Impax Asset Management

A tough year, but clear fundamental value

29 November 2023

AUM closed FY23 (30 Sep 23) on £37.4bn, 5% up y-o-y. Net flows were slightly negative (-£92m or -0.3% of opening AUM), with investment performance adding £1.8bn. It's been a tough year for asset managers, but in a London-listed peer group, Impax recorded the second-strongest net flow rate (median -7%, see page 3). Some experienced heavy (double-digit) net outflows.

Results were slightly better than forecast. Revenue was up 2% from £175.4m in FY22 to £178.4m (f'cast £176.3m) with adjusted operating profit* falling 14% from £67.4m to £58.1m (f'cast £55.4m).

The profit fall was due to adjusted operating costs increasing faster than revenue, by 11% from £108.0m to £120.3m. Part of this increase is still linked to the rapid scaling up of the business over the last few years as Impax's footprint, product offerings and client base continued to grow (e.g., new Tokyo office in FY23, new Manhattan office in FY22, expansion of fixed income team), and to investing in more robust support systems and infrastructure to support a larger business (page 9). We now expect cost growth to slow. **Indeed, H2 expenses were actually £1m *lower* than H1.**

Adjusted operating margin fell from 38.4% in FY22 to 32.6%. We expect this to recover with slowing cost growth and when AUM growth re-accelerates. There is still substantial uncertainty in markets, but it is worth highlighting that If markets stage a recovery, margin expansion could be rapid.

While it was a difficult year with profits falling, Impax is still generating significant cash from operations (£36.7m), and has **robust cash reserves** (£87.7m, 15% of market cap; FY22: £107.0m), despite paying £36.4m in dividends and £15.1m buying back shares. **It has no debt**.

The full-year dividend is unchanged at 27.6p, a **yield of 6.5%** on the 28 Nov 23 closing share price.

Uncertain markets, rock solid fundamentals, material undervaluation

While there is significant short-term uncertainty in markets, we think the longer-term growth outlook is robust. Contrary to many press reports, demand for the most credible sustainable investments (where Impax competes) has held up far better than the wider market (page 13), with Impax poised to gain share because of its credentials, and crucially, because **it has vastly more experience than other asset managers in generating superior returns from sustainable investments.**

We have made small changes to our FY24 forecasts based on the current results, but our fundamental value remains 800p per share, 88% above the current share price.

Summary financials & forecasts

Year-end 30 Sep	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
AUM, £bn	20.2	37.2	35.7	37.4	41.1	46.1
Revenue, £m	87.5	143.1	175.4	178.4	180.5	198.6
Adjusted Op. Profit*, £m	23.2	55.8	67.4	58.1	54.2	65.2
Net profit after tax	13.7	40.2	59.5	39.2	40.3	48.6
EPS basic, p	10.6	31.5	46.0	30.5	31.3	37.8
EPS adjusted & diluted, p	14.5	34.4	42.1	35.2	32.3	38.6
PER	40.3	13.5	9.3	14.0	13.6	11.3
Dividend, p	8.6	20.6	27.6	27.6	27.6	27.6
Yield	2.0%	4.8%	6.5%	6.5%	6.5%	6.5%
Net assets, £m	71.4	110.5	138.2	134.0	142.5	162.1
Net cash, £m	38.8	74.2	110.9	91.5	102.2	124.2

*Source: Group report & accounts, ED estimates. *See page 9 for definition. PER & Yield based on share price of: **427p**.*

Company Data

EPIC	IPX
Price (last close)	427p
52 weeks Hi/Lo	883p/369p
Market Cap	£566m
ED Fair Value/share	800p
Proforma net cash	£92m
Avg. daily volume	227k

Share Price, p

Source: ADVFN

Description

Impax is a specialist asset manager, focused on the growth opportunities arising from the transition to a sustainable economy. Founded in 1998, it offers a range of listed equities, fixed income, systematic, and private markets strategies.

AUM on 30 Sep 23: £37.4bn

Next Event, Q1 AUM update: Jan 24

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2020

SHARES AWARDS 2021 WINNER AIM Company of the Year

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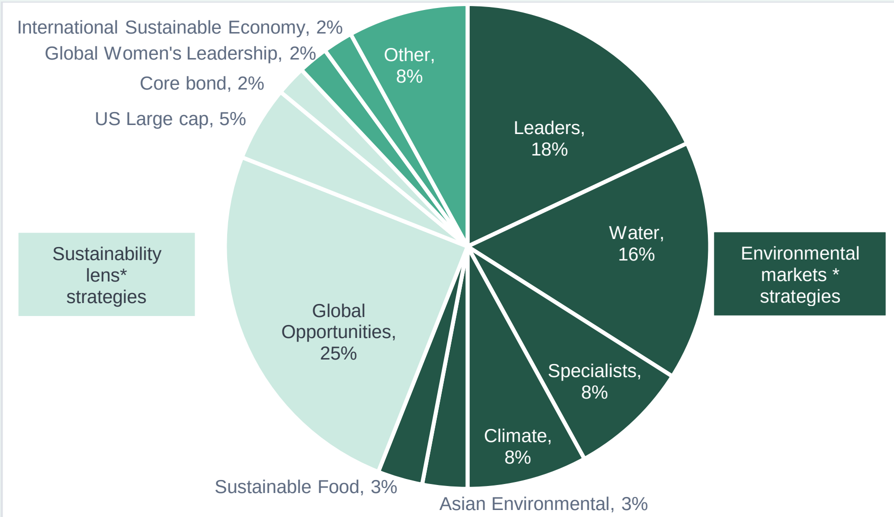
Impax at a glance

Impax is a specialist asset manager, focused on the growth opportunities arising from the transition to a sustainable economy. Founded in 1998, it offers a range of listed equities strategies (95% of AUM), fixed income (3%), and private markets (2%) strategies, including some systematic strategies.

It employs 300 people, the bulk of which are based in the UK (166) and the US (115), with other offices in Ireland (9), Hong Kong (8), and Japan (2).

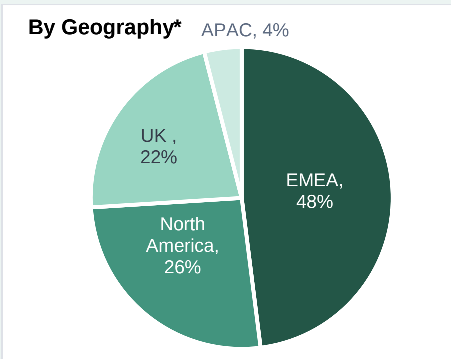
Split in AUM by strategies: 100% = £37.4bn (30 Sep 23)

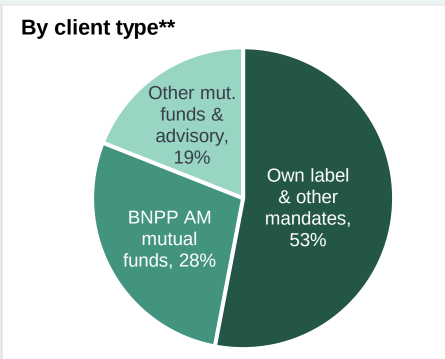


Source: Company, as at 30 Sep 23. *See pages 7 & 8 for more detailed descriptions of investment strategies.*
**Environmental markets strategies are thematic strategies, each focused on one area of the transition to a more sustainable economy. Sustainability lens strategies use a proprietary Impax framework for thinking about the risks and opportunities associated with the transition in every corner of the investable universe.*

It manages investments primarily for institutional clients around the world with Europe its largest market.

Split in AUM by geography, client type and distribution mechanism





Impax branded (Eur.)
Impax Investment Trust
Impax UCITS Vehicles
Impax private markets vehicles

Impax branded (NA)
Impax comingled vehicles
Impax funds vehicles

Impax branded (APAC)
Tokyo office

Distribution partners (Eur.)
ABN AMRO, ASN Bank, BNP Paribas Asset Management, Formuepleje, St. James's Place, Lombard Odier.

Distribution partners (NA)
Desjardins AM (Canada), FÉRIQUE (Canada), Mackenzie Investments (Canada), NEI Investments (Canada)

Distribution partners (Asia)
BNP Paribas Asset Management (Asia)
Fidante (Australia)

Source: Company, as at 30 Sep 23.
**Regional data is by fund/account country of domicile. EMEA includes Impax Irish UCITS platform and SICAV funds sub-managed for BNP Paribas Asset Management and other distribution partners.*
***'Own label' includes Irish UCITS platform in Europe, Impax Funds and Delaware Funds in US and Impax New Energy Funds; "other mandates" includes segregated mandates.*

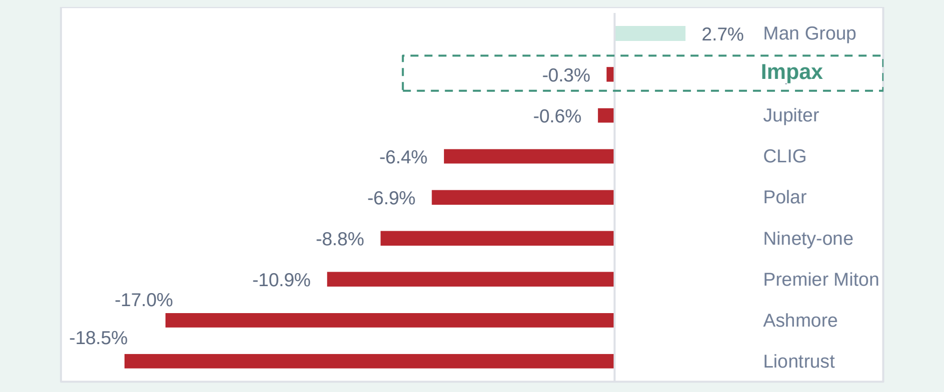
Another year of net flow leadership

Many asset managers, especially active equity managers, have experienced net outflows for the best part of two years. Yet Impax has shown a remarkable ability to attract and retain assets during difficult markets.

