

Impax's Approach to Nature, Biodiversity, and Deforestation

February 2024

Impax Asset Management was founded in 1998 and is a leading investment manager dedicated to investment in companies and assets that are well positioned to benefit from the transition to a more sustainable economy.

We believe that:

- Capital markets will be shaped profoundly by global sustainability challenges, including climate change, environmental pollution, natural resource constraints, human rights concerns, and human capital issues such as diversity, inclusion and gender equity.
- These trends will drive growth for well-positioned companies and create risks for those unable or unwilling to adapt.
- Fundamental analysis, which incorporates long-term risks, including environmental, social and governance (ESG) factors, enhances investment decisions.

Impax offers a well-rounded suite of investment solutions spanning multiple asset classes, seeking superior risk-adjusted returns over the medium to long-term. We seek higher quality companies with strong business models that demonstrate sound management of risk.

OBJECTIVE

This document describes our approach to managing nature-related risks, in our investments. It outlines the objectives for our engagement with investee companies and issuers and our approach to addressing these aspects through policy advocacy. We encourage higher standards and collaboration with other investors through industry initiatives and collaborative working groups with the aim of helping companies improve. We expect companies and issuers to address nature-related risks in a manner meaningful to their operations and wish to support their efforts to manage the risks and pursue the opportunities. Our expectations are directed at all companies and issuers in our portfolios, with a particular focus on risk materiality, as outlined below.

INTEGRATING NATURE-RELATED RISKS INTO OUR INVESTMENT PROCESS

As long-term investors, we believe that global risks like biodiversity loss will affect all societies, all economies, and all companies, including investors. Recent estimates suggest that 85% of the largest global companies depend significantly on nature.¹ Species loss is now 10-1,000 times faster than “background” rates of extinction, indicating that the Earth is undergoing a sixth mass extinction due primarily to human activity.²

Between 1990 and 2020, around 420 million hectares of forest (mainly tropical forest) have been lost,³ and more than 1 million species are being threatened with extinction, highlighting the need for drastic change.⁴ Impax is encouraged by the ambitious plans we witnessed in late 2022 being agreed at the COP15 biodiversity summit to address biodiversity loss by 2030. The important role of companies and investors is reflected in the targets to encourage and enable businesses to reduce negative impacts on biodiversity, increase positive impacts, reduce biodiversity-related risks, and promote sustainable production.

We view nature in relation to companies' impacts and dependencies on nature and identify nature-related dependencies and impacts in our investments, with a particular focus on double materiality. The double materiality approach forms our overall assessment of our investment's nature-related activities. It is when considering the impacts of our investments on nature that

¹ Esther Whieldon, Shirley Yap, Lokesh Raikwar, and Gautier Desme, "[How the world's largest companies depend on nature and biodiversity.](#)" S&P Global, May 10, 2023.

² London School of Economics and Political Science and the Grantham Research Institute on Climate Change and the Environment, "What are the extent and causes of biodiversity loss?" [What are the extent and causes of biodiversity loss? - Grantham Research Institute on climate change and the environment \(lse.ac.uk\)](#), December 2, 2022.

³ UN Environment Programme (UNEP), Food and Agriculture Organization of the United Nations (FAO), May 22, 2022, "[The State of the World's Forests: Forests, Biodiversity and People.](#)"

⁴ United Nations (UN), Sustainable Development Goals, "[UN Report: Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating'](#)", May 6, 2019.

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.

Listed Equity and Fixed Income

1. Identifying and Assessing Nature-Related Risks & Opportunities

Nature-related Risks: Dependency & Impact

With a growing general understanding of both the contribution of ecosystem services and the risks of biodiversity loss to the global economy, Impax assesses nature-related risks, in the first instance, at the sector level. We have done this by conducting top-down **sector-level exposure analysis** identifying at-risk economic activities and respective value chains. This process is informed by external research tools, including **ENCORE**.

