

# Impax Environmental Markets plc

Monthly performance commentary: 31 July 2024

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## Portfolio managers



Jon Forster  
Portfolio Manager



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Portfolio Manager

## Market review

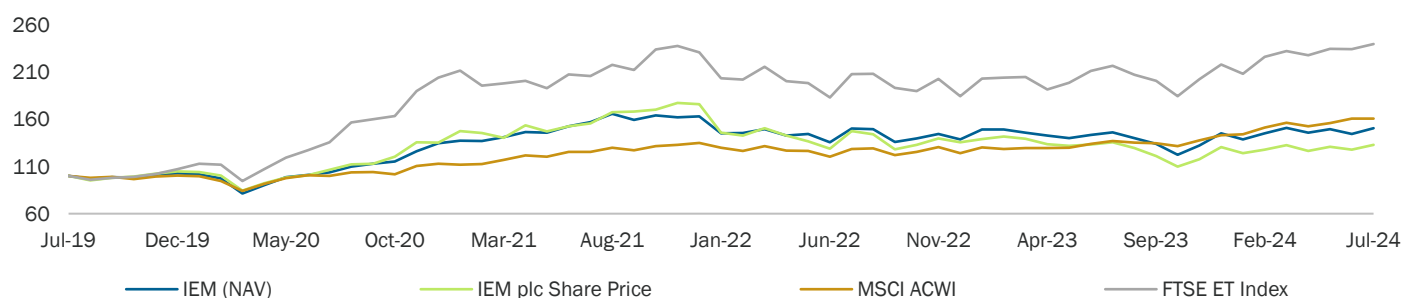
Global equities as measured by the MSCI All Country World Index (ACWI) were flat in July<sup>1</sup>. However, softer US inflation and labour market data boosted expectations of a September rate cut<sup>2</sup> provoking a sharp rotation in equity markets. Weaker than expected results in some mega-cap technology stocks furthered the shift. In political news, Joe Biden quit the US Presidential Election race, while France and the UK enjoyed some post-election relief.

July saw a sharp reversal in sector performance, as the strongest performers year-to-date, IT and Communication Services, fell sharply, with the Magnificent Seven<sup>3</sup> delivering significant negative returns. Conversely, more defensive Utilities and Real Estate, which benefit from lower interest rates, performed best. At a style level, mid and small-cap stocks rallied, whilst both momentum and growth weakened.

Politics featured heavily in Environmental Markets. In the UK, the Labour government took immediate action on its promise to scale up clean power deployment in the form of GB Energy<sup>4</sup>. Kamala Harris' candidacy is also seen as incrementally positive for environmental initiatives launched by Joe Biden<sup>5</sup>. Meanwhile, India's first budget under its new government signalled greater support for local solar, nuclear energy and a climate finance taxonomy<sup>6</sup>.

## Past performance does not predict future returns

5 year cumulative performance: Rebased to 100 at start



## Portfolio commentary

The Impax Environmental Markets PLC (IEM) portfolio's Net Asset Value (NAV) delivered a total return of 4.2% over the month. By comparison, global equity markets as measured by the MSCI ACWI returned 0.0%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned 2.4%.

In a clear break from a trend lasting over a year, IEM's mid and small cap exposure (80% of the portfolio<sup>7</sup>) made a significant positive contribution to performance. On top of shifting interest rate expectations, results from the likes of **Alphabet** and **Microsoft** raised questions about the timing and scale of shareholder returns from AI-related capex.

**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 July 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. <sup>1</sup>Bloomberg as at 31 July 2024 in GBP. <sup>2</sup>Traders see the odds of a Fed rate cut by September at 100% (cnbc.com). <sup>3</sup>Microsoft, Amazon, Meta, Apple, Nvidia, Alphabet, Tesla. <sup>4</sup>Introducing Great British Energy - GOV.UK (www.gov.uk). <sup>5</sup>Harris Vaults Past Trump As The Bookies' Favorite To Win Presidential Election (forbes.com). <sup>6</sup>Budget: Small nuclear reactors, solar rooftops for energy security |

<sup>1</sup> Latest News India - Hindustan Times. <sup>7</sup>As at 30 June 2024.



