DECEMBER 2017

Private Equity Reporting Group

Tenth Report

PERG PRIVATE EQUITY REPORTING GROUP

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

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EXECUTIVE SUMMARY

This is the Tenth annual report of the Private Equity Reporting Group (the "PERG") 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 PERG 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 2017 review

Tenth anniversary of the Guidelines

Over the past ten years, the PERG has encouraged higher standards of disclosure in portfolio company reporting and updated the Guidelines periodically to ensure they remain relevant. This has caused a larger number of companies within the scope of the Guidelines to aspire to the standard of reporting seen amongst the better performers in the FTSE 350, which is the benchmark for compliance.

Compliance with the disclosure requirements in the Guidelines

Each year, a sample of approximately one third of all portfolio companies that fall within the scope of the Guidelines is reviewed for compliance with the disclosure requirements. In 2017, compliance by portfolio companies with the disclosure requirements fell to 79% (2016: 86%). Private equity firms and their portfolio companies have been slow to embed the 2014 revisions to the Guidelines and have not kept up with the improving quality of reporting by the FTSE 350.

Based on our detailed review of the sample and our knowledge of the full population, six portfolio companies have not complied with the Guidelines in full this year: Advanced, Village Hotels, Camelot, MRH, London City Airport, and NGA Human Resources. This is highly disappointing and needs improvement. The PERG is continuing to work with their owners towards compliance in future years.

The PERG acknowledges that within the sample reviewed, all BVCA members and their portfolio companies are compliant with the Guidelines or have provided appropriate explanations. Non-compliance is unfortunately driven by non-BVCA members, although the PERG recognises the strong efforts by some non-BVCA members and their portfolio companies to comply with the Guidelines.

Quality of disclosures by portfolio companies

Overall, only 63% of the sample reviewed in the current year achieved an overall good or excellent/"best in class" rating (2016: 57%). Excluding non-compliant companies, the level of good quality disclosures compared to basic disclosures is actually higher this year at 80% of the sample compared to 67% in 2016. This reflects the efforts by those companies that do strive to comply with the Guidelines and improve on their disclosures.

Pleasingly, HC-One and Viridian, which had remained non-compliant at the end of the review process last year, were re-reviewed in the current year and are both now compliant with the Guidelines with some of the highest quality disclosures reviewed this year.

This is the third 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 requires the disclosure of each portfolio company's business model, detail on gender diversity and its response to human rights issues, and additionally a specific statement of compliance with the Guidelines in the annual report.

Only 53% of companies sampled have included a specific statement of compliance with the Guidelines in the annual report and financial statements. This is disappointing and the PERG expects portfolio companies and their private equity owners to address this going forward.

Portfolio companies required to comply with the Guidelines

The Guidelines apply to the largest private equity-backed companies with a significant presence in the UK.

The number of portfolio companies required to comply with the Guidelines has decreased from 60 companies in 2016 to 52 this year, a result of 13 exits and five new transactions.

Private equity firms within scope of the Guidelines

Private equity firms managing or advising funds that own portfolio companies in scope of the Guidelines are responsible for ensuring compliance with the Guidelines by those portfolio companies. This includes private equity-like firms i.e. 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, including infrastructure funds, sovereign wealth funds, pension funds and credit/debt funds.

The number of private equity firms managing or advising funds that owned the portfolio companies within scope decreased by 15 from 74 to 59 this year. This includes 37 firms that conduct their operations in a 'private equity-like' manner, such as infrastructure, credit and pension funds, which outnumber private equity firms by 15.

Areas where portfolio companies have enhanced their disclosures and areas that require improvement

In the current year and based on the sample reviewed, good quality disclosures have been produced by portfolio companies in relation to their financial and non-financial KPIs; strategy; financial risks; and analysis of development and performance during the year and position at year-end.

Areas where the standards of disclosure require improvement by portfolio companies include human rights; gender diversity; employee matters; identity of the private equity firm; and trends and factors affecting future developments, performance or position.

Compliance with the publication requirements of the Guidelines

78% of portfolio companies have published an annual report in a timely manner on their website. This rises to 93%, where companies uploaded their annual report after the initial deadline. 72% have published a mid-year update on their websites in a timely manner. This is the first year the PERG has publicly named companies that have not met these requirements and will continue to do so in future reports.

Quality of compliance by private equity owners in relation to their disclosure requirements

The PERG 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 have met these requirements.

1.1 The Walker Guidelines – 10 years on

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.

This is the tenth report by the PERG on the compliance of portfolio companies and their private equity owners against the Guidelines. The objective of the Guidelines is simple - to allow stakeholders to understand how private equity-backed portfolio companies operate and their strategy, and to substantiate the contribution of private equity to the UK economy in terms of jobs growth and investment.

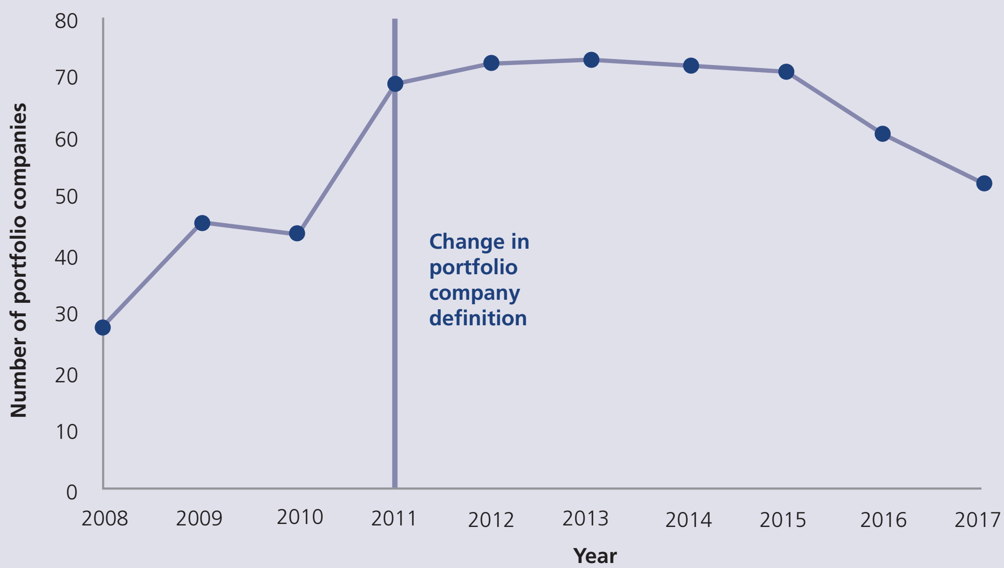
Since its inception, the PERG has strived to ensure the Guidelines remain relevant as the private equity industry has continued to evolve. To this effect, the Guidelines, those required to comply with them, expectations and the benchmark for quality have evolved in a number of ways over the past ten years.

The role of the group and its membership

The effectiveness of the Walker Guidelines lies in the fact that compliance by portfolio companies and their private equity-owners is regularly monitored by an independent group. Unlike other self-regulatory regimes, the private equity firms involved with this process are held to account as the PERG publishes an annual public report that comments on compliance with all aspects of the requirements and publically names non-compliant firms and their portfolio companies. It also regularly reviews the scope of the Guidelines to ensure they remain relevant.

The PERG consists of three independent members and two industry representatives. In addition to the current members of the Group, the efforts of former members Sir Mike Rake, the former Chair of the PERG, Alan Thompson (both independent members), Robert Easton, David Blitzer and Gerry Murphy (industry representatives) are highly valued. The contribution by members of the PERG, both current and former, ensures that the work of the private equity industry in working towards increased transparency and improved disclosure remains credible for the benefit of all stakeholders.

Portfolio company population

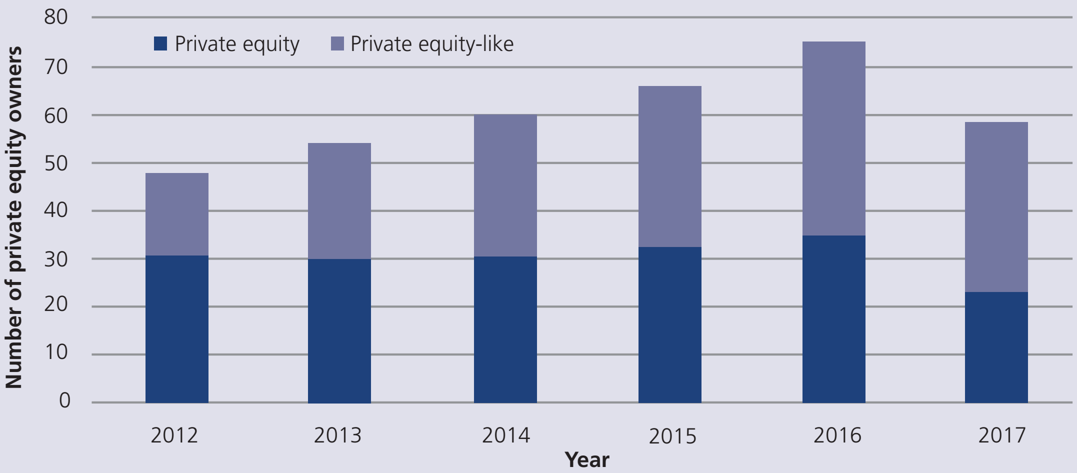


The number of portfolio companies in scope of the Guidelines has increased substantially over the past 10 years. In the first report, the number of portfolio companies was only 27. In the second year, the PERG changed the definition of a portfolio company from needing to meet both a UK employment and a UK revenue test, to just needing to meet one of the UK tests, which increased the portfolio company population.

