

Impax Policy on Nature, Biodiversity, and Deforestation

August 2022

This Policy (the “Policy”) is applicable to all regulated entities of the Impax Group, namely:

- Impax Asset Management Limited (“Ltd”),
- Impax Asset Management (AIFM) Ltd (“AIFM”),
- Impax Asset Management Ireland Ltd, and
- Impax Asset Management LLC; all collectively defined as “Impax” or the “Firm”.

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.

POLICY AIM

This policy defines our approach to managing nature-related risks in our investments and outlines the objectives for our engagement with investee companies and issuers, and approach to addressing these aspects through policy advocacy. We encourage higher standards and collaboration with other investors to help companies to 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 materiality, as outlined below.

INTEGRATING NATURE-RELATED RISKS INTO OUR INVESTMENT PROCESS

Nature-related risk encompasses **biodiversity loss** and **ecosystem degradation**. We seek to identify and assess exposure to nature-related risks in our investments, with a particular focus on materiality (i.e. negative impact on, or dependency on, nature).

The *Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services* (IPBES) identified the five direct drivers of biodiversity loss as¹:

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.

¹ Source: <https://ipbes.net/models-drivers-biodiversity-ecosystem-change>

We find the IPBES classification as a helpful starting point in assessing both possible nature-related risks and opportunities. While the major focus is on the risks associated with biodiversity loss, deforestation, and degradation of ecosystems, we also seek to identify nature-related investment opportunities.

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 also start to identify the knock-on and cumulative effects of biodiversity loss on long-term economic growth.

Identification, assessment, and management of nature-related risks

Listed Equity and Fixed Income

1. Sector-level analysis

The *Impax Sustainability Lens* was established to identify sustainability-related risks and opportunities of equities and corporate credit markets. The Impax Sustainability Lens ranks economic sub-industries by the opportunities and risks related to the long-term transition to a more sustainable economy. The Lens helps prioritise investment towards higher opportunity and lower risks sectors and activities.

With growing general understanding of both the contribution of ecosystem services and the risks of biodiversity loss to the global economy, Impax has taken steps to enhance our assessment of nature-related risks within the *Impax Sustainability Lens*.² We have done this by conducting top-down sector-level exposure analysis identifying at-risk economic activities and respective value chains. Specifically, our risk metric now identifies the resource and biodiversity intensity, dependence and potential negative impacts, at the sub-sector level, relating to natural resources (water, land, timber, raw materials, energy) and/or to living natural organisms (flora, fauna, ecosystems, biodiversity).³ The *Impax Sustainability Lens* helps us identify attractive areas for investment, those that are well positioned in the transition to a more sustainable economy, being exposed to greater sustainability opportunities and lower sustainability risks. The data behind the Impax Sustainability Lens clearly shows that risks are prevalent across all subindustries, but it is the magnitude of these risks and the opportunities for risk mitigation that vary. 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.

As described above, IPBES identifies the conversion of land cover through for instance deforestation as a key driver to biodiversity loss. 'Forest-risks' within our investable universe stem primarily from activities such as agriculture and food production, as well as paper and packaging sectors. The Impax Sustainability Lens steers us away from some of the most negatively exposed activities such as extractive industries.

2. Company- or issuer-level 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, risk management capabilities, processes, and transparency.

In its 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.

² 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/>.

³ External tools and research by organizations such as ENCORE and IPBES are used in the process.

Impax proprietary ESG-analysis includes the following pillars:

1. Corporate Governance
2. Material Environmental & Social Risks
3. Climate
4. Human capital and Equity, Diversity & Inclusion
5. Controversies

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 use external tools and research such as Forest 500 and SPOTT as well as our own proprietary analysis in assessing companies' management of deforestation-related risks.⁴ 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.

Upon assessment of company- and issuer-specific management of material risks, we assign a proprietary ESG score.

Nature is a location-specific issue. Site-level geolocation data and regional exposure are not always easily available or disclosed by companies and issuers. This is a challenge in analysing nature-related risks today. We engage with companies to achieve geo-location data and to assess the potential impacts at the specific locations of interest, highlighting habitats of IUCN Red List species, protected areas and Key Biodiversity Areas in the vicinity.

For our systematic strategies, nature-related risks can be a factor for certain sectors when constructing our proprietary Systematic ESG Rating.

