# UK Stewardship Code

## Statement of Compliance and Disclosure

**October 2022**

# Contents

# Foreword

Dear ICG stakeholders

We are pleased to publish the second report by Intermediate Capital Group (**"ICG''** or the **"Group"**) detailing how we implement the UK Stewardship Code 2020 (the **"Code"**). This report provides an overview of our stewardship approach and sets out how we have applied the Code in the twelve months to 30 September 2022.

As stated last year, we plan to report annually on our activities in line with the Code's requirements. This report has been compiled with input from the breadth of the business including those working in our Structured and Private Equity, Private Debt, Real Assets and Credit strategies in addition to the ESG Team, Risk, Compliance and Internal Audit and benefits from Executive Director oversight, contribution and review.

These reports will be publicly available on our website and will supplement our current disclosures and reporting. As a UK-listed company and member of the FTSE 100, we produce an Annual Report and interim trading updates, along with an annual Sustainability and People report, which are all also publicly available on our website (www.icgam.com). In addition, we provide regular updates on our funds and investments to our clients on a private basis.

As a responsible steward of our clients' and our own capital, ICG has a clear purpose to provide capital to help companies develop and grow. We do this by investing across the capital structure, with the vast majority of our investments being in unlisted companies. The level of direct influence we have over our portfolio companies varies substantially across our investment strategies given the range of different types of capital we are able to provide. However, our overall belief is consistent: that we are active stewards of our clients' and our own capital, and that we have an obligation to systematically incorporate a range of stewardship considerations into each investment decision we make and in the way we manage portfolios. Amongst these considerations we also pay due regard to macro trends and environmental, social and governance (ESG) factors. This is not new for ICG; we have long believed that carefully considering these matters as part of our investment process will lead to long-term value creation for our clients and other stakeholders.

I hope you will find this report informative, and we look forward to continuing to focus on stewardship of our clients' and our own capital and of our portfolio companies.

**BENOÎT DURTESTE**

Chief Executive Officer and Chief Investment Officer

Intermediate Capital Group PLC

28 October 2022

# Note on the use of case studies

Case studies can be a useful mechanism within reports such as these to provide tangible examples of certain points. However, in order to be useful and relevant, case studies need to be specific. As a result, a case study taken individually is unlikely to provide a complete picture of how ICG approaches stewardship. This challenge is further complicated given the variety of strategies we manage, and the different routes we have to exercise active stewardship.

In order to address this, we have ensured that the case studies included in this report are drawn from a range of strategies across all our asset classes, which we have identified as a sub-heading for each case study, as well as some Group-level examples of stewardship. All case studies occurred during the reporting period of this report (twelve months to 30 September 2022). Taken as a whole, we believe they represent a diverse variety of tangible examples that help to illustrate the principles we are seeking to demonstrate.

To assist the reader in navigating the body of case studies as a whole, the table below sets out those that are included in this report with the corresponding principle.

| Principle | | Case study title | Relevant asset class(es) or Group level |
|---|---|---|---|
| 3 | Conflicts of interest | Managing strategy-by-strategy conflict (refinancing existing debt) | Private Debt, Credit |
| 3 | Conflicts of interest | Managing strategy-by-strategy conflict (different entry valuations) | Private Debt, Structured and Private Equity |
| 3 | Conflicts of interest | Managing potential conflicts between clients | Credit |
| 4 | Promoting well-functioning markets | Market-Wide and Systemic Risks | Group |
| 5 | Review and assurance | Enhancing our Responsible Investing Policy and ESG integration | Group |
| 6 | Client and beneficiary needs | Adapting for Client Needs (Bespoke Exclusion Lists) | Structured and Private Equity |
| 6 | Client and beneficiary needs | Adapting for Client Needs (Currency Sleeves) | Real Assets, Private Debt and Structured and Private Equity |
| 7 | Stewardship, investment and ESG integration | Rolling out an ESG Risk Rating | Private Debt, Credit |
| 7 | Stewardship, investment and ESG integration | Investment declined for governance reasons | Private Debt |
| 7 | Stewardship, investment and ESG integration | Investment declined as incompatible with the ESG objectives of ICG | Credit |
| 7 | Stewardship, investment and ESG integration | Investment declined following ESG screening and analysis | Private Debt |
| 7 | Stewardship, investment and ESG integration | Opportunity declined due to insufficient ESG oversight | Structured and Private Equity |

| | | | |
|---|---|---|---|
| 8 | Monitoring managers and service providers | Service providers in the investment process | Credit |
| 8 | Monitoring managers and service providers | ESG Due Diligence advisors | Structured and Private Equity, Real Assets |
| 8 | Monitoring managers and service providers | Feedback on Service Providers | Structured and Private Equity |
| 9 | Engagement | Setting science-based emissions reduction targets | Structured and Private Equity |
| 9 | Engagement | Achieving higher sustainability standards with the Green Loan Framework | Real Assets |
| 9 | Engagement | Improving engagement | Credit |
| 9 | Engagement | Encouraging better ESG reporting | Credit |
| 10 | Collaboration | CDP Private Markets pilot | Private Debt, Credit |
| 10 | Collaboration | BVCA Regulatory Committee | All asset classes |
| 11 | Escalation | Raising the importance of climate action | Structured and Private Equity, Real Assets |

# Purpose and Governance

## Principle 1 – Purpose, strategy and culture

*Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*

### Introduction

ICG is a global alternative asset manager, investing on behalf of a global client base and providing flexible and sustainable financing solutions across the capital structure to help companies develop and grow. Headquartered in London, we manage $68.2bn[1] in third-party assets under management (**"AUM"**). We believe that as stewards of our clients' capital[2], we are obliged to manage our business and investments actively and responsibly in order to unlock long-term value.

We aim for our employees to feel a sense of wellbeing and promote an inclusive working culture where they can freely question current practices and suggest alternatives. We support agile working and offer access to a range of flexible benefits. We ensure our levels of overall remuneration are without gender bias and designed to attract, develop and retain talented employees.

We invest across a range of strategies, enabling us to provide capital in whatever form is most appropriate to the company. These strategies are summarised below:

| Strategy | Type of capital provided | AUM[1] |
|---|---|---|
| Structured and Private Equity | Structured and equity financing solutions to private companies | $24bn |
| Private Debt | Debt financing to high-quality corporate borrowers | $19.1bn |
| Real Assets | Debt and equity in the real estate and infrastructure sectors | $7.8bn |
| Credit | Investing in primary and secondary public credit markets | $17.3bn |

Our funds are typically closed-ended vehicles with contractual lives of approximately 7 – 12 years. Each fund contains a number of investments in order to mitigate concentration risk, and within each fund we typically intend to hold each investment for a period of up to 7 years. We believe this time horizon enables us to focus on creating long-term value and aligns our clients' interests with those of the portfolio company or real assets. As an organisation, this long-term approach to creating value and ability to provide flexible financing solutions drives our culture.

Our teams are empowered to source investment opportunities, while operating within the broader architecture and governance of ICG. As part of the ICG platform, our investment teams also have access (within the confines of regulatory and legal confidentiality requirements) to our valuable and proprietary information database to gain market intelligence and unique insight for the benefit of our clients.

Our investment committee process is a key conduit for our culture throughout the investment teams. The investment committee members are senior investment executives within ICG, and these committees collaboratively debate and decide what investments we make on behalf of our clients and when we exit them. As such, the committees' approaches to risk (including sustainability risk), the range of factors they focus on when deciding

[1] As at 30 June 2022

[2] Where we refer to "clients" or "investors" in the context of this report we mean investors in our funds. Reference to "shareholders" means holders of ICG shares.

whether to approve investments, and the way in which committee members interact with each other and their colleagues, all drive and reinforce ICG's investment and stewardship culture more broadly.

We ensure economic alignment between our clients, our investment teams and the ICG Group. This is largely through co-investment, whereby both our investment teams and the ICG Group itself commit capital alongside our clients, demonstrating our conviction in the capital allocation decisions we are making on behalf of clients. The reward schemes for our investment teams are also linked to the performance outcomes achieved for clients.

As an asset manager and an institutional investor, ICG recognises that environmental, social and governance ("**ESG**") issues can be an important driver of investment value and a source of investment risk as well as opportunity.

Our Responsible Investing Policy provides the overarching framework for our approach to responsible investment and covers 100% of our AUM. We believe that by identifying and assessing ESG issues as part of our investment process, and by ensuring that these issues are properly managed over the lifetime of our investments, we can help to create more successful and sustainable businesses over the long-term and generate enhanced value for our clients.

We have a diversified group of blue-chip clients, which we have grown by 124% since 31 March 2016 and as at 31 March 2022 we had 586 clients. Our third-party AUM has grown by 180% over the same period. While this is only one measure of success, our ability to grow the number of clients who entrust their capital to us, and the amount of capital they want us to manage on their behalf, is a good indicator of how we have historically served our clients' interests. Principle 6 below sets out how we have been effective in meeting our clients' needs.

# Purpose and Governance

## Principle 2 – Governance, resources and incentives

*Signatories' governance, resources and incentives support stewardship.*

### Governance

ICG has been a publicly listed company since 1994 and is a constituent of the FTSE100. We seek to promote the highest standards of corporate governance throughout our structures and culture to act in the best interests of our clients.

Our governance structure has evolved over the years to ensure we meet applicable governance standards and provide adequate control and challenge across our business. Some aspects of these structures are required by law or guidance applicable to listed public companies; we have sought to enhance these base requirements through the use of further responsible bodies, oversight structures and reporting lines to ensure robust and sustained oversight of the business as a whole. Our Board (which has a majority of independent non-executive directors) regularly reviews our internal governance framework in the light of regulation, guidance and industry best practice to ensure that we have the appropriate structure at every level of our operations.

**ICG Board**

The Board comprises three Executive Directors, an interim Non-Executive Chair, and seven Non-Executive Directors (all of whom are independent) who have a broad and diverse set of skills and experience. Further details of the Board, including their biographies, are available on ICG's website and pages 70 – 72 of ICG's Annual Report and Accounts 2022 (''**ICG's Annual Report 2022**'').

