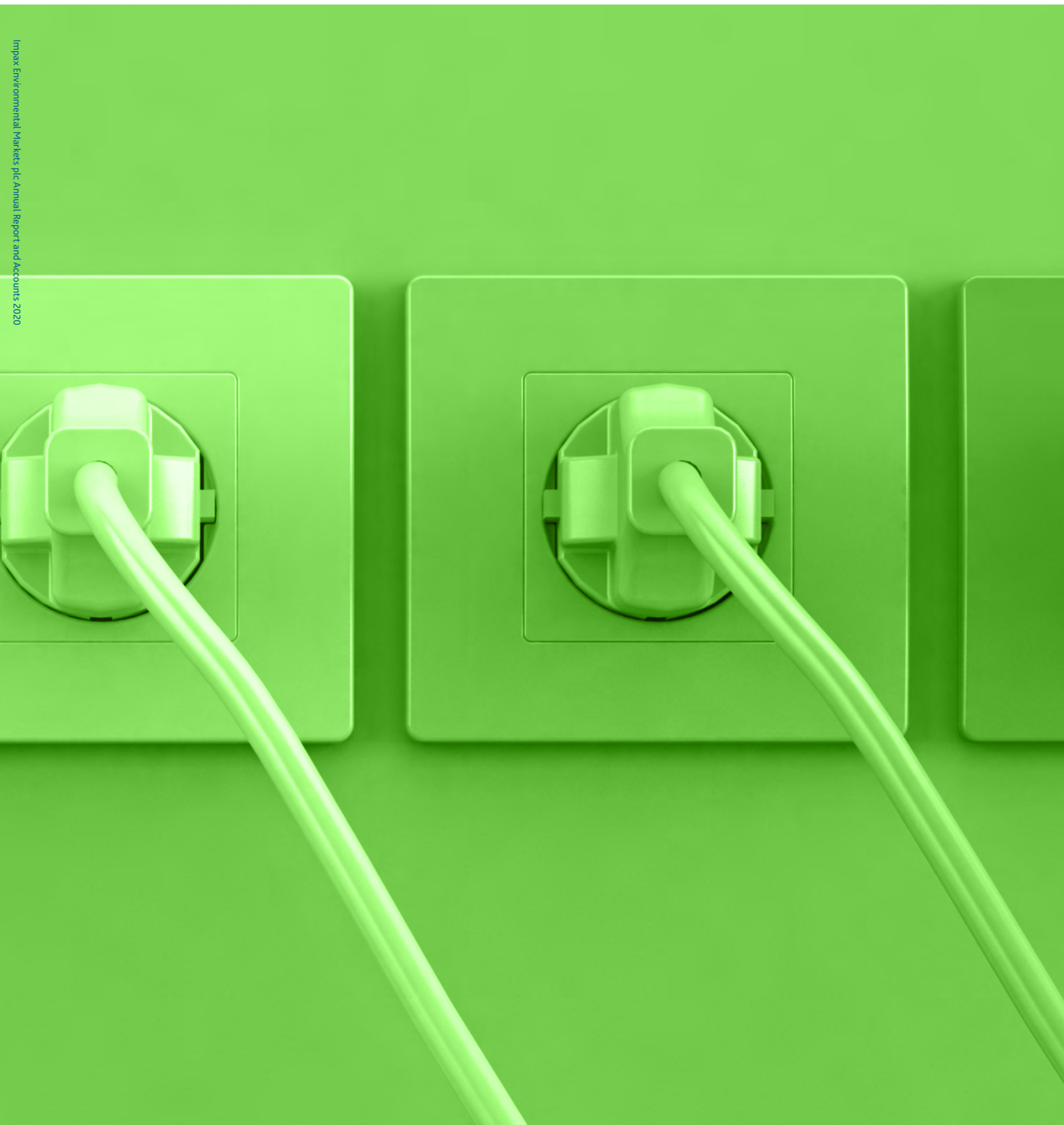


# Impax Environmental Markets plc

Annual Report and Accounts

For the year ended 31 December 2020



## CONTENTS

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### STRATEGIC REPORT

Investment Objective, Financial Information	1
Performance Summary	1
Chairman's Statement	2
Manager's Report	6
Environmental Impact Report	10
IEM's alignment to the United Nations SDGs	13
Structure of the Portfolio	14
Ten Largest Investments	15
Details of Individual Holdings	17
Investment Policy, Results and Other Information	19

### GOVERNANCE

Board of Directors	34
Directors' Report	36
Corporate Governance	41
Directors' Remuneration Policy	44
Directors' Remuneration Implementation Report	45
Report of the Audit Committee	48
Statement of Directors' Responsibilities	50
Independent Auditor's Report	51

### FINANCIALS

Income Statement	55
Balance Sheet	56
Statement of Changes in Equity	57
Statement of Cash Flows	58
Notes to the Financial Statements	59

### INVESTOR INFORMATION

10 Year Financial Record	73
Alternative Performance Measures	74
Glossary	76
Directors, Manager and Advisers	77
Notice of Annual General Meeting	78

# Investment objective

The investment objective of Impax Environmental Markets plc (the “Company”) 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).

## FINANCIAL INFORMATION

At 31 December

# 411.2p

Net asset value (“NAV”) per Ordinary Share



# 422.5p

Ordinary Share price



# 2.7%

Ordinary Share price premium to NAV<sup>1</sup>



# £1,093.3m

Net assets



# 0.95%

Ongoing charges<sup>1</sup>



## PERFORMANCE SUMMARY<sup>2</sup>

For the year ended 31 December

% Change

# 31.0%

NAV total return per Ordinary Share<sup>1</sup>



# 28.9%

Share price total return per Ordinary Share<sup>1</sup>



# 12.7%

MSCI AC World Index<sup>3</sup>



# 90.3%

FTSE ET100 Index<sup>3</sup>



<sup>1</sup> These are alternative performance measures.

<sup>2</sup> Total returns in sterling for the year to 31 December.

<sup>3</sup> Source: Bloomberg and FactSet.

## ALTERNATIVE PERFORMANCE MEASURES (“APMs”)

The disclosures as indicated in footnote 1 above are considered to represent the Company’s APMs. Definitions of these APMs and other performance measures used by the Company, together with how these measures have been calculated, can be found on pages 74 and 75.

# Chairman's Statement



**John Scott**  
Chairman

**2020 was an extraordinary year for the world. The sectors in which Impax Environmental Markets (the “Company”, or “IEM”) invests have not been immune to the considerable changes brought upon us by the virus commonly known as COVID-19. After a first half marked by extreme volatility, in which IEM lagged its global equity benchmark (the MSCI All Countries World Index or “MSCI ACWI”), the subsequent six months saw a remarkable recovery in equity markets and a period of striking outperformance by the Company, reflecting a further strengthening of the investment hypothesis underpinning environmental markets.**

After a precipitous sell-off in equity markets in February and March 2020 in response to the rapid spread of COVID-19, it has been interesting to witness the extent to which investors have looked past the severe economic impacts of the pandemic, surely the worst any of us has seen in peacetime. Markets have certainly been supported by massive stimulus measures taken by governments and central banks and by the resilience of some industry sectors, such as technology and home entertainment, which have been beneficiaries of the disruption. Investors may also be betting on the success of the vaccination programmes and the economic boost expected from the release of pent-up demand.

When COVID-19 emerged in the first quarter of 2020, some observers feared the virus would distract policymakers, business leaders and investors from other sustainability challenges, including climate change. Instead, the opposite has occurred, with positive climate policy developments in the EU, China, the US and elsewhere. Many commentators observed that the apparent ability of the coronavirus to jump from animals to humans was a reflection of unsustainable practices, a warning shot that must be heeded if we are to avert future disasters, be they health related or environmental. At the same time, the optimists observed that the extraordinary mobilisation of resources to combat COVID-19 provides a template for a similar response to climate change. What is beyond doubt is that the pandemic has helped push environmental concerns to

the centre of the stage and that what we are witnessing is a long-awaited reset of society's acceptance of its responsibility for stewardship of the planet.

Coronavirus has focused interest on the long-term shift to a more sustainable economic model, and we have seen a significant increase in attention to strategies meeting this interest. While we are currently witnessing a rash of new investment vehicles hoping to capitalise on a heightened interest in the sectors in which we invest, IEM is differentiated from the majority of new product launches. The award-winning fund manager, Impax Asset Management, works solely in this field with two decades of experience, and IEM provides detailed impact reporting to authenticate the investment claims made. The furrow that IEM has been ploughing since 2002 is no longer a lonely one and the sudden awareness of sustainability concerns among investors is to be welcomed, notwithstanding the greater competition for investable assets in our sector. The Company is not immune to investment fashions and the Manager's Report highlights some areas of the portfolio where prices are at levels which challenge existing valuation models.

## PERFORMANCE

Increased investor interest in our sector had a noticeable effect on asset prices, which in turn drove strong performance by IEM over 2020 as a whole. During the year to the end of December 2020 (the “Period”), IEM's NAV total return was 31.0%, with our shares delivering a total return of 28.9%. This compared favourably with the 12.7% increase in the MSCI ACWI. This outperformance was achieved largely through good stock selection and occurred against the backdrop of a relatively in-line performance by small and mid-cap companies, in which the Company is overweight compared with the MSCI ACWI. Detailed performance attribution can be found in the Manager's Report on page 8.

On the other hand, the Company significantly trailed the FTSE Environmental Technologies 100 Index (“FTSE ET100”), which was up by an eye-watering 90.3%. Two-thirds of this underperformance was the result of underexposure to the electric vehicles sector, which outperformed strongly. Tesla in particular – even at the start of the year the largest constituent of the index – had a remarkable year, rising by nearly 400%. For those like IEM who were not aboard this leviathan, keeping pace with the FTSE ET100 was effectively impossible. Our Manager has always been clear that it has not been a buyer of Tesla, and this is discussed in more detail in the Manager's Report.

Your Board is not alone in believing that the Company's results have been highly satisfactory; in the past year IEM and its Manager have received numerous awards in recognition of its performance and details are given on page 28.

**“what we are witnessing is a long-awaited reset of society’s acceptance of its responsibility for stewardship of the planet.”**

## INVESTMENT CASE

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IEM’s strategy is to gain exposure, at attractive valuations, to well-managed companies that are positioned to benefit from three principal investment themes: alternative energy and energy efficiency; water treatment and pollution control; and waste technology and resource management, with a particular focus on sustainable agriculture. During the Period, the momentum we had seen in 2018 and 2019 towards action on climate change – benefitting the first theme – dramatically accelerated around the world, defying concerns that the pandemic would obstruct progress on climate policy.

Perhaps the most striking development was the announcement in September by China, the world’s largest CO<sub>2</sub> emitter, that it would become carbon neutral by 2060. This announcement was swiftly followed by commitments from Japan and Korea to become net-zero by 2050, which is in line with the EU’s target. For its part, the EU ended the year with an undertaking to expand its 2030 emissions goal to a 55% reduction against 1990 levels, up from 40% previously. That EU effort is underpinned by an investment of nearly €550 billion of EU funds in climate action over seven years – the largest single financial commitment to tackling climate change made to date. This figure could yet be eclipsed by developments across the Atlantic.

During the US presidential election campaign, Joe Biden made climate change concerns a cornerstone of his platform, spelling out a US\$2 trillion climate and clean energy plan in pursuit of a carbon-free power sector by 2035 and a net-zero economy by 2050. With President Biden now in the White House and the Democrats in control of both the Senate and Congress, he has a good chance of enacting his promised programme, so it is to be hoped that a wide array of environmentally friendly actions will be seen in the USA over the coming years. The USA’s acceptance in January of the Paris Accord on climate change is an important early example of this change of tack.

The scope of these plans is remarkable. They are reflected in growing corporate sustainability commitments and increasing consumer concern about climate change and other sustainability issues; some might say that it has been a long time coming in the USA, but it does seem that we are at last witnessing a sea change in attitudes – at least amongst that part of the American populace which is prepared to base its opinions on science, not rhetoric. The gas guzzler has not yet reached the end of its thirsty journey, but the combination of policy, corporate strategy and public concern, supported by the increasing cost-competitiveness of more sustainable technologies and business models, promises strong support for IEM’s investment themes.

## DIVIDEND

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The Company’s net revenue return for the Period was £5.3 million, compared with £6.8 million earned in 2019, as earnings for companies in the portfolio were impacted by the pandemic. There were 204.1 million ordinary shares in issue at the start of the year and this grew to 265.8 million by the end of 2020, reflecting the issuance of 61.7 million treasury and new shares, raising gross proceeds of £207.4 million.

The Board recognises that the steady expansion of the Company’s capital base dilutes the earnings per share if a single dividend is paid on all shares in issue at a record date which falls after the end of the Period. At that point, the Company’s shareholders will include not only those who came onto the register towards the end of the year in which the underlying earnings were accumulated, but also those shares which were issued between the end of the financial year and a record date which might be some five months later. This dilutes the earnings which should ideally be attributed to those who have been on the register all year. One way to mitigate this is to accelerate distributions by paying one or more interim dividends during the Period, or shortly thereafter.

By declaring an interim dividend in lieu of a final in March 2020 in respect of the 2019 financial year, we were able to moderate the degree of dilution. We have followed a similar principle for the 2020 financial year with the introduction of an extra dividend paid following the half year results. Thus, the Board announced a first interim dividend of 1.3 pence per Ordinary Share, paid on 28 August 2020 to shareholders on the register on 7 August 2020, with an ex-dividend date of 6 August 2020. A second interim dividend of 1 penny per Ordinary Share was paid on 12 March 2021 to shareholders on the register at 19 February 2021, giving a total distribution of 2.3 pence for the year. As last year, there will be no final dividend, though it is our intention to return to that practice as and when the Company stops growing its capital base.

The Board’s policy is to pay out substantially all earnings by way of dividend. Our focus is on capital appreciation, which in 2020 has been very significant. At 2.3 pence per Ordinary Share, dividends per share for 2020 are 23% lower than the 3.0 pence paid for 2019, reflecting dividend cuts from a number of our underlying investments. Our earnings per share, based on the weighted average number of qualifying shares in issue through the year, were 2.22 pence per share and to facilitate a total dividend of 2.3 pence the Board has drawn on revenue reserves.

## Chairman's Statement continued

## GEARING

The Board's view is that gearing is a positive feature of investment trusts and it worked with Impax Asset Management ("IAM" or the "Manager") to draw down an additional £20m revolving credit facility towards the end of the first half, leaving the Company's total £50m debt facilities fully drawn. As at the end of 2020, the Company's net gearing was 2.2%, slightly below the 2.8% reported for the prior year, and reflects strong performance and material share issuance during the year, together with approximately 0.6% higher cash levels at the end of the Period compared to the prior year. The Board has given consideration to increasing the level of gearing and this remains an option for the future. At present, however, there is strong investor demand for our shares and we are aware that current capacity constraints at the Manager mean that any increase in our capital by way of borrowings is likely to result in a concomitant reduction in our ability to issue equity, so we are giving priority to the latter, not least because issuance is an important part of our premium management policy.

## PREMIUM/DISCOUNT

The Company's Ordinary Shares traded at an average premium to NAV of 4.6% over the Period. The highest premium, of 13.8%, was on 20 March 2020, while the lowest point during the year was a discount of 8.3% on 19 March 2020, reflecting the extreme, short-term market volatility in the early phases of the COVID-19 pandemic. There was strong demand for the Company's shares through the year and this was particularly pronounced in the first and fourth quarters.

The Company has been issuing shares throughout the Period to meet demand and manage the premium. At the AGM in May 2020, shareholders gave the Board authority to issue just over 23 million Ordinary Shares, approximately 10% of the shares then in issue, in the 12 months leading up to the 2021 AGM. At a General Meeting in August, shareholder approval was granted for the issuance of an additional 12.2 million Ordinary Shares, representing an expansion of approximately 5%. Since the latter meeting, the Company has continued to experience strong demand for its Ordinary Shares such that, on 8 January 2021, the last shares covered by the above approvals were issued. At a General Meeting on 12 January 2021 the Company received a fresh authority to issue a further 26.3 million Ordinary Shares, approximately 10% of the shares then in issue.

Shareholders should note that, following discussions between the Board and the Manager, IAM has requested that, in order to manage overall flows into the strategy within which the Company sits, the Board should aim to control the issuance of new shares in the Company so that not more than approximately 10% of IEM's share capital is issued in a year. The Company and its brokers will endeavour to manage demand within these constraints but the Board notes that, should the Company's share issuance authority run out ahead of renewal, or should demand outstrip the rate of issuance agreed with IAM, there is the prospect of an increasing share price premium to net asset value, which the Board would find hard to control.

## SHAREHOLDER COMMUNICATIONS

We seek to communicate as effectively as possible with all our shareholders. As an environmental investor,

we favour digital communication on account of its low environmental impact. A recent re-design of our website provides our shareholders with access to a wider range of content. Our website can be found at [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk), and regular updates are posted on our @IEMplc Twitter account.

## ANNUAL GENERAL MEETING

The Company's AGM will be held at 7th Floor, 30 Panton Street, London, SW1Y 4AJ on 20 May 2021 at 2:00 pm. In 2020, COVID-19 regulations obliged us to hold what was in effect a closed meeting with only two shareholders present and no opportunity for questions. As restrictions and social distancing measures remain in place, the Board will again make arrangements such that the legal requirements to hold the meeting are satisfied through the attendance of two shareholders. Physical attendance by any other shareholders at the meeting will not be possible, however the Board invites you to attend the meeting via a webinar. Voting will be by proxy in advance of the AGM with the results declared at the meeting where shareholders will also have the opportunity to hear a presentation from our investment managers, Jon Forster and Bruce Jenkyn-Jones, and ask questions of your Board and the Manager.

Shareholders who have questions that they intend to raise at the AGM are encouraged to submit them by 17 May 2021 to the Company's email address, [clientservices@impaxam.com](mailto:clientservices@impaxam.com), so that they can be addressed at the meeting. Otherwise, shareholders can submit written questions to the Board and the Manager by way of the webinar once the meeting has commenced.

Details of registration for the webinar and how to cast your vote can be found in the Notice of Meeting on pages 78 to 82. The Board is cognisant of the importance to shareholders of having the ability to meet the members of the Board and representatives of the Manager face to face, and is committed to ensuring that future AGMs and general meetings include a physical meeting, where conditions allow.

## THE BOARD

The Board has a succession plan to promote regular refreshment and diversity, whilst maintaining Board stability and continuity of skills and knowledge.

William Rickett, non-executive director and Chairman of the Remuneration Committee, has expressed his intention to step down from the Board and will retire at the forthcoming AGM. The Board is very grateful to Mr Rickett for his many invaluable contributions since he joined IEM in 2011, a decade during which the Company's size, investable universe and fortunes have changed almost beyond recognition.

It is my intention to retire from the Board at the 2022 AGM, by which time I will have been a Director of IEM for nine years. With the assistance of an external search agency, the Board has recently appointed a new Director, Simon Fraser, who will stand for election at the forthcoming AGM and it is intended that he will take over from me as Chairman next year. Mr Fraser's details appear on page 34 and the Board is delighted to have recruited an individual whose experience we believe to be highly relevant to the future of the Company.



## OUTLOOK

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In my Chairman's Statement for 2019, I reported that IEM had recently been admitted to the FTSE-250 Index, the main criterion for this being a market capitalisation of some £700 million. Twelve months on, following a year of strong price performance and successful share issuance, our market capitalisation is nearly double that threshold and we are enjoying the benefits to which I have previously alluded, namely a reduced expense ratio, wider coverage and improved liquidity for our shares. The fact that this has been achieved during a period of extreme disruption to markets and when most people have been obliged to work from home during extended lockdown periods is a great tribute to our Manager and to many whose names do not feature in this report, but who have worked behind the scenes at Impax and our service providers to keep the lights on during some dark days.

While it is becoming clear that the world has yet to emerge from the COVID-19 quagmire, the prospects for IEM are very promising. We will certainly face more competition in our sector, but at the same time environmentally focussed investing is expanding rapidly and there is room for still more participants. Governmental support for environmental initiatives has never been greater and now looks like being led by the United States, something that was unimaginable just a few months ago.

We have great confidence in the robustness of the Company's long-term investment hypothesis, namely that companies developing solutions to sustainability challenges and natural resource constraints will outperform the wider market. There are plenty of challenges on the horizon; valuations in equity markets globally are stretched and investors may be irrationally optimistic about overcoming the pandemic and the extent and resilience of subsequent economic growth. Nonetheless, I am confident that the Manager's record of stock selection discipline will help mitigate these risks.

Last year, writing in the early days of COVID-19, I concluded by saying that, while strong nerves were needed, from every crisis some winners emerge, and that IEM was likely to be one of them. Would that all my forecasts proved to be so prescient! This year I conclude by thanking Bruce Jenkyn-Jones and Jon Forster for making it happen, coping with a tumultuous year in a focussed and unruffled manner; and thereby providing our shareholders with a set of results of which your Board is proud.

**John Scott**, Chairman  
6 April 2021

## Manager's Report



Jon Forster



Bruce Jenkyn-Jones

**We are pleased with the performance of IEM during 2020, which reflects the strong fundamentals of the companies in which it invests and the accelerating global outlook for growth in environmental markets. Over the Period, the Company's NAV total return of +31.0% was 18.3% ahead of the MSCI ACWI, but 59.3% behind the FTSE ET100.**

The Company's second-half outperformance against the MSCI ACWI reversed a small underperformance, of 2.1%, in the first six months of the Period. Small and mid-cap companies, to which IEM is overexposed compared with the MSCI ACWI, outperformed during the second half, leaving them in line with the wider market for the full year. IEM's outperformance is a result of the strengthening outlook for environmental markets post-COVID, and especially for the renewable energy and energy efficiency subsectors which are particularly set to benefit from the accelerated drive towards "net-zero" economies.

However, following its underperformance against its Environmental Markets benchmark (the FTSE ET100) in the first half, IEM lost further ground in the second half of the year, lagging by a total of 59.3% over the year. Of this, around two-thirds can be explained by electric vehicle names that we have chosen not to own, most significantly Tesla. We provide an update on this below. The remaining third was due to the lagging performance of more cyclical and indebted names, which we flagged in the interim report, and which were sold down due to concerns about their ability to weather the pandemic. It should be noted that this category recovered somewhat in the second half.

This underperformance provides a reminder that the FTSE ET100 is an extremely volatile and cyclical benchmark, which can become dominated by 'in vogue' sub-sectors, such as electric vehicles. As managers of IEM, we continue to target a more diversified portfolio, with a balance of cyclical and defensive holdings spread across a range of environmental markets and across regions, and with a considerably lower risk profile than the FTSE ET100.

## KEY DEVELOPMENTS AND DRIVERS FOR ENVIRONMENTAL MARKETS

### Net-zero policies underpin renewables and energy efficiency

As discussed in the Chairman's Statement, the COVID-19 crisis has acted as a powerful catalyst for global policy on carbon emissions reduction, as governments attempt to address climate change risks which, like COVID-19, could derail global economic growth. The Energy & Climate Intelligence Unit calculates that around two thirds of global GDP (measured in purchasing power parity) is now covered by net-zero commitments. In addition, the International Energy Agency ("IEA") forecasts that a trajectory to a 2050 net-zero scenario would imply a 17% fall in primary energy demand between 2019 and 2030 in a global economy that is twice as large, and an increase in the renewables share of global electricity supply from 27% in 2019 to 60% in 2030. The growth implications for companies in the Renewable Energy and Energy Efficiency subsectors are material and have been rapidly priced into market expectations.

Renewable Energy represents a core exposure within IEM, accounting for around 12% of NAV at the end of the Period. This environmental sector, which comprises a number of sub-sectors, delivered more than 100% performance during the Period for IEM, like it did for the FTSE ET100; long-term holding Xinyi Solar (Solar Power Generation Equipment, Hong Kong) rose 265% over the Period. The performance of the sector, we believe, factors in a significant proportion of growth prospects. We have therefore been taking profit selectively and continue to look for better value opportunities in less well-covered stocks (see Portfolio Positioning, below).

Energy Efficiency remains the single biggest subsector exposure in IEM, accounting for 25% of NAV at the end of 2020. We maintain a preference for this theme, which offers the lowest-cost route to carbon emissions reductions, without subsidies, and at cheaper valuations in aggregate than in renewables. The outlook is positive for Power Network Efficiency holdings, including smart grid company Itron and back-up power and energy storage firm Generac (both US), both of which will play a role in facilitating integration of higher levels of renewables into the energy mix. We also see attractive growth prospects for heat-pumps, given penetration of only 3% in the EU and 1% in the US and with efforts by governments to phase out fossil fuel-based boilers. We expect this to benefit market leader and long-term holding NIBE (Buildings Energy Efficiency, Sweden).



## Prospects for electric vehicles and the hydrogen economy

The Period has seen strong performance both in well-proven but currently expensive technologies, such as electric vehicles (“EVs”), and in more speculative areas such as hydrogen.

Demand for EVs is growing strongly among climate-concerned consumers, while regulatory interventions – such as the UK bringing forward the date of its ban on new internal combustion engine cars from 2040 to 2030 – promise to underpin growth: Deloitte forecasts EVs capturing roughly a third of new car sales globally by 2030<sup>1</sup>.

This has driven strong investor demand for exposure to the theme, especially for manufacturers such as Tesla (US) and Nio (China). We have chosen to avoid these names for a combination of valuation and ESG concerns, and a preference for broad market exposure rather than to a single brand. Our investment, which accounts for around 7% of NAV, therefore focuses on suppliers of critical components to a wide range of manufacturers, who offer durable competitive advantage and cheaper valuations. These include LEM (Industrial Energy Efficiency, Switzerland), Littlefuse (Transport Energy Efficiency, US) and Umicore (Recycling and Value-Added Waste Processing, Belgium).

Hydrogen, meanwhile, is generating growing excitement about its potential contribution to net-zero targets, especially for parts of the global economy that are hard to de-carbonise, including heating, industrial processes and heavy-duty transport. Germany has a €9bn hydrogen strategy, while France has pledged €7bn in funding. Industrial giants, oil and gas companies and renewable energy pioneers are making increasingly large bets on the emergence of the hydrogen economy.

Our position, however, is that we see a limited transportation market beyond perhaps heavy-duty trucks and certain Asian markets, while the falling cost of renewables and storage likely limits opportunities in power generation. This leaves the de-carbonisation of carbon-intensive industries such as steel and cement as the key opportunity. While we continue to monitor the sector, and look for viable business models at appropriate valuations, IEM does not currently have any exposure to hydrogen.

## Software and digitisation driving resource efficiency

The COVID-19 pandemic and resulting shutdowns have acted as accelerants to the adoption of technology and digital infrastructure, as economic activity has migrated online. Across many areas of the economy, digital technology has moved beyond proof of concept, ensuring that it is firmly established as a cornerstone of a functional modern economy. The transition to a more digital economy has positive sustainability consequences, promising lower transport pollution and greater flexibility around working practices, among other things.

The industrial world has been a key beneficiary of digitisation and the Internet of Things (“IoT”). The use of cloud-based software has enabled flexibility in product design for engineers working from home whilst, on the factory floor, connected equipment that can be operated and monitored remotely has increased flexibility in manufacturing. In addition, applications such as augmented reality helped enhance the collaboration across an increasingly connected workforce. These trends have created a positive backdrop for companies offering industrial software, which benefit from structural growth drivers and a resilient demand environment. The total addressable market for industrial IoT solutions today is estimated to be close to \$3bn and is expected to double over the next three years. Similarly, the market opportunity for computer-aided engineering software is close to \$7bn today and could more than triple over the next decade.

Approximately 10% of the IEM portfolio is invested in companies with exposure to the digitisation theme, such as PTC, which specialises in computer-aided design and product lifecycle management, and Altair Engineering, which offers product design and engineering tools (both Industrial Energy Efficiency, US). In addition, Advantech (Industrial Energy Efficiency, Taiwan), which produces connected manufacturing software, and Trimble (Sustainable & Efficient Agriculture, US), which provides building information modelling, are well-positioned to profit from digitisation.

## Opportunities from protecting biodiversity and promoting societal diversity

COVID-19 and the response to the pandemic have exposed profound vulnerabilities in human society and fragilities in our relationship with nature. Resulting structural changes are likely to lead to long-term effects on business models, elevating both risks and opportunities across varied time horizons. These potential effects were the subject of a report published last year by IAM.

Two structural changes are worthy of note: an increased focus on protecting biodiversity; and efforts to address persistent inequalities of race, gender and education.

