

MONTANARO UK SMALLER COMPANIES INVESTMENT TRUST PLC

TERMS OF REFERENCE OF THE NOMINATION AND REMUNERATION COMMITTEE

Background

These terms of reference have been produced to accord with the relevant Principles of The AIC Code of Corporate Governance as amended in February 2019.

The Financial Reporting Council has confirmed that AIC Member companies who report against the AIC Code of Corporate Governance will be meeting their obligations under the UK Corporate Governance Code and Listing Rule 9.8.6.

1. Membership

- 1.1 All Directors sit on the Nomination and Remuneration Committee.
- 1.2 The Chairman of the Board may also serve on the Committee if he/she was considered independent on appointment as Chairman.
- 1.3 Only members of the Committee have the right to attend the Committee meetings. Other individuals may be invited to attend for all or part of any meeting, as and when appropriate.

2. Meetings

- 2.1 The Committee will meet as and when required, but at least annually. At least once a year the Committee should make its recommendations to the Board regarding the re-election and remuneration of Directors and on the statements to be included in the Annual Report and Accounts.
- 2.2 The quorum of any meeting of the Committee is two members.
- 2.3 The Committee may meet at such other times as the Chairman of the Committee shall require.
- 2.4 Unless otherwise agreed, notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee not less than three working days prior to the date of the meeting.
- 2.5 The minutes of each meeting of the Committee shall be circulated to all members of the Committee. Any Director, upon request to the Secretary, may obtain copies of the Committee's agenda and minutes provided that there are no conflicts of interest.
- 2.6 The Committee Chairman shall report to the Board on the Committee's decisions and recommendations; and on how it has discharged its responsibilities.
- 2.7 The Committee Chairman shall normally attend the Annual General Meeting of the Company and answer questions, through the Chairman of the Board, on the Committee's processes and duties.

3. Duties

- 3.1 Determine and agree levels of remuneration of the Company's Chairman and Directors within the limits set in the Articles of Association;
- 3.2 Review the ongoing appropriateness and relevance of the remuneration policy in relation to duties of the Chairman and Directors;
- 3.3 Review and note annually remuneration trends in the industry; and

- 3.4 The Committee may commission any reports, surveys, legal or other professional advice, which it deems necessary to help fulfil its obligations.

4. Authority

The Committee is authorised to:

- 4.1 seek any information it reasonably requires from a representative of any third party service provider in order to perform its duties;
- 4.2 obtain at the Company's expense outside legal or other professional advice on any matters within its terms of reference; and
- 4.3 have timely and unrestricted access to relevant documents relating to the affairs of the Company.

5. Duties and Responsibilities

5.1 Nomination

5.1.1 Board Structure

The Committee shall:

- 5.1.1.1 regularly review the structure, size and composition (including the balance of skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board as necessary; and

- 5.1.1.2 make recommendations to the Board on:

- a. succession planning and the resultant changes to the composition of the Board;
- b. job specifications and the terms of appointment for Directors;
- c. changes to the chairmanship and membership of the Company's committees; and
- d. maintaining a balance of skills, experience, length of service and knowledge of the Company, when considering new appointments;

- 5.1.1.2.1 be responsible for identifying and nominating for the approval by the Board, candidates to fill Board vacancies and fulfil succession plans. In identifying suitable candidates the Committee shall use the services of external advisers to facilitate the search if considered necessary and appropriate; (*Note: Open advertising and/or an external search consultancy should generally be used for the appointment of the Chair and non-executive Directors*)

- 5.1.1.2.2 both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths;

- 5.1.1.2.3 ensure that the Board and its committees have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed;

- 5.1.1.2.4 keep under review the leadership needs of the Company, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace;

- 5.1.1.2.5 review annually the time required from Directors. Performance evaluation should be used to assess whether the Directors are spending enough time to fulfil their duties;

- 5.1.1.2.6 ensure that, on appointment to the Board, Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings;

- 5.1.1.2.7 consider the re-appointment of any Director at the conclusion of his or her specified term of office, having given due regard to

their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

- 5.1.1.2.8 consider any recommendation to the Board concerning the re-election of any Director, having due regard to his or her performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- 5.1.1.2.9 consider any matters relating to the continuation in office of any Director at any time, including the suspension or termination of service of a Director subject to the provisions of the law and their service contract, if any;
- 5.1.1.2.10 regularly review the Company's Policy on diversity and inclusion; and
- 5.1.1.2.11 prior to the appointment of a Director, other significant time commitments should be disclosed and any additional future commitments should not be undertaken without prior approval of the Board. The proposed appointee should also be required to disclose any other business interests that may result in a conflict of interest. These must be authorised by the Board prior to appointment and any future business interests that could result in a conflict of interest must not be undertaken without prior authorisation of the Board.

