

# Engagement Report

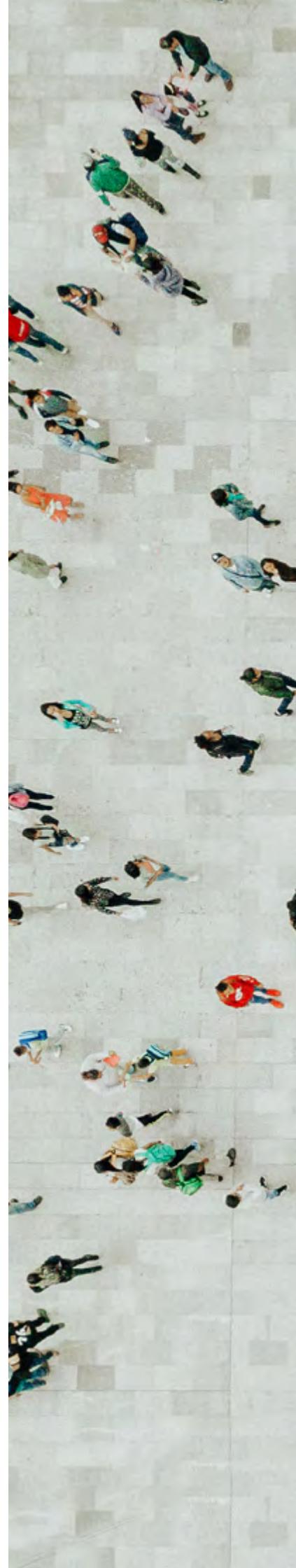
2020



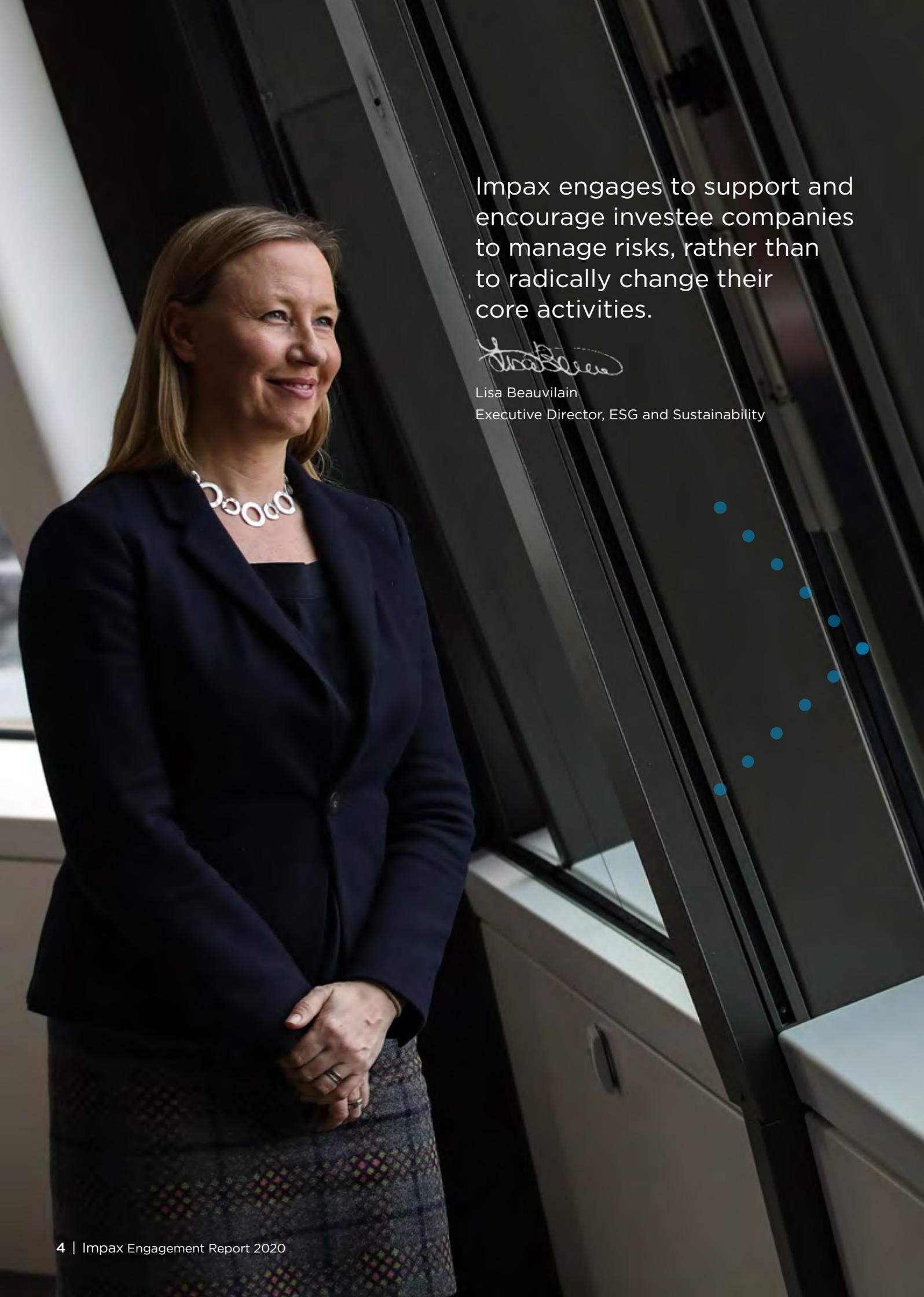
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Impax engages to support and encourage investee companies to manage risks, rather than to radically change their core activities.



