

DATED 23 MAY 2016

**HADRIAN'S WALL SECURED INVESTMENTS LIMITED**

(the "**Company**")

**AUDIT AND RISK COMMITTEE**

**TERMS OF REFERENCE**



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## **AUDIT AND RISK COMMITTEE**

### **TERMS OF REFERENCE**

#### **1 MEMBERSHIP**

- (a) The board of directors of the Company (the "**Board**") has resolved to establish a committee of the Board to be known as the Audit and Risk Committee (the "**Committee**").
- (b) Membership of the Committee shall consist of at least two members. Members of the Committee shall be appointed by the Board in consultation with the chairman of the Committee.
- (c) 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.
- (d) 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.
- (e) Appointments to the Committee shall be for a period of up to three years, extendable so long as members continue to be independent.
- (f) The Board shall appoint the Committee chairman, provided that the chairman of the Board must not be appointed as the Committee chairman. In the absence of the Committee chairman and/or an appointed deputy, the remaining members shall elect one of themselves to chair the meeting.

#### **2 SECRETARY**

The company secretary, or its 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.

#### **3 QUORUM**

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

#### **4 FREQUENCY OF MEETINGS**

- (a) The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- (b) Outside of the formal meeting programme, the Committee chairman will maintain a dialogue with key individuals involved in the Company's governance, including, but not limited to, the Board chairman, the external audit lead partner and members of the Company's administrator's team and investment manager's team, as appropriate or necessary.

#### **5 NOTICE OF MEETINGS**

- (a) 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.

- (b) Unless otherwise agreed by the members of the Committee, 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 and any other person required to attend, no later than five 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**

- (a) The secretary shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance. The secretary of the Committee shall ascertain at the beginning of each Committee meeting the existence of any conflicts of interest and minute them accordingly.
- (b) 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**

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

## 8 **DUTIES**

The Committee should carry out the duties below.

### (a) **Financial reporting**

- (i) 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 judgments which they contain having regard to matters communicated to it by the external auditor.
- (ii) In particular, the Committee shall review and challenge where necessary:
  - (A) the consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Company/group;
  - (B) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (C) any significant adjustments resulting from the audit;
  - (D) the going concern assumption;
  - (E) whether the Company has followed applicable regulatory and legal requirements and appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
  - (F) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;

- (G) any valuations provided in relation to the Company's investments;
  - (H) all material information presented with the financial statements, such as the strategic report and any corporate governance statements relating to the audit management; and
  - (I) the principal risks to which the Company is exposed and the future viability of the Company, including the period for which the viability statement required to be included in the accounts has been assessed and the assumptions underlying such statement.
- (iii) Where the Committee is not satisfied with an aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

(b) **Narrative reporting**

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 performance, business model and strategy.

(c) **Internal controls and risk management systems**

The Committee shall receive reports from the AIFM on its risk management of the Company and shall:

- (i) if applicable, keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- (ii) oversee and advise the Board on the current risk exposures and the future risk strategy of the Company;
- (iii) keep under review the Company's overall risk assessment processes that inform the Board and regularly review and approve the parameters used in these measures and the methodology adopted;
- (iv) set a standard for the accurate and timely monitoring of large exposures and risks of critical importance, if necessary;
- (v) review the Company's capability to identify and manage new risks;
- (vi) review and approve the statements to be included in the annual report concerning internal controls and risk management;
- (vii) review regular risk management reports from key service providers including the Company's administrator and/or its investment manager to enable the Committee to consider processes established for risk identification and management, assess the risks involved in the Company's business and how they are controlled and monitored;
- (viii) review the key policies and procedures prepared by key service providers from time to time;
- (ix) review the status, monitoring of and procedures for dealing with insurance arrangements in relation to the Company;

