

# Impax Environmental Markets plc

Monthly performance commentary: 30 June 2024

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## Portfolio managers



Jon Forster  
Portfolio Manager



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Portfolio Manager



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## Market review

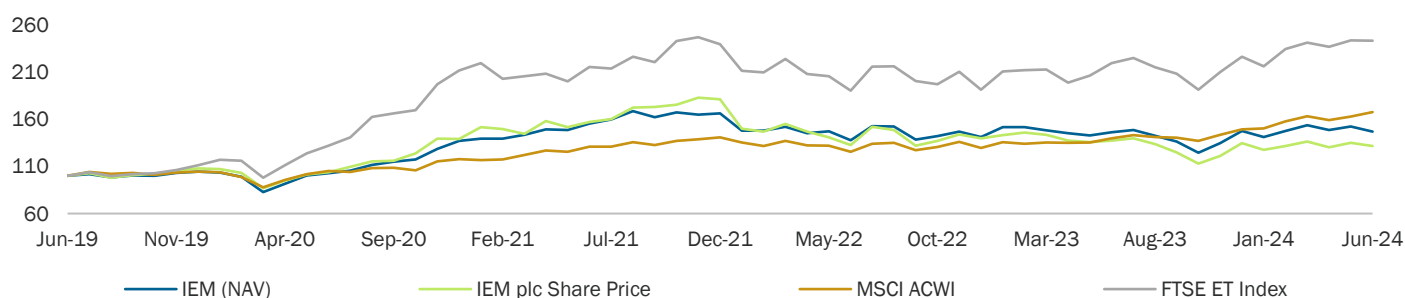
Global equities as measured by the MSCI All Country World Index (ACWI) made further gains in June. This was despite US non-farm payrolls and purchasing manager indices (PMIs) both beating expectations<sup>1</sup>, spurring inflationary fears. Indeed, the US Federal Reserve left interest rates unchanged, and confirmed its forecast of just one cut before year end<sup>2</sup>. In politics, President Biden's debate performance boosted Donald Trump's odds of winning<sup>3</sup>; while Emmanuel Macron announced a surprise parliamentary election in France<sup>4</sup>.

Almost all the market's strength this month came from Technology stocks, with AI the dominant theme. Chip designer **Nvidia** surpassed a 3 trillion USD market capitalisation, and **Apple** surged after announcing a partnership with Open AI<sup>5</sup>. Health Care stocks provided another bright spot. Utilities by contrast gave back some of their recent gains, while weakness in Materials and Industrials brought the sectors into negative territory for the quarter. Small and mid-cap stocks similarly retreated, further lagging large caps.

Environmental Markets saw several political changes. Gains by far-right parties in the European Parliament weakened sentiment in some sectors<sup>6</sup>, even though centrist parties retain a majority. The EU also announced provisional duties on Chinese EV imports, on top of a current 10% levy. These are specific to each manufacturer, and as such have limited impact on the Trust's holding in battery producer **CATL**. Ultimately the team's investment thesis is less reliant on politicians than the efficiency that Environmental Markets technologies can deliver.

## 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 -3.5% over the month. By comparison, global equity markets as measured by the MSCI ACWI returned 3.0%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned -0.2%.

IEM's exposure to mid and small caps (82% of the portfolio<sup>7</sup>) continues to be a significant source of weakness. Over the month, the MSCI ACWI Small and Mid-Cap indices underperformed the broader ACWI by 4.0% and 3.1%, respectively.

**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 30 June 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. <sup>1</sup>US Payroll Gains and Unemployment Rate Both Pick Up at Same Time – Bloomberg. <sup>2</sup><https://www.cnn.com/2024/06/12/fed-meeting-today-on-interest-rate.html>. <sup>3</sup><https://www.oddchecker.com/us/insight/specials/politics/20240628-2024-presidential-election-odds-donald-trump-now-sizeable-favorite-after-first-debate>. <sup>4</sup>In France, it's now only a matter of time before the far right takes power | Paul Taylor | The Guardian. <sup>5</sup><https://openai.com/index/openai-and-apple-announce-partnership/>. <sup>6</sup><https://www.ft.com/content/14a7de75-150d-4064-93c8-986819b1753e>. <sup>7</sup>As at 30 June 2024.



