



The Association of
Investment Companies

The AIC Corporate Governance Code

A framework of best practice
for member companies



Contact details

The Association of Investment Companies (AIC) represents closed-ended investment companies whose shares are traded on public markets.

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1 Introduction

1.1 Purpose of the AIC Code

The purpose of the AIC Corporate Governance Code © (AIC Code) is to provide boards of our member companies with a framework of best practice in respect of the governance of investment companies.

The AIC Code has been endorsed by the Financial Reporting Council (FRC) and the Guernsey Financial Services Commission (GFSC) and is supported by the Jersey Financial Services Commission (JFSC), see Section 2. This enables boards to make a statement that, by reporting against the AIC Code they are meeting their obligations in relation to the 2024 UK Corporate Governance Code (UK Code) (and associated disclosure requirements under the UK Listing Rules) and/or the GFSC Finance Sector Code of Corporate Governance.

Closed-ended investment companies have particular factors which have an impact on their governance arrangements. These arise principally from four features:

- Investment companies outsource the day-to-day activities of the company (such as portfolio management, administration, accounting and company secretarial) to external service providers. This means that many are governed entirely by a board of non-executive directors (NEDs);
- Where companies do outsource, the proper oversight of these relationships is a crucial aspect of achieving good corporate governance. This means that the manager may be a more important stakeholder than a typical supplier;
- Investment companies often have no executive directors or employees. Therefore, they have no executive or senior management remuneration packages; and
- Investment companies do not have customers in the traditional sense, only shareholders.

For these reasons, corporate governance within the closed-ended investment company industry differs from other companies. Accordingly, the AIC Code deals with matters such as the relationship with the manager and other service providers. In practice, most of the time spent by a board of a well-functioning investment company should be spent on matters of general corporate governance (e.g. the investment strategy, policy and performance).

The AIC Code (set out in Sections 5 to 9) adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies. It also includes some Supplementary Guidance which investment companies may find useful. Appendix 1 explains the basis for disclosing compliance with the AIC Code. Appendix 2 sets out suggested text for a preamble to an investment company's corporate governance report when using the AIC Code.

Self-managed investment companies (meaning those who employ executive directors and have employees to manage the affairs of the company) may have different arrangements from externally managed investment companies in some areas. Directors of self-managed investment companies should bear this in mind when considering the recommendations of the AIC Code and should disclose and explain these aspects in the context of their structure.

Self-managed investment companies applying the AIC Code, should also have regard to the UK Code Principles and Provisions which have either been amended or deleted from the AIC Code. These are set out in Appendix 3.

The AIC Code is copyrighted and only members of the AIC may state that they are following the AIC Code.

1.2 Application

The AIC Code applies to accounting periods beginning on or after 1 January 2025, with the exception of new Provision 34. This new provision is applicable for accounting periods beginning on or after 1 January 2026. A note to this effect has been added in Provision 34.

Richard Stone
Chief Executive

2 Endorsements and statement of support

2.1 Financial Reporting Council (FRC) Endorsement



Endorsement from the FRC in relation to reporting against the AIC Code as a way of fulfilling the requirements of the UK Code and the UK Listing Rules.

The FRC published a new version of the UK Code in January 2024 which applies to accounting periods beginning on or after 1 January 2025, other than provision 29 which will apply to financial years beginning on or after 1 January 2026.

Following discussions with the AIC on an update to the AIC Code, the FRC confirms that member companies who report against the AIC Code will be meeting their obligations in relation to the UK Code. This endorsement means that AIC member companies may also make a statement that, by reporting effectively against the AIC Code they are meeting their obligations under the UK Code (and associated disclosure requirements under the UK Listing Rules) and as such are not required to report further on issues contained in the UK Code, unless they wish to do so on a voluntary basis.

2.2 Guernsey Financial Services Commission (GFSC) Endorsement



The Guernsey Financial Services Commission published the GFSC Finance Sector Code of Corporate Governance (Guernsey Code) most recently in July 2023. The introduction to the Guernsey Code endorses the AIC Corporate Governance Code and states that companies which report against this code or the UK Corporate Governance Code are deemed to meet the Guernsey Code. Therefore, AIC Members which are Guernsey-domiciled and which report against the AIC Corporate Governance Code are not required to report separately against the Guernsey Code.

