INDUSTRY INTERVIEW

Founded in 1998 by Ian Simm, **Impax Asset Management** has pioneered investment in the transition to a more sustainable economy and today is one of the largest investment managers dedicated to this area.

Impax is dedicated to **investing in the opportunities** created by the scarcity of natural resources and the growing demand for cleaner, more efficient products and services, through both liquid and private market strategies.

Impax's private markets business, through the PE/Infrastructure Team, is focused on **making investments in the New Energy Sector** which includes renewable energy and adjacent renewables sectors.

> **We believe 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 equity, diversity and inclusion.
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> **These trends will drive growth** for those companies we believe are well-positioned **and create risks for those unable or unwilling to adapt.**

We interviewed Rhiann Gray, Head of Commercial Asset Management and ESG (Environmental, Social and Governance) for the PE/Infrastructure Team at Impax Asset Management.

She sits on the **Investment Committees for the Impax New Energy strategy** as a non-voting ESG Observer to oversee the Committee's commitment to, and compliance with, the ESG policy.

Rhiann also provides input to ensure that their investment decisions comply with the ESG policy and applicable environmental, social and governance rules and regulations. She is also Chair of the ESG Sub-Committee for the PE/Infrastructure Team.

Rhiann began her accounting career in 2003 and has worked in the investment, renewables and private equity industry since qualifying as a Chartered Accountant in 2007. She has worked for Impax since 2009 and recently completed the Certificate of ESG Investing from the CFA.

> Ultimately, **this is good news** for mitigating climate change and a clear sign of travel in the right direction.

On a personal level, what made you start working with impact investing?

Growing up my dad was a very passionate environmentalist with a love for nature. Environmental and social considerations have always been important to me, from working at the Body Shop, renowned for its ethical values, to volunteering for various homeless charities, and actively encouraging friends and companies I worked for to recycle when it was not so mainstream to do so.

I knew I wanted a career with purpose so actively sought opportunities, particularly with environmental impact. After qualifying I joined a private equity company which developed onshore wind and solar assets and my career evolved from there.

Impact and ESG has always been a consideration for the asset class I work with, but the increased interest in environmental, but now also social impact, from investors has accelerated the **progress that companies are making** and reporting.

This is further fueling my enthusiasm as we see important regulatory changes to **preserve authenticity** and **reduce greenwashing**.

There is so much literature and narrative about these topics today that I can continue to learn and develop on a personal level and apply this knowledge to my work.

How optimistic are you that technology advancements in our industries (energy and sustainable infrastructure) can stabilize the climate and our society? Please elaborate on what gives you hope for the future and the key areas that require attention.

I believe that technology has a large role to play in mitigating the extent of climate change. However, this cannot be relied upon entirely, and needs to be part of a wider approach including lifestyle changes to be less greenhouse gas emission intensive and ultimately consume less.

Electricity has a major role to play in decarbonising our economy. Transformational technologies are necessary to make advances in electricity generation needed for this shift, including the use of alternative fuels instead of fossil fuels.

Much of today's infrastructure was designed based on the **old economy**, which is pollutive, wasteful and damaging to the environment. Impax is focused on opportunities arising out of the transition to a **more sustainable economy**, the "next economy". As new regulations and taxes are introduced there will be more pressure to take action to upgrade or replace this existing infrastructure to support this economy, which is more sustainable, reducing waste and pollution, supporting a circular economy, and regenerating ecological systems.

The advancement of technology will be crucial for things such as EV charging infrastructure, grid stability, and making solutions cost effective. As well as seeking to mitigate the extent of climate change we must adapt to the physical impacts of it. Alternatives must be found to address this vulnerability to transition risks arising from climate change mitigation. This technological change can enhance existing solutions but may also cause certain types to become obsolete.

Advances in renewable **technologies** have enabled the costs of green electricity to reduce dramatically. Today, solar and wind generation are not only competitive on price with fossil fuel alternatives but are in some cases cheaper. Improvements in technology over the past two decades, such as bigger blades and taller towers, are making it attractive to replace old wind turbines with new larger versions to generate more zero-carbon electricity.

