Investment opportunities in a low carbon economy

Governance

The Group's Responsible Investing (RI) Policy covers 100% of the Group's AUM and provides the overarching charter for our approach to responsible investment. The RI Policy establishes our ESG investment priorities across a range of topic areas, including climate change. It is supplemented by a dedicated Climate Change Policy, which requires us to consider the implications of greenhouse gas emission reductions (mitigation) and the physical impacts of climate change (adaptation) in our investment research, valuation, and decision-making processes.

The Board reviews our approach to responsible investing and corporate sustainability and is accountable for our RI Policy, for monitoring its implementation and for approving material changes to it. During the financial year ended 31 March 2021 our RI Policy was updated to reflect our enhanced approach to climate-change-related topics. The Executive Directors are responsible for ensuring the effective implementation of our RI Policy.

The Group's Management Committee supports the Executive Directors in overseeing and monitoring our policies and procedures, addressing issues if they arise and approving new strategies, including those with specific climate-related objectives and targets.

Day-to-day implementation of the RI Policy is the responsibility of all investment professionals, guided by the Group's RI Committee. The RI Committee oversees the promotion, support and integration of responsible and sustainable business practices, including in respect of climate change matters, across the investment strategies and their portfolios.

Climate-related risk and opportunity considerations are included in investment proposals, which are presented to, and considered by, the relevant Investment Committee. Where there could be material ESG or climate-related risk and opportunity arising from a proposed investment, the Investment Committee invites a member of the responsible investing team to the discussion.

During the current year

- We completed the Carbon Disclosure Project (CDP) Climate Change disclosure for the seventh time in 2020. This includes questions on both our investment practice and processes and our operations. We received an 'A-' score for our performance in 2020, in line with the prior year
- The Board was provided with an update on climate-related risk and opportunity. This included training materials on potential financial and operational impacts of climate-related issues for the Group and our investments and the Group's new Climate Risk Assessment Process

Strategy

Funds managed by the Group invest in a range of asset classes, which differ in size, geographical location and industry sector. We monitor and manage these assets depending on the fund's investment horizon, risk profile and asset concentration. We analyse ESG issues, including climate change, at each stage of the investment process from screening, through due diligence, closing, monitoring and eventual exit. Each investment strategy implements the ESG considerations relevant to it, which depend on the nature of the strategy and the level of access to, and influence over, portfolio company management.

As a Group, our own operations are not exposed to material environmental risks since our global footprint operates from leased offices. We have a comprehensive risk governance framework and compliance processes and procedures to ensure that all risks, including ESG risks, are monitored and managed and that the Group is fully compliant with all applicable environmental legislation.

Climate change poses a significant threat not only to the global economy but to society as a whole, and this presents both risks and opportunities for investments over the short and long term. As such, we recognise that the financial impact from climate-related issues are most likely to materialise through our investment decisions. As set out in the Risk Management section opposite, we have developed processes to support us in understanding where climate-related risk may be realised and to support our engagement with investees.

We recognise that the low carbon economy transition represents a potential investment opportunity, and that transitioning to a more sustainable economy will require innovative strategies. We have considered climate-related opportunities in the development of new strategies, including when developing our new Sale and Leaseback and Infrastructure Equity investment strategies.

During the current year

- We have increased our efforts to better understand where climate-related risk and opportunity could be present in our portfolios
- We secured a £550 million ESG-linked Revolving Credit Facility, with adjustments to the margin and commitment fee linked to achieving specific climate-related metrics related to reducing our emissions and integrating climate risk into our investment analysis. *Read more on page 32*
- Our planned flagship Europe Fund VIII will incorporate climate change as one of its three key ESG themes and require portfolio companies to improve performance associated with energy efficiency and greenhouse gas emissions
- Our new real estate debt strategy ICG-Real Estate Debt Fund VI offers funding under a green loan framework, based on the Loan Market Association Green Loan Principles, to incentivise sustainable real estate activities
- We joined forces with a group of private equity investors to create the first international network of Initiative Climat International (iCI). In doing so, we committed to actively engage with portfolio companies globally to reduce carbon emissions intensity and secure sustainable investment performance by recognising and incorporating the materiality of climate risk

- Our new London head office has been furnished with the most energy efficient and sustainable materials possible and sources 100% renewable energy. We achieved a Gold SKA Rating, an environmental benchmark and standard, for the fit-out

Risk management

We have integrated the review, assessment and monitoring of climate change considerations into our investment process. For each potential investment opportunity, we identify whether there are any material climate change-related issues associated with the investment.