Lisa Beauvilain  
Executive Director, ESG and Sustainability

# IMPAX ENGAGEMENT REPORT 2020

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Welcome to our third engagement report. At Impax we intentionally design our investment strategies around the opportunities arising from the transition to a more sustainable economy. We therefore believe that our portfolio companies have resilient business models. Companies that stand to benefit as the global economy becomes less dependent on fossil fuels, increasingly efficient in using natural resources, and offers a more level playing field to women and those of different ethnic or educational backgrounds. In this context Impax engages to support and encourage investee companies to manage risks, rather than to radically change their core activities.

Particular highlights of our work throughout 2019 have included:

- sharing Impax's proprietary physical climate risk model with investee companies and hearing their feedback;
- seeing encouraging progress made by Japanese companies in improving gender diversity both at the management team and board-levels following our engagements;
- seconding an analyst to Hong Kong from our London office to increase in-person engagements;

Of course, not all activity was so encouraging. In 2019 engagement outcomes relating to director independence and board entrenchment were more difficult to influence. These will remain on our agenda as we are convinced of the benefits these corporate governance improvements bring to minority shareholders.

In early 2020 our planned engagement activities were overtaken by the need to reduce transmission of COVID-19 globally and save lives. As we adjusted to working from home and considered internally how to support employees through the health and economic crisis, Impax also joined the investor statement on COVID-19 preparedness. This is already informing many of our conversations with investee companies and will certainly be a key focus in coming years.

Looking ahead, we are excited to have increased our capacity to engage in debates on the future direction of public policy. We have been joined by a seasoned advocate for climate action, Chris Dodwell. Although COP26 is delayed due to travel restrictions, Impax is in close dialogue with policy makers seeking to 'Build Back Better' after the economic shock of lockdown.

As in previous years we continue to work with our US-based colleagues and you will see many of our common objectives shared in the Pax World Funds Engagement report.

We hope you enjoy reading our engagement report and stay safe during this tumultuous period.



# OBSERVATIONS AND TRENDS IN 2019

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2019 was a fruitful year of stewardship and engagements for Impax. We found companies responding with more urgency, especially to calls for more robust sustainability processes and improved disclosures of use to investors. In particular we found US and Asian companies more forthcoming than ever.

In 2019 we had a specific focus on Asian companies supported by one of our London-based analysts being seconded to our Hong Kong office. This facilitated in-person engagements with companies across China, Taiwan and Japan. We have found this increased focus on in-person engagement meetings particularly helpful in building relationships and trust within the region. We also joined the Asian Corporate Governance Association (ACGA), to more formally and effectively engage collaboratively with other Asia-focused investors.

During 2019 we prioritised four strategic areas of engagement.

## 1 Physical climate risk

Impax has developed a proprietary tool using open source climate data to assess location-specific risks of extreme climate events. The tool explores seven climate metrics (including sea level rise, water stress, extreme storms) across three timeframes (today, +10yrs and +30yrs). We are systematically engaging with companies to request the location-specific data of their facilities to populate the model as well as following up to share and discuss risks identified. The aim is to raise awareness of physical climate risks and encourage companies to develop mitigation options to consider when assessing future plant locations. An additional benefit has been working with investee companies to determine the type of data that investors find helpful in understanding exposure to this risk.

### Learning / observations:

Asking open questions about companies' approach to and preparedness for physical climate risks was initially not effective. Once we were able to use the tool to demonstrate in detail how company's plants and assets may be affected by extreme climate events, we have found it an important eye-opener for companies and the issue has then been brought to the attention of boards.

.....  
**We consider the escalation of physical climate risk to board level a successful outcome of this engagement workstream.**  
.....

## 2 Sustainability and ESG advisory

Encouraging companies to develop robust, but also cost-effective and materiality-based sustainability processes and reporting has been a long-term focus for Impax. We follow a step-by-step process that often spans many years to support portfolio companies in identifying material risks; developing KPIs and data gathering; establishing management systems and setting targets to reduce negative externalities.

