

THE EUROPEAN INVESTMENT TRUST PLC (the "Company")

AUDIT COMMITTEE TERMS OF REFERENCE

1. **Constitution**

The Audit Committee (the "Committee") was established by a resolution of the Board of Directors of the Company. The Committee is accountable to the Board. These Terms of Reference were approved by the Board and adopted by the Committee on 16 May 2017.

2. **Composition of the Committee**

2.1 The Committee will be established by the Board and shall comprise at least two independent Directors. At least one member of the Committee shall have competence in accounting or auditing, or both. The requirements for independence and competence in accounting and/or auditing may be satisfied by the same members or by different members of the Committee. The Committee as a whole shall have competence relevant to the investment trust sector.

2.2 The Board shall appoint the Committee Chairman who shall be an independent non-executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.

2.3 The Committee should take care to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence.

2.4 **Attendance**

Only members of the Committee shall have the right to attend Committee meetings. However, other individuals, such as members of the Board, representatives of the Alternative Investment Fund Manager (the "Manager"), Edinburgh Partners AIFM Limited, and external advisers, may be invited to attend for all or part of any meeting as and when appropriate.

2.5 **Secretary**

The Company Secretary will act as Secretary to the Committee.

2.6 **Meetings**

2.6.1 The Committee will meet at least twice a year (currently May and November) and additional meetings shall be called by the Secretary at the request of the Chairman of the Committee. A quorum shall be any two members including the Chairman of the Committee, or the Chairman's nominated delegate.

2.6.2 Meetings of the Committee shall be summoned by the Secretary at the request of any member thereof or at the request of the external auditors if they consider it necessary.

2.6.3 The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the report on the Committee's activities and matters within the scope of the Committee's responsibilities.

2.6.4 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 must abstain from voting on any resolution of the Committee in which he/she and/or his/her associates have a material interest.

2.6.5 The Secretary will ensure that the Committee members and other attendees receive information and papers no fewer than five working days prior to the date of the meeting to enable full and proper consideration to be given to the issues.

3. Background

All the Directors are non-executive and the Company has no employees. Investment management and administration services are undertaken by the Manager, with the function of managing the Company's investment portfolio delegated to Edinburgh Partners Limited (together "Edinburgh Partners").

4. Responsibilities

4.1 Financial Reporting

4.1.1 The Committee will review the significant financial reporting issues and judgements made in preparing the annual and half yearly reports and related formal statements (eg summary financial statements and release of price sensitive information) and the accounting policies adopted and the contents of such documents. The Committee will also review the adequacy and scope of the external audit thereof and compliance with regulatory and financial reporting requirements, the clarity and completeness of disclosures in the financial statements, consider 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.

4.1.2 In particular, the Committee should satisfy itself that the annual and half yearly financial statements and any other significant published financial information are properly and carefully prepared, and give a fair representation of the Company's affairs.

4.1.3 The Committee shall review and report to the Board on the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements and related formal statements, having regard to matters communicated to it by the auditor, and challenge where necessary:

- a) the appropriateness, consistency of, and any significant changes to accounting policies of the Company on a year-on-year basis;
- b) the methods used to account for significant or unusual transactions where different approaches are possible;
- c) decisions requiring a major element of judgement;
- d) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- e) the extent to which the financial statements are affected by any unusual transaction;
- f) the clarity and completeness of disclosures and the context in which statements are made;
- g) the methods used to account for significant adjustments resulting from the audit;
- h) assessing the basis on which the Company had been determined as a going concern;

- i) for the purposes of the viability statement:
 - (i) assessing the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and how they are managed and mitigated;
 - (ii) assessing the prospects of the Company over such period deemed appropriate (but longer than 12 months); and
 - (iii) determining and reporting 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;
- j) compliance with accounting standards;
- k) compliance with stock exchange and other legal requirements; and
- l) all material information presented within the financial statements, such as the Strategic Report (including the Chairman's Statement and the Investment Manager's Report), the Directors' Remuneration Report and the Corporate Governance Statement (insofar as it relates to the audit and to risk management).

4.1.4 The Committee shall review the contents of the annual report and financial statements and, where requested, 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.

4.1.5 For the purpose of exercising its responsibilities, as set out above, the Committee will meet shortly before the financial statements are presented to the Board in November (annual) and May (half yearly). At these meetings, Edinburgh Partners will report any changes in accounting policy or treatment affecting the Company's report and financial statements and any other material matters. The Committee will consider whether the accounting policies adopted are appropriate.