Related findings have been reflected in the **Impax Sustainability Lens**.⁵ Specifically, the related Lens risk metric identifies the resource and biodiversity intensity, dependence and potential negative impacts at the sub-industry level relating to natural resources (water, land, timber, raw materials, energy) and/or to living natural organisms (flora, fauna, ecosystems, biodiversity). We periodically update the Lens and use expert-level sector research to refresh biodiversity-related risks and opportunities. The inclusion of nature-related risks within the Sustainability Lens risks and opportunities for each economic activity enables our investment teams to avoid economic activities of overall high risk and prioritise those with lower risks.

Impact hotspots - forest risk sectors

As a member of the **Finance Sector Deforestation Action (FSDA) initiative**, alongside fellow investors, Impax is committed to and is working toward eliminating agricultural commodity-driven deforestation risks (from cattle, soy, palm oil, pulp, and paper) in our investment portfolios by 2025, on a best efforts basis.⁶ Impax seeks to achieve this through its engagement with investee companies where we actively advocate for corporate policies that support sustainable agricultural commodity production.

'Forest risks' within our investable universe stem primarily from activities such as agriculture and food production, as well as paper and packaging sectors.

We use external tools and benchmarks to support our assessments of deforestation risk. We use **Global Canopy's Forest 500 Benchmark Report**, which annually ranks the 350 companies that have the greatest influence within global forest risk commodities.⁷ In addition, we find **SPOTT** assessments to be a relevant, useful transparency tool publishing ESG transparency assessment of soft commodities.⁸

Moreover, the **Impax Sustainability Lens** steers us away from some of the most negatively exposed activities, such as extractive industries.

Nature-related Opportunities

The *Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services* (IPBES) identified the five direct drivers of biodiversity loss as⁹:

1. Land-use change, including the conversion of land cover (e.g. deforestation);
2. Climate change;
3. Pollution;
4. Natural resource use and exploitation;
5. Invasive species.

The Taskforce on Nature-related Financial Disclosures (TNFD) recognizes the need for and opportunity in investment with evidence of material **mitigation of nature-related risk**. The TNFD is a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks, and opportunities.¹⁰ We are

⁵ For a description of the Impax Sustainability Lens as an investment tool, please see <https://impaxam.com/insights-and-news/blog/introduction-to-the-impax-sustainability-lens/>.

⁶ Climate Champions, United Nations Framework Convention on Climate Change, "[FINANCIAL SECTOR COMMITMENT LETTER ON ELIMINATING COMMODITY-DRIVEN DEFORESTATION](#)", November 2, 2021

⁷ The Forest 500 company assessment annually ranks the 350 companies that have the greatest influence within global forest risk commodity (FRC) supply chains (<https://forest500.org/>).

⁸ SPOTT publishes ESG transparency assessments of soft commodity (Palm oil, Timber and pulp, Natural rubber) producers and traders (<https://www.spott.org/>)

⁹ IPBES, "[Models of drivers of biodiversity and ecosystem change](#)"

¹⁰ The Taskforce on Nature-related Financial Disclosures (tnfd.global), "[Recommendations of the Taskforce on Nature-related Financial Disclosures](#)", September 19, 2023

evaluating the extent to which the activities of companies held in our Environmental Markets strategies contribute to addressing the above mentioned five direct drivers of biodiversity loss, as identified by IPBES.

Examples of products and services that can contribute to mitigating biodiversity loss:

Direct drivers of biodiversity loss ³⁸	Environmental solutions mitigating biodiversity loss ³⁹
Changing use of sea and land (such as deforestation)	Food waste reduction, plant-based proteins, alternative feeds, circularity, computer-aided design (CAD)
Direct exploitation of organisms (such as overfishing)	Sustainable aquaculture (esp. in-land), alternative and plant-based food proteins (human and animal feeds)
Climate change	Renewables, energy and resource efficiency, alternative fuels for transport
Pollution	Testing, water treatment, soil remediation, sustainable materials (circular solutions including alternatives to single-use plastic)
Invasive non-native species	Ballast water treatment, testing, sensors and monitoring technology

So far, we have completed the preliminary mapping of company activities for some of our strategies and will continue to refine and expand this work.

