



Our Climate Action Pledge and reaching Net Zero

The part we are playing for our clients

Helping people build
better futures

Why is Climate Action Important?

Climate change is one of the most significant challenges currently facing the global economy and our society.

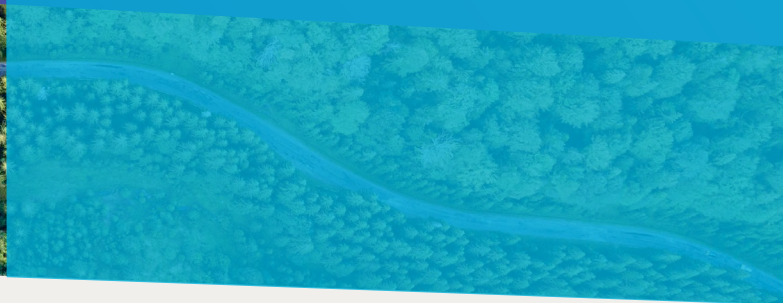
With no further action, the global economy is on a trajectory to contributing to a rise in global temperatures of more than 3°C, with disastrous consequences for the economy itself and society. There is global consensus that decisive and collective action is required to bring greenhouse gas emissions to a position of net zero by 2050 at the latest to avoid these outcomes.

The global momentum towards net zero will dramatically reshape the global economy over the next few decades. The level of global support and policy action – much of which is still in its infancy, despite many country and corporate net zero commitments – will ensure climate change is viewed as a key investment theme. This presents risks to businesses unable to adapt to a changing environment, and opportunities for those that have a role to play in mitigating those changes.

We are all invested in a successful transition to a more sustainable economy. It is without doubt that all stakeholders – insurance companies, pension funds, endowments, asset managers, advisers and customers – have a vested financial and personal interest in supporting our world's transition to a more sustainable future, for us individually, for our families and for our children's children.

Key points

- > **Climate change is one of the biggest challenges facing the global economy today.**
- > **Without taking action, society is contributing to significant rises in global temperatures.**
- > **Reaching net zero – achieving a balance between the carbon emitted and the carbon removed from the atmosphere – is one way to help mitigate the effects of climate change.**
- > **We have a responsibility to our clients and our broader stakeholders: to protect from climate change risks, embrace new, greener opportunities, and to be considerate of our carbon footprint.**
- > **We have extended our Climate Action Pledge (2021) to a formal commitment to help reach net zero by 2050 or sooner, by joining the Net Zero Asset Managers (NZAM) Initiative. We are delivering better climate-aligned investment solutions.**



Reaching Net Zero

Net zero concerns achieving a balance between the carbon emitted into the atmosphere and the carbon removed from it. A net zero state is attained when the amount of carbon we expel is no more than the amount we remove.

To reach net zero, emissions from homes, transport, agriculture and industry will need to be cut. In other words, the economy will have to reduce the amount of carbon it emits into the atmosphere. The 'residual' emissions will need to be removed from the atmosphere, either by changing how we use our land so that it can absorb more carbon dioxide, or by carbon being extracted directly through new technologies before being released into the atmosphere.

In the context of a portfolio of assets, there are several options to help reach net zero, which vary by asset class. For publicly listed securities, this can include tilting portfolios away from companies that are high emitters of carbon and other greenhouse gases and moving towards companies that are either lower emitters or are on a trajectory to improve their emissions over time, even if their overall emissions remain relatively high. For property assets, this can mean existing assets are renovated and refurbished or that the actual portfolio is restructured through disposals and new asset purchases to improve their alignment with net zero.

Our Climate Action Commitment to our Clients



Concerning our role as an asset manager, we have a dual responsibility:

To our clients

Our primary purpose is to deliver investment solutions that meet our clients' needs regarding longer term returns and that manage risk. As an asset manager, we must deliver solutions that not only protect against the downside risks from a changing climate but that also embrace the breadth of opportunities available from supporting the transition to a greener planet.

To our broader stakeholders

Our role in the financial markets brings with it the responsibility and opportunity to be considerate of the footprint we create, as a consequence of our investment decisions.

Our Climate Action Pledge (published in 2021) is to work in partnership, and on behalf of, our clients by using our influence in terms of investment decision making, risk management and public advocacy to accelerate and play a positive role in the climate change agenda both within our own market and globally.

We now extend this Pledge to a formal commitment to help reach net zero greenhouse gas emissions by 2050 or sooner by joining the Net Zero Asset Managers (NZAM) Initiative as the next milestone on our sustainability journey.



