

## **Terms of Reference of the Audit and Valuation Committee**

**SQN Secured Income Fund plc**

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### **1 Membership**

- 1.1 The Audit and Valuation Committee will consist of all of the Directors of the Company, as appointed from time to time.
- 1.2 The Audit and Valuation Committee must comprise of a minimum of two independent non-executive Directors of the Company. At least one member shall have recent and relevant financial experience.
- 1.3 All members should have sufficient competence to understand, analyse and, when necessary, challenge the management accounts and draft public financial statements.
- 1.4 Only members of the Audit and Valuation Committee shall have the right to attend Audit and Valuation Committee meetings. However, other individuals, such as representatives of the Manager and other representatives from the finance function of the Company may be invited to attend all or part of any meeting.
- 1.5 The external auditors will be invited to attend meetings of the Audit and Valuation Committee on a regular basis.
- 1.6 Membership of the Audit and Valuation Committee can be varied at any time by a majority resolution of the existing members of the Board.
- 1.7 Appointments to the Audit and Valuation Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided that the members continue to be independent.

### **2 Chairman**

- 2.1 The Board shall appoint the chairman of the Audit and Valuation Committee who shall be an independent non-executive director. The chairman has the responsibility of liaising with the Board.
- 2.2 The chairman shall chair the meetings of the Audit and Valuation Committee.
- 2.3 In the absence of the chairman at a meeting of the Audit and Valuation Committee, the remaining members present shall elect one of themselves to chair the meeting.
- 2.4 The Chairman of the Board may be a member of the Audit and Valuation Committee but shall not chair the Audit and Valuation Committee.

### **3 Secretary**

- 3.1 The Company Secretary (or his/her delegate) or such other person as the Board may determine from time to time shall be the secretary of the Audit and Valuation Committee.
- 3.2 The secretary of the Audit and Valuation Committee or his/her delegate shall attend meetings of the Audit and Valuation Committee to take minutes.

3.3 In the absence of the secretary of the Audit and Valuation Committee, the members present at a meeting of the Audit and Valuation Committee shall elect another person to act as the secretary for the purposes of that meeting.

3.4 The Audit and Valuation Committee shall have access to the services of the secretary on all committee matters, including (but not limited to) assisting the chairman in planning the committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report and collection and distribution of information.

#### **4 Quorum**

4.1 The quorum necessary for the transaction of business of the Audit and Valuation Committee shall be two members, each of whom shall be an independent non-executive Director.

4.2 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The relevant member of the Audit and Valuation Committee shall not be counted towards the quorum and he/she must abstain from voting on any resolution of the Audit and Valuation Committee in which he/she and/or his/her associates have a material interest.

4.3 A duly convened meeting of the Audit and Valuation 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 Audit and Valuation Committee.

#### **5 Frequency of meetings**

5.1 The Audit and Valuation Committee shall meet at least twice a year and at such other times as the Chairman of the Audit and Valuation Committee shall require.

5.2 Any member of the Audit and Valuation Committee or the external auditors may request a meeting if they consider that one is necessary.

5.3 Meetings of the Audit and Valuation Committee will be arranged to the extent reasonably possible to tie in with the publication of the Company's financial statements.

5.4 Outside of the formal meeting programme, the chairman of the Audit and Valuation Committee will maintain dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Manager, the administrator and the external auditor.

#### **6 Attendance at meetings**

6.1 Members of the Audit and Valuation Committee may attend meetings of the Audit and Valuation Committee either in person or through other telephonic and/or electronic means of communication.

6.2 Should any member of the Audit and Valuation Committee wish to attend a meeting through telephonic and/or electronic communications, prior arrangements shall be made with the secretary of the Audit and Valuation Committee.

- 6.3 Other than members of the Audit and Valuation Committee, the Manager and a representative of the external auditors shall normally attend meetings along with the members of the Audit and Valuation Committee.

## **7 Notice of meetings**

- 7.1 Meetings of the Audit and Valuation Committee shall be convened by the secretary of the Audit and Valuation Committee at the request of any of its members, at the request of the chairman of the Audit and Valuation Committee or by the external audit lead partner if they consider it necessary.
- 7.2 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 Audit and Valuation Committee, and to any other person required to attend within a reasonable time prior to the date of the meeting. Supporting papers shall be sent to Audit and Valuation Committee members and to other attendees as appropriate, within a reasonable time prior to the date of the meeting.
- 7.3 Any member of the Audit and Valuation Committee shall be entitled, by notice to the secretary of the Audit and Valuation Committee, to include other matters relevant to the functions of the Audit and Valuation Committee in the agenda of an Audit and Valuation Committee meeting.