We use our Climate Risk Assessment Tool to guide this process. The tool assesses potential climate risk associated with an investment by evaluating industry sub-sector, low-carbon economy transition, and climate change physical risk-related issues. The tool draws upon various data sources which are regularly reviewed and updated as necessary. For opportunities identified as having a higher potential exposure to climate-related risks, additional analysis must be completed during the pre-acquisition due diligence process.

The Climate Risk Assessment Tool is embedded within our ESG Screening Checklist and this assessment is recorded in each investment proposal. This ensures that climate-related risk and opportunity exposure have been explicitly assessed by the relevant Investment Committee and considered when making the investment decision. Where material climate-related issues are identified, the Investment Committee may decide not to proceed; may request further action is taken to ensure these issues are properly investigated; or may require further actions to be taken following an investment.

In situations where we have significant influence over portfolio companies, external ESG due diligence, including a specific analysis of climate-related risks and opportunities, is conducted as standard and the results incorporated in the Investment Committee review process.

During the current year

In line with our commitment to support a more climate-resilient economy, we introduced new prohibitions on any direct investments in companies that generate the majority of their revenue from:

- Coal exploration, extraction, production, transportation, power generation, distribution and/or storage
- Oil (including oil from tar sands) exploration, extraction, production, transportation, power generation, distribution and/or storage
- Gas exploration, extraction and/or production

We worked with an external adviser to develop and implement the Climate Risk Assessment Tool for all new investments. For our existing portfolio, we:

- undertook an initial transition-risk screening exercise across over 10 key ICG strategies, representing almost 90% of AUM
- identified portfolio companies with higher exposure to climate-related risks, based on industry classification in accordance with the recommendations of the TCFD, supplemented to incorporate a further three additional industry sectors: pharmaceuticals, water and waste
- evaluated investments selected from each investment strategy to consider potential climate-related financial risk and opportunity. This assessment evaluated both the physical impacts of climate change and the low-carbon economy transition, using a business-as-usual scenario and a 2°C or lower scenario as per the recommendations of the TCFD. We have used the outcomes from this assessment to selectively engage with investees on the topic of climate change and the resilience of strategies to climate-related issues

Metrics and targets

We are focused on decarbonising our portfolio, integrating climate risk assessments into our investment decisions, and improving and monitoring energy efficiency and reducing emissions at both portfolio company and fund level. While we do not set emission targets for our fund portfolios systematically, where we have influence we encourage our portfolio companies to set targets to reduce their carbon footprint and to monitor a range of climate-related metrics relevant to sector and geography.

- We disclose our organisational greenhouse gas emissions in alignment with the World Resources Institute's Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. We quantify and report our Scope 1 and 2 emissions and voluntarily report our Scope 3 indirect emissions from business travel. *See page 33*
- We undertook a carbon footprint analysis of Europe Fund VII and the Infrastructure Equity Fund, and these financed emissions have been incorporated into our emissions reporting. *See page 33*
- We are on track to meet the target set in 2019 to reduce Scope 1 and Scope 2 carbon emissions across our operations by 80 percent by 2030
- As a member of iCI, we sit on three working groups, including the Carbon Footprint working group and the Science-Based Target (SBT) working group. The latter is actively engaging with the SBT Initiative to consider how science-based targets can be best applied to private equity and debt portfolios
- In order to improve and standardise carbon reporting we are involved in designing a tool for the private equity industry to measure Scope 1, 2 and (ultimately) 3 emissions