

City Merchants High Yield Trust Limited

(the "**Company**")

Terms of Reference for the Board of Directors of the Company (the "Board") and schedule of matters reserved for the Board.

(September 2019)

1. Objective

Every company should be headed by an effective board which is collectively responsible for the long term success of the company.

The Board's role is to provide entrepreneurial leadership of the Company, within the framework of prudent and effective controls which enable risk to be assessed and managed.

The Board should set the Company's strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives, and review management performance.

The Board should set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

(UK Corporate Governance Code Main Principle A1 and supporting principles)

2. Authority

Directors are authorised under the Companies (Jersey) Law 1991 as amended and the articles of association of the Company to:

- Seek any information they may require from:
 - Invesco's compliance and internal audit personnel;
 - Invesco's specialist funds division;
 - Any other relevant person within the Invesco group;
 - External parties, including auditors, brokers, registrars, lawyers, custodians and third party service providers.
- Obtain outside legal or other professional advice to a level of £10,000 having first consulted the chairman.
- Seek the attendance of any relevant persons from the Invesco group at meetings as appropriate.

3. Board Membership

- 3.1 The Board will comprise at least three non-executive Directors, the majority of whom, in the opinion of the Board, shall be independent of the Company, its investment manager (the "**Manager**") and its advisers. Overall, the Board shall have a blend of skills sufficient in terms of expertise and experience to run the Company. The day-to-day business of the Company shall be run by the Manager.
- 3.2 Each director should be capable of making a valuable contribution to the Board. Any necessary training will be arranged or provided by Invesco if so required by the Board.
- 3.3 The Board at present comprises: Tim Scholefield – chairman, Philip Austin, John Boothman, Heather MacCallum and Stuart McMaster.
- 3.4 Directors will be appointed for a three-year term of office, and all Directors will seek annual re-election at the Company's AGM.

4. Meetings

- 4.1 A quorum for any meeting unless fixed, will be two members.
- 4.2 The Board may invite such other persons to attend its meetings, as it deems necessary.
- 4.3 Meetings of the Board shall be summoned by the Company secretary at the request of the chairman or a director.
- 4.4 Meetings shall be held not less than four times a year. Further meetings may be convened as required. Notices of meetings will normally be issued at least five working days in advance.
- 4.5 In accordance with the articles of association, a director shall be treated as present in person at a meeting of the Board if he is in communication with the meeting by conference telephone or other communication equipment permitting those attending the meeting to hear one another.
- 4.6 The proceedings of all meetings will be minuted. Draft minutes will be circulated to the chairman within 15 working days and, following approval by the chairman, to all directors.

5. Schedule of Matters Reserved for the Board

Items marked * are often considered by the whole Board but with the final formal decision delegated to a committee of the Board. This allows time for any changes requested at the relevant Board meeting to be incorporated into the final document.

The Board has overall responsibility for:

5.1 Strategy and Management

- (a) The overall investment management of the Company.
- (b) The approval of the Company's long term investment objective and policy and any material changes which would be put to shareholders for their approval.
- (c) The approval of the annual operating budgets and any material changes to them.
- (d) The oversight of the Company's operations ensuring:
 - competent and prudent investment and administrative management;
 - sound planning;
 - an adequate system of internal control and risk controls;
 - adequate accounting, investment administration, statutory and other records; and
 - compliance with statutory and regulatory obligations.
- (e) The review of performance in light of the Company's strategy, investment objectives and policy, financials and ensuring that any necessary corrective action is taken.
- (f) Extension of the Company's activities into new business or geographic areas.
- (g) The appointment or removal of the Manager.
- (h) Any decision relating to any liquidation resolution to be proposed at a general meeting

Investment management is considered at each quarterly board meeting and the Manager is formally evaluated and reappointed annually at the Management Engagement Committee ("MEC") meeting.

The company's finances are considered at each quarterly board meeting.

Controls, risk and compliance are considered at the half-yearly Audit Committee meetings.

These (5.1(e)) are all standing agenda items.

