

Impax Environmental Markets plc

Monthly performance commentary: 31 August 2024

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Portfolio managers



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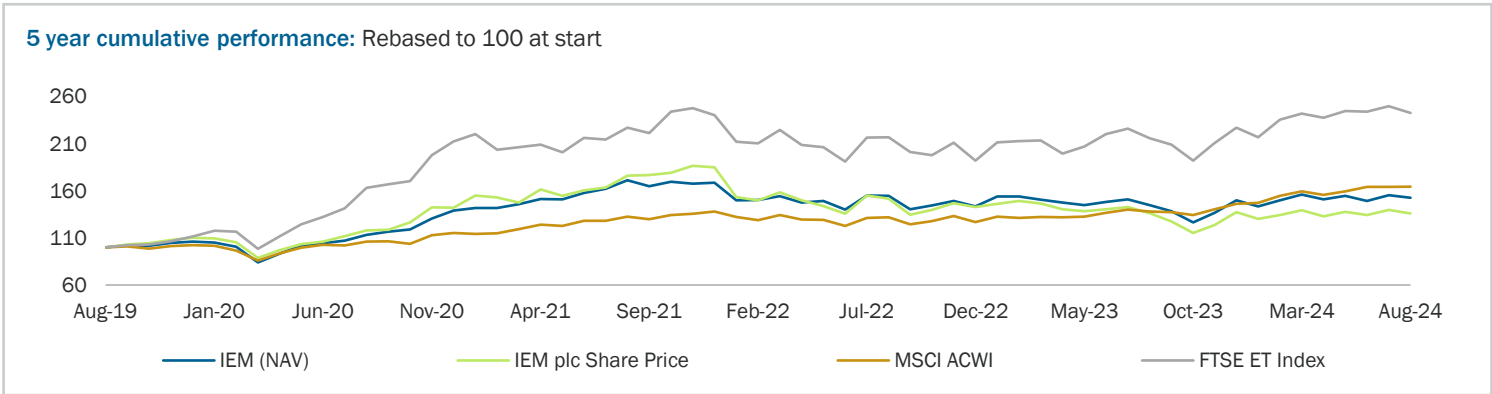
Market review

Global equities, as measured by the MSCI All Country World Index (MSCI ACWI), made modest gains in August. This was despite a sharp sell-off at the start of the month, following weak US employment data for July and a rate hike by the Bank of Japan. Markets quickly regained composure after the US posted better-than-expected Q2 GDP growth, as well as robust ISM services data¹.

Corporate earnings painted a mixed picture. AI-related names delivered mixed results, as numbers that met expectations failed to sustain investor enthusiasm. **Nvidia** (not held) was a particular case in point. Conversely, robust results in other areas improved the breadth of performance across sectors. Real Estate and Health Care delivered some of the strongest returns, benefiting from investors' flight to safety and hopes for lower rates.

In Environmental Markets, August produced two incremental pieces of news relating to solar stocks. First, the Biden administration raised the power level at which tariffs are charged on solar cells, acting as a potential tailwind for US panel producers². Second, the US Department of Commerce announced its final determination on solar anti-dumping. However, with Chinese companies already precluded from importing, the verdict was priced in³.

Past performance does not predict future returns



Portfolio commentary

The Impax Environmental Markets plc (IEM) portfolio's Net Asset Value (NAV) delivered a total return of -1.8% over the month. By comparison, global equity markets as measured by the MSCI ACWI returned 0.2%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned -2.9%.

The continuing change in market leadership had a mixed impact on performance. After rallying in July, small cap stocks (~23% of the portfolio) fell in August, although mid-caps (~54% of the portfolio) proved more resilient. Not owning the Magnificent Seven⁴, as well as some other mega-cap tech names lifted returns once again. The market's rotation into more defensive sectors also provided a slight boost for Utilities, which account for ~11% of IEM's holdings.

Past performance does not predict future returns. Figures refer to the past and that past performance is not a reliable indicator of future results. There is no guarantee that any forecasts made will come to pass.

Benchmark references are selected based on their investment orientations which were deemed comparable to the investment vehicles. The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only. The specific securities identified and described are for informational purposes only and do not represent recommendations. Holdings subject to change. Data source: Bloomberg as at 31 August 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. ¹All data from Bloomberg as of August 31, 2024. ²Biden allows more solar cell imports to avoid Trump-era tariffs | Reuters. ³Department of Commerce Issues Final Determination of Circumvention Inquiries of Solar Cells and Modules from China | U.S. Department of Commerce. ⁴Microsoft, Amazon, Nvidia, Alphabet, Meta, and Apple.



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Cont.

