Impax Environmental Markets plc

Monthly performance commentary: 31 January 2025

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Market review

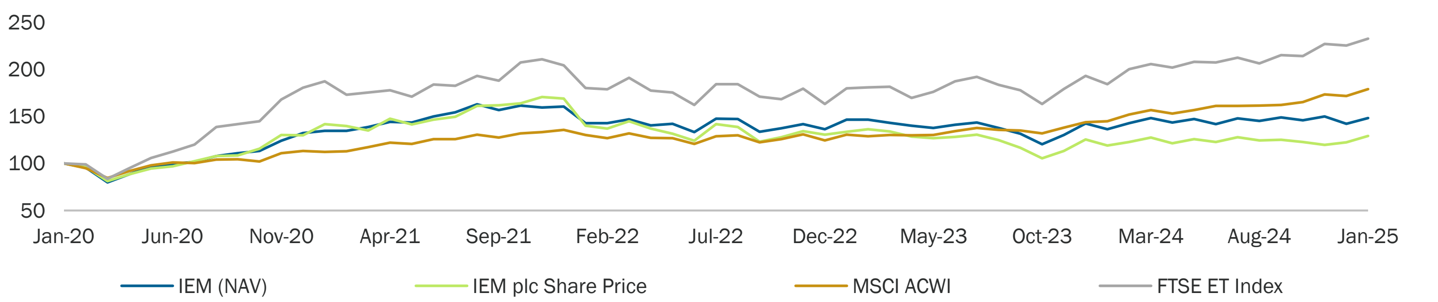
Global equities as measured by the MSCI All Country World Index (ACWI) gained in January. US economic data was encouraging, with the manufacturing PMI[1] indicating growth for the first time in six months, while core CPI[2] fell from 3.3% to 3.2%[3]. Donald Trump's return to the White House and the start of a robust Q4 earnings season further added to investor bullishness.

At a sector level, news that China's DeepSeek had developed a low-cost AI model caused IT stocks to be the only negative source of returns. The Magnificent Seven[4] also underperformed. More defensive Utilities and Real Estate were weak as the yield on US ten-year treasuries approached 4.8%. By contrast, Communication Services, Health Care and Financials performed the strongest.

In Environmental Markets, Donald Trump's move to halt "green" funding attracted significant attention[5]. However, the largest share of IIJA and IRA[6] grants go towards public infrastructure with historically bipartisan support, such as electrical grids, bridges and water networks. For many companies across IEM's investable universe therefore, tailwinds will likely continue. Separately, the Financial Stability Board warned that more frequent and costly damage from climate-related events could discourage lending and insurance, impairing investor confidence[7].

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 4.4% over the month. By comparison, the MSCI ACWI returned 4.2%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned 3.2%.

At a sector level, performance benefited from not owning mega-cap Tech stocks, while mid-caps (c.50% of the portfolio) also outperformed. Not owning Financials was the only relative headwind. Robust earnings updates have further bolstered performance. With an active share against the ACWI of 99.5%, January's outperformance illustrates the Trust's ability to provide shareholders with a differentiated source of returns.

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 January 2025. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. [1]Purchasing Manager Index. [2]Consumer price index. [3]Source: Bloomberg as at 31 January 2025. [4]Microsoft, Amazon, Meta, Apple, Nvidia, Alphabet, Tesla. [5]https://www.ft.com/content/fcaf50dc-6779-44d2-a7fa-264df798a4c1. [6]Infrastructure Investment and Jobs Act; Inflation Reduction Act. [7]Top financial watchdog warns climate change set to trigger market panics.

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Cont.

It is the managers' view that the advance in cost and efficiency achieved by DeepSeek has been produced many times over by OpenAI (and others) since ChatGPT launched. Moreover, each improvement has only increased the industry's pace of investment. While investors are raising questions about mega-cap tech valuations and those companies' returns on capex, the growth drivers underpinning AI "picks and shovels" remain intact.

