DECEMBER 2015

Private Equity Reporting Group

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

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

In 2015 the Group was renamed as the Private Equity Reporting Group, having previously been known as the Walker Guidelines Monitoring Group. This change better reflects its activities which the Group will continue to convey to the industry's stakeholders. These stakeholders include government, regulators, media, employees, customers and the public more widely.

Highlights of the 2015 review

- This is the first year in which many portfolio companies complied with new reporting obligations under the Guidelines, the first substantial change to the content of the Guidelines since they were introduced. The Guidelines were amended in 2014 to incorporate changes to narrative reporting in the UK which now requires a strategic report for companies preparing financial statements under the Companies Act 2006. This led to several new requirements being added to the Guidelines including disclosure on the portfolio company's business model, detail on gender diversity and its response to human rights issues. The revised Guidelines applied to companies with years ending on or after 30 September 2014 and compliance with these is therefore being reviewed for the first time in this report.
- Overall, 95% of the sample reviewed in 2015 achieved a good or excellent/"best in class" level of compliance, whereas the entire sample achieved this level in 2014. This fall is perhaps unsurprising due to a combination of: a) the Guidelines including new requirements in the current year which can take time to implement and b) improvements in the quality of reporting by listed companies in the FTSE 350, being the benchmark for judging compliance. Of the portfolio companies reviewed, one company, Viridian (backed by Arcapita), has not complied with the Guidelines in full this year.
- The number of portfolio companies required to comply with the Guidelines decreased by ten to 66, which was a result of 17 exits and seven new deals.
- The number of private equity firms managing or advising funds which owned the portfolio companies within scope increased by six to 65.
- The Group is committed to working with private equity firms, firms that conduct their operations in a 'private equity-like' manner and portfolio companies to improve their disclosures. We strongly encourage portfolio companies to aspire to standards of disclosure above the minimum requirements within the Guidelines, being those observed in the FTSE 350. Detailed feedback will be provided to all parties involved to help achieve this objective. This is particularly pertinent given the revisions made to the Guidelines and fall in the number of companies providing disclosures to at least a good level.

- Disappointingly, only 19 of the portfolio companies reviewed made the audited report and accounts or an alternative report available on the company's website. The Group continues to reinforce the message that accounts should be readily accessible on the company's website. In addition only eight portfolio companies included a statement of compliance with the Guidelines in their annual report. This was also a new requirement for the Guidelines this year.
- Portfolio companies improved the level of disclosure covering: key performance indicators (both financial and non-financial); trends and factors affecting the future of the company; environmental matters; and social and community issues.
- However, the quality of disclosure for the following criteria was weaker this year against a backdrop of increasing standards seen in the FTSE 350 and amendments to the Guidelines: identity of the private equity firm; details of board composition; business model; and gender diversity.
- The Guidelines operate on a 'comply or explain' basis and none of the portfolio companies reviewed adopted an 'explain' approach within their annual report.
- The Group reviewed the websites and/or annual reports of all private equity firms covered by the Guidelines to assess compliance with applicable disclosure obligations relating to their own activities. Members of the BVCA met the requirements or were in the process of updating them at the time of the publication of this report.

1.1 Background to the Guidelines

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

The Guidelines were revised in 2014 to implement The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 which changed the narrative reporting obligations for all companies in the UK. These changes have necessitated amendments to the Guidelines as they removed the requirement for a business review in the directors' report – which was the foundation for the enhanced disclosure requirements for portfolio companies – and moved this content, with a few additions, to a new report called the strategic report. The Group consulted on the updated Guidelines during 2014 and they apply to companies with years ending on or after 30 September 2014. The additions include disclosure on:

- Strategy (although this was implicitly required in the previous Guidelines);
- Business model;
- Human rights issues; and
- Gender diversity.

The Group also introduced the requirement for portfolio companies to confirm compliance with the Guidelines in their annual reports.

The Guidelines, including the 2014 revisions are summarised in Section 2.

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

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

Eight years later, transparency and disclosure in the private equity industry continues to be a prominent matter. The Group will continue to promote the importance of the Guidelines and their value to the private equity industry and its stakeholders.

1.2 The Private Equity Reporting Group

The members of the Group are:

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

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

1.3 Private equity firms and portfolio companies covered by the Guidelines

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

1.3.1 Private equity firms

The number of firms covered by the Guidelines has increased this year from 59 to 65 due to movements in the underlying population of portfolio companies within scope. The Guidelines extend to firms that conduct their business in a manner that would be perceived by external stakeholders to be similar to that of other participants in the private equity industry and include infrastructure funds, sovereign wealth funds, pension funds and firms operating in the debt and credit opportunities space. The full definition is set out in Appendix 3 and Appendix 1 explains how minority and other shareholders are monitored.

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

	2014 report	2015 report
Private equity firm	29	32
Private equity-like firm (note that this figure includes a number of minority shareholders)	30[1]	33
Total	**59**	**65**

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

1.3.2 Portfolio companies

A total of 66 portfolio companies were covered by the Guidelines this year (2014: 76). Of this number, 62 were included as required companies (2014: 71) and the rest complied voluntarily. Further details on the portfolio companies are included in Appendix 2.

[1] Adjusted to include existing minority shareholders

Table 2: Number of portfolio companies covered by the Guidelines

	2014 report	2015 report
Required	71	62
Voluntary	5	4
Total	**76**	**66**

1.4 Review of compliance with the Guidelines

PricewaterhouseCoopers LLP ("PwC") was reappointed as an independent advisery firm to assist the Group in carrying out this year's review of the disclosures made by a sample of portfolio companies. The sample included companies with accounting years ending up to and including 30 April 2015. This report summarises the findings of that exercise along with the Group's own review of the other requirements of the Guidelines.

1.4.1 Portfolio companies reviewed

PwC reviewed a total sample of 20 portfolio companies including 15 companies reviewed previously and five reviewed for the first time. Through annual sampling, the Group aims to ensure that all portfolio companies are reviewed at least once every three years, and will continue with its policy of re-reviewing companies whose reporting does not comply with the Guidelines or only just meets the requirements.

1.4.1.1 Benchmark for compliance

The Group has continued to raise the required standard of overall disclosure to achieve compliance with the Guidelines as it benchmarks compliance against listed companies 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 250 and further detail on how companies are benchmarked is included in Appendix 7.

1.4.1.2 Summary results of the 2015 review

Overall, 95% of the sample reviewed in the current year achieved a good or excellent/"best in class" level of compliance. This is lower than the proportion in 2014 as all portfolio companies reviewed provided disclosure to at least a good level. The result of our review this year is in some respects unsurprising due to a combination of:

- the Guidelines including new requirements on the business model, gender diversity and human rights issues in the current year, which can take time to implement; and
- improvements in the quality of reporting by listed companies in the FTSE 350, being the benchmark for judging compliance.

Of the portfolio companies reviewed, one company, Viridian (backed by Arcapita), has not complied with the Guidelines in full this year. The Group is committed to working with Arcapita and Viridian to ensure compliance in the coming years. In addition, there were three new portfolio companies in this year's population who were not in a position to comply fully with the Guidelines. These companies (and their backers) are: HC-One (Safanad, Formation Capital and management), Village Urban Resorts (KSL Capital) and Voyage (Partners Group and Duke Street). All of these companies are backed by firms who are new to the Guidelines reporting process. As outlined in the feedback statement when the revised Guidelines were published in July 2014, the Group intended to be flexible in its approach to implementation in the first year of adoption for cases such as these. Therefore whilst these companies have been given a year's grace, we would strongly urge them to comply next year. Pizza Express is also a new entrant this year in the population as a stand-alone entity (it was previously part of the Gondala Group). Its reporting year end does not fall within the scope of this year's report and will be reviewed next year.

Excluding the requirements that are new for this year, there has been a general improvement in the standard of corporate reporting by portfolio companies. There was also an increased awareness of the requirements of the Guidelines in the portfolio companies we and PwC have held discussions with, signalling a commitment to comply and improve the quality of disclosures.

