

RISKS

Strong leadership and setting standards of conduct from the top are critical to ensuring that the Group has a healthy risk culture.

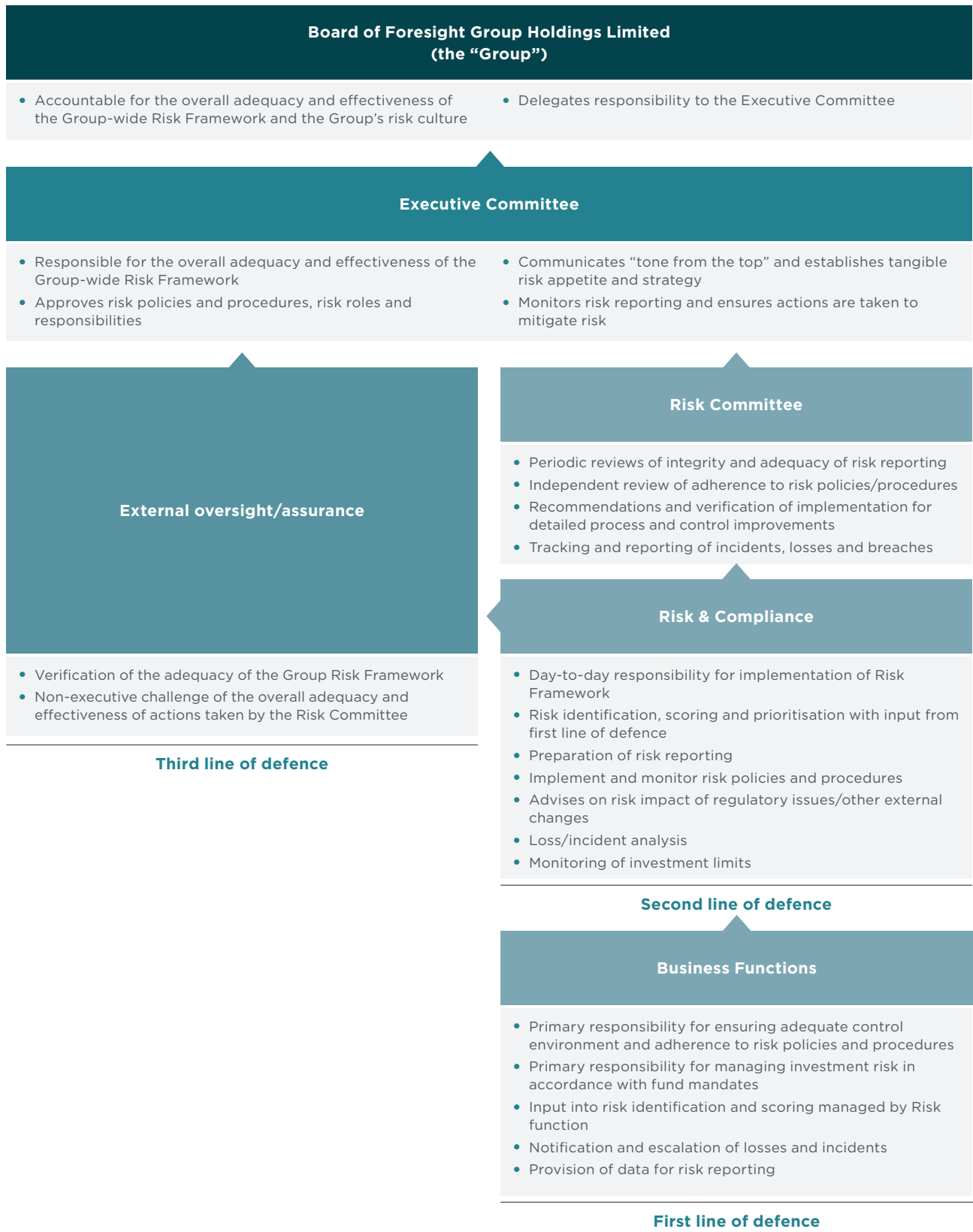
Risk governance

The Board of Directors is accountable for the Group's risk management activities and responsible for setting the risk culture. This culture is based on all staff having a sense of ownership and accountability for risk management. The Board of Directors is majority independent and the Audit & Risk Committee has complete independence.

