



ICG Responsible Investing Report 2018

EMBEDDING RESPONSIBLE INVESTING

Since signing the United Nations sponsored Principles of Responsible Investment (“PRI”) in 2013, ICG plc (“ICG” or the “Group”) has seen five years of rapid growth in assets under management (“AUM”) and a significant expansion in the number of investment strategies. The success and growth of the business has been underpinned by the evolution of ICG’s Responsible Investment (“RI”) framework and expanded RI Committee. By the end of 2017, a significant majority of the Group’s AUM was covered by ICG’s RI policy and 2018 provided a timely opportunity to reflect on progress to date as ICG continues to enhance and integrate its RI framework across its investment strategies. ICG is pleased with the progress achieved to date but conscious that there is more to do.

Embedding Responsible Investing

Today, ICG’s RI framework covers European Subordinated Debt and Equity, Asia-Pacific Subordinated Debt & Equity, North American Private Debt, European Senior Debt Partners (“SDP”), Global Credit Fund Management¹, ICG-Longbow (ICG’s Real Estate platform) and Strategic Equity. These strategies represent 96.2%, or €31.6 billion of ICG’s AUM as of September 31, 2018. This year’s report focusses on how the RI Committee has strengthened the existing RI framework and consolidated on the progress made in the past five years.

In line with ICG’s RI policy, the table below illustrates how RI has been integrated to date across each of the core investment strategies.

	Awareness	Commitment	Incorporation	Engagement	Disclosure	Monitoring
European Subordinated Debt & Equity	✓	✓	✓	✓	✓	✓
Asia Pacific Subordinated Debt & Equity	✓	✓	✓	✓	✓	✓
Strategic Equity	✓	✓	✓	✓		
North American Private Debt	✓	✓	✓	✓	✓	
Senior Direct Lending	✓	✓	✓	✓	✓	✓
Credit Fund Management ¹	✓	✓	✓			✓
ICG Longbow (Real estate)	✓	✓	✓		✓	✓

Source: ICG, as of September 30, 2018.

ICG’s 2018 PRI filing

As part of our commitment to the PRI, ICG completed its fifth filing in March 2018. ICG uses its annual filing to the PRI to reflect on progress over the past 12 months, consider Environmental, Social and Governance (ESG) opportunities for the coming year and benchmark against peers. The RI Committee takes this opportunity to outline ESG improvements and goals for the 12 months ahead, with the most recent review leading to an improvement in the monitoring of climate change within its portfolio companies, covered in more depth later in this report, under *ICG’s 2018 Annual Portfolio Company ESG monitoring questionnaire*.

In line with prior years, ICG submitted filings in 2018 for the following sections; (i) Organisational Overview, (ii) Strategy and Governance, (iii) Direct Fixed Income, (iv) Direct Private Equity, and, (v) Closing Module.

¹ This excludes Alternative Credit.



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ICG are pleased to report the following scores from its 2018 PRI filing:

- Strategy and Governance scored a 'Grade A' (Median peer group: A)
- Direct Private Equity scored a 'Grade A' (Median peer group: B)
- Direct Fixed Income scored a 'Grade B' (Median peer group: B)

The scores, which are consistent with 2017, reflect the positive strides taken by ICG to embed ESG within the business and across its investment strategies. In order to better understand progress made in the prior 12 months the Committee reviewed the PRI assessment report in detail. The report highlighted a number of key ESG improvements across ICG's investment strategies. In ICG's Private Equity Module progress was evident due to ICG's commitment in Private Placement Memorandums ("PPMs") to act as a responsible investor and to take into account ESG throughout the investment life cycle. Furthermore, across ICG's Fixed Income module (covering Senior Direct Lending, Credit Fund Management and ICG-Longbow), improvements were made in terms of ESG implementation and communication with ESG analysis being included as a standard feature in portfolio monitoring and a higher proportion of investments decisions including specific ESG analysis. Communication improvements came about in part from better public disclosure of ICG's RI approach, as part of its PRI filing.

RI Training 2018

Alongside the development of ICG's RI framework, the Group has demonstrated a strong commitment to embedding and improving ESG knowledge and practices across its body of investment professionals. This is achieved by formal training every 18 months when a mandatory bespoke ESG training program is completed by ICG's investment professionals.

ICG initially launched its internal ESG online training with Thomson Reuters, designing a tailored syllabus for ICG's Q3 2014 and Q1 2016 ESG training programs. In 2018, following a review of options and a desire for ICG to align practices more closely with the PRI, the Committee selected the Principles of Responsible Investment Academy to develop a bespoke course exploring the investment implications of ESG factors in order to help our investment executives engage with portfolio companies on ESG. As the world's leading proponent of responsible investment, the PRI has an internationally recognised reputation and high quality range of ESG training services.

