



# ILIM\* 2023 Stewardship and Responsible Investment Report

Helping people build  
better futures

# Foreword



**Patrick Burke**  
Chief Executive Officer

## ILIM 2023 Stewardship and Responsible Investment Report – Foreword by Patrick Burke, Managing Director and Anthony MacGuinness, Chief Investment Officer, Irish Life Investment Managers.

Welcome to the abridged version of ILIM's 2023 Stewardship and Responsible Investment report. In this report we highlight how sustainability and stewardship, integrated into our investment processes, are essential parts of our customer-focused philosophy. The full report is available [here](#).

At ILIM, our purpose is to manage the assets entrusted to us by our clients responsibly, with the objective of delivering long-term sustainable returns in line with their investment objectives.

Responsible investing means a number of things to ILIM, from being a good steward of our clients' assets to integrating more robust decision-making within the portfolios we manage for our clients. This is an important part of our investment process and something we have embedded in our culture throughout the firm.

Our long-term and risk aware investment approach incorporates financially material environmental, social and corporate governance (ESG) factors that enhance our overall investment framework. We also actively engage with our clients' investments where appropriate, focusing on four key stewardship priority themes: Climate Change, Natural Capital, Human Rights and Corporate Governance. We believe that appropriate engagement with companies and issuers in these areas can better inform how capital is allocated and improve risk management of sustainability issues across our clients' portfolios.

Over the course of 2023, ILIM led on engagements with companies on the topics of climate, water, and forests on behalf of the CDP investor signatories, joined Nature Action 100 and engaged with the government of Brazil as part of the Investor Policy Dialogue on Deforestation (IPDD) while directly engaging with 144 companies on our priority themes.

Additionally, ILIM acted as a founding investor of the 30% Club Ireland Investor Group and voted on over 55,000 meetings.

We acknowledged the increasing importance of stewardship to our partners and clients by strengthening our efforts and adding further resources to this area. As well as increasing the number of members of our responsible investment team, we created three new senior roles – Chief Sustainability Officer, Head of Stewardship and Head of Sustainable Integration and Solutions.

Reflecting our clients' demand for sustainability-related solutions, we reached the milestone of having 50% of our assets managed for third parties in funds that promote environmental or social characteristics. We continued to develop and deliver innovative investment solutions that meet our clients' needs, launching a Global Thematic Fund with a focus on Environmental Solutions and a High Yield Bond Fund that utilises our ILIM proprietary ESG integration methodology.

By submitting the full version of this report to the UK Financial Reporting Council (FRC) we highlight how ILIM's approaches to stewardship and responsible investing aligns to our purpose, seeking to fulfil our clients' objectives and delivering long-term sustainable outcomes within their portfolios. We want to thank all our colleagues for their contributions to this report and continued efforts to deliver on this purpose for our clients and wider stakeholders.

**Patrick Burke,**  
Managing Director

**Anthony MacGuinness,**  
Chief Investment Officer





## Sustainable investing

ILIM incorporates ESG factors into its investment management processes where it has discretion to do so under its clients’ mandates.

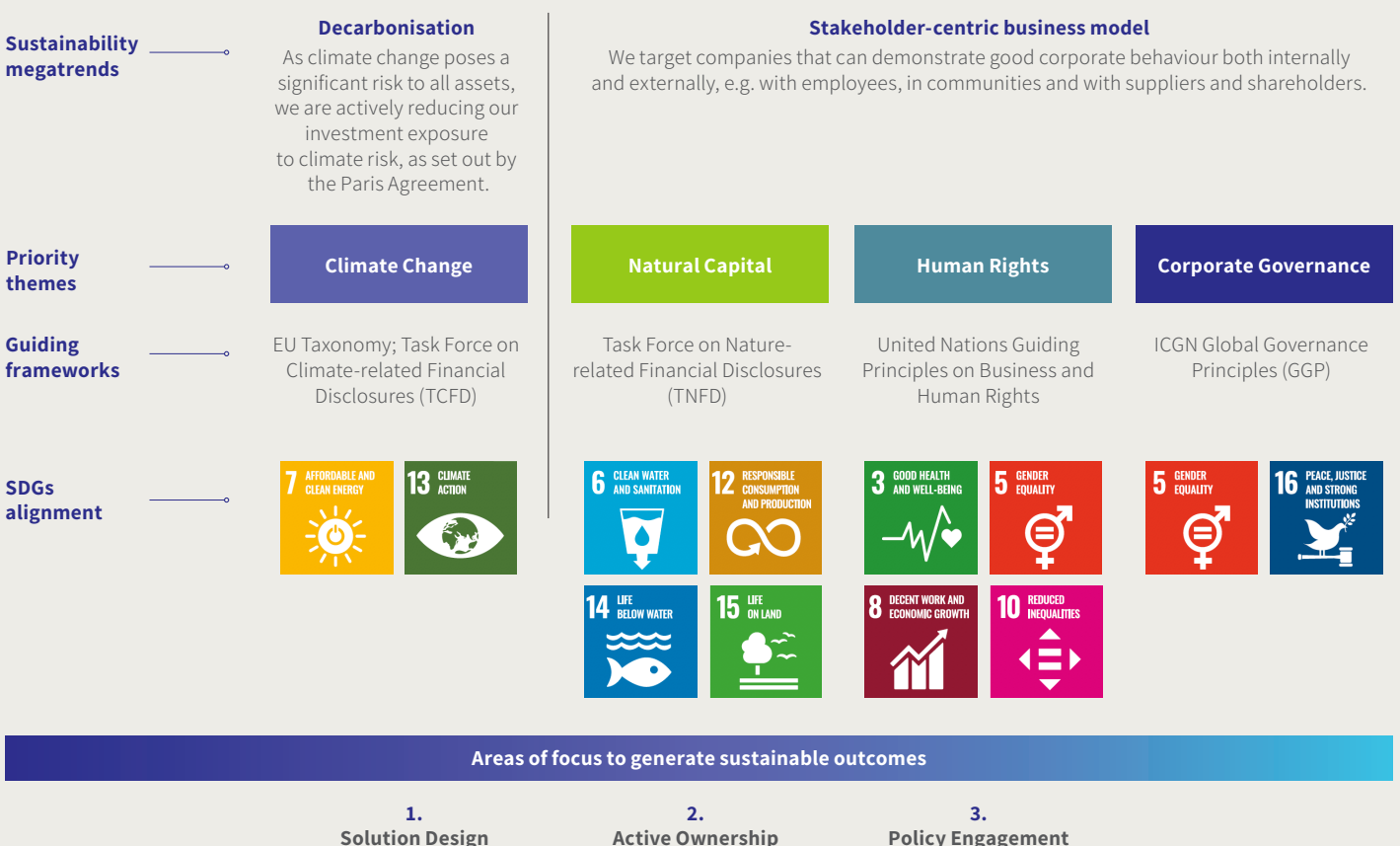
ILIM considers responsible investment as the integration of ESG considerations into investment management processes and ownership practices where we believe these factors can support more sustainable returns.

