

HERALD INVESTMENT FUND PLC
(THE “COMPANY”)

SHAREHOLDER ENGAGEMENT AND SUSTAINABLE FINANCE POLICY

Adoption: 2 March 2021
Last Revision: 2 March 2021

1. Introduction

This policy has been adopted by the Company pursuant to:

- 1.1 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the “SFDR”); and
- 1.2 Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC (together with the relevant national implementing regulations in Ireland, the “SRD”).

This document describes the policy (the “Policy”) which the Company has adopted in order to comply with the requirements of the SFDR and the SRD. This Policy forms part of and should be read in conjunction with the risk management framework adopted by the Company and is without prejudice to the rules on risk integration under the UCITS Directive.

References herein to the “Company” or “we”, “us” or “our” shall where appropriate, be deemed to include references to the Company itself and/or any one or more delegate portfolio managers appointed by the Company to carry out investment decision making as a delegate of the Company including, without limitation, the Investment Manager.

It is the responsibility of the board of directors of the Company (the “Board”) to ensure that the design of the Policy is appropriate for the Company, given the nature, scale and complexity of the Company and its sub-funds (each, a “Fund”) under management. The designated persons of the Company, where relevant to their respective managerial functions and as appropriate, provide assistance and advice to the Board in relation to the design, implementation, compliance and periodic review of this Policy.

2. Definitions

“**ESG**” means environmental, social and governance;

“**Financial Market Participant**” means, in the context of UCITS, a UCITS Management Company, including a self-managed investment company such as the Company;

“**Fund**” means The Herald Worldwide Technology Fund, a sub-fund of the Company, and/or any other sub-funds of the Company as may be approved from time to time, as applicable;

“**Investment Manager**” or “**Herald**” means Herald Investment Management Limited;

“**Pre-contractual Disclosures**” means, in the context of the Company, its Prospectus;

“**Prospectus**” means any prospectus issued by the Company as may be amended, supplemented or replaced from time to time;

“**SRD II Shareholder Engagement Policy**” means the Shareholder Engagement Policy adopted by the Company from time to time;

“**Sustainability Factors**” mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters;

“**Sustainable Investment**” means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance;

“**Sustainability Risk**” means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment;

“**UCITS Directive**” means Directive 2009/65/EC, as amended, supplemented or replaced from time to time;

“**Undertaking For Collective Investment In Transferable Securities**” or “**UCITS**” means an undertaking authorised in accordance with Article 5 of the UCITS Directive.

3. **Disclosure on integration of sustainability risk into investment decision making process**

The Company integrates relevant Sustainability Risks, whether material or likely to be material, in its investment decision making processes, including the organisational, risk management and governance aspects of such processes as set out below.

3.1 **Stewardship**

Stewardship is the process by which the Company protects and manages its investments by actively monitoring investee companies. This includes engaging with company management on strategy, performance, governance, risk management and their treatment of employees, as well as safeguarding of the assets of the Fund and monitoring of the Fund’s service providers. The Company endeavours to apply this approach to stewardship in a *proportionate* way when making investments.

The Company’s approach to governance, sustainability and stewardship is consistent with the overall aims of Herald which are:

- (i) to provide good long-term performance for the Fund;
- (ii) to bear in mind at all times that the interests of the Fund and the shareholders of the Fund (the “Shareholders”) are paramount; and
- (iii) to maintain the good reputation that Herald has established among investee companies, investment professionals and the wider public.

As a long-term investor, Herald is committed to engaging with all portfolio companies on a broad range of issues. Matters of strategy, capital structure, performance and risk, etc are the responsibility of the portfolio manager and investment team and are the subject of regular engagement.

