



**DATED: 9 SEPTEMBER 2024**

**SUPERMARKET INCOME REIT PLC**

**TERMS OF REFERENCE FOR THE AUDIT AND RISK COMMITTEE**

**SUPERMARKET INCOME REIT PLC  
("THE COMPANY")**

**AUDIT AND RISK COMMITTEE ("COMMITTEE") TERMS OF REFERENCE**

**1. MEMBERSHIP**

- 1.1 The Committee shall be comprised of a minimum of any two independent non-executive directors of the Company. At least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Chair of the Board shall not be a member of the Committee. Members of the Committee shall be appointed by the Board, following recommendation from the Nomination Committee.
- 1.2 Only members of the Committee have the right to attend and vote at Committee meetings. However, the external auditor and key service providers 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.
- 1.3 Appointments to the Committee shall be for a period of up to three years, extendable by additional three year periods, so long as members continue to be independent.
- 1.4 The Board shall appoint the Committee Chair and determine the period for which he or she shall hold office. In the absence of the Committee Chair, the remaining members present shall elect one of themselves to chair the meeting.
- 1.5 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence. Where possible, the Chair and members of the Committee should be rotated on a regular basis.

**2. QUORUM**

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

**3. FREQUENCY OF MEETINGS**

- 3.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required by the Board Chair.
- 3.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Company's external audit lead partner, internal auditors (if any), the Company Secretary, the investment adviser, the alternative investment fund manager, and their directors, officers, partners and senior employees (as appropriate).

#### **4. NOTICE OF MEETINGS AND PROCEEDINGS AT MEETINGS**

- 4.1 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 or internal auditors if they consider it necessary.
- 4.2 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, no later than three 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. Papers required by the Committee may be provided electronically.
- 4.3 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conferences.

#### **5. MINUTES OF MEETINGS**

- 5.1 The secretary of the Committee shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 5.2 The Chair of the Committee should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.3 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, in the opinion of the Committee Chair, it would be inappropriate to do so.

#### **6. ANNUAL GENERAL MEETING**

- 6.1 The Committee Chair should attend the annual general meeting to answer shareholder questions on the Committee's activities, if any.

#### **7. DUTIES**

- 7.1 The Committee should carry out the duties below for the Company, major subsidiary undertakings and the group as a whole as appropriate. The Committee shall, in conducting all of its duties in accordance with these terms of reference, act in a way it considers in good faith would be in the best interests of the Company.

##### **7.2 Financial reporting**

- 7.2.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the Company's external auditor.

- 7.2.2 In particular, the Committee shall review and challenge where necessary:
- a) the application of material accounting policies and any changes to them;
  - b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - c) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of the approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Company looking forward over an appropriate and justified period);
  - d) whether the Company has followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - e) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and;
  - f) all material information presented with the financial statements, including the strategic report and the corporate governance statements, relating to the audit and to risk management.

7.2.3 The Committee shall meet with the valuers at least once each financial year and shall review and approve the year-end asset valuation. If requested by the Board, the Committee shall review the other quarterly valuations.

7.2.4 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.

### 7.3 **Narrative reporting**

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 its portfolio made in accordance with the Listing Rules published by the Financial Conduct Authority (with which the Company has resolved to comply voluntarily).

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.

#### 7.4 Internal controls and risk management systems

The Committee shall have the following powers to report, advise and propose in relation to internal control and risk management (on behalf of the Board which retains overall responsibility for the Group's internal controls and risk management systems):

- 7.4.1 To monitor the effectiveness of the internal control systems and processes of the Group, the internal audit function (where it has one), internal financial controls and the risk management systems, and to discuss with the statutory auditor any significant weaknesses in the internal control systems identified in the course of the audit.
- 7.4.2 To ensure that the internal control policies, processes and systems established to identify, assess, manage and monitor internal controls, including financial, operational, compliance and general IT controls, and risk management processes, and their compliance with relevant laws, regulation and disclosures, are applied effectively in practice.
- 7.4.3 To periodically, and at least annually, review the internal control and risk management systems to ensure that a robust assessment has been undertaken to adequately identify, manage and disclose the principal and emerging financial and non-financial risks, including those risks that would threaten the Company's business model, future performance, solvency or liquidity including environmental, social and reputational risks, and those related to safety. On all risks, the Committee will evaluate their possible financial impact and recommend to the Board of Directors the adequacy of the level of insurance cover as a means of mitigating the financial implications of certain risks.
- 7.4.4 To monitor at least annually the functioning and effectiveness of the Company's risk control and management function, accountable for:
  - i) Ensuring that risk control and management systems are functioning correctly, and specifically, that major risks the Company faces, including emerging risks, are correctly identified, managed and quantified;
  - ii) Participating actively in the preparation of risk strategies and in key decisions about their management; and
  - iii) Ensuring that risk control and management systems are mitigating risks effectively in accordance with the policy drawn up by the Board of Directors.

