Principal Risks

The principal risks are those at the highest level in our risk universe. They have the potential to impact the delivery of our strategic objectives, threaten our business model, solvency or liquidity and damage our reputation.

The board and Audit and Risk Committee thoroughly assess these risks throughout the year and consider any changes or additions in light of the external environment (market, legal or regulatory changes) or following changes to our own business activities that might expose us to additional risks. Whilst external activity has heightened our exposure to some risks, no new current or emerging risks have been identified.

Overall, our key risks remain largely stable but with a heightened outlook for market risk given the continuing geopolitical uncertainty, and market volatility caused by the US approach to trade tariffs.

Operational risks are reviewed by the Operational Risk Committee, most recently in March 2025. Cyber risk remains Caledonia's most material operational risk exposure but one where there is an ongoing cycle of control review and enhancement to provide high levels of protection for our systems.

We have set out the six principal risks on pages 66 to 67, highlighting developments throughout the year and our assessment of their current rating alongside indicators reflecting current sentiment.

Risk Appetite Statements

Each year the Audit and Risk Committee and board review our stated appetite for taking on and managing our key risk exposures.

The statements reflecting our position at the end of March 2025 are noted below, with no material changes from the previous year.

Risk appetite statements

Strategic risk

The strategy of the business is to invest in equities, across a variety of asset classes, sectors and geographies. The nature of equity investing leads to a balance of risk and reward, leading to a measured risk appetite.

Liquidity risk

Having sufficient liquidity to meet both liabilities as they become due and fund investment opportunities is critical to our strategy and viability. There is no appetite for circumstances that would result in a lack of liquidity.

Market risk

As investors in equities, the business is automatically exposed to a number of market driven risks. Whilst our strategy and approach to risk aim to mitigate these risks they cannot fully remove them. The nature of equity investing leads to a balance of risk and reward, leading to a measured risk appetite in this area.

Investment risk

Individual investment decisions rely on judgement which can result in poor or untimely investments and divestments. To manage this the business operates a comprehensive diligence and review process ensuring investments are made carefully, balancing risk and reward, allowing our experts the time to analyse all aspects before committing capital or divesting. We have a very low appetite for non-compliance with our investment process.

Operational risk

We do not seek to take on operational risk but the key sources of this risk type are inherent within our business processes and operations. A material operational risk failure could harm our business and reputation, as such our overall appetite for any to crystallise is low. In certain critical areas, notably protecting our systems and data from cyber threats and ensuring compliance with applicable laws and regulations, we aim to reduce risk exposure to the lowest achievable level.

ESG & climate change

We continue to evolve the integration of ESG matters into our investment activity, this reflects a low tolerance for ESG risks that could impact our stakeholders, undermine our long-term sustainability objectives or damage our reputation.

Risk management (continued)

Principal risks	Mitigation and management	Key developments	Current risk status and movement in year to March 2025
Strategic Risks in relation to the appropriateness of the business model to deliver long-term growth in capital and income. Strategic risks include the allocation of capital between public and private equity, and in relation to geography, sector, currency, yield and liquidity.	The company's business model and strategy are reviewed periodically, against market conditions and target returns. The performance of the company and its key risks are monitored regularly by management and the board.	All pools operated within their strategic banding. The capital allocation model was further developed to support liquidity management, strengthening our resilience to financial market volatility. An uncapped Rule 9 waiver was successfully completed allowing the company to buy back shares. Investor relations activity has been developed introducing spotlight sessions for each of the investment pools. The Private Capital session in January was well received with Public Companies and Funds to follow.	MEDIUM ⟷
Investment Risks in respect of specific investment and realisation decisions. Investment risks include appropriate research and due diligence for new investments and the timely execution of both investments and realisations for optimising value.	Investment opportunities are subject to rigorous appraisal and a multi-stage approval process. Investment managers have well-developed networks through which they attract proprietary deal flow. Opportunities to enter or exit investments are reviewed regularly, being informed by market conditions, pricing and strategic aims.	The Investment Committee met throughout the year to consider investment decisions. The investment teams continue to review capacity and capability to ensure appropriate skills and resources are in place. As well as new positions, the teams promote talent from within, with a number of promotions approved during the year.	MEDIUM ⟷
Market Risk of losses in the value of investments arising from sudden and significant movements in public market prices, particularly in highly volatile markets. Private asset valuations have an element of judgement and could also be impacted by market fluctuations. Caledonia's principal market risks are therefore equity price volatility, foreign exchange rate movements and interest rate volatility.	Market risks and sensitivities are reviewed regularly with actions taken, where appropriate, to balance risk and return. A regular review of market and portfolio volatility is conducted by the board. Reviews also consider investment concentration, currency exposure and portfolio liquidity. Portfolio construction, including use of private assets, provides some mitigation.	Market volatility and geopolitical risks remain and have heightened over the past six months with impacts from the ongoing conflicts in Ukraine and the Middle East. However, recent market volatility is largely driven by US trade tariffs and ongoing uncertainty over their coverage and application. The Public Companies team maintain a long-term horizon, which benefits us in volatile periods, remaining vigilant for market opportunities that may present themselves in the short term. Inflation, reduced from last year, is expected to remain above the Bank of England's target in the short term. Current projections indicate a return to the 2% target in the medium term. Exchange rate movements (particularly £ v US$) impact valuations. This is closely monitored although there are no plans to change our unhedged position given the long term nature of our investments.	MEDIUM ↑

