



The Association of Investment Companies

Corporate Governance Guide for Investment Companies

Incorporating the Combined Code, the AIC Code of Corporate Governance[©]
and certain Listing Rules requirements

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Introduction

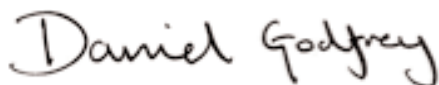
The purpose of this document is to provide a comprehensive guide on corporate governance for Member companies of the Association of Investment Companies ("AIC") (formerly called the Association of Investment Trust Companies ("AITC")) which brings together the relevant requirements and recommendations from the Combined Code on Corporate Governance ("Combined Code"), the AIC Code of Corporate Governance© ("AIC Code") and the Listing Rules. The guide will be useful for directors, company secretaries, managers and advisers to the industry who are dealing with corporate governance compliance and implementation issues.

More specifically, this guide lists each Combined Code requirement in turn and describes its relevance and applicability to investment companies. It explains how the AIC Code translates each Combined Code requirement into principles and recommendations suitable to the industry's unique structure. It highlights specific corporate governance requirements contained in the Listing Rules which are relevant to Member companies, and it explains the disclosure requirements for corporate governance statements.

The original Code of Corporate Governance produced by the AIC was published in July 2003 with the aim of providing boards of our Member companies with a framework of best practice in respect of the governance of investment companies. As the final shape of the revised Combined Code was unveiled, the AIC published certain amendments to the AIC Code in January 2004. In April 2005 the Financial Reporting Council, the body responsible for the Combined Code, welcomed the AIC Code as a source of guidance on how to interpret the Combined Code in the context of investment companies. In February 2006 (and again in February 2007), the Financial Reporting Council confirmed that AIC Member companies who report against the AIC Code and who follow this guide will be meeting their obligations in relation to the Combined Code and associated disclosure requirements of the Listing Rules. In July 2006 the AIC produced a preamble which Member companies can use in their corporate governance reports when using the AIC Code. This preamble helps investors to recognise that Members reporting against the AIC Code have fulfilled their Listing Rules obligation to confirm that their corporate governance report represents a description of how they have applied the provisions of the Combined Code. This reprinted version of the AIC Guide includes this preamble in Appendix 1.

In conjunction with this guide, the AIC has also produced an updated version of the AIC Code, which amalgamates the 2003 AIC Code and all subsequent amendments. We recommend that users of this guide also refer to the separate AIC Code.

We hope that you find this guide useful.



Daniel Godfrey
Director General on behalf of the AIC Board

FRC Endorsement of the AIC Code of Corporate Governance and the AIC Corporate Governance Guide for Investment Companies

On 3rd February 2006 (and again on 14th February 2007 in relation to the latest amendments), the Financial Reporting Council confirmed that Member companies who report against the Code of Corporate Governance produced by the Association of Investment Trust Companies ("AITC") (now called the Association of Investment Companies ("AIC")) ("AIC Code") and who follow the AIC's Corporate Governance Guide for Investment Companies ("AIC Guide") will be meeting their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules.

In our view, this means that Member companies who report against the AIC Code and who confirm that they follow the AIC Guide will be able to cover, in their corporate governance report, all the issues which the AIC Guide describes as being irrelevant for investment companies within one simple sentence. This sentence would explain that all the issues on which they do not report in detail are excluded because they deem them to be irrelevant to their company as explained in the AIC Guide. The particular areas which the AIC Guide identifies as being irrelevant and which therefore can be covered in this way include (with the exception of self-managed investment companies):

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function



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14th February 2007

Jean Sevel.

Thank you for sending us copies of the updated AIC Code of Corporate Governance and your new Corporate Governance Guide for Investment Companies.

I welcome the changes to the AIC Code that reflect the changes made to the Combined Code last year relating to the composition of the remuneration committee, the publication of voting results and the provision of a 'vote withheld' option on proxy forms. The changes you have made ensure that the two Codes continue to be consistent

I can confirm that it remains the FRC's view that by following the AIC Corporate Governance Guide investment company boards should fully meet their obligations in relation to the Combined Code and Paragraph 9.8.6 of the Listing Rules.

Sincerely,

Chris Hogg

SIR CHRISTOPHER HOGG
Chairman

The AIC Code in the wider corporate governance framework

Evolution of the codes

The corporate governance framework for investment companies comes from three main sources: the Combined Code, the AIC Code of Corporate Governance, and the Listing Rules. This section discusses the evolution of these three documents and explains the nature of the 'principles', 'provisions' and 'recommendations' contained in the Combined Code and the AIC Code.

The main corporate governance requirements for all listed companies are contained in the Combined Code on Corporate Governance, which sits alongside the Listing Rules produced by the Financial Services Authority.

In July 2003, the AIC produced its original Code of Corporate Governance to provide boards of its Member companies with a framework of best practice in respect of the governance of their companies.

Certain changes to the Listing Rules and the Combined Code were finalised just after the publication of the 2003 AIC Code. The 2003 AIC Code accepted that there were differences with the proposed changes to the Listing Rules (following FSA consultation paper CP164) and the recommendations contained in the 2003 AIC Code reflected the proposals submitted by the AIC during the consultation process. Furthermore, the AIC Code noted that if the final changes to the Listing Rules continued to vary from the AIC Code, then the principles and recommendations which were outside the rules would be changed accordingly.

In the event, the FSA accepted nearly all of the AIC's recommendations in its changes to the Listing Rules and the preamble to the updated Combined Code accepted the AIC's submission that investment companies have some characteristics which mean that not all of its provisions were appropriate. In January 2004 the AIC published an update to the AIC Code to reflect the few revisions which were required.

In April 2005, the Financial Reporting Council ("FRC"), which is the body responsible for the Combined Code, welcomed the AIC's Code as a source of guidance on how to interpret the Combined Code in the context of investment companies. The FRC noted that corporate governance guidance for directors and shareholders of investment companies was contained in three separate documents (i.e. the Combined Code, the AIC's 2003 Code and the AIC's 2004 update) which could increase the risk of confusion and misunderstanding. Along with the publication of the revised AIC Code, this guide seeks to address this issue by collating all the corporate governance regulations and recommendations relevant for investment companies into one document. In February 2006, the Financial Reporting Council confirmed that the AIC Member companies who report

against the AIC Code and who follow this guide will be meeting their obligations in relation to the Combined Code and associated disclosure requirements of the Listing Rules. We have published this updated version of the AIC Guide to incorporate suggested wording for a preamble to Member companies' corporate governance reports as discussed on page 5 and some minor changes which are set out on pages 73 and 74.

At the time of producing this publication, the corporate governance world is still evolving. A review of certain sections of the Listing Rules is being undertaken. Furthermore, corporate governance is now being considered at a European level.

Principles, provisions etc

It is important to understand the composition of the Combined Code and the AIC Code in order to fully appreciate the substance of the guidance.

■ Combined Code

The Combined Code is comprised of *main principles*, *supporting principles* and *code provisions*. A company is expected to apply the *principles*, but the Combined Code does not prescribe how this should be done, the intention being that companies should have a free hand to explain their governance policies in the light of the principles.

Code provisions are designed to be complied with most of the time, but the Combined Code accepts that departure may be justifiable in particular circumstances. Where a company chooses to depart from a provision, it must give a considered explanation.

■ AIC Code

The AIC Code follows the same principles based approach as the Combined Code. Its *principles* are supported by *recommendations* which recognise that most issues boards face may have different 'right' answers depending on the particular circumstances of the company.

Summary Requirements

The following table lists the main principles of the Combined Code and matches these with the associated principles in the AIC Code. This is a summary table and is designed to give the reader an overview of the corporate governance regime for investment companies. The 'Detailed Requirements' section of this guide provides a more indepth analysis.

In the main, the title headings and order of items in the table follow that of the Combined Code. Where parts of the Combined Code are not relevant for investment companies, these are highlighted in the 'Detailed Requirements' section.

References have been inserted next to the Combined Code principles to aid the reader in tracing the regulation back to the original source. References next to the AIC Code principles refer to those used in the latest AIC Code.

Combined Code Principles

AIC Code Principles

BOARDS AND DIRECTORS

The role and responsibilities of the board

Every company should be headed by an effective board, which is collectively responsible for the success of the company. (A.1)

The following AIC principles give further detail on the role of investment company boards:

Boards should give sufficient attention to overall strategy. (14)

The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues. (13)

Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it. (17)

Boards and managers should operate in a supportive, co-operative and open environment. (12)

Executive functions

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision. (A.2)

With the exception of self-managed companies, executive responsibility for an investment company lies with the investment management company. The following AIC principle addresses the relationship between the board and the management company:

The board should agree policies with the manager covering key operational issues. (16)

Combined Code Principles

AIC Code Principles

Board balance and independence

The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. (A.3)

The following AIC principles address board balance and independence for investment companies:

The chairman should be independent. (1)

A majority of the board should be independent of the manager. (2)

The board should aim to have a balance of skills, experience, ages and length of service. (6)

There should be full disclosure of information about the board. (5)

Specific Listing Rules requirements also deal with independence between the board and the investment management company (see pages 26 and 28).

Appointments to the board

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. (A.4)

AIC principles dealing with the appointment of directors to investment company boards are:

The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report. (9)

The chairman (and the board) should be brought into the process of structuring a new launch at an early stage. (11)

Information and professional development

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge. (A.5)

This is further confirmed by the following AIC principle:

Directors should be offered relevant training and induction. (10)

Combined Code Principles

Performance evaluation

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. (A.6)

AIC Code Principles

The same principle is included in the AIC Code.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. (7)

Furthermore investment company boards should extend their performance evaluation as follows:

The board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company). (15)

The board should monitor and evaluate other service providers. (18)

There is a specific Listing Rule which requires disclosure regarding the continuing appointment of the investment manager on the terms agreed (see page 38).