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Cont.

Even within large caps, performance is concentrated within a handful of Technology names that fall outside of Environmental Markets. Between them in June, **Nvidia** and **Apple** accounted for just under 1% of all ACWI returns<sup>8</sup>.

Within the portfolio, June saw a change in performance for stocks with construction exposure. The weakest of these were **Aalberts** – a water specialist, **Kingspan** – a producer of insulation, and **AZEK** – a manufacturer of wood plastic composite decking. In the US, there are signs higher interest rates may at last be impacting remodelling demand, while in Europe political uncertainty around French elections also weighed on sentiment. Aalberts also issued a trading update which was slightly below expectations. Yet fundamentals for individual stocks remain robust and the team has consistently taken profits in better performing stocks to manage aggregate exposure.

Bioprocessing stocks also drove a new leg down. While the sector has struggled with post-Covid destocking since last year, recent results and guidance have pushed out investor expectations for a recovery. **Cryoport** and **Repligen** both detracted from returns, with the latter announcing a change of CEO<sup>9</sup>. Although a surprise to the market, discussion with management showed it to be an orderly and planned transition.

Lastly, the portfolio's renewables holdings also detracted from returns. In solar, **SolarEdge** announced the departure of its CFO, a customer bankruptcy and a convertible debt issuance<sup>10</sup>. Investors are increasingly concerned that prolonged destocking issues could impact the balance sheet. However, at these levels, the team is comfortable holding a small position until a meaningful sales recovery. In wind, **Vestas** and **EDPR** both detracted from returns as the increasing likelihood of a Trump presidency weighed on sector sentiment.

On the positive side, M&A's contribution to performance is becoming a recurring theme. **Stericycle's** acquisition by **Waste Management**<sup>11</sup> (not held) continued to boost performance, with a further contribution from **Terna Energy**. The Greek renewables operator is being taken private by Masdar, an Abu Dhabi-based developer. The takeout price is almost double where the team initially started its position 4 years ago.

IEM's Digital Infrastructure holdings also continue to boost performance. **Monolithic Power Systems** delivered one of the strongest positive contributions, as the maker of power efficient semiconductors benefits from AI related data-centre spending. Other strong performers include **Altair**, **PTC** and **Descartes**, whose products can leverage AI to improve the performance of design, simulation and logistics planning respectively.

Finally, the portfolio saw strong performance from its holdings in Emerging Markets. **Advantech** – a supplier of industrial PCs and internet of things software – is benefiting from increased enthusiasm around the role AI can be play in manufacturing. **Dabur India** – a maker of natural personal care products – rallied following Narendra Modi's re-election, as well as news that growth in its core rural markets was improving<sup>12</sup>. Lastly, shares in **Coway** – a South Korean producer of household appliances – rallied after the market digested the previous month's results indicating improved performance in its core South Korean business and improving margins overall.

Past performance does not predict future returns

| Annualised returns (%) | 3M   | 1Y   | 3Y   | 5Y   | 10Y  | SI <sup>13</sup> |
|------------------------|------|------|------|------|------|------------------|
| IEM (NAV)              | -4.3 | 0.5  | -1.8 | 8.0  | 10.6 | 7.4              |
| IEM plc Share Price    | -3.6 | -4.3 | -5.7 | 5.6  | 10.7 | 6.9              |
| MSCI ACWI              | 2.8  | 20.1 | 8.6  | 10.9 | 11.8 | 8.3              |
| FTSE ET Index          | 0.8  | 10.8 | 4.1  | 19.5 | 14.4 | 7.9              |