3.2 **Investing in emerging technology, a sector creating wealth, added value jobs and sustainable benefits for the economy and society as a whole**

Herald’s original founding purpose - to invest in smaller companies - arose from our belief that they offer greater potential for growth than larger companies because they often provide greater entrepreneurialism when addressing new markets created by technological developments. This conviction led Herald to focus on investing in companies in the areas of telecommunications, multimedia and technology (‘TMT’). These companies create added

value employment and have the potential to become the next generation of large companies, thereby generating attractive returns for shareholders. Many of these companies required equity capital from supportive long-term shareholders to realise potentially exciting growth. In 1998, we launched the Fund with a remit to invest in larger capitalised TMT companies, making use of the Investment Manager's knowledge obtained whilst investing in smaller TMT companies and the ability of some of these companies to scale dramatically.

3.3 **We retain our belief in technological innovation as engines of growth**

Herald's TMT sector focus continues. Our intention remains that by specialising in and targeting these dynamic and high growth sectors of the economy, the Fund can be deployed in an expert manner in companies that are capable of growing quickly, creating value for shareholders, and providing high quality value-added jobs for employees, with the beneficial side-effect of accelerating the growth of the wider economy.

3.4 **.....and the target sector has demonstrable benefits to the environment**

Our focus on the newer sectors of the economy means that, in aggregate, our investee companies assist in improving the world environmentally. A significant component of the portfolio is software, which provides efficiencies for enterprises, governments and consumers. Other sectors of the portfolio often provide and improve the enabling supply chain.

Technology also provides energy efficient communications, entertainment and more; and we firmly believe that capitalism and technological innovation combined are the central requirements to address the environmental challenges we face. This is in contrast to the environmental impact of the older parts of the economy such as transport, extractive industries or heavy industrial sectors where we do not invest. The majority of investments in the technology and media sectors have a low carbon footprint and the carbon emissions of the portfolios are estimated to be a fraction of those relative to the large companies indices in the UK and US. Furthermore, much of the world's most advanced technology and intellectual property tends to reside in the wealthiest and most advanced economies, which themselves have strict environmental standards.

Given these factors, over the years Herald has therefore found little requirement to engage actively in resetting the environmental standards of companies within the portfolio as they typically operate well ahead of, and in some cases lead, the environmental standards of the countries in which they operate. Herald therefore primarily focuses its monitoring and stewardship activities in the areas of social and governance issues. We believe it is important to converse with management and review publicly available information. A number of the larger companies in the sector have been leaders on ESG issues globally.

3.5 **Our long-term approach to investment management and stewardship**

The long-term perspective of Herald is evident in the low portfolio turnover and our efforts to understand a company's business prospects over the next decade, and not just to forecast the next set of results. To do this requires the identification of well-managed companies that can thrive in their sector and meet the expectations that shareholders, employees and society places upon them. We believe that the Herald approach of being questioning but supportive of management and building up a good relationship and understanding of companies over many years, is the correct one for our clients and their beneficiaries.

The investment focus on growth companies, means that historic financial statements, while an important analytical tool, are insufficient to value a company's potential. It is an essential part of the investment process to meet management in person; sometimes we do so several times prior to investing, and regularly thereafter as part of our endeavour to understand the long-term prospects.

3.6 **We believe that effective stewardship creates long-term value**

Herald takes pride in endeavouring to help emerging companies grow. We encourage management to explain any long-term investments which may adversely affect short-term profitability. Theoretically, efficient markets should discount the long-term potential. However, even though the share price may be adversely affected in the short-term, we generally encourage management to maximise value over the long term. The danger is that this approach can leave companies vulnerable to a take-over bid, and we typically resist takeover approaches which might give a short-term uplift in value, but do not appropriately reflect the long-term wealth-creation potential of the company.

3.7 **We believe in the importance of fundamental analysis incorporating consideration of ESG factors**

The investment team takes a fundamental approach to investment and a significant amount of time is spent meeting with companies to better understand company strategy, investment risk and assessing performance.

Herald also believes that a company's ESG practices are integral to this investment process. Herald is subject to the UK Stewardship Code (the "Code") and is a signatory to the UN-supported Principles for Responsible Investment (the "PRI"), the globally recognised accord for responsible investment. Both of these recognise that institutional investors have a duty to act in the best long-term interests of their beneficiaries. Herald shares the belief underlying the Code and the PRI, namely that ESG issues affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

Well managed companies will have sound ESG policies and performance, and it is one measure of assessing how professional management is. Strong management leads to strong long-term financial performance of the company.

