

Nippon Active Value Fund PLC

Audit Committee: Terms of Reference

Background & Definitions

Pursuant to a resolution of the board of directors (“**Board**”) of Nippon Active Value Fund plc (“**Company**”) passed on 6 January 2019, the directors of the Company have established a board committee, with the following terms of reference, as the audit committee of the Company (“**Audit Committee**”), in order to establish formal and transparent arrangements for considering how the Board should apply the financial reporting of the Company and to maintain an appropriate relationship with the Company's auditors.

These Terms of Reference have been produced to accord with the relevant principles of the AIC Code of Corporate Governance. 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 to its UK Corporate Governance Code and the relevant provisions of the Listing Rules.

In these Terms of Reference, unless the context requires otherwise, the following definitions shall apply:

“**Administrator**” or “**Secretary**” means PraxisIFM Fund Services (UK) Limited;

“**AIFM**” means International Fund Management Limited, the Company's alternative investment fund manager within the meaning of the AIFMD;

“**AIFMD**” means the Alternative Investment Fund Managers Directive (2011/61/ EU);

“**Listing Rules**” means the listing rules made by the Financial Conduct Authority pursuant to Part VI of the Financial Services and Markets Act; and

“**Rising Sun**” means Rising Sun Management Limited (being the investment adviser appointed by the AIFM and the Company).

1 **Membership**

1.1 The members of the Audit Committee shall be appointed by the Board. Membership of the Audit Committee shall be no less than two persons (three if the Company becomes a FTSE 350 company) and shall be confined to independent non-executive directors. The Chair of the Board can be a member of, but not chair, the Audit Committee, provided he is considered independent on appointment. If the Company becomes a FTSE 350 company the Chair of the Board will no longer be entitled to be a member of the Audit Committee.

1.2 The Audit Committee shall, subject to any requirements to the contrary, consist of each member of the Board that is independent of Rising Sun. The members, at least one of whom shall have recent and relevant financial experience, shall be independent non-executive directors who have experience as is required under the AIC Code of Corporate Governance and chapter 7.1 of the Financial Conduct Authorities' Disclosure Guidance and Transparency Rules are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Audit Committee shall, as a whole, have competence relevant to the sector in which the Company operates. The first members shall be Chetan Ghosh, Aya Weissman, Rachel Hill, Alicia Ogawa and Rosemary Morgan.

1.3 The Audit Committee's Chair (“**Chair**”), who shall be an independent non-executive director, shall be appointed by the Board, on the recommendation of the nomination committee. The Board shall determine how long the Chair shall hold office. The first Chair shall be Chetan Ghosh.

2 **Secretary**

The Secretary, or their nominee, shall be the secretary of the Audit Committee.

3 **Meetings**

- 3.1 The Audit Committee shall meet at least two times a year at appropriate times in the reporting and audit cycle and otherwise as required. These meetings shall be convened by any member of the Audit Committee or the Secretary, at the request of the Chair or any other member.
- 3.2 The quorum for the transaction of business of the Audit Committee shall be two members present in person. A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by it.
- 3.3 At least once a year, the Audit Committee shall meet with the Company's external auditors without representatives of the Administrator or Rising Sun being present.
- 3.4 The Audit Committee will meet with representatives of the Administrator, the AIFM and Rising Sun, who will report as to the proper conduct of business in accordance with the regulatory environment in which the Company operates.
- 3.5 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 Audit Committee not less than three working days prior to the date of the meeting.

4 **Attendance**

The Audit Committee may invite any person it thinks appropriate, including the AIFM and the Administrator, to join the members of the Audit Committee at its meetings. A representative of the external auditors shall normally attend meetings of the Audit Committee and at its request report on its work procedures, the quality and effectiveness of the Company's accounting records and its findings in relation to the Company's statutory audit. Any person invited to attend a meeting of the Audit Committee shall have no right to participate in, or vote on, any matter put to that meeting.

5 **Voting arrangements**

- 5.1 Each member of the Audit Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Audit Committee.
- 5.2 If a matter that is considered by the Audit Committee is one where a member of the Audit Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 5.3 Save where he has a personal interest, the Chair shall have a casting vote.
- 5.4 All decisions of the Audit Committee shall be formally reported to the Board by the Chair. The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed and shall compile a report on its activities to be included in the Company's annual report.

6 **Minutes**

- 6.1 The Secretary, or such other suitable person as the members present at such meeting shall nominate, shall minute the proceedings and resolutions of such meeting of the Audit Committee, including the names of those present and in attendance.
- 6.2 Draft minutes of such Audit Committee meetings shall be circulated promptly to all members and, once agreed, such minutes should be circulated to all other members of the Board unless it would be inappropriate to do so (for example, if a conflict of interest exists) and to the external auditors.