The Group's governance arrangements provide a direct line of sight on the risk profile of the businesses and functions that comprise the operational areas. The Board delegates the risk management activities to the Executive Committee. Gary Fraser is the Chief Risk Officer and a member of both the Board and the Executive Committee. He is supported by the Head of Risk, Jonathan Parsons, who chairs the Risk Committee and is assuming responsibility for the Risk Management Framework ("RMF") across the Group.

The Group operates a three lines of defence model, as shown in the diagram below. Given the growth of the business, the Group is reviewing the requirement for an internal audit function to supplement the current external oversight arrangements, to provide additional independent assurance that the Group's governance and risk management activities are operating effectively.





RISKS CONTINUED

Risk governance continued

Each business and function has a risk owner, who is responsible for identifying, assessing, monitoring and controlling its risks. The risk owners are key to ensuring clear lines of oversight from the Board to the business activities and represent the risk function at committee level, for example at the Investment Committee.

Board of Directors



Bernard Fairman
Executive Chairman

Board Committee membership

Market Disclosure



Gary Fraser
Chief Financial Officer
and Chief Operating Officer

Board Committee membership

Market Disclosure



Alison Hutchinson, CBE
Senior Independent
Non-Executive Director

Board Committee membership

Market Disclosure

Audit & Risk

Remuneration

Nomination



Geoffrey Gavey
Independent
Non-Executive Director

Board Committee membership

Audit & Risk

Remuneration

Nomination



Michael Liston, OBE
Independent
Non-Executive Director

Board Committee membership

Audit & Risk

Remuneration

Nomination

Note: Shading denotes chairmanship.

Executive Committee



Bernard Fairman
Non-voting member



Gary Fraser
Partner, CFO & COO



David Hughes
Partner, Chief Investment Officer



Russell Healey
Private Equity

Operational responsibility

- Finance
- Governance Risk & Compliance
- People & Culture
- Investor Relations Corporate & Inst'l

Operational responsibility

- Foresight Capital Management
- Investor Relations Retail
- Marketing

Operational responsibility

- Private Equity
- IT



Ricardo Piñeiro¹
Partner, Co-Head of Infrastructure



Nigel Aitchison
Partner, Co-Head of Infrastructure



Matthew Smith²
Partner, Co-Head of Private Equity



James Livingston²
Partner, Co-Head of Private Equity

Operational responsibility

- Infrastructure
- Product strategy and business development
- Sustainability

Operational responsibility

- Infrastructure
- Product strategy and business development

Operational responsibility

- Private Equity

Operational responsibility

- Private Equity

Sub-committees

Risk	Sustainability	Information Security & Data Protection
Employee Remuneration	Inclusion & Diversity	Investment
Valuation	IT Steering	Health & Safety
	Weightings	

1. Ricardo Piñeiro was appointed 1 April 2022.
2. Matt Smith and James Livingston will replace Russell Healey on the Executive Committee on approval of the FCA.

RISKS CONTINUED

Risk appetite

As a provider of regulated services, Foresight is required to document the risk appetite of the regulated entities within the Group. As Foresight's London office is the Group's principal office and the location of the Collective Portfolio Management Investment ("CPMI") firm, its risk appetite reflects the threshold appetite for the broader Group.

Foresight's risk appetite statement sets out the types and levels of risk that it is willing to assume, to achieve its strategic objectives and its business plan. The statement sets out hard risk limits and early warning indicators for each of the eight principal risk categories: strategic and business risk, market risk, credit risk, operational risk, legal and regulatory risk, financial crime risk, conduct risk and information security risk. The key risk indicators include regulatory capital, income diversity, compliance risk assessment findings, legal claims, staff turnover, data security breaches, suspicious activity reports and other measures calculated for the purposes of additional own-funds capital requirements. The risk appetite statement is reviewed annually, to ensure it remains aligned to the overall strategy and the business plan.

Role of the Alternative Investment Fund Manager ("AIFM")

Foresight is a full-scope AIFM in the UK and Luxembourg, regulated by the FCA and CSSF respectively. We are required to implement effective RMFs to allow us to identify, measure, monitor and manage the risks to which the AIFs we manage are or may be exposed. The Group reviews the RMFs and the efficacy of the systems annually.

