

A lens on the transition

Trends shaping the future economy

Impax's analysis of key sustainability themes and sectoral shifts



Sector in focus:
Financials

Sustainability and thematic perspectives

In this paper, we summarise our sector experts' views on key themes disrupting the **Financials sector** and their impact across a set of sub-industries.



Contents

Themes in the transition	3
The transition today: what we're watching across the sectors	4
Sector in focus: Financials	6
Themes in focus: Financials	8
Sub-industry in focus: Property and casualty insurers and reinsurers	10
Sub-industry in focus: Diversified banks	12
Sub-industry in focus: Financial exchanges & data	14

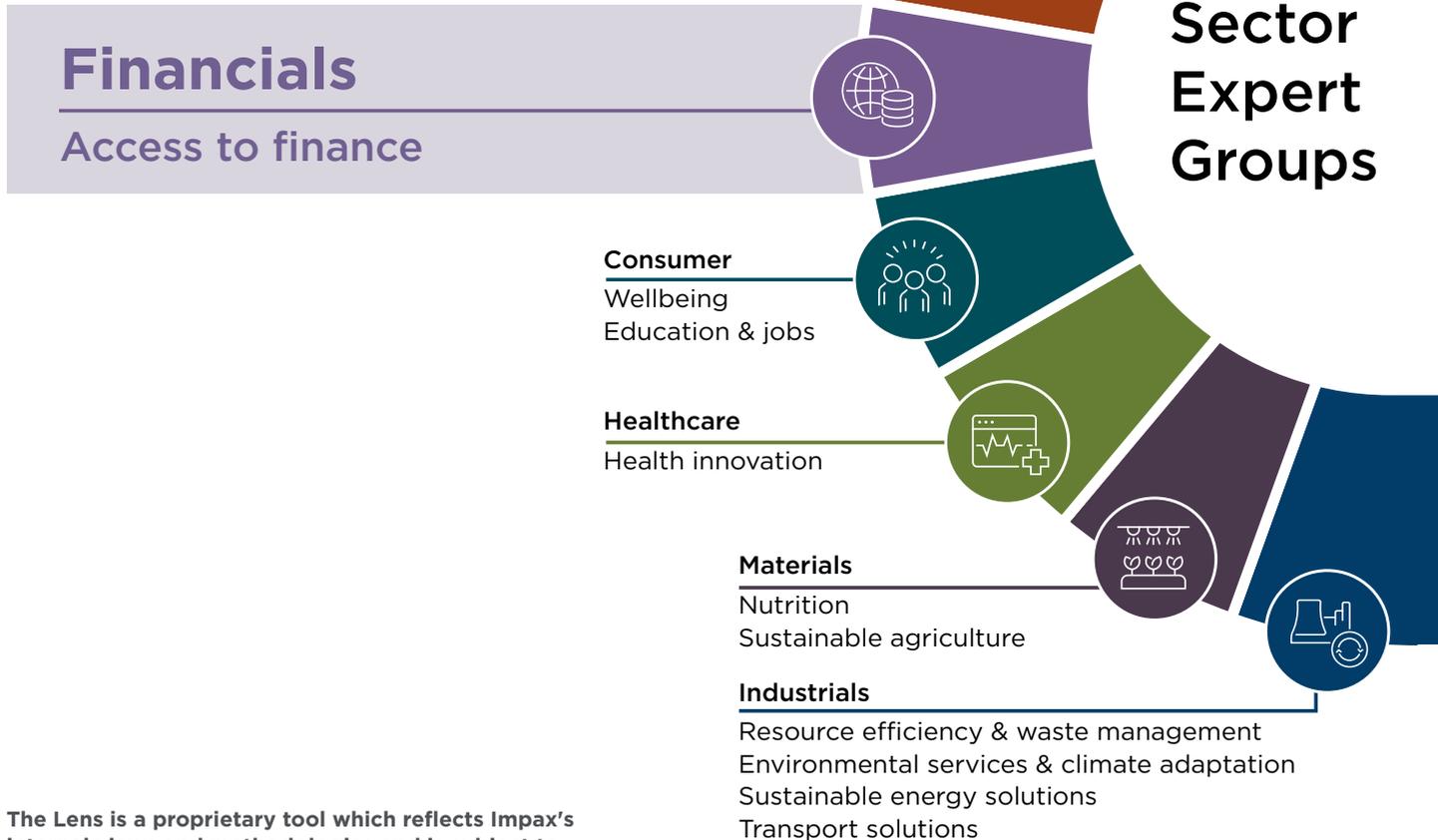
Themes in the transition

Views built on sector expertise

Impax Sector Expert Groups, comprised of fundamental analysts from both Listed Equities and Fixed Income, meet regularly to discuss and debate investment ideas, views and themes across the sector. Every 18 months, each Sector Expert Group provides a formal review of the medium-term sustainability-related opportunities and risks facing their investment universe in collaboration with the Impax Sustainability Centre. These reviews analyse the emerging issues, risks and opportunities that are affecting the sector and the evolving role of the sector and related sub-industries in the transition to a more sustainable economy.

