

Terms of Reference of the Audit & Risk Committee

April 2021

SDCL ENERGY EFFICIENCY INCOME TRUST PLC
(the "**Company**")

TERMS OF REFERENCE FOR THE AUDIT & RISK COMMITTEE
(the "**Committee**")

As amended 8 April 2021

1. CONSTITUTION

The Committee was constituted by resolution of the Board of Directors of the Company (the "**Board**") on 6 November 2018.

2. MEMBERSHIP

2.1. The Committee shall comprise at least three members, all of whom should be independent non-executive directors. All members of the Board shall be members of the Committee (the "**Members**").

2.2. Members of the Committee shall be appointed by the Board. At least one member shall have recent and relevant financial experience and the committee as a whole shall have competence relevant to the sector in which the company operates.

2.3. Only Members of the Committee have the right to attend Committee meetings. However, the external auditor will be invited to attend 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.

2.4. Subject to the annual re-election of directors, appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, so long as Members continue to be independent and meet the criteria for membership of the Committee.

2.5. The Board shall appoint the committee chair. In the absence of the Committee Chair (the '**Chair**') and/or an appointed deputy, the remaining Members present shall elect one of themselves to chair the meeting.

3. SECRETARY

3.1. The company secretary, or its nominee, shall act as the secretary of the Committee (the "**Committee Secretary**") and shall attend all its meetings and will ensure that the Members receive information and papers in a timely manner to enable full and proper consideration to be given to the issues to be considered at the relevant meeting.

3.2. Information and papers for each meeting shall also be made available to any director who is not a member of the Committee unless the Chair considers it would be inappropriate to do so.

4. QUORUM

4.1. 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

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exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. MEETINGS

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

6. FREQUENCY OF MEETINGS

- 6.1. The Committee shall meet as frequently as the Chair shall require and also at regular intervals to deal with routine matters and, in any event, not less than three times in each financial year.
- 6.2. Outside of the formal programme, the Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board chair and the external audit lead partner.

7. NOTICE OF MEETINGS

- 7.1. Meetings of the Committee shall be called by the Committee Secretary at the request of the Chair.
- 7.2. Notice of the meeting confirming the venue, time and date shall be provided to all members of the Committee and any other person required to attend. All reasonable efforts shall be made to ensure sufficient notice of meetings is given to all members of the Committee and invitees at least 5 business days in advance, unless all of the members of the Committee agree to a meeting at shorter notice.

8. MINUTES OF MEETINGS

- 8.1. The Committee Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance. The Committee Secretary shall also ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 8.2. Draft minutes of Committee meetings shall be circulated promptly to all Members of the Committee. Once approved, minutes should be circulated to the Board, unless it would be inappropriate to do so in the opinion of the Chair.
- 8.3. Final signed copies of the minutes of the meetings of the Committee should be maintained for the Company's records, in hard and soft copy where possible.

9. ENGAGEMENT WITH SHAREHOLDERS

- 9.1. The Chair should attend the annual general meeting to answer any shareholder questions on the committee's activities. In addition, the Chair should seek engagement with shareholders on significant matters related to the committee's areas of responsibility.

10. DUTIES

- 10.1. The Committee should carry out the duties below for the Company as appropriate.

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10.2. FINANCIAL REPORTING

10.2.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary results' announcements and any other formal statements and/or announcement relating to its financial performance, review and report to the Board on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the auditor.

10.2.2 The Committee shall also review any strategic reports produced, together with supplementary materials relevant to such reports, any significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

10.2.3 In particular, the Committee shall review and challenge where necessary:

- 10.2.3.1 the application of significant accounting policies and changes to them;
- 10.2.3.2 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
- 10.2.3.3 the methods used to account for significant or unusual transactions where different approaches are possible;
- 10.2.3.4 whether the Company has adopted appropriate accounting policies, followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 10.2.3.5 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- 10.2.3.6 any significant adjustments resulting from the audit, including the responsibility to aid in the resolution of any disagreements between Investment Manager and the external auditors regarding financial reporting;
- 10.2.3.7 the appropriateness of the adoption of the going concern basis of accounting in the financial statements and the identification of any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- 10.2.3.8 the appropriateness of the statement that the directors have a reasonable expectation that the Company will be able to continue its operation and meet its liabilities as they fall due over the period chosen for their assessment;
- 10.2.3.9 compliance with stock exchange and other legal and regulatory requirements; and
- 10.2.3.10 all material information presented within the financial statements, including the strategic report and the corporate governance statements relating to

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the audit and to risk management.

10.2.4 The Committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook.

10.2.5 Where the Committee is not satisfied with any aspects of the proposed reporting by the Company, it shall report its views to the Board.

