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Summer 2022 | A Newsletter for Sustainable Investors

INSIDE

Our thoughts on the SEC's climate disclosures rulemaking

By Julie Gorte, Ph.D., Senior Vice President for Sustainable Investing

On March 21, the U.S. Securities and Exchange Commission (SEC) proposed a rule to enhance and standardize climate-related disclosures. If adopted, the rule would require public companies operating in the United States to make public certain climate change-related data.

We commend the SEC for proposing such a robust and comprehensive set of required disclosures. It is increasingly clear that climate-related risks are already upon us and are having major financial and economic outcomes. These risks range from the company-specific to the systemic, which is why many of the world's largest central banks are also engaged in the Network for Greening the Financial System, which focuses on creating an orderly transition to a low carbon future. The possibility that climate change could reduce global GDP by nearly 20% by midcentury[1] if the problem is not effectively addressed is only one illustration of the magnitude of the systemic risk posed by climate change.

Particularly, we commend the SEC for requiring comprehensive emissions disclosures and for establishing phase-in periods for these disclosures, with a longer phase-in period for more difficult reporting.

Reporting on climate risks will take some effort and expense, particularly in the beginning, during its phase-in. But not having this information is also costly, and probably far more costly than integrating climate risks into investment decisions. It would mean a future of increasingly frequent and unpleasant surprises for investors should we lack the tools to anticipate and price

climate risks, which are already affecting the performance and competitiveness of companies across the globe. The prospects for future disruption of economic growth are significant; as the Federal Reserve recently noted, "climate change may increase the risk of very poor growth outcomes — which may lead to a variety of adverse impacts." Facing a future without information and tools to assess this kind of risk is unacceptable.

The SEC did a good job estimating the costs of compliance with this rule. Companies may face costs to create systems for gathering and verifying data, but many of those costs will be front-loaded, decreasing over time as they gain familiarity with the process. While requiring this reporting may involve significant costs in the short term, it is important to acknowledge that there are costs to not having this information. As the already substantial impacts and costs of climate change continue to grow, not

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Meet the Impax Gender Analytics Team

By Kelly Baldoni, Head of Global Women's Strategies

For many years, Impax has researched the link between gender balanced leadership teams and company performance, resulting in the creation of our Impax Gender Score and Global Women's Leadership Index[1] (GWLI). The team behind this pioneering work is our Gender Analytics Team. In this Q&A, two members of the team behind this pioneering work discuss the evolution of gender lens investing.

David Loehwing, Head of Sustainability and ESG, North America

Heather Smith, Vice President, Lead Sustainability Research Analyst

Kelly Baldoni: *What is the role of the Impax Gender Analytics team, and what makes it unique?*

Heather Smith: The Gender Analytics team conducts research to identify companies that are leaders in gender equity and selects constituents for the Impax Global Women's Leadership Index (GWLI). The team follows research on the links between gender diversity and company performance, as well as trends around equity, diversity and inclusion (E,D&I), to help inform our investment process and engagement efforts.

I think what makes our team unique is the experience we bring to the table and the dynamic nature of our work. We regularly evaluate new gender-related indicators that may yield additional insights, and we constantly assess the state of company disclosures. Our team of five research analysts averages nearly 20 years of industry experience and 12 years at Impax, and our work has evolved over time as more data has become available. For example, we've expanded our research coverage to look not only at the gender composition of companies' leadership profiles but also to include an assessment of their diversity policies, programs and disclosures.

Baldoni: *How is the Impax Gender Score determined, and how is it used?*

Smith: The Gender Analytics team completes an annual assessment of a global universe of approximately 1,600 companies. We collect and analyze the gender indicators internally using a combination of primary research, gender data directly disclosed by companies, and data from third-party providers of gender and ESG data. In 2014, we developed the Impax Gender Score to systematically identify companies that we believe are well positioned to benefit from the gender diversity advantage. We assess companies using multiple criteria of gender leadership and assign them a proprietary Gender Score.

When we first launched the Gender Score, we focused primarily on the representation of women on the board and in management, because that was what the research indicated mattered most to company performance. Also, we could reliably gather that data on a global universe of companies. Over the last few years, we've seen companies' disclosures of diversity indicators become more comprehensive. In 2019, we added additional factors into our scoring model that focus on company policies and programs designed to advance diversity, including indicators related to pay equity, the talent pipeline and goals and targets.

David Loehwing: Consistency is an important aspect of our gender analytics scoring. We are not just looking at companies at one point in time; instead we use multiple years of data, because we want to identify companies that are consistently demonstrating gender leadership. Companies that have a declining representation of women in leadership roles or have stepped back from commitments around pay equity or talent pipeline, for example, will fall in the overall gender rankings and may eventually fall out of inclusion in the Index. Companies are analyzed relative to the overall investment universe, (MSCI World Index[2]) and, as the "leadership" bar continues to be raised each year, some companies may be removed from the Index if they do not continue to evolve and improve.

Smith: I would add that the Gender Score is not only used to identify companies that are leaders but also to identify companies with areas for improvement that may benefit from engagement. To that end, we use the Gender Score to prioritize engagements with companies on various aspects of their gender diversity profile.

The Gender Score is used as part of the investment process in our gender lens portfolios and is also available to all investment teams at Impax, for idea generation for large cap companies within developed markets.

