DECEMBER 2016

Private Equity Reporting Group

Ninth Report

PERG
PRIVATE EQUITY REPORTING GROUP

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

CONTENTS

Appendices

EXECUTIVE SUMMARY

This is the Ninth annual report of the Private Equity Reporting Group (the "Group") and provides a summary of the private equity industry's conformity with the Guidelines for Disclosure and Transparency in Private Equity (the "Guidelines") following their introduction in November 2007.

The Group was established in March 2008 to monitor conformity with the Guidelines recommended by Sir David Walker in 2007 and make periodic recommendations to the British Private Equity and Venture Capital Association (the "BVCA") for changes to the Guidelines if required.

Highlights of the 2016 review

- Compliance by portfolio companies covered by the Guidelines fell slightly this year to 88% (2015: 95%). Three companies have not complied with the Guidelines in full this year: HC-One (backed by Safanad, Formation Capital and management); Village Urban Resorts (KSL Capital); and Viridian (Arcapita). Both HC-One and Viridian are committed to complying next year.
- The quality of disclosures by portfolio companies covered by the Guidelines, however, fell substantially this year with only 57% of the sample reviewed achieving an overall good or excellent/"best in class" rating, whereas 95% achieved this level in 2015. This decrease in standards is primarily due to a higher proportion (nearly half) of the sample being new to the process and continued improvements in corporate reporting by the FTSE 350, the benchmark for judging compliance.
- The number of portfolio companies required to comply with the Guidelines has decreased from 62 companies in 2015 to 60 this year, which was a result of 13 exits and 11 new deals.
- The number of private equity firms managing or advising funds which owned the portfolio companies within scope increased by 1 to 66 this year. This includes firms that conduct their operations in a 'private equity-like' manner, which remained at 33.
- This is the second year where all portfolio companies are required to comply with new reporting obligations under the Guidelines (due to changes in the Companies Act 2006), which require the disclosure of the portfolio company's business model, detail on gender diversity and its response to human rights issues.
- Portfolio companies have not significantly improved the quality of disclosure in any one Guidelines' criterion. Disappointingly, the quality of disclosure was weaker this year against a backdrop of higher standards seen in the FTSE 350 and a lack of awareness of new requirements in the Guidelines. Criteria where some weakness was noted included review of financial position; balanced and comprehensive analysis of development and performance during the year and position at the year-end; financial and non-financial key performance indicators; trends and factors affecting the future development, performance or position of the company; environmental factors; and human rights issues.
- Nearly half of companies reviewed did not initially include a human rights and/or gender diversity disclosures in their annual report, but this was addressed by placing additional disclosures on the company's website. Whilst in practice this is seen to be transparent, it reflects a theme that further effort is required to increase the awareness of the content of the Guidelines and the feedback in this report at a portfolio company level.

- The Group strongly encourages portfolio companies to aspire to standards of disclosure above the minimum requirements, being those observed in the FTSE 350. This is pertinent given the fall in quality of disclosures this year and broader UK initiatives such as those set out in the Government's recently published green paper on corporate governance reform.
- In line with previous years only 40% of companies have included a specific statement of compliance with the Guidelines in the annual report and financial statements.
- Disappointingly, 20% of all portfolio companies had not published their audited report and accounts on their website at the time of this report. A substantially greater proportion of companies have not been publishing their accounts within six months of year-end. Additionally, more than half of Walker companies have not published a mid-year update for 2015-16. The Group will start to name companies publicly that do not meet these requirements in next year's report.
- The Group reviewed the websites and/or annual reports of all private equity firms covered by the Guidelines to assess compliance with applicable disclosure obligations relating to their own activities. All members of the BVCA met the requirements.

1.1 Background to the Guidelines

In February 2007, the BVCA asked Sir David Walker to undertake an independent review of the adequacy of disclosure and transparency in private equity, with a view to recommending a set of guidelines for conformity by the industry on a voluntary basis. This review resulted in the publication of the Guidelines in November 2007. The Guidelines require additional disclosure and communication by private equity firms and their portfolio companies when certain criteria are met. The criteria together with details of the full requirements under the Guidelines are set out in Appendix 3.

The Guidelines were revised in 2014 to implement The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 which changed the narrative reporting obligations for all companies in the UK. The Guidelines were amended to include additional disclosures on strategy (although this was implicitly required in the previous Guidelines), business model, human rights issues and gender diversity. The Group also introduced the requirement for portfolio companies to confirm compliance with the Guidelines in their annual reports. The Guidelines, including the 2014 revisions, are summarised in Section 2.

In addition to the enhanced disclosure requirements, the Guidelines include requirements on data provision by private equity firms and portfolio companies to the BVCA and recommend adopting standards and guidelines on valuation and reporting to limited partners. During periods of significant strategic change, private equity firms are responsible for ensuring timely and effective communication with employees.

The objective of the Guidelines is simple. By providing further information on their portfolio companies' activities, private equity firms are able to substantiate their contribution to the UK economy in terms of jobs growth and investment. This data is also benchmarked to comparable listed companies and disaggregates drivers of returns, including those from operational improvements. Enhanced disclosure in portfolio company annual reports, which are available on their websites, allows stakeholders to understand how companies operate and their strategy.

Nine years since the publication of the Guidelines, improving transparency and disclosure continues to be a key priority for the private equity industry. The Group will continue to promote the importance of the Guidelines and their value to the industry and its stakeholders.

1.2 The Private Equity Reporting Group

The members of the Group are:

Nick Land	Chairman & independent member
Baroness Jeannie Drake	Independent member
Glyn Parry	Independent member
Gerry Murphy	Industry representative (Blackstone)
Ralf Gruss	Industry representative (Apax)

Meetings of the Group are attended by Tim Hames, BVCA Director General, Gurpreet Manku, BVCA Director of Policy, PwC and EY (both advisers to the Group) by invitation.

1.3 Private equity firms and portfolio companies covered by the Guidelines

Details of the private equity firms and portfolio companies that fall within the scope of the Guidelines are set out in Appendices 1 and 2.

1.3.1 Private equity firms

The number of firms covered by the Guidelines has increased by 1 to 66 this year. 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 and include infrastructure funds, sovereign wealth funds, pension funds and firms operating in the debt and credit opportunities space. The full definition is set out in Appendix 3 and Appendix 1 explains how minority and other shareholders are monitored.

Table 1: Number of private equity firms covered by the Guidelines

	2015 report	2016 report
Private equity firm	32	33
Private equity-like firm (note that this figure includes a number of minority shareholders)	33	33
Total	**65**	**66**

The Group continues to believe that ‘private equity-like’ entities with investments in significant UK businesses should comply with the Guidelines. The Group will continue to encourage and work with these entities. For example, Global Infrastructure Partners, Infracapital Partners, Macquarie Infrastructure and Real Assets Europe, and OMERS have engaged with the BVCA and the Group.

1.3.2 Portfolio companies

A total of 63 portfolio companies were covered by the Guidelines this year (2015: 66). Of this number, 60 were included as required companies (2015: 62) and the rest complied voluntarily. Further details on the portfolio companies are included in Appendix 2.

Table 2: Number of portfolio companies covered by the Guidelines

	2015 report	2016 report
Required	62	60
Voluntary	4	3
Total	**66**	**63**

1.4 Review of compliance with the Guidelines

PricewaterhouseCoopers LLP (“PwC”) was reappointed as an independent advisory firm to assist the Group in carrying out this year’s review of the disclosures made by a sample of portfolio companies. The sample included companies with accounting years ending up to and including 30 April 2016. This report summarises the findings of that exercise along with the Group’s own review of the other requirements of the Guidelines.

1.4.1 Portfolio companies reviewed

PwC reviewed a total sample of 21 portfolio companies, including 11 companies reviewed previously and 10 reviewed for the first time. Through annual sampling, the Group 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 whose reporting does not comply with the Guidelines.

1.4.1.1 Benchmark for compliance

The Group continues to raise the required standard of overall disclosure to achieve compliance with the Guidelines. It benchmarks 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 or "best in class" 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.

1.4.1.2 Summary results of the 2015 review

Overall, only 57% of the sample reviewed in the current year achieved a good level of compliance or excellent/"best in class" level. This is lower than the proportion of companies which achieved at least a good level of compliance in 2015. Although highly disappointing, this fall in quality can be explained due to a combination of:

- the portfolio company disclosure requirements per the Guidelines being new to 48% of the sample in the current year;
- the implementation of the revised Guidelines will take time to embed in private equity firms and their portfolio companies, particularly considering all the companies in the sample, apart from one, have not previously been assessed against the revised Guidelines;
- continued improvements in the quality of reporting by listed companies in the FTSE 350, being the benchmark for judging compliance; and
- an increase in the number of non-compliers this year (see below).