10.3. **NARRATIVE REPORTING**

10.3.1 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. The Committee should assess whether the narrative is consistent with the financial information provided.

10.3.2 The Committee will consider the production of a viability statement and the period over which it should be reviewed.

10.4. **PORTFOLIO VALUATION**

The Committee shall:

10.4.1 receive from the Investment Manager a valuation of the Group's investment portfolio based on the agreed valuation methodology. Current frequency is twice a year;

10.4.2 retain the right to engage a third party valuation expert on behalf of the Company to provide the Directors with an assessment on the the appropriate range of discount rates to apply to the Group's investment portfolio and/or a private opinion on the overall valuation of the Group's investment portfolio as prepared by the Investment Manager;

10.4.3 review the third party valuation expert's assessment and/or opinion and the response by the Investment Manager to it;

10.4.4 review and recommend to the Board the terms of the third party valuation expert and the fees;

10.4.5 review and challenge the Investment Manager's valuation including the key assumptions and judgements applied to the valuation; and

10.4.6 recommend to the Board the valuation of the Group's investment portfolio based on the work of the Investment Manager.

10.5. **INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM**

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The Committee shall:

- 10.5.1 monitor and keep under review the adequacy and effectiveness of the Company's internal financial controls that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;
- 10.5.2 retain the right to appoint third parties to review the appropriateness of the Company's internal control framework
- 10.5.3 review and recommend the statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the viability statement; and
- 10.5.4 taking account of the Company's current position and principal risks, review and approve the statements to be included in the annual report as to how the Board has assessed the prospects of the Company (including the period over which they have done so and why it considers that period to be appropriate). Those statements should include a statement as to whether the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of such assessment and should draw attention to any qualifications or assumptions as necessary.

10.6. **COMPLIANCE, WHISTLEBLOWING AND FRAUD**

The Committee shall:

- 10.6.1 review the adequacy and security of the Company's arrangements for its contractors and external third parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 10.6.2 review the Company's procedures for detecting fraud;
- 10.6.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 10.6.4 review any material legal proceedings.

10.7. **EXTERNAL AUDIT**

The Committee shall:

- 10.7.1 consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 10.7.2 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without the Investment Manager being present, to discuss the auditor's remit and any issues arising from the audit;
- 10.7.3 review and approve the annual audit plan and ensure that it is consistent with

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- the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;
- 10.7.4 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;
- 10.7.5 if an auditor resigns, investigate the issues leading to this and decide whether any action is required; and
- 10.7.6 oversee the relationship with the external auditor including (but not limited to):
- 10.7.6.1 recommendations on their remuneration, including both fees for audit and non-audit services and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
 - 10.7.6.2 approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 10.7.6.3 assess annually the external auditor's independence and objectivity taking into account relevant law, regulation, the Ethical Standard and other professional requirements and the group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
 - 10.7.6.4 satisfy itself that there are no relationships between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - 10.7.6.5 agree with the Board a policy on the employment of former employees of the company's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
 - 10.7.6.6 monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
 - 10.7.6.7 monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
 - 10.7.6.8 assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures; and
 - 10.7.6.9 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee;
 - 10.7.6.10 develop and recommend to the Board the Company's policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be preapproved, and assessment of whether non-

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audit services have a direct or material effect on the audited financial statements The policy should include consideration of the following matters:

- 10.7.6.11 threats to the independence and objectivity of the external auditor and any safeguards in place;
 - 10.7.6.12 the nature of the non-audit services;
 - 10.7.6.13 whether the external audit firm is the most suitable supplier of the non-audit service;
 - 10.7.6.14 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - 10.7.6.15 the criteria governing compensation.
- 10.7.7 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- 10.7.8 review the findings of the audit with the external auditor. This shall include but not be limited to, the following;
- 10.7.8.1 a discussion of any major issues which arose during the audit;
 - 10.7.8.2 key accounting and audit judgements;
 - 10.7.8.3 the Portfolio valuation;
 - 10.7.8.4 levels of errors identified during the audit; and
 - 10.7.8.5 the effectiveness of the audit process.
- 10.7.9 The Committee shall also:
- 10.7.9.1 review any representation letter(s) requested by the external auditor before they are signed;
 - 10.7.9.2 review the management letter and the Investment Manager's response to the auditor's findings and recommendations;
 - 10.7.9.3 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the committee; and
 - 10.7.9.4 develop and implement a 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. REPORTING RESPONSIBILITIES

- 11.1. The Chair 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:

- 11.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 7.2.1) and how these were

