Private Equity Reporting Group

Eleventh Report

December 2018

The independent body promoting enhancements in transparency and disclosure within the UK private equity industry

PERG

Private Equity Reporting Group

PERG

CONTENTS

APPENDICES

1

Executive summary

The Private Equity Reporting Group (the "PERG") has reviewed the private equity industry's conformity with the Guidelines for Disclosure and Transparency in Private Equity (the "Guidelines"). The Guidelines, recommended by Sir David Walker in 2007, seek to increase transparency through enhanced reporting and disclosure by the largest UK portfolio companies and their private equity owners. The PERG was established in March 2008 to monitor conformity with the Guidelines and make periodic recommendations to the British Private Equity and Venture Capital Association (the "BVCA").

1.1 Key findings

- This review covers 56 portfolio companies (2017: 54) that fall within the scope of the Guidelines and the 51 firms (2017: 59) that back them (private equity firms and those operating in a private equity-like manner).
- All portfolio companies reviewed in the sample complied with the disclosure requirements in the annual report this year (2017: 79%).
- Comparing only those portfolio companies that have complied with all of the disclosure requirements in their annual reports, 73% prepared disclosures to a good standard (2017: 80%).
- 81% of portfolio companies have published an annual report in a timely manner on their website (2017: 78%). 74% of portfolio companies have published a mid-year update in a timely manner on their website (2017: 72%).
- 7% of portfolio companies have not complied with any of the three components of the Guidelines that apply to them this year (2017: 12%). These companies are backed by non-BVCA members.
- All BVCA members have published certain disclosures on their own websites to communicate information about the firm, its portfolio companies and its investors as required by the Guidelines or provided an explanation.
- 85% of portfolio companies have provided data, which is presented in aggregate in the EY performance report published alongside this report (2017: 85%).

1.2 What the Guidelines require

The Guidelines have four main components – three that apply to portfolio companies and a fourth that applies to the private equity firms managing or advising funds that own the portfolio companies:

- Portfolio companies should prepare disclosures as stipulated in the Guidelines in their audited annual report and financial statements, and prepare a mid-year update.
- Portfolio companies are required to publish their annual report and a mid-year update in a timely and accessible manner on their company website.
- Private equity firms should publish certain disclosures on their own website.
- Portfolio companies are required to share certain data, which is presented in an aggregated performance report by EY to illustrate the contribution of large private equity-backed companies to the UK economy.

It is important to highlight that the Guidelines operate on a 'comply or explain' basis so there is an opportunity to explain non-compliance with the Guidelines.

The full Guideline requirements can be found in Appendix 3 and have been summarised in the compliance checklist in Appendix 6.

1.3 The Private Equity Reporting Group

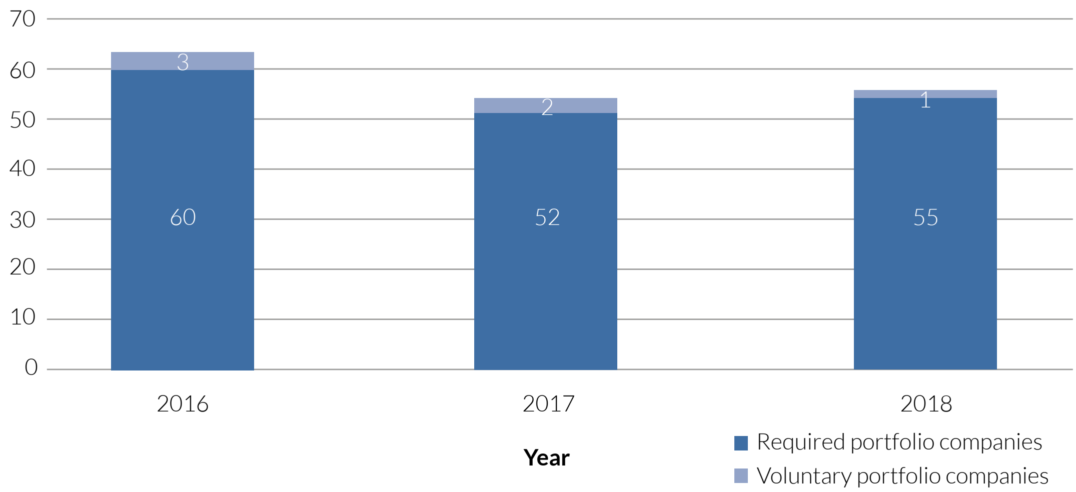
The members of the PERG are:

Nick Land	Chairman & independent member
Baroness Drake	Independent member
Glyn Parry	Independent member
Ralf Gruss	Industry representative (Apax)
Tony Lissaman	Industry representative (3i)

Meetings of the PERG are attended by Tim Hames, BVCA Director General, Gurpreet Manku, BVCA Deputy Director General and Director of Policy and Sundip Jadeja, BVCA Policy and Governance Manager. PwC and EY, both advisers to the PERG, are also invited to attend.

1.4 Portfolio companies required to comply with the Guidelines

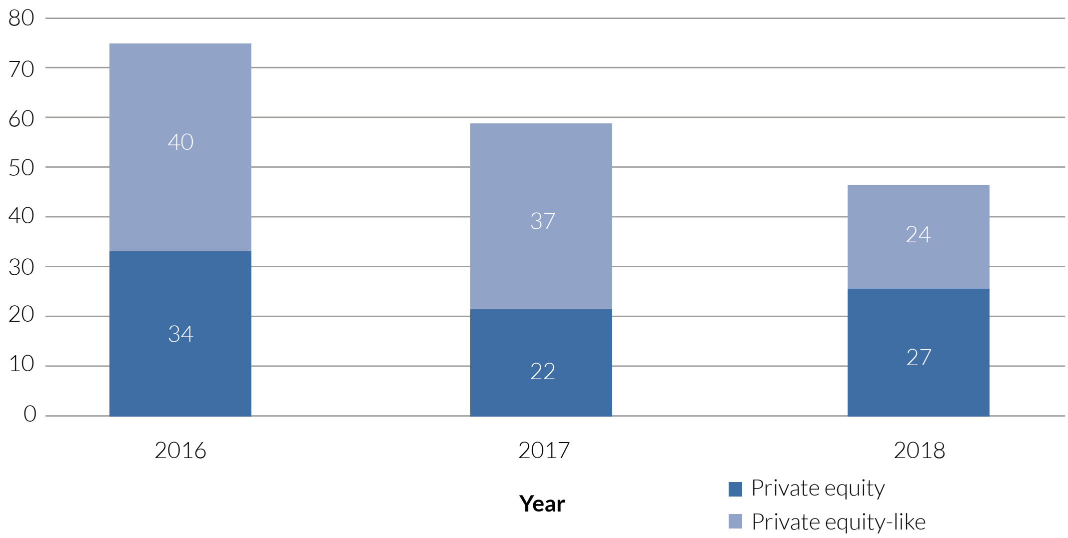
The Guidelines apply to the largest private equity-backed companies with a significant presence in the UK. The number of portfolio companies covered by the Guidelines this year is 56 (2017: 54). Of this number, 55 were included as required companies (2017: 52) and one complied voluntarily (2017: 2). Further details on the portfolio companies are included in Appendix 2. The definition of a portfolio company is in Appendix 3.



1.5 Private equity firms within scope of the Guidelines

Private equity firms managing or advising funds that own portfolio companies that are in the scope of the Guidelines are responsible for ensuring compliance with the Guidelines. This includes private equity-like firms that conduct their business in a manner that would be perceived by external stakeholders to be similar to that of other participants in the private equity industry. This may include, but is not limited to, infrastructure funds, sovereign wealth funds, pension funds and credit/debt funds.

The number of firms covered by the Guidelines has decreased to 51 this year (2017: 59). This has been driven to a degree by the removal of certain types of infrastructure assets (see below). The full definition is set out in Appendix 3, and Appendix 1 explains how minority and other shareholders are monitored.



1.6 Review of infrastructure assets in the Walker population

This year the PERG undertook a review of the private equity-like infrastructure assets that are currently within the scope of the Walker Guidelines. The PERG continues to believe that infrastructure companies and their owners that are considered private equity-like in terms of their approach should be in scope. However, the PERG acknowledges that there may be certain companies and their owners that were once deemed private equity-like, but are no longer such for a number of reasons. This review considered the characteristics of both the company and its owners in determining whether both were sufficiently private equity-like in nature. Characteristics considered include the historical hold period and fund life of the owner (where relevant), and whether the portfolio company was monopolistic in nature and the attributes of its debt financing. Following this review, the PERG agreed to remove four companies and their owners from the scope of the Guidelines.

The PERG will continue to encourage and work with entities that remain in the population and are considered private equity-like.

1.7 Overall compliance with the Guidelines

Based on our detailed review of the sample and our knowledge of the full population, four portfolio companies have not complied in full with any of the three components of the Guidelines (enhanced annual report disclosures and preparation of a mid-year update; the publication of these reports; and the provision of data to EY). These companies were Advanced, London City Airport, Punch Taverns and Pure Gym. The PERG is recommending that their owners comply in future years.

1.8 Compliance with the disclosure requirements in the Guidelines

This year all portfolio companies in the sample reviewed have complied with the disclosure requirements. (2017: 79%).

Sample

Each year, a sample of approximately a third of the population of portfolio companies that fall within the scope of the Guidelines is reviewed for compliance with the disclosure requirements. PricewaterhouseCoopers LLP ("PwC") was reappointed as an independent advisory firm to assist the PERG in carrying out this year's review. The sample included companies with accounting years ending up to and including 30 April 2018.

PwC has reviewed a sample of 15 portfolio companies this year. Through annual sampling, the PERG aims to ensure that all portfolio companies are reviewed at least once every three years, and will continue with its policy of re-reviewing companies where the reporting does not comply with the Guidelines.

Benchmark for compliance

The PERG continues to raise the required standard for compliance with the Guidelines and the level to achieve a good standard of disclosure. It benchmarks the quality of compliance against listed companies in the FTSE 350, with an emphasis on the better performers in this group. The FTSE 350 is considered to be the most appropriate benchmark when compared to the size and composition of the portfolio companies covered by the Guidelines. An excellent level of disclosure for portfolio companies is broadly comparable to those better performers in the FTSE 350 and these are typically, but not always, in the FTSE 100. The review has found that portfolio companies do prepare disclosures for the individual requirements to an excellent standard, but there have been few examples over the years where the portfolio company achieved an excellent standard overall. Further detail on how companies are benchmarked is included in Appendix 4.

Quality of disclosures by portfolio companies in their annual report

Overall, 73% of the sample reviewed in the current year achieved a good rating (2017: 63%). Comparing this on a like-for-like basis, by excluding the non-compliant companies reviewed last year, the level of good quality disclosures has fallen slightly (2017: 80%), however this year all companies have complied with the Guidelines.

Camelot, Parkdean Resorts, Pizza Express and Village Hotels, which were non-compliant in previous years, were reviewed in the current year and are now all compliant with the Guidelines with good quality disclosures.

In the current year, based on the sample reviewed, good quality disclosures have been produced by portfolio companies in relation to:

- details on board composition;
- analysis of development and performance during the year and position at year-end; and
- financial KPIs.

Areas where the standards of disclosure require improvement by portfolio companies are:

- identification and analysis of financial risks;
- gender diversity; and
- human rights issues.

Private equity firms and portfolio companies should note that the gender diversity and human rights disclosures requirements per the Guidelines are different to other legal requirements, being the gender pay gap and Modern Slavery Act reporting.

A statement of compliance in the annual report of the portfolio company is a requirement of the Guidelines. 60% of companies have included such a statement in their annual report, which needs improving (2017: 53%). The PERG views this statement as a proxy for the "fair, balanced and understandable" requirement under the UK Corporate Governance Code, which has contributed to higher standards of reporting by FTSE 350 companies.

