

Beyond ESG: Investment risk through a lens

June 2018

For professional investors only

CONFIDENTIAL, NOT FOR ONWARD DISTRIBUTION



1. EXECUTIVE SUMMARY
2. THE ORIGINS OF RISK MANAGEMENT
3. THE FINANCIAL CRISIS AS A WAKE-UP CALL
4. THREE SHORTCOMINGS OF RISK ANALYSIS
5. ESG - A USEFUL BUT INCOMPLETE FRAMEWORK
6. ADDRESSING THE THREE SHORTCOMINGS - THE IMPAX RISK LENS
7. BREAKING DOWN SILOS AND PUTTING ESG IN CONTEXT
8. USING THE IMPAX RISK LENS
9. CONCLUSION
10. APPENDIX - "TALKING ABOUT ESG"- AVOIDING MISUNDERSTANDING

1. EXECUTIVE SUMMARY

- The analysis and management of investment risk dates back centuries. However, the process has frequently failed to prevent large-scale asset value destruction for individuals, institutions and society, as illustrated by the Global Financial Crisis of 2007-2008 ("GFC").
- Impax believes that reviews of investment risk suffer from analysis that can be unstructured, short-term or narrow. As a result, key issues get overlooked.
- Drawing on our investment management experience over two decades, we believe Environmental, Social, and Governance ("ESG") research can improve the level of scrutiny. However, on its own, ESG is not enough to address shortcomings in the system.
- To achieve a more comprehensive solution we've developed the Impax Risk Lens, which maps out the

operating environment from which a company seeks to develop its business over the long term (Figure 1).

- By identifying gaps in risk analysis and grading the importance of risk factors, the Risk Lens facilitates the integration of ESG issues into a comprehensive risk framework.
- The Impax Risk Lens is a holistic framework designed to map the operating risks to which investors are exposed when backing companies. It helps them avoid Three Shortcomings¹ when assessing risk, namely those which are unstructured, short-term or narrow.

It also helps investors to integrate ESG factors into a broadly based risk management framework².

FIGURE 1: THE IMPAX RISK LENS

