

Impressive AUM inflows despite market rout

15 April 2020

Clients of Impax continued to show their confidence in the face of a collapse in equity markets, with £1.1bn of net inflows during the recent quarter and, impressively, £6m during March. This bodes well strategically.

AUM unsurprisingly took a hit in March, dropping £1.9bn (11.7%) from £16.3bn to £14.4bn. In fact, March accounted for nearly all of the £1.7bn (10.6%) AUM drop over Q2, with the stock market crash chiefly responsible. We think investors are intensifying their hunt for 'post-corona portfolios' and more are turning to Impax. So, the 11% decline in IPX shares this year seems strange.

A key attraction will be the downturn-resilience provided by Impax's cash-flush balance sheet. On 30 Sep 2019, cash reserves¹ stood at £26.2m, with no debt. Our estimates show Impax has remained comfortably cash-flow positive during H1, and over the FY to Sep 2020 will actually increase its cash position by over £9m.

The current market value of Impax prices in a very gradual recovery in the value of its underlying portfolio (around 4% per annum) as well as what we believe are conservative net inflows (£1.0bn to £1.5bn per annum over the next few years). Outperformance against those metrics should result in substantial share price upside.

Institutional and retail clients show confidence

London-managed listed equities (79% of AUM, sourced mainly from institutional investors), ended Q2 on £11.4bn AUM, 11% down over Q1 and 2% down over H1. **But net fund flows continued to impress, with £0.8bn added in Q1 and £ 1.1bn in Q2, versus average net quarterly inflows during FY 19 of just over £0.4bn.**

US retail operations managed by Impax NH (18% of total AUM), ended Q2 on £2.6bn AUM, 11% down over Q1 and 12% down over H1. **Particularly pleasing, given that the Dec 2018 equity market dip saw significant outflows from retail investors, was that net flows were positive in both Q1 (£6m) and in Q2 (£12m).** NB: all of our figures are adjusted to remove the double-counting from London-managed funds distributed through Impax NH in the US.

AUM movement over Q2 2020

£m	Impax Asset Management Ltd, Impax Asset Management (AIFM) Ltd (London managed)		Impax Asset Management LLC (US managed)		Group total
	Listed equities	Real assets	Fixed income, smart beta, US equities	Recon *	
AUM, 31 Dec 2019	12,790	403	3,680	(761)	16,112
Net flows	1,117	(56)	82	(70)	1,073
Market moves, FX & performance	(2,472)	17	(457)	136	(2,776)
AUM, 31 Mar 2020	11,435	363	3,306	(696)	14,408

Source: Impax

* Avoidance of double count of Pax Global Environmental Markets Fund and Pax Global Opportunities Fund

¹ Before regulatory buffer, see appendix 1

Company Data

EPIC	IPX
Price (last close)	350.5p
52 weeks Hi/Lo	410p/191p
Market cap	£457m

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 thematic and unconstrained global equity strategies, real asset funds, as well as smart beta and fixed income strategies.

Aggregate AUM at end March 2020 was £14.4bn



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London-managed private equity (3% of AUM), which focuses mainly on renewable energy, closed the quarter on £363m, seeing £22m of net outflows in Q1 and £56m in Q2. Market moves over H1 were roughly zero, with no capital raises or significant exits.

Inflows likely to accelerate

The trend of capital moving into the sustainable investing space is now well established and is unlikely to merely be a short-term phenomenon.

Recent academic research² by Kim & Yoon on 474 active funds (run by 86 investment management firms) which had signed up to the United Nations Principles for Responsible Investment (PRI) found that on average, these funds experienced **a 4.3% increase in inflows** per quarter compared to the period prior to signing up.

Many funds are trying to take advantage of this change in the investment landscape. According to Morningstar³, the number of actively managed funds adding environmental, social, and governance criteria to their prospectuses rose **from 50 in 2018 to 500 in 2019**.

But there will inevitably be winners and losers within this space.

The 500 newcomers identified by Morningstar added 'ESG language' to prospectuses but were not necessarily running fully-fledged sustainable funds as Impax does: "They are otherwise conventional funds that now say they consider ESG factors in their investment process."

