

JPMorgan European Smaller Companies Trust plc
Audit Committee – Terms of Reference
(Revised 15 May 2015)

1. Audit Committee

The Audit Committee (“Committee”) is a committee of the Board of JPMorgan European Smaller Companies Trust plc (the ‘Company’), established to review the principles, policies and practices adopted in the preparation of the financial statements of the Company and with the aim of ensuring that the half year and annual reports and financial statements of the Company and any other announcement relating to the Company’s financial performance comply with all statutory requirements.

The Committee shall also review the work of the Company’s external Auditors and of the internal controls of JPMorgan Asset Management¹ (‘JPMAM’), in so far as they impact on the Company to receive comfort on the adequacy and effectiveness of their financial, operating, compliance and risk management controls.

The Committee shall also review the management of corporate governance, risk and regulatory compliance as it relates to the Company, and report its findings to the Board.

¹ JPMAM is a division of JPMorgan Chase & Co. The Company has a management agreement with JPMorgan Funds Limited (‘JPMF’). JPMF is the Company’s Manager and Company Secretary and has delegated portfolio management to JPMorgan Asset Management (UK) Limited, an affiliate company.

2. Membership

2.1 The Committee shall be appointed by the Board from amongst the independent Directors of the Company, on the recommendation of the Nomination and Remuneration Committee in consultation with the Chairman of the Committee, and shall consist of no fewer than two members. At least one member of the Committee shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accounting bodies. A quorum for meetings shall be two members, preferably at least one of whom has the relevant experience. Membership of the Committee shall be identified in the annual financial statements.

2.2 The Chairman of the Committee shall be appointed by the Board and should not be the Chairman of the Board. The Chairman of the Board may be a member of the Audit Committee if deemed independent on appointment. In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

3. Attendance at Committee Meetings

3.1 Only members of the Committee have the right to attend Committee meetings. Any other Board members shall attend Committee meetings if invited to do so by the Committee.

3.2 Any of the head of JPMAM Investment Trusts, the Company’s external Auditors, the head of JPMAM internal audit, JPMAM’s Compliance Officer, or any of their representatives, shall attend the Committee meetings at the invitation of the Committee. The Committee shall meet with the external Auditors at least once a year (without representatives of JPMAM being present, if required). That meeting shall take place around the time of

finalisation of the annual report and financial statements, but frequency of Board meetings may dictate the date. The Head of JPMAM internal audit shall be given the right of direct access to the Chairman of the Board and the Chairman of the Committee.

4. Company Secretary

- 4.1 The Company Secretary or their nominee shall be the Secretary of the Committee and shall be responsible for preparing the agenda and producing and circulating the notice of meeting and Committee papers to all Directors no later than seven days before the date of the meeting to enable full and proper consideration to be given to the issue.
- 4.2 The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board and the Chairman of the Committee in a timely manner.
- 4.3 The Committee shall have access to the Company Secretary on all Committee matters.

5. Frequency of Meetings

The Committee shall meet not less than twice per year to coincide with the half year and year ends and meetings may be held immediately before a Board meeting. The Company's external Auditors may request a meeting with the Committee at any time if they consider that one is necessary. Any member may request the convening of a meeting by the Secretary. Sufficient time should be allowed to enable the Committee to undertake as full a discussion as may be required.

6. Authority and Resources

6.1 The Committee is authorised by the Board:

- to investigate any activity within its Terms of Reference;
- to seek any information it requires in order to perform its duties. JPMAM and its employees shall co-operate with any request made by the Committee;
- to obtain outside legal or other independent professional advice at the Company's expense and such advisers may attend meetings as necessary;

and has the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

6.2 The Committee shall have sufficient resources so that it may fulfil the remit of these Terms of Reference.

7. Responsibilities

The responsibilities of the Committee shall be:

- 7.1 to review the Company's compliance with the UK Corporate Governance Code, the Listing Rules, the Disclosure and Transparency Rules, the AIC Code of Corporate Governance and any other applicable rules as appropriate for the purposes of financial reporting and reviewing the financial statements;