The enterprise value threshold of the portfolio company at the time of transaction was reduced by the PERG for the 2011 report, which increased the number of portfolio companies in scope of the Guidelines. This led to a peak portfolio company population in 2013 of 73 companies. Since then, the portfolio company population has decreased in size, reflecting the increasing number of exits by private equity owners in recent years and fewer investments into UK-centric large businesses in 2016.

Private equity firms are able to volunteer portfolio companies that are not in scope of the Guidelines to comply as well. The number of portfolio companies volunteered has fallen over the 10 years, with 27 companies volunteered in the first year, while this year there were only two companies volunteered. The numbers have decreased partially as result of former voluntary companies being required to participate in later years as the thresholds for mandatory compliance fell. Of the 27 companies volunteered in the first year, 15 were required to comply in future years, predominantly due to the change in the definition of a portfolio company in 2009. The PERG continues to monitor whether the thresholds for bringing portfolio companies into scope remains appropriate.

Private equity population



The number of private equity owners within scope of the Guidelines has increased over the last 10 years, this year being an exception to the trend. The number of traditional private equity owners has generally remained static, approximately 30 each year. However, the number of private equity-like owners, including minority shareholders, has increased significantly from 17 in 2010 when the PERG began to accurately monitor numbers to outnumbering traditional private equity owners in recent years.

The increase in the number of private equity-like owners within scope of the Guidelines is due to two reasons. Firstly, former investors into private equity funds, such as pension funds, are now directly investing into underlying portfolio companies. Secondly, there has been an increase in the number of infrastructure and credit funds that behave in a private equity-like manner, which invest in this space.

The number of non-BVCA members within scope of the Guidelines has increased over the 10 years, partly as a result of the increasing number of private equity-like owners. While many non-BVCA members appreciate the value of the Guidelines and do ensure their portfolio companies are compliant, there are a number that do not. This has been the key driver of falling compliance in recent years as the BVCA requires compliance with the Guidelines as a condition of BVCA membership (noting that there may be years where portfolio companies are unable to comply, but in these instances, compliance is usually achieved in subsequent years). The PERG has worked hard to engage with non-compliant owners and will continue to do so going forward.

Evolution of the Guidelines

In addition to reporting on the level and quality of compliance by portfolio companies and their private equity owners, the PERG also regularly reviews the Guidelines to ensure they remain fit for purpose:

- The definition of private equity firms per the Guidelines was amended in 2015 to reflect the increasing ownership by private equity-like firms.
- The definition for portfolio companies has been amended on two occasions (2009 and 2010) to ensure private equity-backed companies with a significant UK interest are captured by these Guidelines.
- In 2014, the Guidelines were revised to implement the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. This changed the narrative reporting obligations for all companies in the UK and included further requirements for quoted companies that were adopted by the PERG. 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 PERG also introduced the requirement for portfolio companies to confirm compliance with the Guidelines in their annual reports.
- In 2018, the PERG plans to review the implications of the transposition of the EU Non-Financial Reporting Directive into the Companies Act 2006.

Driving improving standards in reporting

The PERG has continued to raise the required standard of overall disclosure to achieve compliance with the Guidelines as 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. The PERG seeks to encourage companies to aspire to this standard and not just simply meet the minimum level of disclosure.

The level of disclosure and transparency has improved in the broader private equity industry since 2007. Nearly all private equity firms now have a website that discloses their strategy, the portfolio companies they have invested in, and their senior team, regardless of whether the firm is in scope of the Guidelines. Similarly, the detail and quality of disclosures by large private equity-backed companies has improved in the past decade. The improvement in corporate reporting in the FTSE 350 has driven better reporting by portfolio companies in scope of the Guidelines as feedback is provided each year by the PERG on how companies can improve. In recent years, portfolio companies have struggled on human rights and gender diversity disclosures, which were introduced when the Guidelines were revised in 2014. Additionally, the quality of disclosures on the Guideline-specific areas has been disappointing, particularly on details on the identity of the private equity owners and board composition.

The PERG does not shy away from naming portfolio companies and their owners that have not complied with the Guidelines in this public report. Over the years, high-profile companies and firms have been named as non-compliant even if just one aspect of the disclosure requirements fell short of expected standards. We welcome the continued engagement by the BVCA's members to improve on our results from prior years, however more effort is required by other non-BVCA member firms.

Ten years on, the Walker Guidelines are more relevant than ever. With the increasing scrutiny on the behaviour of large private businesses, the Guidelines and the work of the PERG remains critical to demonstrate how private equity can be responsible owners and stewards of the UK's largest companies, as well as to showcase the asset class's contribution to the UK economy. The PERG 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 PERG are:

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

Following a significant contribution to the PERG since 2011, Gerry Murphy (Blackstone) stepped down as industry representative this year. Tony Lissaman joined the PERG in April 2017. Tony Lissaman is Chief Operating Officer, Private Equity at 3i.

Meetings of the PERG are attended by Tim Hames, BVCA Director General and Gurpreet Manku, BVCA Assistant Director General and Director of Policy, as well as PwC and EY (both advisers to the PERG) 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 decreased by 15 to 59 this year, reflecting the falling number of portfolio companies in scope 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 includes 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
(note this includes a number of known minority shareholders)

	2016 report[1]	2017 report	Change
Private equity firm	34	22	-12
Private equity-like firm	40	37	-3
Total	**74**	**59**	**-15**

The PERG continues to believe that 'private equity-like' entities with investments in significant UK businesses should comply with the Guidelines. The PERG will continue to encourage and work with these entities. For example, Borealis Infrastructure, Global Infrastructure Partners, Goldman Sachs, Infracapital, Macquarie Infrastructure and Real Assets, and OMERS Private Equity have engaged with the BVCA and the PERG.

[1] *Adjusted to include existing minority shareholders*

1.3.2 Portfolio companies

A total of 54 portfolio companies were covered by the Guidelines this year (2016: 63). Of this number, 52 were included as required companies (2016: 60) 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

	2016 report	2017 report	Change
Required	60	52	-8
Voluntary	3	2	-1
Total	**63**	**54**	**-9**

1.4 Review of compliance with the Guidelines

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

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

It is important to highlight that the Guidelines operate on a 'comply or explain' basis so firms do have an opportunity to explain why they have not complied with the Guidelines.

A number of companies have provided explanations to the PERG for non-compliance in relation to various aspects of the Guidelines. Within the sample reviewed for compliance with the disclosure requirements, one portfolio company has explained why it has been unable to comply with an aspect of the disclosure requirements in its annual report.

The PERG acknowledges that all BVCA members in scope of the Guidelines and their portfolio companies are compliant with the Guidelines or have provided appropriate explanations. Although the Guidelines constitute a voluntary regime, non-BVCA members unfortunately drive non-compliance, but the PERG does recognise the strong efforts by some non-BVCA members and their portfolio companies to comply with the Guidelines.

Advanced (owned by Vista Equity Partners) and Village Hotels (owned by KSL Capital) both remain non-compliant with the Guidelines this year. KSL Capital have indicated they will consider adhering with the Guidelines next year. The PERG will continue to engage with both companies to encourage compliance going forward.

Camelot (owned by Ontario Teachers' Pension Plan) has not complied with the Guidelines this year. However, the PERG is in communication with the company and its owners, who have indicated that they will comply next year.

MRH (owned by Lone Star Funds) has not complied with the Guidelines this year. This is the first year the company is in scope of the Guidelines and the PERG will continue to try to engage with its owners.

Due to a change in ownership and no one owner having a controlling stake in the company, London City Airport (backed by Borealis Infrastructure, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation and Wren House Infrastructure Management) have not complied with the Guidelines this year. The PERG will continue to work with the owners to encourage compliance next year.

Due to internal restructuring and a number of disposals, NGA Human Resources (backed by Goldman Sachs, Park Square Capital and KKR) was unable to comply with the Guidelines this year. Subsequently an agreement that its UK business will be sold has been entered into and, if completed, the PERG will work with its new private equity owner to ensure compliance in future years, as the company is expected to remain in scope of the Guidelines.

1.4.1 Disclosure by portfolio companies

PricewaterhouseCoopers LLP ("PwC") was reappointed as an independent advisory firm to assist the PERG 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 2017. This report summarises the findings of that exercise along with the PERG's own review of the other requirements of the Guidelines.

PwC reviewed a total sample of 19 portfolio companies – 15 companies have been reviewed previously and four reviewed for the first time. Through annual sampling, the PERG aims to ensure that all portfolio companies are reviewed at least once every three years, and will continue with its policy of re-reviewing companies whose reporting does not comply with the Guidelines.

1.4.1.1 Benchmark for compliance

The PERG 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 2016 review

Overall, 63% of the sample reviewed in the current year achieved at least a good level of compliance (2016: 57%). Of the portfolio companies reviewed that are compliant with the disclosure element of the Guidelines, 80% have produced good quality disclosures overall, an improvement on 67% in 2016. Those companies that do strive to comply with the Guidelines tend to produce better disclosures.

The number of non-compliant companies in relation to the disclosure element of the Guidelines has increased this year, even though the sample size is smaller. The increased proportion of non-compliance is disappointing and can be partly explained by the following factors:

- The implementation of the revised Guidelines has taken time to be embedded by private equity firms and their portfolio companies, particularly disclosures on human rights issues and gender diversity. All of the non-compliant companies have not previously been assessed against the revised Guidelines. However, this is the final year where companies reviewed on a three-year cycle would not have previously been assessed under the revised Guidelines so an improvement in quality is expected next year.
- The quality of reporting by listed companies in the FTSE 350 has continued to improve, being the benchmark for judging compliance. Firms that may have previously been assessed as compliant would not necessarily be rated the same if they have not continued to enhance their disclosures in line with the standard set by the FTSE 350.

