



The principles of the Quoted Company Alliance (QCA) Code



Introduction

The Board recognises the value and importance of high standards of corporate governance. Accordingly, the Board has adopted the Corporate Governance Code 2018 (“the Code”) published by the Quoted Company Alliance (“QCA”).

Outlined below is our approach to addressing the key principles of the Code.

This disclosure was last reviewed and updated on 15 June 2020.



Deliver growth

QCA Code Principle	Application (as set out by QCA)	What we do and why
1. Establish a strategy and business model which promote long-term value for shareholders	<p>The board must be able to express a shared view of the company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.</p>	<p>Tern plc has a vision to become the leading investment company specialising in IoT in the UK by unlocking opportunities that others have not seen or thought possible, to deliver significant returns to shareholders.</p> <p>More detail surrounding the investment and portfolio vision is set out in the Chief Executive Officer's Statement on pages 4-7 of our Report & Accounts for the year ended 31 December 2019.</p> <p>The business model and strategy, including principal business risks, challenges and uncertainties and how the Company seeks to address these are set out in the Strategic Report on pages 18-20 of our Report & Accounts for the year ended 31 December 2019.</p> <p>The Company's investing policy is set out on pages 12-15 of our Report & Accounts for the year ended 31 December 2019. The Tern business model and criteria for investment is also set out on the website (in the Approach section).</p>
2. Seek to understand and meet shareholder needs and expectations	<p>Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base.</p> <p>The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.</p>	<p>The Board values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. The Board encourages shareholders to offer their views.</p> <p>The Company's website (www.ternplc.com) maintains up to date news flow for shareholders and other interested parties. A dedicated email address is highlighted on the investor page: info@ternplc.com. Enquiries that are received will be directed to IFC Advisory, who will inform management and management will consider an appropriate response. The Company may exercise discretion as to which shareholder questions shall be responded to, and the information used to answer questions will be information that is freely available in the public domain. If deemed necessary, the inquiries will be brought to Board's attention.</p> <p>The Chairman and Chief Executive Officer are principally responsible for shareholder liaison. The Chairman and Chief Executive Officer talk regularly with the Group's major shareholders and ensures that their views are communicated fully to the Board.</p> <p>The Annual General Meeting provides an opportunity for all shareholders to interact with the Board on issues arising. The notice of Annual General Meeting is sent to shareholders at least 21 days before the meeting. At the meeting, the Directors are available to listen to the views of shareholders and again, informally, immediately following the AGM. Regrettably, due to the COVID-19 measures in 2020, this was not possible. However, once it is safe to do so, the Directors plan to host a meeting with the Board which is open to all shareholders to attend. This will enable Directors and shareholders to engage in an informal environment in the way originally intended at the AGM.</p> <p>The Company has adopted a shareholder communication policy which commits to discussing the accomplishments of portfolio companies after they have been fully realised and to ensure that there is a connection between the events of investee companies and Tern, as a key investor. Tern has also committed to host at least two shareholder calls a year to provide an opportunity for shareholders to put their questions to the Company.</p> <p>The directors believe these calls provide a helpful way of presenting an update to shareholders on a regular basis and addressing their questions and interests by taking and answering the questions posed to them through this forum.</p> <p>Tern has appointed IFC Advisory as its financial public relations advisers to manage shareholder communication and their details are set out on the website and on all RNS announcements. The Directors believe that the above methods of shareholder engagement are sufficient to support the Company's aims in meeting shareholders' needs and expectations. The programme of events established to ensure engagement with shareholders is also set out on pages 33-34 of our Report & Accounts for the year ended 31 December 2019.</p>

