

Chief Executive's Review

The second quarter of 2011 brought renewed uncertainty to financial markets and a marked increase in risk aversion. Although demand for equities weakened, there were notable positive developments in the environmental markets sector.

The policy confusion in both Europe (primarily over measures to deal with debt default in Greece) and the United States (over the debt ceiling) has been well documented. The stream of often contradictory news-flow around these issues compounded general nervousness over the sustainability of the economic recovery, and investors sought out "safe" assets. As a consequence many plans to raise capital, particularly via initial public offerings, were scaled back or abandoned.

Nevertheless, the medium to long term drivers of growth in environmental markets continued to strengthen. Since the Japanese earthquake and tsunami in March, which caused extensive damage to the Fukushima Dai-ichi nuclear plants, the price of coal and natural gas have both risen, and power prices have jumped in most parts of the world. Notwithstanding sluggish economic growth, which may otherwise be expected to keep power prices low, this shock to the energy system is likely to take a long time to dissipate, given the subsequent announcement by Germany that it will abandon nuclear power entirely by 2022 and will therefore need to replace ca. 24% of its current power generation capacity. The UK has recently embarked on an equally ambitious programme of electricity market "reform", proposing to introduce a floor to the CO₂ price, a new method for compensating renewable power generators, and capacity payments to stand-by generators as part of a package that could see a third of the power supply system replaced by 2025.

With oil stuck at ca. \$100 per barrel as Libyan supply remained out of the market and interest rates still at relatively low levels, energy efficiency investments continued to offer attractive returns. Meanwhile, there was further evidence that policy makers are planning additional regulations to accelerate the deployment of capital to save energy; for example, Europe's latest Directive in this area is expected to be finalised next year. At the time of writing, it appears that the Labor administration in Australia will be successful in introducing a carbon tax, which is likely to change investment patterns in a country with one the highest per capita CO₂ emissions.

Similarly, the continuation of extreme weather events, notably the drought in the southern United States and flooding in Australia, raised water conservation issues up the political agenda, while the United Nations declared a famine in East Africa. The water sector has consistently out-performed global equities over the past five years, and there is strong evidence to suggest that this can continue.

Notwithstanding the rapid expansion of environmental markets since the launch of Impax Asset Management in 1998, it appears as though the decade ahead will be even more extraordinary as these developments lead to tangible investment opportunities. To prepare, we are continuing to take steps to expand our resources, for example by recruiting Oscar Yang, an experienced analyst who will join our Hong Kong team, and by committing to move our London office in October to larger premises in St James's Square.

Ian Simm
Chief Executive



Listed Equity Review

The challenges faced by investors in interpreting rapidly changing macro-economic fundamentals persisted in the second quarter of 2011, and the environmental markets sector, along with the wider economy, remained volatile. Exposure to Asia-Pacific markets, and weakness in renewable energy independent power producers ("IPPs") due to ongoing regulatory uncertainty and overcapacity in wind and solar, led to underperformance of global equity markets.

Significant legislative developments and corporate activity proved positive for Impax's listed equity funds over the period,

as acquiring exposure to the superior growth of environmental markets continued to prove attractive to more diversified industrial groups, with several portfolio companies acquired at attractive valuations. For example, (see "Case Study"), Total took a 60% stake in Sunpower (solar, US), and Schneider (energy management, France) bid for Telvent (power network efficiency, Spain). The strongest performing environmental sub-sectors were water utilities and pollution control companies, due to defensive characteristics that proved robust in volatile markets.

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Notwithstanding a challenging start to the year and ongoing volatility connected to European sovereign debt risk and US budget deficit issues, we retain a positive outlook. In the second half of this year we expect to start to see better growth in the later cycle environmental sub-sectors such as power network efficiency and renewable energy IPPs. With valuations at the low end of the historical range, reasonable earnings expectations and ongoing M&A activity, we believe that our portfolios continue to represent attractive long term investment opportunities.

Bruce Jenkyn-Jones
Managing Director, Listed Equities



CASE STUDY: Schneider (energy management, France) acquisition of Telvent (automated meter reading, Spain)

- Schneider produces a range of power distribution and automation systems with the goal of becoming a leading provider of “smart grid” solutions in the low and medium voltage power distribution markets
- Telvent is an information technology company providing software and services solutions to infrastructure clients in the energy and utility sector
- Schneider announced the acquisition of Telvent on 1 June 2011. The acquisition doubles Schneider’s software development capabilities allowing the company to provide complete solutions to utility customers in sub-station automation, distribution management and smart meter data management businesses
- The transaction was completed at a 26% premium with a valuation of Telvent at ca. 12.5x EBITDA

Source: Bloomberg

Private Equity Infrastructure Review

Following events at Fukushima, the governments of Austria, Germany, Finland, France and Italy have reaffirmed their commitment to increasing installed renewable energy capacity, resulting in a rise in expected demand for gas and renewable based electric supplies.

In the European market, tariff pricing is being reduced steadily as power generation becomes more cost-effective. However, because of particularly strong supplier competition, equipment prices have been dropping at a much faster rate than tariffs. This creates a significant market arbitrage opportunity for the Impax Private Equity Infrastructure team.

The Spanish portfolio of our first private equity fund, (NEF I) is outperforming both original and revised production budgets, and, following its most recent close in June 2011, our second private equity fund, NEF II, has committed capital of €308 million. NEF II invests in independent renewable power companies and projects globally, with particular focus on

Europe, and is taking advantage of the significant increase in opportunities and project size as the market has developed.

On 30 June 2011, Impax signed Purchase Contracts for its third investment into NEF II, a group of nine operating solar PV plants in Italy with energy generation capacity of ca. 9MWp. The transaction is expected to be completed before Q4 2011.

Peter Rossbach
Managing Director, Private Equity



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