Impax Environmental Markets plc

Monthly performance commentary: 31 October 2024

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Portfolio managers

Jon Forster
Portfolio Manager

Fotis Chatzimichalakis
Portfolio Manager

Bruce Jenkyn-Jones
Portfolio Manager

Market review

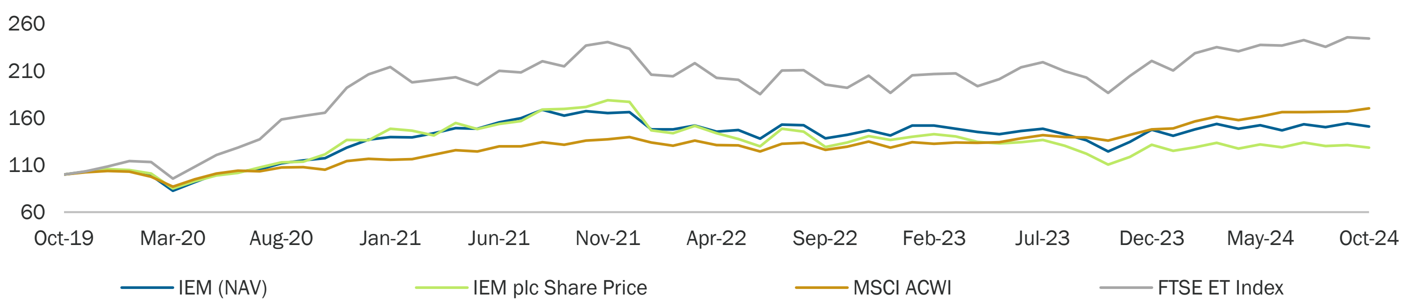
After a flat month, global equities as measured by the MSCI All Country World Index (ACWI) moved up again in October. However, investors grew less optimistic about the prospect of cuts to US interest rates following a CPI reading of 2.4%[1], as well as strong US jobs and retail data. Earnings season remained strong, although with fewer positive surprises across equity markets than in recent quarters, momentum may be fading[2].

Investors' shifting stance on rates prompted a reversal in the market narrative. As such, Communication Services and IT stocks were some of the strongest performers, with the Magnificent Seven[3] - seen as defensive growth stocks - once again outperforming. By contrast, Health Care and Real Estate stocks gave back some of their gains, as did small and mid-caps.

In Environmental Markets, several headlines spoke to the continuing tug of war around government initiatives. The French government presented an austerity finance bill including a €1.9 billion cut to green investments[4]. Likewise, the European Commission proposed delaying the implementation of its flagship Regulation on Deforestation by 12 months[5]. The German government by contrast proposed implementing state guarantees for wind energy production[6]. These dynamics speak to the team's preference for companies with clear routes to profitability in their own right.

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 -2.1% over the month. By comparison, the MSCI ACWI returned 2.0%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned -0.5%.

The portfolio's sector exposure accounted for a significant chunk of IEM's relative lag to global markets. Not holding mega-cap Technology stocks, as well as Financials made for notable headwinds, with the latter boosted by large interest rate sensitive banks. Within the portfolio, overweight allocations to Materials and Utilities also detracted from performance.

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 October 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. [1]Consumer Price Index. Source Bloomberg as at 31 October 2024. [2]Factset, as at 31 October 2024. [3]Microsoft Alphabet Nvidia Apple Meta Amazon, Tesla. [4]French government announces more than €5B in additional spending cuts – POLITICO. [5]European Commission proposes to postpone EUDR implementation to December 2025 - Fastmarkets. [6]Germany moves to strengthen domestic wind power industry | Reuters.

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Cont.

At a stock level, earnings updates provided some of the main catalysts. **Monolithic Power Systems**, a producer of thermally efficient power semiconductors, has been a strong performer since it was added to the portfolio. Yet concerns about the durability of growth in data centres prompted a sharp pullback, despite results which beat expectations and saw management raise forward guidance.

