

Regnan Sustainable Water & Waste

Quarterly Portfolio Review Q1 2024

Data as at 31 March 2024

USD

Strategy overview

- The Strategy aims to generate long-term outperformance by investing in the listed shares of sustainable companies that provide solutions to global water and/or waste related challenges
- An actively managed, high conviction, diversified portfolio with an ESG integrated process enhanced by Regnan's proprietary ratings and engagement framework
- The team are pioneers in combining exposure to both water and waste value chains, including companies developing new technologies; this means extremely low overlap with global equity portfolios
- Benchmark: MSCI AC World Index
- The use of the Index does not limit the investment decisions of the portfolio manager therefore the shareholdings of the Strategy may differ significantly from those of the Index
- This strategy has an Irish domiciled fund which is classified as Article 9 under the SFDR. Please [click here](#) for further details.

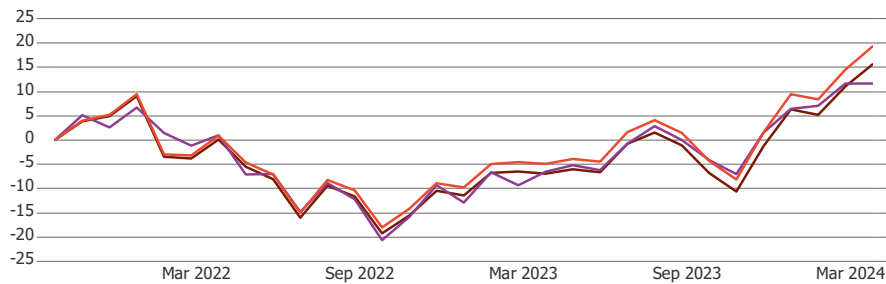
Strategy details

Strategy size	USD 347.41m
Launch date	1 October 2021
Benchmark	MSCI AC World NR £ (12pm adjusted)
Available as	Separate Account, UCITS (UK and Ireland)

Total strategy assets updated quarterly and shown as at 31 March 2024.

Performance highlights

Return since launch (%)



Return history

	1m	3m	1yr	3yr	5yr	10yr	SL	Annualised
Gross	4.19	9.01	25.49	-	-	-	19.27	7.30
Net	4.10	8.74	24.23	-	-	-	15.59	5.97
Benchmark	3.14	8.20	23.22	-	-	-	15.14	5.80

Past performance is no guarantee of future performance.

The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investing in companies in emerging markets involves higher risk than investing in established economies or securities markets. Emerging Markets may have less stable legal and political systems, which could affect the safe-keeping or value of assets. Investments may include shares in small-cap companies and these tend to be traded less frequently and in lower volumes than larger companies making them potentially less liquid and more volatile.

Source: JOHCM/Regnan/MSCI Barra/Bloomberg. Gross and net composite performance, net income reinvested. Composite performance is based on the A GBP primary share class converted into USD. 3, 5 and 10 year and since launch performance is annualised. The composite was created on the 01 October 2021. Benchmark: MSCI AC World NR £ (12pm adjusted). Statistics calculated using weekly returns. *Annualised since launch.

Statistics

As this Strategy was launched less than three years ago, risk measures cannot be deemed statistically significant.

Portfolio managers



Bertrand Lecourt
Senior Fund Manager
Bertrand has managed the strategy since launch. He joined JOHCM in 2021 and has 24 years of industry experience.



Saurabh Sharma
Fund Manager
Saurabh has worked on the strategy since launch. He joined JOHCM in 2021 and has 14 years of industry experience.

Contact details

J O Hambro Capital Management Limited
Level 3
1 St James's Market
London SW1Y 4AH

+44 (0) 207 747 5662

Email clientservices@johcm.co.uk

www.johcm.com

Strategy analysis (%)

