For professional clients only
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Monthly Perspectives
AXA IM Equity

Biodiversity Strategy
Texas floods highlight rising climate extremes; UN-led plastics talks revive hopes for global accord

- Global equity markets rose again in July amid trade optimism and strong earnings
- The strategy outperformed the equity market led by strength in tech and water-related holdings
- We increased positions in Microsoft and AGCO

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What's happening?

Global equity markets rose in July in US dollar terms after the US announced several trade agreements and the passage of the One Big Beautiful Bill Act (OBBBA) boosted market sentiment. A trade deal with Vietnam maintained US tariffs at 20%, while agreements with Japan and the EU set most imports at a 15% tariff rate, reducing trade war risks. Stronger than expected second quarter earnings from ~80% of S&P 500 companies, particularly in technology, also indicated that recent political turmoil had a limited impact on corporate performance. US equities continued to outperform but strength in the dollar weighed on returns in Europe and Japan. Elsewhere, China rose strongly with recent economic activity indicators coming in broadly better than expected. From a sector perspective, information technology and communication services continued to lead the way while more defensive areas such as consumer staples, real estate and healthcare slipped further behind. Growth outperformed value for the fourth consecutive month.

July was another month of biodiversity-related headlines. In Texas, flash flooding tragically killed 135 people as four months of rainfall fell in several hours. Kerr County had been in a prolonged drought, which hardened the soil leading to increased runoff. In addition, the extreme intensity of rainfall was caused by higher humidity levels, to some extent exacerbated by climate change. Sadly, these floods are another example of formerly rare natural disasters now seemingly happening more frequently. Beyond extreme weather, plastics pollution gathered column inches. Talks to hopefully agree an international accord on plastics continue in Switzerland in early August. These are a continuation of talks held in Korea in December 2024, which were unsuccessful in agreeing measures to promote plastics circularity and prevent leakage in the environment. The United Nations-led initiative looks to implement a more holistic approach to managing plastic pollution; to date, recycling has been targeted by most corporates but has failed to meaningfully improve the situation.

Portfolio positioning and performance

The Biodiversity strategy outperformed the broader equity market in July.

Source: All data sourced from Bloomberg, local currencies, as at 31/07/2025

Technology Enablers generated the strongest returns in July, led by software companies Cadence Design Systems and PTC. Cadence performed strongly into its results at the end of the month, which turned out to be impressive, delivering strong growth and raising 2025 guidance. In turn this was driven by strong capex supporting the next generation of semiconductor chip design. PTC had a volatile month; firstly the company was rumoured to be a takeover target for Autodesk. This was subsequently denied by Autodesk but served to highlight apparent upside to PTC's valuation. Later in July PTC reported solid results, highlighting progress on the company's evolving Go To Market strategy and strong renewal pipeline. SAP was the biggest detractor over the month as the European technology sector gave back some strong performance from earlier in the year. The company also reported results, which were solid, if not exceptional.

Two companies with water and environmental testing exposure – Xylem and Thermo Fisher – led returns in Resilient Infrastructure. Xylem's strong performance followed quarterly results which beat expectations across a broad range of metrics. Xylem has been implementing 80/20 for nearly two years; this appears to be driving profitable growth despite mixed end market conditions. Thermo Fisher, a high-quality company that has lagged since Covid, performed strongly following good results. Thermo effectively addressed persistent overhangs on the stock including long term organic growth, which they guided to being 7% or higher. Halma was the weakest stock in the sub theme as investors took profits and consolidated positioning following recent months of strong performance.

Manhattan Associates led returns in Responsible Production & Consumption following better than expected results. Manhattan, a specialist logistics and supply chain software company, is going through a transition under new management and is ramping up investment in its Go To Market strategy. This appears to be bearing fruit; longer term, the company should benefit from continued on premise to cloud transitions. Accenture was the biggest performance detractor as a lack of share price momentum continued following results in June. This was driven by softer trends on new bookings and gross margins. Bigger picture, some investors worry about how AI might negatively impact the broader consulting industry. We continue to believe AI will present many opportunities, which Accenture is well placed to capitalise on.

Precision agriculture companies Deere and AGCO led returns in Sustainable Food & Agriculture as they continue to recover from a depressed agriculture cycle in recent years. AGCO reported strong results at the end of July and raised guidance for 2025. Large equipment in North America continues to see strong demand, supporting higher than expected margins. Danish enzymes and bio-solutions company Novonesis was weak as shares gave back strong performance from earlier in the summer. Novonesis will announce results in the coming weeks and is expected to raise organic growth guidance out to 2030. However, some sell side analysts have met this sceptically, suggesting recent strong growth has been more cyclical than structural in nature.

We made a handful of trades in July, increasingly our positions in both AGCO and Microsoft.

Outlook

We think the portfolio is well-positioned to benefit from the structural tailwinds supporting investment in biodiversity. We think agriculture and food, closely followed by water, are the two biggest issues facing the natural world, and we think the fund's holdings in these sectors provide highly valued solutions to these challenges. While good progress has been made in recent years regarding regulation, in particular the Global Biodiversity Framework and the EU Nature Restoration Law, we find the more recent lack of consistency on environmental regulation frustrating. However, we do not think this is stifling innovation or progress in the private sector where companies are making sustainability-oriented investments independent of regulation. In fact, we are encouraged to see technology beginning to disrupt old-fashioned industries, like construction and agriculture, which have some of the largest negative biodiversity footprints. Moreover, companies are increasingly realising their dependencies on scarce natural resources, such as water, and making considerable investments to manage this risk.

Our outlook on financial markets remains unchanged. We believe markets have largely adjusted for a "higher for longer" interest rate environment where there will be greater scarcity of finance and growth. This should favour higher quality companies – those with strong cash flow generation and organic growth opportunities – who should be relatively

Source: All data sourced from Bloomberg, local currencies, as at 31/07/2025 unaffected. We believe the portfolio has good balance and can weather a potentially weaker economy or can outperform a more buoyant market with stronger growth.

No assurance can be given that the Biodiversity strategy will be successful. Investors can lose some or all of their capital invested. The Biodiversity strategy is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and micro capitalisation universe; Investments in specific sectors or asset classes.

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