ILIM

Life \ Pensions \ **Investments**

Principal adverse impacts of investment decisions **on sustainability factors**

more **INVESTED**

SUMMARY

Irish Life Investment Managers (ILIM), TWBHJZDB2TYBXZPLM625, considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of ILIM.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January 2022 to 31 December 2022.

At ILIM, we are committed to managing the assets entrusted to us by our clients responsibly, with the objective of delivering long-term sustainable returns.

The concept of Principal Adverse Impacts is described under the EU's Sustainable Finance Disclosure Regulation (SFDR) as negative, material or likely to be material, effects on sustainability factors that are caused, compounded by, or directly linked to, investment decisions and advice performed by the legal entity[1].

As an asset manager, we recognise the potentially material impacts derived from risks in Climate Change, Natural Capital, Human Rights, and Corporate Governance, and have embedded these priority themes into our investment approach. As part of our approach to Responsible Investing, we aim to mitigate the negative impacts of our investment decisions on sustainability factors. ILIM monitors and aims to mitigate Principal Adverse Impact (PAI) indicators across climate, environmental, social, and governance themes, including indicators specific to investee companies, sovereign and supranational debt, and real estate assets.

SCOPE OF PAI STATEMENT

ILIM has direct control and investment discretion of our proprietary investment solutions. It is important to distinguish these assets from client-directed assets.

For our proprietary investment solutions, we have full discretion, within mandate, to control the investment strategy (including exclusion and/or integration approach) and exercise active ownership for the companies in which we invest.

For client directed assets, the investment strategy is subject to the agreed mandate determined by our institutional clients. Our ability to exercise active ownership is also dependant on the discretion afforded to us within the investment mandate.

The degree by which principle adverse impacts are considered in the investment process varies depending on a number of factors such as the type of strategy, discretion afforded to ILIM by the asset owner, and the nature of the asset class, coupled with the availability of reliable PAI and ESG data.

A select numbers of principle adverse impacts are systematically considered, where feasible and where possible, for financial products that promote environmental and/or social characteristics (Article 8 under SFDR), and also for products that have a sustainable investment objective (Article 9 under SFDR). The application can vary between financial products and will be disclosed in the required disclosures per the Sustainable Finance Disclosure Regulation (SFDR).

[1] https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/PAI-data-remains-strong

DESCRIPTION OF THE PRINCIPAL ADVERSE IMPACTS ON SUSTAINABILITY FACTORS

ILIM has an established approach and strong track record in Responsible Investing[2]. ILIM's investment approach considers a range of PAIs, and ILIM continually seeks to enhance and evolve its approach to mitigate and reduce the PAIs through its Responsible Investing approach.

ILIM will continue to integrate PAI indicators more strictly into our investment process, by utilising third-party data that is more closely aligned with these indicators, and by embedding it into the levers that we already use for the sustainable management of our investments.

The table below provides an overview of the adverse impacts that are considered, and how we aim to mitigate them through our Responsible Investment approach.

Adverse sustainability indicator	Metric	Actions taken
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
GREENHOUSE GAS EMISSIONS (GHG)		
1. GHG emissions	ILIM's proportional exposure of the Scope 1, 2 GHG emissions of investee companies.	Active ownership, screening and ESG risk integration
2. Carbon footprint	ILIM's proportional exposure of the carbon footprint/emissions of investee companies.	Active ownership, screening and ESG risk integration
3. GHG intensity of investee companies	This relates to the GHG emissions of companies divided by their revenues.	Active ownership, screening and ESG risk integration
4. Exposure of companies active in the fossil fuel sector	ILIM's exposure to companies active in the fossil fuel sector means: (i) companies that derive any revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (i) companies that derive any revenues from the exploration, extraction, distribution (including transportation, storage and trade) or refining of liquid fossil fuels; and (iii) companies that derive any revenues from exploring and extracting fossil gaseous fuels or from their dedicated, distribution (including transportation, storage and trade).	Active ownership, screening and ESG risk integration
5. Share of non-renewable energy consumption and production	The share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources.	Screening, active ownership, ESG risk integration
6. Energy consumption intensity per high impact climate sector	The energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector, where high impact climate sectors are defined following the NACE classification system	Screening, active ownership, ESG risk integration
BIODIVERSITY		
7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas	Active ownership

[2] https://www.ilim.com/media/2145/ilim-ri-policy.pdf

Adverse sustainability indicator	Metric	Actions taken
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
WATER		
8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average. Emissions to water include direct emissions of priority substances, direct nitrates, direct phosphate emissions and direct pesticides emissions.	Active ownership
WASTE		
9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average.	Active ownership
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
SOCIAL AND EMPLOYEE MATTERS		
10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Screening, active ownership
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Investments in companies that (1) lack 'policies to monitor compliance with the UNGC Principles or OECD Guidelines' or (2) lack 'grievance/complaints handling mechanisms to address violations' of the principles or guidelines.	Active ownership
12. Unadjusted gender pay gap	The difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees	Active ownership
13. Board gender diversity	Ratio of female to male board members in investee companies.	Active ownership
14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in companies that are involved in the manufacturing or selling of controversial weapons, being: anti-personnel mines, cluster munitions, chemical weapons and biological weapons	Screening, active ownership
Indicators applicable to investments in sovereign and supranational financial instruments		
ENVIRONMENTAL		
15. GHG intensity	GHG emissions of invested countries spanning the full GHG spectrum	Currently in development
SOCIAL		
16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	Currently in development

