AUDIT & RISK COMMITTEE REPORT

The Audit & Risk Committee continues to play a key role in scrutinising, monitoring and reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems, in addition to maintaining the integrity of the Group's financial reporting.

Geoffrey Gavey
Chair of the Audit & Risk Committee

Dear Shareholders,

I am pleased to present the report of the Audit & Risk Committee for the year ended 31 March 2023.

Key areas of focus

Over the last 12 months the Committee has focused on the further development of the risk management function within the business whilst continuing to ensure the integrity of the Group's financial statements is maintained, with a particular focus on the valuation and associated accounting for the successful acquisitions made during the year.

The Group's new Head of Risk has implemented several improvements to our systems and controls to support the growth and stability of the business. The acquisition of Infrastructure Capital Group ("ICG") last year precipitated a review of the regional risk and compliance frameworks across our global offices to align governance policies and processes across the Group. This has resulted in a more dynamic exchange of information on risks across our regions.

The Committee is updated on all developments in this regard and is satisfied with the progress.

Interaction with the Financial Reporting Council ("FRC")

The Company received a letter from the FRC on 27 February 2023 following their review of our interim report and accounts for the period ended 30 September 2022 in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures.

I am pleased to note that based on their review, there were no questions or queries that they wished to raise.

They did, however, suggest some improvements to our disclosures relating to APMs and segmental profit and loss. We have taken on board this feedback and included a detailed appendix to the financial statements explaining all of our APMs and segmental profit and loss has been detailed in note 5 of the accounts.

Composition

The Committee was formed on 3 February 2021 as part of the preparation for the Company's Admission to the Main Market of the London Stock Exchange. Its members are me as Chair, alongside fellow independent NEDs Alison Hutchinson and Mike Liston.

The UK Corporate Governance Code recommends that all members of the Audit & Risk Committee be Independent Non-Executive Directors, that one such member has recent and relevant financial experience and that the Committee as a whole shall have competence relevant to the sector in which the Company operates.

Whilst no member of the Audit & Risk Committee has an accounting or audit qualification, the Board considers that the Company complies with the requirements of the UK Corporate Governance Code, as I have recent and relevant financial experience, being a member of the Audit & Risk Committee at other companies. The absence of a member of the Audit & Risk Committee with an accounting and/or audit qualification is kept under periodic review by the Board.

Committee meetings

The Committee meets at least three times per year and at such other times as required. The Company's External Auditor or Chief Risk Officer ("CRO") may also request a meeting if they consider it necessary.

The Committee met on five occasions during the financial year under review to discuss and approve both the Annual and Half-year Reports; plan for the audit for the year ended 31 March 2023; and discuss a number of other risk and accounting areas within the remit of the Committee, including the valuation and accounting for the intangible assets and goodwill acquired as part of the Downing and ICG acquisitions.

AUDIT & RISK COMMITTEE REPORT CONTINUED

Responsibilities

As part of the IPO in February 2021, Terms of Reference ("ToR") were defined and documented for the Committee, which reflect the current statutory requirements and best practice appropriate to a group of Foresight's size.

The Committee is principally responsible for the following:

(i) Considering and reporting any significant issues that arise in relation to the audit of the financial statements

(ii) Reviewing the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems

(iii) Considering the need for an internal audit function

(iv) Reviewing the independence and effectiveness of the external audit process, including the provision of any non-audit services

A copy of the ToR can be found at **https://foresight.group/corporate-governance?tab=Board%20Responsibilities**

(i) Significant financial reporting areas

The key areas of risk identified and considered by the Committee in relation to the business activities and financial statements of the Group for the year ended 31 March 2023 were as follows:

Area of focus – Revenue recognition

(Management and Secretarial fees; Marketing fees; Directors' fees; Arrangement fees; and Performance fees)

Comments and conclusions

Management fees

Revenue is recognised in line with the investment management or advisory agreements in place with the appropriate funds. These are typically based on the Net Asset Value ("NAV") or committed capital of Limited Partnership funds managed or advised by the Group. Where NAV is used, it is typically the last audited or publicly available NAV approved by the independent boards of the relevant companies.

