2024 - 2025

# ANNUAL SUSTAINABLE INVESTMENT REPORT

PRESENTED BY

Office of the Illinois State Treasurer



# **TABLE OF CONTENTS**

INIK	ODUCTION	
	Letter from the Illinois State Treasurer	5
	About the Office of the Illinois State Treasurer	6
THE I	LLINOIS TREASURER'S SUSTAINABLE INVESTING STRATEGY	
	Our View on Sustainable Investing	8
	Office Organization	11
	Strategies and Focus Areas	12
CORP	PORATE ENGAGEMENT	
	Corporate Engagement Overview	13
	FY 2025 Engagement Activities	16
	Proxy Voting	19
	Public Policy Advocacy	. 22
	Engagement Highlights FY 2025	23
	New Engagement Initiatives	28
	Strategic Partnerships	30
SUST	AINABILITY INTEGRATION PRACTICES	
	Internally Managed Investments	33
	Externally Managed Investments	36
PRIO	RITIZING DIVERSE INVESTMENT FIRMS	
CONIC	CLUCION	



# LETTER FROM THE ILLINOIS STATE TREASURER



I am very pleased to present the Office of the Illinois State Treasurer's eighth annual Sustainable Investment Report, which showcases our sustainable investing activities during Fiscal Year 2025 (July 2024 – June 2025).

My approach to sustainable investment is grounded in fiduciary duty. As a fiduciary, my primary goal is to maximize financial returns. Integrating sustainability is not in contradiction to this goal. Fiduciary duty, in my view, calls for active oversight, prudent risk management, and responsible governance. Consequently, it requires consideration of material risks and long-horizon opportunities, including those related to sustainability.

The widespread attack on sustainable investment and diversity, equity, and inclusion lacks substance and conviction. While opponents are working to force their own values into the way we make investment decisions, they have failed to make a convincing argument for why their approach is financially beneficial or material. We know that workers are an important asset to companies and should be treated as such, we know that diverse teams are in an enhanced position to make better decisions, and we know that climate change is already and will continue to impact the economy and environment. That's why I expect companies to manage sustainability risks that have the potential to hinder their long-term profitability, rather than ignoring them to appease political whims.

My staff and I continue to look past the noise and focus on the things that truly matter. Our goal is to achieve sustainable and durable investment returns over the long term. My team incorporates sustainability factors into our decision-making, particularly because that approach can improve investment performance and lead to a more resilient, inclusive, and sustainable global economy. Our office considers it a key part of our fiduciary duty to assess all material risks that may have an impact on companies' long-term value.

With that in mind, let me share some highlights of what my Office has accomplished:

- **ENGAGED OVER 80 COMPANIES ON MATERIAL SUSTAINABILITY ISSUES** We engaged 82 portfolio companies on a range of sustainability topics, including corporate governance, board diversity, human capital management, social capital management, and environmental stewardship.
- FILED THREE SHAREHOLDER PROPOSALS Filed shareholder proposals on the topics of workers' rights, board diversity, and corporate governance.
- CONTINUED EMPHASIS AROUND UTILIZING
  BEST-IN-CLASS DIVERSE-OWNED FIRMS Total
  assets managed by minority, women, veteran, and
  disabled-owned (MWVD) firms ended fiscal year
  2025 at \$6.7 billion, a 369-fold increase since June
  2016, while assets brokered by MWVD firms in fiscal year 2025 was \$42 billion, representing a 70%
  utilization rate
- EVALUATED ALL EXTERNAL INVESTMENT MANAGERS BASED ON RESPONSES TO SUSTAINABILITY QUESTIONNAIRES AND EQUITY, DIVERSITY, AND INCLUSION ASSESSMENTS In addition to our traditional financial and investment due diligence, my Office conducts a proprietary evaluation of all of our external investment managers to assess how each integrates sustainability and implements equity, diversity, and inclusion within their business processes to enhance oversight, monitor risks, and capitalize on investment opportunities.
- VOTED OVER 30,000 PROXY VOTES AT 3,313
  ANNUAL MEETINGS Our Office voted on 30,322
  proposals on corporate proxy ballots at 3,313
  annual shareholder meetings in FY 2025. We believe casting proxy votes is an indispensable tool to signal our concerns with company boards and ensure they are acting in the best interest of our beneficiaries.

For more information, please visit our website at **www.IllinoisRaisingTheBar.com**.

Michael Frenicks

MICHAEL W. FRERICHS

Illinois State Treasurer

# ABOUT THE OFFICE OF THE ILLINOIS STATE TREASURER

### **OVERVIEW**

The Office of the Illinois State Treasurer ("Treasurer"), pursuant to the Illinois Constitution, is responsible for the receiving, safeguarding, investing, and disbursing of state monies.

The Treasurer prudently invests money on behalf of the State, local governments, and individuals saving for retirement, higher education, or disability-related expenses. Through strategic investment decisions, the Treasurer promotes economic growth, continuing education, access to capital, and opportunities for individuals, communities, and government entities across Illinois.

The Treasurer is committed to fulfilling this mission with professionalism and integrity, upholding the principles of transparency, efficiency, diversity and inclusion, sustainability, and the preservation of the public trust.

As the State's Chief Investment Officer, the Treasurer manages approximately \$65 billion in assets, including \$35 billion in State investments, \$20 billion in financial product programs (such as college savings, retirement savings, disability savings), and \$10 billion managed on behalf of State agencies and units of local government.

The Treasurer oversees several investment programs, including:

- State Investments
- 529 College Savings Programs
- The Illinois Funds
- Illinois Growth and Innovation Fund
- Illinois Secure Choice Retirement Savings
   Program
- Illinois Achieving a Better Life Experience (ABLE)
- Student Empowerment Fund
- The FIRST Fund

The Treasurer also serves as the State's Chief Banking Officer administering the State's multiple banking functions - overseeing cash management activities, processing payments, and receipts on behalf of over 100 State agencies, boards, and commissions. In fiscal year 2025, the Illinois Treasurer processed \$259 billion in receipts and \$258 billion in expenditures.

The Office of the Illinois State Treasurer predates Illinois' incorporation in 1818. Voters in 1848 chose to make it an elected office.

Learn more at **illinoistreasurer.gov**.

# The Illinois Treasurer manages approximately

# \$65 billion.



# THE ILLINOIS TREASURER'S SUSTAINABLE INVESTING STRATEGY

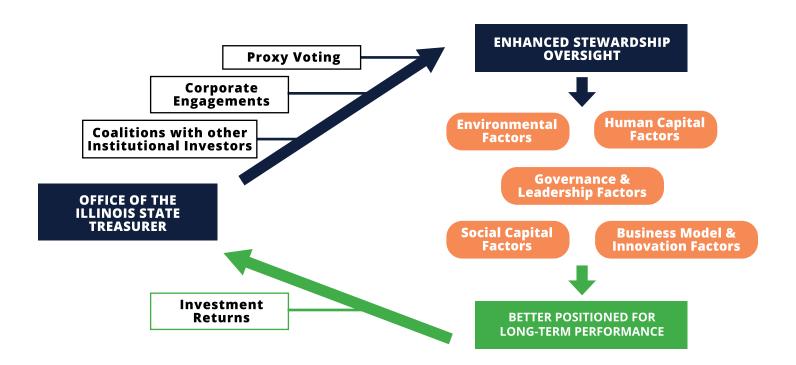
# **OUR VIEW ON SUSTAINABLE INVESTING**

**FULFILLING OUR FIDUCIARY DUTY -** To fulfill our fiduciary duty and maximize investment returns, we look beyond short-term gains and traditional indicators. We integrate additional risk and value factors that may have a material impact on investment performance giving investors a more complete view of each investment's short- and long-term financial outlook.

