

## **PICTON PROPERTY INCOME LIMITED**

### **TERMS OF REFERENCE - AUDIT & RISK COMMITTEE**

**AMENDED 9 NOVEMBER 2016, APPROVED 1 MARCH 2017**

#### **1. Constitution**

- 1.1. The Audit and Risk Committee (the "Committee") is constituted as a Committee of the Board of Directors of Picton Property Income Limited (the "Company"), to assist the Board of the Company in its oversight responsibilities.
- 1.2. The Committee may amend the terms of reference at any time with agreement of the Board and shall review the said terms annually.
- 1.3. The Committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the Board.

#### **2. Authority**

- 2.1. The Committee is authorised by the Board to investigate any activity within the its terms of reference. It is authorised to seek any information it requires from any service providers and all service providers are directed to co-operate with and request made by the Committee.
- 2.2. The Committee is authorised by the Board to obtain external legal or professional advice and to secure the attendance of anyone it considers has relevant experience, expertise or knowledge.

#### **3. Membership**

- 3.1. The Chairman of the Company may be a member of, but not Chair the Committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as Chairman.
- 3.2. Members of the Committee shall be appointed by the Board. The Committee shall be made up of at least three members.
- 3.3. All members of the Committee shall be independent non-executive directors.
- 3.4. Unless otherwise determined by the Board, a director shall be deemed to be "independent" for the purposes of these terms of reference if he would be deemed to be "independent" under the Combined Code on Corporate Governance June 2009.
- 3.5. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as representatives of the Company's investment manager or auditors from time to time may be invited to attend all or part of any meeting as and when appropriate.
- 3.6. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 3.7. Appointments to the Committee shall be for a period of up to three years, which may be extended for further three year periods, provided the director remains independent.

- 3.8. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. 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.
- 3.9. At least one member of the Committee must have recent and relevant financial experience, to the satisfaction of the Board.
- 3.10. The first members of the Committee shall be all the directors of the Company, who are non-executive directors of the company.
- 3.11. Each member of the Committee shall disclose to the Committee
- (a) any personal financial interest (other than as a shareholder) in any matter to be decided by the Committee; or
  - (b) any potential conflict of interest arising from a cross-directorship
- Any such member shall abstain from voting on resolutions of the Committee in relation to which such interests exists and from participating in the discussion concerning such resolutions (if so requested by the Board) shall resign from the Committee.
- 3.12. The first Chairman shall be Robert Sinclair.

4. **Secretary**

The Company Secretary or its nominee shall act as the Secretary of the Committee.

5. **Quorum**

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the 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 Committee

6. **Meetings**

The Members may convene the Committee, meet together for the despatch of business and otherwise regulate their meetings as they think fit.

7. **Frequency of Meetings**

The Committee shall meet at least two times a year at appropriate times in the reporting and audit cycle and otherwise as required.<sup>1</sup>

## 8. **Notice of Meetings**

- 8.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- 8.2. 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 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.

## 9. **Minutes of Meetings**

- 9.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 9.2. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 9.3. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

## 10. **Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## 11. **Duties**

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

### 11.1. *Financial Reporting*

- 11.1.1. The Committee shall monitor the integrity of the financial statements of the company, including its annual and interim reports, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, and any significant financial returns to regulators.

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<sup>1</sup> The frequency and timing of meetings will differ according to the needs of the Company. Meetings should be organised so that attendance is maximised (for example by timetabling them to coincide with Board meetings).

11.1.2. The Committee shall review the half yearly and annual financial statements and interim and preliminary announcements before their submission to the Board for approval, focusing in particular upon and challenging where necessary:

- (a) the assumption that the company is a going concern;
- (b) the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
- (c) the methods used to account for significant or unusual transactions where different approaches are possible;
- (d) whether the company has followed appropriate accounting standards which are in accordance with the law and made appropriate estimates and judgements, taking into account the views of the external auditor and report to the Board accordingly;
- (e) any reconciliation between the half yearly and annual net asset values and the published net asset values;
- (f) the clarity of disclosure in the company's financial reports and the context in which statements are made;
- (g) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- (h) significant adjustments resulting from the audit; and
- (i) compliance with regulatory and legal requirements (including the requirements of the UK Listing Authority, the Channel Islands Stock Exchange and the London Stock Exchange).

11.1.3. The Committee shall review the basis upon which the net asset value of an ordinary share is published quarterly.

11.1.4. The Committee shall review the suitability of the accounting standards adopted by the company.

11.1.5. The Committee shall review arrangements by which service providers of the Company may, in confidence, raise concerns about possible improprieties in matter of financial reporting or other matters. The Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matter and for appropriate follow-up action.

## 11.2. *Internal Controls and Risk Management Systems*

11.2.1. The Committee, in adopting the Risk Management Policy, will review, consider and discuss the information it receives from the Investment Manager and external service providers in order to identify, measure, manage, monitor, evaluate and oversee the risks relating to the Group, using such qualitative and quantitative metrics as may be appropriate, such as stress and scenario testing, and advise the Board of such risks accordingly. This will include monitoring in a sufficiently accurate and timely manner, the actions being taken or to be taken to mitigate those risks and the impact on the Group's current and future capital position. The Committee shall give guidance to

the Board in respect of the information it receives from the Investment Manager and external service providers, comprising inter alia:

- Corporate Strategy and Performance
- Investment Management
- Property Management
- Financial Reporting, Control and Accounting
- Tax
- Regulatory Compliance
- Fraud and Other Matters

11.2.2. The Committee will evaluate the risk profile and risk appetite of the Group on a periodic basis, and shall ensure that they are aligned with its Objectives. In preparing its advice to the Board on the Group's overall risk appetite, risk profile and risk strategy, the Committee shall take in to account the current and prospective macroeconomic and financial environment, drawing on reviews and areas of concern that are published by the Guernsey Financial Services Commission ('GFSC') and other authoritative sources relevant for the risk policies of the Group.