Re-election

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board. (A.7)

Re-election of directors of investment companies is expanded on as follows:

Directors should be elected for a fixed term of no more than three years. Nomination for re-election should not be assumed but be based on disclosed procedures. (3)

The board should have a policy on tenure, which is disclosed in the annual report. (4)

Combined Code Principles

AIC Code Principles

REMUNERATION

The level and make-up of remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. (B.1)

The corresponding AIC principle is:

Director remuneration should reflect their duties, responsibilities and the value of their time spent. (8)

Procedure for setting directors' remuneration

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration. (B.2)

The recommendations to AIC principle 8 cover this issue.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The board should present a balanced and understandable assessment of the company's position and prospects. (C.1)

The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares. (21)

Internal control

The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets. (C.2)

AIC principle 16 (covering operational issues with the manager) and principle 18 (covering evaluation of other service providers) and their recommendations are relevant here.

Combined Code Principles

AIC Code Principles

Audit committee and auditors

The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. (C.3)

AIC principle 16 (covering operational issues with the manager) and principle 18 (covering evaluation of other service providers) and their recommendations are relevant here.

RELATIONS WITH SHAREHOLDERS

Dialogue with institutional shareholders

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. (D.1)

Relationships with shareholders of investment companies are covered in the following AIC principles:

The board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders. (19)

The board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman. (20)

Constructive use of the AGM

The board should use the AGM to communicate with investors and to encourage their participation. (D.2)

AIC principle 20 is relevant here.

Combined Code Principles

AIC Code Principles

INSTITUTIONAL SHAREHOLDERS

Dialogue with companies

Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives. (E.1)

Evaluation of governance disclosures

When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional shareholders should give due weight to all relevant factors drawn to their attention. (E.2)

Shareholder voting

Institutional shareholders have a responsibility to make considered use of their votes. (E.3)

Outside the scope of the AIC Code

Detailed Requirements

This section provides a detailed analysis of the corporate governance framework for investment companies by extracting relevant rules and guidance from the Combined Code, AIC Code and Listing Rules.

The table below sets out, on the left hand side of the double page, each of the main principles of the Combined Code in turn, followed by its supporting principles and code provisions. These are matched with the relevant AIC principles and recommendations on the right hand side of the double page. Relevant Listing Rules are also included.

To aid the reader:

- black text – refers to Combined Code requirements
- blue text – refers to AIC Code guidance
- green text – refers to Listing Rules
- italic – explanatory notes (these have been added to help the reader better understand the context of the regulations or guidance, to identify which Combined Code requirements are not relevant for investment companies, and to describe the links between the different sources)
- right hand columns – identify items where disclosure in the annual report is required or recommended

With regard to the Combined Code and Listing Rules requirements, it is recommended that readers refer to the original text in full. This publication does not reproduce the appendices to the Combined Code. Footnotes within the Combined Code have been included here; however the footnote referencing has been changed for simplicity.

Self-managed investment companies

Self-managed investment companies may have different arrangements to externally managed investment companies in some areas. Directors of self-managed investment companies should bear this in mind when considering the regulations and recommendations and should disclose and explain these aspects in the context of their structure.

BOARDS AND DIRECTORS

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle A.1</p> <p>Supporting Principles</p> <p>Code Provision A.1.1</p> <p>Code Provision A.1.2</p>	<p>THE ROLE AND RESPONSIBILITIES OF THE BOARD</p> <p>Every company should be headed by an effective board, which is collectively responsible for the success of the company.</p> <p>The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims <i>[see AIC principle 14]</i>, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance <i>[for investment companies, this should be read as performance of the management company or executives of a self-managed investment company]</i>. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.</p> <p>All directors must take decisions objectively in the interests of the company.</p> <p>As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives <i>[see AIC principle 15 on page 39]</i> and monitor the reporting of performance <i>[see AIC principle 21 on page 55]</i>. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors <i>[only self-managed investment companies have executive directors]</i> and have a prime role in appointing, and where necessary removing, executive directors <i>[as above]</i>, and in succession planning.</p> <p>The board should meet sufficiently regularly to discharge its duties effectively. <i>[Items for discussion for boards of investment companies include those covered in AIC principles 14, 13 and 17 on pages 19 and 21]</i>. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management <i>[for investment companies, read management company or executives of a self-managed investment company. See AIC principle 16 on page 23]</i>.</p> <p>The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive <i>[only relevant for self-managed investment companies]</i>, the senior independent director <i>[see AIC principle 1 on page 25]</i> and the chairmen and members of the nomination, audit and remuneration committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors <i>[see AIC principle 5 on page 31]</i>.</p>	<p></p> <p>✓</p> <p>✓</p>

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 575 435 604">AIC Principle 14</p> <p data-bbox="245 638 444 667">Recommendations</p> <p data-bbox="245 1058 435 1087">AIC Principle 13</p> <p data-bbox="245 1226 444 1255">Recommendations</p>	<p data-bbox="511 428 1123 457">THE ROLE AND RESPONSIBILITIES OF THE BOARD</p> <p data-bbox="511 487 1221 541"><i>The following AIC principles give further detail on the role of investment company boards:</i></p> <p data-bbox="511 575 1205 604">Boards should give sufficient attention to overall strategy.</p> <p data-bbox="511 638 1214 814">Some boards have found it useful to have a specific annual strategy session separate from the normal agenda items. For example, the board could consider matters such as the original prospectus objectives, their continuing relevance and whether the investment policy and style continue to enjoy sufficient support from investors. Issues that could also be discussed include:</p> <ul data-bbox="537 823 1214 1024" style="list-style-type: none"> • Whether it is in the interests of the shareholders that the company should continue in its present form (or at all). • Whether the company should have regular continuation votes and, if so, how often? • The investment mandate and long-term investment strategy and performance of the company and appropriate guidelines within which the manager should operate. <p data-bbox="511 1058 1214 1192">The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.</p> <p data-bbox="511 1226 1214 1339">In some cases a board may wish to set the level of gearing and asset allocation and in others it may wish to set parameters within which the manager can operate in the course of its day-to-day portfolio management.</p> <p data-bbox="511 1373 1221 1579">For its review of investment performance the board might find it useful for the manager to prepare attribution and volatility analyses. Detailed advice on gearing (amount, currency, fixed or floating rate etc) can often be provided best by the fund manager's bond/currency teams rather than its equity portfolio managers. Boards should focus on share price performance as well as net asset value performance.</p> <p data-bbox="511 1612 1214 1726">A review of marketing and shareholder communication strategies should include the establishment of steps to mitigate the potential conflicts that the manager may have in promoting the company alongside any open-ended fund business that it may conduct.</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Code Provision A.1.3</p> <p>Code Provision A.1.4</p> <p>Code Provision A.1.5</p>	<p>THE ROLE AND RESPONSIBILITIES OF THE BOARD (continued)</p> <p>The chairman should hold meetings with the non-executive directors without the executives present <i>[only relevant for self-managed investment companies]</i>. Led by the senior independent director <i>[see AIC principle 1 on page 25]</i>, the non-executive directors should meet without the chairman present at least annually to appraise the chairman’s performance (as described in A.6.1) and on such other occasions as are deemed appropriate.</p> <p>Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if they have any such concerns <i>[see AIC principle 3 on page 43]</i>.</p> <p>The company should arrange appropriate insurance cover in respect of legal action against its directors <i>[see AIC principle 8 on page 47]</i>.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 793 435 825">AIC Principle 17</p> <p data-bbox="245 919 444 951">Recommendations</p>	<p data-bbox="511 426 1123 499">THE ROLE AND RESPONSIBILITIES OF THE BOARD (continued)</p> <p data-bbox="511 527 1205 674">Other items which should be considered include a risk map, share buy-back and treasury share policy, the performance and cost of other service providers (broker, legal advisers, custody, company secretarial etc – see AIC principle 18), director remuneration and liability cover.</p> <p data-bbox="511 705 1205 762">The chairman is responsible for ensuring that the directors receive accurately, timely and clear information.</p> <p data-bbox="511 793 1195 894">Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.</p> <p data-bbox="511 926 1214 1041">Boards should discuss the company’s absolute and relative level of discount and its volatility. They should consider the share price and asset performance and ways in which future share price performance might be enhanced – these should include:</p> <ul data-bbox="537 1041 1198 1367" style="list-style-type: none"> • The investment mandate and objective • The effectiveness of marketing and shareholder communication strategies. In particular, the board should ensure that any potential conflicts that the manager may have in promoting the company because of other interests they may have with open-ended funds are addressed and mitigated. • Measures of investor sentiment • Share buy-backs and treasury shares • The number and position of competitive companies in their peer group. 	
<p data-bbox="245 1402 435 1434">AIC Principle 12</p> <p data-bbox="245 1497 444 1528">Recommendations</p>	<p data-bbox="511 1402 1154 1465">Boards and managers should operate in a supportive, co-operative and open environment.</p> <p data-bbox="511 1497 1214 1612">The ideal relationship is where the manager effectively acts as the CEO of the Member company, taking the initiative on all aspects of its operations, under the guidance and formal approval of the board.</p>	
<p data-bbox="245 1650 435 1682">AIC Principle 16</p> <p data-bbox="245 1713 444 1745">Recommendations</p>	<p data-bbox="511 1650 1179 1766">One of the recommendations of AIC Principle 16 on page 23 is for the board to agree matters over which the manager has discretion and the areas of decision-making that are exclusively reserved for the board.</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p data-bbox="233 485 396 583">Main Principle A.2</p> <p data-bbox="233 758 396 814">Supporting Principles</p> <p data-bbox="233 1087 396 1171">Code Provision A.2.1</p> <p data-bbox="233 1234 396 1318">Code Provision A.2.2</p>	<p data-bbox="396 422 1276 457">EXECUTIVE FUNCTIONS</p> <p data-bbox="396 485 1276 730">There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. <i>[Executive responsibility for running an investment company lies with the investment management company or executive management in the case of a self-managed investment company.]</i> No one individual should have unfettered powers of decision.</p> <p data-bbox="396 758 1276 1052">The chairman is responsible for leadership of the board, ensuring its effectiveness on all aspects of its role and setting its agenda. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information <i>[see AIC principle 13 on page 21]</i>. The chairman should ensure effective communication with shareholders <i>[see AIC principle 19 on page 63]</i>. The chairman should also facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors <i>[only relevant for self-managed investment companies; for externally managed investment companies, this should be taken as the relationship between the investment management company and the board]</i>.</p> <p data-bbox="396 1087 1276 1199">The roles of chairman and chief executive <i>[only relevant for self-managed investment companies]</i> should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.</p> <p data-bbox="396 1234 1276 1493">The chairman should on appointment meet the independence criteria set out in A.3.1 below. A chief executive should not go on to be chairman of the same company. If exceptionally a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report¹ <i>[other than self-managed investment companies, investment companies do not have a chief executive]</i>. ¹Compliance or otherwise with this provision need only be reported for the year in which the appointment is made.</p>	<p data-bbox="1312 1381 1338 1415">✓</p>