We take a thematic approach to responsible investing, driven by two overarching macro trends: the trend towards decarbonisation, and the move to a more stakeholder-centric business model.

The trend towards decarbonisation captures the transition to a lower carbon economy as set out in the Paris Agreement. The move towards a more stakeholder-centric model of corporate behaviour reflects the increasing demands on companies to act as good corporate citizens with responsibility to a wider group of stakeholders, such as employees, communities and supply chains, as well as shareholders. This is captured in a company’s management of ESG exposures and responsibilities.

Our current Responsible Investment Policy can be accessed [here](#).

Figure 1: Responsible Investment Approach



## Stewardship – liquid equity and fixed income

Stewardship and the incorporation of environmental, social and governance factors into investment decisions are complementary strategies, with the potential for each to feed into the other. This can be achieved by using insights from investment decision making to enhance engagements and vice versa.

In pursuit of responsible investment, ILIM exercises voting rights and constructively engages with investee companies to promote better corporate behaviour, and to encourage these companies to update their policies and practices. ILIM believes that investors, whether working individually or collectively, have the ability to influence the behaviour of investee companies, reducing portfolio risk and delivering more sustainable long-term outcomes for clients.



### Engagement

Engagement is a key component of ILIM’s approach to the responsible investment and stewardship of our clients’ assets. The outcomes of these engagements are important as they are used to inform investment decisions on our proprietary solutions and to influence the behaviour of investee companies, reducing portfolio risk and delivering more sustainable long-term outcomes for clients. We use two megatrends to drive our responsible investment activities: decarbonisation and a trend to a more stakeholder-centric business model. Within these megatrends, we have identified four priority themes – climate change, natural capital, human rights and corporate governance – which guide our engagement prioritisation and actions.

ILIM engages with investee companies both on a direct and on a collaborative basis.

On the topic of decarbonisation, ILIM conducts direct engagement with investee companies across a number of sectors, including oil and gas and power generation utilities, with a good response rate given the rising relevance of the topic in the industry. However, in certain instances, we believe that acting collectively with other investors and industry bodies is the most effective approach to having a meaningful impact. For engagements on the topic of forced labour, ILIM engages on a collaborative basis with investee companies in the manufacturing and construction sectors, as these companies are better disposed to respond to this sensitive topic when approached by a group of investors collectively.

Figure 2: Engagement



## Engagement process

### Prioritisation

ILIM’s approach to identifying engagement opportunities is focused on enabling the best long-term risk-adjusted returns for our clients, and is based on:

- > Identifying companies in our clients’ portfolios with low environmental, social, and/or governance scores, combined with financial materiality.
- > Materiality of a theme for specific sectors and regions. For example: biodiversity and deforestation for food and agribusiness companies, climate for oil and gas and power generation utilities companies.
- > Resolutions aimed at mitigating systemic risks relating to environmental, social and/or governance factors. Voting-driven engagement topics include proposals, often submitted by shareholders, seeking clarity and transparency through enhanced disclosure. For example, around diversity, equity and inclusion.
- > Influencing the local market. As an Irish-based investment manager, ILIM has greater ability to influence Irish companies.

For each of the four priority themes, the criteria we take into consideration when identifying which companies we will engage with include:



#### Climate Change

- > Companies with the largest share of carbon emissions across our clients’ portfolios.
- > Companies where ILIM voted against management advisory resolutions on energy transition plans and where the management advisory resolutions received the lowest levels of support from shareholders.
- > Companies with operations or financing in areas of the world that are highly exposed to extreme weather events or where the company does not have a strategy in place to manage physical climate risks.



#### Natural Capital

- > Companies with operations in a sector that has a substantial impact on the natural environment.
- > Companies that have faced allegations of contributing to biodiversity loss.
- > Companies with operations in a water-intensive sector or water-stressed region.
- > Companies with operations in a sector which generates a large volume of products and packaging.



#### Human Rights

- > Companies that have faced allegations of using forced labour in their supply chain.
- > Companies that source products and materials from countries where labour standards infringements have been reported.
- > Companies where ILIM supported resolutions on the topics of racial equity or civil rights audits and lobbying disclosure, and where the resolutions received majority or near-majority support from shareholders.



#### Corporate Governance

- > Companies where ILIM believes that its promotion of gender diversity can make the greatest difference. This is often triggered by votes against resolutions at investee company general meetings for reasons set out in ILIM’s Global Proxy Voting Guidelines concerning low levels of gender diversity.
- > Companies that have faced corruption allegations in the past.

**Set objectives**

ILIM uses constructive dialogue to explain its expectations and encourage companies to improve their practices and behaviours in the relevant area. In setting the engagement objectives, ILIM will carefully consider how the engagement can positively impact the long-term sustainable outcomes for its clients, by seeking to address specific matters in the businesses of our investee companies. The engagement objective for each company will vary depending on the ESG topic that we have identified and are seeking to address. ILIM utilises a variety of key performance indicators (KPIs) depending on the type of engagement and topic. These KPIs can be binary, qualitative or quantitative in nature. Some examples of KPIs that we look for in our investee companies across ILIM’s four priority themes are:



**Climate Change**

- > Governance with clear board oversight of climate change and executive remuneration incorporating climate elements.
- > A published ambition for net-zero greenhouse gas emissions (“GHG”) by 2050 or sooner.
- > Long-term, medium-term, and short-term GHG reduction goals aligned with 1.5°C.
- > A climate policy aligned with the Paris Agreement and fully disclosed.
- > Identification and disclosure of physical climate risks.
- > Implementation of measures to reduce exposure to physical impacts of climate change.



**Natural Capital**

- > Implementation of measures to integrate biodiversity in the management of operations.
- > Disclosure of quantitative results in relation to biodiversity indicators.
- > A formalised goal with regard to biodiversity, water and waste management.
- > Quantified goals with regard to water emissions and/or water consumption.
- > Quantified goals with regard to limiting impacts from the use and disposal of the company’s products.