Data as at 31 March 2024

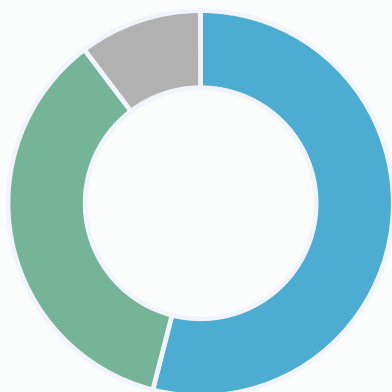
Top 10 holdings

Stock	Theme	Company Description	Absolute
Core & Main	Water	Core & Main, Inc. operates as a distributor of water, wastewater, storm drainage, and fire protection products. The Company clamps, couplings, tapping sleeves, fittings, meters, pipes, pumps, restraints, valves, manholes, control structures, inline drains, reinforced concrete, downspout adapters, and oil water separators.	3.9
Ebara	Water	Ebara Corporation manufactures pneumatic and hydraulic pumps and related equipment. The Company's products include fuel, oil, water, and firefighting pumps, as well as steam turbines and boilers. EBARA also engineers garbage incinerators, smoke desulfurizers, and other products related to environmental technology.	3.7
Republic Services	Waste	Republic Services, Inc. provides non-hazardous solid waste collection and disposal services in the United States. The Company provides solid waste collection services for commercial, industrial, municipal, and residential customers. Republic also operates transfer stations, landfills, and recycling facilities.	3.6
Waste Management	Waste	Waste Management, Inc. provides waste management services including collection, transfer, recycling, resource recovery, and disposal services, and operates waste-to-energy facilities. The Company serves municipal, commercial, industrial, and residential customers throughout North America.	3.5
Pentair	Water	Pentair plc is a global water company, delivering a range of smart, sustainable water solutions for residential, commercial, industrial, infrastructure and agriculture applications. The Company's solutions enable people, business and industry to access clean, safe water, reduce water consumption, and recover and reuse it.	3.3
Xylem	Water	Xylem is a leading equipment and service provider for water and wastewater applications with a broad portfolio of products and services addressing the full cycle of water, from collection, distribution and use to the return of water to the environment.	3.3
Clean Harbors	Waste	Clean Harbors, Inc. provides a variety of environmental remediation and industrial waste management services to customers in the United States and Puerto Rico. The Company's services include treatment and disposal of hazardous and non-hazardous solid and liquid waste, surface remediation, groundwater restoration, and waste packaging, as well as analytical testing and consulting.	3.0
Sabesp	Water	Cia de Saneamento Basico do Estado de Sao Paulo (SABESP) collects, treats, and distributes water. The Company also engineers and constructs water distribution infrastructure and water treatment systems.	3.0
Waste Connections	Waste	Waste Connections, Inc. provides non-hazardous solid waste collection services for commercial, industrial and residential customers. The Company offers collection, landfill disposal, and recycling services for various recyclable materials, including compost, cardboard, office paper, plastic containers, glass bottles, and ferrous and aluminum metals.	2.8
Watts Water Technologies	Water	Watts Water Technologies, Inc. designs, manufactures, and sells a line of products to the water regulation and control markets. The Company has manufacturing plants and distribution channels in the United States, Canada, and Europe, as well as a joint venture in The People's Republic of China.	2.8
Total			32.9

Strategy analysis (%)

Data as at 31 March 2024

Water & Waste Exposure



■ Water - 54.0% ■ Waste - 35.7% ■ Other - 10.3%

Sector breakdown

	Absolute	Relative	
Industrials	63.9	53.1	
Utilities	14.3	11.8	
Materials	6.3	2.1	
Real Estate	0.0	-2.1	
Consumer Discretionary	8.5	-2.4	
Energy	0.0	-4.5	
Consumer Staples	0.0	-6.4	
Communication Services	0.0	-7.6	
Health Care	2.5	-8.6	
Financials	0.0	-16.1	
Information Technology	1.2	-22.5	
Cash	3.2	3.2	

Active bets

Top 5	Relative
Core & Main	3.9
Ebara	3.7
Republic Services	3.5
Waste Management	3.4
Pentair	3.3

Bottom 5	Relative
Microsoft	-4.1
Apple	-3.5
Nvidia	-3.1
Alphabet	-2.3
Amazon	-2.3

Country breakdown

	Absolute	Relative
United States	64.7	-0.2
Japan	7.1	1.5
United Kingdom	5.0	1.6
Netherlands	4.7	3.5
China	4.1	1.5
Brazil	3.7	3.1
France	2.8	-0.1
Australia	2.0	2.0
South Korea	1.6	0.3
Cash	3.2	3.2

Market cap breakdown

Absolute	
> £100bn	0
£50bn - £100bn	13.3
£20bn - £50bn	18.2
£10bn - £20bn	24.6
£5bn - £10bn	24.4
£2bn - £5bn	9.7
< £2bn	6.6
Cash	3.2

Attribution (%)