Repowering rather than decommissioning existing wind farms is beneficial as the infrastructure to connect the plant is already in place, early wind farms are usually located in the higher wind sites, and local communities are used to the impact of the turbines.

I also believe the transition to a more **sustainable economy** will be enabled by a **digital economy**. The pandemic has highlighted society's dependence on digital technologies, but also the benefits of using it effectively. This creates opportunities, but digital infrastructure can be vulnerable to obsolescence given the rapid pace of innovation and the efficiency gains that the latest software can deliver.

Some technologies are still unproven and may have too long a timeframe to make enough impact. I am interested to see how advancements in carbon capture and hydrogen can make a positive impact. Further decarbonization technologies may involve complex research and development processes, which will require **significant investment.**

Does Impax collect quantitative and qualitative data for impact measurement and management (IMM)? Can you give an example of each and share your thoughts on the importance of both types of data?

Impax collects both quantitative and qualitative sustainability data for all investments. However, when it comes to IMM, we focus solely on quantitative data due to our interpretation of "impact investing". ESG is a risk mitigation and value-creation framework, whereas impact is the intentional and measurable environmental or social impact that has occurred because of an investment.

Qualitative data is more prevalent for the ESG metrics that we monitor, such as reports on various environmental or social initiatives undertaken at our project sites, or for example how we ensure the protection of the reindeers that pass through our small-scale hydro construction sites in Norway.

We work closely with reindeer herders and the local community to ensure we pause construction to allow them to travel without interference. This keeps reindeer safe and ensures their breeding and migration patterns are not disrupted.

Intentionality is a key component of impact investing, which aligns with our aim of bringing new renewable energy capacity into the grid. Additionality is embedded in our buy-build-sell and buy-fix-sell approach, which sees our team deploy its in-house expertise with the aim of solving problems and enhancing value, suggesting that the **environmental impact achieved would not have occurred if it weren't for our investment**.

Our investee companies have two key quantitative impact metrics: renewable energy generated, and CO_2 emissions avoided. We also measure the **strategy's overall alignment to UN Sustainable Development Goals** by revenue exposure; it's 100% aligned to SDG 7: Affordable and Clean Energy.

Each investment has a specific target of megawatts of projects that it will develop and construct, and therefore how much renewable energy will be generated. However, we do not set targets for CO_2 emissions avoided. The CO_2 avoided metric is calculated considering the **carbon intensity of the electricity grid** in the country it is located, and the lifecycle emission factor for the technology.

Over the years, we see that the baseline is improving across Europe as lower emission power generation displaces fossil fuel equivalents. This means that although 1GWh of renewable electricity produced in 2021 was just as "clean" as in 2007, the improvement in comparison to the European power network is smaller.

Ultimately, this is good news for mitigating climate change and a clear sign of travel in the right direction. Target setting for CO_2 avoided would also favour investment in more carbon intense countries.

We collect many other quantitative metrics such as waste or water usage, health and safety incidents and employee turnover rates, as these are important for comparing investments and monitoring progress over time. But they are not necessarily the intention of our strategy, more a result of our robust ESG risk and opportunity framework.

Overall, we see **quantitative and qualitative data as important to understanding and communicating the impact of our investments**, and of interest to investors. Qualitative data helps to provide a holistic picture of our impact and contextualise quantitative statics. However, we believe it is important to make the clear distinction between ESG and impact.

What are the key challenges and opportunities of integrating IMM frameworks into private markets investing?

One key challenge is **ensuring that impact reporting is not too onerous for our portfolio companies**. Some have relatively small teams with no individual dedicated to measuring and reporting on impact. They have many competing business priorities to manage, so we strive to keep reporting simple. Some frameworks can be complex and take a long time to complete.

Furthermore, many frameworks overlap, so it's key to choose ones that are relevant and avoid duplication. In addition, it's important to equip companies with the training and support they need to provide high quality data and truly understand what it is they need to report on, so that calculations are meaningful. We have recently onboarded a new ESG and impact data reporting system.

