

Impax Environmental Markets plc

Monthly performance commentary: 31 December 2024

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Portfolio managers



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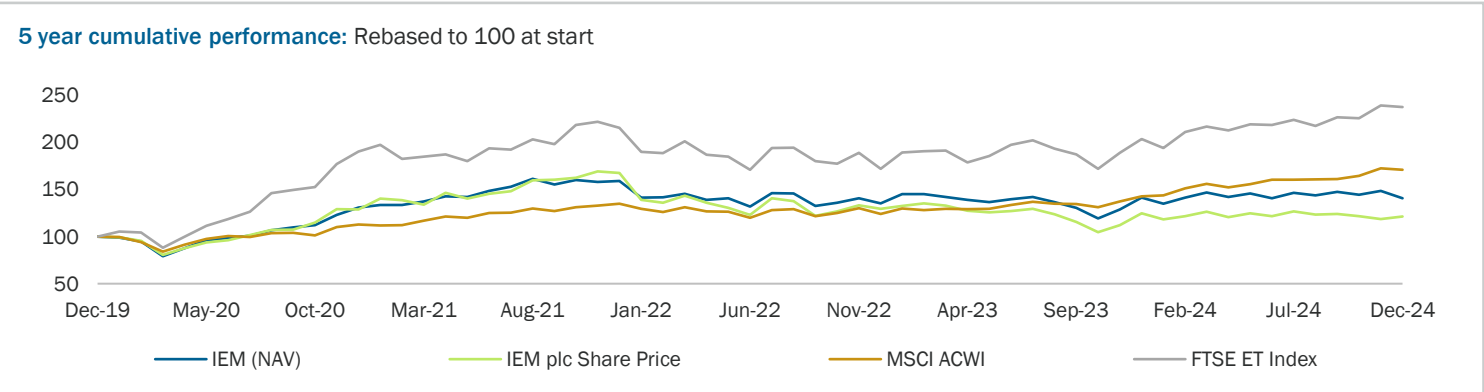
Market review

Global equities as measured by the MSCI All Country World Index (ACWI) in Sterling fell slightly in December. Having rallied in the wake of Donald Trump's re-election, markets refocused on his policies' potentially inflationary effects. US 10-year bond yields ended the month at 4.6%¹, and with employment data still robust, investors revised down their expectations for interest rate cuts in 2025.

US stocks pulled back by way of response, with European names also falling. Higher bond yields also saw small and mid-caps – which are more cyclical and typically carry higher levels of debt – reverse some of their gains. This was replicated at a sector level, with Utilities, Materials and Energy recording some of the biggest losses. Conversely, the Magnificent Seven² and other IT stocks continued their strong run of performance.

In Environmental Markets, Denmark received zero bids for the first part of its largest ever offshore wind tender. This reflects developers increasingly prioritising profitability and pipeline consolidation over portfolio expansion³. The EU's new agriculture chief announced that he would be pushing for more generous subsidies for low-income farmers, rather than big agribusinesses⁴. December also saw the release of a report claiming the global economy loses up to \$25tn a year due to overlooked biodiversity impacts⁵.

Past performance does not predict future returns



Portfolio commentary

The Impax Environmental Markets PLC (IEM) portfolio's Net Asset Value (NAV) delivered a total return of -5.1% over the month. By comparison, the MSCI ACWI returned -0.9%. The FTSE ET 100, a more concentrated index focused on Environmental Markets, returned -0.7%.

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 December 2024. Performance a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs. ¹Bloomberg, as of December 31, 2024 ²Microsoft, Alphabet, Meta, Amazon, Nvidia, Alphabet, Tesla. ³North Sea offshore wind tendering procedure: The Danish Energy Agency has not received any bids. ⁴<https://www.ft.com/content/b0393171-0ff0-4880-a9e2-70f62a0e3445>. ⁵<https://on.ft.com/4gKZDnT>.



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Cont.

Given continued sharp moves in markets, allocation effects made some of the biggest negative performance contributions. Around 80% of the portfolio is held in mid and small-caps, which underperformed MSCI ACWI by c.3%. At the same time, IEM's focus on solution providers means 45% of the portfolio is invested in Industrials, which fell over 4%. While IT was up as a sector, not holding the Magnificent 7 and other mega-cap names, meant sector performance for the portfolio was negative.

