ICG Enterprise

With its focus on defensive growth, ICGT's current discount feels unwarranted...

Update
04 June 2020

Summary

The market sell-off has not been kind to the listed private equity (LPE) sector. The share price of ICG Enterprise Trust (ICGT) has fallen more than most, and so we ask: do the fundamentals justify this treatment?

ICGT invests in profitable, cash-generative unquoted companies, primarily in Europe and the US. Increasingly it does so by the team deciding on individual investments themselves (rather than committing to third-party managers). The 'high conviction' portfolio now represents 41% of the total portfolio. Overall the trust retains a bias towards large- and mid-market buyouts, accounting for 88% of the total portfolio.

As we discuss in the **Portfolio section**, the overriding theme for quite some time – which is reflected in the sector exposure – has been for the managers to favour investments which exhibit 'defensive growth'.

At an operational level, we believe that private-equity-backed companies are used to dealing with change, being well set up to evaluate new circumstances and adapt, enabling continued growth. Managers should be able to take a long-term view without the pressure of short-term performance which is found in public markets.

As such, we believe that there are good reasons to think that on a NAV basis over Q1 2020, ICGT may at the very least not perform any worse than the average of the peer group, and possibly better than wider equity indices.

In the **Performance section**, we evaluate the various listed and private-equity comparators available and conclude that ICGT's NAV is likely to see a mark-to-market fall of between 12% and 18% for its 31/03/2020 valuation. This would indicate a discount range of 27% to 32% at the current price.

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Analyst's View

An investment in ICGT provides meaningful diversification benefits over the long run, not least because the underlying investments are so different to those found in listed-equity indices. The dividend represents a 3.3% yield, and being funded from capital means it's not subject to the same short-term headwinds other dividend sources currently face.

Due to defensive biases within the portfolio, we believe it's fair to assume the operational performance of the portfolio will outperform that of those trusts which dominate listed-equity markets. Conversely, the share price has fallen by c. 30% since the start of 2020. As discussed in the **Discount section**, we estimate a potential discount range of between 27% and 32% to the 31/03/2020 valuation (expected to be announced in mid-June).

This represents a very wide discount for what we view as a high-quality trust. More recently, a board member has personally been buying shares, and the trust had previously bought shares back in a highly accretive fashion. This suggests board members are confident about ICGT's future prospects. With cash and borrowing facilities making up 43% of likely commitments, this represents over two years' worth of funding in the absence of any realisations. As discussed in the **Gearing section**, this is broadly in line with peers.

Aside from the valuation opportunity presented by the discount, we believe the portfolio is well positioned to benefit from a resumption of global economic activity. As such, now could be an interesting time to consider the trust.

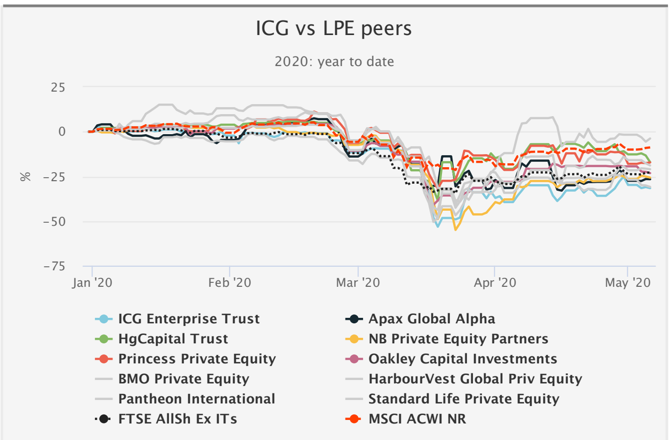
BULL
Strong NAV outperformance of listed-equity markets over the long term, with expectation that NAV outperformance will be maintained in the downturn
Underlying portfolio looks far more defensive and better diversified than the FTSE All-Share
Wide discount in absolute terms

BEAR
Private-equity valuations lag markets, so precise level of discount is hard to determine
Gearing in underlying companies will magnify valuation movements
Sentiment towards risk assets, and in particular LPE, may remain subdued, meaning the discount may not narrow in the short term

Portfolio

The recent market sell-off which started in February 2020 was not kind to the listed private equity (LPE) sector. Share prices for LPE trusts initially fell significantly more than broad equity markets. The sell-off was largely indiscriminate. However, the bounce-back also looks relatively indiscriminate, with some trusts now outperforming equity markets, and others still lagging. The graph below shows the peer group, less trusts which are in wind-up. ICG Enterprise – in our view entirely without reason – lags all of them in share price terms, despite its discount on 1 January being in line with peers' at 13%, relative to a peer-group average of 11.8% (Source: Morningstar).