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 600 435 632">AIC Principle 16</p> <p data-bbox="245 695 444 726">Recommendations</p>	<p data-bbox="511 426 808 457">EXECUTIVE FUNCTIONS</p> <p data-bbox="511 495 1188 562"><i>The following AIC principle addresses the relationship between the board and the management company:</i></p> <p data-bbox="511 600 1117 667">The board should agree policies with the manager covering key operational issues.</p> <p data-bbox="511 695 1179 783">The board should agree matters over which the manager has discretion and the areas of decision-making that are exclusively reserved for the board. Key operational issues could include:</p> <ul data-bbox="537 789 1219 1560" style="list-style-type: none"> <li data-bbox="537 789 1219 961">• Agreeing a policy with the manager regarding voting and corporate governance issues in respect of holdings in the company’s portfolio. The agreement should take account of the Institutional Shareholders’ Committee’s recommendations on shareholder engagement (these can be found at www.institutionalshareholderscommittee.org.uk/library.html). <li data-bbox="537 968 1219 1108">• Defining the scope of the manager’s responsibilities, including the principal operating issues (such as the methodology for performance benchmarking, hedging, gearing, share buy-backs) and agreeing the procedure for the manager to report back to the board. <li data-bbox="537 1115 1219 1262">• Identifying any circumstances in which the manager should refer to the board for approval before undertaking transactions. This might include dealing in any other investment funds managed by the fund manager or investing in new issues of other closed-end funds managed by others. <li data-bbox="537 1268 1219 1381">• Agreeing that the manager inform the board of any conflicts surrounding share trades and votes. This can be useful to help individual portfolio managers defend themselves from unwanted pressure from within the management company. <li data-bbox="537 1388 1219 1560">• Agreeing a policy on whether the manager should be permitted to use the commissions paid by the company (soft commissions) to pay for services used by the manager. In this regard the board may wish to review and apply FSA disclosure proposals regarding soft commission arrangements. 	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p data-bbox="233 489 396 590">Main Principle A.3</p> <p data-bbox="233 688 396 747">Supporting Principles</p> <p data-bbox="233 1283 396 1383">Code Provision A.3.1</p>	<p data-bbox="415 426 902 457">BOARD BALANCE AND INDEPENDENCE</p> <p data-bbox="415 489 1227 657">The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking <i>[only self-managed investment companies have executive directors]</i>.</p> <p data-bbox="415 688 1252 810">The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business <i>[see AIC principle 6 on page 29]</i> and that changes to the board's composition can be managed without undue disruption.</p> <p data-bbox="415 842 1227 963">To ensure that power and information are not concentrated in one or two individuals, there should be a strong presence on the board of both executive and non-executive directors <i>[only self-managed investment companies have executive directors]</i>.</p> <p data-bbox="415 995 1247 1077">The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees.</p> <p data-bbox="415 1108 1243 1257">No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee. <i>[An investment company may also have a management engagement committee and the same principles should apply.]</i></p> <p data-bbox="415 1289 1252 1551">The board should identify in the annual report each non-executive director it considers to be independent². <i>[AIC principles 1 and 2 on pages 25, 27 and 29 also deal with independence.]</i> The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:</p> <ul data-bbox="456 1556 1252 1944" style="list-style-type: none"> • has been an employee of the company or group within the last five years; • has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company; • has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme; • has close family ties with any of the company's advisers, directors or senior employees; • holds cross-directorships or has significant links with other 	<p data-bbox="1312 1289 1336 1320">✓</p> <p data-bbox="1312 1436 1336 1467">✓</p>

