IMPAX Asset Management

# Impax Large Cap Fund

**Quarterly Commentary**
All data as of 12/31/2022

## Performance summary

- The Impax Large Cap Fund underperformed the S&P 500 Index during the fourth quarter.

## Market review

- Equity markets were stronger over the quarter on expectations that the Federal Reserve (Fed) would reduce the pace and amount of monetary tightening after US inflation numbers were weaker than expected. The Fed did raise interest rates in December by a smaller increment than the recent trend, however Fed Chair, Jerome Powell, also signaled that rates were likely to stay higher for longer as inflation remains elevated. Economic data has generally been weaker, with Purchasing Managers' Indices (PMIs) in the US signaling contraction. The US dollar weakened against the backdrop of a softer economy and a less aggressive rate hike cycle. While US 10-year bond yields were little changed over the quarter, the yield curve remained inverted, signaling the bond market anticipates a recession. This also provided support in December for quality and defensive stocks with better earnings growth after the more economically sensitive sectors performed better earlier in the quarter.

## Contributors

- The top active contributors were found in Health Care and Financials, and were driven by stock specific factors as opposed to macro themes.
- **Merck** (Health Care) delivered strong results, from both a top- and bottom-line perspective, as key growth drivers Keytruda (oncology) and Gardasil (HPV vaccine) continue to beat expectations.
- **JP Morgan** (Financials) outperformed peers as the company revised up 2023 revenue guidance on the back of a better outlook on fees, while maintaining stable expectations around net interest income and costs.

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**Performance** as of 12/31/2022

| | 1m | Quarter | YTD | 1y | 3y | 5y | 10y | incep[1] |
|---|---|---|---|---|---|---|---|---|
| Investor Class | -6.47 | 7.26 | -19.99 | -19.99 | 8.94 | 10.60 | — | 11.99 |
| Institutional Class | -6.40 | 7.28 | -19.77 | -19.77 | 9.20 | 10.88 | — | 12.26 |
| S&P 500 Index[2] | -5.76 | 7.56 | -18.11 | -18.11 | 7.66 | 9.42 | — | 11.17 |
| Lipper Large-Cap Core Funds Index[3] | -5.21 | 8.61 | -17.00 | -17.00 | 6.69 | 8.25 | — | 10.05 |

**Performance data quoted represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For most recent month-end performance information call 800.767.1729 or visit impaxam.com.**
Figures include reinvested dividends, capital gains distributions, and changes in principal value.

1 The inception date for the Impax Large Cap Fund Institutional Class and the Investor Class is December 16, 2016.

As of 5/1/2022 prospectus, total annual Impax Large Cap Fund operating expenses, gross of any fee waivers or reimbursements (excluding Acquired Fund fees and expenses), for Investor Class and Institutional Class shares are 0.97% and 0.71%, respectively.

## Detractors

- The Fund's largest active detractors were both driven by a negative shift in investor sentiment, related to company-specific management challenges.
- **Lincoln National** (Financials) announced a significant GAAP charge to cover changes related to decreasing numbers of older policy holders dropping coverage. This has impacted the balance sheet, expectations on the buyback program, as well as base case revenue. As a result, expectations for the company have deteriorated and the team exited the position.
- **Walt Disney Company** (Communication Services) sold off as they reported lower than expected top revenue and profits, as well as disappointing streaming growth and operating losses. The stock saw continued volatility due to the departure of CEO Bob Chapek and the return of former CEO Bob Iger almost two years after he stepped down.

## Outlook

- The possibility of a recession in 2023 remains, as expectations around peak inflation and related central policy decisions continue to dominate investors thinking. Continued deterioration of earnings expectations and higher discount rates provide a challenging environment in the short term. As a result, the investment team remains cautious, looking to navigate this potentially volatile period by balancing the portfolio between companies that offer stable earnings outlooks at reasonable prices and attractive franchises that have seen some short-term dislocation from long-term intrinsic value.

## Fund overview

**A core strategy that fully integrates analysis of ESG risks and opportunities and invests in a portfolio of companies we believe have strong prospects and attractive valuations.**