At a single stock level, the weakest contributions to return came from **Spirax Group**, a steam specialist, and **Repligen**, a maker of bioprocessing products. Extended inventory destocking in bioprocessing has weakened both stocks year to date. Spirax fell further following a cut to guidance amid a softer economic backdrop, particularly in China. While macro headwinds remain, the stock trades at the lower end of its historic price to forward earnings multiple.

By contrast, Repligen weakened following rumours it was looking to acquire Maravai, a reagent vendor. The company has since disclosed they are only looking at parts of the business focused on nucleic acid production⁵. As such the share price reaction looks overdone.

Holdings with construction exposure were another area of weakness, primarily due to concerns around a slowing US economy. Yet this is an area with diversified end markets from which the team has consistently taken profits. Similarly, detractors for the month like **Kingspan** continue to announce robust growth and strong visibility into H2.

Renewables stocks also detracted from returns. The space remains volatile in the run up to November's US Presidential election, and a narrower margin forecast from **Vestas**, a maker of wind turbines, exacerbated some investors' concerns. Even so, within IEM's portfolio, valuations are at low levels relative to operating assets, while names like **Northland Power** and **Ormat** are focusing on project execution and returning cash to shareholders.

Top contributions to performance have mostly reflected the tail end of Q2 earnings updates. Among them, pallet and logistics company **Brambles** reported above expectation profits and forward guidance, pointing to strong pricing and a lower cost to serve. Similarly, **Rational**, a maker of efficient ovens, reported an earnings beat thanks to resilient underlying demand. Having added to the position recently, the stock is demonstrating its high-quality characteristics.

The portfolio's natural ingredients companies also boosted performance. Having been a consistent headwind in 2023, the end of inventory destocking at consumer goods, pharmaceutical and fragrance customers is enabling holdings like **DSM-Firmenich**, **Corbion** and **Croda** to raise revenue expectations. At the margin, the stocks are also benefiting from investors' rotation towards stocks with more consumer staple like characteristics.

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Annualised returns (%)	3M	1Y	3Y	5Y	10Y	SI ⁶
IEM (NAV)	-1.3	5.4	-3.7	8.8	10.9	7.5
IEM plc Share Price	-1.3	-0.3	-8.3	6.3	10.9	6.9
MSCI ACWI	3.2	19.0	7.4	10.4	11.4	8.3
FTSE ET Index	-0.8	12.3	2.3	19.4	14.2	7.8

Rolling 12m returns (%)	AUG-23 TO AUG- 24	AUG-22 TO AUG- 23	AUG-21 TO AUG- 22	AUG-20 TO AUG- 21	AUG-19 TO AUG- 20	AUG-18 TO AUG- 19	AUG-17 TO AUG- 18	AUG-16 TO AUG- 17	AUG-15 TO AUG- 16	AUG-14 TO AUG- 15
IEM (NAV)	5.4	-6.4	-9.7	51.0	13.3	4.6	8.0	20.4	39.7	-3.2
IEM plc Share Price	-0.3	-10.1	-13.9	49.3	17.9	11.3	13.6	19.8	45.4	-6.0
MSCI ACWI	19.0	4.6	-0.5	25.2	6.0	6.4	10.5	19.0	25.9	1.2
FTSE ET Index	12.3	-0.4	-4.4	39.1	63.1	0.7	4.9	22.5	26.0	-4.3

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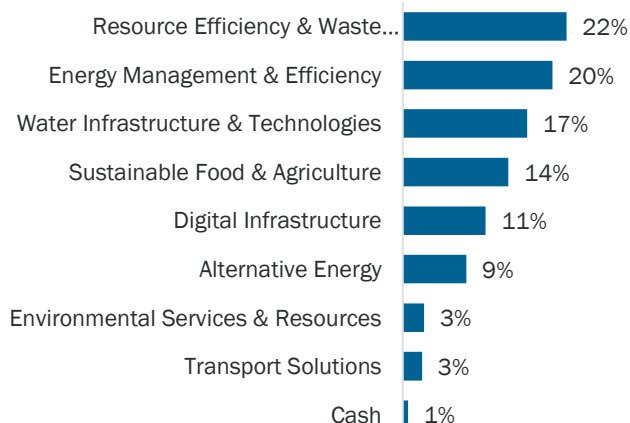
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Significant transactions

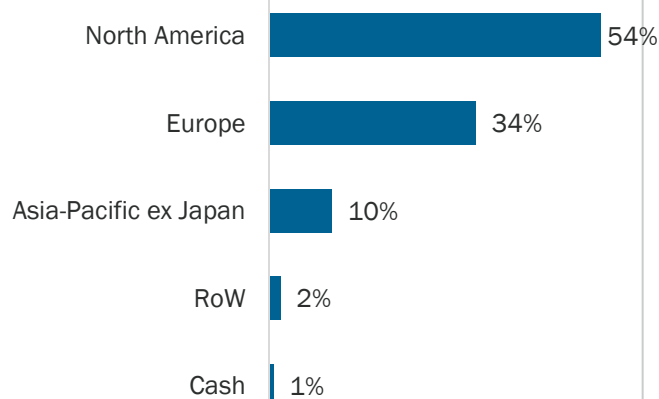
There were two transactions over the month. The team initiated a position in **Bentley Systems**, a provider of software for the planning, construction, and maintenance of infrastructure. Bentley's relatively low cost to clients and subscription-based business model ensures a high level of retention, with construction one of the sectors least penetrated by software adoption. A change of CEO and concerns over cyclical business activity created an attractive entry point.

