

## ESG Sub-Policy

**Impax Environmental Markets (Ireland) Fund, Impax Environmental Leaders (Ireland) Fund, Impax Asian Environmental Markets (Ireland) Fund, Impax US Environmental Leaders Fund, Impax Global Social Leaders Fund and Impax Global Equity Opportunities Fund.**

January 2025

### Policy Brief

Impax is a specialist investment manager, focused on investments in companies and activities benefiting from the transition to a more sustainable economy.

Investment universes are built through Impax's classification of "Environmental Markets", as well as the assessment of investments through the "Impax Sustainability Lens", which enables the prioritisation of investment in activities that have high opportunities and low risks in the transition to a more sustainable economy. Impax fully integrates proprietary ESG analysis into the investment process and is actively involved in stewardship activities with investee companies across ESG topics. These approaches and processes are described in the Impax ESG policy.<sup>1</sup>

This ESG sub-policy specifically relates to the following Impax funds: Impax Asian Environmental Markets (Ireland) Fund, Impax Environmental Markets (Ireland) Fund, Impax Environmental Leaders (Ireland) Fund, Impax US Environmental Leaders Fund, Impax Global Social Leaders Fund and Impax Global Equity Opportunities Fund; and seeks to describe Impax's position, approach, and processes regarding a number of activities.

This policy is aligned with the Febelfin *Towards Sustainability* label.

### Policy Statement

Impax is committed to investing in sustainable activities and companies, integrating a diligent ESG analysis in the investment process, and avoiding activities and companies that do not adhere to international norms and conventions. Impax avoids or limits investment in activities that are harmful, as described in this policy document.

We have clearly defined positions within the following areas:

#### 1. Compliance with Global Standards

Compliance with international standards and norms is an investment requirement. Global standards screening assesses the extent to which a company causes, contributes, or is linked to violations of international norms and standards. This assessment covers the UN's Global Compact Principles (including human rights, labour rights, environment, and anti-corruption), as well as the OECD Guidelines for Multinational Enterprises, the International Labour Organization's (ILO) Conventions and the UN Guiding Principles on Business and Human Rights (UNGPs).

Impax sources information about company compliance with international standards and norms and involvement in related controversies from external ESG research providers.

- If a company is flagged for potential breaches ("watch list"), we monitor and engage with the company.
- If a company is in actual breach with any of the global standards, it will be excluded from the Impax investable universe ("A-list") and will not be available for investment.

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<sup>1</sup> Impax ESG Policy: [impax-esg-policy.pdf \(impaxam.com\)](https://impax-esg-policy.pdf(impaxam.com))

## 2. Weapons

### *Controversial weapons*

Impax defines controversial weapons as weapons having indiscriminate effects and causing undue harm and injuries. “Controversial weapons” is a concept which is subject to change over time. At the date of publication of this Policy, Impax considers the following to be “controversial weapons”:

- **Anti-personnel mines:** the Ottawa Convention, which took effect in March 1999, bans the use of antipersonnel mines.
- **Cluster weapons:** the Convention on Cluster Munitions (Oslo Convention) adopted in 2008, prohibits the use, stockpiling, production, and transfer of cluster munitions.
- **Nuclear weapons:** the Nuclear Non-proliferation Treaty (NPT) of 1968, which took effect in 1970, aims at inhibiting the proliferation of nuclear weapons.
- **Biological and chemical weapons:** the Biological and Toxin Weapons Convention (BTWC) of 1972 and the Chemical Weapons Convention (CWC) of 1993 outlaw biological and chemical weapons.
- **Depleted uranium munitions:** no current international convention exists, but Impax recognises the concerns regarding depleted uranium munitions.

Impax considers that a company is “involved in controversial weapons” when the company:

- Produces, trades, or stores controversial weapons or components that are specifically designed for these weapons (dedicated components), and which represent a critical component required for the functioning of the weapon (key component) and/or
- Provides assistance, technologies or services dedicated to controversial weapons.

If one of the above-mentioned activities takes place within a subsidiary, the direct parent company is also considered to be involved in controversial weapons if it holds a majority equity interest in the subsidiary. Likewise, if one of the above-mentioned activities takes place within a parent company, any majority-owned subsidiary of this parent company is also deemed to be involved.

In accordance with its ESG policy<sup>2</sup>, Impax excludes companies with any involvement in controversial weapons across all its products, including the funds covered by this Policy.

### *Conventional weapons*

Conventional weapons are weapons other than those previously classified as controversial weapons and are defined as products or basic components of products that have been ‘designed to injure/kill’ and are used exclusively for military purposes. Tailor-made components are components that are developed primarily to be integrated into a weapon system. Companies that derive  $\geq 5\%$  of their revenue from the manufacture or sale of conventional weapons or tailor-made components thereof are not eligible to be included in any of these funds.