| Rolling 12m returns (%) | JUN-23 TO JUN-22 TO JUN-21 TO JUN-20 TO JUN-19 TO JUN-18 TO JUN-17 TO JUN-16 TO JUN-15 TO JUN-14 TO |        |        |        |        |        |        |        |        |        |
|-------------------------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                         | JUN-24  | JUN-23 | JUN-22 | JUN-21 | JUN-20 | JUN-19 | JUN-18 | JUN-17 | JUN-16 | JUN-15 |
| IEM (NAV)               | 0.5   | 6.0    | -11.2  | 51.0   | 2.9    | 12.0   | 5.9    | 25.7   | 22.1   | 2.4    |
| IEM plc Share Price     | -4.3  | 3.4    | -15.4  | 51.4   | 3.8    | 16.9   | 14.4   | 28.7   | 17.1   | 4.5    |
| MSCI ACWI               | 20.1  | 11.3   | -4.2   | 24.6   | 5.2    | 9.7    | 8.9    | 22.2   | 13.3   | 9.5    |
| FTSE ET Index           | 10.8  | 15.4   | -11.7  | 63.4   | 32.0   | 5.6    | 3.6    | 28.6   | 5.4    | 6.6    |

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<sup>9</sup>[Repligen Announces CEO Transition Plan | Repligen \(q4ir.com\)](#). <sup>10</sup>[SolarEdge Stock Tumbles After Customer Bankruptcy. There's More Bad News. - Barron's \(barrons.com\)](#). <sup>11</sup>[Waste Management to Acquire Stericycle for \\$5.8 Billion - Bloomberg](#). <sup>12</sup>[Indian Stocks Lead Gains in Asia as Modi Ally Pledges Support - Bloomberg](#). <sup>13</sup>First full month since inception: March 2002.



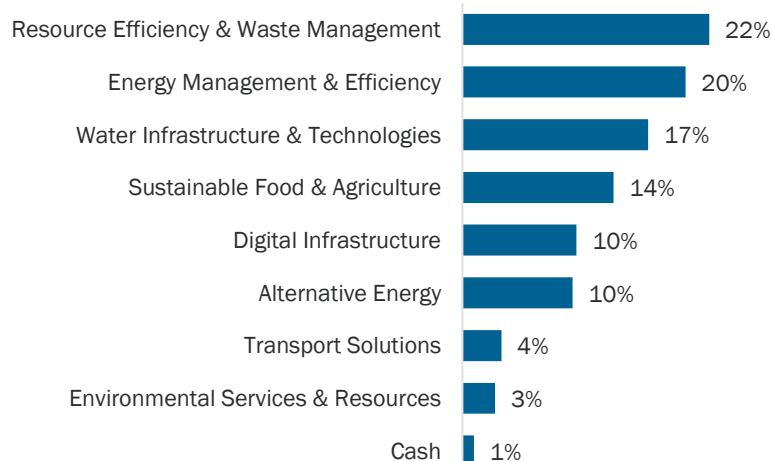
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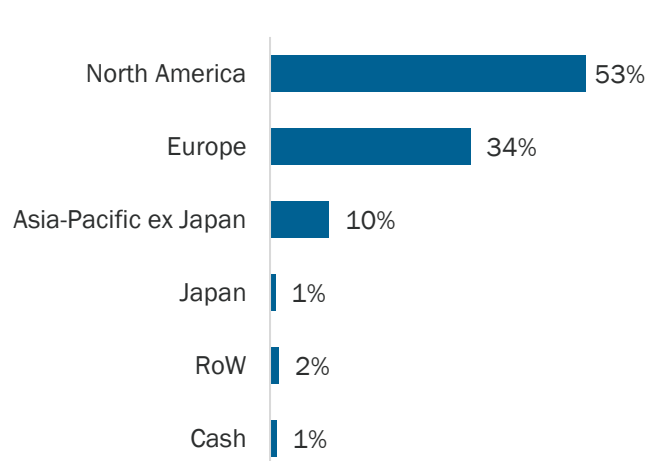
## Significant transactions

The team exited **Eurofins**, a measuring and testing company listed in France. Investments in health care, combined with reduced environmental testing business means that company revenues have fallen below Impax's 50% Environmental Markets threshold. IEM sold the position before short seller Muddy Waters' report sent the stock down 25%<sup>14</sup>.

