

# Impax Environmental Markets plc

Monthly performance commentary: 29 February 2024

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## Portfolio managers



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Portfolio Manager



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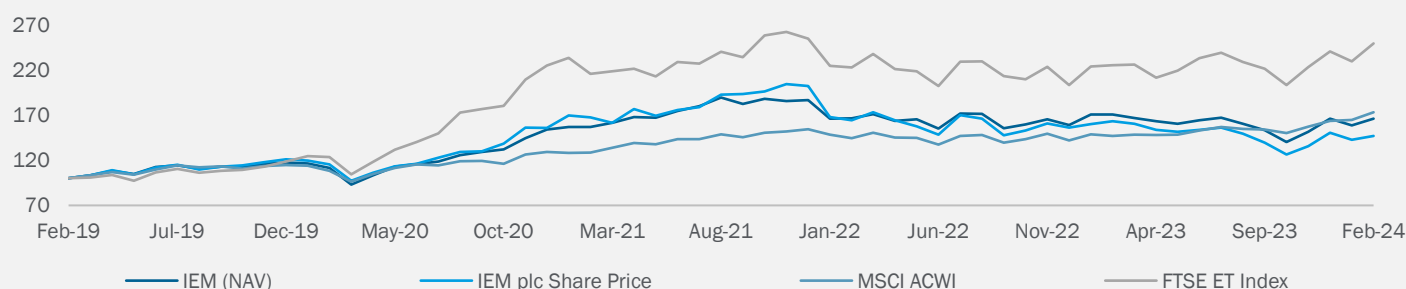
## Market review

Global equities as measured by the MSCI All Country World Index (ACWI) posted another month of solid gains. This was driven by strong company earnings in the US, as well as economic data supportive of a soft landing. After months of decline, Chinese equities rebounded following government stimulus<sup>1</sup> and signs of economic stabilisation.

Market breadth improved in February, as the Consumer Discretionary and Industrials sectors kept pace with rising IT stocks. Consumer Staples and Utilities weakened, with the latter particularly impacted by weaker global gas prices. While small and mid-caps did lag larger companies over the month, the gap was far smaller than in January.

The trend remains for puts and takes within Environmental Markets. In the US, the Environmental Protection Agency announced that car manufacturers would not need to shift their sales towards electric vehicles (EVs) quite as aggressively<sup>2</sup>. By contrast, the EU Commission recommended reducing the EU's net greenhouse gas emissions by 90% by 2040, relative to 1990<sup>3</sup>. However, a proposed roadmap no longer includes a reference to agricultural emissions targets.

**5 year cumulative performance:** Rebased to 100 at start



## Portfolio performance

The Impax Environmental Markets (IEM) portfolio's Net Asset Value (NAV) delivered positive returns over the month, modestly underperforming global equity markets as measured by the MSCI ACWI. NAV returns were also behind the FTSE ET 100, a more concentrated index focused on Environmental Markets.

Economic data and central bank rhetoric had limited incremental impact on the portfolio. Instead, share prices were largely driven by earnings reports, with most holdings surprising to the upside in terms of both revenues and profits. Natural ingredients companies also started making positive noises around inventory destocking. At the margin, improved sentiment in Chinese equities boosted IEM's limited exposure to the region.

Construction continues to be an area of strong performance. Impressive earnings meant top contributors included US-based water infrastructure company **Advanced Drainage Systems (ADS)**, as well as sustainable decking producer **AZEK** and the Dutch industrial specialist **Aalberts**. Given recent strength and aggregate portfolio exposure to construction, the team has taken some profits across the sector.

**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.

Date source: Bloomberg as at 29 February 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. <sup>1</sup> China is ramping up stimulus to boost market confidence. Is it enough? (cnbc.com). <sup>2</sup> EPA to re-evaluate tailpipe emission standards after industry pushback (cnn.com). <sup>3</sup> EU floats 90% emissions target but drops green farming measures (climatechangenews.com).

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Cont.

The portfolio's technology holdings also outperformed. While IEM has no direct exposure to artificial intelligence (AI), **Monolithic Power Systems (MPS)** is a leading supplier of energy efficient power semiconductors to AI chip-designer Nvidia. Strong growth in MPS' data centres division helped offset temporary headwinds in autos and consumer electronics. Other positive contributors included **Trimble** – a maker of geolocation software – and **Advantech** – a specialist in connected hardware – which both beat expectations.

In China, **Xinyi Solar** and **Shenzhen Inovance** made strong positive contributions. The maker of solar glass and industrial automation technology respectively, have both benefited from the country's recent rally. Xinyi also posted net income numbers which beat expectations, reflecting lower input commodity prices.

Most detractors from performance were similarly earnings related. **LEM**, **DiscoverIE Group** and **Signify** are three companies producing electronic components, specialising in measurement, diversified industrials and lighting respectively. All three detracted from returns, with weak guidance largely driven by uncertain end demand. While the companies are focusing on operational improvements, a meaningful rally in the shares will require a clear sign that destocking is coming to an end.

Having endured several headwinds last year, falling power prices have presented a fresh challenge to the portfolio's holdings in independent power producers (IPPs). Renewables developer **EDPR** thus made the largest negative contribution to returns, with related weakness in **Northland Power**. A warm winter, ample gas supply, and soft industrial demand mean European power prices are now 90% lower than record highs seen after Russia's invasion of Ukraine<sup>4</sup>. Despite modest exposure to spot power prices, the dramatic falls have had a significant but temporary impact on earnings.

On a relative basis, not owning mega-cap technology stocks continues to be a headwind, with **Nvidia's** standout earnings a particular point of market focus.