Fig.1: LPE Share Prices In 2020 Vs Equity Indices



Source: Morningstar

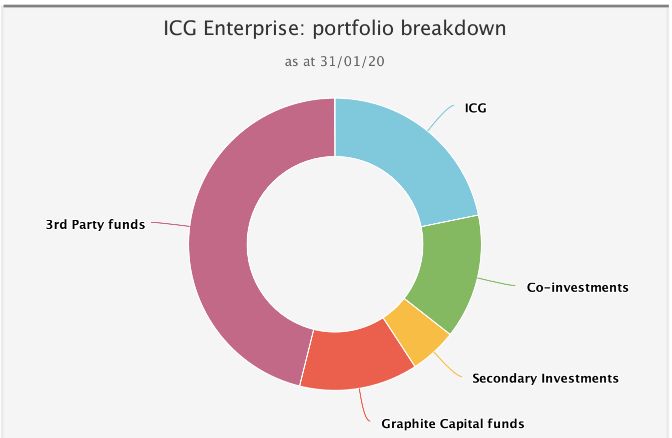
Clearly, with LPE NAVs being updated only periodically (and certainly not daily), there is plenty of uncertainty as to what valuations really are. However, as we illustrate in the **Discount section**, by using various observations and market commentators' assumptions on valuation falls, ICGT's NAV at 31 March might be between 944p and 1013p, giving a discount range (at the closing price of 696p on 27/05/2020) of 26% to 31%. This is wider than peers' and the historical range, and so we ask: do the fundamentals of ICG Enterprise justify this discount in absolute or relative terms?

Peer group

ICGT sits right in the middle of the LPE spectrum when viewed in terms of approach or concentration. On the one hand, the more risky single-manager trusts invest in a handful of companies at any one time. At the other end of the spectrum, there are the globally diversified funds of funds which have many thousands of investments. ICGT occupies the middle ground, as a hybrid direct and fund-of-fund investor with around 300 underlying investments, but where the top 30 investments are a little under half the portfolio value.

The trust invests in profitable, cash-generative unquoted companies, primarily in Europe and the US. Importantly, it increasingly does so by the team deciding on individual investments themselves (rather than committing to third-party managers). This means that what ICGT calls the 'high conviction' portfolio now represents 41% against third-party funds representing 59% (as at 31 January 2020). The high-conviction portfolio has generated a return of 19% p.a. in local currencies over the last five years (to 31/12/2019), which enhanced the strong returns generated from the third-party funds portfolio. This underpins the strategy, and has returned 14% p.a. in local currency terms over the same period. The chart below shows the ICGT portfolio by investment category; the high-conviction portfolio is made up of ICG investments, as well as third-party co-investments and secondary investments. Over time, the manager has stated its ambition to increase the proportion of the investment portfolio in 'high conviction' opportunities to 50–60%. During the last year, it deployed around 39% into high-conviction opportunities: whilst this is clearly below its long-term target, it reflects a highly selective approach.

Fig.2: Investment Category



Source: ICG Enterprise

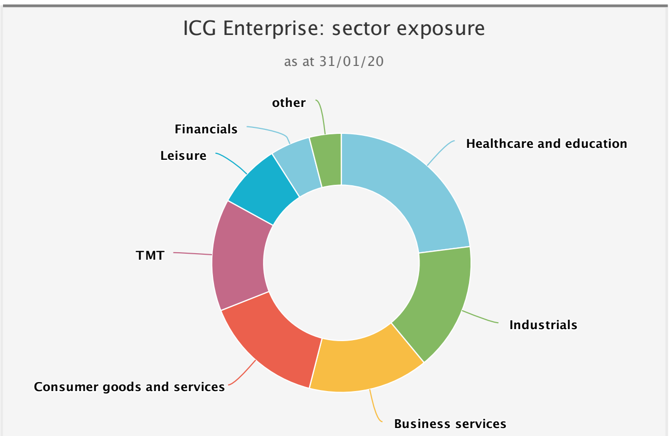
The overall portfolio maintains a bias towards large and mid-market buyouts, accounting for 88% of the total portfolio. Since Intermediate Capital Group became the manager, the team have had a desire to make the portfolio increasingly international. At 31 January 2020, based on the value of underlying investments, 27% of the portfolio was invested in the UK (compared to 45% in 2016), 30% in North America (up from 14% in 2016), 37% in Europe and 6% in developed Asian markets (mainly South Korea and Singapore).