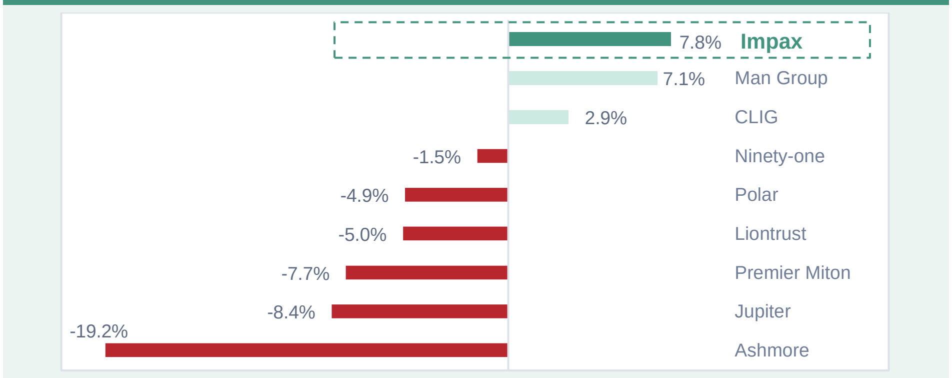
In FY23, it recorded marginally negative net outflows when many London-listed peers experienced heavy, sometimes double-digit, net outflows.

Only Man Group recorded a better net flow rate and this was heavily influenced by its large exposure to absolute return strategies (designed to make money in rising and falling markets), which is indicative of the caution and 'risk-off' stance of institutional investor clients.

Net inflows as % of opening AUM, FY23: 1 Oct 22 to 30 Sep 23



Net inflows as % of opening AUM, FY22: 1 Oct 21 to 30 Sep 22



Source: Company reports and updates, ED analysis
Data excludes AUM from acquisitions. Data not available for: Gresham House, Foresight, Schroders

Notable developments around Impax's AUM flows include:

- Strong net inflows of £1.6bn into Sustainability Lens equities strategies, with:
    - The Global Opportunities strategy recording net inflows of £1bn, boosted by large contributions from UK-based St James's Place, and via Formuepleje in Denmark and Desjardins in Canada;
    - the US Large Cap strategy seeing net inflows of £700m, boosted by subscriptions from Lombard Odier and a segregated mandate from a Japanese pension fund;
- Environmental Markets strategies recording net outflows of £1.7m.

This ability to attract and retain assets is clearly a testament to ongoing demand for sustainable investments generally (in contrast to widespread media reports of investors fleeing – see page 13); ongoing demand for the diverse range of sustainable investing strategies Impax offers to cater for a wide range of client needs; and Impax's credibility and track record in this investing space (see page 16).

Volatile markets a big influence on recent AUM moves

The last few years has however been a period of significant market volatility, with large market swings across most equity indices, including the environmental equity indices most applicable to Impax.

It is also noteworthy that most environmental equity indices (other than in energy efficiency) have underperformed broader market indices in 2023. This is primarily because they have not participated in the technology mega-cap rally and also because renewable and alternative energy valuations have continued their decline (following very sharp rises in the pre-2021 years: the *FTSE EO Renewable and Alternative Energy* index rose +49% in 2000 and +34% in 2019).

Large market swings have been a feature of recent years

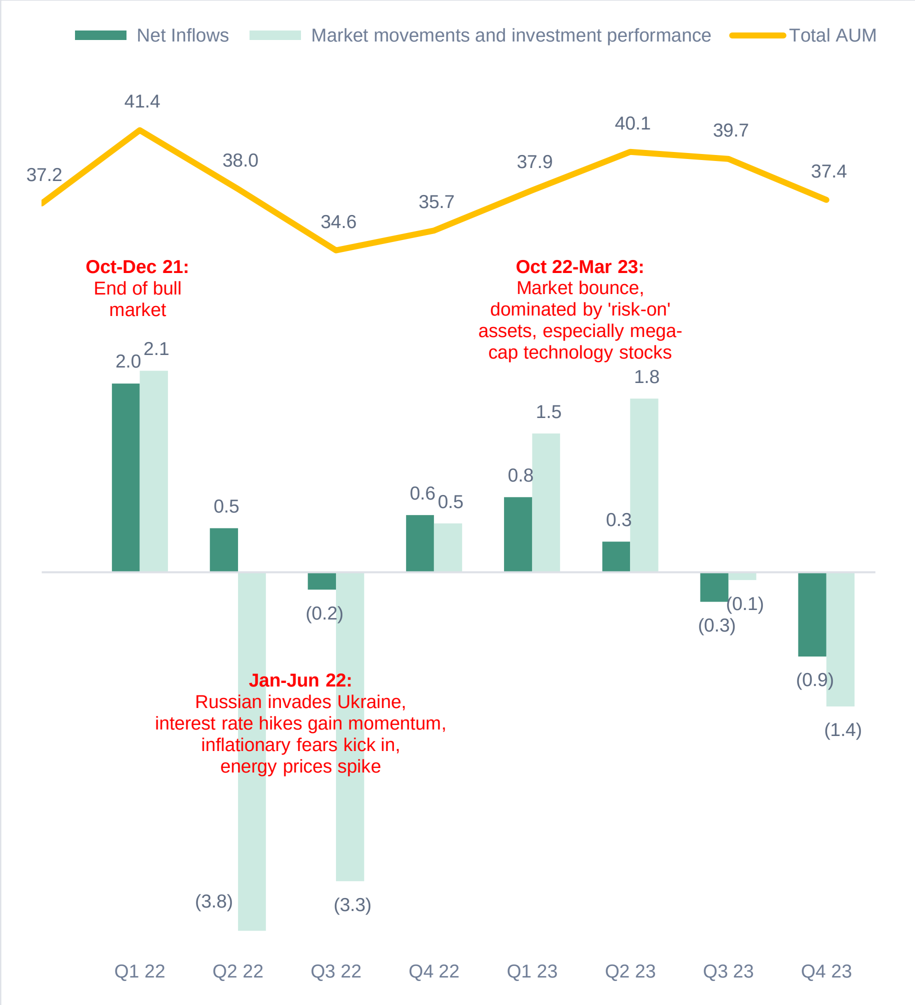
Broad market indices	2021*	2022*	Q1-Q3 2023*
MSCI ACWI	19%	-18%	9%
S&P 500	27%	-19%	9%
NASDAQ Composite	21%	-33%	26%
FTSE 100 (GBP)	18%	5%	2%

Environmental market indices	2021*	2022*	Q1-Q3 2023*
FTSE EO Renewable & Alternative Energy	-1%	-6%	-14%
FTSE EO Water Technology	23%	-18%	2%
FTSE EO Waste & Pollution Control Technology	23%	-17%	-5%
FTSE EO Energy Efficiency	25%	-28%	24%

Source: FTSE Russell, FT, NASDAQ, MSCI.
**Calender periods*
FTSE EO = FTSE Environmental Opportunities series. All indices in US$ except FTSE 100 (GBP).

These market swings have dominated recent AUM movements at Impax. In the chart below, note how much larger the light green bars (investment performance) are than the dark green bars (net flows).

FY22 & FY23 AUM, net flows, investment performance*



Summary IPX AUM movement last two FY's	FY22	FY23
Opening AUM	**37.2**	**35.7**
Net flows	+2.9	(0.1)
Investment performance*	(4.4)	+1.8
Closing AUM	**35.7**	**37.4**

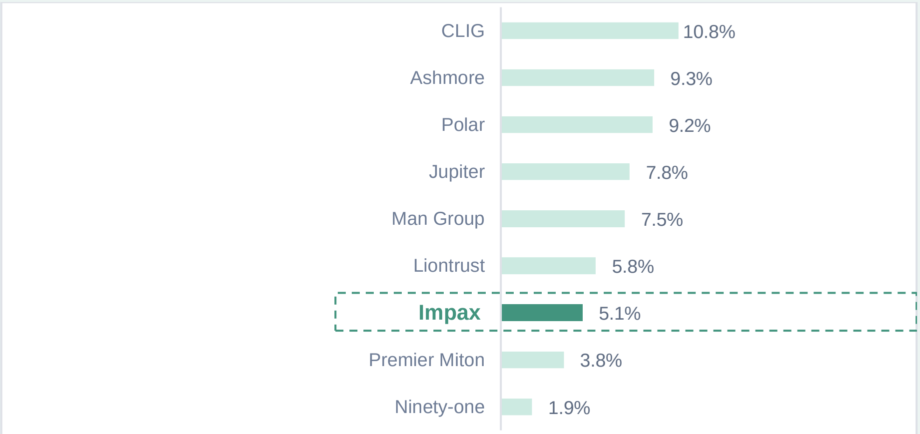
Source: Impax, ED Analysis.
FY quarters shown, not calender-quarters i.e., Q1: Oct-Dec; Q2: Jan-Mar; Q3: Apr-Jun; Q4: Jul-Sep.
**Impact of market movements, investment performance and forex movements*

The movement of markets more generally compared to the movement of environmental equities has also played a role in the relative impact of Impax's investment performance compared to other asset managers.