Risk management

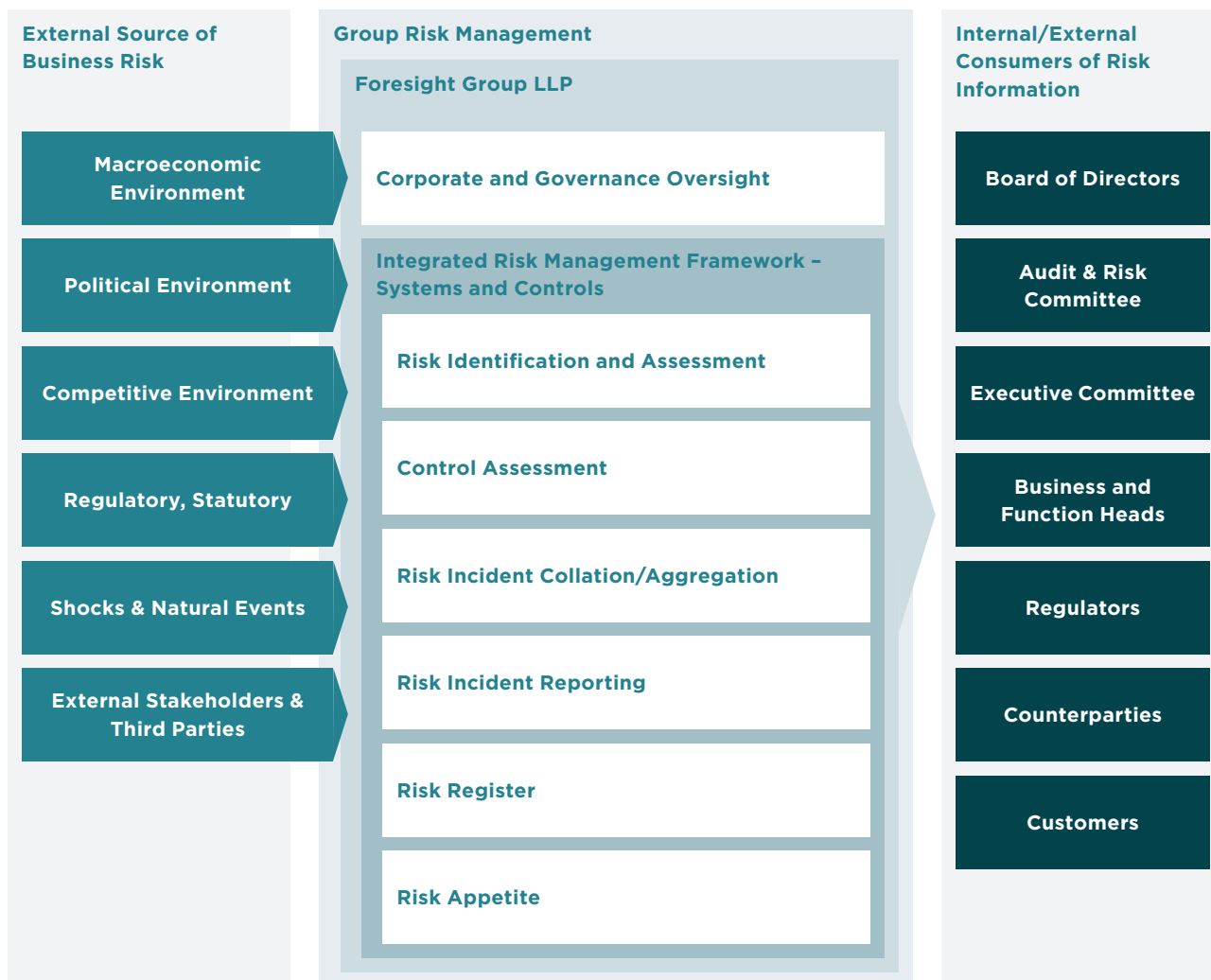
The Group's principal operations are based in the UK, with the London office operating the RMF and providing support services to all UK regional and global offices.

The Group's approach to risk management comprises interrelated processes set out in policies within the RMF, which is designed to meet the demands of a growing business, support decision-making at a strategic and operational level and protect the interests of stakeholders. The RMF comprises the policies and procedures that ensure current risks and emerging risks are identified, assessed, controlled, monitored and aligned with the Group risk taxonomy.

All investment decisions for all funds are made by the Investment Committee ("IC") (or a fund's board of directors, where applicable) after carefully considering the risks and other relevant aspects of any potential investments. The Foresight IC comprises the Chief Investment Officer, Co-Heads of Private Equity, Co-Heads of Infrastructure and investment team partners, as required for the investment deals.