In addition, companies with  $\geq 25\%$  of revenue from bespoke products, equipment or services dedicated to enabling the execution of the activities above are not eligible to be included in these funds.

## 3. Tobacco

Tobacco products are defined as cigars, cigarettes, cigarette tobacco, e-cigarettes, and roll-your-own tobacco<sup>3</sup>. Companies involved in tobacco with  $\geq 5\%$  of revenue from the production of tobacco, products that contain tobacco or the wholesale trading of these products are not eligible to be included in these funds.

In addition, companies with  $\geq 25\%$  of revenue from bespoke products, equipment or services dedicated to enabling the execution of the activities above are not eligible to be included in these funds.

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<sup>2</sup> Impax ESG Policy: [impax-esg-policy.pdf \(impaxam.com\)](https://impax-esg-policy.pdf(impaxam.com))

<sup>3</sup> Source: US FDA

#### 4. Fossil Fuels (including coal, unconventional oil & gas, conventional oil & gas, power generation)

Impax is a specialist asset manager investing in the opportunities arising from the transition to a more sustainable economy. Across all strategies, Impax aims to build more resilient portfolios by managing risks, including climate-related risks. Such risks include material risks to companies with fossil fuel-related assets and activities, in the form of government intervention to regulate greenhouse gases, changes in consumer preferences, technological developments and other liabilities, like stranded asset risks, in addition to reputational and litigation risks.

To mitigate or eliminate such risks, all Impax strategies have adopted a fossil fuel policy as described below.

##### *Fossil fuel exploration and production*

Impax does not invest in companies deriving **any** revenues or profits from fossil fuel exploration and production, whether coal mining, or conventional oil and gas, or non-conventional sources such as shale gas. Impax believes such companies face significant climate transition risks.

Impax's above stated exclusion of fossil fuel exploration and production is in line with the respective scope of activities in the Towards Sustainability Quality Standard i.e. prospecting, exploration, extraction and mining activities related to thermal coal, unconventional oil and gas and conventional oil and gas.

In addition, in line with the respective eligibility criteria in the Towards Sustainability Quality Standard, the Funds covered by this policy do not invest in companies deriving 25% or more of revenues from bespoke products, equipment or services dedicated to enabling the execution of fossil fuel prospecting, exploration, extraction and mining activities.

##### *Fossil fuel refining, processing, storage, transportation, distribution, and utility power generation*

Impax does not invest in companies deriving **>5%** of revenues or profits from fossil fuel refining, processing, storage, transportation, and distribution, as well as utility power generation, unless it determines that they have credible plans for climate risk mitigation aligned with the transition to net zero.

Impax's above stated restriction of fossil fuel refining, processing, storage, transportation and distribution, as well as utility power generation, is in line with the respective scope of activities in the Towards Sustainability Quality Standard i.e. processing, refining, transportation, and power generation activities related to thermal coal, unconventional oil and gas, or conventional oil or gas.

In addition, in line with the respective eligibility criteria in the Towards Sustainability Quality Standard, the Funds covered by this policy do not invest in companies deriving 25% or more of revenues from bespoke products, equipment or services dedicated to enabling the execution of fossil fuel processing, refining, and transportation activities.

In line with the power generation related eligibility criteria in the Towards Sustainability Quality Standard, the Funds covered by this policy do not invest in companies where the absolute production of or capacity for coal-based power is **5GW** or more.

Lastly, in line with the power generation phase out margin in the Towards Sustainability Quality Standard, and specifically for the Funds covered by this policy, the total portfolio exposure to companies deriving >5% of revenues from fossil fuel power generation is capped at below **2%**. Companies that fall within this margin (constituting <2% of the portfolios covered by this policy) have been assessed to be leading in the sustainable energy transition - Impax will not invest in these companies unless we have determined that they have a credible plan for climate risk mitigation aligned with the transition to Net Zero.

#### 5. Net Zero alignment

Impax believes that the asset management sector can contribute to the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius, through engagement and advocacy work, and by investing in climate solutions.

As a signatory of the Net Zero Asset Managers Initiative, Impax supports the goal of net-zero emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 °C (as per the Paris Climate Agreement). As a signatory to the Net Zero Asset Managers initiative, we aim for 100% of committed AUM to be within the "transition aligned" or "transition aligning"

categories, related to climate management and processes, by 2030. At least 50% of committed AUM<sup>4</sup> will be classified as aligned.

## 6. Nature, Biodiversity and Deforestation

Biodiversity underpins life on earth and refers to the variety found in “biota”, the genetic make-up of plants and animals.<sup>5</sup> Human health ultimately depends upon ecosystem products and services, such as availability of fresh air, water, and food, which are requisites for good human health and productive livelihoods. Biodiversity loss can have significant direct human health impacts if ecosystem services are no longer adequate to meet societal needs. Indirectly, changes in nature’s ecosystem services<sup>6</sup> affect livelihoods, income, local migration and, on occasion, may even cause political or societal conflict.

