

Introduction

Impax has had a successful start to 2010. Our firm and investor base have continued to strengthen, assets under management have risen and our team has expanded. This growth is against a backdrop of challenging equity markets, from which we continue to extract positive performance and provide an ever stronger environmental investment offering.

Our quoted equity business continues to attract new assets. Following the successful £104.5m raise in October 2009 for Impax Asian Environmental Markets plc (IAEM plc), we have launched the Impax Asian Environmental Markets (Ireland) Fund. This fund, like IAEM plc, allows investors to benefit from the anticipated growth of companies active in the environmental sector based in the Asia-Pacific region, but through an open-ended UCITS III fund structure.

Outside the UK, our white label funds are proving ever more popular, with both the 'Specialists' and 'Environmental Leaders' strategies attracting significant new assets.

Developments in the quoted equities business have been complemented by growth in our private equity offering. Impax's private equity team has raised €141m of capital commitments for its second private equity fund, Impax New Energy Investors II LP ("NEF II"), with capital commitments from

major European institutional investors, and expects to attract further capital in due course. NEF II will invest in commercially proven renewable power generation including solar PV, wind, hydropower and solar thermal. Meanwhile, NEF I (2006 vintage) has a first quartile ranking with Preqin and remains one of the top performing infrastructure funds in Europe.

Expansion of the business has not been limited to fund flows and new products; we have been delighted to welcome Dean Palin as Head of Trading, and Natalie Over and Jasmine McDonald-Williams as Marketing Managers for the quoted and private equity teams respectively

With an experienced, committed management team, a broad network of clients and partners and a business model that is already generating rapidly rising earnings, I am confident that Impax is well positioned to take advantage of the significant opportunities in environmental markets.



Ian Simm
Chief Executive

Quoted Equities

Investment Performance

All Impax's quoted equity strategies finished 2009 with top quartile rankings and have maintained these into 2010. Over the first quarter, funds targeting the environmental sector have been affected by a weak pricing environment for natural gas and power (particularly in the US) and a slowdown in utility spending on renewable energy. Despite this, Impax managed funds have continued to show superior performance.

Our ability as environmental specialists to identify new, positive trends in the environmental investment universe is reaping dividends. Our Asia-Pacific strategy performed exceptionally well in the first quarter, rising 8.0% as momentum in environmental markets in the region continued, driven by legislation, energy efficiency demand and water infrastructure needs. Impax Asian Environmental Markets plc is up by 18.8% since launch, outperforming the MSCI AC Asia Pacific (ex Japan) by 10.3%.*

Looking forward, we have recently been encouraged by the robust performance of the energy efficiency sector where a strong acceleration in earnings is expected, particularly in the lighting and light emitting diodes (LEDs) sectors.

Against this backdrop, we expect our range of quoted equity strategies to continue to provide strong relative performance.

continued uncertainty over 2010 order momentum.

However, performance of the sector was lifted to some degree by industrial energy efficiency stocks. For example, Itron (automated meter reading, US) rose on potential new contract wins, and both Baldor and Regal Beloit energy efficient electric motors, US) had strong results based on increased activity in late cycle markets.

Water Treatment and Pollution Control

The water sector outperformed the market in Q1, reversing the previous trend of sustained underperformance. Late cycle testing and monitoring businesses were key areas of outperformance. For example, Japanese companies Shimadzu and Horiba performed strongly, rising 22.2% and 19.6% respectively, the former based on recovering corporate capex, while strong semiconductor business offset weaker automotive orders at Horiba.

Water infrastructure plays in the US also began to show signs of life based on delayed disbursement of stimulus funds. Resurgent M&A activity drove performance in filtration companies such as Pall Corporation and Millipore.

Waste Technologies and Resource Management

An inherent fixed cost base (and consequent inability to beat earnings estimates by cost reduction) and lack of visibility on top line recovery drove uninspiring Q1 performance in the waste sector. However, URS (a US based environmental consultant) rose 11.4% buoyed by government contract wins and Daiseki (hazardous waste management, Japan) rose 4.2% based on increased volume expectations.

We saw some re-emergence of M&A activity, as Energy Developments was taken over by a VC fund and Carlyle made a bid for Shanks.



