

JPMorgan Fleming Japanese Smaller Companies Investment Trust plc

Audit Committee – Terms of Reference (revised)

(Terms of Reference adopted on 8th December 2000,
revised Terms of Reference adopted on 3rd March 2004,
27th November 2007 and 24th November 2009)

Purpose

The Audit Committee is a committee of the Board of JPMorgan Fleming Japanese Smaller Companies Investment Trust plc, established to review the principles, policies and practices adopted in the preparation of the accounts of the Company and to ensure that the interim and annual financial statements of the Company and any other announcement relating to the Company's financial performance comply with all statutory requirements.

The Audit Committee shall also review the work of the Company's external auditors and of the internal controls of JPMorgan Asset Management (JPMAM) Limited, in so far as they impact on the Company to ensure the adequacy and effectiveness of their financial, operating, compliance and risk management controls.

The Audit Committee shall also review the management of corporate governance, risk and regulatory compliance as it relates to the Company, and report its findings to the Board.

Membership

The Committee shall consist of all the independent members of the Board, with the Chairman of the Committee appointed by the Board. At least one member of the Committee shall have recent relevant financial experience. A quorum for meetings shall be at least two members. Membership shall be identified in the Annual Report.

The Chairman of the Committee shall be appointed by the Board and should not be the Chairman of the Board.

Attendance at Audit Committee Meetings

Any other Board members shall attend if invited by the Committee.

Any representative of JPMAM, including Internal Audit and Compliance, and the Company's external auditors shall attend at the invitation of the Committee. There should be at least one meeting each year at which the external auditors are in attendance and, if required, without the Manager present. That meeting shall take place around the time of finalisation of the Annual Report & Accounts but frequency of Board meetings may dictate the date.

The Company Secretary shall be Secretary of the Committee and shall be responsible for preparing the agenda and producing and circulating the minutes to all Directors.

Frequency of Meetings

The Committee shall meet not less than twice per year to coincide with the half year and year ends. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member.

The external auditors and representatives of JPMAM may request a meeting at any time if they consider that one is necessary.

The notice of each meeting, together with an agenda of items to be discussed, shall be forwarded to each member, and any other person required to attend, no later than five working days before the date of the meeting.

Authority

The Committee is authorised by the Board to:

- Investigate any activity within its terms of reference;
- Seek any information it requires in order to perform its duties. JPMAM and its employees shall co-operate with any request made by the Committee; and
- Obtain outside legal or other independent professional advice at the Company's expense and such advisors may attend meetings as necessary.

Responsibilities

The responsibilities of the Committee shall be to:

- Give due consideration to laws and regulations, the provisions of the Combined Code, the requirements of the Listing Rules and the AIC Code for the purpose of financial reporting and reviewing the financial statements;
- Consider the appointment of the external auditors and assess their independence, ensuring that key partners are rotated at appropriate intervals;
- Recommend the audit fee to the Board and approve any fees in respect of non audit services provided by the external auditors and to ensure that the provision of such services does not impair the external auditors' independence or objectivity;
- Discuss with the external auditors the nature and scope of the audit and review their quality control procedures and steps taken by the external auditors to respond to changes in regulatory and other requirements;
- Oversee the process for selecting the external auditors and make appropriate recommendations through the Board to the shareholders to consider at the AGM;
- Review and approve the auditors engagement letter, any amendments and review the external auditors management letter and JPMAM Investment Trust Department's response to the external auditor's findings and recommendations;
- Review the external Auditors' audit report;
- Confirm all relevant audit information is available to the auditors
- Review on an annual basis the external auditors' independence and effectiveness;
- Review the JPMAM's and the external auditors' reports on the effectiveness of systems of internal control;

- Review and challenge, where necessary, the actions and judgements of JPMAM, in relation to the half year and annual financial statements, the interim management statements and any other formal announcements relating to its financial performance before submission to the Board, paying particular attention to:

Critical accounting policies and practices, and any changes in them.

Significant financial reporting judgements and estimates contained in them.

The extent to which financial statements are affected by any unusual transactions in the year and how they are disclosed.

The clarity of disclosures.

Significant adjustments or unadjusted differences arising from the audit.

The going concern assumption.

Compliance with accounting standards.

Compliance with stock exchange, regulatory and other legal requirements.

Reviewing the Company's statement on internal control systems prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the Company.

- Review JPMAM's procedures, to the extent that they may impact on the Company, for handling allegations from whistleblowers to ensure that there is a proportionate and independent investigation of such matters and appropriate follow-up action.
- Review the effectiveness of the Company's policies and procedures for the identification, assessment and reporting of risks.
- Consider other topics as defined by the Board.

Reporting Procedures

Minutes of Committee meetings shall be circulated promptly to all Board members.

The Committee members shall conduct an annual review of their work and effectiveness and these terms of reference and make recommendations to the Board.

The Committee's duties and activities during the year shall be disclosed in the annual financial statements.

The Chairman of the Committee shall attend the Annual General Meeting and shall answer questions, through the Chairman of the board, on the Committee's activities and their responsibilities.