

Stewardship and Advocacy Report 2024

Shaping markets and pursuing progress in the real economy



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Stewardship and advocacy are twin levers that we can pull to help companies navigate risks and opportunities and to influence change in the real economy.



Introduction

Welcome to our seventh annual Stewardship and Advocacy Report.

As an investor focused on the transition to a more sustainable economy, stewardship and advocacy are the twin levers that we can pull to help our investee companies navigate risks and opportunities and to influence change in the real economy.

We define the inputs and actions that we believe will be most effective in achieving the outcomes we set out. Increasingly, we are looking to measure – and report – the real economy outcomes and impact of our stewardship and advocacy efforts, taking our first steps in this report. Our approach is illustrated in the ‘stewardship impact value chain’, below.

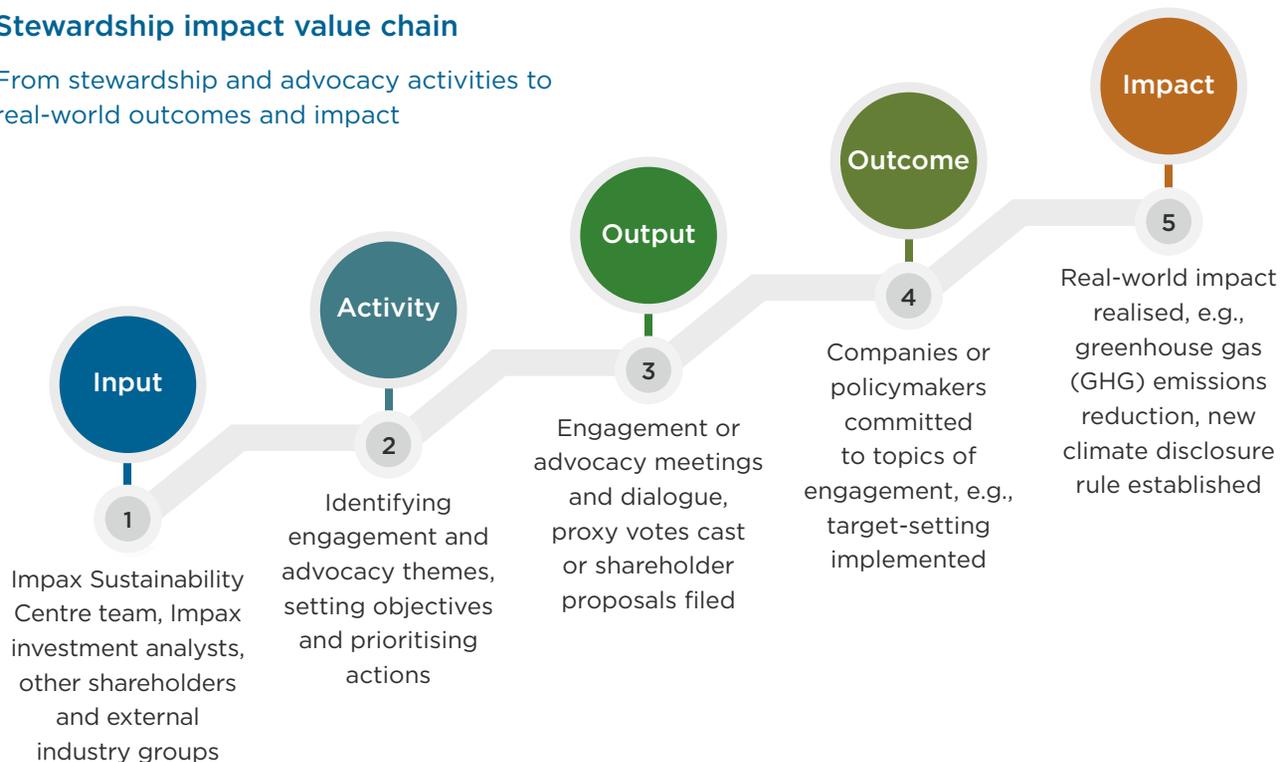
Our efforts are becoming more coordinated and cross-cutting, especially in regard to what we call ‘systematic engagements’ which we have found effective in driving change in areas that have historically proven challenging. Here, we combine company engagement, policy advocacy and thought leadership with the aim of shaping companies’ practices through regulatory or policy change.

Building on last year’s report, we showcase the work and progress of two important systematic engagements – focused on addressing physical climate risks and adaptation and improving board diversity in Japan, respectively – on pages 6 to 9.

2023 marked an important milestone in the coordination of our stewardship and advocacy activities as our expanding Sustainability & Stewardship and Policy Advocacy teams combined to form the Impax Sustainability Centre. This centre of excellence enables us to be more effective stewards of our clients’ investments and to better shape the market for an accelerated transition to a more sustainable economy. It also positions us to navigate the rapidly expanding range and depth of sustainability-related issues, and to meet the growing expectations of clients, regulators and other stakeholders.

Stewardship impact value chain

From stewardship and advocacy activities to real-world outcomes and impact





Lisa Beauvilain

Global Head of Sustainability & Stewardship, Co-Head of the Impax Sustainability Centre



Chris Dodwell

Head of Policy & Advocacy, Co-Head of the Impax Sustainability Centre

2023 marked an important milestone in the coordination of our stewardship and advocacy activities as our expanding Sustainability & Stewardship and Policy Advocacy teams combined to form the Impax Sustainability Centre.

Areas of thematic focus

Our stewardship and advocacy activities are focused on four overarching themes – **Climate, Nature, People** and **Governance** – around which we structure this report.

Climate-related issues remain at the heart of our stewardship and advocacy activities, and we are proud of successes in helping shape a greener financial system over the last year. In the US, our continued engagement with regulators, and alongside peers, has helped shape final proposals for climate-related disclosure rules (see page 6). Our leadership roles in both the UK Climate Financial Risk Forum (CFRF) Adaptation Working Group and Transition Plan Taskforce (TPT) Asset Managers Working Group are meanwhile yielding important guidance for the financial industry (see page 27). Many of our company engagements, including collaborative engagements like those as part of the Institutional Investors Group on Climate Change (IIGCC) (see page 25) focus on net-zero alignment and transition plans.

In parallel with this report, Impax has published its first annual Climate Report in line with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) and the TPT. It details how we manage climate-related risks across our business, including in our own operations, and how we identify opportunities arising from the transition to a low-emission, climate-resilient economy (the ‘climate transition’).

Nature has been an area of growing focus for the team over the past year and is considered alongside, rather than in isolation from, Climate and People in our activities. These are intimately connected:

climate change is a primary driver of biodiversity loss; nature-based solutions can play a vital role in both climate adaptation and mitigation, and nature and its ecosystem services are critical for human health and wellbeing. Our engagements with companies focus on improving understanding of their nature-related dependencies and impacts – and encouraging enhanced disclosures and risk management. We are participating in five company engagements as part of Nature Action 100.

People and Governance-related issues meanwhile continue to account for the majority of our engagement dialogues with investee companies. In 2023, we participated alongside peers in two significant collaborative engagements focused on People-related issues: mental health and human rights (see page 46).

Asia was a growing focus of our stewardship activities in 2023: 32% of our engagement dialogues were conducted with companies based in the Asia-Pacific region, up from 13% in 2022. Although access to some companies remains challenging, we find more are willing to engage with us on governance and sustainability-related issues – especially when we engage via collaborations such as the Asian Corporate Governance Association (see page 55).

In the context of growing urgency to address environmental and social issues that pose systemic risks to all companies and investors, we are pleased to report on some of the successful outcomes and impacts of our stewardship and advocacy activities from last year. We continue to commit ever more energy and resources to addressing these risks through engagement and collaboration with our investee companies, peers and policymakers.



Stewardship and advocacy for real economy impact

We believe that significant, positive real-world impact can be achieved through focused, well-structured stewardship and advocacy efforts.

As an active shareholder with a long-term investment horizon, we believe it is in the interests of our clients that we proactively engage with a wide spectrum of stakeholders – including investee companies and regulators – in an effort to minimise risks, and to protect and enhance value for shareholders.

Our levers for accelerating change range from company-specific engagements to advocacy initiatives related to global frameworks. They are illustrated in the graphic featured on page 5.

This framework visualises how our stewardship and advocacy activities can achieve positive outcomes and, ultimately, real-world impact. This is at the heart of our approach to the Net Zero Asset Managers (NZAM) initiative and our target-setting: we identify the actions that we believe will be most effective in achieving the specific and tangible outcomes we are targeting. The framework highlights three things in particular.

First, how our stewardship work entails both ‘bottom-up’ engagement and proxy voting with specific investee companies and a ‘top-down’ focus on engagement themes, where we work with other investors and organisations to amplify our influence.

Second, it highlights the breadth of our advocacy work, which ranges from contributing to well-designed financial regulation to collective action alongside peers on policy.

Third, the framework illustrates how our stewardship and advocacy activities come together on specific themes in what we call systematic engagement. By combining our thematic engagement and policy outreach, we aim to help overcome structural barriers to the transition to a more sustainable economy and so, ultimately, accelerate change in the real economy.

Given the urgent need to address systemic risks like climate change that threaten environmental, social and financial stability, systematic engagements are a growing focus of our stewardship and advocacy activities. We are pleased to report on two examples – on disclosures relating to physical climate risks and improving Japanese board diversity – on pages 6 and 8, respectively.

