Impax Environmental Markets plc

Monthly performance commentary: 28 February 2025

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Portfolio managers

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Market review

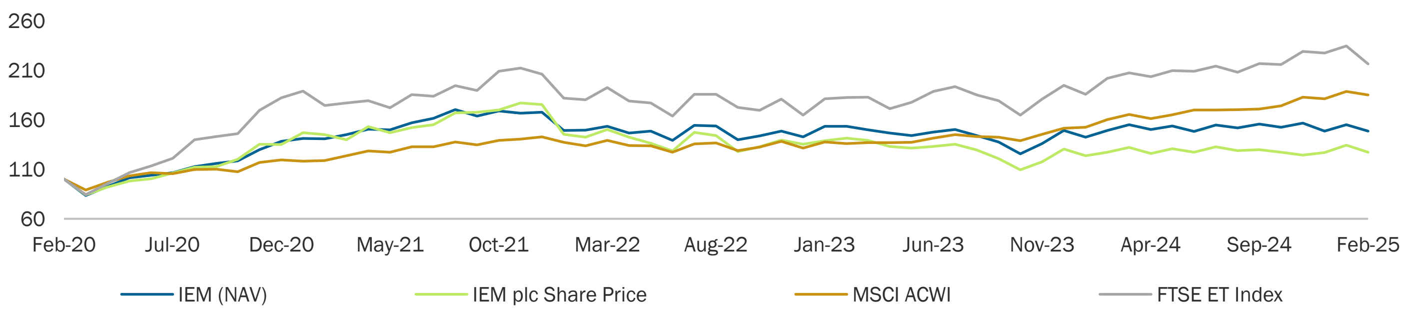
Global equities as measured by the MSCI All Country World Index (ACWI) pulled back in February. The month produced several data points suggesting US economic weakness: January inflation data was above expectations,[1] PMI surveys showed stalling business growth,[2] and consumer sentiment weakened.[3] In geopolitics, President Trump pushed for a compromise with Russia to end its war in Ukraine,[4] while also announcing tariffs on Canada, Mexico and China.[5] In Germany, national elections returned a centre left coalition, despite significant gains for the far right AfD.[6]

Equity markets took on a defensive tone in response. Consumer Staples delivered the biggest positive return, followed by Real Estate. By contrast, Consumer Discretionary and Industrials stocks weakened. IT and Communication Services stocks also pulled back, as results from the Magnificent Seven[7] pointed to sustained capex but slower EPS growth. In a distinct reversal of trends, Europe and Value outperformed the US and Growth.

In Environmental Markets, one of the biggest stories was **BP**'s (not held) decision to abandon its pledge to reduce oil and gas output. The oil and gas major made some of the industry's largest commitments under previous CEO Bernard Looney and is now facing pressure to focus on its core business.[8] However, the month also saw more takeovers in the renewables sector, with **National Grid** (not held) announcing the sale of its onshore business to Brookfield[9] and Canadian pension fund CDPQ announcing the takeover of **Innergex** (not held) at an 80% premium[10]. These deals show the continued appetite for independent power producers, a focus area for IEM, when weak sentiment is compressing valuations.

Past performance does not predict future returns

5-year cumulative performance: Rebased to 100 at start



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 28 February 2025. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. [1]January Inflation Rate Higher Than Expected: What This Means for the Markets | J.P. Morgan. [2]PMI – purchasing manager indices. US services sector cools in January; price pressures abate | Reuters. [3]US Consumer Confidence Dropped Sharply in February. [4]US expects mineral deal with Ukraine to be signed this week | Reuters. [5]Trudeau says US wants to collapse Canada's economy with tariffs - BBC News. [6]Germany's CDU and SPD to start coalition talks Friday – POLITICO. [7]Microsoft, Amazon, Meta, Apple, Nvidia, Alphabet, Tesla. [8]BP faces fresh pressure from Elliott to ditch renewable projects. [9]Sale of National Grid Renewables | National Grid Group. [10] Innergex Agrees to be Acquired by CDPQ.

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Portfolio commentary

The Impax Environmental Markets plc (IEM) portfolio's Net Asset Value (NAV) delivered a total return of- 4.1% over the month. By comparison, the MSCI ACWI returned -1.9%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned -7.7%.

