



**HGCAPITAL TRUST PLC**  
**TERMS OF REFERENCE FOR THE AUDIT, VALUATIONS & RISK COMMITTEE**

**1. CONSTITUTION**

- 1.1 The audit, valuations & risk committee (**Committee**) was constituted as a committee of the board of directors (**board**) of HgCapital Trust plc (**Company**) at a full meeting of the board held on 27 February 2001 in accordance with the articles of association of the Company.
- 1.2 The Committee has the delegated authority of the board in respect of the functions and powers set out in these terms of reference.
- 1.3 The Committee may sub-delegate any or all of its powers and authority as it thinks fit to one or more of its members or the company secretary, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

**2. ROLE**

The role of the Committee is to assist the board in fulfilling its oversight responsibilities by reviewing and monitoring:

- (a) The Investment Manager's initial proposals for the valuations of unquoted investments as at the immediately preceding half-year end.
- (b) The integrity of the recommended valuations made by the Investment Manager.
- (c) The integrity of the financial information provided to shareholders.
- (d) The Company's system of internal financial controls and internal control and risk management.
- (e) The external audit process and auditors.
- (f) The requirement for an internal audit function.
- (g) The processes for compliance with laws, regulations and ethical codes of practice.

**3. DUTIES AND TERMS OF REFERENCE**

The Committee shall carry out the following duties for the Company as appropriate:

**3.1 Valuations**

The Committee shall:

- (a) be responsible for considering and scrutinising half-yearly and annual valuations of the Company's investments, as recommended by the Investment Manager, highlighting areas where the Investment Manager should reconsider its recommendations.

- (b)** monitor the integrity of the recommended valuations made by the Investment Manager. In particular, the Committee shall review and challenge where necessary:
  - i. the consistency of, and any changes to, valuation policies both on a year on year basis and across the Company.
  - ii. the methods used to account for significant or unusual valuations where different approaches are possible.
  - iii. the overall valuations, and consider the Investment Manager's recommendations, and/or any proposed changes to the methodology, taking into account the relevant market conditions.
  
- (c)** following review the Committee will recommend the valuations for adoption by the board.

### **3.2 Financial reporting**

The Committee shall:

- (a)** Monitor and discuss with management the integrity of the financial statements of the Company, including:
  - i. The annual and half-yearly reports.
  - ii. Any other formal statements relating to its financial performance.
  
- (b)** Review and report to the board significant financial reporting issues and judgements which the financial statements and related formal statements contain having regard to matters communicated to it by the external auditor.
  
- (c)** Review and challenge where necessary:
  - i. The consistency, application, quality and appropriateness of the accounting policies, including any changes to accounting policies both on a year on year basis and across the Company.
  - ii. Whether the Company has made appropriate estimates and judgements, taking into account the external auditor's views.
  - iii. The clarity and completeness of financial reporting disclosures and any changes to those disclosures, including the review of any correspondence between the Company and the external auditor.
  - iv. The methods used to account for significant or unusual transactions (including any off balance sheet arrangements) where different approaches are possible.
  - v. Significant adjustments resulting from the external audit.
  - vi. 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 looking forward over an appropriate and justified period).
  - vii. The content of the report of the work of the Committee included in the annual report, with reference to any current and relevant guidance, in particular any guidance notes or minimum standards published by the regulator.
  
- (d)** Monitor compliance with financial reporting standards and any recognised investment exchange and other financial and governance reporting requirements.
  
- (e)** Review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to the audit and to risk management.

- (f) 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.
- (g) Review 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, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook.

### **3.3 Narrative reporting**

The Committee shall review the content of the annual report and accounts 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 position and performance, business model and strategy and whether it informs the board's statement in the annual report on these matters, as required under the AIC Code of Corporate Governance (**AIC Code**).

### **3.4 Risk management systems and internal controls**

The Committee shall:

#### **(a) Risk management**

- i. On behalf of the board (which retains overall responsibility for risk management), review and monitor the Company's risk management system and, at least annually, carry out a review of its effectiveness, and review and approve the statement to be included in the annual report concerning risk management.
- ii. On behalf of the board, which retains responsibility for carrying out the assessment, ensure that a robust assessment of the emerging and 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.
- iii. To maintain and regularly review the Company's risk register.