Thematic reviews of portfolio company reporting compared to listed companies

PwC carried out a thematic review looking at the strategic reports of the sample of portfolio companies reviewed and compared this to the FTSE 350. The review found that both portfolio companies and FTSE 350 companies do not clearly connect the company's purpose with its business model, and how this links to key business stakeholders. This is an area that could be improved by both cohorts of companies. In addition, both the FTSE 350 and portfolio companies should consider presenting a long-term outlook beyond twelve months in their annual reports..

The PERG also asked PwC to perform a thematic review of the tax disclosures in the sample of portfolio companies given increasing interest globally in the tax affairs of large companies. The Guidelines do not contain specific requirements on tax. The PwC review was based on a number of key themes that PwC identified as part of their review of FTSE 100 companies, which is a much higher benchmark as portfolio companies are otherwise compared to the FTSE 350 throughout this report. In its review, PwC found that, similar to the FTSE 100 companies, the level of reporting on tax that went beyond current statutory and accounting standards requirements varied for the portfolio companies reviewed.

Feedback for private equity firms and portfolio companies

Following the review, the PERG provides feedback to private equity firms and their portfolio companies in order to raise the standard of disclosure and adherence to the Guidelines. This feedback includes detailed findings and recommendations for improvements.

Alongside this report, PwC has published an update to its Good Practice Guide, based on their findings from this year's review. It sets out expectations for compliance with the Guidelines and shares examples of good practice to assist firms and portfolio companies.

1.9 Compliance with the publication requirements of the Guidelines

Portfolio companies are subject to two publication requirements:

Requirement	Results of review
Publication of annual reports: Portfolio companies should publish their annual audited reports on their websites no more than 6 months after the company year-end.	81% of portfolio companies published an annual report within 6 months of year-end on their website (2017: 78%).
Mid-year update: Portfolio companies should publish a summary mid-year update giving a brief account of major developments in the company within 3 months of mid-year.	74% of portfolio companies published a mid-year update within 3 months of mid-year on their website (2017: 72%).

1.10 Compliance by private equity owners in relation to their disclosure obligations

The PERG reviewed the websites and/or annual reports of the private equity firms covered by the Guidelines to assess compliance with their disclosure obligations, including details on their investment approach, UK portfolio companies, and leadership of the firm. The information published varied with some firms opting for succinct and clear statements and others providing extended information on strategy and detailed case studies. All members of the BVCA have met the requirements or provided an explanation.

BVCA members have also signed a statement of conformity with the Guidelines confirming that the requirements of their own disclosure and data provision requirements and those of their portfolio companies are understood.

1.11 Performance of portfolio companies

Each year the BVCA commissions research into the performance of portfolio companies compared to public benchmarks and an attribution analysis in respect of exits. EY LLP was reappointed in 2018 to undertake this research and this has been published at **www.bvca.co.uk/ResearchPublications**. The compliance rate for the provision of data is 85% (2017: 85%).

Key findings from the report include:

- The average timeframe of private equity ownership of portfolio companies is 5.7 years and the current portfolio companies have been owned for an average of 3.9 years.
- Organic employment growth under private equity ownership is 1.3% per annum, which is in line with the UK private sector benchmark.
- Average employment cost per head has grown under private equity ownership by 3.3% per annum, which is above the UK private sector benchmark at 2.5% annual growth.
- 47% of the current portfolio companies have made net bolt-on acquisitions while 7% have made net partial disposals.
- Annual growth in labour productivity in portfolio companies is between 1.1% and 1.9% and is broadly in line with public company and economy-wide benchmarks.
- Portfolio companies have grown reported revenue at 6.5% per annum in line with public company benchmarks.
- The equity return from portfolio company exits is 3.8x the public company benchmark; over half of this is due to private equity strategic and operational improvements, and the rest from additional financial leverage.

1.12 PERG's 2019 activities

The PERG's plan for 2019 includes:

- Consulting on whether and how to update the Guidelines to reflect the EU Non-Financial Reporting Directive, which was implemented in 2017.
- Monitoring the publication of annual reports and mid-year updates by portfolio companies on their websites to ensure these are on a timely basis.
- Supporting and educating the industry when implementing the Guidelines. The Good Practice Guide published alongside this report and other reports published by the Financial Reporting Council ("FRC"), such as its 2018 Guidance on the Strategic Report, should assist firms and portfolio companies when preparing annual reports.
- Monitoring the impact of the changing narrative reporting landscape in the UK, including new reporting requirements on directors' duties, engagement with stakeholders and corporate governance arrangements, including the related Wates principles on corporate governance for large private companies.

In an environment where building trust in business is high on the political agenda, the Guidelines continue to highlight the contribution of the private equity industry in the UK. The PERG welcomes the compliance and efforts of BVCA members and other firms that aspire to provide disclosures to a good standard. The spotlight is on large private companies in the UK, where the government has recognised the work of the PERG, the BVCA and the private equity industry in supporting the Guidelines. Firms and portfolio companies should therefore seek to continuously improve the level of transparency and quality of disclosures, particularly on gender diversity and human rights issues.

2

Review of conformity with the Guidelines

This section details the findings of the PERG's review of conformity with the Guidelines. It considers compliance across four areas:

Disclosures by portfolio companies	Publication of portfolio company reports	Communication by private equity firms	Other requirements and recommendations
The requirements to include enhanced disclosures in the audited annual report and financial statements, and prepare a mid-year update.	The requirement to publish the audited annual report and financial statements, and a mid-year update in a timely and accessible manner.	The requirement to make information about the firm available in an annual report on, or through regular updating of, the firm's website.	The requirements for firms and companies to provide data to the BVCA, to follow established reporting and valuation guidelines and to ensure timely and effective communication. There are recommendations for the BVCA relating to research, engagement with "private equity-like" entities and fund performance measurement.
This covers portfolio companies with accounting years ending up to and including 30 April 2018.			

The Guidelines operate on a comply or explain basis. Therefore, firms have an opportunity to explain why they have not complied with the Guidelines or an element of the Guidelines.

2.1 Overall compliance

56 portfolio companies were within scope of the Guidelines in 2018 (2017: 54). Of this number, four portfolio companies have not complied with any of the three components of the Guidelines this year (enhanced annual report disclosures and preparation of a mid-year update, the publications of these reports, and the provision of data to EY):

- Advanced (owned by Vista Equity Partners) – the PERG remains unable to engage with the owners to date.
- London City Airport (owned by OMERS Infrastructure, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation and Wren House Infrastructure Management) – the company continues to not comply with no single owner having a controlling stake in the company.
- Pure Gym (owned by Leonard Green & Partners) – this is the first year the company is in scope of the Guidelines and the PERG has been unable to engage with its owner to date.
- Punch Taverns (owned by Patron Capital) – this is the first year the company is in scope of the Guidelines and the PERG has been unable to engage with its owner to date.

The PERG will continue to seek to engage with owners and encourage compliance in future years.

The PERG acknowledges that all BVCA members and some non-members in scope of the Guidelines and their portfolio companies are compliant with the Guidelines or have provided appropriate explanations. Non-BVCA members own the four companies that are non-compliant this year.

2.2 Disclosures by portfolio companies in annual reports

A snapshot of the reporting requirements for portfolio companies is found below, including those required by law.

Guidelines–specific disclosures	
- Identity of private equity firm - Details of board composition - Statement of conformity with the Guidelines	- Financial review – position - Financial review – financial risks
Business review – these are included in the Strategic Report for UK companies and could be included in the Directors Report or another appropriate report for non-UK companies	
Applicable to all companies[1]	**Enhanced disclosures normally applicable to quoted companies that are required by the Guidelines**
- Balanced and comprehensive analysis of development and performance during the year and position at the year-end - Principal risks and uncertainties facing the company - Key performance indicators – financial - Key performance indicators – non-financial	- Strategy - Business model - Trends and factors affecting future development, performance or position - Environmental matters - Employees - Social, community and human rights issues - Gender diversity information

2.2.1 Overview of portfolio company disclosure findings

The PERG's objective is to ensure that all companies covered by the Guidelines strive to report to a level equivalent to FTSE 350 companies. The quality and level of disclosure is benchmarked against disclosures by these companies, with an emphasis on the better performers in that cohort, typically the FTSE 250. To clarify how this review is carried out, the PERG's definitions for measuring compliance are included in Appendix 4.

Overall quality of disclosures	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	73%	27%	0%	0%	63%	16%	21%
Compliant companies reviewed	0%	73%	27%		0%	80%	20%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Overall, 73% of the sample reviewed in the current year achieved a good standard of disclosure (2017: 63%). Comparing this on a like-for-like basis against the companies reviewed that were compliant last year, the level of good quality disclosures overall has fallen slightly (2017: 80%). As in recent years, no companies achieved an overall excellent level of compliance, however specific disclosures by companies were deemed to be excellent in some cases. To achieve an excellent standard overall, portfolio companies would need to produce disclosures to the standard generally seen in the FTSE 100.

[1] *This is applicable to all companies (including private companies) except those eligible for the small companies' exemption per Companies Act 2006. Medium-sized companies per Companies Act 2006 are also eligible for an exemption to provide non-financial information.*

The number of companies that did not comply with the disclosure element of the Guidelines has fallen to zero this year. The improving level of compliance is positive, but companies should keep in mind the following:

- All companies have provided disclosures on human rights issues and gender diversity. However, disclosures in both areas tend to be basic in quality when expectations to disclose more around policy and practice in these areas are increasing. There may be some misunderstanding about how these requirements interplay with other legal requirements. Whilst we recognise that companies are complying with their gender pay gap and Modern Slavery Act reporting requirements, these are not the same as the requirements per the Guidelines. In some instances, this has in fact led to basic disclosures in these areas. Firms are reminded to refer to the Good Practice Guide for examples of the disclosures expected.
- The quality of reporting by listed companies in the FTSE 350 continues to improve, which is the benchmark for judging compliance. Firms that may have previously been assessed as compliant would not necessarily be rated the same if they have not improved their disclosures in line with the standard set by the FTSE 350.

All companies in the sample that did not initially comply with all of the disclosure requirements sought to address their exceptions this year through provision of additional disclosure on their website (2017: 20%). This was with the understanding that the additional disclosures would be included in the company's next annual report.

2.2.2 Portfolio companies reviewed

In relation to the disclosures in the annual report, the PERG has established a policy that all portfolio companies within the population will be reviewed:

- at least once within a three-year cycle; and
- more frequently if a company's reporting has been found to not comply with, or only just meets, the requirements in the Guidelines.

15 portfolio companies were selected for review this year, representing around a third of the total population – this is consistent with the approach the PERG has taken in previous years. This sample consists of:

- 4 portfolio companies that have not been previously reviewed, being new entrants to the population;
- 8 portfolio companies that have been previously reviewed and assessed as compliant; and
- 3 portfolio companies that remained non-compliant or had a poor quality disclosures at the end of the review process last year, and so have been re-reviewed in the current year.

Portfolio companies have differing year-ends and the annual reports with years ending on or after 1 May 2017, and up to and including 30 April 2018 have been reviewed.

In general, new entrants in the period covered by the PERG's report are reviewed in their first year in scope of the Guidelines. Therefore, Pure Gym (owned by Leonard Green & Partners) and Punch Taverns (Patron Capital) were due to be reviewed this year. However, as the PERG has been unable to engage with its owners, the company's annual report has not been reviewed this year. Similarly, the owners of Advanced, Vista Private Equity, have not engaged with the PERG again this year, hence their annual report has not been reviewed. All three companies are noted as being non-compliant with the Guidelines and the PERG will continue to attempt to engage with their respective owners to encourage compliance in the future.

