

Nomination and Governance Committee Report

Chair's Overview

This report sets out an overview of the Committee's roles and responsibilities, and its key activities during the year.

A considerable proportion of the Committee's time this year has been spent on considering and recommending changes to the composition of the board, both for executive and non-executive roles. The Committee oversaw the process to select the group's new chief executive, recommending the appointment of Adrian Sainsbury who took up his new role on 21 September 2020. It also led the recruitment of Sally Williams as an independent non-executive director as well as the ongoing search to identify a successor for Geoffrey Howe, the company's senior independent director ("SID"), who has decided to step down from the board at the conclusion of the AGM in November 2020. A description of the processes that resulted in the appointments of Adrian and Sally to the board can be found below, together with an update on the SID search. For all searches undertaken this year, the Committee has put in place arrangements to ensure that changes to the board are well managed, with consideration of candidates from a diversity of backgrounds and experiences.

Talent management and succession planning for roles below board level has continued to be an important focus for the Committee. Once again this year, it has monitored activities and initiatives to develop the group's talent pipeline and improve gender and other diversity among senior management. The Committee reviewed the skills and experience of the non-executive directors to ensure that the board continues to be able to perform its role effectively.

The Committee has followed sustainability and environmental, social and governance ("ESG") developments in the year, and has monitored the implications for the group of corporate governance reforms including the new UK Corporate Governance Code and enhanced disclosure requirements for subsidiaries across the group.

Committee Roles and Responsibilities

The Committee's key roles and responsibilities are:

- regularly reviewing the structure, size and composition of the board and its committees, and making recommendations to the board with regard to any changes;
- considering the leadership needs of the group and considering succession planning for directors and senior executives;
- considering the appointment or retirement of directors;
- reviewing the continued independence of the non-executive directors;
- assessing the board's balance of skills, knowledge and experience;
- evaluating the skills, knowledge and experience required for a particular appointment, normally with the assistance of external advisers to facilitate the search for suitable candidates; and
- assessing the contribution and time commitment of the non-executive directors.

The Committee's full role and responsibilities are set out in written terms of reference and are available at www.closebrothers.com.

Key Activities in the 2020 Financial Year

During the year the Committee's activities included:

- considering board composition and succession, including searches for a new chief executive and non-executive roles;
- reviewing talent and executive management succession planning, including oversight of activities to support and encourage the development of a diverse and inclusive talent pipeline;
- the annual review of the board diversity and inclusion policy;

- oversight of the internal board and committee evaluation undertaken during the year;
- monitoring sustainability and ESG developments and considering the implications for the group;
- receiving updates on the group's response to changes in the UK's corporate governance and reporting framework, including new disclosure requirements for large private companies;
- assessing the non-executive directors' skill sets, knowledge, suitability and experience to ensure that an appropriate balance of skills, knowledge and experience has been maintained; and
- reviewing the non-executive directors' time commitment, independence and letters of appointment.

Membership and Meetings

The Committee's membership was unchanged during the year and comprises Geoffrey Howe, the senior independent director, Oliver Corbett, Lesley Jones and Bridget Macaskill, who chair the Audit, Risk and Remuneration Committees respectively, and me as chair. The composition of the Committee satisfies the relevant requirements of the UK Corporate Governance Code.

In addition, the chief executive attends meetings by invitation.

The group head of human resources attended a number of meetings during the year, including when presenting reviews of talent and executive management succession planning, and updating the Committee on the progress of searches for board-level and other appointments.

Five scheduled meetings of the Committee were held during the year and details of members' attendance are set out on page 71. In addition, four ad hoc meetings were held to consider matters relating to specific board appointments during the year, including meetings to consider the nomination of Adrian Sainsbury and Sally Williams as members of the board.

Overview of Main Activities During the Year

CEO succession

During the year, the Committee oversaw the thorough and extensive process that culminated in the decision by the board to appoint Adrian Sainsbury as chief executive and an executive member of the board, following the announcement in September 2019 of Preben Prebensen's planned departure.

The Committee approved a detailed specification for the role of chief executive and engaged external search firm, MWM Consulting ("MWM"), which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, to find appropriate candidates. The firm is not connected to the company in any way.

The search process included consideration of both external and internal candidates and, at all stages, the Committee took steps to ensure that all candidates were treated equally.

MWM prepared a long-list of candidates from a diversity of backgrounds and representing a breadth of talent and experience. A shortlist of external and internal candidates was agreed by the Committee and candidates were interviewed by the Chairman and other non-executive directors. Following an extensive interview and assessment process (including presentations by a small number of candidates to non-executive directors) and having obtained regulatory approval, the Committee recommended Adrian Sainsbury to the board as its preferred candidate. The board considered and accepted the recommendation and agreed to appoint Adrian as chief executive and a director with effect from the end of the board's meeting held on 21 September 2020. The decision was announced on 22 June 2020.

Talent development, succession planning and board composition

The Committee spent considerable time during the year reviewing talent and considering the group's succession planning at board and senior management level. Activities included a formal review by the Committee of senior management succession planning, looking at the capability and potential of incumbents in key roles and the succession pipeline. The Committee also considered specific appointments to senior management roles at both group and divisional level. The Committee recognises the importance of talent development and ensuring that the group continues to attract, retain and develop skilled, high potential individuals, and this will remain an important focus in the year ahead.

During the first part of the financial year, the Committee oversaw the formal and rigorous process that resulted in the appointment of Sally Williams as an independent non-executive director on 1 January 2020. The Committee approved a detailed description for the role and the search was undertaken in conjunction with external search firm Heidrick & Struggles, who were instructed to consider candidates from a diversity of backgrounds and experiences. The firm is not connected to the company in any way and is a signatory to the Voluntary Code of Conduct for Executive Search Firms. A shortlist of potential candidates was selected and interviews were held with the involvement of both non-executive and executive members of the board. Following the process, the Committee recommended Sally's appointment to the board.