AI is not the main growth driver for IEM's portfolio. Despite this, some of IEM's AI-exposed non-tech holdings weakened on the news. For example, **nVent** – an electrical connections business – has benefited from increased data centre investment. Yet the company's operations are far more diversified than the share price reaction implied. Consequently, the move looks overdone.

IEM's IT stocks in fact made some of the largest positive contributions to performance. These include **Trimble** and **PTC**, which produce software for construction and industrial design, respectively. Both companies derive recurring revenues from budgets less tied to cyclical IT spending and will likely benefit from cheap, accessible AI integration. Separately, Taiwanese industrial computing specialist **Advantech** reported Q4 revenues ahead of expectations.

Indeed, having reviewed portfolio earnings growth expectations at the start of the year, the managers are pleased to see reports so far have been broadly positive. Natural ingredients company **Borregaard** made strong gains after quarterly EBITDA[8] beat expectations, and guidance indicated it is managing to pass on higher input costs. Thermally efficient power semiconductor company **Monolithic Power Systems** also boosted returns after increasing its dividend, announcing a $500mn buyback and raising guidance thanks to improving demand in its non-data centre end markets.

The portfolio also indirectly benefited from strong results at **Sartorious** (not held). The bioprocessing company managed to beat expectations for sales and margins, pointing to a continued positive inflection in demand after what has been a lengthy process of normalisation. As a result, IEM's positions in **Repligen** (a Sartorious peer) and **Spirax Group** – which has exposure to the space through its Watson Marlow peristaltic pump division, also benefited.

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Annualised returns (%)	3M	1Y	3Y	5Y	10Y	SI[9]
IEM (NAV)	1.7	8.8	1.3	8.2	11.2	7.4
IEM plc Share Price	5.4	8.5	-2.6	5.3	11.4	7.0
MSCI ACWI	8.3	23.7	11.2	12.4	11.9	8.6
FTSE ET Index	8.7	26.3	8.9	18.4	15.7	8.3

Rolling 12m returns (%)	JAN-24 TO JAN-25	JAN-23 TO JAN-24	JAN-22 TO JAN-23	JAN-21 TO JAN-22	JAN-20 TO JAN-21	JAN-19 TO JAN-20	JAN-18 TO JAN-19	JAN-17 TO JAN-18	JAN-16 TO JAN-17	JAN-15 TO JAN-16
IEM (NAV)	8.8	-7.0	2.7	5.9	34.9	22.1	-4.2	12.9	46.7	0.5
IEM plc Share Price	8.5	-10.9	-4.6	-1.1	41.7	24.4	2.9	22.3	46.8	-1.1
MSCI ACWI	23.7	10.9	0.3	15.9	12.3	15.8	0.0	12.8	33.0	-1.3
FTSE ET Index	26.3	2.5	-0.3	-3.8	87.4	30.5	-5.9	16.8	33.7	-3.5

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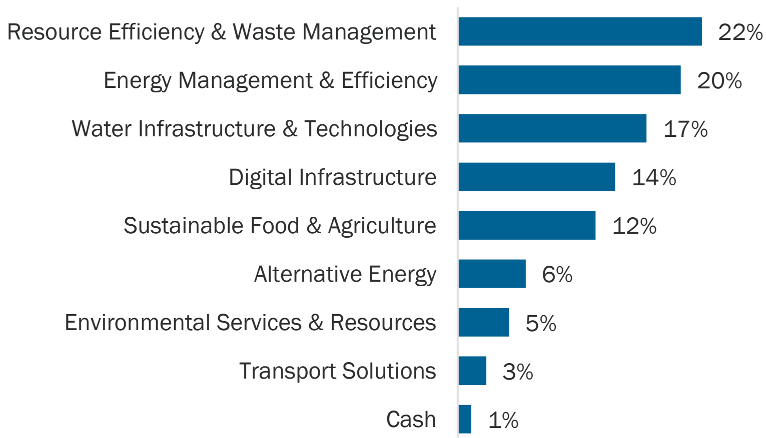
Significant transactions