**SUSTAINABLE INVESTMENT IS ABOUT VALUE, NOT VALUES -** Incorporating sustainability factors into the investment decision-making process strengthens our fiduciary duty by improving our ability to assess risk and identify return opportunities that may drive long-term capital appreciation and risk mitigation.

**IMPLEMENTING THE ILLINOIS SUSTAINABLE INVESTING ACT -** The Illinois Sustainable Investing Act (30 ILCS 238), which took effect on January 1, 2020, provides that all state and local government entities holding and managing public funds, including the Illinois Treasurer, "shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty."

The Treasurer adheres to this legislation by maintaining a standalone <u>Sustainability Investment Policy Statement</u> outlining sustainability factors considered in managing investments and incorporating sustainability language within each investment portfolios' Investment Policy Statement.



**SUSTAINABILITY PRINCIPLES -** In alignment with the International Sustainability Standards Board's (ISSB) guidance via the Sustainability Accounting Standards Board (SASB), we apply sustainability factors into our investment decision-making process that are material, relevant, and decision-useful. We also work to ensure that the integration of such sustainability factors outweighs the costs of implementation.

**SUSTAINABILITY FACTORS -** The Office's sustainability factors encompass a broad range of topics that are used to more comprehensively analyze an investment based on its risk profile and return potential.

The sustainability factors we examine fall under five categories:



**SYSTEM-LEVEL RISKS -** Some sustainability issues, such as climate change 1,2,3,4 and biodiversity 5 loss have the potential to impact the Treasurers' entire investment portfolio. Therefore, the Treasurer examines system- level sustainability risks and their potential impact on long-term investment performance when developing engagement strategies and setting regulatory and legislative priorities. As part of our investment due diligence the Treasurer also assesses how asset managers identify and integrate these system-level risks within their investment processes.

<sup>&</sup>lt;sup>1</sup> Financial Stability Oversight Council, "Report on Climate-Related Financial Risk," 2021, available at https://home.treasury.gov/system/files/261/ FSOC-Climate-Report.pdf.

<sup>&</sup>lt;sup>2</sup> Financial Stability Board, "The Implications of Climate Change for Financial Stability," 2020, available at https://www.fsb.org/uploads/P231120.

pdf.

Board of Governors of the Federal Reserve System, "FEDS Notes: Climate Change and Financial Stability," March 2021, available at https://www. federalreserve.gov/econres/notes/feds-notes/climate-change-and-financial-stability-20210319.html.

Financial Stability Oversight Council, "Climate-Related Financial Risk – 2023 Staff Progress Report" 2023, available at https://home.treasury.gov/

system/files/261/FSOC-2023-Staff-Report-on-Climate.pdf.

5 Central Banks and Supervisors Network for Greening the Financial System, "Statement on Nature-Related Financial Risks," March 24, 2022, available at https://www.ngfs.net/sites/default/files/medias/documents/statement\_on\_nature\_related\_financial\_risks\_-\_final.pdf, International Corporate Governance Network, "Biodiversity as Systemic Risk," January 2023, available at https://www.icgn.org/sites/default/files/2023-01/ Biodiversity%20as%20Systemic%20Risk%20Viewpoint%20Jan%202023.pdf.

# OFFICE ORGANIZATION

**Externally-Managed Portfolios** 

**Public Market Investments** 

into external fund manager

**Alternative Investments** 

into external fund manager evaluations for alternative

investments focused portfolios

focused portfolios

evaluations for public market

Integration of sustainability factors

Integration of sustainability factors

The Stewardship and Sustainable Investment ("SSI") Division is responsible for the Office's stewardship efforts including corporate engagement, proxy voting, and public policy advocacy related to sustainable investing. The team also advises each of the investment teams of the Treasurer's Office on their oversight and diligence of sustainability integration practices. The SSI Division also works in collaboration with the Legislative team on any sustainability-related regulatory issues.

# The Stewardship and Sustainable Investment Division

### Advises

## **Internally-Managed Portfolios**

# Integration of sustainability factors into debt issuer and investment counterparty evaluations

**Portfolio Risk & Analytics** 

### **Policymaking & Advocacy**

### **Legislative Affairs**

Relevant enacted or proposed laws, rules, or amendments related to corporate engagement, stewardship, and sustainability integration duties of public funds

# **Performs**

### **Investment Stewardship**

- Corporate engagement (individual and collaborative)
- Proxy voting of direct equity investments
- Advocacy and regulatory oversight, review, and commentary

"I am tasked with investing not just for the next quarter - but with the goal of maximizing returns over the next quarter century."



# STRATEGIES AND FOCUS AREAS

The Illinois Treasurer uses a multifaceted approach to advance its sustainable investment strategy and address material financial risks and opportunities. This includes:



**1. INVESTMENT POLICIES –** Our policies guide each investment portfolio and specify that sustainability factors be integrated into portfolio construction, decision-making, investment analysis, and risk management.



**2. FUND MANAGER SOURCING, SELECTION AND EVALUATION –** We source, select and evaluate fund managers based on factors including, but not limited to, their governance and economic alignment, team personnel, investment stewardship policies, institutional track record, and sustainability integration process. Additionally, all prospective and existing fund managers are required to complete a questionnaire providing details on their firm's approach to sustainability integration.



**3. INVESTMENT ANALYSIS & DUE DILIGENCE –** We continually monitor and conduct due diligence on external fund managers and other external counterparties to identify and address sustainability risks and opportunities.



**4. RISK MANAGEMENT –** We integrate sustainability research and external ratings into reviews of debt issuers and investment counterparties (e.g., corporate bond issuers, broker/dealers, etc.) as inputs into our risk analysis process.



**5. PROXY VOTING** – We exercise our proxy voting rights in accordance with our <u>proxy voting</u> <u>policy</u> for those companies and funds where we maintain the ability to vote on management and shareholder proposals on annual ballots.



**6. CORPORATE ENGAGEMENT AND VALUE CREATION -** We engage companies in our investment portfolios on sustainability risks and opportunities through direct dialogue with corporate and board leadership.



**7. STRATEGIC PARTNERSHIPS -** We actively partner with investor coalitions, service providers, data providers, and other stakeholders to better execute our sustainable investing strategies by identifying leading best practices or laggards and to obtain market research to strengthen our stewardship capabilities.



**8. ADVOCACY AND POLICYMAKING** – We engage lawmakers and government entities to protect shareholder rights and promote responsible sustainable investing practices that enhance our fiduciary duty to beneficiaries.

# **CORPORATE ENGAGEMENT**

# **CORPORATE ENGAGEMENT OVERVIEW**

Engagement with portfolio companies and external counterparties is one of the most productive tools available to the Illinois Treasurer to mitigate risk and enhance investment opportunities.

Engagement is an effective tool for encouraging greater disclosure on issues that may have a material impact on company performance. It also allows the Office to gain a better understanding of how the companies in which it invests are managing sustainability risks and opportunities, and to collaborate with companies to enhance their sustainability performance.