Nature-related risk encompasses biodiversity loss and ecosystem degradation. We seek to identify and assess exposure to nature-related risks in our investments. We believe it is important to capture exposure to nature-related risks holistically by adopting the so-called “double materiality approach”. This means that we consider both:

- The risks of biodiversity loss and ecosystem degradation on our investments - especially where there is a significant dependency on nature and ecosystem services, and
- The potential negative impacts of our investments on nature.

It is when considering the impacts of our investments on nature that we start to capture both the potential for liability or loss of license to operate and start to identify the knock-on and cumulative effects of biodiversity loss on long-term economic growth.

As stated in the *Impax Approach to Nature, Biodiversity, and Deforestation*<sup>7</sup>, sector-level analysis is combined with company-level analysis, to identify, assess, and manage nature-related risks. Nature is a focus area for Impax’s thematic engagement activities, engaging with companies on corporate biodiversity dependencies and the (negative) impact on biodiversity, as well as possible solutions and best practices.

## 7. Water

Water is a necessity for all life and is recognised as a human right by the UN<sup>8</sup>. Impax’s norms-based screens and ESG analysis are evaluating that investee companies are not depriving communities from access to water, physically or through excessive water pricing. Because of these issues, Impax does not invest in companies acquiring or controlling water rights.

Water can also be a major risk in investment portfolios. As part of Impax’s integrated ESG analysis, we analyse the most material sustainability risks at the company level. In companies and sectors where water is a material risk, we look for the following when analysing companies:

- Policies and management systems on water management, under ISO 14001 or equivalent
- Reporting and disclosure of water data, where possible
- Targets for reducing water withdrawals, where possible.

Impax invests in companies operating across the water infrastructure, utilities, and treatment sectors, providing water solutions (e.g. saving, recycling or provision). We are conscious that more frequent droughts and extreme climate events affect the availability of water (also called physical climate risks). An analysis of the localised water stress exposure (for example using World Resources Institutes Aqeduct™ tools) is therefore part of the ESG-analysis for companies where

<sup>4</sup> Committed AUM consists of all actively managed listed investments and private equity investments which represent 92% of AUM.

<https://www.netzeroassetmanagers.org/signatories/impax-asset-management/>

<sup>5</sup> WWF: “Biodiversity is an abbreviation of ‘biological diversity’. Biodiversity reflects the number, variety and variability of living organisms.”

<sup>6</sup> Nature provides us with water, clean air and food, and raw materials for medicines, industry and buildings. All of these benefits, known as ecosystem services, depend on a healthy environment. Ecosystem Services are the direct and indirect contributions ecosystems (known as natural capital) provide for human wellbeing and quality of life.

<sup>7</sup> [approach-to-nature-biodiversity-and-deforestation.pdf \(impaxam.com\)](#)

<sup>8</sup> <https://www.unwater.org/water-facts/human-rights/>

water is a material risk factor. In the absence of sufficient publicly available information, if company-specific water risks have been identified, we actively engage with the companies on this topic.

## 8. Pollution and waste

Impax invests in companies operating across the waste recovery, technology equipment, recycling and value-added waste processing sectors, where these companies provide waste management and resource-efficient, circular economy solutions. Pollution and waste externalities<sup>9</sup>, can pose a significant risk in investment portfolios. As above, we analyse the most material sustainability risks for a specific company. In companies and sectors where pollution and waste is a material risk<sup>10</sup>, we look for the following when analysing companies:

- Policies and management systems on pollution and waste management, under ISO 14001 or equivalent
- Reporting and disclosure of pollution emissions and waste data, where possible
- Targets for reducing pollution emissions and waste disposal, where possible
- Controversies, fines, or litigation related to pollution or waste management incidents.

In cases where specific issues have been identified, or where risks appear to be insufficiently managed, engagement with the companies on this topic will be conducted.

## 9. Gender and diversity

We believe human capital, diversity and inclusion are systemic issues for all companies and we analyse these topics for all companies in our ESG analysis through the following framework:

- **Representation** of gender, racial and ethnic diversity on the board of directors and executive management team.
- **Disclosure** of workforce composition, new hires and attrition/turnover across gender, race, and ethnicity.
- **Proactive goals/targets** to increase gender and racial diversity, particularly at the senior leadership level, and whether such goals are linked to executive compensation.
- **Programs** to develop a diverse talent pipeline, such as targeted recruiting, partnerships with professional/affinity networks and education sponsorships as well as internal efforts such as mentoring, training, sponsorship, and leadership development programs.
- **Commitments** to pay equity, disclosure of pay equity data and efforts to close identified pay gaps by gender and race.

