

Overview

The first quarter of 2011 will be remembered as a time of geological, political and economic instability as markets were unhinged by unexpected global events. Whilst environmental markets suffered along with the rest of the economy, the consequence of MENA unrest and the Fukushima disaster has been to push energy policy and security up the political agenda and prompt a re-rating of the renewable energy and energy efficiency sectors.

Throughout these unsettled times Impax's solid growth has continued, with AUM rising to a new high of £2.36 billion at the end of March. Highlights during the quarter included establishing a subsidiary in the United States, Impax Asset Management (US) LLC, and the hiring of Ken Locklin as Managing Director to extend Impax's US presence. Ken was formerly Director of Finance and Investment at the Clean Energy Group where he worked with major industry bodies such as the Investor Network on Climate Risk. Impax's Private Equity division continues to expand in parallel with listed equity activities, and during the quarter we welcomed Geraldo Viganò as an Investment Analyst. Geraldo previously specialised in solar, wind, landfill gas and biomass projects for the Macquarie European Infrastructure Fund.

Concurrent with the growth of our specialist investment team is a rising level of attention from pension funds and other institutional investors.

These asset allocators are typically looking for alpha generating products to complement core global equities, and are recognising the opportunity to harness superior returns from rapidly expanding environmental markets. We now have 15 pension fund clients including the Environment Agency Pension Fund in the UK, Local Government Super in Australia and LD Pension Fund in Denmark and in February we were pleased to be named 'Specialist Equity Manager of the Year' at the Global Pensions Awards 2011.

We go into the second quarter of 2011 expecting that the political acceptability of nuclear energy will take time to return and ultimately lead to further development of renewable power markets. This additional strengthening of a core environmental markets sector further enhances the potential of Impax's diversified environmental portfolios for continued long-term outperformance over mainstream indices.



Ian Simm
Chief Executive

Listed Equities

Along with the wider global economy, environmental markets had an unsettled first quarter, influenced by the general rotation from emerging to developed markets and rising oil prices following MENA unrest.

The overall impact of the Japanese earthquake was mixed, with buildings energy efficiency stocks such as Stanley Electric (LED lighting, Japan) impacted by supply chain disruption, whilst beneficiaries of the reconstruction effort, such as Daiseki (hazardous waste management, Japan), performed well.

Rising power prices and heightened nuclear concerns led to speculation over an increased role for renewable energy and energy efficiency in the global energy mix and generated positive performance from renewable energy companies. EDP Renovables (renewable IPP, Spain), Vestas (wind turbine manufacturer, Denmark) and Sunpower (solar cells and modules, US) were notable outperformers.

Other notable strong performers were power network efficiency companies such as Mastec (renewable energy project construction, US) that benefited from an upturn in utility spending driven by the recovering energy price and need for network renewal.

Volatile commodity prices provided headwinds for some portfolio holdings during the quarter. Nalco (water treatment chemicals, US) struggled to pass higher petroleum-related raw material costs through to the consumer, while Sims Metal Management (metal recycling, Australia) was impacted by lower scrap metal prices for the company's recycled end products. We expect both these situations to improve in Q2.

The approval of the 12th Five Year Plan in China was the principal policy development during the quarter. A total investment of US\$770 billion is now expected in low carbon energy in China up until 2020 and confirmed environmental targets include increasing the non-fossil fuel share of primary energy by 11% and reducing water use per unit of industrial value by 30%. A further policy highlight was an allocation of €2bn a year for investments in energy efficiency in Germany.

Looking ahead, our thematic preferences are for the industrial, buildings and power network energy efficiency sectors, where significant capital will be deployed over the next few years. Geographically, we believe the China growth story is intact and are looking to increase exposure to emerging markets. We believe a global improvement in corporate and consumer confidence will continue to support portfolios and corporate activity will create additional positive momentum. Portfolio valuations remain attractive and growth rates are compelling.