### Learning / observations:

This is the area where we feel we have made the most progress. We are finding companies responding with more urgency, developing robust materially based sustainability processes and improving disclosures. Most recently, progress among US and Asian companies has been particularly encouraging; these companies have never been as forthcoming to engagement dialogues and we hope to see this continue.

### 3 Diversity and pay-equity

We believe that pay inequity poses regulatory, litigation and reputational risks whilst active management of pay equity leads to better diversity outcomes which benefit performance. Our focus has been on Asian and US companies where we have been raising the topics of gender representation at the board and management levels of companies alongside pay-equity issues.

#### Learning / observations:

We have seen encouraging progress made by Japanese companies in improving gender diversity both at the management team and board-levels following our engagements.

In the US, the focus has been primarily on diversity-related policies and processes. This has been slower going as we have prioritised potentially easier wins, for example requesting improved transparency and explicit mentions of diversity (gender, race, ethnicity and nationalities) within in companies' Corporate Governance & Nominating Committee Charters.

### 4 Corporate governance best practice

Most investee companies draw revenue internationally. Similarly, shareholder registers are becoming more globally diversified. However most publicly listed companies follow only their local market governance codes and rules. We believe that this is negative for companies in countries with less mature corporate governance structures. In our engagements we have been highlighting the concept of 'global governance best practice', a minimum governance quality standard that shareholders in listed companies should be able to expect irrespective of country of listing.

#### Learning / observations:

This remains the hardest area in which to demonstrate progress. We continue to engage for effective board structures (improved independence and reducing board entrenchment) by providing empirical evidence demonstrating the benefits to shareholders. More procedural areas such as transparency of remuneration or for instance implementing claw-back policies have been easier to achieve.

101 

In 2019 we engaged with 101 companies, or close to half of all our owned companies,

152 

across 152 engagement meetings,

10% 

with more than 10% of companies having more than two engagement meetings throughout the year.

40% 

We noted positive outcomes in more than 40% of the companies we engaged with directly related to the engagement objectives set.

14% 

In 14% of cases we believe that this positive outcome was largely driven by Impax's engagement efforts.

Engagement with companies is evolving and there is an increasing understanding and agreement that investors must move away from merely counting the numbers of engagements done with companies, and move to assessing in more detail and rigour what the actual 'outcomes' were. This is what the recently updated UK Stewardship Code is also seeking and Impax welcomes this shift.

Going forward investors will increasingly be setting out engagement objectives and rigorously assessing contribution to change from engagement activities versus positive developments happening in companies anyway.

## WHY WE ENGAGE

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Impax Asset Management is a fundamentally driven, active shareholder with a long-term investment horizon.

Our objective is to build long-term relationships with investee companies. The Impax investment process is focused on a comprehensive understanding of the character and quality of our companies, including material environmental, social and governance (ESG) issues as well as areas of potential improvement. We believe it is in the interest of our investors that we engage with our investee companies to minimise risks, protect and enhance shareholder value, promote greater transparency on ESG issues, and encourage companies and issuers to develop and become more resilient over time.

Engagement allows us to:

Manage risks by proactively identifying and mitigating issues

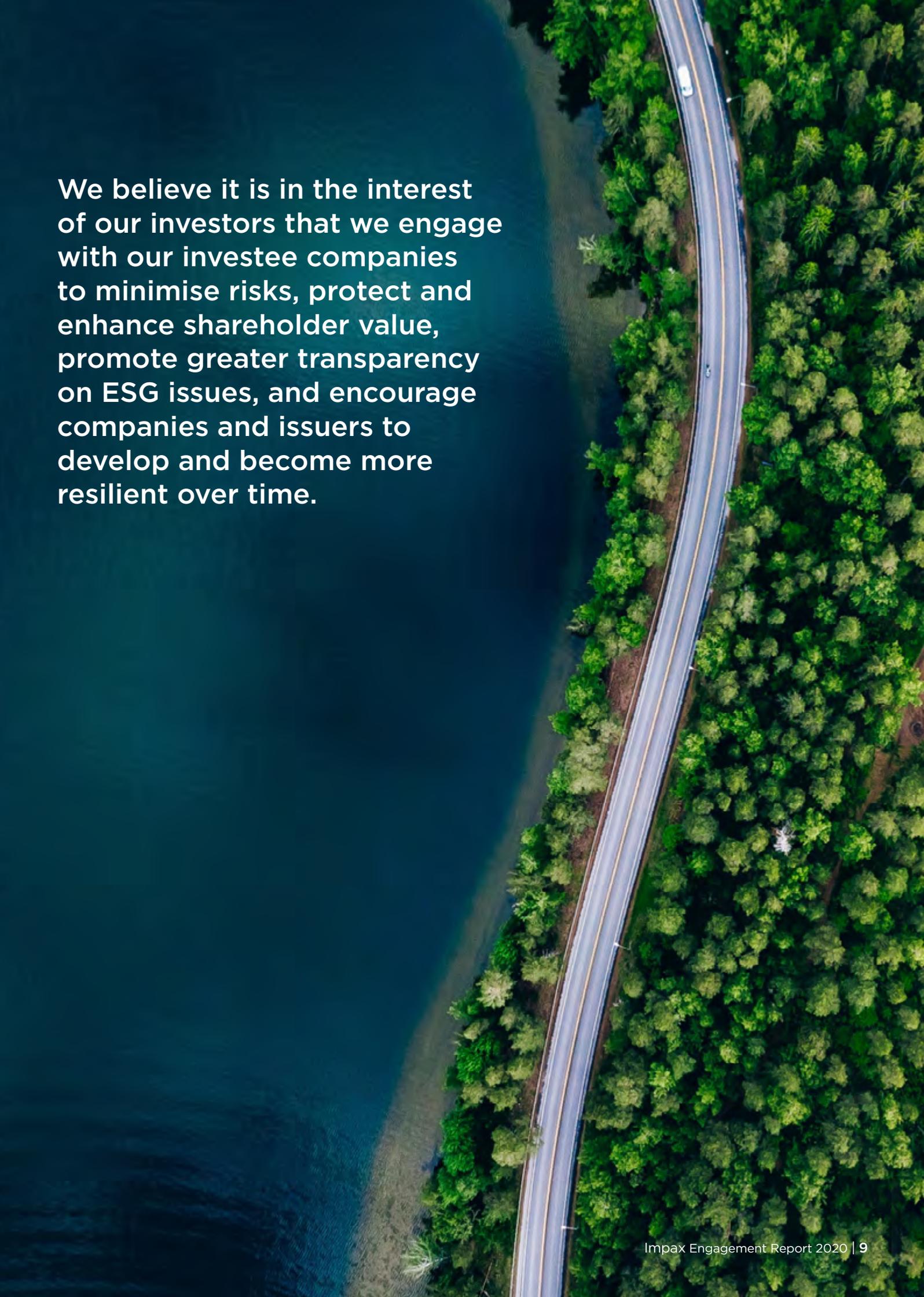
Enhance company analysis; how companies respond to engagement is informative of their character

Strengthen investee companies over time; improving quality, processes, transparency and resilience

Engagements are conducted by the Impax investment team as part of our regular meetings with company management teams, through additional conference calls, meetings, email exchanges or as part of joint communications with the investment community. Engagements are regularly conducted together with other investors and partners with or without a lead or coordination from responsible investment organisations. Collaborative engagements are conducted across a number of ESG issues and specific sectors and companies. Collaborative engagements can be prioritised where outreach may particularly benefit from a larger group of shareholder involvement or in cases where an issue is being escalated.

The Impax Investment Committee meetings have a standing agenda item “ESG and Engagement”, to continuously inform and discuss engagement issues across the investment teams.

We maintain an engagement database where the engagement issues, actions, timings, outcomes and current status are detailed. We review the database regularly and diarise engagement follow-ups for unresolved issues and next steps.

An aerial photograph showing a two-lane asphalt road that curves through a dense, lush green forest. To the left of the road is a calm body of water with a dark blue-green hue. The road has yellow and white lane markings. A few small vehicles are visible on the road. The overall scene is serene and natural.

We believe it is in the interest of our investors that we engage with our investee companies to minimise risks, protect and enhance shareholder value, promote greater transparency on ESG issues, and encourage companies and issuers to develop and become more resilient over time.

## TYPES OF ENGAGEMENT AT IMPAX

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ESG analysis and engagement are fully integrated in our investment process. Engagement is used both to mitigate risk and to enhance value and investment opportunities. The investment team is involved in monitoring our companies and issuers and we have policies in place on how to escalate issues, if and when concerns arise.

Our stewardship and engagement work can be divided into the following types:



We focus on engagement with companies and issuers to strengthen governance structures and introduce sustainability policies, processes and disclosures, as applicable, to effectively manage their most material ESG risks. Impax has developed a proprietary cost-effective framework to advise companies on how to develop robust, materiality-based and cost-effective sustainability reporting.



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



### 3. Top-down strategic engagement priorities:

Every year we assess and outline the engagement priorities for the next 12 months. These priorities are based on market developments and emerging ESG and sustainability issues that are relevant and material for our companies. We then identify the companies most exposed to the topics in question and focus our engagement on those companies. We engage with companies of all sizes, including larger companies with the aim of promoting best practices throughout an industry peer group.