The Board provides leadership and oversight within a framework of prudent controls which enable risk to be assessed and managed to ensure that the necessary financial and human resources are in place for the Group to meet its objectives. The Board's principal functions include, but are not limited to, determining the Group's strategy and basis on which it is managed, upholding the Group's culture and shaping the Group's risk appetite. Moreover, the Board has overall responsibility for ICG's internal control system to give reasonable assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors and irregularities are prevented or detected. A number of committees support the work of the Board, including the Audit, Risk, Nominations and Governance and Remuneration Committee; each of these four committees are constituted solely by Non-Executive Directors. The Board's performance is reviewed annually. This assessment covers the effectiveness and performance of the Board as a whole, the Board Committees and an individual evaluation of each Director. It is typically led by the Chair, with support from the Company Secretary, and includes an independent evaluation of the Chair by the Senior Independent Director.

Following an exercise conducted in 2020 by Consilium and the internal evaluation conducted in 2021, in February 2022 the then Chair commenced a Board Evaluation internally, with Q&A forms being sent to each Director and returned to the Chair for their review. The Board review exercise was concluded by Andrew Sykes as interim Chair (appointed March 2022).

The exercise concluded that the Board and each Committee continue to operate effectively. The assessment found that the culture of the Board is transparent and cohesive, and that all board members continue to operate effectively and contribute well to the debate at the Board table. The review noted the Board's commitment to providing support, advice and challenge to Executive Directors; it also concluded that the Board had continued to act effectively and quickly despite the challenges presented by the Covid-19 pandemic, including continued virtual meetings. The review noted that the findings of reviews from prior years had been wholly or partially addressed, including by a greater focus from the Board on the Group's strategic direction during the year (in particular at the strategy day held during the year) and by the Board receiving a greater insight into ESG matters and their effects on the Group's business.

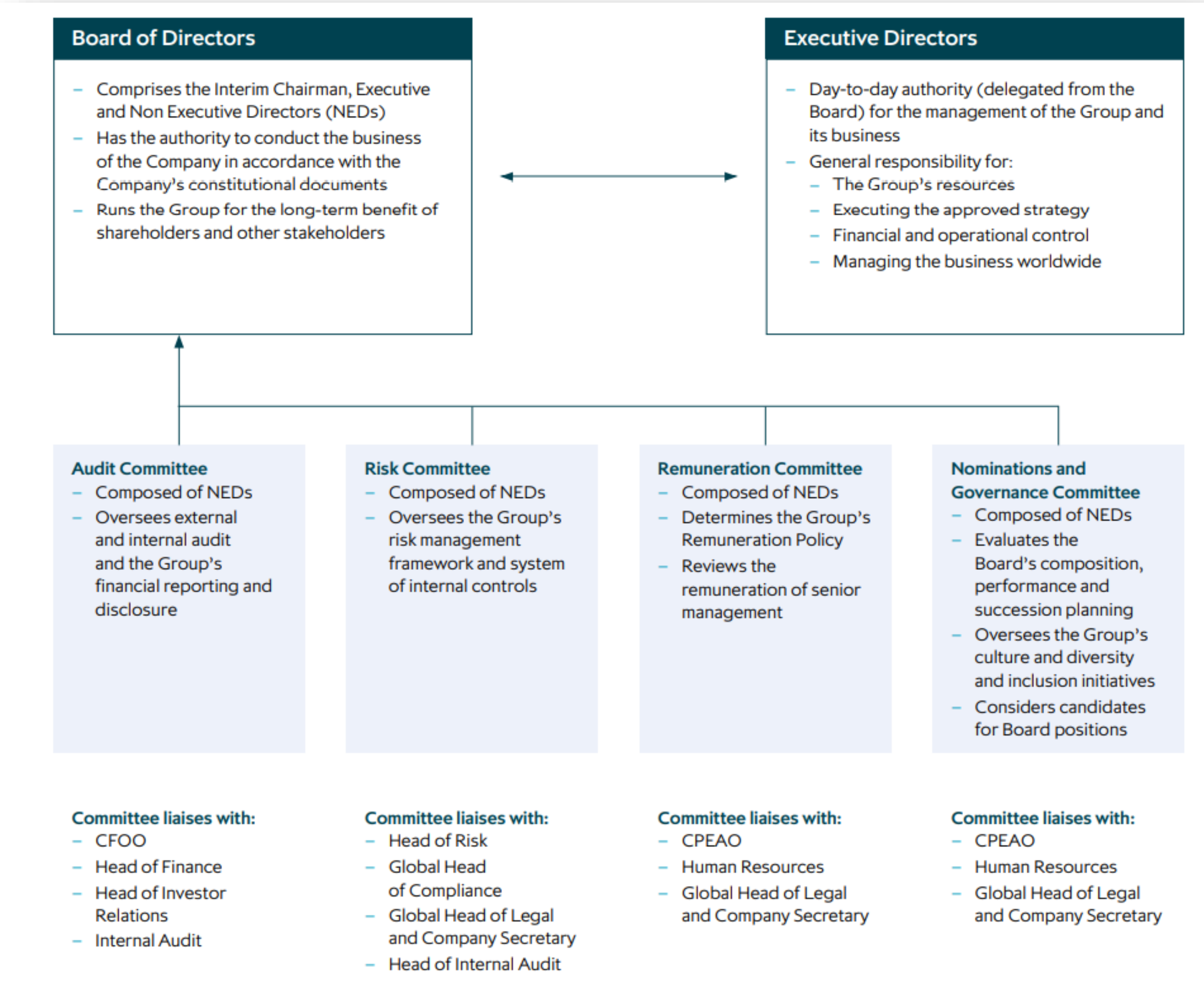
Another detailed board evaluation exercise will be conducted during 2023 (which will be externally led).

The ICG Board is strongly engaged in our focus on stewardship, regularly receiving reports on client considerations, client experience, investment performance and ESG matters. We have a Non-Executive Director responsible for ESG matters and another Non-Executive Director with a specific responsibility for employee engagement. The Board will continue to keep our stewardship approach under review as the obligations of ICG and expectations of our clients develop.

Stewardship is embedded within investment decision making in our view and we do not believe that it should be the responsibility of a separate team.

**ICG's Governance Framework**

*Extract from page 73 of ICG's Annual Report 2022 (where more detail is available)*




**Executive Directors and Management Committee**

The Executive Directors are responsible for ensuring the effective implementation of the strategy and policies set by the Board and are supported by our Management Committee. The Management Committee consists of senior executives drawn from across the business (including our Executive Directors) and is responsible for assessing relevant strategic and business initiatives, talent management and risk, compliance, operational, financial and IT (including Cyber) matters. In particular, it oversees risks and opportunities related to our investment activities and to our own operations, addressing issues if they arise and approving new investment strategies, including those with specific ESG or climate-related objectives and targets. We believe that this level of oversight and accountability is appropriate given the importance of stewardship at ICG and our desire to demonstrate to all stakeholders our commitment in this area.

In considering new potential investment strategies, the Management Committee is supported by a New Product Working Group, which is responsible for assessing any potential new fund in the light of relevant client requirements. This includes input from a wide range of operational, legal and compliance functions and the relevant investment team, and ultimately makes a recommendation as to the suitability of any new product to the Management Committee.

## Investment Committees

ICG has a number of Investment Committees - one dedicated to each investment strategy – which are typically comprised of the most senior investment executives within the relevant strategy. Each Investment Committee is responsible for scrutinising, challenging and, ultimately, approving or denying every investment proposed by the relevant investment team, in line with the investment objectives of the fund in question. It is also responsible for the ongoing monitoring of the performance of investee businesses, including stewardship related activities, and the ultimate divestment of investments. Each Investment Committee is made up of a number of experienced executives who have significant industry experience in making investments of client's capital and all of whom receive regular training on ESG and other stewardship matters.

Investment Committees for all strategies meet at least weekly or more frequently as required. By way of example, for our Structured and Private Equity asset class, a typical investment approval process is as follows:

- Investment teams undertake an initial assessment of a potential deal and prepare a paper which is submitted to the Investment Committee for an initial review;
- If the deal is approved at the initial Investment Committee, the team undertakes extensive analysis on the business in question, sector in which it operates, valuation, structure and any key concerns or issues raised. These findings are presented at a second Investment Committee. If the deal is approved at this stage, budget for enhanced due diligence is agreed; and
- Once due diligence is complete, investment teams return to the Investment Committee for final approval. This meeting decides whether to proceed with the investment and will cover any key issues raised in the process so far, final valuation and final deal terms. This step in the process may be iterative, depending on the circumstances. Unanimous approval is required by all Committee members present at the meeting, with a minimum quorum of three members required to approve the investment.

ESG considerations are reviewed and incorporated at every stage of the investment process.

Investment Committees for our other strategies follow the same or a similar process, but may have a condensed number of meetings, depending on the nature of the transaction and/or strategy in question.

In addition, Investment Committees for all strategies undertake a quarterly review of each of their investments, which includes a performance evaluation and an update on the progress of any strategic and ESG initiatives.

### Responsible Investing Committee

ICG's Responsible Investing Committee promotes, supports and helps to integrate responsible and sustainable business practices across ICG's investment strategies and the businesses in which we invest, in line with our Responsible Investing Policy and ESG Framework. The Responsible Investing Committee is made up of our Head of Investment Office (chairperson), the Global Head of Sustainability & ESG and senior investment professionals from across ICG's investment strategies. The Responsible Investing Committee is supported by an experienced ESG team with significant expertise in integrating ESG factors across a wide range of alternative asset classes and industries, as well as professional services experience.

The day-to-day implementation of our Responsible Investing Policy is the responsibility of investment professionals across our investment strategies, who integrate ESG considerations, among other relevant factors, into investment decisions and active ownership activities, where applicable. ICG's ESG team provides specialist input and expertise, working closely with investment professionals across our strategies to ensure effective integration of ESG factors.