The first strategy meeting of the Board was held in September 2018 and regularly thereafter. The strategy meeting will consider the investment objective and policy.

5.2 Investment Management

- (a) Agreeing a policy with the Manager regarding voting and corporate governance issues in respect of holdings in the Company's portfolio.
- (b) Defining the scope of the Manager's responsibilities, including the principal operating issues (such as the methodology for performance benchmarking, hedging, gearing, share buy-backs and issuance) and agreeing the procedure for the Manager to report back to the Board.
- (c) Identifying any circumstances in which the Manager should refer to the Board for approval before undertaking transactions (such as dealing in any other investment fund managed by the Investment Manager or investing in new issues of other closed-end funds managed by others).
- (d) Agreeing that the Manager inform the Board of any conflicts surrounding share trades and votes.
- (e) Changing the investment policy guidelines laid down for the Manager.

The Manager is formally evaluated annually.

Benchmarking, hedging, gearing & investment policy guidelines are standard agenda items and are reviewed and discussed at quarterly board meetings. Policies for share buy-backs and issuance have been agreed and will be reviewed as appropriate depending on market conditions.

The Company's portfolio predominantly comprises bonds, which rarely carry voting rights except in specific limited circumstances. The Company's stewardship functions have been delegated to the Manager which exercises the Company's voting rights on an informed and independent basis.

5.3. Structure and Capital

- (a) Changing the Company's capital structure including reduction of capital, share issues and share buy-backs (including the use of treasury shares).
 - The Board has established parameters for the issue and buyback of shares. The Manager is authorised to instruct share buybacks within the parameters set. The Board has authorised a standing Committee of at least one Director to approve the issue and allotment of new shares or the sale of shares from treasury. The Board has ruled that an email from such Director's private email address is sufficient evidence of such approval. However, the said Director must not be located in the UK when he approves the issuance. Should an offshore Director be unavailable to approve the issuance then JTC are also authorised to approve issuances within certain parameters. All share issues and buybacks are ratified at the next full Board meeting.

- (b) Approving any policies relating to discount management policy, share buy-backs and share issuance.
- (c) Changing the Company's listing status.

Policies in relation to share issuance and buybacks have been agreed and will be reviewed as appropriate depending on market conditions.

5.4. Financial Reporting and Controls

- (a) *Approving the annual financial and half-yearly announcements of results.
- (b) *Approving the annual financial report and accounts, (including the Directors' Report incorporating the business review, the corporate governance statement and directors' remuneration report), the half-yearly financial report and interim management statements.
- (c) *Approving the dividend policy.
- (d) *Declaring any interim and special dividends and recommendation of any final dividend.
- (e) *Approving any significant changes in accounting policies or practices.
- (f) Approving any changes to the capital:revenue apportionment of expenses.
- (g) Approving any treasury policies (including foreign currency exposure and the use of financial derivatives).
- (h) Approving the gearing policy.

Half yearly audit committee meetings review and approve the financial statements, consider the accounting policies and apportionment of expenses between capital and revenue.

Treasury policies and gearing are discussed quarterly as part of the Manager's report to the Board.

The dividend is considered and declared at each quarterly board meeting.

5.5. Internal Controls

- (a) *Ensuring the maintenance of a sound system of internal control and risk management including:
- Receiving reports on, and reviewing the effectiveness of, the Company's risk and control processes to support its strategy and objectives;
 - Undertaking an annual assessment of these processes; and
 - Approving an appropriate statement for inclusion in the annual and half-yearly financial report.

Risk and controls reports plus bridging letters are presented and assessed half yearly at the Audit Committee.

5.6. Contracts

- (a) Approving contracts which are materially, strategically or by reason of size, entered into by the Company in the ordinary course of business, for example bank borrowings.
- (b) Approving contracts of the Company not in the ordinary course of business, for example loans and repayments; foreign currency transactions; major acquisitions or disposals.
- (c) Approving major investments (including the acquisition or disposal of interests of more than 5 per cent in the voting shares of any company or the making of any takeover offer).

The company secretary or the Manager ensures that all contracts/agreements are reviewed and approved by the Board as and when they arise.