Informed by Impax's Sustainability Framework

Impax's Sustainability Lens Framework is a proprietary tool used by Sector Expert Groups. The Lens evaluates all GICs sub-industries in terms of their exposure to eight opportunities and nine risks that our analysis finds can be financially material for companies.



The Lens is a proprietary tool which reflects Impax's internal views and methodologies and is subject to change. Investment performance is not guaranteed.



The transition today: what we're watching across sectors

Before diving into our review of the Financials sector, here are some highlights from recent discussions concerning the global economy at-large.

Our sector groups analyse how each sectoral transition is being impacted by multiple drivers, meeting regularly to discuss emerging and evolving shifts driven by:

Technology

Consumer

Policy

Societal shifts

The robotics revolution: emerging opportunities

Technology

The humanoid robot market is currently in its infancy, with most deployments limited to pilot programmes. Year-to-date orders are around 3,000 units, primarily in manufacturing automation.¹ However, the robotics market is expected to grow rapidly to equal the size of the global passenger vehicle market by 2050, creating substantial growth opportunities for companies in the supply chain.²

Beyond investigating where the most valuable business models will be across the value chain, we are also updating our views on the risks and opportunities that robots pose in the transition to a more sustainable economy.

To date, evidence is too limited to accurately assess the scale of impacts. However, we expect robots to support environmental efficiency through smoother workflows and lower error rates, as well as improving health and safety by removing people from dangerous lines of work.

Digesting a shift in eating habits

Consumer

A revolution is underway in consumer tastes, driven by the rising uptake and impact of GLP-1 weight loss medication.

Studies show the increasing penetration of GLP-1s is going to have second-order impacts across both how much people eat and food choices.³ Research indicates that GLP-1 users reduce their daily food intake by more than 700 calories and consume fewer processed foods, refined grains and fizzy drinks.³ This represents a tail risk for packaged foods and food service volumes, as well as a potential tailwind for specialty chemicals as companies seek out new taste formulations.

While growth expectations for GLP-1s have moderated throughout 2025, we expect an inflection in GLP-1 volumes in the next 12 months driven by Medicare demand in the US and continued international expansion that we believe is underappreciated by the market.

1 Impax analysis, October 2025, based on individual company reports

2 Morgan Stanley, May 2025: Humanoids: A \$5 Trillion Market

3 Dilley, A., August 2025: Characteristics and food consumption for current, previous, and potential consumers of GLP-1 s. *Food Quality and Preference*

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Water efficiency: managing AI's thirst

Policy

Water has always been a central focus of policy discussions. This is only likely to grow with growing water scarcity - due to changing climate patterns - and from growing demand by industry, most notably the technology sector. One large data centre can consume up to 5mn gallons of water daily, equivalent to a town of 50,000 people.⁴ Most importantly, impacts are often highly concentrated and over two-thirds of US data centres built since 2022 are in areas with high levels of water stress.⁵

We have seen these trends spur a wave of national and sub-national water efficiency regulation, which we expect to strengthen and deliver tailwinds for companies that enable re-use and recycling of water or provide infrastructure for more efficient cooling systems. We can expect tighter regulations to emerge in Europe as the bloc aims to deliver the Water Resilience Strategy's target to enhance water efficiency by 10% by 2030.

In the US, public scrutiny is also increasing efficiency requirements at the state level. California has proposed tax credits for data centres with water-efficient cooling systems, for example. Changing weather patterns caused by climate change will only exacerbate concerns over water scarcity and make this an area of bipartisan policy attention in years to come.

