Impax Environmental Markets plc

Monthly performance commentary: 30 November 2024

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Market review

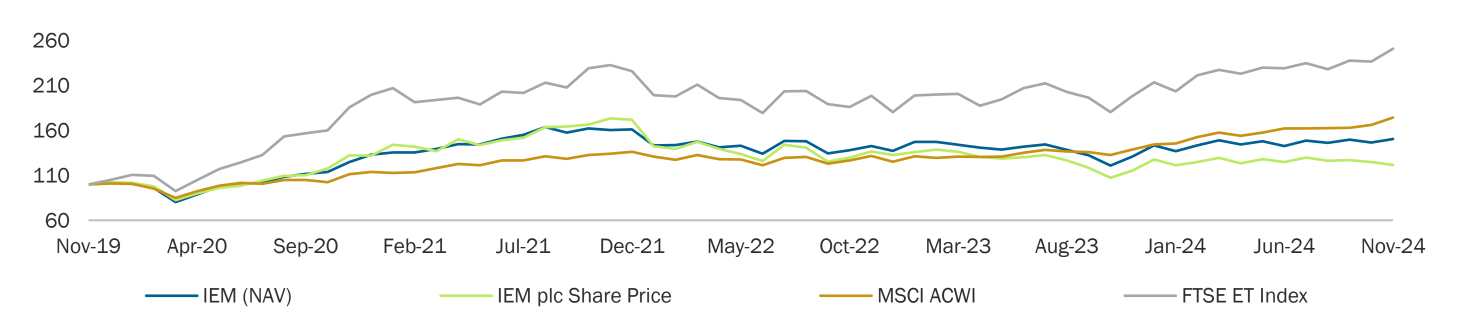
Global equities, as measured by the MSCI All Country World Index (ACWI), delivered positive returns in November. Donald Trump's clean sweep in the US elections commanded much of the market's attention. The US Federal Reserve (Fed) made no direct comment on the result, but stronger-than-expected growth and jobs numbers prompted the central bank to suggest further rate cuts may be more gradual[1]. Separately, Israel and Lebanon announced a 60-day ceasefire.

The US election prompted a shift across markets. Anticipating tax cuts, looser corporate regulation and tariffs, the 10-year Treasury yield peaked at 4.5%. Similarly, the more cyclical Consumer Discretionary, Financials and Energy sectors outperformed, as did small-caps. By contrast, defensive sectors such as Health Care and Utilities pulled back.

Across Environmental Markets, news was mixed. November saw Swedish battery maker Northvolt (not held) file for Chapter 11 bankruptcy[2]. A potential European rival to China's **CATL** (held), the loss-making company failed to scale production. In Germany, Chancellor Olaf Scholz said car companies should not be fined for failing to comply with upcoming EU emissions targets[3]. Against this, data from the Clean Investment Monitor suggest that investors allocated $71bn into clean energy and transport in Q3 of this year[4]. While a Trump presidency may bring some uncertainty for the space, it is clear that for some investors the long-term appeal remains.

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 2.7% over the month. By comparison, the MSCI ACWI returned 4.9%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned 6.1%.

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 30 November 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. [1]https://on.ft.com/3OWMagB. [2]Battery start-up Northvolt files for bankruptcy protection in US. [3]Germany's Scholz: disagree with EU fines for carmakers who miss CO2 limits | Reuters. [4]US clean energy thrown into uncertainty ahead of Trump 2.0.

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Cont.

Donald Trump's re-election – while not an ideal outcome for Environmental Markets – is far from universally negative. Positive November performance reflects improving sentiment across small-caps, which are typically more domestically oriented and likely to benefit from pro-growth and/or tariff policies. Corporate earnings, which may also see a boost from tax cuts, similarly continued to lift NAV returns.

The portfolio's lag relative to the ACWI is mostly attributable to sector allocation. IEM holds no Financials and these gained on the expectation of increased M&A activity and higher for longer interest rates. IEM's underweight allocation to the US, despite the strong performance of holdings therein, also detracted from returns.

Within the portfolio, weakness mostly came from three key areas: natural ingredients, renewables, and weak cyclicals. In Natural Ingredients, results from **Croda** and **Corbion** demonstrated improving end demand and margins. As with **DSM-Firmenich**, a downward move in the shares appears to be a case of profit-taking.