**Human Rights**

- > Implementation of systems such as internal and external auditing to protect human rights.
- > Implementation of social requirements for suppliers addressing the main relevant issues in a particular sector.
- > A public report on third-party independent civil rights or a racial equity audit outlining actions to remediate identified issues.
- > The alignment of lobbying and political contribution disclosures with the CPA-Wharton Zicklin Index.
- > An appropriate response by the board with regard to resolutions on lobbying and political contributions that have received substantial shareholder support but have not been adopted.



**Corporate Governance**

- > A commitment to specific policies and goals regarding increasing diversity within the company.
- > Enhanced disclosures regarding diversity data for the company’s workforce.
- > An anti-corruption policy.
- > Implementing anti-corruption systems including actions such as formal training programmes on corruption prevention for relevant employees.

**Assessment and monitoring**

Engagement is a long-term process of constructive dialogue. To monitor progress over time, all ILIM’s engagements are recorded in ESGAIA. For qualitative objectives, ILIM has set up a standardised milestone system in ESGAIA to track the progress of each engagement. The milestones monitor the timeframe to establish an engagement dialogue, the commitment shown by the investee to address the issue raised with them, the development of a strategy, and the stages of strategy implementation. With this approach, our Stewardship Team has strong oversight on each engagement from the moment of the initial communication up to the final stages of the engagement.



## Engagements Statistics for 2023

ILIM conducted a total of 342 engagement activities, either directly or collaboratively, with investee companies during 2023.

These engagement activities are tracked and reported across the four broad priority themes: Climate Change, Natural Capital, Human Rights, and Corporate Governance.

64% of the engagement activities conducted in 2023 were in the environmental pillar, which comprises both priority themes of Climate Change (31%) and Natural Capital (33%), with the remaining activities split between the social (30%) and governance (6%) pillars.

The largest share of engagement activities in 2023 were with companies based in North America (35%) followed by Europe (23%), Asia (20%), UK & Ireland (9%), South America (8%), Middle East & Africa (3%) and Oceania (2%).

Our engagement approach involves different forms of communication with investee companies, including virtual meetings, in-person meetings and written communications.

Figure 3: Priority themes\*

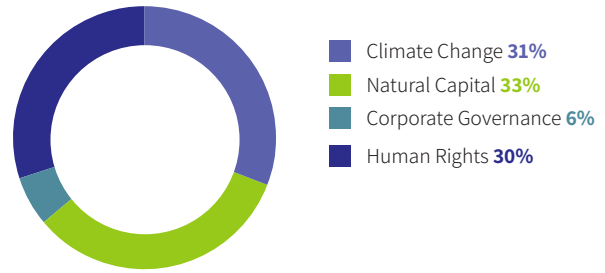
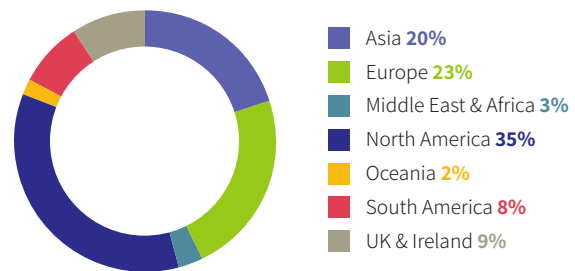


Figure 4: Regional statistics\*



\*The statistics shown represent all engagement activities, whereas the full version of the ILIM 2023 Stewardship and Responsible Investment Report shows direct and collaborative engagements separately.

## Direct Engagement

The following table illustrates the range of issues covered by our programme of direct engagements:

Category	Priority Theme	Topic
Environmental	Climate Change	Net Zero, Say-on-Climate, Transition Risks, Physical Risks, Environmental Disclosures (Climate)
	Natural Capital	Biodiversity, Water, Waste Management, Environmental Disclosures (Water/Forests)
Social	Human Rights	Human Rights, Supply Chain/ Modern Slavery, Racial Equity/Civil Rights Audits, Lobbying Disclosure/ Political Spending
Governance	Corporate Governance	Diversity, Anti-discrimination, Anti-corruption, ESG Risk, Executive Remuneration

Below are selected examples of direct engagements that ILIM has conducted during 2023. These case studies, together with the collaborative engagement case studies set out in the collaborative engagements section, are a representative sample of the engagements conducted by ILIM during 2023.



## CLIMATE CHANGE

## CASE STUDY

### Mincon Group Plc

*This case is an example of an engagement in the local market, and how the influence of a local investor can drive positive change. It is also an example of how direct and collaborative engagements were consistently combined to produce the desired outcomes.*

**Country:** Ireland

**Industry:** Machinery

**Engagement Topic:** Climate Change

**Engagement objective:** For the company to disclose to the CDP Climate questionnaire

#### Rationale for the engagement

Mincon Group Plc (“Mincon”) is an Irish company specialising in the design, development, manufacture and service of hard-rock drilling solutions for applications. The company was selected for engagement as part of ILIM’s direct outreach with Irish companies on the topic of environmental disclosures. The engagement objective was for the company to disclose to the CDP Climate questionnaire since we believed this would de-risk the business’s future operations.

#### Details of engagement

As part of the engagement with Mincon in 2023, ILIM conducted one virtual meeting with the company’s Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), attended the company’s AGM, and participated in a site visit in the company’s factory in Shannon, Ireland. Later in the year, ILIM led a collaborative engagement with Mincon as part of the 2023 cycle of the CDP Non-Disclosure campaign, representing the investor group.

#### Outcomes and next steps

As a result of the engagement, Mincon disclosed to the CDP Climate questionnaire for the first time in 2023. This is the first time that Mincon has disclosed to any of the CDP questionnaires or considered the global disclosure system for both investors and companies to manage their environmental impacts. We consider the CPD questionnaire to be one of the main standards for corporate environmental reporting. As a first-year submission, the company has disclosed to the non-scored version of the questionnaire. ILIM intends to continue the engagement with Mincon and encourage it to fully meet the engagement objective by seeking further progress on this topic and by disclosing to the scored version of the questionnaire in the next reporting cycle.

## NATURAL CAPITAL

## CASE STUDY

### ITO EN

*This case is an example of an ongoing engagement in which it is possible to see clear progress in terms of the actions the company is taking to fulfil the engagement objective.*

**Country:** Japan

**Industry:** Food Products

**Engagement Topic:** Biodiversity

**Engagement objective:** For the company to enhance its implementation of measures to integrate biodiversity into the management of its operations.