## **8 Minutes of meetings**

- 8.1 The secretary of the Audit and Valuation Committee (or his/her delegate) in attendance at the meetings of the Audit and Valuation Committee shall minute in sufficient detail all proceedings and resolutions of all such meetings, including the names of those present and in attendance. The minutes should also include any concerns raised by any member of the Audit and Valuation Committee and/or dissenting views expressed.
- 8.2 Draft minutes of the Audit meetings shall be sent to all Audit and Valuation Committee members for their comments within a reasonable time after the meeting. Once they are agreed, the secretary of the Audit and Valuation Committee shall circulate the final version of the minutes to all members of the Audit and Valuation Committee and to all members of the Board, unless it is considered inappropriate to do so by the chairman.
- 8.3 Minutes of the Audit and Valuation Committee meetings shall be kept by the secretary of the Audit and Valuation Committee and shall be available for inspection by any member of the Audit and Valuation Committee or Director at any reasonable time on reasonable notice.

## **9 Annual general meeting**

- 9.1 The chairman of the Audit and Valuation Committee shall attend the annual general meeting of the Company and be prepared to respond to any Shareholder questions on the Audit and Valuation Committee's activities.
- 9.2 The Audit and Valuation Committee shall produce an annual report to be included in a separate section of the Directors' report to the annual report of the Company describing the Audit and Valuation Committee's role and detailing its activities and how

independent oversight over both management and external auditors has been exercised.

## **10 Duties**

10.1 The Audit and Valuation Committee shall be responsible for performing the duties set out below:

### **10.1.1 Financial Reporting**

- (a) The Audit and Valuation Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcements relating to its financial performance and review significant financial reporting issues and judgement which they contain, having regards to matters communicated by the auditor.
- (b) In particular, the Audit and Valuation Committee shall review and challenge where necessary:
  - (i) the consistency of, and any changes to, significant accounting policies on a year on year basis across the Company or group (if a group is in existence);
  - (ii) decisions requiring a major element of judgement;
  - (iii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iv) whether the Company has followed appropriate accounting policies and made appropriate estimates and judgments, taking into account the views of the external auditor;
  - (v) the clarity and completeness of disclosure in the Company's financial statements and the context in which statements are made;
  - (vi) significant adjustments resulting from the audit;
  - (vii) the going concern assumption;
  - (viii) all material information presented with the financial statements, such as the strategic report, business review and the corporate governance statement (insofar as it relates to the audit and risk management); and
  - (ix) the Manager's report, confirming that the Manager has conducted the affairs of the Company in compliance with the regulations applying to it.
- (c) Where the Audit and Valuation Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

#### 10.1.2 **Narrative Reporting**

Where requested by the Board, the Audit and Valuation Committee shall review and provide advice on whether the content of the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

#### 10.1.3 **Internal controls and risk management systems**

The Audit and Valuation Committee shall:

- (a) 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;
- (b) review and approve the statements to be included in the annual report concerning internal 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;
- (c) review the list of approved deposit takers and deposit limits;
- (d) review a written report prepared by the Company's custodian in relation to the assets held in the form of cash and securities;
- (e) review and approve statements explaining how assets have been invested with a view to spreading risk;
- (f) liaise with the Board and ensure that other statements regarding the Company's manager, including relevant details of its remuneration and appointment and its continued appointment are included in the annual report;
- (g) ensure that the annual report includes (i) the full text of the Company's published investment policy; (ii) a detailed and meaningful analysis of the Company's investment portfolio; and (iii) a summary of the valuation of the Company's portfolio made in accordance with the Listing Rules published by the Financial Conduct Authority;
- (h) receive and review regular reports from key service providers on their own controls; and
- (i) monitor adherence to best practice in corporate governance.

#### 10.1.4 **Whistleblowing**

The Audit and Valuation Committee shall review the whistleblowing procedures of the Manager.

#### 10.1.5 **Operational Control Function**

The Audit and Valuation Committee shall:

- (a) review promptly all reports on the Company from the Manager's operational control function;
- (b) consider the major findings of internal investigations and management's response; and
- (c) consider annually whether there is a need for an internal audit function and make a recommendation to the Board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

#### 10.1.6 **Internal audit**

The Audit and Valuation Committee shall consider at least once a year whether there is a need for an internal audit function. The reasons for an absence of such a function should be explained in the relevant section of the annual report.

#### 10.1.7 **External audit**

The Audit and Valuation Committee shall:

- (a) consider and make recommendations to the Board, for it to put to the Shareholders for their approval at an annual general meeting, in relation to the appointment, re-appointment and removal of the external auditor;
- (b) ensure that at least once every 10 years the audit services contract is put out to tender to enable the Audit and Valuation 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 for new auditors and in the event the external auditor resigns, investigate the issues leading to this decision and decide whether any action is required;
- (c) monitor and annually review the external auditor's independence and objectivity, taking into consideration relevant UK and other relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services, in order to satisfy itself that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- (d) be responsible for making recommendations on the level of remuneration of the external auditor, including fees for audit and non-audit services, to ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
- (e) approve the terms of engagement of any external auditor, including any engagement letter issued at the start of each audit and the scope of the audit;