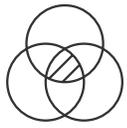


Pursuing real-world outcomes and impact through stewardship and advocacy activities

| | Activities | Outputs | Outcomes (examples) | Impact (examples) | |
|-------------|--|---|---|--|-------------|
| Advocacy | Establishing global frameworks  | Collective approach to market failures | Food and Agriculture Organization (FAO) roadmap for net-zero global food system | GHG agriculture targets in nationally determined contributions (NDCs) | Advocacy |
| | Greening the financial system  | Helping regulators design financial regulation | Climate Financial Risk Forum (CFRF) Climate Disclosure Dashboard | Decision-useful disclosures on climate-risks | |
| | Overcoming investment barriers  | Sectoral policies to scale up net-zero investment | Energy Transitions Commission proposals on streamlining planning and permitting | Faster deployment of wind and solar projects | |
| | Systematic engagement  | Combined company and policy outreach | Engaging with S&P 500 companies and SEC on geolocation data | Enabling analysis of physical climate risks | |
| Stewardship | Thematic, collaborative engagement  | Amplifying influence with collaborative engagements | Sustainable protein product targets set by food retailers | More sustainable product offering | Stewardship |
| | Exercising shareholder rights  | Proxy voting and engagement, filing shareholder resolutions | Racial equity audit conducted | Improved company equity, diversity and inclusion (E,D&I) processes and practices | |
| | Company-specific engagement  | Outreach and meetings to encourage improvements | GHG reduction target set | Reduced company GHG emissions | |

Inputs to the process include the Impax Sustainability Centre, investment analysts, other shareholders and external industry groups.

Examples of these stewardship and advocacy activities are included within this report, highlighted using the respective logos above.



Systematic engagement

Physical climate risks and adaptation

A growing body of research demonstrates the financial materiality of climate risks.¹ Yet few companies disclose the locations of major physical assets that might face climate risks, nor those in their supply chains. This means that physical climate risks cannot be reliably anticipated by investors and financial markets. Also, few companies disclose their own estimates of their value at risk or plans for creating resilience to physical risks.

Over the past four years, we have engaged with regulators, investors and companies, often in partnership with other shareholders, to address these risks.

Engaging regulators and companies

We first petitioned the US Securities and Exchange Commission (SEC) in June 2020 to require that companies report the specific locations of assets whose loss or damage could be a material event. This petition was published in the Harvard Law School Forum on Corporate Governance to promote our activities.²

In August 2020, we joined forces with the New York State Common Retirement Fund, one of the US' largest public pension plans. Together, we asked all constituents of the S&P 500 Index of large-capitalisation US companies to report on the precise location of relevant physical assets whose loss or impairment would have a material financial impact.

Just over 13% of the S&P 500 responded to our initial letter.³ Of these, one-quarter reported that they already disclose locations of key assets. In some cases, however, reporting is at too distant a

timeframe to be useful in physical risk assessment. Of all the companies we spoke to or heard from, we found just three that had seriously considered their liabilities due to physical risk and had plans for adapting to or mitigating those risks.

Additional investors, including California State Teachers Retirement System (CalSTRS) joined these advocacy efforts in 2022 and 2023.

Contributing to public discourse

We have published a series of thought leadership pieces on the theme of physical climate risks and their management.

In our September 2020 report, *Designing a resilient response to the inevitable impact of climate change*, we explored the material and immediate physical climate risks facing companies and investors globally.⁴ We noted that investors' tools for understanding climate change's physical risks were limited and imperfect, and recommended three steps that investors should consider:

- Identify key risk hotspots by sector, asset type or location using basic climate information
- Develop the expertise necessary to identify specific hazards to assets within investment portfolios
- Monitor developments in climate science and the tools available to price physical climate risk

Contributing to the SEC climate rule

Early 2022 marked an important step forward in our engagement with US regulators on this issue. Ahead of the SEC's publication of a proposed rule to enhance and standardise climate-related disclosures in March 2022, we met with the Chair and staff of the SEC to advocate for an ambitious and effective outcome.

1 Impax, 2023: Climate change: the impact for investors.

2 Harvard Law School Forum on Corporate Governance, June 2020: Rulemaking Petition on Disclosure to Help Assess Climate Risk.

3 Impax, 2021: Seeking coordinates: A unique engagement on physical climate risk.

4 Impax, 2020: Physical climate risks - Designing a resilient response to the inevitable impact of climate change.

In May 2022, we submitted a detailed response to the SEC's well-conceived proposals that included amendments we believed would strengthen the rule's implementation. These included clearer materiality thresholds and more reporting on how renewable energy certificates and carbon offsets are used by companies, as well as on internal carbon pricing policies.

When the SEC adopted its final climate risk disclosure rule, in March 2024, Impax was cited 24 times. Although there were some disappointments – Scope 3 emissions disclosure by US companies is missing completely – the rule mandates that US companies must disclose physical climate risks that have any material impact on companies' strategies, business models and outlooks. Overall, we believe it will help provide decision-useful information on physical risks.

Focusing our engagements

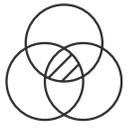
In 2022 we began to focus our engagements on physical risk more on company strategies to recognise and build resilience to physical risks. In order to price physical risks, investors need both geolocation information and knowledge of how companies are recognising and managing these risks.

Semiconductor production is very water intensive and sensitive to the quality of its water supply. Management of these physical risks is particularly important to chipmakers given the relative importance of individual assets and the industry's geographic concentration, including in flood-prone parts of east Asia.

As well as discussing how semiconductor manufacturers measure these risks, we sought to understand what steps they are taking to increase their resilience to hazards like drought and flooding. The companies we spoke with declined to specify which steps they are taking, beyond inclusion in risk management processes. We found that although they conduct scenario analysis including 'worst case' scenarios, they have not specified how these align with more publicly available scenarios, like RCP 8.5.⁵ Overall, our impression is that semiconductor companies are aware of physical climate risks, but do not yet see them as top-tier matters for special attention or separate reporting.

In 2024, the investor group will focus on the utility sector, with an emphasis on adaptation and resilience.

⁵ Representative Concentration Pathways (RCPs) describe a wide range of plausible future emissions scenarios and reflect different greenhouse gas concentrations in the atmosphere, relative to pre-industrial levels.



Systematic engagement Japanese board diversity

We have long believed that more diverse companies can perform better over the long term.⁶ More diverse leadership has correlated with better risk management, lowering long-term risks for investors.

Companies in Japan – and in the east Asia region more broadly – trail global peers when it comes to female representation on boards and in management. Fewer than one in ten listed Japanese companies have boards made up of at least 30% women.⁷

We have engaged with Japanese companies regarding gender diversity on boards for many years, and our Proxy Voting Guidelines outline our

expectations that Japanese boards include at least two women or 15% female members.

We have also supported broader initiatives to increase board diversity in Japan. In October 2022, Impax signed an Asian Corporate Governance Association (ACGA) coordinated gender diversity letter to the Japanese Financial Standards Authority (FSA) and the Tokyo Stock Exchange (TSE) to promote female representation on Japanese company boards. The letter was submitted by the FSA to the Japanese Cabinet Office in early 2023.

The Japanese government responded with a major step forward. Under a policy announced in April 2023, companies listed on the TSE Prime market (approximately 1,800 of the largest companies in Japan) should aim to fill at least 30% of their

6 Our most recent review of the latest academic research into diversity and its impacts on financial performance, *The financial impact of diversity and culture*, was published in August 2023.

7 MSCI ESG Research 2024: Women on Boards and Beyond: 2023.

We have engaged with Japanese companies regarding gender diversity on boards for many years, and we have voted against some members in boards with less than two women, or boards whose composition is less than 15% female.

executive officer ('Yakuin') positions with women by 2030. In June 2023, policies mandating that listed Japanese companies should have at least 30% female board members by 2030 were also announced.

Engaging companies

Ahead of the proxy voting season in May 2023, we conducted outreach activities with our Japanese holdings on board and leadership gender diversity. In the subsequent months, we undertook engagement dialogues to specifically discuss gender diversity issues and to understand their director nomination and appointment processes.

Most companies cited a lack of female candidates as the main obstacle to hiring female directors. We do not believe this reflects any lack of talent or skills among Japanese women; rather, we see it as a reflection of a longstanding culture of male-dominated workplaces.

Engaging the investment community

In September 2023, alongside ACGA, we co-hosted a roundtable to discuss practical ways of implementing deeper gender diversity in the

management and boards of Japanese companies and achieving the 30% target set by the Japanese government. Speakers from the State Council, regulators, investors, corporates and NGOs joined the discussion.

There were three key takeaways. First, quotas can play an important role in improving gender diversity, accompanied by public awareness and a change in hiring practices, particularly in places where culture and history are major barriers to diversification. Second, practical steps such as training are needed to develop the Japanese female corporate leaders of tomorrow. Third, a more equitable approach to domestic responsibilities needs to be promoted, including through government policy.

Looking ahead

We are continuing to engage with companies and regulators in Japan on this topic. Following the roundtable, we were approached by a group of local female investors to collaborate on writing a book to share perspectives on this issue for the Japanese business community.





Engagement

The Impax investment process is focused on a comprehensive understanding of the character and quality of our investee companies and issuers. Engagement is used both to mitigate risk and to enhance value and investment opportunities.

Engagement can help us to:

- Manage risks by proactively identifying, monitoring and mitigating issues
- Enhance company analysis – how companies respond to engagement is informative of their character
- Strengthen investee companies over time; improving quality, processes, transparency and resilience

Our investee companies' business models, products and services are generally aligned with the transition to a sustainable economy. This means that our engagements are usually not focused on changing companies' strategies or business models, but rather seeking to influence how the companies are operating and the structures, processes and disclosures they have in place.