Enhanced Research Capacity: Data & Metrics

Impax has recently onboarded a biodiversity and nature data provider following an extensive review of different methodological approaches and data products available in the market. This new dataset primarily enhances our capabilities in:

- Assessing the biodiversity and nature-related dependencies and impact of Impax's investee companies;
- Quantifying biodiversity and nature-related dependencies and impact at the portfolio level and/or sector level;
- Providing disclosures in line with relevant frameworks (e.g., TNFD) and client reporting needs;
- Undertaking internal research on biodiversity and nature-related risks and opportunities to inform Impax's investment process where relevant.

Biodiversity loss is a location-specific issue. Geolocation data on companies' operating locations are often not readily available, and companies (and relevant data providers) are in the early stages of collecting and disclosing this data. Impax's new dataset allows the identification of companies with operating locations in or near Key Biodiversity Areas and/or World Protected Areas (where geolocation data is available), as well as companies with a high biodiversity footprint.¹¹ These companies are further analysed to identify the drivers of their biodiversity impact and prioritized in Impax's biodiversity-related engagement. Investee companies with limited or no geolocation data disclosures are also engaged with to initiate such disclosures.

2. Managing Nature-Related Risks in the Investment Process

Impax manages sustainability-related risks in its investments, including nature-related risks, through its proprietary sustainable investment approach, which integrates sustainability considerations throughout the investment process by way of (1) Investment Universe Formation, (2) Fundamental ESG analysis, and (3) stewardship activities.

Investment Universe Formation

Impax invests in environmental solutions and companies that are well positioned to benefit from the transition to a more sustainable economy. Investment universes are built through Impax's proprietary thematic taxonomies including the "Environmental Markets" classification system, as well as the assessment of investments through the "Impax Sustainability Lens" (Lens). The Lens enables the prioritization of investment in activities that have high opportunities and low risks in the transition to a more sustainable economy. As a responsible investor, Impax is committed to investment in sustainable activities and companies and avoiding activities and companies that do not adhere to international norms and conventions.

Compliance with global norms and standards is an investment prerequisite. Environment and Nature feature throughout these standards, for instance, in the UN Global Compact in Principles 7, 8, and 9 and in chapter 6 in the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. We screen our investable universe using third-party data in order to monitor compliance and engage with those companies where potential issues are flagged.

¹¹ Biodiversity Footprint models the pressures exerted by an organization on ecosystems or species within a given area

Fundamental ESG Analysis

ESG analysis is an integral part of the Impax investment process at the company or issuer level, which enables a deeper and broader understanding of investee companies/issuers, their corporate structures, oversight mechanisms, and risk management capabilities, processes, and transparency.

In our active strategies, Impax seeks to understand the character of companies through fundamental ESG analysis, and the insights gained are then used to establish the priorities for engagement. The analysis is based on a double materiality approach, focusing on corporate governance structures, the most material environmental and/or social risks for a company, company contributions to sustainability-related problems, and any controversies that a company has faced.

All companies and other issuers must meet financial and ESG criteria before entering Impax's list of investable companies. The investment team members are responsible for integrating ESG analysis into the investment process for actively managed listed equities and fixed income.

Impax proprietary ESG analysis includes the following pillars:

1. **Corporate Governance**
2. **Material Environmental & Social Risks** (including *Biodiversity & Resource Constraints*)
3. **Climate** (including nature-related aspects in *Physical Climate Risks* such as *Water Stress*)
4. **Human capital and Equity, Diversity & Inclusion**
5. **Controversies** (including those related to *Biodiversity & Land Use*)

In order to identify those environmental and social risks material to a given company (pillar 2 above), the **Impax Sustainability Lens** is used as an initial assessment of materiality. Where nature-related risks are material for the company, we analyse companies' and issuers' policies, processes, management, and disclosures. We seek investment in companies or issuers that have addressed the material risks with robust policies, processes, management systems and incentives that are scaled appropriately to the importance of the risk.

ESG controversies related to biodiversity & land use: A company's use or management of natural resources where there is an alleged or anticipated negative impact on the environment, especially in ecologically sensitive areas. Topics covered under this indicator include issues such as species loss, reduction in biodiversity, habitat damage, depletion of or competition for natural resources, loss of economic value (for example, in fisheries or tourism), as well as post-consumer waste issues. When there are controversies, depending on the severity, we will seek to engage with the company to determine the scope of the controversy and any response to it. If the company is unwilling to respond or the controversy is severe, then we will escalate this.