Additionally, Kim & Yoon found that PRI signatory funds on average do not exhibit improvements in fund-level ESG scores after signing and concluded: "Only select signatories make visible changes to ESG while most are using PRI as a mechanism to attract capital."

Being a pioneer and leader in sustainable investing with a 20-year track record, we expect Impax to emerge as one of the clear winners and to attract more than its fair share of capital flows.

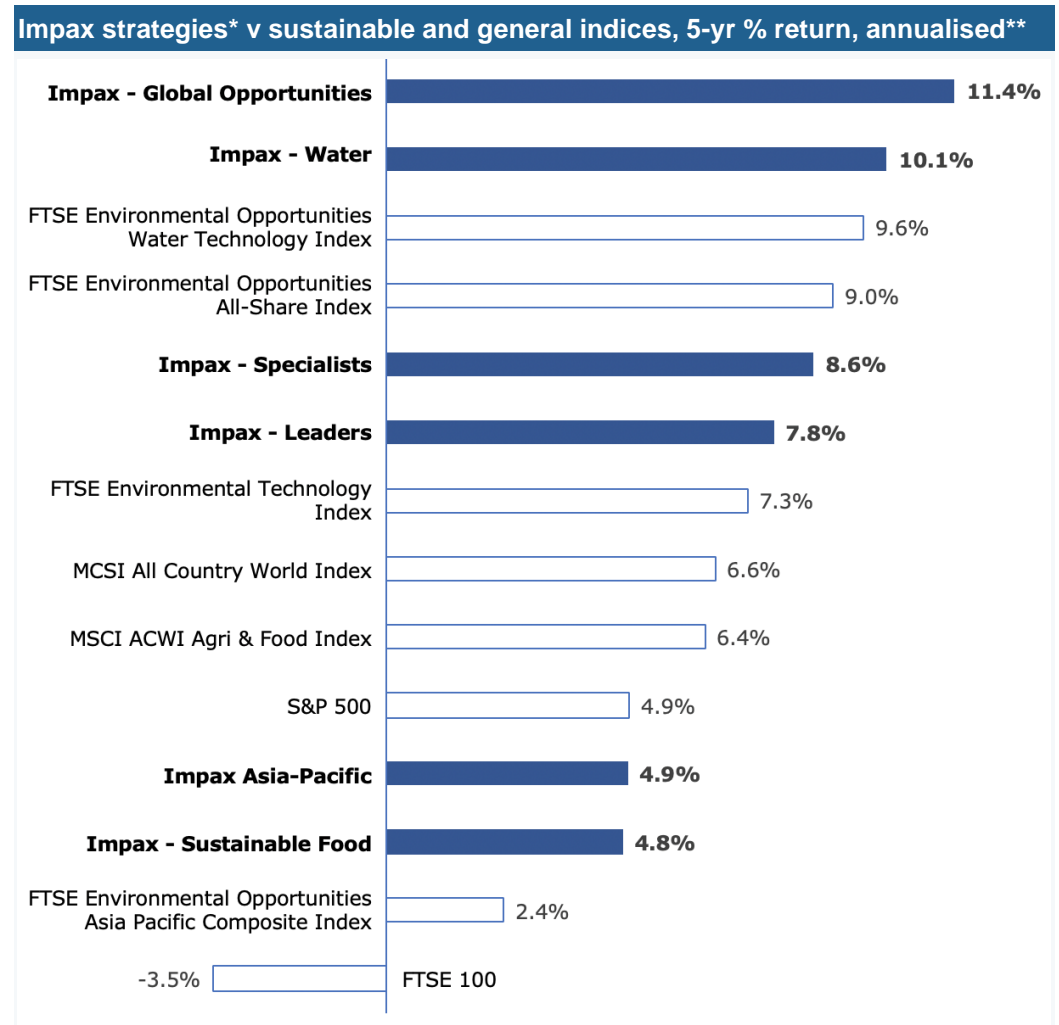
We also believe that the recent market turmoil will only accelerate the overall move to sustainable investing. Indeed, in a recent interview with the FT, CEO Ian Simm was quoted as saying sustainable (investment) strategies were in effect: "*a radar sweep of potential fat tail risks affecting individual companies, for example, consumer boycotts, new regulations, local community action, and fraud/corruption, as well as systemic risks such as cyber security, pandemics, internet resilience and climate change.*"