#### **(b) Internal controls**

Reasonably satisfy itself that the internal control systems put in place by the Investment Manager in respect of the Company (specifically financial, operational and compliance) meet relevant legal and regulatory requirements and initiate further investigations as it sees fit as to the effectiveness of the systems of control and approve the statement to be included in the annual report concerning internal control.

#### **(c) Ongoing viability**

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 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.

#### **(d) Investment Manager and service provider internal and external audit reports**

- i. Review the assurance reports from the Investment Manager, Custodian, Depositary and other service providers on the effectiveness of their internal control and risk management systems and from the Compliance Officer of the Investment Manager, the external auditor and others on the operational effectiveness of matters related to risk and control. The Committee should

- satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the board to satisfy itself that they are operating effectively.
- ii. Review the timeliness of, and reports on, the effectiveness of corrective action taken by the Investment Manager in response to any material external or internal audit recommendation.

**(e) Disclosures**

- i. Consider any necessary disclosure implications of the process that has been applied by the board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.
- ii. Consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and the Investment Manager's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate.

**3.5 Internal audit**

Where the Company has no internal audit function, the Committee shall consider at least annually the need for an internal audit function, make any recommendation to the board and explain the reasons for the absence of such a function to the board for disclosure in the annual report. The Committee shall assess whether the processes applied by management to ensure that the internal controls systems are functioning as intended provide sufficient and objective assurance and consider whether an independent, third party review of those processes is appropriate.

**3.6 External audit**

The Committee shall, taking into account any applicable law and legislation:

**(a) Appointment, reappointment and resignation**

- i. Consider and make recommendations to the board, to be put to shareholders for approval at the Company's AGM, on the appointment, reappointment or removal of the Company's external auditor.
- ii. Ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, to develop and oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process.
- iii. If an external auditor resigns, investigate the issues leading to this and decide whether any action is required.
- iv. Evaluate the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the auditor from the market in that evaluation.

**(b) Terms of engagement**

Oversee the relationship with the external auditor and negotiate and agree their terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit and, in consultation with the Investment Manager, agree their remuneration (including fees for both the audit and non-audit services) to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken.

**(c) Independence and expertise**

- i. Review and assess on an annual basis:
  - A. The external auditor's independence and objectivity taking into account the relevant UK law, professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services.
  - B. 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.
- ii. Seek reassurance from the external auditor and their staff that they have no relationships with the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity and, at least annually, seek information from the external audit firm about policies and processes for maintaining independence and monitoring compliance.

**(d) Non-audit services**

- i. Ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and the Company outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process.
- ii. Keep the policy for the provision of non-audit services by the auditor, including: prior approval of non-audit services by the Committee; specifying the types of non-audit service to be pre-approved; and assessing whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of: threats to the independence and objectivity of the external auditor and any safeguards in place; the nature of the non-audit services; whether the external audit firm is the most suitable supplier of the non-audit service; and the fees for the non-audit services, both individually and in aggregate, relative to the audit fee.

**(e) Audit cycle**

- i. Aim to create a culture, which recognises the work of, and encourages challenge by, the auditor
- ii. Review and approve the annual audit plan at the start of the audit cycle and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- iii. Meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without the management being present, to review the findings of the audit including (but not limited to) any major resolved or unresolved issues that arose during the audit, key accounting and audit judgements and levels of errors identified during the audit.
- iv. Consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the Company and the external auditor.
- v. Review any representation letter(s) requested by the external auditor before they are signed and consider whether, based on its knowledge, the information provided is complete and appropriate.
- vi. Review, prior to its consideration by the board, the external auditor's report to the directors and their management letter, including, but not limited to, the Investment Manager's response to the auditor's findings and