Of the portfolio companies reviewed, three companies have not complied with the portfolio company disclosure requirements this year: HC-One (owned by Safanad, Formation Capital and management), Village Urban Resorts (KSL Capital), and Viridian (Arcapita). The Group has engaged with HC-One and Viridian who are committed to comply with the Guidelines next year. The Group will continue to work with the owners of Village Urban Resorts to encourage compliance in the coming years.

In addition, there are number of companies in this year's population who were not in a position to fully comply with the Guidelines. Parkdean Holidays (Alchemy Partners and Electra Partners) and Trainline (KKR) are both new to the Guidelines this year. As outlined in the feedback statement when the revised Guidelines were published in July 2014, the Group intended to be flexible in its approach to implementation in the first year of adoption for cases such as these. Therefore, whilst these companies have been given a year's grace, we expect both to fully comply next year. The review of Young's Seafood, previously named Findus Group (Lion Capital), has been postponed by a year. This is due to a significant disposal following its year-end, resulting in a material change in its operations. Young's Seafood's financial statements do not reflect the current situation of the company, nor do they present a meaningful comparison to future years. The reporting year-end for Pizza Express (Hony Capital) does not fall within the scope of this year's report again and so will be reviewed next year. Additionally, Advanced Computer Systems (Vista Equity Partners) was due to be reviewed this year as it is also new to the population, but its audited annual report and financial statements were not available in time for this year's review. The Group is continuing its discussions with its owners to encourage compliance.

Overall compliance levels for the portfolio company disclosures were good. However, there continues to be variability in the quality of disclosures on individual requirements. Furthermore, a larger proportion of companies have not met the publication and data provision requirements (see further below).

Generally, the standard of reporting by portfolio companies has remained steady compared to the previous year. However, our initial reviews of the sample of portfolio companies highlighted that many companies had not included the required information in the revised Guidelines on gender diversity or human rights. Other areas which have seen mixed performance are forward looking requirements for trends and factors, due to a general lack of discussion of the business in a wider market context, as well as the confirmation of which directors are appointed to represent the private equity firm. Largely companies have been very cooperative and exceptions have subsequently been cleared through discussions and the portfolio company providing additional disclosure on its website. 48% of companies reviewed provided additional disclosures on their websites in order to comply with the Guidelines. The understanding is that these additional disclosures will be included in the company's next annual report.

There has not been a material increase in the quality of disclosure in any one of the criteria this year. Whilst disappointing, this in part is due to a high standard of disclosures by portfolio companies last year which we are comparing against.

The performance against the following criteria was weaker this year against a backdrop of increasing standards seen in the FTSE 350 and amendments to the Guidelines:

- Review of financial position;
- Balanced and comprehensive analysis of development and performance during the year and position at the year-end;
- Financial and non-financial KPIs;
- Trends and factors affecting future development, performance or position;
- Environmental factors; and
- Social, community and human rights issues.

A statement of compliance in the annual report of the portfolio company is a requirement in the revised Guidelines as of last year. It remains disappointing to see the majority of companies have not included such a statement in their annual report. This statement is a proxy for the "fair, balanced and understandable" requirement under the 2014 UK Corporate Governance Code ("the Code"). The Group has seen this contribute to higher standards of disclosure by FTSE 350 companies this year and expects this will continue. Portfolio companies therefore need to improve the quality of their disclosures in line with this benchmark.

The Guidelines require that conformity with each of the requirements is on a 'comply or explain' basis and explanations for non-compliance should be posted on the website. Within the population reviewed, as in previous years, none of the portfolio companies adopted an 'explain' approach.

1.4.1.3 Compliance across the requirements

When assessing conformity, the requirements under the Guidelines for portfolio company disclosures are separated into four areas: Guidelines-specific requirements; strategic report disclosures required by the Companies Act; enhanced disclosure requirements; and publication of reports. The Group's key findings are summarised below along with comments on the quality of narrative reporting compared to trends seen across the FTSE 350.

Guidelines-specific requirements

Considering the private equity specific nature of the disclosures, the relative proportion of weak disclosures on the identity of the private equity firm and board composition remains unacceptably high at over 30% for both compared to last year. Not all companies reviewed have provided the board composition disclosure, although companies meeting the excellent or "best in class" standard for identifying the firm and board composition has improved to 10% and 24% respectively (2015: 0% and 10%). The Group expects all portfolio companies to aim for best practice.

The Guidelines require a financial review which explains the financial position of the portfolio company at the year end and identifies financial risks facing the company and the policies in place to manage and mitigate these. There has been a fall in the proportion of companies providing these disclosures at a good or excellent/"best in class" standard. 62% of companies provided at least a good quality disclosure relating to financial position and 71% in relation to financial risks (2015: both 85%).

A statement of compliance was a new requirement per the revised 2014 Guidelines. Only 48% of companies included a specific statement of compliance with the Guidelines in the annual report and financial statements (2015: 40%).

Strategic report disclosures required by the UK Companies Act

Portfolio companies are required to include a balanced and comprehensive analysis of the development and performance of the company during the year and its position at the year-end. 53% of portfolio companies reviewed provided a good level of disclosure, a decrease from 75% in 2015. The Group expects that all companies should be able to clearly detail the development and performance of the business in the year, as well as the year-end position.

All portfolio companies disclosed their principal risks and uncertainties in their annual reports. It was pleasing to see that 29% of companies achieved an excellent or "best in class" standard disclosure (2015: 10%), however the number of basic quality disclosures also increased this year.

Portfolio companies are expected to set out financial and non-financial key performance indicators ("KPIs") used by the company to assess their position and performance. The level of at least good quality financial KPIs has fallen to 48% (2015: 100%) and has similarly fallen for non-financial KPIs to 47% (2015: 85%). Far too many companies have stated generic measures used without linking this to company strategy, comparative data or explaining the measure. Corporate reporting needs to be relevant to users and preparers of annual reports should understand expectations of key stakeholders.

Individuality is an emerging theme in corporate reporting. Companies should avoid "boilerplate" disclosures, which adds minimal value to the end users of annual reports. This is also an area of weakness for the FTSE 350. Portfolio companies should take the opportunity to distinguish themselves from their peers, through company specific disclosures in the above criteria.

Enhanced disclosure requirements

Disclosure of strategy has fallen in quality this year and 43% of companies provided a minimum basic level of disclosure (2015: 15%). This is in line with disclosure of business models where 48% of companies provided a basic quality disclosure at best (2015: 50%). As this is the second year when these criteria have been applicable to portfolio companies, it is clear further advice needs to be provided to all portfolio companies to increase the standard of disclosure.

The quality of disclosures in respect of trends and factors likely to affect the future development, performance or the position of the company's business has decreased in the current year. Only 29% of companies achieved a good level of compliance (2015: 80%) and 14% were excellent or "best in class" (2015:10%). Disclosures remain general in nature and mostly limited to the next 12-month period, which is also a common trend in the FTSE 350.

Environmental factors disclosure quality has fallen in 2016. Although 67% of portfolio companies have provided at least a good standard of disclosure, this is down from 90% in 2015. The level of disclosure on employee matters by portfolio companies remains pleasingly high. The importance of employees is reflected by 71% of companies providing at least a good level of disclosure this year, slightly down from 80% last year.

Portfolio companies provided a good level of disclosure on social and community matters, however minimal coverage of human rights resulted in poor compliance overall. Nearly 50% of companies did not include a statement on human rights on initial review. As a result, only 38% of companies provided at least a good level of disclosure, down from 75% in 2015. The expectations placed on UK companies with respect to disclosure on human rights continues to rise with the introduction of the Modern Slavery Act. Human rights disclosures will require continued focus by portfolio companies.

In line with last year's results, nearly half the population failed to attempt the gender diversity disclosure in our initial review again. As a result, the quality of gender diversity reporting remains basic. Only 38% of companies provided at least a good level of compliance (2015: 30%). As with human rights, the quality of disclosure in relation to gender diversity will need to be raised by portfolio companies. Companies should be aware that there is increased focus on gender diversity, through the expected introduction of mandatory gender pay gap reporting disclosures by UK companies in the next few years.

The two areas where companies continue to not produce adequate disclosures are areas where the level of statutory reporting continues to increase:

Human rights: Modern Slavery Act 2015	Gender diversity: Mandatory Gender Pay Gap reporting
The Act came into force this year and requires all companies with (1) a year end of 31 March 2016 onwards, (2) turnover exceeding £36m, and (3) a presence in the UK, to prepare a statement detailing what the organisation does to mitigate the risk of slavery and human trafficking in its supply chains. The statement must be published on the company's website in a prominent place and signed by a Director. Companies should have published their statement, or be in the process of preparing their statement to be published on their websites in due course.	In February 2016, the Government published draft regulations on Mandatory Pay Gap reporting. The first disclosures are to be on data to April 2017, with the first full reports required by April 2018. The gender pay gap compares the pay gap (hourly pay and bonuses) between men and women across an organisation. This is not to be confused with equal pay which compares the pay of employees in equivalent jobs/ grades. It is applicable for all companies with more than 250 UK employees and should be published on a company's website. While the final regulations are yet to be published, companies should be aware of this upcoming regulation so that they can make sure they have the data required to comply.

