Impax Asset Management

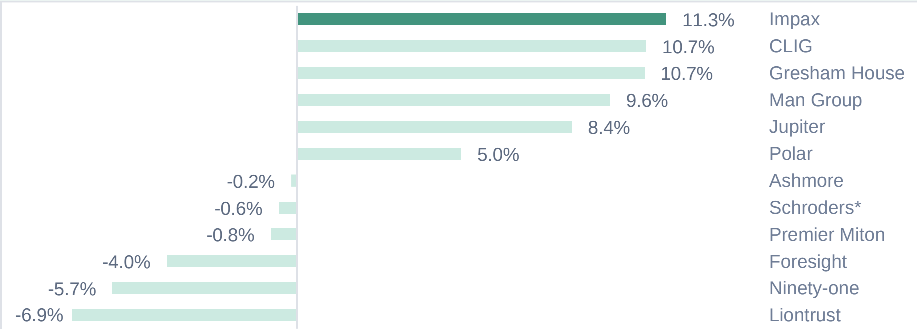
Sector-leading growth, but 3rd quartile valuation

9 October 2023

AUM closed FY23 (30 Sep 23) on £37.4bn, 5% up y-o-y. Net flows were slightly negative at -£92m, while investment performance added £1.8bn. Q4 however saw £893m of net outflows as retail investors in particular withdrew capital from markets. Impax has stressed that institutional client flows are more stable with these clients tending to delay investments, as opposed to withdraw funds. Q4 investment performance also pegged back AUM by £1.4bn (-3.6% compared to the FTSE Environmental Opportunities All-Share Index fall of -5.7%).

While comparative peer data is not yet available for Q4, Impax's relative growth rate over the first nine months of FY23 was certainly impressive - the highest among UK-listed peers:

UK-listed asset managers AUM growth 9 months Oct 22 – Jun 23



*Source: Company reports, ED analysis. *Asset Management only*

This outperformance is again underpinned by being a leader in attracting assets. **Impax's net flow rate has exceeded peers in every quarter since 2021**, through bull and bear markets (page 4). We think this can continue. Flows into sustainable funds, particularly those with the strongest credentials, and especially climate funds, have held up far better than conventional funds (page 2).

Recent share price fall makes current market rating look too low

We are therefore surprised to see Impax's share price pull back so sharply compared to other asset managers, to the point where its PER has fallen below a peer group median (9.9 vs 10.0, page 5). While the Q4 AUM fall does lead us to reduce our forecasts and **our fundamental valuation from 900p to 800p per share, this is still 76% above the current share price**. This, together with being a growth-leader with a lagging valuation, leads us to think that Impax is **ripe for a major re-rating**.

Summary financials & forecasts

Year end 30 Sep	FY20A	FY21A	FY22A	FY23E (prev)	FY23E (new)	FY24E (prev)	FY24E (new)
AUM, £bn	20.2	37.2	35.7	41.9	37.4	49.1	41.1
Revenue, £m	87.5	143.1	175.4	178.4	176.3	203.7	179.4
Adjusted Op. Profit[1], £m	23.2	55.8	67.4	55.5	55.4	69.4	56.6
Net profit after tax	13.7	40.2	59.5	34.9	34.9	44.9	35.3
EPS basic, p	10.6	31.5	46.0	27.1	27.0	34.8	27.3
EPS adjusted & diluted, p	14.5	34.4	42.1	33.4	33.4	39.9	32.7
PER	42.9	14.4	9.9	16.8	16.8	13.0	16.6
Dividend, p	8.6	20.6	27.6	27.6	27.6	29.1	27.6
Yield	1.9%	4.5%	6.1%	6.1%	6.1%	6.4%	6.1%
Net assets, £m	71.4	110.5	138.2	133.9	133.8	135.9	126.7
Net cash, £m	38.8	74.2	110.9	107.3	107.1	114.0	102.8

*Source: Group report & accounts and ED estimates. PER and Yield calculations based on share price of: **454p***

Company Data

EPIC	IPX
Price (last close)	454p
52 weeks Hi/Lo	883p/440p
Market Cap	£602m
ED Fair Value/share	800p
Proforma net cash	£67m
Avg. daily volume	201k

