



2022

# Responsible Investment Annual Review

Helping people build  
better futures



**Kathy Ryan**  
Head of Responsible Investment, ILIM

# Foreword

Dear Stakeholders,

I am pleased to present the annual Responsible Investment Report from Irish Life Investment Managers (ILIM). The report provides an overview of the responsible investment activities we have undertaken from 1 January to 31 December 2022.

The period was tumultuous, both economically and geopolitically, but it was also a year where significant progress was made in areas such as the green transition, arguably propelled by events including the Russia-Ukraine conflict. Indeed, renewable energy expansion plans have been sped up globally as the cost of brown fuels has risen. This has been led by policies like the Inflation Reduction Act in the US, with some \$369bn of subsidies for green technology, while the European Commission also plans to invest €250bn in the sector. We view these developments as indicative of a structural support for responsible investing across all stakeholders.

At ILIM, we made significant progress in a number of areas aligned with our four priority themes:



### Voting:

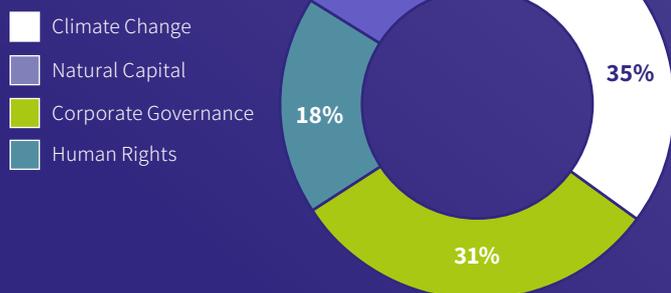
- > We created a bespoke custom voting policy in 2022, with focus on board independence, board diversity and climate change. ILIM supported a number of shareholder resolutions and voted against management recommendations, with examples in the table below in each of ILIM's four thematic priority areas for responsible investing.

Climate Change		
<b>Exxon Mobile</b>	Voted for a report on scenario analysis consistent with the IEA's Net Zero by 2050	<b>RESOLUTION PASSED</b>
Natural Capital		
<b>Home Depot</b>	Voted for a report on effort to eliminate deforestation in the company's supply chain	<b>RESOLUTION PASSED</b>
Human Rights		
<b>The Walt Disney Company</b>	Voted for a report on median pay gaps across race and gender in the company's workforce	<b>RESOLUTION PASSED</b>
Corporate Governance		
<b>Linde</b>	Voted against the repeal of the company's supermajority vote provisions	<b>RESOLUTION PASSED</b>

### Direct engagement:

- > ILIM increased direct engagement with companies by 51% to 144 companies. ILIM launched new engagement topics and commenced engagements based on proprietary analysis conducted by the Responsible Investment team.

Priority themes breakdown - 2022 direct engagements



### Leadership in the Irish market:

- > ILIM enhanced its focus on the Irish companies as part of its direct engagement programme, launching 22 new engagements under the themes of board gender diversity and environmental disclosures.

### Collaborative engagements:

ILIM participated in nine collaborative engagement initiatives in 2022, with two new engagements added on the topics of biodiversity and human capital.

### Net-zero commitment:

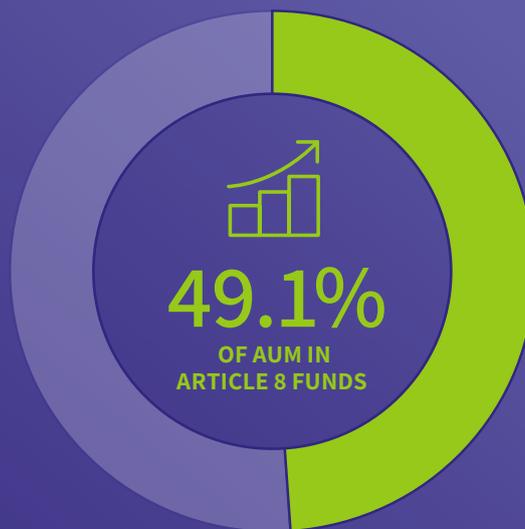
ILIM joined the Net Zero Asset Managers Initiative in 2022. ILIM launched 25 net-zero direct engagements, covering circa 15% of Scope 1 and Scope 2 financed emissions.

### Engagement with policymakers and industry bodies:

ILIM participated in industry groups to advance methodologies and standards in terms of net-zero alignment, such as the IIGCC Net Zero Stewardship Working Group, the Net Zero Benchmark Group and the Net Zero Proxy Advisor engagement workstream. ILIM also contributed to key reports for policymakers on the topics of sustainable finance regulations and impact investing.

### Engagement with clients:

ILIM ran net-zero courses and ESG training for clients and partners. Expanding its ESG solution set, ILIM launched a number of new Article 8 solutions.



The growth of Article 8 fund assets under management grew to 49.1% of AUM as at 31 December 2022. This represented a 14% increase on the previous year.

## 2023 – looking forward



ILIM is committed to managing assets responsibly, with the objective of delivering long-term sustainable returns.

Although notable progress was made in 2022, ILIM believes there is much to do and will maintain its active and proactive stance towards responsible investing in 2023 and beyond. ILIM intends to use all influence levers that it has, including active ownership, to favour investments that have a stronger alignment with the core sustainability megatrends of 'decarbonisation' and the shift to a 'stakeholder centric business model', focusing on its four thematic priority areas: Climate Change, Natural Capital, Human Rights, and Corporate Governance.

Building on ILIM's net-zero commitment, in 2023, ILIM will update its bespoke voting policy to further align with net zero and will advance the net-zero focused engagements launched in 2022. ILIM will expand its engagement efforts with companies, take strong voting actions and increase director accountability in cases where companies are deemed as laggards or some of the higher polluters with insufficient strategies regarding climate risk mitigation.

Recognising that using its voice in the public arena to advocate for improved company sustainability practices is a key leverage point, in 2023, ILIM will start to pre-disclose its voting intentions on key resolutions for specific company general meetings.

Furthermore, ILIM will continue to focus on gender and ethnic diversity issues through engagement as well as voting. ILIM will remain committed to holding directors accountable for cases of lack of diversity and will expand its engagement efforts on this topic.

Considering its potential to influence change in its local market, in 2023, ILIM will expand engagement with companies in the Irish market, as well as participate in industry forums on relevant themes such as climate – taking the role of Chair of CDP Ireland – and diversity – as Chair of the 30% Club investor initiative.

ILIM will continue to engage with investee companies and advocate for sustainability with policymakers, investors, and industry groups.

ILIM looks forward to working with all its stakeholders on this agenda in 2023.

Yours sincerely,

A handwritten signature in black ink that reads "Kathy Ryan". The signature is written in a cursive, flowing style.

**Kathy Ryan**

# Voting



## Executive summary

ILIM voted on more than 5,000 meetings in 2022. The voting analysis and voting oversight was conducted by ILIM’s Responsible Investment team. In this section, we will give insight into our voting activities, our voting policy guidelines, voting trends for 2022 and some of the key votes throughout the year.

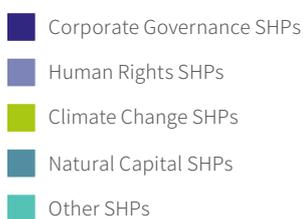
### 2022 VOTING TRENDS – INCREASED SCRUTINY ON ESG ISSUES

- > Increase in climate change shareholder proposals
- > Greater focus on:
  - Diversity, equity and inclusion
  - Human rights
  - Political lobbying and contributions
- > Virtual-only meetings

Breakdown of shareholder resolutions voted against management by ILIM priority theme



Meetings with shareholder proposals voted by ILIM priority theme – 2022



### INCREASE IN CLIMATE CHANGE SHAREHOLDER PROPOSALS

Climate change has been established as a critical long-term systemic risk to investment portfolios and, as such, we observed an increase in shareholder proposals filed on this topic. According to Harvard Law School Forum on Corporate Governance, submissions of environmental proposals increased 46%, with 177 proposals submitted during the 2022 season compared to 121 during the 2021 season. For the 2022 proxy season, there was an increase in environmental shareholder proposals requesting:

- > Reduction of greenhouse gas (GHG) emissions and targets across Scope 1, 2 and 3 emissions, with the proposals requesting reduction of Scope 3 emissions gaining significant momentum
- > Increased disclosure on recycling and waste management, and on the impact of single-use plastics and opportunities in sustainable packaging
- > Accountability for board members if the company fails to demonstrate progress on issues regarding climate change.

Overall, the increased influx of more prescriptive proposals related to climate change is indicating the continuous increase of investors’ focus on enhanced disclosures and net zero alignment strategies demonstrated by companies.