Publication of portfolio company reports

Disappointingly, 20% of all portfolio companies had not published their audited report and accounts on their website at the time of this report. A substantially greater proportion of companies have not been publishing their accounts within six months of year end. Additionally, more than half of Walker companies have not published a mid-year update for 2015-16. The Group will closely monitor the four aspects of the requirement below, with non-compliant companies to be named as such in the 2017 PERG report.

Publication of annual reports	Annual report vs annual review	Reports not easily obtainable	Mid-year update
Portfolio companies should publish their annual audited reports on their websites no more than 6 months after the company year-end.	Walker disclosures should be found in the front half of a portfolio company's annual audited report, and not in a separate annual review or similar.	The annual audited report should be readily accessible on a portfolio company's website, and not behind a log-in page.	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.

1.4.1.4 Comparison of portfolio company reports to the FTSE 350

PwC conducted a review looking at the strategic reports of the FTSE 350 from the 2015-16 reporting cycle (1 April 2015 to 31 March 2016). The purpose of this review was to determine what value can be derived from strategic reports.

We have presented below the three 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
Distinctive – individuality is needed in corporate reporting to avoid 'boilerplate' annual report disclosures which lack strategic relevance.	27% of FTSE 350 companies were able to articulate their unique business model by making reference to their 'competitive advantage', compared to only 14% of portfolio companies that were considered truly distinctive and strategically aligned.	Companies should take the opportunity to demonstrate competitive advantage and distinguish the company from its peers.
Strategic – the introduction of the strategic report in 2013 has had a positive impact, but the majority of companies don't use this to tell their story, with a lack of forward looking information.	Despite 98% of the FTSE 350 companies including a viability statement (applicable to listed companies only) with a period of between 3 to 5 years, only 11% discussed strategy beyond the next 12 months. Portfolio company reports reviewed for trends and factors generally had a short-term horizon for future discussions, with only 19% providing a discussion on longer-term impacts.	Instil confidence in the market by reporting strategy in a clear and consistent way.
Relevant – reporting needs to evolve as expectations change, with a focus from stakeholders increasing to beyond financial measures and metrics.	The split of KPIs in the FTSE 350 is a 5:3 split in favour of financial over non-financial. Only 40% of the FTSE 350 linked their KPI's to their strategy and only 35% linked this to their risks, with only 1% included market data linked to strategy. On the whole, portfolio company KPIs were balanced between financial and non-financial, though the narrative focused on financial measures. 10% of companies provided KPIs linked to risk and strategy.	Ensure that your reporting reflects the expectations of the key stakeholders by recognising your dependency and impact on them.

1.4.1.5 Feedback for private equity firms and portfolio companies

The Group will continue to provide feedback to private equity firms on the quality of disclosure of their portfolio companies reviewed in the year. This is in order to raise the levels of disclosure and adherence to the Guidelines, and to promote these as standard industry practice. As in previous years, each private equity firm and portfolio company reviewed will receive a letter setting out the detailed findings of this year's review and recommendations for improvements.

The Group commissioned PwC to publish an update to its Good Practice Guide in 2016, based on their findings and amended Guidelines. This incorporated the need for greater quality and clarity of disclosure to track the trends in both the FTSE 350 and the FTSE 100. This also sets out expectations for compliance with the amended requirements. This guide will be republished in early 2017 with further examples of good practice to assist firms and portfolio companies.

1.4.2 Private equity firm disclosures

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

All members of the BVCA 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. This understanding on occasion, however, does not pass to those operationally responsible for ensuring compliance at the private equity firm or portfolio company. The BVCA and the Group will continue to work to educate those actually responsible for compliance with the Guidelines.

1.5 Performance of portfolio companies

As part of the Guidelines, the BVCA has commissioned research into the trading performance of portfolio companies and attribution analysis in respect of exits. EY LLP was commissioned again in 2015 to undertake this research and it will be published at www.bvca.co.uk/ResearchPublications. The compliance rate for the provision of data is 88% which has fallen from 92% last year, only the second time compliance has fallen below 90%.

The report has found that the equity return from portfolio company exits are 4.3x public company benchmarks; half of this is due to private equity strategic and operational improvement, and the other half is from additional financial leverage.

1.6 2017 activities for the Group

The Group's plan for 2017 includes:

- Continuing to support and educate the industry when implementing the revised Guidelines that incorporate the strategic report and new requirements, particularly **gender diversity** and **human rights issues**, as well as a **statement of compliance by portfolio company directors** in the annual report. The Group's Good Practice Guide and other reports published by the Financial Reporting Council ("FRC"), such as its recent report on business model reporting, should assist firms and portfolio companies when preparing annual reports.
- Monitoring the development of proposals included in the Department for Business, Energy and Industrial Strategy's recent green paper on corporate governance reform, and the impact on the content and scope of the Guidelines. The green paper includes proposals to raise corporate governance standards in the largest privately-held companies, through enhanced narrative reporting and extending the UK Corporate Governance Code or developing a separate code for these companies. The Guidelines are specifically referenced as a good example of an industry-led, voluntary regime that was set up in response to demands for more information about portfolio companies.
- Consulting on whether and how to update the Guidelines to reflect the new narrative reporting landscape in the UK, following the implementation of the EU Non-Financial Reporting Directive in 2017. Additionally, the Group will closely monitor the increasing expectation for transparent reporting on tax by the FTSE 350, following the FRC's recent thematic review into tax disclosures.
- Continuing to review the enterprise value thresholds in accordance with developing UK and European legislation and regulation.
- Reviewing the quality of disclosures published by private equity firms about their own activities.
- Reminding portfolio companies to **publish their annual reports and mid-year updates on their websites in a timely basis** with non-compliant companies to be named as such in next year's report.

The private equity industry and portfolio companies must continue to strive for good practice in reporting and improve on the results seen this year. The Group expects the overall quality of disclosures by portfolio companies to improve in the coming year as firms develop experience in complying with the new requirements in the Guidelines, in particular those concerning gender diversity and human rights issues. Companies should also be aware that annual and mid-year reports need to be readily accessible on company websites in a timely manner as the Group will start publicising instances of non-compliance with this requirement in 2017.

2

OVERVIEW OF THE GUIDELINES

The Guidelines set out recommendations and enhanced disclosure requirements for private equity firms, their UK portfolio companies and the BVCA. These are reproduced in Appendices 3 and 5 and summarised below. This summary includes the amendments to the requirements on enhanced reporting for portfolio companies that became effective for years ending on or after 30 September 2014.

2.1 Definition of private equity firms and portfolio companies covered by the Guidelines

The Guidelines apply exclusively to private equity firms and their UK portfolio companies as defined below.

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.

A portfolio company is 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; or

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 was 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.

2.2 Summary of the content and timing of disclosure required by portfolio companies

A portfolio company should publish its annual report and accounts on its website within six months of the year end; and

- The report should identify the private equity fund or funds that own the company and provide details of the composition of the board;
- The financial review should cover risk management objectives and policies in light of the principal financial risks and uncertainties facing the company with links to the appropriate detail in the footnotes to the accounts; and

- The report should include a business review that substantially conforms to the provisions of Section 414C of the Companies Act 2006 including the Enhanced Business Review requirements that are ordinarily applicable only to quoted companies.

A summary of the detailed requirements for portfolio company disclosure can be found in Appendix 3.

2.3 Disclosure and communication required by private equity firms

A private equity firm should publish either in the form of an annual review or through regular updating of its website:

- A description of the way the FCA-authorised entity fits into the firm as a whole with an indication of its investment approach including investment holding periods along with an indication of the leadership of the firm and confirmation that it has appropriate arrangements to deal with conflicts of interest; and
- A commitment to conform to the Guidelines, a description of the companies in the private equity firm's portfolio and a categorisation of the limited partners in the fund or funds including a geographic categorisation and a breakdown by type of investor.

Additionally, private equity firms should, in their reporting to limited partners, follow established guidelines, such as those published by Invest Europe, follow established guidelines (published by the International Private Equity and Venture Capital Valuation Board) and accounting standards in the valuation of their assets, and should provide data to the BVCA in support of its enhanced role in data collection, processing and analysis.

Private equity firms should also commit to ensure timely and effective communication with employees, either directly or through their portfolio company, as soon as confidentiality constraints are no longer applicable.

2.4 Recommendations for initiatives to be undertaken by the BVCA

The Guidelines recommended that the BVCA should:

- Enlarge and strengthen its data gathering, analytical and reporting capabilities and should apply those capabilities to increased research activities including performance and attribution analysis for portfolio companies;
- Initiate discussions with "private equity-like" groups with the purpose of enlisting their voluntary undertaking to conform to the Guidelines; and
- Participate proactively with overseas private equity trade associations to develop a methodology for the content and presentation of fund performance information.

