

11 April 2023

Positive net flows continue, AUM +12% over H1'23

Impax maintained its impressive record of attracting and retaining client assets, with net flows in Q2-FY23 (to 31 Mar 23) of +£326m, achieved in a quarter characterised by further market turmoil and, no doubt, investor nerves. A strong investment performance of +£1.9bn was recorded. AUM reached £40.1bn, up 6% over Q2 and 12% over H1 (AUM end-FY22: £35.7bn).

When we published our last note in Jan 23, asset manager peer group and sustainable fund market data for calendar-2022 was not yet available, so it is well worth reflecting on that data now. Despite sustainable equities suffering sharper falls than the overall market, Impax had an impressive year:

- It recorded the second-highest net inflow rate¹ among a peer group of 11 London-listed asset managers: +4% versus a peer group median of -6% (see page 2); and
- It recorded an investment performance² of -12.3%, compared to the -24.1% fall of the FTSE Environmental Opportunities All-Share Index (FTSE EO).

In the context of the wider sustainable investing market, we highlight that flows into sustainable funds were indeed far lower in 2022 than in 2021 but held up better than flows into 'conventional' funds and remained positive, with flows into conventional funds turning sharply negative (see page 3).

Additionally, sustainable equity valuations have bounced back strongly. The FTSE EO Index gained +12.6% in calendar-Q1-23 (FTSE Global All Cap +7.0%), following its 24.1% fall over 2022 (FTSE Global All Cap -17.9%). And despite 2022's underperformance, the FTSE EO has outperformed the FTSE Global All Cap over a 3Y (+82.2% v +56.3%) and 5Y horizon (+67.9% v +40.9%)³.

We also see Impax benefitting from a recent market trend: **demand for sustainable investments remains strong, but the universe of highest-quality sustainable funds is contracting**. In Europe since Sep 22, 307 funds were downgraded from 'dark green' Article 9 status to 'light green' Article 8 status (40% of Article 9 assets), while only 20 upgraded from 8 to 9. Also, Morningstar assessed that only 27% of Article 8 funds with 'sustainable' in the name would meet proposed rules on fund names⁴.

Fundamental valuation 1,000p, undemanding PER

Our forecasts remain unchanged as does our fundamental valuation of 1,000p, 27% above the closing share price on 6 Apr 23. We think Impax's PE ratio of 17.1 (peer group median 14.9) is undemanding and looks justified given its recent performance and growth prospects (see page 4),

Company Data

EPIC	IPX
Price (last close)	786p
52 weeks Hi/Lo	1032p/487p
Market Cap	£1042m
ED Fair Value/share	1,000p
Proforma net cash	£111m
Avg. daily volume	195k

Share Price, p



Source: ADFVN

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 31 Mar 2022: £40.1bn

Next Event, H1-23 results: May 23

Summary financials & forecasts

Year end 30 Sep	FY20A	FY21A	FY22A	FY23E	FY24E
AUM, £bn	20.2	37.2	35.7	41.9	49.1
Revenue, £m	87.5	143.1	175.4	180.3	209.5
Adjusted Op. Profit*, £m	23.2	55.8	67.4	65.2	77.5
Net profit after tax	13.7	40.2	59.5	49.0	56.3
EPS basic, p	10.6	31.5	46.0	37.3	42.7
EPS adjusted & diluted, p	14.5	34.4	42.1	37.4	42.5
PER	74.2	24.9	17.1	21.0	18.4
Dividend, p	8.6	20.6	27.6	29.1	30.9
Yield	1.1%	2.6%	3.5%	3.7%	3.9%
Net assets, £m	71.4	110.5	138.2	154.1	177.8
Net cash, £m	38.8	74.2	110.9	129.2	157.4

Source: Group reports & accounts and ED estimates. PER, yield calculations based on share price of 786p
* Adj. results eliminate non-recurring acquisition costs, ongoing amortisation of intangibles acquired, one-off tax credits and mark-to-market of NI on equity award schemes.



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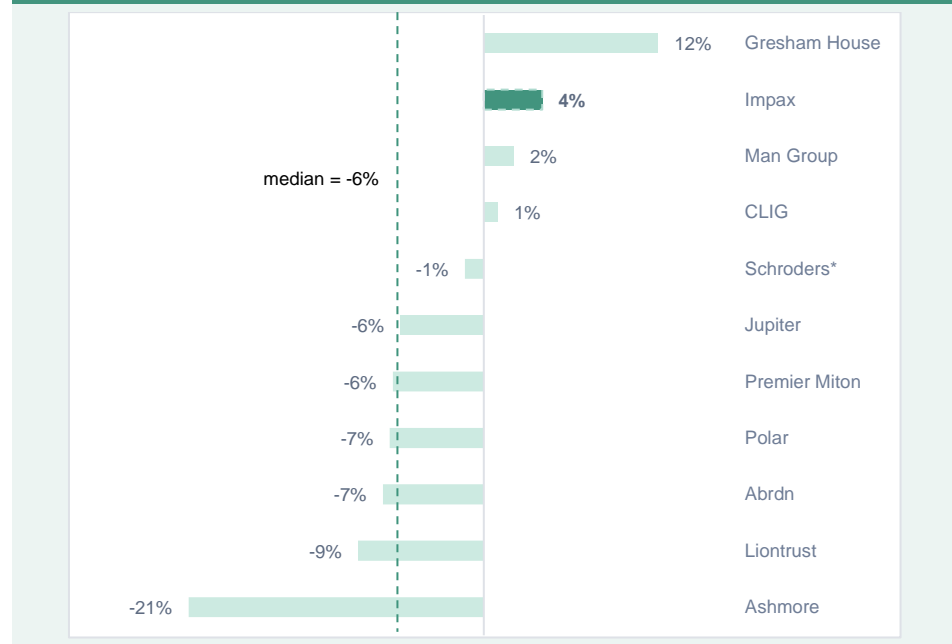
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Impax net flows strong compared to peers

