

Environmental impact methodology

For US professional investors only - June 2016
Second edition

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Impax Specialists Strategy

1. ENVIRONMENTAL IMPACT METHODOLOGY FOR THE IMPAX SPECIALISTS STRATEGY

Impax Asset Management manages several investment vehicles and mandates for clients under its Specialists Strategy (the “Strategy”). The methodology outlined below was applied across the Strategy.

The investment objective of the Strategy is to enable investors to benefit from growth in the markets for cleaner or more efficient delivery of basic services of energy, water and waste. Investments are made predominantly in quoted companies which provide, utilise, implement or advise upon technology-based systems, products or services in environmental markets, particularly those of alternative energy and energy efficiency, water treatment and pollution control, and waste technology and resource management (which includes sustainable food, agriculture and forestry).

This methodology paper outlines the approach we applied to measure the environmental benefits attributable to the Strategy from its investments in these companies.

2. IMPAX'S METHODOLOGY – OVERVIEW

The relevant environmental metrics for all portfolio companies were measured where data was available or could be estimated. The investments included all companies in which the Strategy was invested as at 31 December 2015. At the time of preparing the data, we aimed to obtain the most recently available environmental data from our investee companies. (For approximately 80% of companies this was from 2014 reported information and for the remainder of companies this was from previously reported information). The percentage owned in each underlying investment (calculated based on the proportion of shares owned) as at 31 December 2015 was applied to measure the environmental benefit attributable to the Strategy.

3. IMPAX'S METHODOLOGY – OVERVIEW

1. We started by identifying the metrics against which we would measure the impact of the various companies. These included:
 - **Greenhouse gas (“GHG”) emissions:** net impact from GHG emitted less GHG avoided (tonnes of CO₂-e)
 - **Renewable energy:** output of renewable energy generated (MWh)
 - **Water:** volume of water treated/saved/clean water provided (litres)
 - **Materials:** weight of materials recovered/waste treated (tonnes)

The relevance of each metric was also assessed for each company based on their business activities.

2. We created a heat map (see Figure 3, page 4) which provided a qualitative indication for the positive impact of each company.
3. We collected relevant data from company disclosures including sources such as annual reports, CDP and sustainability reports. Where information was not available, we contacted companies to request additional disclosure, which in some cases produced additional relevant data.
4. However, some companies could not/did not provide information on several metrics. Therefore, we created estimates for these data points based on relevant peer groups of companies which do disclose this information. We have applied the precautionary principle in all our estimates, to ensure that we estimate the lowest positive impact, or in the case of carbon dioxide (“CO₂”) emissions, the “worst case scenario” negative impact.

Figure 1 summarises the proportion of data that was available and estimated, and the total value of the environmental impact before attribution. The flow diagram (see Figure 4) explains our reasoning that supports our positive and negative impact estimates.

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Figure 1 - Specialists Strategy environmental impact: data availability by company

	Companies for which the data are relevant	Companies for which the data were available	Companies for which the data were estimated	Companies for which data were not available and could not be estimated	Companies for which data disclosed (absolute and percentage)	Companies for which data estimated (absolute and percentage)
 CO₂ emitted	62	34 (55%)	28 (45%)	-	1,740,393t (32%)	3,724,5870t (68%)
 CO₂ avoided:	45	17 (38%)	10 (22%)	18 (40%)	86,839,404t (78%)	2,517,9783t (22%)
 Renewable energy generated	3	3 (100%)	-	0 (0%)	36,390,841MWh (100%)	-
 Water provided/ saved/treated	29	9 (31%)	3 (10%)	17 (59%)	25,454,219 mega-litres (82%)	5,680,603 mega-litres (18%)
 Materials recovered /waste treated	10	9 (90%)	-	1 (10%)	10,696,119t (100%)	-

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4. EXCLUSIONS AND LIMITATIONS

Although we have made investment in companies in relation to their air pollution mitigation technologies (e.g. SOx and NOx), we have so far been unable to quantify their environmental outcome. This also applies to some energy efficiency investments.