The 2018 ESG training, as in prior years, was aimed at all Executive Committee members, Partners, Investment and Marketing & Client Relations staff, with a total of 170 professionals receiving the training. This year's training received a 100% completion rate, a further improvement on the 93% completion rate in 2016. In line with prior years, the primary aims of the training modules are outlined below:

- Understand what Responsible Investment is, why it is important and what it involves
- Explore real-life and hypothetical case studies
- Recognise what ICG has to do to apply key ESG concepts and invest responsibly

Additionally, an ESG presentation, which included an overview of ICG's approach to RI along with case studies from across the business, was given to all ICG employees at ICG's 2018 All Staff Conference.



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ICG's 2018 Annual Portfolio Company ESG monitoring questionnaire

ICG's 2018 ESG monitoring questionnaire represents its fourth in the series, with its widest distribution yet targeting 58 portfolio companies. As expected, response rates for strategies that ICG have significant influence over, and have been participants of the survey since the outset, are the highest with another 100% completion rate across European Subordinated Debt & Equity. Overall, response rates are in line with historic years, at 74%.

In order to ensure the ESG monitoring questionnaire incorporates current and emerging ESG trends, ICG reviews the content of its questionnaire on an annual basis, with the assistance of an independent consultant. In 2018, following the guidance from PRI, ICG introduced a dedicated section on climate change in order to specifically engage on this matter. These questions centred around whether or not businesses have assessed climate change risks, set climate change related objectives or assigned responsibility at a management level for handling climate change issues. Additionally, with a large number of our portfolio companies headquartered, or operating, in the European Union, ICG asked businesses about their policies relating to data privacy and the EU General Data Protection Regulations ("GDPR").

This year the survey totalled 23 questions, with 19 consistent across 2017 and 2018, allowing us to assess trends across a number of our investment strategies year-on-year. Key findings from our analysis are outlined below:

- Approximately 84% of portfolio companies have either conducted an assessment of business risks and opportunities associated with environmental and/or social issues, or developed a sustainability policy. This is materially up from 74% in 2017, with a 100% positive response rate across European Subordinated Debt & Equity.
- Of those 84%, approximately 70% have assigned specific responsibilities for ensuring compliance with ESG policies. This figure has been consistent across 2017 and 2018 for businesses headquartered in Europe.
- The number of portfolio companies that have either established systems to manage their environmental impact, or monitor their carbon footprint, stands at 40% across all strategies. Within European Subordinated Debt & Equity, where ICG have greater influence, the figure is higher, at over 60%.
- In the last twelve months, around a quarter of portfolio companies have made changes to how they manage environmental and/or social issues to improve their focus. This rate has been consistent now for a number of years.
- In the strategies where ICG has greater influence, there has been a strong push for enhanced governance, specifically the appointment of non-executive directors. Across European Subordinated Debt & Equity, the number of portfolio companies that have at least one non-executive director has risen from 64% to 74%, which is very encouraging.
- Portfolio companies being faced with litigation due to social and/or commercial activities remains extremely low.
- Anti-bribery was added to the annual ESG questionnaire in 2017, allowing us to track progress for the first time this year. The number of portfolio companies with an anti-bribery policy in place rose from 55% to 65% over the last 12 months, with a response rate of 75% in companies we have greater influence over.
- A focus of European Subordinated Debt & Equity investment team over the last year has been to improve the use of performance targets by portfolio companies in the management of ESG issues. From 2017 to 2018 we have seen this increase from 50% to 65%.



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Across the new questions relating to climate change, as it stands, approximately 20% have previously assessed business risks relating to climate change, or assigned management responsibilities for climate change. ICG would expect to see this rise over the next year, as approximately 40% of respondents have indicated they have set climate change or energy related targets for the future. ICG will work closely with its portfolio companies to address this global and growing particular concern.

Expanding and Increasingly Focused RI Committee

To date, ICG has built its RI Committee predominantly around senior investment professionals to ensure; (i) RI is embedded within the investment process, (ii) ensure RI is appropriately represented at Investment Committee (“IC”) meetings, and, (iii) RI forms part of the ongoing portfolio monitoring routinely carried out by the investment team. The RI Committee is enhanced with the inclusion of representatives from ICG’s Investor Relations division to better incorporate ICG’s investors’ ESG requirements. ICG’s RI Committee is outlined below:



Source: ICG, as of September 30, 2018.

2018 saw the addition of senior investment professionals from Senior Direct Lending and Strategic Equity in order to reflect the importance of the two businesses in ICG’s RI framework and deepening the Committee’s involvement in ICG’s investment processes.

In line with the Committee’s 2018 goal to further embed ICG’s RI framework across its investment strategies, the decision was taken to hire a full time dedicated RI officer to drive and improve ESG practices throughout ICG’s investment processes. The full time RI resource will be responsible for ensuring ICG’s policies and procedures reflect best practice while enabling ICG to engage with portfolio companies in a more proactive way, including establishing and monitoring ESG KPIs and setting targets. We are pleased to confirm that this person will join the Group before the end of the calendar year.



