
Impact of COVID-19 on Impax portfolios

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How is Impax thinking about coronavirus in relation to its investment strategies?

At Impax, we are long-term investors focused on the transition to a more sustainable economy which includes trends such as rising global populations and wealth, urbanization, rising consumption and the resultant increases in the demand for resources. As a result of the coronavirus pandemic, we may well see a renewed focus by consumers, governments and regulators on some of these drivers, including health infrastructure, water quality, hygiene and food safety standards.

In the near-term, however, markets have been volatile since late-February, with several days of sharp sell-offs primarily due to the uncertainty of the coronavirus' economic impacts. This market turbulence has been exacerbated by an oil price war between Saudi Arabia and Russia.

The declaration that COVID-19 is a global pandemic will likely lead to an aggressive slowdown in economic activity during the coming weeks and months. The collapse in oil prices and further travel restrictions have also triggered concerns over a potential wave of bankruptcies in the energy, transportation and leisure sectors. Cancellations of events worldwide and new initiatives to encourage social distancing have made it more difficult to assess when economic activity might bottom, creating uncertainty for individual securities and asset values.

As the COVID-19 virus has spread, so too has our view on the economic impact. We now expect global growth to contract due to significantly lower consumption. The length of this contraction is hard to predict at this point and depends on how the virus evolves and the impact of the monetary fiscal responses from central banks and policy makers.

How have Impax strategies fared and is the investment team adjusting their approach?

Impax is focused on the long term, and specifically on the risks and opportunities arising from the transition to a more sustainable global economy. This means that we look at issues that others may ignore, and we believe this helps us build more durable investment portfolios. We firmly believe that incorporating ESG risk management within our fundamental research gives us a distinct advantage when it comes to managing risk.

Our investment approach, with its careful attention to risk and focus on quality companies, is meant to help investors weather market volatility and downturns. Our portfolio managers have been looking ahead to the next 12-24 months, as there is an opportunity to rotate into diversified and high-quality stocks at an appealing valuation level.

The team has decided to bring forward the 6-monthly review of "A-List" companies to ensure they are considering the medium and long term implications of these events.

Please find below strategy specific updates on performance and positioning since the market began its steep fall in the third week of February.

Leaders

The Leaders strategy is ahead of the MSCI ACWI. Relative performance may continue to be volatile as a result of large sectoral differences in returns that are changing almost daily. On a relative basis, the portfolio is benefiting from zero exposure to Financials, Energy, and Consumer Discretionary stocks, however the overweight positions in more economically sensitive holdings, such as Industrials and Materials, detracted from returns. The portfolio managers have been looking to add to high conviction holdings and a few new opportunities during the market weakness. They are likewise reducing exposure to any lower conviction names, which might not be the first to recover after this sell-off.

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