HERALD INVESTMENT MANAGEMENT LIMITED

Herald Stewardship Code Report

Version 8 – 3rd December 2019

This document describes how Herald Investment Management Limited ("HIML") applies the seven Principles of the UK Stewardship Code, as initially adopted by the Financial Reporting Council ("FRC") on the 2nd of July 2010 and as revised with effect from 1st October 2012.

Stewardship is (part of) the process by which we protect and manage our clients' investments by actively monitoring investee companies, which includes *inter alia* engaging with company management on strategy, performance, governance and risk management. We endeavour to apply our approach on stewardship to all companies in which we invest on behalf of our clients.

Our approach is consistent with the overall aims of HIML, which are to provide good long term performance to our clients, to keep clients' interests paramount, and to continue to maintain the good reputation that the firm has established among investment professionals and the wider public since its foundation in 1994.

We take pride in endeavouring to help emerging companies grow, and always encourage management to make decisions which will maximise value on a five year view. Theoretically efficient markets should discount the long term potential, and we encourage management to articulate any long term investment, which is adversely affecting short term profitability, but appreciate that this will sometimes adversely affect the short term share price. We encourage management not to be short-termist by endeavouring to maximise the short term share price, but to aim to maximise value over the long term. The danger is that this approach can leave companies vulnerable to a take-over bid, and we regularly resist takeover approaches which might give a short term uplift in value, but do not appropriately reflect long term value.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

— This policy document is published on the HIML website at www.heralduk.com/our_philosophy so that investors & investee companies are aware of the way in which we engage with companies and of how we will integrate stewardship activities into our investment process.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

— We recognise the importance of managing potential conflicts of interest on behalf of our clients when voting their shares and engaging with investee companies. We aim to identify the instances where HIML faces a conflict of interest in relation to stewardship and seek to manage these in an objective manner, consistent with protecting our clients' interests.
— One type of conflict that may arise in the context of stewardship is where the same company is held by more than one client and where the interest of the clients differ – for example in the case of a takeover it might be in one client's interest to realise the investment but the other might regard the

offer as being too low. In such a case there would be full disclosure to the client— Our policy on managing conflicts of interest generally is contained in the firm's compliance manual and this policy applies equally to conflicts arising from stewardship. Clear procedures have been established for staff to follow to report actual or possible conflicts of interest in relation to stewardship to the Compliance Officer. If the Compliance Officer's initial review indicates a likelihood of material impact on a client's interests then steps to avoid, mitigate or resolve the conflict are considered. At this stage the matter will be referred to the chief executive or to the directors. If the conflict cannot be avoided then it will be disclosed to the client.
— HIML's independent ownership structure and its concentration on investment management services considerably reduce the scope for possible conflicts with its clients. We are not exposed to many of the conflicts that might affect financial conglomerates.

Principle 3

Institutional investors should monitor their investee companies.

HIML fund clients invest almost entirely in quoted companies in the technology, media and telecommunications sector worldwide, whereas the venture capital partnerships HIML manages invest in early stage technology companies (private and AIM listed) with a view to realising gains when the companies are listed or sold.

<u>All investments</u>
— We actively monitor the activities and announcements of companies in which we invest on behalf of our clients and normally have a regular dialogue directly with top management. Our monitoring of investee companies' strategies and performance is integral to our investment process. Areas we monitor include:

- Company strategy
- Operational performance
- Acquisitions and mergers policy
- Corporate governance
- Remuneration
- Risk management and controls
- Corporate social responsibility

— We maintain an audit trail of our dialogue with companies by recording nearly all meetings and all voting activity. This enables us to monitor the effectiveness of our engagements and set priorities for future engagements.
— We do not follow the recommendations of any voting advisory service.
— We vote the vast majority of our clients' shares by proxy using the ProxyEdge® system, though in exceptional circumstances we will attend meetings where we have large holdings and there is a contentious issue and where attendance in person rather than voting by proxy is in our clients' best interests.

<u>Quoted investments</u>
HIML invests, generally on a long term basis, using fundamental analysis. The technology, media and telecommunications sector comprises over 5,000 quoted companies worldwide, and many more unquoted.