At a sector level, the portfolio continued to benefit from not owning mega-cap Tech stocks, which retreated. IEM's Utilities also lifted returns, reflecting the market's rotation to more defensive stocks, and a drop in US 10-year treasury yields. This was partially offset by a pullback in mid and small-caps, which account for c.80% of the portfolio.

In addition to strong performance from Utilities stocks, several portfolio companies boosted returns after robust earnings updates. In Industrials, building insulation specialist **Kingspan** delivered full year results ahead of expectations, with strong margin delivery and a return to growth in the second half of the year for key divisions. Logistics company **Brambles** showed a similar focus on execution, upgrading full year free cash flow guidance by nearly 10%.

Shares in **Shenzhen Inovance**, a Chinese industrial automation specialist also outperformed the MSCI ACWI. Chinese equity markets have done well year to date thanks to attractive starting valuations, the prospect of government stimulus and a resurgence in the country's Technology sector. In January, the company also reported a 20% rise in its December automation orders, attributing this recovering end markets and market share gains.

Earnings also drove performance on the other side of the ledger. Updates from **PTC** (industrial design software), **Aaon** (HVAC specialist) and **Prysmian** (electrical cable producer) all sent shares down sharply. While the stocks span a broad range of businesses and end markets, all three provided guidance that failed to reassure investors with an eye on an uncertain future. Aaon also reported soft results for the prior quarter, with temporary volume weakness driven by a poorly managed refrigerant transition.

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Annualised returns (%)	3M	1Y	3Y	5Y	10Y	SI[11]
IEM (NAV)	-5.1	-0.3	-0.2	8.3	10.5	7.2
IEM plc Share Price	2.5	0.0	-3.6	5.0	10.7	6.7
MSCI ACWI	1.2	15.6	11.5	13.1	11.4	8.5
FTSE ET Index	-5.4	7.3	6.3	16.7	14.3	7.8

Rolling 12m returns (%)	FEB-24 TO FEB-25	FEB-23 TO FEB-24	FEB-22 TO FEB-23	FEB-21 TO FEB-22	FEB-20 TO FEB-21	FEB-19 TO FEB-20	FEB-18 TO FEB-19	FEB-17 TO FEB-18	FEB-16 TO FEB-17	FEB-15 TO FEB-16
IEM (NAV)	-0.3	-2.7	2.6	6.1	41.0	11.4	2.1	7.6	43.5	3.8
IEM plc Share Price	0.0	-10.0	-0.6	-1.9	45.2	15.5	10.1	14.7	41.6	5.2
MSCI ACWI	15.6	17.9	1.7	12.3	19.0	8.2	2.7	7.3	36.7	-2.8
FTSE ET Index	7.3	10.7	1.1	3.3	74.7	23.7	-0.8	12.6	32.6	-4.0

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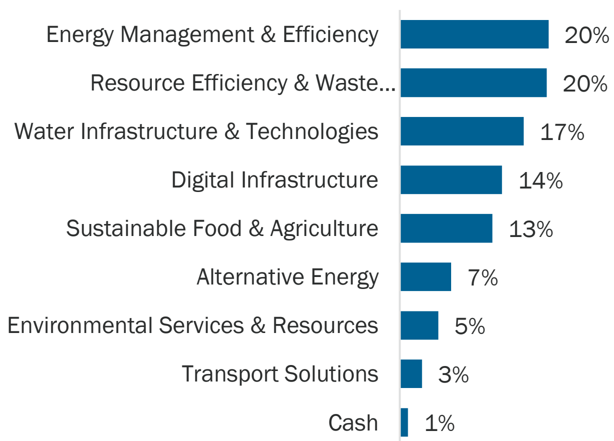
Significant transactions

The portfolio managers exited two stocks and used the proceeds to initiate two new positions.

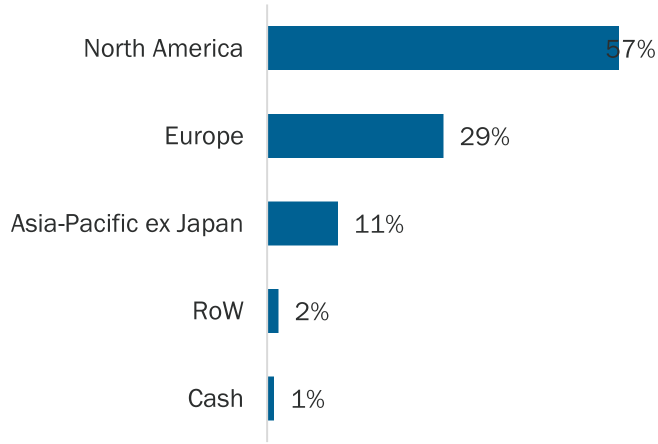
News that the machinery rental company **Herc Holdings** had signed a deal to buy its peer **H&E** (not held) prompted a review of the investment case. While the strategic rationale to increase scale appears sound, higher leverage, execution risk and scepticism around synergy realisation prompted an exit.[12] The proceeds were switched into **Ashtead**, a competitor which has a strong specialty business and traded at an historically attractive valuation notwithstanding a low point in the construction cycle.