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Cont.

Not holding the Magnificent Seven thus lifted relative performance, with strong stock selection also leading the portfolio to outperform the MSCI ACWI Small and Mid-Cap indices.

The portfolio also benefited from the market's rotation into cheaper, more defensive Utilities. **American Water Works, Ormat Technologies** and **EDPR** boosted performance, with the latter aided by strong results. The Brazilian water utility **SABESP** made a similar positive contribution, although this was driven more by the company successfully completing the first phase of its privatisation.

At a stock specific level, Q2 company earnings have been broadly supportive. Even more encouragingly, the portfolio's bioprocessing and natural ingredients holdings are demonstrating an inflection point in terms of demand. **Repligen** – a maker of bioprocessing equipment – was able to reiterate its guidance while **DSM-Firmenich** – a flavours and fragrances company – raised its EBITDA<sup>8</sup> guidance following strong performance in its Beauty and Taste divisions.

Following weakness the previous month, July proved mixed for holdings with construction exposure. **Pentair** – a maker of water filtration equipment – posted results which notably beat weaker expectations set by **Pool Corp**, a not held distributor of swimming pool supplies. Conversely, weakness in **Aalberts'** Building Technologies division drove a sharp leg down in the stock. As such, the team continues to manage its aggregate exposure, taking profit in strong performers and ensuring holdings are balanced across new build, renovation and maintenance activity.

Weakness in the portfolio was limited. Among the handful of detractors were companies reporting underwhelming earnings. This was particularly the case for Industrial stocks which are now facing softer PMI<sup>9</sup> data but have already experienced prolonged destocking cycles. This includes, in Europe, companies like **LEM** and **Signify**, as well as **Shenzhen Innovance** in China.

Lastly, having generated significant positive performance over the past eighteen months, digital infrastructure holdings **PTC** and **Altair** gave back some of their gains in the market rotation. However, while these companies are likely beneficiaries of AI technology, their success is built on the growing penetration of software into industrial processes. Consequently, the move does not reflect a change to the investment case.

## Past performance does not predict future returns

Annualised returns (%)	3M	1Y	3Y	5Y	10Y	S <sup>10</sup>
IEM (NAV)	3.1	3.0	-1.4	8.5	11.6	7.6
IEM plc Share Price	5.2	-2.0	-5.1	5.9	11.7	7.1
MSCI ACWI	5.4	17.2	8.6	10.0	11.8	8.3
FTSE ET Index	5.2	10.6	5.2	19.2	15.2	8.0

Rolling 12m returns (%)	JUL-23 TO JUL-24	JUL-22 TO JUL-23	JUL-21 TO JUL-22	JUL-20 TO JUL-21	JUL-19 TO JUL-20	JUL-18 TO JUL-19	JUL-17 TO JUL-18	JUL-16 TO JUL-17	JUL-15 TO JUL-16	JUL-14 TO JUL-15
IEM (NAV)	3.0	-2.7	-4.4	51.6	3.7	9.2	8.8	21.6	30.4	5.3
IEM plc Share Price	-2.0	-8.0	-5.1	46.1	6.6	16.0	15.0	24.3	29.9	5.4
MSCI ACWI	17.2	6.8	2.3	25.7	0.0	10.3	11.5	17.9	17.0	11.3
FTSE ET Index	10.6	4.3	0.9	51.9	35.8	6.9	6.2	21.0	15.7	8.0

