

## UK Stewardship Code Statement

April 2022

This UK Stewardship Code statement 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”)

Which are all collectively defined as “Impax” or the “Firm”.

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### Principle 1:

Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Founded in 1998, Impax Asset Management (“Impax” or the “Firm”) is a specialist asset manager focused on investing in the transition to a more sustainable global economy.

We believe that:

- Capital markets will be shaped profoundly by global sustainability challenges, particularly 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 invests in companies and assets that are well positioned to benefit from the transition to a more sustainable global economy. Impax seeks to invest in higher quality companies with strong business models and governance, that demonstrate sound management of risk whilst being able to adapt intelligently to changing conditions.
- Impax offers a well-rounded suite of investment solutions to global investors, spanning multiple asset classes seeking superior risk-adjusted returns over the medium to long term. Impax manages funds and accounts in four areas: actively managed long-only equities, fixed income, systematic, and private markets strategies.

Impax’s proposition to clients reflects the firm’s investment beliefs:

- Over 23 years of experience in designing and investing in listed equities strategies aligned with the transition to a more sustainable economy. This experience is valued by clients seeking to understand a confusing and rapidly evolving marketplace.

- Impax has a multi-disciplinary investment team of individuals with diverse backgrounds. The firm's exclusive focus on sustainability has resulted in the attraction of a particularly motivated group of employees. Analysts and portfolio managers who are highly interested in sustainability are naturally minded to incorporate ESG and stewardship aspects into company analysis and portfolio construction decisions.
- Taking a longer-term view of trends within the global economy, particularly in the area of sustainability, aligns Impax's investment strategies with the time horizons of clients and ultimate beneficiaries of our clients' savings products.
- Stewardship through active ESG engagement and proxy voting are important parts of the investment process. A fundamental research approach exploring areas of relevance to management teams enables analysts to build a level of trust with companies enabling more effective stewardship over the long term.
- Impax also undertakes dedicated policy research to understand policy and legislative drivers related to the transition to a more sustainable economy and advocate on behalf of and alongside our clients in the development of new regulation in the area of sustainable finance.

## AUM & Strategy:

Impax's strategy is to continue to extend investment management services to professional investors globally through developing the firm's existing capabilities and small acquisitions, or team lift-ins of aligned strategies.

As of 31 March 2022, Impax's total assets under management and advice is £38 billion across active equities and fixed income strategies, systematic equities and private markets. All strategies are guided by a proprietary Impax investment tool which translates as aspects of the firm's belief in the transition to a more sustainable global economy into actionable investment ideas for portfolio managers. All products today are classified as either Article 8 or 9 under the Sustainable Finance Disclosure regulation. The product design group's principles include commitment to retaining this positioning for future strategy launches.

During 2021 Impax was able to facilitate a range of investment solutions, particularly in the area of climate change adaptation and mitigation, for institutional investors in Japan, Australia, HK/China, Europe and the United States. The client retention rate exceeded 95% and there were no complaints made. A recent survey of public asset owners enabled feedback on net-zero commitments which has generated significant engagement with this cohort of clients for support in deciphering and implementing the various initiatives and targets globally.

Impax's culture is centered around its mission statement and core values which are derived from the firm's investment beliefs.

Our mission is:

- To generate superior, risk-adjusted investment returns from opportunities arising from the transition to a more sustainable economy for clients with a medium to long-term horizon;
- To contribute to the development of a sustainable society, particularly by supporting or undertaking relevant research and engaging or collaborating with others; and
- To provide a stimulating, collaborative, and supportive workplace for our staff.

Our Values are:

- **Be the solution:** Impax's core focus and motivation is to offer solutions. It defines the investment approach Impax offers its clients, the contribution it makes to the broader global community and the attitude staff bring to work each day.
- **A passion for excellence:** Impax is passionate about its mission and its work. The Firm strives for excellence in everything it does. Impax's staff hold themselves to high standards and trust each other to share these aspirations and contribute to the results.

- **All voices valued:** Impax makes better decisions if it is diverse and inclusive. All voices are welcomed, and all voices are heard. Impax aspires to a dynamic culture that embraces change and inspires the evolution of new ideas.
- **Doing better together:** Impax believes it can do far more, far better, working together as a team. True collaboration means treating others as they would want to be treated. Impax's staff value and respect their colleagues, clients and partners, their families, and the wider community. Impax's staff are all interconnected and cannot hope to succeed alone.
- **Building a common future:** Impax has a responsibility to promote prosperity while protecting the planet. The Firm is committed to sustainable development, and to stewarding its environmental and societal impact for the benefit of current and future generations.

Impax is head-quartered in London, United Kingdom and has several offices in the United States, including in Portsmouth and New Hampshire, in Hong Kong and in Dublin, Ireland. The firm has a collegial working culture, with an experienced team of c. 231 staff with diverse backgrounds, bringing together complementary skills and experience.

## Impax in the Community

Impax's community strategy is underpinned by its mission statement, "...to make a contribution to the development of a sustainable society by supporting or undertaking relevant research and engaging or collaborating with others." Impax partners with four organisations closely aligned with its focus on the transition to a more sustainable economy and where the organisations' activities are likely to have a beneficial effect for our clients as well as the broader community.

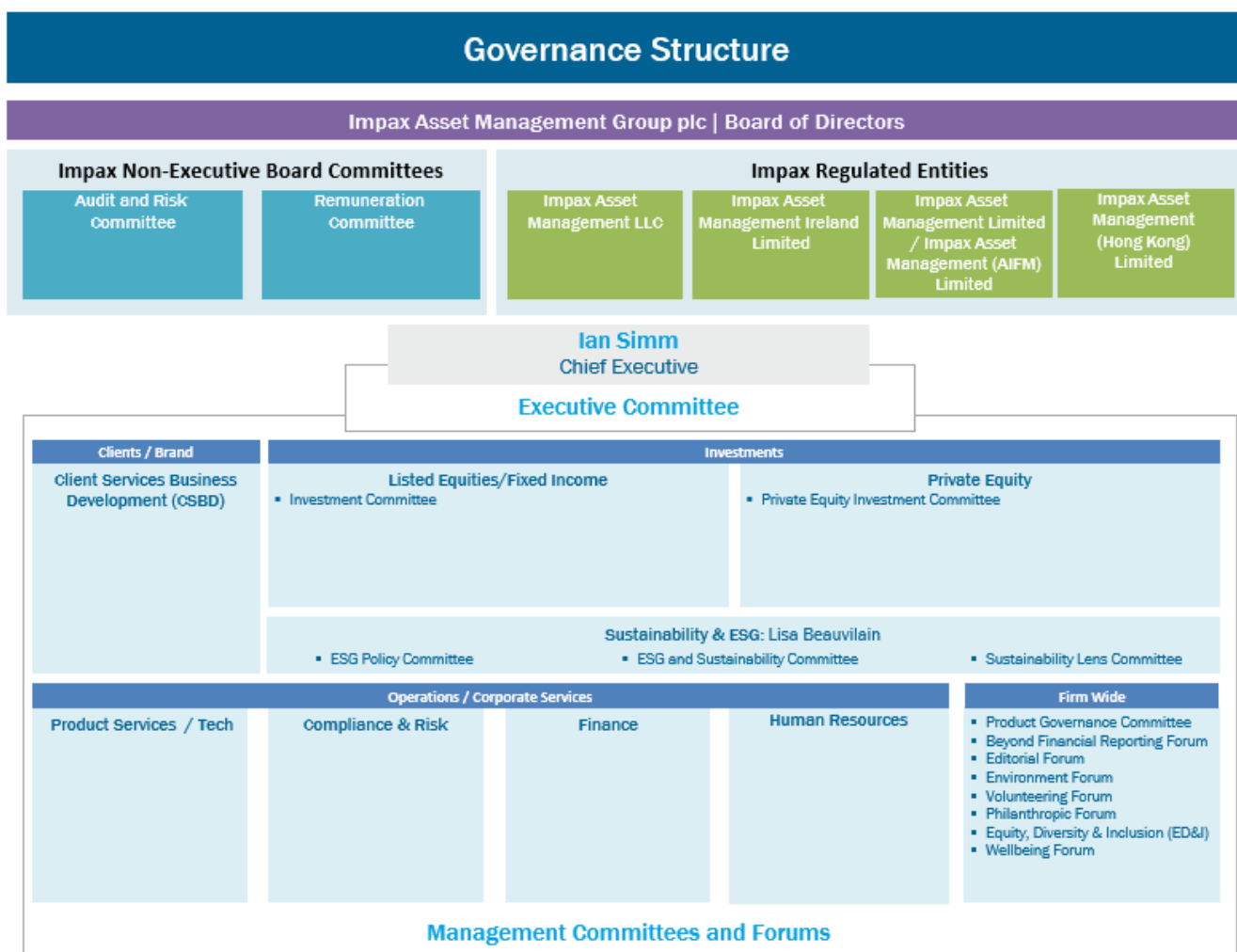
1. Ashden is a London-based charity that champions applied, local energy solutions to reduce greenhouse gas emissions, protect the environment, combat poverty, and improve lives. Impax and Ashden have worked in partnership for a decade, with Impax sponsoring the Ashden Award for Climate Innovation in the UK. A team of Impax colleagues take part in the awards process each year, to help evaluate and judge award submissions, and provide ongoing mentoring and support to previous winners.
2. Ceres is the leading US NGO addressing the world's greatest sustainability challenges through collaborations with leaders in business, government, and finance. Impax has partnered with Ceres for more than eight years with programmatic support, grants, and in-kind assistance. This supports the team at Ceres in their research and analysis, and in ensuring their findings are heard by investment leaders and the public.
3. Impax has supported ClientEarth for five years through funding and collaboration. A non-profit environmental law organisation, ClientEarth's team of lawyers work to bring about end-to-end systemic change: informing, implementing and enforcing the law, advising decision-makers on policy, and training legal and judicial professionals. Successes include blocking Europe's largest planned coal plant and pressuring the world's largest multilateral lender to withdraw funding for fossil fuels.
4. Impax joined Diversity Project as a member in June 2021, a cross-company membership organisation focused on improving the equality, diversity, and inclusion on the UK investment management industry through building a more inclusive culture. Chief Operating Officer Darren Johnson is a member of the #TalkAboutBlack workstream and movement, that looks to "address the chronic underrepresentation of Black talent through building a sustainable pipeline of Black leaders in the asset management industry".

## Principle 2:

### Signatories' governance, resources and incentives support stewardship

All of Impax's investments are positioned to benefit from the transition to a more sustainable economy and this approach to investing is at the core of Impax's strategy.

This strategy is illustrated in the abridged governance chart of Impax, with Sustainability and ESG, including stewardship, being a central part of the firm’s operations, with oversight at the Board and Executive Committee levels.



The Impax Board of Directors has oversight of the company’s strategy and investment activities. One Impax board director is specifically assigned with “Climate responsibility” at the board-level and another director with Equity, Diversity & Inclusion or “E,D&I”, and these directors are attending the Environment and E,D&I Forums as observers. The day-to-day management and monitoring of the firm’s activities are delegated to the members of the Executive Committee, represented by the heads of the firm’s departments, including the Head of Sustainability and ESG at Impax. The Executive Committee reports to the Impax Board and its Board Committees.

The Compliance team conducts monitoring and controls of investment processes, while the Product Governance Committee is responsible for ensuring that new and existing investment products adhere to investment regulations and client agreements. These teams and committees have an oversight responsibility of sustainability and stewardship activities. The Investment Committee<sup>1</sup> oversees investment activities, performance, and risks, with a dedicated ESG and stewardship agenda item, during which e.g. key engagement projects and outcomes are reported on. The listed investments’ Investment Committee is Chaired by the Firms CIO who is on the Executive Committee and regular updates are provided to the Executive Committee and through to Impax’s Boards.

<sup>1</sup> The different asset classes have separate Investment Committee meetings, but ESG is an agenda item in all of them.

The committees dealing with ESG and stewardship activities most directly are the “Impax Lens Committee”, the “ESG & Sustainability Committee” and the “Sustainability Policy Committee”. All these three committees report key issues to the Investment Committees. The committees’ main activities are described below.

#### ***Impax Lens Committee (ILC)***

*All Impax's investments and strategies are aligned to the transition to a more sustainable economy. The proprietary "Impax Sustainability Lens" captures sustainability risks and opportunities across all economic activities and time horizons. Sub-sectors that have Low Lens Risks and High Lens Opportunities, are set to benefit from a transition to a more sustainable economy and are well positioned for the long term. These well-aligned areas of the economy are sought and prioritised for Impax's investments. The Impax Lens Committee convenes every quarter to assess emerging issues, risks and opportunities, and the consequences for the Lens and the various economic activities. The ILC through its "Sector Expert Group Reviews" and meetings, serves to shape how the firm views different activities, sectors, risks and opportunities, in identifying activities that are well-aligned to the transition to a sustainable economy. The outcomes and decisions from the ILC meeting are reported at the Investment Committee meeting. All ILC meetings are minuted and following a set agenda item, stated in its Terms of Reference.*

#### ***ESG and Sustainability Committee (ESC)***

*The ESC is a formal committee, convening monthly, with a set agenda and a Terms of Reference. The objective of the ESC is the coordination of ESG and stewardship work at Impax. The committee reports significant developments to the Investment Committee.*

#### ***Sustainability Policy Committee (SPC)***

*The SPC has been recently established to oversee, review, and approve Impax's ESG, sustainability and stewardship-related policies and positions. It convenes as required and has established a Terms of Reference. The committee reports significant policy developments to the Investment Committee.*

The significant increase in sustainable finance reporting requirements, both regulatory, such as the EU's Sustainable Finance Disclosure Regulation, “SFDR”, as well as voluntary reporting requirements, have led to the establishment of a new firmwide working group, the “Beyond Financial Reporting Forum”. It consists of representatives from compliance, client services, marketing, technology and data architecture, as well as ESG and sustainability teams, to coordinate the regulatory, but also voluntary ESG, sustainability and stewardship-related reporting work.

## Processes and resources

We are continuously assessing the effectiveness of the ESG and stewardship work and processes, both in terms of meeting internal and external requirements. We believe that we have sufficient oversight and structures in place at present. We are planning to increase ESG and stewardship-related staff resources moderately over the next few years. Additionally, we are seeking to increase the availability, automation, and architecture of ESG data and looking to purchase more external ESG data to respond to the increasing external reporting requirements. This is a slightly new approach for Impax, as the firm has been intentionally relatively independent of external ESG data and research, focusing primarily on proprietary ESG analysis and scoring of our investee companies. Both internal and external ESG and stewardship-data is stored in and accessed by the investment teams in Impax's proprietary data and research platform, called the “Portal”.

Impax has c. 65 investment team members globally, of which 10 are specialised in sustainability research, ESG analysis, stewardship, and policy research and advocacy. For listed equities and fixed income, the company-level ESG analysis and engagement are integrated in the investment process and team. The lead investment analysts are responsible for the financial- and ESG analysis as well as the related engagements of the investee companies under their coverage.