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Annualised returns (%)	3M	1Y	3Y	5Y	10Y	SI <sup>5</sup>
IEM (NAV)	9.7	-2.7	1.9	10.7	10.7	7.6
IEM plc Share Price	8.4	-10.0	-4.2	8.0	10.9	7.0
MSCI ACWI	10.0	17.9	10.4	11.6	11.5	8.2
FTSE ET Index	11.7	10.7	5.0	20.1	13.9	7.9

Rolling 12m returns (%)	FEB-23 TO FEB- 24	FEB-22 TO FEB- 23	FEB-21 TO FEB- 22	FEB-20 TO FEB- 21	FEB-19 TO FEB- 20	FEB-18 TO FEB- 19	FEB-17 TO FEB- 18	FEB-16 TO FEB- 17	FEB-15 TO FEB- 16	FEB-14 TO FEB- 15
IEM (NAV)	-2.7	2.6	6.1	41.0	11.4	2.1	7.6	43.5	3.8	1.9
IEM plc Share Price	-10.0	-0.6	-1.9	45.2	15.5	10.1	14.7	41.6	5.2	1.6
MSCI ACWI	17.9	1.7	12.3	19.0	8.2	2.7	7.3	36.7	-2.8	16.6
FTSE ET Index	10.7	1.1	3.3	74.7	23.7	-0.8	12.6	32.6	-4.0	3.4

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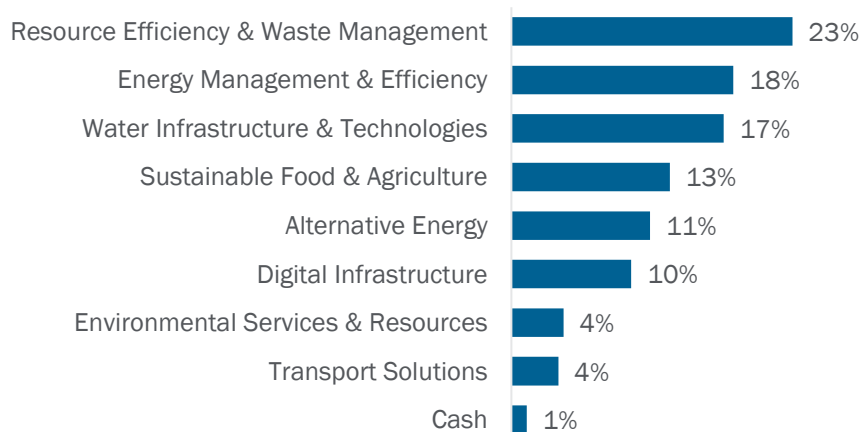
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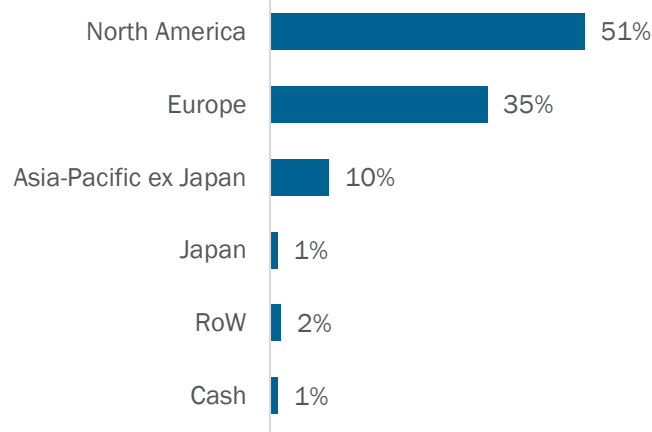
## Significant transactions

There were no new positions or exits over the month.

## Environmental Markets exposure



## Geographical exposure<sup>6</sup>



Top 10 holdings <sup>7</sup>	Sub-sector	Country <sup>8</sup>	%
STERICYCLE INC	Hazardous Waste Management	United States	2.89
PENTAIR PLC	Water Distribution & Infrastructure	United States	2.88
AALBERTS NV	Water Distribution & Infrastructure	Netherlands	2.72
PTC INC	Efficient IT	United States	2.62
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.43
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	2.38
SPIRAX-SARCO ENGINEERING PLC	Industrial Energy Efficiency	United Kingdom	2.32
KINGSPAN GROUP PLC	Buildings Energy Efficiency	Ireland	2.17
RAYONIER INC	Sustainable Forestry	United States	2.11
ADVANCED DRAINAGE SYSTEMS IN	Water Distribution & Infrastructure	United States	2.10
<b>TOTAL</b>			<b>24.62</b>

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 29 February 2024. Charts may not add to 100% due to rounding. <sup>6</sup>Geographic allocation by country of listing. <sup>7</sup>Holdings are subject to change without notice. <sup>8</sup>MSCI classification if available.

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## Outlook

With economic data cooling but not yet in contraction territory, financial markets are increasingly in alignment with the US Federal Reserve's view on a more modest pace for interest rate cuts. The managers do not pick stocks based on economic forecasting. However, falling or stable rates have historically benefited IEM's growth style, while a soft landing or even a mild recession could open the door for better relative performance from small and mid-cap stocks.

This is particularly the case with companies which experienced temporary headwinds last year. In natural ingredients, results from dsm-firmenich and Corbion show destocking is coming to an end. Softer power prices are a more recent challenge for IPPs such as EDPR, but upward pressure from costs and interest rates continues to abate.

Finally, even after recent gains, the portfolio's valuation remains in line with its ten-year average. Last year's derating of small and mid-cap stocks has yet to correct, and the extent to which structural growth drivers of Environmental Markets have strengthened remains underappreciated. IEM itself trades at a further discount. As macro conditions become more favourable, and earnings momentum continues, the team is optimistic that IEM's share price will more fully reflect fundamentals.

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# Important information

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