2.3 Jersey Financial Services Commission (JFSC) Statement of Support



The Jersey Financial Services Commission is pleased to support the AIC Corporate Governance Code. Effective corporate governance is an integral part of our Codes of Practice and adherence to the AIC Code and its principles will assist the AIC's members in Jersey to fulfil their regulatory responsibilities.

3 Background to the AIC Code

Corporate governance does not exist in a vacuum and the AIC encourages shareholders to engage with boards where and when appropriate and to give careful consideration to boards' proposals.

The AIC Code is built around an understanding of what shareholders want or expect to achieve by holding shares in investment companies and the role boards play in delivering these objectives.

3.1 What investment company shareholders want

- The best possible return with an acceptable level of risk consistent with the objectives of the company.
- Clear objectives and transparent investment policies so that they can understand what they are buying and the risk/reward dynamics that apply.
- An appropriate level of costs consistent with incentivising performance and quality service.
- Good liquidity so that they can sell (or buy more) shares easily.
- Timely and clear communication from the board, managers and other agents.
- The board to have regard to the company's wider objectives and stakeholders.

3.2 The role boards should play in delivering these objectives

- Being responsible for the governance of the company notwithstanding any delegation of responsibilities to third parties.
- Demonstrating throughout their reporting how the governance of the company contributes to its long-term success and achieves the company's wider objectives.
- Providing an external view to support and add a different perspective from the manager to help optimise investment performance over the long term.
- Striking the right balance between cost control and incentivisation to retain as much value as possible for shareholders whilst providing appropriate encouragement to managers to deliver the best returns possible at acceptable levels of risk.
- Providing an objective view on the benefits and timing of gearing decisions.
- Ensuring that marketing, promotional and investor relation activities are conducted professionally, efficiently, cost effectively and in a timely manner.
- Objective monitoring of the manager's performance and willingness to press for remedial action if necessary.
- Encouraging a culture to promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders.
- Regularly reviewing the structure, objectives, investment policy, target audiences, service providers (particularly the manager) and continued relevance of the company.
- Maintaining effective and appropriate controls.
- Ensuring effective and timely shareholder communication.

- Ensuring that the manager manages within the agreed parameters set by the board.

3.3 Fundamentals behind the AIC Code

- Directors must treat all shareholders fairly.
- Directors should be prepared to resign or take steps that could lead to a loss of office at any time in the interests of long-term shareholder value.
- Directors should ensure that they address all issues of relevance and that they disclose the outcomes of those deliberations in a way that shareholders and stakeholders with limited financial knowledge can understand.

4 Reporting on the Code

The following is an extract from the UK Code which also applies to the AIC Code:

UK Listing Rules: Reporting on the Code

The FCA's UK Listing Rules require companies to make a statement of how they have applied the Principles in a manner that would enable shareholders to evaluate how the Principles have been applied. Reporting should cover the application of the Principles in the context of the particular circumstances of the company, including how the board has set the company's purpose and strategy, met objectives, and achieved outcomes through the decisions it has taken.

It is important to report meaningfully when discussing the application of the Principles and to avoid boiler-plate reporting. The focus should be on how these have been applied, articulating what action has been taken and the resulting outcomes. High-quality reporting will include signposting and cross-referencing to relevant parts of the annual report. This will help investors with their evaluation of company practices.

The UK Listing Rules also require companies to set out their reasons for non-compliance with a Code Provision. Companies may depart from the Code for a number of reasons, for example the size, complexity, history and ownership structure of a company. Explanations should set out the background, provide a clear rationale for the action the company is taking and explain the impact that the action has had. Where a departure from a Provision is intended to be limited in time, the explanation should indicate when the company expects to conform to the Provision. Explanations should be a positive opportunity to communicate, not an onerous obligation.

Investors should engage constructively and discuss with the company any departures from recommended practice. In their consideration of explanations, investors and their advisors should pay due regard to a company's individual circumstances. While they have every right to challenge explanations if they are unconvincing, these must not be evaluated in a mechanistic way. Investors and their advisors should also give companies sufficient time to respond to enquiries about corporate governance.

Corporate governance reporting should relate to other parts of the annual report and other complementary information, for example, a sustainability report, so that shareholders can effectively assess the quality of the company's governance arrangements and the board's activities and contributions. Where appropriate, cross referencing such information is beneficial to duplication within the annual report.

Guidance

The Code is also supported by updated UK Corporate Governance Guidance. The Guidance does not set out the 'right way' to apply the Code. It is intended to stimulate thinking on how boards can carry out their role most effectively; there is not a single way to apply the Principles and comply with the provisions. All companies are at different stages in their maturity and this should be taken into account when using the Guidance as a supportive tool. The Guidance is designed to aid boards with their actions and decisions when applying the Code.