The private markets investment team investing in renewable energy infrastructure, such as wind and solar farm construction, have a head of ESG. ESG topics are a standing agenda item at the private markets Investment Committee meetings.

The ESG and sustainability team are responsible for the oversight, coordination, and further development of the ESG, sustainability and stewardship approaches and methodologies.

There is an on-going exchange of ESG-related information to the investment team to keep abreast of new ESG or stewardship developments. There are standing agenda items for ESG, engagement, and policy developments at the on-going investment team meetings and the Investment Committee meetings. In addition, there are more formal training sessions relating to new topics of sustainability, ESG, and engagement. Examples of recent ESG training to the investment team have been around effective engagements, climate transition risks, and recent market developments in proxy voting, including “Say on Climate”. There are imminent plans to develop an internal Impax educational video relating to ESG and sustainability, both for new joiners as part of the firm’s induction program, as well as for Impax staff, many of whom have a keen interest in ESG and sustainability in general.

## Incentive structures

The incentives of the senior management team and the members of the investment team are aligned to Impax’s strategy of investments benefiting from the opportunities arising from the transition to a more sustainable economy as a key goal of Impax’s business plan.

All listed investment analysts and portfolio managers have three components to their remuneration: (1) performance; (2) stock/issuer analysis and coverage; and (3) teamwork and E,D&I. The second component explicitly references high-quality ESG analysis, sustainability-driven idea generation, and effective engagement work with investee companies. In doing so, all analysts are measured and incentivized to carry out quality ESG research and integrate it into their investment research and decision-making.

Impax’s specialist Sustainability and ESG analysts are responsible for overseeing and providing consistency in the ESG-analysis and scoring methodology, coordinating and supporting company engagements and proxy voting, and providing ESG and sustainability thought leadership. Remuneration for these members of the investment team is determined by (1) the quality of the sustainability and ESG-research provided and engagement outcomes with investee companies; (2) sustainability thought leadership; and (3) teamwork and E,D&I.

All employees at Impax, senior and junior, have the promotion of E,D & I (equity, diversity and inclusion) practices as part of their annual objectives and compensation. Remuneration for all staff is governed by the Remuneration Committee whose purpose is to ensure that employees are fairly rewarded for their individual contribution to the overall performance of the company and to their investment strategies, while ensuring that the remuneration packages provided do not promote undue risk taking.

## Principle 3:

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

### Identification of conflicts

The Impax Board of Directors, in conjunction with Legal, Compliance and business unit heads, take responsibility for implementing systems and controls designed to prevent conflicts of interest. These are outlined in our Global Conflicts Register, which is updated as and when a new conflict is identified and reviewed overall on a periodic basis and at least annually, by both the Executive Committee and the Board of Directors.

Impax is an international group of companies and, as such, these controls and the conflicts register take into account any circumstances which may give rise to a conflict of interest as a result of our structure or business activities in all operating jurisdictions.

### Types of conflicts

When identifying conflicts of interest, our staff are trained to consider whether Impax:

- Is likely to make a financial gain, or avoid a loss, at the expense of a client (including the funds managed by the Firm and their investors);
- Has an interest in the outcome of a transaction carried out on behalf of a client, which is distinct from the client’s interest in that outcome;
- Has a financial or other incentive to favour the interests of one client or group of clients over another;



- Carries out the same business as the client; or
- Receives or will receive an inducement from a person other than the client in relation to services provided to the client in the form of monetary or non-monetary benefits or services.

## Conflict prevention

Where a potential conflict is identified, Impax will seek to organise its business activities in a manner that prevents the crystallisation of the conflict. This will include the appropriate segregation of functions and business lines such that a level of independence may be achieved. To the extent appropriate to the size and scale of the business functions, this may involve:

- Information barriers to prevent or control the exchange of information between members of staff engaged in activities involving a risk of conflict of interest where the exchange of that information may harm the interests of one or more clients;
- Functional independence and separate supervision of relevant members of staff whose main functions involve carrying out activities or providing services for clients whose interests may conflict, or otherwise represent interests that may conflict;
- A review of remuneration arrangements in the Firm where these might give rise to conflicts of interest in relation to the activities or services provided by the relevant members of staff;
- Reassignment of members of staff to prevent or control the simultaneous or sequential involvement of relevant members of staff in separate services or activities where such involvement may impair the proper management of conflicts of interest; or
- Policies and procedures covering inducements and personal account dealing.

However, it is accepted that, despite the implementation of all appropriate controls to prevent the occurrence, the complete avoidance of all conflicts may not be feasible in a commercial environment.

## Outside business interests

Staff members are required to obtain prior approval from Compliance before engaging in any employment outside of their employment with Impax. Staff members are also required to obtain the prior approval of Compliance before taking an interest in any outside business organisation, and in particular before becoming a director, an officer or adviser to a company or any other entity whether or not it is a paid position. Personal interests must not affect the ability of a member of staff to make judgements or decisions in the best interests of Impax and its clients.

## Conflict management

Where conflicts are unavoidable, Impax will take appropriate measures to mitigate and manage such conflicts in a manner that seeks to ensure that the Group and its staff are not advantaged, and that no client is adversely affected. Our clients' best interests remain paramount.

## Conflict disclosure

Where Impax is not reasonably confident that it is able to manage a particular conflict to adequately protect the interest of a client, the fact of/or sources of conflicts of interest will be clearly disclosed to the client before the Firm undertakes any business. In particular, the disclosure will detail:

- A specific description of the conflicts of interest;
- An explanation of the risks to the client that arise;
- That the organisational and administrative arrangements established by the Firm to prevent or manage that conflict are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the client will be prevented; and

- Sufficient detail to enable that client to take an informed decision with respect to the service in the context of which the conflict of interest arises.

This disclosure will only be made as a matter of last resort. Further, the fact of the disclosure is not considered to be a mitigant. All the controls detailed in this policy will continue to be applied, in respect of that conflict.

The disclosure will be made via the Terms of Business or periodic reports.

## Conflicts training

All staff receive training in respect of conflicts of interest. In addition, all staff are required to give a periodic undertaking confirming their understanding of the Group's compliance requirements, including disclosing any personal conflicts such as their personal trading activities, the receipt of gifts, benefits or entertainment and outside business interests.

Examples of potential conflicts of interest and how they are addressed

- **Varying client objectives and interests**  
Different clients may have different expectations, objectives, and priorities regarding stewardship and Impax has a number of investors who are highly focused on stewardship issues and have very specific priorities. At the very outset of the client relationship, it is determined how closely the stewardship (proxy voting and engagement) priorities are aligned between the client and Impax. We have a number of clients who have retained their voting rights, in order to follow their specific stewardship objectives. For all other clients, we vote following our voting policies, utilising our ESG analysis and knowledge of the companies in question and local and regional corporate governance best practice. A few of our clients have asked us to confirm how we have voted on specific types of resolutions, and some ask us to report regularly on our voting outcomes. Relating to engagement, we follow our policies and processes to identify, prioritise and implement engagement systematically and these are not influenced by investors. We report the outcomes of our voting and engagement outcomes on our website. Some investors have asked for regular reports on both voting and engagement outcomes, pertaining to their investment. Some of our clients have invested with us through separate accounts where their own specific responsible investment objectives are followed and expressed.
- **Impax's shareholder interests**  
Impax is owned by individuals and financial institutions, each having their own investment, financial and stewardship objectives, which could create conflicts of interest. Impax's investment process and stewardship activities are conducted following set and publicly disclosed policies and removed from the influence of shareholders.
- **Impax's specific client interests**  
Impax could be managing investments for e.g. the corporate pension fund of a company that is also owned in one or several of Impax's funds, which could create conflicts of interest. Impax's investment process and stewardship activities are conducted following set and publicly disclosed policies and removed from any influence of specific clients.
- **Impax's employee interests**  
An Impax employee could own shares or have an interest in a company that is also owned in one or several of Impax's funds, which could create conflicts of interest. Impax has strict checks, controls and reporting regarding trading and ownership of companies and shares by the Impax staff. Impax's investment process and stewardship activities are conducted following set policies and removed from any influence of any employee interests.
- **Impax's corporate investments and interests**  
Impax does not hold any proprietary positions or conduct any proprietary trading but may make a seed investment into a new Impax fund. When this is the case the fund and the investment is treated like any other client and is subject to the same policies and procedures regarding stewardship that any other client funds would be.
- **Impax's inter-departmental interests**  
The Impax investing departments outside of the Listed Equity business, such as its Private Equity department,



may have ownership or an interest in a company that is an investee company in an Impax Listed Equities fund. There are formal information barrier structures in place between the Impax Listed and Private Equity departments and Impax's investment process and stewardship activities are conducted following set policies and removed from any influence of any inter-departmental interests.

No specific or concrete instances of conflict of interest were identified during the year. However, an area of potential emerging conflict of interest in stewardship was detected and discussed. There has been a consultation or enquiry by the Department for Work and Pensions (DWP) and the Occupational Pensions Stewardship Council at the end of 2021 around better alignment on voting between asset managers and asset owners in the UK market. Impax has responded to this enquiry and while our view is that better and closer dialogue and alignment of voting between asset managers and asset owners is clearly important and positive, there has perhaps not been as much focus on the possible trade-offs of e.g., "client-led voting", "split-votes" or "client expressions of wish" in proxy voting. On the one hand, this could potentially lead to reduced influence from voting on the underlying companies, the very tenet of stewardship and active ownership, an important trade-off to consider. But additionally, investors' influence and "expressions of wish" in relation to Impax's voting intentions could also lead to potential conflicts of interest between Impax's clients. We view it as important that Impax votes clients' shares clearly, consistently and transparently, following our publicly disclosed [Proxy Voting Guidelines](#), without undue influencing from individual clients. This is described further in Principle 12.

#### Principle 4:

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Impax collaborates with clients, partners and industry organisations to promote the transition to a more sustainable and inclusive economy. Engagement with companies and policy advocacy are important parts of this work.

#### Impax approach to policy advocacy

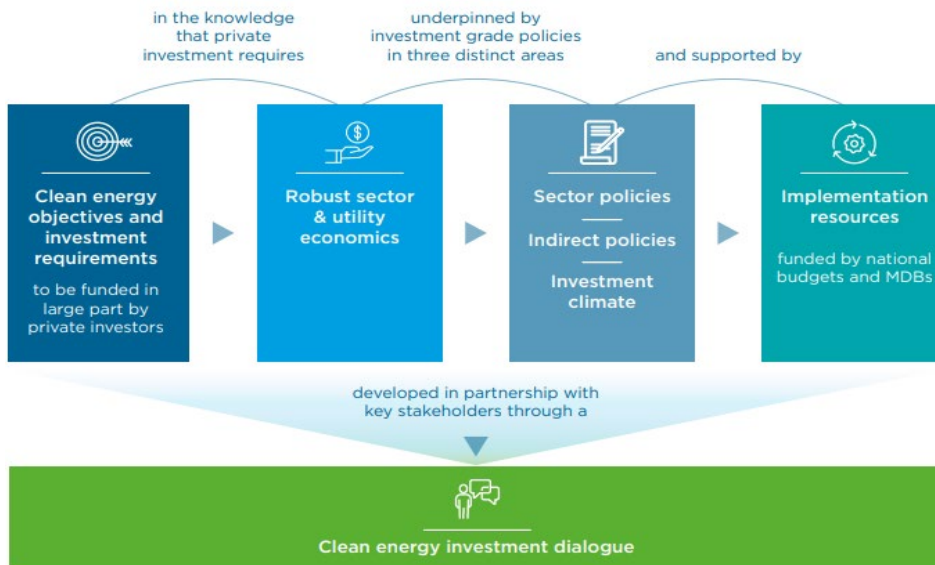
The principal purpose of Impax's policy advocacy is to support policy makers in the creation of enabling environments which will accelerate the transition to a sustainable economy. We are active across a range of channels ranging from traditional reactive approaches - working through industry associations, responding to consultations and participating in issue-specific initiatives and sign-on letters, to more innovative pro-active interventions such as publishing Impax's perspectives and commentaries, funding research, piloting new approaches, partnering with clients, and bilateral discussions with policy makers.

Impax's global policy advocacy activities are led by Chris Dodwell, Head of Policy & Advocacy, who reports directly to the CEO. Impax refreshed its advocacy priorities in early 2020 to focus on climate change in the run up to COP26. In 2022, we established a new Policy Advocacy Group (including the CEO, Chief Strategy & Operations Officer, Chief Product and Marketing Officer, Head of Sustainability and ESG and US Senior VP for Sustainable Investing). The group is developing a three-year global advocacy plan.

Our Clean Investment Roadmaps framework reflects 20 years' experience of how policy makers can address this challenge by setting out five key steps they should take:

1. Agree and publish clear sectoral objectives and investment requirements
2. Build understanding within government of sector and project economics
3. Implement investment-grade policy at all levels: sectoral, indirect and investment
4. Provide implementation resources that address local circumstances and barriers
5. Initiate a clean investment dialogue at the start of the process

This framework offers a blueprint for the enhanced collaboration between policy and investment communities that will be needed if we are to deliver the climate goals of the Paris Agreement.<sup>2</sup>



## Advocacy activities during 2021

The priorities for our policy advocacy during 2021 were:

- Achieving net zero in the real economy: national governments to adopt net-zero goals and ambitious NDCs, underpinned by sectoral pathways and dialogues with investors on detailed policies needed to attract private capital.
- Greening the financial system: ensuring that climate risks and opportunities are integrated into investment decisions through effective implementation of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.
- Nature: increase understanding of risks of biodiversity loss and nature degradation and accelerating action by policy and investors to restore nature.
- We sought to achieve these across a range of channels including: publishing our perspectives and commentaries; working through industry associations; participating in issue-specific initiatives; working in partnership with clients; and engaging bilaterally with policy makers.