4 Environmental and Energy Study Institute, 2025

5 Nicoletti, L., Ma, M. & Bass, D., 8 May 2025: AI is draining water from areas that need it most. *Bloomberg*

6 Valerija, I., 21 October 2025: Office Vacancy Declines as Market Recovery Gains Momentum. *CRE Daily*

7 CBRE, Q3 2025: Global Prime Office Rent Tracker

8 Savills, March 2025: Five years, five big changes: the trends shaping what tenants want from offices

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Real estate: return to (prime) offices

Societal shifts

The future of the office real estate market has been uncertain since the COVID-19 pandemic fundamentally shifted ways of working. Hybrid work models offer employers more flexibility and reduced rents, potentially challenging the long-term appeal of many office construction projects.

However, while overall vacancy rates remain high (22.5% in the US), we are witnessing positive return-to-office trends that drove vacancy rates in Q3 2025 lower for the first time since 2019.⁶ Notably, we see an increasing emphasis on employers luring workers back through attractive office locations, leading demand for office space to be highly bifurcated between prime and non-prime segments, especially in markets like the US and the UK. Prime markets in certain cities, including London and New York, are seeing strong rental growth.⁷

We believe that opportunities are emerging but investors need to be highly selective, focusing not only on location but also energy efficiency. Many tenants now expect prime offices to boast strong environmental credentials to lower operational costs and align with corporate sustainability-related goals. 'Green premiums' - additional rents commanded by green certified buildings - vary between markets, but tend to average around 10% for prime offices, according to Savills.⁸



Sector in focus: Financials

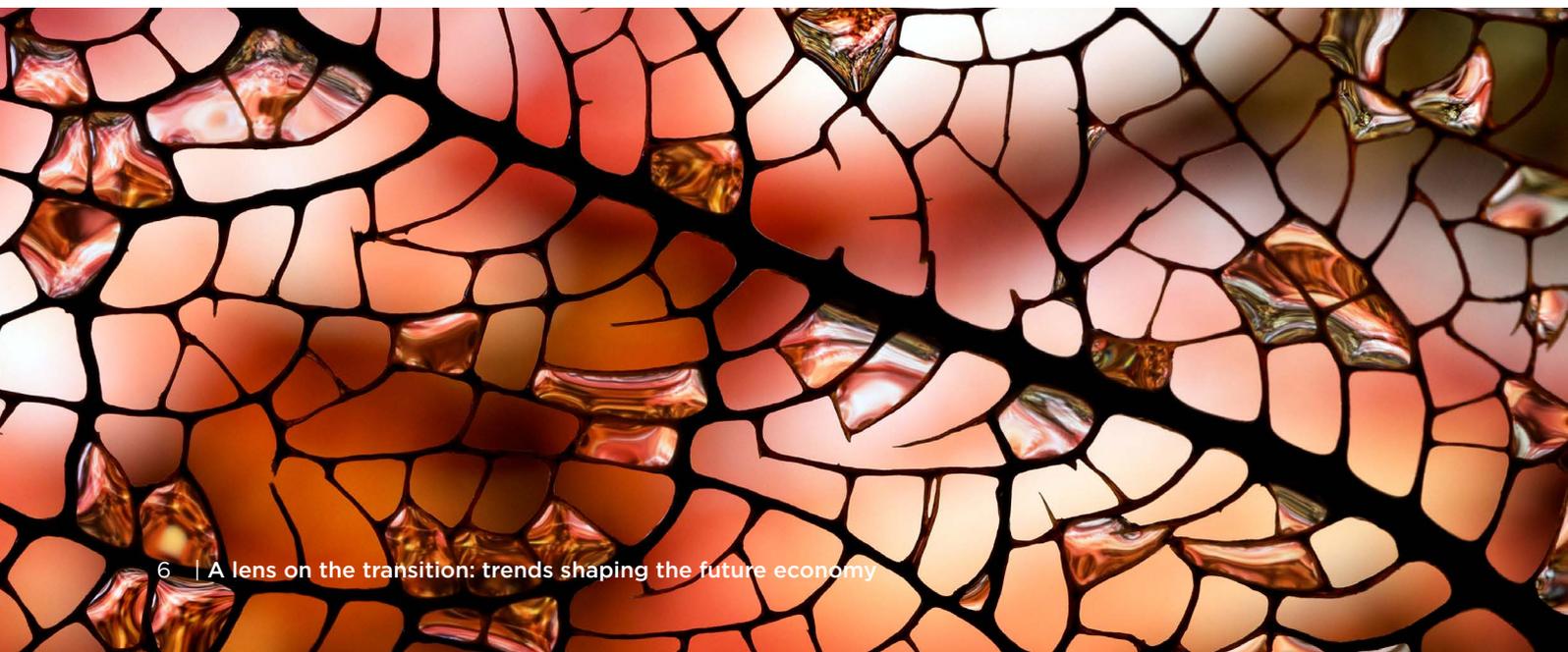
Sustainability opportunities include: Enabling Access to Finance, Meeting Basic Needs and Addressing Climate Change.