Secretarial fees

Relate to services provided to funds Foresight manages (such as company secretarial, accounts preparation, administration, etc.) and are generally driven by Funds Under Management ("FUM") and calculated as a percentage of NAV or as a fixed fee depending on the terms of the individual contract agreements.

Marketing fees

These are fees recognised as a percentage of initial funds raised from the tax-based retail products.

Directors' fees

Relate to services provided by Foresight staff where they are appointed as Directors on the boards of portfolio companies in which the Foresight funds invest. The fees are recognised in line with the contractual agreements between Foresight and the portfolio companies.

Arrangement fees

Earned by Foresight for its role in arranging certain deals (including capital deployments, fundraisings and refinancings), based on a percentage of the capital raised/deployed/refinanced.

Performance fees

Usually one-off in nature and earned from carried interest arrangements. Performance fees are recognised only at the point in time when the Group has certainty as to the receipt of such revenue, such that it is highly probable that a significant reversal in the amount of revenue recognised will not occur. Performance fees were recognised during the year following successful exits from the Foresight Regional Investment Fund LP ("FRIF"), Foresight Nottingham Fund ("FNF"), Energy Infrastructure EIS and Solar & Technology VCT. The revenue was recognised once the Group had received the cash.

Following discussions with management and review of the Group's controls and procedures as part of the meetings held throughout the year, the Committee is comfortable that revenue has been properly recognised in the financial statements in line with the Group's accounting policies.

AUDIT & RISK COMMITTEE REPORT CONTINUED

Responsibilities continued

(i) Significant financial reporting areas continued

Area of focus – Accounting for Business Combinations under IRFS 3 - Recognition, measurement and impairment of customer contract intangible assets and goodwill

Comments and conclusions

As previously reported, there were two acquisitions during the current financial year, namely Downing and ICG. Management concluded that both acquisitions in the year constituted the acquisition of a business under IFRS 3 and were therefore accounted for as business combinations.

There is a considerable amount of subjectivity used in valuing intangibles of this nature and following provisional assessments at half-year, management engaged a third-party professional services firm to conduct purchase price allocations, including the identification and valuation of separately identified intangible assets for both business combinations.

The separately identified intangible assets are for the customer (management) contracts acquired through both business combinations. These have been valued using a discounted cash flow model, with assumptions regarding length of contract, appropriate costs and appropriate discount rates applied. Contributory asset charges have also been applied to determine the fair value of the management contract. Following discussions with management and review of the third-party report, the Committee is satisfied with the valuations conducted and that there were no indicators of impairment of these intangible assets and those recognised in respect of business combinations from prior periods.

Area of focus – Accounting for Business Combinations under IFRS 3 - Valuation and accounting treatment of deferred elements of consideration payable

Comments and conclusions

The consideration for the acquisition of ICG consisted of different components payable in cash and shares, some of which are subject to forfeiture if any of the sellers cease to be employed or contracted by Foresight during specified time periods. We reviewed the judgements made by management as to whether each component should be accounted for as consideration or as remuneration for post-combination services. Contingent consideration is also based on the achievement of management fee revenue targets in future periods and the Committee is satisfied with the underlying assumptions used by management to forecast revenue to estimate the fair value of this consideration.

The consideration for the acquisition of Downing's ventures business also included contingent consideration based on the valuation of the AUM acquired at future dates. The Committee is satisfied with the underlying assumptions used by management to derive expected AUM at these dates to estimate the fair value of this consideration.