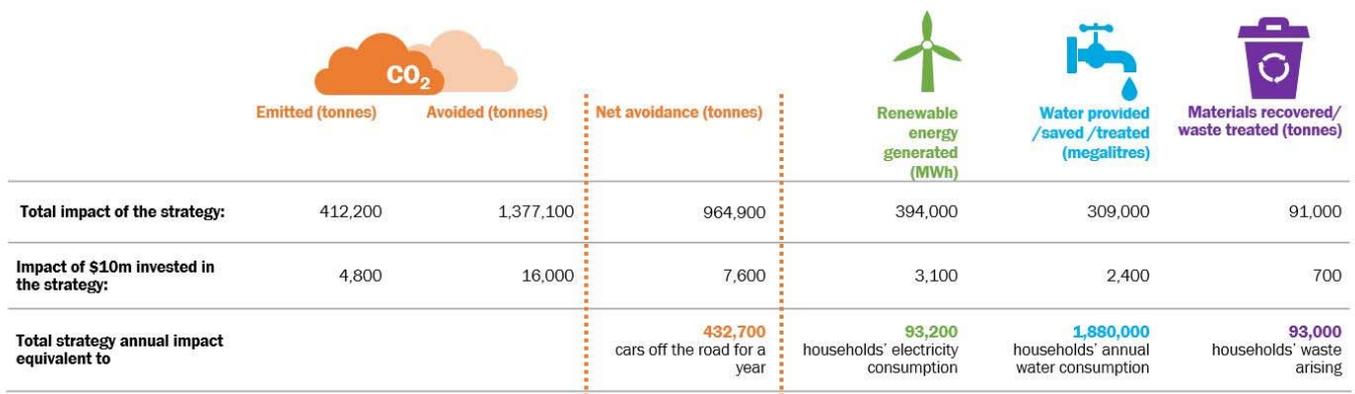
Direct GHG emissions (Scope 1) and indirect GHG emissions (Scope 2) were included in our analysis. Where available, other indirect (Scope 3, e.g. air travel and waste) emissions were also included. Scope 3 emissions were available for 17 companies. GHG emissions were measured in CO₂ equivalents (CO₂-e), which includes GHG emissions from methane and nitrous oxide, or CO₂ depending on data availability.

We found that US companies tend to disclose less environmental data (against all metrics), while several companies (particularly in the water sector) claimed that the positive impact of their products largely depends on the way in which end-users utilise them and therefore could not provide any impact information.

5. RESULTS

In the table below we have summarised the total impact and the impact per \$10 million for the Strategy.

Figure 2 - Specialists Strategy : quantitative environmental impact



Impax Specialists Strategy

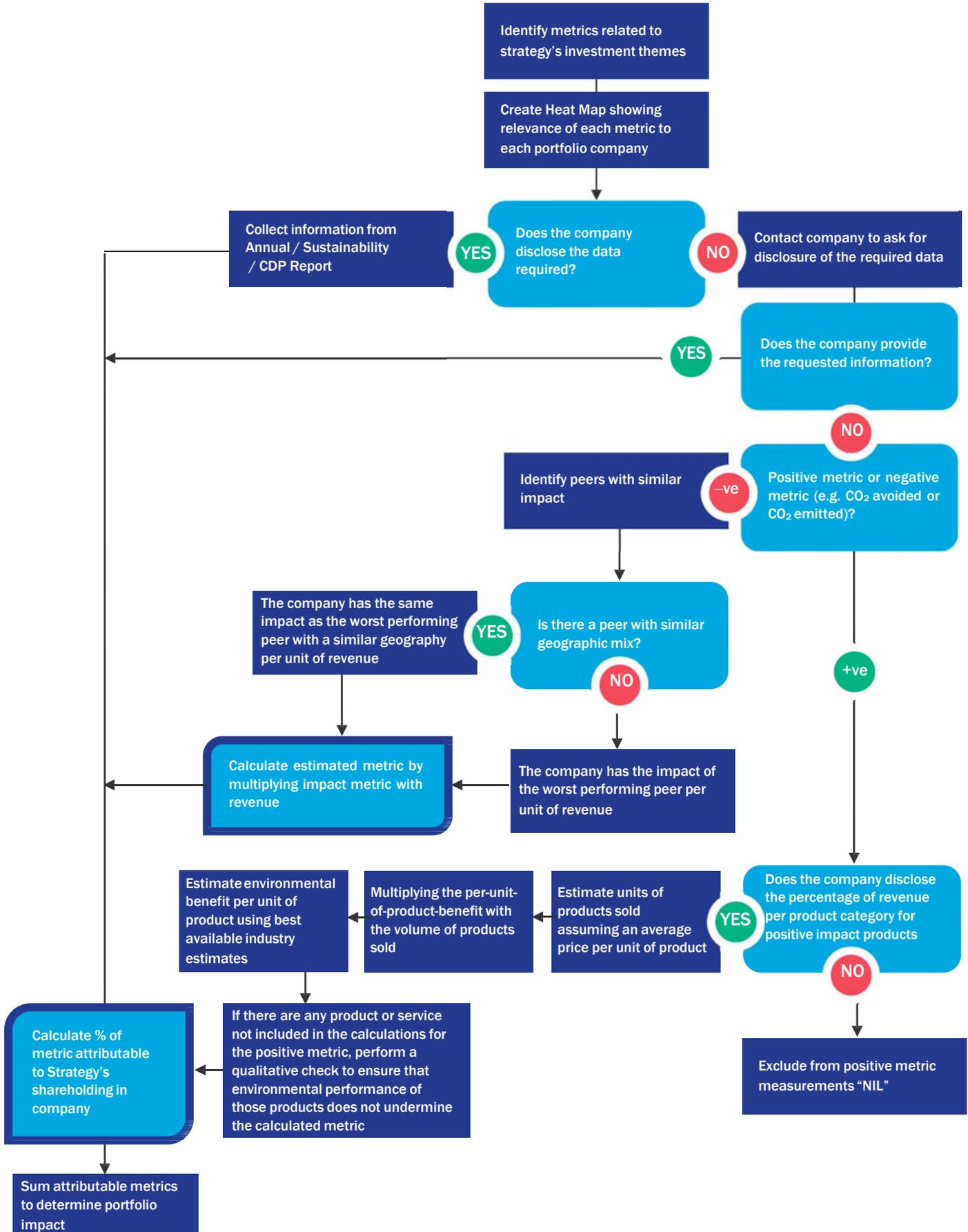
Figure 3 - Impact heat map: a qualitative indication of positive impact for each company in the portfolio