## Building knowledge, understanding and expertise on stewardship matters

Throughout the year, Executive Directors receive regular briefings and training sessions (including from external advisors) on emerging topics to ensure they are able to exercise effective oversight of ICG's stewardship activities.

All ICG personnel also regularly undertake other focused training, including Compliance training on matters such as anti-bribery and money laundering, to ensure they are well placed to meet the obligations we have to clients.

As noted previously, the Responsible Investing Committee ensures that our investment teams have the required skills and understanding to effectively monitor and engage with management teams in our portfolio companies on ESG issues, cognisant of the fact that this is a rapidly evolving area in which new issues can rapidly emerge.

We are committed to ensuring that the knowledge of our teams remains current and therefore provide all relevant employees with regular, bespoke ESG and responsible investing training, comprehensive responsible investing guidance and access to online ESG tools, to ensure they can identify, assess and manage ESG risks and opportunities in investment activities.

To continue to build our teams' knowledge in this area and to capitalise on the expertise we are building internally, we developed a bespoke course for Executive Directors, all partners and investment, marketing and client relations staff. The training helps participants gain a better understanding as to why responsible investing is important, what it involves and what ICG has to do to apply key ESG concepts and invest responsibly. Our ESG team regularly reviews the training materials to maintain relevance and introduce customised content on ESG regulations, and emerging ESG risks which may affect our funds and our stewardship efforts.

## Incentives and compensation

All investment teams have a responsibility to consider relevant risks and opportunities in their investment decisions (including ESG risks) and the extent to which they have done this effectively is taken into account when determining performance-related compensation levels. Each year, the Executive Directors are set targets by the Board for the variable elements of their remuneration, which include KPIs linked to non-financial factors, such as culture and diversity & inclusion (see page 97 of ICG's Annual Report 2022).

Following an extensive review of the performance criteria for Executive Directors, we expanded our KPIs relating to Culture and Diversity & Inclusion to include Sustainability to reflect the Board's strong focus on sustainability metrics overall. During the year to 31 March 2022, 10-15% of Executive Directors' annual variable pay was linked to targets set in respect of ICG's progress on Culture, Diversity & Inclusion and Sustainability; the criteria measured are set out in detail on pages 100-101 of ICG's Annual Report 2022. We believe that setting targets in these areas for our senior management is an important factor in enabling ICG to act as an effective steward of our clients' assets. The performance targets set for Executive Directors for the financial year ending 31 March 2023 also contain targets in these stewardship related areas, and the reward opportunities for Executive Directors will therefore be impacted by whether these targets are met (which will be publicly disclosed in the annual report for the year, to be published in June 2023).

# Purpose and Governance

## Principle 3 – Conflicts of interest

*Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.*

ICG seeks to operate in accordance with the highest standards of compliance, ethics and corporate governance across all of our operations and investments. Moreover, all of our personnel have a responsibility to act in the best interests of our clients. To this end, we maintain an extensive framework of internal policies, procedures and controls, including a comprehensive conflicts of interest policy, which is applicable to all personnel.

Our conflicts of interest policy assists with the identification, prevention and management of actual, potential or perceived conflicts to ensure we take all appropriate steps to prevent conflicts from adversely affecting the interests of our clients and/or unduly impacting our stewardship practices on their behalf. In certain circumstances it may be deemed appropriate for ICG to decline to act where it deems a conflict cannot be managed. The conflicts of interest policy is subject to annual review and is available to all personnel on our intranet page. In addition to this, all new joiners are directed to this link as part of their induction on joining.

**Conflicts of Interest Principles**

ICG has adopted the following principles in relation to identifying, preventing, managing, and mitigating potential, actual or perceived conflicts of interest. ICG:

- seeks to manage conflicts of interest in a way that is in the best interests of each of its funds, and therefore the overall best interests of each of its investors;
- has established and implemented written policies and procedures to identify, manage and appropriately mitigate conflicts of interest throughout the scope of business that ICG conducts;
- utilises mitigation techniques which provide the most effective mitigation and greatest level of protection and clarity to investors;
- has established and implemented a clearly documented and defined process which facilitates investor consultation regarding matters relating to conflicts of interest;
- discloses the substance of opinion given through the investor consultation process and any related actions taken to all affected investors in a timely manner (save where to do so would breach any other legal or regulatory requirement or duties of confidentiality); and
- seeks to ensure that all disclosures provided to investors are clear, complete, fair and not misleading.

The overall management and mitigation of conflicts of interest is the responsibility of the ICG Board, implemented on a day-to-day basis by relevant senior executives with support, oversight and monitoring from the Compliance function. We conduct a regular review of potential conflicts of interest, which is an important part of the investment approval and on-going investment management process.

Actual or potential conflicts may be managed in a number of ways, depending on the circumstances and type of conflicts involved. All ICG personnel are expected to use good judgement in the determination of how best to resolve a potential conflict, including through appropriate escalation to the Compliance department. All new joiners undertake training and assessment on areas relating to conflicts and all personnel receive mandatory annual compliance training, which focuses on identifying and managing areas of conflict. Compliance also undertakes monitoring of the business to help identify potential conflicts. Our objective is to create a culture of awareness and appropriate action in identifying and reconciling any conflicts.

ICG maintains a centralised conflicts register, which consists of each identified conflict across the business, the strategies that are impacted and the actions undertaken to manage or mitigate the conflict.

Potential conflicts broadly fall into four main categories:

- deal by deal conflicts;
- strategy by strategy conflicts;
- conflicts between ICG's own interests and those of a client; and
- conflicts between the interests of ICG personnel and those of ICG or a client.

There are separate Investment Committees for each strategy to assist in the effective management of conflicts of interest. Where a deal by deal or strategy by strategy conflict is identified, conflict mitigation is typically handled as follows:

- conflict issues identified and notified to senior individuals in the relevant team;
- potential conflicts are escalated to the Compliance department and logged in the centralised conflicts register;
- employees who have identified the conflict will be expected to prepare a paper detailing the terms of the conflict and proposals to avoid or manage the conflict;
- the conflict may need to be escalated to the relevant Investment Committee and where Investment Committee members may, themselves, be conflicted they would be recused from the relevant Investment Committee meeting; and
- access to information which is the subject of the conflict will be managed through physical, information and technological barriers, including password protected documentation and ''follow me'' printing procedures.

In addition to the above, members of the Compliance department may act as an intermediary between conflicted teams or individuals and the potential conflict may be disclosed to clients where necessary or appropriate for best practice.

Employee conflicts are managed through our personal account dealing and outside business interests policies. Where employees identify a potential, actual or perceived conflict, they must report it to relevant senior management and the Compliance department as soon as possible.

Where it is determined that a potential conflict of interest cannot be managed by the processes above, then ICG will seek to avoid the conflict in the most appropriate way, which may be by declining to participate in the relevant transaction or including the securities of a particular company on our "Restricted List".

Our conflicts of interest policy is available to our clients upon request.

**Case study: Managing strategy-by-strategy conflict (refinancing existing debt)**

Asset classes: Private Debt and Credit

ICG's Credit team was considering investing in a growing building products company that caters to single family homes. The transaction involved refinancing an existing debt that ICG Private Debt had a position in, and the Credit team was given an opportunity to be involved in the latest deal. Both teams notified Compliance of their involvement in the transaction to avoid any potential conflicts between the funds. Following a review of the facts, Compliance gave approval for ICG's Credit team to proceed with the transaction, as it was a broadly syndicated deal and the conflict was therefore managed.

### Case study: Managing strategy-by-strategy conflict (different entry valuations)

Asset classes: Private Debt and Structured and Private Equity

ICG's Recovery Fund were offered to participate in a second lien add-on in relation to an investment in which the ICG NA Private Debt team had been invested since deal inception and were participating in the follow-on transaction. However, the entry valuation for the equity co-invest opportunity being presented to the Recovery Fund had a different entry point than the original entry point for NA Private Debt, which would have resulted in the Recovery Fund having a higher % debt and lower % equity of its total investment. This was considered internally by the Recovery Fund team and escalated for senior review, it was found there would be an unacceptable misalignment (as there could be an outcome which would be in the best interests of investors in the NA Private Debt Fund but not for those invested in the Recovery Fund). On that basis it was decided that the Recovery Fund would not participate in the transaction. Typically we structure our fund documents to prevent ICG funds from co-investing with other ICG funds on a follow-on investment if such fund has not invested in the original investment, in order to avoid different entry valuations and therefore potential conflicts.

### Case study: Managing potential conflicts between clients

Asset class: Credit

Over the reporting period, certain of our European CLOs and open-ended liquid funds expressed an interest in investing in a primary syndication of loans to be issued by a global pharmaceutical services company. It is not unusual in such primary loan syndications for the overall orders from prospective lenders to exceed the aggregate amount of the loans (this potential conflict also arises in bond issuances which we saw in the previous year). In this particular case, orders from prospective lenders (including our funds) for the new loans were "scaled back" by the mandated lead arrangers syndicating the transaction to match the total amount available. Accordingly, the ICG liquid credit trading team (who are fund agnostic) applied the ICG Group Allocation Policy, which is maintained by the Compliance function and approved by the ICG Risk Committee. The outcome being that ICG Credit scaled back the allocation to ICG funds using a pre-determined mechanic detailed in such policy.

## Grievance procedures

In addition to our formal conflicts of interest policy, ICG has an established grievance mechanism for any employee to express concerns about a potential conflict or any other issue.

All complaints are investigated in accordance with ICG's grievance or complaints procedure and the complainant is informed of the outcome once the investigation is completed.

ICG is committed to promoting a ''speak up'' culture where staff feel they can raise concerns without fear of retaliation and in the knowledge that the matters they report will be taken seriously. Our Speak Up Policy outlines how staff may report a concern through both internal channels (including to a Non-Executive Director) and external routes. All personnel globally have access to a 24/7 anonymous and confidential service to make a report, which is operated by the independent third-party EthicsPoint.

