

**Fundsmith Emerging Equities Trust plc**  
**Audit Committee –Terms of Reference**  
Approved by the Board on 26 July 2016.

The Audit Committee (the 'Committee') is a committee of the Board of Directors of Fundsmith Emerging Equities Trust plc (the 'Board'), from which it derives its authority and to which it reports.

**1. Membership, Appointment and Attendees** *FRC Guidance 2.3 / 2.16 to 2.19 and AIC Principle 5*

- 1.1 **Membership** – The Committee shall comprise three or more independent non-executive Directors appointed by the Board.
- 1.2 The Chairman of the Board may be a member of the Committee but may not act as Chairman of the Committee
- 1.3 The Committee as a whole shall have significant, recent and relevant financial experience.
- 1.4 **Appointments** to the Committee shall be for an initial period of three years which may be extended for further period(s) of three years subject to the Committee member still meeting the criteria for membership of the Committee.
- 1.5 The Chairman of the Committee shall be appointed by the Board and shall be paid an additional fee in recognition of the extra duties involved.
- 1.6 The Company Secretary to the Board shall be Secretary of the Committee, and provide governance and administrative support to the Committee.

**1.6 Attendees** *FRC Guidance 2.7*

- (a) Any other Board members;
- (b) The external independent auditor;
- (c) A representative(s) of the Company Secretary;
- (d) Any person or persons from the Investment Manager or Administrators invited by the Committee;
- (e) Any other person(s) who the Committee may invite from time to time.

The attendees, listed above, are not members of the Committee and accordingly be required to leave a meeting of the Committee (permanently or temporarily) if the Committee, or the Chairman of the Committee, considers it appropriate or desirable for them to do so.

**2. Meetings and Quorum** *FRC Guidance 2.6 to 2.10*

- 2.1 **Meetings** will be held at least twice each year to i) review the Company's draft Annual Report & Financial Statements, ii) review the Half Year Report of the Company, and also for audit planning purposes prior to the start of each annual audit cycle. It may also meet at such other times as the Chairman of the Committee shall require.
- 2.2 Unless otherwise agreed, notice of each meeting confirming the venue, date and time, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee not less than three working days prior to the date of the meeting.
- 2.3 **Quorum** shall be two members of the Committee including the Chairman of the Committee, or the Chairman's nominated delegate.

2.4 A meeting of the directors may consist of a conference between directors some or all of whom are in different places provided that each director who participates in the meeting is able: to hear each of the other participating directors addressing the meeting; and if he so wishes, to address each of the other participating directors simultaneously, whether directly, by conference telephone or by any other form of communication equipment (whether in use when this article is adopted or developed subsequently) or by a combination of such methods.

### **3. Minutes, Reporting and Disclosure**

3.1 The Committee shall cause Minutes of all proceedings of the Committee to be taken.

3.2 The minutes of each meeting of the Committee shall be circulated to all Directors and attendees as appropriate provided that no conflict or conflicts of interest would arise thereby.

3.3 The Chairman of the Committee shall attend the Annual General Meeting of the Company and answer questions, through the Chairman of the Board, on the Committee's processes, duties and decisions.

3.4 The Chairman of the Committee will report to the Board on the Committee's decisions and recommendations.

3.4 A description of the Committee's duties and activities during the year shall be disclosed in the Annual Report.

### **4. Resources, Advice and Training** *FRC Guidance 2.11 to 2.14*

4.1 The Committee shall be provided with sufficient resources to undertake its duties.

4.2 The Committee shall have access to the services of the Company Secretary on all Committee matters including:

- assisting the Chairman of the Committee in planning the Committee's work;
- drawing up meeting agendas;
- 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.

4.3 The Committee shall have the power to engage independent counsel and other professional advisers at the expense of the Company.

4.4 Induction & Training – the Committee shall establish any process it considers necessary for the induction of new Committee members and, where required, ongoing training of existing Committee members.

### **5. Scope of Authority** *FRC Guidance 1.7 and 1.8 and AIC Principle 13*

The Committee is authorised to:

5.1 seek any information it reasonably requires from a representative of any third party service provider in order to perform its duties;

5.2 request a representative of a third party service provider to attend any meeting of the Committee;

5.3 have timely and unrestricted access to relevant documents relating to the affairs of the Company.

## **6. Responsibilities of the Committee** *FRC Guidance 2.2 and AIC Principle 5*

6.1 The principal responsibilities of the Committee are:

- to monitor the Company's accounting policies, the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- to review the financial and management reporting of the Company and ensure that it is fair, balanced and understandable.
- to review the Company's internal financial controls and the Company's internal control and risk management systems;
- to organise the auditor selection and/or tender process, at least once every ten years, and to make a recommendation to the Board;
- to make decisions in relation to the re-appointment of the external auditor and their remuneration;
- to review and monitor the scope and effectiveness of the external audit and the auditor's independence and objectivity;
- to manage the relationship with the external auditor including the development and implementation of policy on the supply of non-audit services;
- to review compliance with regulatory and financial reporting standards;
- 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 Committee members must act in accordance with the Directors' Duties set out in ss. 171 -177 of the Companies Act 2006.

