

PUBLIC MARKET STEWARDSHIP POLICY: INVESTING IN CHANGE

BACKGROUND

Hanover invests in public and private companies, with locked-in, long-term capital. Hanover is committed to partnership at all levels: our principals are partners in our investment business and our investors are partners in our funds. As a shareholder we work in partnership with other shareholders, be they management or public market shareholders, in order to promote the success of the company to the benefit of all shareholders. Hanover has capital and a mindset targeted to weather the challenges of investing in transformation. We have assembled the tools, the experience and the personnel required to have a transformative impact on the success of companies when a period of change is needed.

Hanover invests in a wide variety of situations from change for growth, to turnaround and restructurings. Each of our investments is unique, with some resulting in a period of passive holding, whilst others call on different elements of the Hanover skillset

ACHIEVING ACCELERATED CHANGE

Experienced shareholders know that achieving change can be difficult. The required changes may be hard to define precisely, hard to initiate, hard to co-ordinate, prone to risk, or liable to take an unacceptably long time. Patience and pragmatism are required. Decisions and hard work will be needed and may cover any of the areas below, which often need to be addressed at pace in an aligned way.



ADDRESSING HANOVER'S CAPABILITIES IN EACH OF THESE AREAS IN TURN:

1. Shareholder register

Hanover is very frequently a minority shareholder and as such we are required to work with all stakeholders. Sometimes we act as the catalyst to co-ordinate the actions and voting of shareholders, in accordance with regulations. On occasion we will take out an overhang position of known sellers, or bring in new institutional holders, and help to reshape registers which are off-putting to new investors or where there is a deadlock.

2. Board Directors

Hanover, in consultation with other shareholders in public situations, has experience in changing the company directors and bringing new skills and experience to the board.

3. Strategy and capital allocation

Hanover puts a premium on quality strategy, lack of which is often the source of underperformance in smaller companies. It is critical to define company strategy with focus and clarity, have a clear approach to acquisitions and disposals, and strike the right balance between distribution and reinvestment of cash flows. Another key requirement is that the strategy be baked into a clear business plan with targets and milestones. These activities are core to what Hanover does in private company situations and may be an important element of our support in public company situations.

4. Executive leadership

Hanover is able if required to place interim executive directors, such as CEOs and CFOs, into companies, enabling change to begin in parallel to recruiting permanent replacements. This reflects more than simple expediency as we have found that the skills and temperament required to drive accelerated change are different to those required once a company is set on a clear strategic path, and that unknown candidates introduce additional risk. Hanover can invest in a company even if a complete management team is not in place.

5. Operations

Achieving accelerated change starts with people. Transformation requires new skills and there is always "too much work to do". In particular:

- High-quality management information is a prerequisite for good strategy definition, changes to targets and incentives, and operational improvement.
- Clear strategy, targets and incentives are prerequisites of cultural change and accelerated execution.
- There is increased demand for high-quality budgeting and business planning skills.
- Strong financial controls are essential to manage risk and cash flow.
- Systematic attention to the contracts, policies and adherence procedures of the business is important from the outset.
- Skilled roles of a temporary nature may be required across the operating functions of the business to support a higher pace of change.

Hanover retains a group of specialists able to improve operations rapidly, and support the executive directors with expertise, analysis and operational "bandwidth". These individuals are available to Hanover's portfolio companies.

6. Investor communications

Hanover can improve the quality and transparency of investor communications, recognise and better address investor questions and concerns, and help a company to communicate its strengths and investment proposition. Hanover also places an emphasis on quality of budgeting and financial forecasting, understanding the weight investors place on these aspects.

In conclusion, we believe that Hanover provides a special and unique proposition to shareholders and management in challenging situations.

HANOVER'S APPROACH TO CONFLICTS OF INTEREST IN PUBLIC INVESTMENTS

Conflicts of interest may need to be managed between our roles as shareholder, company director, and provider of specialist people to a company. Our basic approach to managing these conflicts is fourfold.