As long-term investors, an assessment of ESG risks and opportunities are an inherent part of our investment process as gaining a robust understanding of these issues is a key part of assessing the outlook for future cash flow generation and risks of an investment. As long-term owners we aim to act as responsible stewards of our clients' investment by exercising our proxy voting rights and having open dialogue with portfolio companies on a broad range of issues, including ESG-related issues.

Herald's ongoing responsible investment objectives are:

- to assess material ESG risks as part of the investment process; and
- to act as responsible owners by engaging with portfolio companies where a material ESG issue exists and exercising our proxy voting rights where appropriate.

As bottom-up fundamental investors, Herald considers ESG risk alongside other risks faced by the companies in which Herald invests or investigates. ESG risk analysis is integrated in Herald's investment process and is not a separate function. Herald is an active investor who interacts closely with the management of the companies in which Herald invests as well as their suppliers and customers where possible.

Investment research includes an assessment of a company's inherent quality based on the following quality criteria:

- Economic Moat – Assessment of the sustainability of a company's competitive advantage(s);

- Agency Risk – Assessment of the extent that management will act in the best interest of shareholders;
- Business Risk – Assessment of the predictability and reliability of future cash flows and earnings; and
- Re-Investment Potential – Assessment of a company’s ability to reinvest profits back into its business at high incremental rates of return.

Analysis of ESG factors forms part of the suite of issues that affect the agency and business risk of companies. Gaining a robust understanding of these issues is a key element in the assessment of the outlook for, and risks to, the sustainability of future cash flow generation. Importantly, Herald is focused on materiality. Herald’s investment team will make a determination about the ESG risks that are material for each company.

We recognize the growing importance that environmental issues play in our global economy. While the importance of these factors will differ by company, sector, or region, as our investments are focused in the technology, media, and telecommunications sectors, these companies tend to be enablers of environmental efficiency rather than contributors to environmental risks. Although no industrial sectors are currently explicitly excluded from the remit, the nature of the technology, media and telecommunications (TMT) sectors that Herald focuses on implicitly, limits investment in a number of the most environmentally damaging sectors, such as coal mining or generating energy by burning fossil fuels. The fund’s focus on TMT sectors, to some extent inherently limits exposure to some key environmental risks.

Engagement in relation to ESG issues can take a number of forms and does not necessarily involve Herald seeking to effect change. For example, many companies conduct annual shareholder outreach programs as a forum to discuss general corporate governance, sustainability, executive compensation, any changes or initiatives a company has made throughout the year and provides the opportunity for a company to solicit shareholder feedback and discuss views provided by other shareholders.

3.8 Our expectations of reporting standards vary according to investee company size and location

Investing in small and often immature companies in many different countries with different approaches to disclosure, governance and regulation does bring its challenges. The quality and level of disclosure ESG reporting for small companies in many countries is often very limited and well below that found within fully listed large companies in some more mature markets. There is, rightly, a distinction between the corporate governance and reporting standards demanded of a large fully listed company that has many thousands of employees and has been established for decades, and those for a very small company traded on a junior stock market that may have fewer than 50 employees, only a few million pounds of turnover and may be loss-making due to investing heavily in developing new products. Clearly the approach and expectations of reporting and governance that Herald has, will differ greatly between these extremes.

