Impax Environmental Markets plc

Monthly performance commentary: 31 March 2024

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Market review

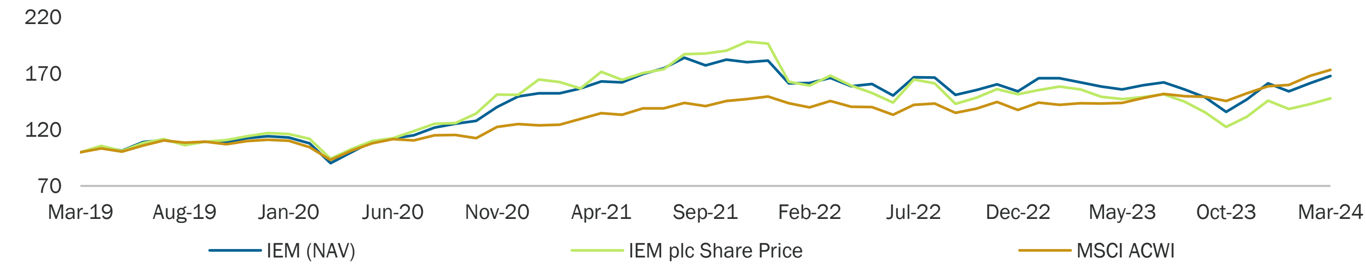
Global equities as measured by the MSCI All Country World Index (ACWI) continued their strong run. However, markets rotated with Value stocks and the more cyclical Energy and Materials sectors leading. The Bank of Japan also made headlines, ending eight years of negative interest rate policy by lifting short-term rates to 0.1%[1].

March's market rotation was driven by a combination of resilient economic data and higher oil prices, as rising demand coincided with increased geopolitical tensions. A rebound in solar equipment companies, as well as sustained semiconductor momentum, also lifted the IT sector. Consumer Discretionary stocks and more defensive Consumer Staples lagged[2].

Within Environmental Markets, the month saw a raft of initiatives on both sides of the Atlantic aimed at curbing emissions. In the US, these included new standards for heavy duty trucks and buses[3], $6 billion in financing to decarbonise industry[4] and tailpipe emissions rules aimed at expanding electric vehicle (EV) sales[5]. Closer to home, the EU passed its European Energy Performance and Buildings Directive (EPBD)[6], while the UK's National Grid proposed a £58 billion decarbonisation blueprint, adding 21GW of additional offshore wind beyond earlier plans[7].

Past performance does not predict future returns.

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, outperforming global equity markets as measured by the MSCI ACWI. NAV returns were also ahead of the FTSE ET100, a more concentrated index focused on Environmental Markets.

In March, equity markets retraced some of the steps taken year to date. Having priced in a more hawkish US Federal Reserve over the course of January and February, equity markets grew more sanguine at quarter end. Q1 results, rising oil prices and economic data supportive of a soft landing (cyclical slowdown in economic growth that avoids recession) all helped to lift the valuations of small and mid-caps, which account for the bulk of the portfolio.

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 31 March 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. [1]Japan raises interest rates for first time in 17 years - BBC News. [2]Bloomberg, as of March 31, 2024. [3]EPA sets strict emissions standards for heavy-duty trucks and buses in bid to fight climate change | AP News. [4]Energy Dept. Awards $6 Billion to Cut Carbon from Industry - The New York Times (nytimes.com). [5]Biden Administration Announces New Tailpipe Rules Aimed to Expand EVs - The New York Times (nytimes.com). [6]Energy efficiency of buildings: MEPs adopt plans to decarbonise the sector | News | European Parliament (europa.eu). [7]ESO publishes "Beyond 2030" – a £58bn investment plan in the future of Britain's energy system | ESO (nationalgrideso.com).

Cont.

A similar change in sentiment drove up shares in **Xinyi Solar**, the month's largest positive contributor. The Chinese maker of solar panel glass reported results which beat market expectations both in terms of sales and margins, while also pointing to improving supply/demand dynamics. The Trust's other solar holding, **SolarEdge**, rallied following statements from US Treasury Secretary Janet Yellen supporting domestic players.

