

**GCP ASSET BACKED INCOME FUND LIMITED  
AUDIT COMMITTEE TERMS OF REFERENCE**

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**AUDIT COMMITTEE  
TERMS OF REFERENCE**

**1. Membership**

- 1.1 Members of the Committee and the Chair of the Committee shall be appointed by the Board on the recommendation of the Remuneration and Nomination Committee. The Committee shall comprise at least two members.
- 1.2 All members of the Committee shall be independent non-executive Directors, at least one of whom shall have recent and relevant financial experience. The Committee as a whole should have competence relevant to the sector in which the Company operates. The Chairman of the Board can be a member of, but not chair, the Committee provided he or she was considered independent on appointment.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, the Committee shall have the authority to request other individuals, where appropriate, to attend for all or part of any meeting.
- 1.4 The Compliance Officer of the Company and Risk Officer of the Investment Manager or their representatives may be invited to attend meetings of the Committee, with the prior notification or agreement of the Chair, where risk matters are to be considered by the Committee.
- 1.5 The external auditors will be invited to attend meetings of the Committee on a regular basis, with the prior notification or agreement of the Chair.

**2. Secretary**

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

**3. 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.

**4. Frequency of meetings**

The Committee shall meet at least twice a year at appropriate times in the financial reporting and audit cycle and otherwise as required.

**5. Notice of meetings**

- 5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the external auditors.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date shall be forwarded to each member of the Committee and any other person required to attend no later than ten working days before the date of the meeting unless otherwise agreed by the Chair of the Committee. An agenda of items to be discussed shall be forwarded to the Chair of the Committee in the first instance at least ten working days before the date of the meeting unless otherwise agreed by the Chair of the Committee, then circulated to each member of the Committee and any other person

required to attend at least five working days before the date of the meeting. Supporting papers shall be sent to Committee members and other attendees at the same time.

**6. Minutes of meetings**

6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

6.3 Draft minutes of Committee meetings shall be circulated to all members of the Committee no later than ten working days following the date of the meeting. Once approved, minutes should be tabled to the next available quarterly Board meeting unless it would be inappropriate to do so in the opinion of the Committee Chair.

**7. Shareholder engagement**

The Chair of the Committee shall seek engagement with shareholders on matters within the scope of the Committee's responsibilities including attending the Annual General Meeting to respond to any shareholder questions on the report on the Committee's activities.

**8. Duties**

The Committee should carry out the duties below for the Company, as appropriate, and have delegated responsibility for the functions as required under the UK Financial Conduct Authority ("FCA") Disclosure Guidance & Transparency Rule 7.1 and as recommended by The Association of Investment Companies (the "AIC") Corporate Governance Code.

**8.1 Financial and Narrative reporting**

The Committee shall:

8.1.1 review, and report to the Board on, the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements (having regard to matters communicated to it by the auditor). The Committee shall also monitor the integrity of summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

8.1.2 review the content of the annual report, including the narrative report, and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders and other users to assess the Company's position and performance, business model and strategy.

8.1.3 review and challenge where necessary:

8.1.3.1 the appropriateness, consistency of, and any significant changes to, accounting policies both on a year on year basis and across the Company;

8.1.3.2 the methods used to account for significant or unusual transactions where different approaches are possible;

8.1.3.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

8.1.3.4 the basis on which the Company has been determined as a going concern;

8.1.3.5 for the purposes of the viability statement:

- a) explain in the annual report how the prospects of the Company have been assessed, taking into account the Company's current position and principal risks, over what period and the reason such period is deemed appropriate (but longer than 12 months); and
- b) determine and report to shareholders in the annual report whether there is 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 its assessment;

8.1.3.6 the clarity and completeness of disclosures in the Company's financial statements and the context in which the statements are made;

8.1.3.7 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 management); and

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

## 8.2 Internal Controls

The Committee shall:

8.2.1 review, in conjunction with the Risk Committee, the adequacy and effectiveness of the Company's internal financial controls (being the systems established to identify, assess, manage and monitor financial risks) and risk management systems; and

8.2.2 review and recommend to the Board the statements to be included in the annual report concerning internal controls, risk management and the viability statement.

## 8.4 External audit

The Committee shall:

- 8.4.1 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. The Committee shall be responsible for the selection procedure and 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;
- 8.4.2 oversee the relationship with the external auditor including (but not limited to):
  - 8.4.2.1 approval of their remuneration, whether fees for audit or non-audit services, and satisfying itself that the level of fees is appropriate to enable an effective, high quality audit to be conducted;
  - 8.4.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit, and reviewing the scope of the audit;
  - 8.4.2.3 assessing annually their independence and objectivity, taking into account relevant law, regulation, ethical standards and other professional and regulatory requirements. This assessment should involve a consideration of all relationships between the Company and the audit firm, including throughout the group and with the audit firm's network firms, and any safeguards established by the external auditor;
  - 8.4.2.4 reviewing and monitoring the effectiveness of the audit process;
  - 8.4.2.5 seeking information annually about the auditor's policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff;
  - 8.4.2.6 agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the application of this policy;
  - 8.4.2.7 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;
  - 8.4.2.8 assessing annually, and reporting to the Board on, the auditor's qualifications, expertise, resources and independence and the effectiveness of the audit process, which shall include obtaining a report from the external auditor on their own internal quality procedures and consideration of the audit firm's annual transparency reports, where available; and
  - 8.4.2.9 considering the need to include the risk of the withdrawal of the auditor from the market in their risk evaluation and planning.

