



# ICG Responsible Investment Report 2014- 2015

## IMPLEMENTING RESPONSIBLE INVESTMENT

July 2015

### Introduction

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In the past year ICG has been augmenting the deployment of the UN-backed Principles for Responsible Investment (UNPRI) across our portfolios and business practises. We rolled out a training programme to our investment teams and other front line people and made our second submission to the UNPRI in March 2015.

We are now focussing on understanding our investor requirements on sustainability of Environmental Social and Corporate Governance (ESG) considerations in portfolios, in greater detail. This report covers Financial Year 2015 (FY15) and summarises our ongoing progress, in addition to further detail on our current priorities.

### Responsible Investment Committee

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ICG’s Responsible Investment Committee, comprising senior professionals from across the business (see Table 1), meets quarterly to collaborate and ensure that we are effectively implementing the UNPRI across our business.

**Table 1: ICG’s Dedicated Responsible Investment Committee Members**

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

Last year, our gap analysis of ICG’s investment practises and processes vs. the six UNPRI Principles (see Table 2) showed that our practises were aligned, and this year we have implemented the principles and made strong practical progress. We have requested that the companies we invest in participate in a survey which seeks to understand how they address ESG issues on an on-going basis. ICG believes in adopting high standards of engagement and management of issues in these areas to enable companies to minimise downside risks and maximise upside opportunities, thereby creating more successful and sustainable businesses over the long-term.

**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 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 the 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



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#### Implementing Training

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ICG commissioned Thomson Reuters to create an online Responsible Investment training course, which was designed and deployed in conjunction with the market leading training provider. ICG felt it was necessary to write a bespoke course to address the subject from a non-equity asset owner perspective, tailored to the niche industry within which ICG operates. The compulsory training course has been an important part of embedding Responsible Investing and UNPRI into ICG's investment culture. It is also a way of ensuring that all the investment teams and client facing staff have a deeper understanding of practical ESG issues in portfolios.

The aims and objectives of the course are specifically to;

- Understand why Responsible Investment is important
- Understand Responsible Investment and what it involves
- Recognise what ICG has to do to invest responsibly

The course will be reviewed annually, and renewed regularly, with the objective of adding ICG case studies into the training. Updating with real situations specific to ICG allows us to demonstrate; how our portfolio companies manage ESG issues, what investing responsibly means in practise, to appreciate our investor's agenda and to align our practise to their requirements.

#### Surveying Portfolio Companies

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As a largely non-majority equity investor, ICG does not have annual voting rights as a primary tool for influencing our investments. We do however take active roles in many of our investments; either through regular meetings or a presence on the Board of the companies, where we would naturally address any ESG issues. However, this year we have conducted our first formal survey of our European mezzanine investments to allow us to assess the ways in which investee company management monitor and manage their business risks and opportunities associated with ESG issues. ICG will use the information from this survey to prioritise companies for engagement. The survey questions can be found in the appendix to this report.

The aims and objectives of the survey are:

- To ensure that investee companies have the basic management systems and processes in place needed to effectively manage the business risks and opportunities associated with ESG issues;
- To trigger action by ICG in the event that an investee company does not have adequate systems and processes in place; and
- To enable ICG to monitor trends in investee company performance and the effectiveness of ICG's engagement with these companies.

Top line we received an excellent 70% response rate out of 40 companies, with extremely high levels of engagement from our European portfolio companies.

The findings are summarised below and illustrate high levels of awareness of ESG considerations within company operations.



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#### Survey findings

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- 61% of portfolio companies have conducted an assessment of the business risks and opportunities associated with environmental and social issues across the business
- 54% of portfolio companies have developed a sustainability policy (or equivalent, e.g. corporate responsibility policy, or environmental policy) that applied across the business
- Of which 56% of companies have assigned responsibilities for ensuring that the company complies with the policy requirements
- 48% of companies have established a management system for managing social and environmental impacts
- 41% of companies have set performance improvement targets for ESG performance
- Only 32% of companies publish information on overall ESG performance

#### UNPRI filing

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ICG completed a second UNPRI filing and first official filing in the following areas:

- Organisational overview
- Overarching approach
- Direct fixed income PRI reporting framework
- Direct private equity PRI reporting framework
- Closing module PRI reporting framework

Our merged public transparency report can be accessed here [<link to report on ICGam.com>](#)

In the report we responded to all relevant sections and restated our commitment to responsible investment, we outline our practises, how we incorporate ESG into our investment process fully and our approach as a fixed income / non-equity investment manager signatory. Some examples of ESG considerations in our investing include:

Environmental; contamination, investment in newer cleaner technologies, health and safety.

Social; employment policies including; equal pay and treatment, working conditions, training and development.

Governance: compliance with local law and regulations, bribery, money laundering and market abuse.

#### Implementation: Current Status

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Responsible investment has always been central to how ICG manages our investments, the implementation of UNPRI has formalised our reporting of ESG considerations. We have always routinely monitored our investments for material ESG issues, and worked with a company to ensure issues are appropriately addressed. Our formal protocol for managing this under UNPRI is now in place and we have completed our survey of investee companies. The findings (detailed above) will be used to establish a baseline and to track changes in company practise over time.

We also closely monitoring the ESG considerations of our investors raised in requests for proposals. We are focusing on the types and depth of information they require and aligning the information we supply. We envision that broadening the depth of information available to investors in the coming year will be a key focus.