3

REVIEW OF CONFORMITY WITH THE GUIDELINES

3.1 Introduction

This section summarises the findings of the Group's review of conformity with the Guidelines and considers conformity in three areas:

Disclosure by a portfolio company	Communication by a private equity firm	Other requirements and recommendations
The requirements to make accounts and mid-year updates available, and for the accounts to meet enhanced disclosure requirements. This covered portfolio companies with accounting years ending up to and including 30 April 2016.	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 industry association, to follow established reporting and valuation guidelines and to ensure timely and effective communication, as well as the recommendations for the BVCA relating to research, "private equity-like" entities and fund performance measurement.

A snapshot of the reporting requirements for portfolio companies is below. In 2014 the Guidelines were amended to incorporate changes to narrative reporting in the UK, which now require a strategic report for companies preparing financial statements under the Companies Act 2006. This led to several new requirements being added to the Guidelines, which are highlighted in bold below, and increased the areas for disclosure for quoted companies. The requirement to include a statement of conformity was also added to the Guidelines by the Group.

Guidelines–specific disclosures

- Identity of private equity firm
- Details on 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**

3.2 Overview of portfolio company disclosure findings

This was the Group's second year implementing the revised Guidelines, and the first year where it was effective for all portfolio companies.

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, typically the FTSE 100. The Group's definitions for measuring compliance to make it clear how this review is carried out is included in Appendix 4.

	Quality of disclosures 2016				Quality of disclosures 2015		
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic[2]
Overall quality of disclosures	0%	57%	29%	14%	10%	85%	5%
Fair, balanced & understandable	10%	52%	19%	19%	10%	65%	25%

Overall, only 57% of the sample reviewed in the current year achieved a good level of compliance (2015: 85%). No companies achieved an excellent/"best in class" level of compliance compared to 10% in the prior year. Although highly disappointing, this fall in quality can be explained due to a combination of:

- the portfolio company disclosure requirements per the Guidelines being new to 48% of the sample in the current year (2015: 25%);
- the implementation of the revised Guidelines taking time to be embedded by private equity firms and their portfolio companies, particularly considering that all the companies in the sample, apart from one, have not previously been assessed against the revised Guidelines;

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

[2] This column includes one company that failed to comply overall in 2015. The exceptions to individual requirements are not presented on a disaggregated basis by the Group unless more than one company is named in the report as non-compliant in that year of review.

- continued improvements in the quality of reporting by listed companies in the FTSE 350, being the benchmark for judging compliance; and
- an increase in the number of non-compliers this year (see below).

Of the portfolio companies reviewed, three companies have not complied with the portfolio company disclosure requirements in full this year: HC-One (owned by Safanad, Formation Capital and management), Village Urban Resorts (KSL Capital), and Viridian (Arcapita). The Group has engaged with HC-One and Viridian who are committed to comply with the Guidelines next year. The Group will continue to work with the owners of Village Urban Resorts to encourage compliance in the coming years.

There has not been a material increase in the quality of disclosure in any one of the criteria this year. Whilst disappointing this in part is due to a high standard of disclosures by portfolio companies last year which we are comparing against.

The performance against the following criteria was weaker this year against a backdrop of increasing standards seen in the FTSE 350 and amendments to the Guidelines:

- Review of financial position;
- Balanced and comprehensive analysis of development and performance during the year and position at the year-end;
- Financial and non-financial KPIs;
- Trends and factors affecting future development, performance or position;
- Environmental factors; and
- Social, community and human rights issues.

A statement of compliance is a new requirement in the revised Guidelines as of last year. It remains disappointing to see only a minority of companies include a specific statement of compliance with the Guidelines in the annual report and financial statements. This statement is a proxy for the "fair, balanced and understandable" requirement under the 2014 UK Corporate Governance Code ("the Code"). The Group has seen this contribute to higher standards of disclosure by FTSE 350 companies this year and expects this will continue. Portfolio companies therefore need to improve the quality of their disclosures in line with this benchmark.

The Group 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 in previous years, examples will be published in an updated good practice guide by PwC in early 2017 based on the findings of this year's review. The Group 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.

Based on this year's review, the Group's key recommendations for portfolio companies when preparing for the next reporting process are set out below:

There remains a need for an increase in the quality of disclosure of basic Guideline specific disclosures such as the identity of the private equity owners or which directors are appointed to represent the private equity firm.	Greater consideration is required on the human rights issues and gender diversity disclosures, particularly as related corporate reporting requirements have increased and continue to do so in these areas.
A forward-looking orientation is still recommended when discussing trends and factors that could affect the company's results, particularly in light of the current economic and political uncertainty.	A clear statement of compliance with the Guidelines by the directors is required by all portfolio companies in the annual report and financial statements.

The Group is of the view that these recommendations are not onerous to comply with, do not lead to the publication of commercially sensitive information and in the current environment, where corporate governance is high on the political agenda, portfolio companies should actively seek to improve levels of transparency. Whilst portfolio companies need to improve the quality of their disclosures, the impetus should be on their private equity owners in educating and promoting improvement, as the Guidelines are a private equity-specific initiative.

3.3 Private equity firms and portfolio companies covered by the Guidelines

The Group 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.

In general, new entrants in the period covered by the Group's report are reviewed each year. For some portfolio companies it may be appropriate to start complying with the Guidelines in the second financial year under private equity ownership. This may be because their first year-end following private equity ownership falls outside of the period covered by the review and the financial statements have been signed under previous ownership. There may also be cases where the acquisition structuring undertaken means that the results in the financial statements will not present a meaningful comparison to previous years or the future, although the Group notes pro-forma information could be used where possible. Due to significant transactional restructuring in its first year under private equity ownership, Parkdean Holidays (owned by Alchmey Partners and Electra Partners) has been given a year's grace to comply with the Guidelines. Trainline (owned by KKR) has a later year-end in the review cycle so has not prepared its first year accounts under private equity ownership in time to be reviewed in the current year and has also been given a year's grace. The owners of both companies are committed to ensuring their portfolio companies will comply next year. In addition, Advanced Computer Systems (Vista Equity Partners) was due to be reviewed this year as it is new to the population, but its audited annual report and financial statements were not available in time for the review. The Group is continuing its discussions with its owners to encourage compliance.

It is Pizza Express's second year in the population as a stand-alone entity (it was previously part of the Gondala Group). Like the previous year, its reporting year-end does not fall within the scope of this year's report due to an extended period of accounting and so will be reviewed next year.

Additionally, the review of Young's Seafood (backed by Lion Capital), previously named the Findus Group, has been postponed by a year. This is due to a significant disposal following its year-end, resulting in a material change in its operations. Young's Seafood's financial statements do not reflect the current situation of the company, nor do they present a meaningful comparison to future years and therefore they will be reviewed next year.

21 portfolio companies were selected for review this year, representing around a third of the total population – this is consistent with the approach the Group has taken in previous years. This sample selected included 11 companies reviewed previously and 10 reviewed for the first time.

Portfolio companies have differing year-ends and the Group reviewed financial statements with years ending on or after 1 May 2015 and up to and including 30 April 2016.

Details of the private equity firms and portfolio companies that fall within the scope of the Guidelines are set out in Appendices 1 and 2.

3.4 Disclosure by a portfolio company – detailed findings

The benchmark to assess compliance

The basic requirements are set out in the next section along with what is required to achieve good practice, comparable to the standard seen in the FTSE 350. The Group has continued to raise the required standard of overall disclosure to achieve compliance with the Guidelines as it benchmarks compliance against listed companies, with an emphasis on the better performers in this group. An excellent or "best in class" 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.

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 Code which 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 Group 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 proxy.

The quality of disclosure

The table below sets out how the sample of portfolio companies reviewed performed against the individual requirements assessed for compliance and whether the quality of disclosure provided was excellent (or "best in class"), good, basic (i.e. the minimum level expected) or non-compliant.

	Quality of disclosures 2016				Quality of disclosures 2015			
Criteria reviewed	**Excellent**	**Good**	**Basic**	**Non-compliant** - Note 1	**Excellent**	**Good**	**Basic** - Note 2	**Outside of scope** - Note 3
Identity of the private equity firm	10%	52%	38%		0%	70%	30%	
Details on board composition	24%	43%	19%	14%	10%	55%	35%	
Financial review:								
- *Financial position*	10%	52%	33%	5%	15%	70%	15%	
- *Financial risks*	19%	52%	29%		10%	75%	15%	
Balanced and comprehensive analysis of development and performance during the year and position at the year-end	14%	53%	33%		15%	75%	10%	
Principal risks and uncertainties facing the company	29%	33%	38%		10%	70%	20%	
Key performance indicators (KPIs)								
- *Financial KPIs*	19%	29%	52%		10%	90%	0%	
- *Non-financial KPIs*	14%	33%	53%		15%	70%	15%	
Strategy	9%	48%	43%		10%	75%	15%	
Business model	9%	43%	43%	5%	0%	35%	50%	15%

	Quality of disclosures 2016				Quality of disclosures 2015			
Criteria reviewed	**Excellent**	**Good**	**Basic**	**Non-compliant** - Note 1	**Excellent**	**Good**	**Basic** - Note 2	**Outside of scope** - Note 3
Trends and factors affecting future development, performance or position	14%	29%	48%	9%	10%	80%	10%	
Environmental factors	19%	48%	24%	9%	10%	80%	10%	
Employees	14%	57%	29%		10%	70%	20%	
Social, community and **human rights issues**	5%	33%	48%	14%	10%	65%	25%	
Gender diversity	5%	33%	48%	14%	5%	25%	55%	15%
Statement of conformity included in annual report	48%				40%			

Note 1: This column indicates where companies have failed to comply. The exceptions to individual requirements are presented on a disaggregated basis by the Group as more than one company is named in the report as non-compliant.