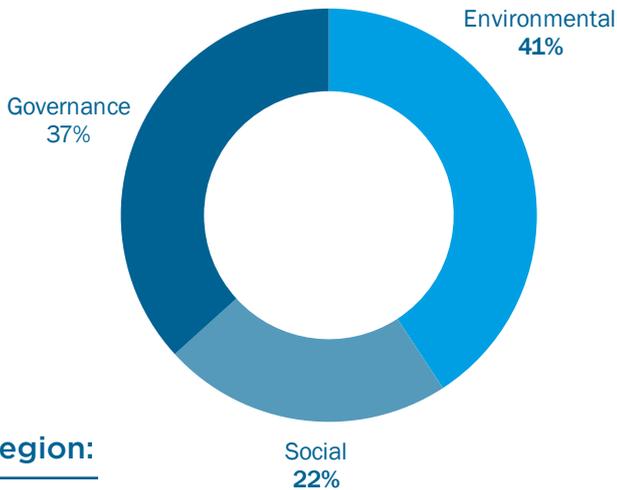
We can also initiate or support shareholder proposals at annual shareholder meetings to encourage greater corporate transparency around a company's most significant environmental or social risks based on its sector and activities. While we assess our engagement priorities every year, they are often of a long-term nature and do not necessarily change annually.

### 4. Proxy voting and corporate governance:

Our proxy voting is predominantly related to governance issues such as the election of directors, board structures and management remuneration. When practicable, we seek to engage with the investee company before voting against management's recommendation on an AGM resolution. We are also in dialogue with companies throughout the year to discuss and comment on proposed governance structures by companies well ahead of AGMs.

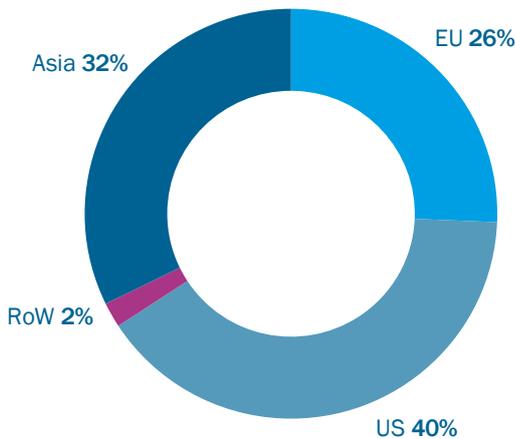
# ENGAGEMENT AND VOTING STATS 2019

## Focus:



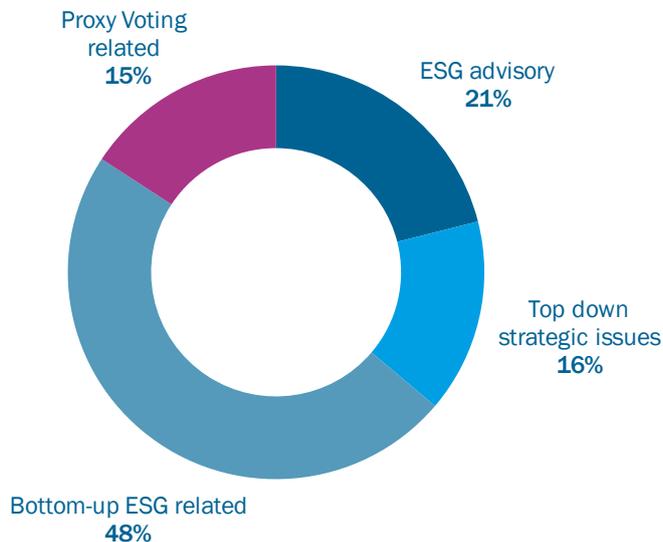
Environmental focus grew significantly, from 28% in 2018 to **41% in 2019**, mainly driven by our strategic focus on physical climate risk engagements.

## Region:



Asia grew significantly, from 11% in 2018 to **32% in 2019**, mainly driven by our strategic Asian focus in 2019.

## Type:



No major changes in the types of engagements 2018 vs 2019.

## Proxy voting record in 2019

### Summary statistics

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# 210

meetings where it was possible to vote

# 207

meetings in which Impax voted

# 99%

number of meetings in which IAM voted  
(percentage of meetings)