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, FY23 results, late-2023

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2020

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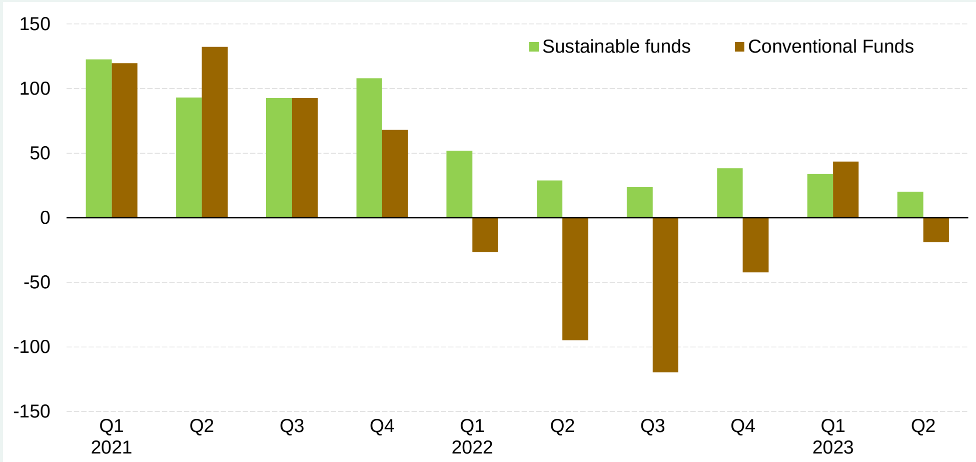
Sustainable investing market robust on relative basis

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[2], 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. Moreover, flows into sustainable funds exceeded those of conventional funds in eight of the last 10 quarters (including the most recent measurement, Q2-23, when sustainable fund flows were positive but conventional flows negative).

European sustainable* and conventional fund flows, US$bn



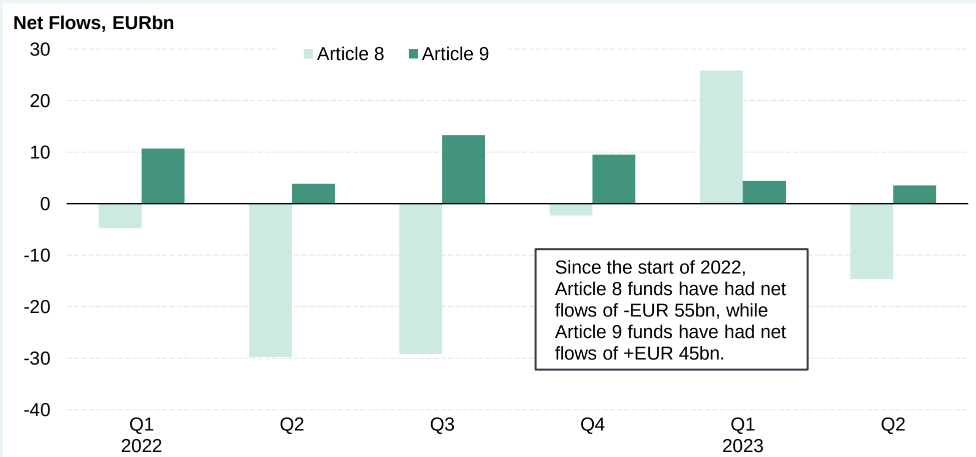
Source: Morningstar: Global Sustainable Fund Flows: Q2 2023 in Review, chart reproduced with permission
** Open-end funds & ETFs domiciled in Europe that claim to have a sustainability objective and/or use binding ESG criteria for investment selection. Excludes funds that employ only limited exclusionary 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).

Indeed, in Q2-23, Article 9 funds attracted EUR 3.6bn of positive net flows, while Article 8 funds had negative net flows of EUR 14.6bn, continuing a recent trend of Article 9 funds having consistently positive flows while those of Article 8 have experienced outflows in five of the last six quarters[3].

