

# Impax Environmental Markets plc

## Monthly performance commentary

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### Specialist strategy team

### Leveraging an integrated global investment team



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### Market review

Global equities as measured by the MSCI All Country World Index (ACWI) in GBP continued to fall in December. Investor concerns over the level of capital, and increasingly debt, being expended to build out AI triggered profit taking in related stocks across sectors. However, sentiment improved after weak US employment data prompted the Federal Reserve (Fed) to deliver its third interest rate cut of the year.

At a sector level, performance was strongest in Materials, driven by the enduring strength of gold and silver prices. Financials also continued their impressive run. At the other end of the scale, Communication Services and Utilities retreated sharply, with both sectors having risen off the back of expected AI-driven investments. Reflecting this shift in the market, US and Growth stocks underperformed, while European and Value names made strong gains.

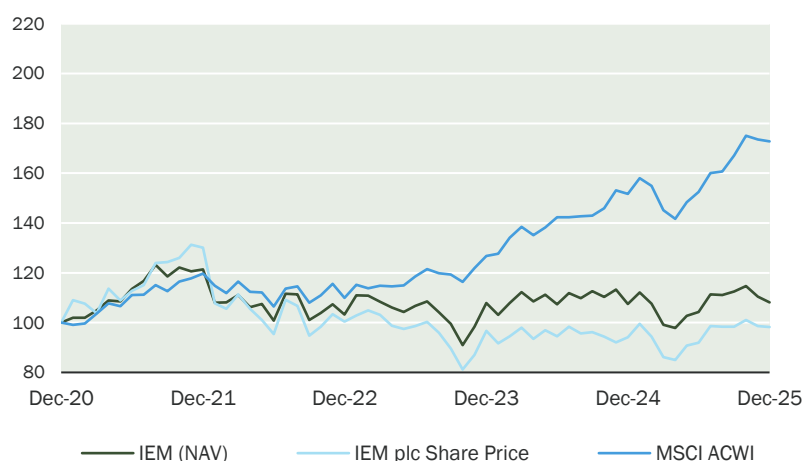
There were two news stories of interest relating to Environmental Markets in December. Both were published in the Financial Times, looking at the resources needed to develop AI and sustain its future growth. The first, examined the [level of electricity](#) data centres need, while the second explored demand for [copper](#). Already, data centres account for 5% of US peak demand. It is a stark reminder of how reliant the digital world is on its physical counterpart

### Performance

The Impax Environmental Markets plc (IEM) portfolio's Net Asset Value (NAV) delivered a total return of -2.0% in December. By comparison, the MSCI ACWI returned -0.5%. The Solactive GEM Specialists (GEMS) Index, which exists to reflect IEM's opportunity set, returned -0.6%.

The main drag on portfolio performance against both indices was stock selection, with picks in Industrials, IT, and Materials all weakening returns. Compared to the ACWI, both the portfolio and GEMS index benefited from holding fewer Consumer Discretionary stocks, which fell in the face of a potentially softer economic outlook. Similarly, not holding some of the largest AI stocks insulated both IEM and its opportunity set from pull backs in Communication Services.

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. Date source: Bloomberg as at 31 December 2025. Performance is shown on a bid-to-bid price basis, with net income reinvested, net of ongoing charges and portfolio costs.

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## Continued

Construction-exposed Industrial stocks proved the portfolio's biggest source of weakness. Economic uncertainty weighed on the sector throughout 2025, and recent earnings updates appeared to confirm a gloomier forecast. **Generac** – a maker of standby generators – fell on soft numbers and concerns about data centre related capital expenditure. **Xylem** – a supplier of water infrastructure – also reported slower order growth in some segments. However, share price moves have been exacerbated by US investors harvesting losses for year-end tax purposes. For example, air-conditioning company **AAON** was the portfolio's weakest stock despite no material news.

In IT, IEM's software holdings were the main source of negative returns. These stocks were sold indiscriminately by investors who fear AI could be used to replicate their services, either by customers or competitors, disrupting their business models. In addition, with high demand for memory chips, some investors are shifting their tech exposure from software to hardware. However, IEM owns **PTC**, **Trimble** and **Bentley Systems**, highly specialised companies whose products cater to specific verticals of industrial design, construction, and infrastructure, respectively. These products are embedded into customer processes, working across highly regulated industries. These barriers to entry mean we believe the concerns are overdone and we have thus been adding selectively to high conviction holdings.

A similar dynamic affected our Materials holdings. At one end, mining stocks (which are not part of IEM's investable universe) rallied strongly, impacting returns relative to global markets. At the other, the portfolio saw further weakness in consumer facing names. Natural ingredients companies **Croda** and **DSM Firmenich** have both reported customers downtrading to cheaper products. As a result, we have taken the decision to consolidate our exposure, exiting Croda while adding to **Novonesis**, which have demonstrated more pricing power.

The best performing stock over the month was **Synopsys**, whose shares have gone a good way to recovering since their September pullback. The supplier of semiconductor design software delivered strong fourth quarter earnings and upbeat guidance, with signs that its Ansys acquisition is already contributing meaningfully to revenue. Management also announced a 2 billion USD investment from the AI chip-maker **Nvidia** (not held), confirming Synopsys' key role in chip design.