- recommendations; any major issues which arose during the audit; key accounting and audit judgements; and the level of errors identified during the audit.
- vii. Obtain evidence of the effectiveness of the external audit and the auditor from those impacted by the audit, including approaches such as evidencing occasions where the auditor has challenged the Manager and the result of those challenges; how the auditor responded to its previous assessments of the audit quality and whether any concerns expressed by the Committee have been addressed; the auditor's own assessment of the quality of the audit, and its quality assurance systems; engagement level Audit Quality Indicators agreed with the Committee; if the audit has been reviewed by the FRC, the auditor's response to the findings and details of any actions plans.
  - viii. At the end of the audit cycle, assess the effectiveness of the audit process including:
    - A. Reviewing whether the auditor has met the agreed audit plan and whether the external auditor identified any risks to audit quality and, if so, how these were addressed.
    - B. Understanding reasons for changes to the audit plan.
    - C. Discussing with the auditor the key audit firm and network level controls the auditor relied on to address the identified risks to audit quality and enquire about the findings from internal and external inspections of their audit and their audit firm.
    - D. Considering the external auditor's mind-set and culture, skills, character and knowledge; quality control, and judgements, including robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions and in their commentary where appropriate on the systems of internal control;
    - E. Obtaining feedback from key people on the conduct of the audit.
    - F. Reviewing and monitoring the content of the external auditor's management letter and other communications with the audit committee, to assess whether it is based on a good understanding of the company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.
    - G. Reporting to the board on the effectiveness of the audit process.

**(f) Other matters**

- i. Be responsible for the co-ordination between the activities of the external auditor, the Investment Manager and the Compliance Officer of the Investment Manager.
- ii. Monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of the audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements.

### **3.7 Compliance, speaking-up and fraud**

The Committee shall:

- (a)** Review the Company's investments with particular reference to maintenance of the Company's investment trust status under S1158/9 of the Corporation Tax Act 2010;
- (b)** Review the Company's service providers' procedures for detecting fraud, systems and controls for ethical behaviour and the prevention of bribery and modern slavery and to receive reports on non-compliance.

- (c) Review the adequacy and effectiveness of the Company's service providers' anti-money laundering systems and controls and receive reports on non-compliance.
- (d) Review regular reports from the Investment Manager's Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.
- (e) Review the adequacy and security of the Investment Manager's whistleblowing arrangements, as well as the Company's service providers to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

#### **4. MEMBERSHIP**

- 4.1 Unless otherwise determined by the board, the members of the Committee shall be all such persons who, for the time being, are appointed as a non-executive Director of the Company and are independent of the Investment Manager. It shall be the responsibility of the board to ensure that, at any given time, at least one Director (who is a member of the Committee) has recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies. As a whole, the Committee should have competence relevant to the sector in which the Company operates and experience of corporate financial matters.
- 4.2 The chairman of the board may be a member of the Committee if they were independent on appointment, but shall not be the chairman of the Committee.
- 4.3 The board shall appoint the chairman of the Committee. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present at a meeting shall elect one of their number present to chair the meeting.
- 4.4 The company secretary, or his or her nominee, shall act as the secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

#### **5. ATTENDANCE AT MEETINGS**

- 5.1 The Committee shall meet at least four times a year at appropriate times in the Company's financial reporting and audit cycle.
- 5.2 Outside of the formal meeting programme, the Committee chairman shall maintain a dialogue with key individuals involved in the Company's governance, including the board chairman, the external audit lead partner and the Investment Manager.
- 5.3 Only Committee members have the right to attend and vote at Committee meetings. However, the external auditor, and the Investment Manager shall be invited to attend and address meetings of the Committee by invitation and other individuals may be invited to attend all or part of any meetings as and when appropriate and necessary and with the Committee chairman's agreement. The Committee chairman shall have the discretion to decide who, other than the Committee members, shall attend and address Committee meetings.

The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

**5.4** Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conferences.

## **6. NOTICE OF MEETINGS**

**6.1** Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members or at the request of the Investment Manager or external audit lead partner.

**6.2** 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, any other person required to attend and all other non-executive directors, no later than five calendar days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time, but Committee papers may be forwarded at shorter notice with the approval of the Committee chairman.