Note 2: This column includes one company that failed to comply overall in 2015. The exceptions to individual requirements are not presented on a disaggregated basis by the Group unless more than one company is named in the report as non-compliant in that year of review.

Note 3: The new requirements under the revised Guidelines are highlighted in bold and in the prior year these were not applicable for companies with years ending before 30 September 2014. This in effect only applies to the requirements on the business model and gender diversity as the companies were expected to achieve compliance in other areas.

3.4.1 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.	To comply with this requirement, the identity of the private equity firm should be disclosed within the annual report together with the identity of the relevant senior executives of the firm. Attributes of **good practice** include: ■ Name of the fund as well as the name of the private equity firm; ■ Background on the private equity firm and explanation of its role; and ■ History of the ownership of the company, including that of previous equity owners.

This criterion continues to be well adhered to. As a simple factual disclosure, all portfolio companies provided disclosure to at least a basic level, with 52% of the sample reviewed achieving a good standard (2015: 70%).

Most portfolio companies provided a separate section covering ownership, although some included the disclosure as a part of the wider discussion on the directors. Weaker examples relied on reference to the private equity firm through the identity of the directors on the board and controlling party disclosure within the financial statements.

This year 10% of portfolio companies were excellent or had "best in class" disclosures (2015: 0%). The proportion of weaker disclosures continues to remain high at 38% (2015: 30%). Given that this is a requirement specific to the private equity industry, firms need to significantly improve the quality of disclosure in this area.

Details on 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.	The Companies Act requires the disclosure of the directors of the company; but this is not, by itself, sufficient to meet this requirement of the Guidelines. Additional disclosures are required to highlight which of the directors are also directors of, or had been appointed by, the private equity firm. Attributes of **good practice** include: ■ Additional explanations of the industry and other relevant experience that external directors bring to the company; and ■ Disclosure of other appointments.

This criterion continued to be met by the majority of portfolio companies in the current year to at least a good standard, with the proportion holding steady at 67% (2015: 65%). The proportion of basic disclosures remains high at 19% (2015: 35%), in addition to the three companies which did not comply with the criterion this year. This is also a requirement specific to the private equity industry, so firms need to improve their disclosures as they should be achieving at least a good level of compliance.

Most portfolio companies clearly articulated the experience of the board members, demonstrating why they are appropriate to be in that role, and so achieved a good compliance level against the Guidelines. Weaker examples only listed the directors for the period, which is simply the Companies Act requirement, and identified which directors represented the private equity firm.

Portfolio companies that demonstrated an excellent or "best in class" disclosure provided 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. This was over and above the Guideline requirements, and was achieved by an increasing number of portfolio companies in the current review, 24% compared to 10% in the prior year.

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.	The financial review should include an explanation of the year-end debt and capital structure of the company, its funding requirements and discussion of the overall risk management objectives and policies of the company in light of the principal financial risks and uncertainties facing the company, including those relating to the company's leverage. Attributes of **good practice** for disclosures on **financial position** include: ■ An analysis of the components of debt and the repayment schedule; ■ Discussion and quantification of the debt covenants in place; ■ A reconciliation of the year-end net debt position to the prior year (or to free cash flow); ■ Where non-GAAP measures (for example, net debt and free cash flow) are used to support the discussion in the financial review, these are appropriately reconciled to the numbers within the financial statements; and ■ Proforma information, where appropriate, to enable meaningful comparatives to be provided (for example where the portfolio company is a NewCo acquisition vehicle in its first years of reporting). Attributes of **good practice** for disclosures on **financial risks** include: ■ More detailed discussion in the financial statements of the overall risk management objectives and policies; ■ Discussion focused on the key financial risks identified, for example liquidity and cash flow, credit, interest rate, and how the risk management policies aim to address these risks; ■ Quantitative information is included to support the discussion on risks; and ■ Disclosure of the likelihood and impact of these risks and clear linkage to how they are managed and monitored.

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

This criterion has achieved a strong level of compliance across the years, however there has been a fall in companies presenting this disclosure to at least a good quality with 62% this year, compared to 85% in the prior year.

Given the variety of funding structures in place across the portfolio companies reviewed, there has been a range level of presentations to facilitate the readers' understanding of the financial position. The majority of companies have articulated a clear description of the year-end debt position, providing sufficient disclosure for the user to understand debt picture, what type of covenants might be in place and performance against these. This disclosure was often made as part of the financial performance review for the year.

This was particularly well covered by 10% of the sample reviewed, who included this as part of an extensive treasury risk section and achieved an excellent level of disclosure (2015: 15%). Portfolio companies only meeting the basic requirement more than doubled in 2016 to 33% from 15% in the prior year and this was generally due to a lack of clarity over the position, such as whether covenants were in place and if they had been met. It was disappointing to see one company also failed this criterion.

Financial risks

This criterion continues to be adhered to well with 71% of the sample reviewed presenting at least a good level of disclosure (2015: 85%).

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. Most of the portfolio companies achieved a good level of disclosure (2016: 52% and 2015: 75%), 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. This was particularly well covered by 19% of the sample reviewed (2015: 10%), resulting in excellent or "best in class" quality disclosure.

3.4.2 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.	In order to provide sufficient insight into a company's development and performance during the year and its position at the end of the year, this should be a fair reflection of the performance and provide appropriate context to the discussion such as the market environment in which the company operates. Attributes of **good practice** include: ■ Strategy used to structure the content of the discussion to provide a clear alignment of strategic priorities, development and performance; ■ Explanation of the performance in the wider market context; and ■ Discussion at an appropriate divisional level to demonstrate how different parts of the business are performing.

53% of the portfolio companies reviewed provided a good level of disclosure, a decrease from 75% in the prior year. We would expect to see all portfolio companies clearly articulate detail on the development and performance of the business in the year, as well as the year-end position. This discussion should be balanced and represent a fair reflection of the business. We have seen many examples of this, with varying degrees of success, with some portfolio companies able to say more succinctly and so provide a direct insight into operations in a distinctive and strategic way that is relevant. This was a similar finding to the FTSE 350 review (outlined earlier in this report), which identified that annual reports can say a lot in volume, lacking relevance to their operations and activity.

14% of the sample reviewed included "best in class" disclosure in their reports (2015: 15%), who all produced an excellent annual report focussing on the strategic aims and genuine performance of the business.

33% of companies achieved only a basic level of compliance (2015: 10%), as they did not provide greater insight into their operations and largely summarised the primary financial statements. Disclosures could have benefited from a clearer alignment with the business strategy, providing additional detail and explanation of the performance of the group in the different business areas.

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.	To comply with this requirement, the strategic report should contain an explicit identification of the principal risks and uncertainties facing the company. The definition of 'principal' may be unique to the business and the number identified will be dependent on a business size and complexity, however in order to be meaningful, long lists of boiler plate risks should be avoided. Attributes of good practice include: ■ Clear alignment between strategy and risks; ■ Explanation of how each risk is managed; and ■ Assessment of the risk profile – the likelihood versus the impact of each risk – and an explanation of how the profile has changed during the year.

This Guidelines criterion continues to be well applied across the majority of portfolio companies, with alignment between the risk and strategy, as well as mitigation covered. However, the proportion of companies which provided at least a good level of disclosure was lower this year at 62%, compared to 80% last year.

There was a mixed level of discussion on risks. This was a similar to the findings of the FTSE 350 review, which identified that annual reports often provide generic and static risk reporting. This was the case even within the same report with some companies performing very well on one or two specific risks which were truly key to the business, but with some boiler plate discussion on other risks. Where financial reports are used for bond holder reporting, they tend to include a very detailed level of analysis on risks, which assists in meeting this requirement.

Where companies performed well in this criteria, it was clear that risk management and mitigation was a key aspect of their business and this ensured they could articulate it, making them "best in class". The proportion of portfolio companies achieving this level of disclosure increased to 29% this year, from 10% last year.