- Adhere to all law and regulation. This requires, inter alia, company directors to promote the success of the company at all times.
- Ensure that the Hanover Partners (the leaders of its investment business) have no material financial interest in the company except for their interest in the growth in value of Hanover's shareholding, and in standard non-executive director fees in line with market norms where they perform non-executive roles. In particular, ensure that the Hanover Partners do not profit from any company share or incentive schemes, or from the provision of interim executive directors and specialist people to the company.
- Ensure that all company decisions wherein there is a Hanover conflict of interest are made by the independent non-executive directors of the company, with no affiliation to Hanover.
- Disclose all related-party transactions between the company and Hanover to shareholders.

THE ROLE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Hanover will act to secure that there are at least two independent non-executive directors on the company board, having no interest in or affiliation to Hanover.

Hanover is committed (and indeed required) to recuse itself from board decisions in which it has a conflict of interest (which include, inter alia, engagement of any Hanover-related executives or other personnel, and authorisation of any share transactions in the company by Hanover). Such matters are voted on at board meetings and board committee meetings solely by the independent non-executive directors of the company, who therefore play a key role in the management of conflicts of interest.

The role of non-executive director (non-independent) may be delivered by a Hanover Partner or Hanover Associate. In situations where this does occur Hanover will seek to charge a fee in line with public market norms for this role, subject to the approval of the independent non-executive directors.

HANOVER AS A SHAREHOLDER

Hanover will always seek to own a significant shareholding and be directly interested in growing the shareholder value of the company. Hanover's funds are time-bound and closed-ended. This means that Hanover is not liable to be a forced seller of shares due to investor redemptions, for example in a market downturn, which differentiates it from many open-ended

institutional investors in public companies. However, Hanover is interested in achieving an exit (a sale of its shares) within the timescales of its funds. This typically means that Hanover holds shares in its investee companies for a period between one and five years.

We note that, when represented on the company board, Hanover will be required to seek prior clearance for any transactions in shares with the independent non-executive directors, from the point of view of material price-sensitive information and market abuse.

Hanover will act to ensure that it is treated as a related party by the board and by the auditors. The Annual Report of the company will provide details of all transactions between Hanover and the company. The auditors will in addition be required to present to the board an annual summary and analysis of Hanover-related transactions.

HANOVER AS A PROVIDER OF INTERIM EXECUTIVE DIRECTORS

Where Hanover places people in interim executive director roles, such as the interim Chief Executive Officer or Chief Financial Officer role, Hanover will proceed only on the basis that the company directly engages such individuals, on terms approved by the independent non-executive directors. This may include participation in incentive and share option plans accruing to the benefit solely of the individual involved and not to the benefit of Hanover.

Partners in the investment business of Hanover will under no circumstances be placed in Executive Director roles or participate directly or indirectly in the benefit of any company incentive or remuneration plan.

HANOVER SPECIALISTS

Hanover often places specialist people into companies, working alongside existing employees and management teams. These roles typically include: financial control, management accounting, and tax; legal, secretarial and risk management; procurement; HR and talent management; strategy and business planning; property and real estate; and IT, project management and systems implementation. Where such specialists are directly employed by Hanover, we will charge a fee to the company for their services, based on the following approach:

- i. Hanover does not seek to make a profit overall on its provision of specialists to companies in which it is invested, only to recover its costs of providing the services. This typically means that Hanover fees are around one third lower than fees from comparable professional service firms.
- ii. All fees are subject to agreement in advance by the independent non-executive directors of the company, and Hanover will provide written proposals including a clear statement of work, fee proposal, and benchmark analysis to them for this purpose.
- iii. Unless the Board of the company makes a specific request to the contrary, Hanover will not charge on a contingent or success related basis for any services provided by Specialists.
- iv. All fees will be transparently disclosed in the accounts, as required by the relevant AIM or Full list rules.
- v. Hanover will act to restrict the scope and duration of the involvement of Specialists to a level consistent with achieving the objectives set with other shareholders and the independent directors of the board, replacing such with full time appointments as soon as appropriate in keeping with Hanover's engagement being interim in nature.