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 625 418 653">AIC Principle 1</p> <p data-bbox="245 1640 418 1667">AIC Principle 2</p> <p data-bbox="245 1738 444 1766">Recommendations</p>	<p data-bbox="511 426 1003 453">BOARD BALANCE AND INDEPENDENCE</p> <p data-bbox="511 489 1146 585"><i>The following AIC principles address board balance and independence for investment companies, and should be considered in conjunction with AIC principle 4 on page 43:</i></p> <p data-bbox="511 625 971 653">The chairman should be independent.</p> <p data-bbox="511 688 1224 835">Independence stems from the ability to make those objective decisions that may be in conflict with the interests of management. This in turn is a function of confidence (born of courage and experience), integrity (personal character) and judgement (born of knowledge and experience).</p> <p data-bbox="511 871 1243 926">The chairman should have no relationships that may create a conflict of interest between the chairman’s interest and those of shareholders.</p> <p data-bbox="511 961 1247 1192">No employee of the manager or executive of a self-managed company or ex-employee who has left the employment of the manager or the executive team of a self-managed company within the last five years should serve as chairman. Nor should a professional adviser to the manager or to the board of a company to which he/she provided services within the last three years serve as chairman. The chairman should not serve on any other boards of an investment company managed by the same manager.</p> <p data-bbox="511 1228 1243 1339">The other independent directors should discuss the performance and continuing independence of the chairman on an annual basis and one of them should be deputed to speak to the chairman about their discussion.</p> <p data-bbox="511 1375 1247 1606">There appear to be certain advantages in the concept of investment companies nominating a Deputy Chairman (who would fulfil the role of a senior independent director (SID)) or a SID in common with other companies. Alternatively, it may be appropriate for the chairman of the audit committee to fulfil this role. Firstly the Deputy Chairman or SID can take the lead in the annual evaluation of the chairman. Secondly, he/she can act as a channel of communication where shareholders have a problem with the chairman.</p> <p data-bbox="511 1642 1159 1705">A majority of the board should be independent of the manager.</p> <p data-bbox="511 1740 1198 1887">An independent majority is required for a UK listing and is best practice for other Member companies. No more than one current or recent* employee of or professional adviser to the manager should serve on a board and any such directors should offer themselves for re-election annually.</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
	<p>BOARD BALANCE AND INDEPENDENCE (continued)</p> <p>directors through involvement in other companies or bodies;</p> <ul style="list-style-type: none"> • represents a significant shareholder; or • has served on the board for more than nine years from the date of their first election. <i>[AIC principle 4 on page 43 addresses the disclosure of a tenure policy for investment companies and whether a director of an investment company could be considered independent after nine years of service.]</i> <p>²A2.2 states that the chairman should, on appointment, meet the independence criteria set out in this provision, but thereafter the test of independence is not appropriate in relation to the chairman.</p> <p>Code Provision A.3.2 Except for smaller companies³, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent <i>[only self-managed investment companies have executive directors]</i>. A smaller company should have at least two independent non-executive directors. <i>[AIC principle 6 on page 29 deals with board balance.]</i></p> <p>Code Provision A.3.3 The board should appoint one of the independent non-executive directors to be the senior independent director. <i>[AIC principle 1 on page 25 addresses the role of the senior independent director for investment companies]</i>. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate.</p> <p><i>The following Listing Rules also deal with board balance and independence:</i></p> <p>Listing Rules 15.2.6 The board of directors or equivalent body of an investment company must be able to demonstrate that it will act independently of any investment managers of the investment company.</p> <p>Listing Rules 15.2.7 In companies with more than 250 employees: (1) a non-executive director must not be: (a) directors, employees or professional advisers to other investment companies that are: (i) managed by any such investment managers; or (ii) managed by any other company in the same group as any such investment managers; or (b) directors, employees, partners, officers, or professional advisers to any such investment manager or any other company in the same group as any such investment manager; (2) no more than one director, partner, employee, or professional adviser to each such investment manager or any other company in the same group as any such investment manager may be a director of the investment company; and (3) a director as described in paragraph (2) must be subject to annual re-election by shareholders.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
	<p>BOARD BALANCE AND INDEPENDENCE (continued)</p> <p>In the case of a self-managed company, a majority of the board should be independent of the executive management but there is no restriction to the number of current or recent* employees who may serve as directors.</p> <p>*'Recent' employee is generally taken to mean having been in the manager's employment within the last five years. However, some individuals, because of long service or their personal identification with the company in question, may never be regarded as 'independent' for the purposes of forming an independent majority on the board.</p> <p>Directors who have had other commercial relationships within the last three years may also be considered to be 'non-independent' of the manager or the executive team of a self-managed investment company.</p> <p>Whilst directors who sit on the boards of more than one company managed by the same manager are still perfectly entitled to serve as a director, they will not be regarded as independent either for the purposes of fulfilling the requirement that there must be an independent majority or for serving as chairman.</p> <p>The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:</p> <ul style="list-style-type: none"> • has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company; • has received or receives additional remuneration from the company apart from a director's fee; • has close family ties with any of the company's advisers or directors; • holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; • represents a significant shareholder; <p>and additionally in respect of self-managed investment company:</p> <ul style="list-style-type: none"> • has been an employee of the company or group within the last five years; • participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme; • has close family ties with any of the company's senior employees. 	<p style="text-align: center;">✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Listing Rules 15.2.8</p> <p>Listing Rules 15.2.9</p>	<p>BOARD BALANCE AND INDEPENDENCE (continued)</p> <p>The chairman of the board of the investment company must be free of conflicts of interest and must be independent of any investment managers of the investment company and any other company in the same group as any of the investment managers.</p> <p>In compliance with Listing Rule 15.2.9, a director must not be:</p> <div data-bbox="509 625 1075 688" style="border: 1px solid red; padding: 2px; display: inline-block;"> <p>These Listing Rules have now changed, please refer to attachment at the back of this guide.</p> </div> <p>(1) a director, employee, officer, partner or professional adviser to any investment manager of the investment company; or (2) a director, employee, officer, partner, or professional adviser to any other company in the same group as any investment manager of the investment company; or (3) a director of any other investment company managed by any of the same investment managers; or (4) a director of any other company in the same group as any of the same investment managers.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 1203 418 1234">AIC Principle 6</p> <p data-bbox="245 1297 444 1329">Recommendations</p>	<p data-bbox="511 426 1154 457">BOARD BALANCE AND INDEPENDENCE (continued)</p> <p data-bbox="511 516 1222 810">Many shareholders and commentators have a view that lengthy service on a board can compromise independence from the manager or the executive team of a self-managed investment company. The AIC does not believe that there is any evidence that this is the case for investment companies and therefore does not recommend that long-serving directors be prevented from forming part of an independent majority. However, where a director has served for more than nine years, the board should state its reasons for believing that the individual remains independent in the annual report.</p> <p data-bbox="511 842 1232 1020">Principle 3 on page 43 will ensure that the independent directors formally assess the issue of directors' continuing independence from the manager or executive team of a self-managed investment company and their contribution on a regular basis and that the basis of that assessment is disclosed. Principle 6 below should ensure that long-serving directors do not control a board.</p> <p data-bbox="511 1052 1200 1167">Taken together, this should provide shareholders with confidence in the independence of their board or, if they disagree, sufficient information on which to make a decision to vote against re-election of a director.</p> <p data-bbox="511 1203 1094 1272">The board should aim to have a balance of skills, experience, ages and length of service.</p> <p data-bbox="511 1297 1219 1535">In this way a board can bring to bear appropriate expertise to as many of the issues that it may face as possible. It will also be best placed to refresh itself in an orderly manner over time. Boards should indicate in the annual report any gaps that they have identified and, if so, how they intend to improve their balance over time. As referred to in principle 5, the annual report should spell out in the Directors' Report the relevant skills and experience of each director.</p> <p data-bbox="511 1566 1219 1713">When considering new appointments the board should be seeking to fill gaps in the mix. This could be to add skills in investment management, performance analysis, corporate finance, marketing, legal, accounting and so on. It could also seek to diversify the age range of the board.</p>	<p data-bbox="1312 726 1336 747">✓</p> <p data-bbox="1312 1388 1336 1409">✓</p> <p data-bbox="1312 1444 1336 1465">✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
	<p>BOARD BALANCE AND INDEPENDENCE (continued)</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 485 418 516">AIC Principle 5</p> <p data-bbox="245 583 444 615">Recommendations</p>	<p data-bbox="511 426 1154 457">BOARD BALANCE AND INDEPENDENCE (continued)</p> <p data-bbox="511 489 1182 552">There should be full disclosure of information about the board.</p> <p data-bbox="511 583 1166 699">Conflicts of interest and remunerated association with any service provider – and particularly the manager – can interfere with a director’s ability to act independently on some issues. All relevant facts about directors should be disclosed. Biographical details published in the Directors’ Report of the annual report should include:</p> <ul data-bbox="537 762 1219 1266" style="list-style-type: none"> • Current employment and relevant experience • All other public company directorships and employments with specific attention drawn to any other directorships of investment funds managed by the same manager. There may be occasions (e.g. Huntingdon Life Sciences) where a directorship need not be specifically identified • Any current or historic employment by the manager and connections to the investment company or the manager • Length of service and age • Shared directorships of any commercial company with other board members • Details of significant shareholdings in companies where: <ul style="list-style-type: none"> • the investment company has a notifiable stake in the same company; or • the investment company has a holding which amounts to more than 1% of the investment company’s portfolio. <p data-bbox="570 1272 1206 1388">(In considering what amounts to significant, directors should consider both the absolute amount of the shareholding, as well as the proportion it represents of their total portfolio of investments.)</p> <p data-bbox="511 1419 1214 1566">If separate audit, remuneration and/or nomination committees are established, formal terms of reference reserved for that committee’s decision should be made available (this requirement could be met by including the information on a website that is maintained by or on behalf of the company).</p> <p data-bbox="511 1598 1211 1745">The annual report should identify the chairmen, the senior independent director (if there is one) and the chairman and members of any nomination, audit and remuneration committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.</p>	<p data-bbox="1312 730 1336 762">✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle A.4</p> <p>Supporting Principles</p> <p>Code Provision A.4.1</p> <p>Code Provision A.4.2</p> <p>Code Provision A.4.3</p> <p>Code Provision A.4.4</p>	<p>APPOINTMENTS TO THE BOARD</p> <p>There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.</p> <p>Appointments to the board should be made on merit and against objective criteria. Care should be taken to ensure that appointees have enough time available to devote to the job. This is particularly important in the case of chairmanships.</p> <p>The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management <i>[only relevant for self-managed investment companies]</i>, so as to maintain an appropriate balance of skills and experience within the company and on the board.</p> <p>There should be a nomination committee which should lead the process for board appointments and make recommendations to the board <i>[Principle 9 of the AIC Code on page 33 also addresses the role of the nomination committee]</i>. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship. The nomination committee should make available⁴ its terms of reference, explaining its role and the authority delegated to it by the board.</p> <p>⁴ The requirement to make the information available would be met by including the information on a website that is maintained by or on behalf of the company.</p> <p>The nomination committee should 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.</p> <p>For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and included in the next annual report. No individual should be appointed to a second chairmanship of a FTSE 100 company⁵.</p> <p>⁵ Compliance or otherwise with this provision need only be reported for the year in which the appointment is made.</p> <p>The terms and conditions of appointment of non-executive directors should be made available for inspection⁶. The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before</p>	<p>✓</p> <p>✓</p>

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 600 418 632">AIC Principle 9</p> <p data-bbox="245 730 444 762">Recommendations</p> <p data-bbox="245 1066 431 1098">AIC Principle 11</p> <p data-bbox="245 1163 444 1194">Recommendations</p>	<p data-bbox="511 426 911 457">APPOINTMENTS TO THE BOARD</p> <p data-bbox="511 495 1149 562"><i>AIC principles dealing with the appointment of directors to investment company boards are:</i></p> <p data-bbox="511 600 1198 699">The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.</p> <p data-bbox="511 730 1219 1031">Either the whole board should together nominate candidates for the board, or the board should establish a nomination committee of independent directors. If the whole board nominates candidates, it should explain why it has done so rather than establish a separate nomination committee in the annual report. For example, a board might say that it considers its size to be such that it would be unnecessarily burdensome to establish a separate nomination committee. In either case, only the independent directors should vote on candidates for the appointment of new independent directors.</p> <p data-bbox="511 1066 1203 1136">The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.</p> <p data-bbox="511 1163 1219 1251">New companies tend to be created by the manager or sponsor. No board exists at the outset for the independent appointment of new directors.</p> <p data-bbox="511 1283 1219 1402">The chairman should be selected at the earliest practicable point in the process of launching a new company, and should be involved in the selection of the rest of the board as soon as possible thereafter.</p> <p data-bbox="511 1434 1198 1551">The new board should assume their responsibilities and be involved in the process at the earliest possible point. The new board should satisfy itself that the proposed new company is fundamentally sound and has a raison d'être in the market place.</p> <p data-bbox="511 1583 1219 1730">The new board should be able to seek independent advice paid for by the manager and sponsor, should it feel the need, in the process of its due diligence. Recently, turbulent markets have served as a sharp reminder that directors can be personally liable for any errors, omissions or misleading statements in a prospectus.</p> <p data-bbox="511 1761 1211 1850">New companies applying for admission to membership of the AIC should be able to confirm that they have complied with this principle and disclose any deviation from the recommendations.</p>	<p data-bbox="1312 600 1336 632">✓</p> <p data-bbox="1312 852 1336 884">✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
	<p>APPOINTMENTS TO THE BOARD (continued)</p> <p>appointment, with a broad indication of the time involved and the board should be informed of subsequent changes. ⁶The terms and conditions of appointment of non-executive directors should be made available for inspection by any person at the company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting).</p> <p>Code Provision A.4.5 The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company <i>[only relevant for self-managed investment companies]</i>.</p> <p>Code Provision A.4.6 A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director <i>[see AIC principle 9 on page 33]</i>.</p>	<p>✓</p> <p>✓</p>

