Evaluate

For most of our strategies, the best opportunity to fully understand and evaluate the ESG characteristics of a potential investment and to exert influence is at the time of initial investment.

While the subject, methods, and nature of ESG evaluation vary across asset classes and between investments, ICG investment teams use the information, tools and processes available to them and deemed suitable for each investment strategy to evaluate:

Risk

Identify and assess the most material ESG risks pertinent to each investment opportunity, with a view to:

a. avoid investments that are inherently prone to having significant adverse impacts on society and the environment; and/or with significant governance failures/shortcomings; or

b. ensure that, if of acceptable overall risk level, these risks can be feasibly mitigated and/or addressed post investment.

Opportunity

Understand the potential for value creation from material ESG factors, particularly in situations where ICG has sufficient influence.

Alignment

Determine the extent of alignment with sponsors, management teams, third-party managers and/or other investment counterparties, as relevant to each investment, on ESG direction and approach.

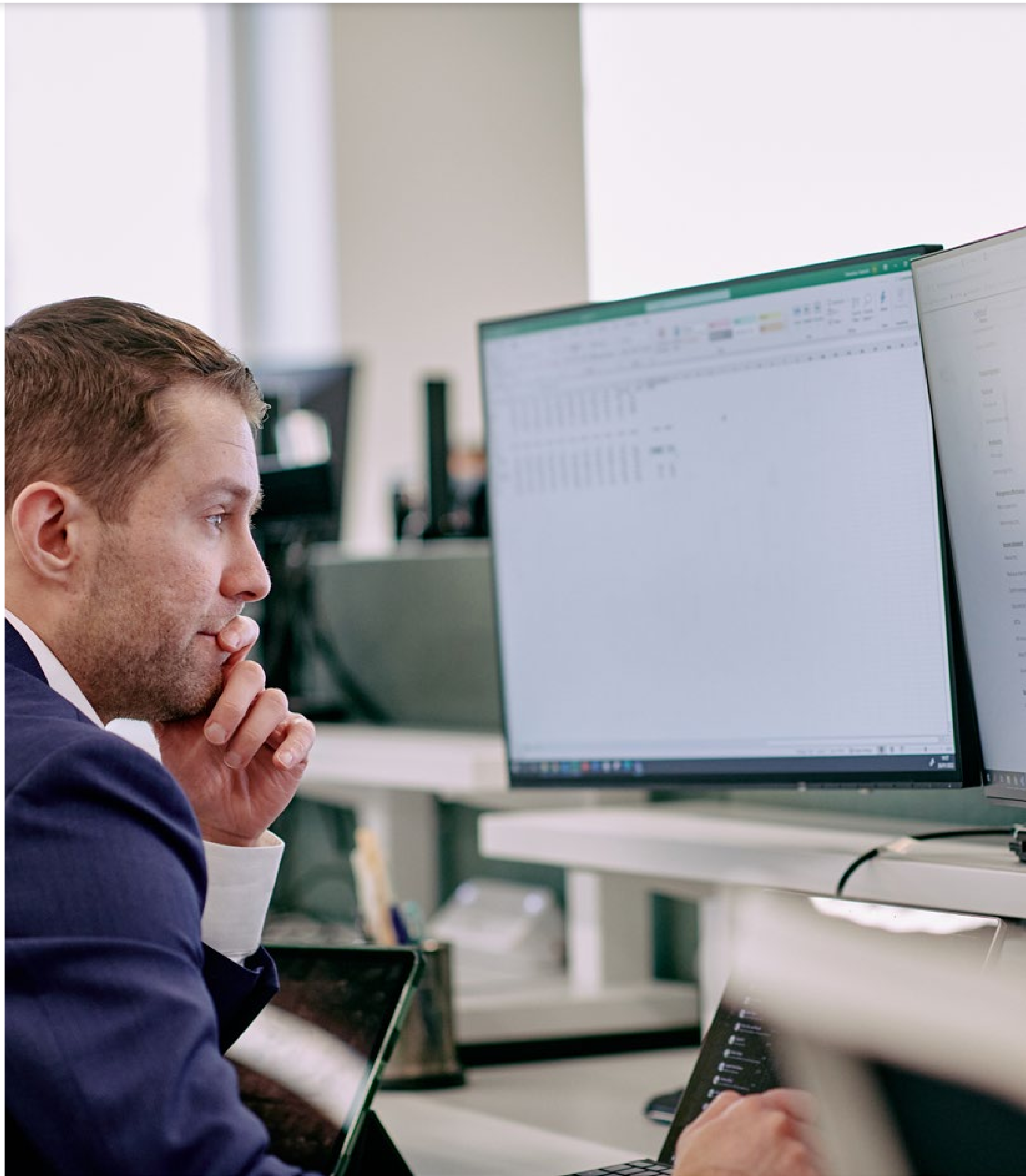
Spotlight: Scenario-based climate risk assessment for corporate deals

Every two years, ICG conducts a formal assessment of exposure to climate-related risks across its portfolios with support from a third-party climate consultancy. We assess the impact of climate-related drivers associated with both changing climatic conditions (physical risks) and the transition to a low carbon economy related to policy, regulatory, market, and technology changes (transition risk).

