THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC

Terms of Reference for the Audit and Risk Committee

The Audit and Risk Committee (the "Committee") is appointed as a committee of the Board in accordance with the articles of association.

1. Membership

1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Committee. The Committee shall be made up of at least three members.

1.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The Chair of the Board may be a member of the Committee but shall not chair the Committee. The Committee as a whole shall have competence relevant to the investment trust sector.

1.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as representatives from the Manager and BNP Paribas Securities Services may be invited to attend all or part of any meeting as and when appropriate. The Chair of the Board shall have a standing invitation to attend all meetings of the Committee.

1.4 The external auditors will be invited to attend meetings of the Committee at least on an annual basis.

1.5 The Board shall appoint the Committee Chair who shall be an independent non-executive director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2. Secretary

2.1 The Corporate Secretary or its nominee shall act as the Secretary of the Committee.

3. Quorum

3.1 The quorum necessary for the transaction of business shall 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. Frequency of Meetings

4.1 The Committee shall meet at least three times a year and otherwise as required.

4.2 Notices, agendas and supporting papers will be sent in electronic form unless the recipient has requested to receive documents in a different format.

5. Duties

5.1 Financial Reporting

5.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-year reports (where applicable) and any other formal announcements relating to its financial performance.

5.1.2 The Committee shall review the significant financial reporting issues and judgements made in connection with the Company's financial statements and related formal statements and challenge where necessary:

5.1.2.1 the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company;

5.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

5.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

5.1.2.4 the clarity and completeness of disclosures in the Company's financial statements and the context in which statements are made;

5.1.2.5 all material information presented with the financial statements, such as the Chair's statement, the Portfolio Review, the Directors' Remuneration Report, the viability statement, the going concern statement and the corporate governance statement (insofar as it relates to the audit and risk management);

5.1.2.6 the Committee shall review any other statements requiring Board approval that contain financial information, where it is practicable to do so before Board approval and consistent with any prompt reporting requirements under applicable law or regulation;

5.1.2.7 the Company's statement on risk management and internal control systems (including any required declaration on the effectiveness of material controls), prior to endorsement by the Board, and the policies and process for identifying and assessing business risks and the management of those risks by the Company and the other narrative statements contained in the annual and half-year reports, including the viability statement and statement on going concern; and

5.1.2.8 the need to ensure that the information presented is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee should also advise the Board on whether the annual report and accounts informs the Board's statement in the annual report on these matters.

5.2 Internal Controls and Risk Management Systems

The Committee shall:

5.2.1 keep under review the effectiveness of the Company's risk management and internal control systems, including the internal controls operated on the Company's behalf by the Manager and other key service providers;

5.2.2 review and approve (for recommendation to the Board) the statements to be included in the annual report and half-year report concerning internal controls and risk management, including any statement required by applicable codes or regulations on the effectiveness of the Company's risk management and internal control framework;

5.2.3 monitor and review the remit and effectiveness of the Manager's internal audit, information security and operational risk functions in the context of its overall risk management system;

5.2.4 meet representatives of the Manager's operational risk, information security and internal audit, on a regular basis, to discuss their remit and any issues arising;

5.2.5 consider annually whether the Company should have an internal audit function and make recommendations to the board accordingly;

5.2.6 monitor and review the processes, assurance and reporting protocols of all matters in relation to compliance with the Bribery Act 2010 and similar financial crime prevention obligations (including anti-money laundering, sanctions, fraud and tax evasion);

5.2.7 review, at least annually, the Company's principal risks (as documented in its risk register) and the key controls in place to mitigate those risks, in order to identify which of those controls are 'material controls', i.e. controls that are critical to preventing or mitigating risks that could seriously compromise the Company. The Committee shall assess whether the reporting and assurance in place on these material controls (including, where available, independent third-party control reports from service providers) are sufficient and appropriate;

5.2.8 conduct an annual review of the effectiveness of the Company's overall risk management and internal control framework, covering all material controls (financial, operational, compliance and otherwise, including those maintained by third-party service providers). The Committee shall report to the Board the results of this review and any recommendations for improvements or remedial actions;