Upon completion of a company and issuer-specific ESG analysis, we assign a proprietary ESG score.

For our **systematic strategies**, nature-related risks are a factor for certain sub-industries when constructing our proprietary *Systematic ESG Rating*.

Engagement and Advocacy

Company-Specific

As part of our ongoing, proprietary company and issuer-level ESG analysis, we identify company- and issuer-specific matters and risks and actively engage with companies and issuers about these matters. We engage with our investee companies not just on corporate biodiversity dependencies and (negative) impact on biodiversity but also from an opportunities perspective on possible solutions and best practices.

Top-Down Thematic Priorities

Every year, we assess and outline the engagement priorities for the next 12 months. These priorities are based on market developments and emerging sustainability issues that are relevant and material for our companies and issuers. We then identify the companies and issuers most exposed to these topics and focus our engagement on specific companies and issuers. Biodiversity & nature-related initiatives are one of Impax's four firmwide engagement priorities. We work with other investors and civil society organisations to engage with our companies on biodiversity. We have joined Nature Action 100; a collaborative global investor engagement initiative focused on driving greater corporate ambition and action on nature and biodiversity loss.¹²

¹² Nature Action 100 (www.natureaction100.org)

Our **engagement asks** of our investee companies:

1. have robust governance structures in place to oversee biodiversity and nature-related risks;
2. assess and report on biodiversity impacts and dependencies of operations and the supply chain;
3. report in alignment with the TNFD recommendations;
4. set materiality-based targets for reducing negative biodiversity impacts (e.g. SBTN);
5. publicly disclose geolocation data of key operational sites to enable 3rd party risk assessment;
6. engage with indigenous peoples, local communities, and other relevant stakeholders.

Policy Advocacy and Systematic Engagement

We seek to identify structural nature-related hurdles within sectors and industries and engage both companies and policymakers to advocate for frameworks, policies or regulations that advance the transition to a more sustainable economy.

Through our public commitments and our policy advocacy work as part of relevant initiatives, we demonstrate our active role in addressing nature-related risks. We seek to report on progress with regard to putting these commitments into practice in line with existing and emerging standards. We actively participate in collaborative company engagements with other investors as part of these initiatives. Impax will move to vote against the Chair of the Board and the Chair of the relevant Committee if a major environmental failure, including nature-related failures, occurs but has not been sufficiently addressed by the company.