Recognising the value of biodiversity and protecting wild areas from further encroachment is already reflected in IEM holdings. Examples of companies responding to the theme include Lenzing (Sustainable & Efficient Agriculture, Austria), which produces natural alternatives to cotton, Borregaard (Sustainable & Efficient Agriculture, Norway), which produces biochemicals, and sustainable forestry company Rayonier (Sustainable Forestry & Plantations, US). We are redoubling our efforts to identify related opportunities in other markets.

The pandemic has also highlighted the importance of promoting societal diversity. The Manager is increasing engagement with investee companies to encourage them to develop broader talent pools and reduce operational and reputational risk through supply chains.

<sup>1</sup> Deloitte, Electric Vehicles – Setting a course for 2030, <https://www2.deloitte.com/uk/en/insights/focus/future-of-mobility/electric-vehicle-trends-2030.html>

## Manager's Report continued

Protecting biodiversity and promoting societal diversity represent two important enhancements to IAM's investment process, both in terms of ideas generation and in company analysis and engagement. We expect these enhancements to identify opportunities for improved returns and to reduce risk.

## ABSOLUTE PERFORMANCE CONTRIBUTORS AND DETRACTORS

### Contributors

As per the 2020 interim report, and as noted above, IEM's Renewable Energy and Energy Efficiency holdings performed well, reflecting policy commitments to transition leading economies towards net-zero emissions. The Renewable Energy sector was particularly strong, led by solar names including Xinyi Solar and SolarEdge (both Solar Energy Generation Equipment, Hong Kong and US, respectively). They were followed by wind holdings such as Vestas (Wind Energy Generation Equipment, Denmark) and renewable energy developers and independent power producers ("IPPs"), especially EDP Renovaveis (Renewable Energy Developers & IPPs, Portugal).

Within energy efficiency, the acceleration of moves towards a digital economy helped drive particularly robust performance in software holdings PTC and Altair Engineering (both Industrial Energy Efficiency, US). Standby generators and energy storage company Generac (Power Network Efficiency, US) performed well, as did heat pump manufacturer NIBE (Buildings Energy Efficiency, Sweden).

Finally, the accelerating adoption of natural ingredients, biochemicals and biofuels drove significant gains in Sustainable & Efficient Agriculture holdings Corbion (The Netherlands), Borregaard (Norway), Koninklijke DSM (The Netherlands), and Darling (Recycling & Value-Added Waste Processing, US).

### Detractors

Companies with cyclical exposures vulnerable to the COVID-19 pandemic underperformed over the Period but, as noted above, they staged something of a recovery in the second half. Detractors included Welbilt (Sustainable & Efficient Agriculture, US), whose exposure to food service markets such as restaurants was a negative, packaging firm DS Smith (Recycling and Value-Added Waste Processing, UK), suffered from weakness in industrial packaging, and companies exposed to the hard-hit automotive sector, namely Ricardo (Transport Energy Efficiency, UK), Sensata (Transport Energy Efficiency, US) and Norma (Pollution Control Equipment, Germany).

In addition, emerging market water utility holdings underperformed. Sabesp (Brazil) was hit by regulatory uncertainty, while Beijing Enterprises Water (Hong Kong) was punished for high debt levels and an extended transition period towards positive cashflow.

	12 MONTHS ENDED 31 DECEMBER 2020
NAV total return	31.0
MSCI ACWI total return	12.7
Relative performance	18.3
Analysis of relative performance	
Portfolio total return	31.1
MSCI ACWI total return	12.7
Portfolio outperformance	18.4
Borrowing:	
Gearing effect	0.7
Finance costs	(0.2)
Management fee	(0.8)
Other expenses	(0.2)
Trading costs	(0.1)
Effect of share issues	0.6
Tax	(0.1)
<b>Total</b>	<b>18.3</b>

	12 MONTHS ENDED 31 DECEMBER 2020
NAV total return	31.0
FTSE ET100 total return	90.3
Relative performance	(59.3)
Analysis of relative performance	
Portfolio total return	31.1
FTSE ET100 total return	90.3
Portfolio underperformance	(59.2)
Borrowing:	
Gearing effect	0.7
Finance costs	(0.2)
Management fee	(0.8)
Other expenses	(0.2)
Trading costs	(0.1)
Effect of share issues	0.6
Tax	(0.1)
<b>Total</b>	<b>(59.3)</b>

## PORTFOLIO POSITIONING, VALUATION AND RISK

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IEM held a portfolio of 61 listed holdings at the end of the Period. The portfolio is well-diversified across environmental sectors and regions, with detail on pages 14 to 18.

We are pursuing a 'barbell' approach to portfolio construction, seeking a balance of holdings with defensive and cyclical business models. The focus of our activity in 2020 was to diversify cyclical exposures and find attractive new defensive opportunities, for example by adding healthcare exposure to the portfolio.

Since the 2020 interim report was published, the Company has exited two indebted names with COVID-19 related cyclical exposures which had significantly recovered during the second half, namely Sensata and Welbilt (see above). Given the acceleration of "net-zero" policy formation, we also reviewed holdings with residual exposure to fossil fuels and internal combustion engines. As a consequence, IEM exited Horiba (Environmental Testing & Gas Sensing, Japan).

We are also looking for opportunities in renewables beyond "consensus names" that are likely to be fully valued, given strong investor interest in the sector. To this end, during the Period we added Terna Energy (Renewable Energy Developers & IPPs, Greece), which is focused on the Greek market, where its attractive assets and strong pipeline, backed by licences, are well-positioned to take advantage of good wind resources. We also continue to see opportunities in technology, adding IPG Photonics and Monolithic Power (both Industrial Energy Efficiency, US). IPG manufactures industrial optical fibre lasers with much higher energy efficiency than baseline carbon dioxide lasers. Monolithic Power produces analogue semiconductors which integrate multiple components on a single chip, enabling greater energy efficiency across a range of end markets.

At the end of the Period, the portfolio traded at a price of 26.9 times next-12 month-earnings, with a 39% premium to the MSCI ACWI. This premium is well above the historical average of 20-25% and reflects rising investor interest in sustainable investments and the environmental markets sector. This interest is making valuations challenging, especially in 'hot' sectors such as renewables and energy efficiency. We believe we can navigate these challenges given the Company's global remit and the diverse range of sectors in which it can invest. We also see encouraging signs of a recovery in earnings, with an analysts' consensus of 16% growth in earnings over the next 12 months, compared with 14% for the MSCI ACWI.

## OUTLOOK

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We believe that the investment hypothesis underlying environmental markets has never been stronger. Despite the profound immediate social and economic disruption caused by COVID-19, the pandemic is likely to prove a longer-term spur to address the range of sustainability challenges that we face. Rather than undermining climate action, it has helped to catalyse a concerted global effort to address climate change and drive towards net-zero economies, which bodes well for long-term growth prospects.

However, we believe global equity markets are materially pricing in successful vaccine rollouts around the world and a rapid economic recovery. This carries downside risk and we could see considerable volatility from any bumps in the road.

The combination of buoyant equity markets and investor enthusiasm for the sustainability theme is increasing valuations within IEM's investable universe. Nonetheless, we are confident we can manage that challenge through a continuing focus on diversification at the stock, sector and regional levels, and by maintaining valuation discipline.

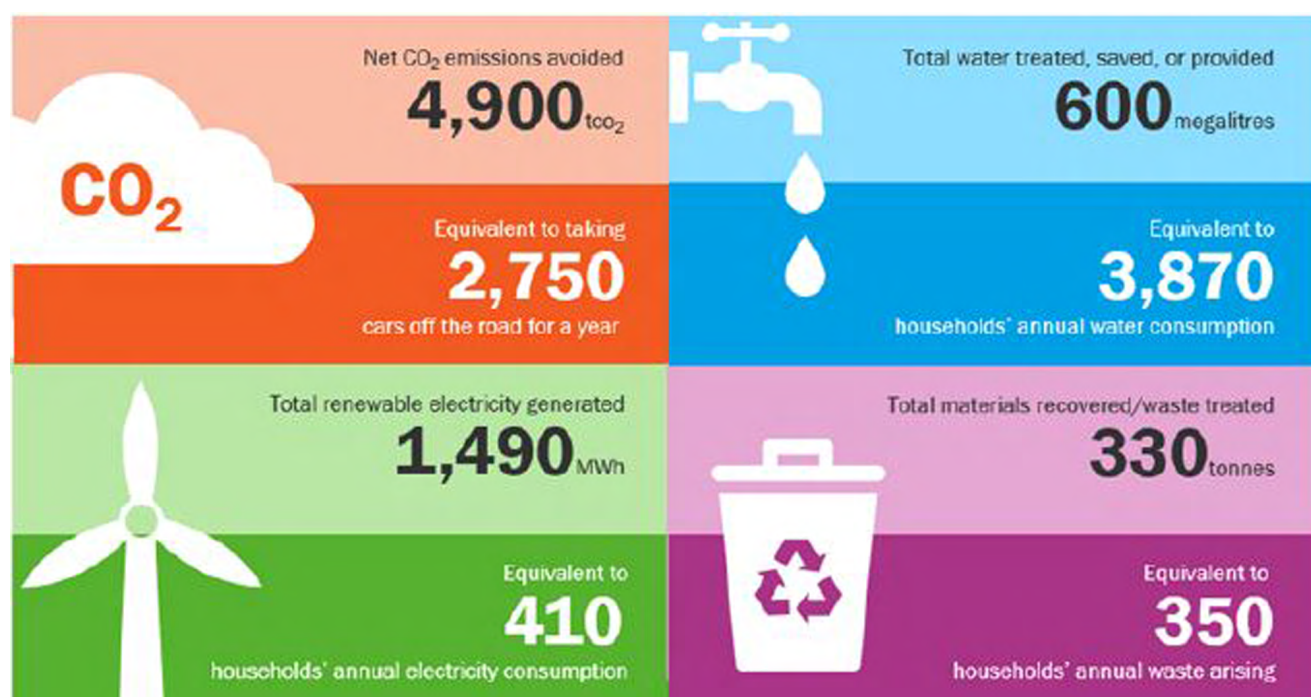
# Environmental Impact Report

Impax Environmental Markets plc invests globally in companies providing solutions to resource scarcity and environmental pollution. Investee companies must be 'pure plays', generating at least 50% of their revenues from sales of environmental products or services in the energy efficiency, renewable energy, water, waste or sustainable food markets. At 31 December 2020, the portfolio's weighted average revenue exposure to these markets was approximately 79%.

IEM has chosen four impact metrics to measure and report which best capture the environmental impact of the portfolio companies' activities. The balance between impact metrics can vary year-on-year due to portfolio positioning, more accurate corporate reporting and improvements in the environmental performance of parts of the global economy. The impact metrics are calculated on the latest available company disclosures, i.e. those published in the year 2020 which typically reference 2019 environmental benefits.

As the size of IEM varies between years due to share issuance or buybacks as well as value of investments, it is helpful to standardise the environmental benefit to £10 million invested in the Company.

## A £10 MILLION INVESTMENT IN IEM SUPPORTED:



Source: Impax Asset Management.

**These figures refer to the past. Past performance is not a reliable indicator of future results.** Source: Impax Asset Management. All impact data represents impact of £10 million invested in the Company for one year. Based on most recently reported annual environmental data for holdings in the portfolio as at 31 December 2019. Impax's impact methodology is based on equity value.

The net CO<sub>2</sub> emissions avoided by portfolio companies' activities through the year were significant. As context, Impax estimates that an economy aligned with the Paris Climate Agreement would deliver net CO<sub>2</sub> emissions of 1,600 tonnes of CO<sub>2</sub> equivalent ("tCO<sub>2</sub>") per £10 million invested via public and private capital. In contrast, the energy efficiency, renewable energy and waste recycling activities of IEM's portfolio companies resulted in the avoidance of 4,900 tCO<sub>2</sub> per £10 million invested in the Company. This far exceeds any "net zero" target due to the concentration within the portfolio of companies contributing significantly to the climate change challenge, including 1,490MWh of renewable electricity generated per £10 million invested, as well as energy efficiency and electric vehicle equipment manufactured by companies within the portfolio.

Waste avoidance is increasingly being discussed in the context of the "Circular Economy", the concept that designing products and materials for reuse will help avoid excessive natural resource depletion and waste generation. Avoiding waste generation often has knock on effects for other impact metrics, for example avoiding food waste also results in lower water and energy use (and therefore CO<sub>2</sub> emissions) through the value chain. The COVID-19 pandemic presents a significant disruptor to waste reduction trends given the enormous volumes

of single-use personal protective equipment now in use. Safe collection and treatment of this type of hazardous waste also delivers meaningful environmental benefit, even if the materials are not recyclable.

Over the past 6 years of environmental impact reporting we have seen the efforts of portfolio companies to improve energy and natural resource efficiency magnified within the broader economy.

For example, the electricity grid in the US saw CO<sub>2</sub> intensity fall by 5% in 2019 vs. 2018 (and in Europe it fell by 6%) due to lower dependence on carbon intensive fossil fuels such as coal. This means that the incremental environmental benefit of a new wind farm, for example, is lower than it was in previous years; although 1GWh of renewable electricity produced in 2019 was just as 'clean' as in 2018, the improvement in comparison to the broader electricity network – the baseline against which we measure impact – is smaller.

Ultimately this is good news as it is the evidence of the Company's investment thesis playing out – i.e. that use of environmental technologies will become more common over time as they are adopted by companies and individuals globally to reduce their pollution and improve natural resource efficiency.



**LSE Green Economy Mark:** The Green Economy Mark recognises London-listed companies that generate over 50% of their total annual revenues from products and services that contribute to the global green economy. IEM was awarded the mark in 2019 alongside Impax Asset Management Group.

## INTRODUCTION OF THE EU TAXONOMY REGULATION

The taxonomy provides a classification system that sets out which economic activities can be considered ecologically sustainable, structured around six environmental objectives: climate change mitigation; climate change adaptation; sustainable, and protection of, water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems. It requires companies that report in line with the EU Non-Financial Reporting Directive to disclose to what extent their activities are aligned with the taxonomy. Alongside existing taxonomies (such as Impax Asset Management's Environmental Markets framework) this will help improve levels of disclosure to enable investors to compare funds more easily on their environmental exposure.



## Case Studies

### SOLAREEDGE TECHNOLOGIES - US

A solar energy company providing solar power optimisation and photovoltaic monitoring solutions for power harvesting, conversion, and efficiency.

#### Investment Opportunity

The company is well-positioned in the fast-growing residential and commercial markets for its core business of solar power inverters and optimisers. It has made a series of acquisitions to expand into the 'connected home' theme, with cloud functionality for performance monitoring, software, battery storage and efficiency analytics. US President Biden's climate and clean energy plan is expected to benefit SolarEdge.

#### Environmental Benefit

SolarEdge's products and innovation can enhance productivity and help address climate change by making solar power more affordable and efficient, via its inverter, home storage and EV charging products. The company is also focused on sustainable sourcing of its raw materials and targeting near-zero electronic-waste to landfill.

#### Impact Achieved

There were approximately 5.5 GW of new global residential solar and storage installations in 2020, and this figure will grow towards 9 GW per annum by 2025. This growth is contributing towards an expected 30,000 GWh of renewable energy produced by SolarEdge systems between 2020 - 2025<sup>1</sup>, and a net CO<sub>2</sub> avoidance of approximately 4 million tonnes per year<sup>2</sup>.

### ADVANCED DRAINAGE SYSTEMS - US

A manufacturer of thermoplastic corrugated pipe and other water management products and technology. The company provides a broad suite of water management and drainage solutions to construction and agricultural end markets.

#### Investment Opportunity

Advanced Drainage Systems is benefitting from the conversion from traditional pipe materials to thermoplastic. This is driven by cost effectiveness, ease of installation and performance attributes. The company also delivers solutions for challenging water and wastewater management problems. We expect the company to benefit from increased US infrastructure spending.

#### Environmental Benefit

Advanced Drainage Systems is a leading water management provider, keeping waterways safe from pollution, reducing water runoff, improving water quality, and preserving water in the global communities facing extreme weather events. The company is also a leader in wastewater management for households not connected to sewerage systems, important for environmental justice. Advanced Drainage Systems is the second largest plastic recycler in North America, reducing the demand for new plastic.

#### Impact Achieved

The installed water quality units treat over 1,500m<sup>3</sup> of water per minute<sup>3</sup> during storm events, to remove trash, debris and pollutants, releasing only clean water back into communities. Furthermore, the company reported in 2020 that it had purchased 250,000 tonnes of recycled plastic that year.

1 SolarEdge 'Sustainability Report 2019', p.8 [https://www.solaredge.com/sites/default/files/annual\\_sustainability\\_report.pdf#page=8](https://www.solaredge.com/sites/default/files/annual_sustainability_report.pdf#page=8)

2 SolarEdge 'Sustainability Report 2019', p.11 [https://www.solaredge.com/sites/default/files/annual\\_sustainability\\_report.pdf#page=11](https://www.solaredge.com/sites/default/files/annual_sustainability_report.pdf#page=11)

3 Advanced Drainage Systems 'FY2020 Sustainability Report', p.14 [https://sustainability.ads-pipe.com/docs/default-source/sustainability-reports/ads\\_sustainability\\_report\\_v26\\_opt.pdf?sfvrsn=5ab03c49\\_4](https://sustainability.ads-pipe.com/docs/default-source/sustainability-reports/ads_sustainability_report_v26_opt.pdf?sfvrsn=5ab03c49_4)

## IEM'S ALIGNMENT TO THE UNITED NATIONS SDGs

The UN Sustainable Development Goals (SDGs) are a series of 17 social and environmental goals, comprising 169 targets, agreed by the 193 member states of the UN in 2015 and which set development objectives out to 2030. One third of the way to the 2030 deadline, however, the UN has judged that the world is not on track to achieve these goals. At the start of what the UN has called the 'Decade of Action' to meet the SDGs, UN Secretary-General António Guterres has called for 'renewed ambition, mobilisation, leadership and collective action' as part of a global effort to meet the goals and in response to the COVID-19 pandemic.

Investors are increasingly interested in understanding the extent to which their assets are contributing to the attainment of the SDGs. However, given the large number of targets, and the fact that some of them are aimed at government and public sector actors rather than

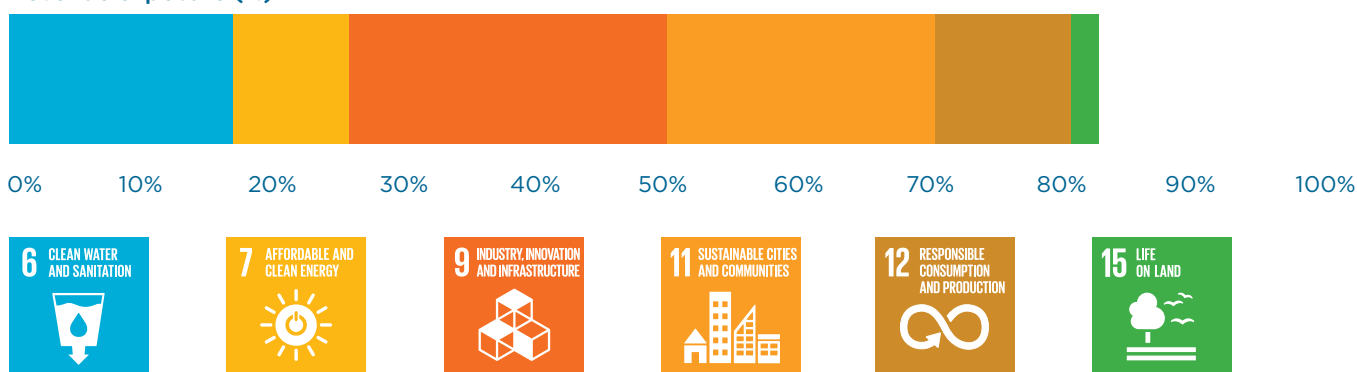
private sector companies, it is challenging to quantify the extent to which investment in a portfolio of companies is contributing to meeting the SDGs. What we are able to do is map the degree of revenue exposure that IEM's investment strategy contributes towards meeting those goals which are relevant to private sector investment opportunities.

The classification of the Environmental Markets investment universe enables us to link portfolio company activities to the most relevant SDG. Our work shows that the Company provides exposure to goals 6, 7, 9, 11, 12, and 15.

## MAPPING IEM TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

# SUSTAINABLE DEVELOPMENT GOALS

Revenue exposure (%)



Source: Data as at 31 December 2020. Figures are based on Impax internal data.

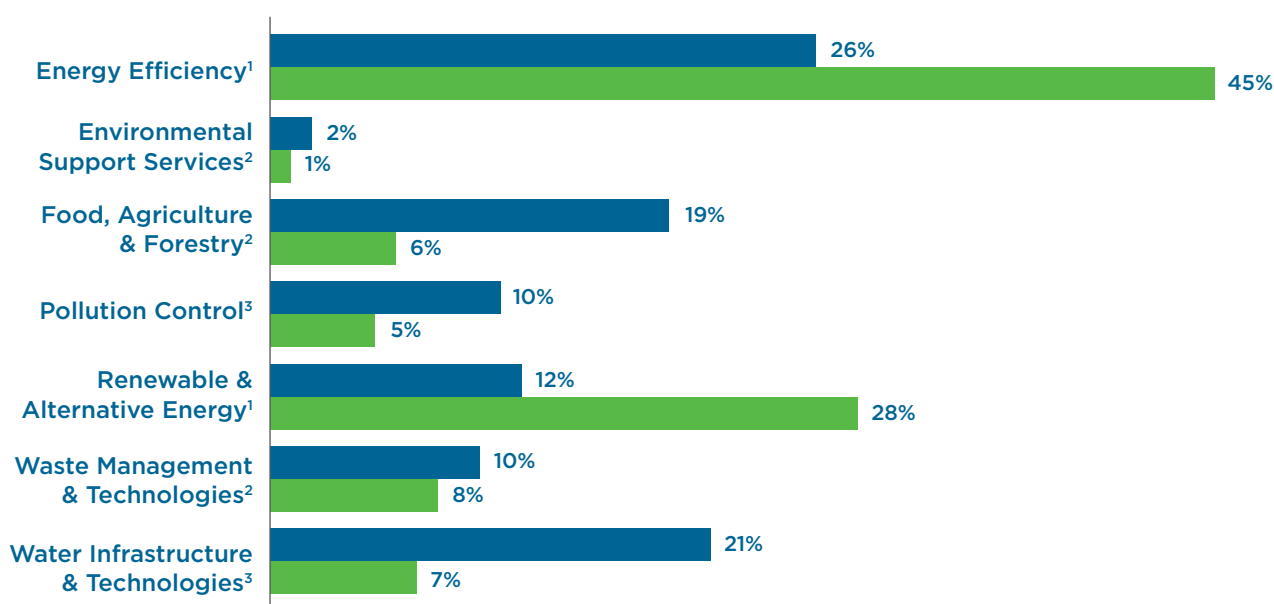
The most up to date environmental impact reporting can be found in the Investment Approach/Environmental Impact section of our website [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk).

# Structure of the Portfolio

As at 31 December 2020

## Breakdown by environmental markets classification system

● IEM ● FTSE ET100 Index



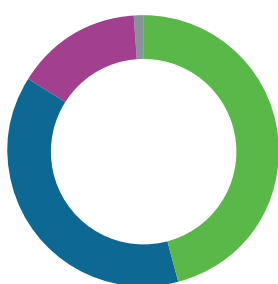
Investment policy classification

1. Alternative Energy and Energy Efficiency.

2. Waste Technologies and Resource Management.

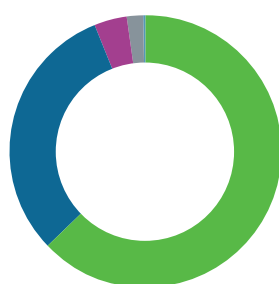
3. Water Treatment and Pollution Control.

## Breakdown by region



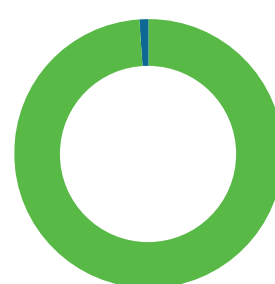
- North America, 46%
- Europe, 38%
- Asia Pacific, 15%
- Rest of World, 1%

## Breakdown by market capitalisation



- More than US\$5bn, 63%
- US\$2bn-5bn, 31%
- US\$500m-2bn, 4%
- Less than US\$500m, 2%

## Breakdown by company profitability



- Profitable, 99%
- Unprofitable, 1%

# Ten Largest Investments

As at 31 December 2020

1

**2.9%**  
of net assets  
(2019: 2.2%)

## Ormat Technologies Inc - United States

[www.ormat.com](http://www.ormat.com)

Ormat designs, builds and supplies power generating equipment using geothermal and recovered energy, whereby thermal energy is recaptured and redeployed. Geothermal is an environmentally friendly means of generating energy, which is immune from most weather effects and thus a strong complement to wind and solar. Renewable energy developers and independent power producers tend not to be affected by short-term oil price volatility. Their value comes instead from long-term infrastructure projects planned years in advance. In addition, in many regions, when there is a decline in power demand, renewable energy providers are not affected as they have priority status in the delivery of power, when compared to fossil generation.

2

**2.8%**  
of net assets  
(2019: 2.9%)

## Rayonier Inc - United States

[www.rayonier.com](http://www.rayonier.com)

Rayonier is an international forestry company that owns timberland acreage and produces standing timber. As one of the largest private landowners in the US, it is an important player in the global sustainable forestry and plantation space. The company is based in Florida and owns 2.6 million acres of well-managed timber in the US and New Zealand, which contribute toward reducing the amount of CO<sub>2</sub> in the atmosphere.

3

**2.7%**  
of net assets  
(2019: 1.9%)

## American Water Works Co Inc - United States

[www.awwa.org](http://www.awwa.org)

American Water Works is the largest publicly listed US water utility. It provides water and water-related services in 47 states and also Ontario, Canada. The US water system is highly fragmented with over 50,000 individual community water systems. Close to 10% of the US population is served by water systems so small that they lack economies of scale and financial, managerial, and technical ability – leading to water quality violations that larger providers like American Water Works are better positioned to address.

4

**2.6%**  
of net assets  
(2019: 2.4%)

## PTC Inc - United States

[www.ptc.com](http://www.ptc.com)

PTC provides software solutions that are deployed in industrial design and manufacturing. The company's software is used to design products (computer-aided design – CAD), monitor how they are being manufactured and manage them throughout their lifetime (product lifecycle management – PLM). Importantly, PTC's industrial connectivity platform allows customers to connect 'smart' devices and analyse associated data enabling applications like remote monitoring and predictive maintenance. Operating in a market with high barriers to entry and low customer turnover, using its established market position, PTC is emerging as a leader in industrial 'Internet of Things' and benefitting from high recurring revenues.

5

**2.6%**  
of net assets  
(2019: 2.6%)

## Generac Holdings Inc - United States

[www.generac.com](http://www.generac.com)

Generac is a leading supplier of standby and portable generators for the residential, commercial and industrial markets. Extreme climate events such as hurricanes and wildfires in the US are leading to multi day black outs. Generac's predominantly gas-powered generators (cleaner than diesel powered) provide reliable power in these situations; a climate adaption situation. The company has a circa 75% market share of the US residential standby generator market, with a strong brand and well-established distribution network that is difficult for competitors to replicate. The company has recently launched energy storage products that can store power from solar systems. This opens up a new avenue of growth for the company.

## Ten Largest Investments continued

6

**2.6%**  
of net assets  
(2019: 2.4%)

**Clean Harbors Inc - United States**[www.cleanharbors.com](http://www.cleanharbors.com)

Clean Harbors is a market leader in the US hazardous waste sector with a strong market position and pricing power in a business with high barriers to entry. It provides collection, transportation, recycling, treatment and disposal services and holds dominant positions in incinerators, where new permits are becoming rare. It is also a leading responder to emergency clean-ups, for example post extreme weather events such as hurricanes and for the current COVID-19 pandemic.

7

**2.5%**  
of net assets  
(2019: 1.7%)

**Xinyi Solar Holdings Ltd - China**[www.xinyisolar.com](http://www.xinyisolar.com)

Xinyi Solar is the largest and most profitable solar glass producer in China and specialises in research and development, manufacturing, sales, and after-sales service of solar PV glass, as well as providing solar power station investment, construction, and operation services. Xinyi Solar Holdings serves customers worldwide. The company is the largest solar glass producer globally, benefiting from a consolidated industry and growth in bifacial solar panels.