### GREATER FOCUS ON DIVERSITY, EQUITY AND INCLUSION

There was significant focus on enhancing gender and ethnic diversity on the boards of investee companies. In early 2022, regulators in the UK and European Union increased the requirements for female representation on boards and in executive level positions, with companies asked to comply or explain. While companies in certain regions have made significant progress, improvements are still needed to increase diversity in the boardroom as well as in leadership positions.

Furthermore, regulatory focus on enhancing ethnic diversity is increasing, with requirements for companies in certain markets to have at least one director with minority ethnic background. Investors are encouraging companies to disclose data related to

## Voting against ESG laggards

210

CLIMATE LAGGARD COMPANIES

417

COMPANIES WITH INSUFFICIENT GENDER DIVERSITY AT BOARD LEVEL

588

COMPANIES WITH INSUFFICIENT ETHNIC BOARD DIVERSITY

797

COMPANIES WITH COMBINED CHAIR AND CEO ROLES

ethnic backgrounds of directors where such disclosures are legal, as well as calling for additional disclosures on plans to improve ethnic diversity.

### INDEPENDENT RACIAL EQUITY AND CIVIL RIGHTS AUDITS

Consistent with the 2021 trend on racial equity audits, there was an increase in filings of racial equity audit resolutions, as well as resolutions which focus on the impacts of companies’ policies and practices relating to the broader civil rights of stakeholders, including employees and communities. These resolutions were among the most successful in 2022 as eight out of 24 resolutions supported by ILIM received majority shareholder support.

ILIM subsequently launched engagements with multiple companies that received majority or near-majority support on racial equity/civil rights audit resolutions in 2022, to ensure that the requests of the proposals are carried out and follow best practice. Engaged companies included firms such as Home Depot, Stericycle and Elevance Health. Beyond civil rights / racial equity audit resolutions, in 2022, there was enhanced focus on additional information regarding companies’ hiring practices, workforce demographics, privacy, advertising, and misuse of technology.

### INCREASED FOCUS ON POLITICAL LOBBYING AND CONTRIBUTIONS

In 2022, as in the prior year, there was an increase in shareholder proposals regarding political lobbying and political contributions. Shareholders are requesting clarity and additional disclosure on political lobbying activities and political expenditures by investee companies. In addition to the traditional disclosure requests, during the 2022 voting season, we observed an expansion of this topic to climate-related issues, and, more specifically, to issues around environmental justice.

### MEETING FORMAT: VIRTUAL-ONLY MEETINGS

Companies have been persistently requesting shareholders’ approval on virtual-only meeting formats. ILIM observed an increase in European companies that have not set any long-term plans regarding virtual-only meetings. However, there are still companies that continue with the virtual-only format. ILIM believes that this format creates obstacles to enabling access and discussion, and to preserving shareholder rights around annual meetings.

### VOTING POLICY

During 2021, ILIM created bespoke Global Proxy Voting Guidelines in order to apply more scrutiny to its key areas of focus and enhance action across all relevant thematic areas. In addition to the overall policy, the amendments were focused on board governance, including the independence of the board chair, gender and ethnic diversity and climate change. While taking into consideration specific company circumstances, ILIM generally aims to enhance companies’ corporate governance, and environmental and social responsibility, in order to create long-term shareholder value for clients.

The 2022 Global Proxy Voting Guidelines were created by taking into consideration best practices, ILIM’s engagement efforts, the Net Zero Asset Management initiative and ISS’s Climate Proxy Voting Guidelines. ILIM’s Global Proxy Guidelines also utilise ISS’s Climate Awareness Scorecard methodology to better identify climate-related risks and opportunities through publicly disclosed data and reporting of companies’ climate change-related disclosures, performance, GHG emissions intensity and exposure, as well as their climate risk profile.

ILIM’s bespoke voting policy allows for an in-depth assessment of the context of climate-related proposals and reviews the companies’ unique operations and climate risks, as well as their strategy execution and board accountability.

ILIM is annually reviewing the application of the proxy voting guidelines and updates them appropriately, and where necessary, based on engagement outcomes, market trends, and upcoming legislations.

### VOTES AGAINST DIRECTOR ELECTIONS

In 2022, guided by ILIM’s Global Proxy Voting Guidelines, we took direct voting action against directors of companies either lagging in climate change performance or with insufficient levels of board diversity and independence.

## Headline voting stats

Meetings voted	Overall resolutions (management + shareholder) voted against management recommendation	Shareholder resolutions voted against management recommendation	Meetings with at least one vote against management recommendation
5,369	18.9%	33.7%	59.1%

Voting statistics are disclosed below on a meeting-level (i.e. annual general and extraordinary meetings of shareholders) and resolution-level (i.e. individual votable resolutions from each meeting)

### MEETING-LEVEL STATISTICS

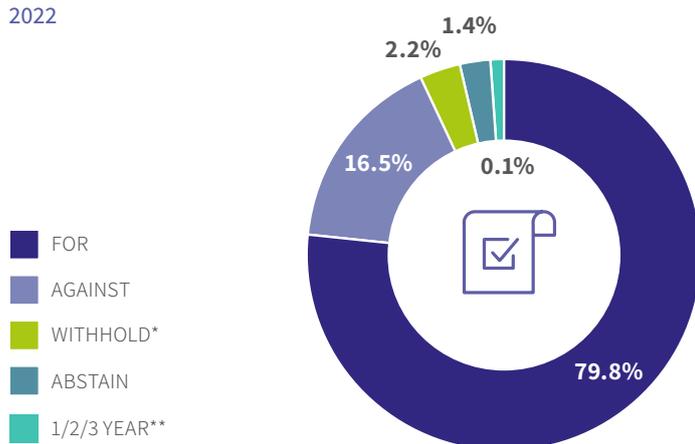
Total meetings voted during the period	5,369
Annual events	3,526
Special events	1,805
Court meetings	31
Proxy contests	7

### RESOLUTION-LEVEL STATISTICS

The graphs below summarise all the votes cast in 2022.

Breakdown of voting instructions by resolution:

Total voting by instruction, 2022



\*Predominantly seen in the US market, companies with a plurality vote standard use 'Withhold' as the contrary vote option in director elections; companies with a majority vote standard use 'Against'.

\*\*This vote decision refers to the proposal regarding the approval of the frequency that the executive remuneration should be approved by shareholders. This is specific to the US market and the only available options on the agendas are 1, 2 or 3 years.

### VOTING ACTIVITY SPLIT BY PROPOSAL CATEGORY

In 2022, ILIM voted on 5,369 meetings with 18.9% of overall resolutions voted against management. ILIM exercised its voting rights in line with its four thematic priorities: Climate Change, Natural Capital, Human Rights and Corporate Governance.

Generally, we voted in favour of shareholder proposals across the four thematic priorities, with 33.7% of all ESG-related shareholder resolutions being voted against management recommendation, showing the strength of ILIM's voting approach and alignment to the wider active ownership strategy. Furthermore, 59.1% of all meetings voted by ILIM in 2022 had at least one vote against management recommendations.

ILIM supported 79.8% of all management resolutions, with a majority of them being routine business items where there were no concerns that could warrant a vote against. More than a third of management resolutions were related to director elections as this is the most prevalent voting item in AGM agendas. In 2022, in line with an enhanced focus on targeting director elections as a means of achieving impact through voting, 19.8% of director elections were not supported (an increase from 9.9% in 2021). The table below also shows ILIM's action against compensation/remuneration plans that had problematic provisions or that were not proportional to performance.

ILIM highly supported shareholder resolutions across the priority themes of Climate Change, Natural Capital and Human Rights. Year-on-year, the quality of filed environmental and social proposals has increased, with improved scope and potential for impact; thus, ILIM has been generally supportive of these resolutions. ILIM did not support shareholder resolutions in 2022 that were overly prescriptive or that could restrict managerial decision-making; these resolutions were most present on the themes of Climate Change and Human Rights. In terms of Corporate Governance, the topics where ILIM voted the most against were director elections and amendments to company articles.

Environmental shareholder resolution topics that received substantial support from ILIM included resolutions requesting reports on climate change, GHG emissions disclosure and plastic pollution. Social shareholder proposals generally supported by ILIM included reports requesting human rights risk assessments, disclosure on direct and indirect lobbying and political contributions, and racial equity / civil rights audits.