- 8.4.3 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.4.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, including planned levels of materiality and proposed resources, having regard to the seniority, expertise and experience of the audit team;
- 8.4.5 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
  - 8.4.5.1 a discussion of any major issues which arose during the audit, including those that have been resolved and those that remain unresolved;
  - 8.4.5.2 an explanation from the auditor as to how they addressed any risks to audit quality previously identified;
  - 8.4.5.3 a review of the evidence received in relation to each area of significant judgement and of key accounting and audit judgements; and
  - 8.4.5.4 levels of errors identified during the audit and the reasons for any that remain unadjusted.
- 8.4.6 at the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process. In the course of doing so, the Committee should:
  - 8.4.6.1 ask the auditor to explain the risks to audit quality that they identified and how these have been addressed;
  - 8.4.6.2 discuss with the auditor the key controls the auditor relied on to address the identified risks to audit quality and enquire about the findings from inspections of their audit and the audit firm;
  - 8.4.6.3 review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
  - 8.4.6.4 obtain feedback about the conduct of the audit from key people of the Investment Manager and/or Administrator involved; and
  - 8.4.6.5 review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

The Committee shall also:

- 8.4.7 review any representation letter(s) requested by the external auditor before they are signed by the Board;
- 8.4.8 review the management letter and the Board's response to the auditor's findings and recommendations;
- 8.4.9 develop and implement a policy on the supply of non-audit services by the external auditor and monitor the level of fees payable to the external auditor in respect of these services, taking into account any relevant ethical guidance and legal requirements on the matter, and keep the policy under review;
- 8.4.10 approve any non-audit services, ensuring that the provision of such services does not impair the auditor's independence or objectivity. In the context of non-audit services that are not prohibited by law, the Committee should apply judgement concerning the provision of such services; and
- 8.4.11 develop a policy for how the Committee will assess whether non-audit services have a direct or material effect on the audited financial statements, how the Committee will assess and explain the estimation of the effect on the financial statements and how the Committee will consider the auditor's independence.

#### 8.5 Compliance, Whistle blowing and Fraud

The Committee shall:

- 8.5.1 request on an annual basis written confirmation from the Administrator and the Investment Manager (or any other service provider of the Company) that they have adequate arrangements by which their staff may raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- 8.5.2 review the Company's procedures for detecting fraud;
- 8.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 8.4.4 review the adequacy and effectiveness of the Company's anti-money laundering systems and controls.

#### **9. Reporting responsibilities**

- 9.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and shall also formally report on how it has discharged its responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 A separate section of the annual report should describe the work of the Committee in discharging its responsibilities and be signed by the Committee Chair. The report should include, inter alia:

- 9.3.1 a summary of the role and work of the Committee;
- 9.3.2 how any audit committee composition requirements have been addressed and the names and qualifications of all members of the Committee during the period, if not provided elsewhere;
- 9.3.3 if the Chairman of the Company is a member of the Committee, an explanation why this is believed to be appropriate.
- 9.3.4 the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- 9.3.5 an explanation of how it has assessed the effectiveness of the external audit process and of the approach taken to the appointment or re-appointment of the external auditor; the length of tenure of the current audit firm, the current audit partner name, and for how long the partner has held the role; when a tender was last conducted; and advance notice of any re-tendering plans;
- 9.3.6 if the auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded;
- 9.3.7 in the case of the Board not accepting the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position; and
- 9.3.8 the audit fees for the statutory audit of the Company's financial statements paid to the auditor and its network firms for audit-related services and other non-audit services, including the ratio of audit to non-audit work. For each significant engagement, the report should explain what the services are and why the Committee has concluded that it was in the interests of the Company to purchase them from the external auditor.

**10. Other matters**

The Committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties; including access to the Company Secretary and external advisers if required;
- 10.2 be provided with appropriate timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 10.3 give due consideration to laws and regulations, the provisions of the AIC Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and the FCA's Disclosure Guidance and Transparency Rules as appropriate;
- 10.4 oversee any investigation of activities which are within its Terms of Reference; and



- 10.5 review its constitution and Terms of Reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

**11. Authority**

The Committee is authorised to:

- 11.1 seek any information it requires from any Director or adviser of the Company in order to perform its duties;
- 11.2 obtain, at the Company's expense, outside legal or other professional advice on any matter within its Terms of Reference;
- 11.3 call any Director or adviser to be questioned at a meeting of the Committee as and when required; and
- 11.4 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.