Unicorn
Investing with conviction

MIFIDPRU Disclosures

April 2024

Background

Effective 1st January 2022 Unicorn Asset Management Limited ("UAM / "the firm") became subject to FCAs' MIFIDPRU prudential requirements having previously been an IFPRU Limited License firm.

The Investment Firms Prudential Regime, aims to streamline and simplify the prudential requirements for MiFID investment firms that the FCA prudentially regulate.

As part of these requirements, firms must disclose their risk management objectives and policies relating to:

- Own funds requirements;
- Concentration risk; and
- Liquidity risk.

UAM is a Non-SNI MIFIDPRU investment firm and as such must also disclose its governance arrangements in accordance with MIFIDPRU 8.3; its own funds and Own Funds Requirement. In accordance with MIFIDPRU 8.4 and 8.5 respectively. Disclosure in respect of investment policy does not apply to the firm (MIFIDPRU 8.7).

This document draws information from the Firm's Internal Capital and Risk Assessment process (ICARA), which is refreshed on at least an annual basis

Business Overview

Unicorn is an independently owned fund manager offering a range of UK equity concentrated portfolios, constructed with a bias towards small to mid-cap sized companies. They are marketed primarily to institutional investors but are made available to retail investors through platforms. It also provides investment advisory services to other regulated entities. The range of funds has been designed to satisfy a variety of strategies to satisfy investor requirements; Income, Growth and tax advantaged.

The firm is an authorised corporate director (ACD) of the Unicorn Investment Funds ICVC

The firm provides investment management services to Unicorn AIM VCT plc. The VCT manages an established and diversified portfolio of AIM listed and unquoted investments within a tax efficient framework.

The firm also provides investment advice for number of AIM IHT strategies.

Risk Management

Our Risk Management Framework involves ongoing processes to identify and assess the nature and extent of risks that the firm, its clients and the market that we operate in may be exposed to.
We identify our key exposure by:

- Collection of ideas from all staff through the discussions of the events that could impact our business objectives, stakeholder expectations or key dependencies.
- Identifying processes or procedures that are critical to meeting our business objectives, legal and regulatory responsibilities, and customer services.
- Capturing and recording data that may indicate risk exposure. This includes data such as breaches, errors, and other Key Performance Indicators. Including those relating to outsourced functions and providers.
- We have also completed analysis of our strengths, weaknesses, opportunities and threats as part of our annual business planning.

The Conduct Committee is responsible for reviewing and assessing the completeness and accuracy of the Risk Register on a quarterly basis. The assessment includes challenge of the impact and probability ratings and for assessing the adequacy of planned actions to address the risk.

The committee's oversight also considers factors such as changes to our business strategy and operating environment such as new clients, introduction of new products, processes, systems or asset classes, changes to legislation, regulation or taxation impact the risk universe and the level of impact for each risk identified.

Effective risk management allows the Firm to maintain sufficient resources and capital to manage residual risks and protect investors.

Key Risks

The firm's risk assessment and identification process identified several inherent and firm specific risks that are relevant to our business, its clients and the market in which we operate. These risks are detailed within the firm's Risk Register.

The firm has assessed the impact of the harms that may arise from identified risks. These harms are categorised as representing:

- Risk to client
- Risk to the firm or
- Risk to market.

Taking each category in turn, the key risks and harms in each category are considered to be:

Risk to client:

- **Unsuitable investments** – We consider that one key client risk is the potential for client portfolios to be invested in unsuitable assets or asset classes. This risk may also be categorised as a breach of the investment mandate or fund objective. The risk may lead to the potential for poor consumer outcomes because of exposure to assets which may fall in value, putting investors' capital at risk or failing to generate expected levels of income. The risk is mitigated by employing skilled and experienced portfolio managers who are subject to ongoing competency assessments in line with the FCA Certification Regime and using software and systems to prohibit and detect trades in non-permissible assets or breaches of investment limits. Key investment risks are explained within client facing materials.

- **Product design and governance** – The firm has also identified potential risks that may arise from poor product design or governance. Were this risk to crystalise, investors may have invested into unsuitable products or face investment risks or losses that were not understood or accepted. This risk is mitigated via our Product Governance framework which includes a detailed product launch and review process designed to test products at launch and thereafter. We also undertake monitoring of the make-up of investors versus the intended target market and via reviews of other KPIs such as switches and complaints.

Risk to firm:

Our assessments have concluded that the core risks to the firm relate to various categories of Reputational and Operational risk, such as IT systems risk, cyber security, regulatory and people risk.

- **Regulation** – The firm's reputation could be damaged because of regulatory censure or criticism. This could in turn lead to a drop in assets under management leading to a reduction in revenue and a strain on capital resources. To mitigate this risk, the firm has a range of policies and procedures designed to ensure compliance with the letter and spirit of applicable regulations. In addition, UAM has implemented a risk-based compliance monitoring programme which provides assurance to the board and senior management as to the adequacy of the firm's procedures and compliance with applicable regulation. The monitoring programme is completed by our compliance manager with the assistance of our external compliance advisers who provide an additional layer of expertise and independence.