Stock attribution

Top contributors	Relative return
Ebara	1.23
Core & Main	1.14
Apple	0.84
Tesla	0.39
Advanced Drainage Systems	0.36
Top detractors	
Nvidia	-1.35
Crown Holdings	-0.48
Schnitzer Steel	-0.43
American States Water	-0.36
Meta	-0.34

Sector attribution*

	Relative return	
Industrials	4.30	
Consumer Staples	0.37	
Real Estate	0.23	
Health Care	-0.03	
Energy	-0.06	
Financials	-0.19	
Consumer Discretionary	-0.21	
Communication Services	-0.23	
Materials	-0.31	
Information Technology	-0.97	
Utilities	-1.14	

*Excludes cash

Source: JOHCM/MSCI Barra/Bloomberg. Benchmark: MSCI AC World NR £ (12pm adjusted). Please note that due to rounding breakdowns may not add to 100.00%. All Attribution figures are as at end of day and are calculated on a gross basis. Stock holdings are subject to change at any time and are not recommendations to buy or sell any security. A list of all holdings during the period, corresponding performance contributions and attributions, and the calculation methodology is available upon request.

Fund manager’s commentary

Data as at 31 March 2024

- Investors entered 2024 with positive expectations, leading to a rally in the equities market, particularly in technology stocks, despite negative bond returns
- The strategy outperformed the index, with key contributions from water equipment makers and integrated waste management companies
- The outlook for 2024 remains positive, with pricing expected to be a tailwind for both water and waste management companies

Q1 performance	%
Gross	9.01
Net	8.74
Benchmark	8.20

Market Review

Investors entered 2024 expecting a soft or no landing, whereby a recession is avoided, tamed inflation and the Federal Reserve to cut interest rates from March. Robust economic data boosted investor sentiment in the equities market, which continued to rally in Q1 2024. Strong macro data was also reflected in interest rate expectations as the market adjusted its interest rate cut expectations for 2024. Stickier inflation prints and the Fed backtracking some of its dovish December tone combined to drive negative bond returns. Against that backdrop, technology stocks continued to lead the market, especially companies expected to benefit from artificial intelligence trends. Interest rate-sensitive sectors such as real estate lagged the markets. Waste stocks continued their strong run from the previous quarter and outperformed their water peer group.

Performance Review

The strategy outperformed the rising index. Water equipment makers and distributors, along with integrated waste management companies, were key contributors to performance during the quarter.

At a stock level, Japan-based pump-maker **Ebara** was the most significant contributor to performance. The company reported better-than-expected earnings driven by strong profits in the energy business (as some projects required an emergency response) and better-than-expected sales in the building service and industrial business (particularly in Japan and China). Ebara also provided conservative guidance for 2024, in our view, but we reduced our position in the stock to book some profits given the exceptionally strong rally in recent months. **Core & Main**, a specialized distributor of water, wastewater, and storm drainage equipment, also continued its strong share price performance after an effective 2023. The company posted strong Q4 2023 results and guided for above-consensus 2024 revenue. This was another stock where we slightly trimmed our position to book profits and allocate elsewhere within the portfolio. Integrated waste management companies **Waste Management Inc.** and Republic Services were the two other stocks that performed well in the review period. Fundamentally, the waste industry is in a good place with robust price/cost operating leverage and favourable volume trends.

Radius Recycling was a detractor to performance. Metal spreads were pressured during the quarter by persistently tight scrap flows, magnified by depressed levels of US manufacturing activity and unusually wet winter weather. We continue to hold the position as the share price appears to reflect the headwinds. American water utilities - American Water Works and American State Waters – also hurt performance. With interest rates spiking to multi-decade highs and strong macro data pushing interest rate cuts to later in the year, the first quarter was again a tough period for regulated water utilities. Multiples have significantly corrected in this area and stocks can rerate once interest rates turn.

Outlook

Having met quite a few companies in the first quarter, our view for the full year 2024 has been affirmed compared to our views from the beginning of the year. We still expect pricing to be a tailwind for the year for both water and waste management companies. Some of the demand volumes are expected to become stronger in the second half of the year. From an M&A perspective, we expect an above-average pace of tuck-ins to continue.

In general, market concentration continued in Q1 2024, with artificial intelligence stocks still being in favour; however, we saw a slight break in the ‘magnificent seven’, with both Apple and Tesla having tough quarters. The broadening of market breadth will help the water and waste stocks, as we saw in the last couple of months of 2023.

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