

City Merchants High Yield Trust Limited

(the 'Company')

Terms of Reference for the Audit Committee (the "Committee")

(September 2018)

1. Constitution

The Committee operates under these Terms of Reference which were formally approved by resolution of the board of directors of the Company (the '**Board**') on 21 March 2013 and have been subsequently updated by the Committee (and ratified by the Board).

2. Objective

- 2.1 The Committee will support the Board in fulfilling its oversight responsibilities. It shall review and challenge the financial reporting process, the system of internal control and management of financial risks, the audit process and the Company's process for monitoring compliance with laws and regulations and with its own investment objective and policy.
- 2.2 To perform his/her role effectively, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Company's business, operations and risks.

3. Authority

- 3.1 The Board authorises the Committee, within the scope of its responsibilities to seek any information it requires from any employee of Invesco Fund Managers Limited (the '**Manager**') and R&H Fund Services (Jersey) Limited (the '**Company Secretary**') or from third parties including auditors, brokers, registrars, lawyers, custodians.
- 3.2 In performing its duties, the Committee will maintain effective working relationships with the Board, the portfolio manager appointed by the Manager, the Manager's compliance and internal audit functions and the Company's external auditors and their delegates, as well as external parties, including auditors, brokers, registrars, lawyers, depository, custodians and third party providers.
- 3.3 The Committee is authorised to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference, up to an initial level of £5,000 without reference to the Board.
- 3.4 The Committee is authorised to seek the attendance of any relevant persons from the Manager's Group and the depository at meetings as appropriate and to seek any information it requires from them in order to perform its duties.

4. Membership

- 4.1 The Committee shall be appointed by the Board and comprise at least three non-executive directors the majority of whom, in the opinion of the Board, are independent of the Company, the Manager and its advisers. At least one member shall have recent and relevant financial experience and at least one (who can be the same person) must have competence in accounting or auditing, or both. The Audit Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 4.2 Each member should be capable of making a valuable contribution to the Committee.
- 4.3 The Chairman of the Committee will be appointed by the Board from time to time. The first chairman shall be Philip Taylor.
- 4.4 The Chairman of the Company shall not be eligible to be appointed as a member of the Committee, but not chair the Committee, provided he was considered independent on appointment. However, the Committee Chairman may invite the Company Chairman to attend Audit Committee meetings as a guest.
- 4.5 So long as the majority of members are considered independent, the Committee shall not have a policy of tenure.
- 4.6 A quorum for any meeting will be two members. A duly convened meeting of the 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 the Committee.
- 4.7 The secretary of the Committee will be the secretary of the Company, or such other person as nominated by the Board from time to time.

5. Administration of Meetings

- 5.1 Meetings of the Committee shall be held not less than twice a year. Meetings of the Committee shall be convened by the Company Secretary at the request of the Chairman of the Committee. Other meetings may be convened as required. Unless otherwise agreed, all meetings will normally be notified to all members of the Committee and any other persons required to attend, at least five days in advance, confirming the venue, time and date together with an agenda of items to be discussed. The Manager's internal audit function or the external auditor may convene a meeting if they consider that it is necessary.
- 5.2 In the absence of the Committee Chairman and/or an appointed deputy, the remaining members shall elect one of themselves to Chair the meeting.
- 5.3 The Committee may invite such other persons to attend its meetings, as it deems necessary.

- 5.4 Representatives of the external auditors and the Manager's compliance, internal audit and risk teams will be invited to make presentations to the Committee as appropriate.
- 5.5 The Company Secretary shall minute the proceedings and resolutions of all Committee meetings. The draft minutes of Committee meetings shall be sent to the Chairman of the Committee within 10 working days of the meeting and will be circulated to all directors following approval by the Chairman of the Committee.
- 5.6 The Chairman of the Committee should attend the Annual General Meeting (in his absence at least one other member of the Audit Committee should attend) and be prepared to respond to shareholder questions on the Committee's activities.

6. Duties

a) Internal Controls and Risk Management

The Committee shall:

- 6.1 Evaluate whether the Manager is setting the appropriate 'control culture' by communicating the importance of internal control and risk management and is ensuring that all relevant employees have an understanding of their roles and responsibilities.
- 6.2 Consider how the Manager ensures an adequate level of information security and that the security of computer systems and applications are maintained with contingency plans for processing financial information in the event of a systems breakdown.
- 6.3 Consider whether internal control recommendations made by the Manager's internal audit department and external auditors have been implemented by the Manager.
- 6.4 Evaluate whether the Manager is complying with regulatory matters.
- 6.5 Review all relevant reports (or call for such reports to be provided) on the Company relating to the operation of the internal controls in the Company or at third party service providers.
- 6.6 Review the appropriate statements to be included in the annual financial report concerning internal controls and risk management.
- 6.7 Annually review the Committee's Terms of Reference and make recommendations to the Board as to their amendments and approval.
- 6.8 Regularly review the Company's Risk Control Summary and related Risk Control Matrix prior to the Board's consideration of risk management.
- 6.9 Review the Manager and Company Secretary's arrangements for their employees to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters.

b) Financial Reporting

The Committee shall:

- 6.10 Gain an understanding of the current areas of greatest significance and risk with respect to financial reporting and how the Manager is managing these effectively.
- 6.11 Consider with the Manager's compliance and internal audit functions and the external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues.
- 6.12 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements and understand their impact on the financial statements.
- 6.13 Question key personnel including the Manager, the Manager's compliance and internal audit functions and the external auditors about significant risks and exposures and the plans to minimise such risks.
- 6.14 Review any legal matters which could have a significant impact on the financial statements.

c) Annual Financial Statements

The Committee shall:

- 6.15 Review the annual financial report by:
 - assessing whether the financial statements reflect appropriate accounting principles and policies;
 - determining whether the financial statements and narrative reporting are complete and consistent with the information known to Committee members and;
 - advise the Board, where requested on whether, taken as a whole, it is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Company's performance, business model and strategy.
- 6.16 In carrying out 6.15 above, particular attention shall be paid to:
 - a) critical accounting policies and practices and any changes in them;
 - b) decisions requiring a significant element of judgement;
 - c) complex and any unusual transactions in the year and how they are disclosed;
 - d) the clarity of disclosures;
 - e) the going concern assumption;
 - f) compliance with accounting standards; and
 - g) compliance with stock exchange and other legal requirements.
- 6.17 Meet with the Manager and the external auditors to review the financial statements and the results of the audit.

- 6.18 Ensure that the financial statements of the Company comply with applicable rules and regulations, including the Listing Rules, Companies (Jersey) Law 1991, accounting standards and other legal requirements.
- 6.19 Assess the fairness of the annual and half-yearly financial reports and obtain explanations from the Manager, the Manager's compliance and internal audit functions and the external auditors on whether:
- there are any significant variances from projected results;
 - investments are appropriately valued;
 - changes in financial ratios and relationships are consistent with changes in the Company's operations and financing practices;
 - there are any actual or proposed changes in accounting or financial reporting practices;
 - there are any significant or unusual events or transactions;
 - the Company's financial and operating controls are functioning effectively; and
 - they contain adequate and appropriate disclosures.

Internal Audit, Risk and Compliance

The Committee shall:

- 6.20 Review the activities, organisational structure and resourcing of the Manager's compliance, internal audit and risk functions and ensure no unjustified restrictions or limitations are made.
- 6.21 Monitor and review the effectiveness of the Manager's internal audit, compliance and administration functions.
- 6.22 Be satisfied that the Manager's internal audit, compliance and depositary have direct access to the Board of the Company, and vice versa, to discuss any matters that either party believes should be discussed privately.
- 6.23 Periodically receive a report on the results of the Manager's compliance and internal audit work, as well as a report from the risk function.
- 6.24 Ensure that significant findings and recommendations made by compliance, internal audit and the depositary are received and discussed on a timely basis.
- 6.25 Ensure that management responds to recommendations made.

External Audit

The Committee shall:

- 6.26 Consistent with the 2015 Competition & Markets Authority Order, only the Audit Committee shall:
- conduct periodic audit tenders; (refer to 6.31)
 - make recommendations to the Board on choice of auditor;
 - settle the terms of the audit engagement letter;
 - agree the audit fee, audit partner and audit scope; and
 - agree the non-audit services policy.
- 6.27 Oversee the Company's relationship with the external auditors.
- 6.28 Review the performance of the external auditors.
- 6.29 Consider the independence of the external auditors, including reviewing the range of services provided in the context of all consulting services bought by the Company.
- 6.30 Make recommendations to the Board regarding the resignation and replacement of the external auditors.
- 6.31 Assess at least once every ten years, the appropriateness of putting the external audit contract out to tender.
- 6.32 Meet separately with the external auditors to discuss any matters that the Committee or external auditors believe should be discussed privately.
- 6.33 Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.
- 6.34 Ensure that the Manager responds to recommendations by the external auditors.
- 6.35 Review and approve the letter of representation to the Auditors before its presentation to the Board.

Compliance with Laws and Regulations

The Committee shall:

- 6.36 Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
- 6.37 Obtain regular updates from the Manager ~~and the Company's legal advisors~~ regarding compliance matters and seek legal advice as appropriate.
- 6.38 Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

6.39 Review the findings of any examinations by regulatory agencies.

Reporting Responsibilities

The Committee shall:

- 6.40 Regularly update the Board about Committee activities and make appropriate recommendations.
- 6.41 Ensure the Board is aware of matters which may significantly impact the financial condition or affairs of the Company.
- 6.42 Ensure that the work of the Audit Committee in discharging its responsibilities is described in a separate section of the annual report, including:
- the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;
 - an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
 - if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

Other Responsibilities

- 6.43 Review and challenge, where necessary, the audited service organisation control reports of other third party services providers, such as the Company's administrator, custodian and depositary.
- 6.44 Perform other oversight functions as requested by the Board (e.g. consider the way in which the management fee and financing costs have been calculated and charged).
- 6.45 If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.
- 6.46 Review and update the terms of reference of the Committee; seek approval of changes from the Board.
- 6.47 Evaluate the Committee's own performance on a regular basis and report to the Board on how it has discharged its responsibilities as a Committee.