Deliver growth

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<p>3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.</p>	<p>Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The board needs to identify the company's stakeholders and understand their needs, interests and expectations.</p> <p>Where matters that relate to the company's impact on society, the communities within which it operates, or the environment have the potential to affect the company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the company's strategy and business model.</p> <p>Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.</p>	<p>The Company has a small number of external stakeholder groups and is therefore able to interact with them both orally and in writing on a regular basis, as a minimum this happens monthly. Feedback is an inherent part of this interaction. Specifically, feedback from our nomad, brokers and PR agency have resulted in improved external communication via our website and our news releases.</p> <p>On the basis of the Directors' experience and their knowledge from the operation of the Company, the Directors believe that the key resources and relationships on which the Company relies (aside from the Company's shareholders) are the portfolio companies and the Company employees.</p> <p>Tern is a young and growing company with a small number of employees, all of whom have regular contact with the CEO and other directors, where open communication and feedback is encouraged.</p> <p>Feedback from the portfolio companies is obtained during the month via regular interactions with the nominated director and more formally through attendance at their monthly board meetings.</p> <p>The Company seeks to take into account feedback received from key stakeholders, however, no material changes to the Company's processes were required over the year to 31 December 2019, or more recently, as a result of feedback that has been received by the Company from the stated key resources and relationships on which the business relies.</p> <p>Identification of and engagement with our key stakeholders is set out on pages 32-34 of our Report & Accounts for the year ended 31 December 2019.</p>
<p>4. Embed effective risk management, considering both opportunities and threats, throughout the organization.</p>	<p>The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer.</p> <p>Setting strategy includes determining the extent of exposure to the identified risks that the company is able to bear and willing to take (risk tolerance and risk appetite).</p>	<p>The Company maintains a risk register that reflects the challenges facing the Company. The Board reviews the Company risk register on a quarterly basis and the risk register is updated following each meeting after it is reviewed. The principal business risks and uncertainties are set out in the Strategic Report on pages 18-20 of our Report & Accounts for the year ended 31 December 2019, with an assessment of the potential impact and the strategy in place to address. The Executive Directors meet at least monthly to review ongoing trading performance for both the Company and the portfolio companies, discuss budgets, forecasts, opportunities and new risks associated with ongoing trading.</p>

Maintain a dynamic management framework

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<p>5. Maintain the board as a well-functioning, balanced team led by the chair</p>	<p>The board members have a collective responsibility and legal obligation to promote the interests of the company and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.</p> <p>The board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.</p> <p>The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a board judgement.</p> <p>The board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.</p> <p>Directors must commit the time necessary to fulfil their roles.</p>	<p>The Board consists of the non-executive Chairman, four executive directors and one additional non-executive director. Ian Ritchie, the non-executive Chairman, is responsible for the running of the Board and Albert Sisto, the Chief Executive, has executive responsibility for running the Company's business and executing the Company strategy.</p> <p>The two non-executive directors are considered to be independent.</p> <p>Board meetings are held 11 times a year, as a minimum. The role of the Board Committees along with meetings and attendees are set out in the Corporate Governance and Compliance report on page 32 of the Report & Accounts for the year ended 31 December 2019.</p> <p>All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of the duties, if necessary, at the company's expense.</p> <p>The recent restrictions imposed in the wake of the COVID-19 pandemic has brought fresh challenges to the Board and the portfolio companies. A weekly conference call with all the CEOs from the principal portfolio companies and all Tern Executive and Non-Executive Directors has created valuable opportunities to provide advice, support and partnerships and ensure the Tern Board is kept up to date on a timely basis.</p> <p>The Board gives regard to the overall effectiveness and independence of the contribution made by directors to the Board in considering their independence and does not consider a directors' period of service in isolation to determine their independence.</p> <p>A description of the roles of the Directors is included on the website under the Team section. Details of the Directors and their independence are included in the Corporate Governance and Compliance section on page 31 of the Report & Accounts for the year ended 31 December 2019.</p> <p>Board Committees' Terms of Reference Formal terms of reference have been agreed for the Board Committees. The responsibilities of each of these are set out below:</p> <p>Audit Committee</p> <ul style="list-style-type: none"> • To meet at least once a year and otherwise as required, with the external auditor in attendance • Appointment of external auditors • To agree the nature and scope of the audit with the external auditors • To review the effectiveness of Company's internal control framework, • To review the effectiveness of the company's risk management framework • To review the annual financial statements, and challenge where necessary, the actions and judgements of management. <p>Remuneration Committee</p> <ul style="list-style-type: none"> • To set the remuneration for the Board including basic pay, any bonus basis and awards and share incentive schemes. <p>To agree the terms of employment of all Board members, including those on cessation of employment, ensuring all payments are fair to both the employee and the Company.</p> <ul style="list-style-type: none"> • To continue to review the appropriateness of the remuneration policies, with reference to the conditions across the Company and up-to-date information in other companies.

