Impax Asset Management Group plc

BIPRU Pillar 3 and AIFM Disclosures 31 December 2017

Introduction

Impax Asset Management Group plc (the "Group" or "Impax") is subject to prudential oversight by the various regulators of countries in which it operates. Its primary regulator is the Financial Conduct Authority ("FCA") in the UK.

The Group benefits from FCA derogation regarding the Capital Requirements Regulation (CRR) allowing it to carry forward the Capital Requirements Directive (CRD) III rules. Therefore, the following disclosures are in accordance with the requirements of Chapter 11 of the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The CRD III framework for the assessment and monitoring of capital adequacy for Impax has three elements:

Pillar 1 sets out the minimum capital requirements to meet the credit, market and operational risks calculated in accordance with set rules

Pillar 2 is an Internal Capital Adequacy Assessment Process ("ICAAP"), whereby the Group assesses the capital impact of the potential risks faced by the Group and the capital required to cover the risks identified

Pillar 3 requires the disclosure of specified information about the underlying risk management controls and capital adequacy

Scope of Application

The Pillar 3 disclosures set out in this document are made at a Group level as Impax operates a group-wide risk management framework.

At 31 December 2017, the Group had 2 subsidiaries registered with, and regulated by, the Financial Conduct Authority:

1. **Impax Asset Management Limited**
   A BIPRU Limited Licence Investment Firm ("LLIF");
2. **Impax Asset Management (AIFM) Ltd**
   An EU Alternative Investment Fund Manager (AIFM).

Frequency of Disclosures

These disclosure are required to be made at least annually and, if appropriate, some disclosures will be made more frequently as a result of material updates to the firms internal capital adequacy assessment. Impax Asset Management Group plc has a financial year end reporting date of 31 September and disclosures are made as at 31 December as soon as is practicable after publication of its Annual Report and Accounts. Disclosures will be made at other dates if appropriate.

Verification, Media and Location

These disclosures explain the basis of preparation of certain capital requirements and provide information about management of specific risks. They do not constitute, in any form, audited financial statements and have been produced solely for the purposes of Pillar 3. These disclosures are published on the Group's website within the Investor Relations section (www.impaxam.com/investor-relations/group-documents).

Group capital requirements and resources

The Group capital resources are approximately £33m.

The Pillar 1 capital requirement is the greater of (i) the Fixed Overheads Requirement and (ii) the sum of the Market and Credit risk requirements. Both of these measures are calculated in accordance with the criteria set out by the FCA. For Impax the applicable measure is the Fixed Overheads Requirement. The Group Capital resources are significantly in excess of the Fixed Overheads Requirement.

The Pillar 2 capital requirement is developed using the ICAAP. The process covers the identification and probability of occurrence of the different business and operational risks faced by the Group and an assessment of the capital required to be held against those risks. The process also includes performing stress and scenario analysis to project the financial impact of various stress events, for example a significant equity market downturn. The ICAAP is prepared by the executive management of the Group and then reviewed in detail by the Audit and Risk Committee of the Board of Directors before final approval by the Board itself.

The Group capital resources are in significantly excess of the maximum capital requirement identified by the ICAAP process.

Group Risk Management Policy

Impax faces a wide variety of risks including physical risks to people or property, financial loss, failure of service delivery, information management and damage to the organisation's reputation. Impax is committed to ensuring that an effective risk management system is in place and considers that this is an integral part of its overall governance framework.

Risk Management Roles and Responsibilities

The Impax Asset Management Group plc Board of Directors (the "Board") is ultimately responsible for risk management and is committed to implementing a robust governance and risk management framework throughout the Group. The Board has delegated day-to-day responsibility for risk management to the Chief Executive and to the Executive Directors of the Impax Business Units and the Chief Financial Officer. The Board has also set up an Audit and Risk Committee. The Audit and Risk Committee is required to monitor risks and the processes in place to control or mitigate those risks and report to the Board thereon. The Board and Chief Executive also recognises that all Impax employees are invaluable in the Group's risk management framework and encourages all employees to actively identify, monitor and review risks that arise out of their day to day activity.

Risk Appetite

Risk appetite is the amount and type of risk that the Board regards as appropriate for Impax to accept in achieving business objectives. The Audit and Risk Committee reviews the risk appetite at least annually before final approval by the Board. Impax's risk appetite forms the basis against which business and financial decisions are taken.

Risk Management Process

The Group has a Risk Management Function ("RMF"), headed by the Chief Risk Officer who reports directly to the Audit and Risk Committee. As part of the Risk Management process, Impax continually assesses the key risks arising from ongoing activities, proposed new activities or changes to existing activities, as well as identifying processes and controls to monitor or mitigate those risks. The RMF is responsible for maintaining a risk register and related reporting to the Group's Audit and Risk Committee. The Chief Financial Officer is responsible for an on-going program to monitor internal controls and processes put in place to control or mitigate the risks identified.

Key Risks

The principal risks that the Group faces are described below.