8

**2.5%**  
of net assets  
(2019: 2.1%)

**Koninklijke DSM NV - Netherlands**[www.dsm.com](http://www.dsm.com)

DSM supplies nutritional ingredients like vitamins and nutraceuticals into the animal feed, food and personal care industries. These products help improve livestock health and improve uptake of feed, which serves to reduce waste and emissions. DSM's transition from a diversified chemicals producer to a business focused on a more stable, and fast growing, nutrition industry is driving higher returns on capital, improved free cashflow generation and reduced earnings volatility. In addition, DSM is driving its end-market stakeholders towards more sustainable production methods. The company has a strong focus on sustainability, implemented by a solid management team and led by an internal Sustainability Leadership Team.

9

**2.4%**  
of net assets  
(2019: 2.2%)

**Indraprastha Gas Ltd - India**[www.iglonline.net](http://www.iglonline.net)

Indraprastha Gas is a key distributor of natural gas in India supplying compressed natural gas to the automotive market, and piped gas to residential, commercial and industrial customers. Penetration of gas in India remains low but is expected to increase given the strong government support for the transition from coal and diesel to cleaner energy sources. Indraprastha is well positioned to benefit from this attractive long-term growth environment given its leading market position and strong track record of managing profitability.

10

**2.4%**  
of net assets  
(2019: 2.2%)

**Trimble Inc - United States**[www.trimble.com](http://www.trimble.com)

Trimble provides hardware and software solutions for collection and manipulation of location (GPS) related data that increase efficiency and reduce environmental issues across a range of industries. For example, Trimble's product helps enable the "connected farm", with fields mapped out for moisture and nutrient levels, increasing yields and reducing use of polluting fertiliser. On construction sites, products allow integration of different trade partners in the supply chain, improving efficiency and reducing wastage. The business is well positioned to provide solutions to a digitising industrial world.



# Details of Individual Holdings

AS AT 31 DECEMBER 2020 COMPANY	SECTOR	COUNTRY OF MAIN LISTING	MARKET VALUE £'000	% OF NET ASSETS
Ormat Technologies	Renewable & Alternative Energy	United States	31,382	2.9
Rayonier	Food, Agriculture & Forestry	United States	30,421	2.8
American Water Works	Water Infrastructure & Technologies	United States	29,240	2.7
PTC	Energy Efficiency	United States	28,837	2.6
Generac Holdings	Energy Efficiency	United States	28,836	2.6
Clean Harbors	Waste Management & Technologies	United States	28,282	2.6
Xinyi Solar Holdings	Renewable & Alternative Energy	China	27,265	2.5
Koninklijke DSM	Food, Agriculture & Forestry	Netherlands	27,218	2.5
Indraprastha Gas	Pollution Control	India	26,712	2.4
Trimble	Food, Agriculture & Forestry	United States	25,823	2.4
<b>Top ten holdings</b>			<b>284,016</b>	<b>26.0</b>
Aalberts	Water Infrastructure & Technologies	Netherlands	25,669	2.3
Advantech	Energy Efficiency	Taiwan	23,441	2.1
Spirax-Sarco Engineering	Energy Efficiency	United Kingdom	23,270	2.1
Altair Engineering	Energy Efficiency	United States	23,261	2.1
Xylem	Water Infrastructure & Technologies	United States	23,134	2.1
Pentair	Water Infrastructure & Technologies	United States	23,101	2.1
Bucher Industries	Food, Agriculture & Forestry	Switzerland	23,047	2.1
EDP Renovaveis	Renewable & Alternative Energy	Portugal	22,738	2.1
Darling Ingredients	Waste Management & Technologies	United States	22,706	2.1
Littelfuse	Energy Efficiency	United States	22,345	2.0
<b>Top twenty holdings</b>			<b>516,728</b>	<b>47.1</b>
Vestas Wind Systems	Renewable & Alternative Energy	Denmark	22,129	2.0
Brambles	Waste Management & Technologies	Australia	22,074	2.0
Coway Co	Water Infrastructure & Technologies	South Korea	22,065	2.0
DS Smith	Waste Management & Technologies	United Kingdom	20,520	1.9
Corbion	Food, Agriculture & Forestry	Netherlands	20,467	1.9
Advanced Drainage Systems	Water Infrastructure & Technologies	United States	19,869	1.8
Donaldson Co.	Pollution Control	United States	18,999	1.8
Lenzing	Food, Agriculture & Forestry	Austria	18,719	1.7
Nibe Industrier	Energy Efficiency	Sweden	18,484	1.7
Itron	Energy Efficiency	United States	18,364	1.7
<b>Top thirty holdings</b>			<b>718,418</b>	<b>65.6</b>
Monolithic Power Systems	Energy Efficiency	United States	17,886	1.6
Solaregde Technologies	Renewable & Alternative Energy	United States	17,831	1.6
Badger Meter	Water Infrastructure & Technologies	United States	17,702	1.6
Philips Lighting	Energy Efficiency	Netherlands	17,395	1.6
ENN Energy Holdings	Pollution Control	China	17,245	1.6
Borregaard	Food, Agriculture & Forestry	Norway	17,202	1.6
Umicore	Waste Management & Technologies	Belgium	16,921	1.6
Croda International	Pollution Control	United Kingdom	16,814	1.6
Salmar	Food, Agriculture & Forestry	Norway	16,663	1.5
Eurofins Scientific	Food, Agriculture & Forestry	France	16,558	1.5
<b>Top forty holdings</b>			<b>890,635</b>	<b>81.4</b>

## Details of Individual Holdings continued

AS AT 31 DECEMBER 2020 COMPANY	SECTOR	COUNTRY OF MAIN LISTING	MARKET VALUE £'000	% OF NET ASSETS
Repligen	Water Infrastructure & Technologies	United States	16,304	1.5
Franklin Electric Co.	Water Infrastructure & Technologies	United States	15,681	1.4
Arcadis	Environmental Support Services	Netherlands	15,244	1.4
Watts Water Technologies	Water Infrastructure & Technologies	United States	14,517	1.3
Companhia de Saneamento Basico do Estado de Sao Paulo	Water Infrastructure & Technologies	Brazil	14,507	1.3
Lennox International	Energy Efficiency	United States	14,343	1.3
Giant Manufacturing	Pollution Control	Taiwan	13,420	1.2
LEM Holding	Energy Efficiency	Switzerland	13,388	1.2
Kingspan Group	Energy Efficiency	Ireland	12,982	1.2
Norma Group	Pollution Control	Germany	12,548	1.2
<b>Top fifty holdings</b>			<b>1,033,569</b>	<b>94.4</b>
Ipg Photonics	Energy Efficiency	United States	11,733	1.1
Terna Energy	Renewable & Alternative Energy	Greece	11,628	1.1
Rational	Food, Agriculture & Forestry	Germany	11,030	1.0
Zhuzhou CRRC Times Electric Co.	Energy Efficiency	China	8,962	0.8
Beijing Enterprises Water Group	Water Infrastructure & Technologies	China	7,607	0.7
Blackline Saftey	Pollution Control	Canada	6,211	0.6
Porvair	Pollution Control	United Kingdom	5,920	0.6
Ricardo	Environmental Support Services	United Kingdom	5,159	0.5
Cryoport	Energy Efficiency	United States	4,739	0.4
Amiad Water Systems	Water Infrastructure & Technologies	United Kingdom	3,354	0.3
<b>Top sixty holdings</b>			<b>1,109,912</b>	<b>101.5</b>
Dialight	Energy Efficiency	United Kingdom	2,400	0.2
<b>Total quoted holdings</b>			<b>1,112,312</b>	<b>101.7</b>
Unquoted holdings - Ensyn	Renewable & Alternative Energy	United States	577*	0.1
<b>Portfolio total</b>			<b>1,112,889</b>	<b>101.8</b>
Cash			30,037	2.7
Other net liabilities			(49,646)	(4.5)
<b>Total net assets</b>			<b>1,093,280</b>	<b>100.0</b>

\* Directors' valuation.

All investment is in equity securities unless otherwise stated.

# Investment Policy, Results and Other Information

## COMPANY PURPOSE AND VALUES

The Company's core values are integrity, accountability and transparency. These values are the cornerstone of creating and preserving shareholder value through investing in companies delivering solutions to environmental challenges.

## STRATEGY AND BUSINESS MODEL

Impax Environmental Markets plc is an investment company and its investment objective and policy are set out below. Any material change to the investment policy requires shareholder approval.

The Company is governed by a Board of Directors (the "Board"), all of whom are non-executive, and it has no employees. The business model adopted by the Board to achieve the Company's objective has been to contract the services of Impax Asset Management (AIFM) Limited (the "Manager", or "IAM") as its alternative investment fund manager to manage the portfolio in accordance with the Board's strategy and under its oversight. The portfolio managers responsible for the day-to-day management of the portfolio are Jon Forster and Bruce Jenkyn-Jones. The Board monitors adherence to the Company's investment policy and regularly reviews the Company's performance in meeting its investment objective.

All administrative support is provided by third parties under the oversight of the Board. Company secretary and administration services have been delegated to PraxisIFM Fund Services (UK) Limited ("PraxisIFM" or the "Administrator"); depositary and custody services to BNP Paribas Securities Services ("BNP Paribas"); registrar services to Link Group ("Link"); and the Company's broker is Investec Bank plc.

The Board reviews the performance of the Manager and its other key service providers on an ongoing basis.

## INVESTMENT POLICY

### (i) Objective and policy

The Company's objective 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).

### (ii) Asset allocation

Investments are selected on an individual basis but each investment is categorised according to three primary environmental markets that are the focus of the Company's investment policy.

#### Alternative energy and energy efficiency

In the alternative energy and energy efficiency sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- wind turbine manufacturing;
- solar panel manufacturing and integration;
- renewable energy developers and independent power producers;
- biofuels;
- meters, utility software and demand side management;
- industrial energy efficiency;
- buildings energy efficiency;
- transport energy efficiency;
- businesses relating to the trading of carbon and other environmental assets; and
- fuel cells, flywheels, superconductors, supercapacitors and other new energy technologies.

#### Waste technologies and resource management

In the waste technologies and resource management sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- recycling equipment and systems;
- recycling of commodities including metals, plastics, oils, paper and vehicles;
- integrated waste management;
- hazardous waste management;
- sustainable food, agriculture and forestry; and
- environmental consultancy.

#### Water treatment and pollution control

In the water treatment and pollution control sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- water treatment technologies involved in filtration, purification and separation;
- water infrastructure including pumps, valves and actuators;
- environmental sensing, testing and monitoring; and
- air pollution control technologies.

## Investment Policy, Results and Other Information continued

**(iii) Risk diversification**

The Company has the following maximum exposures in place in order to ensure that there is a reasonable diversification of risk in the Company's portfolio:

- (a) not more than 10% of the Company's net assets will be invested in any one company at the time of investment; and
- (b) the Company will not make an investment if as a consequence of that investment individual holdings of 5% or more would in aggregate represent more than 40% of net assets.

The Company does not have prescriptive limits on the maximum amounts that can be invested in the sub-sectors listed above. The Directors believe that the imposition of such limits could impact on efficient portfolio management.

**(iv) Gearing**

The Board has authorised the Manager to utilise short-term borrowings of up to 10% of net assets in order to provide liquidity for efficient portfolio management where the Manager sees fit. The Company has the flexibility to enable it to take out long-term borrowings in appropriate circumstances. Any long-term borrowings and any borrowings in excess of 10% of net assets require the separate authorisation of the Board.

The borrowings of the Company shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to one third of the aggregate of:

- (a) the amount paid up on the share capital of the Company; and
- (b) the total of the capital and revenue reserves of the Company, including any share premium account, capital redemption reserve and credit balance on the profit loss account as shown in the latest audited balance sheet and income statement of the Company subject to certain adjustments detailed in the Company's Articles of Association.

**ASSET ALLOCATION AT YEAR END**

The breakdown of the structure of the portfolio at the Company's year end is shown on page 14.

**DIVIDENDS AND DIVIDEND POLICY****(i) Dividend Policy**

The Directors typically expect the Company to generate returns in the form of capital gains rather than revenue. It is the Company's policy to pay out substantially all earnings by way of dividend for each year, with dividends mainly financed from current year net income and to declare two dividends each year. Previously the Directors declared a single dividend each year, but for the year ended 31 December 2020 the Directors declared two dividends both of which were interim dividends. As set out in more detail below, it is the Board's longer term intention to revert to the payment of a final dividend in place of a second interim dividend, payment of which will be subject to shareholder approval at each AGM.

In accordance with regulation 19 of the Investment Trust (Approved Company) (Tax) Regulations 2011, the Company will not (except to the extent permitted by those regulations) retain more than 15% of its income (as calculated for UK tax purposes) in respect of an accounting period.

**(ii) Dividends Declared for the Year Ended 31 December 2020**

The Board recognises that, as the Company continues to expand through regular issue of shares, it creates a dilutive effect on earnings per share if a single dividend is paid annually, irrespective of when those shares were issued. This acts to the benefit of those shares which come onto the register towards and after the end of the year.

In order to be fair to all shareholders the Board introduced an interim dividend at the half-year stage, and declared a second interim dividend, in lieu of final, paid shortly after the year end. This also has the advantage that shareholders receive their dividends earlier. It is the Board's intention to continue with the declaration of two dividends each year, and to return to paying a final dividend as and when the Company stops growing its capital base. However, recognising the importance of shareholder engagement, and though not required by regulation, shareholders will be given an opportunity to vote on the Company's dividend policy at the forthcoming AGM. The vote is advisory and is set out as ordinary resolution 4 in the Notice of Meeting.

**RESULTS AND DIVIDEND**

The Company's revenue return after tax for the year amounted to £5,326,000 (2019: £6,815,000). During the year, the Company paid a first interim dividend of 1.30 pence per Ordinary Share, totalling £3,203,000. On 11 February 2021, the Directors declared that the Company would pay on 12 March 2021 a second interim dividend of 1 penny per Ordinary Share, totalling £2,734,000 based on the Ordinary Shares in issue at the record date, 19 February 2021. For the year ended 31 December 2019, a single interim dividend of 3.00 pence per Ordinary Share, totalling £6,862,000, was

paid. It should not be assumed that this level of revenue return or dividend will be repeated in future years.

The Company made a capital profit after tax of £235,511,000 (2019: £132,757,000). Therefore the total return after tax for the Company was a profit of £240,837,000 (2019: £139,572,000).

## KEY PERFORMANCE INDICATORS (“KPIs”)

The Board measures the Company’s success in attaining its investment objective by reference to the following KPIs:

### (i) Achievement of NAV and share price growth over the long term

The Board monitors both the absolute and relative NAV and share price performance and compares the performance of the Company against the MSCI ACWI and FTSE ET100 indices on a total return basis. A review of performance is undertaken at each quarterly Board meeting and the reasons for relative under and over performance against various comparators is discussed. The Chairman’s statement on pages 2 to 5 incorporates a review of the highlights during the year. The Manager’s Report on pages 6 to 9 highlights investments made during the year and how performance has been achieved.

### (ii) Maintenance of a reasonable level of premium or discount of share price to NAV

The Manager and the Company’s broker monitor the premium or discount and keep the Board updated as

and when appropriate. At quarterly Board meetings the Board reviews the premium or discount in the period since the previous meeting on both an absolute basis and in comparison with other investment trusts with a similar mandate. The Board has issued a statement on premium/discount control on page 37. The Board sets parameters under which the Company’s shares can be sold or bought back and each sale of shares or buyback is approved by a Board member before it is conducted. The Company’s shares traded at an average premium to NAV of 4.6 % during the year ended 31 December 2020 and within a range of a share price discount to NAV of 8.3 % to a share price premium to NAV of 13.8 %. The year end premium to NAV was 2.7 %.

### (iii) Maintenance of reasonable level of ongoing charges

The Board receives monthly management accounts which contain analysis of expenditure. The Board also reviews expenditure formally at its quarterly Board meetings. The Management Engagement Committee reviews the fees payable to the Company’s main service providers on an annual basis. The Board considers the ongoing charge to be reasonable in comparison to peers. The Company’s ongoing charges figure was 0.95% (2019: 1.02%). This is calculated in accordance with the AIC methodology and disclosed as an APM on page 74.

## INVESTMENT PERFORMANCE TO 31 DECEMBER 2020

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
NAV of the Company <sup>1,2</sup>	31.0%	52.6%	143.9%	214.7%
Share price of the Company <sup>1,2</sup>	28.9%	70.6%	178.1%	257.4%
MSCI ACWI <sup>2</sup>	12.7%	31.9%	92.2%	174.4%
FTSE ET100/FTSE ET50 <sup>2,3</sup>	90.3%	121.6%	224.6%	269.9%

Note: MSCI index is total net return (dividends reinvested net of withholding tax), FTSE index is total return (dividends reinvested gross of withholding tax), both in sterling terms.

1. These are considered to be APMs.

2. Total return.

3. FTSE ET50 data until 31 December 2013 and then FTSE ET100 thereafter



## Investment Policy, Results and Other Information continued

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for the management of risks faced by the Company and, through delegation to the Audit Committee, has established procedures to manage risk, oversee the internal control framework and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives. The Audit Committee carries out, at least annually, a robust assessment of the principal risks and uncertainties and reviews ongoing monitoring of both controls risks and controls. This ensures heightened and emerging risks are identified outside of the normal cycle of Board and Audit Committee meetings.



The Audit Committee undertook a comprehensive review of the Company's risk management framework and controls during the year. This resulted in enhanced risk documentation and reporting to the Board and Audit Committee. The risks are documented on a risk register, grouped in four main categories: Strategic and Business Objective Risks; Investment Management Risks; Operations – Service Providers Risks; and Compliance, Regulatory and Corporate Governance Risks. Risks are rated by impact and likelihood of occurrence, with the assessed rating charted on a risk matrix. The risk register

is reviewed on an ongoing basis in an attempt to capture all risks and put appropriate mitigation in place. The review takes into account changing factors including, but not restricted to, changes to markets (both macro and micro), stakeholders, operations, regulation and emerging risks. The top risks identified by this process are set out in the table below, and the Board considers these to be the principal risks of the Company.

The Board considered the risks posed by the COVID-19 pandemic, both market and operational risk. The ongoing economic impact of measures introduced to combat its spread were discussed in depth by the Board throughout the year, with updates on operational resilience received from the Manager, Administrator and other key service providers. The Board is satisfied that the key service providers had, and continue to have, the ability to continue their operations efficiently in a remote or virtual working environment, whilst safeguarding their staff. The Manager continues to provide regular updates to the Board on the financial impacts of the pandemic on the portfolio performance and investee companies, as well as the long term effects and opportunities for the sectors in which the Company invests.




## TREND: INCREASING ↑ NEUTRAL ↔ REDUCING ↓

POTENTIAL RISK	MITIGATION	TREND
<b>STRATEGIC AND BUSINESS OBJECTIVE RISKS</b>		
<b>Economic and market risks</b>		
Price movements of the Company's investments are highly correlated to the performance of global equities in general and small and mid-cap equities in particular. Consequently falls in stock markets, such as those experienced in the early stages of the COVID-19 pandemic, are likely to adversely affect the performance of the Company's investments.	There are inherent risks involved in stock selection. The Manager is experienced and employs its expertise in selecting the stocks in which the Company invests. The Manager spreads the investment risk over a wide portfolio of investments in its three main sectors: energy, water and waste, as well as geographically. At the year end the Company held investments in 61 companies and the largest holding represented 2.9% of net assets.	↑
Changes in general economic and market conditions, such as currency exchange rates, interest rates, rates of inflation, industry conditions, tax laws, political events and trends, including the impact of the UK leaving the EU, can substantially and adversely affect the value of investments. Market risk includes the potential impact of events which are outside the Company's control, such as the COVID-19 pandemic.	The Manager will not normally hedge against foreign currency movements, but the Manager takes account of the risk when making investment decisions. Further details on financial risks and risk mitigation are disclosed in note 16 to the accounts.	
The Company invests in companies with small market capitalisations, which are likely to be subject to higher valuation uncertainties and liquidity risks than larger capitalisation securities. The Company may also invest in unquoted securities which generally have greater valuation uncertainties and liquidity risks than securities listed or traded on a regulated market.		

POTENTIAL RISK	MITIGATION	TREND
<b>Environmental markets</b> The Company invests in companies operating in environmental markets. Such companies carry risks that governments may alter the regulatory and financial support for environmental improvement, costs of technology may not fall, capital spending by their customers is reduced or deferred and their products or services are not adopted.	The Company invests in a broad portfolio of investments which are spread amongst several environmental market sectors. The Manager has a rigorous investment process which takes into account relevant factors prior to investment decisions taking place. As well as reviews of the portfolio and relevant industry matters at quarterly Board meetings, the Board has an annual strategy day at which the overall strategy of the Company is discussed.	
<b>Share price trades at excessive premium to net asset value</b> Market demand combined with limited capacity results in excessive share price premium to NAV and returns to shareholders may be affected. Excessive premium may also result in being unable to grow the Company through share issuance.	The Board has made a statement on premium/discount control in normal market conditions as detailed on page 4 in the Chairman's Statement.  The Company utilises its powers to issue and buy back shares when circumstances are appropriate, following consultation with the Manager and the Company's broker.	
<b>Share price trades at excessive discount to net asset value</b> It is in the longterm interests of shareholders that shares do not trade at a significant discount to their net asset value.	The Board monitors the level of premium/discount and receives regular shareholder feedback from the Company's Manager and broker.	
<b>Emerging risks</b> The International Risk Governance Council defines as 'emerging' a risk that is new, or a familiar risk in a new or unfamiliar context or under new context conditions (re-emerging). Failure to identify emerging risks may cause reactive actions rather than being proactive and the Company could be forced to change its structure, objective or strategy and, in worse case, could cause the Company to become unviable or otherwise fail.	The Board reviews the Company's top risks and risk matrix at its quarterly Board meetings, with input from work undertaken by the Audit Committee. In addition, an annual formal review of the risk procedures and controls in place at key service providers, including the Manager, is performed. Emerging risks are actively discussed as part of these reviews and throughout the year to attempt to ensure that emerging (as well as known) risks are identified and, so far as practicable, mitigated. The experience and knowledge of the Directors is valuable to these deliberations, as are update papers and advice received from the Board's key service providers such as the Company's Manager, broker, company secretary and auditor. The AIC also provides regular updates and draws members' attention to forthcoming industry and/or regulatory issues.	
<b>OPERATIONS – SERVICE PROVIDERS RISKS</b>		
<b>Failure or breach of information technology (IT) - including cyber- security, and physical security risks</b> Failure of IT or physical security could potentially lead to breaches of confidentiality, data records being compromised and the inability to make investment decisions. In addition, unauthorised physical access to buildings could lead to damage or loss of equipment. The underlying risks primarily exist in the third party service providers to whom the Company has outsourced its depositary, registration, administration and investment management activities.	The Company's key service providers report periodically to the Board on their procedures to mitigate cyber security risks including their alignment with industry standards, their physical and data security procedures and their business continuity planning.  The Board also meets with its service providers on a periodic basis.	

## Investment Policy, Results and Other Information continued

Whilst not being identified as principal risks after mitigation controls are applied, other relevant risks to the Company include the following:

POTENTIAL RISK	MITIGATION	TREND
<b>STRATEGIC AND BUSINESS OBJECTIVE RISKS</b>		
<b>Global pandemic risk</b>		
<p>The rapid spread of infectious disease may cause governments to implement policies to restrict the gathering, interaction or movement of people and take other measures as deemed appropriate to prevent its spread, causing disruption to markets generally, investee companies, the operations of the Company and its key service providers.</p> <p>During the year, the Board continually monitored the market and operational risks associated with the COVID-19 pandemic and the ongoing economic impact of measures introduced to combat its spread, discussing these, as well as the impact to the portfolio investee companies, in depth with the Manager. The Board satisfied itself through regular updates from the Manager and other key service providers that they have the ability to continue their operations efficiently in a remote or virtual working environment.</p>	<p>The Manager spreads the investment risk over a wide portfolio of investments. Risk analysis includes scenario analysis of possible negative market events.</p> <p>The Company's key service providers report periodically to the Board on their business continuity plans and procedures. The Board monitors the adequacy of controls in place at the key service providers and their planned response to an extended period of disruption, to ensure that the impact to the Company is limited.</p> <p>During times of elevated volatility and market stress, such as those experienced with the COVID-19 pandemic, the Company's closed-end fund structure protects it from the liquidity requirements that can arise for open-ended funds, enabling the fund managers to adhere to their disciplined investment process and be ready to respond to dislocations in the market as opportunities present themselves.</p>	
<b>Physical climate change risk</b>		
<p>While efforts to mitigate climate change continue, the physical impacts are already emerging in the form of changing weather patterns. Extreme weather events can result in flooding, drought, fires and storm damage, potentially impairing the operations of a portfolio company at a certain location, or impacting locations of companies within their supply chain.</p>	<p>Physical climate change risk is still an emerging topic for investors as well as for the management teams of portfolio companies. It has been a focus area of research and engagement by the Manager to identify companies particularly exposed to this risk and to open a dialogue with them on management options. Details of engagement with investee companies are given on pages 31 and 32.</p> <p>The Company invests in a broad portfolio of companies which are spread geographically, limiting the impact of location specific weather events.</p>	
<b>Gearing risk</b>		
<p>The Company may borrow money for investment purposes. If investment markets fall in value, any borrowing will enhance the level of loss.</p> <p>Capacity constraints on the availability of desirable companies for investment may mean the Company is unable to achieve the level of gearing wanted.</p>	<p>The Board has authorised the Manager to use their discretion to utilise gearing up to 10% of net assets. Any borrowing above this level requires Board approval. Borrowing facilities are renewed on a cost effective and timely basis.</p> <p>The Manager keeps under regular review the opportunities for enhancing returns by the prudent use of gearing.</p>	

POTENTIAL RISK	MITIGATION	TREND
<b>INVESTMENT MANAGEMENT RISKS</b>		
<b>Financial risks</b>		
<p>The Company's investment activities expose it to a variety of financial risks which include foreign currency risk, portfolio liquidity risk and interest rate risk.</p> <p>The Company invests in securities which are not denominated or quoted in sterling. Movements of exchange rates between sterling and other currencies in which the Company's investments are denominated may have an unfavourable effect on the return on the investments made by the Company.</p>	<p>The Company will not normally hedge against foreign currency movements affecting the value of its investments, although, the Manager takes account of this risk when making investment decisions.</p> <p>The Company invests in range of global listed equities and the Manager monitors the foreign currency exposure and liquidity of holdings within the portfolio and reports on these to the Board at each meeting.</p> <p>Interest rate risk is limited due to the low level of gearing.</p> <p>Further details on financial risks and risk mitigation are disclosed in note 16 to the accounts.</p>	
<b>OPERATIONS – SERVICE PROVIDERS RISKS</b>		
<b>Operational risk</b>		
<p>The Board has contractually delegated to third party service providers the management of the investment portfolio, and services covering: depositary and custody; registrar; company secretarial and fund accounting. The security of the Company's assets, dealing procedures, accounting records and adherence to regulatory and legal requirements depend on the effective operation of the systems of these third party service providers.</p> <p>Failure by any service provider to carry out its obligations to the Company could have a material adverse effect on the Company's performance. Disruption to the accounting, payment systems or custody records (including cyber security risk) could prevent the accurate reporting and monitoring of the Company's financial position.</p>	<p>Due diligence is undertaken before contracts are entered into with third party service providers, taking into account the quality and cost of services offered, including policies and procedures, and risk management and controls systems in operation in so far as they are relevant to the Company. Thereafter, the performance of the provider is subject to regular review and report to the Board. The Board monitors key persons as part of this oversight.</p> <p>The control of risks related to the Company's business areas is described in detail in the corporate governance report on page 43.</p>	
<b>COMPLIANCE, REGULATORY AND CORPORATE GOVERNANCE RISKS</b>		
<b>Regulatory risks</b>		
<p>Loss of investment trust status would lead to the Company being subject to tax on any gains on the disposal of its investments.</p> <p>Breaches of the FCA's rules applicable to listed entities could result in financial penalties or suspension of trading of the Company's shares. Breaches of the Companies Act 2006 could result in financial penalties or legal proceedings against the Company or its Directors.</p> <p>Failure of the Manager to meet its regulatory obligations could have adverse consequences on the Company.</p>	<p>The Company has contracted out relevant services to appropriately qualified professionals, who monitor, and report to the Board on regulatory compliance. In addition, the Company's broker, auditor, company secretary and Manager provide the Board with regulatory updates on a regular basis.</p> <p>The Manager reports on regulatory matters to the Board on a quarterly basis. The assessment of regulatory risks forms part of the Board's risk assessment programme.</p>	

## Investment Policy, Results and Other Information continued

## VIABILITY STATEMENT

The continuation of the Company is subject to the approval of shareholders every three years, with the next vote at the Company's AGM in 2022. The continuation of the Company was unanimously approved at the Company's 2019 AGM. The Directors have assessed the viability of the Company for the period to 31 December 2025 (the "Viability Period"). The Board believes that the Viability Period, being approximately five years, is an appropriate time horizon over which to assess the viability of the Company, particularly when taking into account the long-term nature of the Company's investment strategy, the principal risks outlined above and its gearing. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue to operate and to meet its liabilities as they fall due over the Viability Period.