Calvin Capital (backed by KKR) was unable to comply with the disclosure requirements this year, however it is the company's first year in scope, and the owners have confirmed the company will be compliant next year.

Clarion Events and QA Training (backed by Blackstone and CVC respectively) were only bought by their private equity owners shortly after their respective year-ends so the PERG has given both companies a year's grace. Similarly, Williams Lea Group was only owned by Advent International for one month before its year end, so the PERG has given the company a first year allowance. Nonetheless, the company has strived to include its Walker specific disclosures as standalone disclosures on its website.

2.2.3 The benchmark to assess compliance

The basic requirements are set out in the next section along with a link to the Good Practice Guide to understand the standard seen in the FTSE 350. The PERG has continued to raise the required standard achieve compliance as it benchmarks this against listed companies. An excellent level of disclosure for portfolio companies is broadly comparable to those better performers in the FTSE 350 and further detail on how companies are benchmarked is included in Appendix 4.

Fair, balanced and understandable	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	67%	33%	0%	0%	58%	26%	16%
Compliant companies reviewed	0%	67%	33%		0%	67%	33%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

The quality and level of disclosure by the FTSE 350 has increased in the last few years due to new narrative reporting and corporate governance requirements in the UK. In particular, further detail is expected in relation to the risk, viability and going concern aspects of the UK Corporate Governance Code ("the Code") that applies to premium listed companies. The Code also requires listed companies to confirm the financial statements are "fair, balanced and understandable". These simple words have had a significant impact on the quality of disclosure seen in listed company reporting as companies have re-evaluated how best to present their reports.

To better assess the quality of compliance, the PERG is also monitoring how companies are performing in relation to the "fair, balanced and understandable" requirement. Note that there is no requirement in the Guidelines to confirm this, as it is a requirement of the Code, instead, portfolio companies are required to state compliance with the Guidelines as a proxy (see below). The quality of "fair, balanced and understandable" disclosures is higher than the previous year with 67% of companies achieving a good standard (2017: 58%).

2.2.4 Feedback for private equity firms and portfolio companies

The PERG will explain where improvements can be made in feedback letters sent to private equity firms and their portfolio companies. To promote good practice, these will highlight areas where disclosures could be improved beyond the basic requirements, as well as flagging where portfolio companies have not included a statement of conformity in their annual report.

Alongside this report, an updated Good Practice Guide has been published by the PERG and PwC showcasing examples of good practice based on the findings of this year's review.

The PERG is also looking at other activities to improve the quality of disclosures such as further seminars and by working with the auditors of the portfolio companies.

2.2.5 Disclosure by a portfolio company – detailed findings

The following section sets out how the sample of portfolio companies reviewed have performed against the individual requirements assessed for compliance and whether the quality of disclosure provided was excellent, good, basic (i.e. the minimum level expected) or non-compliant. This has been broken down further to illustrate the quality of disclosures of the companies in the sample that were compliant overall i.e. excluding non-compliant companies.

Guidelines specific disclosures

Identity of the private equity firm	Expectations for compliance
The report should identify the private equity fund or funds that own the company and the senior executives or advisers of the private equity firm in the UK who have oversight of the company on behalf of the fund or funds.	See section 1 of the Good Practice Guide (page 6).

Identity of the private equity firm	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	60%	40%	0%	6%	47%	47%	0%
Compliant companies reviewed	0%	60%	40%		7%	53%	40%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

This criterion continues to be well adhered to with all portfolio companies providing disclosures to at least a basic level. 60% of the sample reviewed achieved at least a good standard (2017: 53%), however no companies were considered excellent this year.

Weaker examples relied on references to the private equity firm through the identity of the directors on the board and the controlling party disclosure within the financial statements. The better performers provided some further insight, such as the firm's history, background or a more detailed ownership structure.

Details of board composition	Expectations for compliance
The report should give detail on the composition of the board, identifying separately executives of the company, directors who are executives or representatives of the private equity firm, and directors brought in from outside to add relevant industry or other experience.	See section 2 of the Good Practice Guide (page 8).

Details of board composition	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	7%	73%	20%	0%	11%	67%	11%	11%
Compliant companies reviewed	7%	73%	20%		13%	74%	13%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

This criterion continues to be well adhered to by portfolio companies with all companies compliant this year compared to two non-compliant companies last year. 80% of the companies reviewed produced good or excellent quality disclosures (2017: 78%), clearly articulating the experience of the board members, demonstrating why they are appropriate for that role. The small number of weaker examples only listed the directors for the period, which is the Companies Act 2006 requirement, and identified which directors represented the private equity house.

One company achieved an excellent disclosure compared to two in 2017. It included a significant level of additional disclosure, similar to a listed company, covering the wider aspects of governance and committees in place, as well as how the board members form part of this.

Financial review	Expectations for compliance
The financial review should cover risk management objectives and policies in the light of the principal financial risks and uncertainties facing the company, including those relating to leverage, with links to appropriate detail in the footnotes to the balance sheet and cash flow section of the financial statements.	See sections 3 and 4 of the Good Practice Guide (pages 10 and 12).

Compliance with this requirement was measured by reference to two areas: the financial position of the company at the year-end and the identification and analysis of financial risks.

Financial position at year-end	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	60%	40%	0%	10%	58%	32%	0%
Compliant companies reviewed	0%	60%	40%		13%	60%	27%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Portfolio companies continue to achieve a high level of compliance with the criterion. The quality of disclosures is also positive with 60% of companies achieving at least a good standard this year (2017: 68%), however no companies achieved an excellent level of disclosure compared to 10% last year.

Given the variety of funding structures in place across the portfolio companies reviewed, there were a range of presentations to facilitate the readers' understanding of the financial position. The majority of companies have clearly articulated the year-end debt position, providing sufficient disclosure for the user to understand the profile of the debt, the types of covenants in place and performance against these. This disclosure was often made as part of the financial performance review for the year, though some portfolio companies included this as a stand-alone disclosure.

Where portfolio companies only met the basic requirement there was generally a lack of clarity over the financial position, and no or little information on whether covenants were in place and if they had been met.

Financial Risks	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	47%	53%	0%	5%	74%	16%	5%
Compliant companies reviewed	0%	47%	53%		7%	80%	13%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

The quality of disclosures has fallen this year with only 47% of the sample reviewed presenting at least a good level of disclosure (2017: 79%). However, no companies failed this requirement this year.

Although portfolio companies will have differences in the specific financial risks linked to their operations, this is a Guidelines criterion that can be easily evaluated across the population on an even basis. Portfolio companies achieved a good level of disclosure by avoiding boiler plate and simplistic disclosures (which would only achieve a basic level of compliance).

Where portfolio companies went into their mitigation strategies and provided quantitative information to support the risk assessment, this was beneficial for the user of the accounts and provided the appropriate level of insight. None of the companies reviewed this year achieved an excellent standard (2017: 5%).

Strategic report disclosures required by UK Companies Act

Balanced and comprehensive analysis of development and performance during the year and position at the year end	Expectations for compliance
The strategic report must contain a balanced and comprehensive analysis of development and performance of the company's business during the year and position at the end. The purpose of this is to inform the members of the company and help them assess how the directors have performed their duty.	See section 5 of the Good Practice Guide (page 14).

Balanced and comprehensive analysis of development and performance during the year and position at the year-end	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	14%	73%	13%	0%	11%	68%	21%	0%
Compliant companies reviewed	14%	73%	13%		7%	73%	20%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Portfolio companies have performed very well with this criterion with 87% of the sample reviewed providing at least a good level of disclosure (2017: 79%). Good levels of disclosure require a balanced discussion on the development and performance during the year, fairly reflecting the business. Some of the stronger performers were able to narrate this succinctly and provide a direct insight into operations in a distinctive and strategic way that is relevant.

Those companies that produced excellent disclosures produced annual reports with the performance for the year discussed throughout the report, with some using the company's strategy to underpin the discussion on performance. The minority of companies that achieved a basic level of disclosure did not provide great insight into their operations, and largely summarised the primary financial statements.

Principal risks and uncertainties facing the company	Expectations for compliance
The report must contain a description of the principal risks and uncertainties facing the company.	See section 6 of the Good Practice Guide (page 16).

Principal risks and uncertainties facing the company	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	47%	47%	0%	16%	42%	42%	0%
Compliant companies reviewed	6%	47%	47%		20%	53%	27%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Portfolio companies continue to perform well by producing disclosures on the principal risks and uncertainties they face covering the alignment between the risk and strategy, as well as the mitigation processes. However, a large proportion of companies have produced basic disclosures.

There was a mixed level of discussion on risks, even within the same report of some portfolio companies where they performed very well on one or two specific risks which were truly key to the business, but with some boiler plate discussion on other risks. One company performed very well this year (2017: two), presenting a dynamic risk discussion and mitigation processes.

Key performance indicators (KPIs) – financial and non-financial	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include analysis using financial key performance indicators, and where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. "Key performance indicators" means factors by reference to which the development, performance or position of the company's business can be measured effectively.	See sections 7 and 8 of the Good Practice Guide (pages 18 and 20).

Financial KPIs	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	7%	86%	7%	0%	11%	68%	21%	0%
Compliant companies reviewed	7%	86%	7%		13%	74%	13%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Nearly all portfolio companies have achieved at least a good standard of disclosure this year. The one company that did not achieve a good standard of disclosure failed to state what the actual KPIs for the year were, merely stating what they consider a KPI.

Measures that generally appear in most reports are revenue, EBITDA and profit before tax, although sophisticated financial measures are reported in a number of reports to analyse the performance of the business in real detail. The one company that did achieve an excellent standard defined the KPIs, provided trend data over five years, and explained the movements.

Non-financial KPIs	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	7%	53%	40%	0%	26%	53%	21%	0%
Compliant companies reviewed	7%	53%	40%		33%	47%	20%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

The quality of disclosure is weaker for non-financial KPIs this year with 60% of companies meeting at least a good standard (2017: 79%). The only excellent example linked the non-financial KPI measures to key strategic priorities, such as the delivery of goods and services. These are presented alongside the financial KPIs and have a similar level of importance and management focus.

Enhanced business review

Strategy	Expectations for compliance
The report should clearly articulate how the business intends to achieve its objectives.	See section 9 of the Good Practice Guide (page 22).

Strategy	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	13%	60%	27%	0%	11%	68%	21%	0%
Compliant companies reviewed	13%	60%	27%		7%	73%	20%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Portfolio companies have performed well in disclosing a strategy that ran throughout the narrative with 73% of companies producing at least a good standard of disclosure (2017: 79%). Linkage between strategies, risks and KPIs was an important part of a coherent narrative that delivered a fair, balanced and understandable report. This ensures that strategy is focused across all aspects of the business and at all levels in the reporting.

27% of companies disclosed a basic level of disclosure on strategy, presenting a generic and isolated statement, which in many cases lacked focus and an understanding of how this could be delivered (2017: 21%). In some cases, the strategy was included as a sentence within a larger paragraph and not clearly identifiable.

Business model	Expectations for compliance
The report must include a description of the business model.	See section 10 of the Good Practice Guide (page 24).

Business Model	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	7%	53%	40%	0%	5%	58%	37%	0%
Compliant companies reviewed	7%	53%	40%		7%	60%	33%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

This requirement continues to be met in a number of ways, with some companies providing a diagram, some providing a full narrative of their operations, and some combining the business model with the strategy section. The weakest companies relied on the narrative of their operations in a wider context. Taking the latter approach tended to result in a basic level of compliance (2018: 40%; 2017 37%).

Good examples of business models (53% of portfolio companies; 2017: 58%) articulated clearly and simply how the business generates value, often through a simple diagram, to show where the business sits in the wider market and how this creates value for the end user, including the inputs and outputs that are identified as important. Less developed discussions allowed the reader to understand the segments of the business, but left them to extract how value is created. The thematic review (see section 2.2.6 of this report) also highlights the importance of outputs and value for stakeholders.