Supplementary Guidance

The AIC Code includes links to relevant sections of [the Guidance](#), as described above, where the AIC considers this to be helpful to members.

The Guidance is not mandatory but is designed to support reporting against the Principles and Provisions of the Code in a non-prescriptive way.

5 Board leadership and company purpose

5.1 Principles

- A. A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them. *(Incorporates relevant content from UK Code Principle A)*
- B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are all aligned. All directors must act with integrity, lead by example and promote the desired culture. *(UK Code Principle B)*
- C. Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the AIC Code's provisions, it should provide a clear explanation. *(UK Code Principle C)*
- D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. *(UK Code Principle D)*
- E. [Intentionally left blank]

5.2 Provisions

- 1. The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy. For an investment company, the annual report should also include the company's investment objective and investment policy. *(Incorporates relevant content from UK Code Provision 1)*
- 2. The board should assess and monitor its own culture including its policies, practices and behaviour to ensure it is aligned with the company's purpose, values and strategy. It should also assess how its desired culture has been embedded. *(Incorporates relevant content from UK Code Provision 2)*
- 3. In addition to formal general meetings, the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the company's investment objective and investment policy. Committee chairs should seek engagement with shareholders on significant matters related to their areas of responsibility. The chair should ensure that the board has a clear understanding of the views of shareholders. *(Incorporates relevant content from UK Code Provision 3)*
- 4. When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken

should be published no later than six months after the shareholder meeting¹. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.² (UK Code Provision 4)

5. The board should understand the views of the company's other key stakeholders and describe in the annual report how these and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.³ The board should keep engagement mechanisms under review so that they remain effective. (Incorporates relevant content from UK Code Provision 5)

Supplementary Guidance

The section 172 of the Companies Act 2006 applies directly to UK domiciled companies. Nonetheless, the intention of the UK Code and the AIC Code is that the matters set out in section 172 are reported on by all companies, irrespective of domicile, provided this does not conflict with local company law.

6. The board should take action to identify and manage conflicts of interest, including those resulting from significant shareholdings, and ensure that the influence of third parties does not compromise or override independent judgement. (UK Code Provision 7)

Supplementary Guidance

For an investment company board, conflicts of interest may include:

- any other directorships of investment funds managed by the same manager;
- shared directorships of any commercial company with other board members;
- significant shareholdings held by directors in the manager;
- any current or historic employment by the manager and connections to the investment company or the manager;
- significant shareholdings in companies where the investment company has a notifiable stake in the same company or where the investment company has a holding which amounts to more than 1% of the investment company's portfolio.

(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.)

¹ The update should be published on the company's website, the Regulatory Information Service used by the company, or both.

² Details of significant votes against and related company updates are available on the Public Register maintained by The Investment Association – <http://www.theinvestmentassociation.org/publicregister.html>

³ The Companies (Miscellaneous Reporting) Regulations 2018 require directors to explain how they have had regard to various matters in performing their duty to promote the success of the company in section 172 of the Companies Act 2006. The [Financial Reporting Council's Guidance on the Strategic Report](#) supports reporting on the legislative requirement.

7. Where directors have concerns about the operation of the board or the company that cannot be resolved, their concerns should be recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chair, for circulation to the board, if they have any such concerns. *(Incorporates relevant content from UK Code Provision 8)*

Principle E and Provision 6 from UK Code have been deleted with agreement of the FRC as they are not relevant for externally managed investment companies.

6 Division of responsibilities

6.1 Principles

- F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information. *(UK Code Principle F)*
- G. The board should consist of an appropriate combination of directors (and, in particular, independent non-executive directors) such that no one individual or small group of individuals dominates the board's decision making. *(Incorporates relevant content from UK Code Principle G)*
- H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third party service providers to account. *(Incorporates relevant content from UK Code Principle H)*
- I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently. *(UK Code Principle I)*

6.2 Provisions

Director responsibilities

- 8. The responsibilities of the chair, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available. The annual report should set out the number of meetings of the board and its committees, and the individual attendance by directors. *(Incorporates relevant content from UK Code Provision 14)*
- 9. When making new appointments, the board should take into account other demands on directors' time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report. *(Incorporates relevant content from UK Code Provision 15)*