Seek such assurance as the Committee may deem appropriate that the risk control and management function is adequately resourced and has appropriate standing within the Company, with the risk management process being appropriately embedded into the business and effectively operated.

- 7.4.5 Assist the Board in monitoring the Company's risk profile and exposure, including overseeing the business' compliance with the risk appetite and tolerance set by the Board, taking account of the current prospective macroeconomic, financial and climatic environment and the Group's strategic objectives.

- 7.4.6 Periodically review the effectiveness of the risk management framework and undertake in depth review of high risk business areas or processes as requested by the Board to understand key drivers, mitigation activity and further management activity.
- 7.4.7 At least annually, conduct an in depth review of the Company's risk register.
- 7.4.8 Review and recommend to the Board for approval, the statements to be included in the annual report and other published statements concerning principal and emerging risks, risk management, going concern and viability statement.
- 7.4.9 Review and recommend to the board for approval, the disclosure in the annual report on internal controls including: the monitoring of the effectiveness of the internal control framework; the declaration of effectiveness of the material controls; and a description of any material controls which have not operated effectively and the action taken to improve those.

## 7.5 **Whistleblowing and fraud**

The Committee shall:

- 7.5.1 review the adequacy of the Company's arrangements for its external managers to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- 7.5.2 review the Company's procedures for detecting fraud; and
- 7.5.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance from its service providers.

## 7.6 **Internal audit**

The Committee shall consider on an ongoing and regular basis any need for the Company to have an internal audit function and, if such internal audit function is established, shall:

- 7.6.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system, irrespective of whether this is an in-house or outsourced function;
- 7.6.2 approve the appointment or termination of the head of the internal audit function or the provider of the outsourced function;
- 7.6.3 review and approve the remit of the internal audit function and assess and ensure the function has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant appropriate professional standards. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions.
- 7.6.4 ensure the internal audit function has direct access to the board Chair and to the Committee Chair and is accountable to the Committee;
- 7.6.5 review and assess the annual internal audit plan;
- 7.6.6 receive a report on the results of the internal auditor's work on a periodic basis;

- 7.6.7 review and monitor management's responsiveness to the internal auditors findings and recommendations;
- 7.6.8 meet the head of internal audit and/or head of the internal auditors at least once a year, without the presence of the investment adviser or the alternative investment fund manager, or any of their employees or officers; and
- 7.6.9 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

## 7.7 External Audit

The Committee shall:

- 7.7.1 consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, reappointment and removal of the Company's external auditor and oversee the selection process for new auditors;
- 7.7.2 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:
- a) ensure the tendering process does not preclude the participation of challenger<sup>1</sup> audit firms without good reason;
  - b) have selection criteria that is transparent and non-discriminatory;
  - c) 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;
  - d) ensure the selection of auditor is based on quality, including independence, challenge and technical competence, not price or perceived cultural fit;
  - e) scrutinize public reports published by the FRC, and where relevant other regulators, on the quality of each firm's audit;
  - f) consider running a price-blind tender;
  - g) where an audit firm is unwilling to tender, communicate with those firms to understand why they are unwilling and if there is anything that could be done to change that; and
  - h) submit two possible audit firms to the Board, together with a justified preference for one firm.
- 7.7.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 7.7.4 oversee the relationship with the external auditor including (but not limited to):

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<sup>1</sup> Challenger firms in this context refers to those other than the four largest audit firms