3.9 We favour a non-prescriptive approach to stewardship due to the nature of the remit

Given the wide range of company sizes and variety of governance and regulatory environments we do not believe that it is possible to enforce prescriptive policies and rules. Furthermore, such an approach may well prove to be damaging. For example, smaller companies can find it challenging to attract appropriate non-executive directors and Herald would not necessarily vote against a board without diversity if we consider there were suitable commercial and governance skills. Herald aims to understand the companies in which it invests well and to back management teams and boards that are endeavouring to balance the interests of the different stakeholders in an equitable manner. We recognise that there are often

difficult judgements to be made and that it is often only with the benefit of hindsight that success in these endeavours can be judged. Where we do not think management of an investee company are acting appropriately and where we believe that we can initiate improvement, we will engage in discussion with the company. We also recognise the limitations of our influence as a minority shareholder and in cases of strong disagreement our ultimate action may well be to sell the investment.

3.10 **We expect companies to create wealth for their investors, whilst appropriately rewarding employees**

Intellectual capital and skilled labour are often critical to the success of investee companies and their management teams generally recognise this, and often compete to attract and retain talent. Typically, we would expect the average working standards and remuneration of employees in the TMT sector to exceed that of the general population in the countries in which they operate. TMT companies will often pride themselves on the quality of the engagement with their workforce and report on the level of employee satisfaction in their annual reports. As the leading technology companies tend to operate in the most advanced economies, the standards of health and safety and legal employee protection are also generally very high, and average pay levels exceed the relevant national average in most investee companies. There are challenging areas for technology companies; such as equal opportunities and diversity. Herald expect investees to address these issues progressively and proportionately as they grow, in line with local standards and laws.

Given the generally attractive remuneration received by employees, they can contribute meaningfully to income tax revenues. In an ideal world, governments would grow their tax revenues not by charging existing top-rate taxpayers twice as much tax through higher tax rates, but by having twice as many top-rate taxpayers, through creating more high-income jobs. No other sectors create new added value jobs in the way Herald's targeted TMT sectors have done, and we are proud of the primary capital that we have provided to companies that have helped quality job creation, and to build valuable skills. In a knowledge-based world, people with skills earn higher salaries, and simultaneously, provide the ability to create greater profit margins for shareholders. This ideological belief has significantly motivated the team at Herald.

There is a challenge in ensuring that investee companies' shareholders receive good returns on their financial capital and that employees are rewarded, but not excessively, for providing the labour and intellectual capital. Whilst Herald believe it is in shareholders' interests to attract, retain and reward staff at all levels, we dislike remuneration policies which make it difficult to determine the total costs of running a company. This particularly relates to complex share incentive schemes, often devised by third-party remuneration advisors. We encourage and seek transparency and simplicity.

Ensuring appropriate remuneration structures are in place is an area of focus for Herald's corporate governance efforts. We aim to see that the right balance is struck by seeking out good quality management, discussing incentive schemes, and ensuring that non-executives are competent, sufficiently independent and acting in minority shareholders' interests.

3.11 **We focus our stewardship effort where it is most needed**

The Company aims to be efficient in its governance activities by focusing its monitoring and stewardship efforts where they are most likely to be needed and most likely to be effective. In practice this means the focus is on the companies in our portfolios, or under consideration for our portfolios, where we believe that there are any of: governance issues surrounding the approach, composition and compliance of the board; a failure to meet local governance standards; or where minority shareholder rights are not being protected. Clearly the Company has greater influence and responsibility where it is a significant or leading shareholder. The Company rarely collaborates directly with other shareholders to influence issuers, for fear of

breaching concert party or market abuse rules. We will use corporate brokers and advisers where necessary.

In many cases, engagement is a result of proxy voting. For example, depending on the materiality of the issue and the size of Herald's holding, where Herald has determined to vote against management's recommendation, Herald may engage with a company outlining its rationale for the vote and providing advice on what the company should do to remedy the issue.

When seeking change, Herald will typically begin engagement with company management, or through investor relations. Herald may seek to escalate engagement from management to committee chairs, senior independent directors and/or chair of the board.

The Fund invests in some of the largest TMT companies in the world. Often the environmental and corporate governance standards of these large companies will be world-leading but our percentage of voting rights in these companies is very low which limits the effectiveness of direct engagement. Nevertheless, it remains the Fund's policy to vote all its shares in all investee companies. The Company employs its long-term approach to investing in these large companies and exercises clients' voting rights whilst being pragmatic in understanding that the level of influence we wield is limited in some cases.