ILIM’s voting across management and shareholder resolutions in 2022

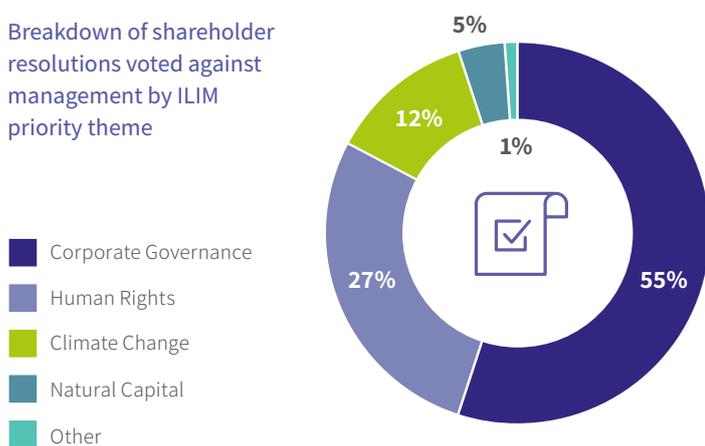
Category	Total proposals in category	Votes FOR	% within category	Votes AGAINST	% within category	Votes ABSTAIN	% within category	Votes WITHHOLD	% within category
All management proposals	52,749	4,2030	79.7%	8,718	16.5%	757	1.4%	1,183	2.2%
Mgmt proposed director elections	18,590	1,3736	73.9%	3,679	19.8%	21	0.1%	1,154	6.2%
Approve remuneration of executive directors and/or non-executive directors	363	265	73.0%	98	27.0%	0	0.0%	0	0.0%
Advisory vote to ratify named executive officers' compensation	1,699	1,344	79.1%	355	20.9%	0	0.0%	0	0.0%
Corporate governance shareholder resolutions	1,564	1,271	81.3%	264	16.9%	20	1.3%	9	0.6%
Human rights shareholder resolutions	188	182	96.8%	6	3.2%	0	0.0%	0	0.0%
Climate change shareholder resolutions	112	86	76.8%	26	23.2%	0	0.0%	0	0.0%
Natural capital shareholder resolutions	31	31	100.0%	0	0.0%	0	0.0%	0	0.0%
Other shareholder resolutions	35	7	20.0%	28	80.0%	0	0.0%	0	0.0%
<b>Total overall</b>	<b>54,680</b>	<b>43,608</b>	<b>79.8%</b>	<b>9,042</b>	<b>16.5%</b>	<b>777</b>	<b>1.4%</b>	<b>1,192</b>	<b>2.2%</b>

Votes with and against management by theme

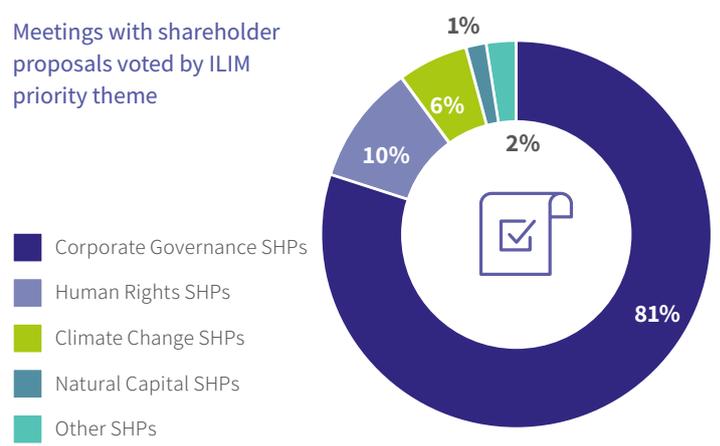


**BREAKDOWN OF SHAREHOLDER RESOLUTIONS VOTED AGAINST MANAGEMENT BY ILIM PRIORITY THEME – 2022:**

Breakdown of shareholder resolutions voted against management by ILIM priority theme



Meetings with shareholder proposals voted by ILIM priority theme



**KEY VOTES**

ILIM voted on 54,680 proposals in 2022, with some proposals attracting higher scrutiny and categorised as significant by ILIM. Reasons for the categorisation as significant votes include resolutions falling across ILIM’s four themes (Climate Change, Natural Capital, Human Rights and Corporate Governance), high profile votes, such as votes on major or emerging topics, and votes with significant media attention. Below are cases that highlight some of the key votes in 2022 with some insight into ILIM’s assessment and voting.

## Voting case studies

### CLIMATE CHANGE

Company name	Proposal	Outcome
<b>Exxon Mobil Corporation</b> 25/05/2022	ILIM supported the shareholder resolution requesting the company to report on scenario analysis consistent with the International Energy Agency's Net Zero by 2050. We believe that an increased disclosure on risks and the overall approach of the management of climate change and the transition to a low carbon economy is crucial and beneficial for shareholders.	The proposal passed with 51.0% support from shareholders.
<b>Chubb Limited</b> 19/05/2022	ILIM voted in favour of a shareholder resolution requesting Chubb to disclose and reduce the GHG emissions associated with its underwriting, insuring and investment activities, as well as its alignment with the Paris Agreement's 1.5C goal of net-zero emissions. The increased disclosure improves the ability of shareholders to evaluate the company's management of climate risks from its underwriting, investment and insurance activities.	The proposal passed with 72.2% support from shareholders. Chubb has made public disclosures about its steps to address climate change. The company also issued its first TCFD report in 2021.
<b>Costco Wholesale Corporation</b> 20/01/2022	ILIM voted in favour of a shareholder resolution requesting the company adopt short-, medium-, and long-term science-based GHG emissions reduction targets. We believe that a better disclosure on the company's GHG emissions reduction efforts would provide a better understanding of the management of the transition to a low carbon economy and climate change related risks.	The proposal passed with 69.9% support.

## Voting case studies continued

### NATURAL CAPITAL

Company name	Proposal	Outcome
Tesla, Inc. 04/08/2022	<p>ILIM voted in favour of a shareholder resolution requesting the company prepare a report on water risk exposure. The resolution's request included all policies and practices to reduce water risk – from siting of facilities to preparing for water supply reductions associated with climate change – using quantitative indicators where appropriate.</p> <p>The implementation of the proposal would provide a similar level of disclosure as the CDP Water Security Questionnaire, which ILIM typically supports and requests from investee companies. More facility-specific information would help shareholders assess how the company is managing any water risks associated with its factories in Germany and in Texas.</p>	While the proposal did not pass, it received significant support from shareholders (35.1% of votes supported the proposal).
The Home Depot, Inc. 19/05/2022	ILIM voted in favour of a shareholder resolution requesting the company to report on efforts to eliminate deforestation in the company's supply chain. We believe that additional information on the company's strategy to manage its supply chain's impact on deforestation is beneficial for the shareholders.	The proposal passed with 64.7% support.
Jack in The Box, Inc. 04/03/2022	ILIM voted in favour of a shareholder resolution requesting Jack in The Box issue a report on developing a comprehensive sustainable packaging policy. Additional information regarding the company's management of risks related to the creation of plastic waste is deemed beneficial for shareholders.	The proposal passed with 94.2% support.
Phillips 66 11/05/2022	ILIM voted in favour of a shareholder resolution requesting Phillip 66 to prepare a report describing how the company could shift its plastic resin business model from virgin to recycled polymer production as a means of reducing plastic ocean pollution. We supported the resolution because additional information and disclosure on metrics and targets related to the ability of the company to transition from virgin polymer production would allow to better assess the company's management of associated financial, environmental and reputational risks. In addition, Phillip 66's subsidiary CPChem produces plastics as its main output and participates in the industry goal of having 100% of plastic packaging to be re-used, recycled, or recovered by 2040. However, CPChem does not disclose metrics for progress towards its goals in this area.	The proposal failed to pass but received 49.8% support from shareholders.

## Voting case studies continued

### HUMAN RIGHTS

Company name	Proposal	Outcome
<b>The Walt Disney Company</b> 09/03/2022	ILIM voted in favour of a shareholder resolution and against management's recommendations requesting The Walt Disney Company to report on median pay gaps across race and gender in the company's workforce. We supported the proposal as median pay gap statistics allow for comparison and measurement of the progress of the company's diversity and inclusion initiatives.	The proposal passed with 59.1% support.
<b>Stericycle, Inc</b> 26/05/2022	ILIM voted in favour of a shareholder resolution requesting the company oversee a third-party audit to analyse the adverse impact of the policies and practices on the civil rights of the company's stakeholders. The resolution additionally requested to provide recommendations for improving the company's civil rights impact. We believe that an independent civil rights audit would make for a better assessment of the effectiveness of Stericycle's efforts to address the issue of any inequality in its workforce and its management or related risks.	The resolution passed with 60.6% support. ILIM initiated an engagement with the company regarding a third-party civil rights audit.
<b>Activision Blizzard, Inc.</b> 21/06/2022	ILIM voted in favour of a shareholder resolution requesting Activision Blizzard's board oversee the preparation of an annual public report describing and quantifying the effectiveness and outcomes of the company's efforts to prevent abuse, harassment, and discrimination against protected classes of employees. The report should disclose progress on relevant metrics and targets including the number and dollar amount of disputes settled by the company related to harassment and discrimination cases for the last three years. We supported the proposal as the company has faced scrutiny over employee claims of harassment and discrimination of protected classes. Moreover, additional disclosures allow for a better understanding of the company's management and mitigation of harassment and discrimination risks.	The proposal passed, receiving 63.4% support from shareholders.
<b>Dollar General Corporation</b> 25/05/2022	ILIM voted in favour of a shareholder resolution requesting the company provide a report, updated semi-annually, disclosing the company's policies and procedures for making direct and indirect political contributions, including contributions, recipients and decisionmakers inside Dollar General. We believe that the company had not disclosed any information regarding contributions made through tax-exempt partner organisations, although the company does not directly contribute to political campaigns. Greater transparency would allow for an assessment of the risks and benefits associated with the company's political contributions.	The proposal passed with 57% support from shareholders. ILIM initiated an engagement to ensure publication of this report in 2023