#### Rationale for engagement

ITO EN is a Japanese multinational company that manufactures and sells green tea beverages in Japan and internationally. Given the nature of ITO EN’s business as a producer of green tea and other beverages and its potential impacts on nature and more specifically on the issue of biodiversity through topics such as water management, we feel it is important that ITO EN takes the necessary measures to prevent biodiversity loss, which we have identified as a financially material risk to ITO EN, and discloses the relevant information.

#### Details of engagement

ILIM conducted engagement with ITO EN in 2022<sup>19</sup> and continued this dialogue in 2023. A virtual engagement meeting was held with ITO EN’s Director/Head of Administration Headquarters, Deputy Head of Administration Headquarters, and Director of ESG Promotion Department. In early 2023, the company reviewed its Group Policy on Biodiversity Conservation, committing to prioritise procurement, production, and transportation methods that consider biodiversity. ITO EN has now conducted an analysis of its nature-related risks and dependencies, with the result that it has prioritised four areas which it will consider for a more in-depth assessment. ITO EN also finalised its water stress survey, which was ongoing when engagement with ITO EN was conducted in 2022. Furthermore, in 2023 ITO EN started to disclose to the biodiversity-related questions from CDP.

#### Outcomes and next steps

From 2022 to 2023, it was possible to see progress in ITO EN activities which related to the engagement objective, with many actions that were at initial stage now concluded, such as the preliminary nature-related risk assessment and water stress survey, as well as a revised biodiversity policy. Going forward, for the engagement objective to be concluded, the ask is for ITO EN to disclose an action plan based on the recently conducted assessments of its nature-related risks and dependencies including how it aims to address the identified impacts, including the use of quantified targets.



## CASE STUDY

### American Water Works (AWK)

*This case is an example of an engagement linked to our voting activities on the topic of racial equity that has involved multiple interactions with the company.*

**Country:** United States of America

**Industry:** Water Utilities

**Engagement Topic:** Report on Independent Third-Party Racial Equity Impacts Audit

**Engagement objective:** For the company to carry out and publish an independent third-party racial equity audit on the adverse impacts of its business on non-white stakeholders and communities of colour and to manage related risks or to have an appropriate response to the shareholder proposal on this topic.

#### Rationale for engagement

AWK is a US public water utility company, the largest regulated water and wastewater company in the American market. Racial inequality is a significant systemic risk, and AWK has racial justice controversies relating to its plans to build a desalination plant in Marina, California. The town, where there are many low-income residents, was not to receive water from the plant as the town pumps its own water. This led to protracted negotiations between AWK and the town of Marina with complicated and significant environmental justice implications. ILIM supported a shareholder resolution in 2022 requesting AWK to oversee and publish a report on a third-party audit of the racial impacts of its policies, practices, products and services. The resolution received near-majority support, with 47.1% of shareholders voting in favour. For this reason, ILIM decided to engage with the company to encourage the implementation of the resolution.

#### Details of engagement

ILIM has exchanged a number of written communications and has held three direct engagement calls with AWK to discuss the publication of a racial equity audit and other topics related to environmental disclosure. ILIM also supported the re-filing of the racial equity resolution in 2023, which received 39.1% support from shareholders. AWK has been responsive to the engagement efforts and cooperative but has stated it has no intentions of carrying out a third-party racial equity audit due to the company's strict government oversight regarding its practices and its impact on communities. In addition, it has argued that, because it is subject to consumer complaint mechanisms whereby consumers are able to raise complaints about service, provisions and other issues to authorities, it has greater accountability when compared to other publicly traded companies.

#### Outcomes and next steps

Despite AWK's opposition to a racial equity audit, ILIM has continued to engage with it to ensure that it is taking all the necessary steps to address racial equity-related matters. Positive developments from AWK include implementing comprehensive, best-practice DEI disclosures and programmes, as well as considering environmental justice matters when making new facility siting decisions. This is a positive action to address negative racial equity impacts.

ILIM will continue seeking a dialogue with AWK to encourage actions to improve overall female and ethnic diversity, and its continued progress in ESG risk reduction.



## CASE STUDY

### Irish Residential Properties REIT

*This case is an example of an engagement conducted with an investee company and different stakeholders as part of a series of proxy contests. It is also an example of engagement outcomes informing voting decisions.*

**Country:** Ireland

**Industry:** Real Estate

**Engagement Topic:** Director Elections

**Engagement objective:** Maintain an appropriate structure of the board of directors and its independence, so as to enable it to serve in the shareholders' best interest.

#### Rationale for the engagement

ILIM participated in a series of engagements with Irish Residential Properties REIT ("IRES") and different stakeholders as part of a series of proxy contests that IRES faced during 2023 and the beginning of 2024. These resolutions were put forward by Vision Capital which owned around 5% of the issued share capital of IRES. ILIM's engagements covered topics such as the structure of the board of directors and IRES' performance versus the broader macroeconomic and real estate sector.

#### Details of engagement

During May 2023, Vision Capital issued an open letter, asking IRES' shareholders to vote against the re-election of four directors (two non-independent directors, the Board Chair and the CFO). They also asked for shareholders to oppose the remuneration report and the request for non-pre-emptive share issuances. ILIM had engagement calls with different board members, raising the matter of the independence of the Chair of the Board, the remuneration structure and company performance. ILIM also participated in consultation on IRES' executive remuneration plan and provided feedback to IRES on changes to its structure.

#### Outcomes and next steps

This engagement, with the different parties involved in the open letter in 2023, helped inform our voting decisions by enabling us to take into consideration different factors, most importantly the IRES' performance and the protection of our clients' rights as shareholders. Early in 2024, Vision Capital called for an EGM where they proposed five alternative directors to replace five of the nine incumbent directors.

ILIM engaged with IRES again on a number of occasions and also engaged with Vision Capital in order to gain a full understanding of their approach, all of which resulted in ILIM voting in favour of the incumbent directors in order to protect value for our clients.





## Collaborative Engagement

ILIM believes that acting collectively with other investors and industry bodies can be an effective way to have a meaningful impact.

Regarding the selection and prioritisation of collaborative engagements, ILIM selects collaborative engagements that meet the following criteria:

- > **Alignment:** focus on topics that are aligned with the four themes of ILIM’s responsible investment framework.
- > **Relevance and impact:** engagements must have broad coverage in terms of objectives, regions and sectors to be representative of ILIM’s investment universe.

We aim to join initiatives aligned with our priority themes and seek to influence the matters that we consider most material. We look for initiatives that facilitate collaboration and shared learning while providing opportunities to amplify the impact of our engagement efforts. The chosen initiatives are reviewed on an annual basis to ensure they continue to align with our criteria and our thematic priorities.

