Foresight

FOR A SMARTER FUTURE

Pillar 3 Disclosure

EFFECTIVE DATE: 30 October 2020

Publicly disclosed

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Introduction

Welcome to Pillar 3

The Pillar 3 disclosure of Foresight Group LLP (“Foresight”) 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. Foresight’s Pillar 3 policy is to be compliant with all disclosure requirements and update this disclosure annually on the website https://www.foresightgroup.eu.

1 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

- Foresight 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’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 Foresight.

Materiality

- Foresight 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 Foresight deems a certain disclosure to be immaterial, it may be omitted from this Disclosure.

Confidentiality

- Foresight 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 Foresight’s investments therein less valuable. Further, Foresight must regard information as confidential if there are obligations to customers or other counterparty relationships binding Foresight 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.

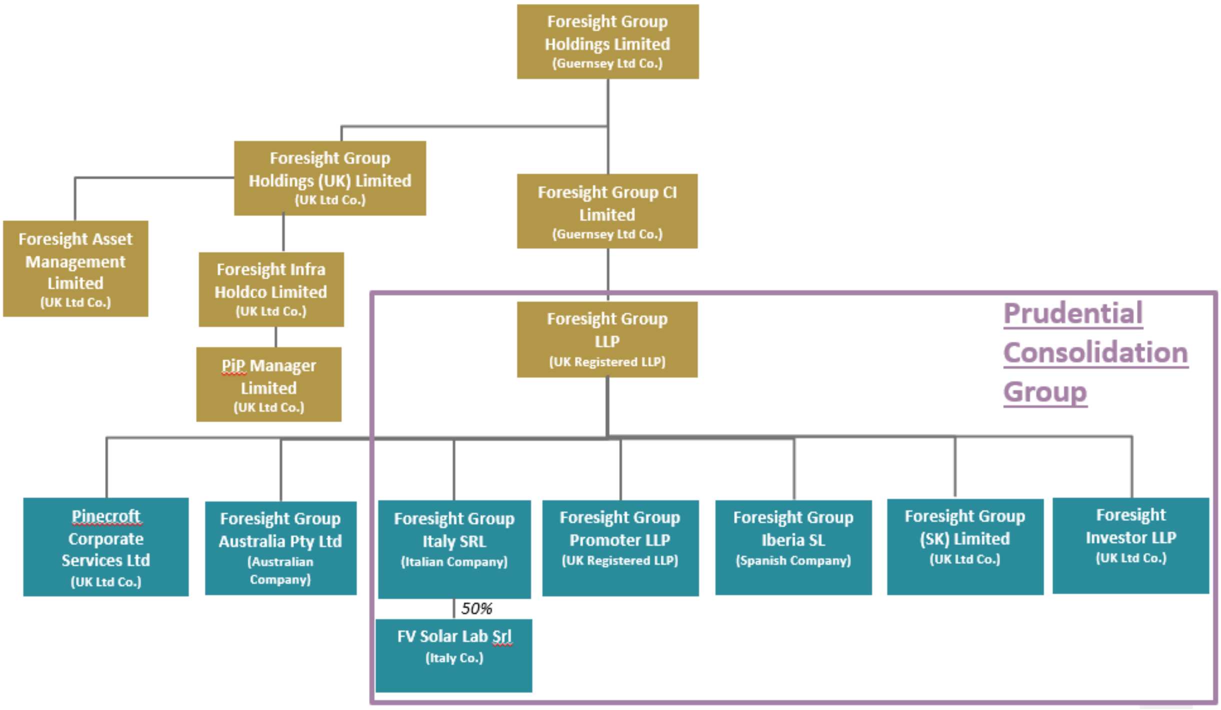
Scope and application of the requirements

- Foresight Group LLP is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. Foresight 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.
- Foresight is a member of a prudential consolidation group and so is required to prepare consolidated reporting for prudential purposes. The figures in this disclosure are therefore prepared on this prudential consolidated basis.

- This statement is for the financial year ended 31 March 2020 and is based on Foresight's current ICAAP formally adopted by the Executive Committee. This Pillar 3 disclosure is based on the fully standalone statement of the capital position of Foresight at the financial year end. The regulatory requirements and risk exposures are therefore backward looking.
- Foresight 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.
- Foresight has assessed relevant business and operational risks in its ICAAP and has set out appropriate actions to manage those specific risks.
- Foresight has an operational risk framework (described below) in place to mitigate operational risk. Foresight's main exposure to credit risk is the risk that management and performance fees cannot be collected and, therefore, credit risk is considered low. Foresight holds all cash with banks assigned high credit ratings.
- Market Risk exposure has been assessed by Foresight and is limited to Foresight's exposure to foreign currency exchange rate risk and hence to any assets and liabilities held on Foresight's balance sheet denominated in a foreign currency which are small in value. Foresight's reporting currency is GBP and all foreign currency assets are converted into GBP on a monthly basis as part of Foresight's financial reporting.