Key performance indicators (KPIs)	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.	For ease of confirming compliance and effective communication we encourage companies to explicitly disclose their KPIs and not leave it up to the readers to deduce what management consider to be 'key'. **Good practice** reporting goes further than just identifying KPIs and also provides: ■ A clear alignment of KPIs to the company's strategic priorities and remuneration policies so that their relevance as a basis for management's assessment of strategic success is clear; ■ An explanation of why each KPI has been included – it should be clear why this would be considered key; ■ A definition of how they have been calculated; ■ Quantified trend data; and ■ Targets or milestones, whether qualitative or quantitative.

Financial KPIs

The quality of financial KPI disclosures has decreased dramatically, with only 48% of companies achieving at least a good level of disclosure compared to all companies last year. This has been caused by new entrants to the population in the current year providing only a basic level of compliance in this area.

The portfolio companies that have not achieved a good or excellent level of compliance simply stated the financial measure they have utilised, without linking this to the strategy, a track record of performance/ comparison to budget or further explanation to the measure. We note that in a number of cases, new entrants to the population are reporting on limited periods and at a newly consolidated level, so are not always able to provide narrative in relation to previous periods. Nevertheless, we have seen this addressed by pro-forma information in similar situations in the past.

Measures that generally appear in most reports are revenue, EBITDA and profit before tax, although more sophisticated financial measures are used in a number of reports to analyse the performance of the business in real detail. This has resulted in 19% of companies excellent or “best in class” compliance (2015: 10%).

Non-financial KPIs

Non-financial KPIs have generally been presented as well as the financial KPIs, although this is in line with the decrease in level of disclosure for financial KPIs. The proportion of disclosures with at least a good level has fallen from 85% in 2015 to 47%.

The wider picture seen in the FTSE350 (outlined in section 1.4.1.4 of this report) shows that non-financial KPIs are generally less well reported and are often generic measures such as employee headcount, without establishing the context for the measure, other than employees inherently being seen as a key resource to the business.

Where value is well delivered in annual reporting these non-financial KPI measures are linked to key strategic priorities, often linked to delivery of goods and services. They are presented with the financial KPIs and shown to have a similar level of importance and management focus. The level of companies producing excellent or “best in class” disclosures has remained steady in the current year at 14% (2015: 15%). These companies have generally been meeting other regulatory reporting requirements, such as within the utility industries. This is not always the case, and some portfolio companies have provided an insight into their business through the inclusion of key non-financial metrics.

3.4.3 Enhanced Business Review

Strategy	Expectations for compliance
The report, should clearly articulate how the business intends to achieve its objectives.	The strategy should underpin the reporting and provide a context for the activities and performance of the company. Strategic statements set in isolation from the rest of the company reporting can appear as hollow statements of intent. Attributes of **good practice** include: ■ Clear statement of the strategy and this is used to underpin the remainder of the report; and ■ A clear articulation of the company’s strategy will explain the strategic themes, targets, time frames and add further clarity to the reporting.

There was a decrease in performance across the Guideline criterion this year, only 48% of the sample provided a good level of disclosure, compared to 75% in 2015.

Where portfolio companies performed well, strategy was not isolated to one section of the reporting, but instead ran throughout the narrative. Linkage between strategies, risks and KPIs was an important part of ensuing a coherent document 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. The excellent or “best in class” examples representing 9% of the sample delivered this to a very high standard (2015: 10%).

Where strategy was less well represented, it tended to be presented as an isolated statement with a more generic feel; in many cases it lacked focus and an understanding of how this could be delivered. Where strategy is not used to underpin the narrative reporting, it can make some aspects of disclosure seem less relevant and unconnected as noted in the FTSE 350 review (see above). Of the sample reviewed, a significant 43% provided this level of basic disclosure (2015: 15%).

Business model	Expectations for compliance
The report must include a description of the business model.	The business model should as a minimum identify what the company does to create value and how they do it. Attributes of **good practice** include: ■ An explanation of how the business model builds on the strategy that is set out in the strategic report; ■ Gives reference to the key capabilities, resources and relationships the company uses to create and sustain value; and ■ Where businesses operate distinct business models with divisions, further disclosures may be required to provide meaningful information that aids understanding of how a company operates.

A description of business models was required by all companies. This has been generally been well adhered to with 52% of disclosures achieving at least a good level (2015: 35%). Note 15% of companies in 2015 were not required to disclose information on the business model as this only applied to portfolio companies with years ending on or after 30 September. Although companies have not always explicitly stated a specific business model section, it has generally been sufficiently described in the principal activity of the company part of the annual report.

This requirement continues to be met in a number of ways:

- some companies provide a diagram to illustrate the operational activity of the business;
- some provide a full narrative of their operations under the business model heading;
- some combine this with a strategy section; and
- some rely on the narrative of their operations in a wider context.

The most successful business models have articulated clearly and simply how the business generates value. This is often through a simple diagram, to show where the business sits in the wider market and how this creates value for the end user. Less developed discussions on the business model created a level of understanding that sufficiently allowed the reader to understand the segments of the business, but left the reader to extract for themselves how value was created.

9% of the sample were excellent or "best in class" business model disclosures (2015: 0%). The business model disclosures were across several pages, using it to drive the strategic discussion and also at a segment level within the businesses. The narrative in the strategic report also linked back to the business model throughout.

One company failed this criteria, as it disclosed its principal activity, but not what it did to create value and how it did this.

This Guidelines criterion has been in place for the second year and we have has seen a mixed performance from the portfolio companies. We would recommend that further advice is provided to all private equity firms and their portfolio companies portfolio companies to ensure compliance is met across the entire population.

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.	The report should have a high level, forward-looking orientation explaining the trends and factors likely to influence the business including market trends, future strategic priorities or investment in research and development. This can be throughout the annual report or in a specifically headed section. Attributes of **good practice** include: ■ Discussion of drivers shaping the future growth of markets in which a company operates; ■ Reference to the macro-economic, competitive or regulatory trends and factors shaping the business and identification of product pipeline and extended market size; and ■ Discussion of future trends and factors are supported by quantifiable evidence.

In line with previous reviews we found that forward looking statements were general in nature and mostly limited to the next 12-month period. Weaker performers included statements that were general enough that they could have been included in most annual reports, being statements about the general macro-environment, meeting only basic compliance. These demonstrated little insight or additional information that the user would not be able to determine themselves from a basic understanding of business. The number of companies reporting at only a basic level of compliance has increased substantially to 48% (2015: 10%). 9% of companies failed this requirement.

The 29% of companies, down from 80% in 2015, that achieved a good level of compliance provided some degree of strategic priority or analysis specific to the portfolio company and/or market in which it operates.

The "best in class" examples covered the good practice requirements outlined above and went further in their discussions, covering a period beyond 12 months in terms of their plans in line with wider market considerations. These companies provided detailed summaries of the challenges facing their industries, metrics from external sources to further support the risk and opportunities in their chosen market. Additionally, they included future plans for the company and how this tied to their business model. 14% of companies were "best in class" or excellent (2015: 10%)

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.	Basic compliance includes a discussion of the environmental matters affecting the business, the policies in place to address them, and the impact of these policies. The type of disclosure required is, naturally, dependent on the nature of the business. Attributes of **good practice** includes: ■ Discussion of the specific actions taken to address the environmental matters identified, supported by quantifiable evidence and specific targets where applicable; ■ Clear explanation, and alignment, of the specific environmental matters and strategy; and ■ Extracts from a company's Corporate and Social Responsibility Report often provide the most relevant disclosure; this can be cross-referenced to avoid duplication.

Compliance with this criterion has fallen in 2016. 67% of the portfolio companies reviewed provided disclosures to at least a good standard, compared to 90% last year, although 2015 was a particularly strong year for compliance with this criterion. Disappointingly 9% of companies failed this requirement.

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.

The 19% of companies that complied to an excellent or "best in class" level (2015: 10%) tend to have other regulatory factors impacting their level of reporting and it is a significant focus of their operations.

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.	The Companies Act requires, for all companies with greater than 250 employees, the disclosure of the company's policy in respect of the employment of disabled persons, of the health, safety and welfare at work of employees and of the involvement of employees in the management of the company. To comply with the Guidelines, to the extent that employees are considered a critical resource of the business, disclosures should also include a discussion of the management and development of employees, including recruitment, training and development practices. Attributes of **good practice** include: ■ Alignment of strategy and employee policies and actions; ■ Detailed discussion of employee policies including benefits, share schemes and performance bonuses and explanations of how these link to performance and development; ■ Policies around recruitment, training and development; ■ Quantifiable evidence of performance; and ■ Disclosure of targets, qualitative or quantitative, and discussion of performance against targets.

As a key resource for nearly all businesses, it is evident that portfolio companies are able to articulate the importance of their employees and generally deliver a good level of compliance with the Guidelines in this area. In 2016, 71% of the sample provided a disclosure to at least a good level, compared to 80% last year.

The proportion of companies providing excellent or "best in class" disclosure increased slightly to 14% from 10%. Those that were considered to be "best in class" included metrics which demonstrated how the portfolio company measured performance in managing their employees.