For our bottom-up, company specific engagements, the objective is typically to solve or improve an issue that has been identified as part of Environmental, Social and Governance (ESG) analysis and when that objective has been achieved, move to the next objective or pause the engagement. For the thematic engagement areas, we have set specific steps as objectives that we seek to reach with engagements.

We have continued to develop our methodology for classifying different types of engagement activity and formally distinguish between 'outreach' activities and engagement 'dialogues'.



How we engage

Bottom-up company- and issuer-specific monitoring and dialogue.

Top-down thematic engagements based on material sustainability-related themes.

Proxy voting engagement both before and after companies' annual meetings.

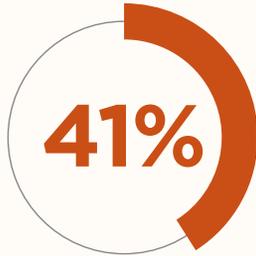
Policy advocacy on priority themes bilaterally and via industry groups.

Systematic engagement combining policy advocacy with company-specific engagement.



Engagement dialogues by region in 2023

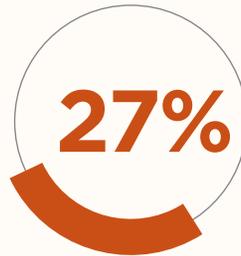
North America



60%

AUM⁸

Europe



30%

AUM⁸

Asia Pacific



9%

AUM⁸



Our focus on engagement with companies listed in the Asia-Pacific (APAC) region rose in 2023, led by our Head of Sustainability & Stewardship, APAC, who joined in 2022. The proportion of our global engagement dialogues conducted with APAC-based companies (32%, versus 13% in 2022) is now significantly greater than our portfolios' combined allocation to the region, by value. This skew reflects the reality that corporate governance practices and broader sustainability-related processes and disclosures are less established in Asia than in Europe or North America. We believe progress is being made, however – see page 55.

⁸ Assets under management (AUM) data, as at 31 March 2024. AUM relates to Impax Asset Management Limited, Impax Asset Management (AIFM) Limited, Impax Asset Management Ireland Limited and Impax Asset Management LLC.

Outreach

Targeted contact with a company on a specific sustainability issue. Outreach can be an effective means of sharing our perspective or expectations concerning a particular issue

93

companies with whom we initiated outreach in 2023

Dialogues

A discussion with, or response from, a company either by email or by meeting/call on a specific or range of sustainability-related issues

158

engagement dialogues undertaken in 2023 (with **115** companies)

63%

progress against objectives⁹

24%

objectives achieved¹⁰

⁹ 'Progress against objectives' includes instances where the investee company has:

- Acknowledged relevance/materiality of issue being raised; demonstrated growth in understanding of an issue
- Committed to strengthen or adopt specific sustainability-related policies, processes, targets or disclosures in a reasonable timeframe
- Taken interim steps in support of the objective

¹⁰ 'Objectives achieved' includes instances where:

- A company has adopted or strengthened sustainability-related policy, processes and/or targets
- Transparency is enhanced via public disclosures (e.g. CDP, TCFD, issue specific)
- There has been a measurable improvement in performance (e.g. board diversity, GHG emissions)



Proxy voting

Proxy voting is a key component in the ongoing dialogue with companies we invest in.

Through voting on management and shareholder proposals, we aim to enhance the long-term value of our shareholdings, foster clear corporate governance best practices and promote greater accountability and transparency in our investee companies.

We are committed to ensuring the consistent and transparent exercise of voting rights associated with shares we hold, where proxy voting has been delegated to Impax. Our voting decisions follow our publicly disclosed Proxy Voting Guidelines, which are informed by global governance best practices and are updated annually.¹¹

Proxy voting summary for 2023

990¹²

meetings where
Impax voted (100%
of possible total)¹³

10%

management
resolutions which
Impax voted against
(1,264/13,277)

67%

shareholder
resolutions which
Impax supported
(274/406)

¹¹ Impax Asset Management, January 2024: Proxy Voting Guidelines.

¹² The number of meetings in which we were eligible to vote in 2023 decreased, relative to 2022, due to a reduction in the number of holdings in our Systematic investment strategies.

¹³ At the meeting level, we voted 100% of meetings in 2023. However, proxy votes representing the Impax Ireland Funds plc UCITS fund range were not executed at any shareholder meetings between August 2023 and January 2024 due to an issue with the submission and receipt of ballots between Impax, the Impax Ireland Funds plc UCITS funds' custodian and our proxy voting service provider. This issue has been resolved and an enhanced control framework is being implemented.





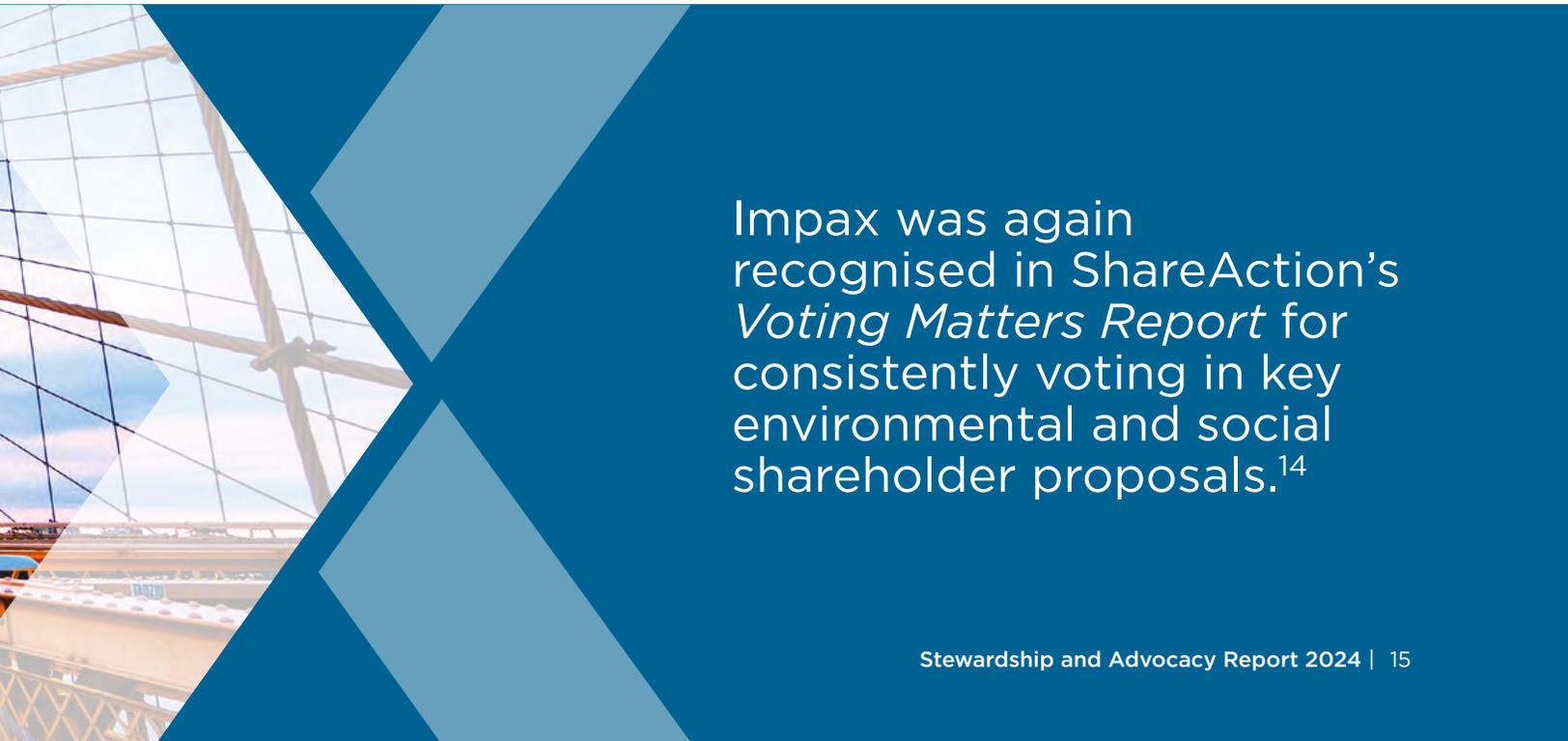
In 2023, a record number of shareholder proposals were filed across our areas of thematic focus, but overall support was down, particularly for climate-related proposals. However, proposals relating to 'People' issues were more positively received by shareholders, a reflection of changing labour and workforce dynamics that began to emerge during the pandemic.

Our overall support for shareholder proposals decreased from 75% in 2022 to 67% in 2023. This reflected a high number of shareholder proposals that expressed scepticism of companies' efforts to address ESG-related risks and opportunities, particularly concerning social issues. While some addressed topics that we would generally be supportive of, such as board diversity and racial equity audits, a careful review of the supporting statements revealed that the proponents' goals were to undermine, rather than strengthen, companies' ESG efforts. Very low support for these proposals (below 3% on average) demonstrates that investors do not support the agenda promoted by these proponents.

Our approach to shareholder proposals continues to be recognised. Impax was ranked second in ShareAction's *Voting Matters Report* for consistently voting in key environmental and social shareholder proposals in 2023.¹⁴ This follows top rankings in 2022, 2021 and 2020.

