IMPAX Environmental Markets plc

28 June 2024

Impax Environmental Markets Plc Taskforce for Climate-related Financial Disclosures (TCFD) Report

For the year ending 31 December 2023

The following report contains the information required under ESG Sourcebook 2.3, with the metrics following the calculations as contained in the TCFD Annex.

Impax Environmental Markets TCFD Report

Please read the below introduction, which sets out the context and meaning of the datasets and tables herein.

This is the report published by Impax Asset Management (AIFM) Limited in respect of Impax Environmental Markets Plc ("IEM", the "Trust" or "the Product") in line with the requirements set out in chapter 2 of the ESG Environmental, Social and Governance sourcebook of the FCA Handbook that require certain UK asset managers to publish product-level disclosures consistent with the Task Force on Climate-Related Financial Disclosures ("TCFD") for the period 1 January 2023 to 31 December 2023 (the "Period").

Emissions trends

As an investment trust focused on the transition to a more sustainable economy, we have been measuring and reporting on the greenhouse gas ("GHG") emissions of our investee companies since 2015 (see page 4).

Year-on-year, we have noted upward pressure on portfolio company emissions and witnessed companies begin to perform more comprehensive disclosures on their operational GHG emissions. Having previously relied on data providers' proxies and estimates, these companies have started reporting actual data, and the Scope 1 and 2 emissions reported for our portfolio companies have risen as a result. Additionally, as companies continue to gain clarity regarding environmental impacts across their value chains, Scope 3 emissions also continue to rise.

We continue to engage, both individually and collaboratively, with portfolio companies to encourage the measurement and reporting of baseline emissions. We welcome this enhanced clarity and openness that, in turn, enables a truer understanding of progress toward long-term, science-based net-zero aligned targets.

Climate scenarios

As a signatory of the Net Zero Asset Managers ("NZAM") initiative (see page 4), IEM's manager, Impax Asset Management (AIFM) Limited ("Impax"), supports the goal of net-zero emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.

Whilst a 1.5°C scenario is a challenging goalpost to meet given the current pace of decarbonisation, it can act as a galvanising force for accelerated climate action. Maintaining ambition towards 1.5°C helps us assess relative progress and highlights areas in need of investment to help close the implementation gap.

Evidence suggests that temperature rises above 1.5°C would lead to a significant increase in the frequency and severity of climate-related weather events. It is therefore both useful, and critical, to track progress relative to a 1.5°C target to better understand the impacts of being 'off target'.

The Trust is inherently more exposed to GHG emissions by the very nature of the companies and industries that IEM invests in. Environmental solutions (avoiding emissions downstream) are often provided by materials, industrials, and utility companies. In Impax's carbon risk model we analyse the impact on earnings before interest and tax ("EBIT") of carbon prices from the Network for Greening the Financial System ("NGFS") scenarios (across the 'orderly transition', 'disorderly transition' and 'hot house world' spectrum).

To show the greatest possible impact that carbon prices could have on IEM's portfolio companies' EBIT by 2030 and 2050, this report illustrates the ambitious 'Net Zero 2050' NGFS scenario, an 'orderly transition' scenario, that limits global warming to 1.5°C through stringent climate policies and innovation, reaching net-zero CO_2 emissions around 2050 (see page 6). Portfolio exposure to more emissions-intensive environmental solutions, in the context of a Net Zero 2050 scenario, translates in heightened carbon risk for IEM by 2030 and 2050.

Exposure to physical risk

To assess the exposure to physical climate-related risks, an "Average Annual Exposure" metric illustrates the extent to which over an average year, three hazards (extreme heat, extreme precipitation and drought) could impact IEM's portfolio companies (see page 7). This exposure metric is calculated across three latest generation Intergovernmental Panel on Climate Change ("IPCC") scenarios, representing 'orderly transition', 'disorderly transition' and 'hothouse world' scenarios. The respective numbers presented in this report are based on an average of the three scenarios.