So in terms of portfolio, we have what we would call a Goldilocks-style portfolio which is neither too focussed nor too diversified. Diversification clearly helps to mitigate specific risks (the largest single-company exposure is less than 4% of NAV), suggesting to us that as long as the portfolio as a whole is not significantly worse affected than others, there is no reason why the discount should have widened significantly further than that of the peer group. As we discuss in the **Gearing section**, the trust is not out of line with peers in terms of leverage or exposure. Looking at the specifics of the portfolio, we believe that there are good reasons to think that ICGT will at the very least not perform any worse than the average of the peer group, and likely better than the wider stock market. As a result, the share-price performance year to date looks out of step relative to peers.

Underlying portfolio prospects

For a long while, within the high-conviction portfolio the managers have been picking companies to invest in which exhibit 'defensive growth' – i.e. looking for companies with growth drivers which will still grow in difficult conditions. Alongside this, within the third-party funds they have continued to allocate to more experienced, longer-established private-equity managers who invest in larger, more resilient buyouts. Building a portfolio of companies that should weather economic cycles well has been a specific focus for Intermediate Capital Group as manager for quite some time. This now stands the trust in good stead, given that ICGT as a result has a high exposure to sectors likely to be more resilient to COVID-19 pressures, including healthcare, consumer staples, business services and technology (together accounting for 67% of the portfolio). As we examined in detail in **our previous note**, as a result of the team's selective approach, ICG Enterprise's portfolio is exposed to very different drivers than listed markets. At a higher level too, the FTSE All-Share is significantly more concentrated and has a much higher exposure to energy, financials and mining.

Fig.3: Sector Exposure



Source: ICG

As a result of the defensive biases within the portfolio, we believe it is fair to assume that the operational performance of the portfolio will be different to that of the companies that dominate listed-equity markets. Time will tell in terms of valuations, but we think that overall, the types of businesses and sectors that ICGT is exposed to should mean that at a portfolio level it proves more defensive. Within each sector, the managers believe that companies in the portfolio tend to be amongst the more defensive.

ICGT has provided some examples which we believe illustrate the defensive nature of some of the companies within the portfolio. IRI was one of the largest third-party (i.e. excluding ICG or Graphite Capital) co-investment deals that the team have made to date. ICGT, alongside US manager New Mountain Capital, invested $15m in the company in 2018. New Mountain has owned the company since 2011, and partly realised its investment from its third fund when ICGT was invited to participate alongside a consortium of other investors. IRI is one of two global companies (the other being Nielsen) that provide data and insights to the world's leading consumer-goods companies.

Aside from being a steady and defensive business (it takes decades to build up a database as long and deep as the one IRI owns), the company has also been a beneficiary of increased demand for its products, given the rapidly changing patterns of consumer behaviour in the global lockdowns. The data that IRI provides is mission-critical to properly understand the company's markets, supply chains and pricing. The company has an experienced management team and a committed private-equity manager behind it, meaning that the ICGT team are very positive about its prospects – especially in the current environment. ICGT's investment in IRI represents 1.4% of the portfolio, and was the sixteenth-largest holding as at 31/01/2020.

Another investment, this time representing 1.6% of the portfolio (and ICGT's thirteenth-largest investment as at 31/01/2020) is Froneri, the ice-cream manufacturer. It is the second-largest ice-cream maker in Europe, and the third largest globally. PAI Partners has owned the company since 2013. ICGT's original investment in the company was through a PAI fund, as well as a co-investment made at that time. The fund was reaching the end of its investment period, and so in 2019 investors were offered the chance to realise their (excellent) gains, and/or re-invest. ICGT chose to re-invest the majority of its investment to continue what it believes will be Froneri's strong growth trajectory.