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
	<p>APPOINTMENTS TO THE BOARD (continued)</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle A.5</p> <p>Supporting Principles</p> <p>Code Provision A.5.1</p> <p>Code Provision A.5.2</p> <p>Code Provision A.5.3</p>	<p>INFORMATION AND PROFESSIONAL DEVELOPMENT</p> <p>The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.</p> <p>The chairman is responsible for ensuring that the directors receive accurate, timely and clear information <i>[see AIC principle 13 on page 21]</i>. Management <i>[read investment management company or executive management for self-managed investment company]</i> has an obligation to provide such information but directors should seek clarification or amplification where necessary.</p> <p>The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities.</p> <p>Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors <i>[only relevant for self-managed investment companies]</i>, as well as facilitating induction and assisting with professional development as required.</p> <p>The company secretary should be responsible for advising the board through the chairman on all governance matters.</p> <p>The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, the company should offer to major shareholders the opportunity to meet a new non-executive director.</p> <p>The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.</p> <p>All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the board as a whole.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 491 435 520">AIC Principle 10</p> <p data-bbox="245 590 444 619">Recommendations</p>	<p data-bbox="511 428 1156 457">INFORMATION AND PROFESSIONAL DEVELOPMENT</p> <p data-bbox="511 491 1097 554">Directors should be offered relevant training and induction.</p> <p data-bbox="511 590 1162 705">Investment companies should offer induction training to new directors about the company, its managers, their legal responsibilities and investment company industry matters. Subsequently, ongoing training should be offered as required.</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p data-bbox="245 491 354 590">Main Principle A.6</p> <p data-bbox="245 621 367 680">Supporting Principles</p> <p data-bbox="245 858 342 947">Code Provision A.6.1</p> <p data-bbox="245 1066 326 1125">Listing Rules</p> <p data-bbox="245 1129 337 1157"><u>5.4.12</u></p> <div data-bbox="245 1157 370 1503" style="border: 1px solid red; padding: 5px;"> <p data-bbox="250 1157 365 1451">These Listing Rules have now changed, please refer to attachment at the back of this guide.</p> </div>	<p data-bbox="412 426 781 457">PERFORMANCE EVALUATION</p> <p data-bbox="412 491 1149 590">The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.</p> <p data-bbox="412 621 1252 831">Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.</p> <p data-bbox="412 858 1230 1041">The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. The non-executive directors, led by the senior independent director <i>[see AIC principle 1 on page 25]</i>, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors <i>[only relevant for self-managed investment company]</i>.</p> <p data-bbox="412 1066 1211 1247">An investment company must include in its annual report and accounts a statement, set out in a prominent position, as to whether in the opinion of the directors the continuing appointment of the investment manager on the terms agreed is in the interests of shareholders as a whole, together with a statement of the reasons for this view. <i>[The rest of this rule is not included here.]</i></p>	<p data-bbox="1292 858 1338 890">✓</p> <p data-bbox="1292 1066 1338 1098">✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
	<p>PERFORMANCE EVALUATION (continued)</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p>AIC Principle 18</p> <p>Recommendations</p>	<p>PERFORMANCE EVALUATION (continued)</p> <p>suitable benchmark or peer group. Key factors to be considered include:</p> <ul style="list-style-type: none"> • The views of shareholders • Appropriate benchmarks/hurdle rates • A reduction in the basic fee when a performance fee is introduced • A cap on the performance fee • A high water mark • A combination of short-term and long-term measurements and incentives <p>The AIC has produced a paper entitled "Evaluation of the Manager: A Paper for Non-Executive Directors of Investment Companies on meeting the requirements of the Listing Rules". This is available on the AIC's website at www.theaic.co.uk/technical.</p> <p>The board should monitor and evaluate other service providers.</p> <p>The board should determine which services (such as secretarial, custody, settlement, registration) should be sub-contracted and establish the procedures by which the providers, to whom these services are delegated, should report back and the methods by which these providers are monitored and evaluated.</p> <p>The board should put in place a structure for the regular review of these delegated services to ensure their continued competitiveness and effectiveness.</p> <p>In practice, boards will be heavily reliant on their manager or company secretary for much of this process.</p> <p>In particular, boards should satisfy themselves that the auditor is not conflicted by any work for the manager and that any potential conflict has been satisfactorily resolved.</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle A.7</p> <p>Code Provision A.7.1</p> <p>Code Provision A.7.2</p>	<p>RE-ELECTION</p> <p>All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board.</p> <p>All directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.</p> <p>Non-executive directors should be appointed for specified terms subject to re-election and to Companies Acts provisions relating to the removal of a director. The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board. Non-executive directors may serve longer than nine years (e.g. three three-year terms), subject to annual re-election. Serving more than nine years could be relevant to the determination of a non-executive director's independence (as set out in Combined Code provision A.3.1). <i>[AIC principle 4 deals with tenure policy for investment companies.]</i></p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 600 418 632">AIC Principle 3</p> <p data-bbox="245 730 444 762">Recommendations</p>	<p data-bbox="511 426 678 457">RE-ELECTION</p> <p data-bbox="511 495 1208 558"><i>Re-election of directors of investment companies is expanded as follows:</i></p> <p data-bbox="511 600 1214 699">Directors should be elected for a fixed term of no more than three years. Nomination for re-election should not be assumed but be based on disclosed procedures.</p> <p data-bbox="511 730 1127 821">The chairman and the other independent directors should approve the nomination for re-election of directors and disclose the rationale in the annual report.</p> <p data-bbox="511 852 1182 942">The deliberations over any nominee for re-election should take place in the absence of that nominee. After nine years, the term should be reduced to one year.</p> <p data-bbox="511 974 1219 1148">On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if they have concerns about the running of the company or a proposed action. Short of resignation, where directors have such concerns which cannot be resolved, they should ensure that their concerns are recorded in the board minutes.</p>	<p data-bbox="1312 789 1336 821">✓</p>
<p data-bbox="245 1182 418 1213">AIC Principle 4</p> <p data-bbox="245 1276 444 1308">Recommendations</p>	<p data-bbox="511 1182 1122 1245">The board should have a policy on tenure, which is disclosed in the annual report.</p> <p data-bbox="511 1276 1208 1451">As mentioned in AIC principle 2 on page 25, some market participants believe directors should not be considered independent after nine years service, whereas others consider a longer tenure enhances the ability to be independent. Many boards function best when working together for years; others find regular changes to be desirable but awkward to achieve.</p> <p data-bbox="511 1482 1208 1629">Provision A.3.1 of the Combined Code on page 24 contains a provision that boards should state their reasons if they consider a director to be independent notwithstanding the fact that the director has served for more than nine years from the date of their first election.</p> <p data-bbox="511 1661 1175 1902">Whilst the boards of investment companies, in common with boards of other companies, are likely to benefit from a regular infusion of new blood, they are perhaps more likely than most to benefit from having at least one director with considerably longer than nine years' experience. Continuity, self-examination and ability to do the job should be the relevant criteria. The report on the annual evaluation of the board should state that each director's independence has been considered.</p>	<p data-bbox="1312 1182 1336 1213">✓</p> <p data-bbox="1312 1839 1336 1871">✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
	RE-ELECTION (continued)	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
	<p>RE-ELECTION (continued)</p> <p>The key point is that a board should not become ossified with a large number of directors all serving for very long periods together. The achievement of a sensible balance is the most important objective in this regard.</p> <p>It is the AIC's hope that the preamble to the Combined Code (which recognises that investment companies may find some of the standard provisions of the code inappropriate) and the AIC's recommendations on tenure and balance will give boards confidence in explaining why a director is viewed as independent, notwithstanding service which may be considerably more than nine years.</p> <p>Each board should determine and disclose a policy on whether its directors should serve for a limited period of time (e.g. nine years). If there is no age limit in the company's Articles of Association, the board should determine whether or not there should be an age limit. Given the particular importance of the chairman, the board should also consider whether his or her tenure should also be finite. If so, he or she could continue as a director thereafter if consistent with the board's policy on tenure.</p>	<p>✓</p>

