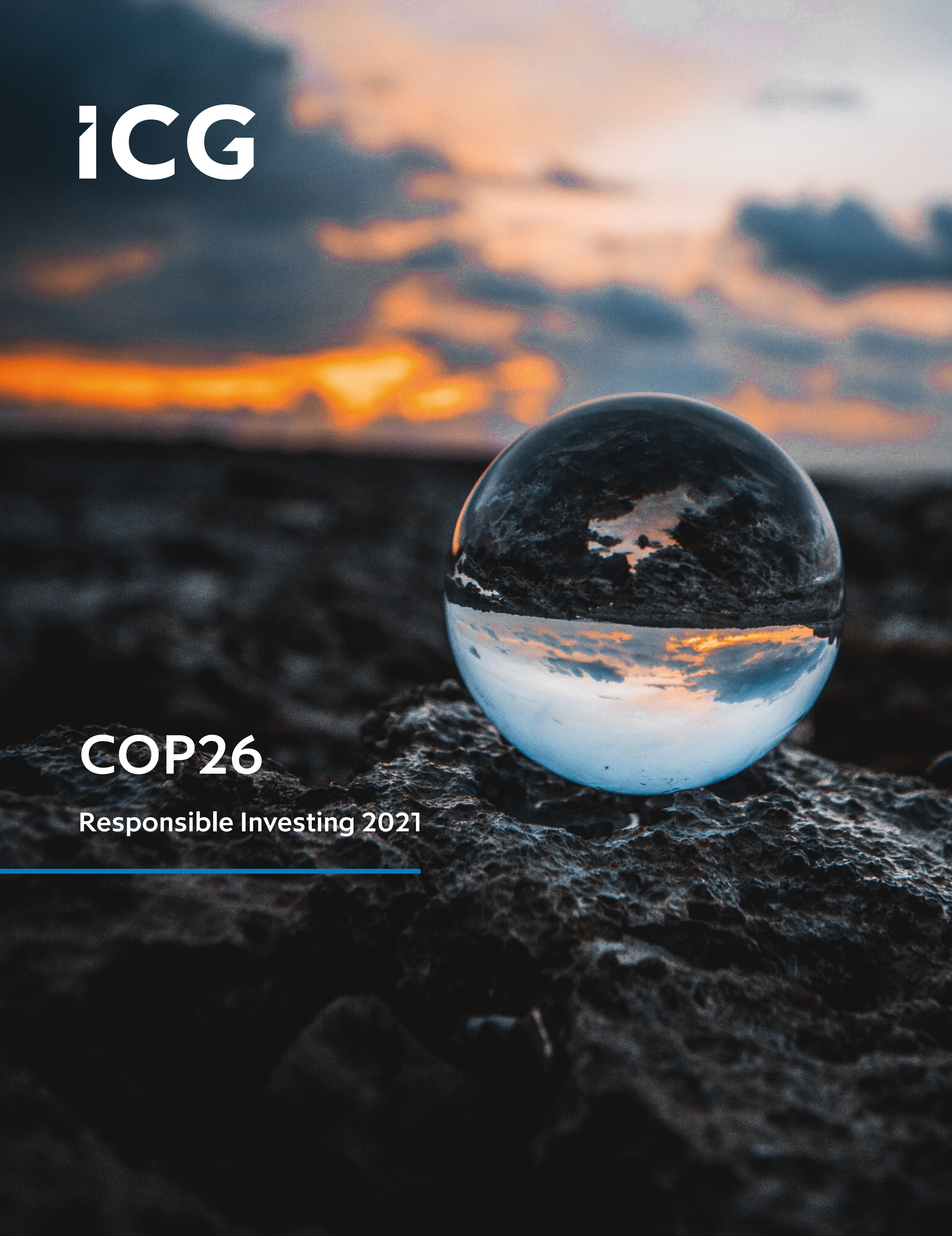

# COP26

## Responsible Investing 2021

Eimear Palmer

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# The role of investors on the path to COP26: Now is the time to act