Companies with renewables exposure pulled back across the board on election day, an issue further compounded by results from **Vestas**. While the maker of wind turbines reported rising revenues, margins fell below expectations after a second adjustment from its services division. With lingering questions about margin profile and management quality, the team exited the position as part of their broader renewables repositioning – see *Significant Transactions*.

The portfolio also continues to see weakness in some holdings with cyclical end markets. Results from **LEM Holding** – a producer of transducers – and **Kingspan** – an insulation specialist - both disappointed investors, with limited clarity in their respective outlooks. However, **DiscoverIE**, a maker of specialised industrial components also detracted, but has since rallied sharply on the back of strong numbers, demonstrating the recovery potential for these holdings when market dynamics change.

Indeed, on the positive side of the ledger, several companies reported results showcasing the value of a turnaround. November's top contributor **Trimble** – a producer of geolocation software and equipment – had been weak until a strategic update earlier in the year. Successive upgrades to earnings guidance, including this month, have lifted the shares. Likewise, reports from **Repligen** – a maker of bioprocessing equipment – and **Spirax Group** – an industrial heat specialist, which highlighted improving end demand, were well received by the market.

Results were also a feature of IEM's other positive contributors for the month. Many of these have been consistent performers over the year, including the likes of **Clean Harbors** – an industrial waste specialist – and **Generac** – a provider of standby power. Having spoken to the managements of both US-listed companies in recent weeks, the companies serve as examples of business models within IEM's portfolio where structural demand growth will likely be entirely unaffected by a change in government.

Past performance does not predict future returns

Annualised returns (%)	3M	1Y	3Y	5Y	10Y	SI[5]
IEM (NAV)	3.1	15.1	-2.1	8.5	11.3	7.5
IEM plc Share Price	-3.7	5.7	-11.1	4.0	10.6	6.7
MSCI ACWI	7.3	25.6	9.1	11.8	11.6	8.5
FTSE ET Index	10.1	26.6	2.5	20.2	15.5	8.2

Rolling 12m returns (%)	NOV-23 TO NOV-24	NOV-22 TO NOV-23	NOV-21 TO NOV-22	NOV-20 TO NOV-21	NOV-19 TO NOV-20	NOV-18 TO NOV-19	NOV-17 TO NOV-18	NOV-16 TO NOV-17	NOV-15 TO NOV-16	NOV-14 TO NOV-15
IEM (NAV)	15.1	-8.4	-10.9	28.4	24.8	18.1	-1.6	18.2	34.9	4.6
IEM plc Share Price	5.7	-15.7	-21.3	31.0	32.4	20.0	7.0	22.8	36.6	4.5
MSCI ACWI	25.6	5.4	-1.8	20.4	11.4	12.1	5.1	15.0	24.9	1.4
FTSE ET Index	26.6	-0.1	-14.8	25.3	85.7	15.0	-2.8	23.2	19.8	1.8

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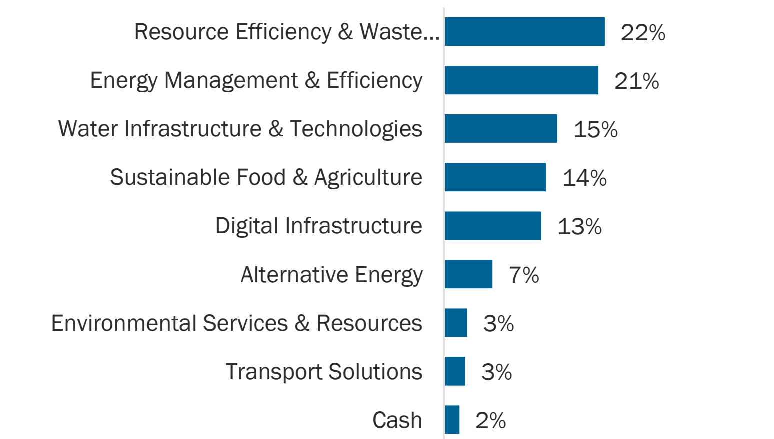
Significant transactions