## **7. QUORUM**

**7.1** The quorum necessary for the transaction of business at a Committee meeting shall be two members (including, whenever possible, at least one member with recent and relevant financial experience), present in person or by audio or video conference.

**7.2** A duly convened Committee meeting 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 the Committee.

## **8. VOTING ARRANGEMENTS**

**8.1** Each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).

**8.2** If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.

**8.3** Except where he has a personal interest, the Committee chairman shall have a casting vote.

**8.4** The Committee chairman may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

## **9. MINUTES OF MEETINGS**

**9.1** The company secretary (or his or her nominee) shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

**9.2** Draft minutes of Committee meetings shall be sent promptly to the Committee chairman.

**9.3** A resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.



## **10. ENGAGEMENT WITH SHAREHOLDERS**

The Committee chairman shall attend the annual general meeting to answer shareholder questions on the Committee's activities and areas of responsibility, including any questions relating to the resignation or dismissal of the external auditor. In addition, the Committee chair should seek engagement with shareholders on significant matters related to the committee's areas of responsibility.

## **11. REPORTING RESPONSIBILITIES**

The Committee shall:

**11.1** Report to the board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all Committee meetings shall be included in the board papers for a subsequent board meeting.

**11.2** Prepare a formal report to shareholders on its activities to be included in the Company's annual report, which shall include:

- (a)** Details of the membership of the Committee, number of meetings held and attendance over the course of the year.
- (b)** 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 auditor.
- (c)** Confirmation that the board has carried out a robust assessment of the emerging and principal risks facing the Company, a description of those risks and an explanation as to how they are being managed and mitigated.
- (d)** An explanation of its assessment of the independence and effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the Company, auditor objectivity and independence is safeguarded) and its recommendation on the appointment or reappointment of the external auditor, including length of incumbent auditor's tenure, when a tender was last conducted, advance notice of any retendering plans and any contractual provisions restricting the Committee's choice of auditor, and the amount of fees paid to the auditor for any of its services.
- (e)** An explanation of how the Committee has addressed the effectiveness of the internal audit process, if such function is in place.
- (f)** All other information requirements set out in the AIC Code.
- (g)** Any other issues on which the board has requested the Committee's opinion.

**11.3** In compiling the above report, exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but include at least those matters that have informed the board's assessment of whether the Company is a going concern and the inputs to the board's longer term viability statement.

**11.4** Make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

**11.5** Make available to shareholders these terms of reference by placing them on the Company's website.

## **12. GENERAL MATTERS**

The Committee shall:

- 12.1** Consider other duties determined by the board from time to time.
- 12.2** Have access to sufficient resources in order to carry out its duties, including access to the company secretary as required.
- 12.3** Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.
- 12.4** Give due consideration to all applicable laws and regulations, in particular the directors duties contained in the Companies Act 2006, the provisions of the AIC Code and the requirements of the FCA's Listing Rules, Prospectus and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules as appropriate.
- 12.5** Work and liaise as necessary with all other board committees ensuring interaction between committees and with the board is reviewed regularly.
- 12.6** Arrange for periodic reviews of its own performance and, at least annually review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

### **13. AUTHORITY**

The board authorises the Committee to:

- 13.1** Carry out all duties set out in these terms of reference, to have unrestricted access to the Company's documents and information and to obtain, at the Company's expense, appropriate professional advice on any matter within its terms of reference as it considers necessary.
- 13.2** Seek any information it requires from any Director or employee of the Investment Manager, secretary or any other supplier of services to the Company to performs its duties.
- 13.3** Secure the attendance of external advisers at its meetings if it considers this necessary, at the Company's expense.
- 13.4** Call any Director or employee of the Investment Manager, secretary or any other supplier of services to the Company to be questioned at a Committee meeting as and when required.
- 13.5** Have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the board.
- 13.6** Commission, at the Company's expense, any reports or surveys which it deems necessary to help it fulfil its obligations.
- 13.7** Collectively and individually have direct access to the Investment Manager and the Company's external auditors.

Adopted at the board meeting of the Company on 18 July 2024.