Background to Foresight Group [1]

- Foresight Group is a leading independent infrastructure and private equity investment manager with a combined £4.5bn at 31st March 2020, 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, Spain, South Korea and Australia but the non-UK offices and funds are not included in the standalone profit and loss account of Foresight.
- An abridged version of the legal entity group structure that Foresight is part of is below:



Note: 1) Reference to "Foresight Group" shall mean to Foresight Group Holdings Limited and its direct and indirect subsidiaries globally, including Foresight Group LLP and Foresight Group CI Limited.

2 Risk Management and Governance

Article 435

Disclosure: Risk Management Objectives and Policies

- Foresight'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 Foresight has core competence, namely venture capital investment management. Key operational and liquidity risks are managed primarily through internal controls reviewed by the Chief Risk Officer ("CRO") with support from the Risk Management Committee ("RMC"). Foresight's Chief Financial Officer ("CFO") has the role of CRO and chairs the RMC. The CFO is a member of Foresight's Executive Committee and this ensures that pertinent risk information flows up to the Executive Committee.
- 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.
- Foresight has no material risk which requires hedging and therefore there is no hedging strategy in place.
- Foresight's risk register is a working document that has input from across the different business areas and is reviewed on an ongoing basis. Regular analysis by the RMC, attendance at workshops and the risk register all ensure that the material risks facing Foresight are being effectively captured and actions are being taken to mitigate these risks.

Risk Management Objective

- Foresight'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 (7 appointments);
  - Gary Fraser (30 appointments); and
  - Foresight Group CI Limited.
- The general management of Foresight (and Foresight Group) is the responsibility of the Executive Committee which meets weekly. The Executive Committee is composed of:
  - Bernard Fairman, Foresight 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 RMC 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, ICT Committee, Remuneration Committee, ESG & Sustainability Committee, ISMS & GDPR Panel and Health & Safety Committee.
- Certain authorities have been delegated to each of Foresight's committees. David Hughes chairs the Investment Committee, Gary Fraser chairs the RMC, and both are members of the Valuations Committee. David Hughes and Gary Fraser 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 RMC 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 Foresight Group profit and loss with a profit centre / business unit (BU) analysis. Non-financial statement information is also included such as updates on fundraising, personnel and investment deployment.
- Recruitment to the Executive Committee is infrequent but when it does take place, Foresight typically promotes internally with well-established partners thus de-risking the potential for unsuccessful appointments.
- Foresight’s Equality and Diversity Policy outlines the means of Foresight achieving its diversity objectives.
- Foresight’s risk arrangements are adequate for the size and complexity of Foresight.

Liquidity risk

- Liquidity risk is the risk that we will not have adequate cash flow to meet our operational expenses and other obligations when they fall due. Foresight holds enough liquid assets to meet its regulatory requirements which is the Fixed Overhead Requirement (FOR). Cash flow forecasts are performed and reviewed monthly and cash is reconciled weekly. Liquidity risk is considered, and the systems and controls reviewed annually as part of the ICAAP process.

3 Regulatory Capital

Article 437

Disclosure: Own Funds

- Foresight is an IFPRU limited licence firm. Tier 1 Capital for the Prudential Consolidated Group comprises of Eligible Members’ Capital and audited reserves. The LLP holds £8.7 million of Tier 1 Capital on a prudential consolidated basis.

Members’ other interests (at 31st March 2020)	(£’000)
2.1 Members’ capital	163
2.2 Other reserves	8,828
Members’ other interests	8,991
Less: Intangible assets	(272)
Common Equity Tier 1 Capital / Tier 1 Capital / Total Capital	**8,719**

- The main features which explains why Members’ capital and reserves classified as equity are eligible as Tier 1 Capital is referenced below.