This notwithstanding, several stocks showed signs of emerging from a difficult period. Shares in **DiscoverIE** rallied 15% following a robust set of results. The producer of specialised industrial components has struggled with longer than expected customer destocking. Demand now appears to be inflecting upwards, and margins are strong.

Similarly, **Norma** boosted performance after announcing it was putting its water business up for sale. Doing so will streamline operations at the maker of fluid connection products, which trades at a reasonable valuation. Filtration specialist **Porvair** also made strong gains after a trading update and comments from the Chairman that incoming CEO Hooman Javvi has clear plans to boost annual growth rates.

Other strong contributors included Digital Infrastructure names **Monolithic Power Systems** and **Altair**. Monolithic pulled back sharply in November due to concerns it would be designed entirely out of Nvidia's Blackwell system. Having noted at the time that these were overdone, and added to the position, the market appears to have reached a similar conclusion. Shares in Altair meanwhile continue to make gains following **Siemens'** (not held) takeover offer⁶.

Outside of allocation effects, the biggest detractors to performance faced downward pressure from largely technical selling. Investors took profit in **Generac** after November's strong Q3 results created a tougher comparison point for results in 2025. Shares in **Ormat** were hit by a sell down from strategic shareholder Orix. Orix originally took a stake in the geothermal power company to collaborate on projects that never materialised, hence the exit at a discount to Ormat's current share price.

Similarly, the portfolio's waste and recycling names pulled back after a period of strength following the US election. While the likes of **Clean Harbors** and **Waste Connections** have defensive business models, their growth is linked to that of the US economy. Equipment rental company **Herc** also weakened on the back of news not its own, with competitor **Ashtead** (not held) downgrading its near-term guidance. This is despite Herc having only recently upgraded its own annual guidance due to sustained growth in megaprojects.

Past performance does not predict future returns

| Annualised returns (%) | 3M | 1Y | 3Y | 5Y | 10Y | SI ⁷ |
|------------------------|------|------|-------|------|------|-----------------|
| IEM (NAV) | -4.6 | -0.4 | -4.0 | 7.1 | 10.8 | 7.3 |
| IEM plc Share Price | -2.2 | -2.6 | -10.2 | 3.9 | 10.7 | 6.8 |
| MSCI ACWI | 6.0 | 19.6 | 8.2 | 11.3 | 11.7 | 8.4 |
| FTSE ET Index | 4.8 | 16.8 | 3.3 | 18.9 | 15.6 | 8.1 |

| Rolling 12m returns (%) | | | | | | | | | | |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | DEC-23 TO DEC- 24 | DEC-22 TO DEC- 23 | DEC-21 TO DEC- 22 | DEC-20 TO DEC- 21 | DEC-19 TO DEC- 20 | DEC-18 TO DEC- 19 | DEC-17 TO DEC- 18 | DEC-16 TO DEC- 17 | DEC-15 TO DEC- 16 | DEC-14 TO DEC- 15 |
| IEM (NAV) | -0.4 | 4.5 | -15.0 | 21.3 | 31.0 | 30.6 | -10.8 | 16.4 | 37.3 | 6.0 |
| IEM plc Share Price | -2.6 | -3.7 | -22.8 | 30.1 | 28.9 | 32.9 | -0.4 | 18.7 | 37.4 | 5.8 |
| MSCI ACWI | 19.6 | 15.3 | -8.1 | 19.6 | 12.7 | 21.7 | -3.8 | 13.2 | 28.7 | 3.3 |
| FTSE ET Index | 16.8 | 18.3 | -20.1 | 13.1 | 90.3 | 29.2 | -9.9 | 20.5 | 21.6 | 5.0 |

