Market environment

Market

Economic growth

Description

- Broadly, the economic outlook became more challenging during the majority of 2022 due to a number of factors including inflation, interest rates, geopolitical tension and public market volatility. According the International Monetary Fund's (IMF) July 2022 report, "*a tentative recovery in 2021 was followed by increasingly gloomy developments in 2022 as risks began to materialize. Global output contracted in the second quarter of 2022, owing to downturns in China and Russia, while US consumer spending undershot expectations.*" In April 2023, they reported that "*On the surface, the global economy appears poised for a gradual recovery…. Below the surface, however, turbulence is building and the situation is quite fragile.*"
- On a global level the IMF expects growth to be 2.8% in 2023 and then rise modestly to 3.0% in 2024, although with considerable variation between geographies.

What this means for ICG

- Our range of investment strategies and ability to invest across the capital structure mean that we are well-positioned to invest throughout economic cycles.
- As part of our due diligence when making investments, our investment professionals model how potential portfolios are likely perform during a range of scenarios including a downturn. As such, as a reduction in global growth is always factored into our investment case.
- From a shareholder perspective, management fees on our closed-end funds are almost always charged either on committed capital or invested capital, so are not impacted by movements in fund valuations. Our balance sheet invests alongside our funds and therefore its performance will be correlated to the performance of the funds.

Read more
Our business model page 4 →
Our management fees page 58 →
The valuation of our balance sheet page 60 →

Inflation

Description

- The spectre of inflation continued during 2022, with US Consumer Price Index growth reaching its highest levels in 40 years. In the US, the consumer price index rose 5.0% in the 12 months to 31 March 2023 (12 months to 31 March 2022: 8.5%); and Euro Area CPI was 6.9% (12 months to 31 March 2022: 7.4%).
- The notable shift in inflation narrative during the year was in the debate around how entrenched higher inflation is likely to be. At the start of 2022, expectations were more anchored in a transitory period of higher inflation. That shifted rapidly towards a concern that higher inflation could last for longer. With many central banks targeting nominal inflation, such concerns led to a rapid shift in interest rate policy.

What this means for ICG

- High inflation could make it harder for clients to achieve a 'real return', potentially making alternatives more attractive and supporting incremental client demand.
- Certain of our investment strategies – such as Infrastructure – are also potentially more attractive in an inflationary environment. Our investment management activities factor inflation risk into investment decisions that we make and how we engage with portfolio companies during our period of ownership.
- At the Group level our largest costs are employee costs, and we continue to ensure we hire selectively and remain competitive as an employer.

Interest rates

Description

- The period of near-zero interest rate policy for over a decade post the Global Financial Crisis came to dramatic end – at least for now – during 2022. In response to increasing concerns about inflation, central banks globally moved swiftly during the second half of 2022 to increase rates, with a rapid series of 75bps rises in the US and other marked increases from central banks globally.
- Raising interest rates against a broader background of a slowing global economy is likely to be a challenging balance act for central banks, with three possible outcomes: a so-called "hard landing", where higher rates trigger a recession; a "soft landing", where central banks hold rates high enough to contain inflation but low enough to keep economic growth positive; and "stagflation", where rates are low enough to prevent a recession but too low to contain inflation– risking a period of low growth, moderate-to-high inflation and interest rates, and a stagnant economy.

What this means for ICG

- The main driver of our profitability and growth is third-party fee income, which is not directly impacted by movements in interest rates.
- Our direct lending strategy, Senior Debt Partners, provides 'floating rate' debt to portfolio companies; in periods of higher interest rates, this strategy is generating higher returns for our clients. From a portfolio company perspective, we take a conservative approach to leverage when investing in equity or debt and we will typically require our portfolio companies to hedge a portion of their interest rate exposure.
- All of the term debt at the ICG plc level is fixed rate.

Read more
Our debt facilities page 217 →

Sources: Bain – 2023 Global Private Equity Report; Preqin – Future of Alternatives 2025