At its core, the financial sector is highly aligned with the opportunity to improve Access to Finance. This is particularly so across sub-industries that provide financial security, resilience and preparedness either through life, health insurance and retirement solutions or by extending access to financial products or services for individuals and groups lacking access today (such as smaller businesses and in emerging markets). Where financial services companies can address evolving needs and enable better outcomes for customers, we believe they can benefit from structural drivers of long-term demand as the world's population becomes richer, older and better connected. The financial sector can also play a critical role in addressing climate change. Although many lenders and asset owners likely underestimate systemic climate risks, financial products can help finance the transition to a lower-emission economy and provide financial protection against extreme weather events by accurately pricing these risks.

Sustainability risks typically include: Anti-trust and Government Regulation and Product Liabilities.

The financial sector will continue to have heightened exposure to regulatory intervention over the longer term due to its provision of a key public good, the existence of systemic risks that require regular oversight, and the spillovers that financial market volatility can have on the broader economy. Complex financial products are often interlinked with the broader economy, as demonstrated by the role of collateralised debt obligations in the global financial crisis. Higher likelihood of regulatory intervention is interwoven with elevated associated Product Liabilities risks, which reflect the threats from cybersecurity attacks and data privacy concerns inherent across the financial services. That said, we believe that the regulatory headwinds the sector has faced since the global financial crisis have peaked, and now starting to reverse, to some degree.

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Lens sustainability opportunities and risks



Access to finance

Digital infrastructure

Enhancing productivity



Meeting basic needs

Resource efficiency

Evolving healthcare challenges

Wellbeing and nutrition



Addressing climate change and pollution

Health & safety vulnerability

Labour constraints

Pollution & waste externalities

Supply chain dependency

Product liabilities (including cybersecurity)



Bribery & corruption

Natural resources & biodiversity

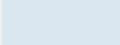
Climate - transition & physical

Anti-trust and government regulation



	 Opportunities	 Risks
Diversified Banks	High	Neutral
Personal Banks	High	Neutral
Diversified Financial Services	Neutral	Low
Multi-Sector Holdings	Low	Low
Specialised Finance	Neutral	Low
Commercial & Residential Mortgage Finance	High	Low
Transaction & Payment Processing Services	High	Neutral
Consumer Finance	Neutral	Neutral
Asset Management & Custody Banks	High	Low
Investment Banking & Brokerage	Neutral	Neutral
Diversified Capital Markets	Low	High
Financial Exchange & Data	Neutral	Low
Mortgage REITs	Low	Low
Insurance Brokers	Neutral	Low
Life & Health Insurance	High	Low
Multi-line Insurance	High	Low
Property & Casualty Insurance	High	Neutral
Reinsurance	High	Neutral

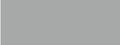
High 

Low 

Neutral 

High 

Low 

Neutral 

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Themes in focus: Financials

Key themes driving the sector over the next one to two years

01 Artificial intelligence (AI) is an opportunity to increase efficiency but increases uncertainty regarding the sustainability of financial service business models

- We expect to see growing adoption of AI amongst financial service providers in the next 18 months, building on the emergence of AI models that are specifically created for the financial industry and the growing number of partnerships between data providers and model developers.
- These trends create multiple distinct risks: business model obsolescence from competition; disintermediation (as technology removes the need for financial middlemen) and the commoditisation of existing business models, if AI models can absorb or replicate their data; higher investment spending required to compete; and significant reductions in customer headcount as AI adoption increases efficiency and leads to staff cuts. JP Morgan has noted that AI improves its employees' productivity by an average of four hours a week.⁹
- Business model disruptions resulting from AI have already resulted in market anxiety towards companies historically viewed as more defensive value propositions, including financial exchanges and data providers. However, impacts on company earnings are often poorly understood by the market and will depend heavily on the specifics of a company's value proposition and mix of services it offers. We expect those with proprietary data sets will be better positioned to resist disruption.