## Voting case studies continued

### CORPORATE GOVERNANCE

Company name	Proposal	Outcome
Netflix, Inc. 02/06/2022	ILIM voted against management recommendation on the advisory vote to ratify executive officer compensation. After two consecutive years of relatively low support for this 'say-on-pay', ILIM considered that the Compensation Committee had again failed to demonstrate meaningful responsiveness to shareholders' concerns. These ongoing concerns are focusing on the pay structure for executive officers, resulting in excessive base salaries, disconnection of pay and performance and a lack of risk-mitigating features. In addition to this, ILIM voted against directors Tim Haley, Leslie Kilgore and Ann Mather, due to poor stewardship of the compensation programme and repeated failures to address shareholders' concerns expressed through low say-on-pay support.	The say-on-pay proposal failed to pass, receiving only 26.9% of shareholder support.
Berkshire Hathaway Inc. 30/04/2022	ILIM voted against Chair and CEO Warren Buffett, Lead Independent Director and Audit Committee Chair Susan Decker, Audit Committee member Meryl Witmer, Director and Vice-Chairman of insurance operations Ajit Jain, and Director and Vice Chairman of non-insurance operations Gregory Abel. The rationale of voting against these directors was to signal the importance of stronger independent oversight and board management of climate risks at the company. The company's subsidiary BHE is a laggard in its industry as it does not set near-term and long-term GHG emissions targets, commit to being net-zero by 2050, or report its climate-related risks and opportunities along TCFD guidelines.	The resolution to elect Susan Decker passed but with a lower level of support (86.6% votes in favour)
Linde plc 25/07/2022	ILIM voted in favour of a shareholder resolution calling for the repeal of the company's supermajority vote provisions. We believe that the implementation of this proposal would reduce the vote required to approve a business transaction with a party deemed to be an 'Interested Person' or an affiliate of an Interested Person, which could prevent the holders of a minority of outstanding shares from vetoing a transaction supported by a majority. The elimination of the supermajority threshold is considered a best practice in terms of good governance.	The proposal passed with 52.3% support.
MOL Hungarian Oil & Gas plc 28/04/2022	ILIM voted against the appointment of Norbert Izer as supervisory board member and as audit committee member, due to the lack of gender diversity on the board. ILIM's Proxy Voting Guidelines recommend voting against the election of nomination committee members due to lack of sufficient female representation on the board of directors. As the company does not have a nomination committee, ILIM voted against the election of the only male director who was up for election.	Norbert Izer was appointed as supervisory and audit committee board member. However, we have initiated an engagement with the company and it has acknowledged our request for an engagement on this issue.

## ILIM Global Proxy Voting Guidelines oversight

Beginning with the implementation of ILIM’s Global Proxy Voting Guidelines, ILIM has continually monitored companies on priority lists (e.g. CA100+ companies, ongoing engagements, major holdings). ILIM reviews votes on upcoming meetings to ensure that the voting positions per our Voting Guidelines are being considered properly by our service provider. We also review votes to ensure that the outcomes are appropriate for each scenario and adequately nuanced whenever there is a topic of a contentious nature.

Below are examples of how ILIM has voted against the recommendations of the Global Proxy Voting Guidelines across two US investee companies:

### 1. EXXON MOBIL:

The ILIM Global Proxy Voting Guidelines recommended votes against all the incumbent members of the Board Affairs Committee (being the committee responsible for nominating board directors) as ethnic representation on the board is below ILIM’s expected threshold of 20% for medium and large cap US companies.

Two members of the Nomination Committee, Gregory J. Hoff and Alexander A. Karsner, were supported by ILIM in the 2021 proxy contest which sought to elect new board members to address the issues of financial underperformance and climate risks being unaddressed by Exxon Mobil’s former board. As ILIM helped elect these directors last year and ESG risks at Exxon Mobil continue to be significant, it was decided to override the recommendations of the ILIM Global Proxy Voting Guidelines to vote against these two directors despite the lack of ethnic diversity. Therefore, ILIM cast votes in support of their re-elections.

### 2. DELTA AIR LINES, INC:

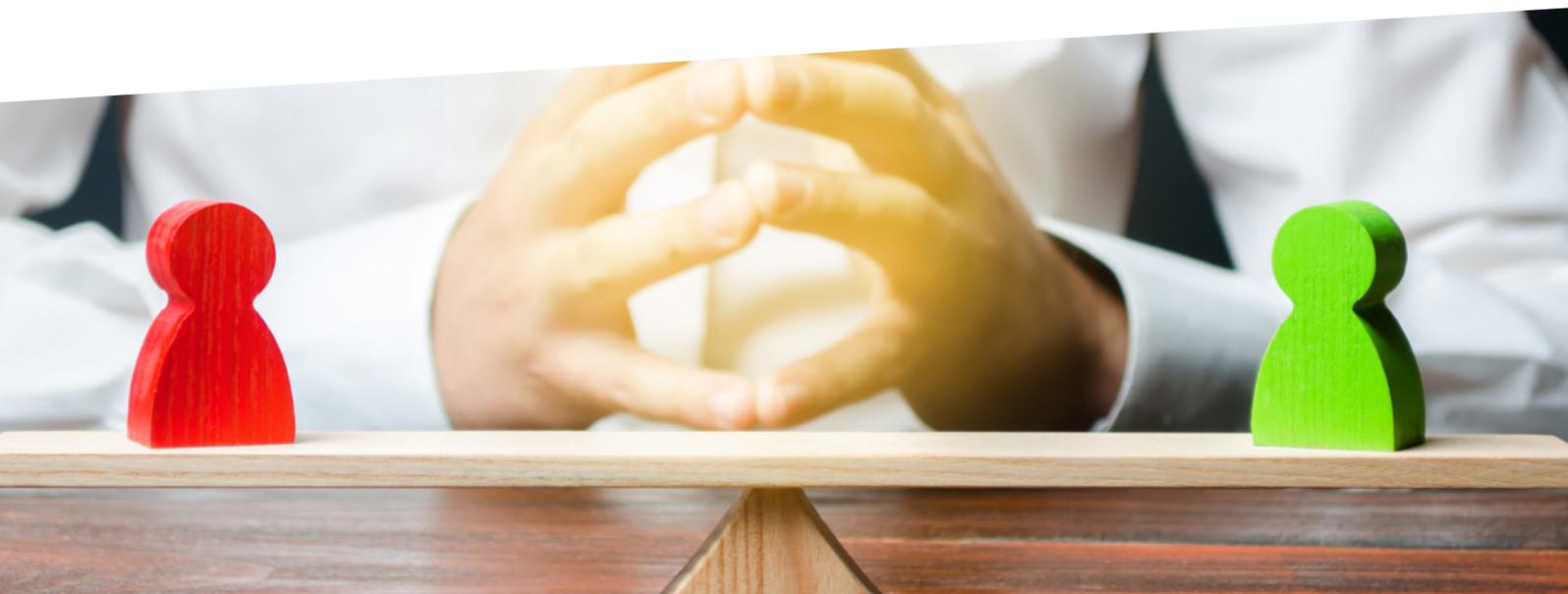
The ILIM Proxy Voting Guidelines recommended a vote against all incumbent members of the Corporate Governance Committee (being the committee responsible for nominating board directors) due to lack of sufficient gender diversity on the board, as outlined in ILIM Global Proxy Voting Guidelines, which expects a minimum of 30% gender diversity for large-cap US companies.

ILIM took into consideration that there were 14 directors in total on the board, including the independent Board Chair, Francis Blake, noting that the board asked Blake to stay on for one more year due to the “unusual circumstances of the last two years”.

In addition, ILIM considered that the board of directors lacked sufficient gender representation. However, the board had strong representation regarding ethnically diverse directors. Therefore, ILIM decided to override voting against the following incumbent Corporate Governance Committee members who all brought gender, racial and/or ethnic diversity: William Easter III, Michael Huerta, Sergio Rial and Kathy Waller. It was further noted that, in April 2022, the two most recent board appointees included an African-American female director.