These engagements address a range of sustainability-related risks and opportunities that the Treasurer believes could have a material, financial impact on company performance, such as executive compensa-

tion, workforce safety, board diversity, and climate risk management. The Office takes a cooperative approach with company boards and senior leaders. As investors, we want these companies to succeed and deliver stronger, more risk-adjusted returns for our beneficiaries.

Engagement takes many forms. It may involve sending letters, conducting direct dialogue with company management, collaborating with investor coalitions, and in some cases, filing shareholder proposals and exempt solicitations in advance of a company's annual general meeting.



### **BUILDING AN EFFECTIVE ENGAGEMENT STRATEGY**

- ESTABLISHING POLICY Developing the Office's Sustainability Investment Policy Statement to outline the authority, philosophy, and investment criteria by which the Office pursues corporate engagement activities.
- IDENTIFYING AND PRIORITIZING MATERIAL SUSTAINABILITY FACTORS – Identifying material sustainability risks and opportunities in the Office's investment portfolio, including at the systemic, industry-wide, or company level, and deploying resources accordingly.
- CRAFTING ENGAGEMENT STRATEGIES Developing actionable strategies and tactics to address said risks and opportunities with company management.
- CONDUCTING ENGAGEMENTS Leading engagements with decision-makers to learn more about
  the company's management of relevant sustainability issues, request additional pertinent disclosures, and provide targeted recommendations.

- FORMING PARTNERSHIPS AND COALITIONS –
   Building coalitions and coordinating activities
   with other institutional asset owners and investment managers (e.g., Midwest Investors Diversity Initiative, Human Capital Management Coalition, Climate Action 100+, etc.).
- CHAMPIONING BEST PRACTICES Examining data, research, and recommendations from third party providers, such as the International Sustainability Standards Board (ISSB), Morningstar, Bloomberg, Principles for Responsible Investment (PRI), Ceres, Majority Action, and the Council for Institutional Investors (CII), to identify and implement best practices in corporate engagement.
- VOTING PROXY BALLOTS Voting proxy ballot items to signal support/disfavor, encourage specific actions, and hold board directors accountable

# CORPORATE ENGAGEMENT AND STEWARDSHIP BY THE NUMBERS

82

Companies Engaged

Companies where the Treasurer led or supported an engagement

3 Shareholder Proposals Filed

Treasurer formally submitted a shareholder resolution or proposal, individually or as a co-filer, at an individual portfolio company

1

Shareholder Proposals Withdrawn

Based on the commitments made by the company

# **FY 2025 ENGAGEMENT ACTIVITIES**

# **Engagements on Corporate Governance**

Company	Engagement Topic	Lead/Support	Number of Touchpoints*
AirBnB	Corporate Governance	Lead	1
Comcast	Corporate Governance	Lead	2
Estee Lauder	Corporate Governance	Lead	1
Lennar Corporation	Corporate Governance	Lead	1
Meta Platforms	Corporate Governance	Lead	4
Tesla	Corporate Governance	Support	2

<sup>\*</sup>Number of touchpoints include formal letters with Treasurer's signature and meetings with the company, and shareholder proposals filed.

# **Engagements on Human Capital Management and Social Issues**

Company	Engagement Topic	Lead/Support	Number of Touchpoints*
Southwest Airlines	Human Capital Management	Lead	1
American Airlines	Human Capital Management	Lead	1
Arista Networks	Human Capital Management Disclosure	Lead	2
Commercial Metals Company	Human Capital Management Disclosure	Lead	2
Copart, Inc.	Human Capital Management Disclosure	Lead	1
PACCAR Inc.	Human Capital Management Disclosure	Lead	1
Amazon	Human Capital Management, Labor Rights	Support	2
Wells Fargo	Consumer Protection, Labor Rights, Corporate Culture	Lead	0
HCA Healthcare	Social Capital	Lead	2

# **Engagement on Product Quality and Safety**

Company	Engagement Topic	Lead/Support	Number of Touchpoints*
Boeing	Product Quality and Safety, Corporate Governance	Lead	3

# **Engagements on Proxy Voting Disclosure**

Company	Engagement Topic	Lead/Support	Number of Touchpoints*
Vanguard	Proxy Voting Disclosure	Lead	3

# **Engagements on Board Diversity**

Company	Engagement Topic	Lead/Support	Number of Touchpoints*
DXP Enterprises, Inc.	Board Diversity	Lead	1
National HealthCare Corporation	Board Diversity	Lead	1
Preformed Line Products	Board Diversity, EEO-1 Disclosure	Lead	2
Previously Engaged MIDI Companies	Progress Update on Board Diversity	Lead	56

# **Engagements on Climate Change**

Company	Engagement Topic	Lead/Support	Number of Touchpoints*
Southern Company	Climate Change, Executive Compensation	Co-Lead	4
Entergy	Climate Change, Executive Compensation	Support	3

# **Engagement on Water Stewardship**

Company	Engagement Topic	Lead/Support	Number of Touchpoints*
Monster	Water stewardship	Co-lead	1
Chipotle	Water stewardship	Support	1
Domino's	Water stewardship	Support	1
Lululemon	Water stewardship	Support	1

# **PROXY VOTING**

The Illinois Treasurer routinely votes on proxy ballot items for those companies and underlying funds where it maintains the right to vote on items on annual ballots. For example, during the 2025 fiscal year (July 2024-June 2025), the Treasurer voted on 30,322 proposals at 3,313 shareholder meetings through coordination with the Office's corporate governance consultant, Segal Marco Advisors.

Proxy voting is a fundamental right of all shareholders, and a critical function of fulfilling our fiduciary duty. It enables shareholders to participate in key company decisions and to communicate their views to corporate boards and management on business strategy. Proxy voting also serves as an important mechanism for holding boards accountable when they fail to address material issues related to governance, sustainability and risk management.

This work is critical in our endeavor to provide the highest level of service, stewardship, and financial value to our beneficiaries and participants, and will continue to advocate for shareholder rights to protect this tool.

Refer to the Illinois Treasurer's <u>Proxy Voting Policy Statement</u> and <u>Proxy Voting Summary Table</u> for additional information on how the Treasurer votes proxies, particularly related to different subject matters.

For information on how the Treasurer voted at specific companies, please see the Office's <u>Proxy Voting Dashboard</u>, which contains voting information going back to 2017.



# A GLANCE AT 2024-2025 PROXY VOTING

30,322

Proposals Voted on at 3,313 Annual Meetings, of which 2% were Shareholder Proposals

67%

Votes Cast in Favor of Proposals Filed by Shareholders

45%

Votes Cast in
Favor of Directors
up for Election on
Corporate Boards

1,291

Voted Against 1,291 Directors for Board Independence Concerns

# A GLANCE AT 2024-2025 PROXY VOTING



# Board Independence

Voted **against** 1,291 companies for board independence concerns



# Racial Diversity

Voted **against** 1,303 directors on nominating committees for failure to disclose the racial/ethnic composition of the board



# Governance Shareholder Proposals

**Supported** 91% of shareholder proposals covering corporate governance topics



# Gender Diversity

Voted **against** 1,848 directors on nominating committees for a lack of gender diversity



# Executive Compensation

Voted **against** 39% of executive compensation plans presented by companies, chiefly driven by misalignments between pay-for-performance and/or problematic pay practices

# **PUBLIC POLICY ADVOCACY**

The Illinois Treasurer engages with various governmental entities, ranging from the Illinois General Assembly to the U.S. Securities and Exchange Commission, that play a role in protecting investors and positioning the Office to better execute its core duties. Public policy has widespread implications on the present and future sustainability, transparency, and efficiency of capital markets, and as such, requires investors' input and expertise in material public policy efforts.