Board and Director independence

- 10. At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent. The majority of the board should be independent of the manager. There should be a clear division of responsibilities between the board and the manager. *(Incorporates relevant content from UK Code Provision 11)*
- 11. The chair should be independent on appointment when assessed against the circumstances set out in Provision 13. *(Incorporates relevant content from UK Code Provision 9)*

12. On appointment, and throughout the chair's tenure, the chair should have no relationships that may create a conflict of interest between the chair's interest and those of shareholders, including:
- being an employee of the manager or an ex-employee who has left the employment of the manager within the last five years;
 - being a professional adviser who has provided services to the manager or the board within the last three years; or
 - serving on any other boards of an investment company managed by the same manager.
13. The board should identify in the annual report each non-executive director it considers to be independent. Circumstances which are likely to impair, or could appear to impair, a non-executive director's independence include, but are not limited to, whether a director:
- has, or has had within the last three years, a material business relationship with the company or the manager, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company or the manager;
 - has received or receives additional remuneration from the company apart from a directors' fee;
 - has close family ties with any of the company's advisers, directors or the manager;
 - holds cross-directorships or has significant links with other directors through involvement in other companies or bodies. Directors who sit on the boards of more than one company managed by the same manager are entitled to serve as directors; however, they will not be regarded as independent for the purposes of fulfilling the requirement that there must be an independent majority;
 - represents a significant shareholder; or
 - has served on the board for more than nine years from the date of their first appointment.

Where any of these or other relevant circumstances apply, and the board nonetheless considers that the non-executive director is independent, a clear explanation should be provided. *(Incorporates relevant content from UK Code Provision 10)*

14. The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary. *(UK Code Provision 12)*

Board meetings

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

Supplementary Guidance

Boards should consider the company's investment policy and its investment objectives as well as the principal risks associated with pursuing the investment strategy.

Boards should consider share price performance and net asset value performance.

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

Boards should consider the company's absolute and relative level of discount or premium and its volatility, the share price and asset performance and ways in which future share price performance might be enhanced.

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 other business that it may conduct.

Other items which should be considered include a risk map, share buy-back or issuance and treasury share policy, the performance and cost of other service providers, director remuneration and liability cover.

Normally, a representative of the management company should be invited to attend board meetings to report on activities in relation to the investment company.

Relationship with the manager

16. The board should explain in the annual report the areas of decision making reserved for the board and those over which the manager has discretion. Disclosure should include:
- a discussion of the manager's overall performance, for example, investment performance, portfolio risk, operational issues such as compliance etc;
 - the manager's remit regarding stewardship, for example voting and shareholder engagement, and environmental, social and corporate governance issues in respect of holdings in the company's portfolio.

The board should also agree policies with the manager covering key operational issues.

Supplementary Guidance

Policies may include:

- 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 or issuances) and agreeing the procedure for the manager to report back to the board;

- identifying any circumstances in which the manager should refer to the board for approval before undertaking transactions; and
- agreeing a policy with the manager regarding stewardship, for example voting and shareholder engagement, and environmental, social and corporate governance issues in respect of holdings in the company's portfolio. The agreement should take account of the UK Stewardship Code.

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.

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.

17. Non-executive directors should review at least annually the contractual relationships with, and scrutinise and hold to account the performance of, the manager.

Either the whole board or a management engagement committee consisting solely of directors independent of the manager (or executives) should perform this review at least annually with its decisions and rationale described in the annual report. If the whole board carries out this review, it should explain in the annual report why it has done so rather than establish a separate management engagement committee.

Supplementary Guidance

For example, a board might say that it considers its size to be such that it would be unnecessarily burdensome to establish a separate management engagement committee.

The company chair may be a member of, and may chair, the management engagement committee, provided that they are independent of the manager. *(Incorporates relevant content from UK Code Provision 13)*

Supplementary Guidance

The long-term nature of the advantages of investment companies suggests that frequent changes in management arrangements would be undesirable.