REMUNERATION

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle B.1</p> <p>Supporting Principles</p> <p>Code Provision B.1.1</p> <p>Code Provision B.1.2</p> <p>Code Provision B.1.3</p> <p>Code Provision B.1.4</p>	<p>THE LEVEL AND MAKE-UP OF REMUNERATION</p> <p><i>It should be noted that Listing Rule 15.4.15 specifically states that an investment company does not need to make a compliance statement with regard to principles B.1 to B.2 and provisions B.1.1 to B.1.6 and B.2.1 to B.2.4 except to the extent that they relate specifically to non-executive directors.</i></p> <p>Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance <i>[only relevant for self-managed investment companies]</i>.</p> <p>The remuneration committee should judge where to position their company relative to other companies. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance. They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.</p> <p>The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and should be designed to align their interests with those of shareholders and to give these directors keen incentives to perform at the highest levels. In designing schemes of performance-related remuneration, the remuneration committee should follow the provisions in Schedule A to the Combined Code <i>[only relevant for self-managed investment companies]</i>.</p> <p>Executive share options should not be offered at a discount save as permitted by the relevant provisions of the Listing Rules.</p> <p>Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence (as set out in Combined Code provision A.3.1).</p> <p>Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report⁷ should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is <i>[only relevant for self-managed investment companies]</i>.</p> <p><small>⁷As required under the Directors' Remuneration Report Regulations 2002.</small></p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p>AIC Principle 8</p> <p>Recommendations</p>	<p>THE LEVEL AND MAKE-UP OF REMUNERATION</p> <p>Director remuneration should reflect their duties, responsibilities and the value of their time spent.</p> <p>There should be a formal and transparent procedure for developing policy for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.</p> <p>Provision should be made for additional remuneration where directors are involved in duties beyond those normally expected as part of the director's appointment. In such instances, the board should provide details of the events, duties and responsibilities that gave rise to any additional payments in the annual report. The increased responsibilities of directors make the present level of fees look too low in many cases.</p> <p>Whilst directors owning shares is strongly encouraged, it should not be compulsory. There are advantages for directors of companies that have more than one class of share in holding the shares on a pro rata basis. There is support for directors to be paid or part-paid in shares but not, in the usual case, for them to be awarded stock options.</p> <p>Director's potential liability is currently a matter of concern. The first concern of directors in this regard is to ensure that their duties are carried out in such a way that no legal suit can be reasonably brought against them. They should still endeavour to ensure that they have suitable insurance cover. Cases might be brought by plaintiffs which conjoin directors to other parties and which can take years (and considerable legal fees) to be resolved. Directors need to take all action open to them to ensure that there is no possibility of any insurance cover lapsing before any legal proceedings commence, and that there are no other unforeseen limitations to their cover. Adequacy of insurance cover can be a very real issue in cases of large losses.</p>	<p>✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Code Provision B.1.5</p> <p>Code Provision B.1.6</p>	<p>THE LEVEL AND MAKE-UP OF REMUNERATION (continued)</p> <p>Service Contracts and Compensation</p> <p>The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.</p> <p>Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
	<p>THE LEVEL AND MAKE-UP OF REMUNERATION (continued)</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p data-bbox="233 485 396 583">Main Principle B.2</p> <p data-bbox="233 709 396 768">Supporting Principles</p> <p data-bbox="233 1129 396 1213">Code Provision B.2.1</p> <p data-bbox="233 1497 396 1581">Code Provision B.2.2</p> <p data-bbox="233 1791 396 1875">Code Provision B.2.3</p>	<p data-bbox="412 426 1114 457">PROCEDURE FOR SETTING DIRECTORS' REMUNERATION</p> <p data-bbox="412 489 1211 678">There should be a formal and transparent procedure for developing policy on executive remuneration <i>[only relevant for self-managed investment companies]</i> and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration. <i>[This principle has now been adopted as a recommendation in principle 8 of the AIC Code (see page 47)].</i></p> <p data-bbox="412 709 1252 978">The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors <i>[only relevant for self-managed investment companies]</i>. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration <i>[only relevant for self-managed investment companies]</i>. Where executive directors or senior management are involved in advising or supporting the remuneration committee <i>[only relevant for self-managed investment companies]</i>, care should be taken to recognise and avoid conflicts of interest.</p> <p data-bbox="412 1010 1247 1094">The chairman of the board should ensure that the company maintains contact as required with its principal shareholders about remuneration in the same way as for other matters.</p> <p data-bbox="412 1129 1227 1360">The board should establish a remuneration committee of at least three, or in the case of smaller companies⁸ two, independent non-executive directors. In addition, the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman. The remuneration committee should make available⁹ its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed, a statement should be made available⁹ of whether they have any other connection with the company.</p> <p data-bbox="412 1371 1214 1413">⁸ A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.</p> <p data-bbox="412 1423 1214 1465">⁹ The requirement to make the information available would be met by including the information on a website that is maintained by or on behalf of the company.</p> <p data-bbox="412 1497 1243 1759">The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments <i>[only relevant for self-managed investment companies]</i>. The committee should also recommend and monitor the level and structure of remuneration for senior management <i>[only relevant for self-managed investment companies]</i>. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level <i>[only relevant for self-managed investment companies]</i>.</p> <p data-bbox="412 1791 1243 1938">The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p>AIC Principle 5</p> <p>Recommendations</p>	<p>PROCEDURE FOR SETTING DIRECTORS' REMUNERATION</p> <p>Principle 5 includes the recommendation that the board should disclose in the annual report what arrangements it has made for a remuneration committee. If the board has decided that the entire board should fulfil the role of the remuneration committee, it will need to explain in the annual report why it has done so. For example, a board might say that it considers its size to be such that it would be unnecessarily burdensome to establish a separate remuneration committee. The remuneration committee should consist of at least three members, who should all be independent non-executive directors (or two members in the case of companies below the FTSE 350 throughout the year immediately prior to the reporting year). The chairman may also be a member of, but not chair, the remuneration committee. The role and responsibilities of the remuneration committee should be:</p> <ul style="list-style-type: none"> • in conjunction with the chairman, to set the directors' remuneration levels • to judge where to position the company relative to other companies • to consider the need to appoint external remuneration consultants. 	<p>✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
Code Provision B.2.4	<p>PROCEDURE FOR SETTING DIRECTORS' REMUNERATION (continued)</p> <p>Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
	<p>PROCEDURE FOR SETTING DIRECTORS' REMUNERATION (continued)</p>	

FINANCIAL REPORTING AND INTERNAL CONTROL

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
	<p>FINANCIAL REPORTING</p>	
<p>Main Principle C.1</p>	<p>The board should present a balanced and understandable assessment of the company's position and prospects.</p>	
<p>Supporting Principles</p>	<p>The board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.</p>	
<p>Code Provision C.1.1</p>	<p>The directors should explain in the annual report their responsibility for preparing the accounts and there should be a statement by the auditors about their reporting responsibilities <i>[see AIC principle 5 on page 61]</i>.</p>	<p>✓</p>
<p>Code Provision C.1.2</p>	<p>The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.</p>	<p>✓</p>
<p>Listing Rules 15.4.11</p>	<p>An investment company must notify a Regulatory Information Service of the following:</p> <p>(1) within two business days of the end of each calendar month, a list of all investments in other listed investment companies and listed investment trusts, as at the last business day of that month. Investment companies do not have stated investments in other listed investment companies if they do not have stated investments in other listed investment companies.</p> <p>(2) within two business days of the end of each quarter, a list of all investments with a value greater than 5% of the company's total assets and at least the 10 largest investments as at the last business day of that quarter.</p> <p>These rules have now changed, please refer to attachment at the back of this guide.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 558 431 590">AIC Principle 21</p> <p data-bbox="245 722 444 753">Recommendations</p>	<p data-bbox="511 491 802 522">FINANCIAL REPORTING</p> <p data-bbox="511 558 1203 690">The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares.</p> <p data-bbox="511 722 1149 783">The following should be disclosed to shareholders in as plain language as possible:</p> <ul data-bbox="537 814 1219 1955" style="list-style-type: none"> <li data-bbox="537 814 1179 957">• In the annual report there should be a detailed discussion of those areas of decision-making reserved to the board and those over which the manager has discretion (e.g. is the level of gearing set by the board or does the fund manager operate within pre-set limits?) ✓ <li data-bbox="537 961 1211 1073">• A discussion of the manager's overall performance, e.g. investment performance, portfolio risk (e.g. concentration, gearing, liquidity and any other special factors), operational issues such as compliance etc ✓ <li data-bbox="537 1077 1203 1310">• The board should ensure that a full portfolio listing is made available to shareholders at least once a year, and where it is not contained in the annual report, a reference should be given explaining where it can be found. There may, however, be circumstances when a board decides that such disclosure would not be in the best interest of shareholders (e.g. Huntingdon Life Sciences or a programme of buying or selling an illiquid portfolio). ✓ <li data-bbox="537 1314 1219 1572">• For split capital and quasi split capital companies, a sensitivity analysis should be provided showing the effect on the asset backing of each share class of a matrix of possible returns, on both a short and long-term basis e.g. -5, 0, + 5, and +10% per annum over the long term and -20 and -30% per annum over two years. For split or quasi split capital "barbell" funds (those having more than one type of portfolio) these returns should be assumed for parts of the portfolio as well as the entire portfolio as appropriate. ✓ <li data-bbox="537 1577 1154 1719">• The wipe out hurdle rate (the rate of decline in the portfolio that would cause total loss of capital value) for each share class (apart from annuity shares) should be shown in the prospectus and re-calculated for each annual report and accounts. ✓ <li data-bbox="537 1724 1154 1780">• Total expense ratios and their impact on capital erosion per share class should be itemised. ✓ <li data-bbox="537 1785 1162 1955">• Sufficient disclosure of bank-borrowing covenant details (if any) should be made to allow shareholders to understand the circumstances under which loans might be repayable and the extent of any cancellation costs. If this information is not disclosed, the effect of breaching bank-borrowing covenants is not immediately obvious ✓ 	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
	<p>FINANCIAL REPORTING (continued)</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
	<p>FINANCIAL REPORTING (continued)</p> <p>as has clearly been evident with some highly geared split capital investment companies. Where companies have covenants, shareholders should have sufficient information to understand the consequences of any material breach.</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle C.2</p> <p>Code Provision C.2.1</p> <p>Main Principle C.3</p> <p>Code Provision C.3.1</p> <p>Code Provision C.3.2</p>	<p>INTERNAL CONTROL <i>(The Turnbull guidance suggests means of applying this part of the Combined Code)</i></p> <p>The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.</p> <p>The board should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.</p> <p>AUDIT COMMITTEE AND AUDITORS <i>(The Smith guidance suggests means of applying this part of the Combined Code)</i></p> <p>The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.</p> <p>The board should establish an audit committee of at least three, or in the case of smaller companies¹⁰ two, members, who should all be independent non-executive directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.</p> <p>¹⁰ A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.</p> <p>The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:</p> <ul style="list-style-type: none"> • to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them; • to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems; • to monitor and review the effectiveness of the company's internal audit function; • to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor; • to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; 	<p style="text-align: center;">✓</p>