A separate decision was taken regarding the vote to re-elect the independent Board Chair, Francis Blake. As Blake served on the Corporate Governance Committee, the ILIM Global Proxy Voting Guidelines recommended a vote against his re-election, due to the board gender diversity threshold not being met. However, the following other considerations were taken into account: (a) Delta Air Lines is an example of a US company which has separated the roles of Chair and CEO and has an independent Board Chair, (ii) ILIM’s preference is that a board be led by an independent director and (iii) the board had asked the Chair to stay on for one more year due to the “unusual circumstances of the last two years”, and therefore his tenure was time-limited.

Given all the above considerations, on balance, it was considered appropriate to vote in favour of the independent Board Chair in the unique circumstances of the company, given he will be succeeded in one year’s time, and in recognition of the progress that the board is making on ethnic and racial diversity. Furthermore, ILIM cast votes against other members of the Nominations Committee to signal ILIM’s concern about the lack of sufficient board gender diversity.



# Engagement



**Engagement is a key component of ILIM’s approach to the responsible investment and stewardship of clients’ capital. ILIM has continued to enhance and expand its engagement programme during 2022, building on the progress made in 2021. This has included more one-to-one and collaborative engagements, and a greater focus on the outcomes of the engagements undertaken.**

ILIM engages directly with companies on the topics of climate change (transition and physical risks), biodiversity, water, waste management, human rights, supply chain labour standards/modern slavery, anti-discrimination and diversity, anti-corruption, and ESG risk. In 2022, ILIM also launched engagements driven by its voting on shareholder proposals on racial equity audits, lobbying, and say-on-climate, and launched net-zero focused engagements as part of its Net Zero Asset Managers initiative commitment.

ILIM participates in nine collaborative engagements with investee companies:

- > Climate Action 100+
- > CDP Non-Disclosure Campaign
- > The Global Standards engagement led by Sustainalytics
- > Six thematic engagements led by Sustainalytics on the topics of
  - Climate Change-Sustainable Forests and Finance
  - Localised Water Management
  - Biodiversity and Natural Capital
  - Modern Slavery
  - Human Capital and the Future of Work
  - Tomorrow’s Board.

ILIM has continued to enhance and expand its engagement programme over the last several years, increasing the number of themes covered and the number of collective and direct engagements each year. ILIM is constantly reviewing its engagement approach to maximise the effectiveness and impact of its activities, and, as part of that, ILIM has also focused efforts on more active communications with investee companies. In 2022, ILIM conducted 39 calls with companies engaged directly and participated in 92 calls with companies engaged collaboratively.

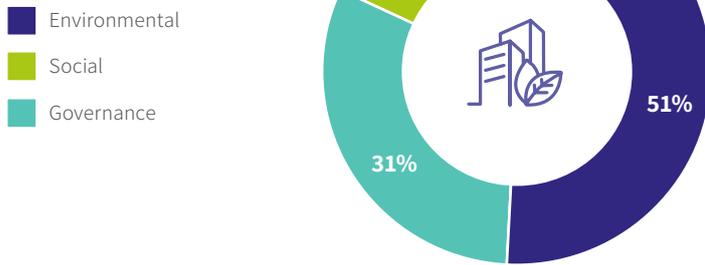
## Direct engagements

In 2022, ILIM has conducted 147 direct engagements with 144 companies on a number of topics aligned with its four priority themes defined on ILIM’s Responsible Investment Framework, namely: Climate Change, Natural Capital, Human Rights and Corporate Governance.

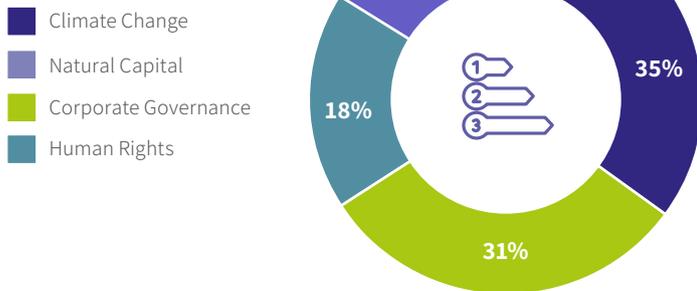
### ENGAGEMENT THEMES AND TOPICS

	Environment		Social	Governance
Priority themes	Climate Change	Natural Capital	Human Rights	Corporate Governance
Topics	Transition climate risks Physical climate risks Net zero Say-on-climate	Biodiversity Water Waste	Human rights Supply chain labour standards / modern slavery Racial equity / civil rights audits Anti-discrimination and diversity discrimination and diversity	Anti-discrimination and diversity Anti-corruption ESG risk Political lobbying / political contributions and expenditures

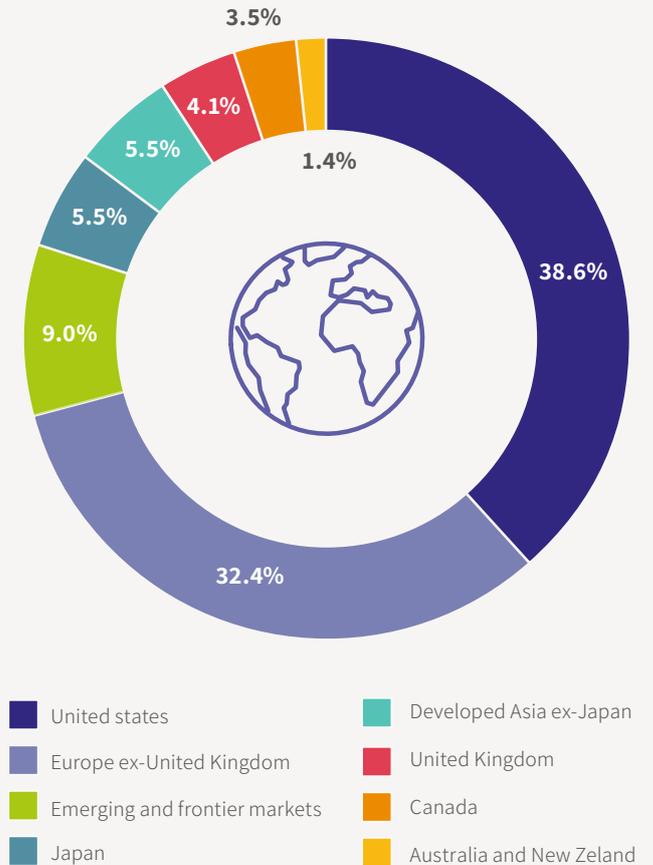
ESG breakdown  
– 2022 direct engagements



Priority themes breakdown  
– 2022 direct engagements



Regional breakdown  
– 2022 direct engagements



In 2022, ILIM partnered with Glass Lewis to deliver engagement services. Initially, Glass Lewis assisted ILIM with 52 ongoing direct engagements on the topics of climate change (transition and physical risks), biodiversity, water, waste management, human rights, supply chain labour standards / modern slavery, anti-discrimination and diversity, anti-corruption, and ESG risk. The partnership was expanded in the fourth quarter of 2022 to launch 25 net-zero engagements.

In 2022, ILIM also commenced a direct engagement outreach programme, based on proprietary analysis conducted by the Responsible Investment team. As part of that, we launched 26 engagements based on how we voted on shareholder proposals on racial equity audits, lobbying, and say-on-climate, 21 engagements focused on gender diversity, and 13 engagements focused on environmental disclosures from Irish companies. ILIM is focusing efforts on more active dialogues with investee companies and targeting senior management as well as board members.

ILIM is actively participating in dialogues with companies through its engagement programmes, participating in companies’ AGMs as well as providing feedback on ad-hoc shareholder consultation meetings. As a global investor, ILIM is communicating with investee companies in various regions across the globe, while also leveraging its local influence in the Irish market. ILIM is continually aiming to increase its attendance at AGMs as well as direct dialogues with companies.

## Climate Change

The Climate Change thematic priority area sits under the decarbonisation megatrend. The various topics of dialogue that could be entered into, depending on the materiality of each issue and the company’s current performance against international standards and norms, are:

- > Management of climate change issues
- > Commitment to climate change mitigation
- > Management of GHG emissions; transition alignment
- > Renewable/alternative energy strategy; coal involvement (extraction and generation)
- > Identification and management of physical climate change risks
- > Net-zero strategy
- > Say-on-climate votes.

### LAUNCHED NET-ZERO DIRECT ENGAGEMENTS

In Q4 2022, ILIM launched net-zero focused engagements supported by Glass Lewis with 25 priority companies across six material sectors as part of ILIM’s commitment to the Net Zero Asset Managers initiative. With this outreach, focused on emission-intensive sectors including materials and energy, ILIM is covering circa 15% of its Scope 1 and Scope 2 financed emissions via direct engagements. Dialogues with the targeted companies will progress in 2023.

#### CASE STUDY – CLIMATE TRANSITION

WEC Energy Group’s electric and gas utility businesses serve electric and gas customers in its Illinois, Michigan, Minnesota, and Wisconsin service territories. The company also owns a 60% stake in American Transmission Co. WEC’s asset mix is approximately 49% electric generation and distribution, 36% gas distribution, 10% electric transmission, and 5% unregulated renewable generation.