Adverse sustainability indicator	Metric	Actions taken
Indicators applicable to investments in real estate assets		
FOSSIL FUELS		
17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	ESG risk integration, active ownership
18. Exposure to energy-inefficient real estate assets	Share of investments in energy inefficient real estate assets	ESG risk integration, active ownership

DESCRIPTION OF POLICIES TO IDENTIFY AND PRIORITISE PRINCIPAL ADVERSE IMPACTS ON SUSTAINABILITY FACTORS

Our assessment process to identify, prioritise, and mitigate principal adverse impacts on sustainability factors is embedded in the policies that guide our investment strategy. ILIM has been considering adverse impacts in the management of its portfolios for a number of years, identifying them firstly through our main priority themes, which are also related to the Sustainable Development Goals (SDGs). Some of the principle adverse impacts are shown below:

> Adverse impacts related to Climate Change, including management of greenhouse gas emissions, renewable energy, fossil fuel involvement, and physical climate risks.

> Adverse impacts related to Natural Capital, including biodiversity, water consumption and pollution, and hazardous waste.

> Adverse impacts related to Human Rights, including worker's rights, equality in the workplace, supply chain labour standards, and the prevention of modern slavery.

> Adverse impacts related to Corporate Governance, including anti-bribery and corruption measures, board composition and diversity, remuneration, ESG risk oversight, and audit and internal controls.

There are three levers that ILIM uses to align our investments with our priority themes, and to deliver long-term sustainable outcomes – the ability to use each lever will depend on the level of discretion afforded to us under the mandate, as well as the type of asset and the availability of reliable ESG and PAI data:

Screening and exclusions: ILIM's exclusions policy[3] sets the baseline for investments. Below this baseline, companies are deemed ineligible for investment due to their products or behaviours causing harm or being controversial in nature. We screen for criteria including UN Global Compact breaches, severe ESG controversies, thermal coal, unconventional fossil fuels, and tobacco.

ESG risk integration: ILIM explicitly and systematically includes ESG factors in investment analysis and decisions[4] as part of our Responsible Investment policy, in order to better manage risks and deliver more sustainable long-term returns. Our ESG integration process combines four different strategies:

> Best in class tilt, to improve ESG allocation by reassigning capital to better rated companies.

> Green tilt, to assign capital to companies with higher 'Green Revenues', and those best placed to benefit from the transition to a low carbon economy. We achieve this by screening for activities including Energy Efficiency, Green Buildings and Transportation, Renewable Energy, Water Management, and Pollution Prevention and Reduction.

> Brown tilt, to reduce exposure to companies with 'stranded assets' by underweighting companies with large revenues derived from thermal coal and other fossil fuel activities, which are more exposed to transition risks.

> Carbon tilt, incorporating Carbon Risk Rating (forward looking) and Carbon Intensity (backward looking) data, to invest in lower emitting companies with more favourable scores.

Active Ownership: as a responsible investor, ILIM adopts an active ownership approach across its equity holdings. ILIM uses the discretion afforded to it under a client's Investment Management Agreement to exercise voting rights[5] and to constructively engage[6] with investee companies, encouraging better standards and management processes covering financially material ESG risks, in line with our priority themes.

[3] https://www.ilim.com/media/1964/responsible-investing-annual-review-2021.pdf
[4] https://www.ilim.com/media/1717/the-irish-life-sustainable-equity-strategy-institutional.pdf
[5] https://www.ilim.com/media/1707/voting-policy-february-2022.pdf
[6] https://www.ilim.com/media/2146/ilim-engagement-policy.pdf

Reviewing and monitoring ILIM's adherence to this suite of policies (Exclusions, Voting, Engagement, Responsible Investment, and Sustainability Risk)[7] falls under the responsibility of the Responsible Investment Governance Committee, which is chaired by ILIM's Head of Responsible Investment, and is directly supported by ILIM's Responsible Investment team. The ILIM Board of Directors approves updates to these policies annually or more frequently as required. The latest version of these policies was approved by ILIM's board on 25 February 2021, with an enhanced bespoke version of the Voting Policy approved in May 2022.

DATA SOURCES

ILIM works with third-party data providers and has built ESG infrastructure to integrate ESG factors in portfolio construction and investment management systems. For the monitoring and mitigation assessment of principal adverse impacts on sustainability factors, ILIM uses a wide range of data points, including a tailored PAI dataset, GHG emissions data, ESG ratings, revenue percentage figures that inform our exclusions thresholds and our ESG tilts, and data pertaining to corporate voting meetings for our proxy voting activities. ILIM sources this data from two main providers, Sustainalytics and ISS.