The businesses and the shared functions are responsible for actively identifying the risks associated with their key business processes, business changes and external threats. The Risk Management function works in partnership with the businesses and shared functions to ensure that there is adequate understanding, assessment and accountability for all risks that relate to the Group.

The Group uses a Risk Control Self-Assessment ("RCSA") process to identify risks and assess the efficacy of the controls to mitigate them. The process is designed to minimise, or where possible obviate, harms to clients from operational errors or failures, potential financial losses arising from such errors, compliance breaches and reputational damage for the Group. The Group is implementing an Integrated Risk Management platform to centralise the RCSA process and enhance risk reporting. The platform will be used to maintain RCSAs, key risk indicators and tracking of operational risk events.



Emerging risks

Foresight tracks emerging risks. The Risk Committee considers topical, emerging and developing risks at each meeting and tracks the progress of key and emerging risk constituents, ensuring that the latest information is communicated to the Executive Committee. Risks on the emerging risk list could be reclassified as principal risks, depending on the scale of the risk and the extent to which the businesses mitigate that risk.

Third-party risk management

Foresight relies on third-party providers for some services. The Group seeks to reduce the risk of operational disruption and harm to clients by regularly assessing and effectively managing these providers. Foresight maps workflows, technology and the data necessary to deliver its critical and important business services, including people as well as third parties. As part of the RMF, Foresight seeks to understand the full extent of supplier risk to the regulated entities, and regularly assesses the risks and controls in place to maintain their operational resilience.

Cyber security

Although no significant or material breaches occurred in the financial year, the Group continues to track and report on attempts and remains at a heightened threat-level. This position is driven by several factors, including current geopolitical instability, the increased arsenal available to bad actors and the ease of deployment and the evidence of use by state-aligned agencies to improve the competitive standing of their national enterprises.

RISKS CONTINUED

Cyber security continued

The number of controls and level of oversight is proportionate to the type of asset and the sector it belongs to, the nature and volume of data held, the potential impact to Group revenues and the level of potential harm a security breach could have for our clients.

Reputational risk

Reputational risk is not a principal risk but it is an important consideration in assessing all current and emerging risks to the Group, since it could arise as a consequence of many individual risks or combinations of risks, such as poor conduct, weakness in systems and controls, or negligence. 82% of our senior management participate in a Share Investment Plan and/or Performance Share Plan scheme, further aligning employee interests with the Group's long-term reputation.

Conduct risk

Conduct risk is the risk of harm to our clients arising from misconduct by our employees or by third parties or other counterparties engaged by the Group. This risk is mitigated by promoting a strong compliance and risk culture through the firm. Identifying conduct risks inherent to our businesses is a prominent part of our RCSA activities and the Group provides training in conduct risk topics. Personal conduct in achieving objectives plays an important role in employees' performance assessments and remuneration reviews.

Financial crime risk

Foresight has policies and procedures in the over-arching RMF that it believes are both comprehensive and proportionate to the nature, scale and complexity of its activities. These include Anti-Money Laundering ("AML"), Anti-Bribery and Corruption and Anti-Market Abuse policies.

The Group expects these policies to reduce the chances of it knowingly or unwittingly being utilised by criminals or suffering reputational damage following investigation by regulators and law enforcement agencies. Foresight's AML framework embeds a risk-based approach, which applies more resources and scrutiny to higher-risk business relationships and clients, to minimise the residual risk. The Group has zero tolerance for breaches of legal and regulatory requirements or AML-related policies.

The Group has a risk-based monitoring programme to assess the effectiveness of its policies, processes and procedures, including those related to financial crime. The Group also annually provides training to employees on key financial crime areas.

Sustainability and ESG

The Group considers environmental, social and governance initiatives to be critical to the sustainability of our businesses and long-term strategic goals. The Group therefore integrates ESG risk factors into its risk management activities. The risk taxonomy supports risk management reporting across ESG categories, which include climate-related risks, inclusion and diversity risks and conduct and regulatory risks, as well as risks related to our frameworks and other governance activities. Like reputational risk, many risks in other categories may have a sustainability element to them that will be reflected in a key risk or key control indicator. These risks cover a broad agenda and the risk function is continuing to develop our capability to capture the Group's exposure to ESG-related risks and monitor our ability to effectively manage them.

Our approach to measuring and reporting our sustainability and ESG risks continues to evolve, and we are aligning our approach to the requirements of several upcoming regulatory initiatives.

