



## ICG Responsible Investment Report 2015 – 2016

### FURTHER DEVELOPING ICG'S RESPONSIBLE INVESTMENT PLATFORM

FY2016

#### Introduction

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This FY2016 report is designed to summarise progress in ICG's approach to Environmental, Social and Governance ("ESG") issues and emphasise its commitment to the Responsible Investment Platform.

Previously, in FY2015, ICG further implemented Responsible Investment throughout significant sections of its investment portfolio, while aiming to understand in greater detail what our investors requirements were on ESG. During FY2016, ICG have worked hard on further developing our responsible investment platform, including a number of notable successes including:

- Increased focus in the pre- and post-investment phase by engaging more on ESG related issues with our portfolio companies,
- Bringing a focus on ESG across Senior Debt Partners (SDP), Asia-Pacific and very soon across ICG-Longbow, with an expanding committee
- Completing our third filing to UNPRI,
- Launching a new internal training programme,
- Gaining traction with a number of external ESG specialists in the market, and,
- Widening the scope of our annual ESG portfolio company survey.

#### UNPRI filing

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As part of our commitment to the United Nations' Principles for Responsible Investments (UNPRI), ICG completed a third filing in the following areas:

- Organisational Overview
- Strategy & Governance
- Fixed Income – Corporate Financial
- Private Equity
- Closing module

Our merged public transparency report can be found at: <https://www.unpri.org/organisation/intermediate-capital-group-plc-142493>

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

- Environmental due diligence reports on ground contaminations in a German manufacturing company.
- Soil and groundwater contamination investigations in a Nordic manufacturing company.
- Identification of issues in the disposal of bulk materials at a logistics company.
- Review of ethical production practices, specifically factory conditions, in a global textile manufacturer.

#### 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.



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During the financial year new members of the committee were added to expand the ESG focus across a wider AUM base including Senior Debt Partners and Asia Pacific. Looking forward, the addition of David Mortimer, will help ICG expand its ESG focus in FY2017 to include Longbow Real Estate.

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

Rosine Vitman	Managing Director - Head of Portfolio Monitoring for Europe (Mezzanine Investment) and Head of Responsible Investment
Michelle De Angelis	Managing Director – Head of Credit Research, Credit Fund Management
Jin Tan	Managing Director – Asia Pacific Mezzanine Investment
David Mortimer	Managing Director – Head of Senior Debt, Longbow Real Estate
Helen Gustard	Associate Director - Investor Marketing & Communications
Daniel Ellis	Associate - Marketing and Client Relations

With an expanding team, ICG believes it will be in a better position to engage with portfolio companies in ESG issues, helping to minimise downside risks and maximise upside opportunities, thereby creating more successful and sustainable businesses over the long-term.

ICG have also engaged with an external ESG expert to assist in further embedding our Responsible Investment platform.

**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

ICG's third UNPRI filing revealed encouraging results across the business and our largest AUM base, Private Equity (which for filing purposes includes ICG's European Subordinated Debt business). Results for FY2016 showed:

- Performance within the Strategy and Governance module was in line with our peers, scoring a Grade B (Median score: B),
- Performance in our Private Equity module outperformed our peers, scoring a Grade A (Median score: B), and,
- Performance in our Fixed Income – Corporate Financial module was in line with our peers, scoring a Grade C (Median score: C).



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#### Implementing Training

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Following the successful implementation of ICG's first online Responsible Investment training course in 2014, with a 97% completion rate, ICG felt it was necessary for staff to complete a newly designed training module in 2016. The compulsory training course remains 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, and,
- Recognise what ICG has to do to invest responsibly.

The 2016 training module had a 93% completion rate and was sent to 158 staff, including;

- All global investment teams,
- ICG's executive committee, and,
- Marketing and client relations staff.

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 practice, to appreciate our investors' agenda and to align our practice to their requirements.

#### Surveying Portfolio Companies

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We have very close relationships with management teams and portfolio companies, and where ICG does not have a direct influence to set ESG as a business priority, it will work closely with management to increase awareness and the importance of ESG issues, with the aim to make it a business priority. Fortunately, ICG regularly takes active roles in many of its investments; either through regular meetings or a presence on the Board of the companies, where we would naturally address any ESG issues.

Following the successful implementation of our first ESG survey in 2015, ICG has further developed the survey in 2016. The 2016 ESG survey increased from seven questions to 18 and was expanded beyond European mezzanine to include Asia Pacific Mezzanine and SDP, at a total of 39 portfolio companies.

The response rate has substantially improved in the European mezzanine portfolio from 70% to 85%, and it has also been very good in Asia and SDP. Overall the response rate is 87%. This has been achieved through high levels of engagement between the investment teams and our portfolio companies.