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.	Basic Compliance includes a section of the annual report describing, at a high level, the social, community and human rights issues affecting the business and the company's policies to address them. A compliance led statement is a minimum, identifying what the company does in these areas and confirming, if appropriate, that human rights is not a material issue for the company. Attributes of **good practice** include: ■ Alignment of social, community and human rights issues to strategy; ■ Explanation of the actions taken to address the specific social, community and human rights issues for example, local recruitment, investment in education and overseas employment policies; ■ Supply chain management monitoring to ensure social policies are consistent throughout, for example use of labour and the wider impact on society in overseas locations; and ■ The discussion is supported by quantifiable evidence.

This criterion was well responded to in most cases for the general social and community aspects of the disclosure, but we continued to see poor compliance with the human rights commentary. Over half of the portfolio companies reviewed missed this specific aspect on initial review. The high number of failures (14%) to comply relate to the explicit exclusion of any reference to human rights. Only 38% of companies provided at least a good level of disclosure, down from 75% in in 2015.

There was a diverse level of disclosure, with some companies favouring a case study style approach to this requirement and other presenting a summary of activities. This can make it challenging to compare, but each portfolio company is considered in relation to what they should be reporting on, based on the nature of their operations.

Where portfolio companies focused on a response that was specific to their business this resulted in a good level of compliance. However, good level of compliance has fallen to 33% this year (2015: 65%). A number of portfolio companies focus on the charitable aspects they sponsor as part of a companywide drive, providing details on performance in these areas. Others consider the impact of their operations in a wider role through the community, particularly where they deliver goods and services that directly impact the community such as healthcare and housing.

The requirement to consider human rights, where eventually addressed, tended to stay within the scope of a compliance led statement, confirming it was not considered material to the group. Where companies tended to expand on this they either considered their workforce or provided a general comment about their supply chain.

The "best in class" examples remains low at 5% (2015: 10%). They included extensive discussion considering all aspects of the business. The examples that did not meet the good practice criteria tended to be generic in their discussion with no real substance.

<table>
<tr><th>Gender diversity</th><th>Expectations for compliance</th></tr>
<tr><td>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.</td><td>Basic Compliance includes a section of the annual report describing, at a high level, the gender diversity under the three required headings.
Attributes of good practice include:
■ Clear overview of diversity statistics identifying the split at the three levels described;
■ Policies and actions to promote diversity and actions taken to avoid discrimination;
■ Detail about the relevance to the business of diversity and how this links in with the strategy; and
■ Explicit detail about the definition of a senior manager to the business.</td></tr>
</table>

Although this criterion is an update to the Guidelines, it was expected there would be an improvement in the level of compliance compared to the previous year. There continued to be some challenges in all portfolio companies meeting this requirement, both those new to Guidelines and portfolio companies previously reviewed. However, it was disappointing that nearly half the population failed to attempt the disclosure in their annual report, in line with last year's performance. Where companies had failed to provide the disclosure in their annual report this has been discussed with the private equity firm and portfolio company. An additional disclosure has been added to the website for the impacted portfolio companies in the current year. Disappointingly 14% of companies failed to comply with this requirement.

It is noted from our discussions with portfolio companies that the gender diversity disclosures were omitted in some instances as the preparers were not aware of the requirement. Where the disclosure has been omitted, we note that there has not been any significant push back in obtaining the required information although management have confirmed this may take some time internally to generate as it is not routinely reviewed.

At least good level of disclosures remained steady at just 38% (2015: 30%). Note 15% of companies in 2015 were not required to disclose information on the business model as this only applied to portfolio companies with years ending on or after 30 September. Those that achieved a good level of disclosure clearly stated the headcount split by gender across the three headings and provided at least some narrative on diversity.

Only 5% of the sample reviewed was awarded "best in class" (2015: 5%). They went above the Guidelines requirement, considering diversity on a gender, age and ethnicity split and discussing this further in the narrative, as to how diversity is a priority for the group.

<table>
<tr><th>Statement of compliance</th><th>Expectations for compliance</th></tr>
<tr><td>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.</td><td>A statement of compliance with the updated Guidelines should be presented in the annual report to demonstrate the updated Guidelines have been addressed. This does not need to be substantial and can be presented wherever seems most relevant.
A suggestion for this statement would be 'The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.'
Where the annual report does not fully comply with the updated Guidelines this should be referenced.</td></tr>
</table>

In line with the prior year, only 48% companies reviewed included a specific statement of compliance with the Guidelines in the annual report and financial statements (2015: 40%). This statement became a requirement in the previous year under the revised Guidelines.

Such a statement would be in line with the requirement for certain statements in the UK Corporate Governance Code for listed companies, such as the requirement to confirm the financial statements are "fair, balanced and understandable". The Group has seen this contribute to higher standards of disclosure by FTSE 350 companies this year and expects this will continue. To ensure compliance levels remain high and follow this progression in future years, portfolio companies will need to prepare in advance and review the format and content of the annual report as a whole, rather than just the new requirements.

The Group 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. The Group expects all portfolio companies to disclose a statement of compliance in next year.

3.5 Publication requirements

The Guidelines require the portfolio company's 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. This year the Group monitored compliance with this requirement across the total population.

A significant 20% of companies had not published their audited report and accounts on their website at the time of the report. A substantially greater proportion of companies have not been publishing their accounts within six months of their year-end. Although private UK companies are required to submit their accounts within 9 months of year-end to Companies House, the six-month requirement for portfolio companies is in line with the listed company requirement for the FTSE 350 benchmark. This has been a requirement since the inception of the Guidelines. The Group have agreed that companies not publishing their audited reports and accounts on their website within six months of their year-end will be named as non-compliant with this requirement next year.

There are a few instances of companies producing the disclosures per the Guidelines in an annual review and publishing this on the company website, instead of the annual audited annual report and accounts. Annual reviews are generally non-audited narrative reports, which may contain high level financial statements. The Group agree that an annual review is not an acceptable alternative to an audited annual report and accounts. As discussed above, the disclosure requirements by portfolio companies per the Guidelines are reviewed with consideration to the requirements being "fair, balanced and understandable", including linkage of the narrative reporting with the financial statements. An annual review does not allow clear and concise linkage to the financial statements. Additionally, a full set of accounts, which have been audited, are key to promoting the company as transparent. Next year companies, which only publish an annual review on its website, will be named as non-compliant.

The audited annual report and accounts of a few companies can only be obtained behind an investor log-in page. It is understandable to restrict certain information to certain stakeholders, such as bondholder reporting, but the annual report should be easily available to all users in the name of transparency. The Group would like to reiterate that the audited annual report and accounts should be readily accessible to all stakeholders. The Group will monitor this closely next year.

The Guidelines also require a summary mid-year update giving a brief account of major developments in the company to be placed on the website no more than 3 months after mid-year. More than half of Walker companies have not published a mid-year update for 2015-16. This has also been a requirement since the inception of the Guidelines. It is not a particularly onerous task, requiring a brief narrative update and does not require interim financial statements. Companies which do not publish a summary mid-year update on their website within 3 months after mid-year will be named as non-compliant next year.

3.6 Review of disclosure 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 itself, 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. There is no further detail in the Guidelines on the quantity of disclosure expected and the Group is monitoring how best to measure compliance against this criteria in the future.

This is the fourth year the Group 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. Many firms signed such a statement when the Guidelines were first launched and the Group mandated this as an annual commitment in 2013.

All members of the BVCA have met the requirements. This was not always the case for non-BVCA member firms covered by the Guidelines. However, in practice it is difficult to compel non-members to provide this information even though the Group 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 in the US now also listed on the NYSE, 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 which firms are less likely to 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 which 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.

There are firms which display their commitment to the Guidelines in what might be considered to be 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 & conditions and the sitemap.

Another point to consider when analysing firms' websites is their size; having a large website can make it more difficult to find 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. All BVCA members signed the statement, which is an annual requirement.

Disappointingly, even with the statement signed, in some instances it was clear that those in the private equity firms responsible for ensuring compliance were not always aware of the exact nature of the Guidelines. Similarly, the requirements of the Guidelines were not often not passed down to the portfolio companies by the private equity owners.

The Group recommends that a greater effort should be made by private equity firms to educate those responsible for compliance with the Guidelines, both within the firm and within the portfolio companies owned, where relevant.

3.7 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.
- The Group 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.

3.7.1 Performance of portfolio companies

The annual review of the performance of portfolio companies, undertaken by EY at the request of the BVCA and the Group, is being 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 by private equity investors, in order to assess the effect of private equity ownership on key questions of stakeholder interest.