Issues to be considered include:

- monitoring and evaluating the manager's investment performance and, if necessary, providing appropriate guidance;
- putting in place procedures by which the board regularly reviews the continued retention of the manager's services;
- considering the merit of obtaining, on a regular basis, an independent appraisal of the manager's services;

- requiring the manager to provide attribution analysis and whether it should be published at least annually;
- reviewing the level and method of remuneration, the basis of performance fees (if any) and the notice period;
- considering whether the managers fees should be based on gross assets, net assets or market capitalisation;
- considering the basis on which to charge cash or funds managed by the same manager;
- if there is a performance related element, or the introduction of a performance fee is under consideration, the review should seek to ensure that the basis does not encourage excessive risk and that it aligns the interests of the manager with that of the shareholders to reward the manager if certain criteria are met. Key factors to be considered include:
 - 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; and
 - a combination of short-term and long-term measurements and incentives;
- putting in place processes to review the company's risk management and internal control systems designed to safeguard shareholders' investment and the company's assets. A review of the effectiveness of these systems should be made annually by the board and reported to shareholders in the annual report.

Relationship with other service providers

18. The board should monitor and evaluate other service providers (such as the company secretary, custodian, depositary, registrar and broker).

The board should establish procedures by which other service providers, should report back and the methods by which these providers are monitored and evaluated.

Supplementary Guidance

The board should put in place a structure for the regular review of these services to ensure their continued competitiveness and effectiveness.

In practice, boards will be heavily reliant on their manager or company secretary for much of this process.

19. All directors should have access to the advice of the company secretary, who is responsible for advising the board on all governance matters. Both the appointment and

removal of the company secretary should be a matter for the whole board. (*UK Code Provision 16*)

20. The directors should have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities properly.

New companies

21. Where a new company has been created by the manager, sponsor or other third party, the chair and the board should be selected and brought into the process of structuring a new launch at an early stage.

Supplementary Guidance

The new board should assume its responsibilities as early as possible. It should satisfy itself that the proposed new company is sound and has a *raison d'être* in the marketplace.

The new board should be able to seek independent advice paid for by the manager and sponsor in the process of its due diligence.

7 Composition, succession and evaluation

7.1 Principles

- J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria⁴. They should promote diversity, inclusion and equal opportunity. *(Incorporates relevant content from UK Code Principle J)*
- K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. *(UK Code Principle K)*
- L. Annual evaluation of the board should consider its performance, composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. *(UK Code Principle L)*

7.2 Provisions

- 22. The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to the board and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. If the board has decided that the entire board should fulfil the role of the nomination committee, it will need to explain why it has done so in the annual report. The chair of the board should not chair the committee when it is dealing with the appointment of their successor. *(Incorporates relevant content from UK Code Provision 17)*
- 23. All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success. *(UK Code Provision 18)*
- 24. Each board should determine and disclose a policy on the tenure of the chair. A clear rationale for the expected tenure should be provided, and the policy should explain how this is consistent with the need for regular refreshment and diversity. *(Incorporates relevant content from UK Code Provision 19)*

Supplementary Guidance

Chairs of investment companies differ to chairs of other companies which means different considerations apply with regard to tenure.

The chair of an investment company presides over a board which does not have a chief executive or other executive directors. Like the UK Code, the AIC Code (Provision 11) requires the chair to be independent on appointment. However, unlike the UK Code, it specifically recommends (Provision 12) that the chair avoids relationships which might compromise independence throughout the chair's tenure.

⁴ Which protect against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010.

These Provisions further reinforce the regulatory rules that apply to investment companies (e.g. as set out in the UK Listing Rules) which ensure that the chair remains independent both on and after appointment. A more flexible approach to chair tenure will help companies manage succession planning in the context of the sector's different circumstances, whilst at the same time still address the need for regular refreshment and diversity.

25. Open advertising and/or an external search consultancy should generally be used for the appointment of the chair and non-executive directors. If an external search consultancy is engaged it should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. *(UK Code Provision 20)*
26. There should be a formal and rigorous annual review of the performance of the board, its committees, the chair and individual directors. The chair should consider having a regular externally facilitated board performance review. In FTSE 350 companies this should happen at least every three years. The external reviewer should be identified in the annual report and a statement made about any other connection it has with the company or individual directors. *(Incorporates relevant content from UK Code Provision 21)*

Supplementary Guidance

There is an expectation that companies will have an externally facilitated board performance review at some point. Boards may wish to consider how often such a review is appropriate for their companies, bearing in mind the company's specific circumstances and, particularly for non-UK investment companies, the availability of suitable service providers.

