Impax Asset Management

9 April 2024

Investment performance drives 6% H1 AUM growth

AUM was up by £2.2bn or 6% over H1-24, reaching £39.6bn on 31 Mar 24 (30 Sep 23: £37.4bn). This is slightly above the trajectory required to meet our FY24 AUM forecast of £41.1bn (+10% annual growth) but taking a cautious approach our FY24 forecasts remain unchanged.

A very strong investment performance was the growth driver in H1, contributing +£4.9bn (+13%) while net outflows were -£2.7bn. Impax noted: "*The outflows were overwhelmingly from a small number of intermediary clients largely representing European private wealth, and we again recorded an increase in the number of institutional clients, and no segregated mandate terminations. Following nearly two years of relative headwinds, asset owner sentiment around the transition to a more sustainable economy and associated areas of Impax expertise has improved in recent months.*"

Bullish medium-term outlook with some shorter-term 'green shoots'

We maintain our strong conviction that medium-to-long term structural factors favour Impax, but also flag some positive shorter-term cyclical data points which support Impax's comments above:

- The growth trajectories of and opportunities for the companies Impax invests in (the 'sustainable economy') are as robust as ever e.g. in sectors such as renewable energy, energy storage, environmental services, climate change mitigation, sustainable agriculture, food, and water.
- Valuations in some of these high-growth sectors have been hard hit over the last two years and have arguably become detached from fundamentals.
- With 25 years' track record, knowledge, and experience, Impax is among the best positioned globally (if not *the* best positioned) to generate superior returns from these investments.
- In Europe, the largest sustainable fund market by far (84% of global market[1]), fund flows have remained far stronger than conventional funds, even through the last two years (page 2).
- Despite negative publicity and a weaker environment in the US, there are still pockets of strength such as sustainable bond funds and climate funds, and a far more favourable environment in East and West coast states (e.g. New York and California) with huge capital markets (page 2).
- Recent fund flow data suggests 'green shoots' are emerging for flows into sustainable funds, equity funds more generally, and actively managed funds (pages 3 & 4).

Gap between share price and our fundamental value has widened

With strong growth prospects, margins and balance sheet, our fundamental valuation remains 800p per share, over 80% above the share price, and we see a PER of 14.5 as undemanding.

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	41.7	14.0	9.6	14.5	14.1	11.7
Dividend, p	8.6	20.6	27.6	27.6	27.6	27.6
Yield	1.9%	4.7%	6.2%	6.2%	6.2%	6.2%
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. PER & Yield based on share price of: ***442p.***

Company Data

EPIC	IPX
Price (last close)	442p
52 weeks Hi/Lo	836p/369p
Market Cap	£586m
ED Fair Value/share	800p
Proforma net cash	£92m
Avg. daily volume	229k

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 31 Mar 2024: £39.6bn

Next Event, H1-24 results: May 24

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2020

SHARES AWARDS 2021 WINNER AIM Company of the Year

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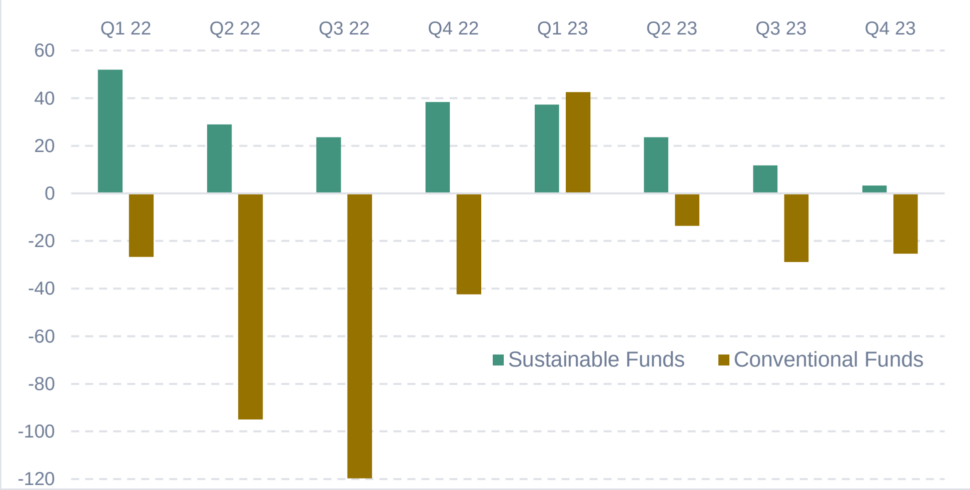
European Sustainable fund flows far stronger than 'Conventional' funds