The Illinois Treasurer strives to advocate for policy outcomes that protect the ability of institutional investors to serve their beneficiaries and participants, protect shareholder rights, provide enhanced and verifiable disclosures to investors on material sustainability topics, increase equity, diversity and inclusion in the marketplace, and address risks to market stability and economic prosperity.

Agency	Activity	Topic
Occupational Health and Safety Agency (OSHA)	Comment Letter	Heat Injury and Illness Prevention in Outdoor and Indoor Work Settings - Docket No. OSHA-2021-0009
Congress	Democratic Witness at Committee on Financial Services Hearing	Defending practice of Sustainable Investment and the use of proxy advisory firms
Federal Housing Finance Agency	<u>Comment Letter</u>	Federal Home Loan Bank Core Mission Activities and Mission Achievement
Securities and Exchange Commission, Department of Labor	Public Letter	Urged SEC and DOL to allow fiduciaries to incorporate sustainability criteria to protect long-term performance

# **ENGAGEMENT HIGHLIGHTS FY 2025**





# WATER STEWARDSHIP: MONSTER BEVERAGE AND CHIPOTLE MEXICAN GRILL

Extreme heat, drought and flooding associated with climate change may severely impact availability and cleanliness of water and will likely present investment concerns that deserve more attention from companies and issuers. According to a 2025 report from Bloomberg, \$70 trillion in global gross domestic product (GDP) may already be exposed to high water stress.6 Water-related issues could cost businesses in certain industries, for example those that rely on supply chains for meat and other commodities up to \$80 billion. 56% of global irrigated cropland is exposed to extremely high-water stress.

Given the increasing severity of these issues, the Treasurer began engaging with companies in 2024 to understand how they are addressing and mitigating water risks, while promoting best practices. Since then, he has expanded his efforts in water stewardship, aiming to engage portfolio companies and to raise awareness of water-related risks across the investment community.

For corporate engagements, the Office focuses on companies meeting the following criteria:

- (1) OPERATING IN SECTORS PARTICULARLY VULNERABLE TO WATER RISKS (FOOD, BEVERAGE, APPAREL, OR HIGH TECH),
- (2) DISCLOSING LITTLE WATER RISK MANAGEMENT INFORMATION COMPARED TO PEERS, AND
- (3) REPRESENTING SIGNIFICANT HOLDINGS IN THE OFFICE'S PORTFOLIOS.

Based on this, the Treasurer began engaging with Monster Beverage in 2024 and Chipotle Mexican Grill in 2025.

For Monster Beverage, the Office joined an existing engagement team at the VWFI. Through our collective efforts, the Company agreed to set site-specific water efficiency targets for operations in high water-stress areas, including their growing craft beer operations. Following an engagement in October 2024, Monster Beverage indicated plans to expand their water risk assessments and targets across all brewery locations. The Office will continue engaging Monster Beverage to encourage the expansion of its water stewardship initiatives.

The Office also participated in VWFI's engagement efforts with Chipotle. The Company has made significant progress in recent years, including a supply chain water risk assessment in 2022, announcing a goal to conserve and restore priority watersheds in 2023, and supporting regenerative farming and water conservation efforts across 3,800 acres of farmland. Through direct engagement, the Office aims to encourage Chipotle to build on this progress by establishing g specific metrics and timeframes to its water goals.

Additionally, the Office plays an active role within investor coalitions to raise the bar on water stewardship throughout the investment ecosystem. The Valuing Water Finance Initiative (VWFI), a coalition of over 100 investors with combined assets exceeding \$17 trillion, engages companies in high-risk sectors. The Office joined the VWFI in 2023 and in 2025 was selected to serve as investor co-chair of the coalition.

The Office has also been coordinating water-themed Communities of Practice in coordination with the Principles for Responsible Investment (PRI) to better equip investors to identify, measure and mitigate water risks in their portfolios.



# CORPORATE GOVERNANCE: META PLATFORMS

The Office has engaged Meta Platforms (formerly Facebook) for several years over its corporate governance practices as well as the impact of its products on consumers. Over the past two years, the Office has focused on its dual-class stock structure and unequal voting arrangement. The Company maintains two classes of stock: Class A and Class B.

Class A stock is entitled to one vote per share, while Class B stock is entitled to ten votes per share. Meta Platforms' Founder and CEO, Mark Zuckerberg, owns virtually all Class B stock, granting him 61% of the total voting power and effectively eliminating the voice of all other shareholders.

A shareholder proposal calling for the Company to sunset its dual class stock structure has appeared on most proxy statements since Meta went public in 2012. Each year, those proposals have garnered high levels of support among Class A shareholders but have never been implemented because of Mr. Zuckerberg's controlling vote. In 2024, the Office joined in the efforts to address this unequal arrangement. In our opinion, the Company should at minimum disclose voting results by share class, if it is not going to sunset the stock structure.

The 2024 annual meeting proved to be an excellent case for the usefulness of disclosure of voting results by share class. Technically, all management proposals on the 2024 ballot easily passed, and all shareholder proposals failed. However, disaggregating voting results by share class paints a different picture. In 2024, a majority of Class A shareholders are estimated to have supported five of the ten shareholder proposals. This includes the proposal that the Treasurer filed on disaggregated vote disclosure, which had the backing of approximately 55% of Class A shareholders. Additionally, Class A shareholders are estimated to have rejected two management proposals, and four other proposals received less than 60% Class A support.

Given this, the Office re-filed the proposal alongside Schroders Asset Management for the 2025 shareholder meeting. Support for the proposal grew to 66% Class A shareholder support, up 11% from the previous year. In an environment where support for shareholder proposals has declined, these results show that investors continue to broadly oppose unequal voting structures such as the one at Meta Platforms.

The Office plans to continue the engagement with Meta Platforms to advocate for shareholder rights and encourage the Company to sunset the dual class stock structure.



## **WORKERS' RIGHTS: AMAZON**

Amazon is the second-largest private employer in the United States, the second-largest company in the world by revenue, and the largest retailer in the world. With such a large employee base serving so many customers, we believe human capital management is a critical – if not the most important – driver of Amazon's success.

Unfortunately, the Company has been subject to intense scrutiny over how it treats its workers. In December 2024, the Senate committee on Health, Education, Labor and Pensions (HELP) released the findings of an exhaustive investigation into Amazon's warehouse workplace practices. According to the report, titled "The 'Injury-Productivity Trade-Off", Amazon manipulates its injury data to make warehouses appear safer than they are, imposes demanding speed and productivity requirements on workers, and fails to ensure safe working conditions. The Company has also been accused of interfering with workers' rights to unionization and freedom of association. Some anti-unionization tactics the Company has been accused of include intimidation, retaliation, and surveillance. 8,9,10

The Treasurer began engaging with Amazon in 2022 over workplace safety and freedom of association. In 2022, the Office co-filed a proposal calling on the Company to conduct an independent assessment of its stated respect for worker freedom of association. The proposal received strong support from 39% of shares (47% among independent shareholders). After the Company declined invitations to meet in 2022 and 2023, the Office re-filed the proposal and it again received strong support (32% among all investors). The Company remained unwilling to engage on the topic and there appeared no significant improvement over Amazon's human capital management. Therefore, the Office filed the proposal for a third time. Due to changes made to the SEC's interpretation of certain shareholder proposal topics, the Company challenged the proposal and the SEC sided with the Company, meaning that the proposal did not appear on the 2025 proxy statement.