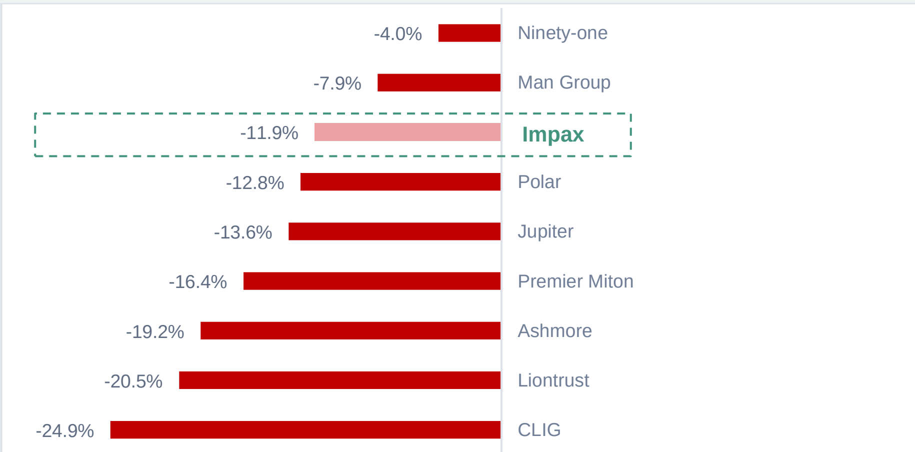
It delivered a strong relative performance in FY22 during a period of very sharp market falls (second chart below) as environmental equities, although down, were not as badly impacted by the selloff in growth (particularly technology) equities.

In FY23, while its investment performance was positive at +5.1%, its relative performance was weaker as it didn't have significant exposure to the technology-mega-cap equity bounce and was also negatively impacted by the sell-off in renewable and alternative energy equities.

Investment performance*, FY23: 1 Oct 22 to 30 Sep 23



Investment performance*, FY22: 1 Oct 21 to 30 Sep 22



Source: Company reports and updates, ED analysis
*AUM gains/losses from market movements, forex movements, and investment performance as a % of opening AUM
Data not available for: Gresham House, Foresight, Schroders

Track record of outperformance versus benchmarks

But looking beyond the last two years at Impax's investment performance record against benchmark indices, **over five-years, Impax has an impressive record of achieving returns above benchmarks for the vast majority (nine out of 11) of its strategies.**

Over shorter horizons, environmental markets strategies in particular have struggled with Impax recording a more mixed record over one- and three-year horizons.

This is illustrated in the tables below, with above benchmark performance shaded in green, and below benchmark performance in red:

Environmental Markets Strategies to 30 Sep 2023, % annualised return

LEADERS: AUM £ 6.7bn

Invests globally in companies developing innovative solutions to resource challenges in environmental markets. These markets address long term macro-economic themes: growing populations, rising living standards, increasing urbanisation, rising consumption, and depletion of limited natural resources. Investee companies have >20% of their underlying revenue generated by sales of products or services in environmental markets.

Investment period	1Y	3Y	5Y
Impax performance	9.0%	6.3%	8.4%
Benchmark – MCSI All Country World Index	10.5%	9.0%	7.9%

WATER: AUM £6.1bn

Invests globally in companies active in the rapidly growing water value chain. Investments are made in companies which have >20% of their underlying revenue coming from across the water value chain.

Investment period	1Y	3Y	5Y
Impax performance	11.1%	10.7%	10.6%
Benchmark – MCSI All Country World Index	10.5%	9.0%	7.9%

SPECIALISTS: AUM £ 3.1bn

Invests globally in companies developing innovative solutions to resource challenges in environmental markets, addressing long term macro-economic themes: growing populations, rising living standards, increasing urbanisation, rising consumption, and depletion of limited natural resources. Investments are made in “pure-play” small and mid-cap companies which have >50% of their underlying revenue generated by sales of products or services in environmental markets.

Investment period	1Y	3Y	5Y
Impax performance	-0.6%	6.5%	8.5%
Benchmark – MCSI All Country World Index	10.5%	9.0%	7.9%

CLIMATE: AUM £ 2.8bn

Invests globally in listed companies with exposure to products and services enabling mitigation of climate change or adaptation to its consequences and aims to invest across a diverse range of sub-sectors. Investee companies typically have >50% of their revenues in this space according to Impax’s Climate Opportunities Taxonomy.

Investment period	1Y	3Y	5Y
Impax performance	1.0%	3.3%	8.9%
Benchmark – MCSI All Country World Index	10.5%	9.0%	7.9%

ASIAN ENVIRONMENTAL: AUM £ 1.3bn

Invests regionally in Asia-Pacific companies developing innovative solutions to resource challenges in environmental markets, addressing long term macro-economic themes: growing populations, rising living standards, increasing urbanisation, rising consumption, depletion of limited natural resources. Investee companies have >20% of their underlying revenue generated by sales of products and services in environmental markets.

Investment period	1Y	3Y	5Y
Impax performance	-1.2%	0.8%	5.5%
Benchmark – MCSI AC AP Composite	4.7%	1.3%	2.9%

SUSTAINABLE FOOD: AUM £ 1.0bn

Invests in companies helping to address the sustainability challenges facing the food sector, which generate >20% of their revenues from sustainable food activities. This includes companies that are helping to lower the environmental impact of agriculture and food production, facilitating the provision of safe and nutritious food, and promoting animal welfare standards along the food value chain.

Investment period	1Y	3Y	5Y
Impax performance	1.1%	3.3%	4.0%
Benchmark – MCSI All Country World Index	10.5%	9.0%	7.9%

Source: Impax, ED analysis
All numbers show annualised returns. All returns and AUM shown in GBP as of 30 Sep 23.
Figures are presented gross of management fees and include the reinvestment of all income.
MSCI indices are total net return (net dividend re-invested).
MSCI AC AP Composite is a custom-made benchmark made up of 80% MSCI AC Asia Pacific ex Japan and 20% MSCI Japan, rebalanced daily

Sustainability Lens Strategies* to 30 Sep 2023, % annualised return

GLOBAL OPPORTUNITIES: AUM £ 9.2bn

All-cap global equity strategy that invests in companies possessing sustainable competitive advantages which are well positioned to seize the opportunities and mitigate the risks arising from the transition to a more sustainable economy.

Investment period	1Y	3Y	5Y
Impax performance	10.0%	8.4%	10.5%
Benchmark – MCSI All Country World Index	10.5%	9.0%	7.9%

US LARGE CAP: AUM £1.9bn

A core equity strategy that fully integrates analysis of sustainability risks and opportunities and invests in companies that have strong prospects and attractive valuations.

Investment period	1Y	3Y	5Y
Impax performance	5.0%	11.2%	11.9%
Benchmark – S&P 500 Index	11.2%	12.3%	11.4%

US SMALL CAP: AUM £0.5bn

A core strategy that fully integrates analysis of ESG risks and opportunities and focuses on high quality companies at reasonable prices. The strategy uses a proprietary sustainability lens and ESG research to better manage sustainability risks and identify opportunities, and it is fossil fuel free.

Investment period	1Y	3Y	5Y
Impax performance	1.3%	13.3%	6.4%
Benchmark – Russell 2000 Index	-0.4%	9.3%	3.8%

CORE BOND STRATEGY: AUM £0.7bn

An investment-grade bond strategy focused on the opportunities and risks arising from the transition to a more sustainable economy.

Investment period	1Y	3Y	5Y
Impax performance	-7.5%	-2.8%	1.8%
Benchmark – Bloomberg Barclays US Aggregate Index	-8.0%	-3.4%	1.4%

HIGH YIELD BOND STRATEGY: AUM £0.5bn

A high yield bond strategy leveraging proprietary sustainability tools and research to better identify opportunities and mitigate risks. Focuses on companies with stable profits and manageable debt loads and growing businesses with improving credit profiles.