# 2,448

management resolutions in which  
Impax voted

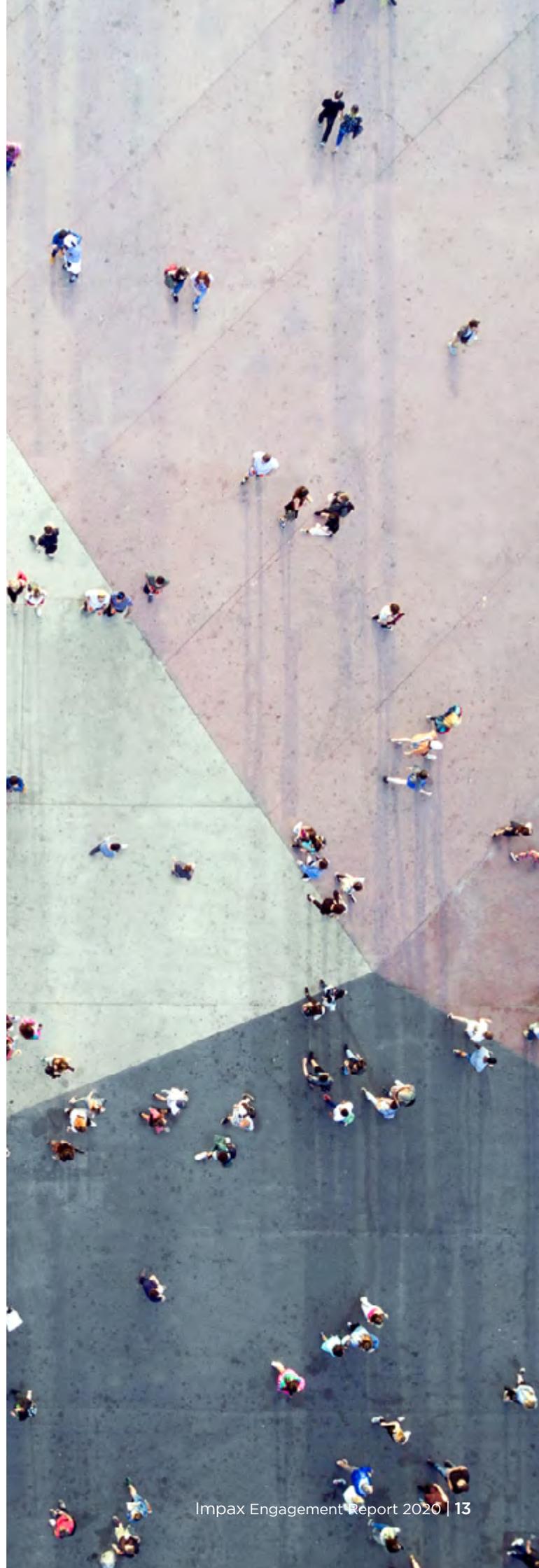
# 184

management resolutions in which Impax voted  
against and/or abstained and/or withheld

# 8%

management resolutions in which Impax voted  
against and/or abstained and/or withheld  
(percentage of management)

There were no specific changes to voting policy or approach in 2019. Proxy voting continues to act as an important catalyst for the dialogue on corporate governance best practice, both pre- and post AGMs for Impax.



# EXAMPLES OF ENGAGEMENT

## Example of 'physical climate risk' (PCR) engagement

### 1 Physical climate risk, Austria

<b>ESG topic</b>	<b>Physical climate risk</b> Impax engaged with this specialist manufacturer of textile fibres and pulp raw materials in order to gain an understanding to what extent the company manages its exposure to physical climate risk.
<b>Objectives</b>	Engagement objectives are: <ol style="list-style-type: none"><li>1. To get localised, plant-level data from company (achieved)</li><li>2. To raise company's awareness of PCR (achieved)</li><li>3. To gain insight into company's PCR exposures (achieved)</li><li>4. To seek company commitment to risk mitigating processes (on-going)</li></ol>
<b>Scope and process</b>	In a meeting in July 2019, Impax presented initial findings of the PCR scenario model assessing the company's exposure to physical climate risk at plant and facility-level. The company was very receptive to the analysis and said it was very helpful as they are trying to push the sustainability and PCR agenda internally and at board level. Following the latest engagement, they communicated their interest in Impax's analysis of the company's exposure to physical climate risk which they had taken to the board, indicating that the company is working on the issue internally. The topic and data are also core to a company-wide TCFD report currently in preparation.
<b>Outcomes</b>	Objectives 1-3 achieved, objective 4 is on-going. Follow-on in Q2 2020.

## Example of 'sustainability advisory' engagement

### 2 Sustainable food, feed & second generation biofuel solutions, US

<b>ESG topic</b>	<b>Sustainability processes and reporting</b> Impax have been engaging with this company since 2015, encouraging increased materiality-based processes and public disclosure of quantitative sustainability data and target-setting.
<b>Objectives</b>	Engagement objectives have been following Impax's long-term, step-by-step approach: <ol style="list-style-type: none"><li>1. Initially educational; materiality, reporting frameworks, investor useful data, 2016 (achieved)</li><li>2. Governance of sustainability, Sustainability committee, 2017 (achieved)</li><li>3. First Sustainability report published, Impax gave feedback, 2017 (achieved)</li><li>4. Sustainability data reported (operational efficiency &amp; material data), 2019 (achieved)</li><li>5. Target-setting (on-going, company committed)</li></ol>
<b>Scope and process</b>	As part of meeting the company's management in September 2019, the company presented its new ESG factsheet which includes Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) references and highlighted its first time reporting of quantitative energy, carbon, water, water discharge, diversity, H&S and product safety data - published mid-Sep 2019. The company started reporting to CDP in 2018 (Climate, Water, Forestry), a long-standing recommendation by Impax and is committed to set and report on longer-term Sustainability targets from 2020.
<b>Outcomes</b>	Ongoing / Company committed to continuous improvement, which has been achieved step-by-step (objectives 1-4) over several years. Next step is following-on regarding target-setting, Q3 2020.