However, our initial reviews of the sample of portfolio companies highlighted that many companies had not included the required information in the revised Guidelines on gender diversity. Other areas which have seen mixed performance are the inclusion of an explanation of the business model and commenting on human rights as part of the social and community discussions. Largely companies have been very cooperative and exceptions have subsequently been cleared through discussions and the portfolio company providing additional disclosure on its website. This is also part of the Group's flexible approach to implementation in the first year of the revised Guidelines and on the understanding that these additional disclosures will be included in the company's next annual report.

Whilst overall compliance levels were good, there continued to be variability in the quality of disclosures on individual requirements and not all the companies reviewed met the publication and data provision requirements (see further below).

There has been an increase in the quality of disclosures seen on the following criteria compared to the previous year:

- Key performance indicators, both financial and non-financial;
- Trends and factors affecting the future development, performance or position of the company;
- Environmental matters; and
- Social and community issues.

This assessment was reached on the basis of fewer examples of disclosures that just met the minimum or basic standard. This is pleasing as the quality of disclosure in respect of the last two items above was weaker in last year's review.

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

- Identity of the private equity firm;
- Details of board composition;
- Business model; and
- Gender diversity.

A statement of compliance in the annual report of the portfolio company is a new requirement in the revised Guidelines and it was disappointing to see only eight companies reviewed include this. This statement became a requirement as it is a proxy for the "fair, balanced and understandable" requirement in the 2014 UK Corporate Governance Code ("the Code"). The Group has seen this contribute to higher standards of disclosure by FTSE 350 companies this year as it focusses the board's attention on disclosure and expects this will continue.

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

1.4.1.3 Compliance across the requirements

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

Publication of portfolio companies reports

Disappointingly, only 19 of the portfolio companies reviewed made the full audited report and accounts or an alternative report available on the company's website. The Group continues to reinforce the message that accounts should be readily accessible on the company's website. We have started to monitor this requirement in more depth across the population and while the majority of portfolio companies do provide this information on their website, there are still some companies that believe access to reports via the Companies House website is sufficient to meet this requirement. Further discussions will be held with portfolio companies to enforce this message next year.

Guidelines-specific requirements

Disappointingly, the proportion of weaker disclosures on the identity of the private equity firm and board composition remained high. All the portfolio companies in the sample reviewed identified the private equity fund(s) that were its owners and provided details on the private equity firms that had oversight of the company. However, the proportion of companies that only just met this requirement remained high at 30% (2014: 32%) and there were no instances of excellent or "best in class" disclosure (2014: 20%). The requirement to detail the composition of the board was also met with directors from the private equity firm identified. However, again, given improvements in listed company reporting, the proportion of companies providing disclosure to at least a good level fell from 76% last year to 65% this year. These two requirements are specific to the private equity industry and the Group expects all portfolio companies to aim for best practice, including further information on the private equity firms involved and governance arrangements in place.

The Guidelines require a financial review which explains the financial position of the portfolio company at the year end and identifies financial risks facing the company and the policies in place to manage and mitigate these. The level of excellent or good disclosure in these areas remained high at 85% for both areas (2014: 92% (financial review) and 84% (financial risks). The expectations placed on FTSE companies with respect to disclosure on going concern, risk and viability have also been raised this year through amendments to the Code and therefore, the financial review disclosures for portfolio companies require continued focus.

A statement of compliance is a new requirement in the revised Guidelines and only eight companies included a specific statement of compliance with the Guidelines in the annual report and financial statements.

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. This criteria does not directly correlate to the previous version of the Guidelines and was adjusted when the strategy disclosure became a separate requirement under the Companies Act. However, the 'Fair review of the business' requirement in the previous Guidelines, considering both the 'strategy' and 'market environment' elements was substantially similar. As such, we have not made a direct comparison with previous years but considered in greater detail the examples seen in the current review. 90% of the portfolio companies reviewed provided a good level of disclosure and therefore performed well on this requirement.

Principal risks and uncertainties were disclosed by all the portfolio companies reviewed and the better disclosures in this area also set out how the portfolio company sought to mitigate these risks. 10% of the sample reviewed provided an excellent level of disclosure which is lower compared to the prior year at 36%.

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. Unlike the prior year, there were fewer instances of companies providing disclosure to a basic level and this was pleasing to see. All portfolio companies provided disclosure on financial KPIs to at least a good standard (2014: 84%) and 85% of companies met this standard on non-financial KPIs (2014: 68%).

A continued theme is that disclosure in the areas above could be improved by **better linkage** to one another and other parts of the annual report and financial statements. This is also an area of weakness across the FTSE 350, although there have been improvements within the FTSE 100. The Group still believes a significant improvement is needed in this area.

Enhanced disclosure requirements

This was the first year that explicit disclosure on strategy and the business model was required. It was therefore expected that the level of excellent disclosure in this area would be limited and portfolio companies will need to assess this area carefully in the next cycle of reporting. This is particularly important for the business model disclosure as 50% of portfolio companies reviewed only met the minimum requirement.

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 was improved compared to the prior year with 90% of portfolio companies achieving at least a good standard (2014: 68%). However, disclosures still lacked a forward-looking orientation supported by qualitative or quantitative information.

The quality of disclosures on environmental matters and social and community issues was higher than in prior years. Disclosure on human rights issues was a new requirement this year and the quality of this varied amongst the portfolio companies reviewed. Levels of good or excellent disclosures on employees remained high at 80% in both 2015 and 2014.

Nearly half the population failed to attempt the gender diversity disclosure in our initial review. From our discussions with portfolio companies, the disclosure had been omitted in some instances as the preparers were not aware of the requirement, and in some cases the portfolio companies wanted to first see what others were doing in relation to this requirement. Where we have been involved in discussions with companies that had initially omitted the disclosure we note that there was not any significant resistance to providing the required information. Given the importance of this area more generally and politically, we expect to see an improvement in reporting in the next year.

1.4.1.4 Comparison of portfolio company reports to the FTSE 350

PwC conducted a review looking at the strategic reports of the FTSE 350 from the 2014-15 reporting cycle (1 April 2014 to 31 March 2015). 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 sample of portfolio companies reviewed	Guidance on how to improve disclosure
Telling an authentic story – using strategy as the main lynchpin of the narrative, many reports lack a clear and consistent story.	35% of FTSE 350 companies used strategy to determine the narrative of the report compared to 10% of portfolio companies reviewed.	The strategic report should be a fair reflection of internal business and strategic thinking, not just a compliance exercise. Using the strategy as the frame for the report will facilitate focus and direction of the narrative.
Measuring what matters – whilst most companies talk about their strategic plans in terms of operational priorities, financial measures dominate annual reports.	The average number of KPIs in the FTSE 350 is 8 with a 5:3 split in favour of financial over non-financial KPIs. The average number of KPIs in the portfolio companies reviewed was 7, also with a 5:3 split in favour of financial over non-financial KPIs.	The most common non-financial KPIs often relate to sustainability or health and safety, yet these topics rarely feature as key elements of companies' strategic priorities or principal risks. These non-financial KPIs should reflect the company's strategic priorities.

Key theme	Comparison between FTSE 350 and sample of portfolio companies reviewed	Guidance on how to improve disclosure
Relevant risk reporting - while it has improved, our review found many instances of generic and static risk reporting.	Many risk disclosures could give more quantified information; currently only 11% of FTSE 350 companies make reference to key risk indicators and fewer still actually quantify these, or indeed their appetite for the relevant risks. None of the portfolio companies reviewed made reference to key risk indicators, quantify these, or their risk appetite. However we note that the financial risks were generally better discussed.	Companies should discuss how risks have changed during the year, as well as the relationship between the principal risks and solvency and liquidity.
Looking to the future - with the forward-looking emphasis of the strategic report and the forthcoming viability statement under the Code, it will enable investors to take a longer-term view.	60% of FTSE 350 companies provided no information that looked beyond their next financial period. Those that did look further ahead often chose different periods throughout the report. We found that 85% of portfolio companies provided no information that looked beyond their next financial period.	Companies should address these concerns as it may also make it difficult to place the viability period in the context of market trends, strategic planning and the business model. Whilst we note that portfolio companies are not subject to this particular provision in the Code, when benchmarking reports to the FTSE 350, there could be an increased divergence in the quality of disclosure.