In its assessment of the prospects of the Company, the Board considered each of the principal risks and uncertainties set out above which included consideration of severe but plausible downside scenarios (such as a market downturn, and adverse impacts arising from COVID-19, Brexit or climate change) and the liquidity and solvency of the Company. The Board also considered the Company's income and expenditure projections and the fact that the majority of the Company's investments comprises readily realisable securities which could, if necessary, be sold to meet the Company's funding requirements including buying back shares in order for the Company's discount control policy to be achieved. Portfolio changes, market developments, level of premium/discount to NAV and share buybacks/share issues are discussed at quarterly Board meetings. The internal control framework of the Company is subject to a formal review on at least an annual basis.

The level of the ongoing charges is dependent to a large extent on the level of net assets, the most significant contributor being the investment management fee. The Company's income from investments and cash realisable from the sale of its investments provide substantial cover to the Company's operating expenses, and any other costs likely to be faced by the Company over the Viability Period of their assessment. Proceeds from the sale of the Company's investments could be used to repay the Company's borrowings which at the date of this report represented, in aggregate, less than 5% of the Company's investments.

The Directors' assessment included a detailed review of the market and operational risks associated with the COVID-19 pandemic. The ongoing economic impact of measures introduced to combat its spread were discussed in depth with the Manager and continually monitored by the Board throughout the year. The Manager and other key service providers have provided

regular updates on operational resilience in light of the pandemic. The Board is satisfied that the key service providers have the ability to continue their operations efficiently in a remote or virtual working environment.

## SECTION 172 STATEMENT COMPANY SUSTAINABILITY AND STAKEHOLDERS

### Stakeholder Engagement

IEM's mission is to help its shareholders benefit from growth in companies operating in the fast growing Environmental and Resource Efficiency Markets.

Our values – integrity, accountability and transparency – mean that the Board has always worked hard to communicate effectively with the Company's stakeholders. This is a two-way process and the feedback received from our stakeholders is highly valued and factored into our decision making.

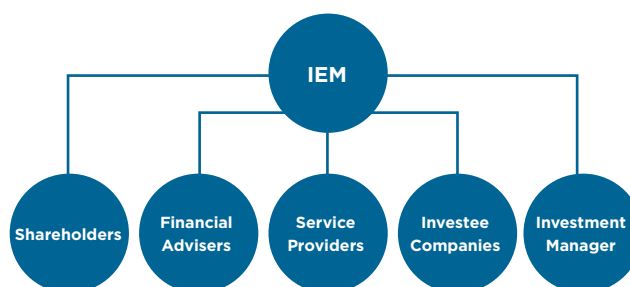
IEM has a range of stakeholders and in this section we have mapped out who they are and what we believe their key interests to be.

This section serves as our Section 172 Statement. Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision-making and to share how they have discharged this duty.

### Our stakeholders and how the Board engage with them

Described below are the Company's key stakeholders, identified by the Board and a description of what the Board understand to be their key interests

#### Key Stakeholders:



### Overview of considerations of each stakeholder

#### Shareholders

Investment performance (NAV), share price, liquidity, regular communication.



#### **Financial Advisers**

Investment performance, share price, discount/premium, liquidity, access to detailed company and investment management information, access to comparative data.

#### **Service Providers**

A productive working relationship, collaboration, shared values, productivity, reputation management, communications and the impact of each on the wider community and environment.

#### **Investee Companies**

Regular communication, long-term investment, access to key individuals, collaboration and environmental, social and governance ("ESG") consideration.

#### **Investment Manager**

Access, regular communication, transparency around decision making, collaboration and consideration with regard to the community and environment in which the Manager operates.

The Board seeks to understand the needs and priorities of all its stakeholders through regular engagement as outlined below.

#### **Monitoring**

The performance of our key service providers, as described on page 21, is regularly monitored and set against KPIs. The Manager engaged frequently with our suppliers throughout the COVID-19 crisis to ensure that they continued to meet their obligations and had resilient business continuity plans in place. The Manager remained fully operational throughout COVID-19 restrictions and focused on providing a seamless service to clients and shareholders whilst ensuring the well-being of their staff.

Investment performance is monitored in relation to the Company's objective and to the investment policy and strategy (further information can be found on page 21 describing the Key Performance Indicators).

The Board receives regular reports from the Manager on the composition, investment activities and performance of the portfolio and the wider market place in which the Company operates. The Board discusses the portfolio at each Board meeting and maintains a constructive dialogue between meetings as well. A representative of the Manager additionally attends most Board meetings.

The Board also reviews and discusses detailed reports from the Manager and other key service providers, including the broker and financial advisers, in relation to the Company's share performance, trading and liquidity as well as the register of shareholders composition and changes.

The Board also receives risk and compliance reports regarding the administration of the portfolio and in respect of the supervision of the Administrator and custodian activities.

Service providers are also responsible for monitoring the markets in which they operate; for instance, the

company secretary will monitor regulatory changes and make the Board aware of these.

Monitoring has an integral role in providing oversight and informing the Board's decision making. The Board has high standards and looks to maintain its reputation for delivering to those standards for its shareholders.

#### **Regular meetings**

Regular meetings with our service providers, in particular the Manager, are essential if we are to monitor and seek feedback from them. Furthermore, additional meetings are arranged as required in order that feedback from both parties is captured on a timely basis.

Meetings with our shareholders help us to understand their needs and concerns. As described under Shareholder Relations and Annual General Meeting on page 36, the Board welcomes direct feedback from shareholders throughout the year. Additionally, the Board maintains regular contact with shareholders through the Manager and broker's programme of shareholder meetings, who report back to the Board on shareholder sentiment, questions or concerns for the Board's consideration.

Because of COVID-19, it was more difficult to meet in person this year, but the Manager maintained and grew shareholder relationships with virtual meetings and webinars.

Furthermore, the Directors meet with or will receive feedback from the Manager or broker in respect of their meetings with financial advisers over the course of the year to consider the interests of these stakeholders.

The Manager maintains regular dialogue with both investee and potential investee companies and reports back on these conversations to the Board. As described on pages 29 and 30 the Board and Manager believe engagement with the investee companies is positive, beneficial and welcomed and that consistent exercise of voting rights is a key activity in the dialogue with companies invested.

#### **Reviews**

The Company wants to ensure, and assesses on a regular basis, that appointments remain in the best interests of our shareholders. The Board receives and reviews detailed presentations and reports from major suppliers, providing oversight of the Company's activities (further information on the Board's review process is set out in the Corporate Governance report).

These reviews include updates in relation to the provider and their operations, their policies and control environment, new regulations from the auditor and company secretary, changes to market sentiment and practice from the broker and changes to the portfolio and broader market performance from the Manager.

As described on page 43, in respect of internal controls, the Directors receive monthly reports from the Administrator, giving details of the portfolio, investment transactions and the financial position of the Company, and concerning risks and internal control matters.

## Investment Policy, Results and Other Information continued

Additionally, the Manager reports the key conclusions from its internal audit reports, in particular any matters that would impact the Company.

As part of the Company's review programme, the Board also receives and considers the internal control reports of its key service providers and any findings therein.

The strategy of the Company is reviewed by the Board on an ongoing basis. Once a year the Board undertakes a strategy day, inviting representatives from key service providers, as well as its PR company, to look ahead and present new ideas and improvements that the Board can consider. Whilst feedback from shareholders is sought on a continual basis, the Board requests the Company's broker and Investment Manager to provide detailed analysis and feedback from shareholders in order that it can be addressed during this meeting.

The Board's strategy and performance is validated by shareholders through a triennial vote on the continuation of the Company and the Board encourages its shareholders to take part in this vote.

### Communication

The Board believes that shareholders can make informed decisions only if they have access to relevant information on a timely basis. To provide the transparency that the Board seeks with shareholders, a variety of communication channels and methods of communication are used.

The Company's website – [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk) – is considered an essential communication channel and information hub for shareholders. As such, it includes full details of the investment objective, supporting philosophy and investment performance along with news, opinions, disclosures, results and key information documents, as well as information about the Board, its Committees and other governance matters.

The Annual and Interim reports and accounts are published on the Company's website and are available in hard copy on request. The date of the Annual General Meeting is published in advance (online and within the annual report).

Factsheets, providing performance information, inclusive of geographic and sector exposure and the top ten holdings, are published monthly and the full portfolio holdings are made available quarterly in arrears; both are available on the Company's website.

The Company reports to our clients, detail on our engagement and advocacy results and on the environmental impact of our investment strategy and continues to expand and enhance the content of these documents.

In 2020, the Company extended its outreach to a broader audience through a variety of media channels, including the press and social media. Comment from the Manager is regularly published in a broad range of media titles, providing insight into the themes and markets in which IEM invests and the Manager's

approach. The Company keeps under ongoing review its media relations strategy and as a result in early 2021 engaged Montfort Communications ([www.montfort.london](http://www.montfort.london)) to support with media relations and social media profile.

In addition, the Company employs Kepler Partners ([www.trustintelligence.co.uk](http://www.trustintelligence.co.uk)) to undertake research, providing detailed analysis of IEM and the markets in which it operates for professional advisers and other registered users.

### Significant events

There were a number of significant events during the period to the date of this report that the Board would like to highlight;

- **Strong investor demand for the Company's shares** meant that over the year shares mostly traded at a premium. The Board has, therefore, continued to employ a premium management programme to seek to ensure that the level of premium is not excessive in normal markets.
- **The Board gained approval from shareholders to extend its authority to issue shares** on a non-pre-emptive basis four times; 11 million in February 2020 at a General Meeting; 23 million at the AGM in May 2020; 12.2 million at a General Meeting in August 2020; and since the year end, the Board received shareholder approval for a fresh authority of 26.3 million shares at a General Meeting in January 2021. The Board believes that this was in the best interests of shareholders as a whole; it spreads the fixed costs over a bigger capital base and provides more liquidity in the new shares. The additional authorities were sought due to the strong investor demand for shares and in each case shareholders voted overwhelmingly in support of granting this authority.
- **Several accolades were awarded to IEM** over the period. IEM was announced as Investment Week's Environmental and Renewables Investment Company of the Year and at the Environmental Finance Impact Awards, IEM was awarded Listed Equity Fund of the Year. At the ESG Investing Awards, IEM won its category of 'ESG Investment Fund: Impact' as well as being awarded the top award of the night 'Best ESG Investment Fund of the Year'.
- **As described in the Chairman's Statement**, in order to moderate the dilution of earnings attributable to those shareholders who had been on the register throughout the year arising from the expansion of the Company's capital base, the Board declared two interim dividends in respect of the 2020 financial year, the second interim dividend being paid in March 2021 in lieu of a final dividend. A resolution will be put forward at the forthcoming AGM for shareholders to vote on the Company's revised dividend policy, details of which are on page 20.
- **During the 2020 strategy day** the Company's marketing and public relations strategy was

reviewed, and the Company has decided to refocus its communications and media activity in 2021.

#### Areas of focus for 2021 and summary of 2020 activities

- **Monitor and continue to consider the impact of strong investor demand for shares.**

**2020 Highlights:** The Board considers a wider shareholder base to be positive for all shareholders, with details of the authorities sought from shareholders during the year described in the Chairman's Statement. Premium levels need to be monitored and managed and a premium management programme introduced in 2019 continued throughout 2020.

**Focus for 2021:** The Board will continue to review the effectiveness of this premium management programme.

- **People and succession planning.**

**2020 Highlights:** Julia Le Blan retired from the Board after the conclusion of the May 2020 Annual General Meeting, with Stephanie Eastment becoming Chairman of Audit Committee.

**Focus for 2021:** William Rickett has expressed his intention to leave the Board, after 10 years, following the conclusion of the Company's AGM in May 2021. Following an externally facilitated recruitment process the Board agreed to appoint Simon Fraser, who joined the Board on 1 March 2021. As indicated in his Chairman's Statement, John Scott intends to retire after the 2022 AGM.

Changes to the Board are managed in order to provide refreshment of the Board, good diversity and a high level of relevant skills.

- **ESG and engagement.**

IEM is an investment trust with an environmental strategy (please reference the investment objective and investment policy on page 19) and the Manager has embedded consideration of material environmental, social and corporate governance risks in its investment policy since the inception of the Company (see ESG section on page 29). The Board has oversight of the quality of the ESG management in its quarterly Board meetings, along with a bi-annual meeting with the Head of Investment Risk and Head of Sustainability & ESG.

**2020 Highlights:** One way in which the Company and the Manager address these risks is through dialogue with investee companies. As such, engagement and voting (including proxy voting) is an important aspect of the Manager's investment process. Please see 'Engagement Activity' on pages 30 and 31 for examples of the Manager's strategic ESG engagements conducted in 2020.

**Focus for 2021:** The Company and Manager support the UK Stewardship Code issued by the Financial Reporting Council (please see 'Exercise of voting

powers and Stewardship Code' on page 29). The UK Stewardship Code was updated in 2020, with reporting against the new code occurring in March 2021. Please see UK Stewardship Code 2020 on page 30.

- **Impact reporting.** Many investors are not only interested in understanding the financial performance of their investments, but also in ensuring that their investments result in a positive impact on the environment. IEM started reporting quantified impact metrics six years ago and feedback from shareholders tells us that they find it helpful.

In recent years interest in measuring impact has grown and there are new techniques and methodologies available. The Manager monitors these, ensuring that the most meaningful data is available. This helps shareholders understand the link between IEM's investments in companies delivering environmental products and services and the environmental outcome of their business activities.

**2020 Highlights:** The Board includes environmental impact metrics as well as portfolio company alignment with the UN's sustainable development goals in this report on pages 10 to 13.

**Focus for 2021:** The Board will continue to monitor and communicate developments in this area in 2021, including the implications of the EU Taxonomy Regulation.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") OF INVESTEE COMPANIES

The Company invests in companies which contribute to the cleaner or more efficient delivery of basic services of energy, water and waste. Both the Manager and the Board believe that a thorough understanding of environmental, social and governance performance can enhance perspectives of the opportunities and risks offered by individual investments. The Manager's core expertise is within the environmental sector and the Manager has long embedded ESG into its investment process and takes an active approach to engagement with investee companies.

All companies must meet financial and ESG criteria before entering the Manager's universe of investable companies. The portfolio management team and sustainability analysts are responsible for integrating ESG analysis into the investment process. The Manager's detailed ESG policy at [www.impaxam.com](http://www.impaxam.com) is set out in the Investment Philosophy section.

## EXERCISE OF VOTING POWERS AND STEWARDSHIP CODE

The Company invests in quoted companies which provide, utilise, implement or advise upon technology-based systems, products or services in environmental markets which, in environmental terms, means it has

## Investment Policy, Results and Other Information continued

an inherently positive group of companies to work with. There is no need to fundamentally change their business models or strategies.

It is the Manager's belief that engagement strengthens the investee companies over time, improving quality, processes, transparency and resilience, and most companies welcome dialogue on these areas.

The Manager views proxy voting as a key activity in the dialogue with companies invested. It is committed to ensuring the consistent exercise of voting rights associated with shares held in investment mandates where proxy voting has been delegated to them. The Manager, on behalf of the Company, voted at all meetings where they were able to exercise the Company's vote, voting against or abstaining on 61 of 853 management resolutions and voting against the three shareholder resolutions proposed. The Manager supports the UK Stewardship Code and complies with its guidelines regarding proxy voting and engagement. It discloses a summary of its proxy voting activities on a quarterly basis, which can be found on the website – [www.impaxam.com](http://www.impaxam.com). The Board regularly reviews the voting decisions made by the Manager on the Company's behalf.

## UK STEWARDSHIP CODE 2020

Engagement with companies is evolving and there is an increasing understanding and agreement that investors must move away from merely counting the numbers of engagements done with companies and move to assessing in more detail and rigour what the actual 'outcomes' were. This is what the updated January 2020 UK Stewardship Code is also seeking, and the Manager welcomes this shift.

The new UK Stewardship Code comprises twelve principles versus the previous seven. Focus has moved away from just stewardship policies towards outcomes (i.e. what has been achieved through engagement and proxy voting, real change and improvements to governance structures and material risk management processes in investee companies).

In the future, investors will increasingly be setting out engagement objectives and rigorously assessing contribution to change from engagement activities versus positive developments happening in companies.

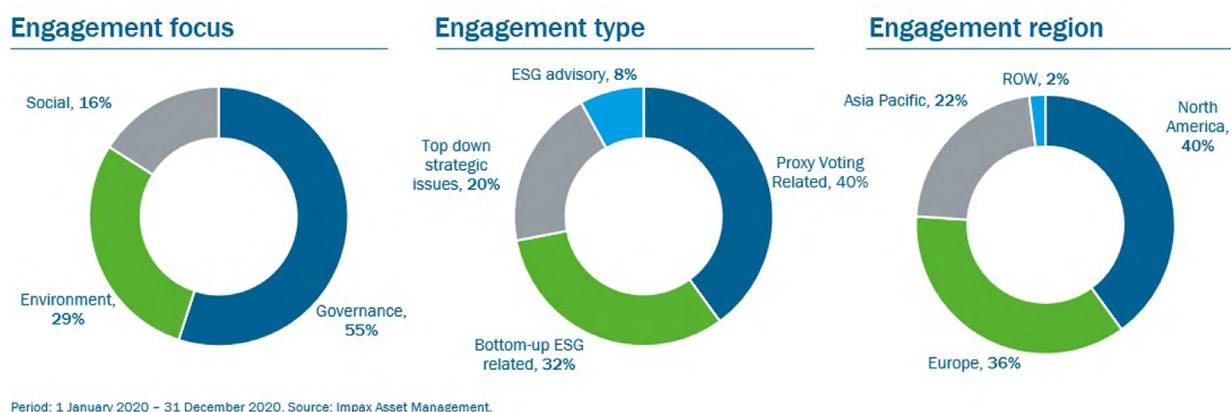
The Manager has been focused on engaging to bring about real change and on reporting stewardship outcomes for many years, as part of its investment process and so is already well aligned. The Manager has submitted its new UK Stewardship Code statement to the FRC, and it can be found on the Manager's website – [www.impaxam.com](http://www.impaxam.com).

## ENGAGEMENT ACTIVITY

The Manager is a fundamentally driven, active shareholder with a long-term investment horizon. The Manager believes that IEM portfolio companies have resilient business models which will benefit from the transition to a less carbon intensive and lower polluting economy. In this context the Manager engages to support and encourage investee companies to manage risks, rather than to radically change their core activities.

The IEM investment process is focused on a comprehensive understanding of the character and quality of our investee companies, including material environmental, social and governance (“ESG”) issues, as well as areas of potential improvement. We believe it is in the interests of our investors that the Manager engage with our investee companies to minimise risks, protect and enhance shareholder value, promote greater transparency on ESG issues, and encourage companies and issuers to develop and become more resilient over time.

In 2020, the Manager conducted fifty engagements with thirty seven companies in the portfolio. With ten companies, there were two or more engagements, on different topics and at separate times.



The stewardship and engagement work can be divided into the following types:

**ESG/Sustainability Advisory** – Promoting improved practices and transparency on ESG issues. The focus of engagement with companies is to strengthen governance structures and introduce sustainability policies, processes and disclosures, as applicable, to effectively manage their most material ESG risks.

**Bottom Up Company Specific ESG Analysis** - The Manager identifies company-specific matters and risks and actively engages with companies regarding these matters, as part of monitoring and managing risks.

**Proxy Voting** - This is predominantly related to governance issues such as the election of directors, board structures and management remuneration. When practicable, the Manager seeks to engage with the investee company before voting against management's recommendation on an AGM resolution.

**Top Down Strategic Issues** - Every year the Manager assesses and outlines the engagement priorities for the next 12 months, based on market developments, and emerging ESG and sustainability issues that are relevant and material for our companies. The Manager then identifies the companies most exposed to the topics in question and focuses engagement on those companies.

In 2020 the Manager's strategic areas of focus included physical climate risk and diversity.



## Investment Policy, Results and Other Information continued

STRATEGIC ESG ENGAGEMENT EXAMPLES  
IN 2020**Lenzing, Austria – Physical Climate Risk**

The Manager engaged with this company in order to gain an understanding of the extent the company manages its exposure to physical climate risk. The Manager presented initial findings of its own physical climate risk scenario model which assessed the company's exposure to physical climate risk at plant and facility-level. The outcome of the engagement was that the issue was brought to the attention of the Lenzing Board in parallel with a companywide TCFD reporting project. A follow-up on this is planned in 2021 as part of broader ESG engagement.

**Trimble, US – Sustainability Advisory**

The objectives of the Manager's engagement with Trimble, starting back in 2017, were initially focused on sustainability processes and disclosure, reporting frameworks, materiality and investor-useful data. In 2018 the Manager was pleased to see the company publish its first Sustainability Report. Engagement continued and during 2020 Trimble appointed a Head of Sustainability, set sustainability-based goals and targets, and committed to reporting more sustainability data. 2021 will see ongoing engagement related to broadening the scope of reporting sustainability data/setting targets.

**Blackline Safety, Canada - Diversity**

The Manager's engagement over the past three years focused on raising awareness of the benefits of, and how to implement, improved diversity. In 2020, the objective was to achieve change and positive diversity outcomes in the company. Blackline Safety committed to this with an outcome of two new female members appointed to the Board in 2020.

**Advanced Drainage Systems, US – Corporate Governance & Diversity**

During engagement with Advanced Drainage, the Manager shared the importance of good governance and diversity to long-term value creation. In 2020, the company moved away from a classified Board structure, and is working on a diversity strategy, including data and targets. The company has indicated a commitment to continuous improvement and in 2021 the Manager will be engaging further in the area of diversity.

**2021 Focus**

The COVID-19 pandemic has brought many sustainability issues into sharper focus, especially in the 'S'—the social aspect—of ESG. In the year ahead the Manager plans to direct a greater focus of engagement activity towards this area, taking a close look at how companies are handling worker health and safety, human resources management, customer safety, and community impact. While all these areas have been of concern to the Manager historically, the pandemic has brought them into the spotlight enabling increased dialogue with investee companies on these topics.

In addition, the Manager works on ESG engagement collaborations with clients, partners, and industry organisations to promote sustainable investing and ESG considerations across the globe and is a member of, or signatory to:

- **Principles for Responsible Investment (PRI):** Aims to help investors integrate ESG considerations into investment decision making and supports sharing best practice in active ownership.
- **Institutional Investors Group on Climate Change (IIGCC):** A forum for collaboration on climate change for European investors.
- **Investor Network on Climate Risk (INCR):** Partners with investors worldwide to advance investment opportunities and reduce material risks posed by sustainability challenges such as global climate change and water scarcity.
- **The Carbon Disclosure Project (CDP):** An independent organisation holding the largest database of corporate climate change information in the world.
- **Council of Institutional Investors (CII):** Promoting strong governance and shareholder rights standards at public companies.
- **UK Sustainable Investment and Finance Association (UKSIF):** Provides services and opportunities to align investment profitability with social and environmental responsibility.
- **USSIF:** A US-based membership association promoting sustainable, responsible and impact investment.
- **Global Impact Investing Network (GIIN):** The largest global community of impact investors (asset owners and asset managers) and service providers engaged in impact investing.
- **Task Force on Climate-related Financial Disclosures (TCFD):** Develops voluntary, consistent climate-related financial risk disclosures for companies providing information to investors, lenders, insurers and other stakeholders.
- **The UK Stewardship Code:** Aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.
- **PRI Sustainable Stock Exchanges Working Group:** A Group that actively engages with stock exchanges and their regulators, looking at enhancing corporate transparency, on ESG risks and encourage sustainable investment.
- **Asian Corporate Governance Association (ACGA):** An independent organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.



- **Ceres:** An organisation working with investors and companies to build sustainability leadership and drive solutions throughout the economy. Ceres addresses topics climate change, water scarcity and pollution, and human rights abuses.

## MODERN SLAVERY DISCLOSURE

The Company aims to act to the highest standards and is committed to integrating responsible business practices throughout its operations. The prevention of modern slavery is an important part of corporate good governance.

As an investment trust the Company does not offer goods or services to consumers and deals predominantly with professional advisers and service providers in the financial services industry. As such the Board considers that the Company is out of scope of the Modern Slavery Act 2015. A statement by the Manager under the Act has been published on the website at [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk)

## ENVIRONMENTAL MATTERS

The Company has no employees, physical assets, property or operations of its own, does not provide goods or services and does not have its own customers. It follows that the Company has little to no direct environmental impact. Consequently, the Company consumed less than 40,000 kWh of energy during the year in respect of which the Directors' Report is prepared and therefore is exempt from the disclosures required under the Streamlined Energy and Carbon Reporting criteria.

As an investment trust the fundamental environmental impact the Company makes is indirectly through the investments in its portfolio. Further details can be found above under the heading **Environmental, Social and Governance ("ESG") of investee companies**

## SOCIAL, COMMUNITY AND HUMAN RIGHTS ISSUES

The Manager screens the Company's investable universe as part of the Environmental Social and Governance analysis for any breaches of the principles of the UN Global Compact, including human rights, labour rights, environmental breaches and corruption. Any non-compliant companies are excluded from investment.

## ANTI-BRIBERY AND CORRUPTION

It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company's policy and the

procedures that implement it are designed to support that commitment.

## PREVENTION OF THE FACILITATION OF TAX EVASION

The Board has a zero-tolerance approach to the criminal facilitation of tax evasion.

## EMPLOYEES

The Company has no employees. As at 31 December 2020, the Company had five Directors, of whom two are male and three female. On 1 March 2021, Simon Fraser joined the Board, bringing with him a wealth of experience and skills. Simon's biographical details can be found on page 34. As part of the recruitment process, the Board was mindful of the Company's policy on diversity which is contained in the Corporate Governance statement (see page 42).

## OUTLOOK

The outlook for the Company is discussed in the Chairman's Statement on page 5.

## STRATEGIC REPORT

The Strategic Report set out on pages 1 to 33 of this Annual Report was approved by the Board of Directors on 6 April 2021.

For and on behalf of the Board

**John Scott**  
Chairman  
6 April 2021

# Board of Directors

**John Scott**<sup>1,2</sup> (Chairman of the Board, Management Engagement and Nomination Committees)  
Appointed 7 February 2013



Mr Scott is a former investment banker who spent 20 years with Lazard Brothers. He was Chairman of Scottish Mortgage Investment Trust between 2010 and 2017

Mr Scott is currently Chairman of Jupiter Emerging & Frontier Income Trust and JP Morgan Global Core Real Assets, as well as the Lloyd's members' agency Alpha Insurance Analysts and is a non-executive director of CC Japan Income & Growth Trust and of the Guernsey-based Bluefield Solar Income Fund.

Mr Scott's contribution is invaluable to the Company in formulating its short-term and long-term strategic direction as well as overseeing its development through the years.

**Aine Kelly**<sup>1,2</sup> (Senior Independent Director)  
Appointed 15 November 2016



Miss Kelly is an Independent Impact Investing Consultant. Miss Kelly worked as Head of Financial Sector and Investor Engagement at Big Society Capital from 2013-2016, followed by 3 years as a consultant on The Impact Management Project. She spent the previous 4 years at Barclays Wealth and prior to that she worked 16 years in investment banking at Kleinwort Benson, JP Morgan and Citigroup. Miss Kelly has a wide experience of introducing new investment opportunities to investors and has covered UK, European and Asian equity markets. Miss Kelly has worked in London, New York and Zurich and is currently based in Ireland.

Miss Kelly is currently a member of QBE's Classification of Social Investment committee, a senior impact advisor to Yield Lab Europe and a member of the External Board of Advisors of Cork University Business School.

Miss Kelly's background brings a new approach to the boardroom with a focus on both the financial integrity of investment decisions and their long-term impact.

**Stephanie Eastment**<sup>1,2</sup> (Chairman of the Audit Committee)  
Appointed 1 July 2019



Mrs Eastment is a chartered accountant and chartered Company Secretary with over 30 years' experience of the financial services industry. She qualified with KPMG and worked at Wardley and UBS in finance and corporate governance before moving to Invesco, where she worked for 22 years ending as Head of Accounts and Company Secretariat for Specialist Funds, which included investment trusts. She retired from Invesco in 2018 to pursue a non-executive director career using her wide knowledge and experience. She is also a member of the AIC's Technical Committee.