The key findings illustrate high levels of awareness of ESG considerations within portfolio companies:

- 74% of our responding portfolio companies have either assessed recently the business risks and opportunities associated with environmental and/or social issues or have developed a sustainable policy that applies across the business.
- Of which 69% of these companies have assigned responsibilities for ensuring that they will comply with the policy requirements. This number compares favourably with 56% last year.
- 62% of responding companies have established a management system for managing environmental impacts, as opposed to only 48% last year. However, only 24% assess their carbon footprint today.
- 1 out of 4 of our portfolio companies have implemented significant changes in their management of environmental and/or social issues since our last survey, showing the effectiveness of ICG's engagement with these companies since last year. This is particularly true across all geographies.



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- Two thirds of our portfolio companies have independent board members to bring external expertise and impartiality into the discussions, which is very good practice.
- The survey also includes some disclosure on existing litigation and the responses have been very reassuring.

From the survey we noticed a number of portfolio companies with little experience in ESG, which will become a point of focus for our investment teams in working with these companies to increase the understanding and importance of ESG.

Additionally, the survey revealed a relatively high number of days lost from work through accidents, sickness and strike. These will become areas of focus for ICG and provide direct examples of where an ESG focus can improve working conditions, as well as profitability of a business.

A case study of ESG excellence within an ICG portfolio company is provided in Appendix A, with a small segment of the 2016 ESG survey provided in Appendix B.

### Summary

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FY2016 has seen ICG make strong progress on ESG which is highlighted through this Responsible Investment Report. Key highlights across the 12 month period include:

- Expansion of our Responsible Investment policy to include a larger AUM base, specifically SDP and Asia-Pacific, with a growing Responsible Investment Committee to match,
- A new online training course, to assist new joiners to get up to speed on ESG at ICG quickly,
- A larger and more detailed annual ESG questionnaire to access ESG practices within our portfolio companies, and,
- Further progress with UNPRI, including our third filing and outperformance within our Private Equity module.

Looking forward ICG have more to do and the focus of FY2017 will be a wider expanding AUM base to be covered by our Responsible Investment Policy, specifically ICG-Longbow and North America. At the portfolio company level we want our investment executives to continue to work closely with management to move from simply monitoring ESG activities, to being able to influence ESG decisions and ensure they remain a business priority. Finally, the Responsible Investment Committee will continue to promote ESG throughout the business by improving communication internally, and engaging with more ESG specialists externally.

#### Appendix A: Case Study Minimax Viking GmbH

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ICG undertake 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, 'Minimax Viking GmbH', a provider of industrial and commercial fire protection solutions. The purpose of Minimax Viking is as follows:

"We protect people, valuable possessions and the environment. This requires a high degree of dependability. Our quality is tested in regular intervals. A matter of course for us – safe fire protections for our customers."

ESG considerations:

- Minimax Viking is an international, Germany-based provider of industrial and commercial fire protection solutions with over 110 years of experience.
- Minimax Viking is the only fire protection pure play among the three global sector leaders and offers one of the most comprehensive product portfolios in its core fire suppression and related detection market.
- Minimax Viking is promoting a very high standard internationally, helped by globalisation of market standards.

The ESG focus was a key consideration in ICG's investment thesis. Some of these considerations are summarised below:

- In 1968, Minimax set up the "Fire Research Centre", in order to provide new impulses for systematic fire protection research.
- The fire research centre is used for the development of new and optimised fire detection and extinguishing systems, as well as for demonstrating the function of firefighting concepts on a realistic scale.
- The centre's facilities were modernised in 1992 by installing a smoke gas cleaning system and a water retention system, making it one of Europe's most advanced and environmentally friendly fire research centres.
- The ultra-modern smoke gas cleaning system extracts smoke gases from the fire test areas. It has a nominal throughput of 30,000 m<sup>3</sup>/h and complies with the air quality control values stipulated by governmental emissions laws so no gas emissions are released into the atmosphere.
- The water from cold tests, e.g. in measurements of the water distribution of sprinklers, is collected so that the water can be pumped back and reused, conserving fresh water resources.
- Extinguishing water from the test areas is collected in two tanks, each with a capacity of 70 m<sup>3</sup>, after passing a two-stage oil separator. The waste water is tested by an approved laboratory to ensure proper and cost-effective disposal.

Through close cooperation with many major testing and standardisation committees on both the national and international level, Minimax frequently contributes to the development of new guidelines worldwide.

Minimax Viking is clearly an example of an ICG investee company where part of the original investment thesis included the fact that it operates in a highly regulated industry with stringent safety protocols combined with Minimax Viking's attention to low environmental impact. 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.

#### Appendix B: Annual ESG survey

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Segment of ESG 2016 survey:

**Have you conducted within the last five years an assessment of the business risks and opportunities associated with environmental and/or social issues across your business?**

- Yes, environmental
- Yes, social
- Yes, both
- No

**Have you developed a sustainability policy (or equivalent, e.g. a corporate responsibility policy, an environmental policy) that applies across your business?**

- Yes
- No

**Do you publish information on your social and/or environmental performance?**

- Yes, social
- Yes, environmental
- Yes, both
- No

**Do you assess your carbon footprint?**

- Yes
- No

**Have you set up a profit-sharing system for your employees?**

- Yes
  - No
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