LPEQ
Listed Private Equity

LPEQ INVESTOR REPORTING GUIDELINES

For listed private equity companies

In October 2011, LPEQ released the first Reporting Guidelines which would set a benchmark for reporting in the listed private equity sector, in order to ensure that investors, analysts and commentators have the information necessary to gain a clear understanding of a fund's proposition.

To date, the Guidelines have been well received by the investor and analyst community, and have played an important role in affirming best practice and enhancing the consistency of reporting in the listed private equity sector.

In the spirit of improving further the Guidelines, and following additional consultation with stakeholders, Version 2.0 contains important enhancements, including a more specific treatment for funds of funds reporting; a sharper focus on what is required in order to claim compliance with these aspirational standards; and truly global applicability.

Version 2.0 also seeks to avoid duplication with requirements under national or international financial reporting standards, and seeks to be independent of those. These Guidelines recognise the guidance set by the International Private Equity Valuations (IPEV) board for the valuation of privately-held companies.

For more information on LPEQ's work on behalf of the listed private equity sector, visit **www.LPEQ.com**.

PRINCIPLES OF SOUND REPORTING

The provision of useful information on investment portfolios, investment activities, valuation policies and insightful views on future prospects empowers investors to make informed investment decisions and achieve the greatest clarity and confidence in the position of their shareholding.

In applying LPEQ Investor Reporting Guidelines, LPE managers should aspire to the following general principles:

- High quality, succinct narrative reporting
- Readily accessible and comparable information provision across mainstream channels: websites, reports and accounts, fact sheets and presentations
- Consistency of reporting, both within a company report, within a reporting period and ultimately, consistency across the sector
- Timeliness, within the constraints of a vehicle's situation
- Contextualise any reporting constraints. For instance, disclosures that could expose commercially sensitive information or that would fail to respect non-disclosure or confidentiality agreements
- Objectivity and transparency in the use and construction of samples

1. INVESTMENT OBJECTIVE, POLICY AND STRATEGY

- Companies should clearly state the type of the investment, for instance 'Listed private equity', and the specific form of exposure provided, for instance, 'funds of funds'
- Companies should provide a clear investment objective and a description of the manager's policies and strategy to achieve this
- Care should be taken to ensure the strategy description provides specific insight rather than a generic overview of the business model that could be equally applicable to companies of a similar structure
- Specific reference should be made to the company's investment type, style, size range, geographical focus, sectoral focus and financial instruments favoured
- The investment objective should include the dividend or capital return policy of the vehicle
- Companies are encouraged to articulate their policy with regards to responsible investment

2. PERFORMANCE

The historic performance of a vehicle is an important aspect of investment decision-making. Performance information should be provided in both absolute and relative terms.

To enable consistent comparison of LPE companies across the market, the primary methods for expressing performance should be:

- The annual compound rate of change on a total return[1] basis for:
  - Share price
  - NAV per share

Performance may also be expressed as average return-on-equity per annum.

1 The total return to the shareholder is calculated on the basis that dividends are re-invested into the shares on the date the dividend is paid; with the relative performance of any indices cited calculated on the same basis.

This information should be expressed:

- To cover both longer and shorter-term horizons, such as 1, 3, 5 and 10 year periods, with attention drawn to the long term nature of private equity ownership and the concomitant suitability of Listed Private Equity to long term equity ownership
- Relative to appropriate indices (e.g. FTSE All Share, LPX Europe)
- In addition, the portfolio's performance should be reconciled against the net return to shareholders over the reporting period.
- The use of anticipated or projected IRRs is strongly discouraged across all investor reporting materials.

3. TRADING DATA

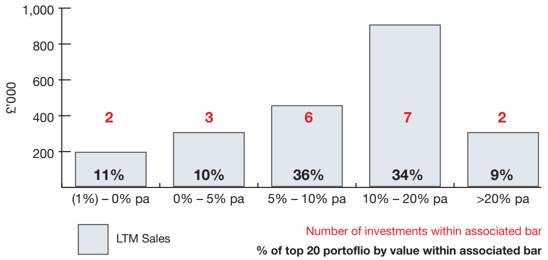
Where possible, LPE companies should provide information on:

a. Trailing average revenue growth
b. Trailing average EBITDA growth
c. Changes in net debt, if possible adjusted for acquisitions, disposals, redemptions and capital injections. Net debt may be expressed as a multiple of EBITDA

Banding charts, which use a selected range of values or outcomes, are a useful and pragmatic way to provide investors with insight into the trading positions of different portions of the portfolio.