Mrs Eastment is a non-executive director and audit committee Chairman of Murray Income Trust plc and Herald Investment Trust plc and a non-executive director of RBS Collective Investment Funds Limited.

Mrs Eastment's financial, technical and oversight experience and knowledge strengthens the Board's financial and risk oversight not only as a director, but as the audit committee Chairman.

**Simon Fraser**<sup>1,2</sup> (Non-executive director)  
Appointed 1 March 2021



Mr Fraser had a long and distinguished career in asset management at Fidelity International Ltd, retiring in 2008 as President, Investment Solutions Group, Fidelity Retirement Institute and having held other senior roles including President of Fidelity's European and Institutional business and Global Chief Investment Officer. In December 2019 he retired as Chairman of the £3 billion F&C Investment Trust PLC. He is a former non-executive director of Barclays Bank PLC.

Mr Fraser is Chairman of Murray International Trust plc, and he is also on the board of Fidelity Funds SICAV, Treasurer of the King's Fund and a Trustee of The Abbotsford Trust. In addition, Mr Fraser is Chairman of investment managers McInroy and Wood Ltd, the Investor Forum, and TS Lombard, the independent economic and investment strategy research boutique.

Mr Fraser brings a wealth of investment trust experience and deep knowledge of global markets.

<sup>1</sup> Member of the Audit, Nomination, Remuneration and Management Engagement Committees

<sup>2</sup> Considered independent by the Board

**Victoria (Vicky) Hastings** <sup>1,2</sup> (Non-executive director)  
Appointed 21 May 2013

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Mrs Hastings has worked for over 30 years in the investment management industry. She has held investment roles at asset managers including JO Hambro Capital Management, Merrill Lynch Private

Investors and Kleinwort Benson Investment Management but latterly has pursued a portfolio career.

Mrs Hastings is currently Chairman of Henderson European Focus Trust plc and Senior Independent Director of The Edinburgh Investment Trust plc, and a trustee of Moorfields Eye Charity.

Mrs Hastings's contribution in overseeing and challenging, where appropriate, investment management decisions is highly valued by the Board and her active involvement in the investment trust industry enables her to positively contribute to the Company's long term sustainable success.

**William Rickett, CB** <sup>1,2</sup> (Chairman of the Remuneration Committee)  
Appointed 27 January 2011

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Mr Rickett was Director General, Energy in the Department of Energy & Climate Change and Chairman of the Governing Board of the International Energy Agency until October 2009. He had previously been a Director General in the Department for Transport and in the Cabinet Office.

He started his civil service career in the Department of Energy in 1975 and, among other things, led the team privatising the electricity industry from 1987 to 1990. He was Private Secretary to the Prime Minister from 1981 to 1983 and also spent two periods on secondment to the private sector. He was previously a director of Eggborough Power Ltd, Heliuss Energy plc and the National Renewable Energy Centre Ltd. He was appointed a Companion of the Most Honourable Order of the Bath in 2010.

Mr Rickett is Chairman of Cambridge Economic Policy Associates Limited and a non-executive director of Greencoat UK Wind plc.

Mr Rickett's expertise in the environmental sector enables him to challenge and bring new ideas in relation to the Company's investment strategy short-term and long-term.

1 Member of the Audit, Nomination, Remuneration and Management Engagement Committees

2 Considered independent by the Board

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## INVESTMENT MANAGERS

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**Jon Forster** (Senior Portfolio Manager,  
Managing Director)

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Mr Forster has worked at IAM since August 2000. He co-manages the Specialists strategy, which includes IAM's flagship fund, Impax Environmental Markets plc, alongside Bruce Jenkyn-Jones.

He specialises in New Energy, Water and Waste Support Services. Mr Forster researches stocks globally with a focus on Industrials and Utilities.

Following graduation from Leeds University in Management Studies, Mr Forster began his career in 1994, spending four years working on acquisitions at HSBC Investment Bank. Subsequently, he spent two years as a consultant to venture capital investor Alchemy Partners, focusing on manufacturing and resource management companies.

**Bruce Jenkyn-Jones** (Co-Head of Listed Equities,  
Executive Director)

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Mr Jenkyn-Jones is responsible for the development of the investment process, research and team. Mr Jenkyn-Jones has an active role in the day to day management of all IAM listed equity

portfolios and is on the portfolio construction team for all strategies. Mr Jenkyn-Jones joined in 1999 and worked initially on venture capital investments before developing the listed equity business. Before joining IAM, Mr Jenkyn-Jones worked as a utilities analyst at Bankers Trust and as an environmental consultant for Environmental Resources Management. Mr Jenkyn-Jones has an MBA from IESE (Barcelona), an MSc in Environmental Technology from Imperial College and a degree in Chemistry from Oxford.

# Directors' Report

The Directors present their report and accounts for the year ended 31 December 2020.

## STRATEGIC REPORT

The Directors' Report should be read in conjunction with the Strategic Report on pages 1 to 33.

## CORPORATE GOVERNANCE

The Corporate Governance Statement on pages 41 to 43 forms part of this report.

## LEGAL AND TAXATION STATUS

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company conducts its affairs in order to meet the requirements for approval as an investment trust under section 1158 of the Corporation Tax Act 2010. The Company has received initial approval as an investment trust and the Company must meet eligibility conditions and ongoing requirements in order for investment trust status to be maintained. In the opinion of the Directors, the Company has met the conditions and requirements for approval as an investment trust for the year ended 31 December 2020.

## ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ("AIFMD")

The Company is classified as an Alternative Investment Fund under AIFMD and is therefore required to have an Alternative Investment Fund Manager ("AIFM"). Impax Asset Management (AIFM) Limited is the AIFM of the Company. The AIFM has received its authorisation to act as an AIFM from the FCA. The AIFM must ensure that an annual report containing certain information on the Company is made available to investors each financial year. The investment funds sourcebook of the FCA details the requirements of the annual report. All the information required by those rules is included in this Annual Report or will be made available on the AIFM's website ([www.impaxam.com](http://www.impaxam.com)).

The AIFM is required to make certain disclosures on its remuneration in respect of the AIFM's relevant reporting period which is the year ended 30 September 2020. These disclosures are available on the AIFM's website or are available on request from the AIFM.

## LEVERAGE (UNDER AIFMD)

The AIFM is required to set leverage limits as a percentage of net assets for the Company utilising methods prescribed under AIFMD (see APMs on page 74). These methods are known as the gross method and the commitment method. A leverage percentage of 100% equates to nil leverage. The Company's leverage under each of these methods at its year end is shown below:

	GROSS METHOD	COMMITMENT METHOD
Maximum leverage limit (set by the AIFM)	130%	130%
Actual leverage at 31 December 2020	102%	105%

## SHAREHOLDER RELATIONS AND ANNUAL GENERAL MEETING ("AGM")

The Board encourages all shareholders to attend the AGM and generally seeks to provide twenty working days' notice of that meeting.

The Notice of AGM sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue. The Manager has a programme of meetings with shareholders and reports back to the Board on its findings. The Board also welcomes direct feedback from shareholders. The Chairman is available to meet shareholders and may be contacted by email at [chairman@impaxenvironmentalmarkets.co.uk](mailto:chairman@impaxenvironmentalmarkets.co.uk).

Due to the restrictions on public gatherings at the time of the Company's AGM in May 2020, shareholders were not able to attend. Instead, the Board wrote to shareholders, inviting questions from shareholders and a presentation by the Manager was made available through the Company's website.

The Company's AGM will be held at 2pm on 20 May 2021 and the Chairman's Statement on page 4 sets out the arrangements for the meeting. As Government restrictions and social distancing measures remain in place, shareholders will not be able to attend or vote in person. However, shareholders will be able to attend the meeting by way of a webinar and voting will be by proxy in advance of the AGM. Details of registration for the webinar and how shareholders can cast their votes can be found in the Notes to the Notice of Meeting on pages 80 to 82. Shareholders will also have the opportunity to hear a presentation from the Manager, and ask questions of the Board and the Manager.

## SPECIAL BUSINESS OF THE AGM

### Authority to issue and purchase own shares

On 22 January 2019, the Board announced that the Board remains fully committed to using its powers, including those to issue and buy back shares, in a proactive manner with the aim of seeing the shares, in normal market conditions, trading close to NAV on a consistent and long-term basis.

The authorities to allot shares granted at the last AGM held on 21 May 2020 and the General Meeting held on 14 August 2020 will expire at the conclusion of the forthcoming AGM. The authority to allot shares granted at the General Meeting held on 12 January 2021 will expire at the conclusion of the AGM in May 2022.

The Board recommends that the Company be granted a new authority to allot up to a maximum of 27,797,098 Ordinary Shares (representing approximately 10% of the shares in issue at the date of this document) and to dis-apply pre-emption rights when allotting those Ordinary Shares and/or selling shares from treasury. Ordinary resolution 12 and special resolution 13 will be put to shareholders at the AGM. Shares will be issued under this authority only at the Board's discretion and when it is deemed to be in the best interests of shareholders as a whole to do so. The advantages are to lower the Company's ongoing charges as expenses are diluted and, in the short term, to address volatility in the share price. Unless otherwise authorised by shareholders, new Ordinary Shares will not be issued at less than NAV and Ordinary Shares held in treasury will not be sold at less than NAV.

The maximum number of Ordinary Shares which can be admitted to trading on the London Stock Exchange without the publication of a prospectus is 20% of the Ordinary Shares on a rolling previous 12-month basis at the time of admission of the shares.

The authority for the Company to purchase its own shares granted by the AGM held on 21 May 2020 will expire at the conclusion of the forthcoming AGM. During the year ended 31 December 2020, the Company did not utilise its authority to purchase its own shares. However, the Directors recommend that a new authority to purchase up to 41,667,851 Ordinary Shares (subject to the condition that not more than 14.99% of the Ordinary Shares in issue at the date of the AGM are purchased) be granted and special resolution 14 to that effect will be put to the AGM. Any Ordinary Shares purchased will either be cancelled or, if the Directors so determine, held in treasury. Shares are purchased at the discretion of the Board and when it is deemed to be in the best interests of shareholders. Shares will be purchased for cancellation or for treasury only when the shares are trading at a discount to the Net Asset Value.

The Companies Act 2006 allows companies to hold shares acquired by way of market purchases as treasury shares, rather than having to cancel them. This gives the Company the ability to sell Ordinary Shares quickly and cost effectively, thereby improving liquidity and providing the Company with additional flexibility in the management of its capital base. At the year end and at the date of this report, no shares were held in treasury.

### Notice of General Meetings

Special resolution 15 in the notice to the AGM is required to reflect the requirements of the Shareholder Rights Directive. The Company is currently able to call General Meetings, other than an AGM, on 14 clear days' notice and would like to preserve this ability. In order to be able to do so, shareholders must have given their prior approval.

Special resolution 15 seeks such approval, which would be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. The Company will ensure that it offers the facility for shareholders to vote by electronic means, and that this facility is accessible to all shareholders, if it is to call general meetings on 14 days' notice. Short notice of this kind will be used by the Board only under appropriate circumstances.

## CONTINUATION VOTE

The Articles of Association require that an ordinary resolution be proposed at every third AGM of the Company that the Company should continue as an investment trust for a further three-year period. The next vote for the continuation of the Company will be proposed at the AGM to be held in 2022. In the event that such a resolution is not passed, the Directors are required to draw up proposals for shareholders' approval for the voluntary liquidation or unitisation or other reorganisation of the Company, which would require a special resolution of shareholders.

## MARKET INFORMATION

The Company's Ordinary Shares are premium listed on the London Stock Exchange ("LSE"). The NAV per Ordinary Share is calculated in sterling for each business day that the LSE is open for business. The daily NAV per Ordinary Share is published through a regulatory information service.

## BANK LOANS AND CREDIT FACILITY

The Company has in place a mixture of fixed and floating rate debt totalling £48.9 million (2019: £30.1 million). The Company entered into agreements for five year fixed rate loans of £15 million and US\$20 million with Scotiabank Europe PLC. The interest rates on the loans



## Directors' Report continued

are 2.910% and 4.504% per annum, respectively. The Company also has a £20 million multi-currency revolving credit facility ("RCF") with Scotiabank of which £2.5 million was committed, but undrawn, at the beginning of the year. During the year, the RCF commitment was increased by £17.5 million and extended to the expiry date of the facility in September 2023 and the full £20 million of the facility was drawn down in two currencies, US\$12.6 million and £10 million. Interest is payable on amounts drawn down under the facility computed at the six month LIBOR rate plus a margin of 1.70% per annum.

### RETAIL DISTRIBUTION OF INVESTMENT COMPANY SHARES VIA FINANCIAL ADVISERS AND OTHER THIRD PARTY PROMOTERS

As a result of the Financial Conduct Authority ("FCA") rules determining which investment products can be promoted to retail investors, certain investment products are classified as "non-mainstream pooled investment products" and face restrictions on their promotion to retail investors.

The Company has concluded that the distribution of its shares, being shares in an investment trust, is not restricted as a result of the FCA rules described above.

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by financial advisers to retail investors and intends to continue to do so for the foreseeable future.

### MANAGER

Impax Asset Management (AIFM) Limited ("IAM") has been appointed as the Company's Investment Manager (the "Manager").

The Manager is appointed under a contract subject to twelve months' notice.

The Manager is entitled to remuneration each month at a rate equivalent to one twelfth of 0.9% on the Company's net assets up to and including the first £475 million and 0.65% on net assets in excess of £475 million.

The Board confirms that it has reviewed whether to retain IAM as the Manager of the Company. It has been concluded that, given the Manager's depth of knowledge in the sector and the growth and strong performance record of the Company, it is in the best interests of shareholders as a whole to continue with IAM's engagement.

### CAPITAL STRUCTURE AND VOTING RIGHTS

At the year end the Company's issued share capital comprised 265,877,138 Ordinary Shares, with no shares held in treasury. Each Ordinary Share held entitles the holder to one vote. All shares carry equal voting rights and there are no restrictions on those voting rights. Voting deadlines are stated in the Notice of Meeting and Form of Proxy and are in accordance with the Companies Act 2006.

Since the year end, 12,093,850 Ordinary Shares were issued at an average price per share of 452.7 pence. At the date of this report there were 277,970,988 Ordinary Shares in issue.

There are no restrictions on the transfer of shares, nor are there any limitations or special rights associated with the Ordinary Shares.

### NOTIFIABLE INTEREST

As at 31 December 2020 and 31 March 2021, the Directors have been formally notified of the following shareholdings comprising 3% or more of the issued share capital of the Company.

COMPANY	HOLDING OF ORDINARY SHARES- AS AT 31 DECEMBER 2020	% HOLDING - AS AT 31 DECEMBER 2020*	HOLDING OF ORDINARY SHARES- AS AT 31 MARCH 2021	% HOLDING - AS AT 31 MARCH 2021**
Rathbones***	19,160,636	7.21%	19,160,636	6.89%
Brewin Dolphin	13,112,066	4.93%	13,112,066	4.72%
Border to Coast Pensions Partnership Limited	11,050,000	4.16%	11,050,000	3.98%
Kames Capital plc	10,740,001	4.04%	10,740,001	3.86%
Aegon Asset Management UK PLC	10,626,797	4.00%	10,626,797	3.82%

\* Based on the number of Ordinary Shares in issue at the Company's year end.

\*\* Based on the number of Ordinary Shares in issue at 31 March 2021.

\*\*\*Rathbone Investment Management Ltd and Rathbone Unit Trust Management Ltd.



## POLITICAL DONATIONS

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There were no political donations made during the financial year to 31 December 2020 (2019: nil).

## DISCLOSURE REQUIRED BY LISTING RULE 9.8.4

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The above rule requires listed companies to report certain information in a single identifiable section of their annual financial reports. The Company confirms that, other than the allotment of equity securities for cash (LR 9.8.4(7)) which is detailed in note 12 to the financial statements, all such reporting applied only to non-applicable events for the year ended 31 December 2020.

## FUTURE TRENDS

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Details of the main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Manager's Report section of this Strategic Report on pages 6 to 9. Further details as to the risks affecting the Company are set out in the 'Principal Risks and Uncertainties' on pages 22 to 25.

## DIRECTORS' INDEMNITIES

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Subject to the provisions of the Companies Act 2006 and certain provisions contained in the deeds of indemnity issued by the Company, the Company has indemnified each of the Directors against all liabilities which each director may suffer or incur arising out of or in connection with any claim made or proceedings taken against them, or any application made under sections 661(3), 661(4) or 1157 of the Companies Act 2006 by them, on the grounds of their negligence, default, breach of duty or breach of trust, in relation to the Company or any Associated Company. The indemnities would provide financial support from the Company after the level of cover provided by the Company's Directors' and Officers' insurance policy has been fully utilised.

## GOING CONCERN

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The Directors have adopted the going concern basis in preparing the accounts. The following is a summary of the Directors' assessment of the going concern status of the Company.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of this document. In reaching this conclusion, the Directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expense flows. As at 31 December 2020,

the Company held £30.0 million (2019: £13.8 million) in cash and £1,112.3 million (2019: £673.7 million) in quoted investments. The Company's audited net assets at 31 December 2020 were £1,093.3 million (2019: £657.0 million).

In light of the COVID-19 pandemic, the Board has considered the Company's debt and related covenants. The main liability of the Company is its borrowings of £48.9 million which is covered 22 times by the net assets, which is well in excess of the level of cover required by the borrowing covenants of 4 times (see note 11 to the financial statements). The total ongoing expenses (excluding taxation and finance costs) for the year ended 31 December 2020 were £7.5 million (2019: £5.7 million), which represented approximately 0.95% (2019: 1.02%) of average net assets during the year. The Board also considered the liquidity of the Company's investments and it is estimated that approximately 95% (2019: 92%) by value of the quoted investments held at the year end could be realised in one month under normal market conditions.

The Directors have considered the impact of the pandemic on the Company's portfolio of investments and that any future prolonged and deep market decline would likely lead to falling values in the Company's investments and/or reduced dividend receipts. However, as explained above, the Company has more than sufficient liquidity available to meet its expected future obligations. In addition, the Board believes that the Company and its key third party service providers have in place appropriate business continuity plans and will continue to maintain service levels throughout the pandemic.

At the date of approval of this document, based on the aggregate of investments and cash held, the Company has substantial operating expenses cover.

The Directors also recognise that the continuation of the Company is subject to the approval of shareholders every three years. The next continuation vote will be held in 2022 and the Board has considered the long-term prospects of the Company and has no reason to believe that the continuation vote will fail at the 2022 AGM.

**Directors' Report continued****AUDITOR INFORMATION**

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Each of the Directors at the date of the approval of this report confirms that:

- (i) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (ii) the Director has taken all steps that he or she ought to have taken as director to make himself or herself aware of any relevant information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**APPOINTMENT OF AUDITOR**

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In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint BDO LLP as the Company's auditor will be put forward at the forthcoming AGM on 20 May 2021.

By order of the Board

**Brian Smith**

For and on behalf of  
PraxisIFM Fund Services (UK) Limited  
Company Secretary  
6 April 2021

# Corporate Governance

## INTRODUCTION

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This Corporate Governance statement forms part of the Directors' Report.

The Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of The UK Corporate Governance Code 2018 (the "UK Code"), as issued by the Financial Reporting Council ("FRC"). The UK Code can be viewed on the FRC's website.

The Board has considered the principles and provisions of the AIC Code of Corporate Governance 2019 (the "AIC Code") which addresses those set out in the UK Code, as well as setting out additional provisions on issues that are of specific relevance to the Company, as an investment trust.

The Board considers that reporting against the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to shareholders.

The AIC Code is available on the AIC website ([www.theaic.co.uk](http://www.theaic.co.uk)). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The Company has complied with the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive (provision 14);
- the need for an internal audit function (provision 25); and
- executive Directors' remuneration (provision 33);

The Board considers these provisions are not relevant to the Company, being an externally managed investment company with no employees. The Company has therefore not reported further in respect of these provisions, other than the need for an internal audit function specific to the Company, which has been addressed on page 49.

## THE BOARD

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### Composition

At the date of this report the Board consists of six non-executive directors. The Chairman is John Scott, and the Directors are Aine Kelly, Stephanie Eastment, Simon Fraser, Vicky Hastings and William Rickett. Miss Kelly is the Senior Independent Director and Mrs Eastment is the Audit Committee Chairman.

All directors served throughout the year except for Mr Fraser who was appointed on 1 March 2021.

The Board believes that during the year ended 31 December 2020 its composition was appropriate for an investment company of the Company's nature and size. All of the Directors are independent of the Manager and are able to allocate sufficient time to the Company to discharge their responsibilities effectively. The Directors have a broad range of relevant experience to meet the Company's requirements and their biographies are given on pages 34 to 35.

In line with the AIC Code, the Board has decided that each Director should be subject to annual re-election by shareholders.

The Board recommends all the Directors for either re-election or election (with the exception of Mr Rickett who is retiring) for the reasons highlighted above and in the performance appraisal section of this report.

The Directors have appointment letters which do not provide for any specific term. Copies of the Directors' appointment letters are available on request from the company secretary. Upon joining the Board, any new Director will receive an induction and relevant training is available to Directors on an ongoing basis.

A policy of insurance against Directors' and Officers' liabilities is maintained by the Company.

A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

## BOARD COMMITTEES

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The Board decides upon the membership and chairmanship of its committees.

### Audit Committee

A report on pages 48 to 49 provides details of the role and composition of the Audit Committee together with a description of the work of the Audit Committee in discharging its responsibilities.

### Remuneration Committee

All of the Directors are members of this committee. The Remuneration Committee has been established to meet formally on at least an annual basis to review the remuneration policy of the Company and consider the fees of the non-executive directors. No changes were proposed to the Company's remuneration policy by the committee and details of the review conducted of the fees of non-executive directors is given on page 45. Mr Rickett, who is the Chairman of the Remuneration Committee, will retire after the May 2021 AGM following 10 years of service, whereupon Mrs Hastings will assume the role.

The Directors' Remuneration Implementation Report is included on pages 45 to 47.

## Corporate Governance continued

**Management Engagement Committee ("MEC")**

All of the Directors are members of the MEC, and Mr Scott is the Chairman. The MEC has been established to conduct a formal annual review of the Manager, assessing investment and other performance, the level and method of the Manager's remuneration and the continued appointment of the Manager as investment manager to the Company. The MEC met and reviewed the Manager's performance and remuneration structure. In conclusion the committee's recommendation to the Board was that it was in the best interests of shareholders as a whole to continue with the Manager's engagement and that the current management fee structure remained appropriate. (See page 38 for further details).

The MEC also reviewed the standard of service from and the fees payable to the other main service providers to the Company and concluded they remained appropriate.

**Nomination Committee**

All of the Directors are members and Mr Scott is the Chairman of this committee. The Nomination Committee has been established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nomination Committee considers job specifications and assesses whether candidates have the necessary skills and time available to devote to the job.

The Board has formulated a succession plan which is reviewed and maintained through the Nomination Committee to promote regular refreshment and diversity, whilst maintaining stability and continuity of skills and knowledge on the Board.

Following the decision of Mr Rickett to retire after the 2021 AGM, and in accordance with its succession plan, the Board began a recruitment process led by Miss Kelly. The Board engaged the services of recruitment specialists, Nurole Limited, to assist with the search for suitable candidates for the position of non-executive director. Nurole was recommended to the Board by the Committee following a review of suitable recruitment specialists to identify a long list of candidate firms, and following interview of short-listed candidate firms. Nurole are independent of both the Company and individual directors. Nurole supplied a long list of candidates based on the criteria set by the Committee. The Committee then selected a short list of candidates who were interviewed to assess their suitability and skills. Following this extensive search and thorough recruitment process, the Committee recommended Mr Simon Fraser to the Board. The Board subsequently determined to appoint Mr Fraser, effective 1 March 2021.

Each Committee has adopted formal terms of reference, which are reviewed at least annually, and copies of these are available on the Company's website or on request from the company secretary.

**Meeting attendance**

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	MANAGEMENT ENGAGEMENT COMMITTEE	NOMINATION COMMITTEE
Number of meetings held	5	3	1	1	2
John Scott	5	3	1	1	2
Stephanie Eastment	5	3	1	1	2
Vicky Hastings	5	3	1	1	2
Aine Kelly	5	3	1	1	2
Julia Le Blan*	3	1	–	1	1
William Rickett	5	3	1	1	2

\* Julia Le Blan attended all meetings before her retirement from the Board on 21 May 2020.

In addition, a Board strategy meeting was held and there were also Board and committee ad-hoc meetings to deal with administrative matters and the formal approval of documents.

**BOARD DIVERSITY**

The Board's policy on diversity is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds, including but not limited to gender diversity and ethnicity. The policy is always to appoint the best person for the job and there will be no discrimination on the grounds of

gender, race, ethnicity, religion, sexual orientation, age or physical ability. The overriding aim of the policy is to ensure that the Board is composed of the best combination of people for ensuring effective oversight of the Company and constructive support and challenge to the Manager. Directors have a range of business, financial and asset management skills as well as experience relevant to the direction and control of the Company. Brief biographical details of the Directors are shown on pages 34 to 35.

The Board appraises its collective set of cognitive and personal strengths, independence and diversity on an annual basis, and especially during the recruitment process, so as to ensure it is aligned with the Company's strategic priorities. The performance appraisal process is described below. The Board believes its composition is appropriate for the Company's circumstances. However, in line with the Board's succession planning and tenure policy, or should strategic priorities change, the Board will review and, if required, adjust its composition.

## TENURE POLICY

It is the Board's policy that all Directors, including the Chairman, shall normally have tenure limited to nine years from their appointment to the Board, except that the Board may determine otherwise if it is considered that the continued participation on the Board of an individual Director is in the best interests of the Company and its shareholders. This is also subject to the Director's re-election annually by shareholders. The Board considers that this policy encourages regular refreshment and is conducive to fostering diversity.

Mr Rickett was appointed as Director on 27 January 2011 and will not be offering himself for re-election at the AGM to be held in May 2021.

## PERFORMANCE APPRAISAL

A formal annual performance appraisal process is performed on the Board, the committees and individual Directors. The performance appraisal was managed by an external provider, Lintstock Limited, which has no other connection with the Company. A programme consisting of open and closed ended questions was used as the basis for the appraisal. The results were reviewed by the Chairman and discussed with the Board. A separate appraisal of the Chairman was carried out and the Senior Independent Director reported back the results to the Chairman. The results of the most recent performance evaluation were positive and demonstrated that the Directors showed the necessary commitment for the effective fulfilment of their duties.

## INTERNAL CONTROL

The Board is responsible for establishing the Company's system of internal controls and for monitoring their effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board, through the Audit Committee, regularly reviews the effectiveness of the internal control systems to identify, evaluate and manage the Company's significant risks. If any significant failings or weaknesses are identified the Board, and where required the Manager, ensure that necessary action is taken to remedy the failings. In addition, as reported under the principal risks and uncertainties section on page 22, during the year the Board – through the Audit Committee – undertook

a comprehensive review of the Company's risk management framework and controls. This identified four main risk categories and resulted in enhanced risk documentation and reporting to the Board and Audit Committee. Following its review, the Board is not aware of any significant failings or weaknesses arising in the year under review.

The Board believes that the existing arrangements, including those set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the Directors have kept under review the effectiveness of the internal control system throughout the year and up to the date of this report.

## FINANCIAL ASPECTS OF INTERNAL CONTROL

These are detailed in the Report of the Audit Committee.

### Other aspects of internal control

The Board holds at least four regular meetings each year, plus additional meetings as required. Between these meetings there is regular contact with the Manager and the Company's Administrator and company secretary.

The Board has agreed policies with the Manager on key operational issues. The Manager reports in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary. The Manager reports direct to the Audit Committee concerning the internal controls applicable to the Manager's dealing, investment and general office procedures.

The Directors receive and consider monthly reports from the Administrator, giving details of all holdings in the portfolio, investment transactions and the financial position of the Company. The Administrator reports separately in writing to the Board concerning risks and internal control matters within its purview, including internal financial control procedures and company secretarial matters. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the company secretary, which is responsible to the Board for ensuring that Board procedures are followed, and that applicable rules and regulations are complied with.

The contacts with the Manager and the Administrator enable the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. The effectiveness of the Company's risk management and internal controls systems is monitored regularly and a formal review, utilising a detailed risk assessment programme, takes place at least annually. This includes consideration of relevant service provider internal controls reports. There are no significant findings to report from the review.

## PRINCIPAL RISKS

The Directors confirm that they have carried out a robust assessment of the Company's emerging and principal risks, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and how they are being managed are set out in the Strategic Report.