- **Information security** – The firm experiences a cyber-attack which leads to a loss of commercially sensitive or client data. Consequently, the firm is subject to a fine by the Information Commissioner's Office and experiences a material drop in assets under management and associated loss of revenue. To address the threat of breaches of information security, the firm has implemented a number of policies and procedures, including annual penetration testing. Staff are required to undertake cyber security training which includes regular testing of their knowledge and skills.

Risk to market:

The firm is an active investment manager which trades on an agency basis. UAM does not issue securities.

- **Market abuse risk** – The board of UAM believe that the firm's market risk exposure is the potential for a member of staff to engage in market abuse. If this risk were to crystalise, it could result in reputational harm to the firm, leading to a fall in AUM and revenue and could adversely impact market integrity. UAM seeks to mitigate this risk by ensuring that all members of staff receive appropriate market abuse training and has implemented controls, policies and procedures designed to both prevent and detect abusive behaviour.

Risk Appetite

The Board maintains a cautious approach to risk, aligned with the firm's investment management objectives. Risks inconsistent with Unicorn's strategy are mitigated to ensure continuity, regulatory compliance, and sustainable sh0areholder returns. Certain catastrophic events, deemed highly unlikely, may result in orderly business wind-up scenarios, which the firm accepts as part of its risk profile.

The Firm's risk appetite is summarised in the Risk Matrix, which breaks all identified risks into discrete and mutually exclusive categories.

Business Model Risk

Business model risk is the potential for loss or failure arising from the influence of key staff, conflicts of interest, or challenges in attracting and retaining business and profitability. To address these risks, the Firm relies on an experienced Board that drives strategy by prioritising customer needs, delivering good customer outcomes, and adapting to evolving market conditions

The Firm recognises that as a smaller organisation, certain individuals hold pivotal roles. This risk is balanced against remuneration, training, benefits, and the associated costs of maintaining a larger workforce. Placing customers at the centre of its operations has earned the Firm a strong reputation for delivering reliable services and products. The governance and risk management frameworks provide robust oversight to manage business model risks effectively.

Active management risk refers to the potential for managers to interpret information differently from investors or underperform due to their investment decisions, which can result in underperformance, reduced assets under management (AUM), and outflows. This risk is managed through Risk Management Policies, which include controls on active positions and ongoing portfolio monitoring. The Portfolio Risk Committee provides oversight of investment risk.

The Firm accepts some risk from active management in pursuit of superior risk-adjusted returns and in meeting operational challenges related to expanding services or adapting to new investment structures. It maintains a low-risk tolerance for managing unquoted and illiquid holdings.

Unicorn Asset Management acknowledges its impact on society and the environment and maintains a low-risk tolerance for activities or practices that negatively affect either. Wherever possible, the Firm seeks to make a positive impact, including fostering a fair and inclusive workplace. It upholds a low-risk tolerance for behaviours or practices that undermine these principles, recognising the importance of inclusivity and environmental responsibility to its business and society.

Operational Risk

Operational Risk refers to the potential for loss arising from insufficient or failing processes, human errors, system failures, or external events such as natural disasters. This type of risk can result in service disruptions, practices that do not serve the best interests of our investors or employees, or other adverse outcomes. The Board has delegated oversight of operational risks to the Operations Committee.

Liquidity Risk

The main source of principal liquidity risk comes from an inability to meet demands as they fall due or in the materialisation of other risk events that require capital.

The Firm maintains a high balance of liquid assets in pounds sterling (GBP), materially in excess of our regulatory requirements. The firm's base liquid assets requirement is set at £427k (1/3rd of the F.O.R)

In addition to determining and assessing the Base Liquid Assets Requirement the firm is required to determine a Liquid Assets Threshold Requirement by assessing the extent to which additional liquid assets should be set aside to:

- Fund ongoing business operations other the next 12 months and
- Ensure that the firm could commence a wind down process in an orderly manner.

Our assessment of the liquid assets needed to fund ongoing operations is based upon the level of liquid assets needed to cover our business operations over the next 12 months. This figure has been based upon our annual expenditure for 2022 of £5,119k. To ensure that our liquid assets threshold remains sufficient, we revisit and recalculate the requirement on a quarterly basis. The board have prudently set the Liquid Assets Threshold Requirement at £1m. We have a low-risk appetite for liquidity risk.

Own Funds Disclosure and Requirements

The Own Funds Requirement is a calculated minimum capital requirement. This is the greater of the Fixed Overhead Requirement, the K-factor requirement, and the Permanent Minimum Capital Requirements.