⁹ FinAI News, 23 October 2025: JPMorgan's AI-driven LLM Suite yields 4 hours of productivity per employee per week
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02 The rising severity and incidence of extreme weather events continues to create a growing set of opportunities for financial institutions

- Climate change is increasing the frequency and severity of risks posed by extreme weather and the associated economic costs. Swiss Re estimates that insured losses from natural disasters are rising by 5% to 7% annually, in real terms, driven partly by climate change.¹⁰ Natural catastrophes resulted in US\$137bn of global insured losses in 2024, according to Swiss Re estimates, approximately one-third higher than the historical 10-year average.
- There is a large gap in many markets between total economic losses from extreme weather events and losses covered by insurance. This coverage gap ranges from 43% in North America and Australasia to 70% in Europe and more than 80% in Asia and Latin America.¹¹
- The rising incidence and severity of extreme weather events increases the total addressable market for insurance and can help catalyse higher coverage rates as consumer awareness of risks boosts take-up rates.
- Potential risks are also growing for the insurance industry, however. If regions become uninsurable, either due to rising costs of claims or regulatory hurdles that prevent fair risk pricing, this could reduce market size. We do not expect this risk to materialise for insurers or reinsurers in the near term given their diversified regional exposure.
- Reinsurers and insurance brokers are exposed to both the opportunity and risks of rising costs of extreme weather, according to our analysis.

03 Deregulation is underway and accelerating, broadening investment opportunities across the banking sector

- The banking sector has experienced a period of substantial deregulation in developed markets in the last 18 months, with material capital returns from European banks since 2021, a distinct reversal of the growing regulatory burden that followed the 2008–09 global financial crisis.
- Deregulation is freeing up significant capital that banks can use to increase the size of their lending books, and hence revenues. One study estimated that reductions in regulatory capital requirements under Basel III Endgame international banking regulations (which set minimum capital requirements for banks) could, by 2026, free up US\$140bn on the balance sheets of the 19 largest US banks and, due to lending multipliers, unlock up to US\$2.6 trillion in capital.¹²
- The banking sector is also benefiting from a reduced regulatory burden. In pursuit of its deregulatory agenda, the Trump Administration has brought in new leadership at key financial regulators – including the Securities and Exchange Commission (SEC) and the Office of the Comptroller of the Currency (OCC) – and has pledged to repeal 10 existing regulations for every new one introduced.

¹⁰ *Swiss Re Institute. (2025). Natural catastrophes: insured losses on trend to USD145 billion in 2025*

¹¹ *Swiss Re Institute, April 2025: Natural catastrophes: insured losses on trend to USD 145 billion in 2025*

¹² *Alvarez & Marsal, October 2025: Bank Deregulation Primer 2025*

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Growing
opportunities

Sub-industry in focus: Property and casualty insurers and reinsurers

The industry provides coverage to individuals and businesses against physical damage to property and liability for injuries and damages. It will play a vital role in both helping the global economy recover quickly from the impacts of climate change, and creating a value to investment in adaptation through the fair pricing of climate-related risks.

How are opportunities changing?

Natural disasters are not new but, with each more frequent event, consumers are becoming increasingly conscious of the risks they need protection from, as those risks themselves are growing. Areas hitherto seen as low risk are now understood to be vulnerable, for instance: Hurricane Helene, in 2024, caused extreme flooding in inland parts of the US.

Meeting the growing need for property insurance as climate-related risks increase presents opportunities for insurers and reinsurers. To take advantage of this opportunity, insurers and reinsurers need to accurately price climate risk. In our view, those that boast strong modelling capabilities, such as Bermuda-based reinsurer Renaissance Re or the European reinsurers Munich Re or Hannover Re, look well positioned.

We believe that reinsurers provide the ultimate backstop to the impacts of climate change. They also put an economic price on the impact of climate change; only with an accurate economic price can incentivise cost-effective adaptation

investments. Whilst increasing climate risks expand reinsurers' addressable market, the sector faces the risk that the 'insurance gap' increases and losses become uninsurable, and the addressable market stalls or shrinks.

How are risks changing?

A changing climate tests the ability of insurers' climate models to accurately capture – and price – the probability of extreme weather events in future. However, the annual policy renewal cycle gives insurers and reinsurers flexibility to regularly reprice coverage to correct any mispricing. This was observed in 2023 following the large losses experienced by the industry in 2022, when Hurricane Ian alone gave rise to US\$60bn in insured losses.¹³

A larger challenge is the industry's ability to accurately price tail risks - unlikely, but severe events that could lead to major financial losses - which are increasing in probability but are most difficult to model. Rising insured losses, even from one major weather-related event, could undermine margins at a time when competition and excess capital are driving insurance prices down.



¹³ Munich Re, 2023: Nat cat loss events 2022.

