

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

SUMMARY REPORT 2020



ILIM

MANAGING CLIMATE RISKS FOR OUR CLIENTS

Irish Life Investment Managers (ILIM) is committed to sustainable investment, recognising how our actions and our decisions affect the environment, society and the assets our clients have entrusted to us. Recognising the significant impact that climate change risk can have on our clients' portfolios, as well as the opportunities presented, we have embedded addressing climate change into our investment approach. But to meaningfully do this, we need firstly to understand and quantify this risk, and secondly to manage and mitigate this risk. The Task Force on Climate-related Financial Disclosures (TCFD) provides this framework. We are pleased to share the key messages from ILIM's first report below. [You can read the full report here.](#)



WHAT IS THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)?

The TCFD was launched in 2015 to develop a set of climate-related disclosures focusing on governance, strategy, risk management and metrics and targets.

From a client perspective, the TCFD framework gives you an insight into how and to what extent climate change is considered throughout the investment process. Importantly, it provides a means

of assessing the effectiveness and impact of an asset managers' approach in terms of managing climate-change risks and capturing climate-change opportunities in the solutions they provide.

With this in mind, we assess the climate-related risk and the effectiveness of our investment approach for our proprietary solutions relative to the standard global market index.

A PATH OF RISING TEMPERATURES

Using well-known indices as a proxy for 'the world as it is', our proprietary analysis found that these portfolios are projected to contribute to temperature increases towards 3% – well above the Paris Agreement's targets. From an investor's perspective, this poses a significant future risk to their investment portfolios.

To protect our clients from undue levels of climate risk, we designed proprietary solutions that exhibit a materially lower potential warming impact (2.3 degrees by 2050) compared to the broad market.

Our proprietary equity solution exhibits the following key sustainability characteristics versus its global market benchmark:

64%

less exposure to companies with severe carbon risk

30%

improvement in average carbon intensity

21%

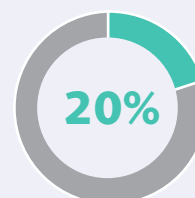
less exposure to stranded assets

10%

lower exposure to ESG laggards

c9%

improvement in average ESG score



higher exposure to 'green revenues'

79%

lower exposure to companies with severe ESG risk



MANAGING CLIMATE RISKS FOR OUR CLIENTS

Our most material climate-change risk is the potential for climate change to negatively affect the performance of investments on behalf of our clients. But the impact of climate change goes beyond performance alone.

Stakeholder expectations of our role in tackling climate change are ever-increasing. ILIM is committed to contributing to a lower-carbon economy as set out in the Paris Agreement. As the effects of climate change become more apparent, clients want to ensure that how they are investing meets their core values and reflects their expectations. We aim to provide the investment solutions to meet these changing demands.

The societal and portfolio construction challenges involved in achieving the required reductions in greenhouse gas emissions are significant. ILIM is committed to working with clients to support them on their own sustainability journeys and helping them achieve their own climate ambitions. We offer clients a full range of proprietary solutions that demonstrate a significant reduction in climate risk and lower future warming potential than the global market benchmarks.

HOW OUR APPROACH IS ALIGNED TO TCFD RECOMMENDATIONS

Climate risk is a priority for our business, embedded at every level in our strategies and operations. We view climate change as a key risk that must be managed to protect our clients' long-term futures. In our proprietary equity and corporate credit solutions, we combine both **exclusions** and **integration**, which is further supplemented by our approach to **responsible ownership**.

EXCLUSIONS

We use a set of filters to determine which companies or activities are eligible or ineligible to be included in a specific portfolio. We identify ineligible investments by applying the concept of "Do No Significant Harm" (DNSH). This excludes companies whose products or services cause harm when used as intended, or companies where there is a persistent breach of international standards on company behaviour. Climate-specific screens are used to screen out companies that are significantly involved in carbon-intensive activities. Exclusions are applied to all proprietary equity and corporate credit strategies. For our proprietary investments, we exclude investments in companies that:

- Earn **10%** or more of revenues from thermal coal mining
- Earn **25%** or more of revenues from thermal coal power generation
- Earn **10%** or more of revenue from Arctic oil and oil sands

INTEGRATION

In addition to exclusions, we also incorporate a carbon tilt into our proprietary investment solutions. We analyse each company's carbon risk rating (forward looking) and carbon intensity (backward looking). We invest more in companies with favourable scores. In practice, this leads to a green tilt and a brown tilt.

Green Tilt:

Assigning more capital to companies with higher 'Green Revenues' that are best placed to benefit from the transition to a low carbon economy.

Brown Tilt:

Reducing exposure to companies with 'stranded asst' risk, by taking underweight positions in companies with large fossil fuel revenues.

As of 31 December 2020, the carbon intensity of ILIM's proprietary equity investment solutions is 36% lower as compared to its benchmark. This has been mainly achieved through stock selection based on the low carbon intensity scores.

RESPONSIBLE OWNERSHIP

ILIM has a longstanding focus on active ownership, certain in the knowledge that active ownership has a key role to play in supporting and encouraging changes to corporate behaviours which contribute to sustainable returns. It follows a systematic approach to identifying climate-related risks and opportunities, by conducting both a materiality assessment and a risk-management assessment. It also actively advocates for enhanced disclosure and action around climate change.

In addition to a targeted direct voting and engagement campaign, our stance on climate-related risks and opportunities is also reflected in external initiatives. We engage with other investors on specific ESG themes and are a member of the following initiatives: The Principles for Responsible Investment (PRI), the Carbon Disclosure Project (CDP), the Climate Action 100+ (CA 100+), and the Institutional Investors Group on Climate Change (IIGCC).



ILIM recognises the importance of reporting according to the TCFD recommendations. We are committed to embedding climate-related risks and opportunities in our investment process and strengthening governance oversight, as well as implementing and monitoring climate metrics into our risk framework.