Certain funds of funds may be able to provide such information, if only on the basis of a sample. If a sample is used, it should be clearly labelled as such, noting any limitations of this approach.

Example of banding charts, showing revenue growth, by proportion of the portfolio



4. VALUATION AND GEARING

LPEQ endorses the International Venture Capital and Private Equity Valuation (IPEV) Guidelines.

LPE companies should publish a valuation policy in their Annual Reports, including:

- The principle valuation methodology used (e.g. multiple of earnings, net asset values, discounted cash flows, etc.)
- In respect of multiple of earnings valuations:
  - How earnings figures are derived (accounting policies, historic vs forecast)
  - Multiples (comparative baskets, weightings, period applied).
- Treatment of net debt
- Any other significant assumptions, including any discounts applied
- In addition, LPE companies are encouraged to provide a comparison of the multiples used in valuation with the average for the comparable index and sector, including comparisons of portfolio revenue growth, profit margins and profit growth

Funds of funds, which will generally follow third-party managers' valuations, will often only be in a position to make general statements about valuations performed by those managers. However, listed private equity funds of funds are encouraged to disclose their own processes for gaining assurance over those reported valuations, paying particular attention to the effects of reporting time lags.

5. INVESTMENT ACTIVITY

LPE companies should provide information on new investments where it is meaningful and not commercially sensitive.

Information that could be disclosed would include:

- Name of company
- Nature of the company's business
- Investment rationale
- Method of financing
- The business's current trading performance

Aggregated information may be used in addition to, or instead of, company specific disclosure where it would provide the investor with a clearer understanding of the position of the LPE Company – for instance, in the case of funds of funds.

Realisations

LPE companies should provide the following information on realisations, where it is meaningful and not commercially-sensitive, either on a company-specific or aggregated basis:

- Narrative reporting of how the investment transpired and came to fruition
- The effect of the realisation on NAV per share and on the composition of the balance sheet
- In the case of funds of funds, underlying company or fund investment case studies could be equally useful
- Material write-offs

Other useful information, could include:

- Total proceeds as a multiple of original cost
- The percentage uplift of realised proceeds over the most recently disclosed book value prior to sale
- Gross IRR achieved
- Amount and percentage realised in cash, marketable securities
- Amount and percentage locked up as deferred or conditional sales proceeds including escrow amounts

6. BALANCE SHEET

LPE Companies should provide information on their policy regarding balance sheet management, including, for instance, referring to aspects such as undrawn commitments, net and gross debt, undrawn loan facilities, and the targeted level of net investment over the long term.

Information on balance sheets should include:

- Disclosures on movements in NAV and an analysis of the principal components of those movements
- An assessment of the company's liquidity position, including
  - Cash and available borrowings
  - Outstanding commitments and the nature / maturity of those commitments
  - The principal terms of any bank facility
  - Future credit availability, if facilities are due to expire in the near future

7. PORTFOLIO ANALYSIS

LPE companies should provide the following portfolio analyses, as a percentage of net assets or of the total investment portfolio (stating clearly which):

- Asset Class (e.g. 'private equity'; 'venture capital'; etc.)
- Deal Type (e.g. 'large-cap equity'; 'mid-market'; 'mezzanine', etc.)
- Valuation (presented as bandings by multiple of cost)
- Vintage year
- Sector
- Geographic spread

8. FEES, DELEGATION AND CONFLICTS

LPE Companies should provide full disclosure of the relationship between the company and any external manager (where relevant), including:

- The principal commercial terms, including financial arrangements (see below)
- Any delegation of authority, for instance between a board and an external manager, including mechanisms that ensure accountability
- Any potential conflicts of interest between the company, the manager (if different) and any of that manager's other interests.

LPE companies should provide a clear description and quantification of fees charged, ideally on an 'Ongoing charges' basis.

Ongoing charges would include all payments to the management company, directors, depositaries, investment advisers, professional services advisers, including regulatory, audit and legal fees. Amounts payable to the manager should be separately identified and the total amount clearly disclosed.

Companies should also disclose details of performance fees, including a separate percentage figure for performance fees plus Ongoing charges where this is meaningful.

LPE companies are encouraged to present fees as a percentage of average net asset value.

Manager Information

LPE companies should provide information on the manager's wider business interests to assess:

- Manager credentials in the management of private equity assets and execution of the stated investment strategy including evidence of success or failure outside the activities of the vehicle in question, funds under management, client base, number of products, years in existence, etc.
- People; experience, background, depth of expertise and resource
- High level performance data

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