Capital instruments main features

No.	Category	Classification	
1	Issuer	Foresight Group LLP	Foresight Group LLP
2	Governing Laws	England & Wales	England and Wales
	Regulatory treatment		
3	Post-transitional CRR rules	Post transitional	Post transitional
4	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Eligible Solo and sub-consolidated	Eligible solo and sub-consolidated

No.	Category	Classification	
5	Instrument type (types to be specified for each jurisdiction)	Eligible members' capital	Other reserves treated as Tier 1 capital
6	Amount recognised in regulatory capital (£m as of most recent reporting date)	£0.2m	£8.8
7	Nominal amount of instrument	£0.2m	N/a
8	Issue price	£0.2m	N/a
9	Accounting classification	Equity	Equity
10	Original date of issuance	25 October 2001	4 September 2017
11	Perpetual or dated	Perpetual	Perpetual
12	Convertible or non-convertible	Non-convertible	Non-convertible
13	Write-down features	None	None
14	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Last	Last
15	Non-compliant transitioned features	None	None

Article 438

Disclosure: Capital Requirements

- The Credit Risk element comprises the credit risk capital component which reflects the risk that Foresight 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)
a) Institutions	87
b) Corporates	1,094
c) Other items	416
Total Credit Risk Capital Component	**1,597**

- The Institutions credit risk is therefore the cash held with financial institutions on Foresight'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 Foresight'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 Foresight's balance sheet also multiplied by a risk weighted factor of 100% and then by a factor of 8%.
- Foresight does not adopt the Internal Ratings Based Approach and hence this is not applicable.
- In order to calculate Pillar 2 Capital, Foresight performs a Wind-Down analysis in line with Wind Down Planning Guidance and also assesses the impact of operational risks. For each operational risk identified Foresight has applied probability factors to the impact of risks materialising. These scores are firstly applied on a gross basis i.e. using the likelihood of occurrence before any risk mitigation. Management will then reduce these probability factors after considering the mitigations in place. To quantify the impact of these risks, Foresight will use experience, market experience and/or management judgement. Consequently, the basis for calculating each operational risk differs.

Article 439

Disclosure: Exposure to Counterparty Credit Risk

- Foresight is not subject to the counterparty credit risk requirement.

Article 440

Disclosure: Capital buffers

- Foresight is not subject to the capital buffers requirement.

Article 441

Disclosure: Indicators of Global Systemic Importance

- This disclosure is not applicable as Foresight is not a Global Systemic Important Institution.

Article 442

Disclosure: Credit Risk Adjustments

- There were no credit risk adjustments at the Accounting Reference Date ("ARD").

Article 443

Disclosure: Unencumbered Assets

Asset Category	Encumbered Assets (£'000)	Unencumbered Assets (£'000)
Loans on demand	-	5,424
Equity instruments	-	1,324
Loans and advances other than loans on demand - Non-financial corporations	-	12,095
Other assets	-	5,065
Total Assets	**-**	**23,908**

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

Article 444

Disclosure: Use of ECAIs

- Foresight 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 Foresight does not have a trading book.

- Article 92(3) c requirements

Foresight does not have any trading book however it does have some non-sterling bank accounts. Foresight's net foreign exchange exposure is £400k. Foresight does not hold securitisation positions and therefore there is no specific interest rate risk to disclose.

Article 446

Disclosure: Operational Risk

- Foresight is not subject to the Operational Risk requirement but has an Operational risk framework to assess Pillar 2 capital.

Article 447

Disclosure: Exposures in Equities not Included in the Trading Book

- Foresight has unlisted equity investments primarily as co-investment into its Limited Partnership structured private equity and infrastructure funds.

Investment objective	Balance Sheet Value (£'000)	Fair Value (£'000)	Exposure (£'000)	Valuation methodology
Co-investment	1,061	1,061	1,592	EBITDA multiple / DCF
Total	**1,061**	**1,061**	**1,592**	

- 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 Foresight 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 Foresight does not securitise assets.

4 Remuneration

Decision-making process for remuneration policy

- The Remuneration Committee is responsible for approving and overseeing the implementation of Foresight's remuneration policy with oversight from the Executive Committee. This includes ensuring that Foresight'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 approves 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 Foresight's risk profile. Foresight's Code Staff consist of members of the Executive Committee, Investment Committee, heads of business units and external facing sales staff and a record is maintained by the compliance 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

- Foresight is required to disclose the aggregate remuneration of Code Staff. For the year ending 31 March 2020, the annual remuneration was £7.2m. This is comprised of fixed pay, variable pay, non-contributory pension and benefits in kind in accordance with the rules.
- Foresight 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, Foresight considers it appropriate to disclose aggregate remuneration across all Code Staff so as not to prejudice individuals with regard to disclosure of personal information.

5 Leverage

Article 451

Disclosure: Leverage

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

Foresight

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