



MANCHESTER AND LONDON INVESTMENT TRUST PLC

AUDIT COMMITTEE TERMS OF REFERENCE

1. PURPOSE

The Committee is appointed by the Board to review the Company's financial reporting, internal control and risk management policies and systems, internal and external audit functions, and other procedures, with the relevant principles of the AIC Code of Corporate Governance as amended in July 2016.

2. MEMBERSHIP, SECRETARY AND QUORUM

2.1 The Committee is appointed by the Board and comprises of three members, one of whom shall act as Chairman of the Committee. Other individuals, such as external advisers (including, and in particular, the Company's external auditors), may be invited to attend Committee meetings as and when appropriate and necessary;

2.2 In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting;

2.3 The Company Secretary or their nominee shall act as the Secretary of the Committee;

2.4 The quorum necessary for the transaction of business shall be two.

3. MEETINGS AND MINUTES

3.1 The Committee shall meet at least twice a year at appropriate times in the Company's reporting and audit cycle, in conjunction with the consideration of the annual and interim results of the Company, and otherwise as required.

3.2 The secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance;

4. DUTIES

4.1 Financial reporting

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain.

In particular, the Committee shall review and challenge where necessary:

4.1.1 The consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company;

4.1.2 The methods used to account for significant or unusual transactions where different approaches are possible;

- 4.1.3 Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 4.1.4 The basis on which the Company has been determined as a going concern;
- 4.1.5 For the purposes of the viability statement:
- (i) The principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and how they are managed or mitigated;
 - (ii) The prospects of the Company over such a period deemed appropriate (but longer than 12 months);
 - (iii) To determine, and report to shareholders in the annual report, 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 period of assessment.
- 4.1.6 The clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- 4.1.7 All material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to audit and risk management).

4.2 **Investment Valuation and Revenue Recognition**

The Committee shall consider the issues of investment valuation and revenue recognition by regularly reviewing the investment valuations and reports of the Investment Manager.

4.3 **Compliance with the Alternative Investment Fund Managers' Directive ("AIFMD")**

The Committee shall review on-going compliance with the Alternative Investment Fund Managers' Directive and the Company's on-going partial exemption.

4.4 **Narrative Reporting**

Where requested by the Board, the Committee shall review the content of the annual report 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.

4.5 **Internal Controls and Risk Management Systems**

The Committee shall, as appropriate given the nature of the Company:

- 4.5.1 Keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures with respect to the Company's record keeping, asset management and operations for the identification, assessment and reporting of risks;
- 4.5.2 Review the Company's statement on internal control systems, prior to endorsement by the Board, and the policies and process for identifying and assessing business risks and the management of those risks by the Company.

4.6 **Compliance, Whistleblowing and Fraud**

The Committee shall review compliance, whistleblowing and fraud detection procedures from service providers.

4.7 Internal audit

The Committee shall periodically assess the adequacy of the control policies and procedures of the internal audit function, for which the Administrator is responsible.

4.8 External audit

The Committee shall:

- 4.8.1 Consider and make recommendations to the Board, to be put to shareholders for approval at general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and, if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- 4.8.2 Oversee the relationship with the external auditor, including (but not limited to):
- (i) Making recommendations of their remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (ii) Ensuring that the Company's external auditors' contract is put out to competitive tender at least every ten years with the proviso that no single firm may serve as the Company's auditor for a period exceeding 20 years;
 - (iii) Approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iv) Assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - (v) Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
 - (vi) Monitoring the auditor's compliance with 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;
 - (vii) Assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures.
- 4.8.3 Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage;
- 4.8.4 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 4.8.5 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (i) A discussion of any major issues which arose during the audit;
 - (ii) Any accounting and audit judgements;
 - (iii) Levels of errors identified during the audit;

- (iv) The effectiveness of the audit.

The Committee shall also:

- 4.8.6 Review any representation letter(s) requested by the external auditor before they are signed by the Board;
- 4.8.7 Review any response from the Board as to the auditor's findings and recommendations;
- 4.8.8 Develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

5. REPORTING RESPONSIBILITIES

- 5.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and how it has discharged its responsibilities and make whatever recommendations to the Board it deems appropriate on any area within its remit;
- 5.2 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

6. OTHER MATTERS

The Committee shall:

- 6.1 Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance and independent professional advice at the expense of the Company as required;
- 6.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 6.3 Give due consideration to the provisions of the UK Corporate Governance Code (and if applicable, the AIC Code of Corporate Governance) and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other Applicable Laws, as appropriate;
- 6.4 Supervise the Company's policy in respect of tax planning and the financing of the Company;
- 6.5 Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

7. APPROVAL

- 7.1 These terms of reference were approved by the Committee on 27 September 2016 and adopted by the Board on 27 September 2016.