Ice cream is traditionally seen as a defensive consumer good. PAI has a strong track record of investing in food businesses, and has backed Froneri as a consolidator of a relatively fragmented industry. PAI has also completed JVs with Nestlé: first in Europe, and more latterly in the US. This has led to a transformation in the business in terms of growth in profitability. Of course, the global lockdowns have affected some areas of PAI's market such as cinemas, but we understand that PAI also has significant exposure to supermarkets (which have recently experienced significantly higher footfall). The PAI team are highly experienced and clearly see a great future for the company, having decided to retain ownership.

Specifics aside, we believe that (when compared to companies of a similar scale in the listed market) private-equity-backed companies are in a better position to deal with the COVID-19 crisis. In many cases, aside from having a high-quality and heavily incentivised management team on the ground, these companies' management teams have significant 'back-up' to lean on from the expertise within the private-equity manager. In most cases, both of these sets of management are very used to having to deal with change, and are well set up to evaluate new circumstances and adapt so that businesses can continue to grow. The long-term nature of private-equity funds means that they should not be afraid to take hard short-term decisions if it is in the long-term interests of a business. Lessons that many private-equity managers learnt in the previous crisis may be applied now: for example, taking action early to manage liquidity pressures and implement necessary operational changes. In many cases, financing structures are now more balanced in favour of equity owners than they had been in the past, with fewer covenants now than in the Global Financial Crisis (GFC), and lower borrowing costs.

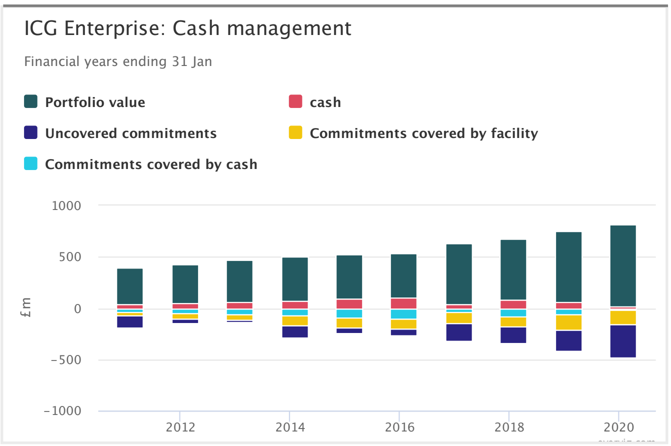
Taking this information together, it is clear that an investment in ICGT provides significant diversification benefits because the underlying portfolio companies are fundamentally very different to those in public markets. As we believe we have shown, companies in ICGT's portfolio are exposed to very different markets and growth drivers, but perhaps more importantly, they could be better placed to deal with the downturn. This is because of their operational initiatives, but also because of the financing structures that they have in place. As such, we believe that once the dust has settled, there are good reasons to think that the portfolio will resume its outperformance of listed-equity markets.

Gearing

The illiquid nature of ICGT's private-equity investments means that management of cash and commitments is a key part of the board and management's role. Over recent months, this an area which has been under increased scrutiny, given the extra risks that gearing can impart on LPE trusts. Gearing can be viewed in two ways: financial gearing, and commitment cover. Given the uncertainties around when investments and realisations will be made, the two must be managed together. The aim of the manager is to ensure that the trust in question retains enough cash to invest, but without overextending itself if market conditions deteriorate. It is a delicate balancing act, but it is worth noting that historically ICGT has been managed on a conservative basis, and that during the GFC it avoided any form of dilutive rights issues due to the careful management of the balance sheet.

As the graph below shows, the company has historically had a net cash position. A significant benefit to ICGT of being a part of Intermediate Capital Group plc has been access to deal flow. The graph below also shows that ICGT has become more fully invested since this move three years ago. Cash at the end of January stood at 1.8% of NAV. However, subsequent to the year end, the trust had drawn down £40m of its credit facility, taking total gross cash balances to £56m (as at 23/04/2020). This is a prudent measure by the managers, which ensures that in the absence of any realisations, ICGT will be able to support existing investments or participate opportunistically in making new investments.