In 2023, ILIM actively participated in 12 collaborative engagement initiatives with investee companies. In addition to this, ILIM participated in policy-related engagements with governments and collaborative initiatives at industry level. While some engagements are focused on a specific theme, others approach more than one theme in the dialogues with companies.

The themes and topics of the collaborative engagement initiatives that ILIM participated in 2023 are outlined below.

**Figure 5: 2023 collaborative engagements**

Environment		Social	Governance
Climate Change	Natural Capital	Human Rights	Corporate Governance
Climate Action 100+	Localised Water Management*	Modern Slavery*	Tomorrow’s Board*
Net Zero Engagement Initiative (NZEI)	Biodiversity and Natural Capital*	Human Capital and the Future of Work*	30% Club Ireland
Net Zero Transition*	Nature Action 100		
Climate Change – Sustainable Forests and Finance*	Investor Policy Dialogue on Deforestation (IPDD)		
CDP Non-Disclosure Campaign			
Global Standards*			

\*Morningstar Sustainalytics engagement solution

In 2023, ILIM joined two new collaborations on the topic of net zero. ILIM also played an active role in the CDP Non-Disclosure Campaign (CDP NDC) in 2023, leading on engagements with 44 companies in the topics of climate, water and forests, on behalf of the CDP investor signatories.

ILIM also joined a fixed income collaboration on the deforestation topic, focused on government bonds, engaging with the government of Brazil as part of the Investor Policy Dialogue on Deforestation (IPDD). Additionally, regarding the theme of corporate governance, at the beginning of 2023, ILIM acted as a founding investor of the 30% Club Ireland Investor Group as an additional action to improve gender representation at board and management levels in the Irish market. Participating in this group, with other Irish asset managers and asset owners, will generate further collaborative engagement opportunities with Irish companies on the topic of diversity, equity and inclusion (DEI).



Below are selected examples<sup>1</sup> of collaborative engagements that ILIM has participated in during 2023. These case studies, together with the case studies set out in the direct engagements section above, are a representative sample of ILIM's stewardship activities in 2023 on our thematic priorities.

## CASE STUDY

### Environmental disclosures: CDP Non-Disclosure Campaign

#### Context

In 2023, ILIM participated for the first time as a lead investor in the CDP NDC collaborative engagement. The objective of this collaboration is to drive greater corporate transparency around climate change, deforestation, and water security by encouraging companies to respond to CDP's disclosure request. This is often a critical first step in companies managing these matters and going on to set appropriate targets.

#### Activity

As part of the 2023 cycle of the CDP NDC, ILIM led on engagements with 44 companies across a number of markets, including Ireland, Brazil, Greece, Mexico, Spain and the United States. These markets were selected because of ILIM's knowledge of the local market, diverse regional backgrounds and knowledge of local languages of the analysts in ILIM's stewardship team, and the fact that ILIM had previously engaged with some of the companies in focus.

#### Outcomes

Of the 44 companies on which ILIM led the engagement, 10 have submitted at least one of the three CDP questionnaires (Climate, Water Security, and/or Forests). As an overall result of the 2023 CDP NDC, 317 companies responded for the first time after being engaged through the CDP NDC.

## CASE STUDY

### Water management: engagement with companies with operations in water-stressed basins

#### Context

In 2022 and 2023, ILIM participated in the Localised Water Management thematic engagement led by Morningstar Sustainalytics. The collaboration involved engagements with 18 companies from the beverage, chemicals, and mining sectors. It focused on reducing company risks and enhancing water security, and concluded in 2023. Given that collaboration and basin-level efforts are the most cost-effective and efficient way to tackle water risks and impacts, this thematic engagement focused on companies with operations in the Tiete and/or Vaal basins in Brazil and South Africa, which are both exposed to water crisis. This engagement was geographically focused because, unlike carbon, water is localised and must be managed at a basin level.

#### Activity

During 2023, ILIM joined nine engagement calls with investee companies. The engagements were focused on six KPIs: water governance, water risk and opportunity management, water quantity, water quality, integrated water resources management, and public water management. ILIM also participated in a collaborative basin-level forum that was organised to bring companies together to share their current and future basin-level projects. On that occasion, ILIM participated as a speaker, sharing its expectations around water management and water-related disclosures with the engaged companies.

#### Outcomes

The engagement discussed gaps under the six KPIs and encouraged the engaged companies to adopt appropriate strategies and solutions. This resulted in incremental improvements across the KPIs which were linked to changes at all 18 engaged companies. Tangible outcomes over the course of the engagement include one or more of the engaged companies linking executive compensation to water metrics, publishing a corporate water policy, reusing treated municipal wastewater, evaluating a majority of its critical suppliers for water risk, using sustainability-linked financing instruments to fund water efficiency projects, completing site-level assessments for water stress and implementing mitigations, and committing to their first water replenishment project, among others. At the conclusion of the engagement, it was possible to see more than just the leading companies committing to larger scale basin-level projects that consider all stakeholders.



<sup>1</sup> This section includes information and data provided by Sustainalytics, a Morningstar company. Use of such data is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers/>

## CASE STUDY

### Climate change: Climate Action 100+ and the Net Zero Engagement Initiative (NZEI)

#### Context

Climate Action 100+ (CA100+) has established a common high-level agenda for company engagement to achieve clear commitments to cut emissions, improve governance and strengthen both climate-related financial disclosures and transition plans, in order to create long-term shareholder value. The CA100+ facilitates engagements with focus companies by investors acting collaboratively. As an expansion of the CA100+, the Institutional Investor Group on Climate Change (“IIGCC”) launched the Net Zero Engagement Initiative (“NZEI”), focusing on companies that are not included in the CA 100+ focus list. The NZEI was created to help investors who align with the Net Zero Asset Manager initiative to increase the proportion of companies in their portfolios that have net-zero targets and transition plans.

#### Activity

As part of CA100+, in 2023, ILIM participated in the engagements with Valero, Kinder Morgan and Southern Company, joining calls with the investor groups and with directors of these focus companies. CA100+ assesses the performance of focus companies against its three goals: reducing greenhouse gas emissions, improving climate governance, and strengthening climate-related financial disclosures. And as part of the NZEI, ILIM has signed the initial letter sent to the 107 focus companies and joined three engagements with Irish companies as one of the lead investors: Ryanair Holdings PLC, Johnson Controls International PLC and Kerry Group Plc. During 2023, ILIM participated in an engagement meeting with Kerry Group as well as in engagement strategy calls with other investors as part of the NZEI.