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 remained positive in every recent quarter** (although the growth of passive fund flows in the sustainable space has played a role in this).

This stands in contrast to 'conventional' funds which saw huge outflows when markets turned bearish in early-2022 and outflows in every quarter since then, except Q1-23. Moreover, **flows into sustainable funds have exceeded those of conventional funds in every quarter bar one over the last two years.**

European Sustainable* and Conventional fund flows, US$bn

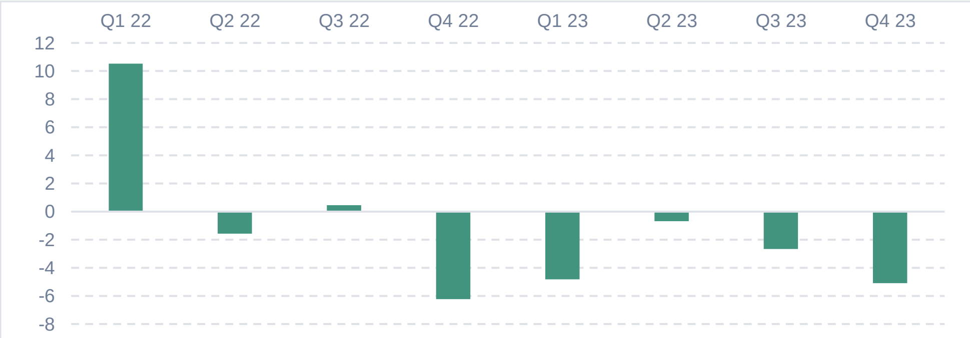


Source: Morningstar: Global Sustainable Fund Flows: Q4 2023 in Review. Chart reproduced with permission.
** Open-end funds & ETFs domiciled in Europe that claim to have a sustainability objective and/or use binding ESG criteria for investment selection. Excludes funds that employ only limited exclusionary screens, such as controversial weapons, tobacco, and thermal coal. Excludes money market funds, feeder funds, and funds of funds*

US Sustainable fund flows much weaker, but with positive pockets

In contrast, in the US (11% of the global sustainable fund market), sustainable fund flows have been weaker than the overall fund universe over the last two years with -US$13bn of net outflows in 2023. But there were **pockets of strength such as sustainable bond funds which saw net inflows over 2023 and climate funds which saw net inflows over H1-2023** (data not available for full year yet)[2] – both focus areas for Impax. Also, Impax has highlighted that the impact of the 'anti-ESG' movement is largely limited to states where it is not active (e.g., Florida and Texas) with **demand for sustainable funds still strong in the East and West coast states such as New York and California which have huge capital markets.**

US Sustainable* fund flows, US$bn



Source: Morningstar: Global Sustainable Fund Flows: Q4 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.*

APAC Sustainable fund flows mostly positive, save for Japan

Morningstar's research[1] also shows that in Impax's other key markets, sustainable funds in:

- Asia ex-Japan saw predominantly positive net flows over the last two years with only two negative quarters of net flows out of eight since the start of 2022;
- Australia and New Zealand experienced a similar profile to Asia ex-Japan with only one negative quarter of net flows out of eight since the start of 2022;
- Japan saw consistent net outflows over the last two years with only one quarter of positive net flows.

