IMPAX Asset Management

Connection

Winter 2024 | A Newsletter for Sustainable Investors

A Letter from Impax President Joe Keefe

Joseph F. Keefe
President

Dear fellow shareholders,

I have had the privilege of connecting with you through this quarterly newsletter for some 18 years and this message, alas, will be my final one prior to my retirement at the end of January.

The first thing I want to say is how happy I am to be handing over my duties as President of Impax Asset Management LLC to Ed Farrington, currently our Head of Distribution for North America. When Ed joined us a little over two years ago, it was with the knowledge that he would be stepping into my shoes upon my retirement. I couldn't be more pleased as Ed is not only an experienced, capable leader but an excellent human being who exemplifies the culture and values we strive to live by at Impax. So, I leave you in very good hands and believe Ed will serve you faithfully and capably over the years ahead.

The second thing I want to say is thank you. Thank you for putting your faith in us to manage your investments over the years. I hope and trust our focus on the risks and opportunities arising from the transition to a more sustainable economy has resulted in competitive returns over the medium- to long-term. I hope as well that our efforts to engage with companies in our portfolios has encouraged positive change and resulted in meaningful real-world impact.

As investors, it is important that we understand the risks and opportunities confronting the global economy as it transitions to a more sustainable model. Those risks and opportunities often involve critical environmental and social issues — from climate change to gender equality, from biodiversity to diversity, equity and inclusion — that are among the great challenges of our time. We need to confront those challenges as human beings, as parents, as citizens, and of course as investors.

We also need to confront our critics when they seek to misrepresent what we are doing. Over the past year or so, we have witnessed an attack on ESG — on so-called "woke" corporations and "woke" capitalism — from certain political quarters. Some of these political attacks have even advocated that funds incorporating ESG factors, or funds that avoid investing in fossil fuels, or funds that consider issues such as diversity, equity and inclusion, should actually be removed from public retirement plans. Some have advocated that fund managers and plan sponsors should not even be allowed to consider such factors — which I assume means you're not even allowed to think about them.

These attacks are remarkably short-sighted, ill-informed, and contrary to the basic principles underlying a market economy, which should encourage rather than curtail investment choices and should champion rather than undermine the freedom to invest.

Fiduciaries like ourselves who care for and manage other people's money, are duty-bound to consider all factors that are likely to be material. To ignore such factors — or worse, to substitute the views of politicians and government officials for those of

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How does climate change impact investors?

Climate change creates a spectrum of risks, often classified in three categories: **adaptation**, **transition** and **physical**. We believe these risks — and their associated opportunities — are often ignored or mispriced, significantly impacting companies' financial performance.

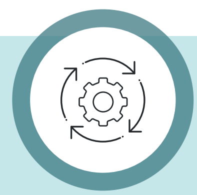
Climate change will cost the world's economies trillions of dollars over the 21st century. Creating a low-carbon economy that can adapt to new climate and weather patterns will support economic prosperity, while simply waiting for increasingly frequent disasters can only grow more chaotic and costly.

Adaptation risks

The move toward net zero is creating differentials in corporate competitiveness. From adoption of low-carbon products and services to impairments against assets that are no longer viable, all of this is happening in real time. If we don't adapt to the new climate regime we've already created, more will be spent reactively – and often chaotically – on disaster recovery after each crisis.