The company was selected for engagement due to the carbon exposure of its operations, as over 90% of WEC Energy’s generation comes from coal and gas, making it one of the more carbon-intensive US utilities. The engagement objective was for the company to respond to questioning on coal-fired generation.

When engagement began, it was not clear if the company was committed to entirely moving away from coal-fired generation. In 2022, a call was conducted with the senior executive team in order to discuss the company’s climate targets and coal phase-out plans.

Coal-based revenue declined 43% between 2017 and 2020, with expectations to be less than 10% at the end of 2025. In 2022, the company disclosed in its CSR Report the planned exit from coal in 2035 and net-carbon-neutral goal in 2050. Dialogue will continue with the company to check its progress around the targets set.

## Natural Capital

The Natural Capital thematic priority area sits under the stakeholder-centric business model megatrend. Natural Capital engagements include three subtopics, namely: biodiversity, water, and waste.

The various topics of dialogue that could be entered into, depending on the materiality of each issue and the company’s current performance against international standards and norms, are:

- > Biodiversity policy commitments
- > Managerial tools allocated to biodiversity protection
- > Local measures taken to protect biodiversity on operation sites
- > Sustainable water consumption
- > Water emissions reduction
- > Prevention of water pollution
- > Waste management policies
- > Means allocated to waste management
- > Waste management KPIs.

The 24 direct engagements on the Natural Capital theme were split into three topics:

Topic	Number of engagements
Biodiversity	9
Water	9
Waste	6

#### CASE STUDY – BIODIVERSITY

ITO EN is a Japanese multinational company that manufactures and sells green tea beverages in Japan and internationally. Given the nature of the company’s business as a green tea producer and its potential impacts on the environment, it is of vital importance that the company takes the necessary measures to prevent biodiversity loss and discloses the relevant information. The engagement objective is for the company to enhance its implementation of measures to integrate biodiversity into the management of its operations.

The company’s response highlighted that it addresses ecological conservation and sustainable use of resources and that it supports regional efforts aiming to train people and build a society that nurtures biodiversity. However, the company could also provide evidence of training of relevant managers or employees specifically on biodiversity, evidence of environmental impact assessments, and/or monitoring of biodiversity indicators.

The company shared that it is currently taking actions to progress its biodiversity-related commitments, to use biodiversity indicators and to assess biodiversity-related impacts. ILIM will be monitoring these developments going forward.

## Human Rights

The Human Rights thematic priority area sits under the stakeholder-centric business model megatrend. Human Rights engagements include two subtopics, namely: human rights, and supply chain labour standards / modern slavery.

The various topics of dialogue that could be entered into, depending on the materiality of each issue and the company’s current performance against international standards and norms, are:

- > **Support and protection of fundamental human rights**
- > **Alignment with core ILO principles**
- > **Management of social issues within the supply chain.**

### CASE STUDY – HUMAN RIGHTS

Stericycle, Inc. is a US-based business-to-business services company and leading provider of compliance-based solutions, including medical waste, document destruction and patient engagement solutions. The engagement with Stericycle was launched as a follow-up to a vote in favour of a shareholder resolution which requested the company to oversee and report on a third-party civil rights audit analysing the adverse impact of Stericycle’s policies and practices on the civil rights of company stakeholders and to provide recommendations for improving the company’s civil rights impact.

At the time of the 2022 AGM, Stericycle provided a reasonable level of disclosure on DEI metrics and efforts, including ethnic/ diversity metrics for its US workforce, new hires and promotions; steps to promote diversity and inclusion; and policies on human rights and diversity. However, it was deemed that Stericycle did not provide shareholders with enough disclosure to assess if there was a disparity between its operators and higher-level management. At the time of the AGM, ethnically diverse groups made up 52% of the company’s workforce but none of its executive management. In addition, Stericycle did not provide disclosures to address environmental justice impacts of its waste incinerators and facility siting decisions, with many of its solid waste incinerators located in communities of colour. This was a notable issue given Stericycle agreed to pay the Justice Department and Environmental Protection Agency a \$2.6 million settlement in 2021 over violations of regulatory limits for air pollution and lack of testing and emissions reporting from a waste incinerator in Utah.

After the shareholder resolution received majority shareholder support at the AGM, on 26 May 2022, with 60.6% of votes in favour, ILIM launched an engagement with Stericycle to ensure that the proposal’s requests were carried out by the firm. ILIM reached out to American NGO Majority Action – which has extensive expertise on corporate civil rights and racial equity audits – to take guidance on elements of best practice that should be covered by civil rights audits, as past examples by companies such as Starbucks and Airbnb have demonstrated the value and impact of these audits.

Based on this guidance, ILIM conducted two calls with Stericycle in 2022 with two VPs from the areas of Investor Relations, Finance and Sales. The two calls with Stericycle were highly productive as the company had a receptive and open approach

The 27 direct engagements on the Human Rights theme were split into five topics:

Topic	Number of engagements
Human rights	7
Supply chain labour standards / modern slavery	7
Anti-discrimination	3
Racial equity audits	6
Civil rights audits	4

to interacting with, and taking feedback from, ILIM on the topic of the third-party civil rights audit. Stericycle began the process of carrying out the civil rights audit report in 2022, and demonstrated multiple elements of best practice. These included:

- > Hiring WilmerHale (a law firm with a long history of working in civil rights contexts) to carry out the third-party civil rights audit independently
- > Encompassing both internal and external factors – with a DEI workforce review including processes and programmes, and an environmental justice review
- > Benchmarking with other companies for environmental justice review
- > Involvement of executive leadership and board
- > Framing the civil rights audit as an avenue to help improve the company’s practices and culture
- > Intersectional approach to civil rights, including gender and sexual orientation issues
- > Community and stakeholder engagement as a critical part of process.

Stericycle commented at length on the details of its civil rights audit journey during our two meetings. Among the details shared, Stericycle mentioned that it was initially opposed to carrying out a civil rights audit as it deemed its DEI progress and practices (diverse hiring, promotion policy and board diversity) sufficient. However, after the shareholder proposal got majority shareholder support, Stericycle critically evaluated the request from a different lens and looked at areas for improvement, after consulting a variety of stakeholders, including shareholders and communities. Through this process, Stericycle realised the importance of environmental justice and how the company could work to minimise negative impacts on minority communities.

The engagement with Stericycle has been particularly useful as a benchmarking exercise as ILIM has been engaging with a number of companies on the topic of civil rights audit, and Stericycle currently demonstrates best practice out of all companies ILIM has engaged with, as well as being the most open to engagement and transparency. ILIM will continue engaging with Stericycle to ensure the successful publication of the civil rights audit and continued action on the areas for improvement as identified by WilmerHale.

## Corporate Governance

The Corporate Governance thematic priority area sits under the stakeholder-centric business model megatrend. Corporate Governance engagements include five subtopics, namely: anti-discrimination and diversity, anti-corruption, ESG risk, political lobbying, and political spending.

The various topics of dialogue that could be entered into, depending on the materiality of each issue and the company's current performance against international standards and norms, are:

- > **Workforce diversity and monitoring of salary disparities**
- > **Diversity and discrimination policies**
- > **Provision of training on diversity issues**
- > **Review of company-wide ESG issues**
- > **Director training ESG issues**
- > **Pay and incentives for directors and/or senior managers linked to company-wide ESG performance**
- > **Anti-corruption commitment**
- > **Means allocated to monitor corruption**
- > **Involvement of relevant employees.**

The 45 direct engagements on the corporate governance theme were split into five topics:

Topic	Number of engagements
Diversity	26
Anti-corruption	4
ESG risk	3
Lobbying disclosures	7
Political spendings disclosures	5

The lobbying and political spending engagements were driven by the results of ILIM's voting actions.

### CASE STUDY - DIVERSITY

Glenveagh Properties PLC is a leading homebuilder operating in Ireland. ILIM initiated an engagement with the company on the topic of gender diversity on the board of directors, with the objective of the company formalising a commitment to address the issue and to set specific milestones. ILIM had a call with the company in Q4 2022, in order to communicate the market requirements and expectations as set out by regulators and by ILIM's voting policy. The company acknowledged the lack of gender diversity and communicated its willingness to increase the number of female directors on the board. The company is also willing to keep open communications with ILIM to track progress and the potential challenges that the board might face.



### ENHANCED FOCUS ON THE IRISH MARKET

In 2022, considering its potential to influence change in its local market, ILIM has taken an enhanced focus on the Irish market as part of its direct engagement programme. 22 new engagements were launched under the themes of board gender diversity and environmental disclosures.

On the board gender diversity topic, nine companies were engaged, and six calls were conducted in 2022. The objective

was for the companies to increase disclosure, increase levels of female representation on the board of directors and in executive positions, and adopt different anti-discrimination policies.