In addition, all external stakeholders can file a complaint by following ICG's Complaints Policy (which is available on our website: ICG Complaints Policy). We support anyone who, in good faith, discloses a failure to meet our high standards of business conduct.

# Purpose and Governance

## Principle 4 – Promoting well-functioning markets

*Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.*

### Corporate Risk Management

**Our approach to risk management**

The Board is accountable for the overall stewardship of the Risk Management Framework (the "**RMF**"), for internal control assurance, and for determining the nature and extent of the risks it is willing to take in achieving ICG's strategic objectives. In so doing the Board sets an appetite for risk within a strong control environment to generate a return for clients and shareholders and protect their interests.

Risk management is embedded across ICG through the RMF, which ensures that current and emerging risks are identified, assessed, monitored, controlled, and appropriately governed, based on a common risk taxonomy and methodology. The RMF is designed to protect the interests of all stakeholders and meet our responsibilities as a UK listed company and parent of a number of regulated entities. The Board reviews the RMF regularly and it forms the basis on which the Board reaches its conclusions on the effectiveness of the Group's system of internal controls.

We operate a risk framework consistent with the principles of the 'three lines of defence' model. This ensures clarity over responsibility for risk management and segregation of duties between those who take on risk and manage risk, those who oversee risk and those who provide assurance.

- The first line of defence is the business functions and their respective line managers, who own and manage risk and controls across the processes they operate.
- The second line of defence is made up of the control and oversight functions, including the Legal, Risk and Compliance teams, who provide assurance that risk management policies and procedures are operating effectively.
- The third line of defence is Internal Audit who provide independent assurance over the design and operation of controls established by the first and second lines to manage risk.

**Assessing risk**

We adopt both a top-down and a bottom-up approach to risk assessment.

- The Risk Committee undertakes a top-down review of the external environment and the strategic planning process to identify the most consequential and significant risks to the Group's businesses. These are referred to as the 'principal risks'.
- The business undertakes a bottom-up review which involves a comprehensive risk assessment process designed to facilitate the identification and assessment of key risks and controls related to each business function's most important objectives and processes. This is primarily achieved through the Risk and Control Self-Assessment process (RCSA) The risk assessment process is supported by the Group's Risk Taxonomy which is a top-down comprehensive set of risk categories designed to encourage those involved in risk identification to consider all types of risks that could affect the Group's strategic objectives.

## Case study: Market-Wide and Systemic Risks

We take our responsibility to identify and navigate material market-wide and systemic risks seriously, as doing so successfully enhances our ability to help preserve investors' capital and, ultimately, enables them to achieve their long-term financial objectives. Recent examples of material market-wide risks which the ICG Group has identified and successfully mitigated are detailed below:

**COVID-19**

Understanding and dynamically managing the impacts of the Covid-19 pandemic has remained a major area of focus for ICG. We responded quickly to the initial challenges faced, putting in place risk mitigation strategies, introducing wellbeing initiatives for our employees, and undertaking enhanced portfolio monitoring of our investments. We remained fully operational throughout the crisis demonstrating remarkable resilience, and technology played a critical role in delivering a positive colleague and client experience.

The insights and lessons learned during the past two years of the pandemic have provided a unique opportunity for ICG to confront a changing industry and to prepare for a longer-term risk outlook. We are examining our risk identification, assessment, and mitigation processes in order to better respond to continuing and new risks and better connect risk management with ICG Group strategy. We are also preparing for the increased focus on operational resilience and ESG issues.

As optimism grows that the pandemic will soon be behind us, a number of macro challenges have also developed that are being closely monitored, including elevated levels of inflation which could have a range of consequences for the Group, both at the portfolio level and also the pace of deployment and fundraising.

**Russia and Ukraine Conflict**

The economic and geopolitical background has been made even more uncertain and challenging with Russia's invasion of Ukraine. At the outset of the conflict, the Group took several immediate actions including promptly and fully implementing the sanctions and other measures imposed, and rigorously tested our operational resilience to confirm that the day-to-day running of our operations would not be affected.

A more detailed risk assessment was performed to assess the Group's risk exposure to the potential impacts of the conflict, and the sanctions imposed on Russia. ICG does not have any material financial or operational exposure at the Group level or within the funds we manage, directly or indirectly, to Russia or the Ukraine, nor do we have any Russian or Ukrainian clients.

### ESG-related risks

We have a responsibility to shareholders, clients, and all stakeholders to assess, report on, manage and mitigate our ESG risks. ICG utilises its RMF to assess ESG-related risks for their proximity and significance to the Group and our funds. ESG-related risks are considered as cross-cutting risk types that manifest through ICG's established principal risks and are integrated into the RMF through existing policies, processes, and controls. We assess materiality from two angles; first at a Group level, and secondly within our fund management activities. Our Responsible Investing approach includes assessment of ESG risks, as part of our pre and post investment processes (see additional detail and relevant case studies at Principles 7 and 9).

**More details on our approach to risk management at a Group level can be found in ICG's Annual Report 2022; and specifically on our approach to climate-related risk in the TCFD disclosures forming part of ICG's Annual Report 2022.**

**Investment Risk Management**

Within our investment activities, risks are overseen by the Investment Committee and investment teams. The investment teams and investment committees therefore look at each investment opportunity within the context of the broader fund to ensure an appropriate level of diversification across for example sector and geography.

The risks that specific investments are exposed to varies by strategy and by fund. A wide-range of market-wide risks as well as company-specific risks are factored into our pre-investment diligence and presented to the investment committee as part of the investment decision. In each instance, we will look to ensure that the investment decisions we make represent an appropriate risk / reward profile for the clients in the fund whose capital we are deploying. Post investment, we continue to monitor how the risk profile of each investment changes and whether we should be taking proactive measures to ensure an appropriate risk / reward profile. In particular, early identification of a potential deterioration in a portfolio company's performance can help us preserve the value of our investment and therefore be more effective stewards of our clients' capital.

# Purpose and Governance

## Principle 5 – Review and assurance

*Signatories review their policies, assure their processes and assess the effectiveness of their activities.*

ICG has implemented various policies to govern its practices and activities firm wide. These policies cover ICG activities relating to business conduct, employees, operations, technology including resilience and cyber security, risk management and compliance.

### Firm-wide policies

Firmwide ICG policies are subject to review and oversight by various key Board Committees, Executive Management, control functions and where required legal counsel (examples include the: Data Breach Policy; Data Protection Policy; Business Continuity Policy; Third Party Security Management Policy; Employee Handbook; and Travel and Expenses Policy). These policies are implemented and enforced by the senior managers in each of the respective areas. These firm wide policies are made available to all ICG employees globally and periodic training is included on certain key topics.

Additionally, the ICG Risk Committee is responsible for oversight of the implementation and adherence to policies related to compliance and risk management including an annual review of updates or changes to these policies (examples include the: Group Compliance Manual; Group Allocation Policy; Group Anti-Bribery and Corruption Policy; Group Financial Crime Policy; Information Walls Policy; Group PA Dealing Policy; and Speak Up Policy).

### Responsible investing and Climate Change policies

ICG has implemented a responsible investment policy which is regularly reviewed and updated. Climate stability is one of ICG's key ESG priorities and ICG recently enhanced the Responsible Investing Policy, further formalising ICG's commitment to foster a more sustainable economy and our focus on the need to address climate change. In addition, as a supplement to responsible investing, ICG's Climate Change Policy contains an exclusion list and, furthermore, requires ICG to consider the implications of climate-related risk and opportunities in investment research, valuation, and decision-making processes. Both these policies are applicable to 100% of the assets under management at ICG and the investment process is governed by the various Investment Committees which ensure these policies are adhered too. The Board has delegated responsibility for the implementation of the Responsible Investing and Climate Change policies to the Executive Directors. As part of the normal course of business, the Board regularly receives updates on how these policies are being implemented.

### Case study: Enhancing our Responsible Investing Policy and ESG integration

All asset classes

In the reporting period, ICG has significantly increased the focus on ESG across the firm as a whole, with the roll out of an enhanced ESG framework which has an increased focus and commitment on climate action, human capital management and diversity and inclusion, achieved with the input and oversight of the Responsible Investing Committee.

Our Responsible Investing Policy, which provides the overarching charter for our approach to responsible investment and covers 100% of ICG's assets under management, has been updated to reflect our enhanced approach. The updates make clear how we take ESG considerations into account in the design and launch of new products, including strengthened focus on addressing current and emerging client needs. We also clarified our approach to transparency and reporting.

Looking ahead, we will focus on improved reporting and accountability to drive performance. We are also implementing a dedicated ESG data management system across the firm to streamline our data collection and reporting and enable targeted engagement with portfolio companies and in launching new funds and strategies.

## Assurance framework

ICG has a number of internal assurance processes that provide regular assurance to management and the Board in relation ICG's governance processes, adherence to policies, management of key risks and related controls. These internal assurance providers include Compliance monitoring, Risk Management reviews and Internal Audit.

ICG has also implemented a Risk and Control Self-Assessment process (RCSA) (also referred to at Principle 4 above). This process coordinated by Group Risk ensures that the firm's most material risks and controls are periodically assessed by management to ensure that these risks are effectively managed. The results of the RCSA process and Compliance monitoring results are shared with the Risk Committee periodically.

As the third line of defence, Internal Audit (IA) is a key provider of assurance to the Audit Committee and the Board in providing an independent view on the effectiveness of ICG's control environment including governance, the investment process and implementation of the firm's policies.

The Board and ICG Executive Management can engage with other external assurance providers to review internal controls and systems. These reviews can be ad hoc or performed annually. An example of this is the annual ICG Report on Internal Controls (ICG Type II ISAE3402 report). The ICG Type II ISAE3402 report is prepared for clients and their respective auditors over the different control frameworks that reflect the specific systems of internal controls established for the relevant strategic asset classes managed by the Group.

ICG performs an annual Fraud Risk assessment on the Group's controls that prevent fraud. This assessment consists of the identification of controls that prevent fraud and a self-assessment on the effectiveness of these controls by the various control owners. This assessment is coordinated by Group Risk and scope of the assessment presented to Executive Management and the Audit Committee.