Fig.4: Cash Management



Source: ICG Enterprise

It is worth noting that the managers do not intend to use the credit facility for structural gearing but instead as an insurance policy for overcommitments. The board and manager have stated that, over the medium term, the intention is to be fully invested but ungeared (other than for short-term working-capital purposes). During the last financial year, ICGT increased its credit facility to €176m (£151m). Assuming the credit facility is fully utilised, this would enable ICGT to introduce gearing of up to 20% at the current NAV.

Commitments currently stand at £459m, of which we understand £82m is to funds which are outside of their investment period, meaning an effective commitment of £377m. This means that cash and borrowing facilities make up 43% of likely commitments, and given this is likely to be drawn over four to five years, this represents over two years' worth of funding in the absence of any realisations from the portfolio should the economic downturn become prolonged. This translates into an adjusted commitment-cover ratio of 0.43x, which is broadly in line with the average for the trust's other fund-of-fund peers (excluding those in wind-up), with an average commitment cover of 0.5x (according to data from JPMorgan Cazenove).

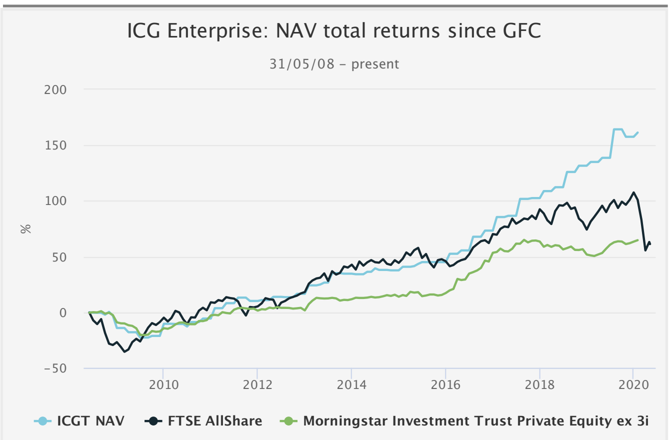
Returns

Investing in listed private-equity investment trusts has proven to be an excellent way to outperform public equity markets. As the managers stated at the time of ICGT's final results, which were announced recently, the year to 31/01/2020 represented the eleventh consecutive year of double-digit portfolio growth. Foreign-exchange movements and cash drag have meant that this may not have translated into double-digit NAV growth every year, but it illustrates the strong underlying growth that ICGT can deliver.

On an NAV basis, the trust has delivered a total return over the past decade (to 31/01/2020) of 191% relative to the FTSE All-Share return of 111%, representing significant outperformance of the UK's listed-equity market. It is worth noting that these returns (and all performance statistics in this report) have been achieved net of all management fees and other **charges**.

Perhaps of more immediate concern (and likely the reason discounts across the LPE sector have widened dramatically) are the likely valuation changes that we will see as a result of the recent equity-market fall and economic slowdown. ICGT has performed strongly on the way up, but how will NAVs react over the coming months? The NAV response to the Global Financial Crisis (GFC) of 2008 is perhaps illustrative, and can be seen in the graph below. As we illustrate, taking performance from the peak of equity markets in May 2008, ICGT and listed private-equity trusts (or at least those that still survive) have reported lower NAVs. However, these were on a significant lag, and less than those of equity markets. It is clear that the full impact on NAVs will not be known for a while. We understand that the next NAV (incorporating any changes made by managers to 31 March) will be announced in mid-June. That NAVs will be revalued lower is a certainty. The question is, by how much?

Fig.5: Nav Returns Since 2008 Global Financial Crisis

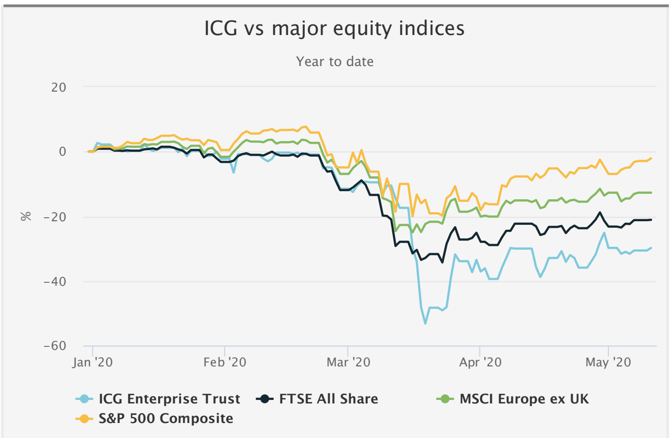


Source: Morningstar

Given the fact that most private-equity-backed companies and funds are only revalued quarterly, the share-price falls experienced in February and March are based on an expectation – rather than the reality – of NAV declines. The 'discounts' are illusory, and the reality of the discount of today's share prices is likely only to be found out at a later point in time. Uncertainty on this point provides part of the explanation for why discounts have blown out for LPE trusts across the board.

