

BRITISH SMALLER COMPANIES VCT₂ PLC
NOMINATIONS AND REMUNERATION COMMITTEE
TERMS OF REFERENCE

Constitution

1. The Board has established a Committee of the Board known as the Nominations and Remuneration Committee.

Membership

2. The Committee shall consist of the three directors each of who shall be independent of the Fund Manager. A quorum shall be two directors.
3. The Chairman of the Committee shall be the Chairman of the Board save when the committee sits to deal with the appointment of a successor to the chairmanship of the Board in which case the committee chairman would be another member.

Other Attendees (non-voting)

4. Other attendees (non-voting) of the Committee shall be Representatives of the Fund Manager, as required together with the Company Secretary.
5. The Company Secretary shall be the Secretary to the Committee.

Frequency of Meetings

6. Meetings shall be held as and when required but not less than once a year.

Authority

7. The Committee has no executive authority. Matters reserved to the Board are all those matters which are subject to the recommendation of the Committee and in respect of appointments to the Board, any specific criteria to be applied in any given selection.
8. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any executive director or officer of the Fund Manager and all such employees are directed to co-operate with any request made by the Committee.
9. The Committee is authorised by the Board to obtain outside independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

10. Remuneration

- 10.1 The duties of the Committee shall be:

10.1.1 determine and agree the policy framework for the remuneration of the Company's directors;

10.1.2 review the ongoing appropriateness and relevance of the remuneration policy and ensure that it is put to shareholders at least every three years for approval;

10.1.3 within the terms of the agreed policy and the Company's Articles of Association, determine the total individual remuneration to be paid to each director;

10.1.4 be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee; and to procure up-to-date information about remuneration in other comparable companies. The Committee may commission any reports, surveys, legal or other professional advice, which it deems necessary to help it to fulfil its obligations; and

10.1.5 produce an annual directors' remuneration report, comprising the Company's remuneration policy and an annual report on practices and how the policy has been implemented, which will form part of the Company's Annual Report and Accounts, and ensure each year that the annual report is put to shareholders for approval at the AGM.

11. Nominations

11.1 The duties of the Committee shall be:

11.1.1 to be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;

11.1.2 before making an appointment, to evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;

11.1.3 to review annually the time required from a non-executive director. Performance evaluation should be used to assess whether the non-executive director is spending enough time to fulfil their duties;

11.1.4 to consider candidates from a wide range of backgrounds and look beyond the "usual suspects";

11.1.5 to give full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the company and what skills and expertise are therefore needed on the Board in the future;

11.1.6 to regularly review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes;

11.1.7 to keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;

11.1.8 to make a statement in the annual report about its activities; the process used for appointments and explain if external advice or open advertising has not been used; the membership of the Committee, number of Committee meetings and attendance over the course of the year;

11.1.9 to make available its terms of reference explaining clearly its role and the authority delegated to it by the Board; and

11.1.10 to ensure that on appointment to the Board, non-executive 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.

11.1.11 to make recommendations to the Board:

11.1.11.1 as regards plans for succession for both executive and non-executive directors;

11.1.11.2 as regards the re-appointment of any non-executive director at the conclusion of their specified term of office;

11.1.11.3 concerning the re-election by shareholders of any director under the retirement by rotation provisions in the company's articles of association;

11.1.11.4 concerning any matters relating to the continuation in office of any director at any time; and

11.1.11.5 concerning the appointment of any director to executive or other office other than to the positions of chairman and chief executive, the recommendation for which would be considered at a meeting of the Board.

Appointments to the Board

12. There should be a formal, rigorous and transparent procedure for the appointment of new directors and the Chairman.

(a) Board appointments should be made on merit and against objective criteria. The following criteria have been identified as especially relevant:

To be able to suggest, advise on and monitor matters relating to the general investment strategy of the Company; the performance of the Company; the performance of the Company's Fund Manager; and the guidelines for the allocation of investments agreed from time of time with the Company's Fund Manager.

(b) In considering a person for the position of Chairman of the Company the following factors should be considered of particular weight:

Commitment; effectiveness in facilitating decision making and in ensuring that all directors fully participate in the process; effectiveness in participating in the discussions without undue use of his position to force a decision; and effectiveness in managing the relations with the Fund Manager.

Care should be taken to ensure that appointees have enough time to devote to the job. This is particularly important in the case of the Chairman.

Reporting Procedures

13. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.

14. The terms of reference and the effectiveness of the Committee to be reviewed annually.

15. The terms of reference should be made available on a website that is maintained on behalf of the Company.

16. The work and membership of the Committee should be described in the annual report.

17. The Chairman of the Committee shall respond to any questions raised by shareholders at an AGM on matters concerning the Committee's activities.

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