Market risk

The Group's Listed Equity business charges management fees based on assets under management and accordingly its revenue is exposed to market risk. The Group has chosen not to hedge this risk.

The Group seeds investments in its own listed equity funds in order to build a track record to market those funds more effectively and is therefore directly exposed to the market performance of the funds. The Group attempts to mitigate this risk through the use of hedging instruments where appropriate and intends to divest from these investments as commercial and market conditions allow.

The Group also invests in its own private equity funds and is therefore exposed to the performance of these funds.

Currency risk

A significant amount of the Group's income is based on assets denominated in foreign currencies and an element of the Group's costs are incurred in foreign currencies. For the year ended 30 September 2017 and on an on-going basis the Group's strategy has been to put in place hedges, in the form of forward rate contracts, where there was sufficient predictability over the income to allow for an effective and efficient hedge. Otherwise the Group converts foreign currency income to sterling as soon as practically possible after receipt and buys foreign currency to settle expenditure at the point of payment.
A proportion of the Group's assets and liabilities are denominated in foreign currency, this exposure is managed on a case by case basis.

Liquidity and cash flow risk

The Group's approach to managing liquidity risk is to ensure that it has sufficient cash on hand to meet liabilities when due under both normal and stressed conditions and to satisfy regulatory requirements. The Group produces cash flow forecasts covering a twelve month period. The Group's management and Board review these forecasts. The Group does however have significant cash reserves.

Credit risk

The Group is also exposed to the risk of default of counterparties including banks and other institutions holding the Group's cash reserves. The Group seeks to manage this risk by only depositing cash in institutions with high credit ratings and by spreading cash holdings across at least 4 institutions.

Interest rate risk

The Group has interest bearing assets including cash balances that earn interest at a floating rate. Interest rate fluctuations do not have a significant impact on the Group.

Financial regulations

The Group's operations are subject to financial regulations including minimum capital requirements and compliance procedures in each of the jurisdictions in which it operates. The Group seeks to manage the risks associated with these regulations by ensuring close monitoring of compliance with the regulations and by tracking proposed changes and reacting immediately when changes are required. The Group has a dedicated Compliance Team.

Key employees

The success of the Group depends on the support and experience of its key employees and in particular senior managers and fund managers. The loss of key employees could have a material adverse effect on its result or operations. The Group seeks to manage this risk by offering competitive remuneration packages, including share schemes and carried interest in private equity funds, and by creating a supportive and enjoyable working environment. The Group also seeks to put in place sustainable succession and development plans. The senior investment team has been stable since the Company's inception.

Operational risks

The Group has established a control framework so that the risk of financial loss to the Group through operational failure is minimised. As part of this the Group has obtained full 'ISAE 3402' certification, for the twelve months ended 30 September 2017, for its listed equity business.

Furthermore, the Group has put in place measures to minimise and manage possible risks of disruption to its business and to ensure the safety of its staff. This plan has been put in place to manage its strategic and operational business risks during emergencies and is aimed at bringing together particular responses such as IT disaster recovery, contingency plans, off-site storage of records, data back-up and recovery procedures, evacuation procedures and customer/staff communications.

The Group has insurance cover which is reviewed each year prior to policy renewal.

Remuneration

Impax is subject to the Remuneration Codes (the "Codes") for both BIPRU and AIFM firms. The Codes govern the remuneration policies of regulated firms and aims to ensure that firms establish, implement and maintain remuneration policies, procedures and practices that promote effective risk management.

Impax provides investment management services on both a discretionary and advisory basis and does not trade on its own account apart from seeding new investment funds. It is conservative in its approach to risk taking and has a comprehensive framework of systems and controls in place.

The remuneration policies are managed and reviewed by the Impax Asset Management Group plc Remuneration Committee which has established and implemented policies which meet the requirements of the Codes as applicable to the size of IAM and IAIFM and are considered to be appropriate given the nature and scope of the business.

In addition to fixed remuneration, the Group operates a non-contractual bonus scheme including cash and equity elements. The bonus scheme is determined according to and paid from net profits. Performance criteria are taken into account in determining performance related remuneration and include adherence to investment and risk management processes. Overall remuneration in terms of base salaries and bonus levels are reviewed annually by the Board of Directors of Impax Asset Management Group plc.

Under the FCA's issued guidance on proportionality (the BIPRU Remuneration Code (SYSC 19C), the AIFM Remuneration Code (SYSC 19B) & Pillar 3 disclosures on Remuneration (BIPRU 11)), we have determined that Impax is not regarded as a significant institution. Impax's remuneration disclosure is in accordance with the FCA's guidance for proportionality level three.

Remuneration, as defined in the Codes, for Remuneration Code Staff within the Firm's sole business area of investment management in respect of performance for the year ended 30 September 2017 was £4,029k.

Remuneration, as defined in the Codes, for senior management in respect of performance for the year ended 30 September 2017 was £2,724k.

Further details of annual remuneration and the remuneration policy and the composition of the Remuneration Committee are included in the Impax Asset Management Group plc Annual Report and Accounts.