



## **FLAHERTY & CRUMRINE FUNDS**

### **AUDIT COMMITTEE CHARTER**

1. The Audit Committee (the “Committee”) shall consist of at least three members and shall be composed entirely of independent directors (within the meaning of the applicable regulatory requirements), all of whom shall be financially literate and at least one of whom shall have accounting or related financial management expertise as determined by the Fund’s Board in its business judgment. At least one member of the Committee may qualify and be designated an “audit committee financial expert” (“ACFE”), within the meaning of the rules adopted and implemented under Section 407 of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”).

2. The purposes of the Committee are:

(a) to assist Board oversight of (i) the integrity of the Fund’s financial statements and the independent audit thereof; (ii) the Fund’s accounting and financial reporting policies and practices and its internal control over financial reporting; (iii) the Fund’s compliance with legal and regulatory requirements; and (iv) the qualifications, independence and performance of the Fund’s independent registered public accounting firm (the “auditors”); and

(b) to prepare the report required to be prepared by the Committee pursuant to applicable laws and rules for inclusion in the Fund’s annual proxy statement.

The auditors shall report directly to the Committee.

The function of the Committee is oversight. The Fund’s management is responsible for (i) the preparation, presentation and integrity of the Fund’s financial statements, (ii) the maintenance of appropriate accounting and financial reporting principles and policies and (iii) the maintenance of internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The auditors are responsible for planning and preparing proper audits and reviews. In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not employees of the Fund and are not, and do not represent themselves to be, accountants or auditors by profession or experts in the fields of accounting or auditing, notwithstanding the possibility that one or more members may be designated an ACFE. As such, it is not the duty or responsibility of the Committee or its members to conduct “field work” or other types of auditing or accounting reviews or procedures. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Fund from which it receives information and (ii) the accuracy of the financial and other information, including, for example, the information contemplated by paragraph 3(d), provided to the Committee by such persons and organizations absent actual knowledge to the contrary (which shall be promptly reported to the Fund’s Board). In addition, the evaluation of the Fund’s financial statements by the Committee is not of the same scope as, and does not involve the extent of detail as, audits performed by the auditors, nor does the Committee’s evaluation substitute for the responsibilities of the Fund’s management for preparing, or the auditors for auditing, the financial statements. The designation of a person as an ACFE is not intended to impose any greater responsibility or liability on that person than the responsibility and liability imposed on such person as a member of the Committee, nor does it decrease the duties and obligations of other Committee members or the Board.

3. To carry out its purposes, the Committee shall have the following duties and powers:

(a) be directly responsible for the appointment, compensation, retention and oversight of the work of the auditors or any other public accounting firm engaged for the purposes of preparing or issuing an audit report or performing other audit, review or attest services for the Fund (including resolution of



disagreements between management and auditors regarding financial reporting) and, in connection therewith, evaluate the independence of the auditors;

(b) to pre-approve all audit and non-audit services to be provided by the auditors to the Fund, and all non-audit services to be provided by the auditors to the Fund's investment adviser and any service providers controlling, controlled by or under common control with the Fund's investment adviser that provide ongoing services to the Fund, if the engagement relates directly to the operations and financial reporting of the Fund, or to establish detailed pre-approval policies and procedures for such services in accordance with applicable laws;

(c) to consider whether the provision by the auditors of non-audit services to its investment adviser or adviser affiliate that provides ongoing services to the Fund, which services were not pre-approved by the Audit Committee, is compatible with maintaining the auditors' independence;

(d) to meet with the auditors, including private meetings as necessary: (i) to review the arrangements for and scope of the annual audit and any special audits; (ii) to review the scope of non-audit services being provided; (iii) to discuss any matters of concern relating to the Fund's financial statements, including any adjustments to such statements recommended by the auditors, or other results of said audits; (iv) to consider the auditors' comments with respect to the Fund's financial policies, procedures and internal accounting controls and management's responses thereto; (v) to obtain annually in writing from the auditors their letter as to the adequacy of such controls; (vi) to review any difficulties the auditors encountered in the course of the audit, including any restrictions on their activities or access to requested information and any significant disagreements with management, and management's response thereto; (vii) to review the form of report the auditors propose to render to the Board and shareholders; and (viii) to ensure receipt of a formal written statement from the auditors at least annually that specifically delineates all relationships between the auditors and the Fund, including any relationships or services that may impact the auditors' objectivity and independence;

(e) at least annually, obtain and review a report by the auditors describing the auditors' internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and for the purpose of assessing the auditors' independence, all relationships between the auditors and the Fund;