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#### Implementation: Case Study Quorn Food Ltd

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We undertake to regularly update case studies of how we manage ESG considerations in our investment portfolio, these can be found at [www.icgam.com](http://www.icgam.com).

Presented below is an example of a strongly ethical and sustainable portfolio company, 'Quorn Foods Ltd', a meat replacement food manufacturer. Quorn's, Chief Executive, Kevin Brennan describes the purpose of Quorn as follows:

"At Quorn we have a simple mission, 'to help consumers eat less meat'. Given the ethical, health and environmental benefits of Quorn foods, this places corporate responsibility at the heart of everything we do."

#### ESG considerations

- Quorn was launched in 1985, it now employs over 600 people, with three manufacturing sites, 24,000t of mycoprotein produced pa.
- Quorn Foods is the global leading meat-free/substitute food brand that is targeted at vegetarians, weight and health managing consumers.
- The business was founded on the premise that the worlds demand for protein was rising and unsustainable due to population growth and demographic changes.
- Moreover the economic and environmental cost of producing meat are extensive and increasing populations and demographic changes particularly in developing markets are driving an unsustainable growth in demand for meat.
- As a result, mycoprotein (the core ingredient of Quorn products) was created as a commercially viable and sustainable, healthier alternative to meat with a considerable improvement in carbon footprint and use of resources, by comparison.
- This ESG focus was a key consideration in ICG's investment thesis.

The business premise of Quorn responds to some of societies wider issues around health and sustainable food production:

- The manufacturing process for mycoprotein is efficient and has been tuned over many decades.
- Quorn is therefore far more efficient and ultimately far more sustainable:
  - Quorn requires only 2kg of wheat to produce 1kg of product, versus up to 24kg for beef.
  - Quorn mince is also more water efficient using up to 15x less water footprint than beef
  - Limited land resource in required for the manufacturing process in comparison to other protein sources
- As a result of the Quorn manufacturing process, Quorn carbon footprint can be up to 10x lower than beef
- Broader health awareness in the market is driving demand for healthier alternatives.
- Specific social concerns are also being raised around the over consumption of meat
- Quorn is a healthy alternative protein without the levels of calories, fats and saturated fats often associated with meat.
- The business is therefore well positioned to capitalise on these social demands
- Quorn also collaborates with health initiatives to promote its philosophy and meat alternative products, e.g. Wellcome Foundation, in the UK Change4Life.

Quorn's own corporate ESG credentials are excellent:

- The business operation itself has an impeccable workplace health and safety record and is the first global meat-alternative company to achieve 3<sup>rd</sup> party certification of its carbon footprint figures.
- Quorn Foods is an equal opportunity employer and works within the spirit of UK law



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- All three manufacturing sites have received certification to the British Standard Institute's Occupational Health and Safety best practice.
- One site is certified to ISO22000 standard for food safety and the other two are BRC accredited
- The business has driven energy/natural resource reduction projects for many years and continues to drive these, reducing its carbon footprint despite output growth
- Other efforts include 47% reduction in landfill waste since 2010 and improvements in packaging and supply chain collaboration

#### Summary:

Quorn Foods Ltd is an example of an ICG investee company where one of the original basis of investment was because it operates in a niche that addresses a wider issues around health and sustainable food production. In addition the company itself operates to excellent standards, and we provide the case study here to provide greater depth of how ICG assesses the ESG credentials of an investment

#### Summary

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Responsible Investing remains nascent for very diversified fixed income investors like ICG, the foundations of deploying UNPRI within ICG are now firmly laid. We are pleased to report a year of strong progress, a first official filing, a training course rolled out and a survey to all of our investments conducted. We now move firmly on from embedding, to enhancing our measuring and monitoring of ESG within our investments and investment process in response to the information we are receiving, and to focussing on the information requirements of our investors. We will report again for 2015-2016 where we aim to include details of our investee company survey and greater depth on how we are responding to investor demands in this area.



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#### Appendix

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Survey questionnaire sent to companies

1. Have you conducted an assessment of the business risks and opportunities associated with environmental and social issues?
    - a. Yes
      - i. If yes, have you identified any issues that you see as presenting a significant (or material) risk or opportunity to your business?
    - b. No
  2. Have you developed a sustainability (or equivalent, e.g. a corporate responsibility policy, an environmental policy) that applies across your business?
    - a. Yes
      - i. If yes, can you please provide a copy.
    - b. No
  3. Have you assigned responsibilities for ensuring that you comply with the requirements of your policy?
    - a. Yes
      - i. If yes, who is responsible (a) at senior management level, (b) at an operational/day-day level?
    - b. No
  4. Have you established a management system for managing your social and environmental impacts?
    - a. Yes.
      - i. If yes, is this certified to a recognised standard such as ISO14001?
    - b. No
  5. Have you set performance improvement targets for environmental and social performance?
    - a. Yes.
      - i. If yes, please describe these targets and your performance against these targets.
    - b. No
  6. Have there been any significant changes in your management of environmental and social issues over the past twelve months?
    - a. Yes
      - i. If yes, please describe these changes.
    - b. No
  7. Do you publish information on your social and environmental performance?
    - a. Yes
      - i. If yes, where can this information be found?
    - b. No
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