In Q1 2022, we assessed approximately 900 portfolio companies across our four asset classes covering almost 90% of our AUM as at 31 December 2021, using our proprietary Climate Risk Assessment Tool to identify companies with potentially heightened exposure to climate-related risk. With support from the third-party climate advisors, we then conducted a scenario-based analysis of these investments under the framework provided by the Network for Greening the Financial System.

Following this analysis, we are working with the advisors to enhance our Climate Risk Assessment Tool to incorporate sector-based transition risk scenario analysis. When rolled out in 2023, this improvement will provide investment teams with more nuanced climate risk insights as part of the ESG evaluation process for new deals.

View more
for further details on our latest TCFD disclosures



Evaluate

Over the course of 2022, ICG introduced new ESG tools and resources and enhanced existing ones to better equip investment teams with the capabilities to evaluate investment opportunities.

2022 developments

Across all asset classes

ICG updated its Good Governance Policy in line with the requirements of EU SFDR. This provides more clarity and consistency as well as asset class-specific approaches to assessing the governance practices of relevant counterparties for new deals and during the lifecycle of investments.

Structured and Private Equity

– Introduced an ESG Screening Checklist specifically designed to assist the evaluation of portfolios considered for investment by the ICG LP Secondaries strategy.

– Conducted, as standard, climate risk and maturity assessment, D&I diagnostics, and cyber risk assessment as part of due diligence carried out on new direct corporate investment opportunities, where ICG has sufficient influence.

– Cyber risk assessments formalised as standard part of the due-diligence process for new investment opportunities in our European Corporate and Europe Mid-Market strategies.

Real Assets

– Developed a tailored ESG Screening Checklist for real estate investments to fully capture and assess the nuances and characteristics of this asset class. The checklist includes a dedicated evaluation of location-based physical climate risk and transition climate risk. We will roll out the checklist to be used to evaluate new deals starting in 2023.

Private Debt and Credit

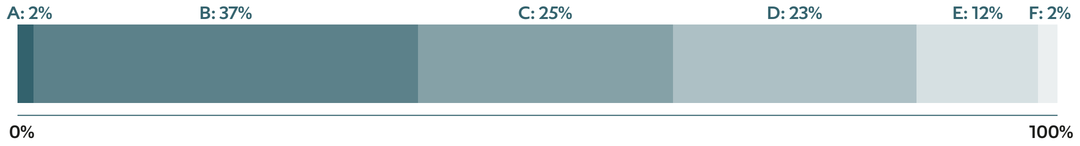
– Rolled out ICG's proprietary ESG risk rating across ICG Private Debt and Credit; to not only evaluate ESG-related risks for each potential investment but also to re-evaluate existing holdings and enable an assessment of complete portfolios as a whole.

– In 2022, our Private Debt and Credit investment teams carried out more than 400 evaluations utilising the enhanced ESG Screening Checklist to produce a two-dimensional ESG risk rating.

ESG risk distribution of the portfolios of select flagship liquid credit funds[1]

Inherent sector ESG risk

The **inherent sector ESG risk** is measured on a 6-grade scale of A (Very Low) to F (Very High); and captures the inherent level of risk exposure associated with the primary sector of operation of the company being evaluated.



Company-specific ESG risk

The company-specific ESG risk is measured on a 6-grade scale of 1 (Very Low) to 6 (Very High); and represents a composite rating based on four risk components, each with a weighting as indicated: A) Risks related to countries of operations (20%); B) Reputational risk (20%); C) Climate risk (20%); and D) level of ESG maturity and transparency (40%).

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 ICG's 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; across key strategies in our Structured and Private Equity, Private Debt, and Credit asset classes.

Next steps:

– Incorporate a climate scenario-based transition risk analysis into the Climate Risk Assessment Tool to support the pre-investment evaluation of corporate deals (see pg. 17).

– Continue to enhance our approach to assessing Good Governance practices with regard to our investments.

– Over time, update existing tools and processes to incorporate an appropriate level of evaluation of emerging ESG themes, such as nature and biodiversity and human rights (see pg. 10).

1. Portfolios consist of 265 unique issuers as at 30 September 2022, across six liquid credit funds managed by ICG. Percentages are calculated based on number of issuers in the respective portfolios, and may not add to 100% due to rounding.