

# Unicorn Asset Management Responsible Investment Policy

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### Introduction

Unicorn Asset Management is an independent asset management business established in 2000. We specialise in managing funds that invest in UK quoted, small to mid-cap companies. Our approach is traditional, long term, team-based and conservative. We only invest in businesses that we understand and which we believe have long term potential to grow.

Our philosophy combines both value and growth disciplines. We employ a bottom-up approach to identify under-valued, profitable, well managed companies that are not fully understood by the wider market.

We adopt a long term approach to investment. Our expectation is that we will hold stakes in our investee companies for several years. The decision to invest is similar to that of an owner-manager's business decision to participate in a quality, long-term business franchise. Unicorn has a proven and consistent track record in this area of the market.

The successful investment committee and investment management team at Unicorn is well established, sharing well over 100 years' experience in managing UK equity portfolios.

### Our approach to responsible investing

Responsible investment is a key priority for Unicorn Asset Management. We are of the view that companies should treat all stakeholders responsibly and, in doing so, create value for all stakeholders over the long term.

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 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 and regular dialogue and through active voting. We believe that the combination of these key attributes make us particularly well-suited to a policy focused on responsible investment.

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 investment process using a three stage approach (Exclude, Assess and Engage)*
- *The ESG Assessment is strictly applied by the investment managers. Companies which fail this assessment are precluded from investment or disinvested.*
- *Additional ethical screening criteria are applied to relevant mandates (e.g. Unicorn UK Ethical Fund)*

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### 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:**

- *Dedicated Ethical Officer to 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:**

- *Monthly ESG Report produced and discussed at a quarterly ESG Committee meeting (independent and separate from the investment appraisal process)*
- *ESG findings are reviewed and challenged by The Board*
- *Full transparency of voting records*

### Responsibility and oversight

Unicorn's approach to responsible investing is endorsed by its Board of Directors, who act as the Firm's governing body. Consideration toward ESG factors have long formed part of Unicorn's overall investment philosophy and these considerations are consistently applied across all Funds and across the business as a whole. The ESG process is implemented by the group's Ethical Officer and overseen by the Ethical Committee, which meets quarterly, independently of the Investment Committee and reports directly to the Board. The Ethical Committee comprises:

- UAM Ethical Officer
- Members of the investment team
- A member of the risk and compliance function

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

Adherence to the Firm's responsible 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.

### Accountability Mechanisms

The Ethical Committee produces a monthly ESG report detailing interactions with the management teams of investee companies, a record of Unicorn's voting history and any other notable ESG engagements. The report and meeting minutes are then circulated to the Board and are discussed, as a formal agenda item, at all scheduled Board Meetings and Investment Committee Meetings.

### Definitions

The three main areas of focus for responsible investment 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:

- 7) **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
- 8) **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
- 9) **Governance** – how is the company run? Considerations include, but are not limited to; transparency, ownership, board independence, ethics, diversity and executive compensation

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## Process

Unicorn's disciplined investment process seeks to identify the risks associated with any potential investment and also identify the factors that may impact long-term returns. The assessment of ESG factors is incorporated into this framework, in order to provide a more holistic understanding of our analysis of risk and reward.

Our integrated approach to ESG, places responsibility for ESG analysis onto Unicorn's investment team. The application and adherence of the policy is overseen by the firm's Ethical Officer who reports to Unicorn's Ethical Committee.

In the event that one of the holdings within a Fund falls outside the firm's ESG tolerance limits, 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.

There are three stages to Unicorn's integrated ESG approach ("Exclude", "Assess" and "Engage"). The process is supplemented with additional criteria for specific products (e.g. Unicorn UK Ethical Income Fund) and for segregated mandates if requested.



### **Exclude**

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.

In addition, direct equity investments in certain sectors, such as Oil & Gas and Mining are excluded from the investable universe. These sectors typically do not exhibit the financial characteristics demanded by our disciplined investment process and have also historically demonstrated greater exposure to ESG controversies.

### **Assess**

In addition to a detailed investment appraisal, an ESG review of all potential investments will be conducted by the fund manager and Ethical Officer, prior to introduction to any portfolio. The review has a pass or fail outcome, thereby prohibiting investment in any company which is deemed to have inadequate considerations towards ESG issues. The review covers the following areas:

- Prohibited sectors
- ESG controversies
- Environmental policies

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- Sustainability policies
- Health and safety policies
- Social value policies
- Human rights policies
- Corporate governance policies

Each of the above policies are reviewed and the integration of those policies into tangible KPIs is sought. Any issues are discussed with the company management teams. Companies are encouraged to improve disclosure and reporting where 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.

### Engagement

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 an integral 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.

For the reasons described above, we believe that Engagement is therefore 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 leverage our in-depth understanding of the company business models.

### Supplement

Additional criteria are also considered for specific products and for segregated mandates if requested. The Unicorn UK Ethical Income Fund applies an additional business involvement screen to further filter the investible universe of companies which meet the fund’s ethical criteria. Additional detail is set out in the Unicorn UK Ethical Income Fund Policy Statement.

### Stock Lending

Unicorn does not participate in stock lending.

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## 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 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 and support 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.

Currently, third party analysis is only utilised as part of the independent verification of the Unicorn UK Ethical Income Fund's ethical screening process. This comprises a 'business involvement' screen and an 'ESG controversies' screen.

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## 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 achieve good 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 as a consequence of the firm's responsible 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 sound 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.

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## Unicorn Asset Management

We believe it is important uphold ourselves against the same high standards which we expect of our investee companies.

We are based in The Charterhouse, a former Carthusian monastery and present day almshouse. The Almshouse is a housing charity which provides a home and care for single people who are over 60 years old, who are in financial and social need and who are capable of living independently.

We take our environmental responsibilities seriously. We consume resources conservatively, using energy efficient products such as LED lighting where possible, whilst also recycling waste material and carefully considering print volumes.

The wellbeing and health of employees is of paramount concern and the company offers sponsored gym membership and a cycle-to-work scheme. Unicorn also encourages the personal and professional development of its employees through sponsorship of formal qualifications and self-improvement courses.

We are also proud to have made numerous charitable donations to important social causes.