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RI Internal Resources and Communication

In 2017, in order to promote transparency and formalise its commitment to RI, ICG outlined its RI framework in a number of key fund “PPMs”, including Senior Debt Partners 3, ICG-Longbow UK Real Estate Debt Fund V and ICG North American Private Debt Fund II. This process has continued in 2018 with ICG Europe Fund VII and ICG Strategic Equity Fund III.

Internally, as a rapidly growing organisation with over 300 employees and significant information flow throughout the business, the RI Committee decided it needed a central location where investment professionals can access the latest policies and learning on RI, and ICG’s global employee base could better understand how ICG approaches RI. The Committee put in place a dedicated intranet site on ICG’s portal, an internal communication tool, aimed at providing information to all ICG employees. This ESG microsite outlines ICG’s approach to RI and provides quick links to documents frequently used by the Investment teams.

The key documents are also reviewed annually by an independent consultant to ensure they meet ICG’s overall approach to RI, and to incorporate the most recent PRI guidelines, notably on climate change, as discussed earlier in the report. ICG’s publicly available documents are available online at <http://www.icgam.com/investing-with-icg/responsible-investing>.



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Appendix A: Case Study at Entry; Sogal Group, ICG Europe Fund VI

Presented below is an example of a recent ICG investment in a company whose ESG performance is already considered to be above expectations, and where following ICG's investment and engagement, management has committed to continuous improvements on ESG matters.

Sogal Group ("Sogal"), founded in 1981 and headquartered in France, is a leading designer, manufacturer and distributor of custom-made closet doors, interior closet layouts, room dividers, and interior design furniture. Sogal designs products taking environmental impacts into account throughout the product life cycle.

In March 2018, ICG Europe Fund VI invested over EUR 65 million in Sogal Group alongside its management team. Key drivers behind the business and investment are as follows:

- Sogal is an established leader in all its key markets benefiting from a best-in-class reputation among its clients;
- Operational excellence and innovation capabilities create strong barriers to entry; and,
- An attractive financial profile with further strong growth potential.

Maintaining high ESG standards is a key success factor in the furniture sector as (i) customers are very sensitive to deforestation and local sourcing, (ii) DIY retailers promote certified wood products more often and (iii) the workforce is a critical resource. ICG's decision to invest in Sogal was notably influenced by positive findings from the ESG due diligence:

- The independent ESG review carried out by Environmental Resource Management ("ERM") concluded that "the ESG performance of Sogal Group is considered to be above standards given the size, the positioning and the nature of the business.";
- The legal and social due diligence performed by Mayer Brown raised no material issues and confirmed that the business was professionally managed, notably from a governance standpoint.

In addition, ERM expressed positive views regarding Sogal's product positioning, human resources management and energy reduction efforts in transport. Presented below are a few examples reflecting Sogal's focus on the implementation and monitoring of ESG principles:

- **Environmental** – Sogal's products are well positioned differentiating themselves through a number of certifications and labels, including notably (i) the *NF Environment* label, for all its products and production sites, a French eco-label certifying products or services which have a reduced environmental impact at every stage of their life cycle, (ii) the *PEFC certification*, the world's leading forest certification system which enables customers to identify products from sustainably managed forests, and (iii) an A+ score for *Ambient Air Labeling*.
- **Social** – Sogal has defined a human resources policy that includes the following commitments: (i) social dialogue, (ii) no discrimination, (iii) knowledge transfer and (iv) training / mobility. Sogal has also finalized the definition and implementation of a gender equality plan. Additionally, turnover is low, demonstrating a cohesive working environment.
- **Governance** – The Group has implemented a range of ESG policies, and reviews are performed regularly at board meetings. A new Environmental, Health & Safety ("EHS") manager was appointed in early 2017 with the aim to continue the implementation of an EHS management system focusing on health & safety issues.



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As a condition of its investment, the Shareholder Agreement signed by ICG includes commitment by the management to comply with strong ESG principles, and notably to:

- Run the business in accordance with ICG's PRI engagements and set up reporting on ESG initiatives;
- Maintain high anti-bribery / anti-money laundering standards, and;
- Maintain high compliance / ethical standards.

As a result of ICG's engagement, Sogal has further committed to comply with a number of key ESG principles over the coming three years. As an example, Sogal will target (i) a reduction in the energy use by its trucks fleet (-10% by 2020), (ii) development of eco-design and environmental labelling to anticipate potential future regulations, and (iii) optimisation of waste recycling (97% by 2020). ICG will remain engaged with the company during the investment period and will help management to set and track further ESG KPIs.

Sogal is a clear example of an ICG investment where existing ESG performance was a key investment consideration, and following ICG engagement, management committed to further improvement in ESG factors as an important driver of the sustainability of the business going forward.

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