- (f) monitor the external auditor's compliance with the relevant ethical and professional guidance on the rotation of the 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;
- (g) annually assess the qualifications, expertise, resources and independence of the external auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- (h) evaluate 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 the auditor from the market in that evaluation;
- (i) review and approve the annual audit plan with the external auditor and ensure that it is consistent with the scope of the audit engagement (after prior review by the Audit and Valuation Committee chairman), having regard to the seniority, expertise and experience of the audit team;
- (j) review the findings of the audit with the external auditor, including discussing the major issues that arise during the audit, the key accounting and audit judgements, the levels of errors identified during the audit and the effectiveness of the audit process;
- (k) review any representation letters requested by the external auditor (and/or responses from the management) before they are signed by the Board;
- (l) meet with the auditors at least twice a year, once at the planning stage, where the nature and scope of the audit will be considered, and once post audit at the reporting stage, to discuss any key issues arising from the audit; and
- (m) develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **11 Valuations**

11.1 The Audit and Valuation Committee shall be responsible for recommending valuations of the Company's investments to the Board.

11.2 The Audit and Valuation Committee shall monitor the integrity of the recommended valuations made by the Manager. In particular, the Audit and Valuation Committee shall review and challenge where necessary:

11.2.1 the consistency of, and any changes to, valuation policies both on a year on year basis and across the Company or group (if a group is in existence);



- 11.2.2 the methods used to account for significant or unusual valuations where different approaches are possible;
  - 11.2.3 the consistency of, and any changes to, valuation policies both on a year on year basis and across the Company or group (if a group is in existence); and
  - 11.2.4 the methods used to account for significant or unusual valuations where different approaches are possible.
- 11.3 The Audit and Valuation Committee shall review the adequacy and security of the Company's arrangements for its contractors to raise concerns, in confidence, about possible wrongdoing in valuation reporting or other matters. The Audit and Valuation Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

## **12 Reporting responsibilities**

- 12.1 The Audit and Valuation Committee chairman shall report formally to the Board after each meeting, to discuss how the Audit and Valuation Committee is discharging its duties and responsibilities, with specific reference to: (i) significant issues noted in the financial statements, annual and half-yearly reports, (ii) the effectiveness of the external audit process and relationship with the external auditor, (iii) any recommendation of the appointment or reappointment of the external auditor and (iv) any other issues as requested by the Board.
- 12.2 The Audit and Valuation Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 12.3 The Audit and Valuation Committee shall compile a report to Shareholders which will form part of the Company's annual report on its role and activities in discharging its duties its responsibilities to be included in the Company's Corporate Governance Report, which should include an explanation of the matters referenced at (i) – (iv) in paragraph 12.1 of these Terms of Reference. Where the external auditor also provides non-audit services, an explanation of how auditor objectivity is safeguarded should also be included in this report.
- 12.4 The Audit and Valuation Committee or its Chairman shall discuss formally with the Board, at least once a year, the relationship with the external auditors, and identify any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

## **13 Other Matters**

- 13.1 The Audit and Valuation Committee shall have access to sufficient resources in order to carry out its functions and discharge its duties. In the event that the Audit and Valuation Committee determines that it has insufficient resources, it may make a request for additional resources to the Manager. If the request for additional resources is denied, the Audit and Valuation Committee may, if it chooses, make a request to the Board. The Board shall convene a Board meeting as soon as reasonably practicable to consider the request.

- 13.2 The Audit and Valuation Committee shall be provided with appropriate and timely training, in the form of ongoing training at the Company's expense.
- 13.3 The Audit and Valuation Committee shall ensure that financial information used within the business or published is reliable.
- 13.4 The Audit and Valuation Committee shall oversee any investigation of activities which are within its Terms of Reference.
- 13.5 In the event that the Audit and Valuation Committee or any member of the Audit and Valuation Committee requires access to independent professional advice in connection with its/his/her duties, a request may be made to the Company. All such requests shall be processed in accordance with the Company's pre-defined procedures for seeking independent professional advice at the Company's expense.
- 13.6 Every member of the Audit and Valuation Committee shall give sufficient time and attention to his/her duties as a member of the Audit and Valuation Committee. He/she shall give the Company the benefit of his skills and expertise through regular attendance and active participation.
- 13.7 The Audit and Valuation Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 13.8 The Audit and Valuation Committee shall give due consideration to laws and regulations relevant to the Company and in particular the provisions of the UK Corporate Governance Code, the AIC Code on Corporate Governance (or such other relevant corporate governance code that the Company has resolved to comply with) and the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate.
- 13.9 The Audit and Valuation Committee shall work and liaise as necessary with all other Board Committees.

#### **14 Authority**

The Audit and Valuation Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it reasonably requires from any Director and all Directors are directed to co-operate with any reasonable request made by the Audit and Valuation Committee.

## **Definitions**

In this Handbook, unless the context requires otherwise, the following definitions shall apply:

"**Board**" means the Board of Directors of the Company;

"**Company**" means SQN Secured Income Fund plc;

"**Company Secretary**" means the company secretary of the Company from time to time;

"**Directors**" means the directors of the Company from time to time;

"**Manager**" means SQN Asset Management LLC and its UK Subsidiary SQN Asset Management Limited; and

"**Shareholders**" means shareholders of the Company.