(f) to meet with the Fund's management and, in the case of audited financial statements, the auditors: (i) to review and discuss the annual audited financial statements and semiannual financial statements, including Management's Discussion of Fund Performance; (ii) to discuss generally earnings press releases and any financial information and earnings guidance provided to analysts and rating agencies, if any (but the Committee need not discuss in advance each earnings release or each instance in which the Fund may provide earnings guidance); (iii) to review all critical accounting policies and practices applied by the Fund in preparing its financial statements; (iv) to review all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management; and (v) to review other material written communications between the auditors and the Fund, including any management letter, report or recommendation on internal controls, schedule of unadjusted differences, engagement letter and independence letter;

(g) to review with the Fund's principal executive officer and/or principal financial officer in connection with their certification of Form N-CSR and N-Q any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Fund's ability to record, process, summarize and report financial information and any fraud, whether or not material, involving management or other employees who have a significant role in the Fund's internal control over financial reporting;



- (h) to consider and evaluate the effect upon the Fund of significant changes in accounting principles, practices, controls or procedures proposed or contemplated by management or the auditors;
- (i) to discuss guidelines and policies governing the process by which management of the Fund manages the Fund's exposure to risk, and to discuss the Fund's major financial risk exposures and the steps management has taken to monitor and control such exposures;
- (j) to establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential anonymous submission by employees of the investment adviser, administrator or any other provider of accounting related services for the Fund and the investment adviser, as well as any employees of the Fund, of concerns regarding questionable accounting or auditing matters pertaining to the Fund;
- (k) to establish hiring policies for employees or former employees of the auditors consistent with government regulations;
- (l) to review and evaluate the qualifications, performance and independence of the lead partner of the auditors;
- (m) to discuss with management the timing and process for implementing the rotation of the lead audit partner and the reviewing partner, and to consider whether there should be a regular rotation of the audit firm itself;
- (n) to cause the preparation of any report or other disclosures required by the rules of New York Stock Exchange, Inc. ("NYSE") or the federal securities laws and to discuss with management any notification of non-compliance with any applicable provision of the NYSE's corporate governance rules;
- (o) to report its activities to the full Board on a periodic basis and make such recommendations with respect to the matters within the scope of its authority and other matters, as the Committee may deem necessary or appropriate;
- (p) to consider the following at least annually and provide a recommendation to the Board for further action as appropriate:
  - (i) whether one or more Committee members qualifies to be designated by the Board as an ACFE;
  - (ii) whether each member of the Committee is "financially literate," as such qualification is interpreted by the Committee in its business judgment, or, for new Committee members, will become financially literate within a reasonable period of time after his or her appointment to the Committee;
  - (iii) whether at least one member of the Committee has accounting or related financial management expertise, as such qualification is interpreted by the Committee in its business judgment (provided, that the Committee may presume that an ACFE has accounting or related financial management expertise); and
  - (iv) whether Committee members' simultaneous service on more than three public company audit committees impairs the ability of any Committee member to effectively serve on the Committee for the Fund; and
- (q) to prepare and review with the Board an annual performance evaluation of the Committee. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the



chairperson of the Committee or any other member of the Committee designated by the Committee to make this report.

4. The Committee shall meet as frequently as necessary to carry out its obligations and is empowered to hold special meetings as circumstances require and shall periodically meet separately with management and with the auditors. A majority of the total number of members of the Committee shall constitute a quorum of the Committee. A majority of the members of the Committee present shall be empowered to act on behalf of the Committee. The Committee shall regularly meet (typically, on the same day as regular Board meetings) with the Fund's management and with the personnel of the Fund's administrator. Members of the Committee may participate in a meeting of the Committee in person or by means of a conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

5. The Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee, which shall be comprised of at least one person. Any actions of the subcommittee shall be presented to the full Committee at the next meeting of the Committee.

6. The Committee shall have the resources and authority appropriate to discharge its responsibilities, including the authority to retain, as it deems necessary to carry out its duties, special counsel and other experts or consultants at the expense of the Fund. The Fund shall provide appropriate funding for the Committee to discharge its responsibilities, including for the payment of compensation to (a) any public accounting firm engaged to prepare or issue an audit report or perform other audit, review or attest services for the Fund, (b) any advisers employed by the Committee and (c) ordinary administrative expenses.

7. The Committee shall review the adequacy of this Charter at least annually and recommend any changes to the full Board. The Board also shall review and approve this Charter at least annually.

8. This Charter may be altered, amended or repealed, or a new Charter may be adopted, by the Board by the affirmative vote of a majority of all of the members of the Board, including a majority of the "non-interested" Board members (within the meaning of the Investment Company Act of 1940, as amended).

9. The Fund shall provide the annual and interim affirmations required by the NYSE.

**Adopted: January 21, 2004**

**Reapproved and Amended as of January 23, 2007**

**Reapproved and Amended as of January 26, 2010**

**Reapproved and Amended as of January 24, 2012**

**Reapproved and Amended as of January 23, 2013**

**Reapproved and Amended as of April 17, 2013**

**Reapproved as of January 21, 2014**

**Reapproved and Amended as of January 20, 2015**