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- addressed;
- 11.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 7.6.12) and its recommendation on the appointment or reappointment of the external auditor;
 - 11.1.3 any other issues on which the Board has requested the Committee's opinion;
 - 11.1.4 the Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
 - 11.1.5 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 assessed 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 auditor; and all other information requirements set out in the UK Corporate Governance Code (the "UK Code") and the Association of Investment Companies Code of Corporate Governance (the "AIC Code");
 - 11.1.6 in compiling the reports referred to in 8.1 and 8.3, the Committee should exercise judgement 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 shareholder need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

12. RISK REPORTING RESPONSIBILITIES

- 12.1. The Committee shall seek to ensure that there is due and proper consideration and assessment of risks and that the Investment Manager designs and monitor appropriate strategies to manage these risks. The Committee's actions will include:
 - 12.1.1. to recommend to the Board a risk appetite for the Company and its group;
 - 12.1.2. to monitor investments so that they align with the Company's risk appetite;
 - 12.1.3. To monitor key risk exposures to ensure the Investment Manager exercises appropriate controls to mitigate against the risks materialising; and
 - 12.1.4. to review and challenge stress tests and monitor resulting agreed actions.
- 12.2. The Chair shall be available to report to the Board and answer questions as appropriate. The Committee will receive periodic Risk Management Reports from the Investment Manager for its consideration and to support its assessments. Furthermore, the Committee will consider the Risk Log at each Meeting, through which specific risks are rated, mitigating factors detailed, relevant controls noted, and risk reporting outlined as applicable.
- 12.3. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 12.4. The Committee shall compile a report in relation to its risk related activities to be included in the Company's Annual Report.

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- 12.5. The Chair 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.

13. RISK GOVERNING DOCUMENTS

- 13.1. The actions, processes and procedures of the Committee shall have due regard to the provisions and requirements of;
- 13.1.1 the Company's Risk Management Policy;
 - 13.1.2 the latest version of the Company's offering memorandum and any subsequent formally approved amendments to the investment objective and investment structure;
 - 13.1.3 the Company's investment policy;
 - 13.1.4 the UK Code;
 - 13.1.5 the AIC Code;
 - 13.1.6 the Alternative Investment Manager Directive; and
 - 13.1.7 the Financial Conduct Authority's Disclosure and Transparency Rules, including ongoing monitoring, compliance and reporting in respect of the Market Abuse Regulation, including insider lists.

14. THE COMMITTEE'S RISK MANAGEMENT APPROACH

- 14.1. The Committee's approach to Risk Management Policy shall:
- 14.1.1 Ensure that the Company implements an effective risk governance structure and control framework which envelops key risk areas with appropriate reporting;
 - 14.1.2 Consider on an annual basis and recommend for approval by the Board the Company's Risk Management Policy and risk appetite, taking account of the current and prospective macroeconomic and financial environment;
 - 14.1.3 Confirm on-going regulatory compliance where appropriate;
 - 14.1.4 Oversee the Company risk profile, challenging the assessment and measurement of key risks whilst monitoring the actions taken to manage them; and
 - 14.1.5 Review, challenge and approve, at least on an annual basis, key risk indicators, risk limits and tolerances, inter alia:
 - 14.1.5.1 by asset type;
 - 14.1.5.2 by geography;
 - 14.1.5.3 by counterparty exposure;
 - 14.1.5.4 technology exposure;
 - 14.1.5.5 subcontractor exposure;
 - 14.1.5.6 for interest rate exposure;
 - 14.1.5.7 for currency exposure;
 - 14.1.5.8 for borrowing at the Group level;
 - 14.1.5.9 tax risk management; and
 - 14.1.5.10 overview the Risk management Report and request additional risk mitigation actions, as deemed appropriate.

15. OTHER MATTERS

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15.1. The Committee shall:

- 15.1.1 have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- 15.1.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all Members;
- 15.1.3 give due consideration to laws and regulations including the general duties of directors set out in the Companies Act 2006, the provisions of the UK Code and the AIC Code, and the requirements of the UK Listing Authority's Listing Rules, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 15.1.4 work and liaise as necessary with all other Board committees ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls on the work of other committees; and
- 15.1.5 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.

16. AUTHORITY

16.1. The Committee is a committee of the Board and is authorised by the Board to:

- 16.1.1 seek any information it requires from any service provider, any consultant or other provider of services to the Company in order to perform its duties;
- 16.1.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it is necessary to do so;
- 16.1.3 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it is necessary to do so;
- 16.1.4 to call any service provider of the Company to be questioned at a meeting of the Committee as and when required; and
- 16.1.5 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. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.