### Environmental markets exposure



### Geographical exposure<sup>15</sup>



| Top 10 holdings <sup>16</sup> | Sub-sector                          | Country <sup>17</sup> | %            |
|-------------------------------|-------------------------------------|-----------------------|--------------|
| STERICYCLE INC                | Hazardous Waste Management          | United States         | 3.25         |
| PTC INC                       | Efficient IT                        | United States         | 2.94         |
| PENTAIR PLC                   | Water Distribution & Infrastructure | United States         | 2.87         |
| DSM-FIRMENICH AG              | Sustainable Agriculture             | Netherlands           | 2.80         |
| AALBERTS NV                   | Water Distribution & Infrastructure | Netherlands           | 2.49         |
| CLEAN HARBORS INC             | Hazardous Waste Management          | United States         | 2.44         |
| AMERICAN WATER WORKS CO INC   | Water Utilities                     | United States         | 2.36         |
| LITTELFUSE INC                | Industrial Energy Efficiency        | United States         | 2.30         |
| RAYONIER INC                  | Sustainable Forestry                | United States         | 2.26         |
| PRYSMIAN SPA                  | Smart & Efficient Grids             | Italy                 | 2.24         |
| <b>TOTAL</b>                  |                                     |                       | <b>25.95</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 30 June 2024. Charts may not add to 100% due to rounding. <sup>14</sup>Eurofins denies short seller Muddy Waters' allegations after share fall | Reuters. <sup>15</sup>Geographic allocation by country of listing. <sup>16</sup>Holdings are subject to change without notice. <sup>17</sup>MSCI classification if available.

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## Outlook

Equity markets are paying close attention to politics in the second half of 2024. The UK's Labour party has won its first election since 2005. The EU and France are grappling with the consequence of electoral gains by far-right parties. In the US, President Biden's candidacy is under question. While the team is alert to these developments and reviews exposure accordingly, the importance of short-term political events should not be overstated relative to technology, regulation and consumer demand, long-term drivers which continue to favour Environmental Markets.

In the meantime, the market now expects two rate cuts by the end of the year, even if long-term rate expectations have in fact risen to reflect a possible Trump victory<sup>18</sup>. Earnings growth within the portfolio remains above that of the broader market. Even in areas like solar and bioprocessing, where destocking headwinds have taken longer than expected to abate, conversations with management are pointing to more positive trends by the end of the year. In short, both the fundamentals and macro backdrop for IEM remain supportive.

Lastly, the portfolio's valuation premium relative to global equity markets has fallen to below its ten-year average<sup>19</sup>. Weakness in small and mid-cap companies has continued with the portfolio now trading at 20.3x forward PE multiple and a 16% premium to global equities vs 22% at the end of Q1<sup>20</sup>. This market divergence is driving up M&A activity within the portfolio and across Environmental Markets more broadly. IEM offers shareholders meaningfully diversified and differentiated exposure to the broader market in a vehicle which continues to trade at a discount to NAV. Given these potential catalysts, the team remains constructive on the near-term outlook.

**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. <sup>18</sup>The Trump trade (ft.com). <sup>19</sup>As measured by price to next twelve-month earnings ratios. <sup>20</sup>The P/E ratio is calculated by dividing the market value price per share by the company's earnings per share (EPS). A high P/E ratio can mean that a stock's price is high relative to earnings and possibly overvalued. A low P/E ratio might indicate that the current stock price is low relative to earnings. The P/E ratio above is forward looking (next twelve months) and based on earnings forecasts rather than actual reported earnings. P/E premium is the difference between the trust's P/E and the P/E of the MSCI ACWI.



# 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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