### Portfolio management team

**Barbara Browning, CFA®,** Portfolio Manager
**Andrew Braun,** Senior Portfolio Manager

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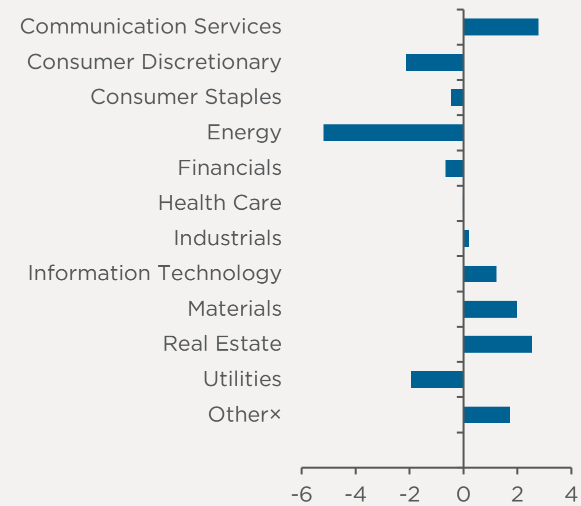
## Portfolio characteristics as of 12/31/2022

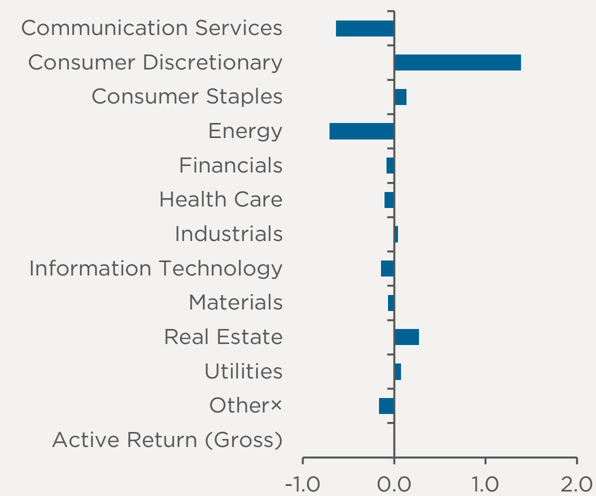
| | Fund | Benchmark |
|---|---|---|
| **Market cap (weighted avg.)[ƒ]** | $368,604M | $417,402M |
| **Forward price earnings[~]** | 17.29 | 16.89 |
| **ROE[°]** | 18.67% | 16.66% |
| **Beta[∞]** | 0.99 | 1.00 |
| **Number of securities** | 50 | 502 |

## Performance attribution 9/30/2022 – 12/31/2022

### Sector: Average active weights (%)




### Total relative contribution (%)




[x] Other: ETFs (for short-term cash mgmt. purposes) and Cash & Equivalents.
Past performance is no guarantee of future results. Short-term performance may not be indicative of long-term results.

## Definitions

[ƒ] Weighted Average is an average in which each quantity to be averaged is assigned a weight. These weightings determine the relative importance of each quantity on the average.

[~] Forward Price-Earnings Ratio or P/E FY1 ratio is a ratio for valuing a company that measures its current share price relative to its per-share earnings over the next 12 months.

[°] Return on Equity: The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporations' profitability by revealing how much profit a company generates with the money shareholders have invested.

[∞] The Ex-Ante Beta is calculated using a multi-factor risk model. Beta explains common variations in stock returns due to different stock sensitivities to the market relative to its underlying benchmark for the current period, not historical. A beta for a benchmark is 1.00: A beta greater than 1.00 indicates above average volatility and risk.

## Top 10 holdings as of 12/31/2022

Microsoft Corp. 6.4%, Apple, Inc. 4.6%, Trane Technologies PLC 3.0%, Alphabet, Inc., Class A 2.9%, Merck & Co., Inc. 2.7%, Walt Disney Co., The 2.6%, Visa, Inc., Class A 2.5%, Aptiv PLC 2.4%, Lowe's Cos., Inc. 2.4% and Citizens Financial Group, Inc. 2.4%. Holdings are subject to change.

## Disclosures

[2] The S&P 500 Index is an unmanaged index of large capitalization common stocks.

[3] Lipper Large-Cap Core Funds Index invests at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) greater than 300% of their dollar-weighted median market capitalization of the middle 1,000 securities of the S&P SuperComposite 1500 Index. Large-cap core funds have more latitude in the companies in which they invest. These funds typically have an average price-to-earnings ratio, price-to-book ratio, and three-year sales-per-share growth value, compared to the S&P 500 Index.

One cannot invest directly in an index.

**RISK:** Equity investments are subject to market fluctuations, the fund's share price can fall because of weakness in the broad market, a particular industry, or specific holdings. The Fund is actively managed. The investment techniques and decisions of the investment adviser and the Fund's portfolio manager(s), including the investment adviser's assessment of a company's ESG profile when selecting investments for the Fund, may not produce the desired results and may adversely impact the Fund's performance, including relative to other Funds that do not consider ESG factors or come to different conclusions regarding such factors.

Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

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**You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. For this and other important information, please obtain a fund prospectus by calling 800.767.1729 or visiting www.impaxam.com. Please read it carefully before investing.**



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