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How does the transition to a more sustainable economy create investment opportunities?

At Impax, we believe that the global economy is shifting from a depletive model, in which long-term environmental and social costs are often overlooked, toward a more sustainable one, in which growth is achieved alongside improved environmental and social outcomes.

Global sustainability challenges are profoundly shaping capital markets.

Population

The world's population is expected to increase by nearly 2 billion in the next 30 years, from 8 billion to 9.7 billion in 2050.[2]

Natural resources

Resources are being used at almost twice the rate that the Earth can renew them – unless production and consumption habits change, human demands will outstrip the Earth's supply threefold by 2050.[3]

Climate

Natural disasters in 2022 resulted in economic losses totaling about 0.4% of global GDP, but the effects of climate change could reduce potential global GDP by as much as 18% by 2050.[4,5]

1 "Professional and Institutional investor" within the meaning of the EU Directive 2014/65/EU on markets in financial instruments (MiFID II) and the UK Financial Conduct Authority COBS 3.5; "Qualified investor" as defined by CISA, Switzerland; "Accredited investor" within the meaning of OSC Rule 45-501, Canada; "Wholesale investor" within the meaning of the Financial Markets Conduct Act 2013, New Zealand and Chapter 7 of the Corporations Act 2001, Australia.
2 United Nations, 2023
3 Global Footprint Network, 2023
4 AON, 2023: Weather, Climate and Catastrophe Insight
5 Swiss Re Institute, 2021: The Economics of Climate Change

Disruptive forces

Long-term trends in technology, consumer preferences, society and public policy are driving fundamental change. Specifically:

Technology

Advances in artificial intelligence, computing, materials science and more are helping improve corporate, industrial and agricultural efficiency.

Customer preferences

Interest from consumers has increased around topics like sustainable business practices, responsible food production and personal data security.

These sustainability challenges and disruptive forces are creating transformations on the scale of the Industrial Revolution across all sectors of the global economy, including transportation, energy, healthcare, finance and agriculture.

Public policy

The US Inflation Reduction Act includes incentives and programs to accelerate action on climate and energy over the next decade, while the EU Green Deal continues to support the transition with funds, legislation and market reform.

Society

Individuals and corporations are renewing their focus on equity, diversity and inclusion to ensure fairer treatment and opportunity for all.

This **transition to a more sustainable economy** will provide opportunities for well-positioned companies and increase risks for companies that cannot or will not adapt.

A low-carbon, sustainable growth path could deliver a direct economic windfall of US$26 trillion and create over 65 million new jobs by 2030 compared with a business-as-usual scenario.[6]

6 Energy & Climate Intelligence Unit, 2022: Climate economics - costs and benefits

Examples of investable opportunities

Electrification of vehicles

The electrification of vehicles has accelerated in recent years, with EV sales growing by more than 90% between 2020 and 2022 in both the US and Europe and by more than 300% in China.[7] From software developers to drivetrain producers, many companies providing EV components are poised for growth.

Circularity of packaging

Using recycled plastic can cut emissions between 67% and 79% versus virgin plastic.[8] The global packaging industry is set to become a US$1 trillion market by 2024.[9] Circular models are becoming more prevalent, and companies that reuse and recycle packaging, pallets and crates can benefit.

Outsourcing of drug research

According to analysis by McKinsey, the annual value of the global contract research organisation (CRO) market had risen to US$32bn in 2020, up from US$21bn in 2015.[10] These firms that specialize in research and development may experience significant growth while lowering drug costs.

Managing risks arising from the transition

The transition to a more sustainable economy also creates risks for companies that cannot or will not adapt. Companies that understand their key material risks and have appropriate policies and procedures in place should be more resilient. We believe they are likely to be more strategic in their thinking, incur fewer regulatory challenges and fines and be better prepared in the face of change. We use environmental, social and governance (ESG) analysis as an additional tool to help identify potential material risks.

Targeting risk-adjusted financial returns

Focusing on the risks and opportunities arising from the transition to a more sustainable economy informs our longer-term approach to managing investments. It helps us seek out companies that we believe are higher quality, with strong business models and governance, that demonstrate sound management of risk while adapting intelligently to changing conditions. This investment philosophy supports our goal to provide clients with strong risk-adjusted investment returns over the medium to long term.

7 McKinsey Center for Future Mobility, 2023; Automotive powertrain suppliers face a rapidly electrifying future.
8 ALPLA , 2023: CO_2 Comparison tool and the Association of Plastic Recyclers, 2018: Life cycle impacts for post-consumer recycled resins: PET, HDPE and PP.
9 Smithers, 2020: 'The Future of Global Packaging to 2024'
10 McKinsey & Company, 2022: CROs and biotech companies: Fine-tuning the partnership

Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious 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.

Why Impax?

Founded in 1998, Impax is one of the largest and longest established asset managers dedicated to investing in the transition to a more sustainable economy. We offer a well-rounded suite of investment solutions spanning multiple asset classes, aiming to deliver strong risk-adjusted returns over the medium to long term. Our global investment team includes former scientists and policy specialists, business analysts, bankers and venture capitalists. Their diverse backgrounds and experiences have supported the development of our proprietary investment tools, designed to allocate clients' capital towards the sustainable economy.

Important key risks

Market risk – Investments in funds or securities are subject to market fluctuations, so they can fall as well as rise in value.

Liquidity risk – Substantial selling by shareholders may necessitate the Investment Manager having to sell investments, incurring losses that would otherwise not have arisen.

Sustainability risk – Sustainability risks are environmental, social and governance events or conditions whose occurrence could have an actual or potential material negative impact on the value of a security or fund and all known types of risk of a fund. Sustainability risks may result in a material negative impact on the value of an investment and performance of the portfolio. Sustainability risks are environmental, social and governance events or conditions whose occurrence could have an actual or potential material negative impact on the value of the portfolio and all known types of risk of the portfolio. Governmental liberalisation of basic services and increased environmental legislation may not occur at the anticipated rate. The **costs of technology in environmental markets** may not continue to fall or may not maintain price competitiveness.

Political or regulatory risks – The value of a security or fund's assets may be affected by uncertainties such as international political developments, changes in government policies, changes in taxation, restrictions in foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investments may be made.

Capital risk – The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Equities – May decline in value due to both real and perceived general market, economic and industry conditions. Investing in foreign-denomination and/or -domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets.

Important information

Important information (continued)

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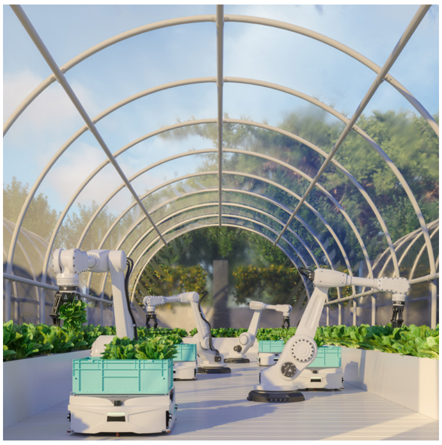

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