- We are encouraged to see more investors undertaking efforts to reduce biodiversity losses and, as set out below, have joined several groups that are working to address commodity-driven tropical deforestation, which will be necessary to solve both climate and biodiversity challenges. We are also working to expand the lessons from these initiatives to address biodiversity losses that happen in other biomes as well.
- **Taskforce for Nature-related Financial Disclosures (TNFD):** We believe the financial sector can play a critical role in addressing the degradation of natural ecosystems by both engaging with companies to reduce their negative impact on nature and by deploying capital into solution providers whose products and services play a positive role in halting and reversing biodiversity loss. To facilitate these efforts, investors need to better understand their dependency on nature and the nature-related risks and opportunities they face through their financing activities. Impax is strong supporters of the TNFD Recommendations launched in September 2023 and have endorsed them as an early adopter, committing to report on our own nature-related risks by 2025. We believe the recommendations play an essential role in aligning financial flows to a nature positive transition, by providing a risk management and disclosure framework for organisations to report on nature-related dependencies, impacts, risks, and opportunities. Impax has contributed to the work of the TNFD Forum since its inception, having pilot-tested the beta version of the TNFD Framework and hosted an asset manager roundtable to exchange views on the Framework and inform consultation responses on its recommendations.
- **Finance Sector Deforestation Action (FSDA):** Impax became a founding member of the FSDA at its launch at COP26. Signatories to the FSDA have committed to best efforts to eliminate forest-risk agricultural commodity-driven deforestation activities at companies in our investment portfolios. The FSDA do this through individual and collective action to assess exposure to deforestation risk, establish investment policies addressing those risks, deepen engagement with the highest-risk holdings and engage on public policy necessary to avoid the risks and impacts of deforestation. As part of the implementation of our commitments under FSDA, Impax has developed and published our Impax Policy on Nature, Biodiversity, and Deforestation and worked with other signatories to engage priority companies.
- **Natural Capital Investment Alliance (NCIA):** At COP26 in November 2021, Impax joined the NCIA with the objective of mobilising investment in nature-based solutions, accelerating the development of nature-related metrics and encouraging effective investor engagement in international and national policy to counter biodiversity loss. During 2022, Impax acted as co-chair of the NCIA's Policy, Industry and Government Liaison workstream, helping to develop a map of the policy landscape relating to natural capital, which informed the NCIA's position for the UN COP15 biodiversity summit. We also participated in the NCIA's Metrics and Disclosures workstream and spoke at the Natural Capital Investment Summit organised by NCIA in October 2022 at Kew Gardens.
- **Business for Nature:** Impax supported Business for Nature in developing its position on the priorities for COP15. These included adopting a clear and simple mission to halt and reverse biodiversity loss by 2030, making corporate assessment and disclosure of impacts and dependencies on nature mandatory and strengthening specific targets on the reform of environmentally harmful subsidies. Impax became an early signatory to Business for Nature's Make it Mandatory campaign, which was launched ahead of COP15. We were therefore very pleased that the Global Biodiversity Framework agreed at COP15 in December 2022 addressed all the priorities identified by Business for Nature and look forward to working on the Framework's implementation.
- **Investor Policy Dialogue on Deforestation (IPDD):** Impax is a signatory to the IPDD, an investor collaborative initiative that engages with public policymakers and industry associations on the issue of deforestation. We are particularly active in the Consumer Countries workstream which focuses on engagement with public institutions and industry associations in the United States, United Kingdom, European Union and China, as the primary demand-side regions responsible for

commodity-driven deforestation. We have already engaged one federal agency responsible for trade policy in the US and have plans to reach out to others.

- **PRI Spring:** Impax was also an early signatory to the PRI's new Spring initiative, launched in late 2023. Spring's ambition is to halt and reverse global biodiversity loss by 2030 by addressing the systemic risks of biodiversity loss. Many of the costs of deforestation do not necessarily affect the companies or entities responsible for it, but biodiversity loss can have significant impacts on societies and economies at large, which are under the umbrella of systemic risk. In many places, deforestation is still legal, and it is up to governments, NGOs and private sector enterprises to establish requirements or common expectations for the protection of existing forest biodiversity. Spring aims to engage these organizations to urge goal-setting for deforestation, due diligence systems, map risks, and report on progress toward no-deforestation goals.

Private Markets – Impax New Energy Funds

Impax is one of the longest-established private market managers in the large and rapidly growing renewable energy sector. The New Energy strategy invests in renewable energy projects and adjacent sectors, taking a value-add approach, predominately focused on European investment opportunities.

1. Investment and Project Analysis

Prior to making an investment, Impax considers the potential investment's impact on nature, residents, and the environment, specifically ensuring the investment is compliant with requirements under the relevant regulations in the jurisdiction where it is being developed as part of the due diligence process.

As nature is a site location-specific issue, we analyse the exact site's location, considering the habitats and biodiversity of the area affected by the project's design, assembly and infrastructure as part of the permitting process. Impact on the following areas must be considered:

- Critical Habitats (World Conservation Union ("IUCN") classification)
- Habitat required for the survival of critically endangered, endangered or vulnerable species as defined by the IUCN Red List of Threatened Species
- Vulnerable species as defined by the IUCN Red List of Threatened Species
- Primary Forest or forests of High Conservation Value
- Natura 2000 sites
- UNESCO World Heritage Sites and Key Biodiversity Areas
- Emerald Network
- Climate and the environment, more generally

The suitability of the location of the projects is considered carefully by the experienced local development teams during the early stages of development, and detailed environmental impact assessments are completed as the development process progresses. Necessary mitigating factors are considered as part of site designs during the planning stage, which are implemented and monitored during construction and operational phases. For example, consideration of the impact of noise and disruption during construction on nature, resulting in pauses during reindeer husbandry periods or observation of nesting birds, and application of technology within the infrastructure to automatically shut down turbines to protect birds or bats, and monitoring of water levels to preserve aquatic life.