Climate change is occurring at an alarming rate and has a far-reaching impact on human health, the economy and the stability of the natural environment. The 26th UN Climate Change conference, COP26, will take place in Glasgow, in November this year. At COP21, held in Paris in 2015, a landmark, legally binding agreement was struck, with 195 signatories committing to limit global warming to below 2 degrees (and ideally 1.5 degrees), above pre-industrial levels. COP26 is set to be a pivotal opportunity to evaluate the progress made since Paris and to galvanise future efforts. Governments accounting for approximately 70% of the global economy have formulated long-term strategies centred around 'Nationally Determined Contributions' (NDCs) that work towards the Paris Agreement alignment. The UK was the first of the world's major economies to write net zero carbon emissions by 2050 into law, most recently updating its emissions reduction target to 78% by 2035. The EU is also aligned with net zero aims and more recently, the US announced that it would be re-joining the Paris Agreement with the aim of halving its emissions by 2030. Achieving net zero by 2050 is a critical goal if the most catastrophic effects of climate change are to be avoided.

Benoît Durteste
Chief Investment Officer and
Chief Executive Officer

**" It is imperative that we in the financial services industry support the transition to net zero and a more sustainable climate-resilient economy. "**

+1°C

The average global temperature is already 1°C above pre-industrial levels

# COP26

## Leveraging our position within the financial services industry

The average global temperature is already 1°C above pre-industrial levels and if not enough is done to achieve these targets, warming will continue at an unsustainable pace and could well exceed 3°C by the end of the century. Rising temperatures will continue to cause more frequent and extreme weather events (intense droughts, storms, and heat waves), melting glaciers and causing sea levels to rise, destroying natural habitats, and having a grave impact on communities and livelihoods.

Trillions of dollars will need to be mobilised to build a global net zero emissions economy that delivers on the goals of the Paris Agreement and private financial investment plays a critical role. Firstly, private investment in energy efficiency, renewable energy, low carbon technologies and the electrification of the real estate, transport and industry sectors will be crucial to the decarbonisation of the economy and society. Secondly, investors can also exercise considerable influence in reducing the carbon footprint of the companies that they lend to or invest in. Scope 3, or "financed emissions," is acknowledged to be the biggest contribution that the financial services industry can make to the aim of reaching net zero. In the words of Alok Sharma, COP26 President-Designate: "Without adequate finance, we simply will not achieve the change needed to safeguard our planet for future generations.'

As a member of the financial services industry we are in a position of privilege and responsibility, and it is our duty as a company to ensure that our actions are geared towards a more sustainable future. We are aware that through the financial products we launch, the investment decisions we take, and how we engage with our portfolio companies and peers in our industry, measures designed to combat climate change gain traction and meaningful progress can be made. It is vital that businesses like ICG, in a position of influence, keep finding ways to address climate change in order to work towards what the COP26 agenda describes as the 'green transformation of the financial system' and the ultimate achievement of a net zero economy.

Eimear Palmer
Responsible Investing Officer

**" In the run up to COP26, the stakes have never been higher and we as investors have a key role to play, engaging with portfolio companies and across our industry, in this age of urgent transition. "**

## Our focus on assessing climate risk

Climate risk - in particular, transition risk (policy shifts, changing consumer demands and technological progress) - poses a significant near-term threat to a wide range of sectors and by extension, to the financial services industry and financial stability, according to UNEP FI. While ICG has had a Responsible Investing policy in place since 2013, over the past couple of years we have re-doubled our efforts to focus on understanding and assessing climate risk. We have developed a specific Climate Risk assessment tool which is used to assess each investment opportunity, considering both physical and transition risk, drawing on data sources including the World Bank Carbon Pricing Dashboard and the Climate Change Performance Index. For investment opportunities identified as having greater exposure to climate-related risk, further analysis is then required at the due diligence stage. Given the potentially significant impact of climate risk on prospective investments, the findings of the assessment are carefully considered by the Investment Committee before making an investment decision. In February of this year, we took a further step and opted to exclude any direct investment in companies which generate the majority of their revenue from coal, oil and gas.

## Collaborating with our peers

In our view, industry collaboration is vital, and the launch of the UK network of the Initiative Climate International (iCI) – a collective commitment to quantify and reduce the carbon emissions of private-equity-backed companies – was strongly supported from inception by ICG. In partnership with a handful of our peers in the private equity industry and the PRI Association (Principles for Responsible Investment), we successfully launched this initiative in July 2020. As a member of the UK operational committee, ICG works with others to set the iCI UK agenda, which include key priorities such as supporting the establishment of science-based targets (SBTs) and improved carbon reporting. ICG is an active member of several iCI working groups, including carbon footprinting, regulatory and the science-based targets working group. The latter is actively engaging with the SBT Initiative to develop specific guidance to support the private debt and equity industry to set SBTs. SBTs are a vital tool in efforts to decarbonise investment portfolios and support the transition to a low carbon economy.