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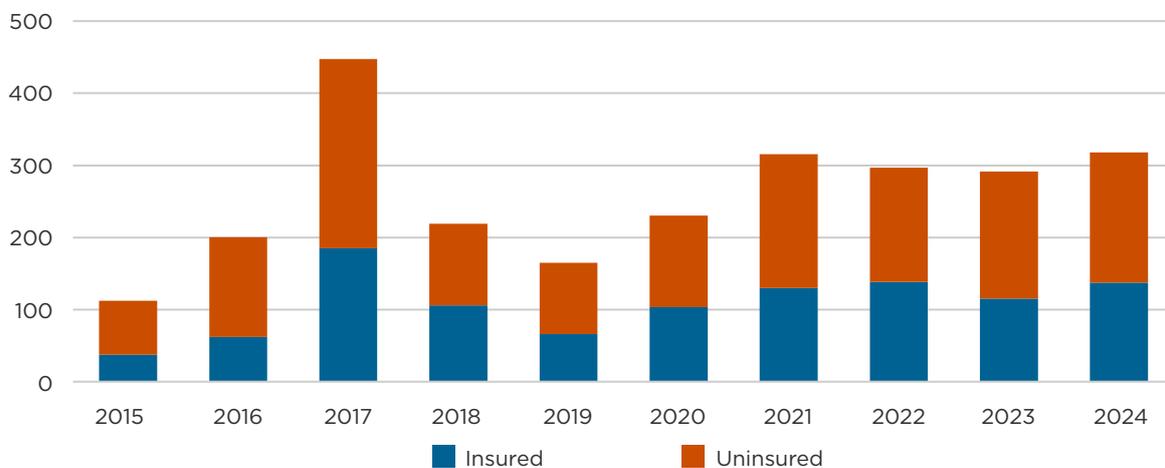
Key uncertainties & milestones to watch

Rising unaffordability. The scale and severity of climate events may rise quicker than anticipated, leading to a rapid expansion in the number of households and businesses for whom market-priced insurance becomes unaffordable. Government intervention in the form of subsidised coverage, such as we have seen in both Florida and California, in effect prevents insurers from charging premiums that accurately reflect risks, prompting them to leave the market. As well as creating potential moral hazards, this reduces the size of addressable markets for insurers.

Softening policy terms. Having tightened underwriting terms in recent years, increasing deductibles and effectively passing more financial risk onto primary insurers, there is a question over whether the ‘softening’ of insurance pricing will be accompanied by looser policy terms. In this event, a greater share of risks would be borne by reinsurers.

A persistent protection gap

Global natural catastrophe insured and uninsured losses (US\$bn, 2024 prices)



Source: Swiss Re Institute, 2025

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Sub-industry in focus: **Diversified banks**

This sub-sector includes the large universal banks which offer a board range of financial services to consumer and commercial clients under one roof. Their lending behaviour will help drive – or accelerate – the energy transition, while access to finance is an important contributor to providing financial security, resilience and poverty alleviation. One of our concerns is whether diversified banks are considering the impact of climate change on their lending portfolios and relying too much on insurance protection. If regions become uninsurable or insurance costs increase too much, this could negatively affect property prices and so banks' underlying loan portfolios.