Four of the 19 companies reviewed had one or more areas of non-compliance, which is disappointing, mainly on details of the board composition; environmental factors; social, community and human rights issues; and gender diversity. This has resulted in these four companies being deemed as non-compliant overall with the disclosure element of the Guidelines. In addition to Camelot and London City Airport (see above – both selected as part of the sample), the other two companies that are non-compliant with the portfolio company disclosure requirements this year are Expro (owned by Goldman Sachs, KKR, Highbridge Capital Management, Park Square Capital and Arle Capital Partners) and Pizza Express (owned by Hony Capital). Expro underwent a debt for equity swap transaction in 2016, resulting in no one owner having a controlling stake in the company. As a result, it has not addressed its non-compliant disclosures. Pizza Express has one area of disclosure that is non-compliant, which the company expects to address in its annual report next year. Both companies will be reviewed again next year for compliance.

Pleasingly, the vast majority of portfolio companies that have complied with the disclosure element of the Guidelines have produced at least a good standard of disclosures. In particular, compliant portfolio companies have produced good disclosures in relation to:

- Financial and non-financial KPIs
- Financial risks
- Analysis of development and performance during the year and position at year-end
- Strategy

However, a number of compliant portfolio companies have produced a lower standard of disclosure in relation to the following areas, against a backdrop of increasing standards seen in the FTSE 350:

- Human rights
- Gender diversity
- Employee matters
- Identity of the private equity firm
- Trends and factors affecting future development, performance or position

Unlike previous years, only 20% of non-compliant companies on initial review sought to address their exceptions this year through provision of additional disclosures on their website, with the understanding that the additional disclosures would be included in the company's next annual report (2016: 48%). For various reasons, the rest of the non-compliant companies did not address all their areas of non-compliance this year, which is disappointing, but the companies have indicated they will seek to be compliant next year.

A statement of compliance in the annual report of the portfolio company is a requirement of the revised Guidelines. Only 53% of companies have included such a statement in their annual report, which is a poor rate of compliance. This statement is a proxy for the "fair, balanced and understandable" requirement under the 2014 UK Corporate Governance Code ("the Code"). The PERG 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.

1.4.1.3 Compliance across the requirements

When assessing conformity, the requirements under the Guidelines for portfolio company disclosures are separated into three areas: Guidelines-specific requirements; strategic report disclosures required by the Companies Act and enhanced disclosure requirements. The PERG'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 high. 47% of companies provided basic level of disclosures in relation to the identity of the private equity firm (2016: 38%). Moreover, 11% of companies did not comply with the board composition requirement (2016: 14%). Additionally, companies reviewed as compliant meeting the excellent or "best in class" standard for identifying the firm and board composition fell to 7% and 13% respectively (2016: 11% and 28%). The PERG expects all portfolio companies to aim for best practice.

The Guidelines require a financial review that 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. A good proportion of companies continue to provide disclosures on financial position at year-end to a good or excellent/"best in class" standard (2017: 68%, 2016: 62%). One company has not provided sufficient disclosure on financial risks to comply. Excluding companies that did not comply with the Guidelines, 87% of the rest of the sample reviewed produced disclosures to at least a good standard, which is very pleasing (2016: 78%).

A statement of compliance was a new requirement of the revised 2014 Guidelines. Disappointingly, only 53% of companies included a specific statement of compliance with the Guidelines in the annual report and financial statements (2016: 48%).

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. Companies have performed very well in this criterion with 79% of portfolio companies reviewed providing at least a good level of disclosure, an increase from 67% in 2016.

All portfolio companies disclosed their principal risks and uncertainties in their annual reports. 58% of companies achieved at least a good standard disclosure (2016: 62%) with the number of companies providing a basic disclosure remaining significant.

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. Pleasingly the level of at least good quality disclosures for both financial and non-financial KPIs has increased to 79% this year (2016: 48% and 47%). In particular, 33% of non-financial KPIs by portfolio companies reviewed as compliant have been rated excellent/"best in class" (2016: 11%). The PERG encourages portfolio companies to continue disclosing relevant and useful KPIs for stakeholders in their companies.

Integration is an important theme seen in corporate reporting. The way a report links together strategy, risk and KPIs coherently whilst telling a story is challenging, with the FTSE 350 also struggling in this area. Portfolio companies should seek to integrate their annual reports by making it clear how companies address their strategy through KPI performance and how risks to achieving this are mitigated.

Enhanced disclosure requirements

Disclosure of strategy has improved significantly in quality this year with 79% of companies providing at least a good level of disclosure (2016: 57%). Business model disclosures have seen a less significant improvement with 63% of companies providing at least a good quality disclosure (2016: 52%). Broader corporate reporting trends have seen business model reporting continue to develop, but could go further still to better explain what makes a particular business unique. Portfolio companies should strive to provide a clearly addressed business model, including the inputs and outputs and how value is added.

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 improved in the current year with all companies compliant this year (2016: two companies non-compliant). 58% of companies achieved a good level of compliance (2016: 29%), although no companies achieved excellent or "best in class" disclosures (2016: 14%).

Disclosures on environmental factors has seen mixed performance. Two companies have not complied, the same as last year, and the disclosure quality of compliant companies has also fallen with 60% providing at least a good standard of disclosure, down from 72% in 2016. However, 27% of compliant companies have provided an excellent level of disclosure (2016:17%). Similarly, quality of disclosure on employee matters by portfolio companies has fallen this year. 42% of disclosures by companies were of basic quality (2016: 29%). This is disappointing considering the increasing focus on employee rights and their representation, as a result of the Government's work on corporate governance.

Portfolio companies provided a good level of disclosure on social and community matters, however poor disclosures on human rights resulted in lower compliance overall. Two companies failed this criterion as result (2016: three). Of those that were compliant, only 40% of companies provided at least a good level of disclosure (2016: 45%). 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.

The quality of gender diversity reporting continues to remain predominantly basic where portfolio companies have complied. Disappointingly, all four non-compliant companies reviewed failed to comply with this requirement (2016: three). Of the companies that were compliant, 60% only produced basic disclosures (2016: 55%). 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 introduction of mandatory gender pay gap reporting disclosures, with UK companies expected to report on this area for the first time in 2018. The disclosure requirements under the Guidelines and the gender pay gap reporting regulations are outlined below:

Gender diversity disclosures per the Guidelines	Mandatory Gender Pay Gap reporting
Per the Guidelines, portfolio companies must include in their annual report a breakdown at the end of the financial year showing the number of people of each sex who were directors of the (parent) company; senior managers of the company (other than those already identified as directors); and employees of the company. The Guidelines allow the portfolio company to apply their own definition in relation to the role of a senior manager. Good practice includes policies and actions to promote diversity and actions taken to avoid discrimination, and detail about the relevance of diversity to the business and how this links to the company's strategy.	Businesses in England, Wales and Scotland with at least 250 employees are required to publish gender pay gap information on the company's website and on a government website on an annual basis. The first disclosures are to be based on data as at 5 April 2017 and to be published no later than 5 April 2018. The data to be published includes overall pay gap numbers using both a median and mean calculation. In addition, employers will be required to report on the number of men and women working within salary quartiles. In addition, employers will be able to provide additional contextual narrative, explaining any pay gaps and setting out what remedial action they intend to take.

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 2016-17 reporting cycle (1 April 2016 to 31 March 2017). The purpose of this review was to determine what value can be derived from strategic reports.

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

Key theme	Comparison between FTSE 350 and the sample of portfolio companies reviewed	Guidance on how to improve disclosure
Forward looking perspective – the Financial Reporting Council ("FRC") is clear in its guidance on strategic reports that these should include forward-looking information.	34% of FTSE 350 companies provided quantified market information, reflecting that more companies felt more comfortable providing this information on a market rather than company level. Market quantification, which was seen in a few companies reviewed this year, is a significant benefit in helping stakeholders understand the market in which the portfolio company operates.	Companies should look to include this information where available and relevant to support their disclosure of trends and factors impacting the market and also to help assess their own performance.
Risk disclosures – there is an increased level of risk dynamics reporting, moving away from a static, boiler plate risk discussion.	Although 61% of the FTSE 350 companies provided an indication of risk movement in the year, only 30% explained this reason. The quality of risk reporting is one of the widest ranging areas of the Guidelines and one of the easiest to improve. Truly dynamic risk reporting was only seen in one company, although a few others provided detailed risk management sections with specific mitigations in the year that were distinctive.	The explanation of risk movement in the year can help bring alive what has been happening and the impact on the portfolio company, and this should be a focus for the company.
Integration – reporting in a way that links together strategy, risk and KPIs coherently whilst telling a story can be a challenge, especially when trying to address regulations.	The FTSE 350 companies linked risks to strategic objectives in 41% of reviews and KPIs to strategy in 42% of reviews. On the whole there is less integration of strategy throughout the annual reports of portfolio companies, with only one company providing a fully integrated report for strategy linked with KPIs and risk reporting.	Ensuring that it is clear how the portfolio company's strategy is addressed through KPI performance and the risks to achieving it are mitigated is crucial to integrating an annual report.
The business model - reporting continues to develop but could still go further to explain better what makes businesses unique.	The FTSE 350 review focussed on the FTSE 100, with 59% explaining key inputs and outputs. The business model reporting in the portfolio companies reviewed continues to improve, with a larger proportion explicitly referencing it, however few truly provided the key inputs and outputs.	Providing a clearly ad-dressed business model, including the inputs and outputs and how the group adds value are critical elements of a well described business model.