Bruce Jenkyn-Jones
Managing Director, Listed Equities

Focus on Fukushima

It is widely acknowledged that increased reticence about nuclear as a low-carbon option for power generation will accelerate efforts to improve energy efficiency on the demand side and quicken the development of renewables on the supply side. The crisis will have additional positive implications for other environmental sub-sectors and diversified environmental markets portfolios are set to benefit overall from the unfortunate events.

Environmental markets companies are poised to profit from all stages of the Japanese reconstruction process. Already benefiting from rising sales of radiation monitoring and protection equipment are environmental testing and monitoring company Thermofisher (US) and water treatment company Kurita (Japan). The cleanup of damaged industrial facilities is driving volume growth at Daiseki, a Japanese company that utilises high end technology to treat waste liquid and oil. Yamatake, a Japanese manufacturer of industrial and building automation controls, is poised to benefit from a pressing need for infrastructure rebuild.

A further short term impact of the enhanced concerns over nuclear will be a global acceleration of investment in energy efficiency measures to reduce consumption, raise output levels and meet climate change targets. Japan now plans to invest ¥1trn (£7.3bn) in energy efficiency measures to help reduce power shortages and there are already EU wide targets to achieve a 20% energy efficiency saving (based on business as usual projections from

2007) by 2020. A world-wide energy efficiency drive in industry, buildings and homes is imminent and expanding the market opportunity for environmental companies manufacturing products such as smart grids, low voltage applications and high efficiency construction materials. Impax portfolio holding Rinnai (Japan) is already benefiting from escalating demand for energy efficient gas fired water heaters.

However, enhanced energy efficiency measures alone are not sufficient to compensate for the power generation gap likely to result from reduced nuclear build out and must occur alongside the accelerated development of the renewable energy sector. Wind is already cost competitive against fossil fuel based power generation, and the cost of solar is rapidly falling. Over time, we expect further technological advances and increasingly favourable environmental policy to increase the relative economic attractiveness of renewables, and the stocks that bounced in March on first news of the Fukushima disaster to be long term beneficiaries.

Lee Clements
Investment Manager,
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Bruce Jenkyn-Jones
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Private Equity

Governments around the world have already reacted to recent events in Fukushima with a series of nuclear energy safety reviews and announced the immediate closure of a number of older reactors. European nuclear energy policies are set to be further affected by expected shut-downs of existing nuclear plants and fewer new installations. This will leave a significant energy generation gap that needs to be filled. As a consequence, Impax is seeing a reinvigorated policy focus on renewables, creating an excellent market opportunity as EU countries look for alternative energy sources to address their continuous energy needs.

Independently from recent nuclear debate, renewable energy in Europe, particularly the onshore wind and solar sectors, have been growing rapidly. In 2010, the large majority of electric capacity installed in the EU was from the new energy sector. Renewable energy markets are maturing in tandem, and investors in renewable energy infrastructure are benefiting from declining wind turbine and solar panel installation costs and the economies of scale from ever larger projects.

In line with normal regulatory process, tariff pricing is being reduced steadily for new investments and will continue to trend downwards in line with falling equipment costs. However, since 2009, wind and solar equipment prices have been dropping faster than tariffs, and the Impax Private Equity Infrastructure team seeks to take advantage of this significant market opportunity.

Impax New Energy Investors II LP “NEF II”

The ten person Impax private equity infrastructure team is now investing from Impax’s second private equity fund, NEF II. The Fund currently has committed capital of €277 million having had its most recent close in March 2011.

The Fund invests in independent renewable power companies and projects in Europe, taking advantage of the significant increase in opportunities and project size as the market has developed.

In December 2010 the team completed its first investments for NEF II through the purchase of 23MW of operating wind farms from German company Conergy AG, as well as a business with a development pipeline of 93MW in Germany and 285MW in France, some of which is expected to be constructed in 2011. The investments are progressing to plan and we expect to use the business as a platform for growth in German and French markets both organically and through bolt-on acquisitions.

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Managing Director, Private Equity



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