

**F&C GLOBAL SMALLER COMPANIES PLC**  
**(the "Company")**

**AUDIT AND MANAGEMENT ENGAGEMENT COMMITTEE OF THE BOARD**

**TERMS OF REFERENCE**

**1. Constitution**

The Audit and Management Engagement Committee (the "Audit Committee") was established by a resolution of the Board of Directors of the Company in April 1993. The Audit Committee is accountable to the Board. These Terms of Reference, re-drafted in accordance with the Combined Code published in July 2003, were approved by the Audit Committee on 13 June 2005 and by the Board on 17 June 2005. Subsequently amended on 21 June 2007 and 15 December 2008.

**2. Composition of the Audit Committee**

The Audit Committee has been established by the Board and will comprise of all the independent Directors of the Company.

A quorum shall be two.

**a. Attendance**

i. The following may be required to attend the relevant parts of the meetings:-

The Fund Manager  
The External Auditor  
The F&C Head of Investment Trusts  
The F&C Head of Investment Trust Accounting (London)  
The F&C Head of Audit, Risk & Compliance or the Head of Audit & Compliance Monitoring  
The Secretary  
Such other employees of the Manager who the Committee may require to attend

**b. Meetings**

The Audit Committee will meet at least twice a year (currently June and December) and additional meetings shall be called by the Secretary at the request of the Chairman of the Audit Committee.

A quorum shall be any two members including the Chairman of the Audit Committee, or the Chairman's nominated delegate

**3. Background**

Other than the Directors, the Company has no employees and all services are supplied by F&C Management ("F&C") which is also the Secretary.

The audit committee established by F&C Asset Management plc (F&C") is responsible for matters pertaining to the F&C Group. 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 related formal statements (e.g. the 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 accounts are presented to the Board in June (final results) and December (half-yearly results). At these meetings, the F&C Head of Investment Trust Accounting (London) 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 making recommendations to the Board

- i. At the meeting reviewing the final results (June) 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 F&C audit committee will submit a letter concerning the policies, procedures and controls associated with the management of the affairs of the Company.

The Chairman of the Audit Committee may meet the F&C Head of Audit, Risk and Compliance and/or the Head of Audit & Compliance Monitoring to discuss relevant matters.

- ii. Control reports and a risk issues table will be prepared by F&C regularly. At meetings considering the final results, the Head of Audit, Risk and Compliance or his deputy will be in attendance to provide a verbal report.
- iv. The Audit Committee should review and approve the statements included in the annual report in relation to internal control and the management of risk.

**c. Audit**

i. Internal

The Audit 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.

ii. External

The external auditors of the Company shall be present at the Audit Committee meeting reviewing the annual results (June) and half-yearly results (December). 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 F&C Head of Investment Trust Accounting (London) at each Audit Committee meeting, who will also make recommendations to the Audit Committee concerning the auditors' remuneration and appointment. The Audit Committee will approve the terms of engagement and recommend to the Board that it seeks approval from shareholders such appointment, re-appointment or removal if appropriate, and remuneration.

If the external auditor resigns, the Audit Committee will investigate the issues giving rise to such resignation and consider whether any action is required. It will also oversee the selection process.

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

The Audit Committee will assess annually the qualification, expertise and resources of the external auditors, their independence and the effectiveness of the audit process. It will also develop and recommend to the Board the Company's position in relation to the provision of non audit services by the auditor.

**d. Whistleblowing policy**

F&C currently has a whistleblowing policy. The Audit Committee will periodically review arrangements at F&C by which staff may, in confidence, raise concerns about possible improprieties concerning the Company.

e. **Management Agreement**

The Committee will, on an annual basis, review the performance of and fee paid to F&C 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 any extra charges proposed by F&C over and above the management fee.

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**

If meetings of the Board and of the Audit Committee are held contemporaneously those meetings will be minuted separately.

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

**F&C GLOBAL SMALLER COMPANIES PLC**  
**(the “Company”)**

**NOMINATION COMMITTEE**

**TERMS OF REFERENCE**

**Constitution**

The Nomination Committee of the Company (the “Committee”) was established by a resolution of the Board of Directors (the “Board”) in 22 March 2004. The Committee is accountable to the Board. These terms of reference, drafted in accordance with the Combined Code published in July 2003 (code provision A4) and the AIC Code of Corporate Governance published in July 2003, (principle 8) were adopted by the Committee on 22 March 2004 and approved by the Board on 17 April 2004. Subsequently amended for approval by the Board on 21 June 2007 and 15 December 2008.

**Responsibilities**

The Committee shall:

1. review regularly the Board structure, size and composition, as well as the balance of knowledge, experience and skill range and, having considered succession planning, make recommendations to the Board with regard to any changes that are deemed necessary; prepare job specifications, as appropriate, and draft letters of appointment for approval by the Board;
2. be responsible for identifying and nominating candidates for the approval of the Board to fill Board vacancies as and when they arise as well as put in place plans for succession, in particular, of the Chairman and the Senior Independent Director;
3. establish an induction programme and process for identifying professional development and training needs ( A.5.1), and review and update the Directors' Handbook periodically for approval by the Board;
4. make recommendations for changes to the chairmanship and membership of the Company's committees;
5. make recommendations with regard to any variation in the terms of Directors' appointments and in the standard period of appointment for which a Director is appointed;
6. recommend Directors to the Board, who are retiring by rotation/whose term of appointment is due to expire, to be put forward for re-election/re-appointment;
7. assess and recommend which Directors are independent or not independent for approval by the Board and for disclosure in the Annual Report and Accounts;

8. review annually and make recommendations to the Board about the annual approval of the register of Directors' conflicts/possible conflicts of interest; and
9. prepare a statement for the Annual Report (A 4.6) about its activities (including process used for appointments; explaining if external advice or open advertising has not been used; membership of the committees, number of meetings and attendance and on the Company's procedures for ensuring that the powers of authorisation of conflicts of interest have been operated effectively and that procedures have been followed).

### **Membership**

The Committee shall comprise a minimum of three independent non-executive directors of the Company. Members of the Committee shall be appointed by the Board. In the event that one of the members is unable to attend a meeting, the Chairman has the authority to co-opt one of the other independent Directors from the Board, should such action be deemed necessary.

The Chairman of the Committee shall be appointed by the Board.

### **Secretary**

The Company Secretary of the Committee shall be F&C Management Limited.

### **Meetings**

The Committee will meet at least once a year 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.

### **Reporting**

The minutes of each meeting of the Committee shall be circulated to all members of the Committee. Any director may, upon request to the Secretary, provided that there is no conflict of interest, obtain copies of the Committee's agenda and minutes.

Reports shall be made to the Board as appropriate.

### **General powers**

The Committee is empowered to employ the services of such advisers as it deems necessary to fulfil its responsibilities.

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

## Articles of Association

### 109 Delegation to committees

109.1 The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) for such time on such terms and subject to such conditions as it thinks fit to any committee consisting of one or more Directors and (if thought fit) one or more other persons, provided that:

- (a) a majority of the members of a committee shall be Directors; and
- (b) no resolution of a committee shall be effective unless a majority of those present when it is passed are Directors or alternate Directors.

109.2 The Board may confer such powers either collaterally with, or to the exclusion of and in substitution for, all or any of the powers of the Board in that respect and may from time to time revoke, withdraw, alter or vary any of such powers and discharge any such committee in whole or in part. Insofar as any power, authority or discretion is so delegated, any reference in these Articles to the exercise by the Board of such power, authority or discretion shall be construed as if it were a reference to the exercise of such power, authority or discretion by such committee.