Executive management and the Board also receive other updates that provide assurance that governance and processes related to stewardship are effective including annual updates from Corporate Technology on how ICG manages its cyber risks and how the operation of a distributed technology model improves the firm's business resilience.

# Investment Approach

## Principle 6 – Client and beneficiary needs

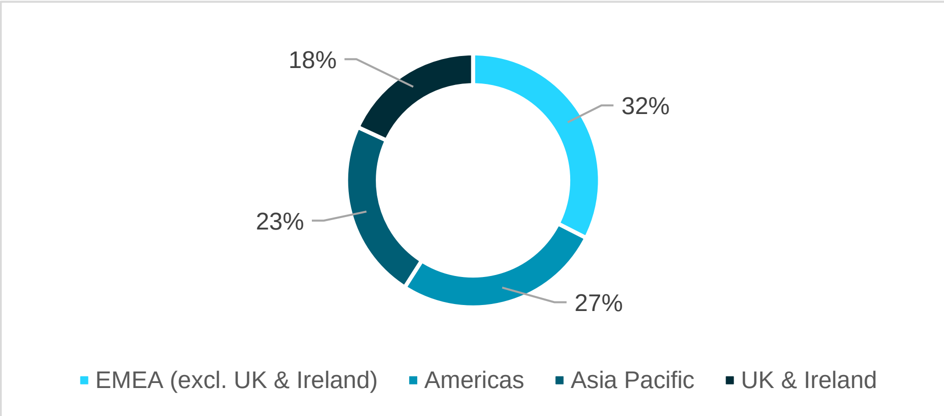
*Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.*

We manage $68.2bn of third-party assets globally on behalf of 621 clients (at 30 June 2022).

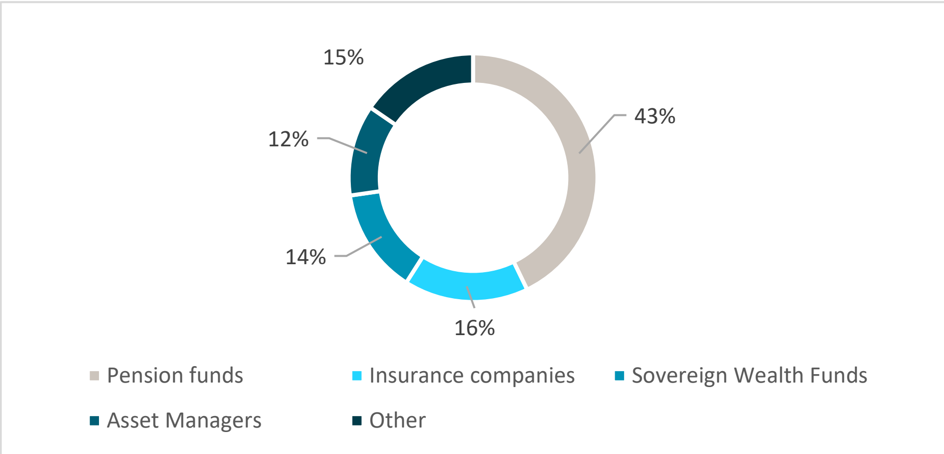
### Our client base[3]

Our clients are all sophisticated investors, mostly institutions who have a range of investments across the alternative asset management space.

#### By geography




#### By investor type




The exact timeframes we consider appropriate for our investment activities and clients vary depending on the strategy, but our funds typically are closed-ended vehicles with contractual lives of approximately 7 – 12 years; approximately 92% of our AUM is structured in this way with an investment period usually of 3 to 5 years. Each fund will contain a number of investments, and within each fund, we typically intend to hold each investment for a

[3] At 30 June 2022

period of up to 7 years. We believe this time horizon enables us to focus on creating long-term value and aligns our clients' interests with those of the portfolio company.

When committing to a fund, our clients undertake detailed due diligence of the fund documentation, investment team, investment committee and the fund's investment remit and track record (if applicable). Clients may also enter into side letters where that client's requirements (whether in relation to investment approach, specific additional reporting or investment appetite) are documented, further detail below. As a result, client expectations and the relationship with ICG are clearly documented and understood at the outset of their commitment to the fund, and these expectations and obligations are considered throughout the life of the fund.

## Communication with our clients

Our in-house Marketing and Client Relations team engages regularly with all clients and potential clients, providing detailed updates on fund performance, new funds and other business developments. We hold annual client investor days and investor conferences which include detailed reviews of our strategies, deal developments, content on the macroeconomic outlook and performance, we also ensure our clients have access to our in-house distribution team as well as senior management and members of our investment teams. We also conduct more regular interactions and ongoing relationship meetings with existing clients and provide regular update reports on the performance of their investments.

The purpose of these meetings is broad, but in general meetings enable us to update clients on the portfolio and provide clients with an opportunity to discuss any concerns that they have so that we may respond appropriately.

ESG reporting is forming an increasingly integral part of our client reporting, including around climate change. Our Responsible Investing Policy, which includes our Climate Policy, is made available to all clients. We communicate to clients on how a number of topics including how ESG is integrated into our investment process, the ESG objectives of individual funds and details of key ESG factors considered.

## Seeking clients' views

As part of our approach to ensuring we understand our clients and prospective clients' evolving priorities, our ongoing dialogue covers, as relevant, matters related to stewardship. In addition, we periodically undertake a comprehensive survey of client views covering all aspects of their relationship with ICG, including our approach to integrating ESG requirements into the investment process and ESG disclosures. During our last survey we undertook, we received feedback that clients would like more information about how we were integrating ESG considerations on their behalf. This feedback was timely as we were already in the process of deploying a standardised approach to ESG reporting across our strategies which we expect to be completed by the end of 2023. We have also made a number of changes to increase the clarity of our reporting around how we integrate ESG considerations into our investment decision-making and how we engage with companies in our portfolios (see case study).

***In a leading investor survey (2022), we received the following feedback:***

- *Similar to investment experience, client servicing scores are all first quartile when compared to competitive benchmarks*
- *Service scores were particularly strong in establishing the credibility of investment capabilities, value obtained from interactions, and the capabilities of the relationship managers*

### Case study: Adapting for Client Needs

**Bespoke Exclusion Lists**

Asset class: Structured and Private Equity

In addition to the ICG Exclusion List (more detail below at Principle 7), an increasing number of our clients have their own norms and approaches to determining excluded investments from their beneficiaries' investments. These exclusions are agreed in discussions prior to the investor committing their capital; if the relevant fund is involved in a transaction which falls within a pre-defined exclusion category, then the investor will not be included in that deal. This control is achieved by a process carried out by the operations team and fund controllers on each investment. This process has been put in place purely to accommodate our clients and to comply with investor requirements and preferences. The number of bespoke and tailored investor requests that we receive and that we at ICG accommodate continues to grow in order to best serve the needs of our clients.

*On a recent major fundraise, 58% of investors had a side letter of some form and c.32% of these included investment exclusions. This is an increase of 23% compared to the number of side letters containing investment restrictions in the fund's previous vintage.*

### Case study: Adapting for Client Needs

**Currency Sleeves**

Asset class: Real Assets, Private Debt and Structured and Private Equity

Not all investors will want to invest in the same currency and we are also mindful of the resource constraints of our clients. At ICG we have adapted our offering on certain funds to include currency sleeves and where most effective we will continue to apply this flexibility to new funds that we launch.

For example, for certain funds where we have implemented this it enables investors to invest in Euros or US dollars rather than just US dollars to better serve the needs of our European clients who can invest in their own currency. ICG's operations teams manage this and organise hedging at the ICG end. The result being a simpler investment process and removing the need for certain clients to arrange hedging internally, which reduces their administrative burden.

# Investment Approach

## Principle 7 – Stewardship, investment and ESG integration

*Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.*

As active stewards of our clients' capital we have an obligation to systematically incorporate a wide range of considerations into our investment decision making and processes, including material ESG factors, recognising that ESG issues can be an important driver of investment value as well as a source of investment risk.

ICG has been a signatory to the UN Principles of Responsible Investing (PRI) since 2013, and an active contributor to a range of collaborative industry initiatives, such as: initiative Climat International (iCI), CDP, Net Zero Asset Managers Initiative, World Resource Institute (WRI), Invest Europe, the British Venture Capital Association (BVCA) and International Limited Partners Association (ILPA).

The day-to-day management of ICG, including oversight of ESG matters, is the responsibility of the Executive Directors. At a Group level, we focus on where we have a material footprint and meaningful impact.

The integration of ESG considerations into our investment activities, as governed by ICG's Responsible Investing Policy, is the responsibility of all ICG investment professionals, guided by the ESG & Sustainability team and the Responsible Investing Committee. The committee currently comprises senior professionals drawn from ICG's investment teams as well as the ESG & Sustainability team. The committee is responsible for, amongst other things:

- Ensuring that ESG considerations are integrated throughout the investment process for each strategy, in accordance with ICG's Responsible Investing Policy and Responsible Investing Framework.
- Ensuring that ICG's investment teams have the required skills and understanding to effectively monitor and engage with company management in our portfolio companies on ESG issues.
- Monitoring the wider landscape of ESG issues to identify new and emerging issues and ensuring action is taken to implement ESG-related legislation, industry initiatives or ICG initiatives.

Our Responsible Investing Policy provides the overarching charter for our approach to responsible investing and covers 100% of ICG's assets under management. Our Responsible Investing approach is an internal point of reference that provides practical guidance for our investment teams. For each investment strategy, we analyse material ESG issues at each stage of the investment process, from screening through due diligence, closing, monitoring and eventual exit.

### Integration of ESG considerations in investment and stewardship activities

Each ICG investment strategy takes into account relevant ESG considerations, depending on the nature of the strategy and the level of influence over, and access to, management. The vast majority of ICG funds in the market that are in scope of SFDR are classified as Article 8 (funds that promote environmental and/or social characteristics) as at 30 September 2022.