5.2.9 provide assurance and advice to support the Board's annual statements on internal control. In particular, the Committee shall, following its annual review:

5.2.9.1 confirm to the Board whether, in the Committee's opinion, the Company's risk management and internal control systems (including all identified material controls) have operated effectively during the period and as at the financial year-end date; and

5.2.9.2 if any material control is found not to have operated effectively at the year end, inform the Board of the details and recommend appropriate disclosure, further investigation or remedial action;

5.2.10 monitor service providers' progress in implementing any remedial actions or improvements recommended by the Committee in relation to internal controls (particularly material controls), and report back to the Board on the status of such actions.

5.3 External Audit

The Committee shall:

5.3.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall develop and conduct the tender process for new auditors in accordance with the FRC's Audit Committees and the External Audit: Minimum Standard (the "Minimum Standard"). If an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;

5.3.2 oversee the relationship with the external auditor including (but not limited to):

5.3.2.1 approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;

5.3.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

5.3.2.3 assess at least annually the external auditor's independence, objectivity, qualifications, resources and audit effectiveness (taking into account any non-audit services, relevant ethical standards, and the auditor's own quality controls and regulatory inspection findings), and satisfy itself that no relationships exist which compromise auditor independence;

5.3.3 review the annual audit plan and ensure that it is consistent with the scope of the audit engagement (after prior review by the Committee Chair);

5.3.4 review the findings of the audit with the external auditor, including any major issues or adjustments arising during the audit, any significant accounting/audit judgements, and the levels of errors identified;

5.3.5 implement policy on engaging the external auditor for non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required. The policy should consider the nature of the non-audit services, whether the external audit firm is the most suitable supplier, the fees for non-audit services, the criteria governing compensation and assessment of whether non-audit services have a direct or material effect on the audited financial statements.

At the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process. In the course of doing so, the Committee should, at least annually, evaluate the effectiveness of the external audit process and the performance of the auditor, taking into account the views of both the auditor and the Manager's staff, and report any significant findings or recommended improvements to the Board.

The Committee should satisfy itself that the quality of the audit is of a sufficiently high standard supported by evidence and be able to justify how the Committee arrived at its conclusion. There should be regular, open communication between the Committee and the auditor, as well as with the Company's management.

6. Reporting responsibilities

6.1 The Committee Chair shall report formally to the Board after each meeting on the Committee's discussions and recommendations, including any areas within its remit where the Committee considers that action or improvement is needed.

6.2 The Committee's report in the Annual Report shall explain how the Committee has discharged its duties and met applicable code provisions (including the FRC's Minimum Standard), covering in particular:

6.2.1 the significant issues the Committee considered relating to the financial statements, and how these were addressed;

6.2.2 how the Committee reviewed the effectiveness of the Company's risk management and internal control framework and assisted the Board in its Provision 34 effectiveness declaration; and

6.2.3 how the Committee assessed the external auditor's independence and audit effectiveness, including the approach to auditor re-appointment, tenure and any non-audit services.

7. Communication with shareholders

7.1 The terms of reference of the Committee, including its role and the authority delegated to it by the Board, should be made available publicly.

7.2 The Chair of the Committee should attend the AGM to answer shareholders' questions on the Committee's activities and matters within the scope of the Committee's responsibilities. In addition, the Chair of the Committee shall be available to engage with shareholders on significant matters related to the Committee's areas of responsibility.

8 Other matters

The Committee shall:

8.1 have access to sufficient resources in order to carry out its duties,

8.2 be provided with appropriate and timely training, in the form of ongoing training at the Company's expense;

8.3 give due consideration to applicable laws, regulations, codes and regulatory guidance;

8.4 oversee any investigation of activities which are within its terms of reference; and

8.5 at least once a year, review its own constitution and terms of reference.

9. Authority

The Committee is authorised to:

9.1 seek information it requires from employees of the Manager or BNP Paribas, as appropriate in order to perform its duties; and

9.2 obtain, at the Company's expense, external legal or other professional advice on any matter within its terms of reference.

10. Whistleblowing

The Committee should review arrangements by which the Manager's staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.