Private Equity Reporting Group

Twelfth Report

December 2019

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

PERG

Private Equity Reporting Group

PERG

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Executive summary

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

1.1 Key findings

- This review covers 55 portfolio companies (2018: 55) that fall within the scope of the Guidelines and the 47 firms (2018: 52) that back them (private equity firms and those operating in a private-equity like manner).
- All portfolio companies reviewed in the sample complied with the disclosure requirements in the annual report (2017: 100%). However, only 53% prepared disclosures to at least a good standard and this is a significant fall from prior year (2018: 73%). One company did prepare excellent disclosures overall (2018: none).
- 80% of portfolio companies have published an annual report in a timely manner on their website (2018: 81%). 68% of portfolio companies have published a mid-year update in a timely manner on their website (2018: 74%).
- 7% of portfolio companies have not complied with any of the three components of the Guidelines that apply to them this year (2018: 7%). These companies are backed by non-BVCA members.
- All BVCA members have published certain disclosures on their own websites to communicate information about themselves, their portfolio companies and their investors as required by the Guidelines.
- 89% of portfolio companies have provided data, which is presented in aggregate in the EY performance report published alongside this report (2018: 85%).

1.2 The requirements of the Guidelines

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

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

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

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

1.3 The Private Equity Reporting Group

The members of the PERG are:

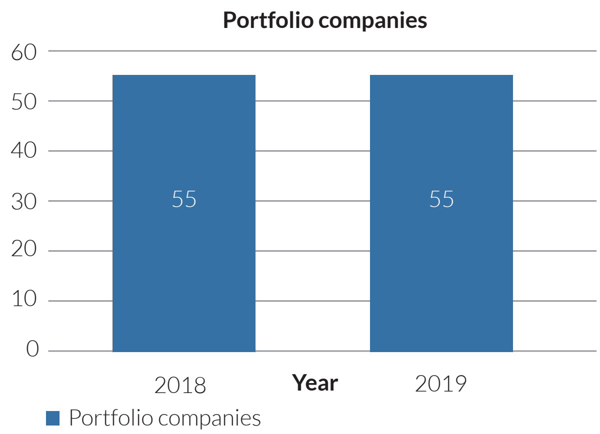
Nick Land	Chairman & independent member
Baroness Drake	Independent member
Glyn Parry	Independent member
Ralf Gruss	Industry representative (Apax)
Tony Lissaman	Industry representative (3i)

Meetings of the PERG are attended by Michael Moore, BVCA Director General and Gurpreet Manku, BVCA Deputy Director General and Director of Policy. PwC and EY, both advisers to the PERG and the BVCA, are also invited to attend.

The PERG would like to thank Tim Hames and Sundip Jadeja, who have now left the BVCA, for the significant contributions they had provided to the PERG's work over the years.

1.4 Portfolio companies required to comply with the Guidelines

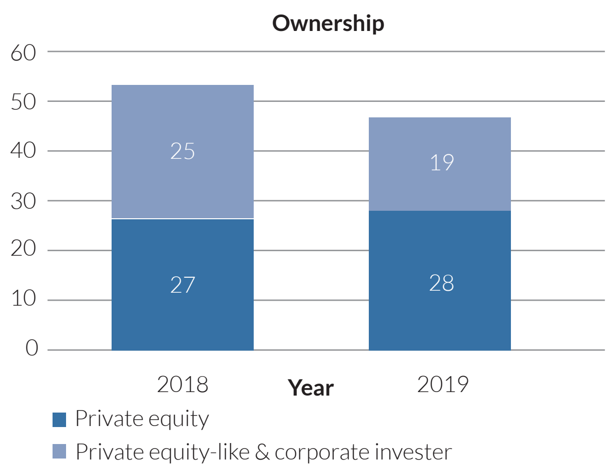
The Guidelines apply to the largest private equity-backed companies with a significant presence in the UK. The number of portfolio companies covered by the Guidelines this year is 55 (2018: 55). Further details on the portfolio companies are included in Appendix 2. The definition of a portfolio company is in Appendix 3.



1.5 Private equity firms within scope of the Guidelines

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

The number of firms covered by the Guidelines has decreased to 47 this year (2018: 52). The full definition is set out in Appendix 3, and Appendix 1 explains how minority and other shareholders are monitored.



1.6 Overall compliance with the Guidelines

Based on our detailed review of the sample and our knowledge of the full population, four portfolio companies have not complied in full with any of the three components of the Guidelines (enhanced annual report disclosures and preparation of a mid-year update; the publication of these reports; and the provision of data to EY). These companies are backed by non-BVCA members and were Advanced, London City Airport, Punch Taverns and PureGym. The PERG is disappointed that these companies are not complying with the Guidelines and will continue to engage with their owners.

1.7 Compliance with the disclosure requirements in the Guidelines

Sample

Each year, a sample of approximately a third of the population of portfolio companies that fall within the scope of the Guidelines is reviewed for compliance with the disclosure requirements. PricewaterhouseCoopers LLP ("PwC") was reappointed as an independent advisory firm to assist the PERG in carrying out this year's review. The sample included companies with accounting years ending up to and including 30 April 2019.

PwC has reviewed a sample of 17 portfolio companies this year (2018: 15). Through annual sampling, the PERG aims to ensure that all portfolio companies are reviewed at least once every three years, and will continue with its policy of re-reviewing companies where the reporting does not comply with the Guidelines.

Measuring compliance

PwC first checks if portfolio companies have included the disclosures required by the Guidelines.

Secondly, the PERG commissions PwC to form a view on the quality and standard of the disclosures and classify them as being excellent, good or meeting the level of basic compliance. This is a subjective judgement made by PwC from assessing how many of the expected attributes of good quality reporting in each of the Guidelines' criteria are included in the disclosures, utilising those expectations set out in the PwC Good Practice Guide. To help inform this assessment and determine the level required to obtain a "good" rating, PwC also performs a read across of the portfolio companies' disclosures to the standard typically seen in the financial statements of companies within the FTSE 250 and also consider other developments in good corporate reporting.

Companies in the FTSE 100 are not generally considered to be comparable to the portfolio companies covered by the Guidelines due to their size and geographical reach (the FTSE 100 companies are generally multinational whereas the portfolio companies have significant UK operations) and therefore do not form part of this assessment. Further detail on how compliance is measured is included in Appendix 4.

Quality of disclosures by portfolio companies in their annual report

All portfolio companies reviewed in the sample of 17 companies complied with the disclosure requirements in their annual reports (2017: 100%). However, only 53% prepared disclosures to at least a good standard and this is a significant fall from prior year (2018: 73%). One company did prepare excellent disclosures overall (2018: none). This demonstrates that private equity firms need to spend further time with their portfolio companies to ensure knowledge of the Guidelines' requirements is embedded in the annual reporting cycle, and that companies seek to continuously improve the quality of the disclosures they provide.

The key findings and areas for improvement are summarised below:

- Details of board composition: The quality of disclosures in this area continued to be high.
- Non-financial KPIs, strategy, business model and human rights issues: Further improvements are required as more detail and relevant information is required in each of these areas, with a specific trend noted around the lack of linkage of strategy to the rest of the disclosures as would be expected.
- Gender diversity: The disclosures have improved on previous years and include more detail on policies.

The quality of disclosures in listed company reporting continues to improve. Portfolio companies should therefore be aware that producing the same disclosures year-on-year will not necessarily result in the same grading in future years. For example, a disclosure measured as being good three years ago, may now only be judged as being basic when compared to listed companies.

A statement of compliance in the annual report of the portfolio company is a requirement of the Guidelines. 76% of companies have included such a statement in their annual report, which is an improvement on the preceding year (2018: 60%), although this should be higher. The PERG views this statement as a proxy for the "fair, balanced and understandable" requirement under the UK Corporate Governance Code. This governance statement and the continuing scrutiny placed on FTSE 250 companies by wider stakeholders (such as the media and employees) have driven significant improvements to the standard of reporting by FTSE 250 companies.

Feedback for private equity firms and portfolio companies

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

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

1.8 Compliance with the publication requirements of the Guidelines

Portfolio companies are subject to two publication requirements:

Requirement	Results of review
Publication of annual reports: Portfolio companies should publish their annual audited reports on their websites no more than 6 months after the company year-end.	80% of portfolio companies published an annual report within 6 months of year-end on their website (2018: 81%).
Mid-year update: Portfolio companies should publish a summary mid-year update giving a brief account of major developments in the company within 3 months of mid-year.	68% of portfolio companies published a mid-year update within 3 months of mid-year on their website (2018: 74%).

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

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

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

1.10 Performance of portfolio companies

Each year the BVCA commissions research into the performance of portfolio companies compared to public benchmarks and an attribution analysis in respect of exits. EY LLP was reappointed in 2019 to undertake this research and this has been published at **www.bvca.co.uk/Research**. The compliance rate for the provision of data is 89% (2018: 85%). The research states the results based on the data received and further interpretative analysis cannot be easily performed given the number of companies included in the dataset e.g. if a metric has increased, the specific reasons behind this cannot be inferred simply based on other data received as there may be other internal and external factors to consider.

Key findings from the report include:

- The average timeframe of private equity ownership of portfolio companies is 5.8 years and the current portfolio companies have been owned for an average of 3.8 years.
- Organic employment growth under private equity ownership is 1.5% per annum, which is above the UK private sector benchmark at 1.3% per annum.
- Average employment cost per head has grown under private equity ownership by 2.9% per annum, which is above the UK private sector benchmark at 2.7% annual growth.
- 42% of the current portfolio companies have made net bolt-on acquisitions while 11% have made net partial disposals.
- Capital productivity growth is 6.9% which exceeds the public company benchmark of 1.2% per annum.
- Portfolio companies have grown reported revenue at 7.1% per annum and profit at 4.4% per annum in line with public company benchmarks.
- The equity return from portfolio company exits is 3.4x the public company benchmark; over half of the additional return is due to private equity strategic and operational improvements, and the rest from additional financial leverage.

1.11 PERG's 2020 activities

The PERG's plan for 2019 includes:

- Supporting and educating the industry when implementing the Guidelines. The Good Practice Guide published alongside this report and other reports published by the Financial Reporting Council ("FRC"), such as its 2018 Guidance on the Strategic Report, should assist firms and portfolio companies when preparing annual reports.
- Monitoring the publication of annual reports and mid-year updates by portfolio companies on their websites to ensure these are on a timely basis as further improvements are required.
- Monitoring the impact of the changing narrative reporting landscape in the UK. This includes the reporting requirements on directors' duties, engagement with stakeholders and corporate governance arrangements, including the related Wates principles on corporate governance for large private companies. We will also monitor the review of the EU Non-Financial Reporting Directive (which was implemented in 2017).
- Monitoring how companies are reporting on sustainability matters including the impact of the UN Sustainable Development Goals and the recommendations of the Task Force on Climate-related Financial Disclosures.

Sustainability and building trust in business remains high on the public and political agenda. The Guidelines provide a framework for the private equity industry to address the increased scrutiny of business and explain its approach to employees and other stakeholders, environmental matters and social issues. The Guidelines also continue to highlight private equity's economic contribution to the UK. The PERG welcomes the efforts of BVCA members, but private equity firms and portfolio companies must increase their efforts given the fall in the quality of disclosures this year, particularly on areas highlighted in this report.

2

Review of conformity with the Guidelines

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

Disclosures by portfolio companies	Publication of portfolio company reports	Communication by private equity firms	Other requirements and recommendations
The requirements to include enhanced disclosures in the audited annual report and financial statements, and prepare a mid-year update.	The requirement to publish the audited annual report and financial statements, and a mid-year update in a timely and accessible manner.	The requirement to make information about the firm available in an annual report on, or through regular updating of, the firm's website.	The requirements for firms and companies to provide data to the BVCA, to follow established reporting and valuation guidelines and to ensure timely and effective communication. There are recommendations for the BVCA relating to research, engagement with "private equity-like" entities and fund performance measurement.
This covers portfolio companies with accounting years ending up to and including 30 April 2019.			

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

2.1 Overall compliance

55 portfolio companies were within scope of the Guidelines in 2018 (2018: 55). Of this number, four portfolio companies have not complied with any of the three components of the Guidelines this year (enhanced annual report disclosures and preparation of a mid-year update, the publications of these reports, and the provision of data to EY):

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

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

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

2.2 Disclosures by portfolio companies in annual reports

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

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

2.2.1 Overview of portfolio company disclosure findings

The PERG's objective is to ensure that all companies covered by the Guidelines strive to report to a level equivalent to FTSE 250 companies. To clarify how this review is carried out, the PERG's definitions for measuring compliance are included in Appendix 4.

Overall quality of disclosures	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	47%	47%	0%	0%	73%	27%	0%

Whilst all companies reviewed in the sample did comply with the disclosure requirements, only 53% of the achieved a good standard of disclosure (2018: 73%) and this is a significant fall compared to the previous year. However one company did prepare excellent disclosures (2018: none). This demonstrates that private equity firms need to spend further time with their portfolio companies to ensure knowledge of the Guidelines' requirements is embedded in the annual reporting cycle, and that companies seek to continuously improve the quality of the disclosures they provide.

To improve the quality of disclosures, portfolio companies should keep in mind the following:

- All companies have provided disclosures on human rights issues and gender diversity. Whilst there has been an improvement on previous years, disclosures in both areas tend to be basic in quality when expectations to disclose more around policy and practice in these areas is increasing. There may be some misunderstanding about how these requirements interplay with other legal requirements. Whilst we recognise that companies are complying with their gender pay gap and Modern Slavery Act reporting requirements, these are not the same as the Guidelines requirements. In some instances, this has in fact led to basic disclosures in these areas. Firms are reminded to refer to the Good Practice Guide for examples of the disclosures expected.

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

- The quality of reporting by listed companies continues to improve. Portfolio companies should therefore be aware that producing the same disclosures year-on-year will not necessarily result in the same grading in future years. For example, a disclosure measured as being good three years ago, may now only be judged as being basic when compared to listed companies.

Other key findings are summarised below:

- Details of board composition: The quality of disclosures in this area continued to be high.
- Non-financial KPIs, strategy, business model and human rights issues: Further improvements are required as more detail and relevant information is required in each of these areas, with a specific trend noted around the lack of linkage of strategy to the rest of the disclosures as would be expected.
- Gender diversity: The disclosures have improved on previous years and include more detail on policies.

All companies in the sample that did not initially comply with all of the disclosure requirements sought to address their exceptions this year through provision of additional disclosure on their website (2018: 100%). This was with the understanding that the additional disclosures would be included in the company's next annual report.

2.2.2 Portfolio companies reviewed

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

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

17 portfolio companies were selected for review this year (2018: 15), representing around a third of the total population – this is consistent with the approach the PERG has taken in previous years. This sample consists of:

- 8 portfolio companies that have not been previously reviewed, being new entrants to the population (2018: 4);
- 9 portfolio companies that have been previously reviewed and assessed as compliant (2018: 9); and
- No portfolio companies that remained non-compliant or had a poor quality disclosures at the end of the review process last year have been re-reviewed in the current year (2018: 3).

Portfolio companies have differing year-ends and the annual reports with years ending on or after 1 May 2018, and up to and including 30 April 2019 have been reviewed.

PureGym (owned by Leonard Green & Partners), Punch Taverns (Patron Capital), Advanced (Vista Private Equity) and London City Airport (OMERS Infrastructure, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation and Wren House Infrastructure Management) have not engaged with the PERG again this year, hence their annual reports have not been reviewed. All companies are noted as being non-compliant with the Guidelines and the PERG will continue to attempt to engage with their respective owners to encourage compliance in the future. The owners are non-BVCA members.

The following companies were given a first year's grace given the timings of the transaction (e.g. if it was close to the company's year-end) or for other reasons (e.g. significant operational and business changes that means the disclosures will not be comparable year-on-year): Alexander Mann Solutions (OMERS Private Equity); Esure Group (Bain Capital); IRIS Software Group (Hg); JLA (Cinven); VetPartners (BC Partners); and ZPG (Silver Lake Capital).

2.2.3 Measuring compliance

The basic requirements are set out in the next section along with a link to the Good Practice Guide. In the first part of its review, PwC checks if portfolio companies have included the disclosures required by the Guidelines.

For the second part of the review, the PERG commissions PwC to form a view on the quality and standard of the disclosures and classify them as excellent, good or as meeting the level of basic compliance. In practice, this is a subjective judgement made by assessing how many of the expected attributes of good quality reporting in each of the guidelines criteria are included in the disclosures, utilising those expectations set out in the PwC Good Practice Guide.

To inform this assessment and determine the level required to obtain a "good" rating, PwC also performs a read across of the portfolio companies' disclosures to the standard typically seen in the financial statements of companies within the FTSE 250 and consider other elements of good corporate reporting such as the:

- level of information and the way in which it is disclosed;
- clarity of the narrative;
- cohesiveness and linkage of different disclosure areas;
- use of text and visuals; and
- overall user-friendliness.

The companies in the FTSE 100 are not generally considered to be comparable to the portfolio companies covered by the Guidelines due to their size and geographical reach (the FTSE 100 companies are generally multinational whereas the portfolio companies have significant UK operations) and therefore do not form part of this assessment. Further detail on how compliance is measured is included in Appendix 4.

Fair, balanced and understandable	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	47%	47%	0%	0%	67%	33%	0%

The quality and level of disclosure by the FTSE 250 has increased in the last few years due to new narrative reporting and corporate governance requirements in the UK. In particular, further detail is expected in relation to the risk, viability and going concern aspects of the UK Corporate Governance Code ("the Code") that applies to premium listed companies. The Code also requires listed companies to confirm the financial statements are "fair, balanced and understandable". This governance statement, and the continuing scrutiny placed on FTSE 250 companies by wider stakeholders (such as the media and employees) has driven significant improvements to the standard of reporting by FTSE 250 companies.

To assess the quality of compliance more effectively, the PERG is also monitoring how companies are performing in relation to the "fair, balanced and understandable" requirement. Note that there is no requirement in the Guidelines to confirm this, as it is a requirement of the Code. Instead, portfolio companies are required to state compliance with the Guidelines as a proxy (see below). There has been a significant fall in the quality of "fair, balanced and understandable" disclosures this year with only 53% of companies achieving at least a good standard (2018: 67%). The PERG recommends that firms review the Good Practice Guide to identify how portfolio companies can improve.

2.2.4 Feedback for private equity firms and portfolio companies

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

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

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

2.2.5 Disclosure by a portfolio company – detailed findings

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

Guidelines specific disclosures

Identity of the private equity firm	Expectations for compliance
The report should identify the private equity fund or funds that own the company and the senior executives or advisers of the private equity firm in the UK who have oversight of the company on behalf of the fund or funds.	See section 1 of the Good Practice Guide (page 10).

Identity of the private equity firm	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	53%	47%	0%	0%	60%	40%	0%

53% of the sample reviewed achieved at least a good standard (2018: 60%), however again no companies were considered excellent this year.

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

Details of board composition	Expectations for compliance
The report should give detail on the composition of the board, identifying separately executives of the company, directors who are executives or representatives of the private equity firm, and directors brought in from outside to add relevant industry or other experience.	See section 2 of the Good Practice Guide (page 12).

Details of board composition	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	18%	70%	12%	0%	7%	73%	20%	0%

This criterion continues to be well adhered to by portfolio companies with all companies compliant this year. 88% of the companies reviewed produced good or excellent quality disclosures (2018: 80%), clearly articulating the experience of the board members, demonstrating why they are appropriate for that role. The small number of weaker examples only listed the directors for the period, which is the Companies Act 2006 requirement, and identified which directors represented the private equity house.

18% of companies achieved an excellent disclosure compared to 7% in 2018. These included a significant level of additional disclosure, similar to a listed company, covering the wider aspects of governance and committees in place, as well as how the board members form part of this.

Financial review	Expectations for compliance
The financial review should cover risk management objectives and policies in the light of the principal financial risks and uncertainties facing the company, including those relating to leverage, with links to appropriate detail in the footnotes to the balance sheet and cash flow section of the financial statements.	See sections 3 and 4 of the Good Practice Guide (pages 14 and 16).

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

Financial position at year-end	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	35%	59%	0%	0%	60%	40%	0%

The quality of disclosures has fallen with only 41% of companies achieving at least a good standard this year (2018: 60%).

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

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

Financial Risks	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	35%	59%	0%	0%	47%	53%	0%

The quality of disclosures has fallen with 41% of companies achieving at least a good standard this year (2018: 47%).

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

Where portfolio companies went into their mitigation strategies and provided quantitative information to support the risk assessment, this was beneficial for the user of the accounts and provided the appropriate level of insight. None of the companies reviewed this year achieved an excellent standard (2018: 0%).

Strategic report disclosures required by UK Companies Act

Balanced and comprehensive analysis of development and performance during the year and position at the year end	Expectations for compliance
The strategic report must contain a balanced and comprehensive analysis of development and performance of the company's business during the year and position at the end. The purpose of this is to inform the members of the company and help them assess how the directors have performed their duty.	See section 5 of the Good Practice Guide (page 18).

Balanced and comprehensive analysis of development and performance during the year and position at the year-end	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	18%	41%	41%	0%	14%	73%	13%	0%

The quality of disclosures has fallen with 59% of companies achieving at least a good standard this year (2018: 87%).

Good levels of disclosure require a balanced discussion on the development and performance during the year, fairly reflecting the business. Some of the stronger performers were able to narrate this succinctly and provide a direct insight into operations in a distinctive and strategic way that is relevant.

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

Principal risks and uncertainties facing the company	Expectations for compliance
The report must contain a description of the principal risks and uncertainties facing the company.	See section 6 of the Good Practice Guide (page 20).

Principal risks and uncertainties facing the company	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	18%	47%	35%	0%	6%	47%	47%	0%

Portfolio companies continue to perform well by producing disclosures on the principal risks and uncertainties they face covering the alignment between the risk and strategy, as well as the mitigation processes.

There was a mixed level of discussion on risks, even within the same report of some portfolio companies where they performed very well on one or two specific risks which were truly key to the business, but with some boiler plate discussion on other risks. 18% of companies performed very well this year (2018: 6%), presenting a dynamic risk discussion and mitigation processes.

Key performance indicators (KPIs) – financial and non-financial	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include analysis using financial key performance indicators, and where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. "Key performance indicators" means factors by reference to which the development, performance or position of the company's business can be measured effectively.	See sections 7 and 8 of the Good Practice Guide (pages 22 and 24).

Financial KPIs	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	41%	53%	0%	7%	86%	7%	0%

The quality of disclosures has fallen significantly with only 47% of companies achieving at least a good standard this year (2018: 93%).

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

Non-financial KPIs	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Explanation provided	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	35%	47%	12%	7%	53%	40%	0%

The quality of disclosures has fallen with 41% of companies achieving at least a good standard this year (2018: 60%). 12% of the sample provided an explanation for non-compliance which was accepted by PERG.

Where value is well delivered in annual reporting these non-financial KPI measures are linked to key strategic priorities, often relating to delivery of goods and services. They are presented alongside the financial key performance indicators and shown to have a similar level of importance and management focus.

Enhanced business review

Strategy	Expectations for compliance
The report should clearly articulate how the business intends to achieve its objectives.	See section 9 of the Good Practice Guide (page 26).

Strategy	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	41%	53%	0%	13%	60%	27%	0%

Portfolio companies have not performed as well as previous years in disclosing a strategy that ran throughout the narrative, with 47% of companies producing at least a good standard of disclosure (2018: 73%).

Linkage between strategies, risks and KPIs was an important part of a coherent narrative that delivered a fair, balanced and understandable report. This ensures that strategy is focused across all aspects of the business and at all levels in the reporting.

53% of companies disclosed a basic level of disclosure on strategy, presenting a generic and isolated statement, which in many cases lacked focus and an understanding of how this could be delivered (2018: 27%). In some cases, the strategy was included as a sentence within a larger paragraph and not clearly identifiable

Business model	Expectations for compliance
The report must include a description of the business model.	See section 10 of the Good Practice Guide (page 28).

Business Model	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	12%	29%	59%	0%	7%	53%	40%	0%

This requirement continues to be met in a number of ways, but the standard of disclosure has fallen from prior year. Some companies providing a diagram, some providing a full narrative of their operations, and some combining the business model with the strategy section. The weakest companies relied on the narrative of their operations in a wider context. Taking the latter approached tended to result in a basic level of compliance (2019: 59%; 2018 40%).

Good or excellent examples of business models (41% of portfolio companies; 2018: 60%) articulated clearly and simply how the business generates value, often through a simple diagram, to show where the business sits in the wider market and how this creates value for the end user, including the inputs and outputs that are identified as important. Less developed discussions allowed the reader to understand the segments of the business, but left them to extract how value is created.

Trends and factors affecting future development, performance or position	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include the main trends and factors likely to affect the future development, performance and position of the company's business.	See section 11 of the Good Practice Guide (page 30).

Trends and factors affecting future development, performance or position	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	35%	59%	0%	0%	67%	33%	0%

In line with previous reviews, forward-looking statements were general in nature and mostly limited to the next 12-month period. They also did not provide enough understanding in line with the applicable market or industry.

Basic disclosures included statements that were general enough that they could have been included in most annual reports, despite other sections of the annual report highlighting short term financial risks e.g. economic impact of Brexit. These statements provided little additional information for the users of the accounts, although included sufficient appropriate references to comply with the basic guideline requirements. 59% of companies produced such basic disclosures (2018: 33%).

Only 41% of companies this year achieved at least a good level of compliance and provided analysis specific to the portfolio company and/or the market in which it operates and provided context to the portfolio company's current and expected performance (2018: 67%).

Environmental matters	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about environmental matters (including the impact of the company's business on the environment), including information about any policies of the company in relation to those matters and the effectiveness of those policies.	See section 12 of the Good Practice Guide (page 32).

	Quality of disclosures 2019				Quality of disclosures 2018			
Environmental matters	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	12%	47%	41%	0%	0%	60%	40%	0%

Overall, compliance with this disclosure has improved this 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.

12% of companies produced excellent disclosures this year compared to 0% in 2018. However, there were some good examples of aligning environmental policies to strategy.

Employees	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about the company's employees including information about any policies of the company in relation to those matters and the effectiveness of those policies.	See section 13 of the Good Practice Guide (page 34).

	Quality of disclosures 2019				Quality of disclosures 2018			
Employees	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	53%	47%	0%	0%	67%	33%	0%

Employees are essential for nearly all businesses and it is evident that portfolio companies are able to articulate the importance of their employees and comply with the Guidelines in this area. 47% of companies reviewed provided a basic disclosure (2018: 33%), which tended to make blander statements on employee areas without giving details of how the policies were practically put into action.

Social, community and human rights issues	Expectations for compliance
The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies.	See section 14 of the Good Practice Guide (page 36).

Social, community and human rights issues	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	0%	41%	59%	0%	7%	40%	53%	0%

Portfolio companies prepared good disclosures on the general social and community aspects of this requirement, but poor compliance continued to be seen on human rights commentary. Considering the increased expectations in this area, partly due to the legal requirements to report under the Modern Slavery Act, portfolio companies should strive for improved disclosures in this area.

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

The 41% of portfolio companies that focused specifically on their business produced good disclosures (2018: 47%). A number of portfolio companies focussed on the charitable contributions by the company and its people.

Gender diversity	Expectations for compliance
The report must include a breakdown at the end of the financial year to show: ■ the number of each sex who were directors of the (parent) company; ■ the number of people of each sex who were senior managers of the company (other than those already identified as directors); and ■ the number of people of each sex who were employees of the company. The updated Guidelines allow the portfolio company to apply their own definition for the role of a senior manager.	See section 15 of the Good Practice Guide (page 38).

Gender diversity	Quality of disclosures 2019				Quality of disclosures 2018			
	Excellent	Good	Basic	Non-compliant	Excellent	Good	Basic	Non-compliant
All companies reviewed	6%	47%	47%	0%	0%	20%	80%	0%

The level of compliance on gender diversity disclosures has improved as 53% of disclosures are rated as good or excellent compared to only 20% in 2018.

This is an area of increasing focus in the wider corporate reporting environment because of the gender pay gap reporting requirements for many companies. However, portfolio companies should be aware that the Guidelines requirements differ from the gender pay gap reporting requirements and production of disclosures for one requirement will not be sufficient to be compliant with the other.

Statement of compliance	Expectations for compliance
The report should include a statement by the directors of the portfolio company confirming compliance with the Guidelines or setting out explanations for areas of non-compliance.	See page 9 of the Good Practice Guide.

Statement of compliance	2019		2018	
	Included	Not included	Included	Not included
All companies reviewed	76%	24%	60%	40%

76% companies reviewed included a specific statement of compliance with the Guidelines in the annual report and financial statements (2018: 60%). The PERG believes a statement of compliance with the Guidelines can be incorporated into a company's annual report with relative ease and it should not be contentious to comply with this requirement.

2.2.6 Developments in narrative reporting

Each year the PERG monitors developments in narrative reporting for listed and other large companies to assess how they might affect portfolio companies. Where these developments lead to significant improvements in FTSE 250 reporting, it raises the bar for judging the quality of compliance for portfolio companies. For example, if more is disclosed by FTSE 250 companies on policies to improve gender diversity, portfolio companies also need to provide further disclosure if they want to achieve a good rating. The PERG also monitors these developments to assess if amendments are required to the Guidelines.

This section of the report provides private equity firms and their portfolio companies with information on trends in listed company reporting, to help inform them ahead of the next reporting cycle.

Sustainability is an issue that is attracting more attention in society, covering a wide range of areas such as climate change, modern slavery, and ocean pollution. Stakeholders now expect businesses to consider their role in tackling the planet's biggest challenges by reviewing the impact of their business and contributing positively to both society and the environment. As a result, companies are under more scrutiny to demonstrate how they consider and report to stakeholders on their performance in respect of these areas of corporate sustainability.

There are a number of directives and guidelines that have been issued that, although currently voluntary for portfolio companies, continue to drive enhanced disclosure of corporate sustainability in annual reports. In many instances, these are being adopted by larger listed companies as this is where stakeholder interest and an understanding of the wider social and economic contribution of companies has encouraged them to expand the level and quality of information disclosed. However, with increased scrutiny of annual reports and higher demands from all stakeholders there is an expectation that such disclosures will be included in future annual reports, including for portfolio companies.

We consider this area of corporate reporting development to be of interest for larger companies, their stakeholders and the private equity industry, considering the increased focus on responsible investment. We have considered the disclosure requirements resulting from a number of these guidelines below including the:

- EU Non-Financial Reporting Directive;
- Task Force on Climate-related Financial Disclosures; and
- Sustainable Development Goals

EU Non-Financial Reporting Directive

The directive requires companies to report on:

- Environmental matters (including their impact on the environment)
- Employees
- Social matters
- Respect for human rights
- Anti-corruption and anti-bribery matters

Although the majority of the requirements are captured in the Guidelines, there is now more demand for and scrutiny of these disclosures by regulators and stakeholders. This is to ensure sufficient and appropriate information is disclosed rather than boilerplate wording.

Task Force on Climate-related Financial Disclosures

Some companies' discussion on governance focused on the individuals responsible for managing this and how tThe Task Force on Climate-related Financial Disclosures ("TCFD") is responding to investor concerns raised in relation to the level of disclosure on climate change in annual reports in respect of climate change. The TCFD has developed a number of voluntary disclosure requirements to address investor concerns, embedding the consideration of climate control into risk management, governance, business strategy, metric and target reporting to ensure this is seen as a key area of focus for the business. Ratings agencies have also recognised that climate change could impact credit ratings. Regulation exists on climate change disclosure in France and the move towards regulation in the UK is gaining traction.

Sustainable Development Goals

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides 17 Sustainable Development Goals ("SDGs") for all countries to report and measure performance by 2030. Although led by Governments, businesses will have a role to play and increasingly we are seeing UK business considering how to adapt strategy to integrate targets and actions to address the SDGs most relevant to their business.

The SDGs provide a framework to help companies develop a roadmap to mitigate risks associated with environmental, social, and economic uncertainties. An increasing number of companies are recognising and disclosing the importance of the SDGs with their annual reports; this is expected to increase in coming years in line with stakeholder requirements. Examples include:

- *Economic* – revenue, net value added, payments made to Government, community investment, local procurement and R&D spend.
- *Environmental* – water use, waste, carbon emissions and energy consumption and efficiency.
- *Social* – gender equality, wages, training expenditure, H&S and collective agreements.
- *Governance* – board make-up, attendance records and compensation, charitable donations and fines/ convictions relating to corruption.

The PERG will continue to monitor the areas above and assess the impact of them on the Guidelines.

2.2.7 Areas of focus for the PERG in 2020

Non-Financial Reporting Directive

One of the responsibilities of the PERG is to ensure the Guidelines remain relevant. As such, a key area of focus by the PERG in 2020 will be on whether and how to update the Guidelines to reflect the new narrative reporting landscape in the UK, following the transposition of the EU Non-Financial Reporting Directive into UK law in 2017. The Guidelines currently require portfolio companies to comply with a large part of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013 and the new non-financial reporting requirements have been incorporated into these regulations. Many of the FTSE 350 now apply the new non-financial reporting requirements, which came into force for years ending on or after 31 December 2017.

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

With such dual regimes in place, the PERG will need to consider carefully how any potential changes to the Guidelines could be incorporated. Any changes to the Guidelines will need to avoid being confusing or complicated and avoid setting expectations beyond that which is being practiced in the listed space. The UK Government is currently reviewing the impact of this Directive and we await the results.

Other developments in the UK

The PERG is monitoring the impact of recent corporate governance reforms that will affect reporting by large private companies. As of this year, large private companies will need to report on how their directors have complied with their duty under s172 of the Companies Act 2006 to promote the success of the company for its members, whilst having regard to stakeholder interests, including employees, suppliers and customers. There is expected to be some overlap with the Guidelines requirements on portfolio company disclosures when it comes to this reporting.

Additionally, companies may be required to report on their corporate governance arrangements including any corporate governance code the company is signed up to. A set of corporate governance principles for large private companies has been prepared by a coalition group, chaired by James Wates CBE and includes the BVCA, FRC, TUC, IoD and CBI. The Wates Principles, as they are known, may be utilised by large private companies to aid in their reporting of corporate governance arrangements.

The thresholds as to which companies these requirements apply to differ, however those in scope are legally required to comply.

2.3 Publication of portfolio company reports

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

Publication of annual reports

Portfolio companies should publish their annual audited reports on their websites no more than six months after the company year-end. Annual reviews or similar narrative reports are not acceptable alternatives to a portfolio company's annual report and financial statements within which the Guidelines disclosures should be found in the front half. Additionally, it should be readily accessible on the portfolio company's website, and not behind a login page. To calculate the compliance rates below, we have not included the four companies (noted in section 2.1) that are not complying with any aspect of the Guidelines nor engaging with the PERG. Further improvements are required on this aspect of the Guidelines as the compliance rates should be higher.

80% of portfolio companies have published an annual report within six months of year-end on their website (2018: 81%):

- HC-One (Formation Capital and Safanad) has not published its annual report.
- A first year grace was given to Alexander Mann Solutions (OMERS Private Equity), Esure Group (Bain Capital), IRIS Software Group (Hg), JLA (Cinven), VetPartners (BC Partners) and ZPG (Silver Lake Capital).
- Calvin Capital (KKR), Chime Communications (owned by Providence Equity), MFG (Clayton Dubiler & Rice), M Group Services (PAI Partners), Williams Lea Tag (Advent International) and Zellis (Bain Capital) did not publish their annual reports within six months of year-end, however these were subsequently published.
- The owner of Ambassador Theatre Group, Providence Equity, has provided an explanation to the PERG as to why the company has been unable to publish its annual report on its website. However, the PERG felt this outcome was unsatisfactory.

Mid-year update

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

68% of portfolio companies published a mid-year update within three months of mid-year on their website (2018: 74%).

- HC-One (Formation Capital and Safanad) has not published its mid-year update.
- A first year grace was given to Alexander Mann Solutions (OMERS Private Equity), Esure Group (Bain Capital), IRIS Software Group (Hg), JLA (Cinven), VetPartners (BC Partners) and ZPG (Silver Lake Capital).
- Care UK (Bridgepoint), Calvin Capital (KKR), Chime Communications (owned by Providence Equity), CityFibre (Goldman Sachs), Domestic & General Group (CVC), Keepmoat (TDR Capital), Zellis (Bain Capital) and Zenith (Bridgepoint)missed the deadline to publish their mid-year updates on their respective websites. However, all companies have subsequently published their mid-year updates.
- Ambassador Theatre Group (owned by Providence Equity), Parkdean Resorts (Onex), Rubix (Advent International) and Williams Lea Tag (Advent International) have provided explanations to the PERG as to why the companies have been unable to publish a mid-year update on their respective websites.

2.4 Communication by private equity firms

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

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

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

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

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

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

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

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

Statement of conformity with the Guidelines

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

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

2.5 Other requirements and recommendations

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

Findings

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

2.5.1 Performance of portfolio companies

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

The research states the results based on the data received and further interpretative analysis cannot be easily performed given the number of companies included in the dataset e.g. if a metric has increased, the specific reasons behind this cannot be inferred simply based on other data received as there may be other internal and external factors to consider.

Key findings form the report include:

- The average timeframe of private equity ownership of portfolio companies is 5.8 years and the current portfolio companies have been owned for an average of 3.8 years.
- Organic employment growth under private equity ownership is 1.5% per annum, which is above the UK private sector benchmark at 1.3% per annum.

- Average employment cost per head has grown under private equity ownership by 2.9% per annum, which is above the UK private sector benchmark at 2.7% annual growth.
- 42% of the current portfolio companies have made net bolt-on acquisitions while 11% have made net partial disposals.
- Annual growth in labour productivity in portfolio companies is between 1.4% and 2.4% and is broadly in line with public company and economy-wide benchmarks.
- Portfolio companies have grown reported revenue at 7.1% per annum and profit at 4.4% per annum in line with public company benchmarks.
- Capital productivity growth in the portfolio companies exceeds public company benchmarks, by 6.9% versus 1.2% growth per annum.
- In aggregate, portfolio companies had an average leverage ratio of 6.7 debt to EBITDA at acquisition, 6.2 at latest date or exit. Portfolio companies have much higher levels of financial leverage than public companies: 54% of portfolio companies have debt to EBITDA ratio above 5x, versus 5% of publicly listed companies.
- The equity return from portfolio company exits is 3.4x the public company benchmark; over half of the additional return is due to private equity strategic and operational improvements, and the rest from additional financial leverage.

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

The majority of companies complied with this requirement to provide data for the purpose of this report (2019: 89%, 2018: 85%). The following companies did not comply with this requirement: Advanced (owned by Vista Equity Partners), Camelot (Ontario Teachers' Pension Plan), London City Airport (OMERS Infrastructure, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation and Wren House Infrastructure Management), and PureGym (Leonard Green & Partners) and Punch Taverns (Patron Capital). Additionally, Terra Firma was not in control of Four Seasons Healthcare and was unable to provide data.

2.5.2 Engagement with "private equity-like" entities

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

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

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

2.5.3 Fund performance measurement

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

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 2018, being the period covered by this report.

Where more than one private equity firm is involved in a transaction and they collectively own a controlling stake in a portfolio company, those firms will be jointly and severally responsible for ensuring that the portfolio company applies 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 PERG, the Guidelines do not apply to minority shareholders which invest alongside other majority shareholder(s) where both the majority shareholder(s) and the portfolio company comply with the Guidelines. The PERG's approval will depend on the specific facts and circumstances and the extent to which control is exercised.

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

3i	KSL Capital[1]
Advent International	Leonard Green & Partners[1]
Bain Capital[2]	OMERS Private Equity and OMERS Infrastructure[3,#]
BC Partners[2]	Onex[1]
Blackstone	Ontario Teachers' Pension Plan[1,#]
Bridgepoint	PAI Partners
Cinven	Partners Group
Clayton Dubiler & Rice	Patron Capital[1]
CVC Capital Partners	Providence Equity
Formation Capital[1,#]	Safanad[1,#]
Global Infrastructure Partners[#]	Silver Lake Capital[2]
Goldman Sachs[1,#]	TDR Capital
Hg[2]	Terra Firma
Hony Capital[1]	The Carlyle Group
iSquared Capital1[,#]	TPG
KKR	Vista Equity Partners[1]

The second table sets out other minority investors in the portfolio companies covered by this report. For this reason, these firms have not been reviewed by the PERG as other larger investors in the portfolio companies have taken responsibility for complying with the Guidelines.

Abu Dhabi Investment Authority[#]	National Pension Scheme of Korea[1,#]
Alberta Investment Management Corporation[1,#]	Nestlé[1,*]
Avenue Capital Group[1,#]	Palamon Capital Partners
CalPERS[1,#]	SunCapital[1,#]
Duke Street[2]	WPP[1,*]
Exponent Private Equity	Wren House Infrastructure[3,#]
Future Fund[1,#]	USS[#]
GoldenTree Asset Management[1,#]	

[1] *Not a member of the BVCA*

[2] *Addition this year*

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

[#] *Private equity-like entity*

* *Corporate investor*

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Appendix 2:
Portfolio companies covered by the Guidelines

The following portfolio companies either met the criteria set out in the Guidelines, or have committed to conform to the Guidelines on a voluntary basis during the period under review.

Owners disclosed in brackets do not need to comply with parts of the Guidelines for the reasons set out in Appendix 1.

Portfolio company	Owners during 2018
Advanced Computer Systems	Vista Equity Partners
Alexander Mann Solutions[2]	OMERS Private Equity
Ambassador Theatre Group	Providence Equity, (Exponent Private Equity)
Calvin Capital[1]	KKR
Camelot	Ontario Teachers' Pension Plan
Care UK	Bridgepoint
Chime Communications	Providence Equity, (WPP)
City Fibre[1,2]	Goldman Sachs
Civica	Partners Group
Clarion Events[1]	Blackstone
David Lloyd Leisure	TDR Capital
Domestic and General	CVC Capital Partners
Edinburgh Airport[1]	Global Infrastructure Partners
ESP Utilities[1]	3i
Esure Group[2]	Bain Capital
Fat Face	Bridgepoint
Four Seasons Health Care	Terra Firma
Froneri	PAI Partners, (Nestlé)
Gatwick Airport	Global Infrastructure Partners, (Abu Dhabi Investment Authority, CalPERS, National Pension Scheme of Korea, Future Fund)
HC-One	Safanad, Formation Capital
Infinis[1]	3i
IRIS Software Group[2]	Hg
JLA[2]	Cinven

Keepmoat	TDR Capital, (Sun Capital)
LGC	KKR
London City Airport	Ontario Teachers' Pension Plan, OMERS Infrastructure (Alberta Investment Management Corporation, Wren House Infrastructure Management)
M Group Services[1,2]	PAI Partners
Miller Homes	Bridgepoint
Moto[1]	CVC Capital Partners, (USS)
Motor Fuel Group[1]	Clayton Dubiler & Rice
Mydentist	The Carlyle Group, (Palamon Capital Partners)
NewDay[1]	CVC Capital Partners, Cinven
PA Consulting Group[1]	The Carlyle Group
Parkdean Resorts	Onex
Pizza Express	Hony Capital
Premium Credit[1]	Cinven
Punch Taverns	Patron Capital
PureGym	Leonard Green & Partners
QA Training[1]	CVC Capital Partners
RAC	CVC Capital Partners
Rubix	Advent International
Shawbrook Capital[1,2]	BC Partners
Stonegate Pub Company	TDR Capital
TES Global	TPG Capital
Trainline	KKR
Travelodge[1]	Goldman Sachs (GoldrenTree Asset Management, Avenue Capital Group)
VetPartners[2]	BC Partners
Village Hotels	KSL Capital
Viridian	iSquared Capital
Voyage Healthcare[1]	Partners Group, (Duke Street, Tikehau)
Vue Cinemas	OMERS Private Equity (Alberta Investment Management Corporation)
Williams Lea Tag[1]	Advent International
Zenith	Bridgepoint
Zellis (previously NGA Human Resources)	Bain Capital
ZPG[2]	Silver Lake Capital

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

A3

Appendix 3: Guidelines requirements for enhanced disclosures

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

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

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

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

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

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

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

A UK company

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

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; and
- 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 the Government from the directors' report as it was not considered a significant disclosure. This approach is in line with Guidelines which do not prescribe disclosures that go beyond those required of quoted companies.
The disclosures must be made within six months of the year-end of the AIF.	Part V, section 5b) of the Guidelines requires the annual report of the portfolio company to be made available no more than 6 months after the company year end. Where the year end of the portfolio company and the AIF are the same then the AIFMD requirement is likely to be fulfilled. Where the year end of the portfolio company differs to that of the AIF then firms may need to amend the timing of reporting of the portfolio company accordingly.
If the information is included in the AIF's annual report then the AIFM must use best efforts to ensure the board of the company makes the information available to all employee representatives or (where there are none) to the company's employees directly.	Part V, section 5a) of the Guidelines requires the annual report of the portfolio company to be readily accessible on the company website. This ensures that employees and other stakeholders are able to access this information publicly.

b) Disclosures required on acquisition of control

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

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

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Appendix 4: Assessing the quality of disclosures

The PERG's objective is to ensure that all companies covered by the Guidelines report to at least a good level. In the first part of its review, PwC checks if portfolio companies have included the disclosures required by the Guidelines.

For the second part of the review, the PERG commissions PwC to form a view on the quality and standard of the disclosures and classify them as excellent, good or as meeting the level of basic compliance. In practice, this is a subjective judgement made by assessing how many of the expected attributes of good quality reporting in each of the guidelines criteria are included in the disclosures, utilising those expectations set out in the PwC Good Practice Guide.

To inform this assessment and determine the level required to obtain a "good" rating, PwC also performs a read across of the portfolio companies' disclosures to the standard typically seen in the financial statements of companies within the FTSE 250 and consider other elements of good corporate reporting such as the:

- level of information and the way in which it is disclosed;
- clarity of the narrative;
- cohesiveness and linkage of different disclosure areas;
- use of text and visuals; and
- overall user-friendliness.

The companies in the FTSE 100 are not generally considered to be comparable to the portfolio companies covered by the Guidelines due to their size and geographical reach (the FTSE 100 companies are generally multinational whereas the portfolio companies have significant UK operations) and therefore do not form part of this assessment. The PERG's definitions for measuring compliance is included overleaf.

Quality of disclosure	Explanation of how assessment is reached
Excellent	A company is assessed as "Excellent" that stands out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include most or all relevant attributes Guidelines requirements as covered in the PwC Good Practice Guide and go beyond this in order to achieve this classification. This is a change from the prior year reviews where we have considered the reporting against the quality of reporting provided by direct comparison to standards set by the winners and highly commended companies in the "Excellence in reporting in the FTSE 350" category of the Building Public Trust Awards as this included many FTSE 100 companies which are not considered to be comparable.
Good	A company would include most of the relevant attributes of each of the relevant Guidelines requirements as covered in the PwC good practice guide. We would expect the narrative to be fair, balanced and understandable throughout.
Basic	A company would include many attributes of each of the relevant Guidelines requirements as covered in the PwC good practice guide. However, there would be room for improvement, especially in including more areas that could be considered applicable for the business. However, there would be clear and sufficient disclosure in the key areas to be considered compliant. Although the report will be fair, balanced and understandable there is likely to be areas where improvements could be made in this area.
Exceptions	Either a company would not have sufficient disclosure in one or more areas of the Guidelines, or when taken as a whole the report is not considered fair, balanced and understandable and therefore fails to be sufficiently transparent to comply with the standards.

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

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

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Appendix 5: Recommendations for the industry association

The original 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.

These recommendations have been implemented by commissioning the EY report on the performance of portfolio companies and other BVCA activities.

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; and
- 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; and
- 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; and
- 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; and

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 five to include two executives of GPs or advisers to funds investing in portfolio companies covered by the Guidelines;

c) two independent members additionally to the Chairman with substantial professional or business experience; and

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 three years with provision for appropriate rotation of other members to ensure continuity; and

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; and

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: Compliance checklist for private equity firms and their portfolio companies

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

Private Equity firm requirements

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

Portfolio company requirements

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

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

Notes

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