Following the 2023 proxy season, we conducted outreach to 104 companies explaining our votes against management. Outreach is an important component of our proxy voting process, providing an opportunity to remind companies of our expectations and to highlight company-specific concerns, often relating to board composition and structure or executive compensation. This outreach, primarily intended as a one-way communication, yielded a 22% response rate.

¹⁴ ShareAction, Voting Matters 2023.



Impax was again recognised in ShareAction's *Voting Matters Report* for consistently voting in key environmental and social shareholder proposals.¹⁴



Policy advocacy

The principal purpose of our policy advocacy work is to support policymakers in the creation of enabling environments which will accelerate the transition to a more 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 proactive interventions such as publishing our perspectives, funding research, partnering with clients and bilateral discussions with policymakers.

The Glasgow Financial Alliance for Net Zero (GFANZ) selected Impax's approach to policy advocacy as a case study in their Recommendations and Guidance on Financial Institution Net-zero Transition Plans, published in November 2022.¹⁵

Industry associations

We work collaboratively with our peers to support the development of more effective sustainable finance and real economy policies that help to catalyse the transition to a more sustainable economy. We also play an active role in a wide range of industry association working groups that aim to address market-wide and systemic risks. Our current memberships are listed by thematic area on page 56.

Thought leadership

For many years, we have published our perspectives and commentaries in order to raise awareness across a broad array of topics linked to sustainability and the transition to a more sustainable economy. We often collaborate with specialist organisations, academic partners and clients to develop these thought leadership pieces. Examples of publications in 2023 are included by theme throughout this report.

15 GFANZ, 2022: Recommendations and Guidance on Financial Institution Net-zero Transition Plans.

For many years, we have published our perspectives and commentaries in reports, blogs and opinion pieces in order to raise awareness across a broad array of topics linked to sustainability and the transition to a more sustainable economy.

Regulatory developments

We submitted responses to a breadth of regulatory consultations during 2023, including:

- **UK: Sustainable Disclosures Requirements (SDR)** – We articulated our conviction that the UK sustainability disclosure regime should be as close as practically possible to its EU and US counterparts. In our response, we expressed our concern that low levels of alignment between the SDR framework, the EU’s existing Sustainable Finance Disclosures Regulation (SFDR) regime and the proposed US regime would introduce unnecessary complexity.
- **US: Enhanced Disclosures rule** – We shared our comments with the SEC on a proposed rule that would oblige asset managers and investment advisers to classify any fund that incorporated ESG criteria into one of three categories, with different disclosure requirements for each. Though we supported the general objective of

the rule, we noted that the categories themselves are not clearly defined and that many of the additional disclosures were already required by other rules.

- **International assurance standards** – We responded to a survey by the International Auditing and Assurance Standards Board (IAASB) on its proposed International Standard on Sustainability Assurance (ISSA) 5000 General Requirements for Sustainability Assurance Engagements. We welcomed the proposal of a global baseline for sustainability assurance engagements and shared investors’ expectations on higher disclosure credibility.





Priority themes for stewardship and advocacy

Each year we assess and outline the priorities of our stewardship and advocacy activities for the next 12 months. These priorities are based on market developments and emerging sustainability-related issues that are relevant and material to our companies and issuers.

Our areas of priority remain climate, nature, people and corporate governance. Our stewardship and advocacy activities within these areas focused on the following:

Climate

- Net zero alignment and transition plans
- Physical climate risk disclosure, adaptation plans and resilience

Nature

- Dependencies and impacts on nature, and best practice management
- Taskforce for Nature-related Financial Disclosures (TNFD) adoption

People

- Human capital management
- Leadership and workforce equity, diversity and inclusion
- Human rights due diligence

Governance

- Board structure and independence
- Executive compensation
- Oversight of sustainability-related risks

Engagement dialogues by theme in 2023

Climate
25%



Nature
14%



People
32%



Governance
29%





Climate



Climate risks are systemic for all companies in all economies, so both transition and physical climate risks are important topics of our stewardship and advocacy activities. It is our conviction that climate-related risks and opportunities are likely to be growing drivers of investment performance across the global economy for decades to come.

Engagement

We actively engage with our investee companies on their preparedness, management, target-setting, performance and disclosures in terms of both climate transition risks and physical climate risks.

Engagement focus areas

- Net zero alignment and transition plans
- Physical climate risk disclosure, adaptation plans and resilience

Proxy voting

In line with our commitment under the NZAM initiative, in 2023 we contacted investee companies identified as not having taken meaningful steps to address climate risks with resilient and transition-aligned management processes. As outlined in our proxy voting guidelines, we communicated that climate risk oversight resides primarily with the board committees and directors responsible for risk and audit. Where we see insufficient progress in the development of climate risk management processes, we vote against the Chair and Chair of the Risk and Audit Committee, or best equivalent director.

In 2023, we supported **91%** of total Climate-related shareholder proposals, where we were eligible to vote. This included topics such as transition risk reporting, emissions reduction target, the 'Say on Climate' initiative, fossil fuel financing, lending and underwriting, alignment with the Paris Agreement and 'just transition' reporting.



25%

of engagement dialogues
in 2023 focused on
Climate-related issues



Company engagement **Generac**

Net-zero alignment and transition planning

US-listed Generac is one of the leading suppliers of standby power generators, providing reliable back-up electricity to homes and businesses when grids fail. We have been engaging with the company on multiple ESG topics since 2019.

Engagement objectives

1. Collect baseline GHG emissions data (Scope 1 & 2 - Achieved, 2022; Scope 3 - In progress)
2. Publicly disclose emissions data in its annual/sustainability report (Achieved, 2023)
3. Set science-based emissions reduction targets (In progress)
4. Develop robust net-zero transition plan (Not started)

Activities

In 2022, we reached out to the company specifically on climate given its lack of emissions disclosures. In 2023, we followed up as part of our priority outreach on climate resilience to discuss our voting guidelines on climate and increasing expectations in line with our commitments under the NZAM initiative.

Outcomes

Our dialogue with Generac has been constructive and responses to our feedback have been positive. In 2023, the company disclosed its Scope 1 and 2 GHG emissions for the first time.

Generac is currently developing ESG roadmaps by priority theme and undertook an in-depth assessment of Scope 3 emissions in 2023. The company intends to disclose the outcome of this exercise, including more detailed Scope 3 emissions data, in line with the TCFD framework in its 2024 reporting. While in the early stages of developing its climate risk management processes, the company is in the process of integrating climate-related considerations into its strategic planning, risk management cycles and governance structures across its products, operations and supply chain, in line with the TCFD framework. In addition, it has established board level oversight for its ESG strategy, including climate-related risks, and a new senior director has been appointed to oversee its implementation.

Next steps

Generac is currently considering setting internal reduction targets and we have encouraged use of the Science Based Targets initiative (SBTi) framework as it considers both interim and longer-term net-zero targets. We continue to engage with Generac to improve its climate risk management processes and disclosures.



Generac has established board-level oversight of its ESG strategy, including climate-related risks



We have encouraged Linde to disclose more detail on its longer-term transition strategy beyond 2028 targets.



Collaborative engagement

Net Zero Engagement Initiative

As part of the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Engagement Initiative, in 2023 we collaboratively engaged with Linde, a US-listed industrial gas and engineering company.

Engagement objective

The objective of the engagement was to gain greater clarity on the company's net-zero transition plan, including science-based target setting, progress on Scope 3 emissions management, the company's decarbonisation strategy and related capital expenditure plans.

Activities

In early 2023, the IIGCC and participating investors sent a letter to Linde introducing the collaboration, its objectives and intention to engage. In autumn 2023, the investor group had its first meeting with the company.

Outcomes

Linde has set near-term emissions targets and is making good progress against its goal to reduce carbon intensity by 35% by 2028. However, the company has not yet committed to a longer-term net-zero target through the SBTi, although it has a 'Climate Neutral 2050' goal in place. We discussed progress on Scope 3 reporting given its existing target coverage excludes Scope 3 emissions. The company confirmed that Scope 3 emissions are less than 40% of its overall GHG emissions and its current focus is working with its major suppliers to set their own science-based reduction targets. In terms of capital, the company has allocated a US\$3bn budget in the US to retrofit steam methane reformers and existing hydrogen facilities with carbon capture technology.

Next steps

The investor group has encouraged Linde to provide more detail on its longer-term climate transition strategy beyond its current 2028 targets. The company intends to review its SBTi target (currently 2°C aligned) after publication of the sector guidance in 2024. The investor group plans to follow up with the company at this juncture, later in 2024.



Advocacy

We believe that the asset management sector can meaningfully contribute to meeting the goals of the Paris Agreement by pricing climate risk accurately and allocating capital towards climate solutions. To help enable this, we collaborate with clients, regulators and other stakeholders for further policy action to incentivise the transition to a low-emission, climate resilient economy (the ‘climate transition’).

There were three workstreams for our Climate-related advocacy activities in 2023:



The core message of this workstream is that national governments need to adopt net-zero goals and ambitious Nationally Determined Contributions (NDCs), underpinned by sectoral pathways and dialogues with investors on detailed policies needed to attract private capital.



This workstream seeks to engage policymakers and investors on how to improve assessment and disclosure of physical risks, encourage development of corporate adaptation plans and increase capital flows into adaptation solutions.



This workstream aims to ensure that climate risks and opportunities are integrated into investment decisions including through effective implementation of the TCFD recommendations and the disclosure of engagement and advocacy activities to accelerate the climate transition.