**Pre-Investment**

For many of our strategies, the best opportunity to fully understand the ESG implications of an investment and to exert influence are largely at the time of initial investment. We start by considering our Exclusion List, as defined in our Responsible Investing Policy, to ensure that we do not make direct investments in companies that we consider to be incompatible with the corporate values and responsible investment approach of the firm.

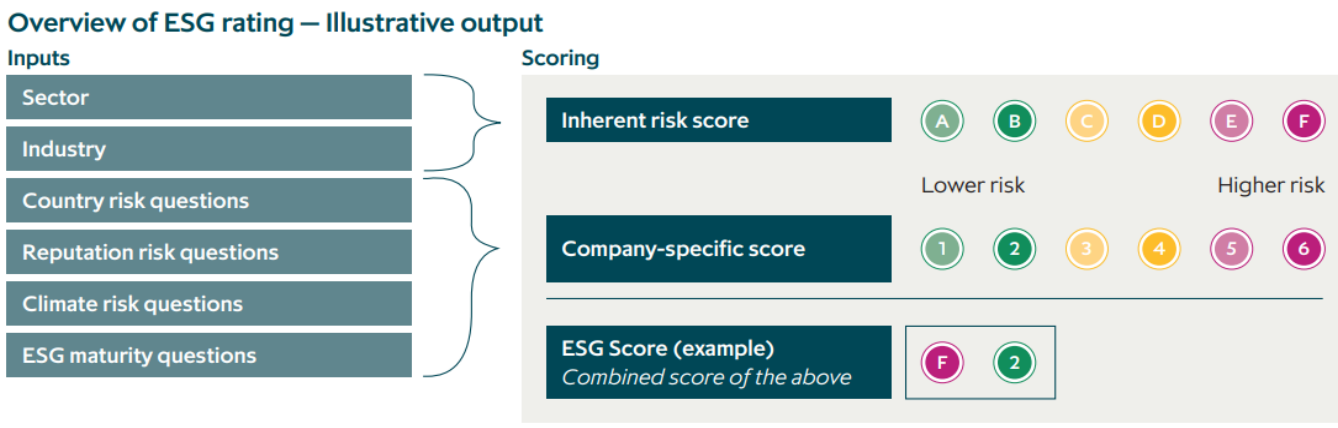
For all potential investments, we identify whether there are any material ESG issues associated with the investment. We use our ESG Screening Checklist, with an incorporated Climate Risk Assessment tool, to guide this process. Please refer to ICG's Climate Change Policy for further details on our approach. The checklist identifies potential ESG risks by industry, sector and geography, including environmental concerns (with specific questions on climate change), social concerns (incorporating community, supply chain, human resources and health and safety-related issues) and corporate governance and ethical concerns. The results of this process are recorded in each investment proposal, so that the Investment Committee can confirm that ESG-related issues have been explicitly assessed and ensure they are considered when making the investment decision.

In situations where ICG has significant influence in the capital structure, external ESG due diligence is typically conducted as standard and the results incorporated in the Investment Committee papers. Where material issues are identified, the Investment Committee may request further action is taken to ensure these issues are properly investigated or require further actions to be taken following an investment.

### Case study: Rolling out an ESG Risk Rating

Asset classes: Private Debt, Credit

In November 2021, we began rolling out a pre-investment ESG rating to relevant ICG strategies, starting with our Credit and Private Debt asset classes. For each investment opportunity we now assess and rate both its inherent sector risk and company specific risks. This is done by utilising the information collated through our existing ESG processes and tools, specifically our ESG Screening Checklist and Climate Risk Assessment, and by incorporating additional questions on the maturity of approach to ESG matters of each company. The internal ESG rating enables us to not only assess ESG related risks for each potential investment but also helps to inform and guide our ESG engagement and reporting to investors.




### Post-Investment

Where ICG has significant influence in the ownership or capital structure of companies, or with the existing private equity sponsor, we engage with management to seek to ensure they deliver high levels of corporate responsibility. Where appropriate we also exercise our influence at the board level of a portfolio company and engage with them on strategy, risk, performance and governance matters.

In strategies where ICG has influence and access to management, we look to maintain strong relationships with management at portfolio companies, and with controlling private equity sponsors, as relevant. These relationships allow us to maintain an ongoing dialogue around the ESG factors impacting the business and allow us to exert influence, wherever possible. For these companies, we circulate our Annual ESG Survey to better understand how they are managing ESG issues. Our Annual ESG Survey includes questions on risk assessment and management, governance, environmental management, climate change, and social performance.

In strategies where ICG is a minority stakeholder or where the nature of the strategy limits our ability to influence management with regards to ESG, we seek to monitor ESG risks and engage with management and other investors insofar as is feasible.

**At exit**

In strategies where ICG has influence and access to management, we typically consider engaging a specialist to conduct sell-side ESG due diligence in preparation for exit, to ensure that we are supporting the company to continue to make progress on ESG and so that the potential buyer has a good understanding of the ESG risks and opportunities.

## How ESG considerations influence our investment decisions

ESG considerations are an integral part of making investment decisions and, as such, there are deals we decline or assets we exclude because they do not meet our robust ESG standards. In the 12 months prior to 30 September 2022, more than 65 investment opportunities were not approved due to ESG concerns, such as reputation risks, climate risk, corporate governance and bribery and corruption concerns.

As part of the annual review of ICG's Responsible Investing Policy the Executive Directors review ICG's Exclusion List.

### Case Study: Investment declined for governance reasons

Asset class: Private Debt

ICG SDP declined to act as lender for a company operating in the distribution for office supplies. The company in question collected empty OEM (original equipment manufacturer) cartridges which were then shipped outside of Europe for refilling and then back into Europe to be sold under the original brand.

Our due diligence identified that no formal agreements with OEMs were in place for this practice and although some OEMs accepted this activity, some significant OEMs were taking legal action. Although the founder who had initiated these practices had decreased their operational activities to eventually cease completely, the senior leadership of the target company were not able to alleviate ICG concerns during the lender education that senior management did not have appropriate oversight of the processes of the business and did not have (or apply in practice) good governance principles, it was also apparent that the new management had significantly less detailed knowledge of the business than the exiting founder.

Concerns regarding the governance of this company resulted in ICG declining to take this transaction forward.

### Case study: Investment declined as incompatible with the ESG objectives of ICG

Asset class: Credit

ICG's Credit Team conducts an in depth ESG screening process for all new credit deals. Part of the screening process includes declining any companies that are on the ICG Exclusion List, which as mentioned above excludes companies that derive a majority of revenue from oil & gas. In compliance with ICG policy we declined to participate in a new term loan financing across all relevant vehicles for a natural gas exploration and production company (actively drilling for natural gas) as it generated more than 50% of its revenue from gas exploration, extraction and/or production.

## Case study: Investment declined following ESG screening and analysis

Asset class: Private Debt

ICG SDP declined to participate in a direct lending transaction due to ESG concerns. The company in question was in the maritime telecommunications sector. At the preliminary stages, the transaction complied with ICG's ESG investment policy. The fishing solutions provided assisted fishing vessels in optimizing their fishing routes supported by FADs (Fishing Aggregation Devices) to locate areas where species congregate. This reduces marine vessel carbon emissions and fuel consumption, and, by improving fishing efficiency, it allows for more affordable products. Electronic and vessel monitoring systems also provided by the company could be used to improve the fishing industry monitoring and regulation and labour law compliance at sea. In addition, the company actively collaborated with NGOs and was involved in several environmental initiatives aimed at maximizing sustainable fishing operations, raising awareness on the relevance of preserving the ocean ecosystem, and assisted regulators with their stock management strategies.

However, given the company's exposure to the fishing industry, highly sensitive from an ESG perspective, ICG undertook a more extensive internal ESG due diligence analysis in addition to the ESG Due Diligence report produced by external consultants. Our ESG due diligence analysis was informed by several experts' calls with former senior members of Ocean Regulatory bodies with internal market research and data gathering.

Our internal ESG analysis confirmed the company's positive ESG contribution but also enabled us to identify significant ESG risks. Fishing activity supported by FADs is controversial as it increases the volume of fish captured, the volume of bycatch and attracts juvenile fish. Drifting FADs and satellite buoys also represent an environmental issue as some are lost in the ocean ending up as plastic waste in the coast or remaining at sea.

This was an active issue which was being strongly debated on both sides (with some experts pushing for the prohibition of FADs and others arguing that if banned the substantial disruption to shipping would jeopardise the survival of some fleets). Without a consensus on the best approach, although we considered the company otherwise a solid investment opportunity and with strong credit, we assessed the identified ESG risks and opportunities and ultimately decided not to pursue this transaction due to ESG concerns.

## Case study: Opportunity declined due to insufficient ESG oversight

Asset class: Structured and Private Equity

ICG PLC is the manager of ICG Enterprise Trust ("**ICGT**"), a listed private equity investor, investing through primary fund commitments, secondary fund commitments and co-investments.

In 2022, ICGT reviewed the opportunity to make a primary fund commitment to an experienced third-party private equity manager. The manager had an excellent investment track record alongside deep expertise in the technology sector. However, our pre-investment diligence uncovered potentially material ESG-related concerns. The manager had previously invested in companies which were accused of facilitating human rights violations and having contracts with governments with human rights abuse concerns. This raised concerns around the manager's oversight and management of these issues.

To address our concerns, we arranged a discussion with the manager's responsible investing committee; we discussed the specific portfolio companies, the manager's actions/responses at the time, and how it has since developed its approach to address such issues going forward. We gained some comfort from the manager's recent recruitment of dedicated ESG resources and increasing internal focus on ESG. However, a number of the ESG initiatives and developments were at a relatively early stage and we remained concerned that there was insufficient oversight of these matters. We decided to decline the investment opportunity.