27. The chair should act on the results of the board performance review by recognising the strengths and addressing any weaknesses of the board. Each director should engage with the process and take appropriate action when development needs have been identified. *(UK Code Provision 22)*
28. The annual report should describe the work of the nomination committee, (including where the whole board is acting as the nomination committee) including:
 - the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline;
 - how the board performance review has been conducted, the nature and extent of an external reviewer's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence future board composition; and
 - the policy and any initiatives on diversity and inclusion, their objectives and link to company strategy, how they have been implemented and progress on achieving the objectives. *(Incorporates relevant content from UK Code Provision 23)*

8 Audit, risk and internal control

8.1 Principles

- M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements.⁵ *(Incorporates relevant content from UK Code Principle M)*
- N. The board should present a fair, balanced and understandable assessment of the company's position and prospects. *(UK Code Principle N)*
- O. The board should establish and maintain an effective risk management and internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives. *(UK Code Principle O)*

8.2 Provisions

29. The board should establish an [audit committee](#) of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies two⁶. The chair of the board should not chair the committee but can be a member if they were independent on appointment. If the chair of the board is a member of the audit committee, the board should explain in the annual report why it believes this is appropriate. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates. *(Incorporates relevant content from UK Code Provision 24)*
30. The main roles and responsibilities of the audit committee should include:
- monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;
 - providing advice (where requested by the board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;
 - following the [Audit Committees and the External Audit: Minimum Standard](#);
 - reviewing the company's risk management and internal control framework, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself; and

⁵ The board's responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public records and reports to regulators, as well as to information required to be presented by statutory instruments.

⁶ A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

- reporting to the board on how it has discharged its responsibilities. *(Incorporates relevant content from UK Code Provision 25)*
31. The annual report should describe the work of the audit committee, including the matters set out in the *Audit Committees and the External Audit: Minimum Standard*. *(Incorporates relevant content from UK Code Provision 26)*
32. The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy. *(UK Code Provision 27)*
33. The board should carry out a robust assessment of the company's emerging and principal risks.⁷ The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, and an explanation of how these are being managed or mitigated. The board should explain what procedures are in place to identify and manage emerging risks. *(UK Code Provision 28)*
34. The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls. *(UK Code Provision 29)*

For accounting periods beginning on or after 1 January 2026 the following provision will apply in place of the current Provision 34 above:

The board should monitor the company's risk management and internal control framework and, at least annually, carry out a review of its effectiveness. The monitoring and review should cover all material controls, including financial, operational, reporting and compliance controls. The board should provide in the annual report:

- A description of how the board has monitored and reviewed the effectiveness of the framework;
- A declaration of effectiveness of the material controls as at the balance sheet date; and
- A description of any material controls which have not operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues. *(UK Code Provision 29)*

Supplementary Guidance

What is a 'material control' is for each individual board to determine. Material controls will be company-specific and therefore different for every company depending on their

⁷ Principal risks should include, but are not necessarily limited to, those that could result in events or circumstances that might threaten the company's business model, future performance, solvency or liquidity and reputation. In deciding which risks are principal risks companies should consider the potential impact and probability of the related events or circumstances, and the timescale over which they may occur.

features and circumstances, including, for example, the company's size, maturity, complexity and strategic objectives. The needs for each company may vary.

The approach boards take in relation to this Provision should be a targeted, proportionate and balanced response to meeting enhanced investor and stakeholder expectations for better governance reporting around risk management and internal controls whilst minimising reporting burdens on the company.

The intention of the declaration is for boards to make a public statement about the work they already undertake on the effectiveness of material controls. There is no expectation that making this declaration will require any significant change to the processes or procedures that boards already perform.

35. In annual and interim financial statements, the board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. *(UK Code Provision 30)*
36. Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. *(UK Code Provision 31)*

9 Remuneration

9.1 Principles

- P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. *(Incorporates relevant content from UK Code Principle P)*
- Q. A formal and transparent procedure for developing policy on remuneration should be established. No director should be involved in deciding their own remuneration outcome. *(Incorporates relevant content from UK Code Principle Q)*
- R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. *(UK Code Principle R)*

9.2 Provisions

- 37. The board should establish a remuneration committee of independent non-executive directors with a minimum membership of three, or in the case of smaller companies, two.⁸ In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the board should satisfy itself that the appointee has relevant experience and understanding of the company. If the board has decided that the entire board should fulfil the role of the remuneration committee, it will need to explain why it has done so in the annual report. *(Incorporates relevant content from UK Code Provision 32)*
- 38. The remuneration committee should have delegated responsibility for determining the policy and setting the remuneration for the chair. *(Incorporates relevant content from UK Code Provision 33)*
- 39. The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board. Levels of remuneration for the chair and all non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements. Provision should be made for additional directors' fees 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 directors' fees in the annual report. *(Incorporates relevant content from UK Code Provision 34)*
- 40. Where a remuneration consultant is appointed, this should be the responsibility of the remuneration committee. The consultant should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. Independent judgement should be exercised when evaluating the advice of external third parties. *(Incorporates relevant content from UK Code Provision 35)*

⁸ See footnote 6.