A central focus of our activities during 2021 was COP26 held in Glasgow in November. We used a range of channels during the year to communicate our objectives and were pleased to see our positions reflected in a number of commitments and calls to action which emerged at Glasgow. Examples included:

- The [Investor Agenda Global Investor Statement to Governments on the Climate Crisis](#) which called for governments to strengthen their NDCs to align with a transition to net zero, commit to clear decarbonisation roadmaps for each carbon-intensive sector; implement domestic policies to incentivise private investments, and commit to mandatory climate disclosures aligned with TCFD.
- The Energy Transitions Commission (ETC) report [Keeping 1.5C Alive: Actions for the 2020s](#) setting out the key actions sector-by-sector needed to deliver the Paris agreement. During 2021, Impax contributed to this report and the detailed sectoral reports on Clean Electrification, Clean Hydrogen and Bioresources.
- The emergence of "coalitions of the willing" committing to ambitious global action in key sectors such as:
  - Power: the Powering Past Coal Coalition which Impax joined ahead of COP26

<sup>2</sup> <https://impaxam.com/insights-and-news/thought-leadership/clean-investment-roadmaps-a-framework-for-building-clean-energy-economies/>

- Nature: Impax joined both the Natural Capital Investment Alliance and the Investor Commitment to Deforestation-free Portfolios
- Finance: Impax became a member of the Net Zero Asset Managers initiative and the Glasgow Financial Alliance on Net Zero (GFANZ)

We were also active in a wide-range of fora during 2021 aimed at improving the effectiveness of climate-related disclosures, including the following:

- **UK Climate Financial Risk Forum (CFRF)** convened by the FCA and Bank of England: Impax was a lead author on the [CFRF Climate Data and Metrics report](#) and led the development of the Climate Disclosure Dashboard with the CFRF Disclosures Working Group. The Working Group's recommendations have already been referenced in the FCA consultation on TCFD implementation and we are hopeful that it will act as the foundation for the ongoing work of the net-zero transition plans within the CFRF and other initiatives.
- **US Securities and Exchange Commission (SEC)**: Impax submitted an extensive comment letter to the SEC outlining recommendations for corporate reporting, including mandatory reporting of Scope 1 and 2 emissions and progress towards mandatory reporting of harder-to-measure Scope 3 emissions; mandatory Task Force for Climate-Related Financial Disclosure (TCFD) reporting; and the disclosure of the physical location of key company assets. We also talked with SEC Chair Gensler regarding all of these reporting requirements prior to the finalisation of the proposed rule. We are very pleased that our recommendations – including the latter point, on which we filed a petition for rulemaking with the SEC in 2020 – are reflected in the SEC's proposed rule on climate risk disclosures that was published in March 2022.

Finally, on nature and biodiversity loss, Impax was a member of the Informal Working Group which prepared the ground for the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) in 2021 and is a member of the TNFD Forum which will be road-testing the TNFD framework and recommendations. As mentioned above, Impax was closely involved in the nature elements of COP26 in particular becoming members of the Natural Capital Investment Alliance through which we hope will accelerate the development on nature-related metrics and effective investor engagement in international and national policy to counter biodiversity loss. During 2021, we also contributed to the design of the UN Convention on Biological Diversity's inaugural financial sector workshop and are continuing our work on biodiversity policy ahead of negotiations on the new Global Biodiversity Framework at COP15 in 2022.

## Strategic company engagement priority areas in 2021:

### Climate

- Processes, management, and transparency of climate risks (transition and physical)
- Focus on physical climate risks, including water stress, as part of our TCFD commitment
- Special attention to disclosure of geo-location data of companies' assets and facilities

### Sustainability processes and reporting

- Encouraging development of material sustainability processes and disclosures
- Focus on smaller and emerging market companies

### Global governance best practices

- Governance structures and diversity
- Focus on Asian governance

### Human Capital Development, including Diversity, Equality & Inclusion

- Diversity (inclusive of gender, race & ethnicity) of senior management teams, boards, and workforce
- Pay equity (pay inequity poses regulatory, litigation and reputational risks)
- Progressive paid family leave and flexible work policies aid in talent recruitment and retention
- Focus on US companies where regulation supporting pay equity transparency and paid family leave is lacking

Similarly to last year, we saw good progress with diversity-related engagements, especially in the US where diversity and inclusion momentum has further accelerated, including both gender and ethnic and racial diversity. There was

reasonably good progress on diversity at company boards in Asia, but coming from a very low base, however progress in continental Europe remains modest. There was some progress in climate disclosures globally in 2021, but slower progress in Asian companies, which has become an area of escalation in our stewardship work. We are collaborating with CDP to accelerate progress on this. Our analysis and engagement relating to physical climate risk, continues to be hampered due to the lack of geo-location data relating to the physical locations of companies' significant assets. In response, Impax together with a New York-based public plan, engaged with the companies in the S&P 500 regarding climate physical risk in 2020 and has continued to evolve that engagement program, focusing in on companies and sectors most exposed. Impax also filed a shareholder resolution on the back of this, with a US packaged food company. The company committed to the requests in the filing, including an assessment of the company's coffee business physical climate exposures, scenario analysis and TCFD-reporting more focused on business continuity linked to climate. Governance engagements are often tied to our proxy voting and tend to be the area with slowest progress. 2021 was not different, but we had some good progress with some smaller companies in the US, for instance relating to board declassification. We continue to find it hardest to achieve progress with governance structures in our Asian companies. This is an area of escalation currently in our stewardship work. We will be working with the Asian Corporate Governance Association (ACGA) on this and are also anticipating increased dedicated resources focusing on engagements with our Asian companies.

### Partnering with our clients to promote sustainability in the financial system

We seek to collaborate with our investors on sustainability topics, research, and stewardship work. In the autumn of 2018, the Swedish public pension fund Sjunde AP-fonden, "AP7" and Impax, partnered to investigate how best to assess, measure and report on water impact. The project entailed research of existing water impact reporting frameworks, engagement with standard-setters, water companies and water experts. In the summer of 2021, Impax and AP7 published the joint-report "[Water: from a systemic and unpriced risk to a measurable opportunity with positive impact](#)". The project and report have generated several blogs and articles on the topic of water impact, which we believe is over-looked by the investment community and companies, while water will be the main manifestation of climate change. The most recent article is about our thoughts on how the creation of the International Sustainability Standards Board (ISSB) may create a global baseline of sustainability-related disclosure standards, and our views on how a complex and very localized issue such as water may be reported on in the upcoming reporting framework.<sup>3</sup> Our focus on the topic also led us to be involved in various industry working groups on water.

#### **Impax participation in industry working groups developing improved water reporting frameworks**

*Impax was part of the **CDSB Technical Group** developing the CDSB Framework application guidance for water-related disclosures ([The Water Guidance](#)), published in August 2021, to assist companies in the disclosure of water-related financial information in the mainstream report. The Water Guidance offers companies a means of developing their reporting practices and ensuring that investors are receiving the material water-related information needed for effective capital allocation to drive the transition to a sustainable, resilient, and water secure economy.*

*Impax was a member of the **CDP-led** technical working group developing [Water-related Indicators for Financial Institutions](#) in 2021. The aim of the project and working group was to develop water-related indicators and a fit-for-purpose reporting framework to better understand water-related issues relevant to the financial services sector. A public consultation on the developed water framework and indicators followed the work of the technical working group.*

Several of Impax's senior staff have leadership roles or sit on the boards of organisations with an objective to promote the transition to a more sustainable and inclusive economy.

- Ian Simm (Founder & Chief Executive) – board member of Institutional Investors Group on Climate Change (IIGCC) and a commissioner with the Energy Transitions Commission, a global coalition of leaders developing transition roadmaps to achieve net-zero emissions; former board member of Natural Environment Research Council (NERC).
- Chris Dodwell (Head of Policy & Advocacy) – member of IIGCC Policy Steering Group, UK Sustainable Investment and Finance Association (UKSIF) Policy Committee and Glasgow Financial Alliance for Net Zero

<sup>3</sup> [We need to plug the gaps on water reporting | Responsible Investor \(responsible-investor.com\)](#)

(GFANZ) Net Zero Public Policy workstream; lead author of Climate Financial Risk Forum's Climate Disclosures Dashboard.

- Darren Johnson, (Chief Operating Officer) – prominent advocate of Diversity and Inclusion across financial markets, acting as an ambassador for Investment 20/20 and a board member for the Diversity Project in London.
- Julie Gorte, Ph.D. (SVP for Sustainable Investing) – board member of the Endangered Species Coalition, E4theFuture, Clean Production Action and board chair of the Sustainable Investments Institute.
- Lisa Beauvilain (Head of Sustainability & ESG) – member of the Council of Institutional Investors (CII) Corporate Governance Advisory Council, member of the Glasgow Financial Alliance for Net Zero (GFANZ) Financial Institution Transition Plans workstream.
- Meg Brown (Chief Product & Marketing Officer) – non-executive director of The Carbon Tracker Initiative.
- Steve Falci (Head of Systematic & Multi-Asset Strategies) – board member of the U.S. Forum for Sustainable and Responsible Investment (US SIF) and serves on the board of the Investment Committee for Mercy Investment Services.

## Principle 5:

Signatories review their policies, assure their processes and assess the effectiveness of their activities

### Stewardship approach

Impax is a fundamentally driven, active shareholder with a long-term investment horizon. Our objective is to build long-term relationships with our listed investee companies. The Impax listed companies and issuers 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.

Our listed equities stewardship work can be divided into the following types:

#### 1. Bottom-up company specific monitoring and dialogue

As part of our on-going, proprietary company and issuer-level ESG analysis, we identify company-specific ESG matters and risks and actively engage with companies and issuers regarding these matters, as part of monitoring and managing risks. We prioritise engagement for investee companies, where we have identified more significant risk issues and have larger positions. In addition to risk management, bottom-up company specific engagement is also intended to enhance company value and improve the structures, processes and disclosures of investee companies. Every quarter we assess the progress of company-specific engagements and determine the next priorities in our engagement work. We also gather all engagement data for reporting purposes, each quarter. The lead analysts for the investee companies are responsible for this type of company engagement.

#### 2. 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. Where possible, we use specific performance data related to the strategic engagement topics, as well as the overall ownership in the companies, as parameters for prioritising companies for strategic engagements. The lead analysts for the investee companies are part of this this type of company engagement, but it is driven and coordinated by the ESG/sustainability team, with a lead for each engagement topic, e.g climate and diversity.



### 3. Proxy voting

Our proxy voting is predominantly related to governance issues such as the election of directors, board structures and management remuneration, but also for expressing our views on diversity, sustainability management and climate, through the vote of management and shareholder resolutions, as well as through the filing or co-filing of shareholder resolutions. When practicable, we seek to engage with the investee company before voting against management's recommendation on a 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. We 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. We use a third-party voting platform (by Glass Lewis) and assess the voting proxy advisor's recommendations but follow the [Impax Proxy Voting Guidelines](#) in our voting decisions. In executing our votes, we always use a peer review process, where one team member is instructing votes and another one verifies them and executes the votes.

We regularly assess the effectiveness of our listed investments' stewardship work and report on it to the Investment Committee and through recently established internal KPIs, as per the "Impax2025" 3-year business implementation plan for Impax. Where engagement is not progressing, we will use our escalation processes, further described in Principle 11.

#### Stewardship reporting

Impax keeps in-house records of all stewardship activities. All company engagements are recorded in Impax's proprietary data and research platform, "Portal", including dates, issues engaged and discussed, name and title of the investee company representatives, as well as the means of communication with companies, outcomes and next steps. All voting activity is also recorded and archived.

We report on engagement and voting activity to segregated accounts typically either quarterly or semi-annually, the format and detail of reporting is based on the preferences of investors. For our pooled funds we publish an annual *Engagement Report* on the Impax website, which includes reporting of engagements, proxy voting and policy advocacy.

We seek to follow best practices when it comes to stewardship reporting and seek feedback from our clients and stakeholders on the format of stewardship reporting they find most useful. In general, we seek to focus on the following in stewardship reporting:

- The roles and responsibilities of stewardship activities
- Setting objectives, especially relating to company engagements
- Stewardship outcomes, rather than merely reporting the statistics of stewardship activities
- Identifying which positive stewardship outcomes were specifically driven by Impax's stewardship efforts
- Providing stewardship examples, which demonstrate all these elements

In recent years, we have enhanced our stewardship reporting to include those aspects. In particular, we pay attention to and try to specify where Impax was driving the change in companies, through our engagement efforts. This is not always easy to distinguish, but we try to get a sense of this from the investee companies.

We publicly report on proxy voting on a quarterly and annual basis<sup>4</sup>. We have extended proxy vote reporting to all "significant votes", with an explanation of the votes cast against or abstain, to reflect the EU Shareholder Rights Directive II reporting requirements. We receive an increasing number of especially UK client requests for regular reporting on "significant votes", following the Pensions and Lifetime Savings Association (PLSA) vote reporting template<sup>5</sup>. This helps investors gather voting data and outcomes in a consistent and comparable format.

Since 2015 Impax has also been annually measuring and reporting on the positive environmental outcomes and impact generated by our investee companies through their products and services<sup>6</sup>. The impact measurement, including the methodologies, data and calculations are externally assured, following the ISAE 3000 limited assurance standard.

<sup>4</sup> <https://impaxam.com/investment-philosophy/environmental-social-and-governance-risk-management/>

<sup>5</sup> <https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/IS-Asset-Managers-Template.pdf>

<sup>6</sup> <https://impaxam.com/investment-philosophy/impact-reporting/>



Reporting on sustainability, impact and stewardship is becoming increasingly important. The significant increase in sustainable finance reporting requirements, both regulatory, as well as voluntary, have led to the establishment of a new firmwide working group, the “*Beyond Financial Reporting Forum*”. It consists of representatives from compliance, client services, marketing, technology and data architecture, as well as ESG and sustainability teams, to coordinate the ESG, sustainability and stewardship-related reporting work at Impax.

## Impax firmwide policies

All Impax’ policies are reviewed and updated on at least an annual basis and are maintained in a centralized repository available to all staff. The policy library is maintained by the global compliance team, with the assistance of members of the administration staff, and assigned to owners throughout the business, as applicable. All Impax policies follow a standard format and review process.

In order to further enhance the ESG, sustainability and stewardship-related governance and oversight of Impax’s policies and positions, the *Sustainability Policy Committee (SPC)* has recently been established. Its role is to oversee, review and approve Impax’s ESG, sustainability and stewardship-related policies and positions. Its members include representatives from the investment, ESG, product and legal teams. It convenes as required and has established a Terms of Reference. The committee reports significant policy developments to the Investment Committee.

All stewardship related policies are reviewed by Impax’s compliance and legal teams.

## Impax’s stewardship policy documents and outcome reports

Global listed equities and fixed income ESG, engagement and proxy voting policies:

<https://impaxam.com/investment-philosophy/environmental-social-and-governance-risk-management/>

Private markets ESG policy:

<https://impaxam.com/products/private-markets/>

Impax Proxy Voting Guidelines:

[https://impaxam.com/wp-content/uploads/2021/09/Proxy\\_voting\\_guidelines\\_2021.pdf?pwm=7576](https://impaxam.com/wp-content/uploads/2021/09/Proxy_voting_guidelines_2021.pdf?pwm=7576)

Proxy voting activities and outcomes reporting 2021:

<https://impaxam.com/wp-content/uploads/2022/03/Proxy-voting-activity-significant-votes-2021.pdf?pwm=6473>

<https://impaxam.com/pax-world-funds/proxy-voting/>

Engagement activities and outcome reporting 2021:

<https://impaxam.com/investment-philosophy/engagement/>

<https://impaxam.com/assets/pdfs/sustainability/impax-engagement-report.pdf?pwm=3308>

Impact @ Impax 2021:

[https://impaxam.com/wp-content/uploads/2021/09/Impact\\_at\\_Impax\\_2021.pdf?pwm=1279](https://impaxam.com/wp-content/uploads/2021/09/Impact_at_Impax_2021.pdf?pwm=1279)

Impax’s UK-based listed equity operations, including its voting activities have been audited and received full ISAE 3402 certification (International Standards for Assurance Engagement) every year since the fiscal year ending 30 September 2012. The ISAE 3402 assurance report is available to clients upon request.