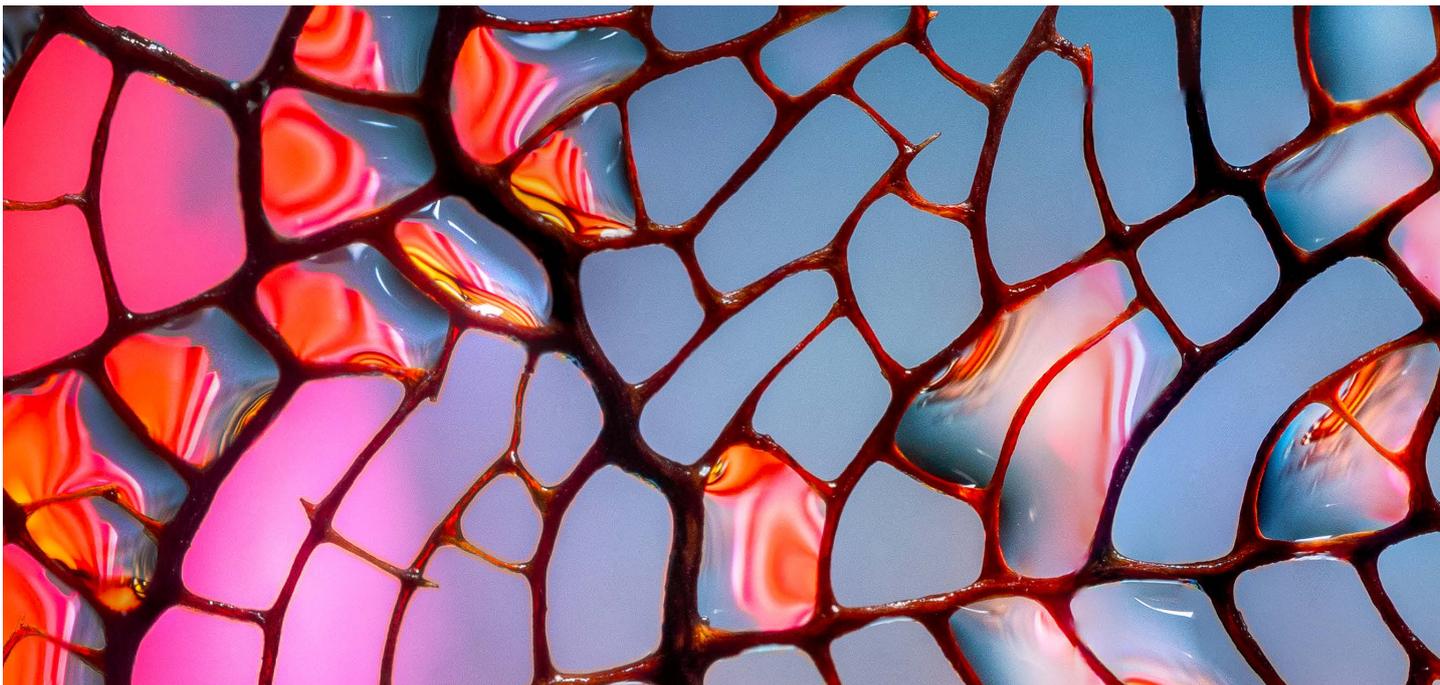
How are opportunities changing?

The banking sector is a prime beneficiary of the acceleration in financial sector deregulation, led by the US. Lower capital requirements help banks by freeing up capacity for greater lending and catalysing greater mergers and acquisitions (M&A) activity. In the near term, investors can broaden their focus away from 'safe havens' in the US banking sector, like market leader JP Morgan, to the other 'big six' banks: Bank of America, Citi, Goldman Sachs, Morgan Stanley and Wells Fargo.

There are meanwhile pockets of opportunities in emerging market banking sectors, for instance among banks that have been able to generate growth from non-lending business lines. Digital disruption has been a key enabler of the opportunity for these banks which are growing

their consumer base and fee-generating business through a mixture of payments, insurance and asset management.

Opportunities are also arising from the efficiencies and financial savings enabled by AI. While these will soon be competed away as AI adoption increases across the banking system, the most efficient banks are typically furthest ahead in deploying AI to their benefit. For instance, KBC already estimates that around 50% of its operating leverage comes from AI, resulting from the ability to more effectively cross-sell products through analysis of bank statements and spending patterns. The financial benefits of efficiency gains increase with organisation size, driving consolidation in the sector.



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How are risks changing?

Deregulation can change from a positive for the banking sector to a negative if it leads to unsustainable practices that expose lenders to higher financial risks. It could also lead to poor outcomes for society. For instance, it looks likely that efforts to disband the Consumer Financial Protection Bureau (CFPB) will result in an increase in predatory lending practices in the US.

Unsustainable practices arising from — or enabled by — deregulation would be expected, in time, to prompt a return to tighter regulation. Indeed, financial sector regulation has historically been cyclical. Investors should therefore consider how long the deregulatory cycle will last in the US and elsewhere.

Key uncertainties & milestones to watch

Deregulation encouraging unsustainable lending practices. Too little regulation of the financial sector has proven to lead to growth in systemic risks which have regularly led to financial and economic volatility. The degree to which deregulation continues and how banks manage lower capital reserve requirements could exacerbate the likelihood of new systemic risks emerging. Concerns here will appear first in credit markets, but to date the yields that debt investors require to buy bank debt indicate health of assets.



US\$2.6tn

Capital that could be unlocked by freeing up US\$140bn on the balance sheets of large US banks

Source: Alvarez & Marsal, October 2025

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Worsening risks

Sub-industry in focus: **Financial exchanges & data**

This sub-sector captures the platforms on which much financial market activity takes place and the providers of data and analytics. These companies offer exposure to the financial sector with less sensitivity to the credit cycle and interest rate movements.