4.1.6 The Committee shall have timely and unrestricted access to relevant documents relating to the affairs of the Company.

4.1.7 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.

4.2 **Internal Controls and Risk Management Systems**

4.2.1 The Committee is responsible for reviewing the Company's internal control and risk management systems and making recommendations to the Board.

4.2.2 The Committee will receive a statement from Edinburgh Partners on its internal corporate governance, the ISAE 3402/SSAE 16 report (or equivalent).

4.2.3 Every six months, a regulatory and operational risk report will be prepared by Edinburgh Partners and submitted to the May and November Committee Meetings. A risk assessment, prepared by Edinburgh Partners, will be submitted annually at the November Committee Meeting. If necessary, the Head of Regulatory and Operational Risk at Edinburgh Partners, or his/her deputy, will be requested to attend Committee meetings to provide a verbal

report to the Committee.

4.2.4 The Committee should review and approve the statements included in the annual report in relation to internal control and the management of risk.

4.2.5 The Committee shall report and make any necessary recommendations to the Board in relation to such policies, procedures and controls with the exception of those matters relating to the setting of investment strategies, objectives and restrictions and adherence thereto. Such matters shall remain the responsibility of the Board.

4.3 **Audit**

4.3.1 Internal

4.3.1.1 The Committee will, on an annual basis, monitor and review the need for an internal audit function and make the appropriate recommendation to the Board and explain in the annual report why such a function is not necessary, if that is the case.

4.3.1.2 The Committee will review on an annual basis the statement by the directors of Edinburgh Partners on internal corporate governance containing a report in relation thereto from the reporting accountant (ISAE 3402/SSAE 16 report (or equivalent)). Edinburgh Partners will submit with the ISAE 3402/SSAE 16 report (or equivalent) a letter concerning the policies, procedures and controls associated with the management of the affairs of the Company and a statement that in its opinion the Company can make its own statement on corporate governance in words proposed.

4.3.1.3 The Chairman of the Committee will meet with the Head of Regulatory and Operational Risk at Edinburgh Partners on an annual basis to discuss relevant matters if necessary.

4.3.2 External

4.3.2.1 The external auditors of the Company shall be present at the Committee meeting reviewing the annual results (November). The Committee shall at any time meet separately with the auditors if it so desires. If necessary, the Committee will meet with the external auditors at least once a year without the Manager in attendance.

4.3.2.2 The Chairman of the Committee will meet with the external auditors to discuss findings during the course of the audit separate to the Committee meeting if necessary.

4.3.2.3 In order to monitor the Company's relationship with its external auditors and to ensure that full information is made available to them, the Committee will receive a report from Edinburgh Partners at each Committee meeting.

4.3.2.4 Edinburgh Partners will also make recommendations to the Committee concerning the auditors' remuneration and re-appointment. The Committee will approve the terms of engagement and recommend to the Board that it seeks approval from shareholders for such appointment, re-appointment or removal if appropriate, and remuneration.

4.3.2.5 The Committee shall be responsible for the selection procedure and will oversee the selection process of possible new appointees as external auditors.

4.3.2.6 The Committee will consider the acceptance of any new

representative of the auditors prior to appointment (current recommendations provide for each audit partner to serve a maximum five-year term as audit partner for a company).

- 4.3.2.7 The Committee shall review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 4.3.2.8 The Committee shall review the findings of the audit with the external auditors. This shall include, but not be limited to:
 - a) a discussion of any major issues which arose during the audit, including those that have been resolved and those that remain unresolved;
 - b) an explanation from the external auditor as to how they have addressed any risks previously identified;
 - c) a review of the evidence received in relation to each area of significant judgement and of key accounting and audit judgements; and
 - d) levels of errors identified during the audit and the reasons for any that remain unadjusted.
- 4.3.2.9 The Committee shall review the external auditors' management letter and the Manager's response to the auditors' findings and recommendations.
- 4.3.2.10 The Committee will review the audit letter of representation prior to approval by the Board and signature by a Director.
- 4.3.2.11 The Committee shall 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.
- 4.3.2.12 The Committee will assess annually and report to the Board on the qualification, expertise and resources of the external auditors and the effectiveness of the audit process.
- 4.3.2.13 The Committee will assess annually the independence, objectivity and effectiveness of the external auditors taking into account relevant UK law, regulations, ethical standards and other professional and regulatory requirements. The Committee shall also seek information annually about the external auditor's policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff.
- 4.3.2.14 The Committee will ensure that the external auditor is not conflicted by any work carried out for the Manager and that any potential conflict has been satisfactorily resolved.
- 4.3.2.15 The Committee will agree a policy with the Board on the appointment of former employees of the Company's external auditors, and will then monitor the implementation of this policy.
- 4.3.2.16 If the external auditors resign, the Committee will investigate the issues giving rise to such resignation and consider whether any action is required.
- 4.3.2.17 In relation to non-audit services, the Committee shall:
 - a) develop and recommend to the Board a policy in relation