Analysis entails frequent meetings with companies, either at HIML's offices, or on site visits or at conferences globally, as well as broker hosted meetings. Management of investee companies are generally seen twice a year. In addition, HIML relies on independent industry research and published company filings, statements, presentations, web sites and subscribed-for broker research. Focus on the sector enables a significant degree of cross referencing across competitors, customers and suppliers globally. This information and analysis puts our investment team in a position to monitor investee companies effectively.

— We prefer not to limit our ability to act in what we perceive to be clients' best interests and we normally ask not to be made 'insiders' in relation to non-public information. However on those occasions where we are made 'insiders' following discussions with companies, we follow the policies and procedures laid down in the market abuse section of the firm's compliance manual, including the use of stop lists.

Unquoted investments

—We engage closely with the (typically) unquoted companies in which the venture capital partnerships we manage invest; members of our investment committee can be appointed as directors of the partnerships' investments, or may act as observers at their board meetings. We may also be instrumental in the appointment of independent non-executive directors who we believe can add value to these companies.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

— Our preference is to have confidential and private discussions with companies which enable us to build an effective relationship with boards and management.

— However, where it is necessary to protect and enhance our clients' long-term investment returns we will consider escalating our stewardship and engagement activities.

—Herald's investment judgment seems to be respected by management teams and the wider market, and managements generally seem motivated to ensure that we remain supportive shareholders.

—Where we have concerns about *inter alia* strategy and performance, board structure and management quality, or damaging conflicts of interest or lack of independence on an investee company's board, we would generally sell the shares.

—We will consider escalating our activities where (i) we are unable to sell the shares, (ii) a management change could resolve the issues, (iii) executive remuneration is excessive, (iv) minority shareholder rights are being compromised or (v) in any other situation where we consider that shareholders' interests may be at risk. Such escalations may include:

- —meeting with management and/or board members to discuss our concerns.
- —working with other institutional shareholders to encourage a company to address concerns and increase the influence that we can bring to bear on our clients' behalf. In particular this occurs in relation to share option schemes and remuneration, albeit non-executive directors regularly seek our support.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

The majority of investee companies are small capitalisation quoted companies (or unquoted companies to which venture capital has been provided) and situations where we would consider such collective interventions arise more frequently than they would in the case of large quoted companies.

— We recognise the benefits in certain instances of working alongside other like-minded investors on both policy and company specific matters, which can increase the influence that we can bring to bear on our clients' behalf.
—In the case of quoted investments usually our clients are minority shareholders as HIML has a policy of generally not holding more than 10% of a quoted company; when HIML's voting power is relatively small it is essential to act collectively with other investors to achieve an agreed common objective. The venture capital partnerships managed by HIML can and do hold substantial and sometimes controlling shareholdings in investee companies. In such cases we seek to act, so far as is possible, in the collective interest of all shareholders.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

— In all cases our clients delegate voting discretion to HIML under the terms of their investment management agreements with the firm and we routinely exercise all of our clients' votes.
— All of our voting decisions are taken internally by the investment team (or in the case of our venture capital partnerships, the investment committee) which are responsible for making voting decisions.
— In gathering information and making our final voting decisions, we endeavour to engage with companies and their advisers. When voting clients' shares we consider whether investee companies' proposals have complied with local best practice and corporate governance codes, for example, on remuneration; if not, we satisfy ourselves that exceptions are in our clients' best interests before voting.
— We usually advise investee companies on those occasions where we plan to vote against management and communicate our views to the company's brokers or advisers.
—Publicising criticism could damage shareholders interests, when private admonishment can be effective anyway. For this reason HIML does not comply with FRC guidance that institutional investors should disclose publicly voting records.
— We do not engage in stock lending.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

— Material or non-routine stewardship and voting activities are reported on privately to the directors of our intermediate clients, all votes cast against the recommendation of management being individually reported.
— Neither our proxy voting systems and procedures nor our engagement activities are currently externally audited as recommended in FRC guidance as our major clients do not see proportionate long-term value in obtaining an independent opinion on our stewardship and voting activities.