1.4.1.5 Feedback for private equity firms and portfolio companies

The PERG 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 PERG commissioned PwC to publish an update to its Good Practice Guide in 2017, based on their findings from the 2016 review. This incorporated the need for greater quality and clarity of disclosure to track the trends in both the FTSE 250 and the FTSE 100. This also sets out expectations for compliance with the amended requirements from 2014. This guide will be republished in early 2018 with further examples of good practice to assist firms and portfolio companies.

1.4.2 Publication of portfolio company reports

Due to poor compliance with this element of the Guidelines in recent years, the PERG stated in its Ninth Report that it would closely monitor compliance with this requirement, with non-compliant portfolio companies to be named in this year's report. As this was only communicated by the PERG in December 2016, via the Ninth Report, with further engagement with all the private equity owners in the first few months of 2017, only non-compliant companies with publication dates after February 2017 will be named this year to prevent retrospective naming. In future years, all non-compliant companies will be named. The four aspects of the requirement, as set out in the Ninth Report, are found below:

Publication of annual reports: Portfolio companies should publish their annual audited reports on their websites no more than 6 months after the company year-end.	78% of portfolio companies published an annual report within 6 months of year-end on their website. This rises to 93%, where companies uploaded their annual report after the initial deadline.
Annual report vs annual review: 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.	Nearly all the sample reviewed complied with this requirement. One company produced an annual review on its website. This was subsequently addressed with the annual report also added to the website.
Reports not easily obtainable: The annual audited report should be readily accessible on a portfolio company's website, and not behind a log-in page.	Nearly all the sample reviewed complied with this requirement. One company published its annual report and mid-year update behind a log-in. This was swiftly addressed and they are no longer behind such a log-in.
Mid-year update: Portfolio companies should publish a summary mid-year update giving a brief account of major developments in the company within 3 months of mid-year.	72% of portfolio companies published a mid-year update within 3 months of mid-year on their website.

1.4.3 Communication by private equity firms

The PERG 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 house or portfolio company. The BVCA and the PERG will continue to work to educate those actually responsible for compliance with the Guidelines.

1.4.4 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 was commissioned again in 2017 to undertake this research and it will be published at www.bvca.co.uk/ResearchPublications. The compliance rate for the provision of data is 85%, which has fallen from 88% last year, the second year in a row where compliance has below 90%.

Key findings from the report include:

- Reported employment has grown under private equity ownership by 2.6% per annum, which is in line with UK private sector benchmarks of 2.8%.

- Average employment cost per head has grown under private equity ownership by 3.5% per annum, which is ahead of the UK private sector benchmark at 2.5% annual growth.
- 48% of the current portfolio companies have made net bolt-on acquisitions while 10% have made net partial disposals.
- Portfolio companies have grown reported revenue in line with public company benchmarks.
- The equity return from portfolio company exits are 3.2x public company benchmark; half of this is due to private equity strategic and operational improvement, and the other half from additional financial leverage.

1.5 2018 activities for the PERG

The PERG's plan for 2018 includes:

- Continuing to support and educate the industry when implementing the revised Guidelines that incorporate the strategic report and the updated requirements from 2014, which all portfolio companies should now be aware of and include in their annual reports. The PERG's Good Practice Guide and other reports published by the FRC, such as its Guidance on the Strategic Report, should assist firms and portfolio companies when preparing annual reports.
- Reviewing the underlying portfolio companies in scope of the Guidelines and the treatment of infrastructure assets already in scope of the Guidelines, including whether they are perceived to be private-equity like by stakeholders.
- 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.
- Closely monitoring the reporting on tax matters by portfolio companies in their annual reports next year, given increasing expectation for transparency on tax matters by large companies at a global scale.
- Continuing to monitor the development of the Government's work on corporate governance, and the impact and scope of the Guidelines. Although the Guidelines do not cover corporate governance reporting, areas of the Government's work may be relevant for the PERG to consider, such as reporting by directors on how they have considered the stakeholders of their company as part of their duty to promote the success of their company under section 172 of Companies Act 2006.
- Reminding portfolio companies to publish their annual reports and mid-year updates on their websites in a timely basis, with non-compliant companies to continue being named as such in future reports.
- 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.

The private equity industry and portfolio companies must continue to strive for good practice in reporting and improve on the increased non-compliance seen this year. The PERG acknowledges that all BVCA members are compliant with the Guidelines, with strong efforts from some non-members and their portfolio companies. This is reflected in the good quality of disclosures overall by the majority of compliant portfolio companies reviewed. Nonetheless, the PERG expects the quality of disclosures by portfolio companies to improve in certain areas. In particular, companies should now have more experience of reporting on gender diversity, human rights issues and employee matters, due to related current and expected reporting requirements in these areas. Similarly, the requirement for a statement of compliance in the portfolio company annual report has been a requirement for three years, so all companies should now be disclosing this.

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 PERG's review of conformity with the Guidelines and considers compliance across four areas:

<table>
<tr><th>Disclosures by portfolio companies</th><th>Publication of portfolio company reports</th><th>Communication by private equity firms</th><th>Other requirements and recommendations</th></tr>
<tr><td>The requirement to produce enhanced disclosures in the audited annual report and financial statements.</td><td>The requirement to publish the audited annual report and financial statements, and a mid-year update in a timely manner.</td><td rowspan="2">The requirement to make information about the firm available in an annual report on, or through regular updating of, the firm's website.</td><td rowspan="2">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.</td></tr>
<tr><td colspan="2">This covers portfolio companies with accounting years ending up to and including 30 April 2017.</td></tr>
</table>

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

52 portfolio companies were mandatorily covered by the Guidelines in 2017. Of this number, six portfolio companies have not complied with any element of the Guidelines this year:

- Advanced (owned by Vista Equity Partners) – the PERG have not been able to engage with the owners.
- Camelot (owned by Ontario Teachers' Pension Plan) – the PERG is in communication with the company and its owners, who have indicated that they will comply next year.
- London City Airport (owned by Borealis Infrastructure, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation and Wren House Infrastructure Management) – the company did not comply due to a change in ownership, resulting in no one owner having a controlling stake in the company.
- MRH (owned by Lone Star Funds) – this is the first year the company is in scope of the Guidelines.

- NGA Human Resources (owned by Goldman Sachs, Park Square Capital and KKR) – the company was unable to comply due to internal restructuring and a number of disposals. An agreement that its UK business will be sold has subsequently been entered into and, if completed, the PERG will work with its new private equity owner to ensure compliance in future years, as the company is expected to remain in scope of the Guidelines.
- Village Hotels (owned by KSL Capital) – KSL Capital have indicated they will consider adhering with the Guidelines next year.

The PERG acknowledges that all BVCA members in scope of the Guidelines and their portfolio companies are compliant with the Guidelines or have provided appropriate explanations. Non-BVCA members unfortunately drive non-compliance, although the PERG recognise the strong efforts by some non-BVCA members and their portfolio companies to comply with the Guidelines.

3.2 Disclosure by portfolio companies

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 PERG.

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**

[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.*

3.2.1 Overview of portfolio company disclosure findings

The PERG'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 PERG's definitions for measuring compliance to make it clear how this review is carried out is included in Appendix 4.

Overall quality of disclosures	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	63%	16%	21%	0%	57%	29%	14%
Compliant companies reviewed	0%	80%	20%	-	0%	67%	33%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

Overall, 63% of the sample reviewed in the current year achieved a good level of compliance (2016: 57%). However, of the companies reviewed that are compliant with this element of the Guidelines, 80% have produced good quality disclosures overall, an improvement on 67% in 2016. This reflects those companies that do strive to comply with the Guidelines tend to produce better disclosures. Like last year, unfortunately, no companies achieved an excellent/"best in class" level of compliance.

The number of non-compliant companies in relation to the disclosure element of the Guidelines has increased this year, even though the sample size is smaller. The increased proportion of non-compliance is disappointing and can be partly explained by the following factors:

- The implementation of the revised Guidelines has taken time to be embedded by private equity firms and their portfolio companies, particularly disclosures on human rights issues and gender diversity. All of the non-compliant companies have not previously been assessed against the revised Guidelines. However, this is the final year where companies reviewed on a three year cycle would not have previously been assessed under the revised Guidelines so compliance is expected to improve next year.
- The quality of reporting by listed companies in the FTSE 350 has continued to improve, being the benchmark for judging compliance. Firms that may have previously been assessed as compliant would not necessarily be rated the same if they have not improved their disclosures in line with the standard set by the FTSE 350.

The four companies reviewed that have not complied with the portfolio company disclosure requirements this year are:

- Camelot (owned by Ontario Teachers' Pension Plan) – as noted above, the PERG is in communication with the company and its owners, who have indicated that they will comply next year.
- Expro (owned by Goldman Sachs, KKR, Highbridge Capital Management, Park Square Capital and Arle Capital Partners) – the company underwent a debt for equity swap transaction in 2016, resulting in no one owner having a controlling stake in the company and so was unable to address its non-compliant disclosures this year.
- London City Airport (owned by Borealis Infrastructure, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation and Wren House Infrastructure Management) – as noted above, the company did not comply due to a change in ownership, resulting in no one owner having a controlling stake in the company.
- Pizza Express (owned by Hony Capital) – the company has one area of disclosure that is non-compliant, which the company expects to address in its annual report next year.

The PERG will continue to work with the companies and their private-equity owners to encourage compliance in future years.