Investment period	1Y	3Y	5Y
Impax performance	-0.3%	2.1%	4.2%
Benchmark – ICE BofA Merrill Lynch US High Yield BB-B (Constrained 2%) Index	0.2%	3.2%	4.3%

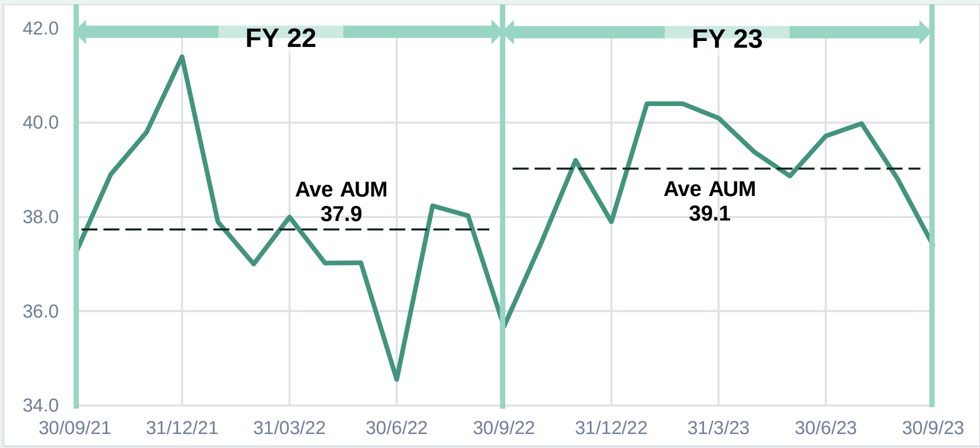
Source: Impax, ED analysis
**For more details see "An Introduction to the Sustainability-Lens".*
All numbers show annualised returns. Returns and AUM as at 30 Sep 2023.
Strategy returns are calculated including the dividends re invested, net of withholding taxes , gross of management fee.
MSCI indices are total net return (net dividend re invested).
S&P 500 Index is an unmanaged index of large capitalisation common stocks.
The Russell 2000 Index ("Benchmark") is an unmanaged index and measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
The ICE BofA Merrill Lynch U.S. High Yield BB B (Constrained 2%) index ("Benchmark") tracks the performance of BB and B rated fixed income securities publicly issued in the major domestic or Eurobond markets, with total index allocation to an individual issuer limited to 2%.
Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities and asset backed securities.

FY23 results

Revenue slightly up on higher average AUM

Revenue was up 2% from £175.4m in FY22 to £178.4m in FY23, on slightly higher average AUM and the weighted average run rate revenue margin slightly down from 46bps to 45bps. (average AUM is Impax's main revenue driver: most clients pay Impax a quarterly-in-arrears fee, calculated by multiplying a management fee rate - the abovementioned 45bps - by the average AUM level of the previous quarter).

AUM profile: FY22 & FY23, £bn



Source: Company reports, ED analysis. Average AUM calculated on a monthly basis

Costs and profitability

Adjusted operating costs (IFRS operating costs less non-recurring acquisition costs, on-going amortisation of intangibles acquired, and mark-to-market charges on equity award schemes) increased 11% from £108.0m to £120.3m. Part of this increase is still linked to the rapid scaling up of the business over the last few years as its footprint and client base continued to grow, and to the investment in more robust support systems and infrastructure needed to support this larger business. More specifically:

- Staff costs (69% of total operating costs) increased 5% from £81.8 in FY22 to £86.1m.
  - Headcount grew 10% from 272 at the end of FY22 (30 Sep 22) to 300, but 4% over H2 (staff complement on 31 Mar 23: 289).
  - Additionally, the percentage increase in staff costs was also due to FY23 incurring the full-year costs of staff recruited during FY22 (staff complement increased 25% during FY22 – staff complement on 30 Sep 21: 217).
  - Most of the additional staff added over the last two years have been in front-office client servicing roles, in the UK and Europe, the US, and in Asia, and in expanded product teams such as in fixed income.
  - There were new hires in the compliance team in FY23 to enhance functions in: investment (e.g., trade surveillance): distribution (e.g., FCA Consumer Duty requirements in the UK); oversight (e.g., thematic monitoring capabilities), and financial crime prevention oversight.
  - There were new hires in the enterprise risk team to oversee both investment and operational risk.
  - Impax's variable pay structure depressed the increase in staff costs to an extent in a year where growth and profitability were negatively impacted by poor market conditions (variable pay declined by £5.3m compared to FY22).
- A new office was opened in Tokyo in H1 (this follows the opening of an additional office in the US, in Manhattan, New York, during FY22).
- Impax's IT platform was enhanced with the implementation of Salesforce, a new data management strategy, and further automation of operational infrastructure.

Looking forward, we expect cost growth to slow substantially, indeed adjusted operating costs in H2 (£59.6m) were £1.0m less than in H1 (£60.6m).

With revenue growing at a lower rate than costs during FY23, adjusted operating profit fell 14% from £67.4m in FY22 to £58.1m in FY23, while adjusted operating margin fell from 38.4% in FY22 to 32.6%. Expanding on the point above, we expect the adjusted margin to recover from these levels (probably from FY25 onwards) as cost growth slows and growth re-accelerates. While there is still substantial uncertainty in markets, it is worth highlighting that If markets stage a recovery, margin expansion could be rapid.

IFRS operating profit decreased 17% from £65.2m to £54.2m. The primary differences between 'adjusted' and IFRS profits are that IFRS operating costs included a charge for the amortisation of intangible assets (management contracts) arising on the Impax NH acquisition (£2.8m) and a charge for acquisition equity incentives (£1.3m).

Profit before tax decreased 18% y-o-y from £72.6m to £52.1m, PAT 34% from £59.5m to £39.2m (negatively impacted by the increase in UK corporation tax rate); basic EPS 34% from 46.0p to 30.5p; and fully diluted adjusted earnings per share 16% from 42.1p to 35.2p.

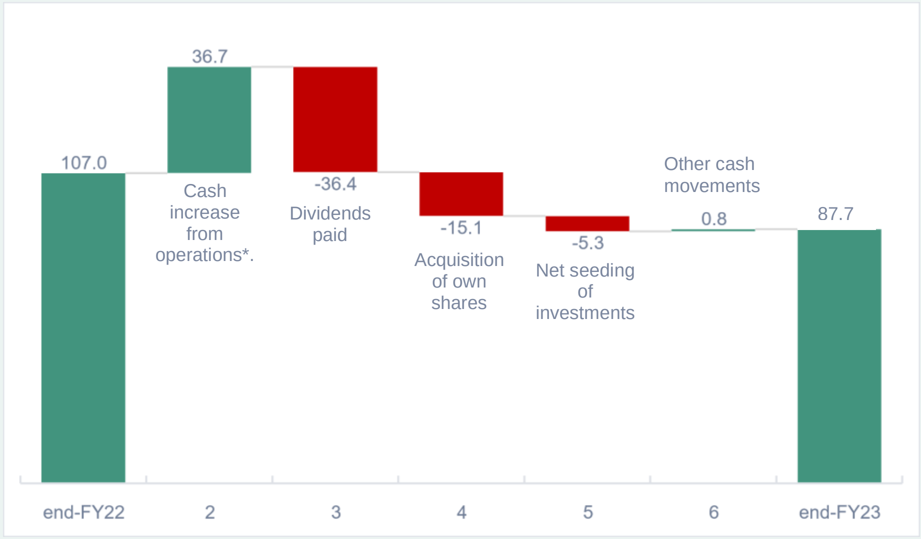
Balance sheet remains robust, capital surplus

The Balance sheet of the group remained robust, with net assets declining slightly by 3% y-o-y to £134.0m from £138.2m.

Importantly though, while it was a difficult year for Impax which saw profitability decline, **the business is still generating a significant amount of cash and has robust cash reserves**. So, while the cash generated from operating activities (after tax) declined, it was responsible for adding £38.7m (FY22: £71.3m) to the group's cash resources. The most significant cash outlays during the year were dividends paid (£36.4m), the acquisition of own shares (£15.1m), and net seeding of investments (£5.3m).

Cash reserves closed the year on £87.7m from £107.7m at the end of FY22 (these reserves exclude 3rd-party interest on consolidated funds, and therefore differ slightly from accounting 'net cash' of £91.5m which includes these funds).

Cash movements, £m

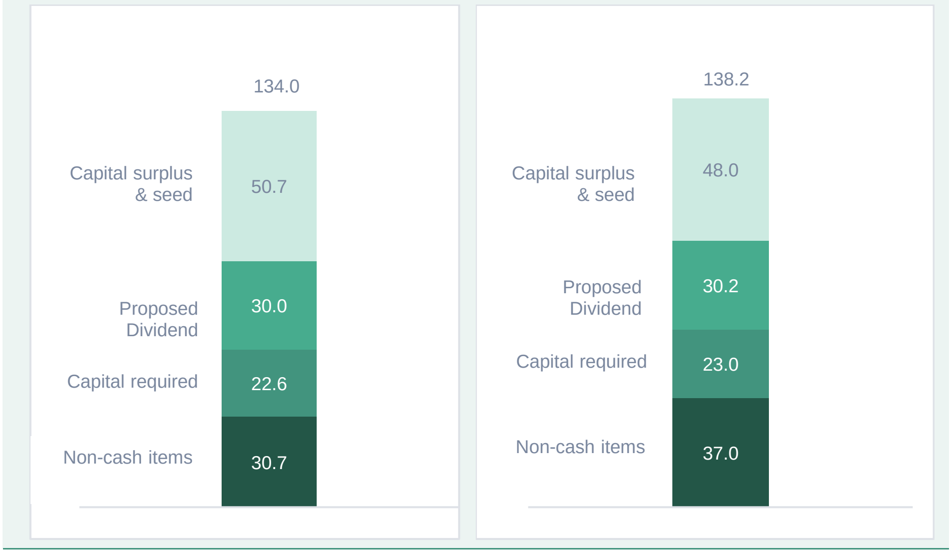


Source: Impax.
Excludes third-party interest on consolidated funds and cash held in Research Payment Accounts.
**Cash generated from operations after tax and lease-related charges.*

The group also provides a capital resources breakdown (see chart below) that takes into account minimum regulatory cash.