By contrast, shares in the natural ingredients companies **Corbion** and **dsm-firmenich** extended their newfound run of performance. Earnings indicate inventory destocking in key consumer and healthcare markets is easing, with profitability rising as a result. Positive customer demand and pricing also underpinned strength in both **Graphic Packaging,** an integrated producer of consumer packaging and **Brambles**, a pallet and logistics operator.

The portfolio's Water Infrastructure and Technologies holdings meanwhile continue to build on last year's strong returns. Top contributors for the month included **Pentair**, **Aalberts** and **Norma**. All three are benefiting from robust construction demand, improving industrial activity and better pricing. Despite having trimmed some positions to manage aggregate construction exposure, valuations and growth prospects mean the sector still holds some of the team's highest conviction positions.

Negative returns in the month were limited, with weakness largely driven by profit taking in the broader market. Notable detractors here included **Rayonier**, a sustainable forestry Real Estate Investment Trust (REIT), **Monolithic Power Systems** – a producer of power semiconductors – and **Stericycle** – a waste disposal specialist. All three stocks had rallied strongly after results, with investors selling shares thereafter despite no incremental company news.

Nevertheless, some headwinds do persist. Inventory destocking remains a challenge for both **LEM,** a producer of specialist electrical components and **Nibe**, which makes heat pumps. In each case the team's long-term investment case remains intact but increasing the positions would require a clear sign that destocking is coming to an end.

Lastly, the portfolio's holdings in independent power producers (IPPs) **EDPR** and **Northland Power** continued to detract from performance. Power prices have fallen rapidly on account of a warm winter, ample gas supply, and soft European industrial demand. Despite modest exposure to power prices as dictated by the current market, both companies are predicting a temporary albeit meaningful impact on earnings.

Paper and packaging producer **Mondi** is a holding which, whilst not a significant performance driver, did make headlines. The company has been in merger talks with peer **DS Smith** since February, citing an opportunity to integrate supply chains and manufacturing locations. March saw US rival **International Paper** make a £5 billion counterbid[8]. At the time of writing talks are ongoing, but analyst consensus is that Mondi should be able to drive higher cost efficiencies than IP.

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Annualised returns (%)	3M	1Y	3Y	5Y	10Y	SI[9]
IEM (NAV)	4.0	3.5	2.3	10.9	11.1	7.7
IEM plc Share Price	1.4	-5.0	-1.9	8.2	11.1	7.2
MSCI ACWI	9.2	20.6	10.1	11.6	11.7	8.3

Rolling 12m returns (%)	MAR-23 TO MAR-24	MAR-22 TO MAR-23	MAR-21 TO MAR-22	MAR-20 TO MAR-21	MAR-19 TO MAR-20	MAR-18 TO MAR-19	MAR-17 TO MAR-18	MAR-16 TO MAR-17	MAR-15 TO MAR-16	MAR-14 TO MAR-15
IEM (NAV)	3.5	-2.4	5.9	73.7	-9.7	7.6	5.0	33.8	7.3	5.3
IEM plc Share Price	-5.0	-7.4	7.3	66.2	-5.7	15.0	11.9	33.0	7.3	5.5
MSCI ACWI	20.6	-1.4	12.4	38.9	-6.7	10.5	2.4	32.2	-1.2	18.4

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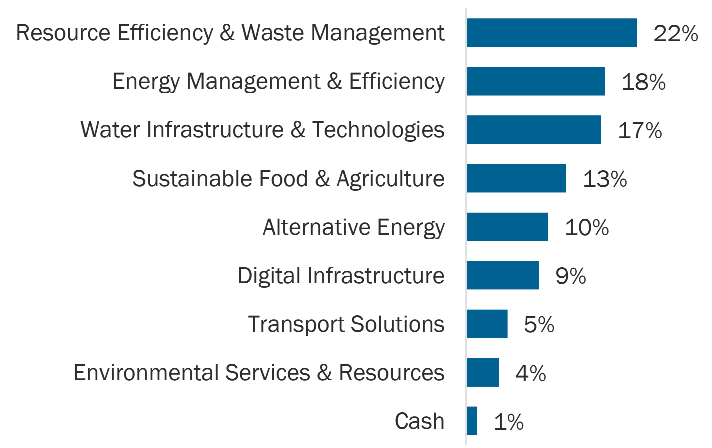
Significant transactions