#### Outcomes

CA100+ assesses the performance of focus companies against its three aforementioned goals. During 2023, there was continued progress against them. 77% of the focus companies have made a net-zero commitment, 93% have implemented board committee oversight of climate change risks and opportunities, and 90% have committed to align their disclosures with the recommendations of the Task Force on Climate-Related Financial Disclosures<sup>2</sup>.

With respect to the NZEI, as the initiative is recently formed, the focus in 2023 was on defining the investor groups and launching the engagement dialogue with focus companies. Further outcomes in terms of responses from focus companies and actions are expected as the engagements progress over the coming years. Going forward, ILIM plans to continue to participate in a constructive dialogue with companies through these groups, with the intention of providing guidance to companies preparing transition plans. Our participation in the collaboration will also aim to extend to assisting with assessment of companies’ disclosures and the assessment of the credibility of their transition plans.

## CASE STUDY

### Global Standards: engagement with Vale S.A.

#### Context

As part of the Global Standards Engagement (“GSE”) led by Morningstar Sustainalytics, ILIM engaged with Vale S.A., a multinational corporation engaged in metals and mining, and one of the largest logistics operators in Brazil. The GSE is an incident-driven collaboration focused on companies that are alleged to have severely or systematically violated the UN Global Compact principles. Companies are encouraged to resolve the incident in question in a way that would enhance its future sustainability performance and risk management. In 2019, the tailings dam of a mine operated by Vale S.A. in Brumadinho, Brazil collapsed and a subsequent mudslide engulfed the busy cafeteria of the mine’s headquarters, leading to over 250 deaths and significant environmental erosion.

#### Activity

Since joining the collaborative engagement in 2022, ILIM has actively participated in calls with Vale S.A., posing questions to the company and sharing methodological materials that could support enhancements on the topic of community relations and cultural services. In 2023, as part of the engagement process, ILIM conducted internal research on the case, including research in the local language, in order to capture the perspectives of the affected communities as published in local news. This allowed a comparison of the information disclosed by the company on its website with the different views of stakeholders. This topic was raised as part of the engagement.

#### Outcomes

Vale S.A. has been very responsive to the engagement efforts, and it has advanced the implementation of relevant strategy in a meaningful way. ILIM, as well as investors participating in the collaboration, expect that Vale S.A. will close out the remaining reparation works, continue to measure progress against the Global Industry Standard on Tailings Management, and build trust with local communities. ILIM intends to continue participating in active dialogues until the company has implemented all aspects of its strategy.



<sup>2</sup> Data source: Climate Action 100+, Progress Update 2023  
<https://www.climateaction100.org/wp-content/uploads/2024/01/Climate-Action-100-Progress-Update-2023.pdf>



## CASE STUDY

### Sustainable Corporate Governance Strategy: engagement with the extractive, financial, and pharmaceutical sectors

#### Context

In 2022 and 2023, ILIM participated in a thematic engagement led by Morningstar Sustainalytics in relation to corporate governance and more specifically the company boards' effectiveness and readiness of sustainability changes. The collaboration, which concluded in 2023, focused on promoting change at board level to assist companies to be prepared to face emerging challenges and new opportunities in sustainability and corporate governance. The engagement involved 21 companies from the extractives, financials, and pharmaceuticals sectors.

#### Activity

During 2023, ILIM joined engagement calls with investee companies. The engagement was focused on four KPIs: implementation of a board structure, definition of a sustainability strategy, measurement of progress, and communication of progress. ILIM also participated as a speaker in an investor roundtable on sustainability and good governance, sharing its thoughts on board renewal, and board training and diversity, among other topics.

#### Outcomes

Throughout the engagement, it was possible to see improvements from the engaged companies. In terms of board governance and composition, the boards of directors of the engaged companies have grown more diverse since the start of the engagements. There has been an increase in the number of women across these boards, and there is more geographical and racial diversity. The boards of these companies have also implemented clearer diversity policies, and their succession plans have become more inclusive. The boards have also become more fluent in discussing sustainability issues, and more of these boards are now linking executive compensation to sustainability metrics. Finally, sustainability standards and regulations have increased throughout the engagements, which led to a consistent increase in reporting transparency. These companies welcomed greater standardisation across reporting frameworks, where this has historically been a challenge.

## CASE STUDY

### Fixed income engagement: Investor Policy Dialogue on Deforestation ("IPDD")

#### Context

In 2023, ILIM joined the Investor Policy Dialogue on Deforestation ("IPDD"), a collaborative investor initiative that engages with public agencies and industry associations in selected countries, including Brazil and Indonesia, on the issue of deforestation. The decision to join the initiative was aligned with ILIM's priority themes and the related weightings in ILIM's Indexed Emerging Market Debt strategy.

#### Activity

ILIM is a member of the Brazil workstream. Deforestation of Brazil's Amazon rainforest is a significant contributor to the country's aggregate GHG emissions and is therefore directly linked to ILIM's priority theme of decarbonisation which we believe is financially material to our clients' long-term investment outcomes. Investors are urging the government of Brazil to demonstrate clear commitment to eliminating deforestation and protecting the rights of indigenous peoples. As part of the 2023 activities of IPDD, ILIM participated in nine meetings with the investor group, which included discussions on regulatory updates related to deforestation as well as educational sessions, and joined two presentations organised by the IPDD as part of Climate Week NYC. In 2023, the IPDD group also sent a letter to the Brazilian government concerning a law about the demarcation of indigenous lands, highlighting investor concerns around the potential risks of undermining protection for indigenous territory and thereby facilitating deforestation.

#### Outcomes

Investors are working towards a number of outcomes from the Brazilian government, including significant reduction in deforestation rates, avoidance of legislative developments that may negatively impact forest protection, access to data on deforestation, and traceability of commodity supply chains.

Engagement with sovereigns often have longer timelines than engaging with corporates and corporate bond issuers. In this context, outcomes produced by the IPDD in 2023 include promoting awareness among policymakers about the position of investors on the risk of deforestation (as demonstrated by the letter that was sent to the government on the demarcation of indigenous lands), as well as shared learnings and building capacity for the investor group (as demonstrated by the presentations organised and working group meetings).

ILIM intends to continue to participate in the IPDD in 2024 and plans to participate in the working groups and meetings with stakeholders representing different governmental functions, as well as support investor letters from IPDD to governments. The IPDD working groups seek to help streamline the coordination of different government agencies through dialogue and transform commitments into actions that yield results.