Trends and factors affecting future development, performance or position	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include the main trends and factors likely to affect the future development, performance and position of the company's business.	See section 11 of the Good Practice Guide (page 26).

Trends and factors affecting future development, performance or position	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	67%	33%	0%	0%	58%	42%	0%
Compliant companies reviewed	0%	67%	33%		0%	60%	40%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

In line with previous reviews, forward-looking statements were general in nature and mostly limited to the next 12-month period. Weaker performers included statements that were boilerplate, being statements about the general macro-environment. 33% of companies produced such basic disclosures (2017: 42%) and demonstrated little insight or additional information that the user would not be able to determine themselves from a basic understanding of the business.

67% of companies achieved a good level of compliance and provided analysis specific to the portfolio company and/or the market in which it operates and provided context to the portfolio company's current and expected performance (2017: 58%).

Environmental matters	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about environmental matters (including the impact of the company's business on the environment), including information about any policies of the company in relation to those matters and the effectiveness of those policies.	See section 12 of the Good Practice Guide (page 28).

Environmental matters	Quality of disclosures 2018				Quality of disclosures 2017			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	60%	40%	0%	21%	37%	32%	10%
Compliant companies reviewed	0%	60%	40%		27%	33%	40%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Compliance with this disclosure has improved this year with no non-compliers this year (2017: two). The focus of environmental reporting tends to be on the resource, energy and waste management policies of the portfolio company and, in most cases, this would seem to be the most relevant approach. Where portfolio companies have specific policies for measuring their performance in this area and have included these metrics, it significantly assists the user in understanding what has and/or will be achieved.

No companies produced excellent disclosures this year compared to 21% in 2017. However, there were some good examples of aligning environmental policies to strategy.

Employees	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about the company's employees including information about any policies of the company in relation to those matters and the effectiveness of those policies.	See section 13 of the Good Practice Guide (page 30).

	Quality of disclosures 2018				Quality of disclosures 2017			
Employees	**Excellent**	**Good**	**Basic**	**Non-compliant**	**Excellent**	**Good**	**Basic**	**Non-compliant**
All companies reviewed	0%	67%	33%	0%	5%	53%	42%	0%
Compliant companies reviewed	0%	67%	33%		6%	47%	47%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Employees are essential for nearly all businesses and it is evident that portfolio companies are able to articulate the importance of their employees and comply with the Guidelines in this area. 33% of companies reviewed provided a basic disclosure (2017: 42%), which tended to make blander statements on employee areas without giving details of how the policies were practically put into action.

None of the companies had excellent disclosures on employees this year, although the majority (2018: 67%; 2017: 53%) achieved a good standard of disclosure, such as discussing how employees were kept engaged.

Social, community and human rights issues	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies.	See section 14 of the Good Practice Guide (page 32).

	Quality of disclosures 2018				Quality of disclosures 2017			
Social, community and human rights issues	**Excellent**	**Good**	**Basic**	**Non-compliant**	**Excellent**	**Good**	**Basic**	**Non-compliant**
All companies reviewed	7%	40%	53%	0%	0%	37%	53%	10%
Compliant companies reviewed	7%	40%	53%		0%	40%	60%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 15, 2017 = 15

Portfolio companies prepared good disclosures on the general social and community aspects of this requirement, but poor compliance continued to be seen on human rights commentary. Some companies favoured a case study style approach to this requirement, while others presented a summary of activities. Considering the increased expectations in this area, partly due to the legal requirements to report under the Modern Slavery Act, portfolio companies should strive for improved disclosures in this area.

The 40% of portfolio companies that focused specifically on their business produced good disclosures (2017: 37%). A number of portfolio companies focussed on the charitable contributions by the company and its people.

Gender diversity	Expectations for compliance
The report must include a breakdown at the end of the financial year to show: ■ the number of each sex who were directors of the (parent) company; ■ the number of people of each sex who were senior managers of the company (other than those already identified as directors); and ■ the number of people of each sex who were employees of the company. The updated Guidelines allow the portfolio company to apply their own definition for the role of a senior manager.	See section 15 of the Good Practice Guide (page 34).

	Quality of disclosures 2018				Quality of disclosures 2017			
Gender diversity	**Excellent**	**Good**	**Basic**	**Non-compliant**	**Excellent**	**Good**	**Basic**	**Non-compliant**
All companies reviewed	0%	20%	80%	0%	0%	32%	47%	21%
Compliant companies reviewed	0%	20%	80%		0%	40%	60%	

n, all companies reviewed: 2018 = 15, 2017 = 19
n, compliant companies reviewed: 2018 = 13, 2017 = 15

Although the level of compliance on gender diversity disclosures has improved, the quality of disclosures has fallen with 80% of disclosures rated as basic (2017: 47%). This is an area of increasing focus in the wider corporate reporting environment because of the gender pay gap reporting requirements for many companies. However, portfolio companies should be aware that the requirements per the Guidelines differ from the gender pay gap reporting requirements and production of disclosures for one requirement will not be sufficient to be compliant with the other.

The 20% of companies that did achieve a good level of disclosure clearly stated the headcount split by gender across the three headings and provided at least some narrative on diversity policies (2017: 32%).

Statement of compliance	Expectations for compliance
The report should include a statement by the directors of the portfolio company confirming compliance with the Guidelines or setting out explanations for areas of non-compliance.	See page 5 of the Good Practice Guide.

	2018		2016	
Statement of compliance	**Included**	**Not included**	**Included**	**Not included**
All companies reviewed	60%	40%	53%	47%

n, all companies reviewed: 2018 = 15, 2017 = 19

In line with the prior year, only 60% of companies reviewed included a specific statement of compliance with the Guidelines in the annual report and financial statements (2016: 53%).

Such a statement is in line with the requirement for certain statements in the UK Corporate Governance Code for listed companies, such as confirming the financial statements are "fair, balanced and understandable". The PERG has seen this contribute to higher standards of disclosure by FTSE 350 companies this year and expects this will continue. The PERG believes a statement of compliance with the Guidelines can be incorporated into a company's annual report with relative ease and should not be contentious to do.

2.2.6 Thematic reviews on portfolio company disclosures

Alongside the review of portfolio company disclosures required by the Guidelines, PwC has also conducted a review of the portfolio companies' strategic reports and taxation disclosures.

Strategic reports

PwC conducted a review of the strategic reports of the FTSE 350 from the 2017-18 reporting cycle (1 April 2017 to 31 March 2018). The purpose of this review was to determine what value can be derived from strategic reports.

We have presented below the four key themes of PwC's report and outlined how these findings correlate to the portfolio companies reviewed in the current period. We have also set out guidance on how improvements can be made by portfolio companies when preparing for next year's annual report.

Key theme	Comparison between FTSE 350 and the sample of portfolio companies reviewed	Guidance on how to improve disclosure
Bringing your business to life – There should be an inherent connection between a company's purpose and its business model with both being explicit about the stakeholders that are key for the business.	Most FTSE 350 annual reports fail to use their business model to provide a distinctive overview of how their business operates and how that may impact their stakeholders, with only 30% discussing stakeholder outcomes. The best portfolio company reviewed achieved this theme by commenting specifically on outcomes for customers, shareholders, their people and society. Other portfolio companies provided context on how the business model was focused on delivering value to customers, but did not provide a wider stakeholder view and were generally vague in this area.	Companies should be clear about the role stakeholders play in the business, explain how they create value and what makes them unique and explore outcomes or the impact of the model. The content of the business model should be integrated into the strategic report.
Looking to the future – The need for companies to take a longer-term view is an underlying theme of the governance reform debate in fixing the UK's perceived productivity issues.	FTSE 350 companies are being clearer over the period that they discuss their strategy: it is clear for 45% of companies compared to 24% last year. However, there is a real lack of genuinely medium to long-term information in annual reports (only 15% of companies discussed matters beyond 12 months). The majority of portfolio companies shared at least a twelve-month outlook, with many providing this with a wider market context. This was generally driven by linkage to the risk or the performance review, but was only mentioned in a few places and not considered from a strategic perspective. None of the companies included a viability statement (although there is no requirement for them to do so).	Companies should be clear about the timeframe over which strategy is being presented, provide a view of future market trends supported by quantified data, and consider the balance of lead and lag performance indicators.
Presenting a joined up strategic narrative – Strategy is the bedrock of all strategic reports and should be considered the key to which all other elements of reporting link to. Investors care about progress against strategic priorities, about what is going to impact on that progress, how it is being measured and what the risks are.	FTSE 350 companies have shown improvement in 2018 in linking their information to strategy – 46% of companies now link risks (prior year: 39%), 31% are linking strategy to business model disclosures (prior year: 20%) and 5% are explaining how market insights relate to priorities (prior year: 1%.) However, 37% of companies still fail to explicitly link their strategic priorities to any of these other key elements of the report leading to a piecemeal narrative that the reader is left to link for themselves. Two portfolio companies ensured a strategic narrative by explicitly using their strategy or business model to drive the presentation of their reporting. Other portfolio companies used their strategy to address performance, key performance indicators, or risk, but not all.	Companies should plan their reporting by setting out strategy on a page and linking other elements to it. Strategy should be placed at the heart of reporting. Symbols or numbers could also be used to reference strategic priorities through the report and be consistent with the language used to describe priorities.

Tax disclosures

Although the Guidelines do not include requirements related to the disclosure of tax strategy, policy or compliance, the PERG requested that PwC review the tax disclosures this year, given the increasing interest globally in the tax affairs of large companies. It is important to note that portfolio companies do comply with statutory and accounting standards requirements that cover tax disclosures. Accounting standards on tax such as IAS 12 do not include many of the specific disclosure requirements referred to below. This review looked at **additional** disclosures that go beyond those required of many listed companies as well as private companies. The review was based on a number of key themes that PwC identified as part of PwC's FTSE 100 May 2018 review 'Shaping the tax transparency debate – Trends in voluntary reporting'. There is no comparator report for the FTSE 350.

It should be noted that the FTSE 100 is a much higher benchmark than the FTSE 350, which is the more appropriate benchmark for portfolio companies and is used throughout the rest of this report. The better disclosures in the FTSE 100 were found to be from many companies that had to comply with mandatory requirements applicable to financial services and extractive companies i.e. they had legal obligations to produce these disclosures so more detail was expected. The feedback provided below is designed to assist portfolio companies in understanding the changing landscape.

Approach to tax

A clearly stated approach to tax helps to address interest from stakeholders. It covers the principles the company applies and demonstrates how their tax strategy aligns with the wider business strategy.

Some companies iterated they are committed to paying the right amount of tax and fulfil their obligations. Some went further, providing a tax strategy that encompasses their attitude to tax planning, level of risk and approach towards dealings with the HMRC in line with public tax strategy reporting requirements for large companies (private and listed) of a certain size in the UK.

Tax governance

Confirmation of a company's tax governance and the controls in place to manage tax risks, provides insight to investors that the tax affairs are overseen at an appropriate level.

Some companies' discussion on governance focused on the individuals responsible for managing this and how this was monitored or reported within the portfolio company. Some portfolio companies specifically referenced their appetite for tax risk to meet their public tax strategy reporting requirements, though these disclosures were more generic.

Total tax contribution

The breadth and amount of taxes generated by the business are highlighted through this measure, which explains tax as part of a wider economic impact measurement without focusing solely on corporation tax (which may be lower than comparator companies due to typically higher levels of debt and interest).

This is especially useful for those sectors that are heavily labour dependent or have an extensive presence on the high street as it highlights wider contribution to the Exchequer. These contributions could otherwise attract little visibility and so could be missed by stakeholders when assessing a business.

