# Impax Environmental Markets plc

## Monthly performance commentary: 31 May 2024

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### Portfolio managers

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### Market review

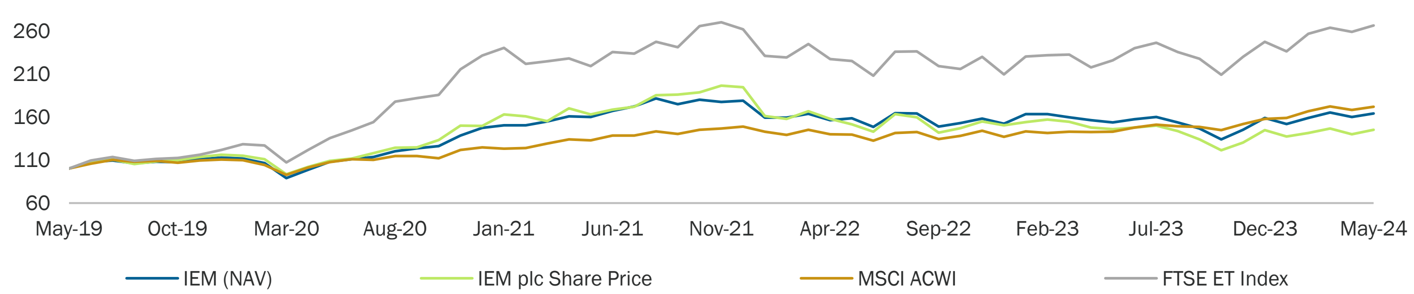
Global equity markets rallied in May. Moderating US inflation and a downward revision to US GDP data, driven by weaker consumer data, both boosted market expectations of a Federal Reserve (Fed) interest rate cut. In Asia, China's government announced further stimulus measures, with manufacturing data also showing signs of stability.

Most sectors delivered positive returns, supported by a robust earnings season, although mid-caps notably underperformed both their large and small-cap counterparts. Technology stocks performed strongest, led by the AI chip designer Nvidia. However, Utilities also fared well as a combination of depressed valuations coincided with earnings reports that cited rising energy demand and better pricing. Energy stocks pulled back, driven by weaker oil prices.

In Environmental Markets, the Biden Administration announced tariffs on 18bn USD of imports from China, specifically targeting low-carbon technologies including solar cells, electric vehicles (EVs) and lithium-ion batteries[1]. However, many of these overlap with existing measures and where they do not, sufficient delay has been incorporated into their implementation for companies to make alternative supply arrangements. As a result, the investment thesis and positioning for IEM's holdings remains largely unchanged.

**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 2.5% over the month. By comparison, global equity markets as measured by the MSCI ACWI returned 2.3%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned 3.0%.

Once again, the portfolio's largest positive contribution came from a stock involved in M&A. Having been one of April's largest detractors, shares in **Stericycle** jumped on news that **Waste Management**, a competitor, was acquiring the business. The bid has since been confirmed for a total value of 7.2bn USD[2], representing a ~38% premium to the stock price before the news emerged.

**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 31 May 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. [1]FACT SHEET: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade Practices | The White House. [2]https://investors.stericycle.com/news-releases/news-release-details/wm-acquire-stericycle-leader-medical-waste-services-72-billion.

# Impax Environmental Markets plc

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**Past performance does not predict future returns.**

Cont.

Earnings reports also continue to drive performance. Encouragingly, the past quarter has seen more positive than negative surprises, with the former well received by the market. The waste management company **Clean Harbors** and manufacturer of electrical cables and fibre optics **Prysmian** both reported robust results. A consistent outperformer since its addition in October last year, Prysmian is delivering higher margins across the entire business, with its Power Grids division helping to drive a beat on EBITDA[3] and narrow guidance to the upper end of its range.