## EXAMPLES OF ENGAGEMENT (CONTINUED)

### Example of 'diversity' engagement

#### 3 Specialty chemicals, Japan

<b>ESG topic</b>	<b>Diversity</b> Impax engaged several times in 2018 and 2019 with this Japanese company regarding its gender diversity profile. There was a total lack of gender diversity both in the management team and at the board level, which is not unusual for Japanese companies. However the company is in most other aspects a leading ESG-profile in the Japanese market.
<b>Objectives</b>	Engagement objectives are to: <ol style="list-style-type: none"><li>1. Raise awareness of the benefits of improved diversity (achieved)</li><li>2. Raise company's awareness of how to implement improved diversity (achieved)</li><li>3. Achieve change and positive diversity outcomes in the company (achieved)</li><li>4. Focus on diversity-related policies and targets (on-going)</li></ol>
<b>Scope and process</b>	We extensively engaged with this Japanese company designing, manufacturing and selling electrical and electronic products for non-residential and residential construction, industrial and utility applications, addressing the lack of board gender diversity (very common in the Japanese market).
<b>Outcomes</b>	Objectives 1-3 have been achieved. Following the engagements, we learned the company had appointed its first female director in early 2019 and in Q4 2019 the company announced they were making three further female appointments to the board and to the management team. The company confirmed that Impax's engagement had been instrumental in driving these changes. Objective 4 is on-going and we will continue to encourage the implementation of diversity policies and targets that can ensure that these diversity improvements become permanent practices and structures in the company. Follow-up scheduled for Q3 2020.

## Example of 'corporate governance' engagement

### 4 Gas distribution displacing coal in urban areas, China/HK

<b>ESG topic</b>	<b>Corporate governance</b> Impax has been engaging with this HK-based company every year, but in 2019, we had in-person engagements with the company regarding sustainability processes and targets, but with the main focus on corporate governance structures, highlighting the benefits for especially Asian companies to adopt 'global governance best practice'.
<b>Objectives</b>	Engagement objectives are: <ol style="list-style-type: none"><li>1. Improved independence and diversity at the board level (achieved)</li><li>2. Further improvements to diversity (on-going)</li><li>3. To seek declassification of the board (not started)</li><li>4. To set firm policies and targets for board independence and diversity (not started)</li></ol>
<b>Scope and process</b>	Company has improved its board independence and diversity profile and has committed to improving board independence to 50%. This is well above the HK requirement of three independent non-executive directors or 33% independence, moving towards 'global governance good practices'. It is one of the few Asian companies making a clear effort to improve governance structures on the back of engagements (sustainability structures easier areas for making progress).
<b>Outcomes</b>	Objective 1 achieved, objectives 2-4 still on-going or planned. Follow-up scheduled for Q3 2020.

## LOOKING AHEAD

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### What does engagement look like in the year ahead?

The COVID-19 pandemic has brought many sustainability issues into sharper focus, especially in the ‘S’—the social aspect—of ESG. In the year ahead we will direct an even greater focus in this area, taking a close look at how companies are handling worker health and safety, human resources management, customer safety, and community impact. All these areas have been of concern to sustainable investors for a long time; the pandemic has brought them into the spotlight.

### When will this begin?

We have already begun. Currently we are analysing companies’ handling of the COVID-19 crisis. For example, how have they implemented furloughs? What are they doing about executives’ pay? What are they doing to protect employees and customers? How are they retooling products and services to meet the needs of this moment?

We have also written to companies in some high-risk industries—retailers, grocery chains, healthcare businesses—to find out what they are doing now, or plan to do in the future, to build more resiliency into their businesses. We appreciate that right now many of these companies need to be focused on the immediate emergency, but we hope to engage with several of them when the dust settles.

In the longer term, we believe that companies that maintain strong relations with their key stakeholders (e.g. staff, suppliers) during the crisis, will emerge strengthened. Could they modify their sick time policies in a way that could help protect their entire workforce? Could they extend remote work arrangements to gain efficiencies and lower their carbon footprints? For all it has wrought, the pandemic has also shown what is possible, and there’s much to be gained from that insight.

### What is the connection between sustainability and resilience?

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### Things that make companies more sustainable tend to also make them more resilient

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and companies that are more resilient are better positioned to weather the inevitable future crises and downturns and bounce back quickly from them. It is in our best interest as investors—and as global citizens—to ensure the companies in our portfolios are doing whatever they reasonably can to become more resilient. This is at the core of all our engagement work.