During 2023, our advocacy activities in this area included the following initiatives:



Financing net-zero: UN Food & Agriculture Organization (FAO) net-zero roadmap

Since 2021, Impax has supported work by FAIRR to encourage parties to the Paris Agreement to explicitly include measures and policies in the NDCs aimed at reducing emissions from the food and agriculture sectors. The key focus of this work has been FAIRR's engagement with the FAO to encourage them to develop a net-zero, nature-positive roadmap for the global food system, along the lines of the IEA's Net-zero Scenario, which Impax has actively supported. We were therefore very pleased that the FAO published the first phase of this roadmap during the COP28 climate summit in December 2023, alongside the agreement of the Emirates Declaration in which more than 150 countries committed to account for agriculture in their NDCs. We will continue to support FAIRR in its engagement with FAO on the more detailed elements of the roadmap during 2024.



Physical climate risks and adaptation: UK Climate Financial Risk Forum (CFRF)

During 2023, Impax was invited by the CFRF to co-chair a new Adaptation Working Group alongside the Green Finance Institute. The working group has worked closely with the Met Office, the University of Leeds and the University of Oxford to review best practices in measuring and monitoring physical climate risks by mapping asset-level data against hazard data in order to build out resilient business models. It has developed use-cases for what good resilience looks like in various financial sub-sectors including banking, insurance and asset management. The working group has reviewed approaches to address gaps in physical risk data, incentivising deals through better identification of risks and opportunities for adaptation, and how to improve disclosures from the private sector. Initial conclusions are due to be published in the summer of 2024.¹⁶



Climate-related financial reporting: Transition Plan Taskforce (TPT)

Since the launch of the TPT in 2022, Impax has been a strong supporter of its 'strategic and rounded' approach to corporate transition plans. The TPT recommends that a company's transition plan focuses not only on how it will decarbonise its operations and value chain, but also how it will respond to climate-related risks and opportunities, and how it will contribute to an economy-wide transition to a low-GHG emissions and climate-resilient economy.

We were therefore delighted to be asked in early 2023 to co-chair the TPT Asset Managers Working Group in order to develop sector-specific guidance for the asset management sector. The guidance is intended to increase international regulatory alignment by implementing the TCFD, International Sustainability Standards Board (ISSB) and Corporate Sustainability Reporting Directive (CSRD) frameworks. Crucially, it also incorporates expert inputs on how to start integrating adaptation, just transition and nature into transition plans. The draft guidance was published for consultation ahead of COP28, alongside equivalent guidance for asset owners, and the final versions were launched in April 2024.

¹⁶ Climate Financial Risk Forum, 2024: Adaptation Working Group – Session 4. Publication pending, as of June 2024.



Thought leadership

Climate-related topics remained a focus of our thought leadership again in 2023. In addition to the two major projects outlined below, we published our perspectives on proposed climate reporting regulations in the UK and the US.

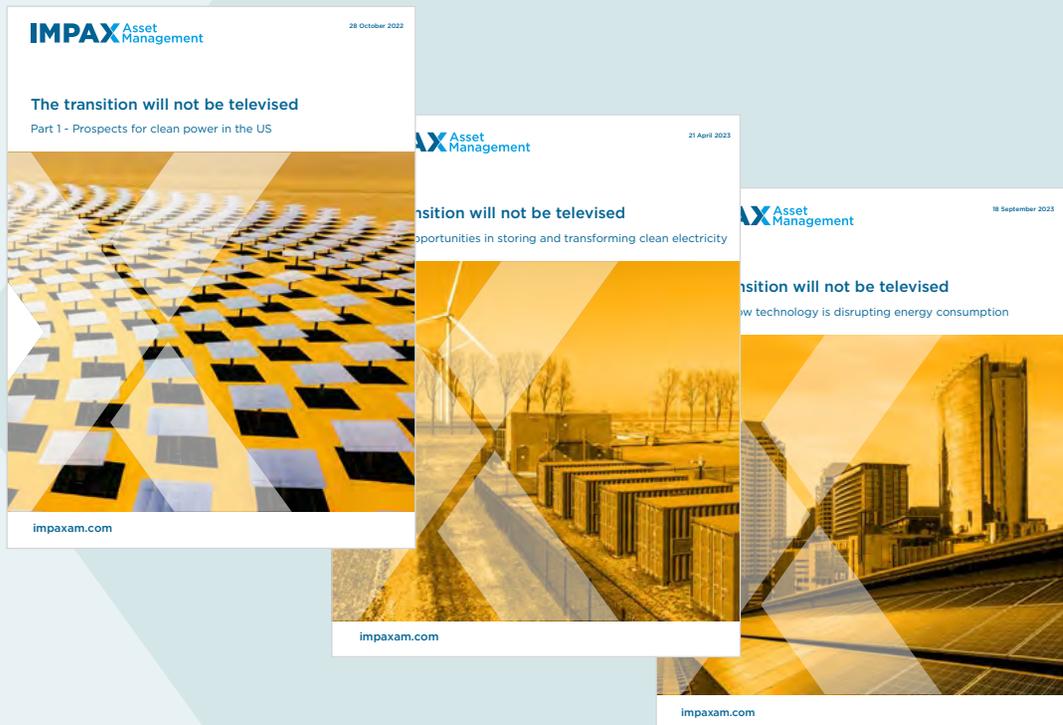
The transition will not be televised (September 2023)

The drive to reduce GHG emissions is likely to generate a sharp rise in total electricity demand. We see wind and solar power poised to assume leading roles in the supply of primary energy to the US economy. However, there are challenges to overcome in the decarbonisation of the grid.

In this three-part series, we explore how the compelling economics of renewable power must be combined with emerging technologies and effective government policies if the potential for a cleaner, more efficient US energy system is to be realised. We explore how electricity storage and ‘power-to-x’ (P2X) technologies could help fill the intermittency gap of wind and solar generation and enable the clean electrification of buildings, industry and transportation. Technological advances meanwhile are enabling consumers to take charge of their energy use: consumers can be an important catalyst for innovation – if regulators let them.

Through these papers, we explain how traditional energy value chains are being disrupted, steps that we believe regulators should take to accelerate the clean energy transition, and where opportunities are being created for companies whose products and services can enable it.¹⁷

17 Impax, 2023: The transition will not be televised.





Climate change: the impact for investors (September 2023)

For 25 years, Impax has analysed the impact of environmental and social trends on global economic activity and investigated how climate change affects financial performance.

In this paper, we review the growing body of research that demonstrates the financial materiality of physical, transition and adaptation risks to companies, issuers and their investors. This includes research examining the estimated economic costs of climate change, the materiality of those costs to investors, and the potential impact of climate risks on asset values.

Difficulties in accurately pricing these risks lead many experts to believe that investors are widely underestimating the potential or likely damages of climate change. Yet there is mounting evidence that financial markets, companies and investors are increasingly attuned to the financial materiality of climate risk. We identify research that draws correlations between companies' vulnerability to climate risks and the cost of borrowing, and between relative GHG emissions and shareholder returns.¹⁸

18 Impax 2023: Climate change: the impact for investors.





Fixed income

Collaborating for environmental and social impact

As a specialist asset manager with many years' experience investing in impact bonds, issuers – including supranational bodies – have sought input from Impax on eligible projects and impact-focused issuances.

Impax collaborated with the World Bank's International Bank for Reconstruction and Development (IBRD) to structure an innovative US\$50mn impact bond, issued in February 2023.¹⁹

The World Bank's primary goals are to eliminate extreme poverty and promote shared prosperity in a sustainable way. To finance these goals, it issues fixed income securities that create investable impact opportunities.

The proceeds from this issuance will finance 300,000 water purifiers for schools and other institutions in Vietnam. The project will help improve access to clean water for up to 2mn children, replace the carbon intensive wood-burning process traditionally used to boil and purify water, and consequently empower women in communities by freeing up time they would have spent collecting firewood and boiling water.

The CO₂ emissions avoided from the use of purifiers will be turned into verified carbon credits issued on the Verra Registry, a third-party platform that facilitates the transparent listing of projects and trading of credits. Bond investors receive semi-annual payments linked to the issuance of these verified carbon credits, instead of an ordinary coupon. Proceeds from the sale of the first 1.8mn tonnes of carbon credits are earmarked for bondholders.

The development of this bond pairs the pursuit of financial goals with support for an environmental and social purpose, mobilising finance for sustainable development.

¹⁹ World Bank, 2023: Emission Reduction-Linked Bond Helps Provide Clean Drinking Water to Two Million Children in Vietnam.



Issuers including the World Bank have sought our input on impact-focused bonds.



Nature



We believe that the financial sector can play a critical role in addressing environmental degradation by both influencing companies to stop depleting natural resources and by deploying capital into solution providers whose products and services play a positive role in alleviating the pressures on biodiversity.

Engagement

In line with the Taskforce for Nature-related Financial Disclosures (TNFD) framework, our engagements are currently focused on understanding investee company nature-related dependencies and impacts, and encouraging these companies to undertake robust assessments of risks and opportunities.

Engagement focus areas

- Nature-related dependencies and impacts on nature, and best practice management
- Corporate disclosures in line with TNFD recommendations

Proxy voting

In 2023, we supported **100%** of total Nature-related shareholder proposals where we were eligible to vote, covering topics such as plastic packaging. Though there have historically been fewer proposals on this topic, we expect investor expectations and interest to evolve following publication of the final TNFD framework in late 2023.



14%

of engagement dialogues
in 2023 focused on
Nature-related issues



Company engagement **Croda**

Nature-related dependencies and impacts / TNFD adoption

UK-listed Croda is a producer of specialist chemicals and ingredients. In 2023, we broadened an ongoing engagement with the company on climate-related risk management to also focus on nature-related risks.