# Investment Approach

## Principle 8 – Monitoring managers and service providers

*Signatories monitor and hold to account service providers.*

As an active asset manager, typically investing in unlisted assets, the majority of our activities are undertaken in-house. Where we believe efficiencies may be improved, we outsource certain services to experienced market-leading providers for example our third-party administrators, who assist in the onboarding of, and satisfying certain reporting obligations to, our clients. ICG personnel are responsible for the service delivery of such third-party providers and they actively and regularly review the quality of the service provision and escalate any issues to our Head of Operations and IT or our Executive Directors, where applicable. In advance of the appointment of all service providers, thorough due diligence is undertaken.

Service providers are not used to directly support our stewardship or ESG integration specifically, but they are used as a source of data and analytics to inform discussions with companies and supplement the analysis of our teams in relation to investment decision-making. In each case the provider has a clear remit.

ICG does not outsource any of its investment or stewardship responsibilities to service providers.

### Case study: Service providers in the investment process

Asset class: Credit

ICG appoints third party service providers whose analysis informs and enhances our investment process. As subscribers to a third-party legal review provider, ICG Credit have the ability to send legal documents to the provider's team for an in-depth analysis of the latest credit agreements ICG is considering. The direct benefit to ICG is the third party's independent view on deals that we direct them to look at and the access to third party analysis of indentures, credit agreements, and other creditor rights documents which we are entitled to as subscribers of the service.

The third party carries out thorough research identifying potential creditor risks in the documentation which enables the team at ICG to make more informed decisions, in shorter time frames and without over burdening internal resources which is beneficial to ICG and ultimately our clients.

### Case study: ESG Due Diligence advisors

Asset classes: Structured and Private Equity, Real Assets

For investments where we will be exercising significant influence; or have direct access to counterparties, we typically use third party ESG consultants for expert ESG due diligence.

Both our investment and ESG teams work closely with the relevant consultant, discussing due diligence updates regularly. The due diligence provider's final report is thoroughly challenged and reviewed, with the findings reported to the Investment Committee, as relevant, and/or incorporated into post-investment improvement plans of the underlying investee companies or assets.

### Case Study: Feedback on Service Providers

Asset class: Structured and Private Equity

We continue to assess both new and long-term service providers for suitability, which involves internally feeding back between strategies where there is both good and poor performance, and taking action following any feedback from investors. In this reporting year, one of ICG's long-term service providers was involved in advising on a major strategy. However, feedback from investors about their service experience raised a cause for concern, in that the service provider was often inefficient in responding to client queries and proved inflexible in their approach.

This initial feedback was communicated by ICG to the service provider to encourage improvement. When following this feedback there continued to be reports of poor client service, the business made the decision to remove the service provider from ICG engagements working on this strategy (and similar work), having listened to the needs of its investors. To ensure a more seamless transition ICG brought in a service provider on another major strategy which was able to provide in its work product greater consistency and cost efficiency.

# Engagement

## Principle 9 – Engagement

*Signatories engage with issuers to maintain or enhance the value of assets.*

Following investment, material risks and opportunities are monitored and reviewed, as a standard part of the portfolio monitoring process. The extent of influence and access to management are the two key determining factors in how we engage with portfolio companies on material risks and opportunities. Typically, our engagement is either via the Board of a portfolio company or directly with the CEO, CFO or (if appropriate) sustainability leads within companies, or with the private equity sponsor. Investment professionals from ICG drive this engagement and are supported as appropriate by other ICG teams (for example the ESG & Sustainability team when specific ESG expertise is required).

Where ICG has significant influence in the ownership or capital structure of companies, or with the existing private equity sponsor, we engage with management to ensure they deliver high standard of sustainable business practices. Where appropriate we also exercise our influence at the board level of a portfolio company and engage with them on strategy, risk, performance and governance matters. In such situations, we add ESG to the agenda of board meetings.

We seek to maintain strong relationships with management at portfolio companies, and with controlling private equity sponsors, as relevant. These relationships permit us to maintain an ongoing dialogue around the factors impacting the business and allow us to maximise our influence, whether through Board rights, contractual rights or our relationships with other investors in the company.

We may also encourage portfolio companies to set company-specific ESG targets and KPIs which can then be monitored over the life of the investment. Our engagement objectives are dependent on the specific strategy, though typically tend to be on ESG topics of specific materiality and relevance for each investment. In the reporting period we have set and monitored over 450 KPIs with more than 30 portfolio companies across our North America, Europe and Asia Pacific portfolios. Where we have concerns about the management of specific ESG matters, we raise these issues with company management where possible (for example, as part of our regular investment meetings with companies, or as part of board discussions in situations where we have a board or observer seat).

Our relationships permit us to maintain an ongoing dialogue around the ESG factors impacting the business and allow us to exert influence, wherever possible. For these companies, we circulate our Annual ESG Survey, to better understand how they are managing ESG issues. The survey has been enhanced and extended each year since its launch in 2015. In 2022, the survey was completed by 80 portfolio companies and included questions in areas such as ESG governance and accountability, climate change and D&I, among others.

For our sustainably-themed funds or funds with an enhanced ESG framework, we have adopted a more thematic, top-down engagement and monitoring approach. In strategies where ICG is a minority stakeholder or where the nature of the strategy limits our ability to influence management with regards to ESG, we seek to monitor ESG risks and engage with management insofar as is feasible, in line with our governance rights.

We set out below examples of our engagement during the reporting period:

## Case study: Setting science-based emissions reduction targets

Asset classes: Structured and Private Equity, Real Assets

In November 2021, ICG committed to support the goal of net zero emissions in its relevant investments and operations by 2040. This commitment was supported by two ambitious science-based targets (**"SBT''**) approved and validated by the Science Based Target Initiative ("**SBTI**") - a partnership between WWF, CDP and the World Resource Institute. One of these targets was to ensure that 100% of relevant investments[4] have an approved SBT by 2030.

During the reporting period, ICG engaged with and actively supported over 30 relevant investments. The engagement and support focused on establishing carbon footprint baseline, developing carbon reduction plan, and setting science-based emissions reduction target for validation by the SBTI.

In the reporting period, over 75% of engaged companies have established their carbon footprint and over 60% have begun developing near or mid-term carbon reduction plans.

## Achieving higher sustainability standards with the Green Loan Framework

Asset class: Real Assets

An ICG Real Estate (ICGRE) Fund ("**ICGRE**") provided a debt financing commitment to support an office renovation project in London. The borrower had intended to undertake a refurbishment of the property taking it to an improved, but not leading, sustainability standard. To achieve the highest standards would come at a significant additional cost.

ICGRE identified that ICG's bespoke Green Loan Framework ("**GLF**") would enable the borrower to achieve a higher standard of renovation and enhance the value of the asset. The GLF establishes a set of green loan principles that ICG Real Estate utilise to offer green loans to the real estate sector to support environmentally sustainable economic activities for developments, major refurbishments and standing operational investments. The GLF is aligned with best practice and developed in partnership with expert real estate sustainability consultants. It enables ICG to financially incentivise borrowers to improve the sustainability of mid-market commercial real estate.

ICGRE engaged with the borrower and involved ICG's third party environmental consultants on possible financing solutions under the terms of the GLF. During these discussions it became clear that targeting the highest standard of renovation would allow the borrower to qualify for support under this framework. As a result, ICGRE offered to provide incremental finance in support of these enhanced sustainability goals, which allowed the improved project to go ahead.

We were able to use the terms of our financing proposal to drive this improved outcome. Crucially the result of ICGRE's engagement was that the borrower had sufficient financial support to progress a series of enhanced works and sustainability targets, including achieving an EPC rating of A and net zero carbon in operation. The loan was then structured with covenants in place to ensure adherence to those sustainability targets.

[4] Relevant investments include all investments within Structured and Private Equity and Real Assets where ICG has sufficient influence, defined as at least 25% equity ownership and at least one Board seat

**Annual ESG survey**

Asset class: Structured and Private Equity (Europe and Asia Pacific Corporate and Mid-market strategies)

In 2022, 45 portfolio companies in our European and Asia Pacific corporate and Europe Mid-market strategies took part in our annual ESG survey (2021: 36; 2020: 36), with a 100% response rate.

ESG Survey highlights include:

**Governance and Social**
- 100% of portfolio companies have ESG responsibility assigned (2021: 100%; 2020: 87%)
- 80% of portfolio companies have an established whistleblowing procedure (2021: 80%; 2020: n/a)
- 76% of portfolio companies have implemented Diversity & Inclusion policies (2021: 64%; 2020: 8%)

**Climate Change**
- 64% of portfolio companies have assigned Board or management responsibility for climate change (2021: 61%: 2020: 42%)
- 76% of portfolio companies assess their carbon footprint (2021: 61%; 2020: 32%)
- 91% of portfolio companies have taken steps or measures to reduce their carbon footprint (2021: 78%; 2020: n/a)

Asset class: Private Debt

As at 30 September 2022, 35 portfolio companies in our Direct Lending strategy took part in our annual ESG survey (2021: 26; 2020: 18), with a 100% response rate.

ESG Survey highlights include:

**ESG Oversight**
- 74% of portfolio companies have implemented or are in the process of implementing a sustainability policy (2021: 65%; 2020: 44%)
- 52% of portfolio companies have ESG KPIs and targets set or being finalised (2021: 38%; 2020: 33%)

**Diversity, Inclusion & Engagement**
- 65% of portfolio companies are implementing initiatives or targets to improve diversity & inclusion (2021: 50%; 2020: 33%)
- 89% of portfolio companies run regular employee engagement survey (2021: 81%: 2020: 72%)

**Climate Change**
- 43% of portfolio companies have begun assessing exposure to climate risks & opportunities (2021: 35%; 2020: 28%)
- 81% of portfolio companies measure & have initiatives to reduce GHG emissions (2021: 69%; 2020: 39%)

## Case study: Improving engagement

Asset class: Credit

ICG is a significant first lien lender to a US based business services company. The issuer is not required by its credit agreement to hold quarterly lender calls (the standard position for issuers in the US loan market). From our wider industry experience, quarterly calls help lenders gain a greater insight into a company's financial performance and offer an opportunity to ask questions. These calls are also valuable in re-evaluating the company's credit profile on a regular basis. As such, we continued to engage with the CFO of the company with check-in conversations from time to time.