Higher bond yields prompted a retreat in Independent Power Producers (IPPs) such as **Northland Power,** as well as related stock **Vestas**, a wind turbine manufacturer. This was further exacerbated by lacklustre results from **EDPR**. The Portuguese IPP reported largely in line numbers but provided less optimistic commentary around earnings for 2025.

Natural Ingredients companies, which have been strong performers this year, saw some profit-taking. This was partly prompted by **DSM-Firmenich**, which beat expectations and raised forward guidance. Yet with these already anticipated by investors, and DSM striking a more cautious tone struck on organic revenue growth, peers **Novonesis** and **Croda** also pulled back.

Results were equally influential for the portfolio's stronger performers. The direction of travel for interest rates has become more salient for construction-exposed stocks. However, **Herc Holdings** – an equipment rental company, and **Pentair** – a water filtration specialist, both reported robust results, pointing to continued strong demand in the medium-term.

Herc is notably benefiting from spending across megaprojects and has played an active role in responding to recent hurricanes. Strong demand due to weather exacerbated by climate change also helped **Generac** – a supplier of generators, which also reported strong results.

The portfolio's digital infrastructure holdings proved another area of strength. These included **Altair** and **PTC**, IEM's computer-assisted design and simulation holdings, as well as **Descartes**, a logistics software company. Where shares in PTC rose in expectation of results, Altair announced a takeover offer from **Siemens** (not held), at a c.18% premium to the undisturbed share price[7]. This makes it the third takeover in IEM's portfolio this year, reflecting the combination of long-term appeal and attractive valuations across Environmental Markets.

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Annualised returns (%)	3M	1Y	3Y	5Y	10Y	SI[8]
IEM (NAV)	-1.4	21.3	-3.3	8.6	11.2	7.4
IEM plc Share Price	-4.0	16.3	-9.2	5.2	11.1	6.8
MSCI ACWI	2.5	25.3	7.8	11.2	11.5	8.3
FTSE ET Index	0.8	31.1	1.1	19.6	15.1	7.9

Rolling 12m returns (%)	OCT-23 TO OCT-24	OCT-22 TO OCT-23	OCT-21 TO OCT-22	OCT-20 TO OCT-21	OCT-19 TO OCT-20	OCT-18 TO OCT-19	OCT-17 TO OCT-18	OCT-16 TO OCT-17	OCT-15 TO OCT-16	OCT-14 TO OCT-15
IEM (NAV)	21.3	-12.4	-14.9	42.6	17.3	17.3	-3.5	15.0	41.6	3.9
IEM plc Share Price	16.3	-17.4	-22.0	41.6	21.2	20.5	5.3	17.5	41.8	5.3
MSCI ACWI	25.3	4.8	-4.7	29.5	5.0	11.2	3.4	13.3	29.1	3.6
FTSE ET Index	31.1	-3.0	-18.9	43.2	65.4	13.4	-6.8	22.4	27.5	1.5

Significant transactions

The team sold its position in **Stericycle** and used the proceeds to buy shares in **nVent Electric**. Stericycle is a market-leading medical waste disposal company. Sector peer Waste Management (not held) announced a takeover in June and the shares traded close to the offer price.