- a) recommendations on their remuneration, including both fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality 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 professional, regulatory requirements, the Ethical Standard and the relationship with the auditor as a whole, including the provision of any non-audit services (including satisfying itself that the auditor appointed by the Company is not conflicted by any work carried out by it for the Investment Manager or Investment Advisor and that any potential conflict of interest has been satisfactorily resolved);
- d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company, or between the auditor and the investment adviser or alternative investment fund manager, (in each case, other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- e) agreeing with the Board a policy on the employment by the AIFM or the investment advisor of former employees of the Company's auditor, and monitoring the implementation of this policy;
- f) monitoring the auditor's processes for maintaining independence, its compliance with UK law, regulation and other professional requirements and the Ethical Standard on the rotation of audit partner and staff, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and assess these in the context of the relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
- g) assessing annually the qualifications, expertise and resources and independence of the auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- h) seeking to ensure co-ordination with the activities of the internal audit function;
- i) 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; and
- j) develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit services to be approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
  - i) threats to the independence and objectivity of the external auditor and any safeguards in place;



- ii) the nature of the non-audit services;
  - iii) whether the external audit firm is the most suitable supplier of the non-audit service;
  - iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - v) the criteria governing compensation.
- 7.7.5 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, without any representatives of the investment manager or investment advisor being present, to discuss the auditor's remit and any issues arising from the audit;
- 7.7.6 review and approve 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
- 7.7.7 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) the auditor's explanation of how the risks to audit quality were addressed;
  - c) key accounting and audit judgements;
  - d) the auditor's view of their interactions with the Investment Manager and Investment Advisor;
  - e) levels of errors identified during the audit; and
  - f) the effectiveness of the audit process.
- 7.7.8 review any representation letter(s) requested by the external auditor before they are signed by the alternative investment fund manager or the board (as appropriate);
- 7.7.9 review the management letter and management's response to the auditor's findings and recommendations; and
- 7.7.10 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.

## **8 REPORTING RESPONSIBILITIES**

- 8.1 The Committee 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 also include:
- 8.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 7.2.2) and how these were addressed;
  - 8.1.2 its assessment of the effectiveness of the external audit process (required under

paragraph 7.7.4.) and its recommendation on the appointment or reappointment of the external auditor together with information on the length of tenure of the current audit firm and when a tender was last conducted;

- 8.1.3 any key matters raised by the external auditors in its report to the Committee;
- 8.1.4 if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded; and
- 8.1.5 any other issues on which the board has requested the Committee's opinion.
- 8.2 The Committee shall make whatever recommendations it deems appropriate on any area within its remit where action or improvement is needed.
- 8.3 The Committee shall compile a report on its activities to be included as a separate section 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 and the approach taken to the appointment or re-appointment of the external auditor; information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any re-tendering plans; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed; and if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded, and all other information requirements set out in the AIC Code of Corporate Governance (2019) and the FRC's Audit Committees and External Audit: Minimum Standard (2023)
- 8.4 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 shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **9 OTHER MATTERS**

The Committee shall:

- 9.1 have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- 9.2 give due consideration to applicable laws and regulations, including the provisions of the AIC Code of Corporate Governance and the requirements of the rules of London Stock Exchange plc, EU Regulation 596/2014 (the Market Abuse Regulation), Prospectus Rules, and Disclosure Guidance and Transparency Rules, and any other applicable rules (to the extent applicable to a company listed on the investment funds category of the London Stock Exchange) as appropriate;
- 9.3 be responsible for co-ordination of the internal and external auditors;
- 9.4 oversee any investigation of activities which are within its terms of reference;
- 9.5 work and liaise as necessary with all other board Committees; and

- 9.6 arrange for periodic reviews of its own performance and, at least annually, 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.

## **10 AUTHORITY**

The Committee is authorised to:

- 10.1 seek any information it requires from any director or employee of the investment adviser or alternative investment fund manager of the Company in order to perform its duties;
- 10.2 investigate and review any matter within its terms of reference and consider any matter the Committee deems relevant to the discharge of its duties;
- 10.3 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 10.4 call on the investment manager or investment adviser to be questioned at a meeting of the Committee as and when required; and
- 10.5 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.

ADOPTED BY THE BOARD ON 17 SEPTEMBER 2021 (UPDATED 18 MAY 2022, 26 JUNE 2023 AND 9 SEPTEMBER 2024)

**SCHEDULE 1**

Members of the Committee:

Jon Austen (Chair)

Vince Prior

Sapna Shah (from 29.03.2023)