- (x) review any third party service providers in connection with the administration and governance of the Company (including but not limited to any administration, registrar, depositary or asset management services provided to the Company), and request that such parties provide an annual assessment of their services to be reviewed by the Committee, if deemed appropriate by the Committee. Such self-assessment should enable the Committee to assess whether adequate internal controls and processes have been maintained to ensure services are accurate at all times; and
- (xi) review tax compliance matters and the possible effects of any changes to applicable regulations, the tax status of the Company or legislation relating to regulatory and accounting matters relevant to the Company;

(d) **Compliance whistleblowing and fraud**

The Committee shall ensure that key service providers, as deemed appropriate by the Committee, have appropriate systems, procedures and policies in place, as relevant in connection with the Company's activities, in relation to:

- (i) the adequacy and security of the Company's arrangements for raising concerns in confidence about possible wrongdoing in financial reporting or other matters, including arrangements which allow proportionate and independent investigation of such matters and appropriate follow up action;
- (ii) detecting fraud;
- (iii) prevention of bribery;
- (iv) adequacy and effectiveness of the Company's anti money laundering systems and controls; and
- (v) adequacy and effectiveness of the Company's compliance function;

The Committee shall ensure such systems, procedures and policies are in place as part of the annual review of key service providers outlined in paragraph 8(c)(x) of these terms of reference.

(e) **Internal audit**

The committee shall consider at least once a year whether or not there is a need for an internal audit function, and, if so, it shall monitor and review the effectiveness of that function.

(f) **External Audit**

The Committee shall:

- (i) consider and make recommendations to the Board, to be put to shareholders for approval at the Company's annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (ii) ensure that at least once every ten 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;

- (iii) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (iv) oversee the relationship with the external auditor including (but not limited to):
  - (A) making recommendations on the auditor's remuneration, including both fees for audit and non-audit services, and ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - (B) approving the auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (C) assessing annually the auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the Company's relationship with the auditor as a whole, including the provision of any non-audit services;
  - (D) 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;
  - (E) 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;
  - (F) 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 the auditor's own internal quality procedures; and
  - (G) 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 the auditor from the market in that evaluation;
- (v) meet regularly with the external auditor (including after the annual audit at the reporting stage) and without the Company's investment manager or the Company's administrator being present, to discuss the external auditor's remit and any issues arising from the audit, as appropriate;
- (vi) review 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
- (vii) review the findings of the audit with the external auditor. This shall include, but not be limited, to the following:
  - (A) a discussion of any major issues which arose during the audit;

- (B) key accounting and audit judgements;
- (C) levels of errors identified during the audit; and
- (D) the effectiveness of the audit process.

(g) **Other**

The Committee shall also:

- (i) review any representation letter(s) requested by the external auditor before they are signed on behalf of the Board;
- (ii) review any response from the Company's investment manager and/or its administrator to the external auditor's findings and recommendations;
- (iii) 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.

9 **REPORTING RESPONSIBILITIES**

(a) 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:

- (i) the significant issues that it considered in relation to the financial statements (required under paragraph 8(a)(i)) and how these were addressed;
- (ii) its assessment of the effectiveness of the external audit process (required under paragraph 8(f)(iv)) and its recommendation on the appointment or reappointment of the external auditor; and
- (iii) any other issues on which the Board has requested the Committee's opinion.

(b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

(c) 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 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 external auditor; and all other applicable information requirements.

(d) In compiling the reports referred to in paragraph 9(a) and paragraph 9(c), the Committee should exercise judgment 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

10 **OTHER MATTERS**

The Committee shall:

- (i) have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- (ii) have responsibility for co-ordinating the engagement of internal and external auditors;
- (iii) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- (iv) give due consideration to laws and regulations, the provisions of the requirements of the UK Financial Conduct Authority's Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- (v) oversee any investigation of activities which are within its terms of reference;
- (vi) work and liaise as necessary with all other Board committees, where established; and
- (vii) 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:

- (i) seek any information it requires from any key third party service providers of the Company in order to perform its duties;
- (ii) obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- (iii) request that representatives of key third party service providers attend to be questioned at a meeting of the Committee as and when required; and
- (iv) 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.

**Approved by the Board of Directors**

**23 May 2016**