In particular, given the long-term and potentially existential nature of climate risks, we are committed to aligning our reporting and disclosures with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). The work required in this area continues to increase and the Group has made several key appointments in order to meet the potential challenges to implementing new regulations and standards.

Principal risks

Foresight Group's principal risk categories reflect the concentration of business activities and have changed little from last year, meaning that most of the principal risks remain and we are reporting on the evolution of the risks and controls. The Pandemic risk has moved off the list of principal risks, reflecting the significant advances in mitigating the risk at both national and Group level, where our robust business continuity planning arrangements supported our employees through one of the most volatile and uncertain periods in recent times.

The Group's businesses are focused on delivering sustainable outcomes through our investment strategies and business plan and we are well placed to deliver our return objectives for our clients within a framework that is flexible enough to support our businesses as they tackle the challenges of evolving risks.

We are strengthening our systems and controls to improve our oversight across our investments. Information and technology security is vital to delivering our investment strategy and reducing risks to our clients.

The principal risks facing the Group are considered to be:

1: CYBER

Risk description

Foresight employs various systems across its business to process and hold its business data. As a result, it is exposed to external and internal cyber-related risks. Included in these risks are information security and personal data risks. As IT solutions are increasingly used to improve efficiency for the business and the sophistication of attempted cyber-attacks increases, the risks increase.

Impact and mitigation

Foresight has engaged an external IT service provider to support its IT Team and to provide expert advice and assistance with the security, business continuity and architecture of its systems. Various policies are also employed across the business to ensure staff are aware of the measures to be taken to prevent cyber crime, protect Foresight's business data and prevent loss, misuse and corruption of its data. Foresight engages external experts to carry out tests and audits on its security measures (including penetration testing) within its UK operation, which serves as the IT hub for the Group.

Trend and outlook

As the incidence of cyber-crime increases, regulators and business stakeholders are increasingly concerned to ensure businesses employ robust security systems and measures to protect themselves. As the volume and sophistication of cyber threats continues to rise, it is important we keep up to date on protecting our systems by maintaining close engagement with cyber experts, with whom we have a 24x7 retainer and indemnity, so we can tackle unexpected events immediately as well as maintain relevant protection from this evolving risk. Foresight is committed to attain and improve on industry standards of cyber protection including SIEM and Cyber Essentials.

Opportunity

Membership of industry working groups in the cyber security space afford us an opportunity to contribute and learn from our peers, and be at the front of developments in combating cybercrime.

Movement in risk



Link to strategic priorities

Expand

2: INVESTMENT LANDSCAPE

Risk description

The opportunity for investment in the markets in which Foresight operates is highly competitive. Identifying and committing capital to investment opportunities involves a high degree of uncertainty. Competitors may compete more aggressively than Foresight and the number of available opportunities may fall, causing a higher proportion of Foresight funds' cash to be held for a longer-than-expected period.

Impact and mitigation

Foresight has developed a series of networks of reliable contacts over the years, which help source its investment opportunities. Foresight's reputation and track record is also a key factor in identifying Foresight as a counterparty of choice. Foresight has, and continues to, widen its investment focus both geographically and in terms of sectors to optimise its access to investment opportunities and meet its investment strategy/objectives. Foresight actively supports the communities impacted by the activities of its investments, promoting the importance of its core sustainability and ESG values.

Trend and outlook

Competition has increased in recent years, particularly in the infrastructure investment market, and is likely to increase further in the future, due in large part to the increased amount of capital raised by competitors in the Foresight Group's primary markets.

Opportunity

The outlook remains positive as companies and governments commit to net zero, and this on its own should deliver compound growth of around 20% per annum over the next ten years. In addition, the recent reaction to the sensitivity of the UK economy to energy price shocks should ensure continued support for investments in the renewable energy space that support energy independency.

Movement in risk



Link to strategic priorities

Grow **Expand**

RISKS CONTINUED

Principal risks continued

3: PERSONNEL

Risk description

Foresight's continued success depends upon its ability to attract and retain highly skilled investment professionals and other key personnel and failure to retain its senior investment managers, senior management or other key employees, may:

- Trigger provisions in a number of Foresight's agreements, which might result in outflows from Foresight funds
- Hinder Foresight from winning new business and raising new funds, impacting related fee revenue and potentially hindering Foresight's growth strategy
- Result in Foresight's strategy not being executed effectively or at all, or could result in a decline in the standards of its management or business operation

Trend and outlook

The market for experienced and qualified investment, management and other professionals is extremely competitive and therefore such personnel are difficult to attract and replace. Although Foresight intends for overall compensation levels to remain competitive and attractive, there is no assurance its compensation model will be successful going forward.