This shows Impax having a capital surplus (including seed investments) of £50.7m (FY22: £48.0m) which can be utilised to pursue organic or acquisitive growth opportunities, buy shares for the employee benefit trust (to avoid dilution from share awards), and the like.

Capital resources breakdown, shareholders equity, £m



Source: Impax

Supportive dividend yield

Impax's target dividend payout ratio is, in 'normal' circumstances, to pay an annual dividend within a range of 55%-80% of adjusted profit after tax.

The board has recommended that FY23 dividends remain unchanged from FY22, i.e., a final dividend of 22.9p per share in addition to the interim dividend of 4.7p, bringing the total dividend for the year to 27.6p. This remains within the target payout ratio (77% of adjusted profit after tax).

That produces a yield of 6.5% on the closing share price of 426.5p on 28 November 2023.

Outlook: uncertain markets but robust fundamentals

We highlight three factors that will have a big impact on Impax's growth (two related to the markets that it operates in, and then Impax's competitive positioning within these markets):

- Prospects of the 'active' asset management market;
- Prospects of the sustainable investing market; and
- Prospects of Impax maintaining or gaining market share in these markets.

History suggests 'active' will bounce-back

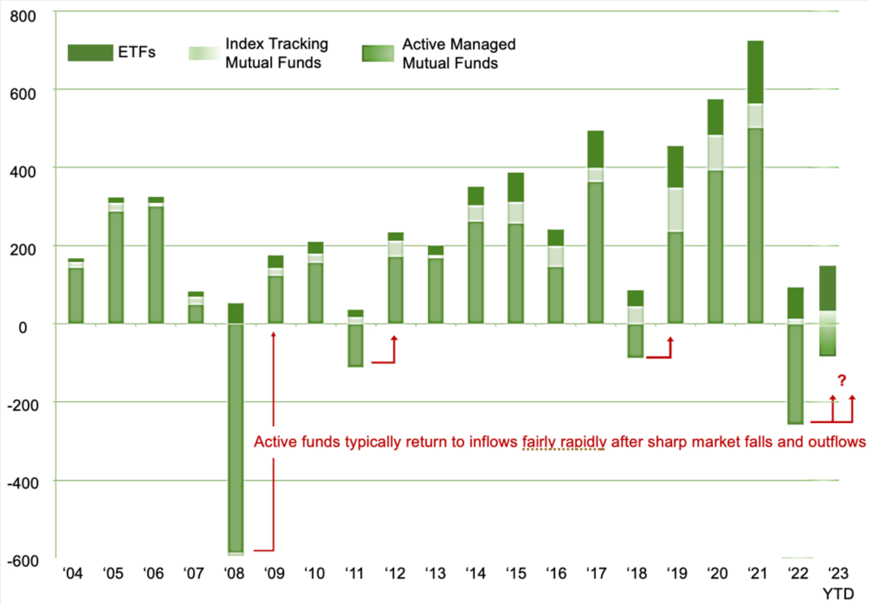
In light of the large amount of publicity around the shift to passive strategies, we believe it is important for investors to understand the historical trends and outlook for actively managed funds more generally.

First, referring to the medium-green bars in the chart below, we would highlight that in Europe, Impax's largest market (EMEA + UK = 70% of AUM), active strategies have attracted the bulk of assets by far, even over the last 10 years when the publicity around the growth of passive has been very prominent.

Second, we would highlight that historically**,** compared to passive funds and ETFs, **flows out of active funds tend to be more severe during market downturns**. The downturn since early-2022 has been no exception, and this market characteristic has certainly worked against Impax over the last two years or so.

And third, **after market falls, flows into active funds tend to quickly bounce back and revert to their positive longer-term trend**. This can be clearly seen in the chart below with flow recoveries after 2008 (financial crisis), 2011 (sovereign debt crisis), and 2018 (multiple factors) – highlighted in red.

Annual estimated European net fund flows, €bn



*Source: Refinitiv Lipper: European Fund Market Trends: 2022; European Fund Flow Report: September 2023. *to 30 Sep 23 Chart reproduced with permission.*

We think this bounce-back is likely to happen again and remain bullish on the prospects for high-performing active managers, as asset owners (Impax's clients) will continue to seek market outperformance. And we believe Impax's highly specialised offering is ideally situated to meet this market need.

Furthermore, there is no doubt that the most sophisticated clients are fully aware that there are cohorts of active managers which consistently outperform the market and will look to allocate capital to these managers. In fact, a recent study conducted by L.E.K. consulting (reported on in the article '*Active funds are here to stay*'), found that: *"…there is a cadre of active fund managers who are able to consistently generate alpha by focusing on niche strategies.*

Sustainable investing is not going away (but it is changing)

When it comes to sustainable investing, we think much of the media publicity suggesting waning interest (and sometimes even the demise of sustainable investing) is not grounded in facts, or at best, omits key facts. While we fully acknowledge that radical changes are afoot in the space, we believe these changes are the start of a transition.

This transition is from 'sustainable investing 1.0' (pre-2022), where demand for almost any funds with 'sustainable' or 'ESG' in the name or description was insatiable, and many asset managers, even those with no historical business in this space, moved quickly and opportunistically to satisfy this demand. It was also an environment of little or no specific sustainable investing regulation.

And it is to 'sustainable investing 2.0', where **investor demand is far more sophisticated and nuanced and aims to seek out the most credible sustainable investing funds**, which are also now regulated more robustly, with more regulation to come.

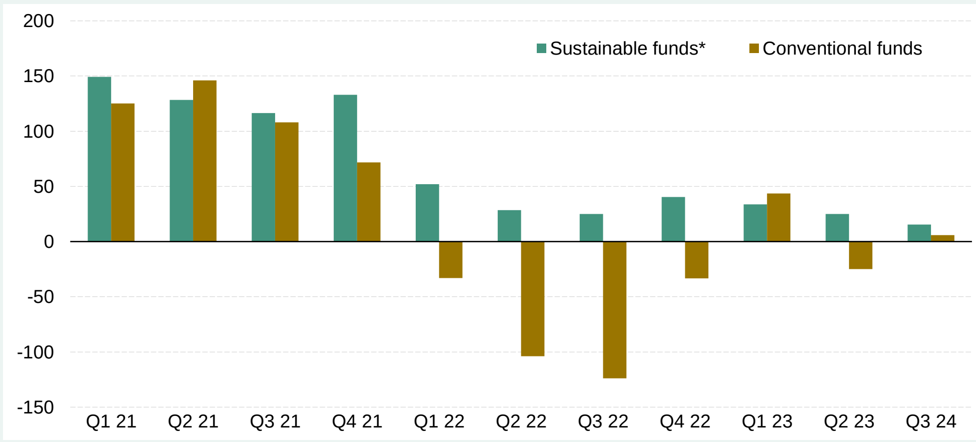
This is a shift which is indeed grounded in facts, as detailed below.

Demand for sustainable investments solid amid turmoil

In the European sustainable fund market (EU plus markets such as the UK and Switzerland), which makes up 84% of the global sustainable fund market[1], despite net flows falling significantly since the bull market of 2021, **net flows have been positive in every quarter since the start of 2021**.

This stands in contrast to 'conventional' funds which saw huge outflows in 2022 and outflows in every quarter since the start of 2022 except Q1-23 and Q3-23 (when they were marginally positive). Moreover, **flows into sustainable funds exceeded those of conventional funds in nine of the last 11 quarters (including the most recent two quarters).**

European sustainable* and conventional fund flows, US$bn



Source: Morningstar: Global Sustainable Fund Flows: Q3 2023 in Review (and prior reports)
** Open-end funds & ETFs domiciled in Europe that claim to have a sustainability objective and/or use binding ESG criteria for investment selection. Excludes funds that employ only limited exclusionary screens, such as controversial weapons, tobacco, and thermal coal. Excludes money market funds, feeder funds, and funds of funds.*

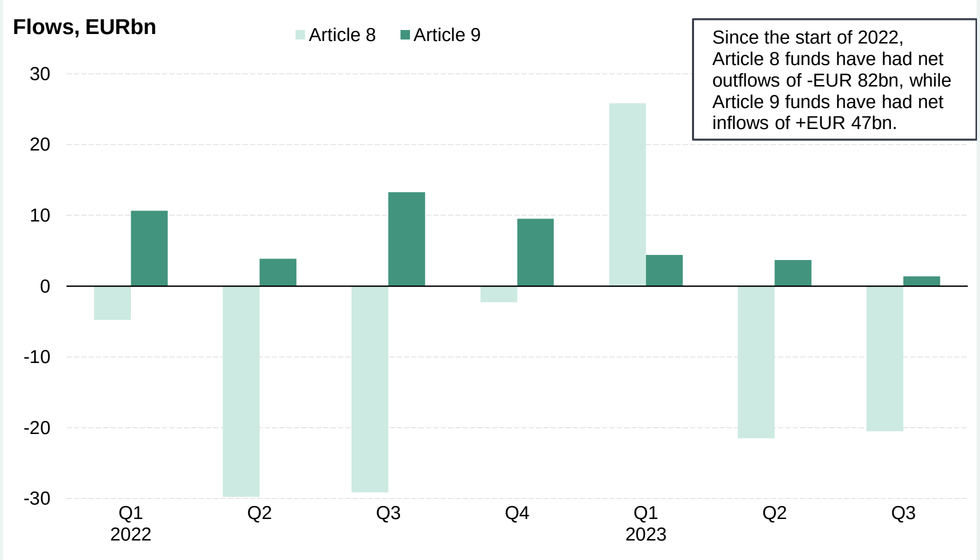
The 'most sustainable' funds are attracting much more capital

Additionally, within the EU, there is an emerging differentiation between the most credible sustainable funds (*Article 9* or 'dark green' funds with a specific sustainable investment objective) and those with lesser credentials (*Article 8* or 'light green' funds that *promote* environmental and/or social characteristics).

