

Integrating environmental, social and corporate governance (ESG) analysis in the investment process¹

March 2021

This ESG 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
 - Impax Asset Management LLC
 - Pax World Funds Series Trust I and
 - Pax World Funds Series Trust III (the “Pax World Funds”); all collectively defined as “Impax” or the “Firm”
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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, demographic 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.

OVERVIEW OF IMPAX'S SUSTAINABLE INVESTMENT APPROACH

All Impax's investments and strategies are aligned to the transition to a more sustainable economy. Activities with lower sustainability risks and higher opportunities are set to benefit from a transition to a more sustainable, low-carbon economy and are well positioned for the long-term. They are less at risk of disruption from new technologies, changing consumer preferences or legislation. These well-positioned areas of the economy are sought and prioritised for investment across Impax's listed investment strategies.

ESG-analysis is an integral part of the Impax investment process, at the company level. The analysis enables a deeper and broader understanding of our companies, their corporate structures, oversight mechanisms, risk management capabilities and processes and transparency. We seek to understand the character of the companies through the ESG-analysis. The insights from the ESG-analysis are then utilised to establish the priorities for engagement with our companies.

Stewardship through active ESG engagement and proxy voting are important parts of the investment process. They enable monitoring of our investee companies more effectively and aim at further enhancing the structures, processes and disclosures of our companies.

¹ This ESG Policy relates to Impax's listed investments, the ESG policy for Impax's New Energy Strategy can be found here: <https://impaxam.com/products/private-markets/>

INTEGRATING ESG-ANALYSIS INTO THE INVESTMENT PROCESS – ACROSS ASSET CLASSES AND STRATEGIES

Actively Managed Listed Equity and Fixed Income: All companies and other issuers must meet financial and ESG-criteria before entering the Impax universe of investable companies. The investment team members are responsible for integrating ESG analysis into the investment process.

1. **Screening.** We seek to avoid companies involved in significant controversies that violate global norms related to human rights, labour, environment and corruption. We source information about company involvement in these controversies from external ESG research providers. If Impax determines a company is the subject of significant normative controversies, it will likely be excluded from investment. We periodically reassess company involvement in ESG and normative controversies. We also generally seek to review our company universe for compliance with international sanctions, as applicable.
2. **ESG-analysis.** We conduct a detailed, proprietary ESG-analysis of new companies and issuers considered for the investable universe and review the ESG-analysis on a periodic basis.
 - We analyse companies' governance structures from a country-perspective, taking into account what constitutes common and best practice for governance in a specific country and identifying potential outliers.
 - We analyse companies' and issuers' environmental and social policies, processes and disclosures identifying the most material risks. 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.
 - We analyse companies' or issuers' past controversies and seek strong processes and management systems to address and avoid any repeats of past controversies.

We analyse company and issuer disclosures and reports ourselves and use external ESG-research as input and support in our analysis.

When all the data is gathered, we write an ESG-report and assign a proprietary ESG-score. Depending on the asset class and investment strategy, our ESG analysis may include additional levels of detail. We do not seek to exclude a certain number or percentage of companies or issuers, but rather seek an absolute level of ESG-quality. Where this is not achieved, a company or issuer is excluded from the investable universe.

Systematic strategies: We have developed two proprietary rating frameworks that employ a quantitative approach to ESG assessment. These frameworks are incorporated into portfolios that use quantitative optimization tools to manage risks relative to market benchmarks and target desired tilts in characteristics. These tilts involve integration of ESG ratings systematically alongside financial factors in portfolio construction through optimization.

1. **Impax Gender Leadership Score:** The Gender Leadership Score is a proprietary framework of gender leadership factors used to determine the constituents and weights of a global investment strategy designed to capture investment returns associated with gender diversity and women's leadership.
2. **Impax Sustainability Score:** The Sustainability Score is a proprietary, relative ranking framework designed to capture information regarding a company's management and performance related to material ESG issues. The framework is used to determine the constituents and weights in U.S. large-cap smart beta portfolios.

