

Impax Environmental Markets plc

Monthly performance commentary: 30 September 2024

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Portfolio managers



Jon Forster
Portfolio Manager



Fotis Chatzimichalakis
Portfolio Manager



Bruce Jenkyn-Jones
Portfolio Manager

Market review

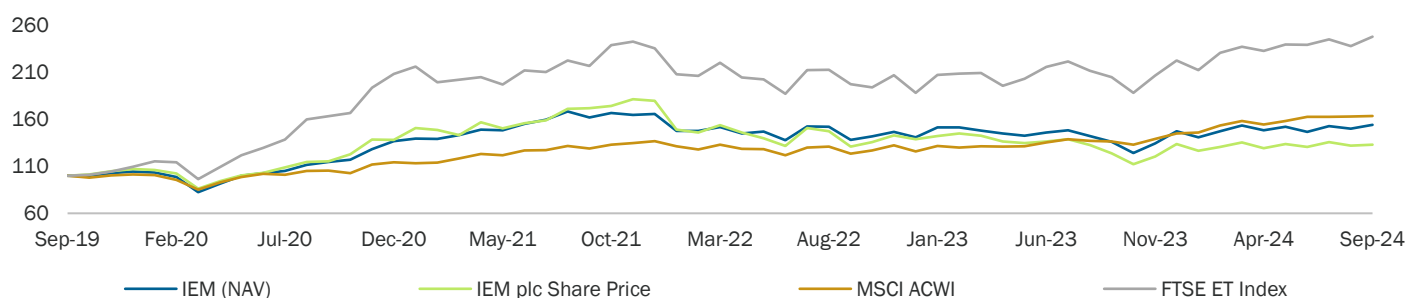
Global equities, as measured by the MSCI All Country World Index (MSCI ACWI) were flat in September. The US Federal Reserve (Fed) made its long-awaited cut to interest rates. While the half – rather than quarter – point cut took some by surprise, the Fed focused on moderating inflation, not weaker growth¹. In China, fiscal and monetary stimulus prompted a significant rally². Combined, these offset concerns that Iran's direct attack on Israel would prompt a full-scale war.

At a sector level, the market's rotation into more defensive and cheaper areas changed course. While Utilities continued to gain ground, greater economic optimism saw Consumer Discretionary stocks make the biggest gains. Communication Services and the Magnificent Seven³ also outperformed. By contrast, more defensive Health Care stocks were some of the weakest, second only to the Energy sector.

In Environmental Markets, governments and companies continued to highlight their support for renewable energy. In Europe, Mario Draghi's report on European competitiveness emphasised decarbonisation as core to growth, while the German government proposed tax incentives to stimulate electric vehicle demand⁴. In the US, Microsoft signed a deal to reopen the Three Mile Island nuclear plant due to surging power demand from AI and datacentres. While the team views nuclear as an inevitable part of the energy mix, current issues around waste preclude an investment.

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 2.6% over the month. By comparison, the MSCI ACWI returned 0.3%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned 4.2%.

The portfolio's outperformance of the MSCI ACWI reflects a combination of strong stock selection and its style tilt. Utilities, Industrials and Materials, to which the portfolio is overweight, all outperformed, as did mid-caps (51% of the portfolio⁵). However, even within weaker performing areas like IT and Health Care, the team's differentiated positioning drove sector-beating returns.

Chinese stocks delivered some of the largest positive contributions thanks to the government stimulus plan. IEM's direct exposure to China is through three companies: **Shenzhen Inovance** – a producer of electric motors, **CATL** – a battery manufacturer, and **Xinyi Solar** – a maker of solar glass.

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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 September 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. ¹Fed cuts rates by a half point at September 2024 meeting (cnbc.com). ²China unveils raft of stimulus measures to boost flagging economy - BBC News. ³Microsoft, Amazon, Meta, Apple, Nvidia, Alphabet, Tesla. ⁴German government

¹ agrees proposals for tax relief on EVs | Reuters. ⁵As at 30 September 2024.