Pleasingly, the vast majority of portfolio companies that have complied with the disclosure element of the Guidelines have produced at least a good standard of disclosures. In particular, compliant portfolio companies have produced good disclosures in relation to:

- Financial and non-financial KPIs
- Financial risks
- Analysis of development and performance during the year and position at year-end
- Strategy

However, a significant number compliant portfolio companies have produced a poor standard of disclosures in relation to the following, against a backdrop of increasing standards seen in the FTSE 350 and amendments to the Guidelines:

- Human rights
- Gender diversity
- Employee matters
- Identity of the private equity firm
- Trends and factors affecting future development, performance or position

A statement of compliance is a requirement under the revised Guidelines. Although a slight improvement on the prior year, only a little over half of companies included a specific statement of compliance with the Guidelines in their annual report and financial statements, which must be improved upon.

The PERG will explain where improvements can be made in feedback letters sent to private equity firms and their portfolio companies. To promote good practice, these will highlight areas where disclosures could be improved beyond the basic requirements, as well as flagging where portfolio companies have not included a statement of conformity in their annual report. As in previous years, examples will be published in an updated good practice guide by PwC in early 2018 based on the findings of this year's review. The PERG is also looking at other activities to improve the quality of disclosures such as further seminars and by working with the auditors of the portfolio companies.

Based on this year's review, the PERG'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, particularly the identity of the private equity owners and board composition.
- Greater consideration is required on the human rights issues and gender diversity disclosures (both new requirements under the revised Guidelines), as well as disclosures on employee matters, particularly as related corporate reporting requirements have increased and will continue to do so in all these areas.
- A clear statement of compliance with the Guidelines by the directors is required by all portfolio companies in their respective annual reports.

The PERG 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 to take ownership and engage with their portfolio companies to encourage improvement, as the Guidelines are a private equity industry-specific initiative

3.2.2 Portfolio companies reviewed

In relation to the disclosure requirement, the PERG has established a policy that all portfolio companies within the population will be reviewed:

- at least once within a three-year cycle; and

- more frequently if a company's reporting has been found not to comply with, or only just meets, the requirements in the Guidelines.

19 portfolio companies were selected for review this year, representing around a third of the total population – this is consistent with the approach the PERG has taken in previous years. Included is one company that has voluntarily complied with the Guidelines. This sample consists of:

- four portfolio companies that have not been previously reviewed, being new entrants to the population;
- 12 portfolio companies that have been previously reviewed and assessed as compliant; and
- three portfolio companies that remained non-compliant or had a poor quality disclosures at the end of the review process last year, and so have been re-reviewed in the current year. Pleasingly, all three companies (including HC-One and Viridian) are compliant with the Guidelines this year with some of the highest quality disclosures reviewed.

Portfolio companies have differing year-ends and the financial statements with years ending on or after 1 May 2016, and up to and including 30 April 2017 have been reviewed.

In general, new entrants in the period covered by the PERG's report are reviewed each year. Therefore, MRH (owned by Lone Star Funds) was due to be reviewed this year. However, as the PERG has been unable to engage with its owners, the company's annual report has not been reviewed this year. Similarly, the owners of Advanced, Vista Equity Partners, have not engaged with the PERG again this year, hence their annual report has not been reviewed. Both companies have been noted as not complying with the Guidelines, but the PERG will continue to attempt to engage with their respective owners to encourage compliance in the future. Village Hotels (backed by KSL Capital) was also due to be reviewed this year, but the owners have opted not to comply in the current year, hence the company has been noted as non-compliant with the Guidelines. The owners however have indicated they may consider complying with the Guidelines next year and the PERG will strive to achieve this outcome

3.2.3 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 PERG 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.

Fair, balanced and understandable	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	58%	26%	16%	10%	52%	19%	19%
Compliant companies reviewed	0%	67%	33%	0%	11%	61%	22%	6%

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

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 that applies to premium listed companies. The Code also requires listed companies to confirm the financial statements are "fair, balanced and understandable". These simple words have had a significant impact on the quality of disclosure seen in listed company reporting as companies have re-evaluated how best to present their reports. To better assess the quality of compliance, the PERG is also monitoring how companies are performing in relation to the "fair, balanced and understandable" requirement. Note that there is no requirement in the Guidelines to confirm this, as it is a requirement of the Code, instead, portfolio companies are required to state compliance with the Guidelines as proxy.

There has been a slight decrease in the quality of "fair, balanced and understandable" disclosures this year. Nonetheless, of the companies that have complied with the disclosure requirements, all have been compliant with this aspect, unlike in 2016.

The quality of disclosure

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

3.2.3.1 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.

Identity of the private equity firm	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	47%	47%	0%	10%	52%	38%	0%
Compliant companies reviewed	7%	53%	40%	-	11%	56%	33%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

This criterion continues to be well adhered to, with again no companies failing to do so in the current year. As a simple factual disclosure, all portfolio companies provided disclosure to at least a basic level, with 53% of the sample reviewed achieving a good or excellent standard (2016: 62%). Such portfolio companies provided some further insight, such as history, background or a more detailed ownership structure.

This year one company in the sample had excellent or "best in class" disclosures (2016: two). The proportion of basic disclosures continues to remain high. 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. Given that this is a requirement specific to the private equity industry, firms should strive to 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.

Details of board composition	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	11%	67%	11%	11%	24%	43%	19%	14%
Compliant companies reviewed	13%	74%	13%	-	28%	50%	22%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

This criterion continues to be complied with by the majority of portfolio companies. However, two companies have not complied this year (2016: three). This is also a requirement specific to the private equity industry, so companies should at least by compliant with this criterion, if not achieving a good level of compliance.

Pleasingly, 87% of the compliant companies reviewed produced at least good quality disclosures (2016: 78%) Most portfolio companies clearly articulated the experience of the board members, demonstrating why they are appropriate for the role, and so achieved a good compliance level against the Guidelines. Weaker examples only listed the directors for the period, which is the Companies Act requirement, and identified which directors represented the private equity house.

However, the level of excellent or "best in class" disclosures fell by more than half this year. Portfolio companies that demonstrated this level of quality 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. In the prior year, this was achieved by a greater number of portfolio companies due to the larger proportion of portfolio companies engaged in financial management.

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, discussion of the overall risk management objectives and policies of the company in light of the principal financial risks, 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	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	10%	58%	32%	0%	10%	52%	33%	5%
Compliant companies reviewed	13%	60%	27%	-	6%	61%	33%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

The quality of disclosure against this criterion improved slightly on last year, with companies presenting this disclosure to at least a good quality at 68% this year (2016: 62%).

Given the variety of funding structures in place across the portfolio companies reviewed, there has been a range 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, though some included this as a stand-alone element and focused on attributes that provided insight such as cash flows and planned capital investment.

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 (2016: 10%). Portfolio companies meeting the basic requirement only slightly fell in 2017 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. No companies failed this criterion, compared to one in the prior year.

Financial Risks	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	5%	74%	16%	5%	19%	52%	29%	0%
Compliant companies reviewed	7%	80%	13%	-	17%	61%	22%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

This criterion continues to be adhered to well, with 79% of the sample reviewed presenting at least a good level of disclosure (2016: 71%). One company, however, did fail this requirement this year.

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

Where portfolio companies went into their mitigation strategies and provided quantitative information to support the risk assessment this was beneficial for the user of the accounts and provided the appropriate level of insight. This was particularly well covered by only 5% of the sample reviewed (2016: 19%), resulting in excellent or "best in class" quality disclosure.

3.2.3.2 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.

Balanced and comprehensive analysis of development and performance during the year and position at the year-end	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	11%	68%	21%	0%	14%	53%	33%	0%
Compliant companies reviewed	7%	73%	20%	-	17%	55%	28%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

Portfolio companies have performed very well in this criterion; with 79% of the sample reviewed providing at least a good level of disclosure, an increase from 67% in the prior year. Portfolio companies are expected to 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. Many examples of this have been seen, 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.

Of the sample reviewed, a minority included a "best in class" disclosure in their reports. These companies all produced an excellent annual report focussing on the strategic aims and genuine performance of the business, using the strategy to underpin the narrative and a range of both financial and non-financial KPI measures to support the discussion to reflect a transparent and encompassing review.

The 21% of companies that achieved only a basic level of compliance (2016: 33%) 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 various areas of business.

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 boilerplate 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.

Principal risks and uncertainties facing the company	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	16%	42%	42%	0%	29%	33%	38%	0%
Compliant companies reviewed	20%	53%	27%	-	28%	39%	33%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of coomplaint companies reviewed: 2017 = 15, 2016 = 18

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. The proportion of companies that provided only a basic quality of disclosure is significant, although falls materially when only considering compliant companies.

There was a mixed level of discussion on risks. This was similar to the findings of the FTSE 350 review (see section 1.4.1.4), which identified that annual reports often provide generic and static risk reporting. This was the case even within the same report of some portfolio companies where they performed very well on one or two specific risks which were truly key to the business, but with some boiler plate discussion on other risks.

Where companies performed well in this criteria, a dynamic risk discussion and mitigation was presented, which immediately improves transparency, making them "best in class". 20% of compliant portfolio companies reviewed achieved this level of disclosure compared to 28% 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	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	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	11%	68%	21%	0%	19%	29%	52%	0%
Compliant companies reviewed	13%	74%	13%	-	17%	33%	50%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

The quality of financial KPI disclosures has improved significantly with 79% of companies achieving at least a good level of disclosure compared to 48% of companies last year.

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.

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 11% of companies rated excellent or "best in class" (2016: 19%).

