

Quilter Cheviot Expectations for Investment Trust Boards Points for Company Secretaries and Directors to consider

On 5 September 2023 Quilter Cheviot published the outcome of their long-term engagement focused on investment trusts investing in equities. They have clearly stated their expectations as investors, grouped under three main categories:

- Board composition
- Board effectiveness
- Responsible investment disclosures

Quilter Cheviot may not be a shareholder in your investment trust and as Annabel Brodie-Smith of the AIC noted, some directors may disagree with their conclusions, however the AIC Code requires boards to have effective engagement with their shareholders and understand major shareholders views on governance¹. Therefore, it would be valuable for boards to consider the points raised by such a significant shareholder in the investment trust world, if for no other reason than to be able to clearly explain their rationale for disagreeing.

Below is a list of points and questions for company secretaries to consider raising with their boards as appropriate to help directors think about and address the items raised in the Quilter Cheviot report.

Board composition

Independence

If a director has been appointed by or is employed by the investment advisor, the Board should formally re-consider if this is still appropriate. If it is deemed it is, clear rationale as to the Board's decision as to why is it necessary and how potential conflicts of interest are managed should be provided in the annual report.

Succession plan

"Succession planning should be managed on an ongoing basis – we regard an inability to do so as a governance failure."

Review the succession plan, does it achieve a refreshment of the board so that:

- no director serves more than nine years;
- there are at least 40% of female directors at all times;
- the Parker Review ethnic minority target is met; and
- local (Guernsey/Jersey as appropriate) director requirements are met?

Does it avoid "tenure cliffs", where multiple directors leave the board at the same time?

Review the skills matrix

- Is there a mix of skill sets?
- Does it contain complementary skills (i.e. marketing)?
- Does a director have experience in the investment strategy of the investment trust?

Tenure

¹ Principle D and Provision 3

For directors who have served longer than nine years, is there a limit on their tenure and are succession plans in place? This should be clearly stated in the annual report.

Director recruitment process

Review the director recruitment process, how heavily is the manager involved? (*The strong and clearly stated preference that they should sense checklist the short list of names only.*)

Does the process access a wide pool of candidates?

Ensure any external search agency engaged is identified in the annual report alongside a statement about any other connection it has with the company or individual directors (AIC Code requirement).

Overboarding

Consideration should be given about disclosing directors other positions in the annual report (not just those in other publicly quoted companies) to allow shareholders to make an informed assessment about a director's time commitments.

If a director has not been able to attend a board or committee meeting have the mitigating circumstances as to why been clearly provided in the annual report?

Board effectiveness

Communication

How often and via what method is the board seeking engagement with its shareholders?

Skin in the game

Is there a policy requiring directors to hold a minimum number of shares in the company? If it is not deemed appropriate, consideration should be given to explaining why and if applicable, why some directors do not hold company shares, in the annual report.

External board evaluations

How should the external board evaluation be conducted, via questionnaire or interviews? (*The strong preference indicated being for interview based, despite the significant cost compared to questionnaire based.*)

Should views of significant shareholders, alongside the other stakeholders and third-party providers, be sought as part of the board evaluation?

Ensure the external evaluator is identified in the annual report and a statement made about any other connection it has with the company or individual directors. (AIC Code requirement).

Responsible investment disclosures

Is reporting given at the investment trust level rather than the manager's firm level?

Does the voting record provided to shareholders also include the rationale and the engagement behind the voting decision?

Has the investment manager/adviser signed up to the Principles for Responsible Investment and UK Stewardship code, where appropriate? If not is there a clear timeline for them to do so?

How are ESG factors integrated within the investment process?

Does the board feel they have been sufficiently briefed on the constantly evolving responsible investment regulatory environment?

Other considerations

Gearing

If gearing is in place but not being used, consideration should be given as to explaining in the annual report why this is valid cost that should be borne.

Marketing

Is the company's website as engaging as it could be? Does it appeal to new (younger) shareholders?

Is there sufficient engagement with the broker platforms?

Disclosure of holdings

If an equity trust, are all holdings disclosed on a regular basis?