Worker conditions do not appear to have materially improved, however. Shortly after filing the shareholder proposal, in January 2025, Amazon abruptly announced that it planned to close all of its warehouse facilities in Quebec and lay off more than 1,700 workers. Workers and union representatives claimed that the decision was directly related to the unionization of 200 employees at one of those warehouse facilities in Laval, Quebec, a claim that Amazon denies.<sup>11</sup>

The action – which may or may not have been influenced by unionization efforts – only bolstered the need for an independent assessment of how well Amazon respects its workers' right to form a union.

<sup>&</sup>lt;sup>7</sup>United States Senate Committee on Health, Education, Labor and Pensions, "The Injury-Productivity Trade-Off," December 2024. Available at: https://www.help.senate.gov/imo/media/doc/amazon\_investigation.pdf.

New York Post, "Amazon Used Illegal Intimidation Tactics in Alabama Vote, Union Claims," April 29, 2021. Available at <a href="https://nypost.com/2021/04/19/amazon-used-illegal-intimidation-tactics-in-ala-vote-union/">https://nypost.com/2021/04/19/amazon-used-illegal-intimidation-tactics-in-ala-vote-union/</a>.

<sup>&</sup>lt;sup>9</sup>NBC News, "Fired, Interrogated, Disciplined: Amazon Warehouse Organizers Allege Year of Retaliation," March 30, 2021. Available at <a href="https://www.nbcnews.com/business/business-news/fired-interrogated-disciplined-amazon-warehouse-organizers-allege-year-retaliation-n1262367">https://www.nbcnews.com/business/business-news/fired-interrogated-disciplined-amazon-warehouse-organizers-allege-year-retaliation-n1262367</a>.

<sup>10</sup>CNBC, How Amazon Keeps a Close Eye on Employee Activism to Head of Unions," October 24, 2020. Available at <a href="https://www.cnbc.com/2020/10/24/how-amazon-prevents-unions-by-surveilling-employee-activism.html">https://www.cnbc.com/2020/10/24/how-amazon-prevents-unions-by-surveilling-employee-activism.html</a>.

<sup>&</sup>lt;sup>11</sup> Business and Human Rights Resource Center, "Amazon Closing all Quebec Warehouses, Laying Off More Than 1,700 Workers," January 22, 2025. Available at <a href="https://www.business-humanrights.org/en/latest-news/amazon-closing-all-quebec-warehouses-laying-off-more-than-1700-workers/">https://www.business-humanrights.org/en/latest-news/amazon-closing-all-quebec-warehouses-laying-off-more-than-1700-workers/</a>.

The decision to lay off those workers also established a clear risk to long-term shareholder value. It brought upon legal challenges from the National Trade Unions and led the local government to discourage government employees from contracting with the Company. <sup>12,13</sup> Given the abrupt disruption in operations and the ensuing legal, reputational, and regulatory risks, a group of 68 investors, including the Treasurer, sent a letter to Amazon's board of directors expressing concerns over the ramifications of its decision to close the warehouses. <sup>14</sup>

While the Office was disappointed with the SEC's decision to allow Amazon to exclude our shareholder proposal, the Treasurer will continue to monitor the Company's human capital management performance and remains unafraid to stand tall in defense of workers and the protection of long-term shareholder value.

# **Vanguard®**

# TRANSPARENCY: VANGUARD

Vanguard is among the world's largest asset managers and the largest providers of mutual funds. Along with BlackRock and State Street Global Advisors, it is colloquially known as one of the Big Three. The Big Three collectively own large stakes in most publicly traded companies. As such, they play an incredibly influential role in proxy voting; the way they vote can often determine whether a shareholder proposal passes or fails.

After reaching a peak in support for shareholder proposals in 2021, Vanguard has greatly decreased its support for such proposals, particularly on environmental and social matters. In 2024, Vanguard supported only 2 environmental and social proposals out of the 517 it voted on. Similarly, it left the Net Zero Asset Managers (NZAM) initiative in 2022, less than two years after joining the group.

These decisions alarmed many investors, including the Treasurer, who were concerned that one of the world's largest asset managers was not adequately considering long-term risks in its investment process. The Office began engaging Vanguard on these matters in 2022, seeking further clarity on its rationale for shareholder proposals covering important environmental and social topics.

Through numerous engagements, Vanguard has agreed to enhance its voting rationale disclosures, both in its regular reports and also on its proxy voting dashboard. This will help investors better understand why Vanguard votes the way it does and what criteria it considers over a wide range of topics and ballot items. This would also put Vanguard more in line with peers such as BlackRock, T Rowe Price, and Northern Trust – all of whom already provide such vote disclosures.

The Office is pleased to see these developments and is eager to see how clients will gain greater insight and oversight of Vanguard's proxy voting activity.

<sup>12</sup> Business and Human Rights Resource Center, "Amazon to Face Legal Action After Laying Off 1,900 in Quebec," February 4, 2025. Available at https://www.business-humanrights.org/en/latest-news/amazon-to-face-legal-action-after-laying-off-1900-in-quebec/.
13 Business and Human Rights Resource Center, "Quebec Encourages Its Civil Servants to Buy Local and Avoid Amazon," February 24, 2025. Available at https://www.business-humanrights.org/en/latest-news/quebec-encourages-its-civil-servants-to-buy-local-and-avoid-amazon/.
14 Business and Human Rights Resource Center, "Canada: Investors Express Concerns to Amazon Over Abrupt Closures of Warehouse & Delivery Sites," April 6, 2025. Available at https://www.business-humanrights.org/en/latest-news/canada-amazon-abruptly-closes-warehouse-delivery-sites-allegedly-as-part-of-a-union-busting-campaign-impacting-an-estimated-3000-workers-seasonal-subcontracted-staff-incl-co-response/.
15 Vanguard, "Investment Stewardship 2024 Annual Report," available at https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/policies-and-reports/2024\_investment\_stewardship\_annual\_report.pdf.



## **CLIMATE RISK: SOUTHERN COMPANY**

Southern Company is one of the nation's largest electric utilities, measured both by power generation and market share. It is also the largest emitter of greenhouse gases (GHG) among US utilities. Given the company's notable exposure to material climate risks to its business model, the Illinois Treasurer has engaged the company since 2018 as part of the Climate Action 100+ investor initiative. In response to feedback from investors, the company has established GHG emission reduction goals, published a decarbonization strategy and just transition report, and linked its decarbonization goals to executive compensation.

The Office continued its series of constructive dialogues with Southern Company. In 2023, the Office filed a shareholder proposal seeking greater disclosure and analysis on the compensation structure, because we were concerned that the current executive compensation structure allowed executives to meet emissions reduction targets even in instances where absolute emission rates went up, not down. Upon successful dialogue, the Treasurer negotiated a withdrawal of the proposal due to Southern Company's plan to incorporate energy efficiency and demand response megawatts as part of the GHG Reduction Metric calculation in its executive compensation plan. The Company also agreed to provide a more detailed analysis of carbon emission rates used as an input into the GHG Reduction Metric.

Since then, Southern Company has published its analysis of "Pay Alignment for Key Executives with Southern Company's Decarbonization Strategy," and met with the Treasurer's Office to provide an overview of the analysis. The Treasurer appreciates the significant effort and thoughtful assessment that went into Southern Company's assessment. As a result, we believe that investors are better able to assess how the cumulative megawatt changes used in the Company's executive compensation program are tied to changes in GHG emissions.