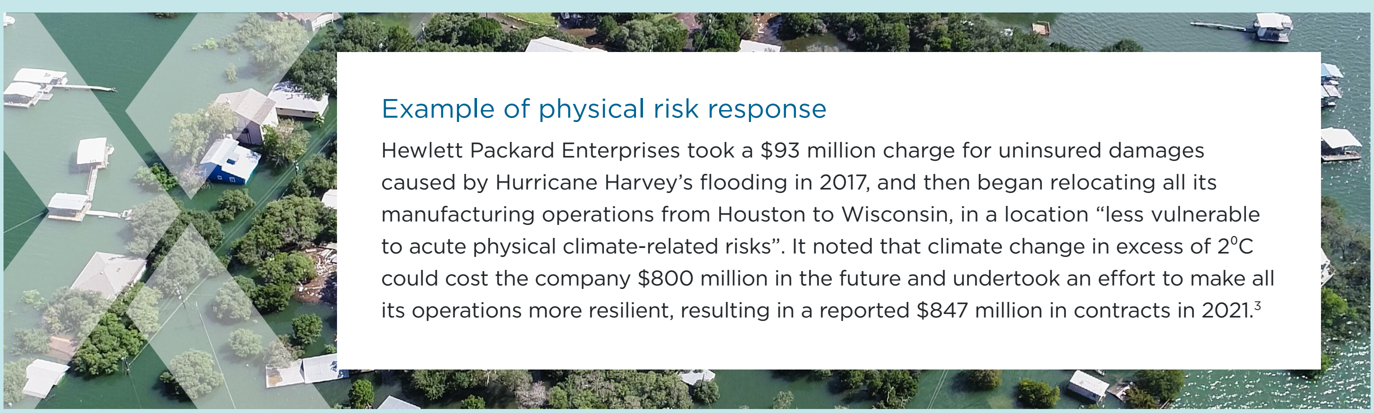
Transition risks

Transition risks are disruptive economic changes caused by shifts in regulation, technology and consumer preferences. A growing body of research demonstrates the financial materiality of transition risks. Lower corporate emissions, for instance, have been shown to be positively and significantly correlated with higher excess returns and productivity.[1] Companies that do not address climate risk could face credit rating downgrades.[2]



Physical risks

Physical risks are related to damages caused by more frequent and/or severe weather events and chronic conditions. Once largely dismissed or ignored as 'acts of God' to be covered in standard business continuity plans, physical risks are increasingly recognized as things that investors can anticipate and should price, if possible. Doing so will require more disclosure from companies – not only where their operations are located, but also how they are preparing for increasingly volatile weather and climate conditions that could affect operations.



Example of physical risk response

Hewlett Packard Enterprises took a $93 million charge for uninsured damages caused by Hurricane Harvey's flooding in 2017, and then began relocating all its manufacturing operations from Houston to Wisconsin, in a location "less vulnerable to acute physical climate-related risks". It noted that climate change in excess of 2°C could cost the company $800 million in the future and undertook an effort to make all its operations more resilient, resulting in a reported $847 million in contracts in 2021.[3]

1 JKazdin, J. & Schwaiger, K., et al, 2021: Climate Alpha with Predictors also Improving Firm Efficiency, *The Journal of Impact and ESG Investing*

2 Faralli, M. & Ruggiero, F., 2023: The Rise of Climate Risks: Evidence on Firms' Expected Default Frequencies. See also Shah, A., et al, 2023: Green Performance Since the Paris Agreement, *Jefferies*

3 Gold, R., 14 March 2021: Companies' Climate Risks Are Often Unknown. Here's How One Opened Up. *The Wall Street Journal.* References to specific securities are for illustrative purposes only and should not be considered as a recommendation to buy or sell.

Impacts on corporate performance

Transition and physical risks have already affected firm-level financial performance and are likely to be much greater than most expect. Insurers have raised prices for fire, flood and drought coverage, dampening real estate markets. Emissions regulations are raising the cost of carbon-intensive products for both producers and consumers, and carbon border adjustment taxes will only add to this. Appropriate company disclosures will allow us to better gauge the future ranges of these impacts.

Though many experts believe markets are widely underestimating climate-related risks, studies show that lower-emitting companies and those with transition plans have delivered financial outperformance.[5] We also know that lower-emissions firms have been outperforming for some time.[6]

Physical climate risks are not reliably anticipated by corporate investors, which is why Impax petitioned the SEC to require that companies report the locations of assets whose loss or damage could be a material event.[4]

Pricing risks and capturing opportunities

At Impax, we aim to price climate risks in every investment we make. Our goal is to make our portfolios resilient to transition and physical risks, while capturing the potential upside from higher growth rates associated with clean technology, renewable energy and enabling infrastructure. The data, methods and tools at our disposal are not perfect. But despite underlying uncertainties, we are well beyond a binary debate about whether climate change matters. We work toward a more sophisticated, probabilistic view of the magnitude of its financial impacts on assets, firms and portfolios.