7 **Authority**

- 7.1 The Audit Committee is authorised by the Board:

- 7.1.1 to investigate any activity within its terms of reference and consider any matter the Audit Committee deems relevant to the discharge of its duties;
- 7.1.2 to seek any information it requires from the AIFM and Administrator and other service providers, in order to perform its duties;
- 7.1.3 within any budgetary restraints imposed by the Board, to obtain, at the Company's expense, outside legal or other independent professional advice on any matter within its terms of reference;
- 7.1.4 have timely and unrestricted access to relevant documents relating to the affairs of the Company;
- 7.1.5 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Audit Committee and the Board; and
- 7.1.6 instruct external professional advisers and/or the representative of any third party service provider to attend, at the Company's expense, any meeting of the Audit Committee, if it considers this necessary or appropriate.

8 Function and duties

8.1 The Audit Committee should carry out the duties below for the Company, major subsidiary undertakings and the group as a whole, as appropriate.

8.2 The Audit Committee shall:

Financial reporting

- 8.2.1 review and monitor the integrity of the financial statements of the Company including its annual and half-yearly reports, interim management statements, preliminary results' announcements and any other formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements contained in them;
- 8.2.2 review summary financial statements and any financial information contained in certain other documents, such as announcements of a price-sensitive nature. Where Board approval is required for statements containing financial information whenever practicable (without being inconsistent with any requirement for prompt reporting under the Listing Rules) review such statements first;
- 8.2.3 seek clarification from the Administrator of any changes in accounting policy or treatment affecting the Company's report and accounts;
- 8.2.4 in particular, review and challenge, where necessary:
 - (i) the consistency of, and any changes to, accounting policies, both on a year-on-year basis and across the Company and group;
 - (ii) the methods used to account for significant or unusual transactions, where different approaches are possible;
 - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - (iv) the clarity of disclosure in the Company's financial reports and the context in which statements are made;
 - (v) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial

- statements) and the longer term viability statement including an assessment of the prospects of the Company and the group looking forward over an appropriate and justified period;
- (vi) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management); and
 - (vii) any other statements requiring Board approval which contain financial information, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules (to the extent the Company voluntarily complies with the Listing Rules from time to time) or the Disclosure Guidance and Transparency Rules sourcebook and the Market Abuse Regulation;

Internal controls and risk management systems

- 8.2.5 unless expressly addressed by a separate Board risk committee composed of independent directors, or by the Board itself, keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems, and review and approve the statements to be included in the Company's annual report concerning internal controls and risk management;
- 8.2.6 review and approve the statements to be included in the annual report concerning internal controls and risk management;
- 8.2.7 review and approve statements explaining how assets have been invested with a view to spreading investment risk;
- 8.2.8 liaise with the Board and the Management Engagement Committee to ensure that other statements regarding the Company's investment adviser, including relevant details of its remuneration and appointment and its continued appointment, are included in the annual report;
- 8.2.9 where requested by the Board, ensure that a robust assessment of the principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or liquidity) and provide advice on the management and mitigation of those risks;
- 8.2.10 where requested by the Board, provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Audit Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary;
- 8.2.11 ensure that the AIFM has an appropriate risk management and internal control system designed to safeguard the shareholders' investment and the Company's assets;

Compliance, whistleblowing and fraud

- 8.2.12 review the adequacy and security of the Company's arrangements by which staff of the AIFM Rising Sun, the Administrator and other service providers as the Audit Committee sees fit may raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Audit Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action;
- 8.2.13 review the Company's procedures for detecting fraud;

- 8.2.14 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 8.2.15 review the adequacy and effectiveness of the Company's policies and procedures for the prevention of the facilitation of tax evasion for the purposes of all applicable criminal facilitation of tax evasion laws and regulations of England and Wales (including the Criminal Finances Act 2017) and of any foreign jurisdiction in which the Company or its group operates and receive reports on any non-compliance with such policies or procedures;
- 8.2.16 keep under review the adequacy and effectiveness of the Company's anti-money laundering systems and controls;
- 8.2.17 keep under review the adequacy and effectiveness of the Company's compliance function;
- 8.2.18 review the adequacy and security of the Investment Adviser's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;

Compliance with the AIFMD

- 8.2.19 discuss and agree with the AIFM the additional reporting requirements, if any, to be included in the annual report and financial statements of the Company in order to ensure compliance with the AIFMD;

Internal audit

- 8.2.20 monitor and review the need for an internal audit function, and make an appropriate recommendation to the Board;