What does ILIM's Net Zero commitment mean?



As part of our sustainable investment journey, ILIM is committed to supporting the goal of achieving net zero greenhouse gas emissions by 2050 or sooner, for both operations and investments.

ILIM recognises that the path to achieving net zero is a long-term and challenging commitment requiring us to set annually reviewed interim targets, adopt a decarbonisation pathway and engage with investee companies through voting and engagements to ensure their alignment with net zero.

ILIM has direct control and investment discretion of our proprietary investment solutions, which includes the flagship multi asset funds of our sister company, Irish Life Assurance Company. As an institutional asset manager, we have a significant proportion of our assets in client directed mandates, where the investment strategy is subject to the agreed mandate determined by our institutional clients.



Our Initial Target

ILIM will initially commit c.20% of total assets under management (AUM) to Net Zero, with the long-term target of 100%.

For these assets, ILIM will seek to achieve at least 25% reduction in weighted average carbon intensity by 2025, and at least 50% reduction by 2030, compared to base year 2019.

In making this commitment, ILIM adheres to the Paris Aligned Investor Initiative (PAII)¹. The PAII is a collaborative investor-led global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement. The PAII framework is designed to provide a foundation based on climate science, on which a broad range of asset owners and asset managers can make commitments to achieving net zero emissions and define strategies, measure alignment, and transition their portfolios.



¹ <https://www.parisalignedinvestment.org/>

What are we currently doing?



ILIM has been taking action on sustainability issues since first signing up to the UNPRI in 2010. ILIM made a public commitment to bring sustainability across our proprietary solutions in 2019 and published a Climate Action Pledge² in 2021, which highlighted climate change as a priority theme guiding our investment approach and setting out an action plan to deliver on our climate goals.

Therefore, while we are now formalising this commitment, we have already started to pave the way to net zero.

Integrate climate alignment into ILIM's proprietary portfolios solution design

ILIM has developed a proprietary model³ to incorporate environmental, social and governance (ESG) factors and climate metrics into its investment process across our proprietary equity and corporate bond strategies. This approach incorporates a 'Decarbonisation Tilt' which uses both forward and backward-looking climate metrics.

Additionally, ILIM's exclusions⁴ approach (applied to our proprietary equity and corporate bond strategies) is constructed to set a baseline of eligible investments and to incorporate climate specific screens, in addition to companies in violation of global standards and norms.

In 2021, ILIM's coal phase-out policy rating was upgraded by NGO Reclaim Finance to reflect the changes made to our exclusions policy in 2020. Going forward, we aim to revise and significantly strengthen the thresholds on the current policy in line with industry recommendations.

Expand our Climate Solutions range

We offer a range of solutions which incorporate sustainability into their design across all the main asset classes (and which meet the Sustainable Finance Disclosure Regulation Article 8 criteria).

This year, ILIM expanded this solution range to include the 'Climate Focused Strategy' and 'Low Carbon Equity Income Strategy' designed with a more stringent set of sustainable criteria. These strategies will help us create portfolios with a global broad market exposure that is better aligned with a 1.5°C pathway.

These strategies include an expanded set of exclusions, aimed at minimising exposure to fossil fuels, and an improved tilting mechanism to maximise exposure to sustainable activities. The new tilting step builds on the previous criteria that targeted activities such as renewable energy, green buildings, and green transportation, in order to also include environmentally sustainable activities as defined by the EU Taxonomy regulation. Aligning ourselves to the Taxonomy means that in addition to climate change adaptation and mitigation, our portfolios will also integrate the remaining environmental objectives – around the topics of water, circular economy, pollution prevention, and biodiversity – once they are developed and published by the EU.



1 <https://www.ilim.com/media/1836/climate-action-pledge-october-2021.pdf>

2 <https://www.ilim.com/media/1452/esg-policy-november-2019.pdf>

3 <https://www.ilim.com/media/1964/responsible-investing-annual-review-2021.pdf>

Advocate for Climate Action with policymakers, investee companies and industry groups:

ILIM commits to continue advocating for climate action with policymakers, investors, and industry groups.

- > We are members of the Principles for Responsible Investment (PRI), Institutional Investors Group on Climate Change (IIGCC) Net Zero Stewardship Working Group, Carbon Disclosure Project (CDP), Climate Action 100+ and the Global ESG Benchmark for Real Assets (GRESB).
- > We collaborate and partner with the Sustainable & Responsible Investment Forum (SIF) Ireland, EuroSIF, Financial Services Ireland (FSI).