## Voting Activity

ILIM exercises voting rights in line with the ILIM Global Proxy Voting Guidelines. Our Global Proxy Voting Guidelines are aligned to the megatrends we use in our investment integration (the trend towards decarbonisation and the move to a more stakeholder-centric business model). ILIM's Global Proxy Voting Guidelines incorporate our four key priority themes (climate change, natural capital, human rights and corporate governance) and ESG matters generally. The diagram below shows how these are translated into our voting activity in order to deliver stewardship outcomes that complement our investment activities and the outcomes sought by our clients.

ILIM's Stewardship Team uses internal and external research, data providers and our proxy voting agent, all of which inform our voting and engagement actions.

The Stewardship Team includes subject matter experts in sustainability matters as well as proxy voting and corporate governance experts, who oversee the voting and engagement activities. The Stewardship Team ensures that votes are cast by our proxy voting service provider in line with the ILIM Global Proxy Voting Guidelines. ILIM will exercise its clients' vote rights unless it is instructed otherwise by its clients.

ILIM reviews and updates its Global Proxy Voting Guidelines around the turn of each year, and the current version of these can be found here. This involves considering our expectations in relation to sustainability matters and related voting decisions. ILIM's Global Proxy Voting Guidelines are applied equally to all investee companies regardless of the jurisdiction in which the investee company operates or is based. However, they are structured to consider local standards when generating a vote recommendation.

Our Global Proxy Voting Guidelines are customised to incorporate progressive voting guidelines on key corporate governance and sustainability issues. ILIM uses Institutional Shareholder Services UK Limited (ISS) as its proxy voting agent, and ISS's platform to vote electronically, instruct our voting decisions and generate reports.



### Figure 6: Bespoke voting policy: thematic approach

ILIM's Global Proxy Voting Guidelines are customised to align with our Thematic Priorities to achieve higher consistency with ILIM's Responsible Investment Strategy.



## Voting metrics

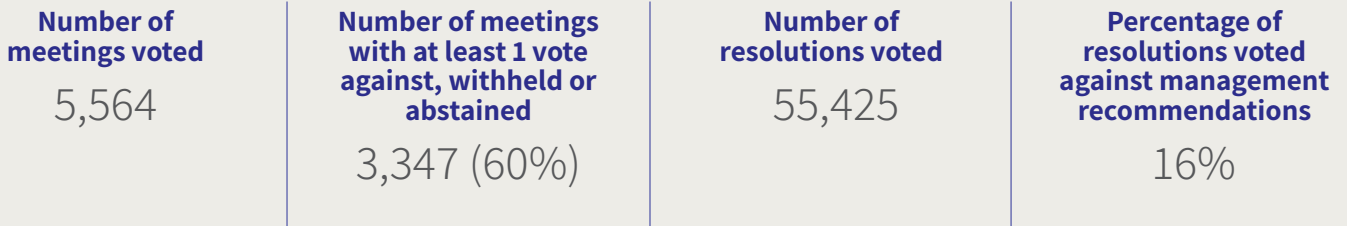
In 2023, ILIM voted on 5,564 meetings. In 60% of these meetings, we cast at least one vote against, withheld or abstained on our clients' vote. Regarding shareholder-related resolutions, ILIM supported 76% of environmental, 92% of natural capital, 89% of human rights and 76% of governance-related resolutions. Overall, ILIM voted on 55,425 resolutions, 16% of which were against management.

ILIM's voting records are publicly disclosed on the ILIM website. The published voting records include the voting instructions and rationales for votes which ILIM cast against management recommendations.

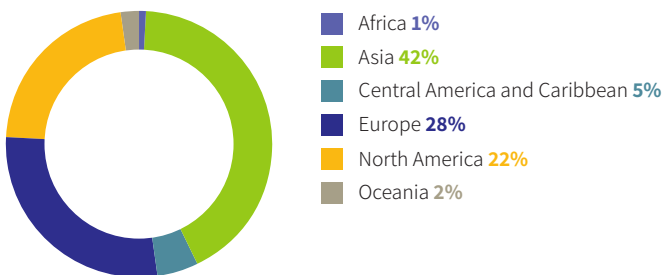
The global nature of our clients' holdings is reflected in our voting activity, with Asia, Europe and North America the most prominent markets.

The graphs below summarise all the votes cast in 2023.

**FIGURE 7: Voting statistics 1 January 2023 to 31 December 2023**



**FIGURE 8: Geographical breakdown of votes per region**



**FIGURE 9: Voting activity per topic**



## Voting case studies

ILIM voted on 55,425 resolutions in 2023. We have identified specific meetings deemed as significant with proposals that attracted more scrutiny than is normal. We have included below some examples of key votes from the 2023 proxy voting season, with some insight into ILIM’s assessment and voting approach.

CASE STUDY – GLENCORE		CLIMATE CHANGE
<b>Date of AGM</b>	26 May 2023	
<b>Country</b>	Jersey	
<b>Resolution Category</b>	Climate	
<b>Resolution Summary</b>	Shareholder Resolution – Resolution in Respect of the Next Climate Action Transition Plan	
<b>Vote Decision</b>	For	
<b>Vote Rationale</b>	<p>Glencore has significant exposure to thermal coal production, which results in some of our clients excluding it from their portfolios. However, many of our clients follow market-capitalisation indices which include Glencore and that brings with it our normal stewardship responsibilities of voting at general meetings and engaging with companies on issues of financial materiality. As a result, we voted at the company’s general meeting and supported the shareholder resolution seeking enhanced disclosure and clarity regarding the alignment of the company’s projected thermal coal production and capital expenditures towards the Paris Agreement. The engagement was seeking to obtain clarity on: i) how the company’s goals are Paris-aligned; ii) how its capex is Paris-aligned and iii) on the destination of Glencore’s thermal coal exports.</p> <p>ILIM believes that the company’s response to climate-related risks is insufficient and consequently we voted against approval of the company’s financial statements. We also voted against the election of the Board Chair as he is deemed primarily responsible for the effective supervision of the management of the company’s risks.</p> <p>Currently ILIM is participating in collaborative engagements with other shareholders regarding the topics of labour rights and business ethics at Glencore.</p>	
<b>Vote Outcome</b>	29% of shareholders supported the resolution asking the company to increase information disclosures and provide clarification in the 2024 climate report. This reflects deficiencies identified in the analysis of the previous transition plan framework which needs to be addressed in the 2024 report.	