## Principle 6:

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Impax is one of the largest and longest established investors dedicated to investing in the transition to a more sustainable economy, and we manage assets for some of the world’s largest investors.

Impax provides investment management and advisory services to a range of client types. This includes Impax’s own brand funds (UCITs, UK Investment Company and LPs), sub advised third party funds distributed by partners as well

as managing segregated accounts for institutional clients such as pension funds, endowments and sovereign wealth funds.

Client Type <sup>7</sup>	% AUM
Impax labelled funds	12%
Pax World funds	18%
Impax Private Markets funds	1%
Sub-advised pooled funds	54%
Segregated accounts	12%

Impax's client base is dominated by Europe (67%) and North America (30%) which mirrors the location of the investment research and distribution teams in London, Dublin and the United States. However, it should be noted that sub-advised pooled funds contracted via Luxembourg are also distributed within the Asia-Pacific region via partnerships.

Client Location <sup>8</sup>	% AUM
Luxembourg	29.6%
United Kingdom	18.9%
United States	26.2%
France	8.2%
Ireland	6.3%
Canada	3.9%
Netherlands	2.7%
Australia	1.3%
Denmark	1.3%
China	0.4%
Sweden	0.4%
Monaco	0.4%
New Zealand	0.2%
Italy	0.2%
Japan	0.0%

Clients are invested in listed equity (active) listed equity (systematic) fixed income and renewable energy infrastructure strategies. The thematic equity strategies are the largest group and are based on the Impax Environmental Markets Taxonomy which was launched in 2002. This product group invests in companies delivering environmental products and services and offer clients the opportunity to allocate to positive environmental solutions. The second largest group of strategies are the Global Opportunities and US equity strategies which deploy the Impax Sustainability Lens which applies Impax's belief in the Transition to a more Sustainable Economy to the broader listed equity market. This enables clients to access core equity strategies in line with their sustainability preferences in core equity portfolios as well as satellite allocations.

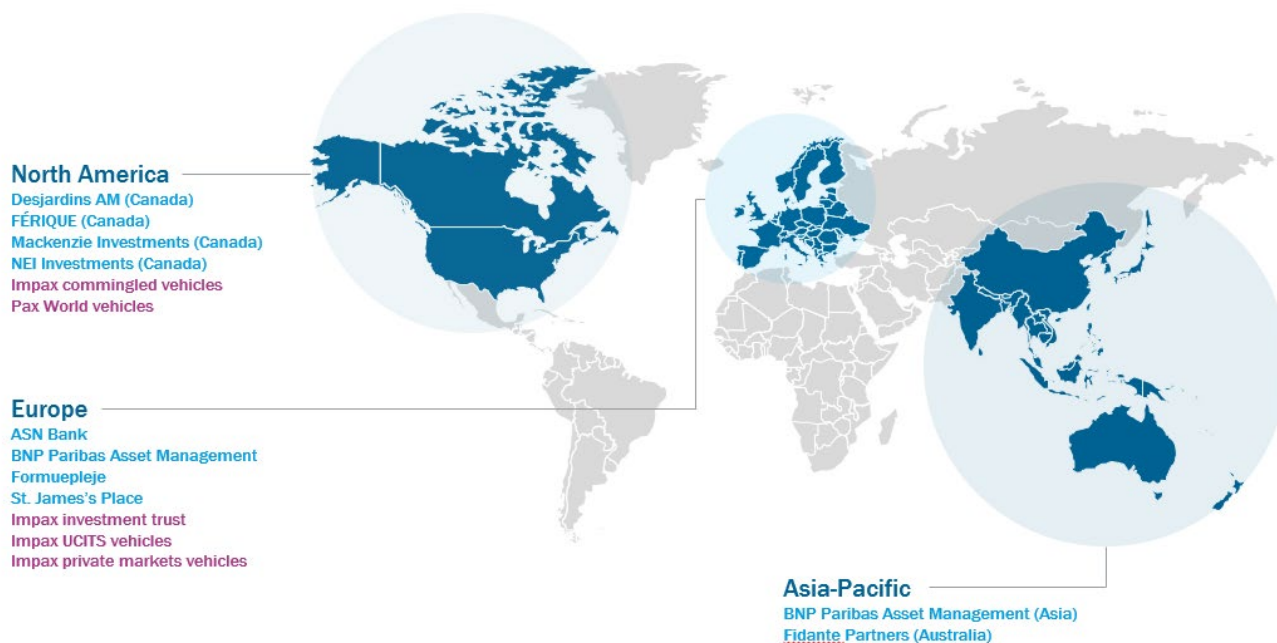
<sup>7</sup> As at 31 March 2022

<sup>8</sup> As at 31 March 2022

Impax AUM<sup>9</sup>



Impax has a small distribution team focused on professional investors in our home markets. Outside of these regions we have developed a partnership model to for those looking to subcontract environmental/sustainability expertise within their own broader product range.



Distribution partners. Distributed directly by Impax.

Products mentioned on this slide are distribution vehicles made up of different fund offerings. Not all vehicles are available in all regions.

<sup>9</sup> As at 31 March 2022

## Client service

We are committed to outstanding levels of client service with comprehensive and transparent reporting. Impax has a dedicated Client Service team to ensure that clients receive relevant investment information in a timely manner. This team is supported by Impax's broader Marketing, Portfolio Services, Compliance and Accounts teams to provide day-to-day support and regular qualitative and quantitative reporting. Our client teams build long-term relationships and a deep understanding of our clients' needs and expectations.

In the UK, Dublin and the US, we have specialist teams focused on servicing our institutional and intermediary clients.

## Client reporting

- Clients typically receive monthly updates on the performance and characteristics of their portfolio. On a quarterly basis, a more detailed report is provided including portfolio manager commentaries. Clients also have access to Impax's impact, engagement and ESG reports, topical white papers, newsletters and blogs, providing further insight into the Impax's investment thesis and areas of research.
- We report engagement and voting activity to segregated accounts typically either quarterly or semi-annually, depending on their needs. Impax publishes an [annual engagement](#) report setting out the strategic initiatives of focus for the year as well as outcomes. Since 2020 this report has included updates on our policy advocacy programme which has focused on climate and biodiversity with the environmental space and equality of pay within the social space. We also publish the proxy voting outcomes for pooled funds [on our website](#).
- We seek feedback from our clients and stakeholders regarding the format of stewardship reporting they find most useful. Feedback we have received is to seek to specify where investee companies' improvements following engagement, were specifically driven by Impax and not driven by other shareholders' engagement or happening anyway. In recent years, we have enhanced our engagement reporting to include this aspect.

## Collaborating with clients on Stewardship and Advocacy

In collaboration with our sustainability and ESG teams our client service professionals work with clients to ensure their areas of interest or concern in relation to stewardship activities are understood and incorporated into the firm's broader strategy. For example:

- Impax collaborated with AP7 in a 3-year programme to explore the reasons for immaturity in water impact reporting. This led to the publication of [a report](#) recommending moving to common water impact indicators so that the effect companies have on water could be compared and aggregated across different investments and assessed at portfolio level. Engagement with industry and reporting bodies is ongoing towards improving this area of impact reporting.
- Global Climate Symposium (online) event to update clients on our key areas of activity across investment opportunities in the decarbonisation of the power sector, water impact reporting and debate approaches to net zero target setting. This led to one-to-one work with some clients looking for support in this area.
- In 2022 we have initiated a series of peer group client surveys to enable groups such as public plans, sovereign wealth funds and private banks to share their progress and highlight areas of potential collaboration with peers. We believe that the Impax client group is often at the forefront of setting climate targets and so this work is providing valuable insight within a safe environment.
- With regard to offering clients involvement in an enhanced proxy voting process, we are actively engaged in this debate and have set out more detail under Principle 12.

## Positive impact reporting

The intention of many of our clients when investing in our thematic equity strategies is to support environmental improvement as well as benefit from the investment thesis of the funds. Since 2015 Impax has therefore been annually measuring and reporting on the positive environmental outcomes and impact generated by our investee companies through their products and services. The impact measurement, including the methodologies, data and calculations are externally assured.

As well as the published [Impact@Impax](#) report clients also receive a bespoke report related to their particular portfolio. This enables more detailed discussions on the drivers of changes in impact metrics over the past year to enable deeper understanding of activities undertaken by investee companies towards CO<sub>2</sub> avoidance, water saved/treated/reused, waste avoided/treated and renewable energy generated. The Asian environmental strategy also considers avoided use of coal which has both environmental and health implications in terms of avoiding local air pollution in cities.

Many clients use UN Sustainable Development Goal alignment as a proxy for positive impact. Impax has therefore mapped active equity strategies to this third-party framework to enable clients to review our funds within their broader portfolio of funds and investments.

### Further investments in client experience

Given the significant growth of the firm in recent years we have created a global client experience team to supplement regional client relationship management which will enable us to further enhance our reporting and bespoke offerings to clients.

### Principle 7:

**Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.**

All of Impax's assets under management across all asset classes and geographies have ESG analysis and stewardship as an important part of the investment process. This section will describe what ESG and stewardship entails for the various asset classes.

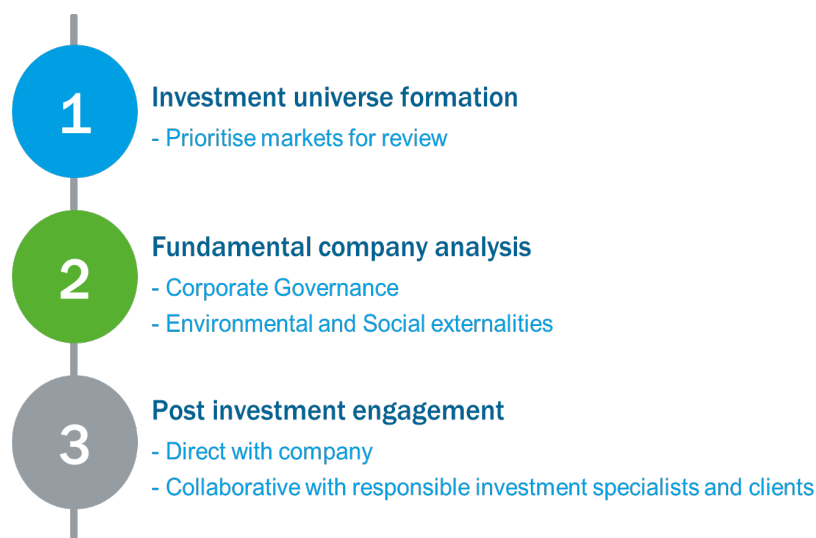
Impax has c. 65 investment team members globally, of which 10 are specialised in sustainability research, ESG analysis, stewardship and policy advocacy. For listed equities and fixed income, the proprietary, company-level ESG analysis and engagement are integrated in the investment process and team.

At Impax, the lead investment analysts are responsible for the financial and ESG analysis, as well as the related engagements of the investee companies under their coverage, for the active listed investments. The ESG and sustainability team are responsible for the oversight and providing peer-reviewing and scoring of the ESG analysis, coordination of focus areas of engagement and continuous further development of the ESG, sustainability and stewardship approaches and methodologies.

Impax uses external research and service providers as an input in the ESG analysis of listed investments but has developed a proprietary methodology for analysing and scoring companies on ESG quality and does not rely on external research for ESG scores or ratings in our actively managed listed investments. However, they are used in some of our systematic strategies. In 2021 the reviews with research providers the discussions have mainly centred around the availability of data and the methodologies for the sustainable finance regulatory reporting requirements (e.g. SFDR and EU Green Taxonomy) and the methodologies for some carbon emissions data and the screening of revenues linked to controversial activities, such as controversial weapons. In sum, the reviews have been more about ESG data reporting recently, which have been part of the work of Impax's "Beyond Financial Reporting" working group.

As described in Principle 2, there is an on-going exchange of ESG-related information to the investment team to keep them abreast of new ESG or stewardship developments. There are standing agenda items for ESG, engagement and policy developments at the investment team meetings and the Investment Committee meetings. In addition, there are more formal training sessions at least once a year relating to new topics of engagement or methods of enhancement of engagement outcomes or related to specific methodology changes or new parameters to review in the ESG analysis. Examples of recent training to the investment team have been on transition climate risks, effective engagements and developments in proxy voting.

Overview of Impax's ESG and sustainable investment approach, listed investments, the three steps:



## 1. Prioritising markets for investments

All Impax's investments and strategies are aligned to the transition to a more sustainable global 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. The Sustainability Lens is Impax's proprietary tool to identify the areas and activities of investment risk in the short and longer term and also to identify investment opportunities created by unmet societal needs. Impax prioritises activities and sub-sectors that have higher opportunities and lower risks, for our "Sustainability Lens" based strategies, which are strategies with broader, more unconstrained sector exposure.

In the reporting period, in 2021, specific topics analysed through the Lens, in addition to the quarterly *Sector Expert Reviews* of the main GICS "super-sectors" on a rotational basis, the Impax Lens Committee also reviewed supply chain constraints (which the pandemic has disrupted), crypto currency and blockchain risks and opportunities and a review of what sustainable consumer spending entails. Upcoming reviews include sustainability in the financial sector. Small working groups will present their findings to the Impax Lens Committee (ILC) and the committee, led by the Impax's Sector Experts and "Lens Scoring Committee", will propose potential changes to Lens scores that the ILC can approve.

Impax has a number of thematic environmental investment strategies, based on the "Impax Environmental Markets Taxonomy" or universe. These strategies represent c. two-thirds of Impax's assets under management. Impax has been investing in the environmental markets for more than 20 years.

**Impax Environmental Markets**, comprising:

- New Energy (renewable energy, energy efficiency)
- Water (infrastructure, treatment, utilities)
- Waste (materials recovery and recycling)
- Sustainable food and agriculture

As part of our investment process, we develop and maintain a large database of our entire environmental thematic investment universe, *Impax Environmental Markets*, currently c. 2,000 companies. We review and update the percentage of revenue (or other business activity indicator) derived from the environmental or climate solutions / activities for each company on an annual basis. This process ensures that our investee companies are and continue to be part of the economy and sectors benefiting from environmental and climate opportunities and to further develop and expand our environmental investment universe. We have recently added companies within the "sharing economy" and in particular with rental business models into the environmental universe.



Impax's investors tend to have a longer-term investment horizon, a belief in the investment opportunities arising from the transition to a more sustainable economy and value the focus on ESG analysis and stewardship that our active strategies have. Many of our investors are seeking investment in companies and assets with positive impact, which are a natural outcome of investing in Environmental Markets.