As we discuss in the **Discount section**, ICGT's discount to the last published NAV moved from an average of 12.5% in January 2020 to the current level of 40%. A range of sources seem to imply that the likely falls will be less dramatic than those experienced by equity indices. At 31 March, UK equity markets had fallen by 34%, underperforming European markets (those of the MSCI Europe ex UK Index, which had fallen by 17.3% in sterling terms); in comparison, the S&P 500 had fallen by 14.1% in sterling terms. Using ICGT's exposure to these three geographies, a comparable equity-market move would be in the order of 21%. As we discuss in the **Portfolio section**, we believe that ICGT's portfolio is likely to prove more defensive operationally because of the underlying businesses and the abilities of their managements to react to change, but also because the portfolio is less exposed to some of those sectors most badly affected by the global lockdowns. As such, a 20% fall might be considered a worst-case scenario.

Fig.6: Share Price Vs Major Equity Markets



Source: Morningstar

Other commentators and private-equity funds have reported estimates or actual valuation changes which might also serve as a reference point. Schroder Adveq, the private-market investment arm of Schroders, published **an interesting article** which draws together its team's thoughts on the implications of the current crisis for private equity. In summary, they expect valuations by sector to vary significantly, and that the full impact will only become visible in the Q1 and Q2 2020 valuations (typically published at the end of May and end of August, respectively). They expect an element of smoothing, but also expect the largest PE deals to be valued downwards more aggressively thanks to the higher leverage and the emphasis on near-term earnings for valuations. In contrast, they believe that early-stage and venture investments will be marked down by less.

JPMorgan Cazenove has taken a more quantitative approach, comparing geographical and sectoral equity-index movements, and applying them to LPE-trust exposures to arrive at a comparable valuation decline for each trust's portfolio. JPMorgan Cazenove then takes into account any gearing and expected defensiveness of each portfolio (beta), to arrive at a range of NAV valuation movements across the sector of between -6.6% and -15.6% (excepting the outliers of Electra and JZ Capital). According to its estimates, JPMorgan Cazenove forecasts ICGT's NAV will be down 13.1% as at 31/03/2020.

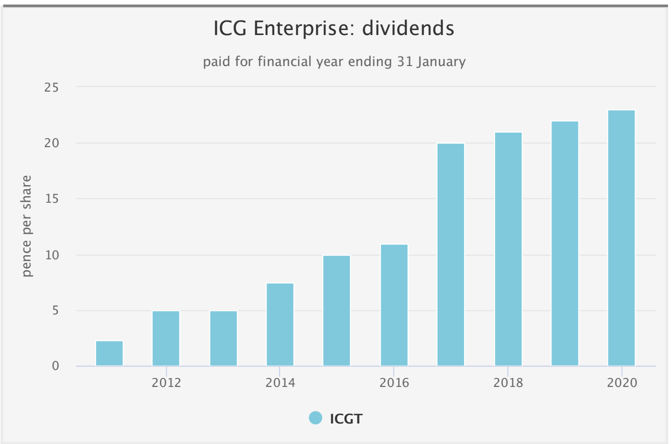
Other 'private equity' comparators that have reported include KKR, the listed US private-equity house. It reported that for Q1 2020, PE portfolios as a whole were marked down by 12%. By comparison, Apollo Global marked its private-equity portfolios down by 21.6% over Q1; according to the company, this was driven by "markdowns across public and private portfolio company holdings, including some impact from our energy holdings".

In our view, these various comparators show that whilst the outcome is far from certain, ICGT's NAV is likely to fall within a range of between 12% and 18%. Given the share price has fallen by c. 30% over the same period, this represents a significant widening of the discount. Aside from the valuation opportunity which we discuss in the **Discount section**, we believe the portfolio is operationally well positioned on a relative basis (compared to listed-equity indices) to benefit from a resumption of global economic activity, as discussed in the **Portfolio section**.