<sup>&</sup>lt;sup>16</sup> National Public Utilities Council, "Annual Utility Decarbonization Report," 2025. Available at <a href="https://www.motive-power.com/wp-content/uploads/2025/04/2025-Spring-Decarbonization-Report\_Final.pdf">https://www.motive-power.com/wp-content/uploads/2025/04/2025-Spring-Decarbonization-Report\_Final.pdf</a>.

# **NEW ENGAGEMENT INITIATIVES**

Sustainability is an ever-evolving space encouraging innovation and requiring the Treasurer to reassess priorities and ideate new engagements. Over the past year, the Treasurer's Office has created two new engagement initiatives.

## CORPORATE GOVERNANCE LAGGARD CAMPAIGN

The primary fiduciary duty of a board of directors is to act in the best interests of the corporation and its shareholders. Board composition and decisions can significantly affect a company's financial health and, by extension, an investor's portfolio. In 2025 the Treasurer launched the Corporate Governance Laggard campaign to identify and engage corporate boards whose corporate governance structures the Office believes do serve the best interests of our beneficiaries. The campaign is comprised of four key areas:

- **EXCESSIVE SHARE PLEDGING** Directors and executives sometimes pledge company stock as collateral to help secure loans. This practice, while common, can pose risks to shareholders in cases where a director has pledged significant amounts of company stock and where that stock falls in price (either through company-specific circumstances or broader market downturns). In these cases, the collateral for the loan has dropped so far in value that directors often need to sell additional stock to meet a bank's margin call, causing a falling stock price to sink even lower, harming shareholders along the way.
- **DUAL CLASS STOCK STRUCTURE** Some companies maintain a dual (or multi-) class share structure with unequal voting rights. Typically, these companies grant insiders (directors, executives, and founders) with high-voting power stock that can severely dilute or altogether eliminate the voice of those holding stock with much lower voting power.
- **CLASSIFIED BOARD STRUCTURE** Common practice is for all directors to stand for election by shareholders on an annual basis. However, some boards evenly divide their directors into different classes who stand for election at different intervals. In addition to extending a director's tenure, this structure also reduces accountability to shareholders.
- FINANCIAL UNDERPERFORMANCE A key duty of a board of directors is overseeing the CEO and designing his or her pay package. In designing the CEO pay package, boards must determine the best way to align CEO pay with company performance. A poor compensation plan excessively rewards the C-suite even when company performance is low. In cases where a company's share price has significantly lagged behind peers over an extended period, it may be that the board is not designing a sufficiently challenging compensation program.

In designing the corporate governance laggard engagement campaign, the Office emphasizes the importance of patience and board competence. For example, the presence of a classified board structure does not automatically signal poor performance or the need for engagement, and a single year of financial underperformance does not automatically justify an overhaul of the board or its practices. However, in cases where boards adopt certain poor practices and they have exhibited a history of underperformance or misalignment between themselves and their shareholders, engagement is warranted.

To date, the Office has engaged five companies that fall into this category.

# **HUMAN CAPITAL MANAGEMENT DISCLOSURE ENGAGEMENT INITIATIVE**

The Treasurer launched a new engagement initiative aimed at improving and standardizing foundational human capital management disclosure by publicly listed companies within our portfolio. This initiative is motivated by our belief that workers are one of the most important assets for any company. When companies recognize this and treat their employees well, they are better positioned for long-term success and to unlock sustainable value creation for their investors.

To date, despite investor interest in mandated human capital management disclosure metrics, the Securities and Exchange Commission ("SEC") has not mandated quantitative disclosure. Instead, since 2020, the SEC requires publicly listed companies to provide a description of the registrant's human capital resources, including in such description any human capital measures or objectives that management focuses on in managing the business, to the extent such disclosures would be material to an understanding of the registrant's business taken as a whole (emphasis added).17 Subsequent analysis of this reporting requirement has shown that company disclosure on human capital management has been boilerplate, vague, and largely qualitative.18 As a result, we are left with limited information about how companies manage their workforce.

The new Human Capital Management Engagement Initiative is aimed at addressing this problem, by setting minimum disclosure expectations and communicating them to portfolio companies who lack this disclosure.

The Treasurer's disclosure expectations include the following:

- 1) WORKER HEADCOUNT disaggregated by employees (full-time and part-time) and independent contractors
- 2) TURNOVER disaggregated by voluntary and involuntary turnover
- 3) DIVERSITY DATA in the form of the company's EEO-1 report

This disclosure should be supplemented by a qualitative description of the company's human capital management strategy, if and how the board oversees human capital management, and any company specific context on the foundational metrics disclosed that could aid investor understanding of the company's human capital management strategy.

To date, the Treasurer has engaged four companies, outlining our disclosure expectations. We plan to expand this initiative in the future.

# STRATEGIC PARTNERSHIPS

### THE ILLINOIS TREASURER IS PROUD TO WORK WITH OTHER PARTNERS COMMITTED TO SUSTAINABLE

**INVESTING -** In order to expand the resources, reach, insights, and depth of the work that we do, we partner with investor coalitions, industry experts, and key stakeholder groups to execute our investment objectives, pursue learning opportunities, and share leading operational and investment best practices. However, it is important to note that the Illinois Treasurer conducts all coalition engagement activity through the lens of the individual fiduciary duty to which he owes.

Refer to the table below for some of the investor networks, policy/research groups, and coalitions of which we are a member or work closely with to incorporate sustainability into our investment processes in the most prudent manner. These organizations are also supported by leading asset management firms, public pension funds, labor unions, foundations, endowments, family offices, and other state treasurers.



**CERES -** A non-profit organization working with influential capital market leaders to drive solutions for building a just and sustainable future.



**COUNCIL OF INSTITUTIONAL INVESTORS (CII)** – A non-profit, non-partisan association for best practices in corporate governance, strong shareholder rights, and sensible financial regulations.



**FOR THE LONG TERM** – A nonprofit that supports Treasurers, Comptrollers, Controllers, and Auditors in managing the material risk factors (ex: climate change, racial inequity) their investment portfolios and beneficiaries face as they work to create fairer, more sustainable, and more inclusive markets.



**HUMAN CAPITAL MANAGEMENT COALITION (HCMC) –** A cooperative effort among a diverse group of influential institutional investors to elevate the critical importance of human capital management's impact on company performance.



**MAJORITY ACTION** - A nonprofit, non-partisan organization that empowers shareholders to hold corporations accountable to high standards of corporate governance, social responsibility, and long-term value creation.



**MIDWEST INVESTORS DIVERSITY INITIATIVE (MIDI) –** A coalition of Institutional investors led by the Illinois Treasurer dedicated to increasing racial, ethnic, and gender diversity on corporate boards of companies.



**PRINCIPLES FOR RESPONSIBLE INVESTING (PRI)** – A network of global investors working to promote responsible investment policies and practices, supported by the United Nations.



**LABOUR RIGHTS INVESTOR NETWORK (LRIN)** – A global investor network for exploring the risks and benefits associated with workers' rights to freedom of association and collective bargaining.



**INVEST AHEAD** - A pioneering advocate for increased gender, racial and ethnic diversity on corporate boards and in senior leadership.