Where information relating to any of the indicators used is not readily available, through either direct disclosure or estimation models, ILIM will aim to continue cooperating with our current providers and other third-party data providers to expand their existing datasets and product ranges. We will also continue to collaborate with international initiatives that are working to improve the availability and quality of relevant company disclosures[8].

ENGAGEMENT POLICIES

The most recent updates to our active ownership policies include a range of criteria that will help us mitigate the PAIs noted above more efficiently going forward. ILIM's active ownership programme focuses on driving positive change in our investee companies through our core ESG themes, which can be categorised under two mega themes: decarbonisation and a trend to a more stakeholder-centric business model, and four priority thematic areas: climate change, natural capital, human rights and corporate governance.

ILIM's new bespoke voting guidelines incorporate PAIs through two mechanisms:

Shareholder proposal support: Through our progressive voting policy aligned with ILIM's four priority thematic areas, we generally support well-constructed ESG shareholder proposals across PAI indicators 1 through 9, as well as multiple voluntary environmental and social indicators.

Voting action against directors: Our bespoke guidelines vote against directors of companies with low gender and ethnic board diversity, companies without independent leadership and companies underperforming on climate oversight, strategy and action. In addition, our voting guidelines integrate direct voting action against companies on non-discretionary portfolios that would fall under ILIM's Exclusion Policy, including companies with UN Global Compact breaches, severe controversies, controversial weapon exposure and production/generation of highly polluting fossil fuels (thermal coal, oil sands, arctic oil), among others. Our voting policy also incorporates PAIs 10 through 14 and reinforces multiple mandatory and voluntary environmental and social PAI indicators. Our bespoke policy further strengthens the voting strategy by incorporating voting action against unresponsive companies we are engaging with on a variety of ESG topics.

ILIM also tackles many specific PAIs through engagement activities, either directly with companies or collaboratively with other investors. Engagement topics which we consider main areas of focus due to their material impact on society and/or the environment include: transition climate risks, physical climate risks, biodiversity, water, waste management, human rights, supply chain labour standards/modern slavery, anti-discrimination, anti-corruption, global norms and ESG risk.

These guidelines, including their impact, will be reviewed year on year to ensure reduction of Principal Adverse Impacts, implementing escalation mechanisms that may include increased voting action, direct engagement, and exclusions.

[7] https://www.ilim.com/responsible-investing/policies/
[8] See 'References to international standards' section below for more details on ILIM's advocacy for sustainable disclosures.

REFERENCES TO INTERNATIONAL STANDARDS

ILIM commits to continue advocating for climate action with policymakers, investors, and industry groups, such as:

> the Sustainable & Responsible Investment Forum (SIF) Ireland

> EuroSIF

> Financial Services Ireland (FSI)

> the Principles for Responsible Investment (PRI)

> Carbon Disclosure Project (CDP)

> Climate Action 100+

> the Institutional Investors Group on Climate Change (IIGCC).

We continually collaborate and participate with these and other investor initiatives, and are members of the Institutional Investors Group on Climate Change (IIGCC) Net Zero Asset Managers working group and the Global ESG Benchmark for Real Assets (GRESB). Through our commitment to the green transition, our values are aligned with global initiatives, such as the Paris Agreement under the UNFCCC, and a strong commitment to the Net Zero Asset Managers Initiative (NZAM). Our various sustainable investment strategies are further aligned with a broad range of international norms and conventions, including but not limited to:

> UN Global Compact

> UN Sustainable Development Goals

> OECD Guidelines for Multinational Enterprises

> United Nations Convention on Prohibitions or Restrictions on the use of Certain Conventional Weapons Which May be Deemed to be Excessively Injurious or to Have Indiscriminate Effects

> Convention on Cluster Munitions

USING CLIMATE-RELATED SCENARIOS TO INFORM INVESTMENTS

ILIM has already taken initial steps to inform clients about how well client-directed portfolios are aligned with decarbonisation trends, using tools such as the Paris Agreement Capital Transition Assessment (PACTA) as well as carbon portfolio assessments[9]. Additional scenario analyses have been performed, with the aim of analysing direct emission intensity and to better understand climate scenarios to which a portfolio is aligned.

ILIM engages with ISS ESG scenario analysis, a third-party provider of ESG data including forward-looking analysis on climate modelling, which uses an approach that is based on three climate scenarios provided by the International Energy Agency (IEA)[10]. The analysis presents three scenarios, the Sustainable Development Scenario (SDS), the Stated Policy Scenario (STEPS) and the Current Policy Scenario (CPS). Each scenario expects a certain level of carbon budget and temperature increase in 2050, and is tied to a different carbon budget that specifies the amount of fossil carbon that can be combusted worldwide to remain within a certain temperature increase.

HISTORICAL COMPARISON

As 2022 is the first year of reporting, there are no comparative periods to report. A comparison between the 2022 and 2023 PAI indicators will be provided in the 2023 PAI Statement which will be available in June 2024.

[9] https://www.ilim.com/media/2233/tcfd-2021-report.pdf
[10] https://www.iea.org/reports/world-energy-outlook-2019 (IEA World Energy Outlook 2019 report published 13th November 2019).

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