Sustainability Risk & Due Diligence Sub-Policy

March 2021

Introduction

Impax is a specialist investment manager, focused on investments in companies and activities benefiting from the transition to a more sustainable economy. Impax fully integrates proprietary environmental, social and governance ("ESG") analysis in the investment process and is actively involved in stewardship activities with investee companies across ESG topics. These approaches and processes are described in the Impax ESG Policy.[1]

This Sustainability Risk & Due Diligence Sub-Policy, together with the Impax ESG Policy which describes the manner in which sustainability risks are integrated into investment decision making, serves as the sustainability risk and due diligence policy for the purposes of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (known as the Sustainability Finance Disclosure Regulation or "SFDR").[2] Sustainability risks within the meaning of SFDR are environmental, social and governance events or conditions whose occurrence could have an actual or potential principal adverse impact on the value of an investment.

Impax has reviewed its remuneration policy in accordance with the requirements of SFDR to ensure consistency with the integration of sustainability risks, as further set out in the "Information on Remuneration Policy" section below.

Principal Adverse Impacts

Summary

As a responsible investor Impax is committed to investing in sustainable activities and companies, integrating a diligent ESG analysis in the investment process and avoiding activities and companies that do not adhere to international norms and conventions. Impax seeks to avoid or limit investment in activities that are harmful, as described in this policy document.

Under SFDR, Impax is required to publish a due diligence policy dealing with how it considers the Principal Adverse Impacts of its investment decisions on sustainability factors.

Description of Principal Adverse Impacts

"Principal adverse impacts" (or PAIs) are those impacts of investment decisions and advice which result in negative effects on environmental, social and employee matters, respect for human rights, and anticorruption and anti-bribery matters (known as "sustainability factors"). Investment decisions can have negative effects on sustainability factors where underlying investee companies or assets insufficiently manage and mitigate their sustainability impacts on environmental, social and societal systems. PAIs expose an investment to "sustainability risks", whereby an environmental, social or governance event or condition could, if it occurs, cause an actual or a potential material negative impact on the value of the investment. As such, careful due diligence is required to identify PAIs early, ensuring they are factored into decision-making throughout the investment process, addressed and, where possible, resolved through engagement.

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[1] The Impax ESG policy is available on www.impaxam.com within the Environmental, Social & Governance Risk Management section, which is within the "Investment Philosophy" part of the website.

[2] Article 4 of SFDR requires that regulatory technical standards will be published, to supplement the high-level requirements of Article 4. As at 10 March 2021, those regulatory technical standards have not yet come into force. As such, this policy adopts the approach of principles-based compliance with Article 4. This policy, which relates to strategies managed or advised by Impax Asset Management Limited, Impax Asset Management (AIFM) Limited and/or Impax Asset Management Ireland Limited where acting as "financial market participant" for the purposes of SFDR, will be reviewed and updated once the regulatory technical standards are finalised, and is expected to otherwise be updated from time to time. References to "Impax" in this policy should be construed accordingly. This policy currently relates to Impax listed equities strategies.

Description of Policies to Identify and Prioritise Principal Adverse Impacts

Impax undertakes positive screening in investing in securities that are well-positioned in the transition to a more sustainable economy, addressing the world's most pressing sustainability challenges. At Impax, every strategy is designed to intentionally allocate clients' capital towards those companies we expect to flourish as the global economy transitions to a more sustainable model, and to reduce or eliminate exposure to those unable or unwilling to adapt in this transition. The respective investment universes are built either through the applicable Impax classification system (for example the *Impax Environmental Markets Classification System*, the *Impax Sustainability Lens* or the *Impax Gender Lens)* which are intended to enable prioritising investment in activities that have high sustainability opportunities and low sustainability risks.

Avoiding negative sustainability impacts: Impax does not use negative screening as a central tenet of its investment approach. Having said this, as a responsible investor Impax is committed to avoiding investment in activities and companies that do not adhere to international norms and conventions, as detailed below. As such Impax seeks to avoid or limit investment in activities that are harmful or have a negative effect on sustainability matters. As a result of Impax's investment process that is aligned with the transition to a more sustainable global economy (TSE) - from investable universe creation to portfolio construction - exposure to controversial or harmful activities is significantly reduced.

Nevertheless, compliance with the UN Global Compact principles (including human rights, labour rights, environment and anti-corruption) is a normative investment requirement. We screen our Impax investible universe (currently at quarterly intervals) against adherence to the UN Global Compact principles. An external research provider is used to support this screening activity. If a company is found to be in breach with any of the principles, it will be excluded from the Impax investable universe and will not be available for investment. If a company is flagged for potential breaches, it is placed on a "watch list" and we will monitor and engage with the company, as appropriate. The *UN Guiding Principles on Business & Human Rights* are also considered as part of this process.