Non-financial KPIs	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	26%	53%	21%	0%	14%	33%	53%	0%
Compliant companies reviewed	33%	47%	20%	-	11%	39%	50%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

Non-financial KPIs have generally been presented as well as the financial KPIs, thus there was an improved level of non-financial KPIs this year. The proportion of disclosures with at least a good level has increased from 47% in 2016 to 79%.

The wider picture seen in the FTSE 350 (outlined in section 1.4.1.4 of this report) shows that non-financial KPIs that are strategically aligned provide the greatest insight and integration.

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. Pleasingly, the proportion of compliant companies producing excellent or "best in class" disclosures has tripled in the current year to 33% (2016: 11%). These companies have generally been meeting other regulatory reporting requirements, although 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 that were at a similar level of strategic importance.

3.2.3.3 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.

Strategy	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	11%	68%	21%	0%	9%	48%	43%	0%
Compliant companies reviewed	7%	73%	20%	-	11%	50%	39%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

There was a marked improvement in performance across the Guideline criterion this year. 79% of the sample provided at least a good level of disclosure, compared to 57% in 2016.

Where portfolio companies performed well, strategy was not isolated to one section of the reporting, but instead ran throughout the narrative as identified in the FTSE 350 review (see section 1.4.1.4). 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.

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. Of the sample reviewed, 21% provided this level of basic disclosure (2016: 43%).

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.

Business Model	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	5%	58%	37%	0%	9%	43%	43%	5%
Compliant companies reviewed	7%	60%	33%	-	11%	50%	39%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

Although companies have not always explicitly stated a specific business model section, it has generally been sufficiently described in a wider context to determine how the business builds on strategy and operates, though this only achieved a basic level of compliance where this was seen. Nonetheless, 63% of companies achieved at least a good level of compliance (2016: 52%). No companies have failed this criterion in 2017, unlike one in the prior year.

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.

One company was identified as having a "best in class"/excellent business model disclosure in the current year (2016: two). In some cases, where there was an overall high quality of reporting the business model aspect was lost in the volume of narrative and those reports would benefit from considering it independently.

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.

Trends and factors affecting future development, performance or position	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	58%	42%	0%	14%	29%	48%	9%
Compliant companies reviewed	0%	60%	40%	-	17%	28%	55%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

In line with previous reviews, forward-looking statements were general in nature and mostly limited to the next 12-month period. Weaker performers included statements that were general enough that they could have been included in most annual reports, being statements about the general macro-environment, meeting only basic compliance and often omitted topics that could reasonably be expected to be covered such as the impact of the Living Wage and plans to address this. These demonstrated little insight or additional information that the user would not be able to determine themselves from a basic understanding of business though included sufficient appropriate references to cover the requirement. No companies failed this requirement in 2017 (2016: 9%).

58% of companies (up from 29% in 2016) that achieved a good level of compliance provided analysis specific to the portfolio company and/or market in which it operates to frame the discussion and provided context to the portfolio company's current and expected performance.

No companies were considered to be "best in class" in relation to this criterion this year (2016: three), although some came close. These portfolio companies have gone a stage further than many others when discussing the impact of Brexit, for example, considering both the next 12 months and a slightly longer period, as well as indicating the aspects of the business that would be impacted.

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.

Environmental matters	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	21%	37%	32%	10%	19%	48%	24%	9%
Compliant companies reviewed	27%	33%	40%	-	17%	55%	28%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

Compliance with this criterion has again fallen in 2017 with two companies failing this requirement, the same number as in the prior year.

Not considering non-compliant companies, 40% have produced basic disclosures compared to 28% in 2017. 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.

27% of compliant portfolio companies have produced excellent or "best in class" level disclosures (2016: 17%) and have tended to have other regulatory factors impacting their level of reporting and it is a significant focus of their operations. Other entities sought to make it a priority in their reporting, as it is fundamental to their strategy and a priority for their business.

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.

Employees	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	5%	53%	42%	0%	14%	57%	29%	0%
Compliant companies reviewed	6%	47%	47%	-	11%	67%	22%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

As a key resource for nearly all businesses, it is evident that portfolio companies are able to articulate the importance of their employees and deliver compliance with the Guidelines in this area. However, in 2017, 42% of the compliant companies reviewed provided a basic disclosure, compared to 29% last year. These tended to make blander statements on employee areas without giving details of how the policies were practically put into action.

The proportion of companies providing excellent or "best in class" disclosure fell from 14% in 2016 to 5%. Those that were considered to be "best in class" included metrics that 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.

Social, community and human rights issues	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	37%	53%	10%	5%	33%	48%	14%
Compliant companies reviewed	0%	40%	60%	-	6%	39%	55%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

This criterion was well-responded-to in most cases for the general social and community aspects of the disclosure, but poor compliance continued to be seen with the human rights commentary. The two failures (2016: three) relate to the explicit exclusion of any reference to human rights. Not considering non-compliant companies only 40% of companies provided at least a good level of disclosure (2016: 45%). No companies produced "best in class"/excellent disclosures this year (2016: one).

There was a diverse level of disclosure, with some companies favouring a case study style approach to this requirement and others 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. A number of portfolio companies focussed on the charitable aspects they sponsor as part of a company-wide drive, providing details on performance in these areas. Others considered 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.

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

Gender diversity	Quality of disclosures 2017				Quality of disclosures 2016			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	32%	47%	21%	5%	33%	48%	14%
Compliant companies reviewed	0%	40%	60%	-	6%	39%	55%	-

Number of companies reviewed: 2017 = 19, 2016 = 21
Number of compliant companies reviewed: 2017 = 15, 2016 = 18

Although this criterion is an update to the Guidelines, it was expected there would be an improvement in the level of compliance compared to previous years. There continued to be some challenges in all portfolio companies meeting this requirement, both those new to Guidelines and portfolio companies previously reviewed. Disappointingly, all four non-compliant companies failed to comply with this requirement, up from three in 2016.

60% of companies reviewed that have complied produced only a basic level of disclosure (2016: 55%). 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. No companies were awarded "best in class" this year (2016: one).

Given the continued issues identified in the population in complying with this criterion further communication on this area must be made to portfolio companies. Portfolio companies should discuss what they are doing around policies to improve diversity, as this will be an area the PERG expects the quality to improve in. This is an area of increasing focus in the wider corporate reporting environment as practice in this area continues to improve and as reporting on gender diversity becomes a legal requirement for large UK companies under the Mandatory Pay Gap Reporting regime.

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

Statement of compliance	2017		2016	
	Included	Not-included	Included	Not-included
All companies reviewed	53%	47%	48%	52%

Number of companies reviewed: 2017 = 19, 2016 = 21

In line with the prior year, only 53% companies reviewed included a specific statement of compliance with the Guidelines in the annual report and financial statements (2016: 48%). This is disappointing as this statement became a requirement under the revised Guidelines in 2014 so companies have had three years to implement this in their annual report.

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 PERG 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 PERG believes a statement of compliance with the Guidelines can be incorporated into a company's annual report with relative ease and should not be contentious to do. The PERG expects all portfolio companies to disclose a statement of compliance next year.

3.2.4 Areas of focus for the PERG in 2018

The PERG will be focussing on reporting by portfolio companies in relation to taxation and monitoring the Government's work on corporate governance reforms. Although reporting on these areas is not a mandatory requirement under the Guidelines, these are high profile issues in the listed space and broader corporate world, thus the PERG is of the view that companies should be aware of these areas when considering their own reporting.

Corporate governance reforms

In November 2016, the Government published a wide-ranging green paper considering corporate governance reforms. Two of the areas the green paper focussed on was strengthening the employee, customer and wider stakeholder voice, and reporting on corporate governance by large privately owned businesses, with the Guidelines flagged as a positive example of industry-led, transparency reporting.

In August 2017, the Government published its response to its green paper. Proposals that are relevant to the industry are the recommendations for:

- the establishment of a group to develop a voluntary set of corporate governance principles for large private companies, which the BVCA will be involved in; and

- the introduction of secondary legislation to require all companies of a significant size (private as well as public) to explain how their directors comply with the requirements of section 172 of the Companies Act 2006 to have regard to employee interests and to fostering relationships with suppliers, customers and others.

The Government's response flags the Walker Guidelines as a good industry initiative. The Walker Guidelines, however, do not cover reporting on corporate governance arrangements, so firms will need to monitor developments in this area and work with the BVCA to shape the principles.

The PERG expects there could be some potential overlap when it comes to reporting on section 172. Although it is unclear where companies would be required to report on their compliance with section 172 requirements (the potential location may be the strategic report), as companies do currently report on elements of stakeholder requirements as part of the Guidelines, such as employee matters, human rights and environmental issues. Therefore, the PERG will be closely monitoring reporting on stakeholders next year, particularly as the quality of reporting in this area has not been strong, with the expectation that companies will make good progress in line with the FTSE 350.

Taxation

This year the PERG consulted with the BVCA and its members in scope of the Guidelines on a range of disclosure and transparency issues around taxation. In light of increasing global focus on transparency on taxation by large businesses, the PERG considered whether further information needed to be disclosed as part of this process on portfolio companies' tax contributions.

In October 2016, the FRC compiled a thematic review on the tax disclosures made by companies in the FTSE 350. With the FTSE 350 expected to improve on disclosures in this space, in line with increasing expectation by stakeholders on transparency on taxation, the PERG will be monitoring and reporting on tax disclosures by portfolio companies in their annual report and financial statements. The expectation would be for increasing detail, but with clarity on elements of tax reporting such as tax policies and tax reconciliations.