Bruce Jenkyn-Jones
Managing Director, Listed Equities

Sub-Sector Analysis

Alternative Energy and Energy Efficiency

Alternative energy underperformed over the quarter as low power prices, US regulatory uncertainty and challenging project finance markets led to qualms around the timing of market recovery.

The wind sector remained weak, reflecting ongoing concerns about the timing of resumed growth. Portfolio companies Gamesa and Vestas (wind turbine manufacturers in Spain and Denmark) underperformed following

*Performance data in GBP sterling as at 31st March 2010

Global Legislation on the Rise

Legislative support for the sector continues to strengthen globally with both the end of 2009 and the start of 2010 characterised by many new environmental policies. Further to this, the disappointment of Copenhagen has been largely ignored and investors' confidence in the sector is improving, acting as a catalyst for stock price increases.

Over the quarter several significant policy announcements were made across the globe.

In the US, more information emerged on a bill that aims to cut emissions of green house gases (GHGs) by 17% by 2020. The bill would abandon a broad 'cap-and-trade' approach to cutting carbon emissions and would apply controls on a sector-by-sector basis. Meanwhile the EPA (Environmental Protection Agency) announced plans to start targeting large facilities, such as power plants, for GHG regulation, making it clear that the administration will move ahead with curbing emissions unless Congress acts.

Closer to home, the UK budget included an increase of landfill tax to £80 per tonne in 2014/15. The government says this will divert 600,000 tonnes per year of waste from landfill.

In Asia, the Chinese government drafted a ten year plan to boost the generation of clean energy in order to ensure that it accounts for 15% of

the country's total consumption mix by 2020, and Japan announced details on a proposed climate bill and a decision to extend feed in tariffs for wind, hydro and geothermal.

Finally, China and India formally agreed to join the international climate change agreement reached in Copenhagen in December, and are the last two major economies to sign up. Following this the EU Commissioner for Climate Action said that nations should now aim to reach an agreement in 2011 at the UN conference in South Africa, rather than later this year in Mexico.

Whether an agreement at South Africa or Mexico is reached or not, it is clear that countries will continue to pass environmental legislation as the problems caused by climate change and environmental degradation intensify and there is increased demand for the services of clean energy, water and waste.



Jon Forster
Associate Director, Listed Equities

Private Equity

Impax New Energy Investors I LP

"NEF I"

Strong consumer power demand, and the '20-20-20' targets, which require that 20% of EU energy consumption comes from renewable resources by 2020, are creating high demand for renewable energy infrastructure investment across Europe.

Impax's private equity team are using their specialised renewable energy knowledge and market experience to capitalise on this highly attractive investment opportunity. NEF I is invested in wind, solar PV and solar thermal across Europe. The Fund has €125m AUM and is designed to provide investors with private equity returns in the infrastructure sector.

According to Preqin (a leading provider of performance data), NEF I is one of the top performing infrastructure funds in the last five years globally. This strong result is in line with Impax's focus on providing investors with highly attractive long term investment opportunities.

Impax New Energy Investors II LP

"NEF II"

Impax's private equity team has raised €141m of capital commitments for its second private equity fund, NEF II.

At the macro level, the investment opportunity in renewable energy infrastructure continues to grow rapidly due to stabilisation of the financing markets, improvements in the competitive economics of renewable power, government guaranteed feed-in tariffs and Europe's enormous need to expand and replace ageing power generation capacity. Project and corporate deal flow is exceptional and equipment prices are falling, while tariffs remain stable. This creates a highly attractive environment in which to execute the proven NEF I strategy with a larger team (with over 120 years of combined experience) and on a larger scale.



Peter Rossbach
Managing Director, Private Equity

Outlook

Looking forward we are cautiously optimistic about global equity markets and positive about the prospects for the environmental sector.

We believe that our quoted equity portfolios remain well positioned to benefit from improving industrial production data, and portfolio companies that issued conservative guidance at the end of the December will continue to surprise on the upside. Furthermore, we are excited that our expanded range of carefully designed investment strategies is successfully capturing all positive trends across the environmental space and providing a comprehensive product offering to our expanding investor base.

We look forward to continued strong performance from Impax's private equity division and, in particular, expect NEF investments to benefit from historically low equipment prices and returns on project finance.

Against this backdrop, we believe that Impax's investors are ideally placed to benefit from the full spectrum of environmental investment opportunities as we move further into 2010.

Ian Simm
Chief Executive

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