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<p>6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities</p>	<p>The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The board should understand and challenge its own diversity, including gender balance, as part of its composition.</p> <p>The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board.</p> <p>As companies evolve, the mix of skills and experience required on the board will change, and board composition will need to evolve to reflect this change.</p>	<p>Ian Ritchie is the Company's Non-Executive Chairman. Albert Sisto is the Company's Chief Executive Officer. Sarah Payne is the Company's Chief Financial Officer and Company Secretary. Bruce Leith is the Company's Business Development Director. Matthew Scherba is the Company's Investment Director. Alan Howarth is a Non-Executive Director of the Company. The Directors' experience is set out in the Corporate Governance and Compliance section on page 31 of the Report & Accounts for the year ended 31 December 2019.</p> <p>The above Board member's biographies can be found on the Company's website (https://www.ternplc.com/team) and in the Board of Directors section on pages 26-27 of the Report & Accounts for the year ended 31 December 2019 as well as the Corporate Governance and Compliance section on page 31 of the Report & Accounts for the year ended 31 December 2019.</p> <p>Directors who have been appointed to the Company have been chosen because of the skills and experience they offer. Full biographical details of the Directors are included in the Team section of the website.</p> <p>The Board deals with all matters relating to the appointment of directors including determining the specification, identifying suitable candidates and selection of the appointee. No separate nominations committee has been formed. When new Board appointments are considered, the search for candidates is conducted and appointments are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Board also considers succession planning.</p> <p>The Company has a policy of appointing non-executive directors who can provide an independent view of the Company's activities.</p>
<p>7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement</p>	<p>The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.</p> <p>The board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team.</p> <p>It is healthy for membership of the board to be periodically refreshed. Succession planning is a vital task for boards. No member of the board should become indispensable.</p>	<p>The Board carries out an evaluation of its performance as a whole annually, taking into account the Financial Reporting Council's Guidance on Board Effectiveness. This process is led by the Chairman and along with the evaluation of the effectiveness of the Board Committees is explained in the Corporate Governance and Compliance section on page 31 of the Report & Accounts for the year ended 31 December 2019.</p> <p>Throughout the year the Articles of Association have required each director to seek re-election after no more than three years in office. The Board regularly reviews resource requirements. When a new appointment is deemed necessary, a detailed job specification is drawn up and a recruitment company engaged. The Board reviews a summary of the potential candidates and a short list will be interviewed by the executive team. Final approval will be given by the Board following final interviews with key Board members.</p> <p>The Board uses the results of its evaluation process when considering the adequacy of the composition of the Board</p>

Maintain a dynamic management framework

QCA Code Principle	Application (as set out by QCA)	What we do and why
<p>8. Promote a corporate culture that is based on ethical values and behaviours</p>	<p>The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.</p> <p>The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company.</p> <p>The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company.</p> <p>The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company.</p>	<p>The Board strives for the highest ethical standards in every action and transaction it undertakes. The Chairman's Corporate Governance Statement is included within the Corporate Governance and Compliance section on page 31-34 of the Report & Accounts for the year ended 31 December 2019.</p> <p>The Board practices open and direct communication both internally and with all associated parties.</p> <p>Tern has in place an employee handbook and an anti-bribery policy approved by the Board. Acting in contravention of the anti-bribery policy would be deemed to be gross misconduct, along with other behaviours which would go against the ethical values and behaviours expected by the Board.</p> <p>During any recruitment process, a review of the ethical values and behaviours of a candidate would be considered as part of the evaluation process.</p> <p>The Board is conscious of the community and whenever appropriate gives consideration to sustainability in its decision making. The key stakeholders and the engagement with these stakeholders is set out on pages 32 – 34 of our Report & Accounts for the year ended 31 December 2019.</p>