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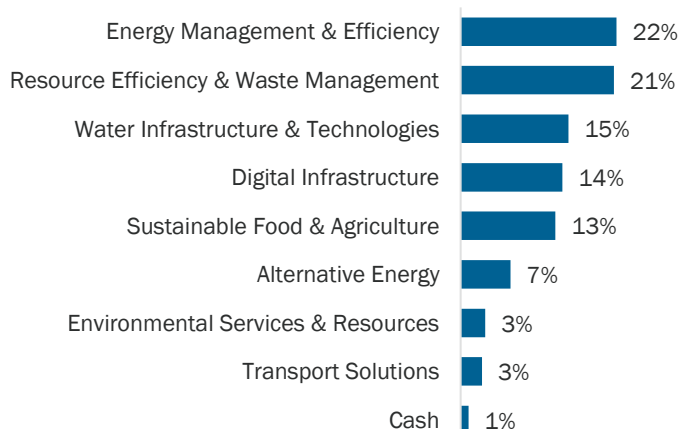
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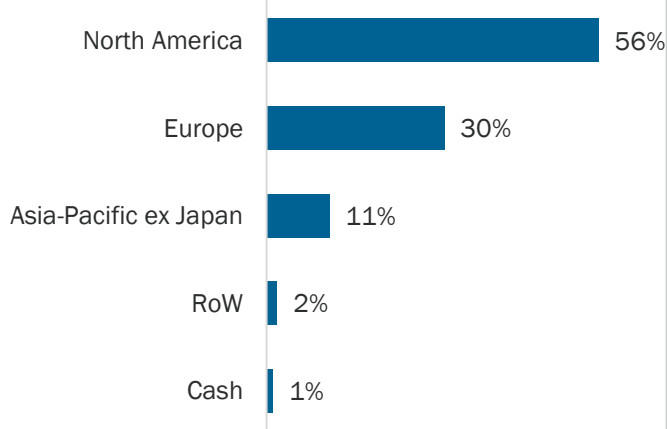
Significant transactions

IEM exited **SolarEdge Technologies**, reallocating the proceeds to **Boralex**, a recently added renewable power generator. Shares in the maker of solar optimisers struggled in 2024 after weak demand was exacerbated by excess channel inventory. Low revenues and minimal fixed cost absorption brought margins to levels that called balance sheet integrity into question. While the team does not envisage bankruptcy as a base case, an uninspiring CEO appointment consolidated the view that there are clearer routes to upside elsewhere in the portfolio.

Environmental markets exposure



Geographical exposure⁸



| Top 10 holdings ⁹ | Sub-sector | Country ¹⁰ | % |
|------------------------------|------------------------------------|-----------------------|--------------|
| PTC INC | Efficient IT | United States | 3.17 |
| TRIMBLE INC | Efficient IT | United States | 2.93 |
| CLEAN HARBORS INC | Hazardous Waste Management | United States | 2.65 |
| BRAMBLES LTD | Resource Circularity & Efficiency | Australia | 2.59 |
| REPLIGEN CORP | Resource Circularity & Efficiency | United States | 2.55 |
| DESCARTES SYSTEMS GRP/THE | Efficient IT | Canada | 2.39 |
| DSM-FIRMENICH AG | Sustainable Agriculture | Netherlands | 2.29 |
| LITTELFUSE INC | Industrial Energy Efficiency | United States | 2.26 |
| ORMAT TECHNOLOGIES INC | Renewable Energy Developers & IPPs | United States | 2.22 |
| ALTAIR ENGINEERING INC - A | Efficient IT | United States | 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 December 2024. Charts may not add to 100% due to rounding. ⁸Geographic allocation by country of listing. ⁹Holdings are subject to change without notice. ¹⁰MSCI classification if available.

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Outlook

The economic backdrop heading into 2025 remains benign. Expectations for global GDP growth are positive, led by China and the US. Employment data is similarly robust and inflation, while above target, is well below its peak. Lower energy prices are also underpinned by ample oil supply. As a result, global interest rates are likely to be stable, trending downward.

The portfolio has historically benefited from this combination of conditions. Indeed, market breadth is tentatively improving across sectors and market capitalisations. Temporary headwinds within the portfolio also show signs of resolving as inventories normalise across Natural Ingredients and Bioprocessing holdings. Longer term, the structural trends underpinning investment cases are broadly resilient to changes of government, even in the US.

Having endured these headwinds, the portfolio's relative valuation continues to be at a historically low level, compounded by IEM's discount to NAV. Yet the portfolio's forward and delivered earnings growth is well above that of the MSCI ACWI. This is despite a portfolio which is diversified, and highly differentiated from the index. Looking forward, 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 AIFMD"), 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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