On the topic of environmental disclosures, 13 companies were engaged, and seven calls were conducted in 2022. The objective was to increase the level of environmental-related disclosures in the Irish market through the CDP (formerly the Carbon Disclosure Project) questionnaires (climate change, water security, forests).

### LINKING VOTING AND ENGAGEMENT – ESCALATIONS

As described in ILIM’s Engagement Policy<sup>\*</sup>, ILIM has a number of options to escalate engagements when they prove unsuccessful. In 2022, five companies from the direct engagement programme

were targeted for enhanced voting actions due to a failed engagement.

Company name	Engagement topic(s)	Outcome
Companhia Siderúrgica Nacional	Climate change	Vote against the approval of financial statements
Kintetsu Group Holdings Co., Ltd.	Supply chain	Vote against the incumbent board chair
Korea Aerospace Industries Ltd.	Corporate governance	Vote against the approval of financial statements
Lennar Corp.	Climate change and product safety	Vote against the incumbent board chair
Marathon Oil Corp.	Human rights and climate change	Vote against the incumbent board chair

For three companies, ILIM voted against the incumbent board chair due to a failed engagement, and, for two companies, ILIM voted against the approval of financial statements due to a failed engagement.

Additionally, for Lennar Corporation, a vote against the incumbent board chair was warranted as the company does not adequately address climate change-related risks and climate-related performance could be improved. This voting action was triggered by the bespoke ILIM Global Proxy Voting

Guidelines around climate change issues, which aligned with the engagement objective, as the company was previously targeted for a climate change engagement due to being identified as a climate laggard.

Following voting escalation, three companies have responded to ILIM’s request for dialogue, and calls were conducted with Companhia Siderúrgica Nacional, Lennar and Marathon Oil. ILIM will continue to monitor progress.

<sup>\*</sup> <https://www.ilim.com/media/2146/ilim-engagement-policy.pdf>



# Collaborative engagements

ILIM engages directly with companies as an individual shareholder as well as engaging collaboratively to leverage the power of the collective voice where possible. ILIM reviews all sources of, and opportunities for, collaborative engagements (e.g. those provided by international investor collaborative initiatives, service providers, UNPR etc.) and selects engagements which meet the following criteria:

- > **Alignment: the focus topic must align with ILIM’s four priority themes; and**
- > **Relevance and impact: the collaborations must have a broad coverage (objectives/regions/sectors covered) in terms of ILIM’s investment universe.**

In 2022, ILIM participated in nine collaborative engagement initiatives aligned with the four priority themes defined on ILIM’s Responsible Investment Framework. While some engagements are focused on a specific theme, others approach more than one theme in the dialogues with companies.

## COLLABORATIVE ENGAGEMENTS

Environment		Social	Governance
<b>Climate Change</b>	<b>Natural Capital</b>	<b>Human Rights</b>	<b>Corporate Governance</b>
Climate Action 100+	Localised water management*	Modern slavery*	Tomorrow’s board
Climate change – Sustainable forest and finance	Biodiversity and Natural capital*	Human capital and the future of work*	
CDP Non-disclosure campaign		Global standards*	

\* Sustainalytics engagement solution

## CDP NON-DISCLOSURE CAMPAIGN

ILIM takes part in the CDP Non-Disclosure Campaign (CDP NDC) that aims to drive further corporate transparency around climate change, deforestation, and water security by encouraging companies to respond to CDP’s disclosure request. In the 2022 reporting cycle, ILIM was one of the 260 financial institutions, representing nearly \$30 trillion in assets, engaging companies to improve transparency on materially important environmental data. ILIM has co-signed letters to 1,210 distinct companies on the following themes:

Theme	ILIM co-sign letters	Submission rate
Climate change	847	23.8%
Forests	358	9.1%
Water security	476	17.2%

According to the 2022 CDP NDC Results Report, an overall increase to a 27% disclosure rate was seen across all three themes, with 388 companies responding on themes for the first time. This is up from 25% in 2021. Companies were 2.3 times more likely to disclose after being engaged by investors through the campaign. Specifically, companies targeted on forests were over 3.2 times more likely to respond following engagement. Participants had a high impact on companies targeted in the transportation services, manufacturing, and apparel sectors. 90% of companies that submitted in the 2021 NDC responded again in 2022, showing that, once financial institutions have encouraged companies to disclose initially, the vast majority continue to respond and progress on their sustainability journey.

### CLIMATE ACTION 100+

ILIM is a participant investor in the Climate Action 100+ initiative that aims to ensure the world’s largest corporate GHG emitters take necessary action on climate change, targeting 166 focus companies across 15 sectors, accounting for 80% of corporate industrial GHG emissions.

ILIM is a participant investor in the engagements with Valero, Kinder Morgan and Southern Company. In 2022, ILIM participated in 11 strategy calls with collaborating investors, one call with senior management from Southern Company and one call with Kinder Morgan’s President who will take over the CEO role in 2023. The results of these engagements are as follows:

- > In 2022, Southern Company released its first trade association disclosure report and first Just Transition report, announced coal plant closures and enhanced reporting including CDP.
- > Kinder Morgan has developed collaborations with midstream operators and new disclosures on Community Engagement, Indigenous Peoples and Energy Justice.
- > Valero has created a new Sustainability & Public Policy Committee, added climate risk oversight to the Audit Committee, and enhanced climate disclosures.

### THEMATIC COLLABORATIVE ENGAGEMENTS

ILIM uses an external engagement service offered by Sustainalytics focused on corporate engagement with companies that form part of the public equity and corporate fixed income holdings of its clients. This service seeks positive change for the investors, the companies, and the societies in which they operate and is a way for ILIM to further enhance its engagement activities and impact. ILIM has joined two engagement workstreams: the Thematic Engagement and the Global Standards Engagement.

The Thematic Engagement philosophy centres on systemic change and has collaboration, root causes and best practice sharing at its core. The dialogues are aimed at improving engaged companies’ proactive risk and impact management, including the related disclosure, as well as their resilience and strategic positioning. The themes covered strive for creating positive change at company, sector, system, and issue level.

ILIM participates in six themes:

- > **Climate Change – Sustainable Forests & Finance**
- > **Biodiversity & Natural Capital**
- > **Localised Water Management**
- > **Human Capital & the Future of Work**
- > **Modern Slavery**
- > **Tomorrow’s Board.**

During 2022, ILIM has participated in 54 engagement calls with investee companies:

Thematic engagements	Number of calls joined
Climate Change – Sustainable Forests & Finance	13
Biodiversity & Natural Capital	6
Localised Water Management	13
Human Capital & the Future of Work	5
Modern Slavery	6
Tomorrow’s Board	11

### CLIMATE CHANGE – SUSTAINABLE FORESTS AND FINANCE

The ‘Climate Change – Sustainable Forests and Finance’ thematic collaborative engagement led by Sustainalytics focuses on climate risk and emissions reductions in global forest systems. The engagement targets 22 companies among producers and traders, banks, and end-users.

Throughout 2022, the focus of the engagement progressed from building relationships and exploring the initial gaps into creating strong dialogues, addressing the major goals of the engagement theme, and outlining investor expectations. Engaged companies are assessed on five key performance indicators (KPIs) that cover disclosure and governance, strategy, forests and mitigation, physical risk and natural resource management.

Performance improvement has been observed across the board, largely driven by increased disclosure, but also by establishing strategies for reaching climate targets. Many companies are considering both increasing the ambition of their targets and engaging in third parties’ validation of those targets.

### LOCALISED WATER MANAGEMENT

The ‘Localised Water Management’ thematic collaborative engagement focuses on reducing company risks and enhancing water security. The engagement targets 18 companies with operations in the Tiete basin in Brazil and/or the Vaal basin in South Africa from the beverage, chemicals, and mining sectors.

Throughout 2022, the engagement focused on pushing for company-appropriate strategies and solutions and challenged companies to take an investor lens and consider whether their reporting meaningfully discloses localised water risk and mitigation measures. Engaged companies are assessed on six key performance indicators (KPIs) that cover water governance, water risk & opportunity management, water quantity, water quality, integrated water resources management, and public water management. Incremental improvements occurred across all six KPIs and were linked to changes at 15 companies.

As a next step, in Q1 2023, a small collaborative basin-level forum was scheduled to bring companies together to share their current and future basin-level projects.

## MODERN SLAVERY

ILIM participates in the ‘Modern Slavery’ thematic collaborative engagement led by Sustainalytics, focused on addressing modern slavery risk within high-risk companies. The engagement targets 24 companies from the textile and apparel and the construction and engineering sectors.

Throughout 2022, the engagement focused on continuing to establish and build trust with companies, with dialogues covering the key performance areas such as gender-based violence (apparel companies) and heat stress (construction firms). Engaged companies are assessed on six key performance areas, namely:

- > Governance and reporting
- > Purchasing practices
- > Living wages and income
- > Stakeholder collaboration
- > Worker empowerment
- > Robust auditing and grievance mechanisms.