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



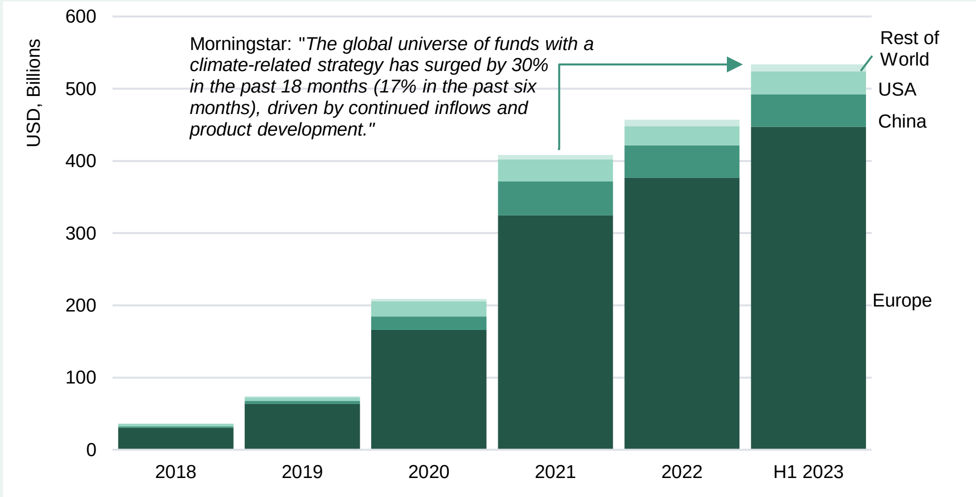
Source: Morningstar: SFDR Article 8 and Article 9 Funds: Q2 2023 in Review, chart reproduced with permission
** Open-end and exchange-traded funds in the scope of the SFDR that state in their prospectuses that they either promote environmental and/or social characteristics (Article 8) or have a sustainable-investment objective (Article 9).*

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[4]. 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 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".***

Global 'climate funds' assets under management



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

Impax well positioned to further capitalise

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.**

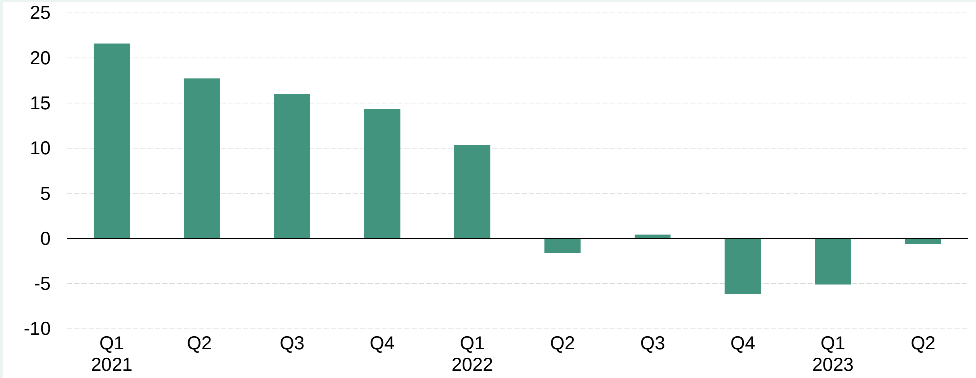
We believe Impax is positioned to take advantage of this trend, being one of only eight managers, out of 108 assessed, to achiever 'Leader' status in *The Morningstar ESG Commitment Level* assessment (August 2023). It was one of only four to maintain this leader status from the previous assessment.

US sustainable market weaker, but it remains a huge opportunity

An area of weaker demand in the sustainable investing space, 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. Net flows remained negative in Q2-23, although they were substantially less negative than the prior two quarters.

US Sustainable* fund flows, US$bn



Source: Morningstar: Global Sustainable Fund Flows: Q2 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.

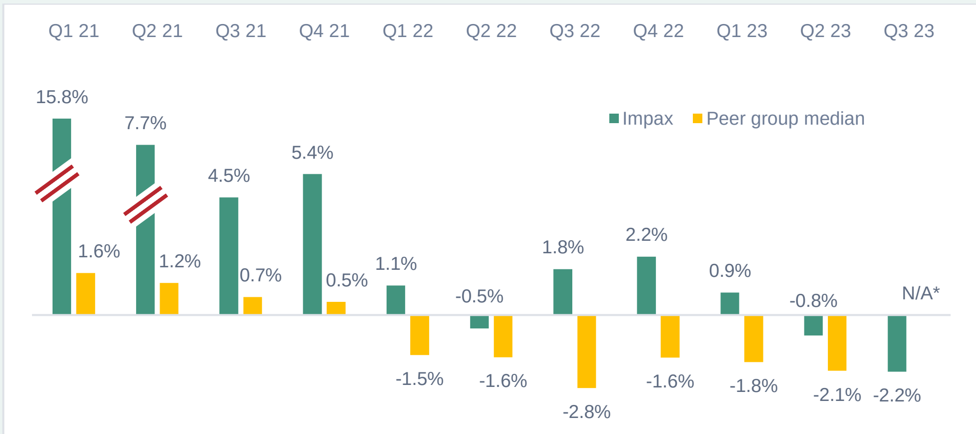
It is also important to stress that **headroom for growth in the US is huge**, as the share of sustainable fund assets compared to the overall fund universe is tiny. In such a large capital market, even very small market share shifts of fund flows could translate to huge sustainable investing growth,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

It was a mixed bag in other markets with Q2 23 being positive for Canadian and Asia ex-Japan flows, but negative in Australia, New Zealand, and Japan.