External audit

- 8.2.21 consider and make recommendations to the Board, for it to put to the shareholders for their approval at the Company's annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Audit Committee shall oversee the selection process for new auditors and, if an auditor resigns, the Audit Committee shall investigate the issues leading to this and decide whether any action is required;
- 8.2.22 ensure that the audit services' contract is put out to tender such that the Company complies with the permissible period of tenure and the selection procedure set out in s.489A of the Companies Act 2006. The Audit Committee is responsible for organising the selection process for a new external auditor and must select at least two potential audit firms to be put forward to the Board, expressing a preference for one of them (and giving reasons for the preference identified). The Audit Committee must state in its recommendation that its recommendation is free from influence from a third party and that no contractual term restricting the choice by the general meeting of the Company's shareholders to certain categories or lists of statutory auditors or audit firms (as fully described in Article 16 (6) of Regulation (EU) No.537 (2014)) has been imposed on the Company. The Audit Committee shall ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 8.2.23 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.2.24 develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm, and regarding any fee cap on, or prohibition of, certain non-audit services and 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 policy should include consideration of the following matters:

- (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (ii) the nature of the non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (v) the criteria governing compensation;
- 8.2.25 oversee the relationship with the Company's external auditor, including (but not limited to):
- (i) approval of their remuneration, whether in respect of audit or non-audit services, and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing their independence and objectivity, taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including authorising the provision of any non-audit services on a case by case basis;
 - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity (including satisfying itself that the auditor is not conflicted by any work carried out by it for the investment manager and that any potential conflict of interest has been satisfactorily resolved);
 - (v) monitoring the auditor's compliance with the relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - (vi) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures; and
 - (vii) considering the risk of withdrawal of the Company's present auditor from the market;
- 8.2.26 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Audit Committee shall meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 8.2.27 review and approve the annual audit plan and ensure that it is consistent with the nature and scope of the audit engagement;
- 8.2.28 satisfy itself that the auditors are not conflicted by any work carried out for the AIFM and that any potential conflict of interest has been satisfactorily resolved;
- 8.2.29 review the findings of the audit with the external auditor. This shall include, but not be limited to:
- (i) a discussion of any major issues which arose during the audit;
 - (ii) any accounting and audit judgements;

- (iii) levels of errors identified during the audit; and
 - (iv) the effectiveness of the audit;
- 8.2.30 review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.2.31 review the management letter and management's response to the auditor's findings and recommendations;
- 8.2.32 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter;

Reporting responsibilities

- 8.2.33 meet the Board formally at least once each year to discuss matters, such as the annual report and the relationship with the external auditors;
- 8.2.34 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;
- 8.2.35 compile a report to shareholders on its activities to be included in the Company's annual report;
- 8.2.36 the Chair shall also formally report to the Board after each meeting of the Audit Committee, 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:
- (i) the significant issues that it considered in relation to the financial statements (required under paragraph 8.2.1 and 8.2.2) and how these were addressed;
 - (ii) its assessment of the effectiveness of the external audit process (required under paragraph 8.2.4(v)), the approach taken to the appointment or reappointment of the external auditor (where appropriate), together with information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - (iii) any other issues on which the Board has requested the Audit Committee's opinion;
- 8.2.37 ensure disclosure in the annual report of:
- (i) the Company's investment objective and investment policy and the Company's full portfolio listing;
 - (ii) those areas of decision-making reserved to the board and those over which the AIFM has discretion;
 - (iii) the AIFM's overall performance;
 - (iv) ongoing charges figures and their impact on capital erosion per share class; and
 - (v) relevant bank-borrowing covenant details, indicating the consequences of any material breach;

Other

- 8.2.38 give due consideration to laws and regulations, including the provisions of the AIC's Corporate Governance Guide and the requirements of the Listing Rules (to the extent the Company complies with the Listing Rules from time to time), the Prospectus Regulation Rules and Disclosure and Transparency Rules, as appropriate;

- 8.2.39 be responsible for co-ordination of the external auditors;
- 8.2.40 oversee any investigation of activities which are within its terms of reference;
- 8.2.41 annually review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary to the Board for approval; and
- 8.2.42 consider such other matters, as may be requested by the Board.

9 Reporting to shareholders

- 9.1 The Audit Committee should report annually on the Board's behalf to the Company's shareholders. Its report shall accompany the directors' report in the Company's annual report and accounts.
- 9.2 The Chair shall attend the Company's annual general meeting for the purpose of responding to any questions or enquiries about the Audit Committee and its activities and responsibilities.