For other acute risks, a forecast is provided of exposure in 2030 to two hazards: cyclones and floods. This is expressed as exposure to 'high risk' assets, i.e. those expected to be impacted significantly in the event of the reference hazard.

Forecasted exposure to cyclone risk in 2030 is notably high. It does, however, reflect the binary nature of cyclone risks: if there is exposure to cyclones, the risk will likely be high (i.e. no low-risk exposure to hurricanes).

To contextualise the exposure analysis to these five acute hazards, the Impax vulnerability score and its components illustrates IEM's portfolio companies' vulnerability or resilience to physical climate risks, given 1) their physical climate risk practices, 2) the materiality of physical climate risks to portfolio companies' sub-industries, and 3) portfolio companies' macroeconomic context in terms of country resilience.

Product information table	
Entity-level report	Impax Asset Management (AIFM) Limited TCFD Entity-level Disclosures
LEI	213800RAR6ZDJLZDND86
Product name	Impax Environmental Markets plc
Reporting currency	GBP
NAV	£1,213mn (as at end of the Period)

GHG emissions metrics

Financed GHG emissions

Metrics	Unit	2023	2022	2021
Scope 1 & 2 emissions	tCO_2e	157,850	105,020	102,350
Scope 3 emissions	tCO_2e	444,050	493,120	333,450
Total GHG emissions (Scope 1, 2 & 3)	tCO_2e	601,910	598,140	491,860
Total carbon footprint (Scope 1, 2 & 3)	tCO_2e / US$1mn invested	386	389	245
WACI (Scope 1, 2)	tCO_2e / US$1mn revenue	138	118	214
WACI (Scope 1, 2 & 3)	tCO_2e / US$1mn revenue	531	542	472

Source: Impax analysis, as at 31 December 2023. Impax have gathered all underlying GHG emissions data disclosed by investee companies, estimating Scope 1 and 2 emissions where those are not reported. Estimates are not used for Scope 3 emissions.

Please refer to Section 5 of the **Impax Climate Report 2024** for further details on the underlying methodology used in providing these metrics, as well as relevant commentary on data gaps, the use of estimates and assumptions, and data limitations.

Additional climate-related metrics

Net zero target (NZAM): Transition alignment

As a signatory of the NZAM initiative, Impax supports the goal of net-zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.

As part of that initiative, Impax has adopted a target that 100% of its assets covered by the NZAM commitment – being all actively managed listed equities and private markets investments – will be deployed into “transition aligned” or “transition aligning” investments by 2030. We project that at least 50% of committed AUM will be classified as aligned by 2030.

Impax’s group-level net-zero targets cascade to, and are monitored at, the portfolio level.

Impax also commits to reporting annually on the percentage of our investments in climate solutions and the avoided GHG emissions associated with those investments (see page 5).

Please see Section 5 of the Impax Climate Report 2024 for details.

Transition aligned & aligning[1]

2023
86%

2022	2021
80%	84%

Transition non-aligned[1]

2023
14%

2022	2021
20%	16%

Source: Impax analysis, at 31 December 2023. Investment-related AUM excludes cash.

Results at the portfolio level over shorter horizons may vary from year to year due to portfolio construction and turnover.

Investments in climate solutions

As at 31 December 2023, the Trust's portfolio weighted average exposure to 'climate solutions' was **73%**.

To be classified as climate solutions under Impax's proprietary Climate Opportunities taxonomy, companies must have a demonstrable exposure to products and services enabling mitigation of climate change or adaptation to its consequences.

Avoided GHG emissions

Measuring the avoided GHG emissions associated with the products and services of companies held within the Fund helps demonstrate their contribution to the transition to a lower-carbon economy.

Metrics	Unit	2023	2022	2021
Avoided GHG emissions	tCO_2e / US$1mn invested	506	504	378

Source: Impax analysis, as at 31 December 2023. The underlying emissions data in this table has been gathered by Impax and has been subject to external assurance as part of our annual impact reporting. As part of this process, at the point of publication of this report, we have received verbal assurance from the external assurance partner, with the official statement of assurance being included in Impax's Impact Report 2024 (to be published later in 2024).