**CLIMATE ACTION 100+** – An investor-led initiative to ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change.



**JUST CAPITAL-** A non-profit organization with the goal of helping companies create value for all their stakeholders – their workers, customers, communities, the environment, and shareholders – by focusing on the issues that matter most to Americans.



**INVESTOR COALITION FOR EQUAL VOTES (ICEV) –** An investorled initiative to advance long-term parity between public company insider's equity stakes and voting power.



**VAULING WATER FINANCE INITIATIVE (VWFI) –** A global initiative that calls on companies to meet six expectations for the responsible use of water.

# SUSTAINABILITY INTEGRATION PRACTICES ACROSS THE OFFICE

# INTERNALLY MANAGED INVESTMENTS

The Division of Portfolio & Risk Analytics ("PRA") is responsible for analyzing, modeling, and reporting on investments in the Office's two internally managed investment programs, State Investments and The Illinois Funds, which invest in only high-quality, investment grade securities rated single-A or above. The team does this by utilizing quantitative and qualitative analytical models to anticipate, identify, and mitigate financial risk exposures, as well as identify investment opportunities that provide additional prospects for return.

For example, PRA reviews and evaluates security issuers (i.e., issuers of corporate bonds, commercial paper, repurchase agreements, etc.), broker/dealers and counterparties first and foremost by their creditworthiness (e.g., liquidity, leverage, profitability) and historical financial performance, as well as through assessing sustainability factors that may have a material and relevant financial impact on safety and preservation of capital.

In their issuer and counterparty reviews, PRA utilizes the conceptual framework and reporting standards provided under the International Sustainability Standards Board (ISSB) guidance from the Sustainability Accounting Standards Board (SASB), which provides a robust set of globally applicable industry-specific standards that identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry. Data specific to each respective approved issuer is obtained from a variety of sources including but not limited to company corporate social responsibility reports, the Bloomberg Terminal, credit rating agencies, industry regulators, etc.

Once an issuer or counterparty is reviewed and assessed, internal scores are generated to decide if a counterparty or issuer is approved or restricted for investment within the two internally managed investment portfolios. In instances where material sustainability information causes a review to be restricted, the PRA team will also conduct dialogue with companies to address their concerns. Refer below to instances of sustainability analysis that drove a counterparty/issuer's internal scoring and eligibility for investment.

# **APPROVED ISSUER: APPLE**



Information Technology company, Apple Inc., was approved as an issuer for investment due to its strong creditworthiness, in addition to being among the highest-rated counterparties for sustainability performance in its peer group. Sustainability performance was measured in the following ways:

- AN INDUSTRY LEADER IN ENVIRONMENTAL, SOCIAL, AND GOVERNANCE SCORES Based upon topics relevant to the company as identified by the International Sustainability Standards Board, Apple is leading its peers in terms of ESG (environmental, social, and governance) according to company disclosed data. Apple currently has an ESG score of 5.69 according to Bloomberg which is outperforming its peers. The company is also leading its peers in categories such as sustainable products, social supply chain management, labor & employment practices, product quality management, executive compensation, and shareholder rights.
- **REDUCING OVERALL EMISSIONS** Apple has reduced its gross greenhouse gas emissions across all three scopes by greater than 60% since 2015. Apple has estimated that it has avoided over 41 million metric tons of emissions in 2024 thanks to its environmental programs. Additionally, Apple is sourcing 100% renewable energy for its facilities, is continuing to work to transition its supplies to renewable energy, and the company is using low-carbon materials for its products.
- **SETTING GOALS TO BENEFIT THE ENVIRONMENT A**pple has set several goals and has several different initiatives to benefit the environment in the future. Apple is committed to being carbon neutral for its entire carbon footprint by 2030 by focusing on reducing all three scopes of greenhouse gas emissions by 75% compared to 2015 as well as investing in high-quality carbon removal solutions for the remaining emissions. Apple has also set a goal of aiming to make more durable and long-lasting products to enhance material recovery. The company is continuing to work to eliminate the waste sent to landfills as well as stewarding water resources. Lastly, Apple has designed its products to be safer for anyone who assembles, uses, or recycles them to have less of an impact on the environment.

# RESTRICTED COUNTERPARTY: CENTERPOINT ENERGY



CenterPoint Energy is a Texas-based utility provider. Following hurricane Beryl in July 2024, more than 2.6 million Texas residents were left without power. CenterPoint has been publicly criticized, and it is also being investigated by regulators for its failure to adequately prepare for and respond to the storm. CenterPoint announced plans to inspect and test critical equipment, including more than 270 substations, and harden electric and natural gas infrastructure, which will require a significant increase in operational costs for the company.

Since this devastating storm, CenterPoint has created the Greater Houston Resiliency Initiative which has installed more than 10,600 storm-resilient poles, cleared more than 3,400 miles of hazardous vegetation, and installed more than 370 self-healing automation devices. While these actions are a step in the right direction to prevent future loss of power for its customers, there is still much more work to be done.

Furthermore, as S&P Global Ratings gave a negative outlook to the CenterPoint, the PRA division determined it would be in the best interest of the Office to suspend purchases of the company's corporate bonds, and to restrict purchases of commercial paper to durations of six months or less.

# EXTERNALLY MANAGED INVESTMENTS

### **PUBLIC MARKET INVESTMENTS**

The Public Market Investments team is responsible for monitoring the externally managed financial products investment portfolios of the Treasurer's Office, including, but not limited to, the <u>College Savings 529</u> <u>Programs</u>, <u>Illinois Secure Choice Retirement Savings Program</u>, and the <u>IL ABLE Program</u>.

The team is responsible for the sourcing, selection, assessment, monitoring, and due diligence for all prospective and current external investment managers, including the manager's integration of sustainability factors into the investment process. Through the team's continual review of the portfolios' construction, manager selection, asset allocation, economic impact, and investment policies/objectives, the team guides decisions regarding the continued appropriateness of investment managers, policies, and program structures.

### SUSTAINABILITY INTEGRATION IN INVESTMENT MANAGER SELECTION AND OVERSIGHT

With approximately \$23 billion of total assets managed by external investment managers across asset classes in publicly traded securities, the Division of Public Market Investments assesses prospective and existing investment managers using various quantitative and qualitative criteria that align with the investment analysis, due diligence, and risk management responsibilities derived from the investment policies of the Illinois Treasurer. Part of the quantitative and qualitative factors that are considered in investment manager searches, selection, and oversight includes a manager's integration of sustainability factors.

How external managers integrate sustainability into their portfolio management duties provides additional sources of data and adds an additional layer of rigor to the fundamental analytical investment approach, which may help to further assess the governance structures or reliability of future cash flows and debt repayments of portfolio companies. Similar to traditional financial accounting, sustainability considerations can have both confirmatory and predictive value. Thus, we believe it can be beneficial to be used to evaluate past performance and/or for future planning, valuation, and decision-making. Assessing sustainability factors therefore provides a more complete view of an investment in a fund, company, or external manager by considering the implications of supplemental material factors that may impact long-term investment value.