Engagement objectives

1. Understand the process for assessing nature-related dependencies and impacts (Achieved 2023)
2. Disclose assessment of nature-related dependencies and impacts, in line with the TNFD framework (Ongoing)

Activities

We have engaged with Croda in recent years on climate-related risk management. Given the nexus of climate and nature, a significant proportion of Croda's Scope 3 GHG emissions relates to the sourcing of bio-based raw materials, which are a key input for many of its products. As such, we decided to broaden the focus of this engagement in 2023 to focus specifically on understanding the company's assessment of its nature-related dependencies and risks. We engaged on this issue in collaboration with an Impax client and fellow Croda shareholder.

Outcomes

There has been a positive ongoing dialogue with the company, with the discussion focused on the company's efforts to increase its use of bio-based raw materials, monitoring freshwater use and pollution impacts. The company is further enhancing its management of upstream supply chain data and we have discussed challenges associated with material sourcing and certifications, given its dependence on palm-based derivatives. Given the nature of its business, the company was keen to highlight its nature-related opportunities and progress against its target to bring, on average, two crop-related technological breakthroughs to market each year until 2030.

Next steps

We have encouraged the company to use the TNFD framework to assess its nature-related dependencies, impacts, risks and opportunities, and to align its reporting with the TNFD. We continue to engage with the company on this topic.



Croda has made good progress against one of its key nature-related targets.



Collaborative engagement: **Nature Action 100**

In 2023, Impax became a signatory to the Nature Action 100 initiative led by the IIGCC and Ceres. These collaborative engagements focus on companies' policies and actions regarding impacts on nature.

Impax was selected to participate in the investor groups of five of the Nature Action 100 company engagements, which commenced in 2024. The initiative has established a set of six investor expectations pertaining to corporate ambitions, assessment, targets, implementation, governance and engagement with stakeholders.

Advocacy

Our Nature-related advocacy in 2023 sought to improve corporate and investor understanding of nature-related risks, as the first step to ensure these are better managed. We focused on the development of effective corporate disclosure frameworks to measure impacts and dependencies on nature, and dialogue with policymakers on regulation and tools to reduce deforestation in commodity supply chains.

During 2023, our advocacy activities in this area included the following initiatives:



Taskforce on Nature-related Financial Disclosures (TNFD): We have been a strong supporter of the TNFD - a global initiative to encourage and enable business and finance to assess, report and act on their nature-related dependencies, impacts, risks and opportunities - since its inception.

During 2023, we contributed to the work of the TNFD in three ways. First, by pilot-testing the beta version of its Nature-related Risk & Opportunity Management and Disclosure Framework. Second, by hosting an asset manager roundtable in May 2023 to exchange views on the framework and inform consultation responses on its recommendations. Third, by submitting our formal response to the TNFD's consultation in June 2023.

Following their launch in September 2023, we have endorsed the TNFD's recommendations as an early adopter, committing to report on our own nature-related risks by 2025. We believe the recommendations play an essential role in aligning financial flows to a nature-positive transition, by providing a risk management and disclosure framework for organisations to report on nature-related dependencies, impacts, risks and opportunities.



Investor Policy Dialogue on Deforestation (IPDD): We are an active member of the IPDD, an investor collaborative initiative that engages with policymakers and industry associations on the issue of deforestation. We are particularly active in the 'Consumer Countries' working group, launched in 2023, which focuses on engagement with public institutions and industry associations in economies that are major consumers of commodities linked to deforestation and forest degradation, such as the US, the UK and the EU. The working group is particularly focused on legislation requiring end users of commodities to take action within their supply chains, such as the EU Deforestation Regulation and the UK Environment Act 2021.



PRI Spring: Impax was an early signatory to the PRI's new Spring initiative, launched in late 2023. Spring's ambition is to halt and reverse global biodiversity loss by 2030 by addressing the systemic risks of biodiversity loss. Spring aims to engage governments, NGOs and companies to urge goal-setting for deforestation, implement due diligence systems, map risks, report on progress toward no-deforestation goals and to publicly commit to align political engagement activities with the missions of the Global Biodiversity Framework.

We were an initial member of the Nature Action 100 initiative and have been selected to join the investor groups of five companies.



Thought leadership

Nature-related topics have come to the fore in our 2023 thought leadership, reflecting its rising prominence in our stewardship and advocacy activities.

Water quality: a critical pillar of biodiversity (March 2023)

Water quality and the state of biodiversity are intimately connected. Nature depends on clean water and, less obviously perhaps, clean water depends on nature. Poor water quality contributes to direct drivers of global biodiversity loss, particularly in the form of pollution and invasive non-native species. It also impacts human health as highlighted in the UK and the US, for instance, by recent sewage leaks and lead pipe contaminations.

In this article, first published in *Environmental Finance*, we discuss how water quality issues that harm natural capital can be mitigated at stages throughout the water value chain, with a tightening regulatory environment supporting innovative approaches and technologies. ‘Upstream’ solutions, like better management of storm water, can prevent contaminated water from entering waterways. ‘Midstream’ solutions are those that assess water quality, through accurate testing, and improve usage. ‘Downstream’ solutions treat water to make it usable for drinking, bathing or discharge back into the natural environment.

To help investors better identify and assess risks relating to water quality, we advocate for more granular company disclosures. Local context is almost always missing, despite it being critical: location-specific water impact analysis is only made possible by detailed disclosure of important physical assets’ geolocations.²⁰

²⁰ Impax, 2023: Water quality: a critical pillar of biodiversity.



Protecting biodiversity: incentives for corporate action (June 2023)

In late 2022, we collaborated with independent academics from Imperial College London to explore what motivates companies to invest in actions that protect biodiversity within their operations and supply chains.

In this report, we summarise findings from the research which focused on examples in five different sectors: agriculture, cities, energy, insurance and water. In summary, the scale of corporate action to protect biodiversity was found to be limited and that corporate objectives and regulation – not biodiversity-related concerns – were the primary drivers for action.

To encourage and enable nature-positive private sector investments, we identify three recommendations:

- Governments should address market failure – and the ‘global commons’ nature of biodiversity – through stronger regulation and incentives for corporate action
- Companies must improve how they report and share information on efforts to limit their impact on biodiversity and restore nature.
- Further research is needed into how private investments can be leveraged by public funding or philanthropy, policies that price the value of biodiversity effectively, and cost-benefit analysis of biodiversity-positive business models.²¹

²¹ Impax, 2023: Protecting biodiversity: incentives for corporate action.



Poor water quality contributes to direct drivers of global biodiversity loss, particularly in the form of pollution and invasive non-native species.



Private markets

Managing impacts on nature

Active management is a key part of our private markets business and Impax's PE/Infrastructure team works with its investee companies to protect biodiversity.

Complying with environmental regulations, local laws and other permitting procedures are important considerations when developing renewable energy assets. Identifying and managing projects' impact on biodiversity is a key aspect of this, but often more could be done.

The PE/Infrastructure team regularly engages with its portfolio companies to ensure that biodiversity considerations are integrated into site designs from inception. This not only serves to protect native flora and fauna but can help to minimise downside risks and add significant value. At a minimum, we strive to ensure our projects do not cause a net biodiversity loss and always aim to enhance and safeguard natural habitats.

Prior to beginning construction of an 18MW onshore wind project in central Germany, the team took great care to manage impacts on forests and wildlife.

To minimise the impact of construction operations on forested areas, the local vicinity was mapped to ensure that site access routes followed existing roads – the size of wind turbines makes this especially relevant. The route for electricity cables, meanwhile, follows existing forest paths where possible to avoid interference with woodland and hedges. Some permanent clearing of vegetation was required. However, plans are in place to offset this by planting oak and beech trees and other native shrubs and grasses. The reforested area will exceed the space originally cleared, eventually providing additional habitat for local wildlife.

To reduce disturbance to local bird populations, the proposed location of wind turbines was amended after an ecologist – who was on site regularly to monitor wildlife – identified a number of breeding pairs of great grey shrike, a threatened species. Additionally, to provide habitat for black cranes, two feeding ponds were created off-site and surrounded by newly planted spruce trees.

Working with our portfolio companies to incorporate biodiversity into site designs not only helps to protect local flora and fauna: it also enhances the quality of permit applications. This increases the probability of success and local support for the project, which can add significant value to our renewable energy portfolios.

The background image shows a wind farm in a rural landscape. In the foreground, a large white wind turbine is partially visible on the right. The middle ground features several other wind turbines scattered across a green field. In the background, there is a dense forest of evergreen trees under a clear blue sky with light clouds. A dark blue diagonal shape is overlaid on the left side of the image, containing the text.

We strive to ensure our projects do not cause a net biodiversity loss and always aim to enhance and safeguard natural habitats.



People

We believe that diversity and equitable workplace systems and processes are key to long-term company performance and risk management. We also view human capital management and equity, diversity and inclusion (E,D&I) as systemic issues for all companies. This perspective is grounded in decades' worth of studies linking corporate diversity with financial performance.²²

Engagement

We engage with investee companies on the diversity of their senior management teams, boards of directors and workforces, as well as their E,D&I processes and disclosures, talent recruitment and retention, and health and wellness policies.

Engagement focus areas

- Human capital management
- Leadership and workforce E,D&I
- Human rights due diligence

Proxy voting

In 2023, we supported **77%** of total People-related shareholder proposals, where we were eligible to vote. This included topics such as human rights, pay gap reporting, racial equity, E,D&I reporting, hiring practices, and health & wellness benefits.