I worked closely with our companies to help them become acquainted with the system, to provide us with high quality standardised data.

There are many opportunities too. Since Impax usually have majority ownership, and always take control, **we ensure our portfolio companies are contractually obliged to report on their impact from inception.**

We implement standard policies and procedures to enhance the reporting capabilities of our companies and gather data from them that is relevant to specific frameworks.

This is in stark contrast to investing in listed companies, where it can be more difficult for minority investors to influence impact measurement and reporting.

Please share some of the important lessons learned from the 15+ years that Impax has been investing in renewable energy and the key elements to successfully invest in renewable infrastructure.

Many investors are not only interested in making returns, but in also ensuring that their investments have a **positive impact on the environment and society;** this is increasingly becoming more prominent in investment decision making processes.

Renewable energy is a competitive market, particularly for operating assets. We have developed a proven, repeatable investment process integrating best practice environmental, social and governance standards across each investment through our team's years of finance, development, and operational experience.

Through our extensive networks and industry relationships we have fostered an approach of working with local development partners to expand our networks in the countries where we invest and focus on a **buy-build-sell or buy-fix-sell strategy**.

These development teams' portfolio represents longer-term value add (with potential additional pipeline opportunities).

While European governments are supporting renewables investments through various policies and initiatives, there has been a move away from generous government fixed-price FiTs towards auction-based FiTs.

There can be risks associated with reliance on generous subsides, as we have seen historically with retrospective changes in countries such as Spain. We appreciate the importance of the macro environment for investing in renewables and as such need to analyse and understand the regulatory environment, the route-to-market for the sale of renewable energy power, the financial debt and exit market.

The exit strategy is a critical part of the initial investment decision, and each investment needs a bespoke approach to its divestment decisions to seek to maximise value to investors as each technology and country has its own specific circumstances.

Today's **energy sector is the largest contributor to global emissions**, with electricity and heat production accounting for roughly 35% of the world's total (United Nations 2022).

Companies involved in the development and operation of renewable power generation stand to play an integral role in decarbonising the grid at a time when the electrification of the next economy is expected to drive enormous demand growth.

What do you think is needed to attract more institutional capital towards sustainable infrastructure investments?

As the appetite and opportunity for impact investing has grown, so have the challenges for investors. One of the main challenges to the industry today is the lack of global consistency in how impact is measured and reported. The differences in how this is presented by fund managers makes it difficult for investors to compare statistics across a portfolio of sustainable investments. Impax is doing its part to try and navigate and support various initiatives in the market.

Impax's Founder & CEO, Ian Simm, was one of the first to publicly support the recommendations of the Task Force on Climate-Related Financial Disclosures which provides recommendations for a voluntary and consistent way of **disclosing climate-related financial risks** with the aim of aligning disclosures with investors' needs.

Governments are introducing new frameworks, such as the **EU Taxonomy** and **Sustainable Finance Disclosure Regulations** ("SFDR"), which are European regulations introduced to support and align further introduction of sustainable products, while ensuring transparency and preventing greenwashing.

We are working through our understanding and interpretation of these regulations. This transition period of implementation is still underway before the market can benefit from their introduction.

One other challenge for investors is around **"bucketing"** and whether a sustainable investment fits within a traditional infrastructure or private equity allocation. It is well accepted that achieving sustainable outcomes and impacts from an investment are no longer concessionary to returns.

However, some investors may find that sustainable investments don't always fit within the parameters of traditional private markets allocations. I believe this will be resolved over time as many investors either revisit the mandates of their traditional private markets allocations or seek to **create new sustainable investment allocations** (e.g. climate change focused mandates).

We are already starting to see this happening alongside investors having overall sustainability goals (e.g. net zero targets) and overlays across their entire investment programs.

Overall, the sustainable (infrastructure) investment market continues to evolve at pace and it is great to be a part of this transformation!

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