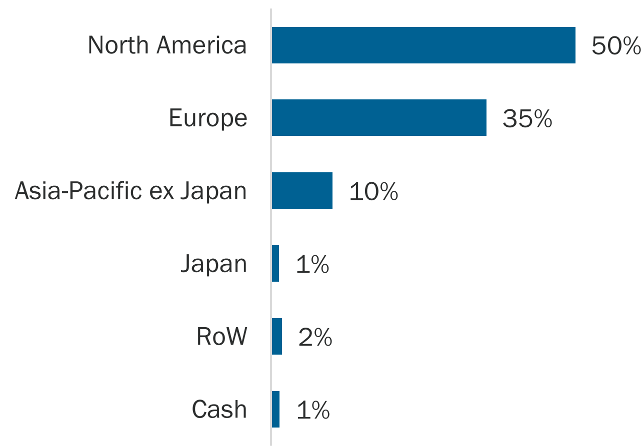
The team bought **CATL** a Chinese producer of batteries for EVs and static storage. The company is a global market share leader[10] thanks to a history of technological innovation across battery chemistries and competitive pricing. A temporary slowdown in EV sales growth has weighed on the shares, creating an attractive entry point.

The team exited its positions in **Indraprastha Gas** (IPG), an Indian provider of natural gas and **Dialight**, a maker of energy efficient lighting for a range of industrial end markets. Regulatory changes are increasingly pushing for electrification of IPG's key transportation end-market, fundamentally changing the investment thesis. Similarly, poor operational performance has weakened the Dialight investment case, with the managers reallocating the position to higher conviction opportunities.

Environmental markets exposure



Geographical exposure[11]



Top 10 holdings[12]	Sub-sector	Country[13]	%
PENTAIR PLC	Water Distribution & Infrastructure	United States	3.00
AALBERTS NV	Water Distribution & Infrastructure	Netherlands	2.87
STERICYCLE INC	Hazardous Waste Management	United States	2.76
PTC INC	Efficient IT	United States	2.66
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.53
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	2.49
SPIRAX-SARCO ENGINEERING PLC	Industrial Energy Efficiency	United Kingdom	2.12
LITTELFUSE INC	Industrial Energy Efficiency	United States	2.05
GRAPHIC PACKAGING HOLDING CO	Food Safety & Packaging	United States	2.04
BRAMBLES LTD	Resource Circularity & Efficiency	Australia	2.01
TOTAL			**24.53**

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 March 2024. Charts may not add to 100% due to rounding. [10]CATL tops global EV battery market for the seven consecutive year. [11]Geographic allocation by country of listing. [12]By weight. Holdings are subject to change without notice. [13]MSCI classification if available.

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Outlook

Since January 1, financial markets and the US Federal Reserve have become increasingly aligned on interest rates. Most investors still expect cuts, but these are now expected to be be fewer and later in the year. Whilst a sustained move higher in energy prices could prove inflationary, softer albeit resilient economic data continue to support a more accommodative monetary policy stance. This has typically benefited IEM's small and mid-cap style.

Within the portfolio, Q1 earnings season was characterised by companies beating market expectations and raising earnings guidance. Destocking headwinds are now abating in high conviction sectors like natural ingredients and bioprocessing, at the same time as industrial activity picks up. Where stocks continue to face more idiosyncratic issues, valuations remain depressed relative to history despite no change to our long-term investment thesis.

Finally, the portfolio's premium relative to global equity markets is below its ten-year average. Small and mid-cap stocks continue to trade at a discount to large cap peers, and many Environmental Markets investments are at valuations well below their peaks, despite stronger growth drivers. In addition, IEM plc trades at a discount to NAV. Given these potential catalysts, the team remains constructive on the near-term outlook.

There is no guarantee that any forecasts made will come to pass.

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.

Important information

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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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