Independent Power Producers (IPPs) reversed some of their year-to-date losses, making substantial positive contributions. Increased M&A activity has helped lift valuations across the sector, as the market seems to be acknowledging a mismatch between privately and publicly held assets. With most mega-cap technology companies committed to reaching net zero, renewable energy providers are also benefiting from artificial intelligence's soaring electricity demand. The likes of **Ormat, EDPR** and **Northland Power** also provided stock specific catalysts, with the likes of EDPR focussing their mid-term plan on a smaller number of higher returning projects[4].

Similarly, stronger end-market demand was a recurring theme for several of the portfolio's other positive contributors. **Littelfuse, Graphic Packaging** and **Generac** produce circuit-breakers, consumer packaging and stand-by power systems, respectively. Generac reported a recovery in residential sales, which has helped lift margins. Meteorologists are also forecasting an above average storm season for North America, which has historically supported sales[5]. By contrast, Graphic and Littelfuse continue to face some destocking challenges, but incipient recovery in key divisions is encouraging investors to look through any remaining weakness.

Weakness in the portfolio largely came from companies which failed to provide a clear and positive picture of the coming months. After weak results from bioprocessing bellwether **Sartorious** (not held) in April, numbers from **Repligen** and **Cryoport** also led to underperformance. However, both companies remain well positioned longer-term in their respective of niches consumables and temperature control, while the bio-pharmaceutical industry is starting to see signs of improvement including more clinical trial activity, new drug approvals, and increased funding.

The portfolio also saw some stocks weaken follow news of the aforementioned US tariffs, including **Xinyi Solar, SolarEdge** and **CATL**. However, in the team's view the new tariffs will have little impact on these companies' financials. In solar, existing measures already preclude significant Chinese exports to the US. CATL may be more impacted through its static storage business and relationship with Tesla (not held) but here, growth in the US was specifically omitted from our base case scenario.

**Past performance does not predict future returns**

| Annualised returns (%) | 3M | 1Y | 3Y | 5Y | 10Y | SI[6] |
|---|---|---|---|---|---|---|
| IEM (NAV) | 3.1 | 6.8 | 0.8 | 10.4 | 11.1 | 7.6 |
| IEM plc Share Price | 2.6 | -0.6 | -3.8 | 7.7 | 11.4 | 7.1 |
| MSCI ACWI | 3.1 | 20.3 | 9.1 | 11.5 | 11.4 | 8.2 |
| FTSE ET Index | 3.9 | 18.1 | 6.8 | 21.7 | 14.6 | 8.0 |

| Rolling 12m returns (%) | MAY-23 TO MAY-24 | MAY-22 TO MAY-23 | MAY-21 TO MAY-22 | MAY-20 TO MAY-21 | MAY-19 TO MAY-20 | MAY-18 TO MAY-19 | MAY-17 TO MAY-18 | MAY-16 TO MAY-17 | MAY-15 TO MAY-16 | MAY-14 TO MAY-15 |
|---|---|---|---|---|---|---|---|---|---|---|
| IEM (NAV) | 6.8 | -3.0 | -0.9 | 48.0 | 8.0 | 2.3 | 8.2 | 36.3 | 6.2 | 9.2 |
| IEM plc Share Price | -0.6 | -3.6 | -7.1 | 49.7 | 8.8 | 7.7 | 16.7 | 38.9 | 4.2 | 11.4 |
| MSCI ACWI | 20.3 | 2.6 | 5.1 | 23.4 | 7.5 | 4.2 | 8.5 | 32.5 | -0.8 | 15.5 |
| FTSE ET Index | 18.1 | 0.3 | 2.7 | 61.6 | 35.5 | -3.7 | 5.4 | 34.2 | -5.4 | 14.3 |