Moreover, security-level ESG analysis, which is conducted for all Impax listed equity strategies, also assesses corporate behaviour in light of global environmental and social standards and norms, leveraging data from ESG controversy research.

For Hong Kong and China-based companies, we have established a further "Governance Analysis" taking into account specific regional governance circumstance and challenges. We have identified five governance metrics that companies must have in place, in order to enter our investable universe.

Demonstrating positive sustainability impact: Our measurement, monitoring and reporting of positive environmental and societal impact provides post-investment evidence of this intentionality. Through the 'Impact@Impax' process and disclosure, for our environmentally-themed thematic listed equity strategies with an SFDR Article 9 product classification, we measure, monitor and report on positive sustainability impact metrics, currently covering carbon emissions avoided, renewable energy generated, water treated, saved or provided, materials recovered, and waste treated, and coal use displaced in Asian cities.

In parallel with this, for all our listed equity strategies with an SFDR Article 8 or Article 9 product classification we undertake an assessment of the alignment of our investments with the Paris Agreement, and compare the net CO2 impact of our portfolio companies' activities with the current economy and 'Paris aligned' economy, demonstrating the role these solution providers are playing in enabling the transition to a more sustainable, lower carbon economy. Furthermore, these investment strategies are also mapped against the UN Sustainable Development Goals (SDGs), assessing how they align with these goals when considering revenue exposure to related activities. Impax's classification system frameworks (for example the *Impax Environmental Markets Classification System*, the *Impax Sustainability Lens* or the *Impax Gender Lens*) enable us to link portfolio company activities to the most relevant SDGs.

Description of Actions to Address Principal Adverse Impacts

Engagement is an important part of our ongoing, proprietary company-level ESG analysis and investment process. We engage with companies and other issuers when we have identified specific ESG-issues or concerns, including in relation to PAIs, 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. To support this work, each year we identify a number of strategic top down engagement priorities which help to guide our engagement activity.

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.

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.

Impax Escalation Policy

Where material concerns or anomalies at an investee company have been confirmed, the Impax investment team will intervene and escalate matters in order to seek to mitigate risks and preserve shareholder value.

We will contact the investee company management team and where relevant and possible members of the company board. Typically, we would request a conference call with the management team, to discuss the concern in detail.

If the investee company is unresponsive to engagement or we view, upon clarification with the management team, that the company is taking an approach that is significantly increasing shareholder risks and the company is unwilling to consider less risky approaches, we would escalate our activities including through any one or more of the following ways:

- Seek dialogue with alternative executives at the company
- Feedback to company's advisors especially regarding voting matters
- Intervene or engage together with other institutions or shareholders on the issue
- Highlight the issue and/or joint-engage regarding the issue through institutional platforms like the PRI
- File or co-file resolutions at General Meetings

We believe that we can be more constructive and ultimately in the long-term more influential with our investee companies, if we maintain good relations and where possible interact and engage directly with the company on specific concerns. Public statements or filing resolutions would be last resort activities in exceptional circumstances.

Ultimately, if the interventions were not successful and we consider that the risk profile of the company has significantly deteriorated or company strategy or governance structures have altered, to a degree where the return outlook and the company strategy and quality no longer meet our expectations, the company would be excluded from our investable universe and/or sold.

Information on Remuneration Policy

Impax has reviewed its remuneration policy in accordance with the requirements of Article 5 of SFDR to ensure consistency with the integration of sustainability risks. The relevant details incorporated in that respect are set out below.

Central to our remuneration policy is the promotion of sound and effective risk management and avoiding an environment which rewards or encourages excessive risk-taking. Our remuneration policy has been extended beyond financial risks to encompass sustainability risks. In summary, relevant individuals who are involved in implementing and/or overseeing Impax strategies will be assessed in this respect as part of the determination of variable remuneration awards by reference to their risk-adjusted performance. Impax does not have any quantitative sustainability-focused performance targets at either a portfolio or asset level and therefore this is a qualitative assessment in respect of adherence to Impax's internal procedures for integration of sustainability risks as outlined above.

Adherence to Responsible Business Conduct Codes and International Standards

As identified above, our sustainability risks and due diligence process considers the UN Global Compact Principles, UN Guiding Principles on Business & Human Rights and the UN Sustainable Development Goals. Impax became a

UN PRI signatory and active member in 2008 and is committed to upholding the 6 Principles for Responsible Investment.

We are an active member of a number of investor initiatives and collaborations. These are identified in the ESG Policy.