Principal risks	Mitigation and management	Key developments	Current risk status and movement in year to March 2025
Liquidity Risk that liabilities, including private equity fund drawdowns, cannot be met or new investments cannot be made due to a lack of liquidity. Such risk can arise from being unable to sell an investment due to lack of a market, or from not holding cash or being able to raise debt.	Detailed cash forecasting for the year ahead is updated and reviewed quarterly, including the expected drawdown of capital commitments. A weekly cash update is produced, focused on the short-term cash forecast. Loan facilities are maintained to provide appropriate liquidity headroom. The liquidity of the portfolio is reviewed regularly.	At the end of March 2025 there was £151m cash, in addition to a £325m undrawn on the revolving credit facility. This was renewed and increased (£250m to £325m) in the year which, in addition to cash, provides a substantial amount of available capital for investment in high quality opportunities. Detailed cash forecasting continues to be reviewed quarterly.	LOW ⟷
ESG & climate change Risks in relation to the successful incorporation of ESG matters and climate change impacts into our investment approach. Identifying opportunities to drive our approach to ESG matters, deliver strong returns and manage the risks to meet evolving stakeholder expectations.	Caledonia's ESG knowledge, processes and policies continue to develop as ESG matters are integrated into our investment approach. The pools report on ESG and climate change information and developments, to the board annually.	An assessment of the Private Capital portfolio companies' climate change risks and opportunities was conducted for the second year, updating the approach to ensure alignment with the corporate risk framework. This supports the climate change risk and opportunities disclosures within the TCFD report. Disclosure of carbon emissions for the Private Capital portfolio was introduced for the first time.	MEDIUM ⟷
Operational Risks arising from inadequate or failed processes, people and systems, or from external factors. Operational risks arise from failures around the recruitment, development and retention of staff, system failures and integrity issues, poor procedures, business disruption and failure to adhere to legal or regulatory requirements. Process failures can impact finance, IT and investment teams.	Systems and control procedures are developed and reviewed regularly ensuring that defences against cyber threats remain robust and aligned to industry standards. They are tested to ensure effective operation. Appropriate remuneration and other policies are in place to facilitate the retention of key staff. Business continuity plans are maintained and updated as the business evolves and in response to emerging threats. This includes a specific focus on cyber security. Caledonia has internal resources to consider regulatory and tax matters as they arise. Professional advisers are engaged, where necessary, to assist in specialised areas or when new laws and regulations are introduced.	Cyber security remains a material risk exposure, with focused activity during the year to augment and strengthen our technical controls. As part of ongoing controls assurance, a third party expert was engaged to review our system controls against NIST standards (National Institute of Standards & Technology) with actions being progressed. A system security focused simulation was facilitated by a third party which stressed the control environment, indicating areas of control improvement which are being progressed. Annual cyber security training was conducted, alongside targeted phishing simulation campaigns. A new expenses system was introduced increasing efficiency and systemising controls.	MEDIUM ⟷

Going concern and viability

Going concern and viability

The review of going concern and viability was considered and approved by the board, following full scrutiny by the Audit and Risk Committee. This review considered the key risks to the group, their potential financial impact and mitigating actions. A number of scenarios were considered to stress-test the robustness of the group's position to adverse events. These scenarios were applied to a detailed three-year financial plan that was approved by the board in March 2025.

Going concern

The board has undertaken an assessment of the appropriateness of preparing its financial statements on a going concern basis, taking into consideration future cash flows, current cash holdings of £151m, undrawn banking facilities of £325m and readily realisable assets of £965m as part of a wider process in connection with its viability assessment. It has been concluded that the group has sufficient cash, other liquid resources and committed bank facilities to meet existing and new investment commitments.

The directors have concluded that the group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to consider it appropriate to adopt the going concern basis in preparing the financial statements.

Viability statement

The directors have assessed the viability of the group over the period to May 2028 (three years from the date of signing the financial statements), having determined that this is an appropriate period for which to provide this statement given the group's long-term investment objective, the resilience demonstrated by the stress testing and the relatively low working capital requirements of the group.

The viability assessment takes into account the group's position, its investment strategy and the potential impact of the relevant risks set out in this strategic report. In making this statement, the board is satisfied that the group operates an effective risk management process and confirms that it has conducted a robust assessment of the principal and emerging risks facing the group.

This includes those that would threaten its strategic objectives, its business model, its ability to operate and its future performance, solvency or liquidity. Based on this assessment, the directors have concluded that the group will be able to continue in operation and meet its liabilities as they fall due over the period to May 2028.

In making this assessment, the directors took comfort from the results of two stress tests, which extended the three-year viability assessment to a longer period to 31 March 2030. This considered the impact of significant market downturn conditions.

The first stress test addressed two discrete scenarios: a 5% reduction in the value of Sterling versus the US dollar compared to the rate on 31 March 2025 and a 12-month delay to Private Capital realisations.

The second stress test modelled a market downturn event over a two-year period reflecting a fall in Public Companies investment income of 20%, reduction of Private Capital investment income by 100%, an inability to realise the Private Capital portfolio and a 50% reduction in distributions from the group's funds portfolio. To simulate an extreme downside scenario the impact of a market downturn event and all fund commitments falling due was also assessed. The directors do not believe the extreme downside scenario is likely but factors this into the viability assessment.

It was concluded that even in a simulated market downturn and all fund commitments falling due, the group has sufficient liquidity on the balance sheet to meet its obligations as they fall due.

Overall, through the stress testing described above, the directors demonstrated the strength of the group's financial position and, in particular, its ability to settle projected liabilities as they fall due, even under extremely adverse circumstances.

The Strategic report was approved by the board on 19 May 2025 and signed on its behalf by:

Mat Masters
Chief Executive Officer
19 May 2025