Learn more on this topic from our recent whitepaper reviewing the research that demonstrates the financial materiality of climate risks to companies, issuers and their investors. Read the report at impaxam.com/climatechange.

4 Gorte, J., 2023: A well-conceived rule with room for improvement
5 Wang, X. & Panagiotopoulos, A., 2023: Did Low-Carbon-Transition Strategies Differentiate Energy Companies?, *MSCI*
6 Bauer, M., Huber, D., et al, 2023: Where is the Carbon Premium? Global Performance of Green and Brown Stocks, *CESifo Working Paper no. 10246*

A LETTER FROM IMPAX PRESIDENT JOE KEEFE, CONTINUED from FRONT PAGE

trained investment professionals — would not only lead to sub-par investment results over time but, in our view, is a clear breach of fiduciary duty.

The global economy is in transition; a new era of opportunity and risk is before us. Clearly, investors and those acting on their behalf need to understand these trends, and to evaluate these opportunities and risks, whether they label them “ESG” or not. Restricting choice is not the answer; expanding it is. Ignoring issues is not the answer; understanding them is. Closing our minds is not the answer; opening them is.

I have been privileged for the past 18 years to lead a group of people whose minds are always open, whose focus is always on doing what is right and what is best for our shareholders, who care about the future and about making it better. They also care about each other, creating a team culture here at Impax that I truly believe is what sets us apart. So, my final thank you is to my colleagues — it has been the great privilege of my life to work with you, to learn from you, to serve you.

My best wishes to all of you, always.

Peace,

Joseph F. Keefe
President

Shareholder Corner: IRA Contributions

It's January, you can make a 2024 IRA contribution!

Contribution limits for the 2024 year have increased — If you are under the age of 50, typically you can contribute the smaller of $7,000 or your taxable compensation for the year. If you are 50 years of age or older, you can contribute the smaller of $8,000 or your taxable compensation for the year.

And, if you haven't yet, you can still make a 2023 contribution until April 15, 2024. The contribution limit for 2023 is the smaller of $6,500 or your taxable compensation for the 2023 tax year. If you are 50 years of age or older, you can contribute the smaller of $7,500 or your taxable compensation for the 2023 tax year.

Subject to deduction limits, Traditional IRA contributions are generally made on a tax-deferred basis, which means that you may be able to deduct some or all of your contribution from your taxable income. Taxes are typically paid when funds are withdrawn, presumably during retirement, when you may be in a lower tax bracket. As a reminder, with the passage of the SECURE Act in 2019, there is no longer a maximum age for being able to contribute to a Traditional IRA.

Subject to income limits, contributions to Roth IRAs are not tax deductible. Since these funds were already subject to income tax, after holding a Roth IRA for five years, certain types of withdrawals, including those taken in retirement, can be made on a tax-free basis.

For more information about your eligibility or the differences between Traditional and Roth IRAs, please see IRS Publication 590-A, "Contributions to Individual Retirement Arrangements (IRAs)" at **www.irs.gov**, or call the IRS at 800.829.3676 to order a copy.

You can open a new Traditional IRA or Roth IRA, or you can make a contribution to an existing account through the Impax Portal at **www.impaxam.com/account**. For assistance, or for other options, please call Investor Services at 800.372.7827.

Please note that the information above does not constitute tax advice and, as of the time written, can change with the passage of legislation currently before Congress. State tax regulations may differ from federal tax regulations. Always consult your tax advisor before making any tax-related investment decision.

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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 impaxam.com. Please read it carefully before investing.

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

Management Risk - The investment techniques and decisions of the investment adviser and the Fund's portfolio manager(s), including the investment adviser's assessment of a company's ESG (Environmental, Social and Governance) profile when selecting investments for the Fund, may not produce the desired results and may adversely impact the Fund's performance, including relative to other Funds that do not consider ESG factors or come to different conclusions regarding such factors.

Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that sustainable investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

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