Please refer to Section 5 of the Impax Climate Report 2024 regarding further details on the underlying methodology used in providing these metrics, as well as relevant commentary on data gaps, the use of estimates and assumptions, and data limitations.

1 Metric unit: % of NAV (excluding cash).

Climate-related risk metrics

We are intentionally not presenting a Value at Risk ("VaR") analysis in this report. While the use of tools like VaR are of critical importance to risk management across financial services (and especially important to banks), we do not see it as the ideal tool for climate risk assessment in asset management. Indeed, there is a risk that the use of VaR methodologies would create a sense of false certainty regarding the estimation of climate financial risks.

We believe that estimating the financial risks associated with climate change is a prime example of 'radical uncertainty'. Given the highly idiosyncratic nature of those risks today, we believe an aggregation to VaR at the product level provides only a limited amount of decision-useful information to our investment and risk management teams.

Below, we assess our portfolio companies' exposure to carbon risk and physical climate risks respectively.

Exposure to carbon risk

The following analysis is an output of Impax's carbon risk model, a scenario analysis tool which incorporates the seven scenarios developed by the NGFS.[2]

Under a 'Net Zero 2050' NGFS scenario,[3] 17% of IEM's assets are modelled to face 'heightened carbon risk' by 2030 and 28% of IEM's assets by 2050. Assets facing 'heightened carbon risk' are those that have a potential reduction in EBIT of greater than 30% by these dates.

The table below shows IEM's sector exposure and where that is the driver behind portfolio weighted average exposure to assets modelled to face 'heightened carbon risk' by 2030 and 2050 respectively.

Whilst these sectors are more exposed to carbon risk, our assessment of each company takes its net zero transition plan into consideration. This, in conjunction with the fundamental analysis of our portfolio management team, aims to better position portfolios against this risk (see page 7).

Carbon risk contribution by GICS sector

GICS sector	Weight	2030	2050
Information Technology	18%		
Real Estate	2%		
Health Care	6%		
Industrials	44%		
Consumer Staples	3%		
Materials	11%		
Communication Services	0%		
Financials	0%		
Utilities	13%		
Consumer Discretionary	2%		
Energy	0%		

Source: Impax analysis, portfolio holdings as at 31 December 2023. The darker the colour, the greater the risk that carbon-pricing has on the industrial sector.

Please refer to the Section 5 of the Impax Climate Report 2024 regarding further details on the underlying methodology used in providing these metrics, as well as relevant commentary on data gaps, the use of estimates and assumptions, and data limitations.

2 NGFS Scenarios Portal.
3 Net Zero 2050 is an ambitious scenario that limits global warming to 1.5 °C through stringent climate policies and innovation, reaching net zero CO_2 emissions around 2050.

Exposure to physical climate risks

Impax's analysis of the strategy's exposure to physical climate risks considers three elements:

The portfolio's average annual exposure (AAE) to three acute risk hazards (extreme heat, extreme precipitation, and drought) under three CMIP6 IIPCC climate scenarios (SSP1-1.9, SSP2-4.5, SSP3-7.0);[4]

A forecast of the portfolio's exposure to acute risks from cyclones and floods (river and coastal) in 2030, expressed as exposure to 'high risk'[5] assets;

The portfolio's vulnerability/resilience in the form of a proprietary Impax Vulnerability Score reflecting a combination of:

1. **Investee companies' physical climate risk practices,**
2. **Sub-industry level materiality of physical climate risks and**
3. **Country-level readiness/vulnerability.[6]**

Our analysis is summarised below.

Analysing Average Annual Exposure (AAE) to acute risks in 2020–2039 under 3 scenarios	
Extreme heat – Portfolio weighted average total number of days per year exposed	8
Extreme precipitation – Portfolio weighted average total number of days per year exposed	3
Drought – Portfolio weighted average number of consecutive dry days experienced in a geography per year	33

Source: Impax analysis, incorporating open-source data, portfolio holdings as at 31 December 2023.