Early signs of green shoots for sustainable funds in some markets…

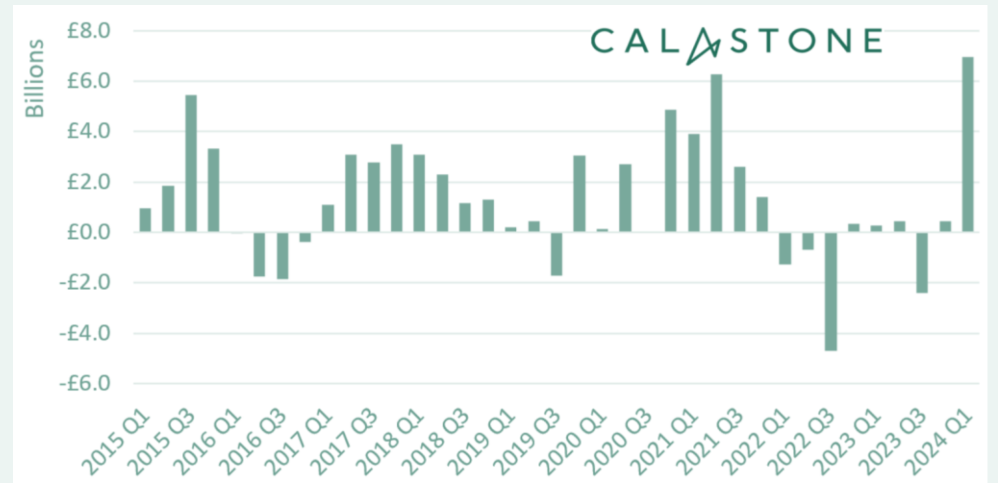
There has also been some positive data emerging in early-2024 which, although too early to indicate a move to much stronger net flows in the near-term, does suggest a swing towards investors allocating more capital towards sustainable funds:

- LSEG Lipper reports[3] that under its definition of 'Responsible Investment' funds (Mutual Funds including Fund of Funds and ETFs), global net inflows were +$2.6bn in Dec 23, +$4.8bn in Jan 24, and slightly negative at -$1.3bn in Feb 24.
- Morningstar reports[4] that in the UK, net flows into Sustainable equity funds have picked up in recent months, stating: "*another continuing trend is the ongoing inflow into sustainably-labelled funds. These strategies continue to see inflows, and while they remain modest at the moment, they have been more resilient to redemptions over the past 12 months. Those with a sustainable label saw £218 million in inflows* (in Feb 24), *while those without suffered £3.75 billion in withdrawals."*
- In a similar vein to Morningstar (using its own definition of ESG funds), Calastone[5] reports that UK investors contributed £691m of net inflows into ESG funds in Mar 24 and £1.54bn in Feb 24, stating: "*The renewed interest in ESG funds after months of outflows in 2023 made February's inflows the fourth best month on record after January marked the all-time high… January was also the first month since April 2023 to see inflows to ESG funds. Outflows had swelled to £3.72bn between April and the end of the year, though they slowed to a mere trickle in December. The rebound in January was so strong that ESG equity funds enjoyed record inflows of £1.63bn during the month and were a major contributor to the strength of US and European equity fund inflows overall*."

… as well as for equity and actively managed funds

Calastone[5] also reported that: *"UK investors continued their stampede into equity funds in March … They added a net £2.30bn to their holdings and ensured Q1 2024 was a record for equity-fund inflows, totalling £6.97bn since January*." (Note: these figures will include flows into passive funds)

