

F&C US SMALLER COMPANIES PLC

AUDIT AND MANAGEMENT ENGAGEMENT COMMITTEE ("AUDIT COMMITTEE")
TERMS OF REFERENCE

1. Constitution

The Audit Committee was established by a resolution of the Board of Directors of the Company in 1993. The Audit Committee is accountable to the Board. These Terms of Reference were approved by the Board and adopted on 12 October 2010.

2. Composition of the Audit Committee

The Audit Committee comprises the independent Directors of the Company, with Mr M P S Barton as Chairman. The Board should make appointments to the Audit Committee in consultation with the Audit Committee Chairman. The UK Corporate Governance Code states that at least one member of the Audit Committee should have recent and relevant financial experience. In accordance with the Disclosure and Transparency Rules ("DTR"), at least one member must be independent and at least one member must have competence in accounting and/or auditing (the same member can satisfy both of these criteria). A process for induction and ongoing training has been established.

a. Attendance

The following may be invited to attend the relevant parts of the meetings:-

The Fund Manager
The External Auditors
The Head of Investment Trusts at F&C
The Head of Investment Trust Accounting at F&C
The Head of Audit, Risk and Compliance for F&C or his delegate
Such other employees of the F&C who the Committee may require to attend.

b. The Company Secretary will act as Secretary to the Audit Committee.

c. Meetings

The quorum shall be two. In the absence of the Audit Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

The Audit Committee shall meet at least twice a year and additional meetings shall be called by the Secretary at the request of the Audit Committee Chairman.

The Audit Committee Chairman shall attend the annual general meeting to answer any questions on the Committee's activities.

3. Background

The Company has no employees. Investment management and administration services are undertaken on its behalf by F&C Management Limited ("FCM") which is also the Secretary.

The audit committee established by F&C Asset Management plc ("F&C") is responsible for matters pertaining to F&C. The Audit Committee will therefore not consider matters relating to F&C, save as they affect the Company.

The Audit Committee will expect to be given prompt warning by F&C of matters of significant concern to the Company.

Any matter considered by the F&C audit committee which is relevant to the Company shall be reported to the Audit Committee without delay.

4. Responsibilities

a) Financial Reporting

- i) The Audit Committee will review the significant financial reporting issues and judgements made in preparing the annual and half-yearly reports, results announcements and other formal statements (e.g. interim management statements and release of price sensitive information), the accounting policies adopted and the contents of such documents. The Audit 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 and consider whether the disclosures made are set properly in context.
- ii) In particular, the Audit Committee should satisfy itself that the annual and half-yearly accounts and any other significant published financial information are properly and carefully prepared and give a fair representation of the Company's affairs.
- iii) For the purpose of exercising its responsibilities, as set out in i) and ii) above, the Audit Committee will meet shortly before the half-yearly and annual accounts are presented to the Board. At these meetings, the Head of Investment Trust Accounting at F&C will report any changes in accounting policy or treatment affecting the Company's Report and Accounts and any other material matters which the members of the Audit Committee might not otherwise understand. The Audit Committee will consider whether the accounting policies adopted are appropriate;
- iv) The Audit Committee shall have timely and unrestricted access to relevant documents relating to the affairs of the Company.

b) Internal Controls and Risk Management Systems

The Audit Committee is responsible for reviewing the Company's internal control and risk management systems and reports its findings to the Board.

At the February meeting the Audit Committee will receive a statement by the directors of F&C on internal corporate governance containing a report in relation thereto from the reporting accountants (AAF report).

The Audit 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.

c) Audit

The external auditors of the Company shall be present at the Audit Committee meeting reviewing the annual results. The Audit Committee shall at any time meet separately with the auditors if it so desires, however, the Audit Committee will meet with the external auditors at least once a year without F&C in attendance.

The Chairman of the Audit Committee may meet with the external auditors to discuss findings during the course of the audit.

In order to monitor the Company's relationship with its external auditors and to ensure that full information is made available to them, the Audit Committee will receive a report from the Head of Investment Trust Accounting at F&C at each Committee meeting.

The Head of Investment Trust Accounting at F&C will also make recommendations to the Audit Committee concerning the auditors' remuneration and re-appointment. The Audit Committee will approve the terms of engagement and remuneration and recommend to the Board that it seeks approval from shareholders for such appointment, re-appointment or removal if appropriate, and remuneration.

The Audit Committee will oversee the selection process of possible new appointees as external auditors.

The Audit Committee will review the audit plan and engagement letter prior to signature of the latter by the Board.

The Audit Committee will review the audit letter of representation prior to signature by the Board.

The Audit Committee will assess annually the qualification, expertise and resources and independence of the external auditors and the effectiveness of the audit process.

The Audit Committee should consider the risk of the withdrawal of the current auditor from the market.

If the external auditors resign, the Audit Committee will investigate the issues giving rise to such resignation and consider whether any action is required.

The Audit Committee has developed a policy in relation to the provision of non-audit services by the auditor, which has been accepted by the Board. Non-audit services must be approved by the Audit Committee in advance and a disclosure will be made in the annual report regarding auditor objectivity and independence.

The Audit Committee shall consider annually whether there is a need for the Company to have an internal audit function and will make a recommendation to the Board in this regard.

d) Whistle blowing policy

The Audit Committee will review arrangements at F&C 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.

e) Management Agreement

The Audit Committee will, on an annual basis, review the fee paid to FCM for the services that it provides under the management contract, together with the terms of such contract.

f) Additional Fees

The Audit Committee will consider the nature of any extra charges imposed by FCM as Investment Manager to the Company.

g) Custodian Agreement

The Audit Committee shall be responsible for the periodic review of the agreement with JPMorgan Chase for the provision of custodian services to the Company.

h) Other matters

The Audit Committee will review such other matters as directed by the Board.

5. Reporting

The minutes of each meeting of the Audit Committee will be circulated to all Directors of the Company and reports made to the Board as appropriate.

These Terms of Reference are to be made available on request and are published through the F&C website.

Annual Report Disclosure

DTR 7.1.5(R) requires a statement disclosing which body carries out the functions listed below and how that body is composed:

1. monitor the financial reporting process;
2. monitor the effectiveness of the issuer's internal control, internal audit where applicable, and risk management systems;
3. monitor the statutory audit of the annual and consolidated accounts; and
4. review and monitor the independence of the statutory auditor, and in particular the provision of additional services to the Company.

The UK Corporate Governance Code requires the following disclosures:

1. a report on the review of the effectiveness of the system of internal control (C.2.1);
2. a description of the work of the audit committee in discharging its responsibilities (C.3.3);
3. reasons for the absence of an internal audit function (C.3.5);
4. where the Board does not accept the audit committee's recommendation on the appointment, reappointment or removal of an external auditor, a statement explaining the recommendation and the reasons why the Board has taken a different position (C.3.6); and
5. an explanation of how, if the audit provides non-audit services, auditor objectivity and independence is safeguarded (C.3.7)

The AIC Guide on Corporate Governance requires statements on:

1. the arrangements it has made for an audit committee (principle 5); and
2. the review of performance of and the contractual arrangements with the Manager and a description of the decisions taken and rationale for such decisions (principle 15).