3.12 We believe that we should contribute to improving the health of the financial system in which we operate

One of the key longer-term systemic risks we have identified is that companies are less inclined to float on public markets, often preferring private funding.

The number of companies in the core markets of the US and the UK is reducing with take-overs far exceeding IPOs. In recent years private equity has gained assets and market share versus public markets. They benefit from reduced regulatory costs, but lack of regulation can pose other risks. In addition, private equity benefits from more efficient tax structures, and often utilises more financial leverage. Financial leverage adds risk to the companies' stakeholders, including their employees, their suppliers, and their underlying investors as well as the wider economy. In addition, private equity has short time horizons and offers an inferior form of ownership than the permanent capital that the public markets have offered for extended periods.

Herald participates in market and industry associations, where relevant and effective, to help develop and improve market and corporate practise, regulation and reporting. A particular focus is to promote the effective functioning of smaller company equity markets and so Herald engages with regulators, governments and corporate governance bodies to try to ensure the rules and regulations used to govern such businesses are appropriate and proportionate to their scale. Herald contributes to the development of the rules that govern smaller companies through its participation in Quoted Company Alliance ('QCA') committees including the QCA secondary markets group and the QCA remuneration committee which produces the guide outlining best practice for UK small companies .

3.13 We believe in exercising the voting rights of our investors

Herald reviews the stewardship principles regularly with the independent boards of its clients and Herald exercises their clients' votes. Voting decisions are made by investment managers and reflect all the knowledge they have on the industry, company and management as well as incorporating input from specialist information sources.

Herald will assess shareholder proposals on a case-by-case basis and consider whether the shareholder proposal will enhance the certainty of long-term cash flow generation that we expect from the company.

We annually disclose a summary of our voting publicly and will, on request, disclose our detailed voting to the independent boards of our clients. We will not publicly disclose our detailed voting, on a company by company basis, as that may negatively impact our clients underlying investments.

3.14 **Putting our belief in the value of good stewardship into practice – what we look for**

Herald believes that good governance of a company will be key to helping deliver value creation for its clients. So, what do we mean by this and what do we look for?

- (i) A **simple capital structure**: we generally look for companies without financial engineering and encompassing good protection of minority shareholder rights. Entrepreneurial management and founder-led businesses have often created significant value in the TMT sector and we welcome management holding significant equity stakes and encourage companies to require minimum shareholdings for executives. The use of preferential voting rights to sustain management control has mixed results for minority shareholders and we will evaluate such structures on a case-by-case basis. We are defenders of shareholder pre-emption rights and believe they are a fundamental shareholder protection. We are generally not in favour of poison pill takeover defences as they run the risk of entrenching weak management and believe that strong management will usually prevail in fending off a takeover approach at an unattractive valuation.
- (ii) Focus on the **long-term creation of value** and not on manipulating near term profits. We are suspicious of companies that massage their earnings either by exotic accounting, financial engineering or by reducing investment. Herald believes that successful investing is about identifying, and owning for the long-term, companies that can sustainably generate excess returns on capital for years to come. Herald's objectives are to achieve attractive returns over the medium-to-long term whilst minimising the risk of permanent capital loss for its clients. To achieve this, Herald seeks to identify and invest in high quality companies that are trading below its assessment of their value.
- (iii) Entrepreneurial and highly motivated executive management are key to a company's success and are best assisted in their endeavours by a strong, knowledgeable and independent board. The board should have the capacity to challenge executives when required and equitably represent and balance the interests of minority shareholders and other stakeholders.
- (iv) Remuneration should be focused on the achievement of long-term objectives and aligned with the interests of long-term shareholders. The reporting of management pay and incentives should be clear and where share-based incentives are used that dilute shareholder interests, the shareholders should have the opportunity to vote on such schemes. Whilst we recognise the importance of skilled, knowledgeable employees in building their company, we are wary of excessive dilution from share-based incentives.
- (v) The governance approach of companies should reflect their size, the stage in their corporate development and the expectations and limitations imposed on them by the societies and jurisdictions in which they operate. There is no single right answer and the approach to governance a company adopts should be to balance the interests of the various stakeholders to ensure that it thrives and succeeds in the long run. What works in practice is more important than what works in theory.
- (vi) Longevity and sustainability of the companies in which we invest is critical for delivering long-term shareholder value and we believe that companies should comply with the letter and spirit of all regulatory, environmental and legal guidelines in the jurisdictions in which they operate. We believe the long-run success of a business is