We also engage with companies to support initiatives that increase diversity at all levels of an organisation, from attraction, retention to development of diverse talent across all levels of a company. We use proxy voting as a key component in the ongoing dialogue with companies, and will vote against members of the Nominations Committee, or best equivalent director, where there is a less than a minimum of three or 30% women<sup>11</sup> on the board.

## 10. Taxation

Impax's ESG analysis seeks to identify any frameworks or structures that may change if rules or regulations are changed or tightened. Tax processes are an example of such a circumstance. It is likely that tax optimisation rules that are legal today (but perhaps viewed as aggressive) will be changed due to global tax harmonisation by the OECD.

When analysing companies, Impax looks for the following with regards to taxation practices:

- Tax gaps (large difference between statutory tax rates and actual taxes paid)

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<sup>9</sup> The negative outcome of a given economic activity that affects a third party that is not directly related to that activity. Erosion and chemical runoff caused by building roads, which causes water pollution further downstream, is an example of a negative externality.

<sup>10</sup> Examples of sectors with significant pollution and waste risks: industrials, utilities, chemicals companies.

<sup>11</sup> Minimum of three or 30% women, whichever is less. Impax Proxy Voting Guidelines: <https://impaxam.com/investment-philosophy/environmental-social-and-governance-risk-management/>

- Tax jurisdictions (tax jurisdictions differing from corporate HQs, incorporation in light tax (tax haven) or light-touch regulatory jurisdictions)
- Corporate transparency on tax practices (how companies are disclosing tax practices).

Impax conducts tax analysis of its investable universe (“A-list”) on an annual basis, and in the absence of sufficient publicly available information, and if company-specific taxation issues and risks have been identified, engagement with the companies on this topic will be conducted.

## 11. Oppressive regimes

Impax defines ‘oppressive regimes’ as countries where there are laws, customs or practices that systematically produce inequalities that oppress specific groups within a society. The systematic abuse of human rights is a common feature of oppressive regimes. The ongoing Global Standards screening and Impax’s ESG analysis would raise any potential and actual issues where companies (or their respective supply chains) in our investable universe were implicated with the activities of oppressive regimes.

- If a company or its supply chain is flagged for potential involvement, we monitor closely and engage with the company.
- If a company or its supply chain is found to be implicated with the activities of oppressive regimes amounting to human rights breaches, the company will be excluded from investment in these funds.

World-Check is a global database of Politically Exposed Persons and heightened risk individuals and organisations used to help to identify and manage financial, regulatory, and reputational risk. For any new prospective company that is a candidate for inclusion in our investable universe, we screen against World-Check and review all companies periodically with World-check for any emerging issues.

## 12. Governments allowing death penalty

The death penalty remains relatively common. Amnesty International recorded at least 2,016 death sentences in 52 countries in 2022. The most known executions took place in China, Iran, Saudi Arabia, Egypt, and the USA.

Impax monitors the general developments of countries allowing or abolishing the death penalty, but as equity investors (there are no sovereign bond investments in these funds), no country-level exclusions based on the death penalty are in place. However, on human rights grounds, Impax is excluding companies providing the lethal medical injections or medicines for executions. Impax does not invest in companies providing for-profit incarceration facilities and services from investment. As above, for any new prospective investee company we also screen against World-Check and review all companies periodically with World-Check for any emerging issues.

## 13. Forward contracts on agricultural commodities

Impax seeks to avoid investment in companies involved in food and agriculture commodities trading activities (financial/speculative trading) in these funds.

## Monitoring and ensuring compliance with the sub-policy

As part of our on-going, proprietary company-level ESG analysis, we identify company-specific issues and risks and actively engage with companies regarding these issues, as part of monitoring and managing risks.

Impax uses the following external specialist ESG research sources to support the core proprietary bottom-up ESG research conducted in-house and for monitoring of controversial activities:

- Sustainalytics Global Standards Screen (ongoing)
- MSCI ESG Controversy Rating (weekly, with automated alerts)



- MSCI ESG Business Involvement Screening Research (revenue exposure data and feeds into the Impax investment research platform)

***Calculating revenue exposure to controversial areas***

MSCI ESG Manager's Business Involvement Screening Research ("BISR") is used as the primary source of controversial revenue data. Revenue exposure is calculated as per MSCI's updates, which conform to annual updates and monthly maintenance checks in the event of material corporate action. Impax, the manager, retains the opportunity to verify the revenue exposures as reported by MSCI, directly with companies. A company's written revenue exposure confirmation can override the MSCI report. The controversial revenue data feeds into Impax's "Portal" and into weekly portfolio screening documents.

***Breach process***

If an investee company is found to be in breach of this sub-policy, the Impax team will divest from the position as soon as practicable, or at least within 6 months.