Area of focus – Forward contracts

Comments and conclusions

In order to mitigate the risk associated with the increase in Group cash flows arising in a foreign currency following the acquisition of ICG, the Group entered into a number of forward foreign currency contracts in September 2022. These forward foreign currency contracts are considered to be derivatives and are accounted for as financial instruments within the scope of IFRS 9 but are not designated as hedging instruments and therefore not subject to hedge accounting.

Following discussions with management, review of the Group's treasury policy and confirmation of the existence of the derivatives from the Group's foreign exchange broker, the Committee is comfortable that the contracts have been accounted for correctly in the Annual Report and Accounts.

AUDIT & RISK COMMITTEE REPORT CONTINUED

Responsibilities continued

(i) Significant financial reporting areas continued

Area of focus – Transfer pricing

Comments and conclusions

Due to the increasing presence of the Group worldwide, a third-party professional services firm was engaged during the year to review and develop the Group's inter-company pricing policies applicable to both the investment management and asset management value chains. As a result of this work, no transfer pricing adjustments were required for charges made to date.

The Committee was presented with the policies to be adopted by management and is satisfied that these were appropriate. Management will review these policies regularly in light of any changes in tax legislation.

Area of focus – IFRS 2 – Performance Share Plan

Comments and conclusions

The Group continues to operate an IFRS 2 Performance Share Plan ("PSP") scheme and there was a further grant of options in August 2022. The operation of this plan involves management judgement and complex accounting, in particular around the grant and vesting start date and the fair value of the options including appropriate retention rates.

Management continued its engagement with a third-party firm specialising in IFRS 2 valuations to assist with the valuation in this area. Discussions were held between the firm and management who challenged the assumptions used and assessed their appropriateness.

Following discussions with management and review of the output from the third-party firm, the Committee has concluded that the financial statements have been accurately presented in accordance with IFRS 2.

Area of focus – Fair value of investments in underlying funds

Comments and conclusions

The Group has various "co-investments" in underlying Limited Partnership funds. The fair value of these investments is based on the NAV of the respective funds.

There is some element of judgement involved in arriving at the valuation of the investments held by these funds, but the Committee is comfortable with the processes and controls in place across the Group, as evidenced by the ISAE 3402 report produced for the 12 month period to 31 March 2023.

Comfort was also obtained by the fact that these funds were externally audited during the year, plus I attended two Valuation Committee meetings (one for Private Equity, one for Infrastructure) and observed the robust discussion and challenge of assumptions that took place during this process.

AUDIT & RISK COMMITTEE REPORT CONTINUED

Responsibilities continued

(ii) Risk management and internal controls

Each business and functional area across the Group identifies risks and assesses the risk and controls framework. Oversight of risks and risk management activity remains with the Group's Risk Committee, with relevant risks discussed at those committees as well, with escalation to the Executive Committee and Audit & Risk Committee as required.

The Board of Directors is accountable for the risk management activities of the Group and responsible for setting the tone for the Group's risk culture. The Board therefore has the ultimate responsibility for the effective management of risk, including determining the Group's risk appetite, identifying key strategic and emerging risks, and reviewing Foresight's risk management and internal control framework. For information on the Group's principal and material risks please refer to pages 81 to 84 of the Strategic Report.

In addition to the Group Risk Committee, the Audit & Risk Committee continues to rely on a number of different sources, including the production of the annual ISAE 3402 report which covers controls around the valuation of the Group's funds, as well as third parties providing additional support in specialist areas such as tax, risk, compliance and governance.

In my role as Chair of the Audit & Risk Committee, I attended a number of management meetings during the year to observe for myself the discussion and challenge provided by senior management. These meetings covered Risk, Compliance and Valuations in addition to meetings of the three main business divisions.

The Committee provided its confirmation to the Board that it has reviewed the effectiveness of the systems of internal control, including financial, operational and compliance controls, and risk management for the reporting period, as required under the provisions of the Code.