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p>AIC Principle 15 Recommendations</p>	<p>INTERNAL CONTROL</p> <p>AIC Principle 15 on page 39 addresses the contractual arrangements with the manager. A further issue for consideration is to ensure that a sound system of internal control is maintained to safeguard shareholders' investment and the company's assets. A review of the effectiveness of the system of internal control should be made annually. Such a review should be reported to shareholders.</p>	<p>✓</p>
<p>AIC Principle 5 Recommendations</p>	<p>AUDIT COMMITTEE AND AUDITORS</p> <p>Principle 5 also includes the recommendation that the board should disclose in the annual report what arrangements it has made for an audit committee. If the board has decided that the entire board should fulfil the role of the audit committee, it will need to explain why it has done so. For example, a board might say that it considers its size to be such that it would be unnecessarily burdensome to establish a separate audit committee. The audit committee should consist of at least three members, who should all be independent non-executive directors (or two members in the case of companies below the FTSE 350 throughout the year immediately prior to the reporting year). The role and responsibilities of the audit committee should be:</p> <ul style="list-style-type: none"> • to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them; • to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems; • to monitor and review the effectiveness of the manager's internal audit function; • to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor; • to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; • to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; 	<p>✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
	<p>AUDIT COMMITTEE AND AUDITORS (continued) <i>(The Turnbull guidance suggests means of applying this part of the Combined Code)</i></p> <ul style="list-style-type: none"> to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken. 	
Code Provision C.3.3	<p>The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available¹¹. A separate section of the annual report should describe the work of the committee in discharging those responsibilities.</p> <p>¹¹ The requirement to make the information available would be met by including the information on a website that is maintained by or on behalf of the company.</p>	✓
Code Provision C.3.4	<p>The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters <i>[only relevant to self-managed investment companies]</i>. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.</p>	
Code Provision C.3.5	<p>The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function <i>[there is unlikely to be a need for an internal audit function for an externally managed investment company]</i>, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.</p>	✓
Code Provision C.3.6	<p>The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.</p>	✓
Code Provision C.3.7	<p>The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.</p>	✓

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
	<p>AUDIT COMMITTEE AND AUDITORS (continued)</p> <p>and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.</p> <p>Directors should explain in the annual report their responsibility for preparing the accounts and there should be a statement by the auditors about their reporting responsibilities.</p>	<p>✓</p>

RELATIONS WITH SHAREHOLDERS

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle D.1</p> <p>Supporting Principles</p> <p>Code Provision D.1.1</p> <p>Code Provision D.1.2</p>	<p>DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS</p> <p>There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place¹².</p> <p>¹² Nothing in these principles or provisions should be taken to override the general requirements of law to treat shareholders equally in access of information.</p> <p>Whilst recognising that most shareholder contact is with the chief executive and finance director <i>[for investment companies, shareholder contact is usually via the manager and/or the chairman]</i>, the chairman (and the senior independent director and other directors as appropriate) should maintain sufficient contact with major shareholders to understand their issues and concerns.</p> <p>The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.</p> <p>The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend meetings with major shareholders and should expect to attend them if requested by major shareholders. The senior independent director <i>[see AIC principle 1 on page 25]</i> should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.</p> <p>The board should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about their company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.</p>	<p>✓</p>

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p data-bbox="245 594 435 625">AIC Principle 19</p> <p data-bbox="245 762 444 793">Recommendations</p>	<p data-bbox="511 426 1130 457">DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS</p> <p data-bbox="511 489 1179 552"><i>Relationships with shareholders of investment companies are covered in the following AIC principles:</i></p> <p data-bbox="511 594 1203 730">The board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders.</p> <p data-bbox="511 762 1175 846">This can include the commissioning of regular reports from the company's brokers and manager or appointing a qualified independent industry consultant.</p> <p data-bbox="511 888 1179 1087">The chairman should ensure that a contact procedure is laid out in the annual report for shareholders who wish to communicate directly with the board. Boards should consider having the chairman or another independent director accompany the manager to some meetings with major investors so that they could contact the board member directly if they subsequently wished to do so.</p> <p data-bbox="511 1119 1276 1234">Boards should make themselves aware of the corporate governance attitudes of their shareholders and give them due consideration so that they are able to hold constructive dialogue where the views of the board and those of shareholders diverge.</p> <p data-bbox="511 1266 1256 1350">The board should state in the annual report the steps they have taken to ensure that the members of the board have an understanding of the views of major shareholders about their company.</p> <p data-bbox="245 1392 435 1423">AIC Principle 20</p> <p data-bbox="511 1392 1203 1528">The board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.</p> <p data-bbox="245 1560 444 1591">Recommendations</p> <p data-bbox="511 1560 1203 1675">This is not intended to refer to day-to-day operational, investment or marketing communications. The board should be informed (although this should not imply formal approval) of relevant promotional material that is issued by the manager.</p>	<p data-bbox="1312 888 1336 909">✓</p> <p data-bbox="1312 1266 1336 1287">✓</p>

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle D.2</p> <p>Code Provision D.2.1</p> <p>Code Provision D.2.2</p> <p>Code Provisions D.2.3</p> <p>Code Provision D.2.4</p>	<p>CONSTRUCTIVE USE OF THE AGM</p> <p>The board should use the AGM to communicate with investors and to encourage their participation.</p> <p>At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts. For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote should make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.</p> <p>The company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted. For each resolution, after a vote has been taken, except where taken on a poll, the company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company:</p> <ul style="list-style-type: none"> • the number of shares in respect of which proxy appointments have been validly made; • the number of votes for the resolution; • the number of votes against the resolution; and • the number of shares in respect of which the vote was directed to be withheld. <p>The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend.</p> <p>The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
<p>AIC Principle 19</p> <p>Recommendation</p>	<p>CONSTRUCTIVE USE OF THE AGM</p> <p>In addition to the recommendations on page 63, principle 19 also recommends the following:</p> <p>The board should use the AGM to communicate with investors and to encourage their participation.</p> <p>At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the approval of the report and accounts. For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote should make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.</p> <p>The results of votes on resolutions should be published on a website.</p>	

INSTITUTIONAL SHAREHOLDERS

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p data-bbox="233 632 354 730">Main Principle E.1</p> <p data-bbox="233 814 367 873">Supporting Principles</p> <p data-bbox="233 1077 354 1176">Main Principle E.2</p> <p data-bbox="233 1241 367 1299">Supporting Principles</p>	<p data-bbox="412 422 1219 541"><i>(This section of the Combined Code is not covered by the compliance disclosure requirements of the Listing Rules and is outside the scope of the AIC Code. The AIC has produced information on shareholder voting which can be found on www.theaic.co.uk/technical)</i></p> <p data-bbox="412 569 781 600">DIALOGUE WITH COMPANIES</p> <p data-bbox="412 632 1149 699">Institutional shareholders¹³ should enter into a dialogue with companies based on the mutual understanding of objectives.</p> <p data-bbox="412 709 1198 783">¹³ Agents such as investment managers, or voting services, are frequently appointed by institutional shareholders to act on their behalf and these principles should accordingly be read as applying where appropriate to the agents of institutional shareholders.</p> <p data-bbox="412 814 1195 932">Institutional shareholders should apply the principles set out in the Institutional Shareholders' Committee's "The Responsibilities of Institutional Shareholders and Agents – Statement of Principles"¹⁴, which should be reflected in fund manager contracts.</p> <p data-bbox="412 936 1105 982">¹⁴Available at website: www.investmentuk.org/news/research/2005/topic/corporate_governance/isc0905.pdf</p> <p data-bbox="412 1010 984 1041">EVALUATION OF GOVERNANCE DISCLOSURES</p> <p data-bbox="412 1077 1182 1209">When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional shareholders should give due weight to all relevant factors drawn to their attention.</p> <p data-bbox="412 1241 1235 1451">Institutional shareholders should consider carefully explanations given for departure from this Code and make reasoned judgements in each case. They should give an explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position. They should avoid a box-ticking approach to assessing a company's corporate governance. They should bear in mind in particular the size and complexity of the company and the nature of the risks and challenges it faces.</p>	

Reference	COMBINED CODE/LISTING RULES	Disclosure in annual report
<p>Main Principle E.3</p> <p>Supporting Principles</p>	<p>SHAREHOLDER VOTING</p> <p>Institutional shareholders have a responsibility to make considered use of their votes.</p> <p>Institutional shareholders should take steps to ensure their voting intentions are being translated into practice.</p> <p>Institutional shareholders should, on request, make available to their clients information on the proportion of resolutions on which votes were cast and non-discretionary proxies lodged.</p> <p>Major shareholders should attend AGMs where appropriate and practicable. Companies and registrars should facilitate this.</p>	

Reference	AIC CODE OF CORPORATE GOVERNANCE	Disclosure in annual report
	<p>SHAREHOLDER VOTING</p> <p><i>[Outside the scope of the AIC Code.]</i></p>	

Disclosure Requirements

The text below sets out the requirements for disclosing compliance with the AIC Code, Combined Code and Listing Rules.

AIC Code

It is best practice for AIC Members to state in their annual report whether they are adhering to the principles and following the recommendations in the AIC Code and if not, to explain why and/or to detail the steps they intend to take to bring themselves into line in the future. AIC Member companies may also make a statement that, by reporting against the AIC Code and by following this guide, they are meeting their obligations under the Combined Code and paragraph 9.8.6 of the Listing Rules and as such do not need to report further on issues contained in the Combined Code which are irrelevant to them as explained in this guide.