Cash tax reconciliation

The explanation of the actual tax paid to revenue authorities in comparison to the financial result of operations gives greater visibility over corporation tax paid.

Whilst, there were no examples of this in the portfolio companies reviewed, it should be highlighted that less than a quarter of the FTSE 100 provided this disclosure based on the PwC review of the 2017-18 FTSE 100 tax disclosures.

Geographic reporting

This highlights the contribution to public finances in different territories and has received significant attention from governments and regulatory bodies worldwide.

Approximately a third of the FTSE 100 companies provided such reporting, although the vast majority that did were required to do so under mandatory reporting regimes applicable to financial services and extractive companies i.e. there is no general requirement for listed companies to provide this type of disclosure. This requirement would only be of relevance to those with operations outside of the UK, which was roughly half the portfolio companies reviewed.

Uncertain tax positions

Disclosing material uncertain tax positions is important for stakeholders to understand the complexity, judgement and risk associated with the tax affairs of a company.

It could be expected that more companies would be discussing uncertain tax positions as tax law changes globally and is subject to interpretation. Just over a third of the FTSE 100 provided some narrative on this.

2.2.7 Areas of focus for the PERG in 2019

Non-Financial Reporting Directive

One of the responsibilities of the PERG is to ensure the Guidelines remain relevant. As such, a key area of focus by the PERG in 2019 will be on whether and how to update the Guidelines to reflect the new narrative reporting landscape in the UK, following the transposition of the EU Non-Financial Reporting Directive into UK law in 2017. The Guidelines currently require portfolio companies to comply with a large part of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013 and the new non-financial reporting requirements have been incorporated into these regulations. Many of the FTSE 350 (the benchmark for disclosures by portfolio companies) now apply the new non-financial reporting requirements, which came into force for years ending on or after 31 December 2017.

Application of the new non-financial reporting requirements is complicated as they sit alongside the current non-financial reporting requirements (as incorporated by the Walker Guidelines) resulting in dual regimes. The new non-financial requirements are viewed as building on the current UK regime and so are broadly similar, however there some crucial differences such as the introduction of reporting on anti-bribery and corruption matters, as well as subtle variations around the reporting on key risks. The regime that must be followed by the constituents of the FTSE 350 specifically is dependent upon the number of employees within the company: only companies with more than 500 employees are required to report under the new EU regime.

With such dual regimes in place, the PERG will need to carefully consider how any potential changes to the Guidelines could be incorporated. Any changes to the Guidelines will need to avoid being confusing or complicated and avoid setting expectations beyond that which is being practiced in the listed space.

Other developments in the UK

The PERG is monitoring the impact of recent corporate governance reforms that will affect reporting by large private companies. As of next year, large private companies will need to report on how their directors have complied with their duty under s172 of the Companies Act 2006 to promote the success of the company for its members, whilst having regard to stakeholder interests, including employees, suppliers and customers. There is expected to be some overlap with the Guidelines requirements on portfolio company disclosures when it comes to this reporting. Additionally, companies may be required to report on their corporate governance arrangements including any corporate governance code the company is signed up to. A set of corporate governance principles for large private companies has been finalised by a coalition group, chaired by James Wates CBE and includes the BVCA, FRC, TUC, IoD and CBI. The Wates Principles, as they are known, may be utilised by large private companies to aid in their reporting of corporate governance arrangements. The thresholds as to which companies both these requirements apply to differ, however those in scope are legally required to comply.

2.3 Publication of portfolio company reports

The Guidelines require portfolio companies' audited report and accounts to be readily accessible on the company website no more than six months after the company year-end. Additionally, a summary mid-year update giving a brief account of major developments in the company (but not requiring updated accounts) should be placed on the website no more than three months after mid-year.

Publication of annual reports

Portfolio companies should publish their annual audited reports on their websites no more than 6 months after the company year-end. Annual reviews or similar narrative reports are not acceptable alternatives to a portfolio company's annual report and financial statements within which the Guidelines disclosures should be found in the front half. Additionally, it should be readily accessible on the portfolio company's website, and not behind a login page.

81% of portfolio companies have published an annual report within 6 months of year-end on their website (2017: 78%):

- HC-One (owned by Formation Capital and Safanad) has not published its annual report on its website.
- Calvin Capital (owned by KKR) has not published its annual report on its website, however this is the company's first year in scope and is expected to comply next year.
- Chime Communications (owned by Providence Equity), Zenith (owned by Bridgepoint), Prezzo (owned by TPG), Rubix (owned by Advent International) and Village Hotels (owned by KSL Capital) did not publish their annual reports within 6 months of year-end, however these were subsequently published.
- The owner of Ambassador Theatre Group, Providence Equity, has provided an explanation to the PERG as to why the company has been unable to publish its annual report on its website.

Mid-year update

Portfolio companies should publish a summary mid-year update giving a brief account of major developments in the company within 3 months of mid-year.

74% of portfolio companies published a mid-year update within 3 months of mid-year on their website (2017: 72%).

- Camelot (owned by Ontario Teachers' Pension Plan) and HC-One (owned by Safanad and Formation Capital) and have not published a mid-year update on their respective websites.
- Calvin Capital (owned by KKR) has not published a mid-year update. However, this is the company's first year in scope and it is expected to comply next year.
- Prezzo (owned by TPG), Trainline (owned by KKR), Parkdean Resorts (owned by Onex), QA Training (owned by CVC Capital Partners) and Ambassador Theatre Group (owned by Providence Equity) have provided explanations to the PERG as to why the companies have been unable to publish a mid-year update on their respective websites.
- TES Global (owned by TPG), Clarion Events (owned by Blackstone) and Village Hotels (owned by KSL Capital) missed the deadline to publish their mid-year updates on their respective websites. However, all companies have subsequently published their mid-year updates.

2.4 Communication by private equity firms

Review of disclosure by private equity firms	Expectations for compliance
"A private equity firm should publish an annual review accessible on its website or ensure regular updating of its website to communicate information about the firm, its portfolio companies and its investors along with a commitment to the guidelines."	The requirement allows firms to either prepare a separate annual report or include the information generally within the firm's website.

The PERG has reviewed the websites and/or annual reports of all private equity firms covered by the Guidelines to assess if they met the disclosure requirements above. This includes the publication of information covering details on their investment approach, UK portfolio companies, and leadership of the firm (see Appendix 3 for further detail). Private equity firms were also required to sign an annual statement of conformity to the Guidelines.

All members of the BVCA have met the requirements and provided an explanation where they have been unable to do so. This is not the case for all non-BVCA member firms covered by the Guidelines. In practice, it is difficult to compel non-members to provide this information even though the PERG and BVCA strongly encourage it.

Our review of private equity firms' disclosures considered: a) the extent to which firms complied with the separate criteria; and b) the accessibility of the information and the clarity of their commitment to the Guidelines.

The detail included in annual reports and/or websites varied with some firms opting for succinct statements to ensure compliance, and others providing extended information on strategy and detailed case studies. Since the Guidelines were first implemented the level of disclosure by firms has generally increased, and with some firms now listed, the detail of some of these disclosures is much higher. As in previous years, the requirements least adhered to and most difficult to find are the statement of investment holding periods, and confirmation that arrangements are in place to deal with conflicts of interests. Both of these criteria are difficult to locate as there are a number of relevant webpages where this information could be displayed and only a few words are required for each. Providing case studies is another criterion that many firms do not adhere to, however this is not a compulsory requirement.

The majority of firms provided these disclosures through regular updating of the website rather than through an annual report. Some firms included these disclosures in prior years' reports still accessible on the website and it is recommended to re-confirm these each year. Those firms' websites that dedicated a page or section to state their commitment to the Guidelines and to demonstrate their compliance with the criteria appear to be more accessible and make the process of monitoring their adherence much easier. Other firms provide the same level of commitment, however the disclosure requirements are spread through a large website and are less straightforward to locate. There were also instances where firms provided some disclosures on their website and others in their annual report, which reduces accessibility.

Some firms display their commitment to the Guidelines in what might be considered an "unusual" place. For example, international firms may include this information in a "Global reach" section. The expected and common area for these disclosures would be under any of the following headings: transparency, disclosure, governance, ESG, reports. There a few examples of reference to the Guidelines being in the small print of the website, alongside links to terms and conditions and the sitemap.

Another point to consider when analysing firms' websites is their size, particularly for global firms or those with different investment strategies including private equity. Having a large website can make it more difficult to find the Guidelines disclosures. Disclosures can be spread across a number of webpages or microsites, which stem from the parent website, or in the detail of specific strategies or funds. Therefore, for larger websites, it would be beneficial to have a separate page or document for Guidelines disclosures.

Statement of conformity with the Guidelines

The statement of conformity requests the private equity firm to confirm which companies are within scope of the Guidelines and confirm they are aware of the various disclosure recommendations made in the Guidelines. BVCA members have signed the statement, which is an annual requirement.

Private equity firms are encouraged to share the Guidelines checklist (see appendix 6), which accompanies the statement of conformity, and discuss all of the detailed requirements with their portfolio companies on a regular basis. This, coupled with the PERG's findings, will ensure compliance levels and the quality of disclosures are maintained and improved.

2.5 Other requirements and recommendations

The Guidelines include additional requirements for private equity firms and portfolio companies regarding the provision of data to the industry association, the adoption of established valuation and reporting guidelines and timely and effective communication at a time of significant strategic change. They also include recommendations for the industry association regarding research capabilities and activities, engagement with private equity-like entities and fund performance measurement.

Findings

- The private equity firms apply guidelines published by Invest Europe, the International Private Equity and Venture Capital Board or applicable accounting standards and reporting requirements agreed with their investors.
- The PERG did not identify any instance where a private equity firm had not ensured timely and effective communication of a significant strategic change in a portfolio company.

2.5.1 Performance of portfolio companies

The annual review of the performance of portfolio companies, undertaken by EY at the request of the BVCA, has been published alongside this report. Its purpose is to present an independently prepared report on several measures of performance of the portfolio companies whilst under the ownership of private equity investors, in order to assess the effect of private equity ownership on key areas of stakeholder interest.

Key findings form the report include:

- The average timeframe of private equity investment in the portfolio companies is 5.7 years i.e. from initial acquisition to exit. The current portfolio companies have been owned for an average of 3.9 years.
- Reported employment has grown under private equity ownership by 2.4% per annum and underlying organic employment growth has grown by 1.3% per annum. This is in line with UK private sector benchmark for organic growth.
- Average employment cost per head has grown under private equity ownership by 3.3% per annum, which is ahead of the UK private sector benchmark at 2.5% annual growth.
- Investment in operating capital employed at the portfolio companies has grown by 1.9% per annum, which is less than public benchmarks at 3.1% per annum. 47% of the current portfolio companies have made net bolt-on acquisitions, while 7% have made net partial disposals.
- Labour and capital productivity have grown under private equity ownership, by 1.1%-1.9% and 7.4% per annum respectively. Labour productivity growth is broadly in line with public and economy-wide benchmarks, while capital productivity growth significantly exceeds public benchmarks.
- Portfolio companies have grown reported revenue at 6.5% and profit 4.2% per annum respectively. This is in line with public company benchmarks.
- In aggregate, portfolio companies had an average leverage ratio of 6.2x debt to EBITDA at acquisition, and 5.7x at latest date or exit. Portfolio companies have much higher levels of financial leverage than public companies: 56% of portfolio companies have debt to EBITDA ratio above 5x versus 15% of publicly listed companies.
- The equity return from portfolio company exits is 3.8x the public company benchmark; over half of this is due to private equity strategic and operational improvements, while the rest is from additional financial leverage.

The report is available on the BVCA website at **www.bvca.co.uk/ResearchPublications**.