Dividend

As the graph below shows, the past three financial years have seen a significant increase in dividends being paid by ICGT, and it also shows that the trust has moved to paying a quarterly dividend. The board has made an explicit target to pay a minimum dividend of 20p per share per annum, as well as growing it progressively, as has previously been the case: for example, last year's dividend represented a 4.5% increase over the previous year's. The current dividend of 23p per share represents a 3.3% yield on the current share price. At a time where dividend sustainability everywhere is being questioned, we note the board's recent statement in the annual results, where it recognises "the importance of a reliable source of income for our shareholders". The dividend is funded from capital and is therefore not subject to the same short-term headwinds that other dividend sources currently face.

Fig.6: Dividend History



Source: ICG Enterprise

Management

The team behind ICGT have expanded since the move to Intermediate Capital Group around four years ago. Oliver Gardey is lead manager, who joined in autumn 2019. Oliver has over 25 years' experience in the private-equity industry. For the past decade, he has been a partner at Pomona Capital, where he was a member of the global investment committee. He was previously a partner at both Adams Street and Rothschild/Five Arrows Capital.

Oliver is supported by ICG's team of five investment professionals, including Colm Walsh, who is a member of the investment committee (IC), having been part of the team for ten years (and who has 15 years in total of PE experience); and Fiona Bell, who has been part of the team for 11 years (with 13 years' experience in private equity). The IC also contains Emma Osborne (the previous lead manager), Benoît Durteste (CEO and CIO of Intermediate Capital Group plc) and Andrew Hawkins (the head of Intermediate Capital Group's private-equity solutions division, which includes ICGT, and also the lead manager of its strategic equity strategy). The investment team at ICGT maintain an insight into Intermediate Capital Group's significant deal flow of potential fund investments, as well as secondary and co-investment opportunities. This is one of the significant benefits that ICGT offers as to why it moved to Intermediate Capital Group.

The board

Until the AGM in June 2020, the board will continue to be chaired by Jeremy Tigue, who was the long-term manager of Foreign and Colonial Investment Trust from 1997 to 2014. He will be retiring at the AGM, and will be replaced by Jane Tufnell, who co-founded Ruffer in 1994.

Other members of the board are: Sandra Pajarola, who was previously the head of PE fund investments at Partners Group; Lucinda Riches, the former head of equity-capital markets at UBS; and Alastair Bruce, former managing partner of Pantheon Ventures. They have recently been joined by Gerhard Fusenig, who brings a wealth of financial services experience, having held a number of senior management positions with both Credit Suisse and UBS.

Discount

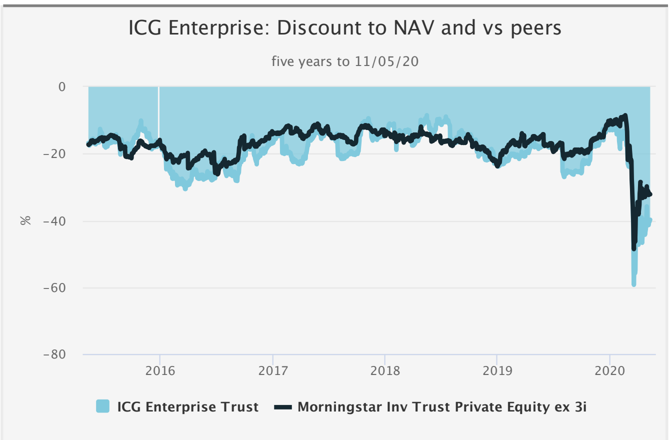
As we highlight in the **Performance section**, ICGT has produced strong NAV returns over both the long and short term. As the graph below shows, this resulted in the discount narrowing over time and reaching a narrow point of 8.5% in mid-2018. The market panic in Q4 2018 saw it widen, but it once again appeared to narrow back in over the second half of 2019.

LPE discounts have widened dramatically over 2020. As we note in the **Performance section**, given the fact that most private-equity-backed companies and funds are only revalued quarterly, the share-price falls experienced in February and March are based on an expectation – rather than the reality – of NAV declines. The 'discounts' are illusory, and the reality of the discount of today's share prices is likely only to be found out at a later point in time. Uncertainty on this point provides part of the explanation for why discounts have blown out for LPE trusts across the board.