Companies	GHG emitted	GHG avoided	Renewable energy generated	Renewable energy capacity produced	Clean Water provided	Water saved	Water treated	Materials recovered /waste treated	Pollution Monitored and Avoided	Energy saved	Environ advice provided
1	Red	Green								Green	
2	Red	Green									
3	Red				Green						
4	Red				Green	Green	Green				
5	Red										Green
6	Red					Green					
7	Red				Green		Green				
8	Red	Green							Green	Green	
9	Red					Green		Green			
10	Red				Green						
11	Red	Green					Green		Green	Green	
12	Red							Green			
13	Red				Green						
14	Red	Green				Green		Green			
15	Red										
16	Red									Green	
17	Red	Green							Green	Green	
18	Red							Green			
19	Red	Green	Green								
20	Red	Green									
21	Red	Green									
22	Red								Green		
23	Red	Green					Green		Green		
24	Red										
25	Red									Green	
26	Red								Green		
27	Red	Green	Green								
28	Red						Green				
29	Red	Green				Green				Green	
30	Red						Green				
31	Red	Green								Green	
32	Red									Green	
33	Red					Green					
34	Red	Green									
35	Red	Green						Green			
36	Red	Green								Green	
37	Red	Green				Green			Green		
38	Red		Green								
39	Red						Green				
40	Red					Green				Green	
41	Red	Green					Green		Green		
42	Red	Green									
43	Red					Green					
44	Red	Green								Green	
45	Red	Green						Green			
46	Red										Green
47	Red	Green								Green	
48	Red										Green
49	Red	Green							Green	Green	
50	Red	Green								Green	
51	Red							Green	Green		
52	Red	Green									
53	Red	Green					Green		Green	Green	
54	Red							Green			
55	Red					Green				Green	
56	Red	Green		Green							
57	Red							Green	Green		
58	Red								Green		
59	Red	Green		Green							
60	Red					Green	Green			Green	
61	Red			Green							
62	Red	Green				Green	Green				

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Figure 4 – Impact methodology flow chart



Independent assurance on environmental impact data

INDEPENDENT LIMITED ASSURANCE STATEMENT TO THE DIRECTORS OF IMPAX ASSET MANAGEMENT

We have performed a limited assurance engagement on selected performance data presented in the Impax Asset Management (Impax)'s Environmental Impact Methodology June 2016 ("the Report").

Respective responsibilities

Impax management is responsible for the collection and presentation of the information within the Report. Impax management is also responsible for the design, implementation and maintenance of internal controls relevant to the preparation of the Report, so that it is free from material misstatement, whether due to fraud or error.

Our responsibility, in accordance with our engagement terms with Impax management, is to carry out a 'limited level' assurance engagement on selected data in the Report ("the Subject Matter Information"), consisting of:

- **Greenhouse gas ("GHG") emissions:** net impact from GHG emitted less GHG avoided (tonnes of CO₂-e)
- **Renewable energy:** output of renewable energy generated (MWh)
- **Water:** volume of water treated / water saved / clean water provided (litres)
- **Materials:** weight of materials recovered / waste treated (tonnes)

We do not accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on the Report is entirely at its own risk.

