Remuneration & Nomination Committee report

The creation of the committee and approval of its Terms of Reference took place in October 2017. We are following with interest the consultation this year on proposed significant changes to the UK Corporate Governance Code, along with the Government's planned legislation. We will take these into account as appropriate in the committee's work in the future.

Committee membership

After the appointment of Paul Craig, the board decided that it could no longer undertake the functions of a Nomination Committee or a Remuneration Committee as Paul was not deemed to be independent. As a consequence, the decision was taken to form the Remuneration & Nomination Committee, comprised of the independent directors.

The Remuneration & Nomination Committee membership is:
Rosemary Boot (Chairman)
Rupert Barclay, David Brooks and Phil Hall

The Remuneration & Nomination Committee will meet as and when required but will meet formally at least once a year. For the period under review, we have not yet held a meeting of the Remuneration & Nomination Committee because the Company has not completed a full annual cycle.

JTC will attend all our meetings as Secretary to the committee. In addition, we will invite representatives of the Investment Advisers to attend as required.

Diversity

The board recognises the benefits that diversity brings. Our approach is to appoint the best possible candidate, considered on merit and against objective criteria (and in accordance with the Equality Act 2010), rather than to set quotas for a particular aspect that may deflect from achieving this fundamental target every time. At the date of this report, 20% of the board was female. We will consider introducing a diversity policy at our first meeting.

Role

The committee has two roles with various functions, the most important of which are:

Remuneration

- Determining, and agreeing with the board, the framework and broad policy for the remuneration of the board and to review the ongoing appropriateness and relevance of the remuneration policy to meet the needs of the Company. It will take into account all factors which it deems necessary including relevant legal and regulatory requirements, the principles of the AIC Code, the provisions of the UK Corporate Governance Code and their associated recommendations and guidance.
- Agreeing the policy for the authorisation of claims for expenses by the directors.

Nomination

- Reviewing annually the structure, size and composition (including the skills, knowledge and experience) required of the board and making recommendations to the board with regard to any necessary changes.
- Considering the succession planning and replenishment of directors as the board and Company progresses, identifying and nominating candidates to fill board vacancies as and when they arise, and taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the board for the future.
- Reviewing annually the time required from the directors and using performance evaluation to assess whether the directors are spending enough time on their duties.
- Considering the recommendations for re-election on retirement, and also the re-appointment of any director at the conclusion of his/her specified term of office.
- Taking into account all factors which it deems necessary to fulfil this role, including relevant legal and regulatory requirements, the principles of the AIC Code, the provisions of the UK Corporate Governance Code and any associated recommendations and guidance.

The full Terms of Reference of the Remuneration & Nomination Committee are available on our website at http://www.impactreit.uk/documents.

Rosemary Boot Committee Chair
21 March 2018

Accountability

Introduction

The responsibilities of the board for audit, reporting, risk management and internal control are covered in this section of the Corporate Governance Statement. This has been presented in two parts. The first part concerns the elements that the board and directors own collectively. The second part is the Audit Committee Report and covers elements that have been delegated, especially on audit and key financial judgements.

Approach to risk management and internal control

The directors acknowledge their responsibility for maintaining the Company's system of internal control and risk management, in order to safeguard the Company's assets. This system is designed to identify, manage and mitigate the financial, operational and compliance risks that are inherent to the Company, and to manage rather than eliminate the risk of failure to achieve business objectives. As such, it and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

As part of each board meeting during the period, the directors reviewed the financial position of the Company and assessed any risks in relation to the Company's business model and the Group's future performance, liquidity and solvency.

To facilitate this process the Investment Adviser produced financial reports, which included the latest management accounts, a review and report on the Company's financial model, substantiation of any dividend payments and a general update on the financial health of the Company.

A review of the principal business risks of the Company is performed annually. The Company's principal risks can be found on pages 22-24 of the Annual report.

The board considered whether the Company should employ an internal audit function during 2017 and concluded that, due to the Company's structure, the nature of its activities and taking into account the controls already in place and, more particularly, the external service already provided by the Administrator and the Manager, an internal audit function was not necessary.

As part of the internal risk review, we identified that whilst the Administrator has its own internal audit performed on an annual basis, from which the Company reviews any findings and takes particular comfort, the Company should also independently assess whether these controls are sufficient and if they operate effectively.

The Risk Committee

A combination of the risk systems of the Manager's, acting in its capacity as AIFM, and the Investment Adviser's risk systems are used to identify, monitor, measure and manage portfolio risk within the Company. A Risk Committee ("Committee") has been established by the Manager for the purposes of monitoring the risk management framework of the Company. The Risk Committee has responsibility for overseeing the performance of the risk management function and monitoring the effectiveness of the controls in place to mitigate risk at a Company and Group level.

The committee is appointed by, and reports to, the board of the Manager and from the Manager to the board of the Company. The membership of the committee is drawn from the Manager and Investment Adviser.

Committee activities

The committee ensures that Market Risk, Liquidity Risk, Counterparty Risk, Credit Risk, Regulatory Risk and Operational Risk are identified, measured, monitored and managed in line with the Company's Risk Management Framework and consistent with the Company's stated strategy and risk policies.

The committee is a key part of the control and governance framework for the Manager, ensuring it establishes, oversees and monitors appropriate management information, risk controls, risk management practices, processes and control framework within the agreed business risk appetite. This provides the effective oversight of risk in respect of the Company, to which it acts as Manager, whilst fulfilling the requirements of the Alternative Investment Fund Managers Directive ("AIFMD").