He also noted the **alpha-generating potential of Impax's stock screening process**, saying that since 2015, Impax has been screening all sectors of the economy for their attractiveness (against risk and opportunity) over a five to 10-year horizon, and that an index comprising companies in those sectors that score well has **outperformed relevant benchmarks by about 1 per cent a year**.

Evidence of this is clear when comparing the returns of Impax's strategies against a range of indices – shown in the chart overleaf. **'Sustainable' indices mostly outperform 'general' indices** (FTSE 100, S&P 500 and MCSI All Country World Index) over a five-year horizon **while within the sustainable investing space, Impax's strategies mostly outperform their most comparable benchmarks.**

² Analyzing Active Managers' Commitment to ESG: Evidence from UN Principles for Responsible Investment; Kim & Yoon; Mar 2020
³ <https://www.morningstar.com/articles/973432/the-number-of-funds-considering-esg-explodes-in-2019>

In summary, Impax is not only on the right side of a powerful macro-trend but is a winner within it.



Source: Company data, FactSet/Bloomberg/WM Reuters, LSE, Yahoo Finance.

*Listed equities (London) only

**All numbers show annualised returns in GBP for the period ending 31 March 2020, except the S&P 500 which shows returns in USD.

Composite figures are presented gross of management fees and include the reinvestment of all income. MSCI index is total net return (net dividend reinvested). FTSE ET is a combination of FTSE ET100 and FTSE ET50 indices. FTSE index is total return (gross dividend reinvested). FTSE EO AP Composite is a custom-made benchmark made up of 80% FTSE EO Asia-Pacific ex-Japan and 20% FTSE EO Japan rebalanced monthly.

Importantly, Impax’s top performers - Global opportunities, Water, Specialists and Leaders - are also the four largest strategies when it comes to Group AUM, collectively making up over £9bn out of the £14.4bn total.

Additionally, four out of the six Impax strategies have outperformed their benchmark indices over a five-year horizon, as shown in the chart overleaf. **This longer-term historical performance, coupled with the expected growth of the sectors Impax invests in, are typically the most important factors when it comes to winning new mandates from institutional clients.**

Over one- and three-year time horizons, performance is more mixed, with some outperformance and some underperformance against benchmarks, showing that even these high-performing strategies are not immune to the shorter-term vagaries of stock markets.

Listed equities (London): performance to 31 March 2020, % annual return

Specialists: AUM £1,687m; Universe market cap: US\$2.7tn

Companies with majority of services, infrastructure and technology in environmental markets, alternative energy and efficiency, water treatment and pollution control, waste technology and resource management, sustainable food, agriculture and forestry.

Investment period	1Y	3Y	5Y
Impax performance	-12.4%	1.3%	8.6%
Benchmark – FTSE ET Index	0.5%	4.2%	7.3%

Leaders: AUM £2,703m; Universe market cap: US\$5.4tn

Companies with >20% of revenue in Resource Efficiency and Environmental Markets addressing long-term macro-economic themes: growing populations, rising living standards, increasing urbanisation, rising consumption, depletion of natural resources.

Investment period	1Y	3Y	5Y
Impax performance	-10.7%	1.9%	7.8%
Benchmark – FTSE EOAS Index	-7.2%	3.5%	9.0%

Asia-Pacific: AUM £379m; Universe market cap: US\$1.8tn

Companies in Asia Pacific with services, infrastructure and technology in environmental markets, alternative energy and efficiency, water treatment and pollution control, waste technology and resource management, sustainable food, agriculture and forestry.