- 7.2 to consider the appointment of the external Auditors and assess annually their effectiveness, objectivity and independence, taking into account relevant professional and regulatory requirements, ensuring that key partners are rotated at appropriate intervals;
- 7.3 to evaluate the risks to the quality and effectiveness of the financial reporting process including the risk of the withdrawal of the external Auditors from the market
- 7.4 to recommend the audit fee to the Board and approve any fees in respect of non-audit services provided by the external Auditors and to ensure that the provision of non-audit services does not impair the external Auditors' independence or objectivity, and to consider the level of audit fees against the overall income of the external audit firm as a whole, the particular office of the external audit firm and the appointed audit partner, and that an effective, high quality audit can be conducted for such a fee;
- 7.5 to discuss with the external Auditors the nature and scope of the audit and to review, in so far as is practical, their quality control procedures and steps taken by the external Auditors to respond to changes in regulatory and other requirements;
- 7.6 to approve the external Auditors' engagement letter;
- 7.7 to oversee the process for selecting the external Auditors, their appointment, reappointment and removal, including an external tender process at least every ten years (if applicable) and make appropriate recommendations through the Board to the shareholders to consider at the Annual General Meeting;
- 7.8 to review and approve the letter of representation to the external Auditors and JPMAM's associated letter of comfort;
- 7.9 to review the external Auditors' audit report;
- 7.10 to review and monitor JPMAM's responsiveness to the findings and recommendations of JPMAM internal audit, to ensure that JPMAM internal audit has adequate resources and appropriate access to information (to perform its function effectively and in accordance with the relevant professional standards) and to ensure that JPMAM's internal audit has adequate standing within JPMAM and is free from restrictions;
- 7.11 to review JPMAM's and the external Auditors' reports on the effectiveness of systems of internal control and risk management, review and approve the statement to be included in the annual report and financial statements in relation thereto;
- 7.12 to review the findings of the audit with the external Auditors including, but not limited to: a discussion of any major issues which arose during the audit; key accounting and audit judgments; levels of errors identified during the audit; and the effectiveness of the audit process;
- 7.13 to review regular reports from JPMAM's Compliance Officer and keep under review the adequacy and effectiveness of that function;
- 7.14 to review management's and the independent Auditors' reports on the effectiveness of systems of risk management and internal control of JPMAM, the depositary and the registrar;

- 7.15 to monitor the integrity of the Company's financial statements and to review and challenge where necessary the actions and judgments of JPMAM in relation to the half year and annual financial statements and other formal announcements relating to the Company's financial performance before submission to the Board of a report on how the Committee has discharged its responsibilities, paying particular attention to:
- significant financial reporting issues or judgments which the financial statements contain having regard to matters communicated to the Committee by the external Auditors;
 - critical accounting policies and practices and the consistency of these, and any changes in them;
 - significant financial reporting judgments and estimates contained in them;
 - decisions requiring a major element of judgment;
 - the extent to which the financial statements are affected by any significant or unusual transactions in the year and how they are disclosed;
 - the clarity of completeness of disclosures in the Company's financial reports and context in which the disclosures are made;
 - significant adjustments or unadjusted differences resulting from the audit;
 - the going concern assumption;
 - compliance with accounting standards, whether these are appropriate and whether the Company has made appropriate estimates and judgments, taking into account the views of the external Auditors;
 - all material information presented with the financial statements, such as the Strategic Report and the Corporate Governance Statement relating to the audit and to risk management and internal controls;
 - compliance with stock exchange, regulatory and other legal requirements;
 - reviewing the Company's statement on risk management and internal control systems prior to endorsement by the Board and to review the policies and processes for identifying and assessing business risks and the management of those risks by the Company; and;
 - 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.
- 7.16 to review JPMAM's procedures, to the extent that they may impact on the Company, for handling allegations from whistleblowers to ensure that there is a proportionate and independent investigation of such matters and appropriate follow-up action;
- 7.17 to review the Company's and JPMAM's systems and controls for the prevention of bribery and detection of fraud and receive reports on non-compliance;
- 7.18 where requested by the Board, to review the content of the annual report and financial statements 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 performance, business model and strategy;
- 7.19 to review half year and year end reports from the Company's depository, providing information on the custodian's safe keeping of the Company's assets, its cash flows, net asset value calculations, the liquidity of the Company's investments and management of

the Company's portfolio in accordance with its investment restrictions, guidelines and borrowing limits; and

7.20 other topics, as defined by the Board.

8. Reporting procedures

8.1 The Committee members shall conduct an annual review of their work and these Terms of Reference and make recommendations to the Board.

8.2 The Committee's duties and activities during the year shall be disclosed in the annual financial statements, including an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external Auditors; and all other information requirements set out by applicable regulations, including at least those matters that have informed the Board's assessment of whether the Company is a going concern.

8.3 The Audit Committee Chairman shall report formally to the Board on its proceedings after each Committee meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:

- the significant issues that it considered in relation to the financial statements and how these were addressed;
- its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external Auditors;
- any other issues on which the Board has requested the Committee's opinion; and
- any recommendations to the Board deemed appropriate by the Committee on any area within its remit where action or improvement is needed.

8.4 The Chairman of the Audit Committee or his appointed representative shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Committee's activities and their responsibilities.

8.5 The Chairman of the Committee or, as a minimum, another member of the Committee, shall attend the Board meeting at which the accounts are approved.

9. Training

The Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.