ILIM commits to continue its engagement and voting activities to ensure investee companies are mitigating climate risks and embracing the opportunities of the transition to a low carbon economy. ILIM has developed bespoke Global Proxy Voting Guidelines to better align our voting strategy with the expectations of the Net Zero Stewardship initiative. Our Guidelines take a proactive voting approach by targeting companies lagging on climate change mitigation, specifically by voting against board directors (including board chair and sustainability committee chair) of companies underperforming in climate strategy, risk management and disclosure.

In addition, ILIM will generally support climate-related shareholder proposals requesting companies to align with net zero criteria, setting net zero greenhouse gas targets and increasing climate transparency. ILIM has also been engaging with investee companies, both directly and collaboratively, around climate change transition and physical risks. Going forward, we aim to expand our dialogues to ensure that, by 2025, 70% of our financed emissions in material sectors are aligned with a net zero pathway, or subject to direct or collaborative engagement. These targets will be revised as recommended by the IIGCC Net Zero Investment Framework and in line with the Net Zero Asset Managers initiative.

Integrate climate risk into firmwide risk management:

ILIM has established a process to ensure the ongoing monitoring, measuring and reporting on ESG and climate risks across its investment portfolios and in client reporting. ILIM's Investment Risk team, independent from fund management, identifies, measures and monitors ESG and climate metrics across our investments. ILIM has integrated ESG and climate metrics into its standard enterprise risk management system to explicitly capture ESG and climate metrics in order to inform investment decisions. Our approach complies with, and is aligned with, the Principal Adverse Impact regime established under the Sustainable Financial Disclosure Regulations.

ILIM publicly reports on the climate metrics of its AUM in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework since 2020⁵, and will be publishing further information in line with the Principal Adverse Impact regime from 2023 onwards.



⁵ <https://www.ilim.com/media/1812/tcf-2020-report.pdf>

Working with Asset Owners

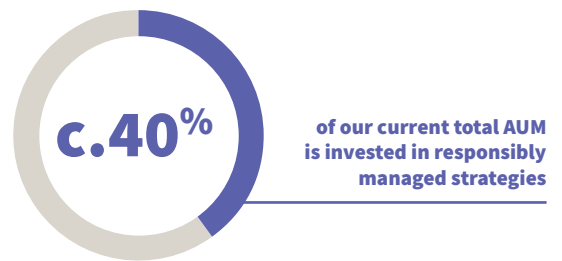


As an institutional asset manager, supporting our clients on their sustainability journeys is key in meeting our net zero commitment.

In addition to developing and enhancing our investment solutions, this support specifically includes:

Educational Supports	<div style="background-color: #1a3d54; color: white; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">A</div>	<p>developing and launching Ireland’s first net zero course for Trustees and investment professionals;</p> <p>developing and running the first Responsible Investment training course for advisors and professional Trustees in 2020; and</p> <p>delivering a subsequent Responsible Investment Trustee training course to over 40 institutional clients during 2021 and over 300 brokers/consultants within the retail market.</p>
Transparency and Reporting	<div style="background-color: #009688; color: white; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">B</div>	<p>enhancing our client reporting to ensure that clients can easily assess the climate impact of their portfolios and the percentage of their overall assets that are invested responsibly.</p>

This all builds on the work that we have done with Asset Owners over the past several years, which has resulted in c. 40% of our current total AUM being invested in responsibly managed strategies at June 2022.



Summary

Achieving net zero by 2050 will involve a global effort by individuals, governments, and businesses. The path towards building better futures is through all of us working together.

At ILIM, we intend to play our part by delivering better climate-aligned investment solutions across our assets under managements. We will achieve this through our solution design, our stewardship of assets and, most importantly, through partnerships with our clients as they progress on their own sustainability journeys.



This document 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.

The author cannot make a personal recommendation for any person and you should seek personal investment advice as to the suitability of any investment decision or strategy to your own needs and circumstances. Any comments on specific stocks are intended as an objective, independent view in relation to that stock generally, and not in relation to its suitability to any specific person.

ILIM may manage investment funds which may have holdings in stocks commented on in this document. Past performance may not be a reliable guide to future performance. Investments may go down as well as up. Funds may be affected by changes in currency exchange rates.

Irish Life Assurance plc is regulated by the Central Bank of Ireland.