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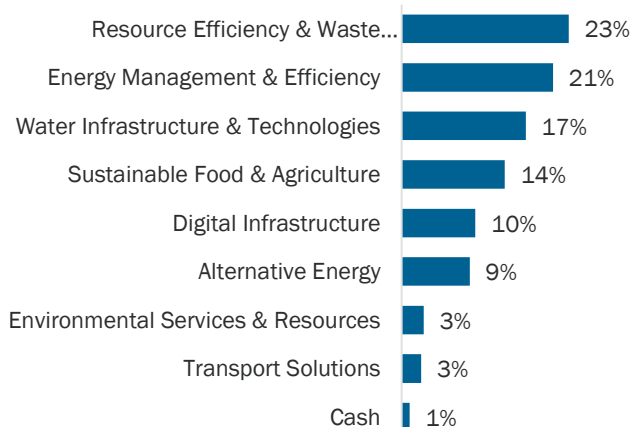
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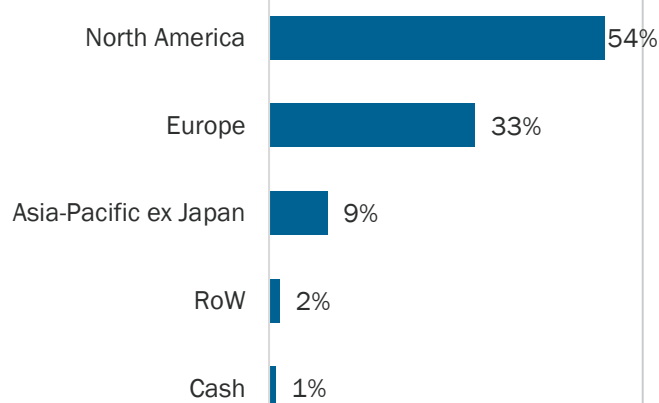
## Significant transactions

The portfolio managers exited their position in **Shimano** due to a less favourable risk-reward dynamic. Shares in the Japanese maker of bicycle components have rallied sharply, and medium-term upside is limited. At the same time, a product malfunction and allegations of forced labour at a company supplier has increased the team's perceived governance risk.

### Environmental markets exposure



### Geographical exposure<sup>11</sup>



Top 10 holdings <sup>12</sup>	Sub-sector	Country <sup>13</sup>	%
STERICYCLE INC	Hazardous Waste Management	United States	3.12
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	3.01
PENTAIR PLC	Water Distribution & Infrastructure	United States	2.94
PTC INC	Efficient IT	United States	2.74
REPLIGEN CORP	Resource Circularity & Efficiency	United States	2.53
AMERICAN WATER WORKS CO INC	Water Utilities	United States	2.48
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.46
PRYSMIAN SPA	Smart & Efficient Grids	Italy	2.37
SPIRAX GROUP PLC	Industrial Energy Efficiency	United Kingdom	2.33
STERIS PLC	Resource Circularity & Efficiency	United States	2.30
<b>TOTAL</b>			<b>26.28</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 31 July 2024. Charts may not add to 100% due to rounding. <sup>11</sup>Geographic allocation by country of listing. <sup>12</sup>Holdings are subject to change without notice. <sup>13</sup>MSCI classification if available.

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## Outlook

At the time of writing, equity markets are coming through a period of increased volatility. While a host of reasons were put forward by market commentators, investors are clearly increasingly conscious of several factors: The US economy is slowing; central banks have cut interest rates in the UK and Europe, with the US likely following soon; and strong equity returns have been limited to handful of increasingly expensive stocks.

However, this has been true for much of the year. As a result, recent market movements have not given the team cause to make significant portfolio changes. With an active share of over 99% and no mega-cap technology holdings, the portfolio is highly differentiated from global equity markets. Even after July's rotation, IEM's price to next-twelve months earnings premium relative to the MSCI ACWI remains below its ten-year average. This is despite the portfolio having stronger expected earnings growth<sup>14</sup>.

The coming months may see further volatility. Geopolitical issues remain on the horizon and – while a “soft landing” (cyclical slowdown in economic growth that avoids recession) for the US economy remains the consensus, getting there may prove a bumpy ride for equity markets. However, given IEM's valuation, earnings potential, and the prospect of further tailwinds for its smid-cap growth tilt, the team remains constructive. Particularly for a vehicle which continues to trade at a ~10% discount to net asset value.



# 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](http://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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