# Directors' Remuneration Policy

The remuneration policy (the "Policy") must be put forward for shareholder approval at a maximum interval of three years. The Policy was last approved by shareholders at the AGM held on 17 May 2018. Accordingly, the Policy of the Company will be put forward for approval by shareholders at the forthcoming AGM and will continue in force until the Annual General Meeting to be held in 2024. The provisions set out in the Policy apply until they are next submitted for shareholder approval. In the event of any proposed material variation to the Policy, shareholder approval will be sought for the proposed new policy prior to its implementation. The Policy sets out the principles the Company follows in remunerating Directors and the result of the shareholder vote on the Policy is binding on the Company. The Remuneration Committee will take account of any views expressed by shareholders in formulating this policy.

All the Directors are non-executive directors and the Company has no other employees.

## Service contracts

The Directors do not have service contracts with the Company. The Directors have appointment letters and, following initial election by shareholders, are subject to annual re-election.

## Fees

Directors' fees are determined by the Board according to their duties and responsibilities and by reference to the time commitment required by each director to carry out their roles effectively. In setting fees, the Board also has regard to the need to recruit and retain directors with appropriate knowledge and experience, the fees paid to directors of the Company's peers and industry practice. Directors' fees are also subject to the aggregate annual limit set out in the Company's Articles of Association (the "Articles"), which is currently £200,000. The aggregate limit of Directors' fees in the Articles can only be amended by an ordinary resolution put to shareholders at a general meeting.

Directors are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits.

## Current and future policy

COMPONENT	DIRECTOR	PURPOSE OF REWARD	OPERATION
Annual fee	Chairman of the Board	For services as Chairman of a plc	Determined by the Board
Annual fee	Other Directors	For services as non-executive directors of a plc	Determined by the Board
Additional fee	Chairman of the Audit Committee	For additional responsibility and time commitment	Determined by the Board
Additional fee	Senior Independent Director	For additional responsibility and time commitment	Determined by the Board
Expenses	All Directors	Reimbursement of expenses incurred in the performance of duties	Submission of appropriate supporting documentation

Directors' fees are paid at fixed annual rates and do not have any variable elements. Directors are also entitled to be reimbursed for all reasonable out-of-pocket expenses incurred in performance of their duties. These expenses are unlikely to be of a significant amount.

Fees are payable from the date of appointment as a director of the Company and cease on the date of termination of appointment. Any new Directors will be paid at the same rate as existing Directors. Directors are not entitled to compensation for loss of office, and there is no notice period upon early termination of appointment.

No incentive fees will be paid to any person to encourage them to become a director of the Company. The Company may, however, pay fees to external agencies to assist the Board in the search and selection of directors or in reviewing remuneration. Where a consultant is appointed, the consultant shall be identified in the annual report alongside a statement about any other connection it has with the Company or individual Directors. Independent judgement will be exercised when evaluating the advice of external third parties.

## Statement of consideration of conditions elsewhere in the Company

As stated above, the Company has no employees. Therefore, the process of consulting with employees on the setting of the Remuneration Policy is not applicable.

## Review of the Policy

This Policy will be reviewed on an annual basis by the Remuneration Committee and any changes approved by the Board. As part of the review, the Remuneration Committee will consider whether the Policy supports the long-term success of the Company and takes into consideration all relevant regulatory requirements. Any material change to the Policy must be approved by shareholders.

## Effective date

The Policy is effective from the date of approval by shareholders.



# Directors' Remuneration Implementation Report

This Directors' Remuneration Implementation Report (the "Report") has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulation 2013. An ordinary resolution for the approval of this Report will be put forward at the forthcoming AGM.

The Report is put forward for approval by shareholders on an annual basis. The result of the shareholder resolution on the Report is non-binding on the Company, although it gives shareholders an opportunity to express their views, which will be taken into account by the Board and the Remuneration Committee.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures are audited they are indicated as such. The auditor's opinion is shown on page 51.

## Remuneration Committee

The Company currently has six non-executive directors.

With effect from 1 January 2021, annual fees were increased by 2.5%, resulting in Directors' fees of £39,975 for the Chairman, and £26,650 to the Directors of the Company, with additional amounts of £6,665 payable to the Chairman of the Audit Committee and £2,665 payable to the Senior Independent Director ("SID"). Prior to this date, annual Directors' fees were paid at the rate of £39,000 for the Chairman, and £26,000 to the other Directors of the Company, with an additional annual amount of £6,500 payable to the Chairman of the Audit Committee. The additional fee for the SID was introduced from 1 January 2021 to reflect the extra responsibility and work undertaken by the SID.

The Remuneration Committee believes that the level of increase and resulting fees appropriately reflects prevailing market rates for an investment trust of the Company's complexity and size, the increasing complexity of regulation and resultant time spent by the Directors on matters, and will also enable the Company to attract appropriately experienced additional Directors in the future. Due to the size and nature of the Company, it was not deemed necessary to use a remuneration consultant although the Remuneration Committee did obtain views from external search consultants on the level of the Company's fees against prevailing market rates, and took these into account in its deliberations.

The Remuneration Committee comprises the whole Board. Further detail on the duties of the Remuneration Committee can be found in the Corporate Governance statement on page 41.

The maximum level of fees payable, in aggregate, to the Directors of the Company is currently £200,000 per annum. This maximum was approved by shareholders at the Company's AGM held in 2018 and the Board has agreed that it will not seek a further increase to the maximum level at this time.

## Directors' appointment letters and shareholding rights

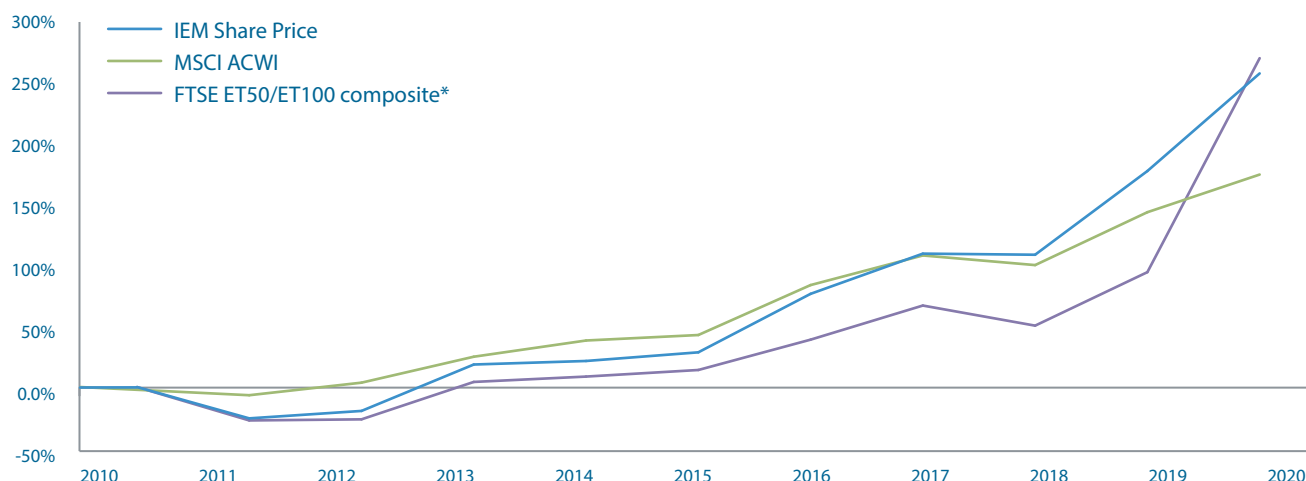
The Directors have appointment letters which do not provide for any specific term. The Directors are not entitled to compensation on loss of office. There are no restrictions on transfers of the Company's shares held by the Directors or any special rights attached to such shares.

## Performance

The following chart shows the performance of the Company's share price by comparison to two relevant indices on a total return basis. The Company does not have a specific benchmark but has deemed the MSCI ACWI Index and the FTSE ET100 Index to be the most appropriate comparators for this report.

## Directors' Remuneration Implementation Report continued

## Total return performance



\* FTSE ET50 Index until 31 December 2013 and then FTSE ET100 Index thereafter.

## Directors' emoluments for the year (audited)

The Directors who served during the year received the following remuneration for qualifying services.

	2020			2019			(UNAUDITED) PERCENTAGE CHANGE OF BASIC FEES <sup>3</sup> %
	FEES £	TAXABLE BENEFITS £	TOTAL £	FEES £	TAXABLE BENEFITS £	TOTAL £	
John Scott	39,000	-	39,000	35,250	-	35,250	10.6
Stephanie Eastment <sup>1</sup>	30,023	-	30,023	11,750	-	11,750	155.5 <sup>4</sup>
Vicky Hastings	26,000	-	26,000	23,500	-	23,500	10.6
Aine Kelly	26,000	-	26,000	23,500	1,476	24,976	10.6
William Rickett	26,000	-	26,000	23,500	-	23,500	10.6
Julia Le Blan <sup>2</sup>	12,718	-	12,718	28,625	-	28,625	-
Total	159,741	-	159,741	146,125	1,476	147,601	

1. Appointed as a non-executive director on 1 July 2019 and as Chairman of the Audit Committee on 21 May 2020.

2. Retired on 21 May 2020.

3. In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, this column has been included to show the annual percentage change over the preceding financial year by comparison to the current financial year in respect of each Director. The Board will publish this annual percentage change cumulatively each year going forward until there is an annual percentage change over the five financial years preceding the relevant financial year in accordance with the new regulation. These fees exclude taxable benefits which could vary substantially as they reflect expenses incurred whilst carrying out the Board's duties.

4. The annual charge increase reflects the fact that Mrs Eastment joined the Board part way through 2019 and became Chairman of the Audit Committee part way through 2020. Mrs Eastment's fee increase would have been 13.5% had she been Chairman of the Audit Committee for the whole of 2019 and 2020.

There are no other taxable benefits payable by the Company other than certain expenses which may be deemed to be taxable such as travel expenses. None of the above fees were paid to third parties.

The resolution to approve the Remuneration Report contained in the Annual Report for the year ended 31 December 2019 was put forward at the AGM held on 21 May 2020. The resolution was passed with 99.95% of the shares voted (representing 92,125,689 Ordinary Shares) being in favour of the resolution, 0.05% against (representing 42,489 Ordinary Shares) and 27,828 votes withheld.

The Directors' Remuneration Policy was last put forward at the AGM held on 17 May 2018. The resolution was passed with 99.99% of the shares voted (representing 102,738,869 Ordinary Shares) being in favour, against 0.01% (representing 12,233 Ordinary Shares) and votes withheld 4,184.

### Relative importance of spend on pay

The following table sets out the total level of Directors' remuneration compared to the distributions to shareholders by way of dividends and share buybacks, and the management fees and other expenses incurred by the Company.

	2020 £'000	2019 £'000	DIFFERENCE %
Spend on Directors' fees	160	146	+9.6%
Management fees and other expenses	7,492	5,687	+31.7%
Dividends paid to shareholders*	10,065	5,488	+83.4%

\* During 2020, two interim dividends were paid to shareholders, one (3.0 pence) in respect of 2019 financial year and a second (1.3 pence), the first of two interim dividends paid in respect of the 2020 financial year. In 2019 one dividend (3.0 pence) was paid in respect of the 2018 financial year.

The disclosure of the information in the table above is required under The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 with the exception of management fees and other expenses which have been included to show the total operating expenses of the Company.

### Directors' holdings (Audited)

At 31 December 2020 and at the date of this report the Directors had the following holdings in the Company. All holdings were beneficially owned.

	ORDINARY SHARES AT 31 DECEMBER 2020	ORDINARY SHARES AT 1 JANUARY 2020
John Scott	84,012	84,012
Stephanie Eastment*	10,000	10,000
Aine Kelly	10,000	10,000
Vicky Hastings	19,500	19,500
William Rickett	5,000	5,000

\* Includes shares held by a connected person of 8,500

In order to facilitate the General Meeting held on 14 August 2020, Mr Ian Simm of Impax Asset Management was appointed as an alternative Director of the Company for the duration of the meeting. Mr Simm held 45,043 Ordinary Shares at 14 August 2020. Mrs Julia Le Blan retired as a Director of the Company on 21 May 2020, at which date Mrs Le Blan held 14,907 Ordinary Shares in the Company.

There have been no purchases of shares by any of the Directors since the year end.

### Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Remuneration Report and Remuneration Policy summarises, as applicable, for the year to 31 December 2020:

- (a) the major decisions on Directors' remuneration;
- (b) any substantial changes relating to Directors' remuneration made during the year; and
- (c) the context in which the changes occurred and decisions have been taken.

### William Rickett

Chairman of the Remuneration Committee

6 April 2021

# Report of the Audit Committee

## THE AUDIT COMMITTEE

As Chairman of the Audit Committee (the “Committee”), I am pleased to present the Committee’s report to shareholders for the year ended 31 December 2020.

### Composition

All of the Directors are members of the Committee. In accordance with the UK Code, the Chairman of the Board should not be a member. However, the AIC Code permits the Chairman to be a member of, but not chair, the Committee if they were independent on appointment - which the Chairman was and continues to be. In view of the size of the Board the Directors feel it is appropriate for him to continue as a member, so that the Committee can continue to benefit from his experience and knowledge.

The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee. As a Chartered Accountant, the Chairman of the Committee has recent and relevant financial experience, and the Committee as a whole has competence relevant to the sector.

### Role and Responsibilities

The main role and responsibilities of the Committee are set out in the Committee’s terms of reference. The terms are updated annually and are available on the Company’s website or on request from the company secretary.

The Committee meets formally at least twice a year for the purpose, amongst other things, of advising the Board on the appointment, effectiveness, independence, objectivity and remuneration of the external auditor. The Committee monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company’s financial performance, reviewing significant financial reporting judgements contained in them. The Committee also reviews the Company’s risk management, internal financial controls and internal control systems and reviews the Manager’s whistleblowing arrangements. The provision of non-audit services by the auditor are reviewed against the Committee’s policy described below.

### Meetings

There were three Committee meetings during the year ended 31 December 2020. In addition, the Committee met the auditor, without any other party present, for a private discussion and the Chairman of the Committee met with the auditor prior to the half-yearly and annual Committee meetings.

### Committee evaluation

The Committee’s activities fell within the scope of the review of Board effectiveness performed in the year. Details of this process can be found under ‘Performance Appraisal’ on page 43.

## FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING MATTERS

The Committee reviewed the financial statements and considered the following significant accounting matters in relation to the Company’s financial statements for the year ended 31 December 2020.

### Valuation and existence of investments

The accuracy of the valuation of the investment portfolio and verification of ownership of the investments is the most material matter in the production of the financial statements. The Company holds virtually all of its assets in listed investments. Listed investments are valued using stock exchange prices provided by independent pricing sources. The Depositary confirmed that at the year end the accounting records recorded all investment holdings and that these had been agreed to custodian records. The Depositary is responsible for financial restitution for the loss of financial investments held in custody, and the Committee received assurance from the Depositary that all investments are held in custody.

The Company holds one active unquoted company in the portfolio. The Manager provided a valuation recommendation for the unquoted investment held at the year end which was discussed and approved by the Directors.

### COVID-19

The Committee considered the risk from the COVID-19 pandemic on the Company’s ability to continue in operation due to the impact on the Company’s portfolio and borrowing covenants, and on the operational resilience of the Company’s key service providers, and concluded that the pandemic had not resulted in any significant issue to the financial statements.

### Recognition of income

Income may not be accrued in the correct period and/or incorrectly allocated to revenue or capital. The Committee reviewed the Administrator’s procedures for recognition of income and reviewed the treatment of any special dividends receivable in the year.

As part of the annual report review, the Committee:

- obtained assurances from the Manager and the Administrator that the financial statements had been prepared appropriately;
- reviewed the procedures in place for the calculation of management fees;
- reviewed the basis of allocating management fees and finance costs to capital and agreed that allocating 75% of such costs to capital remained an appropriate basis. The assessment involved an analysis of the expected split of the Company’s future long-term returns as well as a review of past returns;
- reviewed the consistency of, and any changes to, accounting policies;

- reviewed the tax compliance of the Company during the year with the eligibility conditions and ongoing requirements in order for investment trust status to be maintained;
- reviewed the Company's financial resources and concluded that it is appropriate for the Company's financial statements to be prepared on a going concern basis as described in the Directors' Report on page 39; and
- concluded that the annual report for the year ended 31 December 2020, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the annual report, and the external auditor's report thereon.

In addition to the above, during the year the Committee:

- undertook a comprehensive review of the Company's risk management framework and controls. Details of this work and the Company's internal controls are shown in the Corporate Governance Report on page 43;
- reviewed the half-yearly financial report.

The Committee reported the results of this work, including its assessment that the annual report is fair, balanced and understandable, to the Board.

## EXTERNAL AUDITOR

This year's audit was the second performed by BDO LLP ("BDO"), and by Peter Smith as engagement partner, since BDO was appointed on 21 May 2019 following an audit tender process in 2019.

### Effectiveness of audit

The Committee reviewed the audit planning and the standing, skills and experience of the firm and the audit team. The Committee also considered the independence of BDO and the objectivity of the audit process. BDO has confirmed that it is independent of the Company and has complied with relevant auditing standards. No modifications were required to the external audit approach. The Committee received a presentation of the audit plan from the external auditor prior to the commencement of the 2020 audit and a presentation of the results of the audit following completion of the main audit testing. Additionally, the Committee received feedback from the Manager and Administrator regarding the effectiveness of the external audit process.

The Committee is satisfied that BDO has provided effective independent challenge in carrying out its responsibilities. After due consideration, the Committee recommended the re-appointment of BDO and their re-appointment will be put forward to the Company's shareholders at the 2021 AGM.

### Provision of non-audit services

The Committee has put in place a policy on the supply of any non-audit services provided by the external auditor. During the year, the Company's policy was reviewed and aligned with the FRC's Revised Ethical Standard 2019. Non-audit services are considered on a case-by-case basis and may only be provided to the Company if such services meet the requirements of the standard, including: at a reasonable and competitive cost; do not constitute a conflict of interest for the auditor; and all non-audit services must be approved in advance. No non-audit services were provided by the auditor during the year (2019: none).

## INTERNAL AUDIT

The Committee has considered the need for an internal audit function and considered that this is not appropriate given the nature and circumstances of the Company. The Audit Committee keeps the need for an internal function under periodic review. The Manager reports the key conclusions of its internal audit report to the Company's Committee. The external auditor obtains an understanding of the internal controls in place at both the Manager and Administrator by reviewing the relevant internal control reports issued by their independent auditors.

### Stephanie Eastment

Audit Committee Chairman

6 April 2021

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the year and of the net return for the year. In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk) and [www.impaxam.com](http://www.impaxam.com) websites which are maintained by the Company's Manager, Impax Asset Management (AIFM) Limited ("IAM"). The work carried out by the auditor does not involve consideration of the maintenance and integrity of these websites and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the accounts since being initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' confirmation statement

The Directors each confirm to the best of their knowledge that:

- (a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- (b) this Annual Report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

Having taken advice from the Audit Committee, the Directors consider that the Annual Report and financial statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of the Board

**John Scott**  
Chairman

6 April 2021



# Independent auditor's report to the members of Impax Environmental Markets plc (the "Company")

## Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Impax Environmental Markets plc for the year ended 31 December 2020 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

## Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 21 May 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 2 years, covering the years ending 31 December 2020. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's assessment of the going concern status of the Company
- Evaluating the appropriateness of management's method of assessing the going concern in light of market volatility and the present uncertainties;
- Challenging management's assumptions and judgements made with regards to stress-testing forecasts;
- Obtaining the loan agreements to identify the covenants and assess the likelihood of them being breached based on management forecasts and sensitivity analysis; and
- Performing calculations assessing the net asset position of the Company to understand the reliance on loans.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## Overview

KEY AUDIT MATTERS	2020 (£m)	2019 (£m)
Valuation and ownership of investments	1,112.9	674.9
Materiality	£10.9m (2019: £6.5m) based on 1% (2019: 1%) of Net Assets	

## An overview of the scope of our audit

Our Company audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

## Independent auditor's report to the members of Impax Environmental Markets plc (the "Company") continued

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KEY AUDIT MATTER	HOW THE SCOPE OF OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<b>Valuation and ownership of investments (note 1b and note 2)</b> The investment portfolio at the year end comprised of investments at fair value through profit or loss. The investment portfolio is the most significant balance in the financial statements and is the key driver of performance. The Investment Manager's fee is based on the value of the net assets of the fund. As the Investment Manager is responsible for valuing investments for the financial statements, there is a potential risk of overstatement of investment valuations.	We responded to this matter by testing the valuation and ownership of 100% of the portfolio of investments. We performed the following procedures: In respect of quoted investment valuations (over 99% of the total portfolio by value) we have: <ul style="list-style-type: none"> <li>Confirmed the year end bid price was used by agreeing to externally quoted prices and for all of the investments, assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value.</li> <li>Obtained direct confirmation from the custodian regarding all investments held at the balance sheet date.</li> </ul> <b>Key observations:</b> Based on our procedures performed we did not identify any material exceptions with regards to valuation or ownership of investments or the disclosures.

**Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

MATERIALITY	COMPANY FINANCIAL STATEMENTS	
	2020 £m	2019 £m
<b>Materiality</b>	10.9	6.5
<b>Basis for determining materiality</b>	1% of Net Assets	1% of Net Assets
<b>Rationale for the benchmark applied</b>	As an investment trust, the net asset value is the key measure of performance.	As an investment trust, the net asset value is the key measure of performance.
<b>Performance materiality</b>	8.2	4.9
<b>Basis for determining performance materiality</b>	Performance materiality was deemed to be 75% of total materiality.	Performance materiality was deemed to be 75% of total materiality.

**Specific materiality**

We have set a lower testing threshold for those items impacting revenue return of £628,000 (2019: £810,000) which is based on 10% (2019: 10%) of net revenue returns before tax.

**Reporting threshold**

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £218,000 (2019: £130,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

<b>Going concern and longer-term viability</b>	<ul style="list-style-type: none"><li>• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and</li><li>• The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate.</li></ul>
<b>Other Code provisions</b>	<ul style="list-style-type: none"><li>• Directors' statement on fair, balanced and understandable;</li><li>• Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;</li><li>• The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and</li><li>• The section describing the work of the audit committee.</li></ul>

## Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

<b>Strategic Report and Directors' Report</b>	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"><li>• the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and</li><li>• the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.</li></ul> <p>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.</p>
<b>Directors' remuneration</b>	<p>In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.</p>
<b>Matters on which we are required to report by exception</b>	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none"><li>• adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or</li><li>• the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or</li><li>• certain disclosures of Directors' remuneration specified by law are not made; or</li><li>• we have not received all the information and explanations we require for our audit.</li></ul>

**Independent auditor's report to the members of Impax Environmental Markets plc (the "Company") continued****Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Extent to which the audit was capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Chapter 3 Part 6 of the Income Tax Act 2007, the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the AIC SORP and FRS 102. We also considered the Company's qualification as an Investment Trust under UK tax legislation.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- testing of journal postings made during the year to identify potential management override of controls;
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Smith (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London, UK  
6 April 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Income Statement

	NOTES	YEAR ENDED 31 DECEMBER 2020			YEAR ENDED 31 DECEMBER 2019		
		REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Gains on investments	2	-	241,488	241,488	-	137,459	137,459
Net foreign exchange gains		-	371	371	-	513	513
Income	3	9,322	-	9,322	10,558	-	10,558
Investment management fees	4	(1,599)	(4,796)	(6,395)	(1,203)	(3,610)	(4,813)
Other expenses	5	(1,097)	-	(1,097)	(874)	-	(874)
<b>Return on ordinary activities before finance costs and taxation</b>		<b>6,626</b>	<b>237,063</b>	<b>243,689</b>	<b>8,481</b>	<b>134,362</b>	<b>142,843</b>
Finance costs	6	(337)	(1,011)	(1,348)	(295)	(885)	(1,180)
<b>Return on ordinary activities before taxation</b>		<b>6,289</b>	<b>236,052</b>	<b>242,341</b>	<b>8,186</b>	<b>133,477</b>	<b>141,663</b>
Taxation	7	(963)	(541)	(1,504)	(1,371)	(720)	(2,091)
<b>Return on ordinary activities after taxation</b>		<b>5,326</b>	<b>235,511</b>	<b>240,837</b>	<b>6,815</b>	<b>132,757</b>	<b>139,572</b>
<b>Return per Ordinary Share</b>	<b>8</b>	<b>2.22p</b>	<b>98.24p</b>	<b>100.46p</b>	<b>3.63p</b>	<b>70.63p</b>	<b>74.26p</b>

The total column of the Income Statement is the profit and loss account of the Company.

The supplementary revenue and capital columns are provided for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

Return on ordinary activities after taxation is also the "Total comprehensive income for the year".

The notes on pages 59 to 72 form part of these financial statements.

# Balance Sheet

	NOTES	AS AT 31 DECEMBER 2020 £'000	AS AT 31 DECEMBER 2019 £'000
<b>Fixed assets</b>			
Investments at fair value through profit or loss	2	1,112,889	674,892
<b>Current assets</b>			
Dividend receivable		55	131
Sales awaiting settlement		3,888	-
Taxation recoverable		58	23
Other debtors		85	72
Cash and cash equivalents		30,037	13,818
		<b>34,123</b>	<b>14,044</b>
<b>Creditors: amounts falling due within one year</b>			
Trade and other payables	10	(3,732)	(1,185)
		<b>(3,732)</b>	<b>(1,185)</b>
<b>Net current assets</b>		<b>30,391</b>	<b>12,859</b>
<b>Total assets less current liabilities</b>		<b>1,143,280</b>	<b>687,751</b>
<b>Creditors: amounts falling due after more than one year</b>			
Capital gains tax provision	7	(1,092)	(690)
Bank loans and credit facility	11	(48,908)	(30,080)
<b>Net assets</b>		<b>1,093,280</b>	<b>656,981</b>
<b>Capital and reserves: equity</b>			
Share capital	12	26,588	22,574
Share premium account		239,059	62,162
Capital redemption reserve		9,877	9,877
Share purchase reserve		147,855	123,239
Capital reserve	13	663,868	428,357
Revenue reserve		6,033	10,772
<b>Shareholders' funds</b>		<b>1,093,280</b>	<b>656,981</b>
<b>Net assets per Ordinary Share</b>	<b>14</b>	<b>411.20p</b>	<b>321.83p</b>

Approved by the Board of Directors and authorised for issue on 6 April 2021 and signed on their behalf by:

John Scott  
Chairman

Impax Environmental Market plc incorporated in England with registered number 4348393.

The notes on pages 59 to 72 form part of these financial statements.



# Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2020	NOTE	SHARE CAPITAL £'000	SHARE PREMIUM ACCOUNT £'000	CAPITAL REDEMP- TION RESERVE £'000	SHARE PUR- CHASE RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
<b>Opening equity as at 1 January 2020</b>		<b>22,574</b>	<b>62,162</b>	<b>9,877</b>	<b>123,239</b>	<b>428,357</b>	<b>10,772</b>	<b>656,981</b>
Dividends paid	9	-	-	-	-	-	(10,065)	(10,065)
Net proceeds of shares sold from treasury	12	-	45,868	-	24,616	-	-	70,484
Net proceeds from issue of new shares	12	4,014	131,029	-	-	-	-	135,043
Return for the year		-	-	-	-	235,511	5,326	240,837
<b>Closing equity as at 31 December 2020</b>		<b>26,588</b>	<b>239,059</b>	<b>9,877</b>	<b>147,855</b>	<b>663,868</b>	<b>6,033</b>	<b>1,093,280</b>

YEAR ENDED 31 DECEMBER 2019	NOTE	SHARE CAPITAL £'000	SHARE PREMIUM ACCOUNT £'000	CAPITAL REDEMP- TION RESERVE £'000	SHARE PUR- CHASE RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
<b>Opening equity as at 1 January 2019</b>		<b>22,574</b>	<b>16,035</b>	<b>9,877</b>	<b>96,432</b>	<b>295,600</b>	<b>9,445</b>	<b>449,963</b>
Dividend paid	9	-	-	-	-	-	(5,488)	(5,488)
Net proceeds of shares sold from treasury	12	-	46,127	-	26,807	-	-	72,934
Return for the year		-	-	-	-	132,757	6,815	139,572
<b>Closing equity as at 31 December 2019</b>		<b>22,574</b>	<b>62,162</b>	<b>9,877</b>	<b>123,239</b>	<b>428,357</b>	<b>10,772</b>	<b>656,981</b>

The Company's distributable reserves consist of the Share purchase reserve, Capital reserve attributable to realised profits and Revenue reserve.

