

## Integrating environmental, social and governance analysis in the investment process

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Impax's listed equity strategies identify and invest in companies that are set to benefit from the long-term trends of climate change, inadequate infrastructure, environmental constraints, changing demographics, urbanisation and the resultant increases in resource scarcity. Investment is focused on a small number of deeply researched global equity strategies across alternative energy, energy efficiency, water, waste and sustainable food sectors. Environmental, Social and Governance (ESG) analysis is an integral part of the investment process.

### THE RATIONALE FOR ESG-ANALYSIS

- To ensure that companies we invest in have an adequate level of governance quality
- To ensure we mitigate environmental and social risks that can lead to fines, litigation and loss of reputation
- ESG-analysis enables us to identify the "character", quality and maturity of companies

### OVERVIEW OF THE IMPAX ESG ANALYSIS AND TOOLS

ESG-analysis is an integral part of the Impax investment process. Our Listed Equities investment process incorporates ESG-parameters into the fundamental investment analysis of the companies in our investable universe.

The main tools for our ESG-analysis:



- 1. Normative UN Global Compact Screen.** We conduct a quarterly normative UN Global Compact screen of our investable universe, to ensure our companies are not in breach of the ten UN Global Compact Principles including human rights, labour rights and corruption. This screen is provided by an external ESG research provider. If a company is flagged for potential breaches, we monitor and can engage with the company. If a company is in breach with the principles, it will be excluded from investment.
- 2. Impax ESG-analysis.** We conduct a detailed, proprietary ESG-analysis of new companies considered for the investable universe and review the ESG-analysis on an annual basis. The analysis involves a thorough examination of company management, board structures, shareholder rights, ownership and corporate structures. We attempt to identify the most material environmental and social risks for a company and assess how well these risks are addressed and managed through robust policies, processes and management systems and adequately disclosed. We assess any past corporate controversies. We assign a proprietary ESG-rating for each company. If a company scores below our threshold-level, it will be automatically excluded from our investable universe. We view it as important to analyse company disclosures and reports ourselves, but we use external ESG-research as input and support in our analysis, but establish our own, proprietary ESG-score and view.
- 3. Hong Kong / China Governance Analysis.** For Hong Kong and China-based companies, we have established a further "Governance Analysis", taking into account specific regional governance circumstance and challenges. We have identified five governance metrics that companies must have in place, in order to enter our investable universe.

### INTEGRATING ESG-ANALYSIS INTO THE INVESTMENT PROCESS

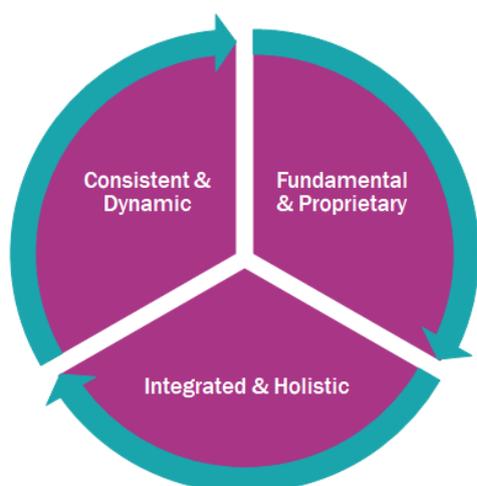
All companies must be approved by the Investment Committee on financial and ESG-criteria before entering the Impax universe of investable companies, as part of a detailed 10-step analysis. Both the financial and ESG analysis is conducted by the lead and secondary analysts covering the company.

- 1.** We analyse companies' governance structures from a country-perspective; taking into account what constitutes common practice and best practice for governance in a specific country and identifying potential outliers.

2. We analyse companies' environmental and social policies, processes and disclosures from a sector-perspective; identifying the most material risks within the sector. We seek investment in companies that have addressed the material risks for the sector, with robust processes and management systems.
3. We analyse companies' past controversies and seek strong processes and management systems to address and avoid any repeats of past controversies.

When all the data is gathered, we write an ESG-report and assign an ESG-score. The ESG-scores have 5-levels; Excellent, Good, Average, Fair and Excluded. We do not seek to exclude a certain number or percentage of companies, but rather seek an absolute level of ESG-quality. Where this is not achieved, a company is excluded from the investable universe.

## ESG METHODOLOGY:



## ANALYSIS OF:



## ENGAGEMENT AS PART OF THE INVESTMENT PROCESS

Engagement is an important part of the ESG-analysis and investment process more broadly, due to Impax's fundamentally-driven approach, with a long-term investment horizon. We engage with companies when we have identified specific ESG-issues or concerns, when we require further information regarding an ESG-aspect (that is not publicly disclosed) or in order to encourage improvement in company ESG-policies, processes and disclosures. We also find companies' responses to ESG engagements very informative of company character. We engage individually and together with other investors.

The investment team engages as part of our regular meetings with company management teams, or through additional conference calls, meetings or emails or as part of joint communications with the investment community. Increasingly expert organisations drive and coordinate investors' engagements on important issues and Impax takes part in these.

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

## PROXY VOTING AS PART OF THE INVESTMENT PROCESS

Proxy voting is an important component in the ongoing dialogue with the companies in which we invest and we view it as long-term value enhancing.

Our policy is to vote on all shares held where practicable. Our voting decisions are informed by corporate governance Codes and best practice, external governance research, as well as research by Impax's investment team.

Impax discloses a more detailed proxy voting policy and a quarterly summary of its proxy voting records on the Impax website, as part of our commitment to the UK Stewardship Code.

## IMPAX MEMBERSHIPS:

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- **United Nations Principles for Responsible Investment (UN PRI):** Aims to help investors integrate ESG considerations into investment decision making and supports sharing best practice in active ownership.
- **Institutional Investors Group on Climate Change (IIGCC):** A forum for collaboration on climate change for European investors.
- **Investor Network on Climate Risk (INCR):** Partners with investors worldwide to advance investment opportunities and reduce material risks posed by sustainability challenges such as global climate change and water scarcity.
- **The Carbon Disclosure Project (CDP):** An independent organisation holding the largest database of corporate climate change information in the world.
- **Council of Institutional Investors (CII):** Promoting strong governance and shareholder rights standards at public companies.
- **UK Sustainable Investment and Finance Association (UKSIF):** Provides services and opportunities to align investment profitability with social and environmental responsibility.
- **USSIF:** A US based membership association promoting sustainable, responsible and impact investment.
- **Global Impact Investing Network (GIIN):** The largest global community of impact investors (asset owners and asset managers) and service providers engaged in impact investing.
- **Task Force on Climate-related Financial Disclosures (TCFD):** Develops voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.
- **The UK Stewardship Code:** The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.