On a call over the summer, and in light of weakening financial performance ahead of a short maturity for the issuer, we suggested the CFO hold an earnings call to educate its lender group on recent performance in order to better prepare the company for a refinancing over the next quarters. The CFO was receptive to this and is also reconsidering their position and whether to formalise the holding of regular quarterly calls.

## Case study: Encouraging better ESG reporting

Asset class: Credit

ICG is a lender to a travel company which operates marine vessels. These vessels create Scope 1 emissions, however detailed emissions data were not previously disclosed by the company. As such, ICG's credit analysts engaged with the company to provide details with respect to their plans to reduce vessel emissions and whether they intended to publish emission data in order for stakeholders to track progress.

Since our engagement, we note that the company has produced its first detailed ESG report, developed in accordance with the Global Reporting Initiative (GRI) standard, including Scope 1 and 2 emissions data and science based targets. The Issuer has also phased in the use of sustainable biofuels and plans to upgrade three vessels to run on battery-hybrid power, with such initiatives expected to cut CO2 emissions by 25% and NOx by up to 80%.

In the longer term, we note the company has confirmed to stakeholders that it is now working towards carbon zero Scope 1 operations by 2040 and zero emissions by 2050. Where there is scope for reporting improvement and development our aim is to consider how we can partner and provide our expertise to develop those procedures and policies.

# Engagement

## Principle 10 – Collaboration

*Signatories, where necessary, participate in collaborative engagement to influence issuers.*

**Collaboration with peers**

ICG recognises that, in pursuing the best interests of our clients, we have a responsibility to collaborate and work closely with our peers and other stakeholder groups, particularly on thematic engagements. We are committed to working with others to promote stewardship within our investment activities as we believe that a collective voice may provide greater leverage and influence.

ICG is an active member of the BVCA and Invest Europe, the UK and EU industry body for the private equity and venture capital industry respectively, and participates in a number of committees and working groups alongside other managers including the regulatory committee and the alternative lending working group. In these forums, we participate in discussion of matters affecting the entire industry and contribute to industry responses to the FCA, HMRC, HMT and other governmental or regulatory bodies in the UK and Europe. ICG also actively contributes to working groups of other industry bodies such as Invest Europe, for example as part of the SFDR working group, is a member of the Alternative Investment Management Association (AIMA), the Alternative Credit Council (ACC) and the Association of the Luxembourg Fund Industry (ALFI).

We are also a member of a number of informal networks and groups with other industry participants to discuss matters of common concern. Subject to confidentiality requirements, we encourage our personnel to discuss in general terms the challenges and opportunities facing them with their peers at other firms, which can improve insight into available options and may lead to collaborative approach with regulators or governments.

We also co-chaired an iCI UK working group that developed carbon footprint guidance for private market investors and their portfolio companies, in collaboration with peers and industry bodies such as WRI, PRI, PCAF, CDP, and IIGCC. The guidance is now available through the UN PRI website.

**Case study: CDP Private Markets pilot**

Asset classes: Private Debt, Credit

In Q4 of 2021, ICG took part in the CDP Private Markets Pilot project, following the development of a private companies' assessment methodology to foster greater transparency and improve access of private market investors to climate risk and GHG emissions data. We invited and encouraged more than 150 private companies in our private debt and credit portfolios to take part in the disclosures. While a limited number of invited companies took part, a much larger proportion communicated their plan to measure and report their carbon footprint to shareholders, lenders and other stakeholders in 2022.

### Case study: BVCA Regulatory Committee

All asset classes

ICG are a member of the board of the British Private Equity and Venture Capital Association (BVCA) regulatory committee. The role of the BVCA regulatory committee is to monitor UK and European regulatory policy developments that may impact the UK private equity and venture capital industry and to advocate regulation which is fit for purpose for the industry. The committee regularly meets with regulators and policy makers. It responds to relevant consultations published by the UK Financial Conduct Authority and publishes updates for members through a technical bulletin. The committee co-hosts an annual conference for members on current topics of interest to the regulated community. The committee is made up of private equity and venture capital firms, as well as advisers to the industry. ICG actively contributes to the work of the committee through the General Counsel of ICG, who is a longstanding a member of the committee.

As a member of this committee ICG has been involved in engaging and collaborating with the FCA on a number of issues such as change of control applications, the FCA Financial Resilience Survey (formerly Covid-19 Impact Survey) and fund regulation. This involvement encourages change and improvement to financial and regulatory structures and a way in which to agree best practice which in turn supports business and clients to invest and grow within a responsible framework.

For example, in July 2022, the BVCA wrote to the FCA to input on the UK funds regime, informed by the BVCA regulatory committee discussions. The BVCA advocated improving operational processes and procedures at the FCA in order to support UK competitiveness. This included quicker response and processing times for a range of standard regulatory processes, such as variation of permission, registering changes to an AIF and change in control of portfolio companies. This also advocated use of a UK standard for professional investor opt-up and a proportionate application of the PRIIPS regime in the UK.

**Collaboration with other investors**

ICG regularly co-invests, generally alongside a small number of other investors. Our ability to collaborate with other investors, and the role we play in such collaboration, varies materially by asset class.

In Structured and Private Equity, we often invest alongside equity investors and management teams themselves. Collaboration is through a variety of contractual and governance means, along with informal communications. This is discussed in more detail at Principle 9.

In our private debt strategies, we may invest alongside other lenders in a small club, where we would work with such other lenders to agree on an optimal debt solution for an issuer. This may lead to the group of lenders as a whole obtaining governance rights or covenant protection which is greater than that which would be available to any individual lender.

In Credit, the most substantive situation in which we engage with other investors is in situations where the portfolio company undergoes a restructuring. In such situations, ICG funds have often formed part of a coordinating or ad hoc committee of lenders, where we have collaborated with such other lenders to reach an agreed position with respect to the best way to restructure an underlying portfolio company's debt. Ultimately, all such actions are designed to increase the influence of our position and ensure a better outcome for clients.

# Engagement

## Principle 11 – Escalation

*Signatories, where necessary, escalate stewardship activities to influence issuers.*

ICG invests predominantly in private companies, so this Principle is not entirely applicable to the nature of our investment strategies as we do not generally interact or have need to influence public issuers. For those companies in which we have greater influence over the capital structure across our Structured and Private Equity strategies, we use our governance rights to share concerns and/or provide strategic guidance. Given then our close involvement where we a majority equity holder we can usually direct management teams to adopt approaches (e.g. on sustainability) without the need for escalation.

Escalation works differently for each of our strategies:

- For Structured and Private Equity, for direct investments, we utilise our governance rights, which typically involve a board seat, to bring matters to the attention of the full board of an investee company. For indirect investments, matters or concerns are raised with the manager, as required; and could be brought up to the Limited Partners Advisory Council of the fund, should we have the right to.

- For Private Debt, we maintain a productive dialogue with management and the sponsor.

- For Credit, we are typically part of a syndicate of lenders, so we utilise the established governance rights and/or rights enshrined in lender agreements to engage and/or seek more detailed information.

- For Real Assets, for direct investments where we are the asset owner we can work with our operating partners and tenants to raise issues, provide guidance and in certain cases directly implement solutions. In our debt investments we are typically the only lender in the structure and seek to engage with our borrowers to share concerns, raise questions or seek additional information.

See Principle 9 for case study examples of how we work with portfolio companies and counterparties as part of our stewardship activities.

### Case study: Raising the importance of climate action

Asset Classes: Structured and Private Equity, Real Assets

As mentioned at Principle 9, ICG has committed to support the goal of net zero emissions in its relevant investments and operations by 2040. This commitment was supported by two science-based targets (**"SBT"**), one of which was to ensure that 100% of relevant investments[5] have an approved SBT by 2030.

Since that commitment (made in November 2021), ICG has escalated the importance and urgency of climate action and engaged with management teams of over 30 investee companies where we have influence over the capital structure to develop specific climate action plans and SBTs.

As a result, over 75% of engaged companies have established their carbon footprint; and more than half are in advance stages of developing a climate action plan and setting mid-term science-based targets. Our engagement has also helped raise awareness of the business resilience benefits of climate action among the Boards and management teams of these companies.

[5] See footnote 4 at Principle 9 (Case study: Setting science-based emissions reduction targets)

# Exercising Rights and Responsibilities

## Principle 12 – Exercising rights and responsibilities

*Signatories actively exercise their rights and responsibilities.*

As an alternative asset manager, ICG holds varying levels of rights and responsibilities across our portfolio, depending on the asset class and investment strategy in question. ICG not only actively negotiates such rights and responsibilities upon entry into an investment, but regularly utilises them to seek to deliver both attractive and sustainable returns to our clients. ICG fully engages with its investments to the extent permissible in light of the relevant strategy and market norms.

Where ICG holds significant interests in, or can exert significant influence over, underlying portfolio companies, which is particularly the case in ICG's Structured and Private Equity asset class, material decisions at such portfolio companies typically require ICG's prior approval whether through board approval or resolution or in a meeting at the shareholder level. ICG will vote on all decisions related to its holdings, whether positively or negatively and, as an active manager, will be highly unlikely to abstain from a decision. Additionally, ICG will typically have directors on the boards of those portfolio companies in which it holds a significant shareholding percentage and will actively engage at every board meeting and outside of such meetings, in line with our rights and responsibilities as an investor.

Where ICG has more limited influence over portfolio companies, for example in our Credit asset class, our focus will be on ensuring we obtain the best commercial deal terms available. This may be, for example, through attending market soundings as an early potential investor, therefore allowing us a greater ability to influence deal terms and legal documentation. We will typically seek to use an external service provider to understand market terms of underlying documentation and will work with bank arrangers to seek amendments to such underlying documentation, for example in relation to restricted payments capacity, debt incurrence capacity, margin ratchets and ticking fees. Throughout the life of an investment, we will actively engage with portfolio companies to the extent permissible in accordance with the relevant legal documentation.

See Principle 9 for case study examples of how we have exercised our rights and responsibilities.

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