Compared to a peer group of UK-listed asset managers, Impax recorded the second highest net inflow rate during 2022, despite sustainable equities suffering valuation falls that were sharper than the wider market.

We would also flag that the highest net inflow rate, recorded by Gresham House, was probably assisted by the bulk of its AUM being in long-term investment vehicles such as Limited Partnerships, which don't provide for rapid withdrawal of funds i.e. investors are 'locked-in' for a period. When net outflows from funds are common, these fund structures will tend to have a strong relative net flow performance.

UK-listed asset managers, net flows as % of opening AUM, calendar-2022

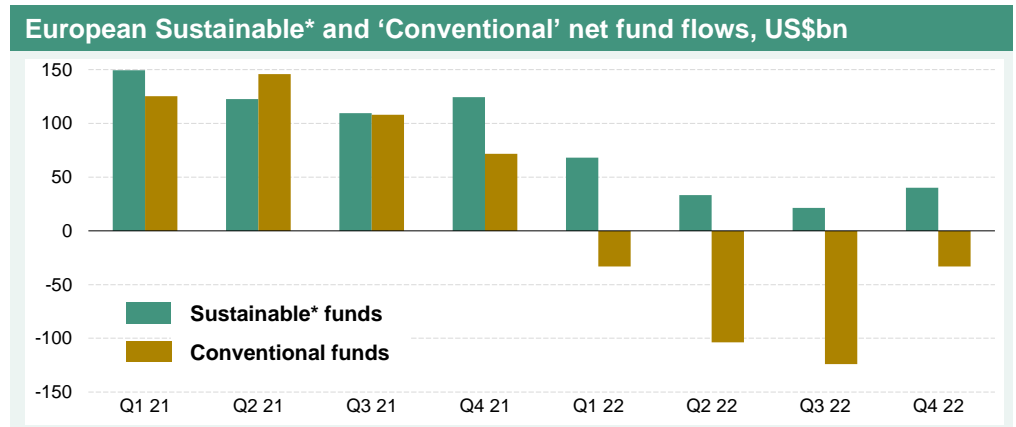


Source: company reports, ED Analysis
 *Asset management division only

Sustainable flows more resilient

Since our last note in Jan 23, new research has been published on full-year 2022 sustainable fund flows (Q1-23 data not yet available). And it shows that despite market falls, **flows into sustainable funds held up far better than the wider fund universe** in Impax's largest markets of Europe (incl. UK) and the US.

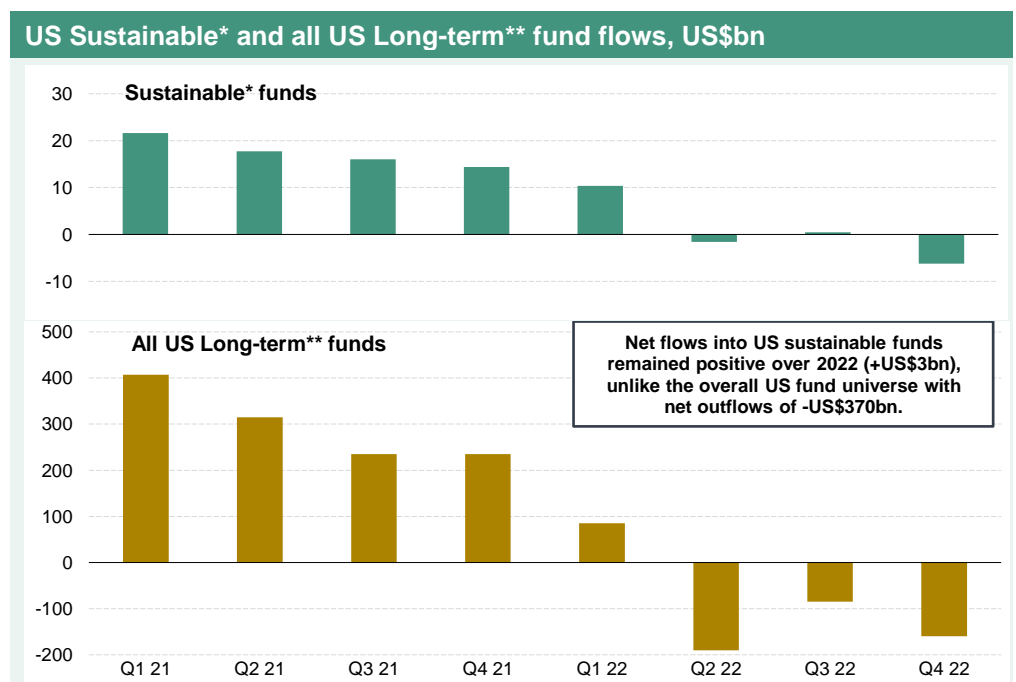
In Europe (83% of global sustainable assets according to Morningstar), fund flows fell sharply from 2021, but remained positive in every quarter of '22. Morningstar wrote: "sustainability-focused investors—who are typically values-driven and long-term-oriented—are slower to pull money from funds they are invested in".



