ICG Responsible Investment Report 2013-2014

IMPLEMENTING RESPONSIBLE INVESTMENT

October 2014

Introduction

In 2013 ICG framed its approach to Responsible Investing around the globally recognised UN-backed Principles for Responsible Investment (UNPRI) and we formally signed the PRI in April 2013 and made our first submission in March 2014.

The primary focus of our work in financial year 2013 (the period April 2013 to March 2014) was on understanding the implications of UNPRI for our business and on developing an implementation strategy. This report summarises our progress.

Responsible Investment Committee

We formally established our Responsible Investment Committee following signing UNPRI. It comprises senior professionals from across the business (see Table 1), and it has been charged with ensuring that we effectively implement the UNPRI across our entire business.

Table 1: ICG's Responsible Investment Committee

Rolf Nuijens	Head of North Europe (Mezzanine Investment) and Head of Responsible Investment
Helen Barnes	Associate Director - Investor Marketing & Communications
Kalyani Jani	Manager - Marketing and Client Relations
David Ford	Director - Credit Fund Management
Rosine Vitman	Director - Head of Portfolio Monitoring for Europe (Mezzanine Investment)

An initial review of ICG's investment practices and processes showed they aligned well with the six Principles that underpin the UNPRI (see Box 2). However, the Committee recognised that signing and implementing the UNPRI provided ICG with a valuable opportunity to reflect on our investment processes and work to achieve greater organisational understanding, support and clarity around the outcomes we would like to see from responsible investment throughout ICG.

Table 2: The UN Principles for Responsible Investment

(http://www.unpri.org/about-pri/the-six-principles/)

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1:	We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2:	We will be active owners and incorporate ESG issues into our ownership policies and practices
Principle 3:	We will seek appropriate disclosure on ESG issues by the entities in which we invest
Principle 4:	We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5:	We will work together to enhance our effectiveness in implementing the Principles
Principle 6:	We will each report on our activities and progress towards implementing the Principles

Commissioning the Gap Analysis: Our Objectives

The Committee considered conducting a review of ICG's approach to responsible investment using internal resources, but decided that this review (the 'gap analysis') was best conducted by an external party. It reached this decision for a number of reasons. First, the Committee recognised that ICG did not have specific knowledge of responsible investment, of wider industry practice on responsible investment or of the UNPRI's reporting requirements. Second, the Committee recognised the value of having the review conducted by an individual or organisation that was not part of ICG, thereby providing an independent perspective. Third, the Committee saw the gap analysis as an opportunity to build its knowledge of responsible investment and as helping build ICG's capacity of responsible investment.

The Committee identified and interviewed a number of service providers and consultants that it saw as having the necessary expertise to complete the work. In July 2013, ICG commissioned Dr Rory Sullivan, (a renowned expert in responsible investment, author of 'Valuing Corporate Responsibility: How Do Investors Really Use Corporate Responsibility Information? and adviser to UNPRI), to conduct a gap analysis of ICG's approach to responsible investment.

Dr Sullivan's objectives were to: (a) identify any areas where ICG's policies, practices and processes do not meet the requirements of UNPRI and/or where ICG could improve its approach to responsible investment more generally, (b) help ICG set goals for its responsible investment-related activities, and (c) help ICG develop an action plan (key tasks, internal and external resources, schedule) for the implementation of ICG's approach to responsible investment.

Gap Analysis: Process

Dr Sullivan started by conducting a detailed review of relevant documents on how ICG currently implements and communicates its approach to responsible investment. These included our responsible investment policy, our investment procedures manual, the checklists and documents we use in our investment research, decision-making and monitoring processes, samples of our company research notes, and relevant marketing materials (e.g. responses to requests for proposals, client presentations, conference presentations).

He then conducted a series of interviews in August/September 2013 with ICG's senior management team and with a cross-section of individuals from the investment (mezzanine and minority equity, credit and property), sales, marketing and communications teams. In total, approximately fifteen staff were interviewed. Each of these interviews lasted approximately one hour and covered the following general points: the individual's knowledge of ICG's approach to responsible investment, what each of these individuals saw as the goals for ICG's approach to responsible investment, the potential value (e.g. brand, marketing, risk management, investment performance) of responsible investment to ICG, and the risks or challenges associated with signing the UNPRI.

These interviews were an important part of building ICG's organisational capacity on responsible investment. As part of each interview, the interviewees were provided with an overview of the project, of ICG's objectives and of responsible investment. The findings also incorporated questions from interviewees, and they provided feedback on the draft findings of the gap analysis.

Following the completion of the interviews, Dr Sullivan and the Responsible Investment Committee worked together to complete the then draft UNPRI Reporting and Assessment questionnaire. We used this review to identify the specific data and information that UNPRI is likely to require from all signatories. This process also helped us to identify those areas where we needed to better monitor and track the implementation of our commitments to responsible investment.

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The last part of the gap analysis involved Dr Sullivan presenting his findings to ICG's Responsible Investment Committee in November 2013. This included an assessment of its ICG's approach to responsible investment against (a) the UNPRI's requirements, (b) ICG's industry peers, (c) the needs of ICG's sales and marketing teams. Based on these findings, the Responsible Investment Committee and Dr Sullivan developed a detailed action plan (setting out the key tasks, the internal and external resources required and the schedule) to implement ICG's approach to responsible investment.