3. Stewardship and engagement

Bottom-up company-specific engagement: 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. Impax has also developed an engagement guideline relating to biodiversity. We have started engaging 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 strategic engagement: 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.

Nature-related engagement topics and asks:

- public commitment to manage nature-related risks including biodiversity and deforestation
- governance and oversight structure
- nature-related risk assessment of operations and supply chains (impacts and dependencies)
- assessment of deforestation exposure and associated human rights risks⁵
- gathering relevant data and metrics
- public disclosure of geolocation data to enable 3rd party risk assessment
- target-setting
- risk mitigation / adaptation approaches
- reporting on performance and progress in line with evolving nature frameworks, such as TNFD

The above-described engagement approach is well-aligned to the "**LEAP-process**" (Locate, Evaluate, Assess, Prepare), recommended by the *Taskforce for Nature-Related Financial Disclosures* (TNFD) beta framework.

⁴ 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/>). SPOTT publishes ESG transparency assessments of soft commodity (Palm oil, Timber and pulp, Natural rubber) producers and traders (<https://www.spott.org/>)

⁵ In alignment with international norms, specifically: labour rights, gender rights, smallholder inclusion, Free Prior and Informed Consent of relevant communities, the protection of customary rights to land, resources and territory of Indigenous peoples and local communities and zero tolerance of threats and violence against Forest, Land and Human Rights Defenders.

Private Markets – Impax New Energy Funds

Impax is one of the longest established private markets 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
- UNSECO 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.

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, who 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 AND ENSURING COMPLIANCE WITH THE POLICY

Monitoring:

Listed Equity and Fixed Income

Impax continuously monitors the investable universe 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 this policy.

Governance of Nature-Related risks:

The Impax Board of Directors sets the overall business strategy and risk appetite and has overall responsibility for reviewing the firm's ESG investment standards and monitoring compliance, including on nature-related risks. On a day-to-day basis, this responsibility is delegated to the Executive Committee, 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 assesses emerging issues, risks and opportunities and the consequences for the Lens, and reports to the Investment Committee (IC).
- **ESG and Sustainability Committee (ESC)** oversees the coordination of ESG and stewardship work at Impax. The committee reports significant developments to the Investment Committee (IC).
- **Private Equity / 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 development and implementation of a three-year advocacy plan which includes nature and biodiversity loss as a priority issue.

Integration of material ESG risks in the investment process, including nature-related risks, is overseen and implemented by the **Investment Committee (IC)**. All new companies and investments that are presented to the Investment Committee must be approved on financial and ESG criteria and are often debated during the meetings. "ESG and engagement" are standing agenda items at the weekly Investment Committee meeting.

Policy Advocacy

We believe the financial sector can play a critical role in addressing environmental degradation by both influencing companies to stop depleting natural resources, and by deploying capital into nature-based solutions. An important step is the introduction of the **Taskforce on Nature-related Financial Disclosures (TNFD)** as a risk management and disclosure framework for organisations to report on nature-related risks. Impax was a member of *the Informal Working Group* which prepared the ground for the launch of the TNFD in 2021, and is a member of the **TNFD Forum** which will be road-testing the TNFD framework and recommendations.

At the COP26 climate summit in November 2021, Impax joined two investor initiatives aimed at managing and harnessing the potential of nature-based risks and opportunities: the **Finance Sector Commitment to Eliminate Commodity-Driven Deforestation** and the **Natural Capital Investment Alliance**. The first of these was announced alongside the Glasgow Leaders Declaration on Forests and Land Use, in which 110 countries representing 85% of the planet's forests committed to halt deforestation by 2030. Impax has committed to eliminate potential exposure to agricultural commodity-driven deforestation in its investment portfolios by 2025. Through the Natural Capital Investment Alliance, we will be working to mobilise investment in nature-based economic solutions, to accelerate the development of nature-related metrics, and to encourage effective investor engagement in international and national policy to counter biodiversity loss.

During 2021, we contributed to the design of the **UN Convention on Biological Diversity's** inaugural financial sector workshop, and are continuing our policy advocacy work in preparation of negotiation on the new **Global Biodiversity Framework** at the UN Biodiversity COP15 summit, due to be held in late 2022.

Through these 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 regards to putting these commitments in practice in line with existing and emerging standards.