The notes on pages 59 to 72 form part of these financial statements.

# Statement of Cash Flows

	NOTES	YEAR ENDED 31 DECEMBER 2020 £'000	YEAR ENDED 31 DECEMBER 2019 £'000
<b>Operating activities</b>			
Return on ordinary activities before finance costs and taxation*		243,689	142,843
Less: Tax deducted at source on income from investments		(1,102)	(1,371)
Foreign exchange non cash flow gains		(1,172)	(611)
Adjustment for gains on investments		(241,488)	(137,459)
Decrease in other debtors		28	168
Increase in other creditors		1,009	240
<b>Net cash flow from operating activities</b>		<b>964</b>	<b>3,810</b>
<b>Investing activities</b>			
Add: Sale of investments		199,126	150,731
Less: Purchase of investments		(398,002)	(213,454)
<b>Net cash flow used in investing</b>		<b>(198,876)</b>	<b>(62,723)</b>
<b>Financing activities</b>			
Equity dividends paid	9	(10,065)	(5,488)
Proceeds from bank loans	11	20,000	-
Finance costs paid		(1,331)	(1,196)
Net proceeds from issue of new shares	12	135,043	-
Net proceeds of shares sold from treasury	12	70,484	72,934
<b>Net cash flow from financing</b>		<b>214,131</b>	<b>66,250</b>
<b>Increase in cash</b>		<b>16,219</b>	<b>7,337</b>
<b>Cash and cash equivalents at start of year</b>		<b>13,818</b>	<b>6,481</b>
<b>Cash and cash equivalents at end of year</b>		<b>30,037</b>	<b>13,818</b>

\* Cash inflow includes dividend income received during the year ending 31 December 2020 of £9,391,000 (2019: £10,619,000) and bank interest of £7,000 (2019: £26,000).

## CHANGES IN NET DEBT NOTE

	YEAR ENDED 31 DECEMBER 2020 £'000	YEAR ENDED 31 DECEMBER 2019 £'000
Net debt at start of year	(16,262)	(24,210)
Increase in cash and cash equivalents	16,219	7,337
Foreign exchange movements	1,172	611
Proceeds from bank loan	(20,000)	-
<b>Net debt at end of year</b>	<b>(18,871)</b>	<b>(16,262)</b>

The notes on pages 59 to 72 form part of these financial statements.

# Notes to the Financial Statements

## 1 ACCOUNTING POLICIES

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The Company is an investment company within the meaning of Section 833 of the Companies Act 2006.

The accounts have been prepared in accordance with applicable UK accounting standards. The particular accounting policies adopted are described below.

### (a) Basis of accounting

The accounts are prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice 'Financial statements of investment trust companies and venture capital trusts' ("SORP") issued by the Association of Investment Companies in October 2019.

The accounts have been prepared on a going concern basis. Details of the Directors' assessment of the going concern status of the Company, which considered the adequacy of the Company's resources and the impacts of the COVID-19 pandemic, are given on page 39.

Amounts in the accounts have been rounded to the nearest £'000 unless otherwise stated.

### (b) Investments

Securities of companies quoted on regulated stock exchanges and the Company's holdings in unquoted companies have been classified as 'at fair value through profit or loss' and are initially recognised on the trade date and measured at fair value in accordance with sections 11 and 12 of FRS 102. Investments are measured at subsequent reporting dates at fair value by reference to their market bid prices. Any unquoted investments are measured at fair value which is determined by the Directors in accordance with the International Private Equity and Venture Capital guidelines.

Changes in fair value are included in the Income Statement as a capital item.

### (c) Reporting currency

The accounts are presented in sterling which is the functional currency of the Company. Sterling is the reference currency for this UK registered and listed company.

### (d) Income from investments

Investment income from shares is accounted for when the Company's right to receive the income is established, which is usually considered to be the ex-dividend date. Overseas income is grossed up at the appropriate rate of tax but UK dividend income is not grossed up for tax credits.

Special Dividends are assessed on their individual merits and may be credited to the Income Statement as a capital item if considered to be closely linked to reconstructions of the investee company or other capital transactions. All other investment income is credited to the Income Statement as a revenue item.

### (e) Nature and purpose of equity and reserves:

Share capital represents the 10p nominal value of the issued share capital.

The share premium account arose from the net proceeds of new shares and from the excess proceeds received on the sale of shares from treasury over the repurchase cost.

The capital redemption reserve represents the nominal value of shares repurchased for cancellation.

The share purchase reserve was created following shareholders' approval and confirmation of the Court, through the cancellation and transfer of £44,125,000 in December 2002 and £246,486,789 in July 2009 from the share premium account. This reserve may only be used for share repurchases, both into treasury or for cancellation. When shares are subsequently reissued from treasury, the amount equal to their repurchase cost is reflected in this reserve, with any proceeds in excess of the repurchase cost transferred to the share premium account.

The capital reserve reflects any:

- gains or losses on the disposal of investments;
- exchange movements of a capital nature;
- the increases and decreases in the fair value of investments which have been recognised in the capital column of the income statement; and
- expenses which are capital in nature

Any gains in the fair value of investments that are not readily convertible to cash are treated as unrealised gains in the capital reserve.

The revenue reserve reflects all income and expenditure recognised in the revenue column of the income statement and is distributable by way of dividend.

The Company's distributable reserves consist of the share purchase reserve, the capital reserve and the revenue reserve.

## Notes to the Financial Statements continued

**1 ACCOUNTING POLICIES CONTINUED****(f) Expenses**

All expenses are accounted for on an accruals basis. Expenses are recognised through the Income Statement as revenue items except as follows:

**Management fees**

In accordance with the Company's stated policy and the Directors' expectation of the split of future returns, three quarters of investment management fees are charged as a capital item in the Income Statement. There is no performance fee arrangement with the Manager.

**Finance costs**

Finance costs include interest payable and direct loan costs. In accordance with Directors' expectation of the split of future returns, three quarters of finance costs are charged as capital items in the Income Statement. Loan arrangement costs are amortised over the term of the loan.

**Transaction costs**

Transaction costs incurred on the acquisition and disposal of investments are charged to the Income Statement as a capital item.

**(g) Taxation**

Irrecoverable taxation on dividends is recognised on an accruals basis in the Income Statement.

**Deferred taxation**

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the financial reporting date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the financial reporting date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the timing differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise.

**(h) Foreign currency translation**

All transactions and income in foreign currencies are translated into sterling at the rates of exchange on the dates of such transactions or income recognition. Monetary assets and liabilities and financial instruments carried at fair value denominated in foreign currency are translated into sterling at the rates of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Income Statement as either a capital or revenue item depending on the nature of the gain or loss.

**(i) Financial liabilities**

Bank loans and overdrafts are measured at amortised cost. They are initially recorded at the proceeds received net of direct issue costs.

**(j) Cash and cash equivalents**

Cash comprises cash and demand deposits. Cash equivalents, which include bank overdrafts, are short term, highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risks of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**(k) Estimates and assumptions**

The preparation of financial statements requires the Directors to make estimates and assumptions that affect items reported in the Balance Sheet and Income Statement. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, the Company's actual results may ultimately differ from those estimates, possibly significantly.

The assumptions regarding the valuation of unquoted financial instruments are disclosed in note 2.

**(l) Dividend payable**

Final dividends payable to equity shareholders are recognised in the financial statements when they have been approved by shareholders and become a liability of the Company. Interim dividends payable are recognised in the period in which they are paid. The capital and revenue reserves may be used to fund dividend distributions.

**(m) Treasury shares**

Treasury shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to share premium account. No gain or loss is recognised in the financial statements on transactions in treasury shares.

## 2 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 £'000	2019 £'000
<b>(a) Summary of valuation</b>		
Analysis of closing balance:		
UK quoted securities	74,082	75,184
Overseas quoted securities	1,038,230	598,519
Overseas unquoted securities	577	1,189
<b>Total investments</b>	<b>1,112,889</b>	<b>674,892</b>
<b>(b) Movements during the year:</b>		
Opening balance of investments, at cost	503,765	401,240
Additions, at cost	399,523	213,454
Disposals, at cost	(155,016)	(110,929)
<b>Cost of investments at 31 December</b>	<b>748,272</b>	<b>503,765</b>
Revaluation of investments to fair value:		
Opening balance of capital reserve – investments held	171,127	73,470
Unrealised gains on investments held	193,490	97,657
Balance of capital reserve – investments held at 31 December	364,617	171,127
<b>Fair value of investments at 31 December</b>	<b>1,112,889</b>	<b>674,892</b>
<b>(c) Gains on investments in year (per Income Statement)</b>		
Gains on disposal of investments	48,275	40,163
Net transaction costs	(277)	(361)
Unrealised gains on investments held	193,490	97,657
<b>Gains on investments</b>	<b>241,488</b>	<b>137,459</b>

During the year, the Company incurred transaction costs on purchases totalling in aggregate £346,000 (2019: £304,000) and on disposals totalling in aggregate £109,000 (2019: £142,000). Following MiFID II, the Manager has rebated £145,000 in respect of transaction research costs for the year ended 31 December 2020 (2019: £85,000), and £33,000 in relation to prior periods. Transaction costs are recorded in the capital column of the Income Statement.

The Company received £203,182,000 (2019: £150,950,000) from investments sold in the year. The book cost of these investments when they were purchased was £155,016,000 (2019: £110,929,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

### Classification of financial instruments

FRS 102 requires classification of financial instruments within the fair value hierarchy be determined by reference to the source of inputs used to derive the fair value and the lowest level input that is significant to the fair value measurement as a whole. The classifications and their descriptions are below:

#### Level 1

The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

#### Level 2

Level 2 investments are holdings in companies with no quoted prices. Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

#### Level 3

Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

## Notes to the Financial Statements continued

**2 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS CONTINUED**

The classification of the Company's investments held at fair value is detailed in the table below:

	31 DECEMBER 2020				31 DECEMBER 2019			
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Investments at fair value through profit or loss								
- Quoted	1,112,312	-	-	1,112,312	673,703	-	-	673,703
- Unquoted	-	-	577	577	-	-	1,189	1,189
	<b>1,112,312</b>	<b>-</b>	<b>577</b>	<b>1,112,889</b>	<b>673,703</b>	<b>-</b>	<b>1,189</b>	<b>674,892</b>

The movement on the Level 3 unquoted investments during the year is shown below:

	2020 £'000	2019 £'000
Opening balance	1,189	7,887
Valuation adjustments	(647)	(6,391)
Foreign exchange movements	35	(307)
<b>Closing balance</b>	<b>577</b>	<b>1,189</b>

Unquoted investments are valued using relevant financial data available on those investments and applying International Private Equity and Venture Capital guidelines. This includes, where appropriate, consideration of price of recent market transactions, earnings multiples, discounted cash flows, net assets and liquidity discounts.

At the year end the Company had one active unlisted holding, Ensyn. The Company's holding in Ensyn has been valued in US dollars based on peer analysis prepared by the Manager and translated into sterling using the applicable foreign exchange rate at the Company's year end. The Manager valued holdings in Ensyn at a price of US\$7.50 per share as at 31 December 2020 (2019: US\$15.00 per share).

**3 INCOME**

	2020 £'000	2019 £'000
Dividends from UK listed investments	516	1,100
Dividends from overseas listed investments	8,799	9,432
Bank interest received	7	26
<b>Total Income</b>	<b>9,322</b>	<b>10,558</b>



## 4 INVESTMENT MANAGEMENT FEES

	2020			2019		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fees	1,599	4,796	6,395	1,203	3,610	4,813

## 5 OTHER EXPENSES

	2020			2019		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Secretary and administrator fees	225	-	225	190	-	190
Depository and custody fees	252	-	252	198	-	198
Directors' fees – see below	160	-	160	146	-	146
Directors' other costs – see below	22	-	22	13	-	13
Directors' D&O insurance	10	-	10	6	-	6
Director recruitment fees	10	-	10	-	-	-
Broker retainer	45	-	45	60	-	60
Auditor's fee	28	-	28	27	-	27
Tax advisor fees	15	-	15	7	-	7
Association of Investment Companies	21	-	21	21	-	21
Registrar's fees	119	-	119	55	-	55
Marketing fees	85	-	85	79	-	79
FCA and listing fees	47	-	47	39	-	39
Printing fees	42	-	42	24	-	24
Other expenses	16	-	16	9	-	9
	<b>1,097</b>	<b>-</b>	<b>1,097</b>	<b>874</b>	<b>-</b>	<b>874</b>

Full detail on directors' fees in the year is provided in the Directors' Remuneration Implementation Report on page 46. Employer's National Insurance upon the fees is included as appropriate in Directors' other costs. At 31 December 2020, Directors and national insurance fees outstanding were £12,800 (2019: £12,000).

## 6 FINANCE COSTS

	2020			2019		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Interest charges	329	987	1,316	288	865	1,153
Direct finance costs	8	24	32	7	20	27
<b>Total</b>	<b>337</b>	<b>1,011</b>	<b>1,348</b>	<b>295</b>	<b>885</b>	<b>1,180</b>

Facility arrangement costs amounting to £72,000 are amortised over the life of the facility on a straight-line basis.

## Notes to the Financial Statements continued

## 7 TAXATION

## (a) Analysis of charge in the year

	2020			2019		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Overseas taxation	963	–	963	1,371	–	1,371
Increase on CGT provision	–	541	541	–	720	720
Taxation	963	541	1,504	1,371	720	2,091

## (b) Factors affecting total tax charge for the year:

The standard UK corporation tax rate at 31 December 2020 was 19% (2019: 19%). The tax charge differs from the charge resulting from applying the standard rate of UK corporation tax for an investment trust company.

The differences are explained below:

	2020 £'000	2019 £'000
Return on ordinary activities before taxation	242,341	141,663
Corporation tax at 19.00% (2019: 19.00%)	46,045	26,916
<b>Effects of:</b>		
Non-taxable UK dividend income	(98)	(209)
Non-taxable overseas dividend income	(1,672)	(1,792)
Non-taxable interest income	–	(5)
Movement in unutilised management expenses	1,423	1,080
Movement on non-trade relationship deficits	256	225
Gains on investments not taxable	(45,883)	(26,117)
Gain in foreign currency movement	(71)	(98)
Capital gains tax provision movement	541	720
Overseas taxation	963	1,371
<b>Total tax charge for the year</b>	<b>1,504</b>	<b>2,091</b>

(c) Investment companies which have been approved by HM Revenue & Customs under section 1158 of the Corporation Tax Act 2010 are exempt from UK tax on capital gains. Due to the Company's status as an Investment Trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided for UK deferred tax on any capital gains or losses arising on the revaluation of investments.

(d) The capital gains tax provision represents an estimate of the amount of tax provisionally payable by the Company on direct investment in Indian equities. It is calculated based on the long term or short term nature of the investments and the unrealised gain thereon at the applicable tax rate at the year end.

## 7 TAXATION CONTINUED

Movements on the capital gains tax provision for the year

	2020 £'000	2019 £'000
Provision brought forward	702	-
Capital gains tax paid	(139)	-
Increase in provision in year	541	702
<b>Provision carried forward</b>	<b>1,092</b>	<b>702</b>

(e) The Company has unrelieved excess management expenses and non-trade relationship deficits of £65,308,000 (2019: £56,468,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised. The unrecognised deferred tax asset calculated using a tax rate of 19% (2019: 19%) amounts to £12,400,000 (2019: £10,700,000).

## 8 RETURN PER SHARE

	2020	2019
Revenue return after taxation (£'000)	5,326	6,815
Capital return after taxation (£'000)	235,511	132,757
<b>Total net return after tax (£'000)</b>	<b>240,837</b>	<b>139,572</b>
Weighted average number of Ordinary Shares	239,733,181	187,961,095

Net return per Ordinary Share is based on the above totals of revenue and capital and the weighted average number of Ordinary Shares in issue during each year.

There is no dilution to return per share as the Company has only Ordinary Shares in issue.

## 9 DIVIDENDS

### (a) Dividends paid in the year

	RATE	2020 £'000	RATE	2019 £'000
Interim in lieu of final for the previous year	3.00p	6,862	-	-
First interim for current year	1.30p	3,203	-	-
Final for the previous year	-	-	3.00p	5,488
	<b>4.30p</b>	<b>10,065</b>	<b>3.00p</b>	<b>5,488</b>

### (b) Dividends paid and payable in respect of the financial year, which is the basis on which the requirements of s1158-1159 of the Corporation Tax Act 2010 are considered

	RATE	2020 £'000	RATE	2019 £'000
First interim for the current year	1.30p	3,203	-	-
Second interim in lieu of final for the current year	1.00p	2,734	-	-
Interim in lieu of final for the previous year	-	-	3.00p	6,862
	<b>2.30p</b>	<b>5,937</b>	<b>3.00p</b>	<b>6,862</b>

The Board declared two dividends in respect of the year and expects to continue paying two dividends annually. Previously only one dividend was paid. In addition the Board intends to revert to paying a final dividend, which can be voted on by shareholders, once the Company has ceased to grow its capital base substantially.

## Notes to the Financial Statements continued

## 10 TRADE AND OTHER PAYABLES

	2020 £'000	2019 £'000
Finance costs payable	94	77
Accrued management fees	1,953	865
Other accrued expenses	164	243
Purchases awaiting settlement	1,521	-
<b>Total</b>	<b>3,732</b>	<b>1,185</b>

## 11 BANK LOANS AND CREDIT FACILITY

On 6 September 2018, the Company entered into five-year fixed rate multi-currency US\$20 million and £15 million loans with Scotiabank Europe plc ("Scotiabank"). The loans expire on 6 September 2023.

The Company also has a £20 million multi-currency revolving credit facility ("RCF") with Scotiabank of which £2.5 million was committed, but undrawn, at the beginning of the year. During the year, the RCF commitment was increased by £17.5 million and the full £20 million of the facility was drawn down in two currencies, US\$12.6 million and £10 million. The facility expires on 6 September 2023.

A summary of the Company's borrowings follows.

AT 31 DECEMBER		2020		2019	
BANK LOANS-FIXED RATE	INTEREST RATE	LOAN CURRENCY AMOUNT	£'000	LOAN CURRENCY AMOUNT	£'000
Sterling	2.910%	15,000,000	15,000	15,000,000	15,000
Non-sterling	4.504%	20,000,000	14,651	20,000,000	15,080
			<b>29,651</b>		<b>30,080</b>
<b>RCF-FLOATING RATE</b>					
Sterling	Six month LIBOR+1.7%	10,000,000	10,000	-	-
Non-sterling	Six month LIBOR+1.7%	12,637,000	9,257	-	-
			<b>48,908</b>		<b>30,080</b>

The maturity profile of the bank loans and credit facility follows.

PAYABLE AFTER MORE THAN ONE YEAR AT 31 DECEMBER	2020 £'000	2019 £'000
Bank loans payable after more than one year	29,651	30,080
Revolving credit facility payable after more than one year	19,257	-
	<b>48,908</b>	<b>30,080</b>

The Company's loans and revolving credit facility contain the following covenants, with which failure to comply could necessitate the early repayment of the loan:

- 1) Adjusted asset coverage should not be less than 4:1.
- 2) Net Asset Value should not be less than £260,000,000.
- 3) The maximum permitted borrowing should not exceed that permitted in the Company's Articles of Association as described in the Gearing section of the Investment Policy on page 20.

## 12 SHARE CAPITAL

	2020		2019	
	NUMBER	£'000	NUMBER	£'000
<b>Issued and fully paid shares of 10p each</b>				
Brought forward	204,139,246	20,414	180,289,246	18,029
New shares issued in year	40,139,783	4,014	-	-
Treasury shares issued in year	21,598,109	2,160	23,850,000	2,385
<b>Carried forward</b>	<b>265,877,138</b>	<b>26,588</b>	<b>204,139,246</b>	<b>20,414</b>
<b>Treasury shares of 10p each</b>				
Brought forward	21,598,109	2,160	45,448,109	4,545
Issued in year	(21,598,109)	(2,160)	(23,850,000)	(2,385)
<b>Carried forward</b>	<b>-</b>	<b>-</b>	<b>21,598,109</b>	<b>2,160</b>
<b>Share capital</b>	<b>265,877,138</b>	<b>26,588</b>	<b>225,737,355</b>	<b>22,574</b>

The Company received aggregate gross proceeds of £207,403,000 (2019: £73,671,000) from the issue of shares and net proceeds of £205,527,000 (2019: £72,934,000) after issue costs of £1,876,000 (2019: £737,000). Since the year end a further 12,093,850 Ordinary Shares have been issued for aggregate gross proceeds of £54,748,000, and net proceeds of £54,474,000 after issue costs of £274,000.

## 13 CAPITAL RESERVE

	2020 £'000	2019 £'000
Opening balance	257,230	222,130
Gains on disposal of investments	48,275	40,163
Net transaction costs	(277)	(361)
Net foreign exchange gains	371	513
Investment management fees charged to capital	(4,796)	(3,610)
Finance costs charged to capital	(1,011)	(885)
Taxation charges to capital	(541)	(720)
<b>Balance at 31 December</b>	<b>299,251</b>	<b>257,230</b>

### Unrealised gains on investments

	2020 £'000	2019 £'000
Unrealised gains brought forward	171,127	73,470
Unrealised gains on investments held	193,490	97,657
<b>Unrealised gains carried forward</b>	<b>364,617</b>	<b>171,127</b>
<b>Capital reserve balance at 31 December</b>	<b>663,868</b>	<b>428,357</b>

## 14 NET ASSET VALUE PER SHARE

	2020	2019
Net asset value (£'000)	1,093,280	656,981
Shares in issue (excluding shares held in treasury)	265,877,138	204,139,246
<b>Net asset value per share at 31 December</b>	<b>411.20p</b>	<b>321.83p</b>

## Notes to the Financial Statements continued

**15 TRANSACTIONS WITH THE MANAGER AND RELATED PARTY TRANSACTIONS**

Details of the management contract can be found in the Directors' Report on page 38. Fees payable to the Manager are detailed in note 4. Since 1 January 2018, the Manager has agreed to rebate commission which relates to research fees to the Company with such amounts disclosed in note 2.

The Directors' fees are disclosed in note 5 and the Directors' shareholdings are disclosed in the Directors' Remuneration Implementation Report on page 47.

**16 FINANCIAL RISK MANAGEMENT**

As an investment trust, the Company invests in equities for the long-term so as to enable investors to benefit from growth in the markets for cleaner or more efficient delivery of basic services of energy, water and waste, as stated in the Company's investment objective which can be found on page 19. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends. These risks include market risk (comprising currency risk, interest rate risk, and other price risk), credit risk and liquidity risk and the Directors' approach to the management of them is set out below. These metrics are monitored by the AIFM. The objectives, policies and processes for managing the risks, and the methods used to measure the risks, are set out below.

**Market risks**

The potential market risks are (i) currency risk, (ii) interest rate risk, and (iii) other price risk. Each is considered in turn below.

**(i) Currency risk**

The Company invests in global equity markets and therefore is exposed to currency risk as it affects the value of the shares in the base currency. These currency exposures are not hedged. The Manager monitors currency exposure as part of its investment process. Currency exposures for the Company as at 31 December 2020 are detailed in the table at the end of this note.

**Currency sensitivity**

The below table shows the strengthening/(weakening) of sterling against the local currencies over the financial year for the Company's financial assets and liabilities held at 31 December 2020.

	2020 %CHANGE <sup>1</sup>	2019 %CHANGE <sup>1</sup>
Australian Dollar	(6.0)	4.3
Canadian Dollar	1.3	(0.9)
Danish Krone	(5.8)	6.2
Euro	(5.5)	6.1
Hong Kong Dollar	2.5	3.5
Indian Rupee	5.6	6.4
Japanese Yen	(2.1)	3.0
Korean Won	(3.0)	7.9
Norwegian Krone	0.6	5.6
Swedish Krona	(9.5)	9.6
Swiss Franc	(5.7)	2.3
Taiwanese Dollar	(3.3)	1.7
US Dollar	2.9	4.1

<sup>1</sup> Percentage change of sterling against local currency from 1 January to 31 December



## 16 FINANCIAL RISK MANAGEMENT CONTINUED

Based on the financial assets and liabilities at 31 December 2020 and all other things being equal, if sterling had strengthened by 10%, the profit after taxation for the year ended 31 December 2020 and the Company's net assets at 31 December 2020 would have decreased by the amounts shown in the table below. If sterling had weakened by 10% this would have had the opposite effect.

	2020 £'000	2019 £'000
Australian Dollar	2,207	1,511
Canadian Dollar	621	377
Danish Krone	2,213	1,037
Euro	22,912	12,930
Hong Kong Dollar	6,108	4,350
Indian Rupee	2,671	1,424
Japanese Yen	-	1,145
Korean Won	2,207	1,277
Norwegian Krone	3,387	3,105
Swedish Krona	1,848	1,191
Swiss Franc	3,644	2,396
Taiwanese Dollar	3,686	1,388
US Dollar	52,042	28,944
<b>Total</b>	<b>103,546</b>	<b>61,075</b>

### (ii) Interest rate risk

The Company is typically fully invested in global equities but will from time to time hold interest bearing assets. These assets are cash balances that earn interest at a floating rate and, typically, UK Treasury Bills when large amounts of cash are held.

With the exception of cash, no significant interest rate risks arise in respect of any current asset. The Company, generally, does not hold significant cash balances, with short-term borrowings being used when required. Cash held as a current asset is sterling and is held at the variable interest rates of the custodian. Movement in interest rates will not materially affect the Company's income and as such no sensitivity analysis is required.

The Company had two bank loans in place during the year. The loan interest on the current loans is based on a fixed rate and as such no sensitivity analysis is required.

The Company's £20 million multi-currency revolving credit facility is based on a floating interest rate of Libor plus a margin of 1.70% per annum. If interest rates had increased or decreased by 25 basis points the impact to the Company's profit or loss would be:

	PROFIT OR LOSS (£'000)	
	25 BPS INCREASE	25 BPS DECREASE
<b>31 December 2020</b>		
Non-sterling Revolving Credit Facility	(23)	23
Sterling Revolving Credit Facility	(25)	25

### (iii) Other price risk

The principal price risk for the Company is the price volatility of shares that are owned by the Company. The Company is well diversified across different sub-sectors and geographies and has a volatility level similar to global stock market indices such as the MSCI ACWI Index to which the Company has had an annualised tracking error of 6.6% over the ten year period to 31 December 2020. The historic 3-year (annualised) volatility of the Company to 31 December 2020 is 7.2% (2019: 11.4%).

At the year end the Company held investments with an aggregate market value of £1,112,889,000 (2019: £674,892,000). All other things being equal, the effect of a 10% increase or decrease in the share prices of the investments held at the year end would have been an increase or decrease of £111,288,900 (2019: £67,489,200) in the profit after taxation for the year ended 31 December 2020 and the Company's net assets at 31 December 2020.

## Notes to the Financial Statements continued

## 16 FINANCIAL RISK MANAGEMENT CONTINUED

## Overall sensitivity

The Manager has used the Parametric VaR to calculate value at risk ("VAR"). This model has been used to estimate the maximum expected loss from the portfolio held at 31 December 2020 over 1 day, 5 day, 10 day and 21 day periods given the historical performance of the fund over the previous five years. The data in the previous five years is analysed under discrete periods to provide 1 in 10, 1 in 20 and 1 in 100 possible outcomes. The results of the analysis are shown below.

	2020 EXPECTED AS PERCENTAGE AT LIMIT		2019 EXPECTED AS PERCENTAGE AT LIMIT	
	1 IN 20 (95%)	1 IN 100 (99%)	1 IN 20 (95%)	1 IN 100 (99%)
1 day return	2.00	2.83	1.11	1.57
5 day return	4.47	6.32	2.48	3.51
10 day return	6.32	8.94	3.51	4.97
21 day return	9.38	13.26	5.21	7.37

The above analysis has been based on the following main assumptions:

- The distribution of share price returns will be the same in the future as they were in the past.
- The portfolio weightings will remain as they were at 31 December 2020.

The above results suggest, for example, that there is a 5% or less chance of the NAV falling by 4.47% or more over a 5 day period. Similarly, there is a 1% or less chance of the NAV falling by 2.83% or more on any given day.

## Credit risks

BNP Paribas Securities Services (the "Depositary") has been appointed as custodian and depositary to the Company.

Cash at bank at 31 December 2020 included £29,773,000 (2019: £5,637,000) held in its bank accounts at the Depositary. The Company also held £264,000 (2019: £8,181,000) in its accounts with NatWest Group plc (formerly known as Royal Bank of Scotland Group plc). The Board has established guidelines that, under normal circumstances, the maximum level of cash to be held at any one bank should be the lower of i) 5% of the Company's net assets and ii) £30 million. These are guidelines and there may be instances when this amount is exceeded for short periods of time.