Investment period	1Y	3Y	5Y
Impax performance	-11.3%	0.9%	4.9%
Benchmark – FTSE EOAP Composite Index	-13.0%	-0.2%	2.4%

Water: AUM £3,422m; Universe market cap: US\$1.1tn

Companies that provide services, infrastructure and technology in the water-related sectors

Investment period	1Y	3Y	5Y
Impax performance	-3.5%	3.0%	10.1%
Benchmark – FTSE EO Water Technology Index	-4.8%	3.7%	9.6%

Sustainable Food: AUM £539m; Universe market cap: US\$2.8tn

Companies involved in agriculture and food-related activities worldwide.

Investment period	1Y	3Y	5Y
Impax performance	-11.9%	-1.4%	4.8%
B/mark – MSCI ACWI Agri & Food Chain Index	-1.6%	3.0%	6.4%

Global Opportunities: AUM £1,310m

Companies involved in sustainable global equities.

Investment period	1Y	3Y	5Y
Impax performance	-0.5%	9.9%	11.4%
Benchmark – MCSI All Country World Index	-11.9%	2.4%	6.7%

Source: Company data, FactSet/Bloomberg/WM Reuters

*All numbers show annualized. All data is in GBP as of 31 March 2020. Composite figures are presented gross of management fees and include the reinvestment of all income. MSCI index is total net return (net dividend reinvested). FTSE ET is a combination of FTSE ET100 and FTSE ET50 indices. FTSE index is total return (gross dividend reinvested). FTSE EO AP Composite is a custom-made benchmark made up of 80% FTSE EO Asia-Pacific ex-Japan and 20% FTSE EO Japan rebalanced monthly.

Cautiously optimistic on valuation

In the middle of the current economic and financial-market storm, it would simply not be credible to conduct a detailed assessment of the implications of a post-corona world on our previous financial projections and valuation.

We intend to do this once Impax releases its interim results (expected in early June), when we will gain further insight into current trading conditions, the full impact of the downturn on H1 results, and hopefully, when there is some modicum of visibility coming into economic forecasts and how markets might react.

However, it is worth highlighting the following points:

- Our previous discounted cash flow valuation dated 30 Sep 2019 indicated a valuation just north of 350p per share.
- This was based on the following main assumptions, which are also reviewed:
 - Impax's superior strategic positioning in the sustainable investing space should provide a base to add £1.0bn - £1.5bn of AUM per year for the next few years (before market movements). **We believe this is still possible, if not conservative, as evidenced by the £1.8bn of net inflows achieved during H1.**
 - Market movements of +4% per annum were assumed, roughly half of Impax's actual investment returns achieved over the last five years. **Again, we believe this is still possible, if not conservative, as markets may rise faster after the recent drop** (compared to the growth rate previously assumed on a more expensive market).
 - The above assumptions resulted in AUM forecasts of £17.2bn by 30 Sep 2020, rising to £25.2bn by 30 Sep 2024. **These are now probably unrealistic – particularly the nearer-term forecasts - following the recent, sudden drop in AUM. More realistically, Impax might top £15.5bn by 30 Sep 2020 and achieve £23bn - £24bn by 30 Sep 2024** (although considerable uncertainty remains).
 - For the terminal value of the DCF calculation, we assumed the business was sold in five years at a PE multiple of 20, and we applied a discount rate of 8% to calculate the present value of future cash flows. We believe these assumptions are still valid, although the PE assumption could be considered conservative given Impax's long-term growth prospects.

If we work from our estimated end-of-H1 financial position as per the table below and adjust only our AUM assumptions as per the second bullet above, we arrive at a current DCF valuation of around 312p per share – which doesn't make yesterday's closing price of 350.5p look overly-taxing, given the growth opportunities of Impax.

Therefore, if Impax outperforms when it comes to attracting £1.0 - £1.5bn of net inflows per annum (which in our opinion is likely), and if asset prices recover faster than the assumed 4% per annum, then there is substantial upside potential for shareholders from today's price.