Equity Funds – Quarterly Net Flow, £bn



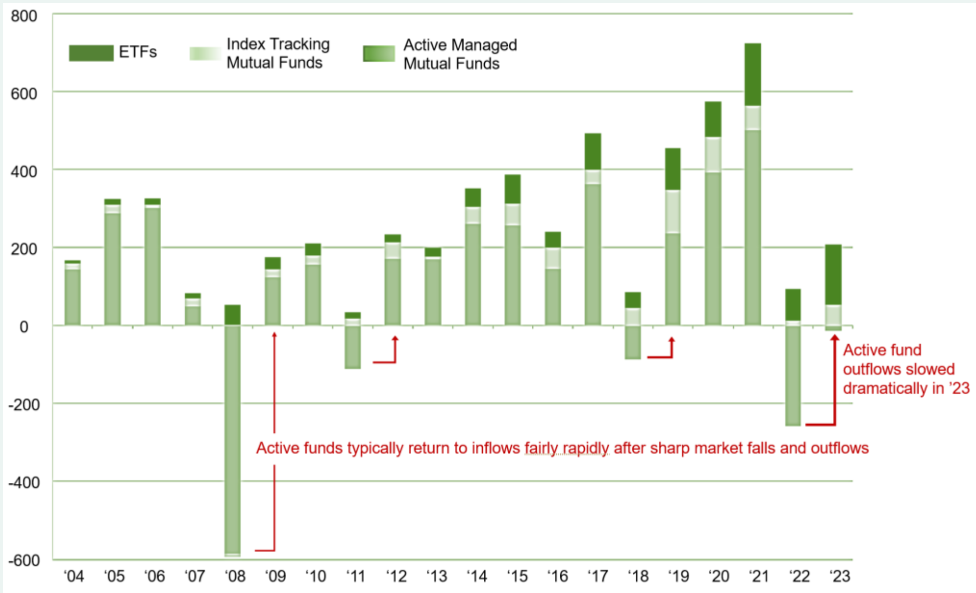
Source: Calastone: Record inflows to equity funds in Q1 as 2024 starts with a bang. *Chart reproduced with permission.*

Meanwhile, Impax is also exposed to overall market trends in the active management market. And, in light of the large amount of publicity around the shift to passive strategies, we believe it is important for Impax investors to keep abreast with the historical trends and outlook for actively managed funds more generally.

With reference to the chart below, we highlight that:

- In Europe, Impax's largest market (EMEA + UK = c70% of AUM), save for a few individual years, 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.
- 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.
- **After market falls, flows into active funds tend to bounce back and revert to their positive longer-term trend**. These active net flow recoveries can be clearly seen after 2008 (financial crisis), 2011 (sovereign debt crisis), and 2018 (multiple factors) – highlighted in red.
- **That bounce back into active funds hasn't turned positive yet after the 2022 market falls, but without doubt, outflows have slowed dramatically.**

Annual estimated European net fund flows, €bn

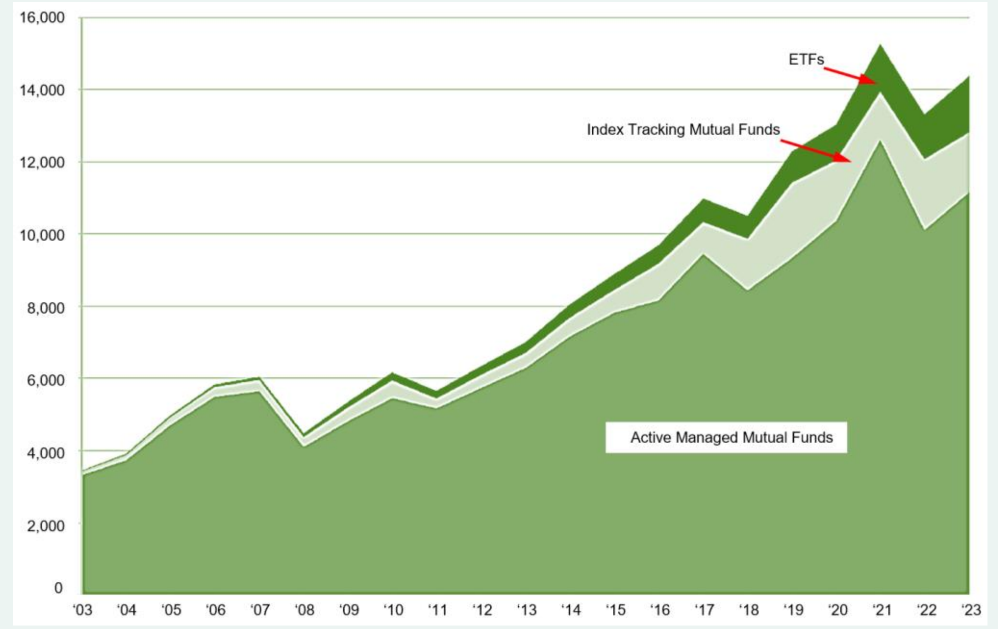


Source: LSEG Lipper: European Fund Industry Review: 2023. Chart reproduced with permission.