### What types of improvements will you ask companies to make during these engagements?

The pandemic has highlighted how important it is for companies to invest in their workers. The individuals on the front lines of the COVID-19 response — not only the healthcare workers but the warehouse workers, supermarket workers, delivery drivers and many others — are performing essential functions, but they may not have all the protections other workers are entitled to, such as paid time off or health benefits. A company’s success is tied to the success of its workers, so it is very important for companies to do more to make sure these essential workers can have long term success. These will be key components of risk management and business continuity going forward, so we will be asking companies to commit to improvements in those areas. We will also ask companies to make changes that put customer safety front and centre going forward.

## How does Impax's belief in the transition to a lower carbon economy fit with COVID-19 related engagement?

One of the by-products of the pandemic has been a reduction in greenhouse gas emissions due in large part to reduced air travel and lower industrial output. At the same time, many companies have realised that travel for meetings and commuting is not critical for business continuity. This is an important lesson, one that we hope companies will heed post-pandemic. 'So', we will ask companies in our portfolios to hone the systems they use for remote work arrangements, including reskilling their workforces where necessary, so they have the infrastructure and skills needed to accommodate a decentralised workplace. We are also extending our policy engagement work to encourage governments to take this opportunity to "Build Back Better".



As the timescale for reducing CO<sub>2</sub> emissions and protecting natural resources shortens, it is crucial for investors to participate more closely in policy design so that it results in market-aware interventions which drive new investment.

Chris Dodwell  
Head of Policy and Advocacy



## INTRODUCING OUR APPROACH TO POLICY ADVOCACY

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As specialist investors in the transition to a sustainable economy, our team has been regularly consulted by policy makers on the design and implementation of environmental policy from the perspective of a private market investor. As the timescale for reducing CO<sub>2</sub> emissions and protecting natural resources shortens, it is crucial for investors to participate more closely in policy design so that it results in market-aware interventions which drive new investment.

To support this important work, we are delighted to have been joined this year by a new colleague, Chris Dodwell who has taken on responsibility for managing Impax's engagement in policy development and providing insights on policy to the firm's investment team. Chris is a climate change and environmental policy expert with over 25 years' public and private sector experience. As well as working the heart of the UK Government's programmes on climate change, including leading the UK's implementation of the EU Emissions Trading System and heading the UK Delegation to the United Nations climate negotiations, Chris has supported countries across Europe, Asia, Africa and Latin America on how to implement and finance their pledges under the Paris Agreement.

**The main objective of Impax's policy advocacy is to** influence policy outcomes that support the development of markets for solutions to environmental problems, thereby both maximising the effectiveness of those policies and identifying future investment opportunities. Our strategic focus for 2020 will be on climate policy. Ahead of COP26 in 2021 we have a window of opportunity to influence policy on financing the transition to net-zero emissions on a global scale, and to help shape post-COVID-19 green recovery packages.

Given the importance of mobilising private investment to the achievement of the Paris Agreement, we intend to publish a framework to help policymakers develop clean investment roadmaps as a blueprint for increasing collaboration between policy and investment communities.

## IMPAX MEMBERSHIPS

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- **Principles for Responsible Investment (PRI):** Aims to help investors integrate ESG considerations into investment decision making and supports sharing best practice in active ownership.
- **Institutional Investors Group on Climate Change (IIGCC):** A forum for collaboration on climate change for European investors.
- **Investor Network on Climate Risk (INCR):** Partners with investors worldwide to advance investment opportunities and reduce material risks posed by sustainability challenges such as global climate change and water scarcity.
- **The Carbon Disclosure Project (CDP):** An independent organisation holding the largest database of corporate climate change information in the world.
- **Council of Institutional Investors (CII):** Promoting strong governance and shareholder rights standards at public companies.
- **Just Transition initiative:** the project links investors to the broad array of policy, place-based, community, labour and business efforts to deliver a just transition and explore ways of empowering community and labour groups.
- **Asian Corporate Governance Association (ACGA):** An independent organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.
- **UK Sustainable Investment and Finance Association (UKSIF):** Provides services and opportunities to align investment profitability with social and environmental responsibility.
- **The Forum for Sustainable and Responsible Investment (USSIF):** A US based membership association promoting sustainable, responsible and impact investment.
- **Global Impact Investing Network (GIIN):** The largest global community of impact investors (asset owners and asset managers) and service providers engaged in impact investing.
- **Task Force on Climate-related Financial Disclosures (TCFD):** Develops voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.
- **The UK Stewardship Code:** The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.
- **Thirty Percent Coalition:** Working to achieve greater board diversity among U.S. companies through collaborative engagements among institutional investor members.
- **Ceres:** An organization working with investors and companies to build sustainability leadership and drive solutions throughout the economy. Ceres addresses topics climate change, water scarcity and pollution, and human rights abuses.
- **Interfaith Centre on Corporate Responsibility (ICCR):** Network of shareholders engaging companies on ESG issues.
- **United Nations Environment Programme Finance Initiative (UNEP FI):** A global partnership established between the United Nations Environment Program and the financial sector.



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