

LMS CAPITAL PLC

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

(Approved at a meeting of the board of directors held on 8 March 2018)

Membership and Secretary

1. **Composition** The audit committee members shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the audit committee. The appointments shall be made in accordance with the Company's articles of association. The committee shall comprise at least two members, all members of the committee shall be independent non-executive directors of the Company.
2. **Financial experience** At least one committee member shall have recent and relevant financial experience. The committee as a whole should have competence relevant to the sector in which the company operates.
3. **Chairman** The chairman of the audit committee shall be appointed by the board. In the absence of the chairman of the audit committee, the members present at any meeting of the committee shall elect one of their number to chair the meeting.
4. **Secretary** The Company Secretary or their nominee shall be the secretary of the audit committee.

Meetings

5. **Attendance** No one other than the audit committee chairman and members of the audit committee is entitled to be present at a meeting of the audit committee. The audit committee chairman and members shall, however, have the discretion to decide who else shall be invited to attend.
6. **External auditors and others** It is expected that the external audit lead partner will be invited regularly to attend meetings. At least once a year, the audit committee shall meet with the external auditors, without management

present, to discuss matters relating to its remit and any issues arising from the audit.

- 7. Informal dialogue** Outside of the formal meeting programme, the committee chairman, and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the company's governance, including the board chairman, the Investment Manager and the Company Secretary.
- 8. Frequency** The audit committee chairman, in consultation with the Company Secretary, shall decide the frequency and timing of the audit committee's meetings. In any event, meetings shall be held not less than twice a year. A meeting shall be held as soon as reasonably practicable on request for such meeting by the Company's external auditors.
- 9. Quorum** The quorum for meetings of the audit committee shall be two members present throughout the meeting.
- 10. Notice** Meetings of the committee shall be convened by the secretary of the committee at the request of any of its members or at the request of the external audit lead partner. The secretary should ensure that notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers, where appropriate, shall be forwarded to each member of the audit committee in a timely manner to enable full and proper consideration to be given to the issues.
- 11. Minutes** The secretary shall prepare minutes of any meeting of the audit committee, recording the proceedings, resolutions and the names of those present and in attendance. Minutes of committee meetings shall be circulated promptly to members and, after approval by the chairman of the audit committee, to all other directors, unless it would be inappropriate to do so in the opinion of the committee chairman.

Authorities

- 12. Resources** The audit committee should be provided with sufficient resources to undertake its duties.

13. **Advice** The audit committee is authorised by the board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, if it reasonably considers this necessary, at the Company's expense. The audit committee shall have access to the external auditors as required.
14. **Support** The audit committee shall have access to the services of the Company Secretary on all audit committee matters, including (but not limited to) assisting the chairman in planning the audit committee's work, drawing up meeting agendas, preparation and maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support.
15. **Investigation** The audit committee is authorised by the board to investigate any activity within the scope of its duties and to intervene if the committee considers it appropriate and if the board instructs it to do so.
16. **Information** The audit committee is authorised to seek any information it requires from any employee of the group.
17. **Reports** The audit committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfill its obligations.

Duties

18. The committee should have oversight of the group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole.
 - (a) **General**
 - (i) **Shareholder interests** to ensure the interests of the shareholders are properly protected in relation to financial reporting and internal control;
 - (ii) **Financial controls** to satisfy itself that there is a proper system and allocation of responsibilities for the day-to-day monitoring of

financial controls; and

- (iii) **Subsidiaries** to review issues that relate to particular subsidiaries or activities carried on by the group.

(b) External Auditors

- (i) **Appointment and removal** to oversee the process for selecting the external auditors and make appropriate recommendations to the board, to be put to shareholders for their approval in general meeting regarding the appointment, re-appointment or removal of the external auditors;
- (ii) **Remuneration** to approve the remuneration payable to the external auditor in respect of both audit fees and any fees which are payable to them in relation to non-audit services;
- (iii) **Terms of Engagement** to approve the terms of engagement of the external auditor;
- (iv) **Committee recommendation** if the board does not accept the audit committee's recommendation on the appointment, re-appointment or removal of external auditors, to prepare a statement explaining the committee's recommendation which shall be included in the annual report and in any papers recommending appointment or re-appointment together with the board's reasons for taking a different position;
- (v) **Auditor meetings** to meet with the external audit lead partner and other audit partners and staff as required and in accordance with paragraph [] above;
- (vi) **Expertise** to assess annually the qualification, expertise and resources, and independence of the external auditor and the effectiveness of the audit process. The assessment should cover all aspects of the audit service provided by the audit firm and include obtaining a report on the audit firm's own internal quality

control procedures;

- (vii) Resignation** if the external auditor resigns, to investigate the issues leading to such resignation and to consider whether any action is required;
- (viii) Engagement letter** to review and agree the engagement letter with the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year;
- (ix) Audit scope** to discuss with the external auditors before the audit commences, and keep under review, the scope and results of the audit; to arrange for additional work to be undertaken if the scope is not adequate; review whether the level of fee payable is appropriate for the provision of those services; and ensure co-ordination where more than one audit firm is involved;
- (x) Independence** to monitor the application of the Company's policy in relation to the external auditor's independence, objectivity and the effectiveness of the audit process. This should be done annually on the basis of the policy, taking into consideration relevant professional and regulatory requirements;
- (xi) Non-audit services policy** to develop and implement a policy on the provision of non-audit services by the external auditor, taking into account relevant ethical guidance; to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken (so as to ensure that the provision of such services does not impair the external auditor's independence and objectivity);
- (xii) Annual audit plan** to be prepared at the start of each annual audit cycle, to ensure that appropriate plans are in place for the audit;
- (xiii) Review work plan** to consider the auditor's work plan for the

annual and any interim audit and proposed resources in light of the scope of the audit;