CASE STUDY – YUM! BRANDS, INC		NATURAL CAPITAL
<b>Date of AGM</b>	18 May 2023	
<b>Country</b>	USA	
<b>Resolution Category</b>	Pollution	
<b>Resolution Summary</b>	Shareholder Resolution – Efforts to Reduce Plastic Use	
<b>Vote Decision</b>	For	
<b>Vote Rationale</b>	<p>Shareholders request the company to produce a report describing how it will reduce its plastics use by transitioning from single-use packaging.</p> <p>ILIM supported the resolution as the current plastic pollution crisis exposes the company to risks deriving from higher costs and regulations for using virgin plastics. This is the third time the company has received a proposal requesting a report on sustainable packaging or recycling. However, the company remains reluctant to discuss potential risks related to new plastics regulations or changes in consumer and investor preferences, such as research conducted by the company on how it can transition to a business model that is less dependent on single-use plastic production.</p> <p>ILIM is participating in collaborative engagement with the company regarding the topics of deforestation and biodiversity. Through our engagement dialogues we discuss Yum’s biodiversity impacts through its supply chain as well as its downstream impacts, such as plastic pollution and food waste.</p>	
<b>Vote Outcome</b>	The proposal received 36% of shareholders support, signalling an increased focus of shareholders regarding the risks associated with plastic pollution. We intend to keep monitoring the company’s progress towards its goals through our stewardship activities and will seek opportunities to participate in more dialogue with the company on the topic of Natural Capital.	



## HUMAN RIGHTS

## CASE STUDY – STARBUCKS

<b>Date of AGM</b>	26 May 2023
<b>Country</b>	USA
<b>Resolution Category</b>	Human Rights
<b>Resolution Summary</b>	Shareholder Resolution – Improve Human Rights Standards or Policies
<b>Vote Decision</b>	For
<b>Vote Rationale</b>	<p>The filers asked the board of directors to commission a third-party assessment of the company’s freedom of association and collective bargaining policies and practices.</p> <p>ILIM supported the shareholder proposal seeking improved human rights policies and standards. The company faces several violation lawsuits as well as significant fines. More specifically, the company has been the subject of investigation by US federal authorities regarding allegations of discrimination and wage violations lawsuits filed by employees. In addition, the company is under investigation regarding allegations for violations of federal law by illegally suppressing workers’ rights. Some of these issues have been settled. However, the company is still facing allegations of wrongdoing which might lead to potential policy changes.</p> <p>Therefore, a third-party assessment would help shareholders better evaluate various allegations related to freedom of association and collective bargaining, and the company’s management of any associated risks.</p>
<b>Vote Outcome</b>	A significant 52% of shareholders voted in favour of the proposal, which demonstrates the importance of the issues that the company is facing. A third-party assessment would be beneficial for shareholders to be able to assess the company’s management of human rights and workers’ rights. ILIM will continue overseeing the development of the different challenges the company is facing regarding the management of workers’ rights as well as assessing its actions and disclosures.

## CORPORATE GOVERNANCE

## CASE STUDY – UNILEVER PLC

<b>Date of AGM</b>	3 May 2023
<b>Country</b>	United Kingdom
<b>Resolution Category</b>	Remuneration
<b>Resolution Summary</b>	Approval of Executive Remuneration
<b>Vote Decision</b>	Against
<b>Vote Rationale</b>	<p>The company asked for shareholders’ approval of the executive remuneration plan for the incoming CEO, Hein Schumacher. ILIM voted against the proposal, as the base salary of the incoming CEO has been set higher (18.5%) than the fixed pay of his predecessor and also significantly higher relative to other FTSE 30 companies. This is not the first time that proposals from Unilever’s remuneration committee has seemed at odds with its, otherwise positive, sustainability credentials. It also became a high-profile issue among European asset managers.</p> <p>The company stated that the Nomination Committee had assessed the new CEO’s salary against their benchmarking peer group consisting of UK and EU companies of similar financial size and complexity to Unilever.</p> <p>However, as the fixed remuneration is not directly linked to performance and, more specifically, to the performance of an incoming CEO, we could not identify a compelling justification for the salary of the new CEO to be significantly higher than that of his predecessor and UK market peers. Furthermore, the new CEO’s salary at Unilever was almost two times the salary he received from his previous CEO role.</p>
<b>Vote Outcome</b>	The proposal concentrated a significantly high level of dissent. 58% of shareholders voted against the approval of the remuneration report, recognising the issues associated with the base salary of the incoming CEO.

Any net-zero goals and goals on diversity, equity and inclusion (DEI) contained in this document are based on ILIM's current expectations and beliefs concerning future developments and their potential effects on ILIM and its clients. Such predictions, projections and beliefs are based on current expectations and assumptions and, as a result, are subject to uncertainties. They are not intended to serve, and must not be relied on, as a guarantee, an assurance, a prediction or a definitive statement of fact. Actual events and circumstances are difficult or impossible to predict and are beyond our control. ILIM can give no assurance that it will be able to achieve net-zero and DEI goals. Factors that may affect our ability to achieve net-zero and DEI goals include but are not limited to: (i) our clients' preferences, including a continued client demand for sustainability-focused investment strategies, (ii) the market for sustainability-focused investment strategies continuing to develop in line with the European Green Deal and the EU Action Plan: Financing Sustainable Growth, (iii) policymaker / governmental strategies continuing to align with the European Green Deal and the EU Action Plan: Financing Sustainable Growth; (iv) the companies in which we invest our clients' assets being receptive to our engagements and being open to adopting more sustainable practices, (v) access to high-quality and reliable data, (vi) the ability to implement business plans, forecasts and other expectations, (vii) the legal and regulatory environment, (viii) the risk of legal or regulatory challenge. This foregoing list of factors is not exhaustive.

As an investment manager, our primary purpose is to provide our clients with solutions to meet their investment needs and to deliver on the promises we make to them. Our commitments, objectives, goals and targets may need to change or be recalibrated to meet our other strategic objectives and the reasonable expectations of our clients, including expectations around financial performance. This may include prioritising other strategic objectives over our climate-related and DEI goals in pursuit of fulfilling our primary purpose, delivering value to our clients and meeting expectations around financial performance. As our business, our industry and climate science evolve over time, we may need to adjust our climate and DEI related goals and our approach to meeting them. We will also need to remain thoughtful about the regulatory and business environment of the jurisdictions in which we operate, as our ability to achieve our climate and DEI goals is contingent on the success of our partners and communities.

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