Foresight Group LLP – Pillar 3 Disclosure

Pillar 3 Disclosure

The Pillar 3 disclosure of Foresight Group LLP (the "LLP") is set out below (the "Disclosure") as required by the Capital Requirement Regulation ('CRR') Art. 431 et seq. The regulatory aim of the disclosures is to improve market discipline.

Background

The Capital Requirements Regulation and Directive (colloquially known as 'CRD IV') and Alternative Investment Fund Management Directive ('AIFMD') together establish a revised regulatory capital framework across Europe governing the amount and nature of capital investment firms must maintain.

Frequency

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date ("ARD") of 31st March.

Verification

The information contained in this Disclosure has not been audited by Foresight Group LLP's external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the LLP.

Materiality

The Firm regards information as material in this Disclosure if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Disclosure.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

Foresight Group LLP is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The LLP is categorised as an 'IFPRU limited licence firm' by the FCA for capital purposes, is an investment management firm and as such has no trading book exposures.

The LLP is not a member of a prudential consolidation group and so is not required to prepare consolidated reporting for prudential purposes.

This statement is for the financial year ended 31 March 2018 and is based on the LLP's current UK ICAAP formally adopted by the Executive Committee. This Pillar 3 disclosure is based on the fully standalone statement of the capital position of the LLP at the financial year end. The regulatory requirements and risk exposures are therefore backward looking.

The LLP is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; the policies for hedging and mitigating risk; and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The LLP has assessed relevant business and operational risks in its ICAAP and has set out appropriate actions to manage those specific risks.

The LLP has an operational risk framework (described below) in place to mitigate operational risk. The LLP's main exposure to credit risk is the risk that management and performance fees cannot be collected and, therefore, credit risk is considered low. The LLP holds all cash with banks assigned high credit ratings.

Market Risk exposure has been assessed by the LLP and is limited to the LLP's exposure to foreign currency exchange rate risk and hence to any assets and liabilities held on the LLP's balance sheet denominated in a foreign currency which are small in value. The LLP's reporting currency is GBP and all foreign currency assets are converted into GBP where possible on a regular basis.

Background to the Combined Group

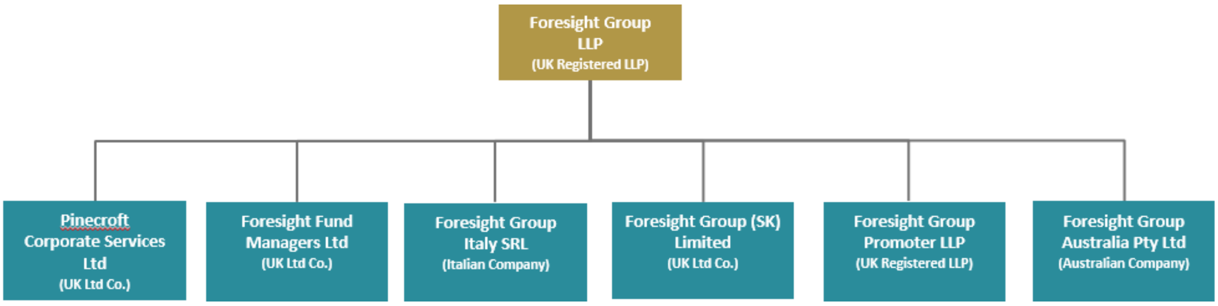
<u>Background</u>

The Group is a leading independent infrastructure and private equity investment manager with a combined £2.5bn of AUM across the whole Group, raised from institutional investors, family offices, private and high net-worth individuals.

The Group's broad and growing fund management activities now encompass investing in the private equity and infrastructure sectors in the UK, Europe and Australia through specialist teams.

Foresight has offices in the UK, Guernsey, Italy, South Korea and Australia but the non-UK offices and funds are not included in the standalone profit and loss of Foresight Group LLP.

An abridged version of the legal entity group structure that Foresight Group LLP is part of is below:



Article 435

Disclosure: Risk Management Objectives and Policies

The LLP's business strategy of growing its AUM via existing funds and through the establishment of new funds is relatively low risk given that the growth will be in areas where the Group has core competence, namely private equity and infrastructure investment management. Key operational and liquidity risks are managed primarily through internal controls reviewed by the Chief Risk Officer with support from the Risk Management Committee. The credit risk is monitored monthly through the management accounts which are reviewed by the Executive Committee. Debtors are managed monthly through an aged debtors report and are collected in a timely manner.