Five of the People-related proposals that we supported — all at US-listed companies — earned majority support.

²² Impax, 2023: The financial impact of diversity and culture.

32%

of engagement dialogues
in 2023 focused on
People-related issues



Shareholder proposal Elevance Health

In the US, the COVID-19 pandemic and calls for racial justice have brought issues relating to health equity into sharper focus. In late 2022, Impax co-filed a shareholder proposal at Elevance Health – a provider of health insurance – requesting that it conduct an independent civil rights audit. We believed a third-party assessment of its relevant policies, practices, products and services could be valuable in helping it to examine and improve its equity impacts in the healthcare sector.

Outcome

Elevance Health discussed the proposal with its proponents throughout 2023, focusing on its health equity commitment and internal E,D&I initiatives. The company agreed to engage an independent third party to conduct a health equity assessment, focusing on whether its service offerings are leading to equitable outcomes that improve health for all, regardless of age, race, ethnicity, sexual orientation, gender identity, disability, where they live and/or their financial status.

Elevance Health met with the proponents several times over the course of the assessment in 2023 and published the final assessment report in March 2024. The report, produced by Business for Social Responsibility, provided a comprehensive overview of the company's current efforts and policies in support of health equity and is the first of its kind in the healthcare industry. Elevance was found to exhibit leading sustainability practices within its industry, but seven overarching areas were identified for improvement. This is the first step in a longer journey to advance health equity, with disclosure likely to evolve in tandem.



Company engagement **Cintas**

Leadership and workforce equity, diversity & inclusion

US-listed Cintas is a one of the leading providers of uniform rental services. We commenced a series of engagements related to human capital management and E,D&I with the company in 2022.

Engagement objectives

1. Improve board diversity (Progress since 2022)
2. Understand cost-of-living impacts and pay practices across workforce (Achieved, 2023)
3. Disclose gender pay gap (Ongoing)

Activities

In line with our proxy voting guidelines, we have voted against the chair and/or members of Cintas' nomination committee since we became a shareholder, due to low board gender diversity (of 22% in 2022 and 20% in 2023). On both occasions we communicated our votes against management to the company. Following previous engagement on human capital management and E,D&I, Cintas was identified for engagement in 2023 on cost-of-living impacts given a large proportion of its workforce in lower pay brackets are based in countries with high rates of inflation.

Our dialogue with Cintas covered cost-of-living challenges for employees, pay gap reporting, senior management and board diversity. The company shared its approach to these topics including details of internal training and development, positive results from a global employee engagement survey, how external compensation data is gained and monitored, and goals for executive compensation.

Outcomes

Cintas is aware that the low diversity among its board and senior leadership team is a concern, and it is working to improve the diversity of its talent pipeline. The company also confirmed that it internally tracks pay gap data but does not report it externally for competitive reasons.

Impact

In January 2024, Cintas announced the appointment of a new independent female board director, bringing additional HR and legal expertise to the board alongside a track record in building differentiated, high-performance workforce cultures.

Next steps

We continue to track Cintas' progress on these topics, and encourage public disclosure of pay gap data.



Cintas has announced the appointment of a new independent female director, bringing additional HR and legal expertise to the board.



Collaborative engagement **Mental health**

Impax signed letters sent to 100 UK and 100 global companies as part of a global coalition on workplace mental health, coordinated by investment manager CCLA. The letter described each company's ranking in the 2023 CCLA Corporate Mental Health Benchmark and included specific recommendations based on each company's recent mental health benchmark assessment. The benchmark aims to evaluate the extent to which employers provide the working conditions under which individuals can thrive.

Impax supported engagement with Microsoft and UPS, the US-listed shipping and logistics group, as part of a collaborative engagement arising from the CCLA Corporate Mental Health Benchmark Global 100. Discussions were focused on the gap in public disclosure versus current mental health initiatives underway at each company. The next iteration of the benchmark will be published in 2024.

Impax joined the Investor Alliance for Human Rights initiative in May 2023.



Collaborative engagement **Human rights**

In May 2023, Impax joined the Investor Alliance for Human Rights (IAHR) initiative, which facilitates collaborative engagements with some of the lowest scoring companies in the World Benchmarking Alliance's Corporate Human Rights Benchmark.

We identified Applied Materials, a US-listed provider of equipment and services to the global semiconductor industry, for further engagement based on its low score in the Benchmark and conducted a collaborative thematic engagement alongside another shareholder. We discussed the outcomes of its recent human rights saliency assessment and actions taken, and we encouraged the company to enhance its disclosures on the findings in its next sustainability report.

Applied Materials confirmed it is looking to improve its risk management processes and disclosures in this area. Importantly, the company has implemented a revised human rights governance structure, including a newly-formed working group that provides regular inputs to the board and has broad representation across different business functions. The company confirmed it has recently updated its human rights-related policies. We have shared human rights best practices from peer companies and the company has agreed to review. We will review its next sustainability report and human rights-related disclosures before following up on engagement.

Advocacy

We continue to explore opportunities to use investor influence to push for positive social change, including ensuring that social issues are taken into consideration in the design of net-zero policies adopted by governments and companies.

During 2023, our advocacy activities in this area included the following initiatives:



UN human rights roundtable

In December 2023, we took part in an Asian regional UN working group focused on human rights and transnational companies as an investor expert. Participants in the roundtable discussion shared insights and perspectives on aligning ESG approaches in the financial sector with the UN Guiding Principles on Business and Human Rights (UNGPs). As well as highlighting issues faced by investors and businesses in this context, participants exchanged examples of best practice.

This consultation will contribute to the working group's report to the UN Human Rights Council, which aims to provide guidance to governments, businesses and other stakeholders on approaches to the UNGPs in the context of financial products and services. This report is due to be published in the summer of 2024. As a follow-up from the meeting, some accusations of human rights-related controversies in the Asia region are being examined. Participants are also seeking to engage with some regulators in the region to further discuss human rights issues.



ICGN Human Capital Committee

Impax has been a member of the International Corporate Governance Network (ICGN) since 2023. The ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to sustainable economies, societies and the environment.

As part of its core activities of influencing, connecting and informing, the ICGN has member-led committees helping to develop its positions and principles and producing ICGN 'Investor Viewpoint' reports. Impax is a member of the ICGN Human Capital Committee. The Committee is currently developing a 'Viewpoint' on Employee Voice, which includes considering the mechanisms of achieving amplified employee voices, including some different regional perspectives.



Thought leadership

People-related themes remained a focus of our thought leadership again in 2023. In addition to the two Insights outlined below, we published new research linking specific workplace equity and leadership factors to company outperformance.

Engaging for greater gender equality among Asian companies (May 2023)

Companies in the Asia-Pacific region trail global peers when it comes to female representation on boards and in management. Many are entirely male dominated. Momentum for change is building, however.

In this article, we explore three catalysts for change. First, regulators across Asia are beginning to require that companies appoint women to their boards. Second, a growing number of international investors, Impax included, want to see more diverse boards among companies in which they invest. Third, increased focus on the ESG scores awarded by specialist rating agencies is encouraging companies to appoint women directors to improve their ratings.

We acknowledge concerns about a structural shortage of experienced female leaders in Asian companies. This can be addressed by building out the pipeline of future women in leadership and we are encouraged by organisations like the 30% Club in Hong Kong, which runs its own initiatives and networking opportunities for aspiring women leaders in business.²³

²³ Impax, 2023: Engaging for greater gender equality among Asian companies.





The financial impact of diversity and culture (August 2023)

There are decades' worth of studies linking corporate diversity with financial performance. That literature, in turn, builds on a body of academic research testing group decision-making, much of which shows that heterogeneous groups make more robust, thoughtful and useful decisions. There is also now a growing body of research linking corporate culture and its parameters, including wellness, productivity and employee satisfaction, to financial performance.

Our updated review of research into these relationships reveals the many ways that companies can harness human skill, talent, experience and knowledge to create value. Findings from the paper include:

- Positive correlations between diversity – particularly gender diversity in executive teams – and better company financial performance are increasingly present in the literature.
- A strong relationship between corporate culture and human resources policies is another emerging theme. These policies, in turn, are positively correlated with financial performance.
- Diversity supports both environmental and social aspects of the transition to a more sustainable economy, as it is positively correlated with more robust financial accounting, stronger innovation and better sustainability outcomes, including environmental reporting and climate disclosures.

We believe companies that understand the importance of people and culture will be better positioned for success as the transition to a more sustainable economy continues.²⁴

²⁴ Impax, 2023: The financial impact of diversity and culture.



The structural shortage of experienced female leaders in Asian companies can be addressed by building out the pipeline of future women in leadership.



Governance

We believe that companies need to demonstrate sound risk management, and be able to adapt intelligently to changing conditions, if they are to successfully navigate the opportunities and risks arising from the transition to a more sustainable economy.

Engagement

We expect high standards of corporate governance from our investee companies and engage where we believe the effectiveness of structures and processes could improve.

Governance behaviours expected of our investees:

- Protecting shareholder rights
- Maintaining high-integrity corporate behaviour
- Ensuring an independent and efficient board structure
- Aligning corporate incentive structures and remuneration with the long-term interests of shareholders
- Disclosing accurate, timely and transparent financial and corporate governance information
- Ensuring appropriate oversight of material environmental and social risks

Engagement focus areas

- Board structure and independence
- Executive compensation
- Oversight of sustainability-related risks

Proxy voting

In 2023, we supported **56%** of total Governance-related proposals, where we were eligible to vote. This included topics such as board leadership structure, executive compensation and shareholder rights.



