

HENDERSON DIVERSIFIED INCOME TRUST PLC

Terms of Reference Audit Committee

Adopted on 3 September 2019

1. Membership

- 1.1 The committee shall comprise at least two members. Members of the committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the audit committee.
- 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 ideally with a professional qualification from one of the professional accountancy bodies. The company chairman may be a member of, but not chair, the committee provided (s)he was independent on appointment as chairman. If the chair of the board is a member of the audit committee, the board should explain in the annual report why it believes this is appropriate. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates.
- 1.3 Unless otherwise determined by the Board, a director shall be deemed to be 'independent' for the purposes of these terms of reference if (s)he would be deemed to be 'independent' under provision 13 of the AIC Code of Corporate Governance.
- 1.4 Only members of the committee have the right to attend committee meetings. However, the external auditor will be invited to attend meetings of the committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.5 The board shall appoint the committee chairman. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2. Secretary

- 2.1 The company secretary, or his or her nominee, shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
- 2.2 The company secretary will ensure that the committee has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

3. Quorum

- 3.1 The quorum necessary for the transaction of business shall be two members.

4. Frequency of meetings

- 4.1 The committee shall meet at least twice a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the board chairman and the external audit lead partner.

5. Notice of meetings

- 5.1 Meetings of the committee shall be convened by the secretary of the committee at the request of any of its members or at the request of the external audit lead partner if they consider it necessary.
- 5.2 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

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working 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.

6. Minutes of meetings

- 6.1 The secretary shall minute the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2 Draft minutes of committee meetings shall be circulated promptly to all members of the committee. Once approved, minutes should be circulated to all other members of the board unless it would be inappropriate to do so in the opinion of the committee chairman.

7. Annual general meeting

- 7.1 The committee chairman should attend the annual general meeting to answer shareholder questions on the committee's activities.

8. Duties

To fulfil the duty under section 172 of the Companies Act 2006, each individual director must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and in doing so, have regard to a number of broader matters including:

- (a) the likely consequences of any decision in the long-term;
- (b) the need to foster the company's business relationships with suppliers, customers and others;
- (c) the impact of the company's operations on the community and the environment;
- (d) the desirability of the company maintaining a reputation for high standards of business conduct; and
- (e) the need to act fairly between members of the company.

The committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

8.1 Financial reporting

- 8.1.1 The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing and reporting to the board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor
- 8.1.2 The committee shall consider the linkage between the principal risks in the strategic report, the company's risk map, the viability statement and disclosures made in the s172 (1) statement when reviewing the annual report.
- 8.1.3 In particular, the committee shall review and challenge where necessary:
 - the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the company/group;
 - the methods used to account for significant or unusual transactions where different approaches are possible;
 - whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
 - all material information presented with the financial statements, such as the strategic report, report of the directors, director's remuneration report, report of the audit committee, the

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business review and the corporate governance statements relating to the audit and to risk management.

- 8.1.4 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.

8.2 Narrative reporting

- 8.2.1 Where requested by the board, the committee should 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.

8.3 Internal controls and risk management systems

The committee shall:

- 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 annual report concerning internal controls and risk management.

8.4 Compliance, whistleblowing and fraud

The committee shall:

- review the adequacy and security of the Manager's arrangements for its employees and contractors 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;
- review the Manager's procedures for detecting fraud;
- monitor and review the Manager's processes, assurance, reporting protocols, systems and controls for the prevention of bribery and receive reports on non-compliance, including all matters in relation to the UK Bribery Act 2010 and the Criminal Finances Act 2017; and
- monitor and review the confirmations from the Company's third party suppliers of their adherence to the UK Bribery Act 2010, the Criminal Finances Act 2017 and Anti-Tax Evasion measures.

- 8.4.1 It is recognised that additional "off-cycle" reviews may be necessary following major changes for the Company e.g. changes in law or changes of investment policy.

8.5 Internal audit

The committee shall:

- ensure that the Manager's internal audit team has direct access to the board chairman and to the committee chairman;
- receive a periodic report on the result of the Manager's internal audit work and the respective management's responsiveness to the internal auditors findings and recommendations;
- meet with the Manager's chief risk officer at least once a year without the presence of management and have access to any other key business heads as deemed necessary; and
- monitor and review the company's requirement for an internal audit function, in the context of the company's overall risk management system.

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8.6 External audit

The committee shall:

- 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;
- ensure that at least once every five 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 oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- oversee the relationship with the external auditor including (but not limited to):
- approval of the remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
- approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- assessing annually their independence and objectivity taking into account relevant UK or other professional and regulatory requirements and the relationship with the auditor as a whole;
- developing and implementing policy on the engagement of the external auditor to supply 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;
- 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 auditor's independence and objectivity;
- agreeing with the board a policy on the employment of former employees of the company's auditor, and monitoring the implementation of this policy;
- monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of 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;
- 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
- evaluating 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 their auditor from the market in that evaluation.
- 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 management being present, to discuss the auditor's remit and any issues arising from the audit;
- review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- review the findings of the audit with the external auditor.

8.6.1 This shall include but not be limited to, the following:

- a discussion of any major issues which arose during the audit;
- key accounting and audit judgements;
- levels of errors identified during the audit; and
- the effectiveness of the audit process.

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The committee shall also:

- review any representation letter(s) requested by the external auditor before they are signed for and on behalf of the board; review the Manager's company's letter of support and any recommendations made.

9. Reporting responsibilities

9.1.1 The committee chairman shall report formally to the board on its proceedings after each meeting 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:

- the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;
- its assessment of the independence and effectiveness of the external audit process (required under paragraph 8.6) and the approach taken to the appointment or reappointment of the external auditor, 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
- any other issues on which the Board has requested the Committee's opinion.

9.1.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

9.1.3 The committee shall compile a report on its activities to be included in the company's annual report. The report should include an explanation of how the committee has addressed the independence and effectiveness of the external audit process; 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 auditor; and all other information requirements set out in the UK Corporate Governance Code and the AIC Code of Corporate Governance.

9.1.4 In compiling the reports referred to in 9.1.1 and 9.1.3, the committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the board's assessment of whether the company is a going concern and the viability statement confirming that the Company will be able to meet its liabilities as they fall due over a period that the committee feel is suitable. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

9.1.5 In the case of the board not accepting the committee's recommendation on the external auditor appointment, reappointment or removal, the committee shall include a statement explaining its recommendation and reasons why the board has taken a different position, in the annual report.

9.1.6 Amendments may be made to the duties of the committee by the board from time to time.

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10. Other matters

The committee shall:

- have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the AIC Code of Corporate Governance and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure, Guidance and Transparency Rules and any other applicable rules, as appropriate;
- oversee any investigation of activities which are within its terms of reference;
- work and liaise as necessary with all other board committees; and
- arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board.

11. Authority

The committee is authorised to:

- seek any information it requires from the Manager, in order to perform its duties;
- obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so, up to a limit of £5,000 for any one issue and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- 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.