## Annualised returns (%)

	3M	1Y	3Y	5Y	10Y	SI <sup>1</sup>
IEM (NAV)	-3.8	0.6	1.6	1.6	10.2	7.0
IEM plc Share Price	-0.1	4.3	-0.7	-0.4	10.6	6.6
MSCI ACWI	3.4	13.9	16.2	11.6	12.8	8.7
Solactive GEM Specialists	0.5	-	-	-	-	-

## Rolling 12m returns (%)

	DEC-24 TO DEC- 25	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
IEM (NAV)	0.6	-0.4	4.5	-15.0	21.3	31.0	30.6	-10.8	16.4	37.3
IEM plc Share Price	4.3	-2.6	-3.7	-22.8	30.1	28.9	32.9	-0.4	18.7	37.4
MSCI ACWI	13.9	19.6	15.3	-8.1	19.6	12.7	21.7	-3.8	13.2	28.7
Solactive GEM Specialists	-	-	-	-	-	-	-	-	-	-

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## Significant transactions

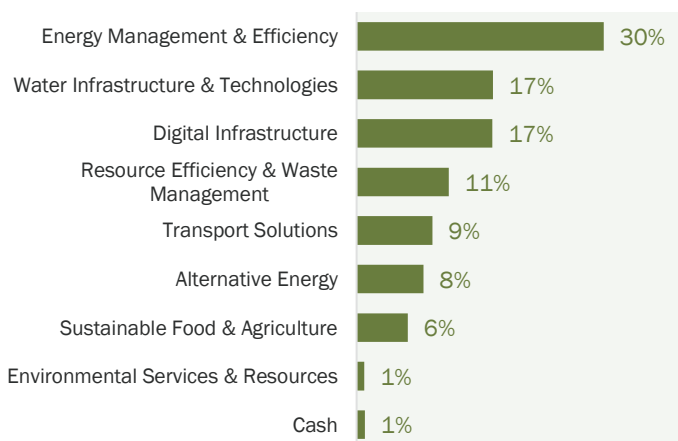
We initiated a position in **Zhejiang Sanhua Intelligent Controls**. The company is a global leader in refrigeration control components and thermal management systems used in applications ranging from HVAC<sup>2</sup> to EVs.<sup>3</sup> The company is benefiting from growing demand for high-efficiency thermal management, with additional long-term optionality from its emerging role in markets like data centres and humanoid robots.

We exited two stocks over the month.

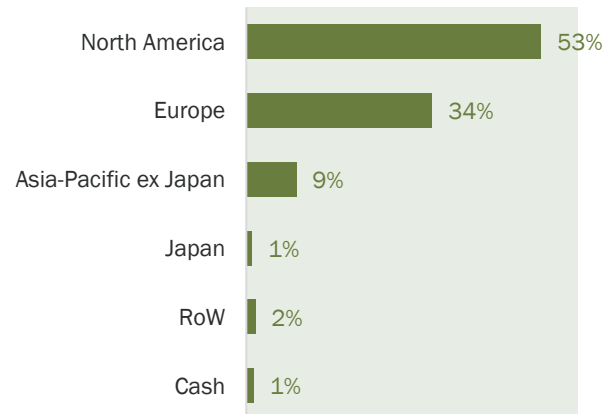
**Croda (Recycled, Recyclable Products & Biomaterials, UK)** is a producer of specialty chemicals across life science, consumer and health care end markets. Shares have traded steadily lower since a period of prolonged post-pandemic inventory destocking. Partly a reflection of soft demand, Croda has also found itself facing greater competitive pressure. Results have not shown a consistent improvement in demand or margins and, as a result, the holding has been reallocated into positions where there is greater conviction.

**Veralto (Environmental Testing & Monitoring, US)** is a provider of water quality and product identification solutions, serving industrial and municipal customers globally. Shares were trading at fair value relative to the team's estimates and, with few catalysts for further upside, proceeds were redeployed into higher-conviction names.

## Environmental markets exposure



## Geographical exposure<sup>4</sup>



Top 10 holdings <sup>5</sup>	Sub-sector	Country <sup>6</sup>	%
AIR LIQUIDE SA	Industrial Energy Efficiency	France	3.79
WASTE CONNECTIONS INC	General Waste Management	United States	3.41
XYLEM INC	Water Distribution & Infrastructure	United States	3.14
ORMAT TECHNOLOGIES INC	Renewable Energy Developers & IPPs	United States	3.02
TRIMBLE INC	Efficient IT	United States	2.98
PTC INC	Efficient IT	United States	2.95
CONTEMPORARY AMPEREX TECHN-A	Advanced Road Vehicles & Devices	China	2.77
VEOLIA ENVIRONNEMENT	Water Utilities	France	2.76
SYNOPSIS INC	Efficient IT	United States	2.50
NVENT ELECTRIC PLC	Smart & Efficient Grids	United States	2.44
<b>TOTAL</b>			<b>29.76</b>

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 . Charts may not add to 100% due to rounding. <sup>2</sup>Heating, Ventilation, and Air Conditioning. <sup>3</sup>Electric Vehicles. <sup>4</sup>Geographic allocation by country of listing. <sup>5</sup>Holdings are subject to change without notice. <sup>6</sup>MSCI classification if available.