1.4.1.5 Feedback for private equity firms and portfolio companies

The Group will continue to provide feedback to firms and portfolio companies to raise the levels of disclosure and adherence to the Guidelines, and to promote these as standard industry practice. Each private equity firm and portfolio company reviewed will receive a letter setting out the detailed findings of this year's review and recommendations for improvements.

The Group commissioned PwC to publish an update to its Good Practice Guide in 2014, based on their findings and amended Guidelines. This incorporated the need for greater quality and clarity of disclosure to track the trends in both the FTSE 350 and the FTSE 100. This also sets out expectations for compliance with both the previous and amended requirements. This guide will be republished in early 2016 with further examples of good practice to assist firms and portfolio companies.

1.4.2 Private equity firm disclosures

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

Members of the BVCA met the requirements or were in the process of updating them at the time of the publication of this report. The BVCA and Group is monitoring how best to assess compliance with the disclosure requirements for private equity firms and this will continue to be an area of focus in 2015.

Members of the BVCA also signed a statement of conformity with the Guidelines with respect to their own disclosure and data provision requirements and those of their portfolio companies. This is an annual commitment for private equity firms covered by the Guidelines.

1.5 Performance of portfolio companies

As part of the Guidelines, the BVCA has commissioned research into the trading performance of portfolio companies and attribution analysis in respect of exits. EY LLP was commissioned again in 2015 to undertake this research and it will be published alongside this report at www.bvca.co.uk/Research. Disappointingly, there were five portfolio companies that did not provide the information requested: Biffa (Sankaty Advisors), Camelot (Ontario Teachers' Pension Plan), HC-One (Safanad, Formation Capital and management), Village Urban Resorts (KSL Capital) and Viridian Group (Arcapita). We note that Sankaty Advisors has complied in the past with our requests and intends to next year. The compliance rate for the provision of data is 92% which has fallen from 96% last year.

1.6 2016 activities for the Group

The Group's plan for 2016 includes:

- Supporting the industry when implementing the amended Guidelines that incorporate the strategic report and new requirements on the **business model, gender diversity and human rights issues**. Disclosures in the annual reports should be **underpinned by strategic priorities which clearly link different elements of reporting together**. The Group's Good Practice Guide and other reports published by the Financial Reporting Council ("FRC") should assist firms and portfolio companies when preparing annual reports.
- Monitoring changes in narrative reporting, such as the FRC's statements implementing the recommendations arising from the Sharman Panel of Inquiry into going concern and liquidity risks. These are likely to impact the expectations for disclosures on the financial review. The Group will also monitor the implementation of the Modern Slavery Act 2015 in the UK.
- Continuing to review the enterprise value thresholds in accordance with developing European legislation and regulation.
- Reviewing the quality of disclosures published by private equity firms about their own activities.
- Monitoring whether portfolio companies are **publishing their annual reports on a timely basis and within the six month timeframe**. This includes the expectation that the full audited annual reports and accounts should be available on the company's website.

The overall quality of disclosures should improve in the coming year as firms gain experience of complying with the new requirements in the Guidelines. The Group expects the private equity industry and portfolio companies to strive for good practice in reporting and will provide support and build awareness of the examples of excellent disclosure seen in the benchmark for compliance, the FTSE 350. In particular, companies should focus on the disclosures concerning the business model, gender diversity and human rights issues.

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 to 5 and summarised below. This summary includes the amendments to the requirements on enhanced reporting for portfolio companies that became effective for years ending on or after 30 September 2014.

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

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

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

A portfolio company is a UK company:

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

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

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

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

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

- The report should include a business review that substantially conforms to the provisions of Section 414C of the Companies Act 2006 including the Enhanced Business Review requirements that are ordinarily applicable only to quoted companies.
- A summary of the detailed requirements for portfolio company disclosure can be found in Appendix 3.

2.3 Disclosure and communication required by private equity firms

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

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

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

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

2.4 Recommendations for initiatives to be undertaken by the BVCA

The Guidelines recommended that the BVCA should:

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

3

REVIEW OF CONFORMITY WITH THE GUIDELINES

3.1 Introduction

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

Disclosure by a portfolio company	Communication by a private equity firm	Other requirements and recommendations
The requirements to make accounts and mid-year updates available, and for the accounts to meet enhanced disclosure requirements. This covered portfolio companies with accounting years ending up to and including 30 April 2015.	The requirement to make information about the firm available in an annual report on, or through regular updating of, the firm's website.	The requirements for firms and companies to provide data to the industry association, to follow established reporting and valuation guidelines and to ensure timely and effective communication as well as the recommendations for the BVCA relating to research, "private equity-like" entities and fund performance measurement.

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

Guidelines–specific disclosures

- Identity of private equity firm
- Details on board composition
- **Statement of conformity with the Guidelines**
- Financial review – position
- Financial review – financial risks

Business review – these are included in the Strategic Report for UK companies and could be included in the Directors Report or another appropriate report for non-UK companies	
Applicable to all companies[2]	**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 including environmental matters and employees	■ **Strategy** ■ **Business model** ■ Trends and factors affecting future development, performance or position ■ Environmental matters ■ Employees ■ Social, community and **human rights issues** ■ **Gender diversity information**

3.2 Overview of findings

This was the Group's first year monitoring implementation of the revised Guidelines which became effective for portfolio companies with years ending on or after 30 September 2014. Portfolio companies have differing year ends and the Group reviewed financial statements with years ending on or after 1 May 2014 to 30 April 2015, in turn meaning that the revised Guidelines applied to 17 of the 20 portfolio companies reviewed.

As highlighted above, the revised Guidelines implement the requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These have necessitated amendments to the Guidelines as they removed the requirement for a business review in the directors' report – which was the foundation for the enhanced disclosure requirements for portfolio companies – and moved this content, with a few additions, to a new report called the strategic report. The Group consulted on the updated Guidelines during 2014 and they were published in July 2014.

Overall, 95% of the sample reviewed in the current year achieved a good or excellent/"best in class" level of compliance compared to the entire sample in the prior year. This fall is perhaps unsurprising due to a combination of: a) the Guidelines including new requirements in the current year which can take time to implement and b) improvements in quality of reporting by listed companies in the FTSE 350, being the benchmark for judging compliance. Of the portfolio companies reviewed, one company, Viridian (backed by Arcapita), has not complied with the Guidelines in full this year. The Group is committed to working with Arcapita and Viridian to ensure compliance in the coming years.

The Group's objective is to ensure that all companies covered by the Guidelines report to a level at least equivalent to, or in advance of, FTSE 350 companies. The quality and level of disclosure is benchmarked against disclosures by these companies, with an emphasis on the better performers in that cohort, typically the FTSE 100. The Group has refreshed its definitions for measuring compliance this year to make it clearer how this review is carried out and further detail is included in Appendix 7.

Whilst overall compliance levels were good, there continued to be variability in the quality of disclosures on individual requirements and not all the companies reviewed met the publication and data provision requirements (see further below). The Group also reviewed whether the annual report and accounts were "fair, balanced and understandable" when taken as a whole.

[2] 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.

	Quality of disclosures 2015			Quality of disclosures 2014		
	Excellent	*Good*	*Basic*	*Excellent*	*Good*	*Basic*
Overall quality of disclosures	10%	85%	5%	*16%*	*84%*	*0%*
Fair, balanced & understandable	10%	65%	25%	*n/a*	*n/a*	*n/a*

There has been an increase in the quality of disclosures seen on the following criteria compared to the previous year:

- Key performance indicators, both financial and non-financial;
- Trends and factors affecting the future development, performance or position of the company;
- Environmental matters; and
- Social and community issues.