Nine companies from the 24 companies engaged improved their scores in 2022.

In Q4 2022, Sustainalytics held a roundtable to raise greater awareness of modern slavery risks in the global construction sector, with the participation of investors, companies from the construction sector, and academic and industry experts.

## TOMORROW’S BOARD

ILIM participates in the ‘Tomorrow’s Board’ thematic collaborative engagement led by Sustainalytics, focused on promoting change at the board level for companies to be prepared to face emerging challenges and new opportunities. The engagement targets 21 companies from the extractives, financials, and pharmaceuticals sectors.

Throughout 2022, the engagement focused on risk management, executive remuneration, board diversity and sustainability strategy. Engaged companies are assessed on four key performance indicators (KPIs), namely: implementation and structure, definition of a strategy, measurement of progress and communication. In all three sectors, apart from a few exceptions, improvement in scores were seen. In 2022, the conversations with the three sectors were dominated by the subject of climate change.

### NEW COLLABORATIVE ENGAGEMENT THEMES ADDED IN 2022

#### BIODIVERSITY & NATURAL CAPITAL

In Q3 2022, ILIM joined the newly launched ‘Biodiversity & Natural Capital’ thematic collaborative engagement led by Sustainalytics, focused on biodiversity loss and nature degradation. The engagement targets 45 companies in the agricultural value chain.

#### HUMAN CAPITAL & THE FUTURE OF WORK

In Q4 2022, ILIM joined the ‘Human Capital & the Future of Work’ thematic collaborative engagement led by Sustainalytics, focused on human capital management and the promotion of diversity, equity, and inclusion strategies and programmes. The engagement targets 17 companies in the industrials and the financial services sectors.



## GLOBAL STANDARDS COLLABORATIVE ENGAGEMENTS

The Global Standards Engagement, led by Sustainalytics, is an incident-driven service that engages with companies that severely or systematically violate international standards, such as the United Nations Global Compact Principles and the OECD Guidelines for Multinationals. The aim of the engagement is not only to resolve the incident, but also to improve the company’s future ESG performance and risk management to ensure incidents do not occur again. Four International Standards themes are covered, namely: Human Rights, Labour Rights, Environment and Business Ethics.

Global Standards Engagement tracks results through:

- > An assessment of the company’s response to the engagement dialogue. This indicates the measure of its willingness to listen to investors’ theme-related concerns. We use a five-point scale, namely: none, poor, standard, good and excellent.
- > Progress is evaluated on a similar five-point scale to demonstrate to what extent the company is taking tangible steps toward realising the change objective.
- > Additionally, milestones achieved by the company are noted, showing how it is progressing towards the change objective.

During 2022, ILIM has participated in 35 engagement calls with investee companies:

Global standards	Number of calls joined
Environment	3
Human Rights	19
Labour Rights	3
Business Ethics	10
<b>Total</b>	<b>35</b>

Companies have continued to show progress through these engagement efforts, closing the year 2022 with 10 fully resolved cases, and 38 additional cases advancing to the later stages of strategy implementation and review.

Some examples of resolved cases to note from 2022 include:

- > **Walmart:** The company has been at the centre of controversies over low wages, overtime pay abuses and discrimination. Walmart has slowly become more engaged in the dialogues and improved preparedness to mitigate impact and manage risks regarding labour and working conditions. ILIM further encouraged the company to progress on these topics through voting decisions, supporting a shareholder proposal related to labour issues which asked the company to improve disclosure on alignment of starting wages with its racial justice goals.

- > **ING Groep NV:** The Dutch bank has been accused of involvement in money laundering scandals in various countries, including the Netherlands, Russia and Italy, at different points between 2006 and 2016. The engagement began in Q4 2019, and, since then, the bank has significantly improved its compliance policies and procedures and has not been associated with any new serious business ethics incidents.
- > **Olympus Corporation:** This Japanese company manufactures and sells precision instruments for the healthcare industry. It was accused of involvement in quality and safety breaches in one of its products between 2012 and 2015, ultimately resulting in severe bacterial outbreaks and deaths. The company has since then implemented significant measures to prevent a recurrence of quality and safety breaches. As a result, in the last three years, no new serious quality and safety incidents have been linked to the company’s products.



## System/policy engagement

ILIM advocates for sustainability with policy makers, investors, and industry groups. In 2022, ILIM joined with 532 investors (US \$39 trillion in assets under management) to sign the 'Global Investor statement to Governments on the Climate Crisis', coordinated by the seven founding partners of The Investor Agenda, advocating for governments to enact ambitious policies that would leverage the private capital required to effectively address the climate crisis. This is the second year that ILIM supports the statement, having previously signed it in 2021.

In 2022, ILIM delivered a Masterclass on the topic of Net Zero Strategy Delivery for the Insurance sector in partnership with UNEP FI as part of Climate Finance Week Ireland 2022, and delivered a Masterclass on financing the climate transition for financial institutions at Euronext Dublin.

ILIM contributed to key reports for policy makers on the topics of sustainable finance regulations (EUROSIF SFDR working group) and impact investing ('A legal Framework for Impact', UNEP-FI). Furthermore, ILIM participated in the All-Party Parliamentary Group (APPG) for ESG in Westminster, London, for the presentation of the UK Financial Conduct Authority (FCA) on the proposed FCA regulatory requirements for fund classifications, contributing to assessment of the proposed policy and regulatory developments. As Vice Chair of CDP Ireland in 2022 and Chair in 2023, ILIM is actively promoting climate disclosures within Ireland as well as educating industry groups on climate assessment.

ILIM also contributes to advance the Net Zero framework methodology, with active participation in the IIGCC Net Zero Stewardship Group on voting policy development and the IIGCC Net Zero Benchmark development working group. In 2022, ILIM became a signatory of the Net Zero Asset Managers initiative. ILIM is also an official supporter of the TCFD and reports in line with the TCFD recommendations and has been a signatory of the United Nation's Principles for Responsible Investment since 2010.

## Exclusions approach

ILIM's exclusions policy sets the baseline for investments. Below this baseline, companies are deemed ineligible for investment due to the company's products or behaviours causing harm, using the following categories and thresholds:

**UN Global Compact violators:** These are companies that violate the UN Global Compact, which commits signatories to universally accepted principles on human rights, labour, environmental protection, and anti-corruption.

**Companies undergoing severe controversies:** These are incidents that have a severely negative impact on the environment, society and the company itself. Severe controversies pose serious ongoing risks to the company, which is sometimes unable or unwilling to correct the issue or has been found attempting to conceal its wrongdoing or involvement.

**Companies with involvement in controversial weapons:** In line with international treaties and norms, certain weapon categories are deemed controversial due to their disproportionate or indiscriminate impact on civilians. These include anti-personnel mines, nuclear weapons, cluster weapons, biological and chemical weapons, depleted uranium, and white phosphorus munitions.

**Tobacco:** Companies directly involved in the production of various tobacco products, or with a significant secondary involvement through retail and distributorship.

**Thermal coal:** Coal combustion is responsible for the largest share of global CO<sub>2</sub> emissions based on the IEA's studies, and it fundamentally contravenes climate goals. As part of ILIM's coal phase-out strategy, ILIM excludes companies involved in thermal coal if they earn more than 10% of their revenue from its extraction, or more than 25% from power generation.

**Unconventional fossil fuels:** Certain methods of oil and gas extraction pose additional social and environmental risks compared with conventional processes. Companies in this category are those that derive more than 10% of their revenue from oil sands and Arctic drilling activities.

### BESPOKE CLIMATE EXCLUSIONS

ILIM implements an expanded exclusion policy for our Climate Focused funds, in line with our commitment to the green transition:

# 1

## Oil and gas production

Companies with any involvement in oil and gas production, by means of either exploration, production, refining, transportation, or storage, are excluded.

# 2

## Oil and gas supporting products and services

Companies that provide supporting products or services to any of the above activities are also excluded if they derive more than 2.5% of their revenue from said supporting activities.

# 3

## Thermal coal

Thresholds for the exclusion of companies involved in thermal coal extraction and power generation are reduced to capture any level of involvement (above 0% of revenue).

# 4

## Unconventional fossil fuels

Thresholds for the exclusion of companies involved in oil sands and Arctic drilling are reduced to capture any level of involvement (above 0% of revenue).

### IMPACT OF EXCLUSIONS POLICY

During 2022, applying ILIM's exclusions policy to an investable universe with global broad market exposure resulted in the following improvements:

- > The prevalence of companies with a severe level of ESG risk was 22% lower.
- > The prevalence of companies with high exposure to individual ESG issues was 17% lower.
- > The investable universe became 4.5% less carbon intensive.

This is intended as a general review of investment market conditions. It does not constitute investment advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person.

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