to the provision of non-audit services by the external auditors and monitor the level of fees payable to the external auditor in respect of these services, taking into account any relevant ethical guidance and legal requirements on the matter and keep the policy under review;

- b) approve any non-audit services, ensuring that the provision of such services does not impair the auditor's independence or objectivity. In the context of non-audit services that are not prohibited by law, the Committee shall apply judgement concerning the provision of such services; and
- c) develop a policy for how the Committee will assess whether non-audit services have a direct or material effect on the audited financial statements, how the Committee will assess and explain the estimation of the effect on the financial statements and how the Committee will consider the external auditor's independence.

Note: It has been agreed with the Manager that all non-audit work to be carried out by the external auditors should be approved by the Committee in advance. If non-audit services are provided, disclosure should be made in the annual report regarding auditor objectivity and independence.

4.3.2.18 At the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process. In the course of doing so, the Committee should:

- a) review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
- b) obtain feedback about the conduct of the audit from key people of the Manager and other external advisers involved; and
- c) review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

4.4 **Communication with shareholders**

4.4.1 The terms of reference of the Committee, including its role and the authority delegated to it by the Board, should be made available. A separate section in the annual report should describe the work of the Committee in discharging those responsibilities and be signed by the Chairman.

4.4.2 The Committee section in the annual report should include the following matters, inter alia:

- a) a summary of the role and work of the Committee;
- b) how the Committee composition requirements have been addressed and the names and qualifications of all members of the Committee during the period;

- c) the number of Committee meetings held during the period;
- d) how the Committee's performance evaluation has been conducted;
- e) an explanation of how it has assessed the effectiveness of the external audit process and of the approach taken to the appointment or re-appointment of the external auditor;
- f) the length of tenure of the current audit firm, the current audit partner name, and for how long the partner has held the role;
- g) when a tender was last conducted and advance notice of any re-tendering plans;
- h) if the external auditor provides non-audit services, the Committee's policy for approval of non-audit services and an explanation of how auditor objectivity and independence is safeguarded;
- i) the audit fees for the statutory audit of the Company's financial statements paid to the auditor and its network firms for audit-related services and other non-audit services, including the ratio of non-audit work. For each significant engagement, the report should explain what the services are and why the Committee has concluded that it was in the interests of the Company to purchase them from the external auditor; and
- j) the significant issues that the Committee considered in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the auditor.

4.5 **Whistleblowing policy**

The Committee will review arrangements at Edinburgh Partners by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to establish that, in so far as they may affect the Company, arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

4.6 **Other Matters**

- 4.6.1 The Committee will review such other matters as directed by the Board.
- 4.6.2 The Committee shall give due consideration to laws and regulations, including the provisions of the UK Code of Corporate Governance, the AIC Code of Corporate Governance and the requirements of the UK Listing Authority's Listing Rules, Disclosure and Transparency Rules, the Alternative Investment Fund Managers' Directive and any other applicable rules, as appropriate.
- 4.6.3 The Committee shall, at least once a year, review its own performance, 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, and shall prepare a report on its role and responsibilities and the actions it has taken to discharge those responsibilities for inclusion in the annual report and financial statements.
- 4.6.4 The Committee may obtain, at the Company's expense, outside legal, accounting or other professional advice on any matters within its terms of reference and secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this necessary.
- 4.6.5 The Committee shall be provided at the Company's expense with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.

5. Reporting

- 5.1 The minutes of each meeting of the Committee will be circulated to all Directors of the Company and reports made to the Board as appropriate.
- 5.2 These Terms of Reference are to be made available on request and are to be published through the Company's website.