

### Overview

After a shaky start to 2010, environmental markets have bounced back in Q3 and appear to be well positioned for 2011. Against this backdrop, we have focused on sustaining strong investment performance and on extending our support team and operations.

During the first half of the year, in spite of high levels of support from fiscal stimulus programmes, several environmental sectors struggled. In particular, companies exposed to the US renewable energy sector suffered from the low power prices resulting from the glut of shale gas. Similarly, in Europe, businesses with exposure to public sector expenditure found it difficult to sustain investor interest.

Moving into Q3, the sector showed signs of recovery as confidence returned to European economies and equity risk appetite improved. In addition, environmental policy across the Asia-Pacific region continued to tighten, with the Chinese and Indian governments making major announcements on longer term energy efficiency and renewable energy targets.

In recent months we have been able to welcome many long term supporters of Impax funds, along with new investors, into our products. Following the announcement earlier this week of the successful expansion of our second private equity fund (which raised €118 million of additional capital), Impax is now managing in excess of £2 billion, further consolidating our position as one of the leading investment managers in the environmental sector.

Sustaining strong investment performance is at the heart of our operations, and we continue to seek out compelling investment opportunities. For

example, at the end of Q3, Impax Asian Environmental Markets plc (IAEM plc) had returned 25.6\* since inception (in October 2009) versus 18.6% for the MSCI AC Asia Pacific Ex Japan, reflecting the excellent performance of companies that are responding to ambitious Asia-Pacific environmental targets. On the back of this performance plus the attractive prospects for the region, in late October we were able to raise an additional £131 million for this fund, taking its net assets to £272 million\*\*.

On the domestic front, in July Impax extended its offering for retail investors with a £74 million mandate to manage the Skandia Ethical Fund.

Successful fundraising activity in the UK has been paralleled overseas. In June we were awarded a AU\$50 million mandate from the Local Government Superannuation Scheme, a leading Australian pension fund which manages approximately AU\$6bn for public sector employees.

During Q3 we have continued to hire experienced staff and build our operations. In August we welcomed Roger Van Poortvliet as Head of Finance, and Lisa Beauvilain as our investment analyst specialising in environmental policy and regulation. Last month we announced the incorporation of a subsidiary company in Hong Kong to support our Asia-Pacific research function and client service capability in this region.



**Ian Simm**  
Chief Executive

### Listed Equities

#### Investment Performance

Macro concerns receded in Q3 as governments stated readiness for further quantitative easing and fears of a global double dip recession were somewhat abated. Signals from the US were mixed, with a steady ISM Index and improving labour market but a continually disappointing housing sector. Fiscal concerns dominated the European agenda whilst Asia-Pacific environmental markets continued to develop well, with attention focused on China's 12th Five Year Plan.

All Impax's listed equity strategies performed well against their peer groups over the quarter. September saw the return of positive performance to the majority of environmental sectors and the resumption of benchmark outperformance from our 'Environmental Leaders' and 'Environmental Specialists' portfolios.

#### Sub-Sector Analysis

##### Alternative Energy and Energy Efficiency

2010's theme of a strong energy efficiency sector set against a weak renewable energy sector persisted throughout Q3. Particularly strong performers were late cycle energy efficiency stocks in the transport and industrial energy efficiency sub-sectors, such as Telvent (industrial energy efficiency, US) and China Automation Group (industrial and rail automation, China).

Navigating the alternative energy sector has proved difficult year to date with mixed sub-sector performance. This trend continued throughout Q3 as healthy solar sector volumes and improved pricing led to strong performance from solar stocks (such as Trina and Renesola, both US) but continued uncertainty regarding the outlook for global renewable energy policy and the availability of financing and turbine overcapacity resulted in a disappointing wind sector. In this vein, Vestas and Gamesa (wind turbines, Denmark and Spain respectively) continued their run of negative performance.

##### Water Treatment and Pollution Control

End market exposure dictated the performance of water sector stocks; those focused on industrial water treatment markets, such as Pall Corporation (filtration, US), performed well due to the positive ISM Index, whilst Wavin (water infrastructure, Netherlands) and Mueller Water (water infrastructure, US) were challenged by the delay in the construction sector recovery.

Corporate activity continued to drive pockets of strong performance. For example Spice plc (water infrastructure, US) was the subject of a bid from venture capital firm Cinven.

Pollution monitoring and testing stocks were relative underperformers, with currency headwinds leading to results that fell short of market expectations.