[1] *Morningstar. Global Sustainable Fund Flows: Q3 2023 in Review*

This has been particularly pronounced in the last two quarters, as illustrated in the chart below, and continues a recent trend of Article 9 funds having consistently positive flows while those of Article 8 have experienced outflows in six of the last seven quarters.

'Dark green' funds* are attracting more capital than 'light green' funds*



Source: Morningstar: SFDR Article 8 and Article 9 Funds: Q3 2023 in Review, chart reproduced with permission
** Open-end and exchange-traded funds in the scope of the SFDR that state in their prospectuses that they either promote environmental and/or social characteristics (Article 8) or have a sustainable-investment objective (Article 9).*

These stronger flows into article 9 funds have occurred despite an anomaly arising from regulation. In its report, *SFDR Article 8 and Article 9 Funds: Q3 2023 in Review*, Morningstar stated that Article 9 flows had been negatively impacted by: "*the great reclassification between the last quarter of 2022 and the first quarter of 2023. Around 350 Article 9 funds were repositioned to the Article 8 category* (ED note: see the Article 8 spike in Q1-23) *following the European Securities and Markets Authority's clarification of the EC's June 2021 Q&A last summer. It specified that funds making Article 9 disclosures should hold only sustainable investments, except for cash and assets used for hedging purposes*."

Demand for climate funds is particularly strong

Another relevant feature of the global sustainable investing market is the **strong relative demand for 'climate funds'** (around 20% of the global sustainable fund market), according to Morningstar[2].

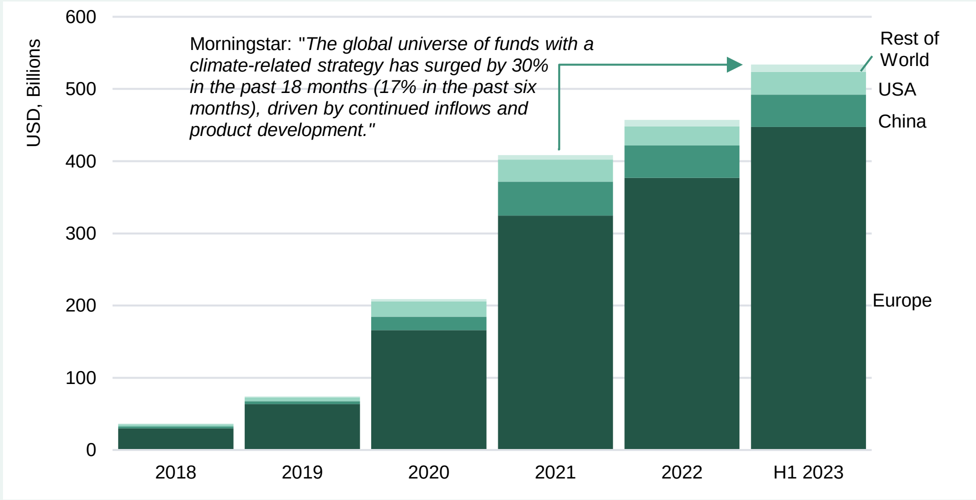
It has compiled data covering five groups of climate funds, based on investment objective and policy, diversification, and sector exposure: Low Carbon, Climate Transition, Climate Solutions, Green Bond, and Clean Energy/Tech. This would certainly be a market into which a good portion of Impax AUM falls.

And it is also a market that is growing and attracting capital far faster than the wider fund universe. According to Morningstar:

"*The first six months of 2023 saw a recovery of subscriptions as global climate funds netted almost USD 36billion. This represents almost 15% growth compared with the second half of 2022. In contrast, the broader open-end fund and ETF market saw a minor pickup of USD 48billion after registering combined outflows of USD 427 billion over the second half of 2022.* ***The comparison reflects the undiminished interest from investors in climate-related investments in the face of economic uncertainties".***

[2] *Morningstar: Investing in Times of Climate Change 2023*

Global 'climate funds' assets under management

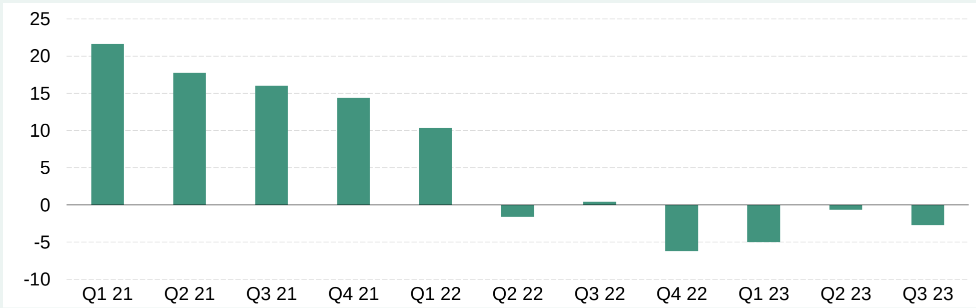


Source: Morningstar: Morningstar: Investing in Times of Climate Change 2023, Chart reproduced with permission.

US sustainable market weaker, but it remains a huge opportunity

An area of weaker demand, however, is the USA, which makes up around 11% of the global sustainable fund market. Headwinds, not least of which is a political backlash against ESG and sustainable investing, have slowed progress with net outflows recorded over the last few quarters.

US Sustainable* fund flows, US$bn



Source: Morningstar: Global Sustainable Fund Flows: Q3 2023 in Review. Chart reproduced with permission.
** Open-end funds and exchange-traded funds that, by prospectus or other regulatory filings, claim to focus on sustainability; impact; or environmental, social, and governance factors, excluding money market funds, feeder funds, and funds of funds.*

But the negative political headlines in the US are certainly not the dominant force when it comes to Impax's US operations. Policy moves such as the **Inflation Reduction Act** should translate to benefits for those companies in sectors such as sustainable infrastructure, renewable energy, and resource efficiency – with knock-on positive effects for Impax.

And Impax has stated that the impact of the 'anti-ESG' movement is largely limited to states where it is not active (e.g., Florida and Texas) and that the appeal of its offering is still strong in the East and West coast states such as New York and California which dominate capital markets.

We also flag up early signs of a 'backlash against the ESG backlash'. For example, Harvard Law School reports: "*Fiduciaries of the public* (pension) *plans have also pushed back on the use of these restricted lists* (which restrict the use of asset managers taking ESG factors into account in their investment decisions), *as evidenced by the ongoing dispute between the Oklahoma Treasurer's office and the board of trustees overseeing the Oklahoma Public Employees Retirement System (OPERS). Back in August, the OPERS board voted in favor of a move that would exempt the pension fund from having to terminate contracts with blacklisted firms based on an exemption for plans that determine that such requirement would be inconsistent with fiduciary responsibility with respect to the investment of entity assets."*

It is also important to stress that **headroom for growth in the US is huge**, as the share of sustainable fund assets compared to the overall fund universe is tiny. In such a large capital market, even very small market share shifts of fund flows could translate to huge sustainable investing growth, in dollar-terms.

Impax well positioned to further capitalise

As evidenced above, the higher demand for Article 9 funds in Europe and for climate funds around the world shows **increasing sophistication and selectivity from asset owners in choosing asset managers when it comes to sustainable investing.** We believe Impax, with its 25-year track record dedicated to sustainable investing, is positioned to take advantage of this trend, and poised to thrive.

Firstly, **from a company and product credibility perspective, Impax stands out from those many fund managers which 'jumped on the ESG bandwagon'** to satisfy investor demand, often with little substance behind their products.

An example of Impax's superior credentials is that it was one of only eight asset managers, out of 108 assessed, to achieve 'Leader' status in *The Morningstar ESG Commitment Level* assessment (August 2023). It was one of only four to maintain this leader status from the previous assessment.

Secondly, Impax is at an advantage when it comes to generating superior returns from the most credible of sustainable investments. During the 'sustainable investing 1.0' period, many ESG funds generated strong returns from simplistic strategies that resulted in them being overweight 'big tech' (which performed very well until end-2021). They just avoided 'smokestack' industries or ethically questionable sectors (such as tobacco).

