RATHBONES

Re: AIC Code Corporate Governance

Rathbones believes it is in the best interests of our clients. that the companies in which we invest adopt best practice in corporate governance and environmental, social and governance (ESG) risk management. Best practice in corporate governance provides a framework in which each company can be managed in the long-term interest of its shareholders. As such, we are fully supportive of the provisions of the UK Corporate Governance Code (UK Code) and the AIC Code of Corporate Governance (AIC Code).

Accordingly, we expect and encourage all companies we invest in to adopt high standards of corporate governance, with a focus on delivering long-term, sustainable value creation for investors, stakeholders and society. The implementation of good governance helps protect shareholders' best interests and ensure that management have an awareness of wider societal issues. We expect companies to uphold best practice and recognise that the 'comply or explain' regime offers companies the flexibility to choose the most appropriate governance arrangements suitable to their needs. Where companies depart from the UK Code or AIC Code, we expect their explanations to demonstrate how their chosen alternative arrangements are more appropriate and beneficial in upholding high standards of governance.

Bearing this in mind, we may vote against approving governance arrangements at listed investment companies, if they do not attain the standards outlined in the UK Code and AIC Code, or where our bespoke AGM voting template has highlighted other areas of concern. We will first endeavour to engage with the Board, on a best-efforts basis.

We laud companies that have chosen to adopt the principles of the AIC Code. Although we recognise that a proportionate approach is needed when engaging with smaller and medium sized companies, there is a growing body of evidence that demonstrates that strong corporate governance can lead to better performing companies. Conversely, poor ESG risk management, no matter the size of the company, can lead to corporate failings and the destruction of value.

Given the growing scrutiny on poor governance as well as increased pressure from investors and proxy advisors, a failure to align with this code poses serious reputational, financial and operational risks. We believe a focus on corporate governance is important for these companies as they continue to develop and mature. Further, evolving a more advanced approach to managing governance risks will likely improve the financial prospects of the company and bolster its reputation with markets.

We are writing to investment companies to stress the importance of meeting the demands of the new 2024 AIC Code – which will largely apply in respect of financial years beginning on or after 1 January 2025 – and best practice expectations for investment companies.

We also wish to use this opportunity to draw particular attention to several key areas of corporate governance. In the spirit of 'comply or explain', we have asked for a detailed explanation from the respective Board if the respective company does not currently meet any or all these key areas of governance:

- **Board independence, quality, and effect**: We believe it is crucial that the Board be truly independent from the investment management; this is particularly important for ensuring effective discount management. As such, we would welcome enhanced disclosure from the Board on how it is independent of investment managers and how it is acting in the best interests of shareholders. In addition to this, we

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expect the Board to ensure that directors have the correct skillsets and experience, with sufficient qualities that are reflective of the strategy of the trust.
- **Diversity:** we expect the Boards of FTSE 350 companies to align with the FCA Listing Rules on diversity, namely the requirement that at least 40% of the board should be women, at least one of the senior board positions (Chair, Senior Independent Director (SID), Audit Committee Chair, Remuneration Committee Chair and Chairs of other permanent sub-committees (which we also deem as a senior position) should be a woman and at least one member of the board should be from an ethnic minority background.
- **Over-boarding**: We use ISS' analysis of director roles at quoted companies as a starting point. We then conduct additional research to ensure we capture all executive and non-executive responsibilities roles at unquoted companies and NGOs, including advisory roles. We expect companies to provide a clear list of external responsibilities held by directors at listed and unquoted companies and to disclose the expected time and capacity commitments for each of the roles.
- **Tenure**: We expect the tenure of directors to be limited to nine years and any extension beyond this to be accompanied by detailed explanation as to how this aligns with the best interests of shareholders. We also wish to see succession planning clearly laid out and defined, as Board composition rotates and evolves over time.
- **Director fees**: We expect any increase in fees to be accompanied by a detailed explanation and to be aligned with an uplift in responsibilities and more stretching responsibilities. We will struggle to support increases undertaken purely following a benchmarking exercise. However, where benchmarking has been used, we will review the absolute fee level to ensure that this has been set appropriately.

Given the importance of such checks and balances in aligning the interests of management and shareholders, we will consider voting against management at a company's next AGM if the respective Board continues to fall below recognised best practice as prescribed in the new AIC Code and the additional standards we expect of our investee companies. We will look to hold all investment companies within our investment universes, to this standard of best practice, in a consistent way.

If you would like to know more or have any questions, please do contact Stewardship@rathbones.com

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