The development teams within each investment are responsible for assessing the site-specific nature and biodiversity risks for each project. We work with our data and research provider, as mentioned above, to strengthen the work already being completed by the local teams.

An ESG analysis is used to design a bespoke ESG strategy for each investment.

2. Stewardship and Engagement

Throughout the ownership phase, Impax takes an active role in managing each asset, and senior members of the team take board seats at every portfolio company. The local in-country teams are considered an extension of the Impax team, which continuously engages with the project's stakeholders, particularly with relation to nature-related issues during development construction and through the operational phase of each renewable energy asset.

MONITORING & ENSURING COMPLIANCE

Monitoring

Listed Equity and Fixed Income

Impax continuously monitors the investable universe, using our external data providers and internal verification processes, and applies the appropriate screening where it is material based on sector or geographic exposure, as described above. Where we identify unmanaged risk and our usual approach fails to produce positive outcomes, our *Escalation Policy* takes hold:

If the investee company or issuer is unresponsive to engagement or unwilling to consider alternative, less risky options, Impax will escalate the dialogue by:

- Seeking alternative or more senior contacts within the company or issuer
- Intervening or engaging together with other shareholders
- Intervening or engaging together with other institutions or organisations (multi-stakeholder)
- Highlighting the issue and/or joint engagements regarding the issue through institutional platforms
- Filing or co-filing resolutions at General Meetings

If interventions are unsuccessful and Impax considers that the risk profile of the company has significantly deteriorated, or company strategy/governance structures have altered because of an incident, to a degree where the return outlook and the company's strategy and quality no longer meet expectations, the company would be excluded from the investable universe and/or sold.

Private Markets – Impax New Energy Funds

Impax actively manages its investments in the New Energy Funds and is involved in the monitoring of nature-related risks and impact of the renewable projects within the portfolio, and as such, observes compliance with the approach as set out here.

Governance of Nature-Related Investment Risks

The Impax Board of Directors sets the overall business strategy and risk appetite and has overall responsibility for overseeing the firm's investment standards and monitoring compliance, including on nature-related risks. On a day-to-day basis, this responsibility is delegated to the Management Committee and the Senior Leadership Team and is monitored by the Compliance department.

Investment-related committees with oversight on nature-related risks:

- **Impax Lens Committee (ILC)** oversees the proprietary "Impax Sustainability Lens" investment tool. The ILC and its Sector Expert Groups assess emerging issues, risks and opportunities and will update the Lens, influencing Impax's views on risks and opportunities linked to sustainability.
- **The Sustainability Centre (SC)** is responsible for and manages Impax's sustainability work, across four Pillars.. There are regular SC meetings and working groups where biodiversity is the topic, linked to e.g. research, methodology development, stewardship and policy advocacy.
- **Private Markets / Infrastructure ESG subcommittee** oversees the coordination of ESG and stewardship in the Impax New Energy Funds investment process. The subcommittee reports to the Private Equity/Infrastructure Investment Committee.
- **Sustainability Policy Committee (SPC)** oversees, reviews, and approves Impax's ESG, sustainability and stewardship-related policies and positions. It reports significant policy developments to the Investment Committee (IC).
- **Impax Global Policy Advocacy Group**, with a dedicated lead and senior membership, including the CEO, oversees the development and implementation of a three-year advocacy plan which includes nature and biodiversity loss as a priority issue.
- **Biodiversity and Nature Working Group** works on Impax's day-to-day biodiversity and nature-related considerations. The working group convenes every quarter to discuss key biodiversity and nature-related considerations.

Integration of material sustainability-related risks in our listed equity and fixed income investment process, including nature-related risks, is overseen by the **Investment Committee (IC)**. Sustainability & Stewardship are standing agenda items at the monthly Investment Committee meeting. All new companies and investments must be approved by the "A-list introduction meeting" and its appointed Chair on both financial and ESG criteria. Our private markets team also has a Private Markets Investment Committee. This Investment Committee meets when there is a new investment (or add-on investment such as a further acquisition into that investment or increased funding is required for, e.g. construction) or divestment, including material environmental and nature-related issues.