

SQN Asset Finance Income Fund
(the “Company”)

- 3.5 The Company’s Secretary shall be the secretary of the Committee and attend all meetings. The Company’s Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 3.6 The Secretary shall circulate the minutes of meetings of the Committee to all members of the Committee and, once agreed, to all members of the Board.

4 ANNUAL GENERAL MEETING (“AGM”)

- 4.1 The Chairman of the Committee, or, in his or her absence, a duly authorised representative of the Committee, shall be available at the AGM of the Company to answer questions on the separate section of the annual report describing the Committee’s activities and matters within the scope of the Committee’s responsibilities.

5 AUTHORITY

- 5.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised at the Company’s expense to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise as it considers necessary.
- 5.2 The Committee shall:
- (a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
 - (b) be provided with such training as shall be deemed appropriate, both in the form of an induction programme for new members and on an ongoing basis for all members;
 - (c) give due consideration to laws and regulations, the provisions of the Association of Investment Companies (“AIC”) Code and the requirements of the UK Listing Authority’s Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable Rules, as appropriate;
 - (d) to 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.

6 DUTIES

6.1 Financial reporting

- 6.1.1 to monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any informal reports issued by the Company, such as preliminary statements of annual accounts, analyst presentations, and to review, and report to the Board on, the significant financial reporting issues and judgments which they contain, having regard to matters communicated by the auditor;
- 6.1.2 to report its views to the Board if it is not satisfied with any aspect of the proposed financial reporting by the Company;
- 6.1.3 in relation to 6.1.1, in particular to review and challenge where necessary:
- (a) significant accounting policies and practices, and any changes to them and any significant estimates or judgements;
 - (b) the methods used to account for significant or unusual transactions where different approaches are possible;

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- (c) whether the Company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements, taking into account the views of the auditor;
- (d) the Company's policy in relation to the valuation of investments including unquoted or other unusual investments;
- (e) the clarity and completeness of disclosure in the company's financial statements and consider whether such disclosures made are properly set in context;
- (f) all related information presented with financial statements, including the strategic report, long term viability and corporate governance statements relating to the audit and to financial risk management;

6.1.4 if requested to do so by the Board, to review the contents of the annual report and accounts and advise the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's, position and performance, business model and strategy. This review will assess whether other information presented in the annual report is consistent with the financial statements;

6.2 Internal controls and risk management

- 6.2.1 to review the Company's internal financial controls, that is the systems established to identify, assess, manage and monitor financial risks as part of their expected roles and responsibilities in the UK Corporate Governance Code;
- 6.2.2 to ensure the design and implementation of appropriate risk management and internal control systems;
- 6.2.3 to determine the nature and extent of principal risks facing the Company that would threaten its business model, future performance, solvency or liquidity and ascertain the level of risk the organisation is willing to take (risk appetite) to achieve its strategic objectives;
- 6.2.4 notwithstanding the responsibilities of the AIFM, to perform a robust assessment of the principal risks and determine how they should be mitigated;
- 6.2.5 to ensure that the internal control and risk management systems of the service providers are satisfactory. To receive reports from the Company's key service providers covering internal and risk management systems and procedures supported, as appropriate, by SSAE16 or AAF Reports. In light of the above, to review the Company's statement on internal control and risk management systems prior to endorsement by the Board;
- 6.2.6 consider the level of assurance it is getting on the risk management and internal control systems, including internal financial controls, and whether this is enough to help the Board in satisfying itself that they are operating effectively;
- 6.2.7 to review and recommend to the Board the disclosures included in the annual report in relation to internal control, risk management and the viability statement;

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6.3 Appointment, resignation and fees of external auditor, and tendering

- 6.3.1 to consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, on the appointment, reappointment and removal of the external auditors;
- 6.3.2 to assess annually, and report to the Board on, the qualification, expertise, resources, and independence of the auditor and the effectiveness of the audit process (including a report from the auditor on their own internal quality procedures and consideration of the audit firms’ annual transparency reports) and to include in its assessment a recommendation on whether to propose to shareholders that the auditor should be re-appointed;
- 6.3.3 if the auditor resigns, to investigate the issues surrounding the resignation and consider whether any action is required;
- 6.3.4 to evaluate the quality and effectiveness of the financial reporting process;
- 6.3.5 to approve the terms of engagement and the remuneration to be paid to the external auditor in respect of the audit services provided;
- 6.3.6 to review and agree the engagement letter issued by the external auditor at the start of each audit, ensuring it has been updated to reflect changes in circumstances arising since the previous year. The scope of the audit should be reviewed by the Committee with the auditor. If the Committee is not satisfied as to its adequacy it should arrange for additional work to be undertaken;
- 6.3.7 to approve or recommend to the Board the remuneration to be paid to the external auditor in respect of audit services provided and to satisfy itself that the level of fee payable is appropriate and that an effective, high quality audit can be conducted for such a fee;
- 6.3.8 to consider when the external audit contract should be put out to tender (taking into account the requirement in the UK Corporate Governance Code for FTSE 350 companies to put the external audit contract out to tender at least once every ten years);
- 6.3.9 if and when the Company puts the external audit contract out to tender, to oversee the external audit tendering process and as part of that process to ensure that all tendering firms have access as necessary to information and individuals during the tendering process and to compare the quality and effectiveness of the services provided by the external auditor with those of other audit firms.