11.2.3. The Risk Management Policy will be reviewed at least once a year and adapted as necessary.

11.2.4. The Committee will advise the Board upon the embedding and maintenance throughout the Group, of the Risk Management Policy and is to be satisfied that the business is effectively identifying, measuring, managing and monitoring its risk to ensure:

- Current and key risks are identified, assessed and effectively managed;
- Management action plans to monitor, mitigate key risks are being implemented effectively;
- Material incidents with Group-wide implications are managed effectively, that remedial action is taken, and systems and processes are implemented to mitigate risks; and
- To provide the service provider with the risk protocol as defined and as documented in the Risk Management Policy

11.2.5. The Committee shall review the statements to be included in the Annual Report concerning internal controls and risk management before approval by the Board.

### 11.3. *External Audit*

The Committee shall:

11.3.1. consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, remuneration, re-appointment and removal of the Company's external auditors. The Committee shall oversee the selection process for new auditors and if an

auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;

11.3.2. oversee the relationship with the external auditor including (but not limited to):

- (a) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
- (b) approval of their terms of engagement including any engagement letter issued at the start of each audit and the scope of the audit;
- (c) assessing annually their independence and objectivity taking into account relevant UK and Guernsey professional and regulatory requirements and the 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);
- (e) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements; and
- (f) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures.

11.3.3. meet the external auditor at least once a year, without the investment manager being present, to discuss their remit and any issues arising from the audit;

11.3.4. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

11.3.5. 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) a discussion of any problems or reservations arising from the audit (whether interim (if applicable) or final);
- (c) any accounting and audit judgements;
- (d) levels of errors identified during the audit;
- (e) any matters which the auditors wish to discuss;

11.3.6. monitor and review the effectiveness of the audit and the performance of the auditors;

- 11.3.7. review any representation letter(s) requested by the external auditor before they are signed by any director, the Company Secretary or the Investment Manager;
- 11.3.8. review the investment manager's response to the auditor's findings and recommendations; and
- 11.3.9. develop and implement a policy on engagement of external auditor to supply non-audit services, taking into account any relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

#### 11.4. *Reporting Responsibilities*

- 11.4.1. The Chairman of the Committee shall make a brief report on the findings and recommendations of the Committee to the Board after each Committee meeting.
- 11.4.2. The minutes of the Committee meetings shall be circulated to the Board.
- 11.4.3. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

#### 11.5. *Other Matters*

The Committee shall:

- 11.5.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 11.5.2. to consider whether the accounting policies of the Company are in accordance with the law and accounting standards and to report to the Board accordingly and given due consideration to laws and regulations, the provisions of the Combined Code and/or the AIC Code and the requirements of the UK Listing Authority's and the Channel Islands Stock Exchange's Listing Rules as appropriate ;
- 11.5.3. oversee any investigation of activities which are within its terms of reference and act as a court of the last resort;
- 11.5.4. 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;
- 11.5.5. The Chairman of the Committee shall make a brief report of the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of the Committee meetings shall be circulated to the Board. The Chairman shall submit an annual report to the Board summarising the Committee's activities during the year and the related significant results and findings.
- 11.5.6. the Committee shall have the authority to investigate any matter within its terms of reference (and shall have the resources which it needs to do so) and to seek any information it requires from any associate of the Company. The Committee is authorised to take such independent professional

advice (including legal advice) and to secure the attendance of outsiders with relevant expertise or experience as it considers necessary;

11.5.7. the Committee shall have no executive powers with regard to its findings and recommendations;  
and

11.5.8. consider other matters as specified by the Board.

11.5.9. to review findings of the auditors and to discuss with the auditors any problems or reservations arising from any additional services provided and any matters which the auditors wish to discuss.

11.5.10. To provide recommendations to the Board on the appointment and remuneration of the auditors and on any questions of resignation or dismissal.

11.5.11. The Committee shall approve any appointment of the external Auditors to carry out any non-audit work on behalf of the Company or any of its Subsidiaries.

**PICTON PROPERTY INCOME LIMITED**

**TERMS OF REFERENCE – AUDIT & RISK COMMITTEE  
ADDENDUM TO TERMS OF REFERENCE**

**Members of Committee & Appointment Schedule**

| Members                       | Appointment Date | Appointment Renewed | Next Appointment Renewal |
|-------------------------------|------------------|---------------------|--------------------------|
| Robert Sinclair<br>(Chairman) | 5 January 2006   | 4 Nov 2014          | 4 Nov 2017               |
| Nicholas Thompson             | 5 January 2006   | 4 Nov 2014          | 4 Nov 2017               |
| Roger Lewis                   | 22 April 2010    | 4 Nov 2014          | 4 Nov 2017               |
| Vic Holmes                    | 5 June 2013      | 12 May 2016         | 12 May 2019              |