

SMITHSON INVESTMENT TRUST PLC

(the "Company")

AUDIT COMMITTEE - TERMS OF REFERENCE

CONSTITUTION

- 1.** The Audit Committee (the "**Committee**") shall consist of a minimum of two members of the board of the Company (the "**Board**") who shall be appointed by the Board in consultation with the Chairman 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 explain why it has done so.
- 2.** The Chairman of the Committee, who shall not be the chairman of the Company, shall be appointed by the Board which shall determine the period for which he/she shall hold office. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board may be a member of, but not chair, the Committee provided he/she is independent on appointment as chairman.
- 3.** 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.
- 4.** 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.
- 5.** 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.
- 6.** The members of the Committee shall have such experience as is required under the AIC Code of Corporate Governance 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.
- 7.** The quorum for meetings of the Committee shall be any two members.

ROLE

8. The Committee should carry out the duties below for the Company as applicable and appropriate.

8.1 Financial reporting

8.2 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.

8.3 The Committee shall review and challenge where necessary:

1. the consistency of, and any changes to, significant accounting policies both on a year on year basis and (as applicable) across the Company's group;
2. the methods used to account for significant or unusual transactions where different approaches are possible;
3. whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the auditor;
4. the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
5. 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 its group looking forward over an appropriate and justified period; and
6. all material information presented with the financial statements, such as the corporate governance statement relating to the audit and risk management.

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.

8.4 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.

8.5 Internal controls and risk management systems

The Committee shall:

1. keep under review the need for an internal audit function, the Company's internal financial controls and internal control and risk management systems;

2. review and approve the statements to be included in the annual report concerning internal controls and risk management;
3. review and approve statements explaining how assets have been invested with a view to spreading investment risk;
4. 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;
5. 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
6. 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.

8.6 Compliance, whistleblowing and fraud

The Committee shall:

1. review the Company's policies for the prevention of bribery and receive reports on non-compliance;
2. review 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;
3. review the Company's policies for anti-money laundering and receive reports on non-compliance; and review the Investment Manager's whistleblowing policy.

8.7 External audit

The Committee shall:

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. 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;
2. if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
3. oversee the relationship with the external auditor including (but not limited to):
 - a) approval of their remuneration, including fees for audit and non-audit services and assessing whether the level of fees is appropriate to enable an adequate audit to

- be conducted and whether the level of such remuneration is in accordance with the relevant requirements;
- 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; and
 - 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.
4. 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;
 5. 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
 6. 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.
 7. 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.

8.8 Reporting responsibilities

1. All decisions of the Committee shall be reported formally to the Board by the Committee Chairman.
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.
3. Through the Chairman 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.

8.9 Other matters

The Committee shall:

1. have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
2. 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;
3. give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the AIC Code of Corporate Governance and the requirements of the FCA's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
4. be responsible for co-ordination with external auditors;
5. oversee any investigation of activities which are within its terms of reference;
6. work and liaise as necessary with all other Board committees; and
7. arrange for periodic reviews of its own performance and 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.

PROCEDURE

9. 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 Chairman of the Committee or other Committee members shall require. The Company's external auditors, the Company's Chairman, the Company's investment manager and/or the Company's administrator 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.
10. Outside of the formal meeting programmes, the Chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman and the external audit lead partner.
11. The Chairman 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.
12. 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.

AUTHORITY

13. The Committee is authorised to:

1. seek any information it requires from any member of the Board and/or any director or employee of the investment manager or administrator in order to perform its duties; and
2. obtain, 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.