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## Outlook

Global equities have enjoyed three consecutive years of above-average returns. Expectations across the board are for continued strength in the asset class, underpinned by earnings growth and increasingly accommodative monetary policy.<sup>7</sup> Yet there are questions about the extent to which gains can continue to be driven by a handful of mega-cap technology stocks, as depreciation costs mount and commensurate returns on investment are less immediately evident. At the same time, patchy employment data and non-linear inflation trends present a potential tail risk.

However, competitive spending from the likes of Microsoft, Meta and Alphabet certainly looks set to continue. This is already prompting investors to pay more attention to the companies producing the 'picks and shovels' of AI – such as energy efficiency, electrification, and cooling – where the strategy naturally has more exposure. Similarly, significant pockets of the market trade on modest valuations relative to history, notably quality stocks and small/mid-caps. Increased geopolitical tension could also prompt a more defensive rotation in the market.

Against this backdrop, the team believes the portfolio continues to offer a compelling mix of high active share, robust earnings growth, and attractive valuation relative to the broader market.<sup>8</sup> This is balanced across a mixture of high conviction positions in defensive compounders such as **Novonosis**, as well as companies with more cyclical torque, like **Siemens Energy**. Elevated valuations, tense geopolitics, and an uncertain macroeconomic picture mean there is potential for greater volatility, even as market optimism remains high. Such conditions underscore the value of active management and a focus on fundamentals.

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# Important information

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## Solactive Environmental Markets Index Methodology Disclaimer

Please note the following important information regarding the Solactive Environmental Markets Index Series (the "Index") and its related documentation. **More information is available upon request.**

The Solactive Environmental Markets Index Series is designed to represent global securities from issuers whose core business activities are meaningfully aligned with Environmental Markets. This alignment is determined based on revenues from products and services that support the transition to a more sustainable economy. Solactive AG acts as the Index Administrator, responsible for the ownership, calculation, and administration of the Index under the Benchmark Regulation (EU) 2016/1011 (BMR).

## Key Characteristics and Methodology of the Index

The Index Administrator first identifies the index universe by applying a rule-based process. Each index component is assigned a weight based on its free float market capitalisation. Free float refers to the share class-specific fraction of total shares available for trading by market participants, not locked in by long-term holders. The Index undergoes an ordinary rebalance on a quarterly basis. Index components are subject to minimum eligibility criteria, including but not limited to regional allocation, thematic exposure (assessed by revenue alignment) such as climate, environmental markets, food, water, etc., liquidity, free float. The Index currency for all indices within the Solactive Environmental Markets Index Series is USD.

Corporate actions that significantly impact index components between rebalancing periods are handled by adjusting the index from the cum-day to the ex-day to align with the price effect. Such adjustments are implemented in compliance with the methodology. However, the Index Administrator retains discretion to deviate from standard procedures for complex or unusual events to preserve the index's representativeness. All adjustments are announced on the Index Administrator's website with at least two trading days' notice and cover a wide range of events including cash/stock distributions, splits, mergers, acquisitions, and delistings.

## Index Risks:

Impax does not offer any explicit or tacit guarantee or assurance regarding the results from the use of the Index or its level at any specific time.

Errors in the determination process may occur from time to time due to various internal or external reasons and cannot be completely ruled out. Any identified errors are expected to be corrected within a reasonable period.

The determination of the Index may be limited or impaired during periods of illiquid or fragmented markets and market stress, which can lead to inaccurate or delayed prices for one or more index components.

The publication of the Index does not constitute a recommendation for capital investment and does not contain any assurance or opinion from Impax regarding a possible investment in a financial instrument based on the Index.

The methodology of the Index is subject to regular review, at least annually. Changes to the methodology may occur if the underlying market or economic reality changes, or if the current methodology is

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The Index Administrator retains the right to deviate from standard corporate action procedures in cases of unusual or complex corporate actions to preserve the comparability and representativeness of the Index.

Whilst the Index Administrator endeavours to ensure the resilience and integrity of its indices, the orderly cessation of the Index may be indicated if the underlying market or economic reality changes substantially, if index rules can no longer be applied coherently, or if the index is no longer used as an underlying value for financial instruments. The Index Administrator maintains guidelines for identifying situations requiring cessation, informing stakeholders, and following procedures for termination or transition to an alternative index.

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## Important information

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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).

Shareholders should read the Investment Policy in the Annual Report before investing which is available at: [www.impaxenvironmentalmarkets.co.uk](http://www.impaxenvironmentalmarkets.co.uk). Please refer to IEM's Stewardship Approach 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 latest Annual Report and KID 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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## Benchmark

Impax uses the MSCI ACWI index and Solactive GEM Specialists as indicative benchmarks for its strategies. The MSCI ACWI captures all sources of equity returns across 23 developed and 26 emerging markets and assumes any net cash distributions, including dividends, are reinvested. Information about the Solactive Benchmark can be found in the methodology section.

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