Operational risks

The Risk Committee identifies and logs key investment and operational risks of the Company in a Risk Register and measures the likelihood and impact of each risk. Operational risks are reviewed on a regular basis and any issues arising are investigated and appropriate remedies are put in place.

Oversight and reporting
The Risk Committee receives regular reports from the Company's service providers, including the Investment Adviser and the Administrator. Examples of such reports include:

- A portfolio risk overview is produced quarterly by the Investment Adviser which includes a number of measurements and analytics of relevance to the strategy employed in the Company.
- A quarterly operational risk report which provides an overview of the current operational risk profile of the Company and the effectiveness of related remedial activities.
- The Administrator provides quarterly NAV reporting for the Company.
- The Administrator provides input into the quarterly risk review matrix/reporting.
- The Administrator as Company Secretary provides a quarterly secretary's report covering compliance and regulatory reporting.

The Risk Committee meets on a quarterly basis to review the reporting received from the service providers to the Company to ensure that risk issues are identified and documented, appropriate controls are in place to mitigate risks, and action is being taken against risks outside agreed risk tolerances. The committee addresses any risk-related issues and escalates to the board of the Manager and to the Company board, if necessary.

The Manager presents a quarterly risk report to the Company board. The report summarises the findings of the Manager as a consequence of its risk monitoring function, including details of any significant incidents.

Stress tests, scenario analysis and robust assessment of principal risks
The Risk Committee conducts periodic stress tests and scenario analysis to assess the vulnerability of the portfolio to extreme or unusual market events or conditions. The limits and restrictions are monitored by both the Investment Adviser and the Manager. The Manager also monitors to see if limit levels are being approached and ensures that the Investment Adviser has appropriate procedures in place to ensure that limits are not breached. Appropriate escalation procedures are in place to ensure that any breach is investigated and, if necessary, reported to the Company's board.

During the period, the Risk Committee, on behalf of the board, also conducted a robust assessment of the principal risks to the Company's business model, future prospects, solvency and liquidity. This process incorporated information from the periodic stress tests and scenario analyses conducted during the year and involved the appraisal of the impacts and likelihoods of the risks before and after mitigations were applied. An evaluation of the residual risk indicates its materiality for the purposes of the necessary disclosures in the annual report. This assessment forms the basis of the statement made by the board with regard to this topic on page 34. Our principal risks and uncertainties are set out on pages 22-24.

Internal Control processes
The Group's internal control systems include a detailed authorisation process, formal documentation of all transactions, a robust system of financial planning (including cash flow forecasting and scenario testing) and a robust appraisal process for all property investments. Changes to internal controls, or controls to respond to changing risks identified, are addressed by the Risk Committee with appropriate escalation to the board as required.

The directors along with the Investment Adviser and Administrator, have established an internal control framework to provide reasonable assurance on the effectiveness of internal controls. This covers capital expenditure approval and authorisation of capital funding, Investment acquisition and disposal approval, annual budget approval, expenditure and supplier contract approval, NAV and Dividend authorisation, equity and debt approval and formal communications with investors.

These have been presented and approved in the form of a controls matrix and incorporates authorisation by the board or delegated responsibility to individual board members or the Investment Adviser.

The board receives and considers quarterly reports from the Investment Adviser, giving full details of the portfolio and all transactions and of all aspects of the financial position of the Group. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Company Secretary, who is responsible to the board for ensuring that board procedures are followed and in compliance with applicable rules and regulations.

The board also reviews and discusses the formal annual risk assessment conducted by the Risk Committee, led by the Investment Manager, with quarterly updates and assessments against these risks.

The board confirms that, in accordance with the AIC Code and Guide, it has established a continuing process for identifying, evaluating and managing the risks the Company faces and has reviewed the effectiveness of the internal control systems.

Accountability

Financial reporting

The Group, with the support of its Investment Adviser and Administrator, has internal control and risk management arrangements in relation to the Group's financial reporting processes and the preparation of its consolidated accounts. Internal management reporting and external statutory reporting timetables and delivery requirements are being established and documented. Control of these is maintained by the Administrator and communicated regularly.

The arrangements include procedures implemented by the Administrator to ensure the maintenance of records which accurately and fairly reflect transactions. These are reviewed and commented on by the Investment Adviser to confirm the appropriate treatment.

Where new reporting standards or financial reporting approaches are being adopted, either as a result of changing regulation or as a result of new contractual arrangements, the Administrator, in collaboration with the investment advisor, prepares an assessment of this treatment and discusses this with the Audit committee. Where required, third party advisers are consulted. This enables the preparation of financial statements in accordance with International Financial Reporting Standards (as adopted by the EU) or FRS 102, as appropriate, with reasonable assurance and requiring reported data to be reviewed and reconciled with appropriate monitoring internally and by the Audit Committee.

Ongoing financial performance is monitored through regular reporting to the Investment Adviser by the Administrator. Capital investment and all revenue expenditure is regulated by a budgetary process and authorisation levels, with post-investment and period end reviews as required. A budget is prepared by the Investment Adviser, approved by the board and monitored and reported against quarterly with the board and more regularly with delegated responsibility with individual directors. Expenditure and investment is then tracked by the Administrator against these budgets.

Review of risk management and internal control

The board conducted an annual detailed review of risk management and internal control. This was facilitated by a report with quarterly updates from the Risk Committee, augmented by JTC. JTC also provided a report on its internal controls in accordance with ISAE 3402, with independent assurance from PricewaterhouseCoopers.