We also highlight in the chart overleaf that active funds are still by far the largest segment of the fund universe in Europe (Impax's largest market), and that they still make up 50% of the fund universe in the US.

And in both markets, active management is still very much in a long-term growth trend, a fact that is sometimes overlooked given the high-profile of passive fund growth in recent years.

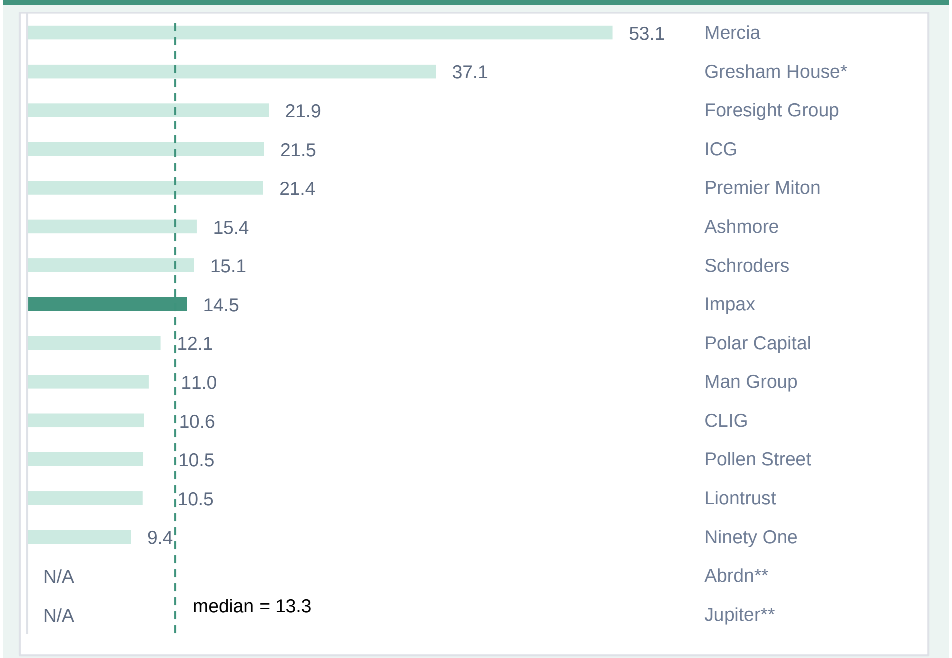
Gross AUM of European Fund Industry, €bn



Source: LSEG Lipper: European Fund Industry Review: 2023. Chart reproduced with permission.

Undemanding PER on an absolute basis and compared to peers

PE Ratios, UK-listed asset managers



Source: Company reports, LSEG, ED analysis as at 8 Apr 24
**De-listed on 20 Dec 2023 after being acquired*
***Abrdn made a very small statutory profit of 0.1p per share in its latest full FY so has a hugely distorted PER, Jupiter made a statutory loss of -2.5p per share in its latest full FY.*

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[1] *Morningstar, Global Sustainable Fund Flows: Q4 2023 in Review*
[2] *Morningstar, U.S. Sustainable Funds Landscape 2023 in Review*
[3] *LSEG Lipper, Global Responsible Investments Fund Market Statistics for February–Lipper Analysis, 17 March 2024*
[4] *UK Funds Hit by Outflows Across All Asset Classes, 18 March 2024*
[5] *Calastone, US market rally drives surging inflows to equity funds, 4 March 2024; and Bullish investors flood back to equity funds at the fastest rate in three years. 6 February 2024.*
[7] *Morningstar, US Fund flows February 2024.*

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