Source: Morningstar: Global Sustainable Fund Flows: Q4 2022 in Review

* 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.

In the US (11% of global sustainable assets), flows were not as resilient as in Europe, but were still more resilient than the overall fund universe and were almost certainly impacted by growing anti-ESG political rhetoric. However, investors should bear in mind that the share of sustainable assets compared to the overall market in the US is tiny (note the scales of the two charts below). So, while headwinds exist, even a modest turnaround in sentiment could be huge in terms of the size of the US sustainable investing market.



Source: Morningstar: Global Sustainable Fund Flows: Q4 2022 in Review; Sustainable Funds U.S. Landscape Report, Feb 2023; morningstar.com/articles/1138366/us-fund-flows-january-kicks-off-2023-in-positive-territory;

morningstar.com/articles/1102711/june-cements-a-negative-quarter-for-us-fund-flows

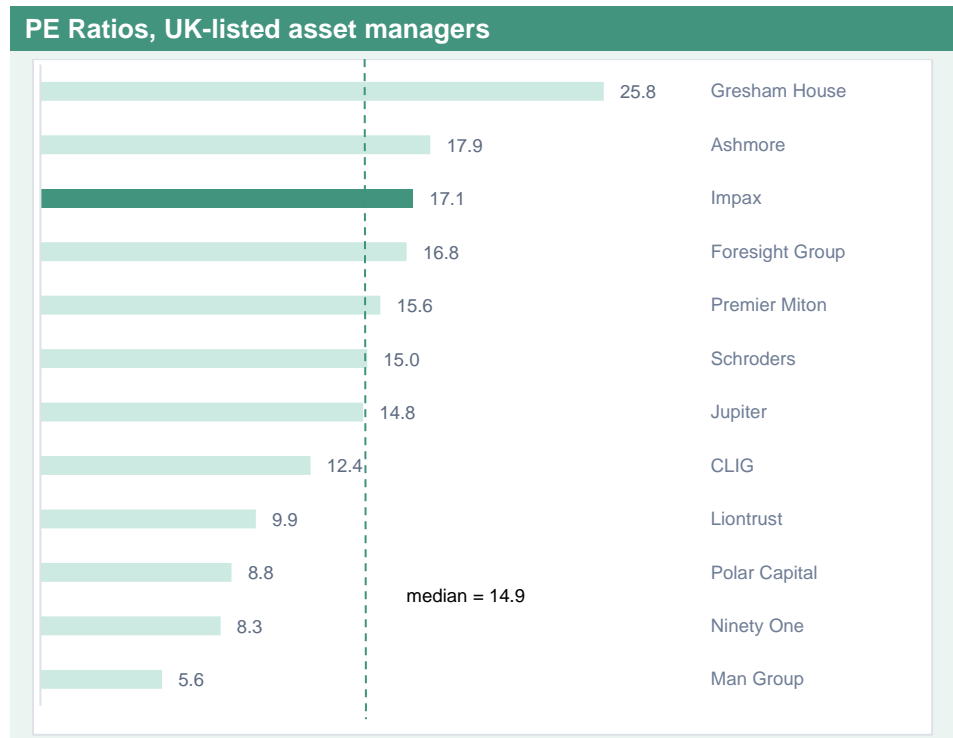
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** Long-term U.S. mutual funds and exchange-traded funds excluding money-market funds

Undemanding valuation multiple

Impax's PE ratio of 17.1, while in the upper range of a peer group, is certainly not excessive and not far higher than the peer group median of 14.9. It looks justified given Impax's recent performance and growth prospects.

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 14.9). We suspect that these PERs may recover quite sharply should markets stage a recovery.



Source: ADVFN, Company reports, ED Analysis
 Data as at 6 Apr 2023

¹ net flows as a percentage of opening AUM

² market movement and investment performance as a percentage of opening AUM

³ FTSE Russell Factsheet: FTSE Environmental Opportunities Index Series, 31 March 2023

⁴ Morningstar, SFDR Article 8 and Article 9 Funds: Q4 2022 in Review



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