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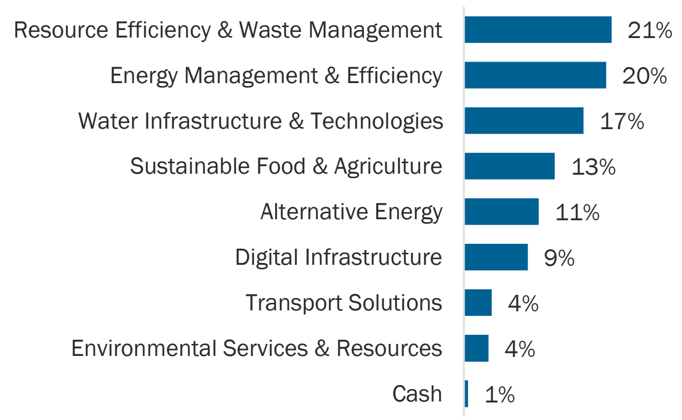
# Impax Environmental Markets plc

**Monthly performance commentary: 31 May 2024**

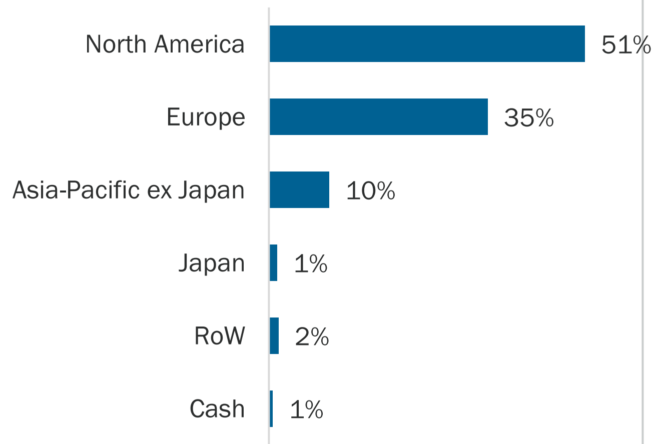
## Significant transactions

The team initiated a position in Cognex, a US-listed company specializing in machine vision systems. Cognex's products play a critical role in factory automation, improving energy efficiency and reducing waste. Ageing workforces, industrial reshoring and corporate efficiency all provide long-term structural growth drivers, at the same time as Cognex continues to find new applications for its technology.

### Environmental markets exposure




### Geographical exposure[7]




| Top 10 holdings[8] | Sub-sector | Country[9] | % |
|---|---|---|---|
| PENTAIR PLC | Water Distribution & Infrastructure | United States | 2.94 |
| AALBERTS NV | Water Distribution & Infrastructure | Netherlands | 2.80 |
| STERICYCLE INC | Hazardous Waste Management | United States | 2.78 |
| DSM-FIRMENICH AG | Sustainable Agriculture | Netherlands | 2.59 |
| PTC INC | Efficient IT | United States | 2.56 |
| CLEAN HARBORS INC | Hazardous Waste Management | United States | 2.37 |
| PRYSMIAN SPA | Smart & Efficient Grids | Italy | 2.28 |
| ORMAT TECHNOLOGIES INC | Renewable Energy Developers & IPPs | United States | 2.12 |
| EDP RENOVAVEIS SA | Renewable Energy Developers & IPPs | Portugal | 2.09 |
| AMERICAN WATER WORKS CO INC | Water Utilities | United States | 2.08 |
| **TOTAL** | | | **24.61** |

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

## Outlook

US economic data increasingly indicates that some consumers are feeling the effects of sustained inflation and higher rates. Yet global manufacturing PMIs have shifted back into expansionary territory. The market thus continues to price for a fall in interest rates, even as expectations have shifted from six to one cut[10]. While IEM's positioning is not determined by macro views, the backdrop remains supportive for its mid and small-cap growth style.

Within the portfolio, delivered earnings growth continues to be robust. Destocking remains a temporary overhang for some companies with exposure to bioprocessing, solar energy and some industrial niches. However, signs of improvement in sectors like natural ingredients and IPPs are encouraging investors to look through these inflection points. This greater earnings visibility is boosting conviction and being reflected in position sizing.

Finally, the portfolio's valuation premium relative to global equity markets remains below its ten-year average[11]. 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. [10]Bloomberg as at 31 May 2024. [11]As measured by price to next twelve-month earnings ratios.

# 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**

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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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