## 2. Fundamental ESG analysis at the company level

After having identified and prioritised markets and companies for review, either within broader sustainable markets or thematic environmental markets, the next step is fundamental analysis at the company level, including ESG analysis. It is an integral part of the Impax investment process. The analysis enables a deeper and broader understanding of our companies, their corporate structures, oversight mechanisms, risk management capabilities, processes and transparency. We seek to understand the character of the companies through our proprietary ESG methodology. The insights from the ESG analysis are then utilised to establish the priorities for engagement with our companies.

### 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.

*Screening.* We seek to avoid companies involved in significant controversies that violate global norms related to human rights, labour rights, the environment and corruption. We source information about company involvement in these controversies from external ESG research providers. We have a policy and process in place to identify cases of modern slavery<sup>10</sup>. If we determine 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.

*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, taking into account what constitutes common and best practice for governance in a specific country and identifying potential outliers.
- Companies' and issuers' environmental and social policies, processes and disclosures identifying the most material risks at a company-level. Materiality is defined as the sustainability issues or risks that may most materially disrupt a company's operations through financial, physical or reputational loss or disruption. 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.
- 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. We use external data as a larger input when establishing the "controversy" element of the ESG analysis.

When all the data is gathered, an ESG report is written and a proprietary ESG score assigned. Where sufficient ESG quality is not achieved, a company or issuer is excluded from the investable universe. In cases where a company has a low ESG score ("fair"), but is not excluded, the company will have a capped position size in the portfolio, for risk management reasons.

We find that emerging weaknesses in the ESG-profile, has preceded issues and problems emerging later operationally and financially for companies. Therefore, we find it useful to assess ESG and financial, operational, strategic analysis of companies in an integrated fashion.

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<sup>10</sup> [https://impaxam.com/wp-content/uploads/2022/03/Impax\\_modern\\_slavery\\_statement-29-03-2022.pdf?pwd=8895](https://impaxam.com/wp-content/uploads/2022/03/Impax_modern_slavery_statement-29-03-2022.pdf?pwd=8895)

A recent example of this was a German software company that had increasingly misaligned and opaque management remuneration, low independence and weak diversity of the board. We lost confidence in the management team and the company's oversight processes, manifesting itself in unwise strategic decision making, combined with weakening financial and operational performance and divested from the company.

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.

- 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.
- Impax Systematic ESG Rating: The Systematic ESG Rating 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 US large-cap and systematic portfolios.

Infrastructure (New Energy)<sup>14</sup>: Impax is one of the longest established fund managers in the renewable energy sector. Impax follows an industrially focused value-add strategy, investing in renewable power generation and related assets.

The Private markets and Infrastructure team has a dedicated Head of ESG, who is also Head of Commercial Asset Management, ensuring comprehensive integration and monitoring of the Policy. The Head of ESG is an ESG Observer on the Private Equity Investment Committee, responsible for ensuring that investment decisions comply with the ESG Policy and other relevant rules and regulations relating to ESG topics.

There is a Private Equity ESG sub-committee which convenes every six months to discuss relevant topics and is responsible for governing the ESG Policy. Topics relating to ESG data gathering from the infrastructure projects and their reporting have been an area of focus in the reporting period. The ESG committee has representatives from the Private Equity/ Infrastructure team (Commercial, Technical and the Head of the Team), Compliance, Legal and Sustainability and ESG.

Beyond complying with the applicable environmental laws and other permitting procedures, the assessment and mitigation of ESG risks are an integral and necessary consideration of our due diligence processes prior to the acquisition of each investment. Breaches within any ESG parameters would prevent Impax from undertaking an investment. The Investment Committee must review all potential investments on these ESG parameters.

During the acquisition phase our construction and investment managers are responsible for ensuring compliance with health and safety and environmental impact assessment (EIA) issues, and once acquired this responsibility is handed to technical and commercial teams. Impax's renewable energy private equity investments are managed to meet or exceed environmental permit targets and post-build assessments on permit compliance are performed. We maintain a "risk register" that includes H&S, insurance, contingency and ESG issues.

EIA assessments at any potential project sites include:

- Flora and fauna
- Birds, bats and aquatic biodiversity
- Soil and water/ water flow
- Noise

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<sup>14</sup> <https://impaxam.com/wp-content/uploads/2021/03/Impax-New-Energy-Strategy-ESG-Policy.pdf?pwmm=9411>

ESG assessment across the investment project phase:

	Platform Investment Company	Development	Construction	Operations
Environmental	<ul style="list-style-type: none"> <li>Environmental policy</li> <li>Reporting on KPI metrics</li> </ul>	<ul style="list-style-type: none"> <li>Analyse project's environmental regulatory requirements</li> <li>Environmental Impact Assessment (EIA) or other equivalent environmental studies</li> <li>Impact mitigation plan</li> </ul>	<ul style="list-style-type: none"> <li>Outputs from environmental studies and impact mitigation plans incorporated into construction plans</li> <li>Compliance with environmental regulations during construction and sign off before commencing operations</li> <li>Compliance with project permit requirements and sign off before commencing operations</li> </ul>	<ul style="list-style-type: none"> <li>Technical data monitoring and impact reporting quantifying and disclosing environmental benefit</li> <li>Waste and water management incorporated into operational plans</li> <li>Ongoing protection of flora and fauna, habitat, bird and bat protection requirements via operating plants monitoring programme</li> </ul>
Social	<ul style="list-style-type: none"> <li>HR policy</li> <li>Health &amp; safety policy and monitoring</li> <li>Reporting on KPI metrics</li> </ul>	<ul style="list-style-type: none"> <li>Local regulatory requirements and permitting</li> <li>Local employment impact of project</li> <li>Socio and economic impact of the project</li> </ul>	<ul style="list-style-type: none"> <li>Health &amp; safety policy and emergency response procedures and compliance. Regular reporting and review</li> <li>Compliance with employment regulations and safety standards</li> <li>Local employment impact</li> <li>Dialogue and work with local stakeholders (local communities and landowners, councils and other regulators)</li> </ul>	<ul style="list-style-type: none"> <li>Health &amp; safety and emergency response procedures and compliance. Regular reporting and review</li> <li>Compliance with employment regulations and safety standards</li> <li>Local employment impact</li> <li>Dialogue and work with local stakeholders (local communities and landowners, councils and other regulators)</li> </ul>
Governance	<ul style="list-style-type: none"> <li>HR, ABC and anti-money laundering policies</li> <li>Appointment of Impax and non-executive directors and adopt appropriate management structures and incentives to align interests</li> <li>Establish effective reporting and investment structures and audits (accounting and tax). Majority investment structures are preferred</li> </ul>	<ul style="list-style-type: none"> <li>Establish appropriate board composition and oversight</li> <li>ABC and anti-money laundering checks of all suppliers and other regulatory compliance requirements</li> <li>Initial due diligence and oversight of service providers compliance</li> </ul>	<ul style="list-style-type: none"> <li>Establish appropriate board composition and oversight</li> <li>ABC and anti-money laundering checks of all suppliers and other regulatory compliance requirements</li> <li>Initial due diligence and oversight of service providers compliance</li> </ul>	<ul style="list-style-type: none"> <li>Establish appropriate board composition and oversight</li> <li>ABC and anti-money laundering checks of all suppliers and other regulatory compliance requirements</li> <li>Implementation and review of management systems</li> <li>Monitor and control regulatory compliance</li> <li>Initial due diligence and oversight of service providers compliance</li> </ul>

A recent example was a small-scale hydro development project in Norway, which requires detailed environmental plans to be developed and approved by the relevant regulatory body (NVE). Relevant EIA studies were completed as necessary to develop the plan. This included on-going engagement with local experts understanding issues relating to the hydro project design, topology, flora and fauna and extensive engagement with authorities and local stakeholders to achieve approval.

### Managing climate risks

Climate and carbon are systemic risks for all companies, so climate and carbon risks, transition and physical climate risks are assessed for companies as part of our proprietary ESG analysis. We will assess the company's climate governance, policies, processes, incentives and targets to manage and reduce carbon emission over time. Roughly two-thirds of Impax's assets under management are invested in environmental and climate solutions and all of our investments are aligned to a transition to more sustainable and low-carbon economy, hence climate opportunities are important and the exposure to climate transition risks relatively limited.

It is harder to systematically avoid physical climate risks through a focus on environmental solutions and the alignment to a transition to a sustainable economy. Physical climate risk is mainly dependent on companies' geographic locations of assets, less on their activities. We are analysing the asset and facility-level physical climate risks of companies to understand the level of exposure to extreme climate events across companies' assets, through a proprietary model focused on 9 key climate hazards, covering chronic (gradual) and acute (extreme event) risks. Any statements regarding these hazards are based on open, external sources of climate projections and climate data. The output is a report that details key asset level exposures by hazard, and an indication of change and relative importance per asset through an asset-hazard heatmap which scores each facility by hazard for both scenarios and across each time point (current, 10 and 30 years).

We are actively engaging with our investee companies on both transition and physical climate risks, a strategic focus area of our engagements, discussed in more detail in Principle 9.

### 3. 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.

We also engage collaboratively with our investors from time to time and provide regular reporting on our engagement activities and outcomes, described in more detail in Principles 9, 10 and 11. Every year we publish our [Engagement Report](#).

#### Engagement as part of the infrastructure (new energy) investment process

##### *Engagement with investee companies*

Impax takes an active role in managing all New Energy assets irrespective of their structure and has board representation for all investments ensuring that team members retain responsibility. The Impax Asset Management Team is responsible for managing ESG matters post acquisition including establishing policies and procedures and setting up reporting functions. Business plans are developed for investee companies and key performance indicators (KPIs) are reported monthly as part of the regular reporting processes, which are reviewed by the Asset Management Team monthly, and the Board of Directors or Supervisory Board of all platform investments, quarterly. We have regular communication via email, telephone and meetings with the local teams.

##### *Engagement with external stakeholders*

- Engagement with local experts understanding issues relating to project design and authorities during the approval process and local stakeholders necessary to achieve approval.
- Direct engagement with suppliers, project finance providers and off takers for investee companies.
- Local stakeholder engagement including:
  - Engagement with local communities during development, construction and operation phases of the project development
  - Subcontracting work to local counterparties where appropriate.

#### 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 primarily informed by our [Proxy Voting Guidelines](#).

There is a notable increase in the interest in proxy voting by our investors. This can be seen in the increase in increased reporting client questions relating to voting, but also general discussions around Impax's exercise of votes. We believe that our investors' stewardship objectives and Impax's stewardship approach have been well aligned. While there is certainly more interest in this, there has not been any requests for e.g. expressions of wish or client-led voting, however we anticipate that more discussions about this may come in the future, given recent public enquiries around better alignment between asset managers and asset owners' voting objectives and enhanced stewardship dialogue. We welcome that dialogue. This topic will be discussed in more detail in Principle 12.



## Principle 8:

Signatories monitor and hold to account managers and/or service providers.

Impax uses external research and service providers as an input in the ESG analysis of listed investments but has developed a proprietary methodology for analysing and scoring companies on ESG quality and does not rely on external research for ESG scores or ratings in our actively managed listed investments. However, they are used in some of our systematic strategies. External research and data are used when monitoring investee companies' behaviour and controversies. This relates both to normative controversies, such as human rights breaches and more common controversies, such as litigation or labour relations. We also use external research providers' data to monitor any potential controversial activities, such as revenue exposure to controversial weapons, fossil fuels or tobacco. We review external ESG research providers on an annual basis, to understand any changes to research methodologies, but also to understand areas of priority for the research providers.

In the 2021 reviews with service providers, the discussions have centred around the availability of data and the methodologies for the EU sustainable finance regulatory reporting requirements (e.g., SFDR and EU Green Taxonomy) and the methodologies for some carbon emissions data and the screening of revenues linked to controversial activities, such as controversial weapons. We have also discussed with a number of research providers within the area of physical climate risk in the review period. This is a complex area of analysis, not least due to often missing corporate geo-location data, but we are reviewing providers in order to understand the evolving capabilities within this important area.

Impax uses a 3rd party electronic proxy voting platform and we assess the 3rd party advisory recommendations for voting. However, we will determine our voting based on our [Voting Guidelines](#), updated and finalised in the summer of 2021. There were extensive discussions about capturing the guidelines correctly in the on-going voting process. We also always give feedback to the proxy advisory firm when we believe the "Impax voting policy recommendation", following our voting guidelines, does not seem to be correctly reflected. Stewardship, including proxy voting and engagement, is not outsourced to external parties or proxy advisors, but conducted fully by Impax's investment team. Impax reviews the proxy advisory firms at least annually, especially to discuss possible process and reporting efficiency improvements, but also to discuss any significant changes to the proxy voting policies of the service provider. In 2021, the review focused mainly on changes to diversity profiles at company boards and management teams. We review the voting outcomes and whether votes have been cast, on an on-going basis.

## Principle 9:

Signatories engage with issuers to maintain or enhance the value of assets

Impax 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 is used both to mitigate risk and to enhance value and investment opportunities.

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

## How we prioritise engagements

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

### 1. Bottom-up company specific monitoring and dialogue

As part of our ongoing, 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. We prioritise engagement for investee companies, where we have identified more significant risk issues and have larger positions.

### 2. 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 and issuers. The current areas of priority are climate, sustainability processes and reporting, diversity and human capital and corporate governance. We then identify the companies and issuers most exposed to the topics in question and focus our engagement on those companies and issuers. We engage with companies of all sizes, including larger companies with the aim of promoting best practices throughout an industry peer group.

While we assess our engagement priorities every year, they are often of a long-term nature and do not necessarily change annually.

### 3. Proxy voting driven engagements

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.

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. In recent years, we have filed or co-filed shareholder proposals at companies on issues relating to climate change, board diversity, pay equity and racial justice.

## Engagement as part of the listed equities investment process

Engagement is an important part of the ESG analysis and investment process for listed equities. We engage with companies 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' 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 drive and coordinate investors' engagements on important issues and Impax takes part in these.

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

### Setting engagement objectives:

For the bottom-up, company specific engagements, the objective is typically to solve or improve the issue that has been identified as part of ESG analysis and when that objective has been achieved, move to the next objective or pause the engagement. In Portal, we have also a summary page for each investee company, with key financial and ESG data for the company and a rating indicating the level of priority for engagement for the company in question.



For the strategic engagement areas, we have set up specific steps as objectives that we seek to reach with the engagements. The strategic engagement areas have analysts assigned as leads for each of the currently four areas of engagement; climate, sustainability processes and reporting, diversity and human capital and corporate governance. The strategic engagement topics have been identified as they are very significant or systemic issues that require particular engagement attention.

Additionally, new and significant thematic engagement topics that often are of shorter-term nature are identified, such as Covid-19 in 2020 and 2021 and environmental justice and ethics of algorithms and AI.