The managers sold **Cryoport**. A producer of efficient refrigeration solutions with a focus on bioprocessing, shares in the company have struggled on account of extended inventory destocking. However, conversations with management also raised some concerns around capital allocation strategy. As a result, the position was consolidated into Repligen, another holding in the bioprocessing space.

Environmental markets exposure



Geographical exposure⁷



Top 10 holdings ⁸	Sub-sector	Country ⁹	%
PENTAIR PLC	Water Distribution & Infrastructure	United States	2.98
PTC INC	Efficient IT	United States	2.77
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	2.77
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.54
AMERICAN WATER WORKS CO INC	Water Utilities	United States	2.50
STERICYCLE INC	Hazardous Waste Management	United States	2.48
BRAMBLES LTD	Resource Circularity & Efficiency	Australia	2.41
LITTELFUSE INC	Industrial Energy Efficiency	United States	2.34
STERIS PLC	Resource Circularity & Efficiency	United States	2.34
RAYONIER INC	Sustainable Forestry	United States	2.29
TOTAL			25.42

The specific securities identified and described do not represent all securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

Data source: Impax/FactSet/Bloomberg. Data as at 31 August 2024. Charts may not add to 100% due to rounding. ⁷Geographic allocation by country of listing. ⁸Holdings are subject to change without notice. ⁹MSCI classification if available.

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Outlook

The US Federal Reserve has cut interest rates for the first time in four years. Investors are now looking for evidence that further cuts augur a soft landing (i.e. lower inflation and weaker but not negative economic growth), rather than a harsh recession. The former remains our base case and has historically been a beneficial macro backdrop for the portfolio's tilt towards smaller, growth-oriented companies.

Yet many of IEM holdings are already delivering robust earnings numbers without this supportive environment. Having been challenged not just by higher rates but also post-pandemic normalisation, sectors like natural ingredients and independent power producers are exiting this period of adjustment. A continuation of the market's performance rotation beyond a handful of technology names could see this better reflected in valuations, further benefitting the IEM portfolio.



Important information – Impax Environmental Markets plc risks

Investment objective

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).

Investors should read the Prospectus before investing which is available at: www.impaxam.com Please refer to Impax's ESG Policy for more details

Marketing communication

This marketing communication does not include sufficient detail to enable the recipient to make an informed decision. Please refer to the Prospectus and latest Annual Report which set out the investment objective, policy, maximum leverage and principal risk factors faced by the Company.

The value of an investment in the Company, and any income derived from it, may fluctuate and can go down as well as up depending on a number of factors.

The main factors likely to affect future returns from an investment in the Company include:

Changes in general economic and market conditions such as currency exchange rates, interest rates, rates of inflation, industry conditions, tax laws, political events, policy development, technological change and any other factors that may cause price movements, volatility or illiquidity in the market generally.

Fluctuations in the value of the Company's underlying investments, particularly those investments in companies with small capitalisations and/or unlisted securities, which are likely to be subject to higher valuation uncertainties and liquidity risks than companies with larger capitalisations and other securities listed or traded on a regulated market.

Events or conditions impacting the Company's investments in companies operating in environmental markets, such as governments altering the regulatory and financial support for environmental improvement, costs of technology not falling or increasing, reduced or deferred capital spending by customers or products or services not being adopted. Increased risks arising from borrowing by the Company. If investment markets fall in value, any borrowing will enhance the level of loss.

Shares of the Company may trade at a discount or a premium to Net Asset Value for variety of reasons including market sentiment and market conditions. On a sale you could realise less than the Net Asset Value and less than you initially invested.

Other risks arising from events which are outside of the Company's control, such as the Covid-19 pandemic and the conflict in Ukraine.

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Important information

Benchmark – Impax uses the MSCI ACWI and the FTSE ET indices as indicative benchmarks for its strategies. The MSCI ACWI captures all sources of equity returns in 23 developed and 26 emerging markets, and it assumes any net cash distributions, including dividends, are reinvested. The FTSE ET represents the performance globally of companies with a core business (at least 50%) in the development and operation of environmental technologies, and it assumes any gross cash distributions, including dividends, are reinvested. Both indices have investment orientations which are comparable to the sub-funds' strategies.

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