Forecast of exposure to acute risks in 2030	
Cyclone – Portfolio weighted average exposure (%) to 'High risk' assets	34%
Flood[7] – Portfolio weighted average exposure (%) to 'High risk' assets	7%

Source: Impax analysis, incorporating data sourced from Bloomberg, portfolio holdings as at 31 December 2023. Please refer to the Impax Climate Report 2024 regarding further details on the underlying methodology used in providing these metrics, as well as relevant commentary on data gaps, the use of estimates and assumptions, and data limitations.

Impax Vulnerability Score	
PCR practices – Portfolio weighted average PCR score in stock-level Impax Fundamental ESG Analysis (1–5)	3
Subindustry materiality – Portfolio weighted average PCR score in subindustry-level Impax Sustainability Lens (1–5)	3
Country resilience – Portfolio weighted average quintile score in country-level ND-GAIN Country Index (1–5)	2
Impax Vulnerability Score	**Moderate-Heightened**

Source: Impax analysis, incorporating open-source data, portfolio holdings as at 31 December 2023. Quintile scores for each of the above three elements are averaged to derive an overall proprietary vulnerability score, on a five-point basis translated to a qualitative relative vulnerability 'flag'. In this context, 'Moderate-Heightened' sits just above 'Average' on the underlying five-point score.

4 World Climate Research Programme, 2024: Coupled Model Intercomparison Project and the IPCC. CMIP6 is the latest phase of collaboration under the Coupled Model Intercomparison Project (CMIP). CMIP6 climate model data provides the foundation for the IPCC's Sixth Assessment Reports.
5 Assets that expect to experience a significant downside risk from these future hazards.
6 Notre Dame Global Adaptation Initiative, May 2023: ND-GAIN Country Index Scores.
7 Factors in acute risks from river floods and coastal floods.

Climate-focused stewardship

As part of its investment approach, Impax believes it is in the interest of investors that it engages with investee companies to minimise risks, protect and enhance shareholder value, to promote greater transparency on material environmental and social issues, and to encourage companies and issuers to develop and become more resilient over time.

Climate risks are systemic for all companies, hence both transition and physical climate risks are assessed as part of proprietary ESG analysis.

Impax assesses companies' climate governance, policies, processes, strategies, incentives and target-setting to manage climate transition risks and GHG reduction in the real economy.

Climate-focused engagement activity with companies held in the portfolio undertaken by Impax over the course of the Period, and related outcomes, are summarised below.

38%

Proportion of total engagements relating to climate-related issues[8]

33%

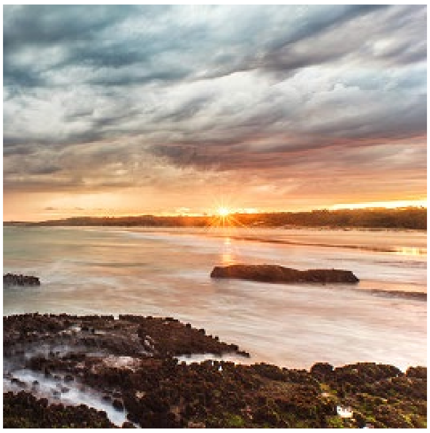
Proportion of total climate-related engagements where objectives achieved[8]

Please refer to Section 3 of the Impax Climate Report 2024 regarding further details on the approach taken to climate focused stewardship, the underlying methodology used in providing the above metrics, as well as relevant commentary on data gaps, the use of estimates and assumptions, and data limitations.

IEM's approach to the consideration of climate-related risks and opportunities is consistent with Impax's TCFD disclosures across Governance, Strategy, and Risk management.

For further information in this regard, please refer to the **Impax Climate Report 2024**.

8 Source: Impax, for the Period.



Impax Environmental Markets Plc Taskforce for Climate-related Financial Disclosures (TCFD) Report

For the year ending
31 December 2023

IMPAX ASSET MANAGEMENT

clientservices@impaxam.com

Impax Asset Management

impaxam.com

519LDNH