That said, ICGT's 'discount' (to the last published NAV) has widened materially from an average of 12.5% in January 2020 to the current level of 40%. A range of sources seem to imply that the likely falls in NAV will be less dramatic than those experienced by equity indices. At 31 March, UK equity markets had fallen by 34%, underperforming European markets (those of the MSCI Europe ex UK Index, which had fallen by 17.3% in sterling terms); in comparison, the S&P 500 had fallen by 14.1% in sterling terms. Using ICGT's exposure to these three geographies, a comparable equity market move would be in the order of 21%. As we discuss in the **Portfolio section**, we believe that ICGT's portfolio is likely to prove more defensive operationally because of the underlying businesses and their managements, but also because the portfolio is less exposed to some of those sectors most badly affected by the global lockdowns. As such, a 20% fall might be considered a worst-case scenario.

In our view, various comparators that we review in the **Portfolio section** suggest that, although the outcome is far from certain, ICGT's NAV is likely to show a fall of between 12% and 18%. Given the share price has fallen by c. 30%, this represents a significant widening of the discount. If the above falls were to occur, this would mean ICGT trading on a discount of between 26% and 31% (as at 26/05/2020). Currently, this represents a very wide discount relative to that of peers for what we view as a high-quality trust. The board has been buying shares back – most recently on 27 March 2020 at 650p, and since then one of the directors has also personally been buying shares. At this level buybacks are highly accretive, but this also suggests the board is confident about the trust's future prospects.

Fig.7: Discount History



Source: Morningstar, Kepler Partners

Charges

When the trust transferred to Intermediate Capital Group (ICG) from Graphite Capital in February 2016, the board took the opportunity to negotiate the management fees payable to ICG from 1.5% down to 1.4% of portfolio value and 0.5% of uncalled commitments. ICGT charges this fee only on qualifying assets, these being investments outside the funds managed by Graphite and ICG directly. This means an effective management fee of c.1.2% of net assets of the trust, which we see as being reasonable, considering the highly active investment strategy.

In addition, the managers are entitled to participate in an incentive scheme, which requires a co-investment of 0.5% of investments made; they then receive 10% of any returns after an 8% hurdle, again excluding ICG and Graphite funds (which make up 34.9% of the portfolio as at 31 January 2020). Unlike typical LTIP schemes which are prevalent in the listed market, this co-investment scheme requires that the team invest their post-tax earnings in each deal and creates long-term alignment of interests with shareholders by ensuring the managers invest in every underlying investment alongside ICGT (excluding post-2016 ICG and Graphite funds). We understand that this incentive has accounted for <7% of the total portfolio gains over the last ten years.

The KID RIY cost is 6.08%, which clearly reflects performance fees – on both the underlying funds as well as at the trust level – on what has been a strong performance net of all underlying fees and incentives. Whilst high, it reflects active management in a difficult-to-access asset class. We also note that calculation methodologies across trusts in the same sector vary significantly, with not all investment trusts disclosing their full cost breakdown in the same way.

ESG

Private-equity firms have an important part to play in being responsible investors. In some ways, private-equity managers have a stronger position than listed-company investors, given the control that they have over strategy and other matters. At the same time, private-equity managers (and the managements of the companies they back) are heavily incentivised through financial performance, which could at times create a potential conflict.

We understand that responsible investing remains a key focus for ICG's investment team, who work closely with ICG's ESG team to ensure that the investment programme is compatible with the wider business's ESG framework. ICGT's board has stated that it believes that the long-term success of the trust requires the effective management of both financial and non-financial measures, and fully endorses the increasing emphasis on responsible investment. It believes that companies that are successful in managing ESG risks, while embracing opportunities, will outperform over the long term.

ICG as a business has been a signatory to the UN's Principles for Responsible Investment (PRI) since 2013, and we understand that almost all of the underlying managers through which ICGT accesses its investments are either signatories to PRI or have an ESG-policy framework. The team claim to engage actively with managers on ESG, although we believe that some reporting on these engagements (as well as reporting on progress made) would provide good colour for those who require more transparency on ESG. As such, it is clear that ESG is an important consideration for ICGT, but it may not meet the requirements for 'pure' ESG investors.

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