The managers also added **Aaon**, a leading supplier of custom designed high efficiency HVAC solutions for commercial property. The company also has additional and meaningful exposure to data centre cooling markets. This was partly funded by the exit of **Steris**, a provider of infection prevention services, following disappointing results and a subsequent weakening in conviction.

Environmental markets exposure



Geographical exposure[13]



Top 10 holdings[14]	Sub-sector	Country[15]	%
PTC INC	Efficient IT	United States	3.02
TRIMBLE INC	Efficient IT	United States	2.97
BRAMBLES LTD	Resource Circularity & Efficiency	Australia	2.80
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.78
ORMAT TECHNOLOGIES INC	Renewable Energy Developers & IPPs	United States	2.51
WASTE CONNECTIONS INC	General Waste Management	United States	2.47
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	2.41
REPLIGEN CORP	Resource Circularity & Efficiency	United States	2.39
KINGSPAN GROUP PLC	Buildings Energy Efficiency	Ireland	2.35
DESCARTES SYSTEMS GRP/THE	Efficient IT	Canada	2.33
TOTAL			**26.03**

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 28 February 2025. Charts may not add to 100% due to rounding. [12]Herc to buy H&E for $3.83 billion after rival United Rentals exits deal | Reuters. [13]Geographic allocation by country of listing. [14]Holdings are subject to change without notice. [15]MSCI classification if available.

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Outlook

There has been a clear shift in the market narrative. Performance has broadened beyond a narrow group of mega-cap technology stocks. US exceptionalism has given way to stronger performance for Europe and China[16]. Notably, shares in electric vehicle manufacturer **Tesla** - the only "Magnificent Seven" stock which falls within IEM's investable universe - have fallen substantially. The move reflects some of the portfolio managers' concerns about valuation and governance risk, which drove their decision not to invest. This is favourable to IEM's portfolio, which is overweight Europe, has 99% active share and holds many attractively valued stocks recovering from cyclical headwinds. Current volatility is also creating opportunities for active managers to initiate positions in companies harnessing long-term structural trends.

For now, rising uncertainty is impacting US equities most. Investors in higher quality companies, which IEM favours, have largely looked through specific tariff announcements seeing them either as preludes to negotiations or something which can be navigated by rerouting supply chains, reformulating products or passing on costs. However, consumer and manufacturing confidence has dropped[17] and US growth expectations are weakening. This is pushing down 10-year treasury yields and boosting the prospect of interest rate cuts.

Conversely, European stocks are benefiting from multiple tailwinds. Valuations were and remain more attractive. A possible end to Russia's war in Ukraine may also lower energy prices and instigate a c.$486 billion rebuilding programme[18]. Lastly, US isolationism has galvanised European political action, with Germany advocating a 500bn EUR infrastructure fund (of which 20% will likely be allocated to Environmental Markets), looser state debt rules and a 150bn EUR EU-wide rearmament package[19]. These actions have potential to accelerate economic growth in the EU, where IEM is ca 18% overweight vs MSCI ACWI.

The events of 2025 so far year are testament to the limited value of macroeconomic prognostication. Within IEM, the portfolio managers focus on purchasing well-run companies, harnessing structural trends driven by economic need, at reasonable valuations. Long-term themes such as electrification, digitalisation and adaptation to climate change are transitions which cut across sectors and will continue regardless of which political party is in office. The Trust continues to be highly differentiated from concentrated global equity indices and trades at a c.10% discount to NAV.

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. [16]Bloomberg as at 28 February 2025. [17]February 2025 Manufacturing ISM® Report On Business®. [18]Pricing Ukrainian Reconstruction | German Marshall Fund of the United States. [19]German borrowing bonanza clears final hurdle | Reuters.

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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