

## Audit Committee Terms of Reference

### CONSTITUTION

1. The Audit Committee (the "**Committee**") shall consist of a minimum of 2 members of the board of the Company (the "**Board**") who shall be appointed by the Board on the recommendation of the Remuneration and Nomination Committee in consultation with the Chair of the Committee provided that membership of the Committee shall be confined to independent non-executive directors. If the Board decides that the entire Board should fulfil the role of the Committee, it will need to explain why it has done so. The chair of the Board may be a member of the Committee if they were independent on appointment but may not act as the chair of the Committee.
2. The Chair of the Committee shall be appointed by the Board which shall determine the period for which they shall hold office. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chair of the Committee shall be paid a fee in recognition of the additional duties involved.
3. Appointments to the Committee shall be for a period for up to three years, which may be extended for up to two additional three-year periods, provided the members continue to be independent.
4. Members of the Committee may attend meetings of the Committee in person or through the medium of conference telephone or similar form of communication equipment, provided that all persons participating in the meeting are able to hear and speak to each other throughout such meeting.
5. Only members of the Committee have the right to attend Committee meetings. However, others may be invited to attend meetings of the Committee on a regular basis (for example, the external auditors) and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
6. A representative of the Company Secretary or its nominee shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
7. At least one member of the Committee should have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
8. The members of the Committee shall have such experience as is required under the AIC Code of Corporate Governance (the "**AIC Code**") and chapter 7.1 of the FCA's Disclosure Guidance and Transparency Rules. The Committee as a whole must have competence relevant to the sector in which the Company invests. The requirements for independence, financial experience and competence may be satisfied by the same members or different members of the Committee.
9. The quorum for decisions of the Committee shall be any 2 members.

## **ROLE**

**10.** The Committee should carry out the duties below for the Company, major subsidiary undertakings and the group as a whole, as applicable and appropriate.

### **10.1 Financial reporting**

**10.1.1** The Committee shall monitor the integrity of the financial statements of the Company including its annual and half-yearly reports and any other formal announcements relating to its financial performance and reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the external auditor. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

**10.1.2** The Committee shall review and challenge where necessary:

- (a) the application and consistency of, and any changes to, significant accounting policies both on a year on year basis and (as applicable) across the Company's group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has adopted appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the auditor;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- (e) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement including an assessment of the prospects of the Company and the Group looking forward over an appropriate and justified period. The Committee shall also review the position and make recommendations to the Board in relation to viability assessment and related disclosures in the Company's annual report. In making its recommendations, the Committee will take into account the Company's current position and principal risks. The Committee will make recommendations with regards to the explanation in the annual report as to how the Board has assessed the prospects of the Company, over what period it has done so, why it considers that period to be appropriate and whether the Board 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; and
- (f) all material information presented with the financial statements, such as the corporate governance statement relating to the audit and risk management.

**10.1.3** The Committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook and the UK version of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended (the "**UK Market Abuse Regulation**").

**10.1.4** Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

## **10.2 Narrative reporting**

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the AIC Code.

## **10.3 Internal controls and risk management systems**

The Committee shall:

- 10.3.1** keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- 10.3.2** monitor and review annually the need for an internal audit function and make an appropriate recommendation to the Board.
- 10.3.3** review and approve the statements to be included in the annual report concerning internal controls and risk management;
- 10.3.4** review and approve statements explaining how assets have been invested with a view to spreading investment risk;
- 10.3.5** liaise with the Board and ensure that other statements regarding the Company's Investment Manager, including relevant details of its remuneration and appointment and its continued appointment are, included in the annual report;
- 10.3.6** where requested by the Board, ensure that a robust assessment of the principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or liquidity) and provide advice on the management and mitigation of those risks;
- 10.3.7** where requested by the Board, provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue

in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary; and

- 10.3.8** ensure that the annual report includes:
- (a) the full text of the Company's published investment policy;
  - (b) a detailed and meaningful analysis of the Company's investment portfolio; and
  - (c) a summary of the valuation of its portfolio made in accordance with the Listing Rules published by the Financial Conduct Authority.