### **6.2 Financial Reporting** *FRC Guidance 4.1 to 4.4*

The Committee shall:

- review the significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, Announcements of Results and related formal statements (e.g. summary financial statements and release of price sensitive information) ;
- consider significant accounting policies and whether the policies adopted are appropriate, any changes to them and any significant estimates and judgments;
- 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 and consider whether the disclosures made are set properly in context;
- satisfy itself that the Annual and Half Year Reports and any other significant published financial information are properly and carefully prepared, and give a fair representation of the Company's affairs;
- seek clarification from the Administrators of any changes in accounting policy or treatment affecting the Company's report and accounts;
- review related information presented with the financial statements, including the operating and financial review, and corporate governance statements relating to the audit and to risk management;
- where Board approval is required for other statements containing financial information (for example, summary financial statements, significant financial returns to regulators and release of price sensitive information), whenever practicable (without being inconsistent with any requirement for prompt reporting under the Listing Rules) the Committee shall review such statements first.

## **Internal Controls and Risk Management Systems** *FRC Guidance 4.5 to 4.8*

The Committee shall:

- review the reports on the internal controls of the Company's service providers which identify the risk management systems in place for assessing, managing and monitoring risks applicable to such service providers;
- establish a process for identifying, assessing, managing and monitoring the risks which may have a financial impact on the Company;
- review reports on the conclusions of any testing carried out by the external auditor;
- review and approve the statements included in the Annual Report in relation to internal control and the management of risk.

## **Whistleblowing** *FRC Guidance 4.9*

The Committee shall review the arrangements by which staff of service providers to the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and satisfy itself that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

## **Audit**

### **Internal** *FRC Guidance 4.10*

The Committee annually shall monitor and review the need for an internal audit function, make an appropriate recommendation to the Board and where applicable ensure that the reasons for the absence of such a function are explained in the relevant section of the Annual Report.

### **External** *FRC Guidance 4.17 to 4.44*

The Committee shall:

- organise the auditor selection or audit tender process, at least once every ten years, and make a recommendation to the Board;
- be responsible for making decisions on the reappointment of the Company's auditor and on their terms of engagement and remuneration;
- meet annually with the auditor to review the annual results and to discuss any major issues that arose during the course of the audit;
- satisfy itself that the level of fee payable in respect of the audit services provided is appropriate for an effective audit to be conducted;
- review and if necessary seek amendments to the Letter of Representation to be given by the Board to the auditor;
- review and discuss with the auditor their engagement letter issued at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year and the scope of the audit process proposed to be undertaken by the auditor;
- arrange for additional work to be undertaken, if the Committee is not satisfied as to the adequacy of the scope of the proposed audit;
- annually assess the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process;
- seek confirmation of the Audit firm's policy on the rotation of audit partners;
- develop and recommend to the Board the Company's policy on the provision of non-audit services by the auditor, specifying the types of non-audit work from which the auditor is excluded, taking into account relevant ethical guidance regarding the provision of non-audit services;
- consider and if appropriate approve all non-audit work to be carried out by the auditor and, where non-audit services are provided, ensure that the relevant disclosures are made in the Annual Report regarding auditor objectivity, independence and the fees paid for non-audit work;
- consider whether the risk of the withdrawal of the auditor from the market need be included in risk evaluation and planning;

- if the auditor were to resign, investigate the issues giving rise to such resignation and consider whether any action is required;
- oversee the selection process, where it recommends considering the selection of possible new appointees as external auditor;
- at the end of the annual audit cycle, assess the effectiveness of the audit process including:
  - reviewing whether the auditor has met the agreed audit plan;
  - understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditor to address those risks;
  - considering the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committee, and in their commentary where appropriate on the systems of internal control.

### **Annual Report Disclosure**

*AIC Code Principle 5 - There should be full disclosure of information about the Board.*

The Committee shall ensure that the requirements of Code Principle 5 are addressed by:

- disclosing the workings of the Committee in the Annual Report including an explanation of why it believes that it is appropriate for the Company Chairman to be a member of the Committee;
- ensuring that the Terms of Reference for the Committee are generally available upon request and by including these Terms of Reference on the Company's website;
- ensuring the Annual Report contains the Directors' explanation of their responsibility for preparing the accounts and a statement by the auditor about their reporting responsibilities.

*AIC Code Principle 21 - The Board should ensure that shareholders are provided with sufficient information for them to understand the risk/reward balance to which they are exposed by holding the shares.*

The Committee shall ensure disclosure in the Annual Report of:

- the Company's investment objective and investment policy and the Company's full portfolio listing;
- those areas of decision-making reserved to the Board and those over which the investment manager has discretion including but not limited to:
  - a) the level of gearing set by the board and if the investment manager operates within pre-set limits;
  - b) the investment manager's remit regarding voting and corporate governance issues by reference to its policy in respect of the UK Stewardship Code.
- the investment manager's overall performance; and
- the level of ongoing charges.

### **Background**

These terms of reference have been produced to accord with the EU Audit Directive, the relevant Principles of The AIC Code of Corporate Governance published in February 2015 (Principles 5, 13 and 21) and, where deemed applicable, to follow the Guidance on Audit Committees published by the Financial Reporting Council in September 2012 (FRC Guidance).

The Financial Reporting Council has confirmed that AIC Member companies who report against the AIC Code of Corporate Governance and who follow the AIC's Corporate Governance Guide for Investment Companies will be meeting their obligations in relation its UK Corporate Governance Code published in September 2012 and Listing Rule 9.8.6.