How are opportunities changing?

Since the global financial crisis, capital-light financial intermediaries and service providers – including exchanges, data and analytics providers and rating agencies – have been perceived to offer more defensive investment opportunities within the financial sector.

However, equity investors are currently marking down the sub-sector due to potential AI disruption. They are not discriminating, though, between those companies that are more or less able to resist that disruption.

Short-term market volatility presents selective opportunities for longer-term investors. We believe firms in this sub-sector with revenue-generating, proprietary and real-time data (which cannot be replicated) are likely to be largely immune from AI-related disruption. These include providers of indices, such as LSEG (which has partnered with Microsoft and Anthropic), and credit ratings agencies including S&P Global and Moody's.

How are risks changing?

The sub-sector is vulnerable to disruption from AI. For example, in October, FactSet Research Systems introduced a FY26 outlook that disappointed on earnings, driven by a shortfall in margins. The company flagged the need to increase its investment spending, including in AI capabilities to defend and grow the business over the medium-term.

The emergence of AI tools aimed specifically at financial services, such as Anthropic's Claude for Financial Services, which unifies data into a single interface, pose a particular threat to providers of data and analytics. Some companies are partnering with AI firms, but there is a risk that valuable intellectual property is surrendered that could enable AI models to replicate their services in future. More broadly, financial service providers face the additional longer-term risk that AI will lead to mass redundancies and fewer financial analyst roles within the sector. A shrinkage in the addressable market will reduce the opportunity set for revenue-per-user models.



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Key uncertainties and milestones to watch

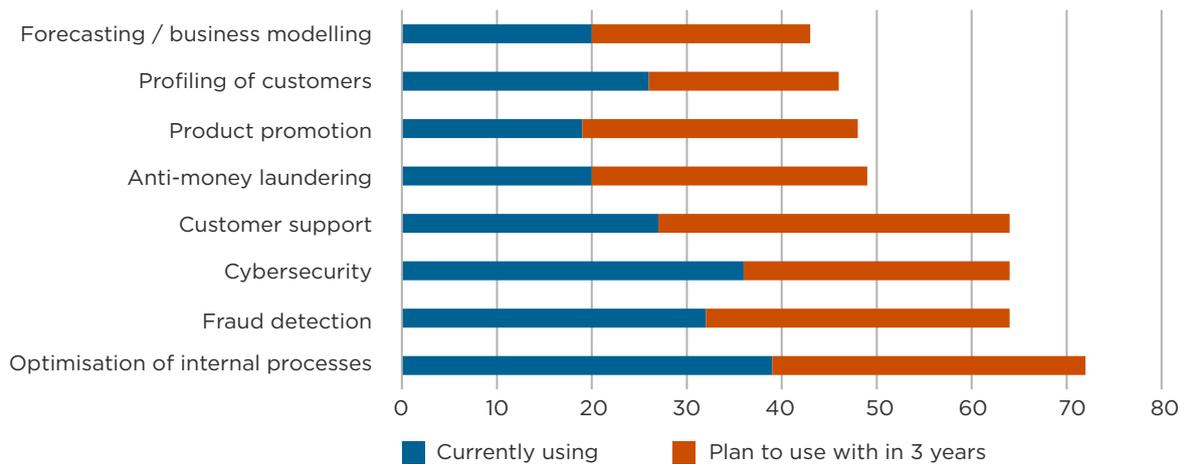
Undifferentiated de-rating. The extent to which the market begins to differentiate between those firms with lower barriers to entry from AI competition and those that have more defensible business models remains to be seen.

Scale of headcount reduction. There is great uncertainty around the degree to which AI adoption and worker efficiency reduces client demand for financial services.

Returns on AI investment. The extent to which rising AI-related investment will yield positive returns for companies, in terms of net efficiency gains, also remains unclear.

Rising AI adoption among financials

Financial companies using or planning to use AI, by use case (%)



Source: Bank of England, 2025. Selected use cases.

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A lens on the transition: trends shaping the future economy

Sector in focus: Financials



Sustainability Lens methodology

The Impax Sustainability Lens is a proprietary rules-based framework which seeks to identify investment opportunities and risks associated with the transition to a more sustainable economy, based on Impax's fundamental insights. More information is available upon request.

The Sustainability Lens tool reflects Impax's internal views and methodologies and is subject to change. Investment performance is not guaranteed.

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