(iii) Internal audit

Taking account of the nature, scale and complexity of the Group's business, Foresight does not currently have a dedicated internal audit function. However, the Committee keeps this under constant review and is expecting to implement an internal audit function in future reflecting the continued growth of the business. Our risk governance function continues to be developed by the Head of Risk and the timeline for an internal audit function is regularly raised at the Risk Committees.

Foresight prepares a controls report in accordance with International Standards on Assurance Engagements (ISAE 3402) which is also reviewed by BDO. This report describes the controls in place for processing investment transactions across the Group including the procedures in place to deal with conflicts of interest. The most recent report was produced and audited for the 12 month period to 31 March 2023. In addition, to ensure CASS rules are followed, an independent review is performed by the internal compliance function as part of its annual compliance monitoring plan.

(iv) External audit, including non-audit services

The Committee is responsible for ensuring that the External Auditor provides an effective audit of Foresight's financial statements, including overseeing the relationship and evaluating the effectiveness of the service provided and its ongoing independence.

BDO are engaged as the External Auditor for the Group and have audited the principal trading business within the Group (Foresight Group LLP) since the year ended 31 March 2019. Peter Smith has been BDO's senior statutory audit partner since then and given the regulations require the External Auditor to rotate its engagement partner at least every five years, the current year will be Peter's final engagement. BDO have identified a replacement engagement partner, Lizzie Hooper, and I held an initial introductory meeting with her post year end. The rest of the Committee are looking forward to meeting with her in due course.

In assessing the quality and effectiveness of the external audit, the Committee reviewed the audit team's demonstrated competence, experience, diligence, objectivity, professional scepticism, current knowledge and its relationship with the Executive Directors and senior management. In particular, the Committee met with the lead partner and senior members of the audit team to review the audit scope and audit findings, provide challenge and assess the depth of review provided by BDO over the significant judgements and estimates made by management. I also held private meetings with Peter Smith during the year to understand BDO's processes, capability of their staff and observations about management, with all of which I was satisfied.

AUDIT & RISK COMMITTEE REPORT CONTINUED

Responsibilities continued

(iv) External audit, including non-audit services continued

BDO confirmed its independence and objectivity from Foresight during the reporting period and both the Committee and the Board are satisfied that BDO has adequate policies and safeguards in place to ensure its objectivity and independence are maintained.

When assessing the independence of BDO, the Committee considered, amongst other things, the value of non-audit services provided by BDO, and the relationship with them as a whole. The provision of non-audit services is considered by the Committee in the policy they have adopted on the independence and objectivity of external auditors. This policy is aligned to the recommendations of the Financial Reporting Council's ("FRC's") Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2019) (the "Ethical Standard"). An external audit firm will only be appointed to perform a non-audit service when doing so would be consistent with both the requirements and overarching principles of the Ethical Standard, and when its skills and experience make it the most suitable supplier.

Details of the fees paid to BDO for audit and non-audit services are shown in note 6 of these financial statements. The non-audit services provided by BDO for the year ended 31 March 2023 related to an assurance report on the internal control environment of the Group in accordance with ISAE 3402; the interim review of the Group's Half-year Report; and the annual CASS audits.

The Group has a number of overseas subsidiaries, some of which require a local statutory audit. BDO have been used as component auditors in Luxembourg and Guernsey for a number of years, but following the ICG acquisition during the year, the Group inherited PwC in Australia as incumbent component auditor for the acquired ICG entities. Given the benefit of maintaining the continuity in service, the Committee agreed to retain PwC for the local audits in Australia for the year ended 31 March 2023, but will be actively exploring whether it makes sense to move to a different component auditor for the year ending 31 March 2024.

The Committee is ultimately responsible for recommending to the Board the appointment, reappointment and removal of the External Auditor. The Committee has recommended to the Board that, subject to Shareholder approval at the 2023 AGM, BDO be reappointed as External Auditor of the Group for the forthcoming year.

On behalf of the Audit & Risk Committee

Geoffrey Gavey

Chair of the Audit & Risk Committee

3 July 2023