### **COMPREHENSIVE SUSTAINABILITY INTEGRATION EVALUATION PROCESS**

The Office implements a rigorous diligence process surrounding the details of each manager's sustainability integration strategy. The team utilized a customized sustainability scorecard to assess both existing and prospective asset managers on the quality and depth of their sustainable investment processes. Each year since then, the Office has continued to refine this process and analysis. Annually, the Office distributes its Sustainability Due Diligence Questionnaire to managers, with responses used to assess each manager across criteria within the following categories: sustainability policy, proxy voting, sustainability integration, research, engagements, and firm-wide policies. This enables the Office to analyze managers across the same criteria in order to leverage the information for relative and comparative assessment purposes, as well as to identify specific risk areas or areas of improvement for individual managers. Additionally, each of the Office's external investment managers, as well as financial counterparties, is assessed annually on diversity, equity and inclusion policies, practices, and outcomes through the Office's Equity, Diversity, and Inclusion Assessment. The annual assessment seeks diversity information regarding both the firm's leaders and total workforce, as well as information on the organizational policies, practices and initiatives of the firm.

This information is similarly used for comparative purposes and to identify specific areas of improvement or potential engagement.

### **ENGAGEMENT WITH INVESTMENT MANAGERS**

The Public Market Investments Team actively engages with its external investment managers throughout the year by conducting due diligence meetings, distributing assessments and questionnaires, and launching targeted engagements as relevant topics arise. For instance, if a manager's proxy voting decisions misalign with clearly identified sustainability risk exposures, the team uses its discretion to launch a dialogue, encourage best practices, and formulate an action plan for potential improvements.

All public market investment manager searches integrate sustainability due diligence as part of the investment process.

# PRIVATE MARKET INVESTMENTS

The Division of Alternative Investments is responsible for monitoring the externally managed investment portfolios of the Treasurer's Office which invest in private market investments, including the Illinois Growth and Innovation Fund (ILGIF), the Student Empowerment Fund, and one of the Office's newest initiatives, the FIRST Fund.





The FIRST Fund is a first-of-its-kind, evergreen, \$1.5 billion impact investment fund designed to build and strengthening Illinois' infrastructure and real estate. The fund enables the Treasurer to allocate up to 5% of the State portfolio toward investing in, creating, and maintaining infrastructure and real estate assets. Investments are made through infrastructure development firms, which must maintain a significant presence in Illinois (as defined in legislation) and have a track record of development within the state.

- **LOCAL IMPACT** Investing with a unique regional focus, enabling financial returns while supporting investments that grow the local economy and generate additional impact in the State through improved infrastructure and high-quality job creation. All funds invested in are required to invest twice the Office's commitment amount to the fund into Illinois-based projects to ensure capital is recycled and has the intended impact in Illinois.
- **INVESTMENT DIVERSIFICATION** Expanding the pool of assets in which the State investment portfolio can be invested to diversify the portfolio, mitigate risk, and increase State investment earnings potential.
- **SUSTAINABLE INVESTMENTS** Encouraging sustainable development while also improving financial outcomes.
- **DIVERSITY AND INCLUSION** Expanding the manager pool, diversifying investor perspectives, and meeting the needs of all communities to promote more equitable and inclusive infrastructure development within the State of Illinois.
- **WORKER-CENTRIC** The Treasurer believes that an adequately compensated and trained worker delivers a higher-quality product and service. Through the Treasurer's Responsible Contractor Policy, the Office supports and encourages fair wages and fair benefits for workers.

# SUSTAINABLE INVESTMENT HIGHLIGHTS



- **COMMITMENT** \$75,000,000
- **IMPACT -** Worker-Centric, Renewable Energy, Local Impact, Diversification

This \$4.7 billion core infrastructure fund invests in essential service assets across the digital, social, utility, and transportation sectors throughout North America. Headquartered in Chicago, the Fund focuses on stable, long-term returns through investments in mission-critical infrastructure that supports educational institutions, healthcare facilities, municipalities, and utility/energy sectors. The Fund targets assets that maintain low correlation to economic cycles while generating community value. As of December 31, 2024, the Fund has made five investments in Illinois, including student housing, residential housing, and renewable energy projects. In the past year, the Fund's underlying investments have generated over 1,412 MW of clean energy for Illinois residents and leased more than 1,260 affordable units to students within the state.



- **COMMITMENT** \$25,000,000
- IMPACT Worker-Centric, Human Capital, Local Impact

Elion Logistics Park 55 ("ELP 55") is a 2,500-acre rail-served industrial park at I-55 and Lorenzo Road in Wilmington, Will County, Illinois. It is the largest master-planned, rail-served, mixed-use logistics park in the Midwest. ELP 55 is within a distribution hub that reaches 27% of the U.S. population by a one-day drive and is near BNSF and Union Pacific Intermodal facilities. ELP 55 includes an on-site police and fire station, TA Petro Travel Plaza, 140 acres of retail space, and 40 acres of preserved wetlands. The site has over 6,000 truck parking stalls and capacity for over 500,000 cargo containers and over-the-road trailers. As of December 31, 2024, the project had more than 180,000 construction hours worked and created more than 1,450 permanent jobs in Wilmington, IL. Upon full completion, the project is expected to sustain 12,655 permanent jobs, including 6,978 within the park itself, catalyzing additional employment opportunities across various sectors.

# PRIORITIZING DIVERSE INVESTMENT FIRMS

A core tenet of the Treasurer's mission is to promote education, access, and opportunity for individuals, families, and governmental bodies across the State of Illinois to help them achieve the American Dream. Inclusive within that mission is the Treasurer's commitment to providing equal access for minority persons, women, qualified veterans, and persons with disabilities ("MWVD Persons").

Treasurer Frerichs firmly believes that our governance should mirror the diversity in our state.

Significant academic research demonstrates that diverse-owned companies are often more well-situated to capitalize on market inefficiencies, and as such, primed to outperform their peers. That is why the Illinois Treasurer is focused on providing more opportunities for qualified investment firms and suppliers owned by MWVD Persons because diversity is good for business performance.

Beyond this fundamental understanding of the corporate value of diversity, Section 30 of the Illinois State Treasurer Act declares that it be policy of the Illinois Treasurer to promote and encourage the use of businesses owned by or under the control of MWVD Persons and sets forth the aspirational goal of directing 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts to businesses owned by or under the control of MWVD Persons.

Our most recent report on the utilization of MWVD firms is available <u>here</u>.



# CONCLUSION

The Illinois Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return for beneficiaries using authorized instruments. To achieve this objective, the Illinois Treasurer has a responsibility to recognize and evaluate risk factors that may have a material financial impact on the performance of our investments.

As such, the Illinois Treasurer prudently integrates sustainability factors into its investment processes to help fulfill its fiduciary duties, which include maximizing anticipated financial returns and minimizing projected risk. As a result of this mission, the financial outcomes achieved are expected to contribute to a more just, equitable, and sustainable State of Illinois.

FOR REGULAR UPDATES AND MORE INFORMATION ON THE SUSTAINABLE INVESTING ACTIVITIES OF THE ILLINOIS TREASURER, PLEASE VISIT <u>WWW.ILLINOISRAISINGTHEBAR.COM</u>.

# **CONTACT**

# KAREN KERSCHKE

DIRECTOR, STEWARDSHIP & SUSTAINABLE INVESTMENT

312-814-9305

kkerschke@illinoistreasurer.gov

# **MARISSA MARTINEZ**

DEPUTY DIRECTOR OF STEWARDSHIP & SUSTAINABLE INVESTMENT

217-558-0010

mmartinez@illinoistreasurer.gov

DIVISION OF STEWARDSHIP AND SUSTAINABLE INVESTMENT SUSTAINABLEINVESTMENTS@ILLINOISTREASURER.GOV

2024 - 2025

# ANNUAL SUSTAINABLE INVESTMENT REPORT