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Cont.

With the stimulus largely targeted at consumers, the team is reviewing position sizes to see where sharp rallies may present opportunities to take profit; or in a subsequent pullback, a chance to increase positions.

Portfolio stocks with more defensive characteristics also outperformed. Within Utilities, independent power producers **Northland Power** and **EDPR** rallied on the back of lower interest rates and recovering power prices in Europe. **Rayonier**, a real estate investment trust focused on sustainable timber – also gained. Similarly, the strong performance of **Brambles**, a pallet and logistics company, was due to management highlighting operational improvements which have reduced the cyclical nature of the business.

The combination of lower rates and a more sanguine economic outlook similarly boosted shares in companies with construction exposure. These include **Pentair** – a water filtration specialist, **Kingspan** – a producer of building insulation, and **Azek** – a maker of sustainable decking. Pentair also delivered better than expected results, indicating margin improvement opportunities into the remainder of 2024 and beyond.

Negative contributors in the portfolio were limited. Shares in **Darling Ingredients** weakened due to continued uncertainty surrounding the extent and timing of renewable fuels policy in the US. At the same time, companies are ramping up new biofuel production capacity, raising questions about future margins. While Low Carbon Fuel Standard credit prices are recovering and management are striking a confident tone, investor sentiment remains weak.

Industrial automation stocks provided another source of weakness. **Advantech** is a Taiwanese producer of industrial computing solutions while **DiscoverIE** is a UK-listed manufacturer of specialised components. Both companies reported earnings which pointed to ongoing destocking across key end markets, particularly Europe. However, their strong positions in the value chain and robust margins mean both companies are well positioned for a recovery.

Past performance does not predict future returns

Annualised returns (%)	3M	1Y	3Y	5Y	10Y	SI ⁶
IEM (NAV)	5.0	13.2	-1.7	9.0	11.7	7.6
IEM plc Share Price	1.9	7.3	-8.2	5.8	11.5	6.9
MSCI ACWI	0.5	19.9	8.3	10.3	11.5	8.3
FTSE ET Index	3.7	21.0	4.6	19.9	15.4	8.0

Rolling 12m returns (%)	SEP-23 TO SEP- 24	SEP-22 TO SEP- 23	SEP-21 TO SEP- 22	SEP-20 TO SEP- 21	SEP-19 TO SEP- 20	SEP-18 TO SEP- 19	SEP-17 TO SEP- 18	SEP-16 TO SEP- 17	SEP-15 TO SEP- 16	SEP-14 TO SEP- 15
IEM (NAV)	13.2	-1.5	-14.8	41.3	14.5	8.3	7.1	15.2	46.3	0.4
IEM plc Share Price	7.3	-5.4	-23.8	49.1	15.1	10.2	19.4	15.8	45.5	0.5
MSCI ACWI	19.9	10.5	-4.2	22.2	5.3	7.3	12.9	14.9	30.6	-0.1
FTSE ET Index	21.0	3.8	-9.0	32.6	63.2	5.7	3.3	19.6	31.1	-1.5

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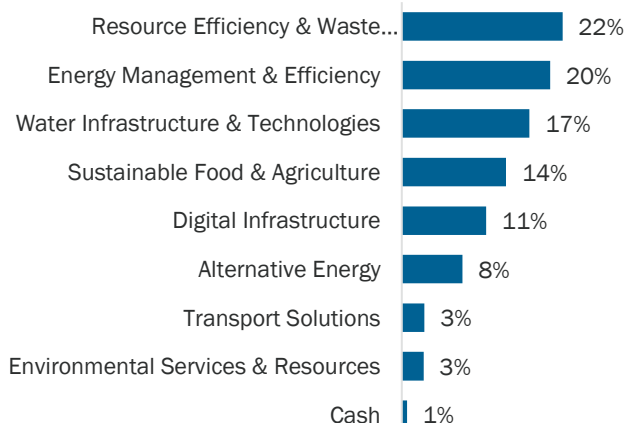
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Significant transactions