5.1.2 All Directors will be subject to annual re-election.

5.1.3 The Committee shall determine the policy on the tenure of the Chair, to be disclosed in the Annual Report. A clear rationale for the expected tenure should be provided, and the policy should explain how this is consistent with the need for regular refreshment and diversity.

5.2 Board Committees

5.2.1 The Committee shall ensure that similar considerations are applied to other committees of the Board as are applied to the Board itself to ensure that membership is refreshed and that undue reliance is not placed on particular individuals.

5.3 Directors' independence

The Committee shall:

- 5.3.1 regularly review the independence of the Directors and report annually to the Board on its evaluation of each Director's independence;
- 5.3.2 make recommendations to the Board on the reasons for determining that a Director is to be regarded as independent notwithstanding that the Director has served for more than nine years from the date of their first election; and
- 5.3.3 make recommendations to the Board on the reasons for determining that a Director is to be regarded as independent notwithstanding the existence of relationships or circumstances which may appear relevant to the Board's deliberations.

5.4 Board evaluation

5.4.1 The Committee shall undertake a formal evaluation of each Director's performance, as well as the performance and function of the Board as whole and the Board Committees, on an annual basis, taking into account the balance of skills, experience, independence and knowledge of the Company in the Board as well as the Board's diversity, how the Board works together as a unit and any other functions relevant to its effectiveness. The review shall be based on open discussion to assess the strengths and weaknesses of the Board and all of its Committees.

5.4.2 The Committee shall undertake a rigorous review of a Director who has served two or more terms of three years.

5.4.3 The Committee Chairman shall take the lead in the annual evaluation of the performance of the Chairman of the Board to ascertain that the Chairman fulfils these responsibilities and has no relationships that may create a conflict of interest between

the Chairman's interest and those of shareholders and that other significant commitments will not impinge on the Chairman's duties to the Board.

- 5.4.4 The Committee Chairman shall discuss with the other Directors the performance of the Chairman of the Board following which the Committee Chairman shall meet with the Chairman to discuss performance.
- 5.5.5 The Committee will make formal recommendations to the Board following the evaluation process including recommendations on the election and re-election of Directors.

5.5 Director training and induction

- 5.5.1 The Committee, together with the Company Secretary, shall establish an induction programme for new Directors about the Company, its managers, their legal responsibilities and the investment company sector as deemed necessary, together with a process for identifying professional development needs and training for existing Directors.
- 5.5.2 The Chairman of the Board shall regularly review and agree with each Director their training and development needs.

5.6 Remuneration

- 5.6.1 The Committee is responsible for the following in relation to the setting of Directors' remuneration:
 - 5.6.2 in conjunction with the Chairman, setting the Directors' level of remuneration; setting the level of remuneration of the Chairman, the chairs of the Board committees and the Senior Independent Director;
 - 5.6.3 judging where to position the Company relative to other companies; and
 - 5.6.4 considering the need to appoint external remuneration consultants.

The Committee shall:

- 5.6.5 establish the policy for the remuneration of the Company's Directors, taking into account all factors to ensure that Directors are rewarded for their individual contributions to the effectiveness of the Board in a fair and responsible manner;
- 5.6.6 review the ongoing appropriateness and the level of remuneration of Directors;
- 5.6.7 review industry remuneration trends and assess any appropriate change in the Company's remuneration levels, taking into account the Company's own performance;
- 5.6.8 review annually the fees paid to the non-executive Directors and compare these with the fees paid by the Company's peer group and the investment trust industry generally, taking into account the level of commitment and responsibility of each Board member;
- 5.6.9 establish the policy for authorising claims for expenses incurred in carrying out the Company's business; and
- 5.6.10 ensure that all the provisions regarding disclosure of remuneration are set out in the Directors' Remuneration Report.
- 5.6.11 No Director shall be involved in deciding his or her own remuneration.

6. Company Secretary

The Company Secretary shall act as the Secretary of the Nomination and Remuneration Committee.

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