As part of its ongoing consideration of non-executive succession planning, the Committee has led the search to identify a new member of the board to succeed Geoffrey Howe as senior independent director. Heidrick & Struggles are assisting the Committee with the search and have, in line with the board diversity and inclusion policy, been instructed to consider candidates from a diverse range of backgrounds and experience. The search is well-advanced and, subject to completion of the regulatory approval process, the board anticipates being in a position to announce its final decision on an appointment in due course following the AGM in November. On the recommendation of the Committee, the board has appointed Oliver Corbett to take on the additional role of senior independent director on an interim basis during the period between Geoffrey stepping down from the board at the AGM and the appointment of a permanent successor.

Sustainability

The Committee acknowledges the ongoing focus on sustainability and the contribution that business makes to the wider community. On behalf of the board during the year, the Committee regularly discussed sustainability considerations across a range of different areas, including diversity and inclusion, and ESG. Further details on each of these areas is set out below.

Diversity and inclusion

Diversity and inclusion continue to be a key focus of the Committee. The Committee recognises the importance of having directors with a range of skills, knowledge and experience, and embraces the advantages to be derived from having a diversity of gender and social and ethnic backgrounds represented on the board, bringing different perspectives and the challenge needed to ensure effective decision-making. Diversity and inclusion have been topics of discussion throughout the year, including in the context of succession planning at both board and senior management level and in the consideration of particular appointments. In addition, the Committee undertook its annual review of the board diversity and inclusion policy, and recommended a number of incremental enhancements. The updated policy was subsequently approved by the board. Further information on the policy (including its objectives and progress against them) can be found on page 70 of this Annual Report.

The Committee considers that the board remains diverse, drawing on the knowledge, skills and experience of directors from a range of backgrounds, but will seek to take opportunities to further improve the diversity of the board, where it is consistent with the skills, experience and expertise required at a particular point in time. At 31 July 2020, three of the company's nine directors were women, in line with the recommendation of the Hampton-Alexander Review. The board supports the recommendations set out in the Parker Review and will aim to have at least one director of colour by 2024.

The Committee acknowledges its role in overseeing the development of a diverse pipeline for senior management positions and the link between diversity and inclusion and delivery of the company's purpose and strategic aims. To that end, it considered updates during the year in relation to diversity and inclusion initiatives in place across the group. Among other things, the Committee discussed the group's approach to recruitment, training and development programmes for employees across the group, management's work with diversity and inclusion campaign groups, and activities of discrete employee working groups including in the areas of gender, ethnic diversity, disability, LGBTQ+, mental wellbeing and social mobility. The Committee recognises the importance, and the benefits to the group, of developing a diverse pipeline and it will continue to work with senior management in this area.

In line with the UK Corporate Governance Code, the Committee discloses that the gender balance of those in senior management (being the members of the Executive Committee and the company secretary) and their direct reports at 31 July 2020 was 35% female and 65% male. More detail on the group's approach to diversity and inclusion can be found in the Sustainability Report on pages 25 to 27.

Environmental, social and governance issues

Throughout the year, the Committee received and considered dedicated updates on ESG issues relevant to the group. These updates covered items across a wide range of areas and were informed by, among other things, engagement with shareholders and other stakeholders, legislative and regulatory initiatives and wider market developments. Areas of discussion included the group's sustainability targets (including progress in the year and future plans), the impact of Covid-19 on the broader sustainability agenda and sustainability themes arising from my annual corporate governance meetings with shareholders. The Committee will continue to consider ESG and broader sustainability matters in the year ahead and make such recommendations to the board as it considers necessary.

Further information on the group's approach to sustainability can be found in the Sustainability Report starting on page 24 of this Annual Report.

Non-executive directors' skill sets

The Committee has considered and reaffirmed the skill sets and experience of the company's non-executive directors, including their extensive experience within financial services and in regulated and listed companies. Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 60 and 61.

Reappointment of directors

Prior to the company's AGM each year, the Committee considers, and makes recommendations to the board concerning, the reappointment of directors, having regard to their performance, suitability, time commitment and ability to continue to contribute to the board. Following this year's review in advance of the 2020 AGM, the Committee has recommended to the board that all

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serving directors be reappointed at the AGM with the exception of Geoffrey Howe who has decided not to seek reappointment at the AGM following more than nine years' service on the board.

Oliver Corbett, Lesley Jones and Bridget Macaskill have served as directors for more than six years. The extension of each of their terms of office has been subject to particularly rigorous review by the Committee, including with respect to each director's performance, contribution and independence. No individual participated in the discussion on the proposed extension of his or her own term of office. The Committee has noted the valuable contribution that each of the directors makes, including with respect to the particular responsibilities they undertake as a committee chair. The Committee values the knowledge, experience and continuity that their continued appointments would bring.

Corporate governance reform

The Committee has monitored the implementation of corporate governance reforms that began to apply to the group in the financial year that ended on 31 July 2020. These reforms included the new UK Corporate Governance Code and the requirement to publish reports on the board's consideration of its duty under section 172 of the Companies Act 2006 and engagement with stakeholders, together with new requirements for larger subsidiaries in the group.

Committee Effectiveness

As described in more detail on page 76, an internal evaluation of the effectiveness of the board and its committees was undertaken during the year by the company secretary in line with the requirements of the UK Corporate Governance Code. The Committee was involved in determining the format, scope and timing of the evaluation.

The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

Michael N. Biggs

Chair of the Nomination and Governance Committee

22 September 2020