only sustainable if a company considers its impact on society and the environment and it should consider what information and plans for improvement that they disclose publicly.

- (vii) The articles of incorporation, country of incorporation and country of listing have a significant impact on the governance of a company, the influence of minority shareholders and availability of minority shareholder protections. Some jurisdictions are clearly superior and some deficient in these governance areas and when investments are made in less favourable jurisdictions the scale of the expected reward needs to be sufficient to compensate for the risks of a relatively weak governance regime.

3.15 We believe that corporate governance and investment performance are inextricably linked

Herald considers and engages on corporate governance and stewardship as it believes that there is a strong link between good corporate governance and long-term investment performance. Herald invests in a broad range of geographic jurisdictions, with varying standards of governance, and from very small to very large companies and furthermore Herald's percentage of voting rights, and hence influence, varies dramatically. We believe that a one size fits all or tick box approach to corporate governance is impractical. In many cases, what is an unconventional approach may prove to be the most effective and boards and companies that score highly, based on a tick box approach, may prove to be the least effective.

3.16 The quality of the boards and management teams of the companies in which we invest are a critical element in the quality of stewardship that Herald's investors receive

Herald's views on corporate governance are incorporated into its investment views on whether to buy, sell or hold clients' investee companies. Herald's opinions on the quality of corporate governance at different companies and whether it is improving or declining also influences how we vote and engage with management or the board of directors. The ideal is that we can rely on effective, responsible company management governed by a strong independent board and we believe that this is the primary protection of our clients' interests as long-term shareholders.

4. Transparency of Remuneration Policies in Relation to the Integration of Sustainability Risks

The Company has established and maintains a remuneration policy in accordance with the UCITS Directive and has incorporated information on how that policy is consistent with the integration of Sustainability Risks, and has published that information on its website. For further details see [●].

5. Transparency of the Integration of Sustainability Risks

In addition, the Prospectus includes descriptions of the following:

- 5.1 the manner in which Sustainability Risks are integrated into our investment decisions; and
- 5.2 the results of the assessment of the likely impacts of Sustainability Risks on the returns of the Fund.

6. Transparency of the Promotion of Environmental or Social Characteristics and of Sustainable Investments on Websites

The Company shall publish and maintain on its website the following information for each Fund:

- 6.1 a description of the environmental or social characteristics or the Sustainable Investment objective, as applicable;

- 6.2 information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the Sustainable Investments selected for the Fund, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the Fund;
- 6.3 the information referred to in sections 6 and 7 above, as applicable;
- 6.4 the information set out in the annual financial statements of the Company in connection with promotion of environmental or social characteristics and of sustainable investments, in accordance with Article 11 of the SFDR.

The information to be disclosed pursuant to the first subparagraph shall be clear, succinct and understandable to investors. It shall be published in a way that is accurate, fair, clear, not misleading, simple and concise and in a prominent easily accessible area of the website.

7. Review of disclosures

The Company shall ensure that any information published in accordance with this policy is kept up to date. Where the Company amends such information, a clear explanation of such amendment shall be published on the same website.

8. Marketing Communications

Without prejudice to stricter sectoral legislation, including the UCITS Directive, the Company shall ensure that its marketing communications do not contradict the information disclosed pursuant to the SFDR.

9. Review of Policy

The Board and the relevant Designated Person(s) will review this policy, as appropriate and on at least an annual basis.