Summary financials & forecasts					
Year end 30 Sep	2017A	2018A	2019A	H1 2020E	2020E
AUM, £bn	7.3	12.5	15.1	14.4	15.7
Revenue, £m	32.7	65.7	73.7	41.1	81.5
Adjusted Op. Profit, £m	9.3	20.0	18.0	10.3	19.0
Adjusted EPS, diluted, p	6.2	12.4	11.5	6.4	11.8
PER	56.2	28.3	30.6	27.3	29.8
Dividend*, p	2.9	4.1	5.5	1.6	6.5
Yield	0.8%	1.2%	1.6%	0.5%	1.9%
Net assets, £m	35.6	53.5	63.2	65.9	69.3
Net cash**, £m	20.7	16.8	27.2	31.7	36.9

Source: Group report & accounts and ED estimates

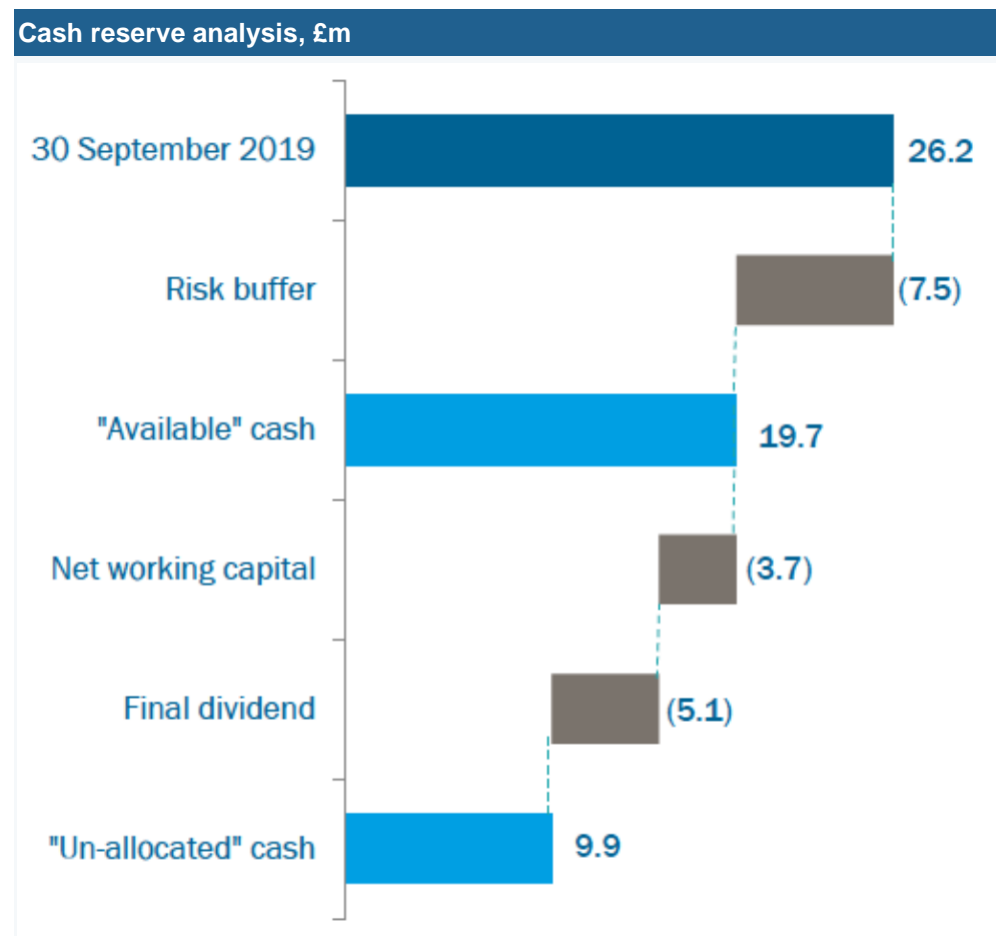
* Excludes special dividend of 2.6p in FY18,

**includes funds held in money market & LT deposit accounts and 3rd-party interest on consolidated funds (therefore differs from 'cash reserves' shown in appendix 1 which excludes 3rd-party interest on consolidated funds)

Adj. results eliminate non-recurring acquisition costs, on-going amortisation of intangibles acquired, one-off tax credits and mark-to-market charges on equity award schemes.

PER, and Yield calculations based on a share price of 350.5p.

Appendix 1



Source: Impax AM



Investor Access

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