Baldoni: *How do you see gender lens investing evolving over the next couple of years?*

Loehwing: I think companies are looking beyond diversity and are considering equity and inclusion more comprehensively. This is driving companies to analyze the most effective ways to improve E,D&I in their organizations as well as consider what kinds of disclosures promote

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Impax News

Welcome, Coleen Lynch

Our North American distribution team continues to grow. In May, Coleen Lynch joined as Senior Vice President, Relationship Manager. Lynch leads the firm's strategic relationships in the intermediary channel, bringing Impax investment expertise and thought leadership to key clients throughout the United States. To the role she brings more than 25 years of experience in investment management plus demonstrated success managing and growing strategic partnerships with wealth managers, private banks and independent broker-dealer channels.

"Impax has seen significant and growing demand for its solutions among institutional and intermediary investors," said Ed Farrington, Head of North American Distribution. "Coleen has extensive experience leading and growing expansive intermediary partnerships, and I am confident that her expertise and contributions will be invaluable to our efforts as we look to strengthen and grow our global business."

Equipment for Hire: Opportunities in the Sharing Economy

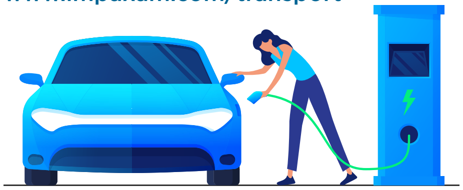
Lisa Beauvilain and Evie Paterson discuss where Impax perceives opportunities in the emerging sharing economy and how equipment rental can contribute to a more sustainable, circular economic model.

Read the article here:
www.impaxam.com/sharing

The Future of Moving from A to B: Accelerating the EV Transition

As the shift to electric vehicles reshapes the future of personal mobility, certain technologies will propel autonomous and connected EVs into the mainstream. In their latest article, David Winborne and Justin Winter consider the investment opportunities therein.

Read the article here:
www.impaxam.com/transport



MEET THE IMPAX GENDER ANALYTICS TEAM, CONTINUED from PAGE 2

accountability and meaningful progress. I think it will be important to pay close attention to gender diversity for the foreseeable future. While we have seen encouraging progress towards gender equity, there is still more work to be done.

Smith: The pandemic has challenged women's participation and advancement in the workforce, particularly women who are racial and ethnic minorities, and it brought to the forefront the systemic, structural barriers that have hindered equality. At a time when companies are at risk of losing diverse talent, they also have the opportunity to create lasting change and a better workplace for everyone.

How companies respond to these issues will shape the trajectory of their talent pipelines; companies that fail to evolve and therefore lose out on diverse talent will likely not be as resilient or innovative in the years to come.

[1]The Impax Global Women's Leadership Index is a customized market capitalization-weighted index created and licensed by Impax Asset Management (IAM) consisting of equity securities of issuers organized or operating in countries around the world that demonstrate a commitment to advancing and empowering women through gender diversity on their boards, in management and through other policies and programs, and an understanding of the potential business advantages associated with greater gender diversity, as rated by the IAM Gender Analytics team, with final approval by the IAM Women's Index Committee. In addition, the companies comprising the Women's Index meet certain environmental, social and governance (ESG) or sustainability thresholds, as rated by MSCI ESG Research. Inception date of The Index is February 28, 2014.

The investment techniques and decisions of the investment adviser, including the investment adviser's assessment of a company's ESG (Environmental, Social and Governance) profile when selecting investments or company engagements, may not produce the desired results relative to other investment products that do not consider ESG factors or come to different conclusions regarding such factors.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Impax Asset Management (Impax) associates. Actual investments or investment decisions made by Impax, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

[2]The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World (Net) Index consists of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Performance for the MSCI World Index is shown "net", which includes dividend reinvestments after deduction of foreign withholding tax. One cannot invest directly in an index.

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OUR THOUGHTS ON THE SEC'S CLIMATE DISCLOSURES RULEMAKING, CONTINUED from FRONT PAGE

understanding the landscape of climate risk will be increasingly costly for both companies and their investors as well as other stakeholders, like employees.

The SEC has laid out a persuasive and comprehensive case for the financial materiality of climate change as a range of investment risks — including physical risks. Currently, gathering information from companies about their vulnerability to physical climate risks is difficult. Many report very little on the locations of their operations, often mentioning only cities, countries, or regions. But even within a metropolitan area, vulnerability to physical risk can vary widely. Gathering data on the locations of facilities alone can take hundreds of person-hours just to assess a single portfolio, often because investors are seeking information that does not exist. That information is relatively straightforward for companies to disclose but laborious and time-consuming for investors to gather. It is time for this to change.

The SEC's proposed rule would bring sunlight to the information investors need to understand a wide range of climate-related risks companies face, so they can make more informed decisions about which risks to take and how to value them.

In our comment letter to the SEC, we offered suggestions that we believe would strengthen the proposed rule. But overall, we believe the proposed rule is well-conceived and well-supported — and not a moment too soon.

Read the comment letter we sent to the SEC here:
www.impaxam.com/sec-comment

[1]Natalie Marchant, "This Is How Climate Change Could Impact the Global Economy," World Economic Forum, June 28, 2021. (weforum.org)

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. For this and other important information, please obtain a fund prospectus by calling 800.767.1729 or visiting www.impaxam.com. Please read it carefully before investing.

An investment in Pax World Funds involves risk, including loss of principal. Past performance does not guarantee future results.

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