Gap Analysis: Key Findings

In relation to our investment processes, the central conclusion from the gap analysis was that ICG has many of the elements required to effectively implement UNPRI already in place. Material environmental, social and governance (ESG) issues are routinely taken into account in our investment research and decision-making processes, ICG has structured processes for following up ESG issues that are identified in our investment research and decision-making processes, and we are establishing monitoring processes, whilst we continue to regularly engage with companies on ESG-related issues. The one area of potential weakness was that while we had robust processes for identifying and analysing financially and commercially material issues, there was a small chance that we might not identify ESG-related risks or issues that might present a reputational issue to ICG as a corporate entity.

The gap analysis did, however, note that ICG's processes for capturing the evidence of implementation (both data and relevant case-studies) needed to be strengthened, both to enable ICG to respond to the UNPRI's annual reporting and assessment process and to respond to queries from clients and investment consultants. This finding applied both to ICG's investment research and decision-making processes and to ICG's engagement with companies.

One of the key findings from the gap analysis was that – quite apart from the expectations that come with being a signatory to UNPRI – there is growing market interest in responsible investment. Questions about responsible investment are now a standard part of requests for proposal, in particular in the European markets. Moreover, some our clients have started to ask quite detailed questions about our approach to responsible investment, covering issues such as how ESG issues are addressed in our investment process and evidence of implementation, including data (e.g. deals rejected on the basis of ESG factors) and examples (e.g. where ESG issues affected an investment decision, where ESG issues were considered but didn't affect the investment decision). While it is not clear how much weight is currently being given to responsible investment and ESG factors in manager appointment/reappointment decisions, these trends reinforce the importance of us not only signing UNPRI but also having a high quality approach to implementation that allows us to demonstrate the effectiveness of our approach.

The other important finding from the gap analysis was that while all of those interviewed had a clear understanding of how material ESG issues are considered and managed within our investment process, many of our staff had relatively little knowledge of responsible investment, UNPRI or the language of ESG.

Gap Analysis: Recommendations

The primary conclusion from the gap analysis was that most of the work required would be relatively light touch. That is, in the short term, ICG's priorities would be to ensure that ICG's approach to responsible investment is properly reflected in marketing and other documents, and that relevant personnel (e.g. in ICG's marketing and investment teams) are sufficiently fluent in the language of responsible investment to communicate with stakeholders such as clients and investment consultants.

The main recommendations arising from the gap analysis were that:

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- ICG should update its Policy and Procedures Manual to describe how ESG issues are considered in its investment processes.
- ICG should ensure that it identifies ESG issues that, even if not considered financially material, might present a commercial or reputational risk to ICG.
- ICG should develop a structured process for monitoring and recording ESG issues in its investment processes. This should include:
  - Examples/case-studies of ESG affecting investment decisions (in terms of whether we invest or not, in terms of the price that we pay for purchasing assets, in terms of the price that we can demand when selling assets).
  - Data on (a) the proportion of investments where ESG issues were a material consideration, (b) the number of cases where deals were rejected on ESG-related grounds, (c) the number of cases where ESG issues were discussed with company management post-investment.
- ICG should provide training to all relevant employees; investment teams, portfolio managers and marketing and client relations people on responsible investment.

Implementation: Current Status

We have now moved from analysing and assessing our approach to responsible investment to implementation, and we have already made significant progress in the period December 2013 to March 2014. Rolf Nuijens, our Head of North Europe for Mezzanine Investment, has been appointed as our first Head of Responsible Investment, as a very senior member of ICG's European investment team his appointment reflects that, for us, responsible investment is centrally about how we manage our investments.

We have revised our investment procedures in two important ways. First, we are now asking our business analysts to identify not only financially and commercially material issues but also issues that might be of relevance from the perspective of our corporate reputation. Second, we are establishing protocol for monitoring ESG as part of our ongoing investment processes. This will serve as a reminder to the business analyst and to reviewers that they need to make sure that they have considered whether any ESG issues might be of relevance to the investment decision. As discussed above, while we are confident that we do identify material ESG issues, these modifications to our process will provide us with reassurance on this point.

Building on the recommendations in the gap analysis, we have established a process to ensure that we identify those cases where ESG issues were considered in or relevant to our investment decisions. This will enable us to monitor these issues in a structured, systematic manner. We have also started to track requests for proposals asking questions about responsible investment, and instances of clients or investors asking about responsible investment in more details. We will use this market feedback to inform us.

In March 2014 we responded to the annual UNPRI signatory survey. While we were not formally required to do this (as new signatories are given a one year grace period), we did it for three reasons. The first was that it provided us with a baseline against which we can measure and track our progress on responsible investment. The second was that it allowed us to determine the specific data and information we will need for reporting. The third was that we wanted to show our commitment to responsible investment and to UNPRI.

Finally, we have commissioned Thomson Reuters to develop an online training programme for our investment teams, portfolio managers and marketing and client relations teams. We expect that this will be rolled out towards the end of 2014 and will include general information on UNPRI, and information on ICG's approach to responsible investment. It has been necessary to commission our own training programme as ICG is predominantly a credit investor and most responsible investing training is geared towards equity owners of companies where the operational approach to responsible investment is quite different.

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Summary

Responsible Investing is nascent for credit investors like ICG and we have reported a solid year of progress in laying the foundations for deploying ESG reporting and objectives and how we will be measuring and monitoring these within our investment process and portfolio monitoring. The coming year will be one of 'bedding in' these processes. We will report again for 2014-2015 where we aim to include details of how our approach to Responsible Investment has impacted our overall portfolio, and how we are responding to growing client and market demands in this area.

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