Substantially all of the assets of the Company at the year end were held by the Depositary or sub-custodians of the Depositary. Bankruptcy or insolvency of the Depositary or its sub-custodians may cause the Company's rights with respect to securities held by the Depositary to be delayed or limited. The Depositary segregates the Company's assets from its own assets and only uses sub-custodians on its approved list of sub-custodians. At the year end, the Depositary held £1,112,312,000 (2019: £673,703,000) in respect of quoted investments.

The credit rating of the Depositary was reviewed at the time of appointment and is reviewed on a regular basis by the Manager and/or the Board.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be low as trading is almost always done on a delivery versus payment basis.

There is credit risk on dividends receivable during the time between recognition of the income entitlement and actual receipt of dividend.

## Liquidity risks

The Company invests in a range of global equities with different market capitalisations and liquidities and therefore needs to be conscious of liquidity risk. The Manager monitors the liquidity risk by carrying out a 'Maturity Analysis' of the Company's listed equities based on the 3 Month Average Liquidities of each investment and assuming 15% of the daily traded volume.

## Quantitative disclosures

The results of the Managers maturity analysis at 31 December 2020 are reported in the following table as a percentage of the portfolio that could be liquidated over different time periods. On 31 December 2020, 1.45% of the portfolio by value (excluding unquoted investments) might have taken more than three months to be realised.

## 16 FINANCIAL RISK MANAGEMENT CONTINUED

Percentage of portfolio by value that could be liquidated in one week	71.41
Percentage of portfolio by value that could be liquidated in one month	95.48
Percentage of portfolio by value that could be liquidated in three months	98.55
Percentage of portfolio by value that could be liquidated in one year	99.95

The Company may invest up to 10% of its net assets into pre-IPO investments which are possible candidates for flotation.

Financial liabilities by maturity at the year end are shown below:

	2020 £'000	2019 £'000
Less than one year	3,732	1,185
Between one and five years*	50,000	30,770
	<b>53,732</b>	<b>31,955</b>

\* Bank loans, Revolving Credit Facility and capital gains tax provision.

### Financial assets and liabilities

All liabilities carrying amount approximates fair value.

The Company's financial assets and liabilities at 31 December 2020 comprised:

	2020			2019		
	INTEREST BEARING £'000	NON- INTEREST BEARING £'000	TOTAL £'000	INTEREST BEARING £'000	NON- INTEREST BEARING £'000	TOTAL £'000
<b>Investments</b>						
Australian Dollar	-	22,074	22,074	-	15,109	15,109
Canadian Dollar	-	6,211	6,211	-	3,768	3,768
Danish Krone	-	22,129	22,129	-	10,370	10,370
Euro	-	229,117	229,117	-	129,304	129,304
Hong Kong Dollar	-	61,079	61,079	-	43,497	43,497
Indian Rupee	-	26,711	26,711	-	14,236	14,236
Japanese Yen	-	-	-	-	11,452	11,452
Korean Won	-	22,065	22,065	-	12,773	12,773
Norwegian Krone	-	33,865	33,865	-	31,053	31,053
Sterling	-	77,436	77,436	-	64,151	64,151
Swedish Krona	-	18,484	18,484	-	11,906	11,906
Swiss Franc	-	36,435	36,435	-	23,957	23,957
Taiwanese Dollar	-	36,861	36,861	-	13,878	13,878
US Dollar	-	520,422	520,422	-	289,438	289,438
	-	<b>1,112,889</b>	<b>1,112,889</b>	-	<b>674,892</b>	<b>674,892</b>
<b>Other assets and liabilities</b>						
Cash and cash equivalents	30,037	-	30,037	13,818	-	13,818
Short term debtors	-	4,086	4,086	-	226	226
Short term creditors	-	(3,732)	(3,732)	-	(1,185)	(1,185)
Long term creditors	(48,908)	(1,092)	(50,000)	(30,080)	(690)	(30,770)
	<b>(18,871)</b>	<b>1,112,151</b>	<b>1,093,280</b>	<b>(16,262)</b>	<b>673,243</b>	<b>656,981</b>

**Notes to the Financial Statements continued****16 FINANCIAL RISK MANAGEMENT CONTINUED**

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**Capital management**

The Company considers its capital to consist of its share capital of Ordinary Shares of 10p each, its distributable reserves and its borrowings.

At 31 December 2020 there were 265,877,138 Ordinary Shares in issue. No shares were held in treasury at the year end. (2019: 225,737,355 Ordinary Shares were in issue; of these shares 21,598,109 were held in treasury).

The Company has a stated premium/discount policy. The Manager and the Company's broker monitor the demand for the Company's shares and the Directors review the position at Board meetings. Further details on share issues during the year and the Company's policies for issuing further shares and buying back shares (including the Company's premium/discount policy) can be found in the Directors' Report.

The Company bought back no Ordinary Shares during the year (2019: nil).

The Company's policy on borrowings is detailed in the Directors' Report.

# 10 YEAR FINANCIAL RECORD

AT 31 DECEMBER	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net assets (£ millions)	345	341	386	374	372	465	507	450	657	1,093
NAV per Ordinary Share <sup>1</sup>	117.0p	126.0p	167.9p	169.8p	178.6p	243.4p	281.6p	249.6p	321.8p	411.2p
Share price	95.8p	102.9p	150.0p	152.8p	160.0p	218.0p	256.5p	253.0p	333.0p	422.5p
Premium / (discount) <sup>1,2</sup>	(18.1%)	(18.3%)	(10.7%)	(10.2%)	(10.4%)	(10.4%)	(8.9%)	1.4%	3.5%	2.7%

YEAR ENDED 31 DECEMBER	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NAV return <sup>1,3</sup>	(17.2%)	8.5%	34.1%	1.7%	6.0%	37.3%	16.4%	(10.8%)	30.6%	31.0%
Share price return <sup>1,3</sup>	(25.7%)	8.1%	47.4%	2.5%	5.8%	37.4%	18.7%	(0.4%)	32.9%	28.9%
MSCI ACWI Index <sup>4</sup>	(6.7%)	11.0%	20.5%	10.6%	3.3%	28.7%	13.2%	(3.8%)	21.7%	12.7%
FTSE ET100 <sup>4,5</sup>	(27.4%)	1.2%	44.9%	4.1%	5.0%	21.9%	20.2%	(9.9%)	29.2%	90.3%
Revenue return per Ordinary Share <sup>6</sup>	1.0p	0.9p	1.3p	1.5p	1.5p	2.0p	2.8p	3.2p	3.6p	2.2p
Dividends <sup>7</sup>	0.9p	0.9p	1.2p	1.4p	1.45p	1.95p	2.50p	3.0p	3.0p	2.3p
Ongoing charges <sup>1,8</sup>	1.11%	1.16%	1.13%	1.12%	1.11%	1.13%	1.05%	1.04%	1.02%	0.95%

## Notes

- These are considered to be APMs.
- Share price premium/(discount) to NAV.
- Total return (discrete annual returns) – source: Morningstar up to 2016, Bloomberg 2017 thereafter (except year 2018).
- Net total return (dividends reinvested net of withholding tax) for MSCI indices and total return for FTSE indices (discrete annual returns).
- FTSE ET50 data up until 31 December 2013 and then FTSE ET100 thereafter.
- Revenue return / Ordinary Share is based upon the revenue return for the year to 31 December and the weighted average number of Ordinary Shares in issue (excluding treasury shares) during the year.
- Total dividends payable in respect of the year.
- Total expense ratio up to and including 2011.

## TOTAL RETURNS TO 31 DECEMBER 2020

	NAV <sup>1</sup>	SHARE PRICE <sup>1</sup>	MSCI ACWI INDEX	FTSE ET100 INDEX <sup>2</sup>
1 year	31.0%	28.9%	12.7%	90.3%
2 years	71.0%	71.3%	37.1%	145.9%
3 years	52.6%	70.6%	31.9%	121.6%
4 years	77.6%	102.5%	49.4%	166.3%
5 years	143.9%	178.1%	92.2%	224.6%
6 years	158.4%	194.4%	98.6%	240.8%
7 years	162.9%	201.7%	119.7%	254.9%
8 years	252.5%	344.8%	164.8%	403.6%
9 years	282.7%	380.7%	194.0%	409.4%
10 years	214.7%	257.4%	174.4%	270.0%

## Notes

- These are considered to be APMs.
- FTSE ET50 data up until 31 December 2013 and then FTSE ET100 thereafter.

# ALTERNATIVE PERFORMANCE MEASURES (APMs)

APMs are often used to describe the performance of investment companies although they are not specifically defined under FRS 102. The Directors assess the Company's performance against a range of criteria which are viewed as relevant to both the Company and its market sector. APM calculations for the Company are shown below.

## GEARING

A way to magnify income and capital returns, but which can also magnify losses. A bank loan is a common method of gearing.

AT 31 DECEMBER		PAGE	2020	2019
Total assets less cash/cash equivalents (£'000)	a	n/a	1,116,975	675,118
Net assets (£'000)	b	56	1,093,280	656,981
<b>Gearing (net)</b>	$(a \div b) - 1$		<b>2.2%</b>	<b>2.8%</b>

## LEVERAGE

Under the Alternative Investment Fund Managers Directive ("AIFMD"), leverage is any method by which the exposure of an Alternative Investment Fund ("AIF") is increased through borrowing of cash or securities or leverage embedded in derivative positions.

Under AIFMD, leverage is broadly similar to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

## ONGOING CHARGES

A measure, expressed as a percentage of average net assets, of the regular, recurring annual costs of running an investment company.

YEAR ENDED 31 DECEMBER		PAGE	2020	2019
Average NAV (£'000)	a	n/a	786,680	557,637
Investment management fees (£'000)	b	63	6,395	4,813
Other expenses (£'000)	c	63	1,097	874
	$(b+c) \div a$		<b>0.95%</b>	<b>1.02%</b>

The ongoing charges figure is calculated in accordance with the methodology set out by the AIC. The ongoing charges figure on the Company's Key Information Document is calculated in accordance with the PRIIPs regulations, which includes finance and transaction costs.

## PREMIUM

The amount, expressed as a percentage, by which the share price is more than the Net Asset Value per Ordinary Share.

AT 31 DECEMBER		PAGE	2020	2019
NAV per Ordinary Share (p)	a	1	411.2	321.8
Share price (p)	b	1	422.5	333.0
<b>Premium</b>	$(b \div a) - 1$		<b>2.7%</b>	<b>3.5%</b>



## TOTAL RETURN

A measure of performance that includes both income and capital returns. This takes into account capital gains and reinvestment of dividends paid out by the Company into its Ordinary Shares on the ex-dividend date.

YEAR ENDED 31 DECEMBER 2020		PAGE	SHARE PRICE	NAV
Opening at 1 January 2020 (p)	a	n/a	333.00	321.83
Closing at 31 December 2020 (p)	b	1	422.50	411.20
Dividend/income adjustment factor <sup>1</sup>	c	n/a	1.0159	1.0253
Adjusted closing (d = b x c)	d	n/a	429.24	421.60
<b>Total return</b>	(d÷a)-1		<b>28.9%</b>	<b>31.0%</b>

YEAR ENDED 31 DECEMBER 2019		PAGE	SHARE PRICE	NAV
Opening at 1 January 2019 (p)	a	n/a	253.00	249.58
Closing at 31 December 2019 (p)	b	1	333.00	321.83
Dividend/income adjustment factor <sup>1</sup>	c	n/a	1.0097	1.0128
Adjusted closing (d = b x c)	d	n/a	336.24	325.95
<b>Total return</b>	(d÷a)-1		<b>32.9%</b>	<b>30.6%</b>

<sup>1</sup> The dividend adjustment factor is calculated on the assumption that dividends paid out by the Company are reinvested into the shares of the Company at NAV at the ex-dividend date.

# Glossary

<b>AIC</b>	Association of Investment Companies.
<b>Alternative Investment Fund or “AIF”</b>	An investment vehicle under AIFMD. Under AIFMD (see below) Impax Environmental Markets plc is classified as an AIF.
<b>Alternative Investment Fund Managers Directive or “AIFMD”</b>	A European Union directive which came into force on 22 July 2013 and has been implemented in the UK.
<b>Annual General Meeting or “AGM”</b>	A meeting held once a year which shareholders can attend and where they can vote on resolutions to be put forward at the meeting and ask directors questions about the company in which they are invested.
<b>the Company</b>	Impax Environmental Markets plc (“IEM”).
<b>Custodian</b>	An entity that is appointed to safeguard a company’s assets.
<b>Discount/premium</b>	The amount, expressed as a percentage, by which the share price is less/more than the net asset value per share.
<b>Depository</b>	Certain AIFs must appoint depositaries under the requirements of AIFMD. A depository’s duties include, inter alia, safekeeping of a company’s assets and cash monitoring. Under AIFMD the depository is appointed under a strict liability regime.
<b>Dividend</b>	Income receivable from an investment in shares.
<b>Ex-dividend date</b>	The date from which you are not entitled to receive a dividend which has been declared and is due to be paid to shareholders.
<b>Financial Conduct Authority or “FCA”</b>	The independent body that regulates the financial services industry in the UK.
<b>FTSE ET100/FTSE ET50</b>	FTSE ET100/FTSE ET50 is a combination of the FTSE ET100 and FTSE ET50 indices. FTSE ET50 data is used for the period to 31 December 2013 and FTSE ET100 data is used for the period from 1 January 2014. The FTSE ET (Environmental Technology) 50 and 100 indices comprise, respectively, the 50 and 100 largest pure play (i.e. deriving at least 50% of their business from environmental markets and technologies) environmental technology companies globally, by full market capital.
<b>Gearing effect</b>	The effect of borrowing on a company’s returns.
<b>Index</b>	A basket of stocks which is considered to replicate a particular stock market or sector.
<b>Investment company</b>	A company formed to invest in a diversified portfolio of assets.
<b>Investment Trust</b>	An investment company which is based in the UK and which meets certain tax conditions which enables it to be exempt from UK corporation tax on its capital gains. The Company is an investment trust.
<b>Liquidity</b>	The extent to which investments can be sold at short notice.
<b>Net assets or net asset value (“NAV”)</b>	An investment company’s assets less its liabilities.
<b>NAV per Ordinary Share</b>	Net assets divided by the number of Ordinary Shares in issue (excluding any shares held in treasury).
<b>Ordinary Shares</b>	The Company’s ordinary shares in issue.
<b>Portfolio</b>	A collection of different investments held in order to deliver returns to shareholders and to spread risk.
<b>Relative performance</b>	Measurement of returns relative to an index.
<b>Share buyback</b>	A purchase of a company’s own shares. Shares can either be bought back for cancellation or held in treasury.
<b>Share price</b>	The price of a share as determined by a relevant stock market.
<b>Tracking error</b>	A measure, expressed as a percentage, of how closely a portfolio follows an index over a period of time.
<b>Treasury shares</b>	A company’s own shares which are available to be sold by a company to raise funds.
<b>Volatility</b>	A measure of how much a share moves up and down in price over a period of time.

# DIRECTORS, MANAGER AND ADVISERS

## DIRECTORS

John Scott, DL (Chairman)  
Aine Kelly (Senior Independent Director)  
Stephanie Eastment (Audit Committee Chairman)  
Simon Fraser (appointed 1 March 2021)  
Vicky Hastings  
William Rickett, CB

## BROKER

Investec Bank plc  
30 Gresham Street,  
London  
EC2V 7QP

## DEPOSITARY AND CUSTODIAN

BNP Paribas Securities Services  
55 Moorgate  
London  
EC2R 6PA

## REGISTRAR

Link Group  
10th Floor  
Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

Link Group (a trading name of Link Market Services Limited and Link Market Services Trustees Limited) may be able to provide you with a range of services relating to your shareholding. To learn more about the services available to you please visit the shareholder portal at [www.signalshares.com](http://www.signalshares.com) or call +44 (0) 371 664 0300.

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate.

Link Group are open between 08:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.

You can also write to Link Group at the address above.

Details of how to contact the Registrar in regards to the Annual General Meeting and how to access the webinar are given the Notes to the Notice of AGM on pages 80 to 82.

## ALTERNATIVE INVESTMENT FUND MANAGER

Impax Asset Management (AIFM) Limited  
7th Floor  
30 Panton Street  
London  
SW1Y 4AJ  
[www.impaxam.com](http://www.impaxam.com)

## REGISTERED OFFICE

1st Floor, Senator House  
85 Queen Victoria Street  
London  
EC4V 4AB  
  
Registered in England no. 4348393  
[www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk)

## SECRETARY & ADMINISTRATOR

PraxisIFM Fund Services (UK) Limited  
1st Floor, Senator House  
85 Queen Victoria Street  
London  
EC4V 4AB

## AUDITOR

BDO LLP  
55 Baker Street  
London  
W1U 7EU

# NOTICE OF MEETING

## Annual General Meeting

**In line with the requirements of the Companies Act 2006, the Company will hold an Annual General Meeting of shareholders to consider the resolutions laid out in the Notice of Meeting below.**

In response to the current COVID-19 pandemic, the UK Government has established restrictions on indoor public gatherings. In light of these measures, the Board will make arrangements such that the legal requirements to hold the meeting can be satisfied through the attendance of two shareholders. The AGM will be held at the location, date and time as set out in the Notice of Meeting, however physical attendance by any other shareholders at the meeting will not be possible. Instead the Board invites shareholders to attend the meeting by way of a webinar, where they will have the opportunity to hear a presentation from the investment managers, Jon Forster and Bruce Jenkyn-Jones, and ask questions of the Board and the Manager. The Board is cognisant of the importance to shareholders of the ability to meet the members of the Board and representatives of the Manager face to face, and is committed to ensuring that future AGMs and general meetings include a physical meeting, where conditions allow.

Instructions on how to access the webinar are set out in section 14 of the Notes to the Notice of AGM on page 81. Shareholders are encouraged to submit any questions they may have been planning to raise at the AGM to the Company's email address at [clientservices@impaxam.com](mailto:clientservices@impaxam.com) in advance of the meeting by 17 May 2021. Otherwise shareholders can submit written questions to the Board and the Manager through the webinar once the meeting has commenced. To the extent questions are not covered during the meeting, the Directors or the Manager will respond to any enquiries submitted.

In view of the format of the meeting, shareholders should therefore vote by proxy. Given the restrictions on attendance, shareholders should appoint the "Chairman of the Meeting" as their proxy rather than another person who will not be permitted to attend the meeting. Details of how to vote, either electronically, by proxy form or through CREST, can be found in the Notes to the Notice of AGM on pages 80 to 82.

The outcome of the resolutions will as usual be determined by shareholder vote based on the proxy votes received. All valid proxy appointments (whether submitted electronically or in hard copy form) will be included in the poll to be taken at the AGM. The results of the poll will be announced to the London Stock Exchange and placed on the Company's website, in the usual way, as soon as practicable after the conclusion of the AGM.

This situation is constantly evolving, and the UK Government may change the current restrictions or implement further measures during the affected period. Shareholders should monitor the Company's website at [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk) and London Stock Exchange announcements for any updates regarding the AGM. Alternatively, shareholders can contact the Registrar, Link Group, for updated information (please see Notes to the Notice of AGM for the Registrar's contact details).

## Notice of Meeting

Notice is hereby given that the Annual General Meeting of Impax Environmental Markets plc will be held at 7th floor, 30 Panton Street, London, SW1Y 4AJ on 20 May 2021 at 2:00 pm for the following purposes:

To consider and if thought fit pass the following resolutions of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 to 15 will be proposed as special resolutions.

1. To receive the Company's annual accounts for the year ended 31 December 2020.
2. To approve the Directors' Remuneration Policy included in the Annual Report for the year ended 31 December 2020.
3. To approve the Directors' Remuneration Report included in the Annual Report for the year ended 31 December 2020.
4. To approve the Company's Distribution Policy.
5. To re-elect John Scott as a director of the Company.
6. To re-elect Aine Kelly as a director of the Company.
7. To re-elect Stephanie Eastment as a director of the Company.
8. To re-elect Vicky Hastings as a director of the Company.
9. To elect Simon Fraser as a director of the Company.
10. To re-appoint BDO LLP as auditor to the Company.
11. To authorise the Directors to fix the remuneration of the auditor until the conclusion of the next Annual General Meeting of the Company.

12. That:

(a) the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to allot shares in the Company, or to grant rights to subscribe for or convert any security into shares in the Company, up to a maximum nominal amount of £2,779,709 or, if less, the amount that represents 10 per cent. of the nominal value of the Company's issued share capital (excluding treasury shares) on the date on which this resolution is passed; and

(b) the authority given by this resolution:

(i) shall be in addition to all pre-existing authorities under section 551 of the Act; and

(ii) unless renewed, revoked or varied in accordance with the Act, shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2022 or, if earlier, on the expiry of 15 months from the date of passing of this resolution save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require the allotment of shares in the Company, or the grant of rights to subscribe for or to convert any security into shares in the Company, after such expiry and the Directors may allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company in pursuance of such an offer or agreement as if such authority had not expired.

13. That, subject to the passing of resolution 12 set out in the Notice of Annual General Meeting dated 6 April 2021 (the "Allotment Authority"), the Directors be given power pursuant to sections 570 and 573 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the Allotment Authority, and to sell treasury shares for cash, as if section 561(1) of the Act did not apply to such allotment or sale, provided that such power:

(a) shall be limited to the allotment of equity securities or the sale of treasury shares up to an aggregate nominal amount of £2,779,709 or, if less, the amount that represents 10 per cent. of the nominal value of the Company's issued share capital (excluding treasury shares) on the date on which this resolution is passed;

(b) shall be in addition to all pre-existing powers under sections 570 and 573 of the Act; and

(c) shall expire at the same time as the Allotment Authority, save that the Company may, before expiry of the power conferred on the Directors by this resolution, make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if such power had not expired.

14. That the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of its Ordinary Shares of 10p each, provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 41,667,851 (representing 14.99% of the Company's issued Ordinary Share capital (excluding shares held in treasury) at the date of the notice of this meeting);

(b) the minimum price (exclusive of any expenses) which may be paid for an Ordinary Share is 10p;

(c) the maximum price (excluding expenses) which may be paid for an Ordinary Share is not more than the higher of (i) 5% above the average of the middle market quotations for the Ordinary Shares for the five business days immediately before the day on which it purchases that share and (ii) the higher of the price of the last independent trade and the highest current independent bid for the Ordinary Shares;

(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2022 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

15. That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the Company's next Annual General Meeting after the date of the passing of this resolution.

By order of the Board

Registered Office:

Brian Smith  
For and on behalf of PraxisIFM Fund Services (UK) Limited  
Company Secretary  
6 April 2021

1st Floor, Senator House,  
85 Queen Victoria Street,  
London, EC4V 4AB

**Notice of Meeting continued****Notes to the Notice of AGM****Website address**

1. Information regarding the meeting, including the information required by section 311A of the Companies Act 2006, is available from [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk).

**Entitlement to attend and vote**

2. Only those holders of Ordinary Shares registered on the Company's register of members at 2.00pm on 18 May 2021 or, if this meeting is adjourned, at 2.00pm on the day two days prior to the adjourned meeting, shall be entitled to vote at the meeting. Shareholders will not be permitted to attend the meeting in person and therefore should vote by proxy.

**Appointment of Proxies**

3. Members entitled to vote at the meeting (in accordance with Note 2 above) are entitled to appoint a proxy to vote in their place. However, in view of the format of the meeting, shareholders should appoint the "Chairman of the Meeting" as their proxy rather than another person who will not be permitted to attend. If you wish to appoint a proxy, please follow the instructions at note 6 below if you wish to appoint a proxy through the CREST electronic proxy appointment service. In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding.
4. You can appoint the Chairman of the Meeting as your proxy using the voting methods in notes 6 and 7.
5. You can instruct your proxy how to vote on each resolution by marking the resolutions For and Against using the voting methods stated in notes 6 and 7. If you wish to abstain from voting on any resolution, please mark these resolutions withheld. It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you do not indicate how your proxy should vote, he/she can exercise his/her discretion as to whether, and if how so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the meeting.

**Appointment of proxy**

6. You can vote either:
  - by logging on to [www.signalshares.com](http://www.signalshares.com) and following the instructions;
  - you may request a hard copy form of proxy directly from the registrars, Link Group on Tel: 0371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales; or
  - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Group at 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 2.00pm on 18 May 2021.

**Appointment of Proxy through CREST**

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to a proxy's appointee through CREST should be communicated to the appointee through other means.



CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions.

It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that this CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy, which are to be transmitted through CREST, must be lodged at 2.00 pm on 18 May 2021 in respect of the meeting. Any such messages received before such time will be deemed to have been received at such time. In the case of an adjournment, all messages must be lodged with Link Group no later than 48 hours before the rescheduled meeting.

#### **Appointment of a proxy through Proxymity**

8. If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to [www.proxymity.io](http://www.proxymity.io). Your proxy must be lodged no later than 48 hours before the time of the Annual General Meeting, in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. Proxymity will then contract with your underlying institutional account holder directly to accept their vote instructions through the platform.

#### **Termination of proxy appointments**

9. In order to revoke a proxy instruction, you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL.

In the case of a member which is a company, the revocation notice must be executed under its common seal or otherwise in accordance with section 44 of the Companies Act 2006 or by signature on its behalf by an officer or attorney whose power of attorney or other authority should be included with the revocation notice.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified in note 2 above then, subject to the paragraph directly below, your proxy will remain valid.

If you submit more than one valid proxy appointment in respect of the same Ordinary Shares, the appointment received last before the latest time for receipt of proxies will take precedence.

#### **Nominated persons**

10. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting.
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in the notes to the form of proxy.

**Notice of Meeting continued****Questions at the meeting**

11. Under section 319A of the Companies Act 2006, the Company must answer any question you ask relating to the business being dealt with at the meeting unless:
- answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

**Issued Shares and total voting rights**

12. The total number of shares in issue in the Company is 277,970,988 Ordinary Shares of 10p each. Therefore, the total number of Ordinary Shares with voting rights is 277,970,988. On a vote by a show of hands, every holder of Ordinary Shares who (being an individual) is present by a person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for every Ordinary Share held by him.

**Communication**

13. Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted):
- calling the Link Group shareholder helpline (lines are open from 9.00 am to 5.30 pm Monday to Friday, excluding public holidays):
    - (i) From UK: 0871 664 0300 (calls cost 12p per minute plus network extras);
    - (ii) From Overseas: +44 371 664 0300 (calls from outside the UK are charged at applicable international rates);
 or
  - in writing to Link Group.

You may not use any electronic address provided either in this Notice of Meeting or in any related documents (including the Form of Proxy for this meeting) to communicate with the Company for any purposes other than those expressly stated.

**Access to the Virtual Meeting Platform**

14. You may attend the 2021 AGM virtually using your smartphone, tablet, or computer. You will be able to view and listen to a live webcast of the 2021 AGM and submit questions to the Directors or the Manager in writing, however, you will not be able to vote at the event. To join the 2021 AGM virtually, you will need to visit [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk) from your device. To log in to the 2021 AGM, you will be prompted to enter your unique Login Code (which is your full 11 digit Investor Code ("IVC") including any zeros) and your PIN number (which is the last 4 digits of your IVC). This will authenticate you as a shareholder.

If you are not in receipt of your IVC this can be found on a share certificate or dividend tax voucher, or alternatively you can sign in to [www.signalshares.com](http://www.signalshares.com) to obtain your IVC. If, however, you cannot find your IVC and do not have access to [www.signalshares.com](http://www.signalshares.com) then please contact Link Group on +44 (0) 371 664 1020 before 19 May 2021 to obtain your IVC in order to log in to the Annual General Meeting.

Access to the Annual General Meeting will be available from 1.00 p.m. on 20 May 2021 although you will not be able to submit questions during the meeting until the Annual General Meeting is declared open. If you wish to appoint a proxy and for them to attend the virtual Annual General Meeting on your behalf, please contact Link Group on telephone number +44 (0) 371 277 1020\*.

If your shares are held within a nominee and you wish to access the virtual Annual General Meeting, you will need to contact your nominee immediately. Your nominee will need to have completed a letter of representation and presented this to Link Group, our Registrars, no later than 72 hours before the start of the Annual General Meeting in order to obtain your unique Login Code and PIN number to access the virtual Annual General Meeting. If you are in any doubt about your shareholding, please contact our Registrars.

\*Lines are open from 9.00 a.m. to 5.30 p.m. Monday to Friday, calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate.