6.4 Independence of auditor, including the provision of non-audit services

- 6.4.1 to assess annually the independence and objectivity of the auditor, taking into account relevant UK and Guernsey law, the Ethical Standard, regulation and other professional requirements. The Committee should consider the annual disclosure from the statutory auditor and discuss with the auditor the threats to independence and the safeguards applied to mitigate those threats;

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- 6.4.2 monitoring the auditor's compliance with the Ethical Standard, the level of fees that the Company pays in proportion to the overall fee income of the firm, or relevant part of it and other related regulatory requirements;
 - 6.4.3 annually seeking from the auditor information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding rotation of audit partners and staff;
 - 6.4.4 where the Committee has decided that it is necessary to extend the normal rotation period for the audit engagement partner and key audit partners from five years up to a maximum of seven years, in order to safeguard the quality of the audit, as long as it does not compromise the independence or objectivity of the external auditor, this should be disclosed by the Committee to shareholders as early as practicable;
 - 6.4.5 to develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the auditor, taking into account the Ethical Standard and legal requirements and keep the policy under review;
 - 6.4.6 The Committee is responsible for approving non-audit services. The Committee's objective is to ensure 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 will apply judgement concerning the provision of such services, including assessing
 - (a) threats to independence and objectivity resulting from the provision of such services and any safeguards in place to eliminate or reduce these threats to a level where they would not compromise the auditor's independence and objectivity;
 - (b) the nature of the non-audit services;
 - (c) whether the skills and experience of the audit firm make it the most suitable supplier of the non-audit service;
 - (d) the fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee, including special terms and conditions (for example contingent fee arrangements); and
 - (e) the criteria which govern the compensation of the individuals performing the audit.
- 6.5 **Annual audit cycle**
- 6.5.1 at the start of each annual audit cycle, the Committee shall ensure that appropriate plans are in place for the audit. The Committee shall consider whether the auditor's overall work plan, including planned levels of materiality and proposed resources to execute the audit plan, appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team;
 - 6.5.2 to review, in a timely manner with the auditor, the findings of their work and the auditor's report. In the course of its review, the Committee shall:
 - (a) discuss with the auditor major issues which arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved;

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- (b) ask the auditor to explain how they addressed the risks to audit quality identified earlier;
- (c) weigh the evidence they have received in relation to each of the areas of significant judgement and review key accounting and audit judgements;
- (d) ask the auditor for their perception of their interactions with the administrator and the Investment Manager; and
- (e) review levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted.

6.5.3 to review any representation letter(s) requested by the auditor before they are signed by the Board and give particular consideration to matters where representation has been requested that relate to non-standard issues. The Committee shall consider whether the information provided is complete and appropriate based on its own knowledge.

6.5.4 to assess the effectiveness of the audit process. An assessment of external audit quality in the particular circumstances of the Company requires consideration of the mind-set and culture; skills, character and knowledge, quality and control; and judgment, including the robustness and perceptiveness of the auditors in handling key judgements, responding to questions from the audit committee and in their commentary where appropriate on the systems of internal control.

6.5.5 In the course of its assessment of effectiveness, the Committee should:

- (a) ask the auditor to explain the risks to audit quality that they identified and how these have been addressed;
- (b) discuss with the auditor the key audit firm and network level controls the auditor relied on to address the identified risks to audit quality and enquire about the findings from internal and external inspections of their audit and their audit firm;
- (c) 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;
- (d) obtain feedback about the conduct of the audit from key people involved; and
- (e) review and monitor the content of the external auditor’s management letter, and other communications with the Committee, 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.

6.6 Communication with Shareholders

The annual report shall include a separate section describing the work of the audit committee in discharging its responsibilities, signed by the Chairman.

6.6.1 The Committee section should include the following matters:

- (a) a summary of the role and work of the Committee;
- (b) how the Committee composition requirements have been addressed, and the names and qualifications of all members of the Committee during the period, if not provided elsewhere;

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- (c) the number of Committee meetings;
- (d) how the Committee’s performance evaluation has been conducted;
- (e) an explanation of how the committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment 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 retendering plans;
- (f) if the external auditor provides non-audit services, the committee’s policy for approval of non-audit services; how auditor objectivity and independence is safeguarded; the audit fees for the statutory audit of the company’s consolidated 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; and for each significant engagement, or category of engagements, explain what the services are and why the Committee concluded that it was in the interests of the company to purchase them from the external auditor; and
- (g) the significant issues that the committee considered, including:
 - issues in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the auditors;
 - the nature and extent of interaction (if any) with the FRC’s Corporate Reporting Review team; and
 - where a company’s audit has been reviewed by the FRC’s Audit Quality Review team, the Committee should discuss the findings with their auditors and consider whether any of those findings are significant and, if so, make disclosures about the findings and the actions they and the auditors plan to take. This discussion should not include disclosure of the audit quality category.

6.6.2 The Committee should exercise judgement in deciding which of the issues it considered in relation to the financial statements were significant. The Committee should aim to describe the significant issues in a concise and understandable form whilst reporting on the specific circumstances of the Company.

6.6.3 The section need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

7 FRAUD, CORPORATE CRIMINAL OFFENCE (CCO), ANTI-BRIBERY AND CORRUPTION

7.1.1 To review the Company’s procedures for the prevention, detection and reporting of fraud, tax evasion and other forms of financial crime such as bribery & corruption.

7.1.2 To review arrangements by which persons associated with the key service providers are able to, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to ensure that appropriate proportionate independent investigation of such matters is undertaken.

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8 OTHER

- 8.1 At least once a year, the Audit Committee should review the Audit Committee’s performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

Last reviewed and approved by the Committee: 2 October 2018

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