29%

of engagements in
2023 focused on
'Governance'



Company engagement BYD

Board structure and independence

China-listed BYD is the world's largest producer of electric vehicles (EVs).²⁵ As part of the Asian Corporate Governance Association (ACGA), we started a collaborative engagement related to governance with the company in 2023.

Engagement objectives

1. Improve board independence and diversity (Ongoing)
2. Improve climate-related oversight, risk management processes and disclosure (Ongoing)

Activities

As part of the China Working Group of the ACGA, Impax is co-leading the BYD sub-group alongside another asset manager. The sub-group is composed of around 20 institutional investors based outside of China with total assets under management (AUM) of about US\$10tn. In November 2023, as co-leads of the group, we visited BYD's headquarters and held a thorough in-person engagement meeting on ESG-related issues with the company at its headquarters in Shenzhen.

Outcomes

In the meeting, BYD noted investors' concerns about slow progress in improving its climate processes and governance practices. After the meeting, we reported back to the investor group and agreed to prioritise future engagement on three key issues: supply chain management, climate risk management and governance practices.

Next steps

We continue to engage with the company and management agreed to meet with the ACGA group in 2024.

²⁵ By EVs delivered, Q4 2023. Bloomberg data, January 2024.



We held a thorough in-person engagement meeting on ESG-related issues at BYD's headquarters in Shenzhen.

The background of the page features a photograph of the Canton Tower and a suspension bridge in Guangzhou, China, during the "blue hour" of dusk. The tower is illuminated with blue lights, and the bridge's arch is also lit up. The sky is a mix of purple and pink, and the water in the foreground reflects the lights and structures. A large, semi-transparent purple triangle is overlaid on the left side of the image, containing the text.

Access to some Asian companies still proves challenging, but many are increasingly willing and able to undertake in-depth discussions on governance and climate-related issues.



Collaborative engagement Corporate governance in Asia

Through our membership of the ACGA, we have been able to enhance our knowledge and understanding of Asian governance issues and more effectively engage with regulators and companies in the region regarding governance.

Our Head of Sustainability & Stewardship, APAC continues to chair the ACGA China Working Group, representing over 50 investors with more than US\$30tn in AUM. The primary objective of the working group is to engage with regulators, companies and other stakeholders in China on improving corporate governance standards.

The China Working Group typically meets three times each year. The chair provides market updates to the Group, and the leaders of the six sub-groups on collaborative engagements with the largest Chinese companies report on progress with each company. The China Working Group has conducted a number of collaborations with Chinese regulators. For example, a roundtable discussion was held with the China Association for Public Companies in early 2023 to discuss the new offshore listing regime for Chinese companies.

Making progress in Asia

In 2023, we increased our focus on engagement with Asian companies, especially relating to governance, diversity and climate-related issues. We are encouraged to see companies moving in the right direction in terms of improving awareness and disclosures. However, the pace of change varies by company and generally reflects each companies, performance and regulatory pressure in their home market.

Access to some Asian companies still proves challenging, but many are increasingly willing and able to undertake in-depth discussions on governance and climate-related issues. In general, we have found that initiating engagement via collaborations, such as the ACGA, can be most effective in building rapport and establishing contacts. We then follow up with individual engagements over the longer term.

We understand the nuances between Asian markets, which each require tailored stewardship strategies. While company-specific engagement is effective in markets such as Japan, for example, a more systematic approach that combines collaborative engagement and advocacy with regulators and policymakers still proves most effective in markets like China, where governance and sustainability is often more compliance driven.

The various ISSB consultations and adoption timelines issued by Asian regulators in 2023, which we actively responded to, have supported our engagement efforts to further raise awareness of evolving sustainability issues and emerging reporting requirements with Asian companies.

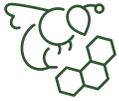


Memberships

Impax works collaboratively with our peers to shape the markets needed for the transition to a more sustainable economy to accelerate. Here is a selection of our current memberships by theme:



| | |
|---|--|
| CDP | Investment Association (IA) |
| Ceres | Investor Network on Climate Risk (INCR) |
| Climate Financial Risk Forum (CFRF) | Net Zero Asset Managers initiative (NZAM) |
| Confederation of British Industry (CBI) | Principles for Responsible Investment (PRI) |
| Energy Transitions Commission (ETC) | ShareAction Investor Decarbonization Initiative |
| FAIRR | Sustainable Investments Institute |
| Financing a Just Transition Alliance (FJTA) | Sustainable Markets Initiative |
| Glasgow Financial Alliance for Net-Zero (GFANZ) | Task Force on Climate-related Financial Disclosures (TCFD) |
| Global Impact Investing Network (GIIN) | Transition Plan Taskforce (TPT) |
| Institutional Investors Group on Climate Change (IIGCC) | |



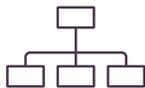
Nature

| | |
|---|--|
| Finance Sector Deforestation Action (FSDA) | Nature Action 100 (NA100) |
| Investor Environmental Health Network (IEHN) | PRI Spring |
| Investor Policy Dialogue for Deforestation (IPDD) | Taskforce on Nature-related Financial Disclosures (TNFD) |
| Natural Capital Investment Alliance (NCIA) | |



People

| | |
|--|--------------------------------|
| Investors Against Slavery and Trafficking, Asia Pacific (IAST APAC) Initiative | Thirty Percent Coalition |
| Northeast Investors Diversity Initiative (NIDI) | Women's Empowerment Principles |
| Race at Work | Women in Finance |
| ShareAction: Long-term Investors in People's Health Initiative (LIPH) | |



Governance

| | |
|---|---|
| Asian Corporate Governance Association (ACGA) | International Corporate Governance Network (ICGN) |
| Council of Institutional Investors (CII) | Principles for Responsible Investment (PRI) |
| Confederation of British Industry (CBI) | Shareholder Rights Group |
| Global ESG Benchmark for Real Assets (GRESB) | The Investing and Saving Alliance (TISA) |
| Interfaith Center on Corporate Responsibility (ICCR) | UK Stewardship Code (UKSC) |
| UK Sustainable Investment and Finance Association (UKSIF) | The US Forum for Sustainable and Responsible Investment (USSIF) |



Amplifying our voice

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, including:



Ian Simm

Founder & Chief Executive

Board member of the IIGCC; board member UK Government Net Zero Innovation Board; a commissioner with the Energy Transitions Commission; Chair of the CBI's Decarbonisation Council; member of the International Energy Agency (IEA) Finance Industry Advisory Board; member of the trustee body, Cambridge University Endowment Fund.



Lisa Beauvilain

Global Head of Sustainability & Stewardship, Co-Head Impax Sustainability Centre

Member of the Nominations Board, Kemira Oyj; member of the Financial Institution Transition Plans workstream, GFANZ; member of the Technical Reference Group, International Sustainability Standards Board, (ISSB); member of the Human Capital Committee, ICGN.



Catherine Bremner

Chief Strategy & Operations Officer

Co-Chair of the CFRF's Adaptation working group; board member of the Met Office and Chair of its Remuneration Committee; Senior Associate for the Public and Third Sector Academy for Sustainable Finance at the University of Oxford; member of the Advisory Board for the University of Chicago's Market Shaping Accelerator.



Chris Dodwell

Head of Policy & Advocacy, Co-Head Impax Sustainability Centre

Committee member of the UKSIF Policy Committee and IIGCC Policy Advisory Group; Co-Chair of the TPT Asset Manager working group and IPDD Consumer Countries working group; lead author of the CFRF's Climate Disclosures Dashboard; steering group member of the UK Climate Finance Accelerator; Climate Change Commissioner, London Borough of Hammersmith & Fulham.



Charlie Donovan

Senior Economic Advisor

Professor of Practice in Sustainable Finance at the Foster School of Business, University of Washington; Chairman of the University of Washington Climate Risk Lab; Honorary Fellow at the Imperial College London.



Steve Falci

Head of Systematic & Multi-Asset Strategies

Board member and Chair of the Investment Committee for Mercy Investment Services; board member of Friends Forever International.



Ed Farrington

President, North America

Member of the World Surf League advisory board; member of the sustainability advisory board at the University of New Hampshire; Chair of the Levitate Foundation.



Julie Gorte, Ph.D.

Senior Vice President for Sustainable Investing

Chair of the Endangered Species Coalition; Chair of Clean Production Action; Chair of the Sustainable Investments Institute; board member of E4theFuture; board member of Forum for Sustainable and Responsible Investment (US SIF).



Darren Johnson

Global Chief Operating Officer

Board member of St Mungo's; member of the investment advisory board of Comic Relief; co-founder of TalkAboutBlack; board member of the Diversity Project; member of the standing committee for Investment 20/20.



Nana Li

Head of Sustainability & Stewardship, Asia Pacific

Member of the Stakeholder Advisory Council of IAASB; member of the International Ethics Standards Board for Accountants (IESBA); member of the Financial Capital Committee of the ICGN; member of the ESG Committee of the Women in Finance Asia; member of the Caixin China ESG30 Forum; Chair of the ACGA; instructor for the Association of Stewardship Professionals (StePs).



Leah Wood

Global Head of Marketing & Client Experience

Member of the Ceres President's Council.



We continue to commit ever more energy and resources to addressing systemic risks through engagement and collaboration with our investee companies, peers and policymakers.



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Stewardship and Advocacy Report 2024

Shaping markets and pursuing
progress in the real economy

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