## Engagement as part of the fixed income investment process

Engagement is a key part of our fixed income ESG process. As both an equity and fixed income manager, Impax benefits from crossover engagements that add insight and can potentially influence our view of an issuer. Since bondholders are an essential source of financing, company management tends to be inclined to maintain good relationships and have meaningful engagements. The benefits are twofold – engagement helps improve our ability to fully vet ESG-related risks and opportunities, and it can help improve an issuer’s ESG transparency and performance going forward.

## Engagement as part of the infrastructure (new energy) investment process

### Engagement with investee companies

Impax takes an active role in managing all New Energy assets irrespective of their structure and have board representation for all investments ensuring that team members retain responsibility. The Impax Asset Management Team is responsible for managing ESG matters post-acquisition, including establishing policies and procedures and setting up reporting functions. Business plans are developed for investee companies and key performance indicators (KPIs) are reported monthly as part of the regular reporting processes, which are reviewed by the Asset Management Team, monthly and the Board of Directors or Supervisory Board of all platform investments, quarterly. We have regular communication via email, telephone and meetings with the local teams.

### Engagement with external stakeholders

- Engagement with local experts understanding issues relating to project design and authorities during approval process and local stakeholders necessary to achieve approval.
- Direct engagement with suppliers, project finance providers and off takers for investee companies.
- Local stakeholder engagement including:
  - Engagement with local communities during development, construction and operation phases of the project development; and
  - Subcontracting work to local counterparties where appropriate.

## Top-down strategic engagement priorities for 2021

### Climate

- Processes, management and transparency of climate risks (transition and physical)
- Focus on physical climate risks, including water stress, as part of our TCFD commitment
- Special attention to disclosure of geo-location data of companies’ assets and facilities

### Sustainability processes and reporting

- Encouraging development of material sustainability processes and disclosures
- Focus on smaller and emerging market companies

### Global governance best practices

- Governance structures and diversity
- Focus on Asian governance

### Human Capital Development, including Diversity, Equality & Inclusion

- Diversity (inclusive of gender, race & ethnicity) of senior management teams, boards and workforce

- Pay equity (pay inequity poses regulatory, litigation and reputational risks; active management of pay equity leads to better diversity outcomes)
- Progressive paid family leave and flexible work policies aid in talent recruitment and retention
- Focus on US companies where regulation supporting pay equity transparency and paid family leave is lacking

The thematic engagement areas for 2021 were Environmental Justice and Ethics of algorithms and AI.

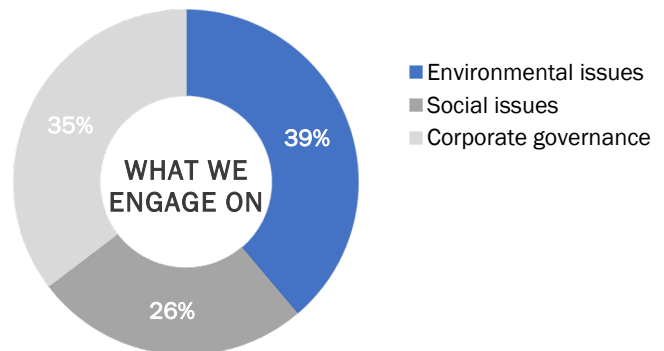
### Engagement activities and outcomes

- We had over 230 engagement meetings in 2021, which were with more than 160 investee companies.
- With 2% of the investee companies we had more than two engagement meetings throughout the year.

The numbers of engagements were lower in 2021 compared to the year before, mainly due to the high numbers of companies we engaged with in 2020 as part of the physical climate risk engagement campaign, focusing on the S&P 500 companies.

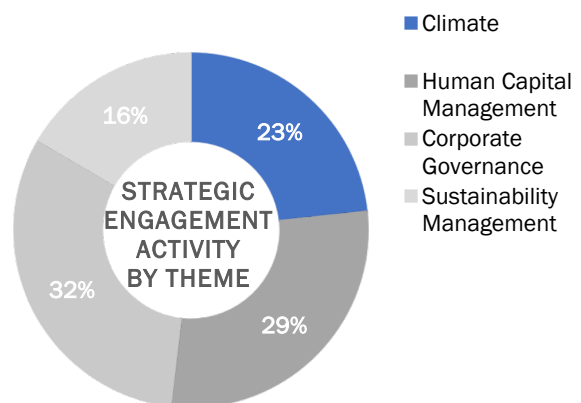
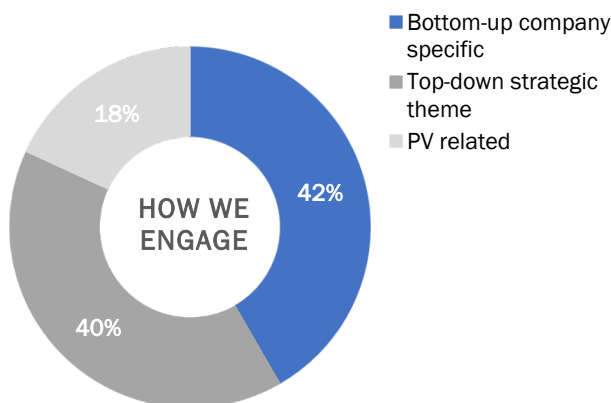
### What we addressed in 2021 – engagement activity by theme

Most engagements in 2021 were on environmental issues. This was mainly driven by our strategic focus on climate risk engagements as well as related to our thematic outreach in the area of environmental justice. Also, corporate governance features in many of our engagements, whether related to company-specific matters identified in our ESG analysis, and often the governance engagements were also related to proxy voting.



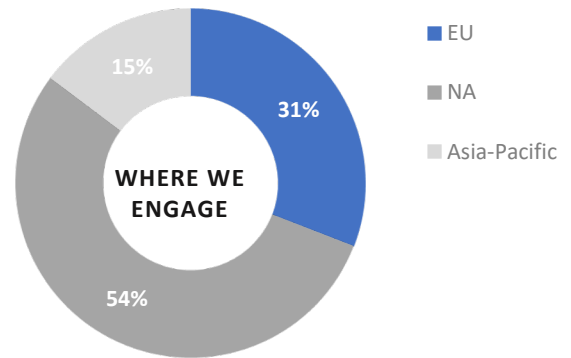
### How we engaged in 2021 – engagement activity type

Most engagements in 2021 were of a bottom-up nature, actively engaging with companies and issuers on company-specific matters and risks identified as part of our on-going, proprietary company and issuer-level ESG analysis, as part of monitoring companies’ performance, quality and character and enhancing our company analysis and encouraging investee companies to strengthen structures, processes and disclosures. Strategic top-down engagement dialogues remain an important source of insight focusing on one or more of the strategic engagement themes for the year: 1) strengthening investee companies’ corporate governance structures, 2) human capital management, and 3) climate risk and 4) sustainability processes and reporting.



## Where we engaged in 2021 – engagement activity by company origin

The predominance of engagements with North American companies is not an intentional skew but rather a result of having more holdings in US companies in listed equity and fixed income portfolios. US companies have been more forthcoming to engagement dialogues in recent years - we hope to see this continue in an effort to strengthen investee processes, structures, transparency and resilience over time. This increased appetite for engagement in North America has also been driven by a significant regulatory and market push in recent years for increased diversity, equity, and inclusion which has propelled forward our engagements on the matter in the region.



The progress with Asian companies has been relatively slow in 2021, especially relating to governance engagements, but we intend to give this additional attention, including some escalations in 2022, with added team resources in the Asian region.

## Collaborative engagements in 2021

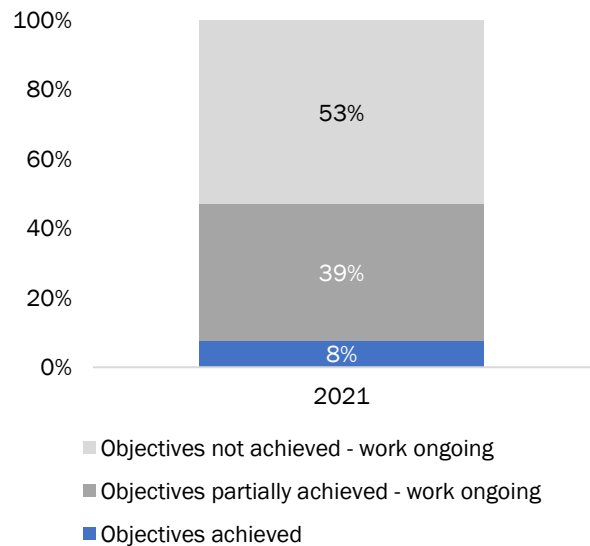
Engagements are regularly conducted together with other investors and partners with or without a lead or coordination from responsible investment organisations. Collaborative engagements are conducted across a number of ESG issues and specific sectors and companies. Collaborative engagements can be prioritised where outreach may particularly benefit from a larger group of shareholder involvement or in cases where an issue is being escalated.

27% of engagements, with around 50 investee companies in 2021 were collaborative engagements. Furthermore, in 19 instances we also engaged collaboratively with non-owned companies.

## Effectiveness of our engagements

We noted positive outcomes in more than 47% of the companies we engaged with, directly related to the engagement objectives set.

In 13% of engagements, we believe that the positive outcome was largely driven by Impax’s engagement efforts.



Engagement cases / examples for 2021:

Listed Equities – engagement examples:

Climate Risk	
Company name	<b>ENN Energy Holdings</b>
Sector	Alternative Energy
Geographic region	China
ESG Score	Average, up from historically Fair
Period of engagement, with milestone reached in 2021	Since early 2018, we have had multiple engagements with the company to discuss a range of ESG issues, including sustainability reporting and disclosures, climate risks and corporate governance. Over this time we have seen significant improvements. We met with the company twice in 2021 and have noted improvements over this time period.
Description of engagement	<p>This engagement has taken place at several levels of the organisation, primarily with the Head of IR, but we have also engaged with the CEO and CFO on these issues.</p> <p>Engagement objectives are:</p> <p><u>1. GHG emissions reporting</u></p> <ul style="list-style-type: none"> <li>a. Start publicly reporting GHG emissions; provided feedback on the updated sustainability report with first-time disclosure of quantitative metrics (Achieved, 2019)</li> <li>b. Disclose to CDP Climate Change (Achieved, 2021 – B Score)</li> <li>c. Set GHG emission reduction targets &amp; report on progress; release of the "Decarbonisation Action 2030- Journey to Net Zero" (Achieved, 2021)</li> <li>d. Climate Governance: link performance-based executive remuneration to climate targets (Ongoing)</li> </ul> <p><u>2. Physical Climate Risk</u></p> <ul style="list-style-type: none"> <li>a. Get localised, plant-level data from company (Complete, 2020)</li> <li>b. Raise company’s awareness of PCR (Complete, 2021)</li> <li>c. Gain insight into company’s PCR exposures (Complete, 2021)</li> <li>d. Seek company commitment to risk mitigating processes (Committed, work ongoing)</li> </ul> <p>The company has significantly improved ESG disclosures, with GHG emissions reporting verified against ISO standards, and mid-term emissions reduction targets set on its journey to Net Zero. The company also noted that the physical climate risk assessment we shared with them served as a starting point to working with a consultant to conduct a survey of site managers on their perceived physical climate risks and carrying out a forward-looking pilot financial impact analysis of extreme weather risks.</p>
Outcome of engagement	Milestones achieved - Ongoing / Company committed. Objectives 1a-c and 2a-c achieved, 1d and 2d ongoing.

Environmental - Sustainability Management	
Company name	<b>Cadence Design Systems</b>
Sector	Application Software
Geographic region	US
ESG Score	Average

Period of engagement, with milestone reached in 2021	Impax has been engaging with this company since 2018, addressing its historically weak sustainability risk management, disclosures and governance practices; including environmental sustainability management.
Description of engagement	<p>Engagement objectives have been following Impax’s long-term, step-by-step approach:</p> <ol style="list-style-type: none"> <li>1. Initially educational; materiality, reporting frameworks, investor-useful data, 2018 (achieved)</li> <li>2. Governance of Sustainability: board-level oversight, 2019 (achieved) &amp; Sustainability-based performance goals (ongoing, company committed)</li> <li>3. First Sustainability report published, 2019 (achieved)</li> <li>4. Reporting Sustainability data (operational efficiency &amp; material data, achieved 2020)</li> <li>5. Target-setting (2021 and ongoing)</li> <li>6. Executive aligned remuneration (company committed)</li> </ol>
Outcome of engagement	<p>We have seen notable progress with regards to sustainability processes, disclosure, and oversight over the course of 2018 - 2021 and ongoing on the back of engagement with the company.</p> <p>In 2021, the company set a target to reduce Scope 1+2 emissions by 2030 and set a net zero target across all operations by 2040. The company is in the process of validating this with the Science-based targets initiative. The company signalled their intention to align executive incentive plans with their sustainability goals. Milestones achieved.</p> <p><u>Ongoing dialogue regarding corporate governance practices:</u> Over the course of 2021 we engaged with the company, expressing concerns regarding changes to the senior management and board, notably plans to appoint the existing CEO as Chairman to the Board and thus increasing board entrenchment and non-independence. While we had an insightful call of the planned board changes with the existing Chair, we will continue to engage with the company on this.</p>

**Corporate governance - incl Diversity**

Company name	<b>Kubota Corp</b>
Sector	Agricultural Machinery & Equipment
Geographic region	Japan
ESG Score	Good, up from historically Average
Period of engagement, with milestone reached in 2021	Impax has been engaging with this company since 2019, focusing mainly on governance practices.
Description of engagement	<p>Engagement objectives have been following Impax’s long-term, step-by-step approach:</p> <ol style="list-style-type: none"> <li>1. Initially educational; importance of good governance and diversity to long-term value creation (achieved)</li> <li>2. Improve board diversity (in progress, milestone achieved)</li> </ol> <p>Following our proprietary ESG analysis, we noted low levels of board gender diversity and low board independence which raised concerns over potential entrenchment. We first engaged with the company in August 2019 to discuss these issues and expressed our concerns. We again engaged with the company in December 2019 to discuss a range of ESG</p>

Outcome of engagement

issues and reiterated our desire to see board refreshment and improved gender diversity. In advance of the 2021 AGM we again met with the company highlighting these expectations.

Milestone achieved. Following the most recent AGM, we have seen significant board refreshment, with 3 new INEDs being appointed, helping to reduce entrenchment issues. The company have also appointed their first female board director, improving board gender diversity. This was considered a positive outcome.

#### Fixed Income – engagement examples:

Over the course of 2021 we engaged 21 times with 20 corporate issuers of bonds in our fixed income portfolios.

Climate Change & Sustainability Disclosure	
Company name	<b>GFL Environmental Inc.</b>
Sector	Environmental & Facilities Services
Geographic region	Canada/USA
ESG Score	Fair
Period of engagement, with milestone reached in 2020	As a creditor, this engagement represents the first outreach to GFL Environmental by Impax regarding the company’s sustainability profile.
Description of engagement	Managing and reporting on sustainability factors, including climate change risks and opportunities, helps companies navigate a business environment characterized by finite natural resources, rapidly changing laws and regulations, and heightened public expectations for corporate accountability. The primary engagement objective was to increase the company’s sustainability reporting.
Outcome of engagement	In 2021, the company updated its sustainability report and committed to expand reporting about GHG emissions, including target setting, in 2022.