The assessment above was reached on the basis of fewer examples of disclosures that just met the minimum or basic standard. This is pleasing as the quality of disclosure in respect of the last two areas was weaker in last year's review.

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

- Identity of the private equity firm;
- Details of board composition;
- Business model; and
- Gender diversity.

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

The Group will explain where improvements can be made in feedback letters sent to private equity firms and portfolio companies. To promote good practice, these will highlight areas where disclosures could be improved beyond the basic requirements and examples will be published in a good practice guide by PwC in early 2016 based on the findings of this year's review.

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

There remains the need to link different parts of annual reports together using strategic priorities as the cornerstone.	There should be consistency between the different disclosures made such as those covering the portfolio company's risk assessment and key performance indicators.
A forward-looking orientation is still recommended particularly when discussing trends and factors that could affect the company's results.	Further consideration is required of the new requirements covering the business model, gender diversity and human rights issues, to ensure that quality of disclosure continues to improve.

3.3 Private equity firms and portfolio companies covered by the Guidelines

The Group has established a policy that all portfolio companies within the population will be reviewed:

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

In general, new entrants in the period covered by the Group's report are reviewed each year. However, for some portfolio companies it may be appropriate to start complying with the Guidelines in the second financial year under private equity ownership. This may be because their first year end following private equity ownership falls outside of the period covered by the review and the financial statements have been signed under previous ownership. There may also be cases where the acquisition structuring undertaken means that the results in the financial statements will not present a meaningful comparison to previous years or the future, although the Group notes pro-forma information could be used where possible. There were three new entrants therefore that were not reviewed in the current year as they were not in a position to comply fully with the Guidelines. These companies (and their backers) are: HC-One (Safanad, Formation Capital and management), Village Urban Resorts (KSL Capital) and Voyage Healthcare (Partners Group and Duke Street). All of these companies are backed by firms who are new to the Guidelines reporting process. As outlined in the feedback statement when the revised Guidelines were published in July 2014, the Group intended to be flexible in its approach to implementation in the first year of adoption for cases such as these. Therefore whilst these companies have been given a year's grace, we would strongly urge them to comply next year. Pizza Express is also a new entrant this year in the population as a stand-alone entity (it was previously part of the Gondala Group). Its reporting year end does not fall within the scope of this year's report and will be reviewed next year.

20 portfolio companies were selected for review this year, representing around a third of the total population – this is consistent with the approach the Group has taken in previous years. This sample selected included 15 companies reviewed previously and five reviewed for the first time.

Portfolio companies have differing year ends and the Group reviewed financial statements with years ending on or after 1 May 2014 to 30 April 2015. The revised Guidelines therefore applied to 17 of the 20 portfolio companies reviewed.

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

3.4 Disclosure by a portfolio company - detailed findings

Publication requirements

The Guidelines require the portfolio company's audited report and accounts to be readily accessible on the company website no more than six months after the company year end, and 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.

Only 19 out of the 20 portfolio companies reviewed made the audited report and accounts or an alternative report (that was not the full audited accounts available on the company's website). This is disappointing as it is a requirement of the Guidelines and the Group continues to reinforce the message that accounts should be readily accessible on the company's website.

The Group has been monitoring this aspect in more depth this year, including the requirement to publish within the six month period and in general, the majority of portfolio companies are complying with the requirement. We noted that searching for the company's annual report in a search engine often led you to the report which does demonstrate transparency. Further conservations are required with private equity firms to understand why publication of information is problematic.

The benchmark to assess compliance

The basic requirements are set out in the next section along with what is required to achieve good practice, comparable to the standard seen in the FTSE 350. The Group has continued to raise the required standard of overall disclosure to achieve compliance with the Guidelines as it benchmarks compliance against listed companies, with an emphasis on the better performers in this group. An excellent or "best in class" level of disclosure for portfolio companies is broadly comparable to those better performers in the FTSE 250 and further detail on how companies are benchmarked is included in Appendix 7.

The quality and level of disclosure by the FTSE 350 has increased in the last year due to new narrative reporting and corporate governance requirements in the UK. In particular, further detail is expected in relation to the risk, viability and going concern aspects of the Code which applies to premium listed companies. The Code also requires listed companies to confirm the financial statements are "fair, balanced and understandable". These simple words have had a significant impact on the quality of disclosure seen in listed company reporting as companies have re-evaluated how best to present their reports. To better assess the quality of compliance, the Group is also monitoring how companies are performing in relation to the "fair, balanced and understandable" requirement. Note that there is no requirement in the Guidelines to confirm this, as it is a requirement of the Code, instead, portfolio companies are required to state compliance with the Guidelines as proxy.

The quality of disclosure

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

	Quality of disclosures 2015				Quality of disclosures 2014		
Criteria reviewed	**Excellent**	**Good**	**Basic** *Note 1*	**Outside of scope** *Note 2*	**Excellent**	**Good**	**Basic**
Identity of the private equity firm	0%	70%	30%		20%	48%	32%
Details on board composition	10%	55%	35%		36%	40%	24%
Financial review:							
- *Financial position*	15%	70%	15%		12%	80%	8%
- *Financial risks*	10%	75%	15%		32%	52%	16%
Balanced and comprehensive analysis of development and performance during the year and position at the year end - *Note 3*	15%	75%	10%		n/a	n/a	n/a
Principal risks and uncertainties facing the company	10%	70%	20%		36%	48%	16%

	Quality of disclosures 2015				Quality of disclosures 2014		
Criteria reviewed	**Excellent**	**Good**	**Basic** *Note 1*	**Outside of scope** *Note 2*	**Excellent**	**Good**	**Basic**
Key performance indicators (KPIs) *-Financial KPIs*	10%	90%	0%		8%	76%	16%
-Non-financial KPIs	15%	70%	15%		24%	44%	32%
Strategy	10%	75%	15%		n/a	n/a	n/a
Business model	0%	35%	50%	15%	n/a	n/a	n/a
Trends and factors affecting future development, performance or position	10%	80%	10%		20%	48%	32%
Environmental factors	10%	80%	10%		12%	52%	36%
Employees	10%	70%	20%		12%	68%	20%
Social, community and **human rights** issues	10%	65%	25%		16%	40%	44%
Gender diversity	5%	25%	55%	15%	n/a	n/a	n/a
Essential contracts - *Note 4*	n/a	n/a	n/a		16%	52%	32%
Statement of conformity included in annual report	40%				n/a		

Note 1: This column includes one company that failed to comply overall. The exceptions to individual requirements are not presented on a disaggregated basis by the Group unless more than one company is named in the report as non-compliant.

Note 2: The new requirements under the revised Guidelines are highlighted in bold and these were not applicable for companies with years ending before 30 September 2014. This in effect only applies to the requirements on the business model and gender diversity as the others were expected to achieve compliance in other areas.

Note 3: This criteria does not directly correlate to the previous version of the Guidelines and was adjusted when the strategy disclosure became a separate requirement under the Companies Act. However, the 'Fair review of the business' requirement in the previous Guidelines, considering both the 'strategy' and 'market environment' elements, was substantially similar.

Note 4: Detail on a portfolio company's contracts and other arrangements is no longer required under a separate heading under the Companies Act 2006. However we expect this to be considered as part of the business model and assessment of principal risks when applicable.

3.4.1 Guidelines specific disclosures

Identity of the private equity firm	Expectations for compliance
The report should identify the private equity fund or funds that own the company and the senior executives or advisers of the private equity firm in the UK who have oversight of the company on behalf of the fund or funds.	To comply with this requirement, the identity of the private equity firm should be disclosed within the annual report together with the identity of the relevant senior executives of the firm. Attributes of **good practice** include: ■ Name of the fund as well as the name of the private equity firm; ■ Background on the private equity firm and explanation of its role; and ■ History of the ownership of the company, including that of previous equity owners.

This criteria continues to be adhered to well. As a simple factual disclosure, the majority of portfolio companies provided disclosure to at least a basic level, with 70% of the sample reviewed achieving a good standard (2014: 48%).