(xiv) Monitor audit programme to monitor the planned programme of audits and to ascertain the reason for any change or delay in the programme;

(xv) Review audit findings to review with the external auditor (in the absence of management if necessary) the results of its work in conducting the annual and any interim audit, including:

(A) any major issues that arose during the course of the audit (both resolved and unresolved issues);

(B) key accounting and audit judgements;

(C) levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditor as to why certain errors might remain unadjusted; and

(D) any reservations that the external auditor may have and other matters that it wishes to raise;

(xvi) Representation letters to review the audit representation letters before signature by management, giving particular consideration to matters where representation has been requested in relation to non-standard issues; to give consideration to whether the information provided is complete and appropriate based on its own knowledge;

(xvii) Management letter to review the external auditor's management letter and review and monitor management's response to the external auditor's findings and recommendations;

(xviii) Effectiveness of audit at the end of the annual audit cycle, to

assess the effectiveness of the audit process;

(xix) Relationships with the Company to satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity; and

(xx) Former employees of the auditor to agree with the board a policy on the employment of former employees of the company's auditor, taking into account relevant professional and regulatory requirements.

(c) Internal Audit

(i) Review need for internal audit function to consider upon a change in arrangement for the management of the Company, the need for an Internal Audit function and to make a recommendation to the board.

(d) Financial Statements

(i) Integrity of financial statements to monitor the integrity of the financial statements of the Company, including any interim reports and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements contained in them having regard to matters communicated to it by the auditor focusing particularly on:

(A) Significant policies considering significant accounting policies, any changes to them and any significant estimates and judgements;

(B) Appropriate accounting treatment where the accounting treatment is open to different approaches, considering whether the Company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements, taking into account the external auditor's

view;

(C) Disclosures reviewing the clarity and completeness of disclosures in the financial statements and considering whether the disclosures made are set properly in context [and review such matters necessary to maintain the Company's investment trust status from a taxation perspective and other taxation issues as appropriate];

(D) Adequacy of financial reporting where, following its review, the audit committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the board; and

(E) Review related information reviewing related information presented with the financial statements, including the operating and financial review (if any), and corporate governance statements relating to audit and risk management, as well as assess and evaluate the Company's future prospects and the statement to be made on viability.

(F) 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 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 UK Corporate Governance Code.

(e) Internal Control and Risk Management

(i) The Investment Manager is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for

providing assurance to the board that it has done so. The committee is responsible for reviewing reports received from the investment manager on the effectiveness of the internal control and risk management systems and making recommendations to the board.

- (ii) **Review systems** to review the Company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks) and to review the Group's internal control and risk management systems;
 - (iii) **Whistleblowing** to review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so as to ensure that arrangements are in place for the proportionate and independent investigation of such matters, and for appropriate follow-up action;
 - (iv) **Fraud** to review the company's procedures for detecting fraud;
 - (v) **Bribery** to review the company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
 - (vi) **Internal investigations** to consider the major findings of internal investigations and management's response.
- (f) **The Investment Manager**
- (i) The Board may request assistance from the Audit Committee in evaluating the performance of the Manager.
- (g) **Reporting Responsibilities**
- (i) **Going concern statement** to review the statement by the directors to be included in the annual accounts on the going concern status of the Company and the group and any supporting assumptions and qualifications;

- (ii) **Committee report** to assist the board by preparing a statement for inclusion in the directors' report (to shareholders as contained in the annual report) describing the roles and responsibilities of the audit committee and actions taken by the committee to discharge those responsibilities; to list the names and qualifications of the chairman and other members of the committee, the number of committee meetings and attendance by each member;
 - (iv) **Internal control statement** to produce for the board's approval the statement for inclusion in the annual report in relation to internal control and the management of risk;
 - (v) **No internal audit function** where there is no internal audit function, to set out the reasons for the absence of such a function in the relevant section of the annual report;
 - (vi) **Non-audit services** if the external auditor provides non-audit services, to provide an explanation for inclusion in the annual report of how auditor objectivity and independence is safeguarded; and
 - (vii) **Board** the chairman of the audit committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities. The chairman will identify any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.
 - (viii) **AGM** The chairman of the audit committee shall be available to answer questions about the committee's activities at the annual general meeting of the Company.
- (h) **Other**
- (i) **Auditors** to ensure co-ordination of the external auditors as appropriate;
 - (ii) **Terms of Reference** to make available these terms of reference,

(explaining the role and the authority delegated to it by the board) on request and by including the information on the Company's website;

(iii) Other matters to consider any other topics, as referred to it by the board; and

(iv) Performance review at least once a year to review its own performance, composition and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary to the board for approval.