



A rational approach to fossil fuel divestment Evidence continues to support switch to energy efficiency

London, 26 April 2017 - Impax Asset Management ("Impax") the specialist investment manager focused on environmental markets and related resource efficiency sectors, has published an update of its Smart Carbon model portfolios.

Impax has been running three model portfolios, based on modifications to the MSCI World Index, which reduce exposure to fossil fuel Exploration and Production ("E&P") companies by varying degrees. In order to preserve energy price (factor) exposure, these holdings have been replaced with Energy Efficiency stocks.

The six months since our previous update have been tumultuous in political times. This has created significant currency movements and has also had a major impact on investors' appetite for risk, equity valuations and oil prices. However, Energy Efficiency markets have been resilient and shown sustained positive returns over this period.

Ian Simm, Chief Executive of Impax commented:

"In 2015, Impax developed a new approach to managing climate change investment risk within equity portfolios, exploring the potential impairment to future cash flows of companies whose valuations are linked to fossil fuel assets (i.e. extractors of coal, oil and gas). We decided to avoid the popular approach of "carbon foot printing" as this typically fails to take account of a company's pricing power, and may actually increase risk."

The models have been rebalanced four times over the past year in response to MSCI index weightings and updates to our proprietary fossil fuel risk analysis. Our model currently indicates a larger shift into Energy Efficiency from fossil fuel (exploration and production companies) than one year ago.

Results from this period:

Since inception, the model portfolios have performed better than the market with the full divestment option delivering a return of 45bps in excess of the "do nothing" MSCI World index, with limited impact on tracking error.

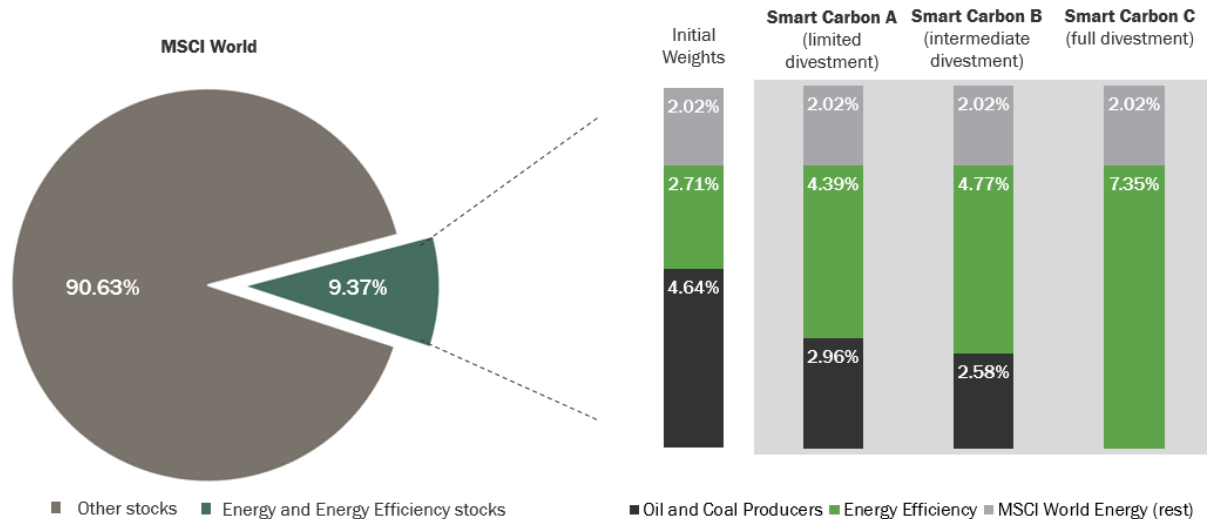
The full paper can be accessed [here](#)

Performance of the "Smart Carbon" portfolios

Smart Carbon Options	Performance (USD; 01/09/15 to 28/02/17)	Tracking error to MSCI-W
A - Divestment with Threshold	19.19%	0.22%
B - Graded Divestment	19.24%	0.26%
C - Full divestment	19.59%	0.56%
Do Nothing - MSCI World	19.14%	-

Source: Impax model portfolio, run using Factset

The “Smart Carbon” portfolios as at 1 March 2017



Source: Impax Asset Management, Factset.

Our Smart Carbon B model portfolio (partial fossil fuel divestment and reallocation to Energy Efficiency) now indicates a further reallocation to Energy Efficiency (2.10% in March 2017 versus 1.65% six months ago¹) resulting in portfolios as shown above. By making this switch from E&P stocks to Energy Efficiency companies, the portfolios have retained energy price exposure whilst reducing carbon price risk exposure and demonstrating only a very small tracking error (0.56%). The changes in allocation have been influenced by the lower profits of the E&P companies, driven in part by long-term low oil price expectations.

¹In considering this switch, investors should also note that the E&P Stocks and Energy Efficiency stocks are exposed to other risks that are not described in this paper. These results are based on model performance results that have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under- or overcompensated for the impact, if any, of certain market factors, such as lack of liquidity. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown.

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Notes to Editors - About Impax Asset Management

Impax Asset Management is a leading investment firm, managing and advising on approximately £5.7bn* primarily for institutional clients through both listed and private equity strategies.

The Company's investments are based on the strong conviction that population dynamics, resource scarcity, inadequate infrastructure and environmental constraints will profoundly shape global markets, creating investment risks and opportunities. Impax expects that these trends, reflecting the transition towards a more sustainable global economy, will drive earnings growth for well-positioned companies. Impax's proprietary investment framework identifies and calibrates the rising risks and expanding opportunities from this transition, and guides the search for investments that will deliver long term outperformance.

*As of 31 March 2017

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