##### Waste Technologies and Resource Management

The waste sector has been a laggard in 2010 YTD and underperformed overall in Q3. However, it was the best performing sector in September.

General waste management companies with attractive valuations and good leverage to economic recovery, such as Transpacific (Australia) performed well and a recovery in commodity pricing benefitted selected recyclers such as Sims Group (recycling & value added waste processing, Australia).

The hazardous waste sub-sector was notably weaker as investors took profits following strong performance, impacting Clean Harbors and Stericycle (both US).



**Bruce Jenkyn-Jones**  
Managing Director, Listed Equities

\*Net return in £ as at 30 September 2010. MSCI Indices are net return (source: Factset, WM Reuters)  
\*\* As at 31 October 2010

## A Focus on China

Growth in Asia-Pacific environmental markets continues apace as governments rise to the challenges posed by continuous industrialisation and urbanisation by tightening legislation and launching incentives to encourage the development and roll out of environmental technologies. We have witnessed a parallel rise in investor enthusiasm for Asia-Pacific environmental markets, evidenced by our recent successful Impax Asian Environmental Markets plc C-share issue of £131 million.

The environmental challenges driving Asia-Pacific environmental markets growth are particularly intense in China, where levels of discharged CO<sub>2</sub> have tripled since 1990 to reach more than six billion tonnes in 2008. The reaction of the Chinese government has been promising, with a commitment to sourcing 15% of electricity from renewable energy by 2020, a target that will require at least US\$180 billion of capital expenditure. Early results of this progress towards targets are emerging and the Chinese solar photovoltaic energy industry now accounts for 40% of total global output.

Achieving these bullish targets is very much dependent on China's 12th Five Year Plan. Initial prospects are encouraging, with major hydro-power based projects along the Jinsha and Nu Rivers, seven wind power projects, and

renewable energy "demonstration cities" outlined. Minimum targets for renewably sourced electricity for power-network companies, that will require RMB 2tn of smart grid investment during 2011-15, are also included. Furthermore, the plan highlights the electric-vehicle industry as one of seven "strategic" industries for the acceleration of economic growth. Government procurement alone should see a fleet of half a million electric vehicles by 2012.

It is increasingly clear that China will play a major role in the development of Asia-Pacific based environmental industries and early Chinese achievements in the solar and wind sectors are encouraging. We are ever more confident that China will play a major role in the expansion of the Asia-Pacific environmental markets sector and ultimately provide investors with attractive returns.



**Kirsteen Morrison**  
Investment Manager, Listed Equities

## Private Equity

### Market Update

The new energy sector in Europe continues to be an attractive market, particularly in the onshore wind and solar sub-sectors. As the solar and wind markets mature, investors are benefiting from the excellent economics of declining wind turbine and solar panel prices from suppliers and the increasing economies of scale achievable in project investment. Combined with these improved economic factors, the government guaranteed feed-in tariffs particularly in France, Germany and Italy continue to provide significant opportunities.

The new energy sector is also enjoying an active financing market, which, while down from the peak of 2007, is well up from the lows of H2 2008/H1 2009 and the Impax NEF team continues to receive indications of financing on attractive terms.

### Impax New Energy Investors I LP

#### "NEF I"

Launched in 2005, the €125 million NEF I Fund invests in onshore wind, solar PV and solar thermal projects across Europe.

The Fund is already more than 80% invested or committed with only an Italian solar investment programme still to be completed. We consider Italy to be an attractive market for solar and in August we acquired Project Zisa, an Italian solar project company outside of Rome. This commitment added further MW capacity and diversification to an already highly cash generative portfolio. The NEF I portfolio is performing well with a strong running yield, a June

distribution to investors and project production outperforming budget.

According to Preqin (a leading provider of performance data), the Fund is one of the top performing funds in the last five years when measured against both private equity and infrastructure funds globally.

### Impax New Energy Investors II LP

#### "NEF II"

The Impax NEF team is now investing from Impax's second private equity fund, NEF II. The Fund is currently capitalised at €259 million having received an additional €118 million of capital commitments in a recent close.

The Fund will invest in independent power companies and projects in Europe, applying the same investment strategy as NEF I but on a larger scale, taking advantage of the significant increase in opportunities and project size as the market has developed.

We are currently working on a number of solar and wind opportunities in France, Ireland, Italy, Poland and Germany.



**Peter Rossbach**  
Managing Director, Private Equity

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