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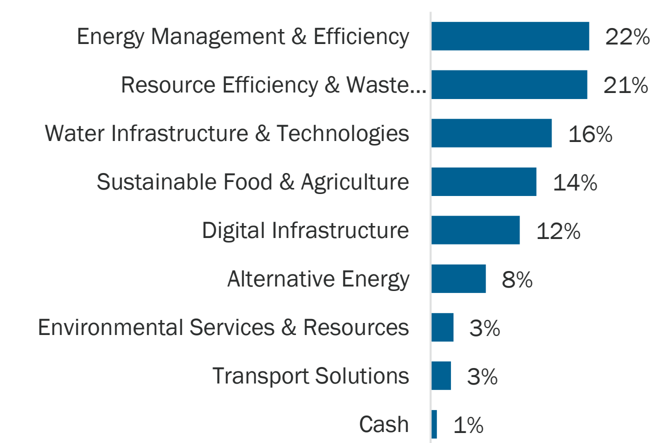
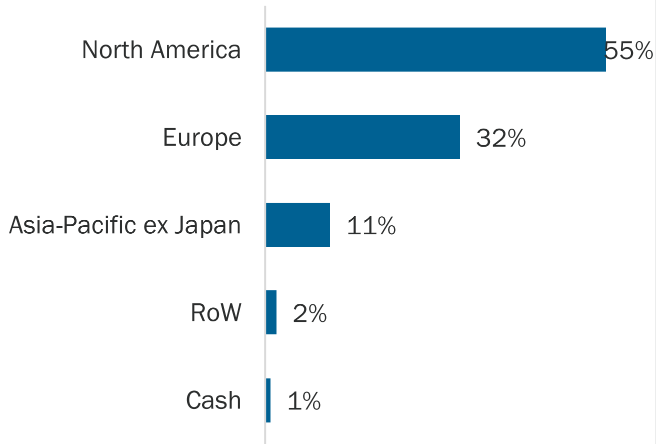
nVent is a provider of electrical products and solutions. Following the disposal of its Thermal Management business, the company is split 60/40 between two divisions: Enclosures, and Electrical & Fastening Solutions. The former provides storage and cooling products for data centres, where the latter connects electrical components in buildings. With strong market leadership across several niche segments, nVent has a track record of delivering c.20% EBITDA margins since its listing in 2018 . The shares traded at a P/E multiple 20% below peers and in line with broader industrials, which the team viewed as an entry opportunity.

Environmental markets exposure



Geographical exposure[9]



Top 10 holdings[10]	Sub-sector	Country[11]	%
PTC INC	Efficient IT	United States	2.97
PENTAIR PLC	Water Distribution & Infrastructure	United States	2.86
STERIS PLC	Resource Circularity & Efficiency	United States	2.54
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	2.50
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.48
BRAMBLES LTD	Resource Circularity & Efficiency	Australia	2.43
RAYONIER INC	Sustainable Forestry	United States	2.41
TRIMBLE INC	Efficient IT	United States	2.34
AALBERTS NV	Water Distribution & Infrastructure	Netherlands	2.19
LITTELFUSE INC	Industrial Energy Efficiency	United States	2.18
TOTAL			**24.90**

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 October 2024. Charts may not add to 100% due to rounding. [9]Geographic allocation by country of listing. [10]Holdings are subject to change without notice. [11]MSCI classification if available.

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Outlook

At the time of writing, Donald Trump's victory in the US election continues to percolate through financial markets. Sharp moves upward partly reflect an end to election uncertainty, as well as optimism about tax cuts and deregulation. In Environmental Markets, the former President's stance on issues like climate change is weighing on areas like Alternative Energy.

However, many stocks had already derated in the run-up to yesterday's election, with lower PE multiples both anticipating the result and reflecting macro factors such as higher interest rates. Having explored potential scenarios ahead of today, the team's base case remains that while wholesale repeal of initiatives like the IRA remains unlikely given broad-based support, higher tariffs and some investment pushback will be on the new administration's agenda.

To this end, the team are taking a sector-specific approach to reviewing portfolio positions. Where downward moves look overdone, there are now potential buying opportunities. In other areas where near-term visibility is reduced, the team is ensuring that long-term investment case fundamentals remain intact. As long-term investors, it is imperative to avoid knee-jerk reactions given the durability of structural trends.

It is also worth reiterating two key points: IEM performed strongly during the last Trump presidency, partly due to tax cuts, but also increased investment in infrastructure. Secondly, IEM's opportunity set goes well beyond Renewables. Presently, they make up less than 8% of the portfolio, of which the lion's share is in Independent Power Producers which typically have more stable business models. The breadth of Impax's taxonomy spans a wide range of sectors, from Health Care to Technology, with a shared emphasis on operational efficiency. Combined with IEM's bottom-up approach and focus on profitable, growing businesses, the PMs continue to have a broad opportunity set of potential investments.

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.

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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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