3.3 Publication of portfolio company reports

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

Following the low level of compliance by portfolio companies with this requirement in recent years, the PERG agreed in its Ninth Report that it would be closely monitoring compliance in this area with non-compliant portfolio companies to be named in this year's report.

As this was only communicated by the PERG in December 2016, via the Ninth Report, with further engagement with all the private equity owners in the first few months of 2017, only non-compliant companies with publication dates after February 2017 will be named this year, to prevent retrospective naming. In future years, all non-compliant companies will be named.

Compliance against the four aspects of the requirement, as introduced in the Ninth Report, are found below:

Publication of annual reports

Portfolio companies should publish their annual audited reports on their websites no more than 6 months after the company year-end.

- 78% of portfolio companies have published an annual report within 6 months of year-end on their website. This rises to 93% where companies had addressed any issues, as outlined below, and published their annual report at the time of publication of this report.
- HC-One (owned by Formation Capital and Safanad) has not published an annual report on its website.

- The owners of Prezzo, TPG, have explained that the preparation of Prezzo's annual report had been delayed and that the annual report was only finalised after the 6 month deadline per the Guidelines. The annual report was published shortly after, and the company is expected to publish in a timely manner in future years.
- Similarly, Callcredit (owned by GTCR) did not publish its annual report on its website within 6 months of its year-end. Callcredit has since provided a link on its website to Companies House where its annual report can be viewed.
- Moto (owned by USS and CVC Capital Partners) did not publish its annual report and accounts on its website within 6 months of its year-end, although it was publicly available within that timeframe on Companies House. The company did subsequently publish its annual report on its website and is expected to do so in a timely manner in future years.
- Froneri (owned by PAI Partners and Nestlé) explained it was delayed in the publication of its annual report as a result of the merger between R&R and Nestlé's ice cream activities. It has since published its annual report on its website and expects to do so in a timely manner in future years.
- The owners of Ambassador Theatre Group and Trainline, Providence Equity and KKR respectively, have provided explanations to the PERG as to the reason why the companies have been unable to publish their annual reports on their respective website within 6 months of their financial year-end. Both companies have confirmed they will be publishing their annual reports on their respective websites shortly after the publication of this report. The annual reports of both companies are compliant with the Guidelines, based on what has been shared with the PERG in advance of publication.

Annual report vs annual review

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.

- Civica (owned by OMERS Private Equity) is the only company which published an annual review on its website, instead of the full audited annual report and accounts as stipulated by the Guidelines. The company later published its annual report on its website as well and it is expected that they will continue to do so going forward.

Reports not easily obtainable

The annual audited report should be readily accessible on a portfolio company's website, and not behind a log-in page.

- Stonegate Pub Company (owned by TDR Capital) initially published its annual report and mid-year update behind a log-in. This was swiftly addressed and a log-in is no longer required to access the report and mid-year update.

Mid-year update

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

- 72% of portfolio companies published a mid-year update within 3 months of mid-year on their website
- HC-One (owned by Formation Capital and Safanad) and Travelodge (owned by Goldman Sachs, GoldrenTree Asset Management and Avenue Capital) have not published a mid-year update on their websites respectively.
- TES Global (owned by TPG) did not publish a mid-year update on its website within the 3-month deadline. However, the company has subsequently published the update on its website. The owners have confirmed that they are working with the company to ensure it does publish this in a timely manner going forward.
- The owners of Prezzo, TPG, have explained that Prezzo's mid-year update had been published within the deadline, but a technical issue meant the mid-year report was removed from the website. TPG have confirmed that they are working with the portfolio company to ensure the mid-year update is reposted and will ensure compliance in future years.

- SkyBet (owned by CVC) was unable to publish its mid-year update as it had prioritised publication of the company's 2016 annual report, which was still to be prepared at the time the mid-year update was due to be published. The publication of the 2016 annual report had been delayed due to the delays in the company publishing its 2015 annual report, which was the first time it had prepared an annual report and consolidated financial statements, having been carved out from its parent company. It is expected the company will be compliant with this requirement in future years.
- The owners of Pret a Manger, Bridgepoint, have provided an explanation to the PERG as to why a mid-year update was not published this year.

3.4 Communication by private equity firms

Review of disclosure by private equity firms	Expectations for compliance
"A private equity firm should publish an annual review accessible on its website or ensure regular updating of its website to communicate information about 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 PERG is monitoring how best to measure compliance against this criteria in the future.

This is the fourth year the PERG has reviewed the websites and/or annual reports of all private equity firms covered by the Guidelines to assess whether 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 PERG 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. In practice, it is difficult to compel non-members to provide this information even though the PERG and BVCA strongly encourage it.

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

The detail included in annual reports and/or websites varied with some firms opting for succinct statements to ensure compliance, and others providing extended information on strategy and detailed case studies. Since the Guidelines were first implemented, the level of disclosure by firms has generally increased, and with some firms 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 that many firms do not adhere to, however this is not a compulsory requirement.

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

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

Another point to consider when analysing firms' websites is their size, particularly relevant for global firms or those with different investment strategies including private equity. 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 often not passed down to the portfolio companies by the private equity owners.

The PERG 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.

3.5 Other requirements and recommendations

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

Findings

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

3.5.1 Performance of portfolio companies

The annual review of the performance of portfolio companies, undertaken by EY at the request of the BVCA and the PERG, 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 4.2 years.
- Reported employment has grown under private equity ownership by 2.6% per annum and underlying organic employment growth has grown by 1.4% per annum. This is in line with benchmarks of 2.8% (reported, public company benchmark) and 1.4% (organic, UK private sector benchmark) growth.
- Average employment cost per head has grown under private equity ownership by 3.5% per annum, which is ahead of the UK private sector benchmark at 2.5% annual growth.

- Investment in operating capital employed at the portfolio companies has grown by 2.3% per annum, which is less than public company benchmarks at 4.2% per annum. 48% of the current portfolio companies have made net bolt-on acquisitions while 10% have made net partial disposals.
- Labour and capital productivity have grown under private equity ownership, by 1.6%-1.8% and 6.4% per annum respectively. Labour productivity is broadly in line with public company and economy-wide benchmarks, while capital productivity significantly exceeds public company benchmarks.
- Portfolio companies have grown reported revenue at 5.4% and profit 4.0% per annum respectively. This is in line with public company benchmarks.
- In aggregate, portfolio companies had an average leverage ratio of 6.9x debt to EBITDA at acquisition, and 6.5x at latest date or exit. Portfolio companies have much higher levels of financial leverage than public companies: 56% of portfolio companies have debt to EBITDA ratio above 5x versus 8% of publicly listed companies.
- The equity return from portfolio company exits are 3.2x 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/ResearchPublications**.

The majority of companies provided the information requested (85%), however this was the second year running where compliance was below 90%. Two companies did not comply with this requirement, in addition to the six portfolio companies which have not complied with any element of the Guidelines: Advanced (owned by Vista Equity Partners); Camelot (Ontario Teachers' Pension Plan); MRH (Lone Star Funds); London City Airport (Borealis Infrastructure, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation and Wren House Infrastructure Management); NGA Human Resources (Goldman Sachs, Park Square Capital and KKR); and Village Hotels (KSL Capital). HC-One (Safanad and Formation Capital) did not provide data to EY. Parkdean Holidays (owned by Alchemy and Epiris) did not provide data as the company had been sold and so did not have access to the portfolio company to request the data when it was being collected. The PERG expects the company will provide data under its new private equity owners next year. The PERG will continue to engage with the other owners of these companies to encourage compliance next year.

3.5.2 Engagement with "private equity-like" entities

The Guidelines extend to firms that conduct their business in a manner that would be perceived by external stakeholders to be similar to that of other participants in the private equity industry. The PERG and the BVCA are 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 Infrastructure, Global Infrastructure Partners, Infracapital and Macquarie Infrastructure and Real Assets) and pension funds (OMERS Private Equity) are complying with the Guidelines and have engaged with the BVCA throughout this process. Goldman Sachs operates in the credit opportunities space and has complied with the requirements for portfolio companies this year.

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

3.5.3 Fund performance measurement

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

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APPENDIX 1:
PRIVATE EQUITY FIRMS COVERED BY THE GUIDELINES

The following private equity firms and 'private equity-like' firms were in the scope of the Guidelines for 2016, being the period covered by this report. Where more than one PE firm is involved in a transaction and they collectively own a controlling stake in a portfolio company, those firms will be jointly and severally responsible for ensuring that the portfolio company applies to the Guidelines, and each of those firms will be assessed for compliance with the requirements that apply to them. Subject to prior approval by the Private Equity Reporting Group, this does not apply to minority shareholders which invest alongside other majority shareholder(s) and where both the majority shareholder(s) and the portfolio company comply with the Guidelines. The PERG's approval will depend on the specific facts and circumstances and the extent to which control is exercised.

