

# Corporate Governance Statement

## Corporate Governance Statement

The board has considered the principles and recommendations of the AIC Code of Corporate Governance 2015 (“AIC Code”) and been guided by the AIC Corporate Governance Guide for Investment Companies (“AIC Guide”). Both documents can be found on the AIC website [www.theaic.co.uk](http://www.theaic.co.uk). As confirmed by the Financial Reporting Council, following the AIC Corporate Governance Guide enables investment company boards to meet their obligations under the UK Corporate Governance Code and Listing Rules. The company has complied with the recommendations of the AIC Code and the relevant provisions of UK Corporate Governance Code (“UK Code”), except in relation to the UK Code provisions relating to: the role of the chief executive; executive directors’ remuneration; and the remuneration committee. For the reasons set out in the AIC Guide, and in the preamble to the UK Code, the board considers these provisions are not relevant to the company as it is an externally managed investment company. The company has therefore not reported further in respect of these provisions.

AIC Code Principles	How the principles are applied
<b>THE BOARD</b>	
<p><b>1</b> The chairman should be independent.</p>	<p>Simon Fraser joined the board as a non-executive director in August 2009 and he has been Chairman of the company since May 2010. The board, under the leadership of the Senior Independent Director, Sybella Stanley, formally reviews the Chairman each year and it considers that Simon Fraser is independent both in character and in judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement.</p> <p>The Senior Independent Director can provide a sounding board for the Chairman and serve as an intermediary for the other directors when necessary.</p>
<p><b>2</b> A majority of the board should be independent of the manager.</p>	<p>The board is composed of five non-executive directors and all are considered to be independent of the manager. None of the directors has any former association with the manager and each is considered to be independent in character and judgement.</p>
<p><b>3</b> Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.</p>	<p>All directors will stand for re-election at each annual general meeting.</p> <p>The board reviews the composition of the board and board committees every year. Further information on the activities of the nomination committee is on page 39 of the Annual Report for the year ended 31 January 2017.</p>
<p><b>4</b> The board should have a policy on tenure, which is disclosed in the annual report.</p>	<p>Directors’ appointments are reviewed annually. No director has a contract of service and a director may resign by notice in writing to the board at any time. A performance review of the board and the individual directors is conducted annually.</p> <p>The company has chosen to comply with the AIC Code principle concerning the annual re-election of all directors.</p> <p>The board aims to refresh its composition from time to time; one new director was appointed on 1 November 2016 and one director retired on 31 January 2017.</p>

## AIC Code Principles

## How the principles are applied

<b>5</b>	There should be full disclosure of information about the board.	The directors' biographies, as set out on page 34 of the Annual Report, demonstrate a breadth of investment, industrial, commercial and professional experience and expertise.
<b>6</b>	The board should aim to have a balance of skills, experience, length of service and knowledge of the company.	The composition and balance of the board is continuously under review and these matters are taken into account as part of every recruitment process.
<b>7</b>	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	In order to review the effectiveness of the board, the committees and the individual directors and the Chairman, a thorough appraisal process has been carried out using questionnaires and interviews. The report from this evaluation is used by the board for identifying any areas for improvement in the operation and performance of the board and its committees, together with the contribution of individual directors, as well as making the most of and developing individual and combined strengths.
<b>8</b>	Director remuneration should reflect their duties, responsibilities and the value of their time spent.	The directors' remuneration report is published on pages 48 to 50 of the Annual Report.
<b>9</b>	The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.	The nomination committee, composed of all the independent directors and therefore the full current board, considers the recruitment of new directors, and all directors will meet a shortlist of candidates. As part of the most recent recruitment process, consultants were appointed to draw up a shortlist to include as wide a spectrum of candidates as possible, including taking gender into account.
<b>10</b>	Directors should be offered relevant training and induction.	When a new director is appointed there is an induction process carried out by the manager. Directors are provided, on a regular basis, with key information on the company's regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the board as they arise.
<b>11</b>	The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.	This principle does not currently apply to the company as it is a long established investment company.

**AIC Code Principles**

**How the principles are applied**

<b>BOARD MEETINGS AND THE RELATIONSHIP WITH THE MANAGER</b>		
<b>12</b>	Boards and managers should operate in a supportive, co-operative and open environment.	The board met six times in the year and also held its annual strategy meeting. Representatives of the manager, including senior executives of the management company and the investment managers, together with the Company Secretary, attend every meeting and other investment professionals and marketing executives join the meetings from time to time. The Chairman encourages participation and discussion at the meetings.
<b>13</b>	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.	Full investment and performance reports are received and discussed at every board meeting and matters such as gearing, asset allocation, marketing and investor relations, peer group information and industry issues are all matters that are covered by the agenda.
<b>14</b>	Boards should give sufficient attention to overall strategy.	The board conducts a formal strategy review each year and continues to monitor the matters discussed throughout the year.
<b>15</b>	The board should regularly review both the performance of, and contractual arrangements with, the manager.	The management engagement committee considers the performance of the manager and the contractual terms of engagement. Further information on the activities of the committee are on page 39 of the Annual Report.
<b>16</b>	The board should agree policies with the manager covering key operational issues.	The investment management agreement covers the provision of operational matters and the board discusses with the manager and agrees policies concerning key operational matters such as corporate governance issues and voting in respect of portfolio holdings, performance reporting methodology including matters such as benchmarking, gearing, share issues, share buy backs and investment restrictions.
<b>17</b>	Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	The share price is monitored and the net asset value is reported on a daily basis. The board receives reports on these issues at each board meeting. The company has taken powers to issue limited numbers of shares in certain circumstances. The company also has a share buy back programme which includes in its aims the intention to reduce discount volatility.
<b>18</b>	The board should monitor and evaluate other service providers.	The audit committee receives and considers internal controls reports from third party service providers and the manager and Company Secretary report to the committee on their monitoring and evaluation of these services.

## AIC Code Principles

## How the principles are applied

SHAREHOLDER COMMUNICATIONS		
19	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.	The Chairman works with the manager to ensure that there is effective communication with the company's shareholders. There is a process for monitoring and analysing the shareholder register and this is reported at each board meeting. Visits to institutional shareholders and private client brokers are offered and carried out in a rolling programme. There is an opportunity for shareholders to meet and communicate with the directors and managers at the company's annual general meeting, at which the portfolio manager gives a presentation. The Senior Independent Director provides another point of contact for shareholders.
20	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.	The board, or a committee of the board, reviews all major communications by the company.
21	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.	The board agrees with the manager every year a budget for and programme of marketing activity to communicate with investors and to reach a wider audience. In addition to the annual and half-yearly reports, both of which are sent to all shareholders and those others who have registered to receive them, the company publishes online and makes available in hard copy a monthly factsheet and publishes daily on its website ( <a href="http://www.merchantstrust.co.uk">www.merchantstrust.co.uk</a> ) the net asset value of the company's shares and many other details of interest to investors.