ENGAGEMENT AS PART OF THE LISTED EQUITIES AND FIXED INCOME INVESTMENT PROCESS

Engagement is an important part of the ESG-analysis and investment process for listed equities and fixed income. We engage with companies and other issuers when we have identified specific ESG-issues or concerns, when we require further information regarding an ESG-aspect (that is not publicly disclosed) and/or to encourage improvement in company ESG-policies, processes and disclosures. We also find companies' and other issuers' responses to ESG engagements very informative of company character. We engage individually and together with other investors.

The investment team engages as part of our regular meetings with company management teams, through additional conference calls, meetings or as part of other communications with the broader investment community. Impax may also file shareholder proposals to support these efforts. Increasingly, expert organisations also drive and coordinate investors' engagements on important issues and Impax takes part in these.

We maintain an engagement database where the engagement issues, actions, timings and outcomes are detailed. We review the database regularly and if an issue remains unresolved, we follow-up with the company or issuer in question.

PROXY VOTING AS PART OF THE LISTED EQUITIES INVESTMENT PROCESS

Proxy voting is a key component in the ongoing dialogue with companies in which we invest. Through implementation of our voting policy, we aim to enhance the long-term value of our shareholdings, foster corporate governance best practices and promote sustainability, accountability and transparency.

Our policy is to vote on all shares held where practicable. Our voting decisions are informed by corporate governance codes and best practice, advisory governance research, and internal research and voting policies.

Impax discloses a more detailed proxy voting policy and a quarterly summary of proxy voting records on the Impax website, as part of our commitment to the UK Stewardship Code. The Impax Proxy Voting Guidelines and voting decisions are disclosed on the Impax website.

IMPAX MEMBERSHIPS:

- **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
- **The Carbon Disclosure Project (CDP):** An independent organisation holding the largest database of corporate climate change information in the world.
- **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
- **Climate Financial Risk Forum (CFRF):** Industry organisation Convened by the FCA and Bank of England/PRA to share best practice on climate risk.
- **Council of Institutional Investors (CII):** Promoting strong governance and shareholder rights standards at public companies.
- **Energy Transitions Commission (ETC):** Energy transition focussed think tank with membership from industry and NGOs.
- **FAIRR:** Initiative promoting more sustainable farming and food production practices.
- **Finance to Accelerate the Sustainable Transition-Infrastructure (FAST-Infra):** Aims to develop a consistent labelling system for sustainable infrastructure 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.
- **Institutional Investors Group on Climate Change (IIGCC):** A forum for collaboration on climate change for European investors.
- **Interfaith Centre on Corporate Responsibility (ICCR):** Network of shareholders engaging companies on ESG issues.
- **Investor Environmental Health Network (IEHN):** Conducts analysis and investor engagements on environmental topics.
- **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.
- **Just Transition.** Initiative for a just transition to a low carbon economy.

- **Northeast Investors Diversity Initiative.** An organization working to achieve greater board diversity among companies headquartered in the US Northeast through collaborative engagements with institutional investors.
- **Principles for Responsible Investment (PRI):** Aims to help investors integrate ESG considerations into investment decision making and supports sharing best practice in active ownership.
- **Shareholder Rights Group:** Working to acquaint regulators and the public with the purpose and value of shareholder engagements.
- **Taskforce 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.
- **Taskforce on Nature-based Financial Disclosures (TNFD):** Initiative developing a framework for corporates and financial institutions to assess, manage and report on their dependencies and impacts on nature.
- **Thirty Percent Coalition:** Working to achieve greater board diversity among U.S. companies through collaborative engagements among institutional investor members.
- **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.
- **UK Sustainable Investment and Finance Association (UKSIF):** Provides services and opportunities to align investment profitability with social and environmental responsibility.
- **The US Forum for Sustainable and Responsible Investment (USSIF):** A US based membership association promoting sustainable, responsible and impact investment.