#### **10.4 Compliance, whistleblowing and fraud**

The Committee shall:

- 10.4.1** review the adequacy and security of the Company's arrangements for its directors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action;
- 10.4.2** review the Company's procedures for detecting fraud;
- 10.4.3** review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 10.4.4** review the adequacy and effectiveness of the Company's policies and procedures for the prevention of the facilitation of tax evasion for the purposes of all applicable criminal facilitation of tax evasion laws and regulations of England and Wales (including the Criminal Finances Act 2017) and of any foreign jurisdiction in which the Company or its group operates and receive reports on any non-compliance with such policies or procedures;
- 10.4.5** keep under review the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- 10.4.6** keep under review the adequacy and effectiveness of the Company's compliance function.

#### **10.5 External audit**

The Committee shall:

- 10.5.1** consider and make recommendations to the Board, to be put to shareholders for approval at the Company's annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor and the approval of the remuneration and terms of engagement of the external auditor. If the Board does not accept the Committee's recommendation(s), the Committee shall prepare a statement for inclusion in the Company's annual report, and in any papers recommending appointment or re-appointment, explaining the recommendation and setting out the reasons why the Board has taken a different position.
- 10.5.2** ensure that the audit services' contract is put out to tender such that the Company complies with the permissible period of tenure and the selection procedure set out in

s.489A of the Companies Act 2006. The Committee is responsible for organising the selection process for a new external auditor and must select at least two potential audit firms to be put forward to the Board, expressing a preference for one of them (and giving reasons for the preference identified). The Committee shall ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;

- 10.5.3** if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 10.5.4** develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant 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. The policy should include consideration of the following matters:
  - 10.5.4.1** threats to the independence and objectivity of the external auditor and any safeguards in place;
  - 10.5.4.2** the nature of the non-audit services;
  - 10.5.4.3** whether the external audit firm is the most suitable supplier of the non-audit service;
  - 10.5.4.4** the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - 10.5.4.5** the criteria governing compensation;
- 10.5.5** oversee the relationship with the external auditor including (but not limited to):
  - (a) approval of their remuneration, whether fees for audit and non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - (b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (c) assessing annually their independence and objectivity taking into account relevant UK law, professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
  - (d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company or the Investment Manager (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity (including satisfying itself that the auditor is not conflicted by any work carried out by it for the Investment Manager and that any potential conflict of interest has been satisfactorily resolved);
  - (e) agreeing with the Board a policy on the employment by the Investment Manager of former employees of the Company's auditor and monitoring the implementation of this policy;

- (f) monitoring the external auditor's compliance with the relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- (g) assessing annually the qualifications, expertise and resources of the external auditor, and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (h) seeking to ensure co-ordination with the appointed administrator;
- (i) considering the risk of the withdrawal of the Company's present external auditor from the market; and
- (j) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their external auditor from the market in that evaluation;

**10.5.6** meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without any representatives of the Investment Manager being present, to discuss the auditor's remit and any issues arising from the audit;

**10.5.7** review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and

**10.5.8** review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

- (a) a discussion of any major issues which arose during the audit;
- (b) key accounting and audit judgements;
- (c) levels of errors identified during the audit; and
- (d) the effectiveness of the audit process.

**10.5.9** The Committee shall also:

- (a) review any representation letter(s) requested by the external auditor before they are signed;
- (b) review the management letter and management's response to the auditor's findings and recommendations; and
- (c) develop and implement a policy on the supply of non-audit services by the auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter 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.

## **10.6 Reporting responsibilities**

- 10.6.1** All decisions of the Committee shall be reported formally to the Board by the Committee Chair.
- 10.6.2** The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. All decisions on recommendations referred to the Board shall take effect only upon approval thereof by resolution of the Board, at a meeting which is properly convened and constituted and in accordance with the Company's articles of association.
- 10.6.3** The Committee Chair shall also formally report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 10.1.1) and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process (required under paragraph 10.5.5(g)), the approach taken to the appointment or reappointment of the external auditor, together with information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - (c) any other issues on which the Board has requested the Committee's opinion.
- 10.6.4** The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.6.5** The Committee shall compile a report on its activities in discharging its responsibilities to be included as a separate section in the Company's annual report. The report should include an explanation of the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed; an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor; information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any re-tendering plans; and if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safe-guarded, and all other information requirements set out in the UK Corporate Governance Code and/or the AIC Code.
- 10.6.6** In compiling the reports referred to in paragraphs 10.6.3 and 10.6.5, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
- 10.6.7** Through the Chair of the Board, the Committee shall ensure that the Company maintains contact as appropriate and required with its principal shareholders in respect of audit and financial issues.