The majority of companies complied with this requirement to provide data for the purpose of this report (84%). Four companies did not comply with this requirement, in addition to the six portfolio companies that have not complied with any element of the Guidelines: Advanced (owned by Vista Equity Partners); London City Airport (Borealis Infrastructure, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation and Wren House Infrastructure Management); Punch Taverns (Patron Capital); and Pure Gym (Leonard Green & Partners). Additionally, Camelot (Ontario Teachers' Pension Plan) has not provided data to EY. Parkdean Holidays has not provided data, but the owners, Onex, have provided an explanation. MRH (Lone Star Funds) has not provided data this year either; the company was purchased this year by another portfolio company, and thus its data will be reported as part of its new owner's data from next year. HC-One (Safanad and Formation Capital) has provided data, but this was submitted after the deadline.

2.5.2 Engagement with "private equity-like" entities

The Guidelines extend to firms that conduct their business in a manner that would be perceived by external stakeholders to be similar to that of other participants in the private equity industry. The PERG and the BVCA are continue to engage with private equity-like firms, including sovereign wealth funds and pension funds, with the purpose of enlisting their voluntary conformity with the Guidelines.

This year the PERG undertook a review of the private equity-like infrastructure assets within the scope of the Walker Guidelines. While the PERG continues to believe that infrastructure companies and their owners that operate in a private equity-like manner should be in scope of and comply with the Guidelines, the PERG acknowledges there may be certain companies and their owners that were once deemed private equity-like, but are no longer such. Characteristics considered when determining whether the portfolio company and its owners were sufficiently private equity-like in nature, included:

- the investment mandate of the owner;
- the historical investment hold period of the owners and its fund life (where relevant);
- how the media perceives the transaction and the owner;
- the generation of a stable yield and long term inflation-linked cash flows by the portfolio company;
- monopolistic behaviour by the portfolio company requiring regulatory oversight; and
- the need for ongoing capital expenditure and the attributes of the portfolio company's debt financing.

Following this review, the PERG agreed to remove four companies and their owners from the scope of the Guidelines.

The PERG will continue to encourage and work with entities that remain in the population and are considered private equity-like. This includes infrastructure fund managers like Global Infrastructure Partners, pension funds such as OMERS Private Equity, and those that operate in the credit opportunities sector. These owners are compliant with the Guidelines and have engaged with the BVCA throughout this year's process.

The full definition of what the PERG considers a private equity firm under the Guidelines can be found on the Q&A page on the PERG's website (**www.privateequityreportinggroup.co.uk**).

2.5.3 Fund performance measurement

The Guidelines recommended that the BVCA should participate proactively with private equity trade associations beyond the UK and with the limited partner community to develop a consistent methodology for the content and presentation of fund performance information. The BVCA is continuing to hold discussions with other European private equity trade associations covering a number of areas including fund performance measurement.

A1

Appendix 1:
Private equity firms covered by the Guidelines

The following private equity firms and 'private equity-like' firms were in the scope of the Guidelines for 2017, being the period covered by this report. Where more than one private equity firm is involved in a transaction and they collectively own a controlling stake in a portfolio company, those firms will be jointly and severally responsible for ensuring that the portfolio company applies to the Guidelines, and each of those firms will be assessed for compliance with the requirements that apply to them. Subject to prior approval by the Private Equity Reporting Group, this does not apply to minority shareholders which invest alongside other majority shareholder(s) and where both the majority shareholder(s) and the portfolio company comply with the Guidelines. The PERG's approval will depend on the specific facts and circumstances and the extent to which control is exercised.

The first table sets out the firms we have monitored for compliance with the Guidelines.

3i	Lone Star Funds[1]
Advent International[2]	OMERS Infrastructure (Previously Borealis)[1,3,#]
Blackstone[2]	OMERS Private Equity[#]
Bridgepoint	Onex[2]
Cinven	Ontario Teachers' Pension Plan[1,#]
Clayton Dubiler & Rice	PAI Partners
CVC Capital Partners	Partners Group
Formation Capital[1,#]	Patron Capital[1,2]
Global Infrastructure Partners[#]	Providence Equity
Goldman Sachs[1,#]	Safanad[1,#]
GTCR[1]	TDR Capital
Hony Capital[1]	Terra Firma
iSquared Capital[1,#]	The Carlyle Group
KKR	TPG
KSL Capital[1]	Vista Equity Partners[1]
Leonard Green & Partners[1,2]	

The second table sets out other investors in the portfolio companies covered by this report. These firms have not been reviewed by the PERG as they have not taken ownership for compliance of their portfolio companies.

Arle Capital Partners[1]	Highbridge Capital Management[1,#]
Abu Dhabi Investment Authority[#]	IFM Investors[1,#]
Alberta Investment Management Corporation[1,#]	National Pension Scheme of Korea[1,#]
Avenue Capital Group[1,#]	Nestlé[1,#]
CalPERS[1,#]	Palamon Capital Partners
Canadian Pension Plan Investment Board[#]	Park Square Capital[1,#]
Colonial First State Global Asset Management[1,#]	Sun Capital[1,#]
Duke Street[2]	Tikehau Capital[1,#]
Exponent Private Equity	WPP[1,*]
Future Fund[1,#]	Wren House Infrastructure[3,#]
GoldenTree Asset Management[1,#]	USS[#]

[1] *Not a member of the BVCA*

[2] *Addition this year*

[3] *Individually not a member of the BVCA although it is an affiliate of one*

[#] *Private equity-like entity*

* *Corporate investor*

A2

Appendix 2: Portfolio companies covered by the Guidelines

The following portfolio companies either met the criteria set out in the Guidelines, or have committed to conform to the Guidelines on a voluntary basis during the period under review. Owners disclosed in brackets do not comply with parts of the Guidelines for the reasons set out in Appendix 1.

Required portfolio companies

Portfolio company	Owners during 2017
Advanced	Vista Equity Partners
Ambassador Theatre Group	Providence Equity, (Exponent Private Equity)
Anglian Water Group	3i, (Canadian Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors)
Callcredit	GTCR
Calvin Capital[2]	KKR
Camelot[1]	Ontario Teachers' Pension Plan
Care UK	Bridgepoint
Chime Communications	Providence Equity, (WPP)
Civica[1]	Partners Group
Clarion Events[2]	Blackstone
David Lloyd Clubs[1]	TDR Capital
Domestic and General	CVC Capital Partners
Edinburgh Airport	Global Infrastructure Partners
ESP Utilities[2]	3i
Expro	Goldman Sachs, KKR, (Highbridge Capital Management, Park Square Capital, Arle Capital Partners)
Fat Face	Bridgepoint
Four Seasons Health Care	Terra Firma
Froneri	PAI Partners, (Nestlé)
Gatwick Airport	Global Infrastructure Partners, (Abu Dhabi Investment Authority, CalPERS, National Pension Scheme of Korea, Future Fund)
HC-One	Safanad, Formation Capital
Infinis	3i

Keepmoat[1]	TDR Capital, (Sun Capital)
LGC	KKR
London City Airport	OMERS Infrastructure, Ontario Teachers' Pension Plan (Alberta Investment Management Corporation, Wren House Infrastructure Management)
Miller Homes[1,2]	Bridgepoint
Moto	CVC Capital Partners, (USS)
Motor Fuel Group	Clayton Dubiler & Rice
MRH	Lone Star Funds
Mydentist[1]	The Carlyle Group, (Palamon Capital Partners)
NewDay	Cinven, CVC Capital Partners
NGA Human Resources	Goldman Sachs, (Park Square Capital, KKR)
Northgate Public Services	Cinven
PA Consulting Group	The Carlyle Group
Parkdean Resorts[1]	Onex
Pizza Express[1]	Hony Capital
Premium Credit	Cinven
Pret a Manger	Bridgepoint
Prezzo	TPG
Punch Taverns[2]	Patron Capital
Pure Gym[2]	Leonard Green & Partners
QA Training[2]	CVC Capital Partners
RAC[1]	CVC Capital Partners
Rubix[1,2]	Advent International
Sky Bet	CVC Capital Partners
Stonegate Pub Company[1]	TDR Capital
TES Global[1]	TPG
The Vita Group	TPG
Trainline	KKR
Travelodge	Goldman Sachs (GoldrenTree Asset Management, Avenue Capital Group)
Village Hotels[1]	KSL Capital
Viridian	iSquared Capital
Voyage Healthcare	Partners Group, (Duke Street, Tikehau)
Vue Cinemas[1]	OMERS Private Equity (Alberta Investment Management Corporation)
Williams Lea Group[2]	Advent International
Zenith[1,2]	Bridgepoint

Voluntary portfolio companies

Portfolio company	Owners during 2017
Consolidated Pastoral Company	Terra Firma

[1] *Accounts reviewed this year*

[2] *Addition this year*

A3

Appendix 3:
Guidelines requirements for enhanced disclosures

The Guidelines on enhanced disclosure obligations placed upon portfolio companies and private equity, as amended in July 2014, are set out below.

The PERG have published a Q&A on the most frequently asked questions when navigating the Guidelines on the PERG website (www.privateequityreportinggroup.co.uk). The compliance checklist found in appendix 6 summarises the key requirements for private equity firms and their portfolio companies.

1 Conformity with each of the Guidelines should be on a comply or explain basis.

Where an explanation is given for "non-compliance", this should be posted alongside other related relevant disclosures called for under these Guidelines on the website of the private equity firm or portfolio company.

2 Definition of a private equity firm for the purpose of the Guidelines:

Private equity firms for the purposes of the Guidelines include private equity and 'private equity-like' firms (together "PE firms"). PE firms include those that manage or advise funds that either own or control one or more companies operating in the UK and the company or companies are covered by the enhanced reporting guidelines for companies. PE firms include those that acquire portfolio companies: i) with funds provided by one or more investors; ii) an exit/disposal of the company is envisaged and iii) may play an active management role in the company. This would therefore include, but is not limited to, other types of investment funds including infrastructure funds, pension funds, sovereign wealth funds and credit/debt funds. It also applies to firms that may be headquartered outside of the UK. Banks and credit institutions, other than their asset management operations, are specifically excluded.

3 Definition of a portfolio company to be covered by enhanced reporting guidelines (as amended by the Group in April 2010):

A UK company

a) acquired by one or more private equity firms in a public to private transaction where the market capitalisation together with the premium for acquisition of control was in excess of £210 million and more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full-time equivalents.

b) acquired by one or more private equity firms in a secondary or other non-market transaction where enterprise value at the time of the transaction is in excess of £350 million and more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full-time equivalents.

4 Content of enhanced disclosure by a portfolio company

A portfolio company should include as part of its audited annual report and accounts the following enhanced disclosures, none of which call for disclosures beyond those specified for quoted companies in the Companies Act 2006 or other disclosure requirements applicable to quoted companies. Such reporting should throughout focus on substance rather than form and on the economic reality of a company or group rather than its legal structure.

a The report should identify the private equity fund or funds that own the company and the senior executives or advisers of the private equity firm in the UK who have oversight of the company on behalf of the fund or funds.

b The report should give detail on the composition of the board, identifying separately executives of the company, directors who are executives or representatives of the private equity firm and directors brought in from outside to add relevant industry or other experience.

c The report should include a review that, subject to points i and iv below, meets the requirements of Section 414C of the Companies Act 2006 including sub-sections 7 and 8 (which are ordinarily applicable only to quoted companies). Section 414C is reproduced in Annex 1 of this document and replaces Annex D of the Guidelines.

i. For a UK portfolio company, this review is required to be included in the strategic report under the Companies Act 2006. A non-UK portfolio company may include this review in a directors' report or equivalent in line with applicable legal requirements in the non-UK country.

ii. When considering the level of detail and nature of information to be included in the review, the portfolio company should have regard to the guidance set out in the Financial Reporting Council's Guidance on the Strategic Report.

iii. Section 414C(7) provides:

'(7) In the case of a quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—

a) the main trends and factors likely to affect the future development, performance and position of the company's business, and

b) information about—

(i) environmental matters (including the impact of the company's business on the environment),

(ii) the company's employees, and

(iii) social, community and human rights issues,

including information about any policies of the company in relation to those matters and the effectiveness of those policies.