Movement in risk



Impact and mitigation

UK employees may take part in a Share Incentive Plan scheme. The 71% uptake (market average is 41%) is a strong indication that employees wish to develop careers with Foresight. Non-UK employees will be able to access an equivalent SIP scheme.

A large proportion of Foresight's Directors and Partners have five-year retention bonuses, with a decreasing leaver clawback. Also, some senior staff may participate in a Share Option Scheme, which will vest over three years, before a further two years' holding period prior to sale.

Future performance bonuses exceeding 50% of salary will be deferred until the following year to aid with retention.

Opportunity

The IPO last year has improved the visibility of Foresight. The strong growth in AUM and the Group's sustainable investment focus continue to attract exceptional talent. The Group investment proposition and our reputation remain strong drivers in attracting talent and will continue to do so for the foreseeable future.

Link to strategic priorities



Grow



Expand



Diversify

4: ENERGY PRICES

Risk description

We should expect increased price volatility and prepare for the possibility that difficult market conditions or a sustained recession could reverse the current elevated prices. The Group secures energy prices on the forward market over the short term to mitigate volatility in revenues and asset valuations, and adopts market expert forecasts in the medium to long term that currently demonstrate a material reduction in power price from their current values. We are therefore mindful of the extent to which a correction could happen and the rate at which it might.

Trend and outlook

Energy prices rebounded strongly in 2021 from their two-year lows. Prior to the Russia-Ukraine war, the price of natural gas was already relatively high (gas plants tend to be the price-setting generators on the UK network). The war has highlighted the risks of depending on a perception of mutual dependency to secure critical energy supplies. It is likely that the larger economies in Europe will seek to diversify their energy sources away from a dependency on any one nation. This will be expensive and it will take time.

Movement in risk



Impact and mitigation

Foresight funds' exposure to reduced energy prices is mitigated in the following ways:

- Where a Foresight fund's investment policy permits, constructing a diversified portfolio with assets that generate revenues from sources other than the merchant sale of energy. For generation assets, this may include revenues from subsidies, from the sale of green certificates or through contracting with a private off-taker on a fixed price basis. Non-generation assets will typically have revenues that are uncorrelated with energy markets, removing the exposure altogether
- For generation assets that have material revenues from the merchant sale of energy, entering into arrangements that fix the price received for energy for an agreed period

Opportunity

Longer term in the UK, which is the Group's principal market, the outlook is still uncertain and is affected by factors such as the rate of deployment of low marginal cost wind and solar renewables, the speed and extent of electrification of major sectors such as transport and the appetite of government to drive decarbonisation through regulation such as carbon pricing.

Link to strategic priorities



Grow



Expand



Diversify

5: LEGAL/REGULATORY

Risk description

Foresight Group operates in a highly regulated industry and changes in laws or regulations may adversely affect its ability to conduct its business and may impact its results of operations. A failure to comply with applicable laws and regulations could result in material unanticipated losses.

Impact and mitigation

Foresight adheres to all relevant rules and regulations. It utilises the services of a regulatory consultant to provide expert advice and to provide Foresight and its compliance team with information on forthcoming regulatory changes and new rules and regulations. The consultant is also engaged to carry out periodic independent reviews of aspects of the Group's regulatory and risk arrangements to ensure they are relevant, up to date and meet current requirements.

Foresight also maintains relations with various legal firms specialising in the areas in which it operates as well as relevant industry bodies to ensure it is aware of and can manage the impact of new legal requirements.

Foresight employees also receive newsletters, attend seminars and round table discussions, take part in governmental consultations and utilise Foresight's network to ensure their knowledge base remains strong and relevant.

Trend and outlook

Foresight will continue to engage with legal and regulatory experts to ensure the business stays ahead of changes in legislation and regulation affecting its business. It continues to expand its UK compliance team and continues to monitor legal and regulatory resources elsewhere in the Group. It will also keep its legal and compliance resources under review.

Opportunity

Regulatory change is also discussed at the Risk Committee. New regulatory initiatives are communicated through the committee and working groups to the business divisions and functions in order to establish (with the assistance of our regulatory consultant) the potential gaps and opportunities for the Group, whether for example through new product initiatives or disclosure requirements.

Movement in risk



Link to strategic priorities



Expand