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

3i	KSL Capital[1]
Alchemy	Lone Star Funds[1,2]
Borealis Infrastructure[3,#]	Macquarie Infrastructure and Real Assets[#]
Bridgepoint	OMERS Private Equity[#]
Cinven	Ontario Teachers' Pension Plan[1,#]
Clayton Dubiler & Rice	PAI Partners
CVC Capital Partners	Partners Group
Epiris (previously Electra Partners)	Providence Equity
Formation Capital[1,#]	Safanad[1,#]
Global Infrastructure Partners[1,#]	TDR Capital
Goldman Sachs[1,#]	Terra Firma
GTCR[1]	The Carlyle Group
Hony Capital[1]	TPG
Infracapital[3,#]	Värde Partners[1,#]
I Squared Capital[1,2,#]	Vista Equity Partners[1]
KKR	

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

Abu Dhabi Investment Authority[#]	Highbridge Capital Management[1,#]
Alberta Investment Management Corporation[1,#]	IFM Investors[1,#]
AMP Capital[1,#]	Kuwait Investment Authority[3,#]
Arle Capital Partners[1]	Mitsubishi Corporation[1,2,*]
Avenue Capital Group[1,#]	Morgan Stanley Infrastructure[1,#]
British Columbia Investment Corporation[1,#]	National Pension Scheme of Korea[1,#]
CalPERS[1,#]	Nestlé[1,2,*]
Canadian Pension Plan Investment Board[#]	Park Square Capital[1,#]
China Investment Corporation[1,#]	QIC[1,#]
Colonial First State Global Asset Management[1,#]	State Administration of Foreign Exchange of the People's Republic of China[1,#]
Duke Street[2]	Sun Capital[1,#]
Future Fund[1,#]	Tikehau Capital[1,#]
GIC[1,#]	USS[#]
GoldenTree Asset Management[1,#]	Veolia Water[1,*]
Hermes GPE[#]	WPP[1,*]
Hermes Infrastructure[#]	Wren House Infrastructure Management[2,3,#]

[1] *Not a member of the BVCA*
[2] *Addition this year*
[3] *Individually not a member of the BVCA although it is an affiliate of one*
[#] *Private equity-like entity*
[*] *Corporate investor*

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APPENDIX 2:

PORTFOLIO COMPANIES COVERED BY THE GUIDELINES

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

Required portfolio companies

Portfolio company	Owners during 2016
Advanced	Vista Equity Partners
Affinity Water	Infracapital, (Morgan Stanley Infrastructure, Veolia Water, State Administration of Foreign Exchange of the People’s Republic of China, Partners Group
Ambassador Theatre Group[1]	Providence Equity
Anglian Water Group	3i, (Canadian Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors)
Annington Homes	Terra Firma
Associated British Ports[1]	Borealis Infrastructure, (Canadian Pension Plan Investment Board, GIC, Kuwait Investment Authority, Hermes Infrastructure)
Callcredit	GTCR
Camelot[1]	Ontario Teachers' Pension Plan
Care UK[1]	Bridgepoint
Chime Communications[1]	Providence Equity, (WPP)
Civica	OMERS Private Equity
David Lloyd Clubs	TDR Capital
Domestic and General[1]	CVC Capital Partners
Edinburgh Airport	Global Infrastructure Partners
Expro[1]	Goldman Sachs, KKR (Highbridge Capital Management, Park Square Capital, Arle Capital Partners)
Fat Face[1]	Bridgepoint
Four Seasons Health Care	Terra Firma

Froneri (previously R&R Ice Cream)[1]	PAI Partners, (Nestlé)
Gatwick Airport[1]	Global Infrastructure Partners, (Abu Dhabi Investment Authority, CalPERS, National Pension Scheme of Korea, Future Fund)
HC-One[1]	Safanad, Formation Capital
Host Europe Group	Cinven
Infinis	3i
Keepmoat	TDR Capital, (Sun Capital)
LGC[1,2]	KKR
London City Airport[1]	Borealis Infrastructure, Ontario Teachers' Pension Plan (Alberta Investment Management Corporation, Wren House Infrastructure Management)
Moto	CVC Capital Partners, (USS)
Motor Fuel Group	Clayton Dubiler & Rice
MRH[2]	Lone Star Funds
Mydentist	The Carlyle Group
National Car Parks	Macquarie Infrastructure and Real Assets
NewDay	Värde Partners
NGA Human Resources (previously Northgate Information Solutions)	Goldman Sachs, (Park Square Capital, KKR)
Northgate Public Services	Cinven
PA Consulting Group	The Carlyle Group
Parkdean Holidays	Alchemy, Epiris
Pizza Express[1]	Hony Capital
Premium Credit	Cinven
Pret a Manger	Bridgepoint
Prezzo	TPG
RAC	CVC Capital Partners, (GIC)
Sky Bet	CVC Capital Partners
South Staffordshire Water	KKR, (Mitsubishi Corporation)
Stonegate Pub Company[1]	TDR Capital
TES Global	TPG
Thames Water[1]	Macquarie Infrastructure and Real Assets, (Hermes GPE, Abu Dhabi Investment Authority, British Columbia Investment Management Corporation, China Investment Corporation, QIC, AMP Capital)
The Vita Group	TPG
Trainline[1]	KKR
Travelodge	Goldman Sachs, (GoldenTree Asset Management, Avenue Capital Group)
Village Hotels (previously Village Urban Resorts)	KSL Capital

Viridian[1]	I Squared Capital
Voyage Healthcare	Partners Group, (Duke Street, Tikehau Capital)
Vue Cinemas	OMERS Private Equity, (Alberta Investment Management Corporation)

Voluntary portfolio companies

Portfolio company	Owners during 2016
Consolidated Pastoral Company[1]	Terra Firma
Wyevale Garden Centres (previously Garden Centre Group)	Terra Firma

[1] *Accounts reviewed this year*
[2] *Addition this year*

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). Appendix 6 summarises the key requirements for private equity firms and their portfolio companies.

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

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

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

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

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

A UK company

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

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

4. Content of enhanced disclosure by a portfolio company

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

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

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

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

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

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

   iii. Section 414C(7) provides:

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

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

   b) information about—

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

      (ii) the company's employees, and

      (iii) social, community and human rights issues,

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

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

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

iv. Section 414C(8) provides:

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

a) a description of the company's strategy,

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

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

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

(ii) the number of persons of each sex who were senior managers of the company

(other than persons falling within sub-paragraph (i)); and

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

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

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

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

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

5. Form and timing of public reporting by a portfolio company

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

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

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

6. Data input by a portfolio company to the industry association

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

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

7. Communication by a private equity firm

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

- a description of the way in which the FCA-authorised entity fits into the firm of which it is a part with an indication of the firm's history and investment approach, including investment holding periods, where possible illustrated with case studies.
- a commitment to conform to the guidelines on a comply or explain basis and to promote conformity on the part of the portfolio companies owned by its fund or funds.
- an indication of the leadership of the UK element of the firm, identifying the most senior members of the management or advisory team and confirmation that arrangements are in place to deal appropriately with conflicts of interest, in particular where it has a corporate advisory capability alongside its fiduciary responsibility for management of the fund or funds.
- a description of UK portfolio companies in the private equity firm's portfolio.
- a categorisation of the limited partners in the funds or funds that invest or have a designated capability to invest in companies that would be UK portfolio companies for the purpose of these guidelines, indicating separately a geographic breakdown between UK and overseas sources and a breakdown by type of investor, typically including pension funds, insurance companies, corporate investors, funds of funds, banks, government agencies, endowments of academic and other institutions, private individuals, and others.

8. Reporting to limited partners

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

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

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

9. Data input by private equity firms to the industry association

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

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

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

10. Responsibility at a time of significant strategic change

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

11. Interaction with the Alternative Investment Fund Managers Directive

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

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

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

a) Annual report disclosures

AIFMD requirements– annual report disclosures *Regulation 42 of the AIFM Regulations (Annual report of AIFs exercising control of non-listed companies)*	**Guidelines requirements** *Part V Sections 4 and 5 of the Guidelines* *(Guidelines for enhanced disclosure by portfolio companies and private equity firms)*

The following disclosures are required about each non-listed company over which an AIF individually or jointly has control. They can be included in the annual report of the AIF and/or the non-listed company.	The following disclosures are required to be included in the annual report of the portfolio company and not the private equity fund.
■ A fair review of the development of the company's business representing the situation at the end of the period covered by the annual report;	Part V section 4 requires portfolio companies to prepare a strategic report which includes provisions in the Companies Act 2006 normally applicable to quoted companies. The strategic report requirements set out in s414C(2) and s414C(3) of the Companies Act 2006 will assist firms to comply with this requirement. They require "a fair review of the company's business" and a "balanced and comprehensive analysis of the development and performance of the company's business" during the financial year and the position at the end of that year. s414C(4) also requires the disclosure of financial and non-financial key performance indicators to support the analysis.
■ 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 2017 Building Public Trust award for "Excellence in reporting" in the FTSE 250 was Unilever.
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.

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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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APPENDIX 6:
CHECKLIST FOR PRIVATE EQUITY FIRMS AND THEIR PORTFOLIO COMPANIES

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

Private Equity firm requirements

Requirement	Completed?
Have the following disclosures been published in an annual review accessible on your website **or** disclosed via regular updating of your website?	
■ A description of the way in which the FCA-authorised entity fits into the firm of which it is a part	
■ An indication of the firm's history	
■ An indication of the firm's investment approach	
■ An indication of the firm's investment holding periods	
■ Case study illustrations (optional)	
■ A commitment to conform to the Guidelines on a comply or explain basis and to promote conformity on the part of the portfolio companies owned by your fund(s)	
■ An indication of leadership of the UK element of the firm, identifying the most senior members of the management or advisory team	
■ Confirmation that arrangements are in place to deal appropriately with conflicts of interest	
■ A description of UK portfolio companies in the your portfolio	
■ A categorisation of the limited partners in your fund(s) that invest, or are capable of investing, in companies that would be considered UK portfolio companies for the purpose of the Walker Guidelines, indicating separately:	

- A geographic breakdown between UK and overseas sources, **and**
- A breakdown by type of investor e.g. pension funds, insurance companies, corporate investors, fund of funds, banks, government agencies, endowments of academic and other institutions, private individuals

Has the statement of conformity been completed, signed and returned to the BVCA?

Portfolio company requirements

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

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

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