Industry

	Market activity	Fund raising
Description	• 2022 was very much a "year of two halves" in private market activity. The first six months continued at broadly the same pace as the record-breaking 2021, despite increasingly persistent inflation, the invasion of Ukraine and rising broader geopolitical tensions. In June – when the Federal Reserve issued the first in a series of 75bps increases in interest rates – credit became scarcer and more expensive, public market valuations came down materially in several sectors, and transaction velocity in private markets slowed substantially. • Globally the net result was still the second largest year in terms of buyout values historically, but a reduction of 35% compared to 2021 and very much weighted to the first half of the year. • Aggregate transaction value in North America and Europe were each down by ~30% year-on-year, with APAC down 59% due in part to Covid-related restrictions. Buyout transaction count reduced by a more modest 10% compared to FY22 – the mid-market space proving more resilient than the 'mega buyouts' – average deal value globally reduced by 23% from $1,245m to $964m.	• "*The long-term outlook for fund-raising remains exceedingly bullish*" state Bain & Company in their Global Private equity report. Indeed, 2022 saw $1.3tn raised globally – the second-highest total ever. It was 10% down compared to 2021, but 6% higher than the 2017 -2021 average. • Increased macroeconomic uncertainty, lower public valuations, a slowdown in realisations, and the substantial levels of capital committed to private markets in recent years led to more caution from Limited Partners during the year. The picture however was nuanced, with buyouts raising 5% less than their 2017 – 2021 average while infrastructure raised 46% more and direct lending 37% more. • The longer-term drivers for private markets as a whole remain intact. Again according to Bain & Company's 2022 report, "*Private market returns… are outpacing public returns over every time horizon, while alternative funds provide access to the broad global economy and the fullest range of asset classes. These advantages explain why private markets continue to grow relative to the public markets.*"
What this means for ICG	• Lower transaction activity across the market impacted the pace of deployment and realisations in many of our funds during FY23 – although deployment within our direct lending strategy (Senior Debt Partners) benefited due to the scarcity of other forms of debt finance. • While slower deployment over the medium term extends fundraising cycles, lower realisations mean that we earn management fees for longer.	• Our diversity of strategies is a strategic advantage from a fundraising perspective as it allows us to help clients meet their investment objectives across a wide range of funds and across economic cycles. • Our balance sheet also provides support to fundraising, demonstrating clear alignment with clients and enabling us to provide seed capital to new strategies. • In the shorter term, a more challenging fundraising market is likely to benefit incumbent managers with strong brands and track records – a trend from which we expect ICG to benefit. • The longer-term structural tailwinds supporting our AUM growth are expected to remain in place, and we have the platform and expertise to successfully execute on the opportunity.
Read more	Investment activity in FY23 page 56 → Our management fees page 58 →	Our range of strategies page 5 → Fundraising in FY23 page 55 →

Sources: Bain – 2023 Global Private Equity Report; Preqin – Future of Alternatives 2025

ICG is well positioned to benefit from private market trends

Strong track record of investment performance

Read more on page 54 →

Structured and holistic approach to responsible investing

Read more on page 26 →

Multiple strategies to suit clients' investment objectives

Read more on page 5 →

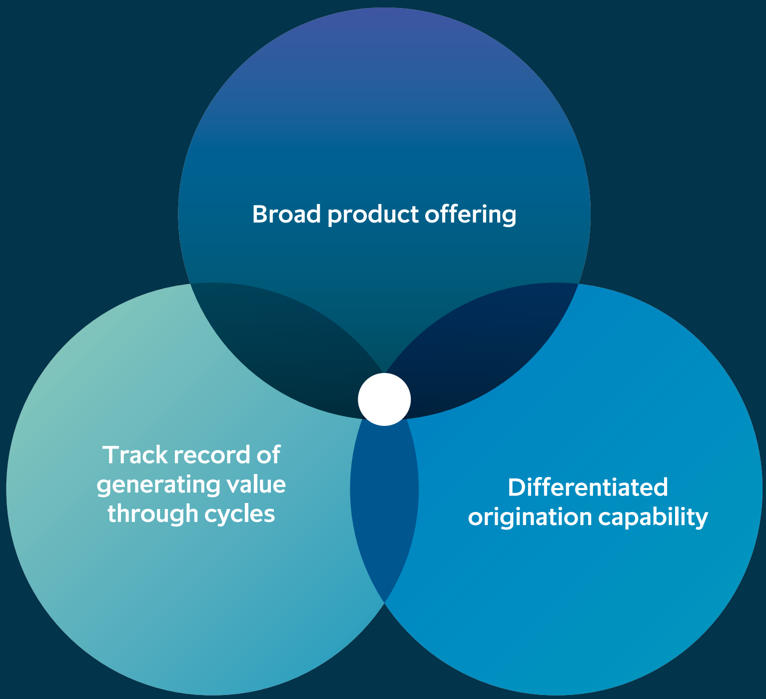
Proven ability to innovate and pioneer new strategies in response to client demand and market opportunity

Read more on page 12 →

Scalable and unified operating platform

Read more on page 4 →

How we are positioned



An exciting future

Successfully fundraising, growing AUM, and increasing profits from our fund management activities underline the powerful economic characteristics that underpin ICG's resilient business model today.

We are well positioned to navigate an exciting future with many opportunities likely to arise as the economic landscape continues to evolve.