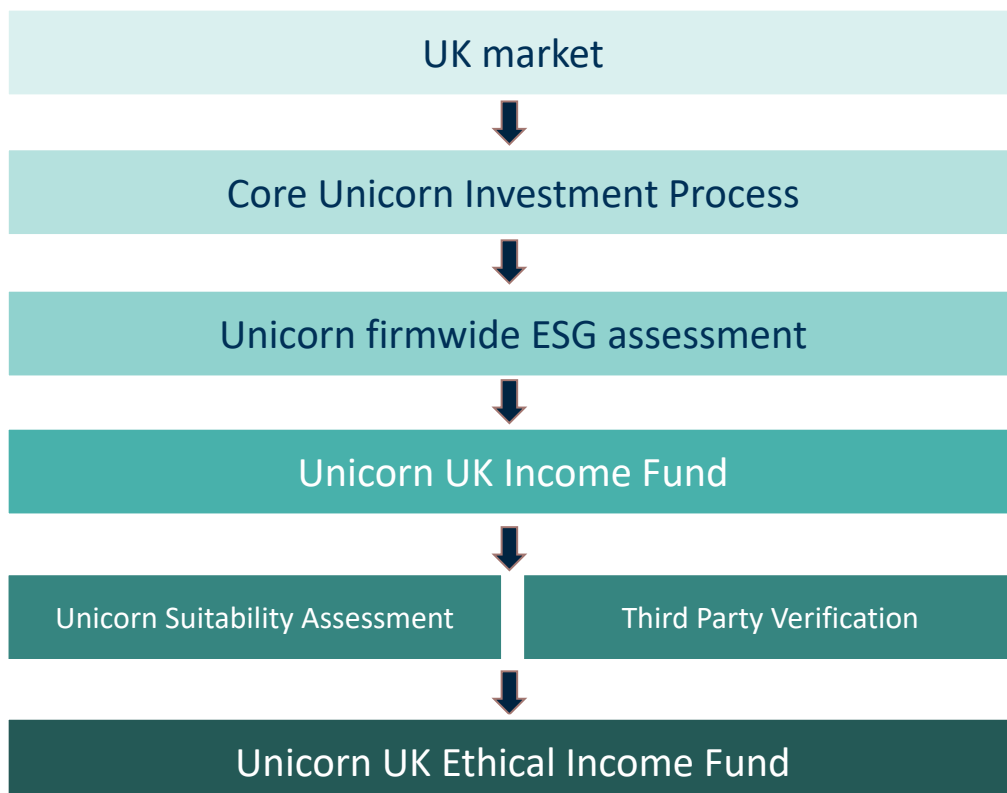
Additions to exclusions list	Removals to exclusions list
<p>Fossil fuel / Palm Oil / Thermal Coal / Oil Sands Extraction / Pesticides: Unicorn has historically never invested in this area as it remains incompatible with our investment philosophy – this is now explicitly highlighted within our policy.</p>	<p>Nuclear power: Unicorn remains cautious to invest in this sector and currently has no direct exposure; however, we acknowledge its role within the energy transition and its support from the UK government.</p>

Ethical Income Investment Process

The Unicorn UK Ethical Income Fund aims to provide an income by investing in UK companies which meet the ACD's ethical guidelines. For this purpose, UK companies are defined as those which are incorporated or domiciled in the UK or have a significant part of their operations in the UK. Selection of such ethical equities will be undertaken on the basis of thorough company analysis, with ethical and socially responsible criteria reviewed at the point of investment and quarterly thereafter.

The Fund remains a natural extension of our Unicorn UK Income Fund and aims to deliver capital growth using additional values-based criteria alongside firmwide ESG assessment of stocks selection integrated within the investment process. The portfolio is biased towards high quality, small and medium sized companies with a long-term investment approach which aims to partner with businesses over an extended multi-year period.

The process applies an additional Unicorn Suitability Assessment to all potential investments. The results of these assessments are then verified by an independent third-party check provided by MSCI.



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 performed by MSCI. The verification comprises a Business Involvement Screen and ESG Controversies Screen. The screen confirms those stocks with strategic revenue exposures incompatible with the fund's ethical criteria. 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.

Responsibility and Oversight

Unicorn's approach to responsible investing is fully embraced by its Board of Directors, which 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. Adherence to our Responsible Investment Policy and procedures is periodically assessed as part of our Compliance Monitoring Programme, the results of which are reported to our Conduct Committee.