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

However, there were no instances of excellent or "best in class" disclosure this year (2014: 20%), as there were no examples of disclosure that stood significantly above the others that met the requirements of good practice. The proportion of weaker disclosures also remained high at 30% (2014: 32%). Given that this is a requirement specific to the private equity industry, firms need to significantly improve the quality of disclosure on this area.

Details on board composition	Expectations for compliance
The report should give detail on the composition of the board, identifying separately executives of the company, directors who are executives or representatives of the private equity firm and directors brought in from outside to add relevant industry or other experience.	The Companies Act requires the disclosure of the directors of the company; but this is not, by itself, sufficient to meet this requirement of the Guidelines. Additional disclosures are required to highlight which of the directors are also directors of, or had been appointed by, the private equity firm. Attributes of **good practice** include: ■ Additional explanations of the industry and other relevant experience that external directors bring to the company; and ■ Disclosure of other appointments.

This criteria continued to be met by the majority of portfolio companies in the current year to at least a good standard, however the proportion fell from 76% to 65%. The proportion of weaker disclosures worsened to 35% (2014: 24%). Given that this is also a requirement specific to the private equity industry, firms need to take steps to enhance their disclosures so they can achieve at least a good level of compliance.

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

Portfolio companies that demonstrated an excellent or "best in class" disclosure provided a significant level of additional disclosure, similar to a listed company, covering the wider aspects of governance and committees in place as well as how the board members form part of this. This was over and above the Guideline requirements, and was only achieved by a small number or 10% of portfolio companies in the current review, compared to 36% in the prior year.

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

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

Financial position at year end

This criteria has achieved a strong level of compliance across the years with 85% of the sample reviewed in 2015 presenting at least a good level of disclosure (2014: 92%).

Given the variety of funding structures in place across the portfolio companies reviewed, there has been a consistent level of discussion 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 levels, what type of covenants might be in place and performance against these. This disclosure was often made as part of the financial performance review for the year.

This was particularly well covered by 15% of the sample reviewed, who included this as part of an extensive treasury risk section and achieved an excellent level of disclosure (2014: 12%). The portfolio companies only meeting the basic requirement increased in 2015 to 15% from 8% in the prior year and this was generally due to a lack of clarity over the position, such as whether covenants were in place and if they had been met.

Disclosure on financial position, liquidity and funding continues to be an area of focus in reporting, and with increased requirements in the Code applying to premium listed companies for periods beginning on or after 1 October 2014, there will be further emphasis in this area. This will raise the bar in the wider reporting environment and in turn the benchmark against which the portfolio companies are reviewed.

Financial risks

This criteria continues to be adhered to well with 85% of the sample reviewed presenting at least a good level of disclosure (2014: 84%).

Although portfolio companies will have differences in the specific financial risks linked to their operations, this is a Guidelines criteria that can be easily evaluated across the population on an even basis. Most of the portfolio companies achieved a good level of disclosure (2015: 75% and 2014: 52%), 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 10% of the sample reviewed, although the level of excellent disclosure was higher in the prior year at 32%.

3.4.2 Strategic report disclosures required by UK Companies Act

Balanced and comprehensive analysis of development and performance during the year and position at the year end	Expectations for compliance
The 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.

This criteria does not directly correlate to the previous version of the Guidelines and therefore, we have not made a direct comparison with previous years but considered in greater detail the examples seen in the current review.

75% of the portfolio companies reviewed provided a good level of disclosure. We would expect to see all portfolio companies clearly articulate detail on the development and performance of the business in the year, as well as the year end position. This discussion should be balanced and represent a fair reflection of the business. We have seen many examples of this, with varying degrees of success, with some portfolio companies able to say more succinctly and so provide a direct insight into operations without losing the user in unnecessary dialogue. This was a similar finding to the FTSE 350 review (outlined earlier in this report), which identified that annual reports continue to grow in volume but this can distract from the quality of information presented and clarity of the message.

15% of the sample reviewed included "best in class" disclosure in their reports by, for example, focussing on individual business segments, taking each in turn to discuss the performance and future aims and detailing specific measures across the various brands which aided understanding at the operational level of what had been achieved.

Companies that achieved only a basic level of compliance (2015: 10%) did not provide greater insight into their operations and largely summarised the primary financial statements. Despite including significant insight on the wider market context, disclosure on performance could have benefited from a clearer alignment with the business strategy, providing additional detail and explanation of the performance of the group in the different business areas.

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

This Guidelines criteria continues to be well applied across the majority of portfolio companies, with alignment between the risk and strategy, as well as mitigation covered. 80% of the sample reviewed provided at least a good level of disclosure, slightly lower than the prior year at 84%.

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

Where companies performed well in this criteria, it was clear that risk management and mitigation was a key aspect of their business and this ensured they could articulate it, making them "best in class". However, the proportion of portfolio companies achieving this level of disclosure fell to 10% this year from 36% last year.

Key performance indicators (KPIs)	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include analysis using financial key performance indicators, and where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. "Key performance indicators" means factors by reference to which the development, performance or position of the company's business can be measured effectively.	For ease of confirming compliance and effective communication we encourage companies to explicitly disclose their KPIs and not leave it up to the readers to deduce what management consider to be 'key'. **Good practice** reporting goes further than just identifying KPIs and also provides: ■ A clear alignment of KPIs to the company's strategic priorities and remuneration policies so that their relevance as a basis for management's assessment of strategic success is clear; ■ An explanation of why each KPI has been included – it should be clear why this would be considered key; ■ A definition of how they have been calculated; ■ Quantified trend data; and ■ Targets or milestones, whether qualitative or quantitative.

Financial KPIs

In line with previous years the financial KPI criteria has been well met, with all portfolio companies in the review achieving at least a good level of compliance for the first time (2014: 84%). The level of excellent disclosure also increased to 10% from 8% in the prior year.

Portfolio companies have not simply stated the financial measure they have utilised, but also linked this to the strategy, provided a track record of performance or comparison to budget and explained this 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 really analyse the performance of the business. In line with FTSE 350 companies, financial measures dominate annual reports.

Non-financial KPIs

Non-financial KPIs have generally been less well presented than financial KPIs, although we note that in the current year the proportion of portfolio companies presenting information to at least a good level increased to 85% from 68%. Within this though, the level of excellent disclosure fell from 24% to 15%.

This is in line with the wider picture seen in the FTSE 350, where non-financial KPIs are generally less well reported and are often generic measures such as employee headcount, without establishing the context for the measure, other than employees inherently being seen as a key resource to the business. Where value is well disclosed 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.

Where portfolio companies have demonstrated a level of reporting above the expected requirements of the Guidelines to be "best in class", they have generally been meeting other regulatory reporting requirements, such as within the utility industries. However, this is not always the case, and some portfolio companies have provided an insight into their business through the inclusion of key non-financial metrics.

3.4.3 Enhanced Business Review

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

In previous years the Guidelines focused on discussing business performance in line with the strategy. On this basis, we have not provided a comparison against previous reviews but considered in greater detail the examples seen in the current review.

Where portfolio companies performed well, strategy was not isolated to one section of the reporting, but instead ran throughout the narrative. Linkage between strategies, risks and KPIs was an important part of ensuing a coherent document that delivered a fair, balanced and understandable report. This ensured that strategy is focussed across all aspects of the business and at all levels in the reporting. In this context, it was pleasing to see that 75% of the sample reviewed provided a good level of disclosure. The excellent or "best in class" examples representing 10% of the sample delivered this to a high standard.

Where strategy was less well represented, it tended to be presented as an isolated statement with a more generic feel; in many cases it lacked focus and an understanding of how this could be delivered. Where portfolio companies focused only on one aspect of their business model or strategy, it was unclear how management intended to focus on developing the rest of the business. Of the sample reviewed, 15% provided this level of basic disclosure.

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.

Information on the business model was required for the first time for portfolio companies with years ending on or after 30 September 2014. 85% of the sample reviewed was required to present this information and whilst they did comply, 50% of the disclosures were at a basic level and 35% were considered to be good. It was also noted that despite the business model disclosure being a new requirement this year, it has generally been sufficiently described in the principal activity of the company as part of the annual report.

This requirement was met in a number of ways, with some companies providing a diagram to illustrate the product life cycle, some providing a full narrative of their operations under the business model heading and some relying on the narrative of their operations in the report.

The most successful business model disclosures articulated clearly and simply how the business generates value, often through a simple diagram, to show where the business sits in the wider market and how this creates value for the end user. This enables the reader to understand the business without reading any further information in the annual report. 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 were left to extract how value was created for themselves.

As this is a new Guidelines requirement which has seen a mixed performance from the portfolio companies in the first year of adoption, the Group would recommend that further advice is sought by all portfolio companies to ensure compliance is met across the entire population.

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

In line with previous reviews and the FTSE 350, we found that forward looking statements were general in nature and mostly limited to the next 12 month period.

Weaker performers included statements that were general enough that they could have been included in most annual reports, being statements about the general macro-environment. These demonstrated little insight or additional information that the user would not be able to determine themselves from a basic understanding of business, though there were sufficient disclosures to cover the requirement. 10% of the population reviewed met the basic requirement and disclosures were generally more internally focussed.

80% of the sample reviewed provided disclosures to a good level, up from 48% in the prior year. These disclosures included some detail on strategic prioritisation or analysis specific to the portfolio company and/or market in which it operates.

The "best in class" examples went further in their discussions, going out for a period of over 12 months in terms of their plans, in line with wider market considerations. However this proportion fell to 10% in the current year from 20% last year.

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. For example it would be expected that water companies would focus on discussions about the level of water wastage and food manufactures would focus on reducing packaging, the levels of salt and hydrogenated fats in food. Attributes of **good practice** includes: ■ Discussion of the specific actions taken to address the environmental matters identified, supported by quantifiable evidence and specific targets where applicable; ■ Clear explanation, and alignment, of the specific environmental matters and strategy; and ■ Extracts from a company's Corporate and Social Responsibility Report often provide the most relevant disclosure; this can be cross-referenced to avoid duplication.

Compliance with this criteria improved significantly with 90% of the portfolio companies reviewed providing disclosures to at least a good standard, up from 64% in the prior year.

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.

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

As a key resource for nearly all businesses, it is evident that portfolio companies are able to articulate the importance of their employees and generally deliver a good level of compliance with the Guidelines in this area. In this year's review, 80% of the sample provided a disclosure to at least a good level, which is consistent with the prior year. However the proportion of companies providing excellent disclosure fell from 16% to 10%.

Weaker examples tended to include bland statements on employees without giving details of how relevant policies were practically put into action. Those that were considered to be 'best in class' included metrics which demonstrated how the portfolio company measured performance in managing their employees.

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

This criteria was well responded to in most cases, with 75% of the sample reviewed achieving a good level of compliance, up from 56% in last year's review. However, the level of discussion in this area is diverse among the portfolio companies and this can make it challenging to compare; each portfolio company is considered in relation to what they should be reporting on based on the nature of their operations.

Where portfolio companies presented a response that was specific to their business, this resulted in a good level of compliance (2015: 65% and 2014: 40%). 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, often with case studies. 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 was met by a large number of the portfolio companies explicitly, through either a specific statement confirming compliance with human rights legislation, or where applicable considering the wider supply chain and commenting on how it ensures suppliers meet these requirements. This was a new requirement in the current year.

The "best in class" examples fell from 16% to 10% and included extensive discussion considering all aspects of the business, such as health, supply chain management, responsible sourcing, nutrition, community interaction and charitable activities.

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.

As a new and distinctive requirement under the Guidelines it was expected there would be some challenges in all portfolio companies meeting this requirement. However it was disappointing that nearly half the population failed to attempt the disclosure in our initial review. From our discussions with portfolio companies, the disclosure had been omitted in some instances as the preparers were not aware of the requirement, and in some cases the portfolio companies wanted to see what other companies were doing in relation to this requirement. Where we have been involved in discussions with companies that have omitted the disclosure we note that there has not been any significant resistance to subsequently providing the required information.

Only 5% of the sample reviewed was awarded "best in class". They went above the Guidelines requirement, considering diversity on a gender and age split and discussing this further in the narrative, covering how diversity is a priority for the group. We note that 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.

Given we have only reviewed a third of the population in the current year review we would recommend that further advice is sought by portfolio companies to ensure compliance in future years across the whole population. We would also note that it is important the portfolio companies discuss what they are doing around policies to improve diversity and this will be an area where we expect the quality to improve.

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.

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

The Group believes a statement of compliance with the Guidelines can be incorporated into a company's annual report with relative ease and should not be contentious to do.

3.5 Review of disclosure by private equity firms

Review of disclosure by private equity firms	Expectations for compliance
"A private equity firm should publish an annual review accessible on its web-site or ensure regular updating of its website to communicate information about itself, its portfolio companies and its investors along with a commit-ment to the guidelines."	The requirement allows firms to either prepare a separate annual report or include the information generally within the firm's website. There is no further detail in the Guidelines on the quantity of disclosure expected and the Group is monitoring how best to measure compliance against this criteria in the future.

This is the third year the Group has reviewed the websites and/or annual reports of all private equity firms covered by the Guidelines to assess if they met the disclosure requirements above. This includes the publication of information covering details on their investment approach, UK portfolio companies, and leadership of the firm (see also Appendix 3 for further detail). Private equity firms were also required to sign an annual statement of conformity to the Guidelines. Many firms signed such a statement when the Guidelines were first launched and the Group mandated this as an annual commitment in 2013.

Members of the BVCA met the requirements or were in the process of updating them at the time of the publication of this report. This was not always the case for non-BVCA member firms covered by the Guidelines, of which only two expressed a commitment to comply with the Guidelines. This reflects the growth in the number of 'private equity-like' firms covered by the Guidelines in recent years as set out in Section 1.3.1 and Table 1.

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 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. 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 pages where this information could be displayed and only a few words are required for each. Providing case studies has also proven to be another criteria which firms are less likely to adhere to, however this is not a compulsory requirement. For firms which have an investor relations login section, information on limited partners is found after logging on.

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

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

Another point to consider when analysing firms' websites is their size; having a large website can make it more difficult to find Guidelines disclosures. This can be as a result of a number of microsites which stem from the parent website or due to the variation in strategies which the firm operates or located in the detail of specific funds. Therefore for larger websites, it would be beneficial to have a separate page for Guidelines disclosures.

3.6 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

- In general, most private equity firms owning portfolio companies that meet the criteria are cooperating with the BVCA in collating the detailed information required to prepare the 'BVCA Annual Report on the Performance of Portfolio Companies' commissioned by the BVCA from EY LLP. Disappointingly, there were five portfolio companies that did not provide the information requested: Biffa (Sankaty Advisors), Camelot (Ontario Teachers' Pension Plan), HC-One (Safanad, Formation Capital and management), Village Urban Resorts (KSL Capital) and Viridian Group (Arcapita). The Group is in discussions with the owners of these companies and some have expressed a commitment to comply next year. The compliance rate for the provision of data is 92% which has fallen from 96% last year.
- The private equity firms apply guidelines published by Invest Europe, the International Private Equity and Venture Capital Board or applicable accounting standards.
- The Group did not identify any instance where a private equity firm had not ensured timely and effective communication of a significant strategic change in a portfolio company.

3.6.1 Performance of portfolio companies

The annual review of the performance of portfolio companies, undertaken by the BVCA and EY is being published alongside this report. The report will be available on the BVCA website at www.bvca.co.uk/Research.

3.6.2 Engagement with "private equity-like" entities

The Guidelines extend to firms that conduct their business in a manner that would be perceived by external stakeholders to be similar to that of other participants in the private equity industry. The Group and the BVCA are continuing to hold discussions with other potential private equity or "private equity-like" firms, including sovereign wealth funds, with the purpose of enlisting their voluntary conformity with the Guidelines. A number of infrastructure fund managers, including Global Infrastructure Partners, Macquarie and Infracapital are complying with the Guidelines and have engaged with the BVCA throughout this process. Värde Partners and Goldman Sachs are firms operating in the credit opportunities space and have also complied with the requirements for portfolio companies this year.

As part of its monitoring activities last year, the Group reviewed the definition of a private equity firm under the Guidelines and amended it to incorporate private equity-like firms. The amended definition is as follows:

> 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.

3.6.3 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 2014, 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 Private Equity Reporting Group's approval will depend on the specific facts and circumstances and the extent to which control is exercised.

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

3i Group	Lion Capital
Advent International	Macquarie Infrastructure and Real Assets[#]
Apax Partners	Morgan Stanley Infrastructure Partners[3,#]
Apollo Global Management	Oaktree Capital Management[1,#]
Arcapita[1]	OMERS PE[#]
Bain Capital	Ontario Teachers' Private Capital[1,#]
Bridgepoint	PAI Partners
Cinven	Partners Group[2]
Clayton Dubiler & Rice	Permira Advisers
CVC Capital Partners	Providence Equity
Formation Capital[1,2]	Sankaty Advisors[3,#]
Global Infrastructure Partners[#]	Safanad[1,2]
Goldman Sachs[1,#]	TDR Capital
GTCR [1,2]	Terra Firma Capital Partners
Henderson Equity Partners[1]	The Blackstone Group
Hony Capital[1,2]	The Carlyle Group
Infracapital Partners[3,#]	TPG Capital
Kohlberg Kravis Roberts & Co	Värde Partners[1,#]
KSL Capital[1,2]	

The second table sets out other investors in the portfolio companies covered by this report. These firms have not been reviewed by the Group as it considered that the Guidelines do not apply to them.

Abu Dhabi Investment Authority[1,#]	GIC Special Investments[1,#]
AMCO Sarl[1,#]	GoldenTree Asset Management[1,#]
Angelo Gordon & Co[1,#]	Highbridge Capital Management[1]
Avenue Capital[1,#]	Highstar Capital[1,#]
Babson Capital[1,#]	Industry Funds Management[1,#]
Borealis[3,#]	JP Morgan Chase[1,#]
CalPERS[1,#]	Marathon Asset Management[1,#]
Canadian Pension Plan Investment Board[#]	National Pension Scheme of Korea[1,]
Cerberus Capital Management[1,#]	Palamon Capital Partners
Colonial First State Global Asset Management[1,#]	Park Square Capital[1,#]
Duke Street[2]	STAR Capital Partners
Exponent Private Equity	Sun Capital[1,2,#]
Fresh Direct[2,#]	Tikehau[1,2,#]
Future Fund[1,#]	York Capital Management[1,#]

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

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

Required portfolio companies

Portfolio company	Owners during 2014
Affinity Water	Morgan Stanley, Infracapital
Airwave Solutions [1]	Macquarie
Ambassador Theatre Group	Providence Equity Partners, (Exponent)
Amdipharm Mercury (AMCo) [1]	Cinven
Annington Homes [1]	Terra Firma
Associated British Ports	Goldman Sachs, Infracapital, (Borealis, GIC)
Biffa	Sankaty Advisors, (Babson Capital, Angelo Gordon & Co, Avenue Capital)
Birds Eye Iglo	Permira
Brakes Group [1]	Bain Capital, (Fresh Direct)
British Car Auction	Clayton Dubiler & Rice
Callcredit Information Group [1,2]	GTCR
Camelot	Ontario Teachers' Private Capital
Care UK	Bridgepoint
Center Parcs	Blackstone
Civica [1]	OMERS PE
David Lloyd Leisure [1]	TDR Capital
DFS [1]	Advent
Domestic and General Group	CVC
Edinburgh Airport	Global Infrastructure Partners
Enserve	Cinven
Equiniti [1]	Advent

Eversholt Rail	3i, Morgan Stanley, (STAR Capital Partners)
Expro	Goldman Sachs
Fat Face	Bridgepoint
Findus Group	Lion Capital, (Highbridge Capital, JP Morgan Chase)
Fitness First	Oaktree Capital Management, (Marathon Capital)
Four Seasons Health Care	Terra Firma
Gala Coral	Apollo, (Cerberus, Park Square, York Capital Management)
Gatwick Airport	Global Infrastructure Partners, (ADIA, CalPERS, National Pension Scheme of Korea, Future Fund)
HC-One [2]	Safanad, Formation Capital & management
Host Europe Group	Cinven
Integrated Dental Holdings [1]	Carlyle, (Palamon)
John Laing	Henderson
Keepmoat [1,2]	TDR Capital, (Sun Capital)
London City Airport	Global Infrastructure Partners, (Highstar Capital)
Moto	Macquarie
National Car Parks	Macquarie
New Day	Varde Partners
New Look	Permira, Apax
Northgate Information Solutions	KKR
Northgate Public Services [1,2]	Cinven
Odeon & UCI Cinemas	Terra Firma
Osprey (Anglian Water Group)	3i, (Colonial First State Global Asset Management, Canadian Pension Plan Investment Board, Industry Funds Management)
Pizza Express	Hony Capital
Pret a Manger [1]	Bridgepoint
Priory Group [1]	Advent
RAC [1]	Carlyle, (GIC)
R&R Ice Cream	PAI Partners
South Staffordshire Water	KKR
Stonegate Pub Company	TDR Capital
TES Global (previously TSL Education) [1]	TPG
Thames Water	Macquarie
The Vita Group	TPG
Top Right Group [1]	Apax
Trader Media	Apax
Travelodge	Goldman Sachs, (GoldenTree, Avenue Capital)
Village Urban Resorts [2]	KSL Capital
Virgin Active	CVC
Viridian Group [1]	Arcapita
Voyage Healthcare [2]	Partners Group (Duke Street, Tikehau)

Vue Cinemas [1]	OMERS PE
Worldpay [1]	Advent, Bain

Voluntary portfolio companies

Portfolio company	Owners during 2013
AWAS	Terra Firma
Consolidated Pastoral Company	Terra Firma
Garden Centre Group	Terra Firma
McCarthy & Stone	Goldman Sachs, TPG, AMCO Sarl and others

[1] Accounts reviewed this year

[2] Addition this year

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

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

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

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

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

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

A UK company

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

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

4. Content of enhanced disclosure by a portfolio company

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

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

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

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

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

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

   iii. Section 414C(7) provides:

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

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

   b) information about—

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

      (ii) the company's employees, and

      (iii) social, community and human rights issues,

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

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

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

   iv. Section 414C(8) provides:

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

   a) a description of the company's strategy,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Communication by a private equity firm

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

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

8. Reporting to limited partners

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

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

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

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

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

a) In respect of the previous calendar year:

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

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

10. Responsibility at a time of significant strategic change

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

11. Interaction with the Alternative Investment Fund Managers Directive

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

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

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

a) Annual report disclosures

AIFMD requirements– annual report disclosures *Regulation 42 of the AIFM Regulations (Annual report of AIFs exercising control of non-listed companies)*	**Guidelines requirements** *Part V Sections 4 and 5 of the Guidelines* *(Guidelines for enhanced disclosure by portfolio companies and private equity firms)*
The following disclosures are required about each non-listed company over which an AIF individually or jointly has control. They can be included in the annual report of the AIF and/or the non-listed company.	The following disclosures are required to be included in the annual report of the portfolio company and not the private equity fund.

■ A fair review of the development of the company's business representing the situation at the end of the period covered by the annual report;	Part V section 4 requires portfolio companies to prepare a strategic report which includes provisions in the Companies Act 2006 normally applicable to quoted companies. The strategic report requirements set out in s414C(2) and s414C(3) of the Companies Act 2006 will assist firms to comply with this requirement. They require "a fair review of the company's business" and a "balanced and comprehensive analysis of the development and performance of the company's business" during the financial year and the position at the end of that year. s414C(4) also requires the disclosure of financial and non-financial key performance indicators to support the analysis.
■ Any important events that have occurred since the end of the financial year;	The Group expects this information to be included to comply with the requirements of the strategic report as the report should have forward looking orientation. Further, this information is expected to be disclosed under UK and international accounting standards.
■ The company's likely future development; and	The strategic report requirements set out in s414C(7) of the Companies Act 2006 will assist firms to comply with this requirement. It requires information on "the main trends and factors likely to affect the future development, performance and position of the company's business."
■ Details of any acquisitions or disposals of own shares.	The Group expects this information to be included in the financial statements of the portfolio company where significant and has chosen not to incorporate this disclosure requirement as it was removed by BIS from the directors' report as it was not considered a significant disclosure. This approach is in line with Guidelines which do not prescribe disclosures that go beyond those required of quoted companies.
The disclosures must be made within six months of the year-end of the AIF.	Part V, section 5b) of the Guidelines requires the annual report of the portfolio company to be made available no more than 6 months after the company year end. Where the year end of the portfolio company and the AIF are the same then the AIFMD requirement is likely to be fulfilled. Where the year end of the portfolio company differs to that of the AIF then firms may need to amend the timing of reporting of the portfolio company accordingly.
If the information is included in the AIF's annual report then the AIFM must use best efforts to ensure the board of the company makes the information available to all employee representatives or (where there are none) to the company's employees directly.	Part V, section 5a) of the Guidelines requires the annual report of the portfolio company to be readily accessible on the company website. This ensures that employees and other stakeholders are able to access this information publicly.

b) Disclosures required on acquisition of control

AIFMD requirements – disclosures on acquisition of control *Regulation 39 of the AIFM Regulations (Disclosure in case of acquisition of control)*	**Guidelines requirements** *Part V Sections 4, 5, 7 and 10 of the Guidelines (Guidelines for enhanced disclosure by portfolio companies and private equity firms)*
When control is acquired, the AIFM must disclose its intentions to the regulator, the company and its shareholders about the future of the business and likely repercussions on employment by the company and material change in the conditions of employment.	Part V section 10 of the Guidelines sets out the responsibilities of the private equity firm at a time of significant strategic change. It requires a commitment to ensure "timely and effective communication with employees, either directly or through its portfolio company, in particular at the time of a strategic initiative or a transaction involving a portfolio company." Although the precise wording is not the same, the AIFMD requirements are in the spirit of what is intended by the Guidelines. The Guidelines, however, do not include the obligation to disclose information to regulators.
Other areas where disclosure is required:	
■ The identity of the AIFM(s) with control.	Part V sections 4a) and 4b) of the Guidelines require disclosure of the fund(s) that own the company, details on executives or advisers of the private equity firm that have oversight of the company and details on board composition, identifying those directors from the private equity firm.
■ The policy for preventing and managing conflicts of interest and information about the safeguards established to ensure any agreement between the AIFMs or the AIFs and the company is at arm's length.	Part V section 7 requires the private equity firm to disclose on its website (through an annual review or regular updates) a "confirmation that arrangements are in place to deal appropriately with conflicts of interest, in particular where it has a corporate advisory capability alongside" its fund management business. Details of the policy and applicable safeguards may be disclosed by the private equity firm although the Guidelines do not explicitly require this.
■ The policy for external and internal communication relating to the company, in particular as regards employees.	Part V section 4 requires portfolio companies to prepare a strategic report which includes provisions in the Companies Act 2006 normally applicable to quoted companies. Portfolio companies therefore include extended information about the company, and this occurs throughout the year. Section 5c) of the Guidelines requires the portfolio company to publish "a summary mid-year update giving a brief account of major developments in the company…no more than 3 months after mid-year." s414C(7) of the Companies Act 2006 requires information to be disclosed on the company's employees and the Group expects this to include policies related to employees. Further, Part V section 10 sets out the responsibilities of private equity firms in times of strategic change, including to employees.

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APPENDIX 4:
GUIDANCE ON THE DEFINITION OF A PRIVATE EQUITY FIRM AND PORTFOLIO COMPANIES WITHIN SCOPE

The guidance that follows is for the purpose of private equity firms when considering the definition of 'control' which forms part of the definition of a 'private equity firm' in the Guidelines.

New Walker companies

A portfolio company of a private equity firm or firms becomes a Walker company, subject to meeting the other criteria as laid out in the Guidelines, when any one of the following criteria is met:

1 It is evident the private equity firm holds a majority stake (>50% of the ordinary shares) in the underlying business; or

2 If a private equity firm, in its own financial statements, discloses that it maintains control of the portfolio company; or

3 A private equity firm has the ability to direct the financial and operating policies of a portfolio company with a view to gaining economic benefits from its activities. Consideration shall include, but not be limited to: management control; board seats; directors indicative of significant influence.

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 the Guidelines, and each of those firms will be assessed for compliance with the requirements that apply to them. Subject to prior approval by the Private Equity Reporting Group, this does not apply to minority shareholders which invest alongside other majority shareholder(s) and where both the majority shareholder(s) and the portfolio company comply with the Guidelines. The Private Equity Reporting Group's approval will depend on the specific facts and circumstances and the extent to which control is exercised.

Walker company exits

A portfolio company of a private equity firm is eligible for removal from the mandatory Walker population when any one of the following criteria is met:

1 The portfolio company is sold via a trade sale; or

2 A private equity firm exits via an Initial Public Offering, even if the private equity firm retains a majority stake. The newly listed vehicle will be bound by the reporting requirements mandatory for listed companies; or

3 An event occurs, such as a restructuring, whereby a private equity firm is no longer able to control the financial and operating policies of a portfolio company.

To ensure that the guidelines consider instances where there has been a dilution of ownership post initial acquisition, a private equity firm that holds 20 percent or more of the voting rights following such dilution will be presumed to exercise significant influence over that portfolio company, and will continue to be a Walker company, unless the contrary is shown. This test will not be applied at initial acquisition by a private equity firm, and will only be applied where there is a dilution of ownership post initial acquisition.

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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: EXTRACTS FROM THE COMPANIES ACT 2006

414C. Contents of strategic report

1 The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

2. The strategic report must contain—
   a. fair review of the company's business, and
   b. a description of the principal risks and uncertainties facing the company.

3. The review required is a balanced and comprehensive analysis of—
   a. the development and performance of the company's business during the financial year, and
   b. the position of the company's business at the end of that year, consistent with the size and complexity of the business.

4. The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—
   a. analysis using financial key performance indicators, and
   b. where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

5. In subsection (4), "key performance indicators" means factors by reference to which the development, performance or position of the company's business can be measured effectively.

6. Where a company qualifies as medium-sized in relation to a financial year (see sections 465 to 467), the review for the year need not comply with the requirements of subsection (4) so far as they relate to non-financial information.

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.

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.
9. In subsection (8), "senior manager" means a person who—
   a. has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company, and
   b. is an employee of the company.
10. In relation to a group strategic report—
    a. the reference to the company in subsection (8)(c)(i) is to the parent company; and
    b. the breakdown required by subsection (8)(c)(ii) must include the number of persons of each sex who were the directors of the undertakings included in the consolidation.
11. The strategic report may also contain such of the matters otherwise required by regulations made under section 416(4) to be disclosed in the directors' report as the directors consider are of strategic importance to the company.
12. The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.
13. Subject to paragraph (10), in relation to a group strategic report this section has effect as if the references to the company were references to the undertakings included in the consolidation.
14. Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.

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APPENDIX 7: 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 has refreshed its definitions for measuring compliance this year to make it clearer how this review is carried out and further detail 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 PwC "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 Section 3 of this report. It would be an excellent example of "fair, balanced and understandable" reporting, demonstrating clarity, linkage and consistency throughout. The winner of the Building Public Trust award for Corporate Reporting was Provident Financial Group (for the December 2013 annual report).
Good	A company would include most of the relevant attributes of each of the relevant Guidelines requirements as covered in Section 3 of this report. 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 best 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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