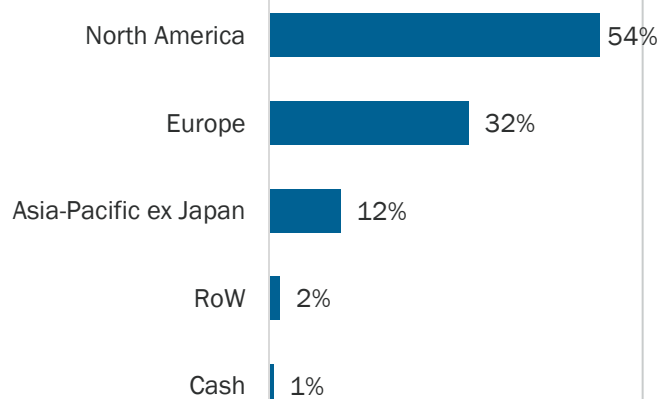
There were two transactions over the month. **Waste Connections** is a US-based solid waste disposal and recycling company that has also moved into renewable natural gas. By targeting markets where it enjoys exclusivity or minimal competition, Waste Connections benefits from high route density, low capex needs and long-lasting contracts. The company targets a defensive growth model through a combination of pricing and asset acquisition. As a result, the stock trades at justified premium to peers.

The team also exited its holding in **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, reflecting attractive valuations currently available across Environmental Markets.

Environmental markets exposure



Geographical exposure⁷



Top 10 holdings ⁸	Sub-sector	Country ⁹	%
PENTAIR PLC	Water Distribution & Infrastructure	United States	3.16
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	2.70
PTC INC	Efficient IT	United States	2.69
BRAMBLES LTD	Resource Circularity & Efficiency	Australia	2.48
AMERICAN WATER WORKS CO INC	Water Utilities	United States	2.46
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.40
RAYONIER INC	Sustainable Forestry	United States	2.30
AALBERTS NV	Water Distribution & Infrastructure	Netherlands	2.29
STERIS PLC	Resource Circularity & Efficiency	United States	2.26
TRIMBLE INC	Efficient IT	United States	2.23
TOTAL			24.97

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 September 2024. Charts may not add to 100% due to rounding. ⁷Geographic allocation by country of listing. ⁸Holdings are subject to change without notice. ⁹MSCI classification if available.

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Outlook

Recent stronger performance is testament to a number of factors which the team has pointed to in previous outlooks. These remain firmly in place as we head into the final months of the year.

The current macroeconomic backdrop is supportive for the strategy's size and style bias. In the absence of a material recession, falling rates have historically benefitted both mid and small-caps, as well as growth stocks. At the same time, holdings across Environmental Markets continue to benefit from more supportive policy, secular growth drivers in areas like digital infrastructure and energy efficiency, as well as the post-COVID recovery in industrial supply chains.

Tailwinds notwithstanding, the portfolio trades at a forward price to earnings multiple and relative premium to the MSCI ACWI which are both in line with long-term averages. IEM's shares also continue to trade at a discount to NAV. This is despite a richer sector mix (more healthcare and technology) than the past, as well as a track record of superior earnings delivery. With an active share greater than 99% and no allocation to mega-cap technology stocks, the portfolio also provides a meaningfully differentiated exposure to global equity markets.

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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 AIFMD"), and in respect of which Impax acts as the Alternative Investment Fund Manager (the "AIFM").

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There is no guarantee that any forecasts made will come to pass. There is no guarantee that the investment objective will be achieved or that return expectations will be met. This document contains forward looking information which is subject to inherent uncertainties and qualifications and is based on numerous assumptions, in each case whether or not identified herein. Forward looking information is provided for illustrative purposes only and is not intended to serve as and must not be relied upon by any investor as, a guarantee, an assurance, a prediction or a definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and may differ from assumptions. Undue reliance should not be placed on such forward-looking statements and information.

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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