But now, asset managers have to compete in the high-credibility sustainable investing space which is a lot more nuanced. Just because companies do not have obvious smokestacks does not mean they qualify as sustainable investments. For example, large data centres and AI algorithms consume huge amounts of power which means that many tech companies may no longer qualify as sustainable investments. **To compete, asset managers are going to have to generate superior returns from more 'pure play' sustainable investments (renewable energy, sustainable water, sustainable agriculture, waste reduction etc), and few have the knowledge, experience and investing systems of Impax.**

Thirdly, Impax has beefed up its distribution and its product offerings to capitalise on these opportunities, including:

- Opening a new office in Japan, following being selected by the Tokyo Metropolitan Government to receive a Green Finance Subsidy.
- Launching a second fund in Australia, targeting the wholesale market in collaboration with its local distributor, Fidante Partners.
- Signing a distribution agreement with São Paolo-based BTG Pactual, Latin America's largest investment bank, to Impax's range of Irish-domiciled UCITS funds.
- Increasing the availability of Impax's mutual fund range in the US on several of the largest wealth management platforms.
- Raising capital for a fourth private markets fund to invest in the renewable power sector.
- Increasing the size of its fixed income team following the identification of significant growth opportunities in this space.
- Launching a new Sustainable Infrastructure product within Listed Equities.
- Adding (shortly) the US Environmental Leaders strategy to the Ireland-based UCITS range.
- Launching (shortly) a new strategy targeting Social themes.
- Planning the launch (in 2024) of a Global Emerging Markets listed equities strategy using its Sustainability Lens.

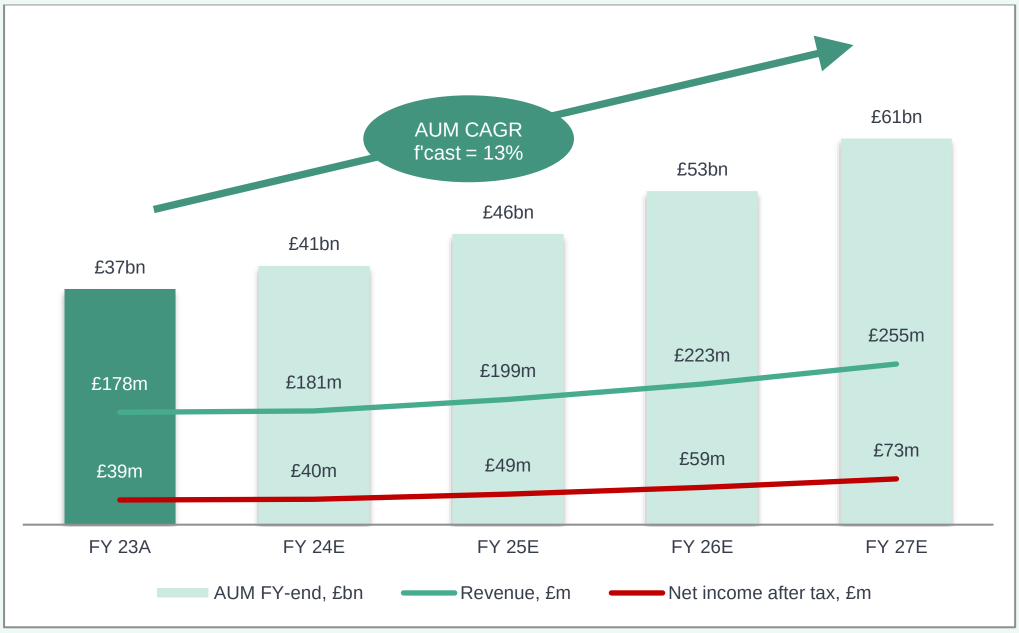
Valuation headroom

We have looked at Impax's valuation from a fundamental and from a sector multiple perspective.

Fundamental valuation 800p, >85% above share price

The forecasts used in our fundamental valuation are summarised in the chart below.

Projections used for fundamental valuation



Source: Impax, ED Analysis

These forecasts are arrived at using the following main assumptions:

- Net inflows of around £1.8bn are achieved in FY24. We acknowledge that the current net flow environment is volatile due to investor nervousness. For example, in FY22, Impax attracted £2.9bn of net inflows, while in FY23 net flows were marginally negative overall, with +£1.1bn of net inflows in H1 but -£1.2bn of net outflows in H2. We do however believe that an average net inflow rate of £400-£500m per quarter makes sense over the shorter term.

- These net inflows build to around £5bn-£6bn by FY27. We remind readers that net flows for FY21 reached £10.7bn. We think our assumed increase is reflective of Impax's very strong strategic positioning and investment offering, and also takes into account the likelihood of a bounce-back in active management flows and a return to more solid growth in the sustainable investing market.

- Investment performance of +5% per year is achieved, which we believe is conservative given the depressed state of valuations in some of the key sectors Impax invests in, e.g. renewable energy.

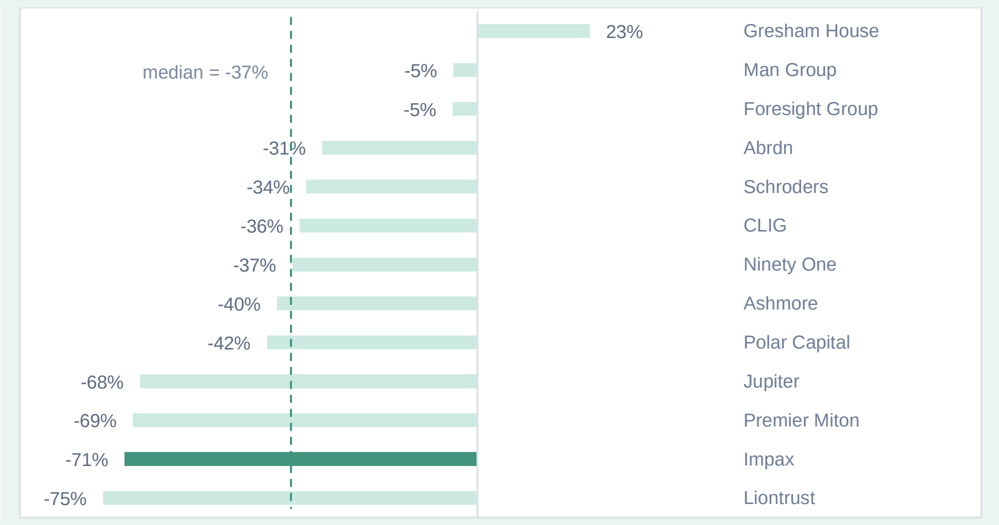
- Adjusted operating margins improves as the business scales, from the current 31% to around 39% by FY27 (Impax achieved a margin of 39% in FY21).

Using a discounted cash flow methodology with a discount rate of 12.5% we arrive at a fundamental valuation of 800p, more than 85% above the current share price.

Asset management sector ripe for a re-rating

Unsurprisingly, because asset managers' earnings are linked to financial market valuations, their share prices have fallen sharply since the end of the bull market in late 2021/early 2022 (median fall 37%), with Impax experiencing one of the sharpest falls of -71%.

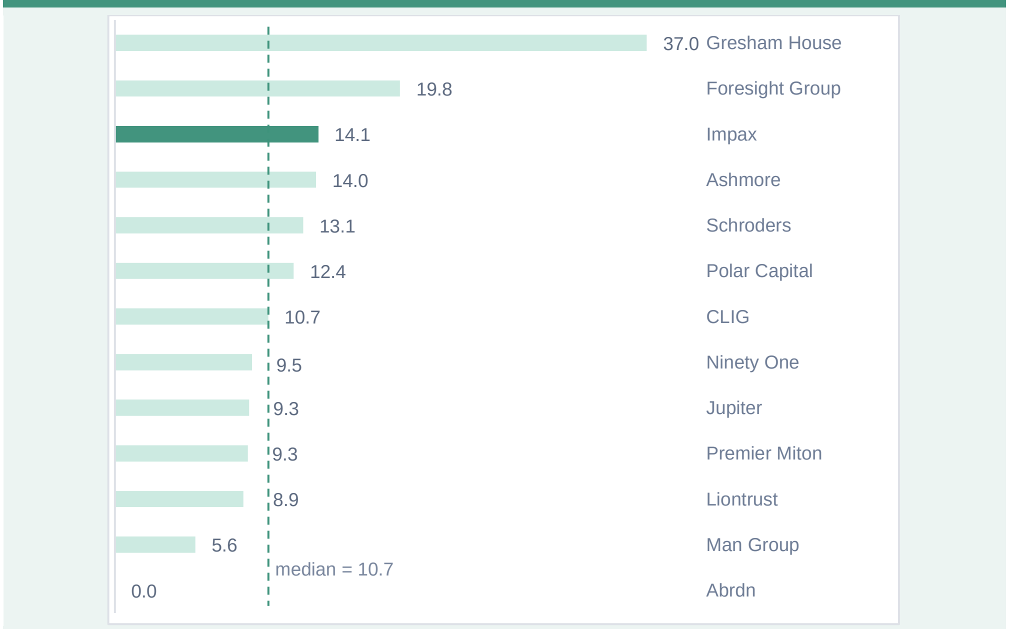
Asset managers' share price movement 31 Dec 21 – 27 Nov 23



Source: ADVFN, ED analysis

But while valuations may very well have become stretched at the end of the bull market, we would highlight that the acquisition of Gresham House (announced 15 Jul 23) is currently in process at a PE multiple of 37.0, far above the next highest valuations in the sector and the current peer group median of 10.7. This somewhat negates that argument and demonstrates that significant value is being seen in the sector by some (the acquisition price is 63% above the price on the day prior to the announcement of the acquisition).