Maintain a dynamic management framework

QCA Code Principle	Application (as set out by QCA)	What we do and why
<p>9. Maintain governance structures and processes that are fit for purpose and support good decision making by the board.</p>	<p>The company should maintain governance structures and processes in line with its corporate culture and appropriate to its:</p> <ul style="list-style-type: none"> • size and complexity; and • capacity, appetite and tolerance for risk. <p>The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.</p>	<p>Our Corporate Governance Statement on pages 31 – 34 of our Report & Accounts for the year ended 31 December 2019 details the company’s governance structures and why they are appropriate and suitable for the company. Roles of responsibilities of the Chairman and CEO are set out below:</p> <p>Chairman As a partner to the chief executive officer (“CEO”) and other board members, the Chairman provides leadership to the Company. The Chairman supports and sustains the work of the Company and provides overall governance leadership, strategic business support and overall responsibility for shareholder liaison.</p> <p>Chief Executive Officer (“CEO”) The CEO is responsible for leading the development and execution of the Company’s long-term strategy with a view to creating shareholder value, in partnership with the Chairman. The CEO’s leadership role also entails being ultimately responsible for integrating the strategy into the day-to-day management decisions and for implementing the Company’s long and short-term plans.</p> <p>Formal terms of reference have been agreed for the Board Committees. The responsibilities of each of these have been set out in the disclosures in respect of Principle 5 above.</p> <p>Appointment of directors The Board deals with all matters relating to the appointment of directors including determining the specification, identifying suitable candidates and selection of the appointee.</p> <p>No separate nominations committee has been formed. Throughout the year the Articles of Association have required each director to seek re-election after no more than three years in office. The Company has a policy of appointing non-executive directors who can provide an independent view of the Company’s activities.</p> <p>The Board do not consider that the company currently has a dominant shareholder where special contractual arrangements would be necessary to protect the interests of minority shareholders.</p> <p>Matters reserved for the Board Matters reserved for the Board have been approved by the Board and the key areas are summarised below:</p> <ul style="list-style-type: none"> • Strategy & Management • Structure and capital • Financial reporting and controls • Internal controls • Investments • Communication • Board membership and other appointments • Remuneration • Delegation of authority • Corporate governance • Approval of employee handbook policies • Other including charitable donations, adviser appointments, insurance <p>The Board is committed to evolve governance in line with best practice as appropriate with the company’s growing size and changing requirements. However, at present, the Board is satisfied with the Company’s corporate governance, given the Company’s size and the nature of its operations, and as such there are no specific plans for any material changes to the Company’s corporate governance arrangements in the shorter term.</p>

Build trust

QCA Code Principle	Application (as set out by QCA)	What we do and why
<p>10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders</p>	<p>A healthy dialogue should exist between the board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company.</p> <p>In particular, appropriate communication and reporting structure should exist between the board and all constituent parts of its shareholder base. This will assist:</p> <ul style="list-style-type: none"> • the communication of shareholders' views to the board; and • the shareholders' understanding of the unique circumstances and constraints faced by the company. <p>It should be clear where these communication practices are described (annual report or website).</p>	<p>The Chairman and CEO talk regularly with the Group's major shareholders and ensures that their views are communicated fully to the Board. The AGM provides an opportunity for shareholders, particularly private investors, to question the Board on issues arising. At the meeting, the Directors are available to listen to the views of shareholders and again, informally, immediately following the AGM. Regrettably, due to the COVID-19 measures in 2020, this was not possible. However, once it is safe to do so, the Directors plan to host a meeting with the Board which is open to all shareholders to attend. This will enable Directors and shareholders to engage in an informal environment in the way originally intended at the AGM.</p> <p>The Group's financial reports for the last five years can be found here: https://www.ternplc.com/investors</p> <p>Notices of General Meetings of the Company for the last five years are included at the end of each of the annual report and accounts, which can be found here: https://www.ternplc.com/investors</p> <p>The Company values the views of its shareholders and has set out how it manages its relations with shareholders, including a shareholder communication policy in the Corporate Governance and Compliance section on pages 33-34 of the Report and Accounts for the year ended 31 December 2019.</p> <p>The Company also communicates how it is governed and is performing through its regulatory announcements, and via its website, which is regularly updated.</p> <p>Tern has also committed to host at least two shareholder calls a year to provide an opportunity for shareholders to put their questions to the Board. The Company may be required to exercise discretion as to which shareholder questions shall be responded to, and the information used to answer questions will be information that is freely available in the public domain.</p> <p>A contact section is available on the website for queries to be addressed to the company and Tern has appointed Newgate Communications to manage shareholder communication and their details are set out on the website under the Investor section and on all RNS.</p> <p>The outcome of all resolutions tabled at general meetings, are to be posted on the Company's website and also announced via RNS.</p> <p>The results of voting on all resolutions in future general meetings will be posted to the Group's website and announced via RNS, including any actions to be taken as a result of resolutions for which votes against have been received from at least 20 per cent of independent shareholders.</p> <p>The work of the Board Committees is set out in the Corporate Governance and Compliance section on page 32 of the Report & Accounts for the year ended 31 December 2019. Formal reports are not provided by these Committees due to the size of the Company and the Board's familiarity with the business, although the Committees do report to the Board on all recommendations.</p>