Our assurance engagement has been planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. We have evaluated the Subject Matter Information against management's application of Impax's environmental impact methodology ("the Criteria"), as set out within the Report.

We evaluate the Subject Matter Information against management's application of the Criteria. This evaluation included the following considerations:

Completeness

- Whether all material holdings have been included and that boundary definitions have been appropriately interpreted and applied.

Consistency

- Whether the Criteria have been consistently applied to the Subject Matter Information.

Accuracy

- Whether there is supporting information for the environmental impacts data reported to Impax by the individual companies invested in.
- Whether environmental impacts data has been accurately collated by Impax management at an aggregated level.

Independent assurance on environmental impact data

Summary of work performed

The procedures we performed were based on our professional judgement and included the steps outlined below:

1. Conducted interviews with staff to confirm the overall objectives of the quantification exercise and obtain an introduction to the methodology and model.
2. Reviewed key documentation related to the methodology, including sources of information and criteria used for reporting purposes. Identified those data points (and associated data processes and systems), that are most material to the data, in order to inform and target our testing procedures.
3. Confirmed our understanding of the key risks to data integrity and the controls associated with the collection and collation of data used within the model.
4. Tested the accuracy and completeness of a sample of data for each of the five metrics that are aggregated (CO₂ emitted, CO₂ avoided, renewable energy generated, water provided / saved and materials recovered / waste treated).
5. Reviewed the sources of assumptions, application of any factors used and/or assumptions made to extrapolate or estimate data.
6. Tested the accuracy of data aggregation processes for reporting purposes, including the attribution of environmental impacts based on Impax's reported shareholdings.
7. Reviewed the appropriate presentation of the data, including discussion of limitations and assumptions relating to the data presented.

Limitations of our review

We conducted our work to express a limited assurance conclusion. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement and we do not therefore express a reasonable assurance opinion.

Completion of our testing activities has involved placing reliance on Impax management's controls for managing and reporting the Subject Matter Information, with the degree of reliance informed by the results of our review of the effectiveness of these controls. We have not sought to review systems and controls beyond those used for the Subject Matter Information.

Our work did not include an assessment of the current value of individual holdings or Impax's reported percentage holdings.

Our conclusions

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Subject Matter Information was not prepared, in all material respects, in accordance with the Criteria, which was applied by management.

Our independence and competence

Our assurance team has the appropriate expertise to perform the engagement and with the exception of this work, we have provided no other services relating to Impax's environmental impacts data collation and reporting. In performing this engagement, we have applied International Standard on Quality Control (ISQC)¹ and the independence and other ethical requirements of the International Ethics Standards Board for Accountants (IESBA).

Restriction on use and distribution

Our work has been undertaken to enable us to express a limited assurance conclusion on the Subject Matter Information to Impax in accordance with our engagement terms, and for no other purpose. We do not accept or assume responsibility to any other party, for our work including this report and the conclusion.

Ernst & Young LLP, London
17 June 2016

¹ Parts A and B of the IESBA Code; and the International Standard on Quality Control 1 (ISQC1)

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CONTACT INFORMATION

UK CONTACTS

Bruce Jenkyn-Jones
Co-Head of Listed Equities
Managing Director
Impax Asset Management
Norfolk House
31 St James's Square
London, SW1Y 4JR

+44 (0) 20 7434 1122

b.jenkyn-jones@impaxam.com

Lisa Beauvilain
Head of Sustainability & ESG
Director
Impax Asset Management
Norfolk House
31 St James's Square
London, SW1Y 4JR

+44 (0) 20 7432 2613

l.beauvilain@impaxam.com

Meg Brown
Sales Director
Impax Asset Management
Norfolk House
31 St James's Square
London, SW1Y 4JR

+44 (0) 20 7432 2609

m.brown@impaxam.com

NORTH AMERICA CONTACTS

David Richardson
Global Head of Marketing & Client Services
Managing Director
Impax Asset Management
641 Lexington Avenue
Suite 1400
New York, NY 10022

+1 646 543 8182

d.richardson@impaxam.com

Molly Ono
Business Development & Client Services
Director
Impax Asset Management
205 SE Spokane Street
Suite 300
Portland, OR 97202

+1 503 998 1113

m.ono@impaxam.com

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