Asset managers' PE Ratios



Source: ADVFN as at 27/11/23, ED analysis

We think asset managers' valuations have fallen too far and suspect that share prices may recover quite sharply should markets stage a recovery or the market outlook turns more positive.

Appendix – Historic and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end Sept, £m	**2021A**	**2022A**	**2023A**	**2024E**	**2024E**
Revenue	**143.1**	**175.4**	**178.4**	**180.5**	**198.6**
IFRS Income Statement					
Operating costs	(95.6)	(110.2)	(124.1)	(129.1)	(136.2)
Operating profit	**47.4**	**65.2**	**54.2**	**51.4**	**62.4**
Fair value gain/(loss) on investments	-	-	-	-	-
Non-controlling interest	-	-	-	-	-
Investment income	0.3	8.0	3.1	3.0	3.0
Finance cost	(2.0)	(0.6)	(5.3)	(0.6)	(0.6)
Change in third-party interest in consolidated funds	-	-	-	-	-
IFRS profit before tax	**45.7**	**72.6**	**52.1**	**53.8**	**64.8**
Taxation	(5.5)	(13.1)	(12.9)	(13.4)	(16.2)
IFRS PAT	**40.2**	**59.5**	**39.2**	**40.3**	**48.6**
Basic EPS, p	31.5	46.0	30.5	31.3	37.8
Diluted EPS, p	30.3	44.7	29.8	30.7	37.0
Adjusted Income Statement					
Adjustments to operating costs:					
Acquisition equity incentive scheme awards	1.6	1.3	1.3	-	-
Mark to market charge on equity awards	4.2	(1.5)	(0.3)	-	-
Exceptional acquisition costs	-	-	-	-	-
Amortisation of goodwill/intangibles	2.4	2.4	2.8	2.8	2.8
Credit from contingent consideration adjustment	0.2	-	-	-	-
Adjusted operating profit	**55.8**	**67.4**	**58.1**	**54.2**	**65.2**
Fair value gain/(loss) on investments	-	-	-	-	-
Non-controlling interest	-	-	-	-	-
Investment income	0.2	8.0	3.1	3.0	3.0
Finance cost	(1.1)	(0.6)	(1.3)	(0.6)	(0.6)
Adjusted profit before taxation	**54.9**	**74.8**	**60.0**	**56.6**	**67.6**
Taxation	(9.3)	(12.3)	(13.6)	(14.2)	(16.9)
Adjusted PAT	**45.7**	**62.5**	**46.4**	**42.5**	**50.7**
Adjusted Basic EPS, p	35.8	48.3	36.0	33.0	39.4
Adjusted Diluted EPS, p	34.4	42.1	35.2	32.3	38.6
Dividends					
Interim dividend, p	3.6	4.7	4.7	4.7	4.7
Final dividend, p	17.0	22.9	22.9	22.9	22.9
FY dividends per share, p	**20.6**	**27.6**	**27.6**	**27.6**	**27.6**

Source: Group report & accounts and ED estimates

Consolidated Balance Sheet + Forecasts					
as at end Sept, £m	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**
Assets					
Non-current assets					
Goodwill	11.8	13.9	12.9	12.9	12.9
Intangible assets	17.5	18.3	14.2	11.4	8.6
Property, plant and equipment	9.4	9.3	8.8	7.4	6.1
Deferred tax assets	11.9	4.8	3.7	3.7	3.7
Total non-current assets	**50.6**	**46.3**	**39.6**	**35.4**	**31.3**
Current assets					
Trade and other receivables	39.8	38.8	42.5	43.1	47.4
Investments	7.6	7.3	13.3	13.3	13.3
Current tax account	0.1	0.2	1.6	1.6	1.6
Cash: money mkt & LT deposits	38.1	58.7	53.5	53.5	53.5
Cash and cash equivalents	36.2	52.2	38.0	51.5	73.5
Total current assets	**121.7**	**157.1**	**149.0**	**163.0**	**189.3**
Total Assets	**172.4**	**203.5**	**188.5**	**198.4**	**220.6**
Equity and Liabilities					
Equity					
Ordinary shares	1.3	1.3	1.3	1.3	1.3
Share premium incl. merger reserve	10.8	10.8	9.3	9.3	9.3
Exchange translation reserve	0.4	3.1	2.9	2.9	2.9
Merger reserve	-	-	1.5	1.5	1.5
Hedging reserve	-	-	-	-	-
Retained earnings	98.0	123.0	118.9	130.2	149.8
Total equity	**110.5**	**138.2**	**134.0**	**145.3**	**164.9**
Current Liabilities					
Trade and other payables	50.1	53.6	44.8	45.3	49.9
Lease liability	1.3	1.5	1.5	1.3	1.0
Current tax liability	1.9	2.2	1.0	1.0	1.0
Total current liabilities	**53.4**	**57.3**	**47.3**	**47.6**	**51.9**
Non-current Liabilities					
Accruals	-	-	-	-	-
Lease liabilities	8.1	7.6	7.2	5.5	3.8
Deferred tax liability	0.4	0.4	-	-	-
Total non-current liabilities	**8.5**	**8.0**	**7.2**	**5.5**	**3.8**
Total equity and liabilities	**172.4**	**203.5**	**188.5**	**198.4**	**220.6**

Source: Group report & accounts and ED estimates

Consolidated Cash Flow Statement + Forecasts					
12 months to end Sept, £'m	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**
Profit before taxation	**45.7**	**72.6**	**52.1**	**53.8**	**64.8**
Adjustment for:					
Investment income	(0.3)	(8.0)	(3.1)	(3.0)	(3.0)
Interest expense	2.0	0.6	5.3	0.6	0.6
Depreciation and amortisation	4.1	4.3	5.1	5.1	5.1
Fair value (gains)/losses	-	-	-	-	-
Non-controlling interests	-	-	-	-	-
Contingent consideration adjustment	-	-	-	-	-
Share-based payment charges	4.9	6.2	6.5	6.5	6.5
Loss on disposal of of PPE	-	-	0.0	-	-
Op CF before movement in working capital	**56.4**	**75.6**	**65.9**	**63.0**	**74.0**
(Increase)/decrease in receivables	(19.0)	1.0	(3.8)	(0.5)	(4.3)
(Decrease)/increase in payables	22.5	3.7	(8.9)	0.5	4.5
Cash generated from operations	**59.8**	**80.3**	**53.2**	**63.0**	**74.3**
Corporation tax paid	(4.4)	(9.0)	(14.6)	(13.4)	(16.2)
Net cash generated from operating activities	**55.4**	**71.3**	**38.7**	**49.6**	**58.1**
Investing activities					
Deconsolidation of investment fund	-	-	-	-	-
Investment income received	0.1	0.6	2.9	3.0	3.0
Settlement of investment related hedges	(0.5)	0.1	(0.4)	-	-
Net redemptions/(investments) from unconsolidated Impax fu	(2.5)	0.4	(5.3)	-	-
(Increase)/decrease in cash held in money market & LT depo	(19.6)	(19.1)	5.1	-	-
Purchase of Impax NH shares	(0.7)	-	-	-	-
Acquisition of property, plant and equip and intangible assets	(0.3)	(0.8)	(0.8)	(0.9)	(0.9)
Net cash used in investing activities	**(23.4)**	**(18.9)**	**1.5**	**2.1**	**2.1**
Financing activities					
Acquisiiton of non-controlling interest	(0.2)	(0.2)	-	-	-
Repayment of bank debt	-	-	-	-	-
Interest paid on bank debt	(0.1)	(0.1)	(0.1)	(0.6)	(0.6)
Dividends paid	(13.6)	(28.7)	(36.4)	(35.5)	(35.5)
Acquisition of own shares	-	(8.8)	(15.1)	-	-
Payment of lease liabilities	(1.7)	(1.7)	(2.0)	(2.0)	(2.0)
Cash received on exercise of Impax share options	0.6	0.5	1.3	-	-
Net cash generated from /(used in) financing activities	**(15.0)**	**(39.0)**	**(52.3)**	**(38.1)**	**(38.1)**
Net (decrease)/increase in cash and cash equivalents	**16.9**	**13.4**	**(12.1)**	**13.5**	**22.0**
Cash and cash equivalents at beginning of year	20.2	36.2	52.2	38.0	51.5
Effect of foreign exchange rate changes	(1.0)	2.6	(2.1)	-	-
Cash and cash equivalents at end of year	**36.2**	**52.2**	**38.0**	**51.5**	**73.5**

Source: Group report & accounts and ED estimates

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