

THE MERCANTILE INVESTMENT TRUST PLC

Management Engagement Committee Terms of Reference (Adopted 28th February 2019, revised 2nd October 2019)

Reference to the 'Committee' shall mean the Management Engagement Committee.
Reference to the 'Board' shall mean The Board of Directors.

1. Purpose

The Committee is appointed by the Board to review the performance of the Manager (JPMorgan Funds Limited – 'JPMF'), to ensure that the Company's management contract is competitive and reasonable and to evaluate the performance of the Company's other service providers. The Management Engagement Committee will undertake this review annually, with its decisions and rationale described in the annual report.

2. Membership and quorum

2.1 The Committee shall be appointed by the Board from amongst the independent Directors of the Company and shall consist of not less than three members all of whom shall be independent non-executive Directors of the Company.

2.2 The Chair of the Committee shall be appointed by the Board. The Chair of the Board may be a member of, and may chair, the Committee, provided that he or she is independent of the Manager. In the absence of the Committee Chair the remaining members present shall elect one of their number to chair the meeting.

2.3 A quorum for meetings shall be two Committee members.

2.4 Representatives of the Manager and other third party suppliers shall be invited to attend meetings as appropriate.

2.5 Membership shall be identified in the Annual Report.

3. Secretary

The Company Secretary shall act as the Secretary of the Committee and shall be responsible for preparing the agenda and producing and circulating the minutes to the Committee members.

4. Frequency of Meetings

The Committee shall meet at least annually and as and when deemed appropriate or as required by the Chair of the Committee or by the Board.

5. Notice of Meetings

5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of the Chair or of the Board.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no fewer than five working days prior to the date of the meeting.

6. Minutes of Meetings

6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings.

6.2 The minutes of the Committee meetings shall be circulated for review with the following set of Board papers.

7. Authority

The Committee is authorised by the Board:

- 7.1 to investigate any activity within its terms of reference;
- 7.2 to seek any information it requires. JPMF and its employees shall co-operate with any reasonable request made by the Committee; and
- 7.3 to obtain outside legal or other independent professional advice at the Company's expense and to secure the attendance of third parties with relevant experience and expertise if it considers this necessary.

8. Responsibilities

The responsibilities of the Committee shall be:

- 8.1 to review at least annually the contractual relationships with, and scrutinise and hold to account the performance of, the Manager, to ensure that the investment management agreement ('IMA') is competitive and reasonable and in the best interests of the Company as a whole;
- 8.2 to monitor and evaluate the Manager's investment performance;
- 8.3 to review the notice period that the Board has with the Manager and compare with industry best practice;
- 8.4 to consider the merit of obtaining an independent appraisal of the Manager's services;
- 8.5 to investigate any breaches of agreed investment limits and any deviation from the agreed investment policy and strategy;
- 8.6 to review the standard of the administrative services and company secretarial services provided under the terms of the management contract;
- 8.7 to assess the level of fees charged by the management company and how these fees compare with those charged to peer companies;
- 8.8 to prepare a disclosure statement regarding the continuing appointment of the Manager on the terms agreed;
- 8.9 to consider any other issues which may give the Committee or the Board cause for concern;
- 8.10 to monitor and evaluate other service providers (such as the depositary, registrar and broker). The Committee should establish procedures by which other service providers should report back and the methods by which those providers are monitored and evaluated; and
- 8.11 to review, on an annual basis, its own performance, constitution and terms of reference.

9. Reporting Responsibilities

- 9.1 The Committee Chair shall report to the Board on the Committee's proceedings after each meeting.
- 9.2 The Committee shall make a statement in the Annual Report about its activities.

Appendix: Supplementary Guidance from the 2019 AIC Corporate Governance Code

The long-term nature of the advantages of investment companies suggests that frequent changes in management arrangements would be undesirable.

Issues to be considered include:

- monitoring and evaluating the manager's investment performance and, if necessary, providing appropriate guidance;
- putting in place procedures by which the board regularly reviews the continued retention of the manager's services;
- considering the merit of obtaining, on a regular basis, an independent appraisal of the manager's services;
- requiring the manager to provide attribution analysis and whether it should be published at least annually;
- reviewing the level and method of remuneration, the basis of performance fees (if any) and the notice period;
- considering whether the managers fees should be based on gross assets, net assets or market capitalisation;
- considering the basis on which to charge cash or funds managed by the same manager;
- if there is a performance related element, or the introduction of a performance fee is under consideration, the review should seek to ensure that the basis does not encourage excessive risk and that it aligns the interests of the manager with that of the shareholders to reward the manager if certain criteria are met. Key factors to be considered include:
 - o the views of shareholders;
 - o appropriate benchmarks/hurdle rates;
 - o a reduction in the basic fee when a performance fee is introduced;
 - o a cap on the performance fee;
 - o a high-water mark; and
 - o a combination of short-term and long-term measurements and incentives.
- putting in place processes to review the company's risk management and internal control systems designed to safeguard shareholders' investment and the company's assets. A review of the effectiveness of these systems should be made annually by the board and reported to shareholders in the annual report