## **10.7 Other matters**

The Committee shall:

- 10.7.1** be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 10.7.2** give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the AIC Code and the requirements of the FCA's Listing Rules, Prospectus Regulation Rules, Disclosure Guidance and Transparency Rules and the UK Market Abuse Regulation and any other applicable rules, as appropriate;
- 10.7.3** be responsible for co-ordination with external auditors;
- 10.7.4** oversee any investigation of activities which are within its terms of reference;
- 10.7.5** work and liaise as necessary with all other Board committees; and
- 10.7.6** arrange for periodic reviews of its own performance and, at least annually, review its constitution and these terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

## **PROCEDURE**

- 11.** The Committee shall meet at least twice each year at appropriate intervals in the financial reporting and audit cycle and at such other times as the Chair of the Committee or other Committee member shall require. The Company's external auditors, the Company's Chair and the Company's Investment Manager may attend and speak at meetings of the Committee at the invitation of the Committee. The Company's external auditor may request a meeting if they consider it necessary.
- 12.** At least 5 working days' notice of any meeting of the Committee shall be given at the request of the Committee Chair or any of the Committee's members, although such notice period may be waived or shortened with the consent in writing of all the members of the Committee for the time being. Notice of the meeting shall confirm the venue, time and date together with an agenda of items to be discussed. Notice shall be sent to each member of the Committee and any other person required to attend. Supporting papers shall be sent to Committee members and to other attendees as appropriate at the same time. Formal meetings of the Committee may be held by telephone or other communication equipment which allows those participating to hear and speak to each other and the quorum in that event shall be any two Committee members so linked.
- 13.** Outside of the formal meeting programmes, the Chair of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chair and the external audit lead partner.
- 14.** The Company Secretary (or its delegate) or such other person as the Board may determine from time to time shall be the secretary of the Committee.
- 15.** The secretary of the Committee (or its delegate) shall attend meetings of the Committee to take minutes.



16. In the absence of the secretary of the Committee, the members present at the meeting of the Committee shall elect another person to act as the secretary for the purposes of that meeting.
17. The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The relevant member of the Committee shall not be counted towards the quorum and they must abstain from voting on any resolution of the Committee in which they and/or their associates have a material interest.
18. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
19. The secretary shall minute the proceedings, discussions and decisions of all meetings of the Committee, including recording the names of those present and in attendance and any conflicts of interest.
20. Draft minutes of the meeting of the Committee shall be circulated to all members of the Committee and, once agreed, to the Board unless, exceptionally, it would be inappropriate to do so in the opinion of the Committee Chair.
21. Once agreed, minutes of the Committee meetings shall be kept by the secretary of the Committee and shall be available for inspection by any member of the Committee or Director at any reasonable time on reasonable notice.
22. The Chair of the Committee shall attend the Company's Annual General Meeting prepared to respond to any shareholder questions on the Committee and its activities and responsibilities. In addition, the Committee Chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.
23. All members of the Committee shall have access to sufficient resources in order to carry out its duties, including access to the advice and services of the secretary of the Committee with a view to ensuring that procedures of the Committee and all applicable rules and regulations are followed.
24. Every member of the Committee shall give sufficient time and attention to their duties as a member of the Committee. They shall give the Company the benefit of their skills and expertise through regular attendance and active participation.

#### **AUTHORITY**

- 26.1 The Committee is authorised to:
- 26.2 seek any information it requires from any member of the Board and/or any director or employee of the Investment Manager in order to perform its duties;
- 26.3 investigate and review any matter within its terms of reference and consider any matter the Committee deems relevant to the discharge of its duties;

- 26.4** obtain, following approval by the Chair of the Company, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so within its terms of reference;
- 26.5** call on the Investment Manager or any other service provider engaged by the Company from time to time, to be questioned at a meeting of the Committee as and when required; and
- 26.6** have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

The Committee shall ensure that the Terms of Reference for the Committee are generally available upon request or on the Company's website.

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