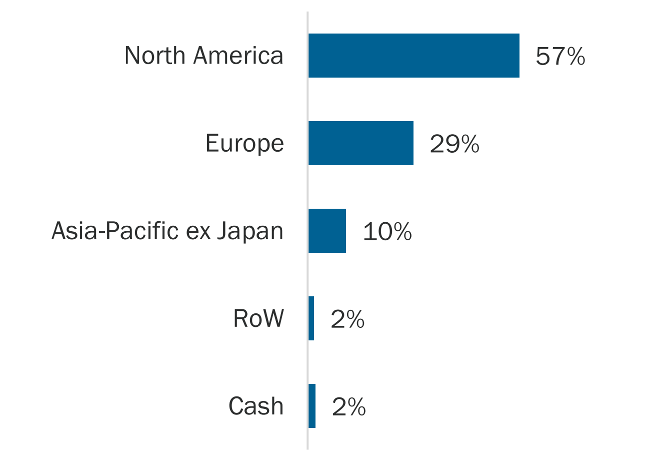
The team made several transactions in November. The first group consisted of selling lower conviction renewables to consolidate positions in independent power producers (IPPS). Within IEM the latter trade on low valuations relative to history and have limited reliance on the US for growth. Thus, the team sold **Vestas** and **Xinyi Solar** (a maker of solar glass) to initiate a position in **Boralex**, a Canadian-listed IPP with assets in Canada, France and the Northeastern US. Shares pulled back in the wake of Donald Trump's election, despite the US accounting for a relatively small amount of its 6.4GW pipeline[6].

The second group of transactions involved selling the water meter company **Badger Meter** to initiate a position in **Xylem**, a provider of water infrastructure. Badger Meter has been held in the IEM portfolio for over two decades, delivering consistently strong contributions to performance. However, its valuation had reached a point where the team saw little further upside. By contrast, shares in Xylem weakened sharply after its Q3 results, trading at ~40% below its peak multiple set in 2021. This created an entry point for the team in a company which continues to expect stable revenue growth and robust cash flows.

Environmental markets exposure



Geographical exposure[7]



Top 10 holdings[8]	Sub-sector	Country[9]	%
PTC INC	Efficient IT	United States	3.17
TRIMBLE INC	Efficient IT	United States	2.79
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.75
BRAMBLES LTD	Resource Circularity & Efficiency	Australia	2.48
REPLIGEN CORP	Resource Circularity & Efficiency	United States	2.45
RAYONIER INC	Sustainable Forestry	United States	2.43
AALBERTS NV	Water Distribution & Infrastructure	Netherlands	2.31
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	2.29
DESCARTES SYSTEMS GRP/THE	Efficient IT	Canada	2.28
GENERAC HOLDINGS INC	Power Storage & UPS	United States	2.22
TOTAL			**25.17**

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 November 2024. Charts may not add to 100% due to rounding. [6]Boralex, Q3 Company Results. [7]Geographic allocation by country of listing. [8]Holdings are subject to change without notice. [9]MSCI classification if available.

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Outlook

Many of the headwinds which IEM has faced in recent years are starting to turn. Interest rates have peaked, and look set to continue falling, albeit slowly. Inventories are normalising after lengthy destocking, as results from IEM's Natural Ingredients and Bioprocessing holdings show. Even market breadth is tentatively improving, whether through waning enthusiasm for mega-cap Technology, or increased momentum around hitherto unloved areas of the sector or market-cap spectrum.

Some issues persist. Global growth, particularly across Industrials and Europe remains anaemic. China's economic engine in particular has yet to reignite after COVID. Within Environmental Markets, higher living costs continue to spur a pushback against measures that require investment upfront, despite longer-term paybacks. Across this, geopolitical tensions present a source of volatility and, in the case of the Middle East and oil supplies, potential inflation.

The portfolio's current positioning weighs these factors in the balance. Holdings are diversified, both globally and in terms of sectors, and the Trust represents a highly differentiated proposition from the MSCI ACWI. The structural trends underpinning investment cases are broadly resilient to changes of government, even in the US. Moreover, IEM's earnings growth reflects this, with delivery consistently higher than that of the broader market. With valuations still at historically low levels (and compounded by the Trust's discount to NAV), the team remains cautiously optimistic.

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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Impax Environmental Markets Plc (the “Fund”) is incorporated in England and Wales under the Companies Act 1985 with registered number 4348393 and registered as an investment company. The Fund is classified as an Alternative Investment Fund under Directive 2011/61/EU as onshored into the domestic body of UK legislation (“UK AIMFD”), and in respect of which Impax acts as the Alternative Investment Fund Manager (the “AIFM”).

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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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