Fixed Overhead Requirement is calculated from costs over the last financial year, with the following deductions:

- Discretionary profit share distributions
- Expenses directly related to revenue, i.e. commissions and investment adviser fees
- Exceptional non-recurring items

K-Factor Requirement is the sum of: Risk-to-Customer (RtC), Risk-to-Market (RtM) and Risk-to-Firm

(RtF). These are calculated using the Firm's data and regulatory co-efficient. Relevant capital figures as of 31 December 2023 in thousands are:

Fixed Overhead Requirement	1,280
Permanent Minimum Capital Requirement	150
K Factor Requirement	131
K-AUM	130
K-CMH	0
K-ASA	N/A
K-COH	1
K-DTF	N/A
K-NPR	N/A
K-CMG	N/A
K-TCD	N/A
K-CON	N/A

The firm reviews the Own funds requirement as part of its ICARA and has chosen to prudently set the Own Funds Threshold Requirement at £2m.

The total Own Funds Composition can be seen below

OWN FUNDS COMPOSITION		**£'000**
Share Capital	8	
Share Premium	778	
Other Reserves	15	
Investment in own shares	(6,139)	
Audited Reserves	12,195	
Unaudited Profits	(251)	
COMMON EQUITY TIER 1 CAPITAL		**6,607**
ADDITIONAL TIER 1 CAPITAL		0
TIER 1 CAPITAL (TOTAL)		**6,607**
TIER 2 CAPITAL (should be less than Tier 1 Capital)		
TOTAL OWN FUNDS		**6,607**

OWN FUNDS REQUIREMENTS		**£'000**
Permanent minimum capital requirement		150
Fixed overhead requirement		1,280
Total K-Factor Requirement		131
OWN FUND REQUIREMENT		**1,280**
Own Funds Threshold requirement		**2,000**

CAPITAL RATIOS		**£'000**
CET 1 Ratio		**330.37%**
Tier 1 Ratio		**330.37%**
Own Funds Ratio		**330.37%**
Surplus(+)/Deficit(-) of Total capital		**4,607**

LIQUIDITY REQUIREMENTS		**£'000**
Liquid Assets		5,792
Requirement (1/3 of Fixed Overheads Requirement)		427
Surplus		**4,792**
Liquid assets threshold requirement		**1,000**

Governance

Board of Directors

The board of Unicorn Asset Management Limited is the firm's governing body and are responsible for:

- Identifying the nature and extent of risks to which the firm or its clients may be exposed
- Ensuring that the firm has taken adequate steps to mitigate the risks identified
- Where risks cannot be wholly mitigated, ensuring that the firm retains adequate financial resources to protect against the impact of a risk or, for ensuring that the firm can wind down in an orderly manner in the event that a wind down trigger is reached.

Conduct Committee

Although the Board retains ultimate responsibility for risk management, it has delegated responsibility to the Conduct Committee for the operation and monitoring of the risk management framework within Unicorn Asset Management, including, amongst other things:

- Review and assessment of all current and potential conduct, operational and regulatory risks to which the firm may be subject
- Review, assess and update of the firm's Risk Register
- Review and assess efficacy of firm's risk controls / mitigants
- Reviewing and monitoring the firm's level of current risk versus its stated risk tolerance

Oversight of the risks is documented in the Risk Matrix, which is designed to capture all key risks faced by the business and record the perceived level of risk against the Firm's Risk Appetite. It looks at the systems and controls in place and quantifies the residual risk that the Firm remains exposed to.

Remuneration Policy and Practices

All permanent UAM employees are paid a fixed salary and twice a year a variable payment, which takes the form of a share of profits. UAM has two performance periods: interim and year end.

The variable element is calculated in two parts; firstly, the profit share pool is determined by pre-tax profitability, whereby one third of pre-tax profits are allocated to the profit-share pool; and secondly, each individual's payment out of the overall pool is determined by their own individual performance.

UAM applies a maximum fixed ratio of five times variable to fixed remuneration. For the reasons set out below, we believe that this approach supports our ability to retain a sound capital base whilst attracting and retaining talent. Our view is that the ratio represents an appropriate balance and reflects our business model and strategy whilst ensuring that employees are not rewarded for excessive risk taking.

The firm operates as a single business unit and operates a single profit share pool. Restricting the pool to a maximum of one third of the firm's pre-tax profits enables the firm to retain the majority of profits for the purposes of ensuring that it retains prudent levels of capital resources. Retaining higher levels of capital enables the firm to protect itself and its customers from risks to which it is or may be exposed to.

Employee performance is rated by assessment of both financial and non- financial factors.

We recognise that all staff members contribute to the firm's profitability in various ways although not all are revenue generating. We do not impose or assess financial performance against fixed targets. We review individual performance against a number of characteristics including non-financial ones. These are set out in our performance ratings. We apply weightings of approximately 70/30 to financial and non-financial performance.

Non-financial performance is measured against criteria including:

- Adherence to the firm's policies and procedures
- Completion of prescribed training
- Demonstrating effective risk management
- Demonstrating behaviours in line with firm values and standards
- Ethics and conduct.

Each employee is assessed against their objectives for both performance periods. Employees are awarded a performance rating which determines the amount of the target profit share allocation they are to receive.