Human Capital Management & Sustainability Disclosure	
Company name	<b>T-Mobile US, Inc.</b>
Sector	Wireless Telecommunication Services
Geographic region	USA
ESG Score	Average
Period of engagement, with milestone reached in 2020	As a creditor and equity holder, Impax has been engaging with this company since 2020 regarding several sustainability issues, but primarily human capital management.
Description of engagement	Human capital management is a critical component of company competitiveness and value creation. Our initial engagement efforts with T-Mobile focused on human capital issues broadly and board-level diversity specifically before evolving into a larger conversation about sustainability transparency and disclosure.
Outcome of engagement	T-Mobile published its first formal Corporate Responsibility Report in September 2021 and included enhanced human capital disclosures in its 2021 proxy statement.



We find that part of the engagement success relates to good ESG engagement practices in general.

## General principles for effective ESG engagements

Tailored preparation: know your company – its specific business model, geographic context, risk & opportunity exposure in operations and value chain, ESG maturity, recent achievements and challenges.

Setting clear objectives: set clear step-by-step objectives to be achieved and approximate timelines (achieving positive outcomes typically takes longer than expected).

Clear business case: why does the engagement topic matter – where needed provide academic and other empirical evidence of the “commercial imperative” or business case for why the engagement area makes sense for the firm.

Outcome focus: strive for concrete changes and improvements, as set-out in the initial objectives.

Right tone: clearly acknowledge progress achieved and look to next steps as opportunities for next steps and further improvements.

Learning curve: work with step-by-step improvement models, starting with the more basic and fundamental issues and moving towards more demanding areas and all the way to best practices – track performance versus objectives set over time.

Constructive dialogue: be a partner or “critical friend”, offer ideas, information, education and solutions observed in the marketplace (peer companies, who are doing this well, how can it be done cost-effectively).

Follow-up process: send follow-up materials promptly and calendarise follow-up meetings with appropriate time intervals.

Escalation: if progress stalls, seek escalation; attempt to meet alternative executives at the company, alternative venues (e.g. conferences), collaborative interventions (shareholders, organisations, platforms), filing or co-filing shareholder resolutions.

Reporting: clearly highlighting the link between objectives and outcomes, seeking clarity regarding engagements where positive outcomes were achieved mainly due to own interventions, not happening anyway or due to other shareholders’ engagements (avoid potential outcome double-counting or simple “status updating”).

## Principle 10:

### Signatories, where necessary, participate in collaborative engagement to influence issuers.

Collaborative engagements and joint representations with other institutions and investors are an important part of Impax’s stewardship work. We initiate collaborative engagements where the engagement and outreach may particularly benefit from a larger group of shareholder involvement or in cases where an issue is being escalated, as discussed further in Principle 11. Collaborative engagements can also be preferred and effective when approaching an issue or risk that is affecting a larger group of companies; a sector-level engagement.

About 30% of engagements, with around 50 investee companies in 2021 were collaborative engagements. Furthermore, in 20 instances we also engaged collaboratively with non-owned companies.

Examples of significant collaborative engagements in 2021:

1. Together with a New York-based public plan, we sent letters to the companies in the S&P 500 in 2020, regarding physical climate risk. We asked these companies to disclose the physical locations of their significant assets, so that it is possible to assess their exposures to physical hazards created by climate change. So far, we have heard back from and engaged with c.60 of the companies. Companies that we felt were still underestimating physical climate risks, for example, those who said that they didn’t have any risk because they only leased office space rather than owning it, we encouraged them to encompass business operations in their physical risk calculations, noting that business interruptions could still have material impacts no matter what the ownership of the properties from which companies were operating. We also used these engagements to encourage companies to start reporting their climate risks and opportunities aligned to the TCFD.

In 2021, we followed-on with some more detailed engagements with a smaller number of companies on the topic of physical climate risk, of which one led us to escalate into filing and then withdrawing a shareholder resolution, as the company agreed and committed to Impax’s requests. In the filing we asked the company to prepare a

report for its shareholders describing its vulnerability to physical risk and describing how the company is managing or adapting to that set of risks. This example on The Smucker Co, is described in more detail in Principle 11.

The next and current steps for the collaborative Climate Change Physical Risk Engagement are:

- Focus on specific sectors/industries
  - Send follow-up letters to companies, industry by industry, with a more comprehensive ask than last year, i.e., report to shareholders and include in regular board meetings an assessment of company vulnerabilities to different types of physical risk, along with plans to mitigate or adapt to such risks. Focusing on industries with well-known risks.
  - Suggested order of writing:
    1. Semiconductors/microelectronics (particular focus on water risk)
    2. Real estate/REITS
    3. Telecom
    4. Banks and Insurance
    5. Utilities
  - Focus on a specific risk, beginning with hurricanes/typhoons. This might involve a preliminary assessment of the areas or ports most vulnerable to this type of risk, and then identify companies with significant operations in those zones.
2. Engagement initiative driven by FAIRR: This is a collaborative investor engagement coordinated by FAIRR with shareholders of 25 global food companies to diversify their protein sources, with a focus on plant-based proteins, to “drive growth, increase profitability, reduce risk exposure and improve their ability to compete and innovate in a resource-constrained world.” There is a significant focus on mitigation of climate risk. In 2021, Impax was the lead shareholder in the engagements with one of the companies, a Dutch food retailer, Ahold, which has made great progress on the back of the engagement initiative. Company has established improved, evidence-based consumer engagement and awareness-raising relating to healthier and plant-based foods and set new more ambitious, science-based carbon reduction targets, relating to Scope 1, 2 and 3 emissions, with improved disclosures on Scope 3 emissions linked to animal agriculture specifically. Company has also conducted its first scenario analysis. Impax will lead on the engagement with the food retailer again in Q2 of 2022.
3. Engagement initiative driven by PRI/Ceres on deforestation. This is a collaborative engagement with 98 companies on behalf of 48 investors aimed at getting companies to report on and be more accountable for the deforestation in their supply chains for soy and cattle. Impax was leading the company engagements on 1 company in 2020.

As part of the Ceres/PRI collaborative engagement on deforestation in Brazil, Impax led the engagement with Nike, Inc, with HSBC as a partner. Nike’s leather supply chain has in the past relied on Brazilian supplies of leather. The company reported that it no longer sources leather from Brazil, and it is working on a synthetic replacement for natural leather, called fly leather, that will further cut its reliance on the cattle industry for leather.

Additionally, we have also engaged collaboratively on the issue of diversity, in particular board diversity in 2021:

For example, the **Thirty Percent Coalition**, of which Impax is a founding member, conducted outreach to 282 U.S. companies with little or no gender diversity on their boards of directors in 2021. The Coalition requested companies adopt diverse search policies for their boards and clearly disclose board composition inclusive of gender, race and ethnicity in proxy statements.

We also participated in the **Russell 3000 Board Diversity disclosure initiative**, led by the Illinois State Treasurer, that seeks improved disclosure of board diversity inclusive of gender, race and ethnicity.

Finally, we also signed a **letter to the SEC**, alongside other investors, in support of public disclosure of US companies' EEO-1 reports documenting the gender, race, and ethnicity of employees across job categories.

We are awaiting to hear the results and work on next steps of these engagements.

The complete list of membership organisations that Impax is involved with, can be found in the Appendix.

## Principle 11:

Signatories, where necessary, escalate stewardship activities to influence issuers.

When significant events occur, we may conduct ESG reviews more frequently and contact the company for further information and clarification. This may result in divestment, engagement, or continued monitoring. Impax has an escalation policy in place, in cases where the management of incidents is not progressing or where engagements are progressing more slowly than anticipated. Engagement progress can often be slow but causes for using escalation methods could be deteriorating access to management or their responsiveness or an investee company not acting on an improvement committed to.

If an 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 as follows by:

- Seeking alternative or more senior contacts within the company
- Intervening or engaging together with other shareholders
- Intervening or engaging together with other institutions or organisations (multi-stakeholder)
- Highlighting the issue and/or joint engaging regarding the issue through institutional platforms
- Filing or co-filing resolutions at General Meetings

Ultimately, if the interventions are not successful and we consider that the risk profile of the company has significantly deteriorated or company strategy or 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 our expectations, the company would be excluded from our investable universe and/or sold.

There are regional differences in the use of escalation methods, both from a practical, cultural, but also in some cases legal or regulatory perspectives. In the US market the preferred and well-established escalation method is filing shareholder resolutions and this is something that Impax has been doing for many years. This is much harder in Europe and Asia from a regulatory or legal perspective. Filing shareholder resolutions has perhaps been seen as somewhat adversarial and a form of a last resort method, especially from a non-US vantage point. But this may be changing, as we have witnessed a sea change in the level of support and increase in "FOR" votes and approval rates of shareholder resolutions in the last year and the trend seems to continue and accelerate going into the proxy voting season of 2022. Historically, a good outcome of a shareholder resolution, when first filed with a company, would have been 35-40% approval rate, over some years moving towards and sometimes over the 50% limit. In the last year, we witnessed several first-time shareholder resolutions that had unprecedented approval rates, such as for Microsoft's report on how it manages sexual harassment in its work environment, which got 78% approval by shareholders, including Impax voting for the resolution. This is likely to further enhance the role of shareholder resolutions as an effective tool for making progress with engagements and escalations with companies on critical environmental, social and governance issues. It is likely that the number of filings will be going up, but also likely to see an increase in the cases of shareholders raising the possibility of a filing as a way of getting companies focused on issues and committing to change.

In all regions, collaborative engagements can be helpful, but we are mindful that in Asian companies, good, long-term relations and trust, may be the best basis for success in engagements and escalations.

## Examples of escalations in 2021:

### Physical climate risk

#### The J.M. Smucker Co, USA (escalation through filing shareholder resolution)

Following a year's worth of engagement with S&P 500 companies regarding their exposure to the physical risk of climate change, we filed a shareholder proposal with J.M. Smucker asking that the company prepare a report for its shareholders describing its vulnerability to physical risk and describing how the company is managing or adapting to that set of risks.

Outcome: We discussed this with representatives of J.M. Smucker, and the company offered to complete such a physical climate risk assessment for its coffee business in the next year, followed by similar assessments for its pet food and retail food businesses. The company also committed to produce its third TCFD report by 2023, with greater detail around the company's business continuity plans. The company has also committed to conducting a scenario analysis, latest by the end of 2023. With the commitments strongly aligned with Impax's requests in the filed shareholder proposal, Impax withdrew the shareholder filing.

### Corporate governance, including board diversity

#### A.O Smith, USA, (escalation through shareholder collaborative engagement)

Impax has been engaging with A O Smith for many years, with modest progress on the corporate governance front. Particular areas of attention were the long average tenures undermining independence of the Board and Board gender and ethnic diversity being low. We sought collaborative engagement with another shareholder, for added influence in the dialogue.

Outcome: We initiated collaborative engagement with another shareholder in 2019 and by 2021 noted progress regarding the company's corporate governance practices: Board refreshment was undertaken and gender diversity has improved from 20% to 30% at the board level.

### Diversity and Racial Equity

#### Johnson & Johnson, USA (escalation through co-filing shareholder resolution)

Impax has engaged with J&J over many years relating to diversity. Impax co-filed a shareholder resolution with other shareholders in 2021, asking the company to conduct a racial equity audit.

Outcome: At the AGM in 2022, the shareholder proposal was approved; supported by more than 50% of shareholders.

### Climate risk management

#### Guangdong Investments, Hong Kong, (escalation through joint engagement through institutional platforms)

Impax participated in a joint-shareholder engagement, posted on the PRI members' platform, asking for the company to set science-based climate targets.

Outcome: Awaiting next steps.

### Corporate Governance, diversity and climate disclosures, with focus on Asia

#### Current and on-going escalation through multi-stakeholder collaborative engagement

Through its membership in the Asian Corporate Governance Association (ACGA), Impax has been able to enhance its knowledge and understanding of Asian governance issues and to more effectively engage with regulators and companies in the region regarding governance. In June 2021, ACGA (a network of 112 member firms, with more than US\$42 trillion in assets under management globally) responded to the HKEX consultation on the review of the Hong Kong Corporate Governance Code, recommending the following changes:

- A quota and timeframe for gender diversity on boards
- Lead independent directors as a Code provision

- Strengthening the independent election of independent directors

**Outcome:** In December 2021, HKEX published the conclusions of its review of the Corporate Governance code, announcing the tightening of the rules to enhance listed issuers' corporate governance and diversity practices effective 1 January 2022. The collaborative approach with other shareholders under the expert leadership of ACGA lends itself as the next lever to initiate company-level change and will be discussed in forthcoming investee engagement dialogues in 2022.

Additionally, we have participated in the CDP non-disclosers campaign in 2022, to add a lever in the engagement with our companies not reporting on carbon, water or forest risks. Most of the companies for which we will be leading the CDP non-disclosures engagement meetings are Asian-based companies.

## **Principle 12:** **Signatories actively exercise their rights and responsibilities**

### Shareholder rights

Robust shareholder rights ensure that investors are treated fairly and equitably, that management and boards are accountable to owners and that market participants have confidence in the integrity of the capital markets.

Shareholder rights and their extent and detail will vary from one region or market to another. Some markets reward long-term shareholders or larger shareholders, with e.g. increased voting rights, but in general we are invested in the common shares of public companies, in the position of a minority shareholder, with "one share and one vote". In general, we view the main shareholder rights to be:

- The possibility to attend general meetings and having voting rights;
- A degree of influence over company management selection and remuneration;
- The right to share in the company's profitability; and
- Pre-emptive rights to newly issued shares.

Impax is an investment manager with a long-term investment horizon, constantly monitoring investee companies' adherence of minority shareholders' rights. We are engaging with companies to improve structures, processes and transparency pertaining to shareholder rights, following governance best practices.

### Bondholder rights

As a specialist asset manager investing in opportunities arising from the transition to a more sustainable global economy, companies and underwriters seek input from Impax on eligible projects for green and social bonds, as well as the structuring features, disclosure and reporting for sustainability bonds. We encourage issuers to focus on projects and structuring features that support the development of solutions to environmental and social problems, such as climate change and inequality.

Impax also engages with fixed income issuers in support of collaborative engagements with other institutions and investors, particularly in cases where an issue is being escalated, as discussed in Principle 11. These engagements may take the form of written correspondence or meetings with company management.

During the structuring of a bond offering, Impax may have the opportunity to engage with companies and underwriters about the inclusion of certain terms and conditions. Impax focuses its engagement on the specific projects that qualify for the use of proceeds for green bond and social bond offerings, as well as the environmental and social performance indicators for green, social and sustainability-linked bond offerings. For example, in 2021 we engaged with an automotive manufacturing company, *Toyota Motor*, about the use of proceeds from the company's green bond offering; we disagreed with the inclusion of two categories of projects and sought changes to the eligibility criteria. In that case the issuer did not make changes to the eligible projects.