Risk Management Objective

The LLP's risk management objective is to develop systems and controls to mitigate risk to within its acceptable risk appetite.

Governance Framework

Foresight Group LLP is a UK limited liability partnership, which was established in December 2001. The following is the current list of the designated members:

- Peter English (6 appointments);
- Gary Fraser (28 appointments); and
- Foresight Group CI Limited.

The general management of the LLP is the responsibility of the Executive Committee which meets weekly. The Executive Committee is composed of:

- Bernard Fairman, Group Chairman;

- Gary Fraser, Chief Financial Officer;
- David Hughes, Chief Investment Officer;
- Nigel Aitchison, Head of Infrastructure; and
- Russell Healey, Head of Private Equity.

Primary responsibility for governance and risk oversight rests with the Executive Committee.

The Investment Committee meets weekly or as frequently as necessary to evaluate investment opportunities, establish investment conditions and make decisions on investments / divestments.

The Risk Management Committee meets six times per year advising Executive Committee on compliance issues, reviewing breaches / deficiencies in risk management process and advising on responses to breaches / deficiencies.

In addition to these committees, there is a Valuations Committee, Investment team meetings, IT Committee and Health & Safety Committee.

Certain authorities have been delegated to each of the LLP's committees. David Hughes or Gary Fraser are members of the Investment Committee, Risk Management Committee and Valuations Committee and use the discussions at those committees to inform and make decisions and to make recommendations to the Executive Committee. Attendees at these committees may present key policies to the Executive Committee for discussion, challenge, comment and approval.

The ICAAP process is a key process that requires input from the Risk Committee and Executive Committee for risk identification and risk measurement. This input is then used by Finance to develop stress testing, capital and liquidity planning.

Management reporting on a monthly basis includes the total firm profit and loss with a profit centre / business unit (BU) analysis conducted on a quarterly basis. Non-financial statement information is also included such as updates on fundraisings and investment deployment.

Liquidity risk
The LLP holds sufficient cash to meet its liquidity needs. Cash flow forecasts are performed and reviewed monthly and cash is reconciled weekly. Sufficient cash is held in current accounts. Liquidity risk is considered and the systems and controls reviewed annually as part of the ICAAP process.

Article 437
<u>Disclosure: Own Funds</u>
The LLP is an IFPRU limited licence firm. Tier 1 Capital comprises of Eligible Members' Capital and audited reserves. The LLP holds £6.1 million of Tier 1 Capital.

Members’ other interests (at 31st March 2018)	(£’000)
Members’ capital	122
Other reserves	6,000
Members’ other interests (per audited accounts)	**6,122**
Common Equity Tier 1 Capital / Tier 1 Capital / Total Capital	**6,122**

Article 438

Disclosure: Capital Requirements

The Credit Risk element comprises the credit risk capital component which reflects the risk that the Business is unable to realise the cash value of its assets or has to pay out an off-balance sheet liability. It is calculated based on the standardised approach using 8% of the risk weighted exposure amounts.

Credit Risk by Exposure Class	**(£’000)**
Institutions	144
Corporates	1,073
Other items	208
Total Credit Risk Capital Component	1,425

The Institutions credit risk is therefore the cash held with financial institutions on the LLP’s balance sheet multiplied by a risk weighted factor of 20% and then by a factor of 8%. The Corporates risk is Debtors balance with third parties on the LLP’s balance sheet multiplied by a risk weighted factor of 100% and then by a factor of 8%. Finally, the Other items are other assets (Investments, Fixed Assets, Prepayments, Accrued Income) on the LLP’s balance sheet also multiplied by a risk weighted factor of 100% and then by a factor of 8%.

The LLP does not adopt the Internal Ratings Based Approach and hence this is not applicable.

Article 439

Disclosure: Exposure to Counterparty Credit Risk

The LLP is not subject to the counterparty credit risk requirement.

Article 440

Disclosure: Capital buffers

The LLP is not subject to the capital buffers requirement.

Article 441

Disclosure: Indicators of Global Systemic Importance

This disclosure is not applicable as the LLP is not a Global Systemic Important Institution.

Article 442

Disclosure: Credit Risk Adjustments

There were no credit risk adjustments at the ARD.