If the report does not contain information of each kind mentioned in paragraphs (b) (i), (ii) and (iii), it must state which of those kinds of information it does not contain.'

When preparing disclosures in respect of environmental matters under section 414C(7)b)(i), a portfolio company may, to the extent it is significant, include in the directors' report the disclosures concerning greenhouse gas emissions as set in Part 7 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This is not a mandatory requirement of the Guidelines.

iv. Section 414C(8) provides:

'(8) In the case of a quoted company the strategic report must include—

a) a description of the company's strategy,

b) a description of the company's business model,

c) a breakdown showing at the end of the financial year—

(i) the number of persons of each sex who were directors of the company;

(ii) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)); and

(iii) the number of persons of each sex who were employees of the company.'

When preparing disclosures in respect of gender diversity under section 414C(8)c)(ii), a portfolio company may apply its own definition of "senior manager" that differs from the definition and requirement provided in sections 414C(9) and (10) as long as it is clearly explained. A reconciliation to the disclosure using the statutory definition will not be required.

d The financial review should cover risk management objectives and policies in the light of the principal financial risks and uncertainties facing the company, including those relating to leverage, with links to appropriate detail in the footnotes to the balance sheet and cash flow section of the financial statements.

e To the extent that the Guidelines at 4. a) and c) above are met by existing market disclosures in respect of debt or equity issuance on public markets, this should be explained with the relevant material made accessible on the company's website; and where compliance with these Guidelines, in particular in respect of any forward-looking statement, might involve conflict with other regulatory obligations, the reason for non-compliance should similarly be explained on the company website.

f The report should include a statement by the directors of the portfolio company confirming compliance with the Guidelines or setting out explanations for areas of non-compliance.

5 Form and timing of public reporting by a portfolio company

a The audited report and accounts should be readily accessible on the company website;

b The report and accounts should be made available no more than 6 months after the company year-end; and

c A summary mid-year update giving a brief account of major developments in the company (but not requiring updated accounts) to be placed on the website no more than 3 months after mid-year.

6 Data input by a portfolio company to the industry association

As input for the enhanced role in data collection, processing and analysis is to be undertaken on an industry-wide basis by the BVCA, portfolio companies should provide to the BVCA (or to a professional firm acting on its behalf) data for the previous calendar or company accounting year on:

- trading performance, including revenue and operating earnings.
- employment.
- capital structure.
- investment in working and fixed capital and expenditure on research and development.
- such other data as may be requested by the BVCA after due consultation and where this can be made available without imposing material further cost on the company.

7 Communication by a private equity firm

A private equity firm should publish an annual review accessible on its website or ensure regular updating of its website to communicate:

- a description of the way in which the FCA-authorised entity fits into the firm of which it is a part with an indication of the firm's history and investment approach, including investment holding periods, where possible illustrated with case studies.
- a commitment to conform to the guidelines on a comply or explain basis and to promote conformity on the part of the portfolio companies owned by its fund or funds.

- an indication of the leadership of the UK element of the firm, identifying the most senior members of the management or advisory team and confirmation that arrangements are in place to deal appropriately with conflicts of interest, in particular where it has a corporate advisory capability alongside its fiduciary responsibility for management of the fund or funds.
- a description of UK portfolio companies in the private equity firm's portfolio.
- a categorisation of the limited partners in the funds or funds that invest or have a designated capability to invest in companies that would be UK portfolio companies for the purpose of these guidelines, indicating separately a geographic breakdown between UK and overseas sources and a breakdown by type of investor, typically including pension funds, insurance companies, corporate investors, funds of funds, banks, government agencies, endowments of academic and other institutions, private individuals, and others.

8 Reporting to limited partners

In reporting to their limited partners on their interests in existing funds and for incorporation in partnership agreements for new funds, private equity firms should:

a follow established guidelines such as those published by Invest Europe (formerly the European Private Equity and Venture Capital Association) (or otherwise provide the coverage set out in such guidelines) for the reporting on and monitoring of existing investments in their funds, as to the frequency and form of reports covering fund reporting, a summary of each investment by the fund, detail of the limited partner's interest in the fund and details of management and other fees attributable to the general partner.

b value investments in their funds using either valuation guidelines published by the International Private Equity and Venture Capital Board or applicable accounting standards.

9 Data input by private equity firms to the industry association

Data to be provided on a confidential basis to an accounting firm (or other independent third party) appointed by the BVCA to cover:

a In respect of the previous calendar year:

- the amounts raised in funds with a designated capability to invest in UK portfolio companies.
- acquisitions and disposals of portfolio companies and other UK companies by transaction value.
- estimates of aggregate fee payments to other financial institutions and for legal, accounting, audit and other advisory services associated with the establishment and management of their funds.
- such other data as the BVCA may require for the purpose of assessment of performance on an industry-wide basis, for example to capture any material change over time in the terms of trade between general partners and limited partners in their funds.

b In respect of exits from UK portfolio companies over at least the previous calendar year to support the preparation on an aggregate industry-wide basis of an attribution analysis designed to indicate the major sources of the returns generated by private equity. In broad terms, these are the ingredients in the total return attributable respectively to leverage and financial structuring, to growth in market multiples and market earnings in the relevant industry sector, and to strategic direction and operational management of the business. The relevant data, which will unavoidably involve important subjective assessment, will involve content and format at the outset as in Annex F to the guidelines, to be reviewed and refined as appropriate in the light of initial experience and discussion between the BVCA, with the third-party professional firm engaged for this and related analysis, and the relevant private equity firms.

10 Responsibility at a time of significant strategic change

A private equity firm should commit to ensure timely and effective communication with employees, either directly or through its portfolio company, in particular at the time of a strategic initiative or a transaction involving a portfolio company as soon as confidentiality constraints cease to be applicable. In the event that a portfolio company encounters difficulties that leave the equity with little or no value, the private equity firm should be attentive not only to full discharge of its fiduciary obligation to the limited partners but also to facilitating the process of transition as far as it is practicable to do so.

11 Interaction with the Alternative Investment Fund Managers Directive

Private equity firms and portfolio companies covered by the Guidelines are not expected to provide disclosure in respect of the applicable additional transparency requirements in the Alternative Investment Fund Managers Directive (the "Directive") if they do not fall within the scope of the Directive. Having performed a gap assessment, the Group was of the view that the Guidelines include the information required under the Directive in respect of disclosure in the annual reports of portfolio companies except for details on transactions in own shares. The Group expects this information to be included in the financial statements of the portfolio company where significant.

The disclosures expected by private equity firms on acquisition of portfolio companies under the Directive are more prescriptive than those set out above. The Group has decided not to amend the Guidelines in respect of these specific requirements as they are still within the spirit of the Guidelines for this particular area. Firms that are covered by the Directive may find the Guidelines and examples of good practice reporting by portfolio companies published by the Group as a useful source of guidance but are responsible for taking appropriate advice to ensure they are fully compliant with their obligations.

The tables below set out examples of how the Guidelines interact with the AIFMD's transparency requirements in respect of the annual reports of portfolio companies and the disclosure expected on acquisition of control. The requirements apply to non-listed companies with registered offices in the EU.

a) Annual report disclosures

AIFMD requirements– annual report disclosures *Regulation 42 of the AIFM Regulations (Annual report of AIFs exercising control of non-listed companies)*	**Guidelines requirements** *Part V Sections 4 and 5 of the Guidelines* *(Guidelines for enhanced disclosure by portfolio companies and private equity firms)*
The following disclosures are required about each non-listed company over which an AIF individually or jointly has control. They can be included in the annual report of the AIF and/or the non-listed company.	The following disclosures are required to be included in the annual report of the portfolio company and not the private equity fund.
■ A fair review of the development of the company's business representing the situation at the end of the period covered by the annual report;	Part V section 4 requires portfolio companies to prepare a strategic report which includes provisions in the Companies Act 2006 normally applicable to quoted companies. The strategic report requirements set out in s414C(2) and s414C(3) of the Companies Act 2006 will assist firms to comply with this requirement. They require "a fair review of the company's business" and a "balanced and comprehensive analysis of the development and performance of the company's business" during the financial year and the position at the end of that year. s414C(4) also requires the disclosure of financial and non-financial key performance indicators to support the analysis.
■ Any important events that have occurred since the end of the financial year;	The Group expects this information to be included to comply with the requirements of the strategic report as the report should have forward looking orientation. Further, this information is expected to be disclosed under UK and international accounting standards.

■ The company's likely future development; and	The strategic report requirements set out in s414C(7) of the Companies Act 2006 will assist firms to comply with this requirement. It requires information on "the main trends and factors likely to affect the future development, performance and position of the company's business."
■ Details of any acquisitions or disposals of own shares.	The Group expects this information to be included in the financial statements of the portfolio company where significant and has chosen not to incorporate this disclosure requirement as it was removed by BIS from the directors' report as it was not considered a significant disclosure. This approach is in line with Guidelines which do not prescribe disclosures that go beyond those required of quoted companies.
The disclosures must be made within six months of the year-end of the AIF.	Part V, section 5b) of the Guidelines requires the annual report of the portfolio company to be made available no more than 6 months after the company year end. Where the year end of the portfolio company and the AIF are the same then the AIFMD requirement is likely to be fulfilled. Where the year end of the portfolio company differs to that of the AIF then firms may need to amend the timing of reporting of the portfolio company accordingly.
If the information is included in the AIF's annual report then the AIFM must use best efforts to ensure the board of the company makes the information available to all employee representatives or (where there are none) to the company's employees directly.	Part V, section 5a) of the Guidelines requires the annual report of the portfolio company to be readily accessible on the company website. This ensures that employees and other stakeholders are able to access this information publicly.

b) Disclosures required on acquisition of control

AIFMD requirements – disclosures on acquisition of control *Regulation 39 of the AIFM Regulations (Disclosure in case of acquisition of control)*	**Guidelines requirements** *Part V Sections 4, 5, 7 and 10 of the Guidelines (Guidelines for enhanced disclosure by portfolio companies and private equity firms)*
When control is acquired, the AIFM must disclose its intentions to the regulator, the company and its shareholders about the future of the business and likely repercussions on employment by the company and material change in the conditions of employment.	Part V section 10 of the Guidelines sets out the responsibilities of the private equity firm at a time of significant strategic change. It requires a commitment to ensure "timely and effective communication with employees, either directly or through its portfolio company, in particular at the time of a strategic initiative or a transaction involving a portfolio company." Although the precise wording is not the same, the AIFMD requirements are in the spirit of what is intended by the Guidelines. The Guidelines, however, do not include the obligation to disclose information to regulators.

Other areas where disclosure is required:	
The identity of the AIFM(s) with control.	Part V sections 4a) and 4b) of the Guidelines require disclosure of the fund(s) that own the company, details on executives or advisers of the private equity firm that have oversight of the company and details on board composition, identifying those directors from the private equity firm.
The policy for preventing and managing conflicts of interest and information about the safeguards established to ensure any agreement between the AIFMs or the AIFs and the company is at arm's length.	Part V section 7 requires the private equity firm to disclose on its website (through an annual review or regular updates) a "confirmation that arrangements are in place to deal appropriately with conflicts of interest, in particular where it has a corporate advisory capability alongside" its fund management business. Details of the policy and applicable safeguards may be disclosed by the private equity firm although the Guidelines do not explicitly require this.
The policy for external and internal communication relating to the company, in particular as regards employees.	Part V section 4 requires portfolio companies to prepare a strategic report which includes provisions in the Companies Act 2006 normally applicable to quoted companies. Portfolio companies therefore include extended information about the company, and this occurs throughout the year. Section 5c) of the Guidelines requires the portfolio company to publish "a summary mid-year update giving a brief account of major developments in the company…no more than 3 months after mid-year." s414C(7) of the Companies Act 2006 requires information to be disclosed on the company's employees and the Group expects this to include policies related to employees. Further, Part V section 10 sets out the responsibilities of private equity firms in times of strategic change, including to employees.