Impax has attracted capital at higher rates than peers …

Given the above relative strength of the sustainable investing market, and Impax's strong positioning within it, it shouldn't be a surprise to see that Impax's ability to attract capital has been consistently ahead of peers.

Net inflows as % of opening AUM: Impax v peer group[5]

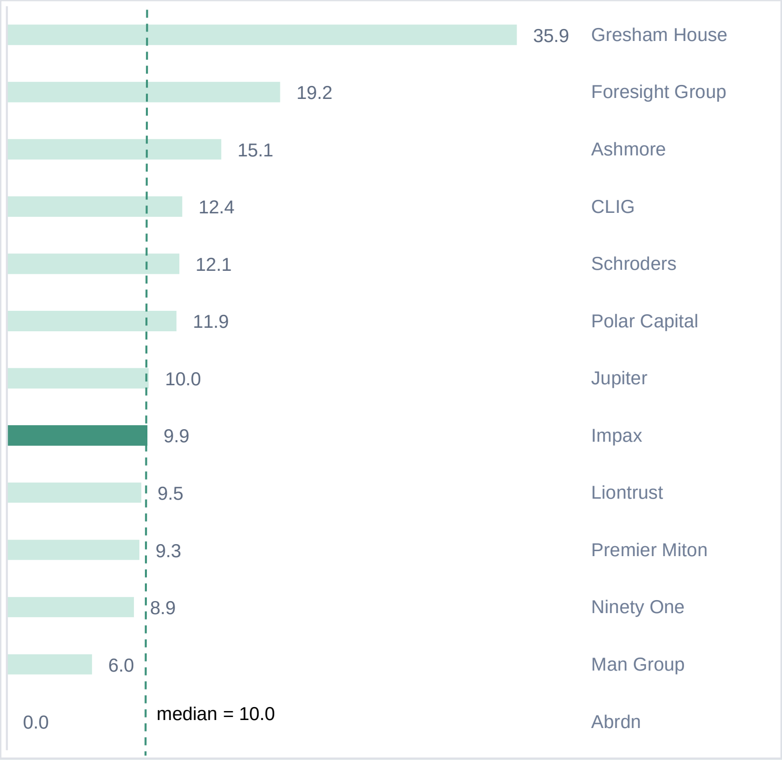


*Source: Company reports, ED analysis. Calander-quarters shown. *Peer-group data not yet available for Q3-23.*

… but its valuation now lags peers with lower growth

However, it might be a surprise to see that Impax's PE multiple has now slipped into the 3rd quartile of this peer group. We certainly find this strange.

PE Ratios, UK-listed asset managers



Source: Company reports, ED analysis. Data as at 6 Oct 2023.

We also highlight that asset managers' PERs have fallen sharply since the end of the bull market in early-2022. In January 2022, we recorded an asset manager peer group median PER of 31.3 (now just 10.0). While valuations may very well have become stretched at that time, we would highlight that the acquisition of Gresham House is currently in process at a multiple of 35.9, which somewhat negates that argument. **We suspect that asset managers' PERs may recover quite sharply should markets stage a recovery.**

Conclusion

We have reduced our fundamental valuation of Impax from 900p per share to 800p per share, adjusting mainly for the lower-than-forecast end-FY23 AUM level.

We shall further refine our forecasts and our valuation with the release of FY23 results in late-November or early-December 2023. But a 76% share price discount to our fundamental value strikes us as extreme.

We think Impax is ripe for a substantial re-rating.

1 Adjusted results eliminate non-recurring acquisition costs, ongoing amortisation of intangibles acquired, one-off tax credits and mark-to-market of National Insurance on equity award schemes.

2 Morningstar: Global Sustainable Fund Flows: Q2 2023 in Review

3 Morningstar: SFDR Article 8 and Article 9 Funds: Q2 2023 in Review

4 Morningstar: Investing in Times of Climate Change 2023, (Sep 23)

5 Peer group includes: Man Group, Ashmore, Jupiter, Liontrust, Polar, Premier Miton, CLIG. Quarterly net flow splits not available for: Schroders, Foresight, Gresham House, Ninety One, Abrdn.

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