Article 443

Disclosure: Unencumbered Assets

Asset Category	**Encumbered Assets (£'000)**	**Unencumbered Assets (£'000)**
Loans on demand	-	8,957
Equity Instruments	-	494
Loans and advances other than loans on demand: - Non-financial corporations	-	13,407
Other assets	-	2,112
Total Assets	**-**	**24,970**

Since the LLP has no external credit facilities there are no encumbered assets on its Balance Sheet. Loans on demand represent the cash balances held at LLP's financial institutions. Equity instruments represent the co-investment into its Limited Partnership structured private equity and environmental funds. Loans and advances to non-financial corporates is the Debtors balance with third parties on LLP's balance sheet.

Article 444

Disclosure: Use of ECAIs

Foresight Group LLP does not have a nominated ECAI (external credit assessment institution) for any exposure classes.

Article 445

Disclosure: Exposure to Market Risk

Article 92(3) b requirements for trading book business.

This disclosure is not required as the LLP does not have a trading book.

Article 92(3) c requirements

The firm does not have any trading book however it does have some non-sterling bank accounts. The LLP's net foreign exchange exposure is £11k, below the de minimis threshold. The LLP does not hold securitisation positions and therefore there is no specific interest rate risk to disclose.

Article 446

Disclosure: Operational Risk

The LLP is not subject to the Operational Risk requirement.

Article 447

Disclosure: Exposures in Equities not Included in the Trading Book

The LLP has unlisted equity investments primarily as co-investment into its Limited Partnership structured private equity and environmental funds.

Investment objective	Balance Sheet Value (£'000)	Fair Value (£'000)	Exposure (£'000)	Valuation methodology
Co-investment	494	494	742	EBITDA multiple / DCF
Total	**494**	**494**	**742**	

The exposure is calculated as 150% of the fair value figure on the Balance Sheet.

Article 448

Disclosure: Exposure to Interest Rate Risk on Positions not Included in the Trading Book

Although the LLP has substantial cash balances on its balance sheet, there is currently no significant exposure to interest rate fluctuations.

Article 449

Disclosure: Exposure to Securitisation Positions

This disclosure is not required as the LLP does not securitise assets.

Article 450

Remuneration

Decision-making process for remuneration policy

The Executive Committee is responsible for approving and overseeing the implementation of the LLP's remuneration policy. This includes ensuring that the firm's remuneration arrangements are consistent with, and promote sound and effective risk management and do not encourage excessive risk taking.

The Committee also reviews and approve the remuneration of those employees that have been identified by the policy as being within the scope of the requirements of the FCA's Remuneration Code ('Code Staff'). Employees are considered to be code staff if their role has a material impact in determining the LLP's risk profile. The LLP's Code Staff are defined as the Executive Committee's and other employees performing FCA Significant Influence Functions (SIFs) and a record is maintained by the HR team.

The link between remuneration and performance

Remuneration is comprised of fixed pay (salary and benefits) and variable pay (performance-related bonuses). Performance related bonuses are designed to reflect performance in individual roles and success against a balanced range of targets.

Aggregate remuneration for Code Staff

The LLP is required to disclose the aggregate remuneration of Code Staff. For the year ending 31 March 2018, the annual remuneration was £4.2m. This is comprised of fixed pay, variable pay, non-contributory pension and benefits in kind in accordance with the rules.

The LLP considers that it operates with only two distinct business areas (Private Equity and Infrastructure) and therefore the aggregate information on remuneration is disclosed for the Partnership as whole. Due to the limited number of Code Staff, the LLP considers it appropriate to disclose aggregate remuneration across all Code Staff so as not to prejudice individuals with regard to disclosure of personal information.

Article 451

Disclosure: Leverage

This disclosure is not required for an IFPRU Limited Licence firm.

Capital instruments main features

1	Issuer	Foresight Group LLP
2	Unique identifier	Not applicable
3	Governing laws	England & Wales
	Regulatory treatment	
4	Transitional CRR rules	Not applicable
5	Post-transitional CRR rules	Post transitional
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Eligible Solo
7	Instrument type (types to be specified for each jurisdiction)	Eligible members' capital
8	Amount recognised in regulatory capital (£m as of most recent reporting date)	0.1
9	Nominal amount of instrument	0.1
9a	Issue price	0.1
9b	Redemption price	Not applicable
10	Accounting classification	Equity
11	Original date of issuance	25 October 2001
12	Perpetual or dated	Perpetual
13	Original maturity date	Not applicable
14	Issuer call subject to prior supervisory approval	Not applicable
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Not applicable
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Not applicable
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Not applicable
21	Existence of step up or other incentive to redeem	Not applicable
22	Noncumulative or cumulative	Not applicable
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	None

31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Last
36	Non-compliant transitioned features	None
37	If yes, specify non-compliant features	Not applicable