5.7. Communication

- (a) Approving resolutions and corresponding documentation to be put forward to shareholders at a general meeting.
- (b) *Approving all circulars and listing particulars (approval of routine documents could be delegated to a committee of the Board).
- (c) *Approving press releases concerning matters decided by the Board.

The shareholder resolutions are approved annually as part of the Annual Financial Report.

The company secretary or the Manager ensures that all circulars, press releases and similar documents are presented to the Board for approval before release.

5.8. Board Membership and Other Appointments

- (a) Considering and approving appointments to the Board.
- (b) Electing the Chairman of the Board.
- (c) Considering and, if thought appropriate, appointing a senior independent director.
- (d) *Appointment and removal of the company secretary.
- (e) Appointing, reappointing or removing the external auditors to be put to shareholders for approval, following the recommendation of the audit committee.
- (f) Ensuring a quorum for the transaction of business is present for each Board meeting.

The Nomination Committee identifies potential candidates for director/Chairman positions. Any new appointments are then approved by the Board.

The company secretary is evaluated annually by the MEC.

The Audit Committee considers the reappointment of the auditors annually.

The company secretary ensures the Board meetings are quorate.

5.8(f) is a standing agenda item.

5.9. Delegation of Authority

- (a) *Approving the terms of reference of Board committees.
- (b) *Receiving reports from Board committees on their activities and recommendations in respect of matters to be decided.
- (c) Agreeing the terms of any delegated authority given to the Manager or Company Secretary.

Terms of reference are presented at each committee meeting for review.

The company secretary ensures committees report to each board meeting as appropriate.

Delegated authorities are reviewed at the MEC meetings.

5.9(b) is a standing agenda item.

5.10. Corporate Governance Matters

- (a) *Undertaking a formal and rigorous review (as and when appropriate) of its own performance, that of its committees, individual directors, Manager, Company Secretary and any other third party service providers.
- (b) *Considering and determining the independence of directors.
- (c) Reviewing the Company's overall corporate governance arrangements.
- (d) Receiving reports on the views of the Company's shareholders.
- (e) Considering the interests of shareholders.

The Board carries out annual self-evaluations. In 2018 the Board appointed an external firm to carry out the evaluations.

All directors are considered independent.

Corporate governance matters are considered by the Audit Committee half yearly. Significant matters would be brought the Board's attention immediately by the Manager or company secretary if they arose between meetings.

Shareholder views are reported to the Board by the Manager and the Company's broker.

The performance of the company secretary and Manager are formally reviewed annually by the MEC.

5.11. Policies

Approving policies, including:

- Directors' tenure policy
- Persons discharging managerial responsibilities – share dealing code
- Directors' appointment policy
- Communications and marketing policy
- Corporate social responsibility policy
- Investment policy
- Directors' remuneration policy
- Buy-back and issuance policy

The company secretary ensures these are standing agenda items and are considered at least annually.

5.12.Other

- (a) Approving any political donations.
- (b) Approving the appointment of the Company's principal professional advisers.
- (c) Prosecution, defence or settlement of litigation.
- (d) Approving overall levels of insurance for the Company including directors' & officers' liability insurance (and indemnification of directors).
- (e) Approving this schedule of matters reserved for Board decision.

The company has not made any political donations and does not intend to do so.

The company secretary ensures all professional adviser appointments are approved by the Board and minuted.

Any potential litigation would immediately be brought to the Board's attention by the company secretary or Manager.

Insurance is arranged by the Manager and reviewed annually at renewal by the Board.

The review and approval of this schedule of matters is a standing annual agenda item.

5.13. Management Engagement Committee

Following a decision taken at the Board Meeting held on 27 September 2018, the Board agreed that a separate Management Engagement Committee be established with specific terms of reference.

5.14 Remuneration Committee

Following a decision taken at the Board Meeting held on 18 January 2012 the whole Board undertakes the functions that would otherwise be carried out by the remuneration committee. The Board has adopted specific terms of reference to apply when undertaking these functions.