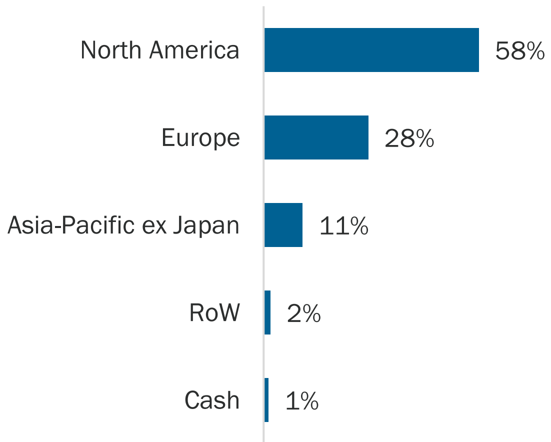
The managers took advantage of a pullback in semiconductor-related stocks to initiate two positions: **KLA** provides process control and yield management systems for the semiconductor and other related nanoelectronics industries. **Marvell Technology** produces semiconductor solutions for data infrastructure, with a market-leading position in Application Specific Integrated Circuits (ASICs). These combine several circuits on one chip to allow custom programming that is much more efficient for completing specific tasks. Both companies have market-leading positions in their respective fields, with robust margins and highly visible paths to growth.

These were part funded by exits from **Zurn Elkay Solutions** – a producer of water management products – and **Lenzing** – a manufacturer of natural fibres. While Zurn continues to be a compelling business, the shares are richly valued, particularly given recent datapoints that are incrementally softer for construction. The managers' exit from Lenzing is part of a continuing portfolio consolidation to increase exposure towards high conviction names.

Environmental markets exposure



Geographical exposure[10]



Top 10 holdings[11]	Sub-sector	Country[12]	%
PTC INC	Efficient IT	United States	3.20
TRIMBLE INC	Efficient IT	United States	2.99
BRAMBLES LTD	Resource Circularity & Efficiency	Australia	2.57
CLEAN HARBORS INC	Hazardous Waste Management	United States	2.57
REPLIGEN CORP	Resource Circularity & Efficiency	United States	2.42
SPIRAX GROUP PLC	Industrial Energy Efficiency	United Kingdom	2.42
DESCARTES SYSTEMS GRP/THE	Efficient IT	Canada	2.34
WASTE CONNECTIONS INC	General Waste Management	United States	2.31
DSM-FIRMENICH AG	Sustainable Agriculture	Netherlands	2.23
DABUR INDIA LTD	Recycled, Recyclable Products & Biomaterials	India	2.21
TOTAL			**25.26**

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 January 2025. Charts may not add to 100% due to rounding. [10]Geographic allocation by country of listing. [11]Holdings are subject to change without notice. [12]MSCI classification if available.

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Outlook

Equity markets in 2025 appear to be playing out against a backdrop of ever-faster news cycles. As portfolio managers with a long-term investment horizon, it is crucial to focus on what is relevant and actionable. Once identified, the task as ever, is to select those companies in Environmental Markets harnessing structural trends to deliver superior earnings growth.

For example, investors have so far taken a sanguine view of tariffs. This is because historically either Donald Trump has used them to negotiate before compromising, or because companies have navigated them by making alternative supply arrangements. By contrast, a negotiated peace in Ukraine could meaningfully lower European energy prices, benefiting industrial companies and the economy. This could rectify the region's protracted underperformance, to the portfolio's advantage given IEM's meaningful European overweight.

Against these possibilities, the managers have clear reasons for optimism. Continued GDP growth, a return to industrial expansion and relatively stable inflation have all previously supported IEM's style tilt. Earnings growth amongst the Magnificent Seven is no longer meaningfully above that of the market, with the result that performance is broadening out. Moreover, valuations across the portfolio continue to be at historically low levels, compounded by IEM's discount to NAV. With many headwinds now reversing, the Trust continues to have performance drivers highly differentiated from concentrated global equity indices.

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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