41. The main role and responsibilities of the remuneration committee should include:
- in conjunction with the chair, setting the directors' remuneration levels; and
 - considering the need to appoint external remuneration consultants.

Supplementary Guidance

Where companies have more than one class of share, directors holding shares should consider doing so on a proportional 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 or other performance related elements.

42. There should be a description of the work of the remuneration committee in the annual report. *(Incorporates relevant content from UK Code Provision 41)*

Provisions 36, 37, 38, 39, and 40 from the UK Code have been deleted with agreement of the FRC as they are not relevant for externally managed investment companies which remunerate directors using flat fees and have no elements of variable pay, performance related measures or benefits in kind in place.

Appendix 1: Compliance statement

The AIC Code is 'principles' rather than 'rules' based. The detailed recommendations recognise that most issues boards face may have different 'right' approaches depending on the individual circumstances of the company. To give greater transparency to investors, it should be best practice for AIC members to state in their annual report whether they are adhering to the Principles and following the recommended Provisions contained in the AIC Code and if not, to explain why and, where appropriate, to detail the steps they intend to take to bring themselves into line in future.

Self-managed investment companies may have different arrangements in some aspects, and these should be disclosed and explained in the annual report in the context of their structure. See Appendix 3.

AIC member companies may also make a statement that, by reporting against the AIC Code they are meeting their obligations under:

- the UK Code (and associated disclosure requirements under the UK Listing Rules) and as such do not need to report further on issues contained in the UK Code which are irrelevant to them; and/or
- the Guernsey Code.

Suggested wording for this statement can be found in Appendix 2.

Appendix 2: Preamble to an investment company's corporate governance report

The following is suggested text that an investment company may wish to use when reporting against the AIC Code.

“The Board of XXX plc has considered the Principles and Provisions of the AIC Corporate Governance Code (the AIC Code). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to XXX plc.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been [endorsed by the Financial Reporting Council and/or the Guernsey Financial Services Commission and/or supported by the Jersey Financial Services Commission] provides more relevant information to shareholders.

The company has complied with the Principles and Provisions of the AIC Code.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.”

Main text including:

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

Appendix 3: Self-managed investment companies

Self-managed investment companies applying the AIC Code, should also have regard to the following UK Code Principles and Provisions which have either been amended or deleted from the AIC Code.

UK Code reference	Difference between the AIC Code and the UK Code
Principle A	Amended
Principle B	No change
Principle C	No change
Principle D	No change
Principle E	Deleted
Provision 1	Amended
Provision 2	Amended
Provision 3	Amended
Provision 4	No change
Provision 5	Amended, guidance added
Provision 6	Deleted
Provision 7	No change, guidance added
Provision 8	Amended
Principle F	No change
Principle G	Amended
Principle H	Amended
Principle I	No change
Provision 9	Amended
Provision 10	Amended
Provision 11	Amended
Provision 12	No change
Provision 13	Amended, guidance added
Provision 14	Amended
Provision 15	Amended
Provision 16	No change
Principle J	Amended
Principle K	No change
Principle L	No change
Provision 17	Amended

UK Code reference	Difference between the AIC Code and the UK Code
Provision 18	No change
Provision 19	Amended, guidance added
Provision 20	No change
Provision 21	Amended
Provision 22	No change
Provision 23	Amended
Principle M	Amended
Principle N	No change
Principle O	No change
Provision 24	Amended
Provision 25	Amended
Provision 26	Amended
Provision 27	No change
Provision 28	No change
Provision 29	No change
Provision 30	No change
Provision 31	No change
Principle P	Amended
Principle Q	Amended
Principle R	No change
Provision 32	Amended
Provision 33	Amended
Provision 34	Amended
Provision 35	Amended
Provision 36	Deleted
Provision 37	Deleted
Provision 38	Deleted
Provision 39	Deleted
Provision 40	Deleted
Provision 41	Amended

The logo for the Association of Investment Companies (aic) consists of the lowercase letters 'aic' in a bold, white, sans-serif font. The letter 'i' has a white dot above it.

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