A4

Appendix 4:
Assessing the quality of disclosures

The Group's objective is to ensure that all companies covered by the Guidelines report to a level at least equivalent to, or in advance of, FTSE 350 companies. The quality and level of disclosure is benchmarked against disclosures by these companies, with an emphasis on the better performers in that cohort. The PERG's definitions for measuring compliance is included below.

Quality of disclosure	Explanation of how assessment is reached
Excellent	A company assessed as excellent would benchmark well against the standards set by the winners and highly commended companies in the "Excellence in reporting in the FTSE 350" category of the Building Public Trust Awards. We would expect that it would include all relevant attributes of each of the Guidelines requirements as covered in the PwC good practice guide. It would be an excellent example of "fair, balanced and understandable" reporting, demonstrating clarity, linkage and consistency throughout. The winner of the 2017 for "Excellence in reporting" in the FTSE 350 was the Marks and Spencer Group.
Good	A company would include most of the relevant attributes of each of the relevant Guidelines requirements as covered in the PwC good practice guide. We would expect the narrative to be fair, balanced and understandable throughout.
Basic	A company would include many attributes of each of the relevant Guidelines requirements as covered in the PwC good practice guide. However, there would be room for improvement, especially in including more areas that could be considered applicable for the business. However, there would be clear and sufficient disclosure in the key areas to be considered compliant. Although the report will be fair, balanced and understandable there is likely to be areas where improvements could be made in this area.
Exceptions	Either a company would not have sufficient disclosure in one or more areas of the Guidelines, or when taken as a whole the report is not considered fair, balanced and understandable and therefore fails to be sufficiently transparent to comply with the standards.

These classifications are inherently judgemental and considered in the context of the detailed review of the annual report of the portfolio company taken as a whole. The review has found that portfolio companies do prepare disclosures for the individual requirements to an excellent standard, but there have been few examples over the years where the portfolio company achieved an excellent standard overall.

The Group will ask portfolio companies to remedy exceptions noted prior to the publication of this report and therefore considers disclosures subsequently uploaded to a company's website when determining the final level of compliance. This is in line with the principle of transparency as this additional information is available to supplement the disclosures in the accounts.

A5

Appendix 5: Recommendations for the industry association

These recommendations for initiative by the BVCA cover:

- the BVCA's industry-wide reporting and intelligence function;
- the establishment of a guidelines review and monitoring capability;
- for engagement with major investors and their associated entities or affiliates which, though "private equity-like", do not require authorisation by the FCA; and
- for engagement in discussion with relevant private equity groupings outside the UK in the development of common standards, in particular in respect of fund performance.

A. Reporting and intelligence

1 The BVCA should boost significantly its capability for the collection, processing and analysis of data submitted by private equity firms and portfolio companies. While the main focus of this report is, as indicated and defined at the outset, on the activities of large buyout firms and their portfolio companies, the BVCA's reporting and intelligence function covers the whole of the private equity industry, including venture and development capital. The recommendation here is that this overall capability should be boosted so that the BVCA becomes the recognised authoritative source of intelligence and analysis both of larger-scale and of venture and development capital private equity business based in the UK and a centre of excellence for the whole industry. It is recommended that, alongside the strengthening of the executive that is already in train, the BVCA should retain the services on a fee-paying basis of one or more professional firms to assist in this task as a means of quality input and assurance, as also for the assurance of confidentiality in respect of data that is provided exclusively for incorporation in an aggregation process.

2 This recommended enlargement and strengthening in the BVCA's data gathering, analytical and reporting capability will call for materially increased data input from portfolio companies covered by the enhanced reporting guidelines and from the private equity firms investing in those companies. Responsibility for the sourcing of specific data flows respectively as between private equity firms and portfolio companies should be determined by the BVCA on the basis of prior consultation, to include for the previous calendar year or portfolio company reporting period:

- amounts raised in funds with designated scope to invest in portfolio companies in the UK.
- categorisation of limited partners by geography and by type.
- scale of acquisitions of UK portfolio companies by transaction size at the time of acquisition.
- trading performance of portfolio companies in terms of revenues and operating earnings.
- estimates of levels and changes in employment, new capital investment and research and development expenditure by portfolio companies.

- aggregate fee payments by private equity firms and portfolio companies to other financial institutions and for legal, accounting and other advisory services.
- such other data collection and analysis as may be required in support of a comprehensive evidence-based assessment capability on the performance and economic impact of private equity in the UK, with particular reference to employment, productivity, investment and innovation.

3 Data should be collected from private equity firms to support attribution analysis in respect of exits in at least the previous calendar year to provide on an industry wide basis annually an assessment of percentages of total return over the holding period attributable to:

- leverage and financial structuring.
- growth in market multiples and market earnings in the relevant industry sector.
- strategic direction and operational management of the business.

4 It is recommended that the BVCA should publish an enlarged version of its economic impact and associated surveys to cover both the industry overall and giving separate data and analyses for

- larger-scale private equity business to present an authoritative evidence based account of the performance of the industry in the UK over the holding periods of portfolio companies and of the subsequent performance of former portfolio companies where exit by the fund or funds is to the public market by means of an IPO process.
- venture and development capital, which will call for an increase in the sample sizes for data collection.

B. Guidelines review and monitoring

For the purpose of ensuring that the guidelines for disclosure by portfolio companies and private equity firms remain appropriate in the light of changing conditions and to monitor conformity with the guidelines, the BVCA should establish a Guidelines Review and Monitoring Group (the "Group") with the following elements:

1 Terms of reference of the Group:

a) to keep the guidelines under review and to make recommendations for changes when necessary to be implemented by the BVCA after due consultation to ensure that the Guidelines remain appropriate in changing market and industry circumstances.

b) to review the extent of conformity with the guidelines, through compliance or explanation, on an ongoing basis.

c) to publish a brief annual report on the work of the Group.

2 Composition of the Group:

a) a Chairman with substantial experience but independent of private equity.

b) total size of 5 to include 2 executives of GPs or advisers to funds investing in portfolio companies covered by the Guidelines.

c) 2 independent members additionally to the Chairman with substantial professional or business experience.

d) thus a majority of independents.

3 Appointment of the Group:

a) to be appointed by the Chairman and Council of the BVCA on the advice of a Nominations Committee of the Council.

b) the Chairman of the Group to have a term of 3 years with provision for appropriate rotation of other members to ensure continuity.

c) the Chairman and the independent members to be paid appropriate fees.

4 Operations of the Group:

The guidelines review and monitoring processes under paragraph 1 (a) and (b) above to be supported by an accounting firm appointed by and under the direction of the Group:

a) undertaking data processing and assessment on the basis of initial self assessment on conformity by private equity firms and portfolio companies.

b) appropriate spot-check sampling.

c) funded under budget provisions agreed between the Group and the Chairman and Council of the BVCA.

5 Conformity with the Guidelines:

On the basis that BVCA member firms commit to conform to the guidelines as a condition of membership, the Group would discuss in confidence with a private equity firm or portfolio company any case of non-conformity which it considered to be material. In the absence of commitment to early remedial action, the matter would be for discussion and determination of appropriate action between the Chairman of the Group and the Chairman of the BVCA and might, after due process, involve public disclosure and termination of membership of the BVCA.

C. Engagement with "private equity-like" entities

1 The BVCA should identify entities whose business, though not requiring authorisation by the FCA, is similar to that of the private equity firms covered by these guidelines, to include in particular the UK affiliates of sovereign wealth funds and other major principal or proprietary investors whose funding is not dependent on limited partners.

2 The BVCA should initiate discussion with such groups (where appropriate, in the case of sovereign wealth funds, after consultation with government) with the purpose of enlisting their voluntary undertaking to conform to the Guidelines, on the basis that this will be in their own interest as a manifest of their commitment to established good practice as to disclosure and transparency in such business conducted in the UK.

3 The BVCA is recommended to create an appropriate category of membership to enable such entities to be associated appropriately with the activities of the association.

D. Fund performance measurement.

The BVCA should participate proactively with private equity trade associations beyond the UK and with representatives of the domestic and international limited partner community to develop a methodology for the content and presentation of fund performance information with particular relevance for prospective future limited partners as well as those in existing funds. The Global Investment Performance Standards ("GIPS") prepared under the auspices of the CFA Institute represent a possible approach on which the BVCA should engage during the impending five year review of GIPS. Any standard to emerge from this process should be incorporated in the guidelines in due course.

A6

Appendix 6: Compliance checklist for private equity firms and their portfolio companies

For the benefit of those in scope of the Guidelines, a checklist of requirements for private equity firms and their portfolio companies is found below.

Private Equity firm requirements

Requirement	Completed?
Have the following disclosures been published in an annual review accessible on your website **or** disclosed via regular updating of your website?	
■ A description of the way in which the FCA-authorised entity fits into the firm of which it is a part	
■ An indication of the firm's history	
■ An indication of the firm's investment approach	
■ An indication of the firm's investment holding periods	
■ Case study illustrations (optional)	
■ A commitment to conform to the Guidelines on a comply or explain basis and to promote conformity on the part of the portfolio companies owned by your fund(s)	
■ An indication of leadership of the UK element of the firm, identifying the most senior members of the management or advisory team	
■ Confirmation that arrangements are in place to deal appropriately with conflicts of interest	
■ A description of UK portfolio companies in the your portfolio	
■ A categorisation of the limited partners in your fund(s) that invest, or are capable of investing, in companies that would be considered UK portfolio companies for the purpose of the Walker Guidelines, indicating separately:	
□ A geographic breakdown between UK and overseas sources, **and**	
□ A breakdown by type of investor e.g. pension funds, insurance companies, corporate investors, fund of funds, banks, government agencies, endowments of academic and other institutions, private individuals	
Has the statement of conformity been completed, signed and returned to the BVCA?	

Portfolio company requirements

Disclosure requirements	Completed?
Have the following disclosures been included in the company's audited annual report and accounts (or an explanation provided where they have been omitted)? *Companies should refer to the PERG and PwC Good Practice Guide, which illustrates basic compliance and examples of good practice*	
1. Identity of the private equity firm owner	
2. Details on board composition	
3. Financial review of the company's position	
4. Financial review of the company's financial risks	
5. Balanced and comprehensive analysis of development and performance during the year and position at the year end	
6. Principal risks and uncertainties facing the company	
7. Financial key performance indicators	
8. Non-financial key performance indicators, including environmental matters and employees	
9. The company's strategy	
10. The company's business model	
11. Trends and factors affecting the company's future development, performance or position	
12. Environmental matters	
13. Employee matters	
14. Social, community and human rights issues	
15. Gender diversity information	
16. A statement by the directors of the company confirming compliance with the Guidelines or setting out explanations for areas of non-compliance.	

Transparency requirements	Completed?
1.a The company should publish its annual audited report on its website within 6 months of year end	
1.b The Walker disclosures should be produced in the front half of the annual audited report, not in an annual review or similar.	
1.c The annual audited report should be readily accessible on the company website, and not behind a log-in or similar.	
2. The company should publish a summary mid-year update on its website giving a brief account of major developments in the company within 3 months of mid-year.	

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