Key findings form the report include:

- The average timeframe of private equity investment in the portfolio companies is 5.8 years i.e. from initial acquisition to exit. The current portfolio companies have been owned for an average of 4.4 years.
- Reported employment has grown under private equity ownership by 2.7% per annum and underlying organic employment growth has grown by 1.5% per annum. This is slightly ahead of UK private sector benchmarks of 2.5% (reported) and 1.4% (organic) growth.
- Average employment cost per head has grown under private equity ownership by 2.1% per annum and this is slightly behind the UK private sector benchmark at 2.4% annual growth.
- Investment at the portfolio companies has grown by 1.6% to 7.6% per annum across a number of measures.
- Labour and capital productivity have grown under private equity ownership, by 2.0%-2.4% and 6.3% per annum respectively. This is on a par with public company and economy-wide benchmarks.
- The portfolio companies have grown reported revenue at 5.8% and profit 4.6% per annum respectively. This is ahead of public company benchmarks by 3.1 and 2.1% per annum respectively.
- The current portfolio companies have an average leverage ratio of 6.8x net debt to EBITDA, up from 6.2x at the time of acquisition. This is much greater than public companies.

- The equity return from portfolio company exits are 4.3x public company benchmark; half of this is due to private equity strategic and operational improvement, and the other half from additional financial leverage.

The report will be available on the BVCA website at www.bvca.co.uk/Research.

The majority of companies provided the information requested (88%), however this was only the second year where compliance was below 90%. Due to significant transactional restructuring in its first year under private equity ownership, Parkdean Holidays (owned by Alchmey Partners and Electra Partners) has been unable to provide data this year, however compliance next year is expected. HC-One (Safanad Formation Capital and management), Northgate Information Solutions (KKR) and Viridian Group (Arcapita) provided explanations for not providing data and compliance is expected next year.

Additionally, there were a number of companies not owned by BVCA members, which did not comply: Advanced Computer Systems (Vista Equity Partners), Camelot (Ontario Teachers' Pension Plan) and Village Urban Resorts (KSL Capital). The Group is in dialogue with the owners of these companies to encourage compliance next year.

3.7.2 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 Group and the BVCA are continuing to hold discussions with other potential private equity or "private equity-like" firms, including sovereign wealth funds, with the purpose of enlisting their voluntary conformity with the Guidelines. A number of infrastructure fund managers (Borealis, Global Infrastructure Partners, Infracapital and Macquarie) and pension funds (OMERS and USS) are complying with the Guidelines and have engaged with the BVCA throughout this process. Värde Partners and Goldman Sachs are firms operating in the credit opportunities space and have also complied with the requirements for portfolio companies this year.

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

3.7.3 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 during 2015, being the year 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 Private Equity Reporting Group'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	KKR
Advent International	KSL Capital[1]
Alchemy Partners[2,#]	Lion Capital
Apax Partners	Macquarie Infrastructure and Real Assets[#]
Apollo Global Management	Morgan Stanley Infrastructure[3,#]
Arcapita[1]	Oaktree Capital Management[1,#]
Bain Capital	OMERS Private Equity[#]
Bain Capital Credit[3,#]	Ontario Teachers' Private Capital[1,#]
Borealis[3,#]	PAI Partners
Bridgepoint	Partners Group
Cinven	Providence Equity
Clayton Dubiler & Rice	Safanad[1]
CVC Capital Partners	TDR Capital
Electra Partners[2]	Terra Firma
Formation Capital[1]	The Carlyle Group
Global Infrastructure Partners[#]	TPG Capital
Goldman Sachs[1,#]	USS[2,#]
GTCR[1]	Värde Partners[1,#]
Hony Capital[1]	Vista Equity Partners[1,2]
Infracapital[3,#]	

The second table sets out other investors in the portfolio companies covered by this report. The Guidelines' requirements set out in section 7 of appendix 3 have not been reviewed by the Group for these firms as it is considered that the Guidelines do not apply to them.

Abu Dhabi Investment Authority[#]	Hermes Infrastructure[1,2,#]
Angelo Gordon & Co[1,#]	Highbridge Capital Management[1,#]
Avenue Capital Group[1,#]	Highstar Capital[1,#]
Babson Capital[1]	IFM Investors[1]
CalPERS[1,#]	Kuwait Investment Authority[2,#]
Canadian Pension Plan Investment Board[#]	Marathon Capital[1,#]
Cerberus Capital Management[1]	National Pension Service of Korea[1,#]
Colonial First State Global Asset Management[1,#]	Palamon Capital Partners
Duke Street	Park Square Capital[1,#]
Exponent Private Equity	Sun Capital[1]
Fresh Direct[1,#]	Tikehau[1,#]
Future Fund[1,#]	WPP[1,2,#]
GIC[#]	York Capital Management[1,#]
GoldenTree Asset Management[1,#]	

[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

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 are not required to comply with parts of the Guidelines for the reasons set out in Appendix 1.

Required portfolio companies

Portfolio company	Owners during 2015
Advanced Computer Systems[2]	Vista Equity Partners
Affinity Water[1]	Infracapital
Airwave Solutions	Macquarie Infrastructure and Real Assets
Ambassador Theatre Group	Providence Equity Partners, (Exponent Private Equity)
Annington Homes	Terra Firma
Anglian Water Group[1]	3i, (Colonial First State Global Asset Management, Canadian Pension Plan Investment Board, Industry Funds Management)
Ascential (previously Top Right Group)	Apax
Associated British Ports	Borealis, (GIC, Canada Pension Plan Investment Board, Hermes Infrastructure, Kuwait Investment Authority)
Biffa[1]	Bain Capital Credit, (Babson Capital, Angelo Gordon & Co, Avenue Capital)
Brakes Group	Bain Capital, (Fresh Direct)
Callcredit Information Group	GTCR
Camelot	Ontario Teachers' Private Capital
Care UK	Bridgepoint
Chime Communications[1,2]	Providence Equity Partners, (WPP)
Civica	OMERS PE
David Lloyd Leisure	TDR Capital
Domestic and General Group	CVC Capital Partners
Edinburgh Airport[1]	Global Infrastructure Partners
Enserve	Cinven
Expro[1]	Goldman Sachs

Fat Face	Bridgepoint
Fitness First	Oaktree Capital Management, (Marathon Capital)
Four Seasons Health Care[1]	Terra Firma
Gala Coral	Apollo Global Management, (Cerberus, Park Square Capital, York Capital Management)
Gatwick Airport	Global Infrastructure Partners, (Abu Dhabi Investment Authority, CalPERS, National Pension Scheme of Korea, Future Fund)
HC-One	Safanad, Formation Capital & management
Host Europe Group	Cinven
Infinis[1,2]	Terra Firma
Keepmoat	TDR Capital, (Sun Capital)
London City Airport	Global Infrastructure Partners, (Highstar Capital)
Moto[1]	USS
Motor Fuel Group[1,2]	Clayton Dubiler & Rice
Mydentist (previously Integrated Dental Holdings)	The Carlyle Group, (Palamon Capital Partners)
National Car Parks[1]	Macquarie Infrastructure and Real Assets
New Day	Värde Partners
Northgate Information Solutions	KKR
Northgate Public Services	Cinven
Odeon & UCI Cinemas	Terra Firma
PA Consulting Group[1,2]	The Carlyle Group
Parkdean Holidays[2]	Alchemy Partners, Electra Partners
Pizza Express	Hony Capital
Pret a Manger	Bridgepoint
Prezzo[1,2]	TPG Capital
Premium Credit[1,2]	Cinven
Priory Group	Advent International
RAC	The Carlyle Group, (GIC)
R&R Ice Cream	PAI Partners
Sky Bet[1,2]	CVC Capital Partners
South Staffordshire Water[1]	KKR
Stonegate Pub Company	TDR Capital
TES Global (previously TSL Education)	TPG Capital
Thames Water	Macquarie Infrastructure and Real Assets
The Vita Group	TPG
Trainline[2]	KKR
Travelodge	Goldman Sachs (GoldrenTree Asset Management, Avenue Capital Group)
Village Urban Resorts[1]	KSL Capital
Viridian Group	Arcapita
Voyage Healthcare[1]	Partners Group, (Duke Street, Tikehau)

Vue Cinemas	OMERS PE
Young's Seafood (previously Findus Group)	Lion Capital, (Highbridge Capital Management, Bain Capital Credit)

Voluntary portfolio companies

Portfolio company	Owners during 2015
AWAS	Terra Firma
Consolidated Pastoral Company	Terra Firma
Garden Centre Group	Terra Firma

[1] Accounts reviewed this year

[2] Addition this year

A3

APPENDIX 3: GUIDELINES FOR ENHANCED DISCLOSURE BY PORTFOLIO COMPANIES AND PRIVATE EQUITY FIRMS

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).

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.

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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, typically the FTSE 250. The Group's definitions for measuring compliance is included below.

Quality of disclosure	Explanation of how assessment is reached
Excellent or "best in class"	A company assessed as "best in class" would benchmark well against the standards set by the winners and highly commended companies in the "Excellence in reporting in the FTSE 250" 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 2015 Building Public Trust award for "Excellence in reporting" in the FTSE 250 was Provident Financial Group (for its 2014 annual report).
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 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.

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.

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