## Proxy voting approach at Impax

### 1. Principles

Proxy voting is the exercise of voting rights obtained by the firm in the course of its day-to-day investment activities in listed equities, deemed to meet Impax's investment criteria. It is a key component in the ongoing dialogue with the companies in which we invest. As such, proxy voting forms an important aspect of Impax's overall investment process.

Impax is committed to ensuring the consistent exercise of voting rights associated with shares held in investment mandates, where proxy voting has been delegated to Impax. Through the implementation of the proxy voting policy, Impax aims to enhance the long-term value of its shareholdings, foster clear corporate governance best practices and promote greater accountability and transparency in the companies Impax has invested in. Impax also aims to exercise voting rights on all shares held by Impax, where it is in the best interest of its clients and where excessive costs or administrative burdens are not present. It is our policy to vote in all shareholder meetings and on behalf of all investors who have granted the Impax voting rights.

Impax invests in companies in a variety of countries and markets around the globe each year. Each market has unique rules, reporting requirements, and ESG practices and standards. Impax aims to stay abreast of new and emerging issues in these markets, and how they relate to global best practices for ESG issues.

Main corporate governance principles that we expect from our investee companies:

- Creating sustainable, long-term value for stakeholders
- Protecting shareholder rights
- Maintaining high integrity in corporate behaviour at all times
- Ensuring an independent and efficient board structure
- Aligning corporate incentive structures and remuneration with long-term interests of shareholders
- Disclosing accurate, timely and transparent financial and corporate governance information
- Ensuring strong environmental and social performance and disclosures.

### 2. Environmental, Social and Governance considerations

Impax believes that well-governed companies are attentive to the environmental, social and governance (ESG) concerns that affect shareholders and stakeholders. These companies actively engage with their stakeholders and consider the long-term implications of their actions with a focus on creating durable, sustainable value.

Our ESG criteria helps us identify well-managed companies; while stewardship helps us improve the environmental, social and corporate governance performance of the companies we invest in. Proxy voting is one of the ways we engage with investee companies. Impax seeks to vote proxies consistently with our ESG criteria, which we apply to all companies.

Our [Proxy Voting Guidelines](#) outline how we vote in relation to diversity and companies that have weak climate risk management processes and disclosures.

### 3. Processes

Impax's proxy voting is predominantly related to governance issues such as the election of directors, board structures and management remuneration. We maintain dialogue with investee companies throughout the year and frequently engages on proposed governance structures ahead of voting at an AGM or soon after.

- Impax uses a third-party voting platform to facilitate the vote execution, reporting and record keeping. Impax also use third-party service providers, including proxy advisor service providers, to help inform its analysis of relevant proxy issues and proxy votes.

- Impax's proxy voting principles and guidelines are informed by individual country governance codes and best practices, and by advisory governance and internal research.
- Impax applies its voting principles and guidelines with full consideration to a company's circumstances, following internal analysis.
- Votes are cast on shares, where there are no excessive or burdensome legal, financial or technical constraints.
- Where Impax's proxy voting principles and guidelines or general corporate governance best practice principles are not met, we vote against a resolution and, when practical, attempt to engage with the investee firm before or after the meeting.
- Impax carefully assesses shareholder resolutions and tends to vote for resolutions that are reasonable and would strengthen governance structures, shareholder rights or sustainability objectives, processes and disclosures.

#### 4. Disclosures

- Proxy voting guidelines and records:

Impax Proxy Voting Guidelines:

[https://impaxam.com/wp-content/uploads/2021/09/Proxy\\_voting\\_guidelines\\_2021.pdf?pwd=7576](https://impaxam.com/wp-content/uploads/2021/09/Proxy_voting_guidelines_2021.pdf?pwd=7576)

Proxy voting activities and outcomes reporting 2021:<sup>12</sup><sup>13</sup>

<https://impaxam.com/wp-content/uploads/2022/03/Proxy-voting-activity-significant-votes-2021.pdf?pwd=6473>

<https://impaxam.com/pax-world-funds/proxy-voting/>

- Client communications:

Impax regularly discusses and reports its stewardship policies and/or activities with its clients. The Manager Reports published include a reference to where further information on the stewardship policies and activities can be found.

All related public disclosures can be found here:

<https://impaxam.com/investment-philosophy/environmental-social-and-governance-risk-management/>

#### The role of proxy advisors

Impax uses the services of proxy advisors, the proxy voting platform to manage and execute its proxy voting work. We assess the proxy advisor's voting recommendations, but ultimately vote according to our publicly disclosed proxy voting guidelines. Impax does not vote automatically following the proxy advisors' recommendations. There are however voting resolutions that are hard to set a specific policy or guideline on and that require to be assessed on a case-by-case basis. These would be for instance items concerning management compensation. For these items we assess the proxy advisor's analysis and recommendation, whether the structure or instruments used contain any major flags, what the history of compensation is especially regarding the alignment of performance and compensation. For financial or e.g. M&A related or otherwise unusual or complex items, we will engage with the company lead analysts.

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<sup>12</sup> Impax defines "significant votes" as those votes that are not just purely procedural, but that are material in describing a company's financial position, corporate governance profile or other corporate structures or processes (whether votes are cast FOR or AGAINST management). This disclosure applies to funds managed by Impax Asset Management Limited, Impax Asset Management Ireland Ltd, Impax Asset Management (AIFM) Ltd.

<sup>13</sup> Pax World Funds are a US mutual fund range with independent governance. <https://impaxam.com/pax-world-funds/proxy-voting/>

Impax established its current Proxy Voting Guidelines in the summer of 2021. There were extensive discussions about capturing the guidelines correctly in the proxy voting platform in the on-going voting process. We also give feedback to the proxy advisory firm when we believe the “Impax voting policy recommendation”, following our voting guidelines, does not seem to be correctly reflected in the voting platform.

The voting platform also allows us to monitor effectively for instances of share blocking in companies in certain markets, especially Switzerland and Norway and alert the investment team. Our approach as long-term investors is to vote for all shares, but it is important that the blocks and time periods involved are well understood, especially in case of specific circumstances with the companies.

We use the proxy advisor’s company-level governance data and research as an input for the governance section of our proprietary ESG analysis. We find the governance data relating to board structures, shareholder rights, audit, remuneration as the most accurate and robust among the external research providers that we use.

Impax reviews the proxy advisory firms at least annually, especially to discuss possible process and reporting efficiency improvements, but also to discuss any significant changes to the proxy voting policies of the service provider. In 2021, the review focused mainly on changes to diversity profiles at company boards and management teams. We review the voting outcomes and whether votes have been cast, on an on-going basis.

### Evolving client proxy voting objectives and dialogue

Impax is committed to ensuring the consistent exercise of voting rights associated with shares held in investment mandates, where proxy voting has been delegated to Impax. Through the implementation of the proxy voting policy, as detailed in the Impax Proxy Voting Guidelines, Impax aims to enhance the long-term value of its shareholdings, foster clear corporate governance best practices and promote greater accountability and transparency in the companies Impax has invested in.

We are pleased to note that general investor interest in proxy voting has increased significantly over the last years, a trend we believe will continue. The increased interest to date has been primarily manifesting itself in more detailed and more frequent reporting requests on Impax’s proxy voting. To date we have observed very limited client interest in enhanced access to proxy voting arrangements, but we anticipate that to increase in the future.

Impax’s positions on:

- Enabling clients to share voting policies:

Impax is open to discussions relating to clients’ voting policies and approaches and would enable and welcome clients sharing those; indeed, this does already occasionally take place. We do however believe it is important that our voting decisions are consistent and follow the Impax Proxy Voting Guidelines, as expected by our clients, for consistency and transparency. Our voting decisions should not be unduly influenced by individual clients’ views, recommendations or policies. Principle 3 focuses on conflicts of interest and we seek to minimise risks of conflict between client interests in our voting, by voting consistently in line with our publicly disclosed voting guidelines.

- Facilitating client-led voting in pooled funds:

We have explored the possibility of doing this with our proxy advisory firm and have been given reassurance of the technical feasibility and possibility of enabling client-led voting in pooled funds in the future. We do however understand from comments by the Department for Work and Pensions (DWP) that there may be some legal and operational issues with client-led voting in pooled funds, which may complicate implementation and would need to be closely considered.

An important consideration of client-led or -directed voting is also the potentially reduced influence on the underlying companies through voting, the very tenet of stewardship and active ownership. We believe investment managers can best deliver on investment and stewardship objectives for clients when all stewardship activities are pulling in the same direction.

- Facilitating forward looking discussions on voting intentions on pre-selected resolutions/significant votes:

We are willing to accommodate client dialogue as much as is practical. This may be in the form of higher-level previews of anticipated issues, new voting principles or policies or new themes (like Impax’s view on “Say on Climate” or hybrid AGM models) ahead of an upcoming proxy voting season. We can flag particularly complex or contested votes to clients, on a case-by-case basis.

- Allowing clients to override any specific votes:

We will be able to accommodate this through split-vote arrangements or other mechanisms allowing clients to override specific votes directly with their custodian for the shares they hold.

In conclusion, we welcome enhanced dialogue with clients on proxy voting in general, collaboration on proxy related engagements and stewardship more broadly. We are open to exploring enhanced client-led voting in the future. While we view enhanced access to proxy voting as a positive step in general, for increased client voice, we are also noting the possible erosion of influence on investee companies, potentially leading to less positive stewardship outcomes, an important trade-off to consider as well. Finally, and for context, to date we still hear from many clients that they do not have the time or resources to implement voting or voting policies themselves, but we understand this may be changing and welcome that change.

### Global voting statistics in 2021

Impax Asset Management - Firm-wide Proxy Voting Statistics - Calendar year 2021	Impax total
Total number of meetings where it was possible to vote	1,073
Number of meetings in which IAM voted	1,068
Number of meetings in which IAM voted (as a percentage)	99.5%
Number of management resolutions in which IAM voted	13,669
Number of management resolutions in which IAM voted <u>against management</u> (i.e. <i>against</i> and/or <i>abstained</i> and/or <i>withheld</i> )	3,980
Number of management resolutions in which IAM voted <u>against management</u> (i.e. voted <i>against</i> and/or <i>abstained</i> and/or <i>withheld</i> ) as a percentage of management resolutions voted	29.1%
Number of shareholder resolutions in which IAM voted	272
Number of shareholder resolutions in which IAM voted <i>for</i> i.e. <u>against management</u>	240
Number of shareholder resolutions in which IAM voted <i>for</i> i.e. <u>against management</u> (as a percentage of shareholder resolutions voted)	88.2%

It is notable that votes against management resolutions are higher in the Asian region, a reflection of the relative immaturity of governance codes and structures in the region. In many Asian company resolutions, we note significant numbers of votes against board directors, due to lower levels of board independence, lack of diversity, director’s over-commitment and participation in sub-committees that should be 100% independent, such as the audit or remuneration committees.

### Examples of voting outcomes in 2021:

- At **Microsoft**’s annual meeting, 78% of shareholders supported a proposal requesting that the company conduct an independent review of its workplace sexual harassment policies and provide better disclosure around processes to respond to sexual harassment allegations. A proposal requesting additional pay gap reporting from the company also received significant support of 40%. Impax voted in favor of both proposals at Microsoft. Following the shareholder vote, Microsoft indicated that it would provide expanded disclosure addressing both issues.
- Impax voted in favor two proposals at **Union Pacific Corp**—requesting EEO-1 demographic data disclosure and an annual diversity report—that received shareholder support of more than 80%.
- At **Natus Medical**, Impax withheld support from the board slate due to the absence of racial or ethnic diversity among the directors. Impax discussed the rationale for our vote with company management. In August 2021, the company announced the appointment of two diverse directors to the Board.

- At *JPMorgan Chase*, Impax supported a proposal requesting the Board of Directors oversee a racial equity audit. The proposal garnered support of 40%. In March 2022, the company announced it would conduct a third-party audit of its racial-equity commitment.

Examples of Impax filing shareholder resolutions in 2021, as part of escalations:

## Racial Justice

- Impax co-filed a shareholder proposal at *Johnson & Johnson*, requesting the company conduct an independent racial equity audit to assess the effectiveness of its policies and practices on civil rights, equity, diversity and inclusion.  
Outcome: Though there was dialogue between the investor filing group and management, the proposal ultimately went to a shareholder vote, receiving strong support of 34%.

## Pay Equity

- Impax filed a shareholder proposal at *The Walt Disney Company*, requesting the company report annually to the board and shareholders, identifying whether there exists a gender and/or racial pay gap among its employees, and if so, outline the steps being taken to eliminate disparities and support advancement opportunities for women and minorities.  
Outcome: The resulting dialogue focused on the company's human capital efforts and oversight as well as the evolution of its DE&I efforts, its Covid-19 response and disclosure. The company disclosed its EEO-1 report and formally delegated oversight of workforce equity matters to the Board Compensation Committee in 2021.
- Impax filed a shareholder proposal at the *Hewlett Packard Enterprise*, requesting the company report annually to the board and shareholders, identifying whether there exists a gender and/or racial pay gap among its employees, and if so, outline the steps being taken to eliminate disparities and support advancement opportunities for women and minorities.  
Outcome: In dialogue with company management, we obtained greater insight into the company's internal efforts to manage and assess gender and racial pay equity.



## APPENDIX

### 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.
- **Coalition for Climate Resilient Investment (CCRI):** A private sector-led organization developing tools, solutions and financial instruments to support integration of physical climate risks in investment decision-making.
- **Confederation of British Industry (CBI):** A membership organization for over 190,000 UK businesses.
- **Council of Institutional Investors (CII):** Promoting strong governance and shareholder rights standards at public companies.
- **Energy Transitions Commission (ETC):** Energy transition focused 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.
- **Financing a Just Transition Alliance (FJTA):** Aims to translate commitment to a just transition across the financial sector into real world impact in terms of ensuring workers and communities are not left behind.
- **Glasgow Financial Alliance for Net Zero (GFANZ):** Unites net-zero financial sector-specific alliances from across the globe into one industry-wide strategic alliance.
- **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.
- **Natural Capital Investment Alliance (NCIA):** A central hub for global corporations and financial institutions seeking to scale-up their investments into Natural Capital, in support of biodiversity restoration.
- **Net Zero Asset Managers Initiative (NZAM):** An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.
- **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.
- **ShareAction Investor Decarbonisation Initiative:** Aims to bring together investors to accelerate corporate action on climate change in high-carbon sectors.
- **Shareholder Rights Group:** Working to acquaint regulators and the public with the purpose and value of 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 US 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.
- **Women's Empowerment Principles:** A set of Principles offering guidance to business on how to promote gender equality and women's empowerment in the workplace, marketplace and community

This report has been reviewed and approved by:

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