Comparable, consistent reporting of ESG and climate-related data is crucial, and to this end we have been calculating the carbon footprint of portfolio companies in line with the GHG Protocol, and disclosing in line with the TCFD recommendations in strategies where we have more influence and access to management. Not only does this give us a clearer idea of the emissions-intensity of our funds but it also constitutes a vital first step in terms of engaging with our portfolio companies on carbon emission reduction. On the same front, ICG is a member of the PRI Association's Corporate Reporting Reference Group, providing input and feedback to the PRI on the development of guiding principles for corporate ESG reporting, which is evolving rapidly with significant developments from key players such as the the IFRS Foundation, the International Organisation of Securities Commissions (IOSCO), the US SEC and the European Commission.

## Aligning with the SDGs and the Paris Agreement goals

In 2015, the UN Sustainable Development Goals (SDGs) were endorsed as part of the 2030 Agenda for Sustainable Development, and climate action is central to the achievement of the SDGs. Climate change mitigation and adaptation at fund level has been a priority for us and has been a key consideration in the launch of new products. At present, we have three sustainability-themed funds: Infrastructure Equity, Sale and Leaseback and our Real Estate debt fund. These strategies are designed to align with specific SDGs, and all incorporate climate-focused SDGs including SDG 7 (Clean Energy) and SDG 13 (Climate Action).

The latest fund of our flagship European strategy has an ESG framework with a particular focus on climate change, carrying explicit objectives to engage with assets to reduce operational emissions intensity, source renewable energy and encourage the setting of emissions reduction targets.

Engagement with portfolio companies on climate change is vital and we have been working with management teams to calculate operational emissions, promote the development of onsite renewable energy and transition to low carbon solutions such as electric vehicle fleets.


## Integrating climate-related metrics into our financing solutions

Linking our climate-related ambitions with our corporate financing has been a priority in recent months. In 2019, ICG committed to reduce its operational emissions (known as Scope 1 and Scope 2) by 80% by 2030, and accordingly, we refinanced our revolving credit facility for ICG's core business so that it is intrinsically linked to our corporate emission reduction targets and the deployment of our climate risk assessment framework. When achieved, ICG benefits from a margin reduction and by the same token, margin and commitment fees increase if we miss our targets. We have also adopted this approach with our sustainable real estate fund, where borrowers are incentivised via a green loan framework which links the debt facility with an ESG mechanism and we are looking to roll this out more widely in due course.

## Ground-breaking development in nascent ESG regulatory landscape

The EU's Sustainable Finance Disclosure Regulation (SFDR) came into force at the end of March and this has been a game-changer for the financial services industry. SFDR requires the categorisation of funds according to the extent to which they incorporate environmental and social criteria in their decision making. Classification and reporting are required across the three categories: Article 6 funds integrate sustainability risks into investment decisions; Article 8 products actively promote environmental or social characteristics and Article 9 (or impact funds) have sustainable investment as their objective. As a result of ICG's robust investment selection process (Exclusion List, ESG Screening Checklist and Climate Risk Assessment) almost all ICG's funds in the market are categorised as promoting environmental criteria under Article 8. We are actively exploring strategies which align with Article 9 and there is particular scope for to enable significant whole life carbon reduction in real estate development through the use of innovative technologies enabling green design and construction practices.

We welcome this much-needed transparency for investors and stakeholders by way of consistent, comparable disclosure and look forward to further development of the EU taxonomy, a classification system of environmentally sustainable economic activities.

It is the responsibility of investors and businesses, both public and private, to act now and play their part in working to achieve the aims of the Paris Agreement. At ICG we are aware of the influence we have both as a FTSE100 constituent and a stakeholder in the multiple businesses across our portfolios. We have long been active on the environmental, social and governance (ESG) front, embedding considerations throughout our investment decisions. The urgency of the climate change issue cannot be ignored and has driven us to enhance our investment practice in the ways described above. Not only will we continue to refine and improve our processes as a corporate entity and an investor, but we also remain hugely committed to the projects that allow us to collaborate with peers within our industry. In our view it is by supporting and promoting change across the financial services sector that the greatest impact can be had.