Combined Code

It is a Listing Rules requirement (9.8.6) for listed companies to make a two-part disclosure as follows:

- i) Statement of how the company has applied the *main and supporting principles* of Section 1* of the Combined Code, in a manner that would enable shareholders to evaluate how the principles have been applied.
- ii) A statement as to whether or not the company has complied throughout the accounting period with the code provisions of Section 1* of the Combined Code. Where there is non-compliance, the company must specify the provisions with which it has not complied, and (where relevant) for what part of the period such non-compliance continued, and give reasons for any non-compliance.

Certain Combined Code provisions also contain specific disclosure requirements. These are identified in the right hand column of the 'Detailed Requirements' section of this guide.

As explained on page 8, the preamble to the Combined Code recognises that investment companies have some characteristics which mean that not all of its provisions are relevant. Again the 'Detailed Requirements' section of this guide identifies these areas.

*Section 1 of the Combined Code covers pages 18 to 64 of this guide.

Certain AIC Code principles/recommendations also contain specific disclosure requirements. These are identified in the right hand column of the 'Detailed Requirements' section of this guide.

Listing Rules

Certain Listing Rules contain disclosure requirements which are mandatory for listed companies. Again these are identified in the 'Detailed Requirements' section of this guide.

Changes to the AIC Code

The following changes have been made to the AIC Code since its publication in February 2006:

Directors over 70

- Principle 4

The recommendation that directors over the age of 70 should offer themselves for re-election every year has been removed. The annual board appraisal process is a better mechanism in determining whether a director over 70 is still contributing effectively.

Portfolio Listing

- Principle 21

The requirement to publish a full portfolio listing once a year in the annual report has been amended to say that the board should ensure that a full portfolio listing is made available to shareholders at least once a year, and where it is not contained in the annual report, a reference should be given explaining where it can be found.

Amendments to the AIC Code to reflect changes made to the Combined Code in June 2006

- Principle 5

Amendments have been made to state that the chairman may also be a member of, but not chair, the remuneration committee, and that the formal terms of reference of any audit, remuneration or nomination committee should be made available (and that this requirement could be met by including the information on a website that is maintained by or on behalf of the company).

- Principle 19

The recommendations have been expanded with regard to resolutions at general meetings and the 'vote withheld' option on proxy forms.

Minor additions to the AIC Code to bring it more closely in line with the Combined Code

- Principle 5

A final paragraph has been added regarding disclosure of board and committee members, the number of meetings held, and directors' individual attendance.

- Principle 13

A final sentence has been added to state that the chairman is responsible for ensuring that the directors receive accurate, timely and clear information.

- Principle 19

A sentence has been added recommending the board to disclose the steps they have taken to ensure that members of the board have an understanding of the views of major shareholders about their company.

Other minor amendments

- Principle 5

The final bullet point has been rewritten to make the recommendation clearer.

Appendix 1: Preamble to an investment company's corporate governance report

The Board of XXX plc has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to XXX plc.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

The Combined Code includes provisions relating to:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers these provisions are not relevant to the position of XXX plc, being an externally managed investment company. The company has therefore not reported further in respect of these provisions.

Main text including:

- *narrative explaining how the investment company has applied the principles of the AIC Code.*
- *areas of non-compliance with the AIC Code and/or non-compliance with Combined Code, reasons for non-compliance, period of non-compliance, etc.*

Note: when disclosing areas of non-compliance, it is not necessary to identify the specific recommendation of the AIC Code, or provision of the Combined

Code (e.g. by the inclusion of paragraph/page numbers), or whether this issue is one that is covered only by the AIC Code, or the Combined Code, or both, providing that the area of non-compliance is clearly explained.

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UPDATE TO AIC CORPORATE GOVERNANCE GUIDE FOR INVESTMENT COMPANIES - MAY 2008

Following extensive consultation, the Financial Services Authority (FSA) has published a new version of Chapter 15 of the Listing Rules which is applicable to all closed-ended investment funds. These rules apply to all investment companies previously listed under the Investment Entities rules (Chapters 15) and Venture Capital Trusts (VCT) rules (Chapter 16).

The current edition of the AIC Corporate Governance Guide for Investment Companies (AIC Guide), which supports the AIC Code of Corporate Governance[®], contains extracts from the old Listing Rules which are no longer effective. An updated version of the AIC Guide will be produced in due course. In the meantime, users of the AIC Guide should be aware that certain amendments are necessary to the AIC Guide which are set out below.

- **Independence criteria**

The table below shows the independence criteria relating to investment companies from the old version of the Listing Rules, which is currently reproduced in the AIC Guide. The table also shows the text of the new independence rules from the updated version of Chapter 15 - this amalgamates the rules relating specifically to the chairman into the general rules applicable to the board. As a result of the convergence of the VCT rules into Chapter 15, existing VCTs listed at 28 September 2007 have three years to amend their boards to comply with these new independence rules.

OLD LISTING RULES	NEW LISTING RULES
<p>Listing Rules 15.2.6 (page 26 of AIC Guide) The board of directors or equivalent body of an investment company must be able to demonstrate that it will act independently of any investment managers of the investment company.</p> <p>Listing Rules 15.2.7 (page 26 of AIC Guide) In complying with Listing Rules 15.2.6: (1) a majority of the board or equivalent body must not be: (a) directors, employees or professional advisers to other investment companies that are: (i) managed by any such investment managers; or (ii) managed by any other company in the same group as any such investment managers; or (b) directors, employees, partners, officers, or professional advisers to any such investment manager or any other company in the same group as any such investment manager; (2) no more than one director, partner, employee, or professional adviser to each such investment manager or any other company in the same group as any such investment manager may be a director of the investment company; and (3) a director as described in paragraph (2) must be subject to annual re-election by shareholders.</p>	<p>Listing Rules 15.2.11R The board of directors or equivalent body of the applicant must be able to act independently: (1) of any investment manager appointed to manage investments of the applicant, and (2) if the applicant (either directly or through other intermediaries) has an investment policy of principally investing its funds in another company or fund that invests in a portfolio of investments ("a master fund"), of the master fund and of any investment manager of the master fund.</p> <p>Listing Rules 15.2.11AR LR 15.2.11R(2) does not apply if the company or fund which invests its funds in another company or fund is a subsidiary undertaking of the applicant.</p> <p>Listing Rules 15.2.12AR For the purposes of LR 15.2.11R, a majority of the board or equivalent body of the applicant (including the Chairman) must not be: (1) directors, employees, partners, officers or professional advisers of or to: (a) an investment manager of the applicant; or</p>

Listing Rules 15.2.8 (page 28 of AIC Guide)

The chairman of the board of the investment company must be free of conflicts of interest and must be independent of any investment managers of the investment company and any other company in the same group as any of the investment managers.

Listing Rules 15.2.9 (page 28 of AIC Guide)

In complying with Listing Rules 15.2.8 the chairman of the board must not be:

- (1) a director, employee, officer, partner or professional adviser to any investment manager of the investment company; or
- (2) a director, employee, officer, partner, or professional adviser to any other company in the same group as any investment manager of the investment company; or
- (3) a director of any other investment company managed by any of the same investment managers; or
- (4) a director of any other company in the same group as any of the same investment managers.

(b) a master fund or investment manager referred to in LR 15.2.11R(2); or

(c) any other company in the same group as the investment manager of the applicant; or

(2) directors, employees or professional advisers of or to other investment companies or funds that are:

(a) managed by the same investment manager as the investment manager to the applicant, or

(b) managed by any other company in the same group as the investment manager to the applicant.

Listing Rules 15.2.13A

A person referred to in LR 15.2.12AR (1) or (2) who is a director of the applicant must be subject to annual re-election by the applicant's shareholders.

Listing Rules 15.4.7R

LR 15.2.11R to LR15.2.13AR apply at all times to a closed-ended investment fund.

- **Continuing appointment of the manager**

Page 38 of the AIC Guide shows the text from the old Listing Rules 15.4.12 which required an investment company to publish a statement in its annual report and accounts on the continuing appointment of the investment manager. The wording of this rule has been retained in the new version of Chapter 15 (with the exception that 'annual report and accounts' is now referred to as 'annual financial report') however the numbering of the rule has changed to 15.6.2(2). As a result of the convergence of the VCT rules into Chapter 15, VCTs are subject to this rule for the first time.

- **Notification requirements**

Page 54 of the AIC Guide shows the text of the old Listing Rules 15.4.11 which required an investment company to make two types of regulatory notifications via a Regulatory Information Service. The first type of regulatory notification has been retained in the new rules however the second type has been dropped. The numbering of the rule has changed to 15.6.8.

OLD LISTING RULES**Listing Rules 15.4.11 (page 54 of AIC Guide)**

An investment company must notify a Regulatory Information Service of the following:

- (1) within two business days of the end of each calendar month, a list of all investments in other listed investment companies and listed investment trusts, as at the last business day of that month, which themselves do not have stated investment policies to invest no more than 15% of their total assets in other listed investment companies or listed investment trusts;
- (2) within two business days of the end of each quarter, a list of all investments with a value greater than 5% of the company's total assets and at least the 10 largest investments as at the last business day of that quarter.

NEW LISTING RULES**Listing Rules 15.6.8R**

A closed-ended investment fund must notify to a RIS within five business days of the end of each quarter a list of all investments in other listed closed-ended investment funds, as at the last business day of that quarter, which themselves do not have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds.