Guidelines Monitoring GROUP

Private Equity Monitoring Group on Transparency and Disclosure

SIXTH REPORT – DECEMBER 2013

GUIDELINES MONITORING GROUP

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GUIDELINES MONITORING GROUP

EXECUTIVE SUMMARY

1

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

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

The Group performs oversight for, and aims to guide, the industry in improving transparency and disclosure. During the year, Nick Land was appointed as the Chairman of the Group and Glyn Parry as an independent member. Sir Michael Rake stepped down as Chairman and Alan Thomson as an independent member, both having served in their roles since the inception of the Group.

Highlights of the 2013 review

- Compliance levels by portfolio companies covered by the Guidelines improved in 2013 and of the sample of 30 portfolio companies reviewed by the Group, 29 met the enhanced disclosure requirements. This is an encouraging progression compared to prior year, particularly in the context of higher standards seen in the FTSE 350 – the benchmark against which compliance is measured.
- The number of portfolio companies increased by 9 to 89[1] in 2013 and this was driven by an increase in companies complying with the Guidelines voluntarily. This includes three portfolio companies that exited and re-entered the population following a restructuring and change in ownership during the year.
- The number of private equity firms covered – which is determined based on ownership of portfolio companies within scope - increased by 6 to 53[2]. The Guidelines extend to firms that conduct their business in a manner that would be perceived by external stakeholders to be similar to that of other participants in the private equity industry and the new entrants were all 'private equity-like' firms.
- The quality of narrative disclosures for portfolio companies covered by the Guidelines for the first time this year was considerably higher than the same group in last year's review. Those previously covered by the Guidelines continued to demonstrate a basic or good level of compliance with the requirements, although the quality of disclosures varied across requirements.
- The Group is committed to working with private equity firms, 'private equity-like' firms and portfolio companies to improve their disclosures and strongly encourages standards above the minimum requirements within the Guidelines, being those observed in the FTSE 350. We will be writing to all parties involved to explain specifically what is required to ensure compliance with the Guidelines and where further enhancements can be made, as well as highlighting the strengths and excellent examples identified in the reports reviewed.
- 26 of the 30 portfolio companies reviewed made the audited report and accounts available on their websites. The Group continues to reinforce the message that accounts should be readily accessible on the company's website.
- Portfolio companies maintained a good standard of disclosure for areas covering financial risks, principal risks and uncertainties and social and community issues.
- The Guidelines operate on a 'comply or explain' basis and none of the portfolio companies reviewed adopted an 'explain' approach within their annual report. One 'private equity-like' owner provided an explanation for non-compliance separately.

1 The population for 2012 has been restated to include one company outside the scope of the Guidelines complying voluntarily.
2 The populations for 2012 and 2013 have been amended to (i) align the ownership with the period covered by the review instead of the ownership at the time the report has been published and (ii) to include other minority and significant shareholders that fall within the definition of 'private equity-like'.

- Since the financial crisis there has been a heightened emphasis on the clarity and quality of financial reporting. Whilst the portfolio companies reviewed were generally meeting the level of disclosure observed in the FTSE 350, the standard of disclosure expected by stakeholders is increasing, particularly the need for clear linkage between the different elements of the annual report which should be underpinned by strategic priorities. When compared to the FTSE 100, the level of compliance with the requirements was notably lower and we will use this as an additional benchmark to encourage good practice in future years.
- For the first time, the Group reviewed the websites and/or annual reports of all private equity firms covered by the Guidelines to assess if they met the disclosure requirements relating to the publication of information including details on their investment approach, UK portfolio companies, and leadership of the firm. Members of the BVCA met the requirements or were in the process of updating them at the time of the publication of this report.
- The Group continues to review the Guidelines to ensure they evolve over time with developments in financial reporting and the industry. This includes reviewing the enterprise value thresholds and whether a portfolio company should explicitly confirm that they have complied with the Guidelines. Following a consultation period, the Group will make changes to the Guidelines to incorporate the new Department for Business, Innovation and Skills' narrative reporting requirements and the related guidelines issued by the Financial Reporting Council, including the publication of a strategic report.

1.1 The Guidelines

In February 2007, the BVCA asked Sir David Walker to undertake an independent review of the adequacy of disclosure and transparency in private equity, with a view to recommending a set of guidelines for conformity by the industry on a voluntary basis. This review resulted in the publication of the Guidelines in November 2007 and these are summarised in Appendix 3.

The Guidelines require additional disclosure and communication by private equity firms and their portfolio companies where the private equity firms and portfolio companies meet the Guidelines criteria. The criteria together with details of the full requirements under the Guidelines are set out in the summary in Appendix 3.

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

1.2 Guidelines Monitoring Group

During 2013 the Group reviewed its own governance arrangements to ensure it maintains the right balance of continuity and fresh insight. After a significant contribution to the Group over the years, Sir Michael Rake stepped down as Chairman and Alan Thomson stepped down as an independent member. On 16 October 2013, the Group announced the appointment of Nick Land as Chairman and Glyn Parry as an independent member. Nick Land is a non-executive director on a number of boards including the Financial Reporting Council and Vodafone Group, and Glyn Parry is the Director of Group Financial Control at BT Group plc.

Baroness Drake, previous president of the TUC, continues to serve as an independent member therefore ensuring the Group has a majority of independent members. Representing the private equity industry are Robert Easton, Managing Director at The Carlyle Group; and Gerry Murphy, Senior Managing Director at The Blackstone Group.

1.3 Private equity firms and portfolio companies covered by the Guidelines

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

1.3.1 Private equity firms

The number of firms covered by the Guidelines has increased this year from 47 to 53 due to movements in the underlying population of portfolio companies within scope. The Guidelines extend to firms that conduct their business in a manner that would be perceived by external stakeholders to be similar to that of other participants in the private equity industry. Table 1 highlights the increase in 'private equity-like' firms which, noting the scope of Walker Guidelines as set out above, include infrastructure funds, sovereign wealth funds, pensions funds and – increasingly – firms operating in the distressed debt and credit opportunities space. The latter type of firm is driving the growth in firms covered by the Guidelines in the period under review.

Table 1: Number of private equity firms covered by the Guidelines[3]

	2013 report	2012 report
Private equity firm	30	30
Private equity-like firm	23	17
Total	**53**	**47**

Within this population, GI Partners have not complied as they are no longer covered by the Guidelines in 2013. GI Partners became a minority shareholder in its investment in Park Resorts following a restructuring in August 2013 which preceded the timing of the annual reporting process. This transaction does not fall within the scope of the Guidelines going forward and the enhanced disclosures were not incorporated in the annual report. In prior years, Dubai International Capital had voluntarily participated as if it were a private equity firm. The Group reviewed Dubai International Capital's activities further this year and concluded that it no longer meets the definition of a firm covered by these Guidelines based on its current investment holding strategy. It was therefore removed from the Walker reporting process.

Onex Partners, which has a majority stake in Tomkins (the minority being held by The Canadian Pension Plan Investment Board), has also provided an explanation for not complying fully with the Guidelines. They consider the operations of Tomkins to be substantially outside of the UK and at the time of the transaction less than 10% of the company's employees and sales generated were in the UK. At present, this figure has fallen to approximately 3%. In addition to this, Tomkins publishes financial information and a detailed commentary on its website on a quarterly basis which has been prepared under IFRS. For these reasons they are not participating fully in the process, although they believe certain elements of their reporting comply with the Walker Guidelines. The Group notes that Tomkins was reviewed in the sample for the 2011 report and did comply with the disclosure requirements.

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

1.3.2 Portfolio companies

A total of 89 portfolio companies were covered by the Guidelines this year (2012: 80). Of this number, 72 were included as required companies (2012: 73), and 17 as voluntary (2012: 7). Further details on the portfolio companies are included in Appendix 2.

Table 2: Number of portfolio companies covered by the Guidelines

	2013 report	2012 report
Required	72	73
Voluntary	17	7
Total	**89**	**80[4]**

The increase in the number of portfolio companies since last year is due to the inclusion of additional companies outside the scope of the Guidelines complying voluntarily. These are companies that do not meet the specific criteria set in the Guidelines and their private equity owners have opted to comply with the enhanced disclosure requirements voluntarily. Of the portfolio companies covered by the Guidelines, Park Resorts has not complied with the Guidelines in full this year for the reasons set out above. All BVCA members reviewed in the sample complied with the Guidelines.

3 The populations for 2012 and 2013 have been amended to (i) align the ownership with the period covered by the review instead of the ownership at the time the report has been published and (ii) to include other minority and significant shareholders that fall within the definition of 'private equity-like'.
4 The population for 2012 has been restated to include one company outside the scope of the Guidelines complying voluntarily.

1.4 Review of compliance

PricewaterhouseCoopers LLP ("PwC") was reappointed as an independent advisory firm to assist the Group in carrying out this year's review of the disclosures made by a sample of portfolio companies. The sample included companies with accounting years ending up to and including 30 April 2013. This report summarises the findings of that exercise along with the Group's own review of the other requirements of the Guidelines.

1.4.1 Portfolio companies

PwC reviewed a total sample of 30 portfolio companies including 19 companies reviewed previously, 6 reviewed for the first time and 5 reviewed previously and assessed as non-compliant. Through annual sampling the Group aims to ensure that all portfolio companies are reviewed at least once every three years, and will continue with its policy of re-reviewing companies whose reporting is regarded as not compliant with the Guidelines.

Of the sample of 30 portfolio companies reviewed by the Group this year, 29 met the enhanced disclosure requirements. The findings of this year's review identified a higher level of overall compliance with the Guidelines than in previous years which is an encouraging progression. All BVCA members reviewed in the sample complied with the Guidelines. The overall failure rate for providing enhanced disclosures has decreased to 3% for portfolio companies reviewed in 2013 from 13% in 2012. This is in part due to fewer new entrants in the population and also early engagement by those private equity firms and portfolio companies that were complying with the requirements for the first time. With the exception of Park Resorts, all portfolio companies previously reviewed have been assessed as compliant this year.

Throughout the review process the Group has worked closely with both private equity firms and portfolio companies, particularly those within the population for the first time this year, to ensure that they meet the required standards set out in the Guidelines. The Group will continue to provide feedback to firms and portfolio companies to raise the levels of disclosure and adherence with the Guidelines, and to promote this as standard industry practice. Each private equity firm and portfolio company reviewed will receive an individual letter setting out the detailed findings of this year's review and recommendations for improvements.

The Group has continued to raise the required standard of overall disclosure to achieve compliance with the Guidelines and in this regard there continues to be room for improvement to demonstrate good practice by portfolio companies. The Group benchmarks compliance against the standard of disclosure seen in the FTSE 350 and therefore when the quality of disclosures improves in this index, the standard of compliance expected from portfolio companies is also increased. A consistent theme seen across both the sample reviewed and the FTSE 350 is that there needs to be better linkage between the different elements of the annual report and this is explained further below in the context of the individual requirements of the Guidelines.

Another theme was that whilst portfolio companies were complying with the Guidelines, there was variability in the quality of disclosures across the sample and fewer examples of excellent disclosure. This is in part due to enhanced standards seen in the FTSE 350 and therefore the Group will provide advice and guidance to further improve the disclosure of those companies, as well as promoting good practice. As in previous years, the Group commissioned a guide published by PwC in March 2013 entitled 'Improving Transparency and Disclosure – Good practice reporting by Portfolio Companies'. PwC will publish an update to this guide in early 2014, based on their findings this year, which will incorporate the need for a raised level in the quality of disclosure to track the trend occurring in both the FTSE 350 and the FTSE 100.

There was a higher level of engagement with the Group this year by both private equity firms and portfolio companies to publish compliant disclosures. We will continue to work with firms to ensure that the scope of required disclosures is clarified in advance, noting that in most cases non-disclosure of information is unlikely to be justified on the grounds of confidentiality. We also emphasise the need for private equity firms to work with new portfolio companies acquired through the first reporting period under the Guidelines.

Only 26 of the portfolio companies reviewed made the audited report and accounts available on their website. The Group continues to reinforce the message that accounts should be readily accessible on the company's website.

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

In assessing conformity, the requirements under the Guidelines are separated into the three areas: guidelines specific; business review required by the Companies Act; and enhanced business review. The Group's key findings are summarised below along with comments on the quality of narrative reporting compared to trends seen across the FTSE 350.

1.4.1.1 Guidelines specific

All the portfolio companies in the sample reviewed identified the private equity fund(s) that were its owners and provided details on the private equity firms that had oversight of the company. The requirement to detail composition of the board was met in the majority of cases with directors from the private equity firm highlighted. However, the standard of disclosure for this requirement had noticeably declined compared to prior year due to enhanced standards being seen across the FTSE 350 where the better disclosures set out a more comprehensive history of ownership.

The Guidelines require a financial review which explains the financial position and identifies financial risks facing the company and the risk management policies in place to manage these. These requirements were met in the large majority of cases, with 25 companies having excellent or good disclosure on financial risks. The quality of disclosures varied across the sample. To improve, portfolio companies need to ensure disclosures are specific to their particular business, link to other elements of the annual report, and information on the year end capital structure clearly ties to the financial statements.

1.4.1.2 Business Review (required by UK Companies Act)

Portfolio companies should set out a fair review of their business that covers strategy and the market environment in which they operate. This requirement was met by most of the sample, however the ability to clearly outline strategic priorities fell below the standard seen in the FTSE 350.

Principal risks and uncertainties were disclosed by all the portfolio companies reviewed and the better disclosures in this area also set out how the portfolio company sought to mitigate these risks. This is a key area which the Group expects to be aligned with disclosures on strategy.

Portfolio companies are expected to set out financial and non-financial key performance indicators ("KPIs") used by the company to assess their position and performance. This requirement was also met by the majority of the sample. For many of the portfolio companies reviewed this was an area that could be improved by better linkage to strategy and principal risks and uncertainties. This is particularly marked for those portfolio companies who identify operational strategies and risks, but do not clearly identify corresponding non-financial KPIs.

This is also an area of weakness across the FTSE 350. Improvements in this area would assist in presenting a clear, credible and coherent picture of both short term performance and forward-looking disclosures on management actions to achieve strategic objectives. The Group believes a significant improvement is needed in this area by both the portfolio companies and the FTSE 350, particularly when compared with the FTSE 100 on areas such as the inclusion of strategic priorities, information on the business model, risk assessments and explicit measures of performance (including KPIs). The requirement for information on the business model is specific to listed companies but will enhance stakeholders' understanding of a company's strategy and its financial performance. Within the FTSE 100 there is also a need to improve reporting based on strategic themes and linkage to the business model, risk assessment and measures of success.

1.4.1.3 Enhanced Business Review

The quality of disclosures in respect of trends and factors likely to affect future development, performance or the position of the company's business was varied. The majority of portfolio companies provided some information but in many cases this information was historical and discussion lacked a forward-looking orientation supported by qualitative or quantitative information. This was also a consistent theme for FTSE 350.

Disclosures on environmental matters were provided by the majority of portfolio companies reviewed and several noted that this was an area that they had recently started monitoring. The majority of the sample reviewed met the disclosure requirements for employees and social and community matters, with the latter improving compared to previous years. There was a decreased level of excellent disclosures regarding employees although the disclosures were generally good. The quality of disclosures on social and community issues has improved with examples of company-specific information that was relevant to the company's strategy. Consistent with prior years, compliance with the requirement to detail essential contractual or other arrangements was unsatisfactory. This disclosure will not be explicitly required as a separate item under the Companies Act in future periods; however the Group expects companies to consider and disclose these arrangements, when relevant, as part of their risk assessment process.

Promoting transparency is at the core of the Group's work and it is committed to supporting portfolio companies improving on the results above and promoting good practice. The Group is particularly keen to ensure that portfolio companies present a clear and coherent explanation of how strategy is aligned with the company's risk profile and key performance indicators, and how these elements are impacted by trends seen in the market environment.

1.4.2 Private equity firm disclosures

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

Members of the BVCA met the requirements or were in the process of updating them at the time of the publication of this report. This was not always the case for the 22 non-BVCA member firms covered by the Guidelines, of which only two expressed a commitment to comply with the Guidelines. This reflects the growth in the number of 'private equity-like' firms covered by the Guidelines in recent years as set out in section 1.3.1 and table 1.

Members of the BVCA also signed, or are in the process of signing, a statement of conformity with the Guidelines with respect to their own disclosure and data provision requirements and those of their portfolio companies. This will become an annual commitment for private equity firms covered by the Guidelines.

1.5 Performance of portfolio companies

The Guidelines recommend that the BVCA should commission research into the trading performance of companies and attribution analysis in respect of exits and publish the findings. Ernst & Young LLP was commissioned again in 2013 to undertake the research and this will be published alongside this report at www.bvca.co.uk/Research. However, there were 10 owners of 6 portfolio companies that did not provide the information requested. The compliance rate for the provision of data is 92% which has improved slightly from 89% last year.

1.6 Future activities of the Group

When the Guidelines were introduced it was recognised that they would need to be capable of evolving over time to ensure they remain relevant. The Group is currently working on the following:

- Considering an addition to the Guidelines which would require portfolio companies to confirm compliance with the Guidelines or provide explanations for areas of non-compliance;
- Monitoring changes in narrative reporting, such as the:
  - recommendations arising from the Sharman Panel of Inquiry into going concern and liquidity risks;
  - reporting obligations arising for firms regulated under the Alternative Investment Fund Managers Directive and how these interact with the requirements in the Guidelines; and
  - Department of Business, Innovation and Skills' regulations finalised in 2013 that introduce a separate strategic report for all companies and additional requirements for listed companies;
- Conducting a consultation process with private equity firms about a possible amendment to the definition of a private equity firm for the purpose of the Guidelines; and
- Continuing to review the enterprise value thresholds in accordance with developing European legislation and regulation.

Since the financial crisis there has been much greater emphasis on the clarity and quality of financial reporting by both private and public companies. The Group's objective is to ensure that all companies covered by the Guidelines report to a level comparable to current good practice in the FTSE 350. In both sets of companies, there is a continuing need to link together more effectively the different elements of their annual reports to highlight important relationships and interdependencies. It is recommended that companies in general provide more forward-looking commentary, based on their stated strategic objectives, to give clear and consistent context to their disclosures. The Group will continue to work with the private equity industry, building upon its demonstrated commitment to transparency, to achieve this.

OVERVIEW OF THE GUIDELINES

2

The Guidelines set out recommendations and enhanced disclosure requirements for private equity firms, their UK portfolio companies and the BVCA. These are reproduced in Appendices 3 to 5 and summarised below.

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

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

A private equity firm is a firm authorised by the FCA that is managing or advising funds that either own or control one or more UK companies or have a designated capability to engage in such investment activity in the future where the company or companies are covered by the enhanced reporting guidelines for companies.

A portfolio company is a UK company:

a) acquired by one or more private equity firms in a public-to-private transaction where the market capitalisation together with the premium for acquisition of control was in excess of £210 million (reduced from £300 million) and more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full-time equivalents; or

b) acquired by one or more private equity firms in a secondary or other non-market transaction where enterprise value at the time of the transaction was in excess of £350 million (reduced from £500 million) and more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full-time equivalents.

The above definition of a portfolio company reflects the changes made to the criteria in April 2010 and has been effective for accounting year ends of 31 December 2010 and onwards.

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

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

- The report should identify the private equity fund or funds that own the company and provide details of the composition of the board;
- The financial review should cover risk management objectives and policies in the light of the principal financial risks and uncertainties facing the company with links to the appropriate detail in the footnotes to the accounts; and
- The report should include a business review that substantially conforms to the provisions of Section 417 of the Companies Act 2006 including the Enhanced Business Review requirements that are ordinarily applicable only to quoted companies.

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

2.3 Disclosure and communication required by private equity firms

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

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

Additionally, private equity firms should, in their reporting to limited partners, follow established guidelines, such as those published by the European Private Equity and Venture Capital Association (the "EVCA"), follow established guidelines in the valuation of their assets, and should provide data to the BVCA in support of its enhanced role in data collection, processing and analysis.

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

2.4 Recommendations for initiatives to be undertaken by the BVCA

The Guidelines recommended that the BVCA should:

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

REVIEW OF CONFORMITY WITH THE GUIDELINES

3

3.1 Introduction

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

- *Disclosure by a portfolio company*: the requirements to make accounts and mid-year updates available, and for the accounts to meet enhanced disclosure requirements. This covered portfolio companies with accounting years ending up to and including 30 April 2013;
- *Communication by a private equity firm*: the requirement to make information about the firm available in an annual report on, or through regular updating of, the firm's website; and
- *Other requirements and recommendations*: the requirements for firms and companies to provide data to the industry association, to follow established reporting and valuation guidelines and to ensure timely and effective communication as well as the recommendations for the BVCA relating to research, "private equity-like" entities and fund performance measurement.

3.2 Overview of findings

Portfolio companies selected for review in 2013, which had been reviewed in previous years, demonstrated a good level of reporting against the basic requirements of the Guidelines. However, the quality of disclosures across the individual criteria was mixed with few clear trends across the sample. New entrants in to the population in previous years had, in general, reported to a level below that of those companies previously assessed. However, in the current year the overall quality of disclosures for this group was significantly higher than in previous years. This was attributed to early engagement by the private equity and portfolio companies concerned. Those portfolio companies that had been assessed as not meeting the basic requirements of the Guidelines in 2012 all complied in 2013 with the exception of Park Resorts, owned by GI Partners. GI Partners is no longer covered by the Guidelines in 2013. GI Partners became a minority shareholder in its investment in Park Resorts following a restructuring in August 2013 which preceded the timing of the annual reporting process. This transaction does not fall within the scope of the Guidelines going forward and the enhanced disclosures were not incorporated in Park Resorts' annual report.

The Group's objective is to ensure that all companies covered by the Guidelines report to a level at least equivalent to, or in advance of, FTSE 350 companies. The level of compliance by portfolio companies is an encouraging progression compared to prior year, particularly in the context of higher standards seen in the FTSE 350. However, across both sets of populations there is increased emphasis on the need to better link elements of the annual report together to highlight relationships and interdependencies. A forward-looking orientation is recommended that uses strategic objectives to underpin the disclosures in the annual report and these should be clearly structured to ensure consistency of messaging. This includes aligning strategy to management actions, risks, key performance indicators and employee compensation.

The Group will explain where improvements can be made in feedback letters sent to private equity firms and portfolio companies. To promote good practice, these will highlight areas where disclosures could be improved beyond the basic requirements and examples will be published in a good practice guide by PwC in early 2014 based on the findings of this year's review. The Group expects to amend the Guidelines, following a consultation, to incorporate changes in narrative reporting finalised by the Department of Business, Innovation and Skills' regulations in 2013. These regulations introduce a separate strategic report for all companies and additional requirements for listed companies and apply for periods ending on or after 30 September 2013. The Financial Reporting Council is also consulting on guidance for the preparation of the strategic report which will be finalised in early 2014. The Group believes this guidance will assist all firms, including portfolio companies covered by the Guidelines, with practical examples of how to structure and link elements of the annual report together. The Group is also monitoring the recommendations of the Sharman Panel of inquiry into going concern and liquidity risks and the level of disclosure expected by companies in this area.

3.3 Private equity firms and portfolio companies covered by the Guidelines

The Group has established a policy that all portfolio companies within the population will be reviewed at least once within a three-year cycle and will continue with its policy of re-reviewing more frequently companies whose reporting has been found to not comply with, or only just meet, the requirements. All new entrants in the period covered are reviewed each year. Details of the private equity firms and portfolio companies that fall within the scope of the Guidelines are set out in Appendices 1 and 2.

When assessed in overall terms 29 of the 30 companies reviewed by the Group this year met the Guidelines' enhanced disclosure requirements. This population included 19 companies reviewed previously, 6 reviewed for the first time and 5 reviewed previously and assessed as non-compliant. All BVCA members reviewed in the sample complied with the Guidelines.

The overall failure rate for providing enhanced disclosures has decreased to 3% for portfolio companies reviewed in 2013 from 13% for 2012. This can be in part attributed to early engagement with the Group and the BVCA by private equity firms and portfolio companies, particularly those that were new in the population covered by the Guidelines. After discussion between the Group and the private equity owners of the portfolio companies concerned, 3 of the companies addressed the exceptions identified and met the requirements.

Over time, the Group has noted trends in the group not meeting the requirements and these include the portfolio companies being smaller in size (given the reduction in enterprise value thresholds), and fewer former public companies that have been taken private. The sample reviewed in 2013 included fewer former public companies which contributed to significant disparities in the quality of disclosures. Consequently, it was difficult to establish consistent trends across the sample. All of the 19 companies reviewed for a second or third time this year, and previously assessed as compliant, had good compliance.

The following requirements were identified as being areas in which the standard of disclosure was good overall:

- Financial risks;
- Principal risks and uncertainties; and
- Social and community issues.

In contrast, and consistent with prior year, the following were identified as being areas in which the standard of disclosure was mixed:

- Strategy for the company including its priorities;
- Trends and factors likely to affect future performance and development of the business;
- Non-financial key performance indicators, for example around employee matters;
- Market environment in which the company operates; and
- Essential contractual arrangements, such as with major suppliers and key customers.

For the following requirements, although they were met by the majority of the sample reviewed, the standard of disclosure had noticeably declined on a relative basis due to enhanced standards being seen across the FTSE 350, against which the sample was benchmarked:

- Identity of the private equity firm; and
- Details of the board composition.

In line with prior years, only a small number of companies included a specific statement of conformity with the Guidelines in the annual report and financial statements. This statement is not currently a requirement, and the Group intends to recommend for consultation the inclusion of this as a requirement in the Guidelines. This would be in line with the requirement for certain statements in the UK Corporate Governance Code for listed companies, such as the new requirement to confirm the financial statements are "fair, balanced and understandable".

3.4 Detailed findings

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

Only 26 of the portfolio companies reviewed made the audited report and accounts available on the company's website. The Group continues to reinforce the message that accounts should be readily accessible on the company's website.

The requirements for portfolio company disclosures under the Guidelines can be separated into three areas:

- *Guidelines specific*: identity of the private equity firm, details on board composition and the financial review;
- *Business Review (required by UK Companies Act)*: a fair review of the business, details of principal uncertainties and risks and the use of key performance indicators; and
- *Enhanced Business Review*: additional requirements comprising information on trends and factors affecting future performance, environmental matters, employees, social and community issues and details of essential contractual arrangements.

The basic requirements are set out below along with what is required to achieve good practice, comparable to the standard seen in the FTSE 350.

3.4.1 Guidelines specific disclosures

Identity of the private equity firm

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

To comply with this requirement, the identity of the private equity firm should be disclosed within the annual report.

To achieve good practice in this area, disclosures should include the name of the fund as well as the name of the private equity firm and put the role of the private equity firm into context. Additional information on the background of the private equity firm is also recommended.

Findings

The basic requirement to disclose the name of the private equity firm was met in the entire sample without exception. 18 companies went further than the basic requirement and also disclosed additional information such as the name of the managed fund within the private equity firm as well as that of the private equity firm itself or the history of ownership. Examples of excellent disclosure ensured the role of the private equity firm was clearly identified, with specific examples of how they are involved with the operations of the portfolio company and the financial support provided.

This requirement is straightforward to comply with and, as would be expected, it was met by the majority of the sample reviewed to at least a good standard although by a smaller proportion compared to the previous year.

Details on board composition

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

The report should go beyond the Companies Act requirements relating to directors and should include additional disclosure to highlight which of the directors were also directors of, or had been appointed by, the private equity firm.

For good practice additional explanations of the industry and other experience that external directors bring to the organisation should be included.

Findings

This requirement was met by the majority of the sample reviewed, although this was achieved in different ways. Good examples included biographies of each director, including areas of expertise - similar to the reporting format adopted by public companies. The best examples also included details on the governance structure in place, the various committees the directors are involved in and the role of these committees in the organisation. These examples went further than the Guidelines.

This requirement is straightforward to comply with and was met in the majority of the sample reviewed. However there was a notable deterioration from the prior year in the standard of the disclosure provided as the Group has continued to "raise the bar" to align it with the FTSE 350 standard on a relative basis.

Financial review

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

The report should include an explanation of the year end debt and capital structure of the company, its funding requirements and discussion of the overall risk management objectives and policies of the company, including those in relation to the company's leverage.

Attributes of good practice for disclosures on financial position include:

- An analysis of the components of debt and the repayment schedule;
- Discussion and quantification of the debt covenants in place;
- A reconciliation of the year end net debt position to the prior year (or to free cash flow); and
- Where non-GAAP measures (for example, net debt and free cash flow) are used to support the discussion in the financial review, these are appropriately reconciled to the numbers within the financial statements.

Attributes of good practice for disclosures on financial risks include:

- More detailed discussion in the financial statements of the overall risk management objectives and policies;
- Discussion focused on the key financial risks identified, for example liquidity and cash flow, credit, interest rate, and how the risk management policies aim to address these risks; and
- Quantitative information is included to support the discussion on risks.

Findings

The analysis of this requirement was divided into two parts; firstly the financial position of the entity at year end and secondly the identification of financial risks.

Financial position at year end

Excellent examples did not need to provide an exhaustive narrative in this area, but did provide a clear summary of the position to ensure the user of the accounts could easily understand the financial position. Examples of ways this was achieved included pictorial demonstrations for the timing of debt repayments or summaries of the key elements of multiple debt arrangements (such as interest rates, covenants and timing of repayment) which were presented in a table for comparability.

Where this requirement was less well met there was a general discussion over the financial position that lacked clarity and transparency. Further, companies providing non-GAAP measures in addition to the statutory numbers included within the financial statements did not always clearly define or reconcile them.

The best examples included a good narrative on the year end financial position, as well as a forward-looking consideration of future cash requirements and debt settlement. This requirement was generally well met by the portfolio companies reviewed, with 5 companies having excellent disclosure in this area.

Financial risks

This requirement was successfully met by the majority of portfolio companies reviewed, with 26 companies having excellent or good disclosure in this area. The majority of companies included disclosure on the company's exposure to price risk, credit risk, liquidity risk and cash flow risk as required by the accounting standards and the Companies Act. However, the level of disclosure within this area varied across the sample. Companies that achieved a basic level of compliance in this area provided disclosures on financial risks that were often at a high level and not always company specific. Examples of good compliance ensured the financial risk was well explained with details of policies and procedures in place to mitigate the risk. Examples that went further to achieve an excellent standard also quantified the potential risk exposure for the portfolio company.

3.4.2 Business Review (required by UK Companies Act)

Fair review of the business

> "The business review must contain a fair review of the company's business."

To comply with these requirements the annual report and accounts should include:

- A statement of company strategy setting out what the company is trying to achieve and the priorities for how it plans to achieve those objectives; and
- A description of the market in which the company operates should be given as well as how the competitive, regulatory and macro-economic forces impact on the business.

Attributes of good practice for disclosures on strategy include:

- Clear prominent statement of strategy;
- Strategy used to structure the content of the report to provide a clear alignment of strategic priorities, management actions and remuneration;
- Explanation of the key actions necessary to deliver the strategy and an indication of the timeframe over which performance will be assessed; and
- Measurement of the achievement of the strategy with qualitative or quantitative targets where applicable.

To achieve good practice on disclosures on the market environment, qualitative or quantifiable evidence should be provided to support the discussion with a forward-looking orientation for readers to understand the quality and sustainability of a company's strategy.

Findings

The analysis of this requirement was divided into two parts: firstly the business strategy of the entity and secondly the market environment of the entity.

Business strategy

A statement about their overall strategy was disclosed by the majority of the companies in the sample sufficient to meet basic requirement, with 19 providing greater details on key strategic priorities and 3 doing so to an excellent standard. Several companies used the statement of strategy to underpin and drive the layout of the annual report with key terms used consistently.

Overall, all companies reviewed included some discussion on corporate strategy. The standard of disclosures varied, with only a few companies who used the strategy to underpin their reporting and used consistent terminology throughout their annual report. The Group continues to recommend the inclusion of forward-looking information in this area and better linkage to other elements of the annual report.

Market environment

The majority of companies provided a minimum of a good level of disclosure over their market environment, providing the user of the accounts with an understanding of the background to the company's performance based on the market in which it operates. The lower quality disclosures only referenced general market conditions, namely the macro-economic environment as a whole and the impact this has had on customer spending.

All companies met this requirement, although there was some variation in the standard of disclosures. Where companies provided a comprehensive analysis, interesting graphics and diagrams were used to aid the disclosures. Examples of excellent disclosure often provided quantification of the market from external sources to demonstrate a range of information from the portfolio company's position in the market to the size and nature of the market in which it operates.

Principal risks and uncertainties facing the company

> "The business review must contain a description of the principal risks and uncertainties facing the company."

To comply with this requirement the annual report and accounts should include an explicit identification of the principal risks and uncertainties facing the company and avoid a long list of boiler-plate risks.

Clear alignment between strategy and risks, an explanation of how each risk is managed and an assessment of the risk profile (setting out the likelihood and impact of each risk) are all characteristics of good practice in this area. The discussions should be supported with quantifiable evidence, where possible.

Findings

The majority of companies attempted to provide principal risks, either explicitly or implicitly. Companies that provided good or excellent disclosure ensured the risks considered were specific to the business and demonstrated how these were mitigated through management actions and clearly explained how the risks had changed year on year.

Overall, there is good disclosure of the principal risks and uncertainties in the sample and this was one of the better areas of compliance with 4 companies providing excellent disclosure.

Key performance indicators (KPIs)

> "The review 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."

To comply with the requirements the annual report and accounts should include an explicit identification of the KPIs so as to avoid any misunderstanding or, at the very least, provide performance data, from which a reader might reasonably identify their KPIs. The Group expects most companies should have non-financial KPIs, for example around areas such as employee retention, as for most businesses these are expected to be key to the ongoing success of the business.

Good practice reporting goes further than just identifying KPIs and also provides:

- A clear alignment of KPIs to strategic priorities so as to validate them as a basis for management's assessment of strategic success;
- An explanation of why each KPI has been included;
- A definition of how they have been calculated; and
- Trend data and targets, whether qualitative or quantitative.

Findings

The analysis of this requirement was divided into a review of the financial and non-financial KPIs.

Financial key performance indicators

Of the sample reviewed, 24 clearly aligned their KPIs with their strategy. These companies also disclosed definitions, quantified and discussed the KPIs identified. However, the quality of disclosure was variable with 6 companies only meeting the basic requirements and not all companies explicitly identifing their financial KPIs.

Non-financial key performance indicators

Overall the non-financial KPIs were less well disclosed than the financial, being generally less well explained and quantified. The companies reviewed provided non-financial KPIs, either explicitly or implicitly. For many of the portfolio companies reviewed this was an area that could be improved. This is particularly marked for those companies who identify operational strategies and risks, but do not identify corresponding KPIs.

3.4.3 Enhanced Business Review

Trends and factors affecting future development, performance or position

> "The business review 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."

To meet this requirement the business review should have a high level, forward-looking orientation explaining the trends and factors likely to influence the business including market trends, future strategic priorities or investment in research and development. This can be throughout the annual report or in a specifically headed section.

Attributes of good practice include:

- Separately headed, easy to find sections with clear titles;
- Discussion of specific macro-economic, competitive or regulatory trends and factors shaping the business and identification of product pipeline and expected market size;
- Discussion of future trends and factors are supported by quantifiable evidence; and
- Disclosure of targets, whether qualitative or quantitative.

Findings

The content of the annual reports reviewed was historical in focus providing a review of the current year and performance and lacking a discussion of future performance. This largely reflects the perceived commercial sensitivity of providing a forward-looking orientation and the judgemental (rather than the factual) nature of compliance.

Examples of poor approaches to compliance included the use of high level generic information with little relevance to the company overall. Some companies provided aspects of a forward-looking orientation but it was scattered throughout the report. Few companies provided quantitative information to support their discussion.

Overall, portfolio companies complied with this requirement, but the response was mixed. 18 companies provided a minimum of good disclosures. Given market conditions, the Group expected to see an increased discussion of current market trends as management try to provide a sense of the quality and sustainability of corporate performance (for example issues relating to raising finance).

Environmental matters

> "The business review 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."

The section should include a discussion of the environmental matters affecting the business, the policies in place to address them, and the impact of these policies. The type of disclosure required is dependent on the nature of the business.

Good practice would also include a clear explanation, and alignment, of the specific environmental matters and strategy.

Findings

Companies reviewed provided some disclosure of their environmental matters. However the response of companies varied in quality:

- Some companies included a high level overview of environmental matters;
- Some included a detailed discussion of environmental matters and performance; and
- Some gave a cross reference to a separate Corporate and Social Responsibility report if there was one or additional environmental information on their website. This material was included for the purposes of the Group's review if there was a specific cross reference from the annual report.

Several other companies noted that this is an area they have recently started monitoring. Good examples discussed specific plans in place regarding environmental policies, describing how the portfolio company was looking to improve in this area. Examples of excellent disclosure in this area included quantified metrics of results achieved or of targets set for the future.

Overall there appeared to be broad compliance with this requirement, although the responses varied quite considerably between high level statements and more detailed disclosure.

Employees

> "The business review 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."

Employee disclosures should go beyond those previously required by the Companies Act and to the extent employees are a critical resource of the business, there should be a discussion of the management and development of employees including recruitment, training and development, and retention practices.

Attributes of good practice include:

- Alignment of strategy and employee policies and actions;
- Detailed discussion of employee policies including benefits, share schemes and performance bonuses and explanations of how these link to performance and development;
- Quantifiable evidence of performance; and
- Disclosure of targets, qualitative or quantitative, and discussion of performance against targets.

Findings

Companies reviewed disclosed information on their employees. However, many of them limited their disclosure to the basic Companies Act requirements.

Examples of good disclosure identified why employees were a key resource for the business and how they were valued, supported and trained. Of the companies that provided additional information, a few provided significant amounts of detailed information in a comprehensive analysis and illustrated this with tables and graphics linking how the employees were key to delivering the portfolio company's strategy.

The overall compliance in this area was generally good though there was a decreased level of excellent disclosures.

Social and community issues

> "The business review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about social and community issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies."

Details should be provided at a high level of the social and community issues affecting the business and policies to address them. The level of disclosure needs to go beyond details of political and charitable donations.

Attributes of good practice include:

- Alignment of social and community issues to strategy;
- Explanation of the actions taken to address the specific social and community issues for example, local recruitment, investment in education and impact on recruitment; and
- The discussion is supported by quantifiable evidence.

Findings

There was an improved quality of disclosures on social and community issues with 4 excellent examples and 21 companies that achieved a good level of disclosure. However, few of the companies provided details on local employment policies.

There were an improved number of examples of company-specific discussion and information that was relevant to the strategy. Examples of excellent disclosure quantified actions taken to date or targets for the future in addition to the specific policies in place and detail of how these could be achieved.

Essential contractual or other arrangements

> "The business review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include, subject to subsection (11) (disclosure seriously prejudicial in opinion of the directors), information about persons with whom the company has contractual or other arrangements which are essential to the business of the company."

Details of essential contractual arrangements should identify the parties and arrangements involved and not just provide details of supplier payment policies and creditor days.

The requirement is directed at reporting significant relationships, such as those with major suppliers or key customers critical to the business, which are likely to influence, directly or indirectly, the performance of the business and its value.

Findings

It is not always possible to identify whether companies have significant relationships without an explicit statement to that effect. The lack of any such statement does not necessarily mean a lack of compliance, although it is possible to make some inferences from the nature of the business. This therefore makes an assessment of this criterion difficult.

Often the existence of contractual or other arrangements was scattered throughout the report and there were few examples of companies who provided the information under a specific heading. This is not inconsistent with what has been observed among listed companies.

Most of the portfolio companies reviewed could improve significantly in this area with more explicit references of key contracts and resources and the impact on the business. When companies do not have any contractual or other arrangements that are essential to the business, it should be clearly stated.

This requirement will not be explicitly required as a separate item under the Companies Act in future periods. The Group expects companies to continue to consider and disclose these arrangements in the review of the principal risks and uncertainties facing the business.

3.5 Review of disclosure by private equity firms

> "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 either to prepare a separate annual report or include the information generally within the firm's website.

Findings

This year, the Group reviewed the websites and/or annual reports of all private equity firms covered by the Guidelines to assess if they met the disclosure requirements relating to the publication of information including details on their investment approach, UK portfolio companies, and leadership of the firm. The Group's publication in July 2013 outlined its plan for promoting and developing the Guidelines. In this, private equity firms were requested to sign a statement of conformity to the Guidelines. Many firms had signed such a statement when the Guidelines were first launched and the Group is institutionalising this as an annual commitment.

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

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. The detail included varied with some firms opting for succinct statements and others providing extended information on strategy and detailed case studies.

All BVCA members also signed the statement of conformity letter or committed to signing it once the disclosures had been updated.

3.6 Other requirements and recommendations

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

Findings

- In general, most private equity firms owning portfolio companies that meet the criteria are cooperating with the BVCA in collating the detailed information required to prepare the 'BVCA Annual Report on the Performance of Portfolio Companies' commissioned by the BVCA from Ernst & Young LLP. However, there were 10 owners of 6 portfolio companies that did not provide the information requested. The compliance rate for the provision of data is 92% which has improved slightly from 89% last year;
- The private equity firms apply guidelines published by the International Private Equity and Venture Capital Board or applicable accounting standards; and
- Where portfolio companies have undergone significant strategic change, the private equity firms ensured timely and effective communication with employees, as soon as confidentiality constraints ceased to be applicable. The Group did not identify any instance where a private equity firm had not ensured timely and effective communication of a significant strategic change in a portfolio company.

3.6.1 Performance of portfolio companies

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

3.6.2 Engagement with "private equity-like" entities

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

3.6.3 Fund performance measurement

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

APPENDIX 1: PRIVATE EQUITY FIRMS COVERED BY THE GUIDELINES

A1

The following private equity firms and 'private equity-like' firms were in the scope of the Guidelines for 2012, being the period covered by this report.

3i Group	Henderson Equity Partners[1]
Advent International	Highbridge Capital Management (a subsidiary of JP Morgan Asset Management)[1, 2]
Alinda Capital[1,#]	Highstar Capital[1,#]
Angelo Gordon & Co[1,2,#]	Infracapital Partners[#]
Apax Partners	Industry Funds Management [1]
Apollo Global Management	Kohlberg Kravis Roberts & Co
Arcapita[1]	Lion Capital
Arle Capital Partners	Macquarie Infrastructure and Real Assets[#]
Avenue Capital[1,2,#]	Marathon Asset Management[1,2,#]
Babson Capital[1,2,#]	Morgan Stanley Infrastructure Partners[#]
Bain Capital	Oaktree Capital Management[1,2,#]
BC Partners	Onex Partners[1,#]
Borealis Infrastructure, (investment arm of OMERS)[1,#]	Ontario Teachers' Private Capital[1,#]
Bridgepoint	PAI Partners
Canadian Pension Plan Investment Board[1,#]	Palamon Capital Partners
Cerberus Capital Management[1,#]	Park Square Capital[1,#]
Charterhouse Capital Partners	Permira Advisers
Cinven	Sankaty Advisors[2,#]
Clayton Dubiler & Rice	STAR Capital Partners
Colonial First State Global Asset Management[1,#]	TDR Capital
CVC Capital Partners	Terra Firma Capital Partners
Doughty Hanson	The Blackstone Group
GIC Special Investments[1,#]	The Carlyle Group
GI Partners[1]	TPG Capital
Global Infrastructure Partners[#]	Värde Partners[1,#]
GoldenTree Asset Management [1,2,#]	York Capital Management[1,#]
Goldman Sachs[1]	

[1] Not a member of the BVCA
[2] Addition this year
[#] Private equity-like entity

A2

APPENDIX 2: PORTFOLIO COMPANIES COVERED BY THE GUIDELINES

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

Required portfolio companies

PORTFOLIO COMPANY	OWNERS DURING 2012
Acromas (AA/Saga)[1]	Charterhouse, CVC, Permira
Affinity Water[1, 2]	Morgan Stanley, Infracapital
Airwave Solutions	Macquarie
Alliance Boots	KKR
Amdipharm Mercury (AMCo)[1, 2]	Cinven
Annington Homes	Terra Firma
Associated British Ports	Goldman Sachs, Infracapital, Borealis, GIC
Biffa[1, 3]	Sankaty Advisors, Babson Capital, Angelo Gordon & Co, Avenue Capital
Birds Eye Iglo	Permira
Brakes Group[1]	Bain Capital
Brit Insurance[1]	CVC, Apollo
British Car Auction	Clayton Dubiler & Rice
Camelot	Ontario Teachers' Private Capital
Card Factory	Charterhouse
Care UK	Bridgepoint
Center Parcs	Blackstone
Civica	3i
DFS	Advent
Domestic and General Group	Advent
DX Group	Arle
Edinburgh Airport[1, 2]	Global Infrastructure Partners
Enserve	Cinven
Enterprise	3i
Environmental Scientifics Group	3i
Equiniti[1]	Advent
Eversholt Rail	3i, Morgan Stanley, STAR Capital Partners
Exova	Clayton Dubiler & Rice
Expro[1]	Goldman Sachs
Fat Face	Bridgepoint
Findus Group[1]	Lion Capital, Highbridge Capital
Fitness First[1, 3]	Oaktree Capital Management, Marathon Capital
Four Seasons Health Care[1, 2]	Terra Firma
Gala Coral	Apollo, Cerebus, Park Square, York Capital Management
Gatwick Airport	Global Infrastructure Partners
Gondola Holdings[1]	Cinven
Integrated Dental Holdings	Carlyle, Palamon
John Laing[1]	Henderson
Just Retirement[1]	Permira
Kellen Group	Terra Firma
London City Airport	Global Infrastructure Partners, Highstar Capital
Merlin Entertainments Group	Blackstone, CVC

Moto[1]	Macquarie
National Car Parks[1]	Macquarie
New Look	Permira, Apax
Northgate Information Solutions	KKR
Odeon & UCI Cinemas[1]	Terra Firma
Osprey (Anglian Water Group)[1]	3i, Colonial First State Global Asset Management, Canadian Pension Plan Investment Board, Industry Funds Management
Park Resorts[1]	GI Partners
Partnerships in Care	Cinven
Pets at Home	KKR
Phones4U	BC Partners
PHS	Charterhouse
Pret a Manger	Bridgepoint
Priory Group	Advent
RAC	Carlyle
SAV Credit[1]	Varde Partners
South Staffordshire Water[1]	Alinda Capital
Spire Healthcare	Cinven
Stonegate Pub	TDR Capital
Thames Water	Macquarie
The Vita Group[1]	TPG
Tomkins	Onex Partners, Canadian Pension Plan
Top Right Group	Apax
Trader Media	Apax
Travelex[1]	Apax
Travelodge[1, 3]	Goldman Sachs, GoldenTree, Avenue Capital
TSL	Charterhouse
United Biscuits	Blackstone, PAI
Virgin Active[1]	CVC
Viridian Group	Arcapita
Vue Cinemas	Doughty Hanson
World Pay[1]	Advent, Bain

Voluntary portfolio companies

PORTFOLIO COMPANY	OWNERS DURING 2012
20:20 Mobile[2]	Doughty Hanson
ASCO Group[2]	Doughty Hanson
Avanza[2]	Doughty Hanson
AWAS[1]	Terra Firma
Balta[2]	Doughty Hanson
Consolidated Pastoral Company[1]	Terra Firma
Eurofiber[2]	Doughty Hanson
Deutsche Annington Immobilien	Terra Firma
Garden Centre Group[1, 2]	Terra Firma
Infinis	Terra Firma
KP1[2]	Doughty Hanson
LM Wind Power[2]	Doughty Hanson
Quirón[2]	Doughty Hanson
TMF Group[2]	Doughty Hanson
Tragus	Blackstone
TV3[2]	Doughty Hanson
Zobele[2]	Doughty Hanson

[1] Accounts reviewed this year
[2] Addition this year
[3] Portfolio companies that have exited and re-entered population during the year

A3

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

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

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

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

A firm authorised by the FCA that is managing or advising funds that either own or control one or more UK companies or have a designated capability to engage in such investment activity in the future where the company or companies are covered by the enhanced reporting guidelines for portfolio companies.

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

A UK company

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

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

4. Content of enhanced disclosure by a portfolio company

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

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

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

c) The report should include a business review that substantially conforms to the provisions of Section 417 of the Companies Act 2006 including sub-section 5 (which is ordinarily applicable only to quoted companies). Section 417 is reproduced in Appendix 6 and sub-section 5 provides:

"(5) In the case of a quoted company the business review 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 and community issues,

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

c) subject to subsection (11), information about persons with whom the company has contractual or other arrangements which are essential to the business of the company.

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

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 accounts.

e) To the extent that the guidelines at (b) 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.

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

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

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

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

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

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

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

7. Communication by a private equity firm

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

- a description of the way in which the FCA-authorised entity fits into the firm of which it is a part with an indication of the firm's history and investment approach, including investment holding periods, where possible illustrated with case studies.
- a commitment to conform to the guidelines on a comply or explain basis and to promote conformity on the part of the portfolio companies owned by its fund or funds.
- an indication of the leadership of the UK element of the firm, identifying the most senior members of the management or advisory team and confirmation that arrangements are in place to deal appropriately with conflicts of interest, in particular where it has a corporate advisory capability alongside its fiduciary responsibility for management of the fund or funds.

- a description of UK portfolio companies in the private equity firm's portfolio.
- a categorisation of the limited partners in the funds or funds that invest or have a designated capability to invest in companies that would be UK portfolio companies for the purpose of these guidelines, indicating separately a geographic breakdown between UK and overseas sources and a breakdown by type of investor, typically including pension funds, insurance companies, corporate investors, funds of funds, banks, government agencies, endowments of academic and other institutions, private individuals, and others.

8. Reporting to limited partners

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

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

b) value investments in their funds using either valuation guidelines published by IPEV or the applicable accounting standards.

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

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

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

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

10. Responsibility at a time of significant strategic change

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

APPENDIX 4: GUIDANCE ON THE DEFINITION OF A PRIVATE EQUITY FIRM FOR THE PURPOSE OF THE GUIDELINES

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

New Walker companies

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

1. It is evident the private equity firm holds a majority stake (>50% of the ordinary shares) in the underlying business; or
2. If a private equity firm, in its own financial statements, discloses that it maintains control of the portfolio company; or
3. A private equity firm has the ability to direct the financial and operating policies of a portfolio company with a view to gaining economic benefits from its activities. Consideration shall include, but not be limited to: management control; board seats; directors indicative of significant influence.

Where more than one 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 PE firm compliance.

Walker company exits

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

1. The portfolio company is sold via a trade sale; or
2. A private equity firm exits via an Initial Public Offering, even if the private equity firm retains a majority stake. The newly listed vehicle will be bound by the reporting requirements mandatory for listed companies; or
3. An event occurs, such as a restructuring, whereby a private equity firm is no longer able to control the financial and operating policies of a portfolio company.

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

The BVCA, with the assistance of Ernst & Young LLP, the firm commissioned to conduct research into the performance of portfolio companies, will discuss specific cases with private equity firms and provide feedback on its findings to the Guidelines Monitoring Group for its consideration.

A5 APPENDIX 5: RECOMMENDATIONS FOR INITIATIVE BY THE INDUSTRY ASSOCIATION

These recommendations for initiative by the BVCA cover:

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

A. Reporting and intelligence

1. The BVCA should boost significantly its capability for the collection, processing and analysis of data submitted by private equity firms and portfolio companies. While the main focus of this report is, as indicated and defined at the outset, on the activities of large buyout firms and their portfolio companies, the BVCA's reporting and intelligence function covers the whole of the private equity industry, including venture and development capital. The recommendation here is that this overall capability should be boosted so that the BVCA becomes the recognised authoritative source of intelligence and analysis both of larger-scale and of venture and development capital private equity business based in the UK and a centre of excellence for the whole industry. It is recommended that, alongside the strengthening of the executive that is already in train, the BVCA should retain the services on a fee-paying basis of one or more professional firms to assist in this task as a means of quality input and assurance, as also for the assurance of confidentiality in respect of data that is provided exclusively for incorporation in an aggregation process.
2. This recommended enlargement and strengthening in the BVCA's data gathering, analytical and reporting capability will call for materially increased data input from portfolio companies covered by the enhanced reporting guidelines and from the private equity firms investing in those companies. Responsibility for the sourcing of specific data flows respectively as between private equity firms and portfolio companies should be determined by the BVCA on the basis of prior consultation, to include for the previous calendar year or portfolio company reporting period:
    - amounts raised in funds with designated scope to invest in portfolio companies in the UK.
    - categorisation of limited partners by geography and by type.
    - scale of acquisitions of UK portfolio companies by transaction size at the time of acquisition.
    - trading performance of portfolio companies in terms of revenues and operating earnings.
    - estimates of levels and changes in employment, new capital investment and research and development expenditure by portfolio companies.
    - aggregate fee payments by private equity firms and portfolio companies to other financial institutions and for legal, accounting and other advisory services.
    - such other data collection and analysis as may be required in support of a comprehensive evidence-based assessment capability on the performance and economic impact of private equity in the UK, with particular reference to employment, productivity, investment and innovation.
3. Data should be collected from private equity firms to support attribution analysis in respect of exits in at least the previous calendar year to provide on an industry wide basis annually an assessment of percentages of total return over the holding period attributable to:

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

4. It is recommended that the BVCA should publish an enlarged version of its economic impact and associated surveys to cover both the industry overall and giving separate data and analyses for
   - larger-scale private equity business to present an authoritative evidence based account of the performance of the industry in the UK over the holding periods of portfolio companies and of the subsequent performance of former portfolio companies where exit by the fund or funds is to the public market by means of an IPO process.
   - venture and development capital, which will call for an increase in the sample sizes for data collection.

B. Guidelines review and monitoring

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

1. Terms of reference of the Group:
   a) to keep the guidelines under review and to make recommendations for changes when necessary to be implemented by the BVCA after due consultation to ensure that the Guidelines remain appropriate in changing market and industry circumstances.
   b) to review the extent of conformity with the guidelines, through compliance or explanation, on an ongoing basis.
   c) to publish a brief annual report on the work of the Group.
2. Composition of the Group:
   a) a Chairman with substantial experience but independent of private equity.
   b) total size of 5 to include 2 executives of GPs or advisers to funds investing in portfolio companies covered by the Guidelines.
   c) 2 independent members additionally to the Chairman with substantial professional or business experience.
   d) thus a majority of independents.
3. Appointment of the Group:
   a) to be appointed by the Chairman and Council of the BVCA on the advice of a Nominations Committee of the Council.
   b) the Chairman of the Group to have a term of 3 years with provision for appropriate rotation of other members to ensure continuity.
   c) the Chairman and the independent members to be paid appropriate fees.
4. Operations of the Group:

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

   a) undertaking data processing and assessment on the basis of initial self assessment on conformity by private equity firms and portfolio companies.
   b) appropriate spot-check sampling.
   c) funded under budget provisions agreed between the Group and the Chairman and Council of the BVCA.

5. Conformity with the Guidelines:

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

C. Engagement with "private equity-like" entities

1. The BVCA should identify entities whose business, though not requiring authorisation by the FCA, is similar to that of the private equity firms covered by these guidelines, to include in particular the UK affiliates of sovereign wealth funds and other major principal or proprietary investors whose funding is not dependent on limited partners.
2. The BVCA should initiate discussion with such groups (where appropriate, in the case of sovereign wealth funds, after consultation with government) with the purpose of enlisting their voluntary undertaking to conform to the Guidelines, on the basis that this will be in their own interest as a manifest of their commitment to established good practice as to disclosure and transparency in such business conducted in the UK.
3. The BVCA is recommended to create an appropriate category of membership to enable such entities to be associated appropriately with the activities of the association.

D. Fund performance measurement.

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

APPENDIX 6: EXTRACT FROM COMPANIES ACT, 2006

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Section 417 Contents of directors' report: business review

1. Unless the company is subject to the small companies' regime, the directors' report must contain a business review.
2. The purpose of the business review is to inform members of the company and help them assess how the directors have performed their duty under section 172 to promote the success of the company.
3. The business review must contain:
   a) a fair review of the company's business, and
   b) a description of the principal risks and uncertainties facing the company.
4. The review required is a balanced and comprehensive analysis of:
   a) the development and performance of the company's business during the financial year, and
   b) the position of the company's business at the end of that year, consistent with the size and complexity of the business.
5. In the case of a quoted company the business review 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,
      ii) the company's employees, and
      iii) social and community issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies; and
   c) subject to subsection 11), information about persons with whom the company has contractual or other arrangements which are essential to the business of the company.

   If the review does not contain information of each kind mentioned in paragraphs b)i), ii) and iii) and c), it must state which of those kinds of information it does not contain.
6. The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include:
   a) analysis using financial key performance indicators, and
   b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

      "Key performance indicators" means factors by reference to which the development, performance or position of the company's business can be measured effectively.
7. Where a company qualifies as medium-sized in relation to a financial year see sections 465 to 467), the directors' report for the year need not comply with the requirements of subsection 6) so far as they relate to non-financial information.
8. The review must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.
9. In relation to a group directors' report this section has effect as if the references to the company were references to the undertakings included in the consolidation.
10. Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.
11. Nothing in subsection 5) c) requires the disclosure of information about a person if the disclosure would, in the opinion of the directors, be seriously prejudicial to that person and contrary to the public interest.

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