

## AUM up 4% in strong Q4, inflows for many strategies

13th April 2023

Polar's final quarter of FY23 (to 31 Mar 23) was a strong one, with AUM up by £0.75bn (+4%) to £19.2bn, driven mostly by an investment performance contribution of +£1.2bn (+6% of opening AUM). Net flows of -£410m were recorded but these were almost all down to profit taking from the Global Insurance fund (-£373m) which has delivered significant outperformance.

The net flow picture across the group is encouraging, with many strategies reporting net inflows: the European Income ex-UK, Biotechnology, Global Convertible, Global Absolute Return, Smart Energy and Emerging Market Stars funds had combined net flows of +£320m in Q4. Meanwhile, the rate of outflows from open-ended Technology funds again continued to decline (outflows of £199m in Q4).

### Fundamentals positive and improving, looking undervalued

There's no denying Polar was buffeted in FY23 by multiple headwinds. Sharp declines in equity markets generally, in technology equities specifically, and the active management sector experiencing significant outflows (page 2), contributed to y-o-y AUM declining by 13%. But **we firmly believe the investment case for Polar remains robust**, and highlight the following:

- In a very tough year, we still forecast nearly £50m of core operating profit (32% margin) from £178m in revenue. We also remind readers that at end H1-23, net cash stood at £83m.
- The active management sector is still structurally attractive: it has the largest share of the asset management sector by far (80% in Europe) and is still in a longer term growth trend (10Y CAGR c7%)<sup>1</sup>, a fact sometimes overlooked given the high-profile of passive fund growth in recent years.
- History suggests that the active management sector is likely to benefit from a cyclical recovery: active funds tend to experience outflows during sharp market falls but return to inflows fairly quickly and continue their growth trajectory (page 2).
- Polar has an impressive active management record: 15 of 21 UCITS funds are ranked in the 1<sup>st</sup> quartile of investment performance since inception, with 5 in the 2<sup>nd</sup> quartile (as at 30 Sep 22).

Year-end AUM has exceeded our previous forecast of £18.3bn. While the Q4 uptick in AUM doesn't have a big impact on our FY23 financial forecasts, it does bump up our FY24 forecasts and **our fundamental valuation increases to 625p, 36% above the current share price. Polar's PER of 9.1 is also 40% below the 15.2 median of a UK-listed asset manager peer group** (page 2).

#### Company Data

EPIC	POLR
Price (last close)	461p
52 weeks Hi/Lo	620p/381p
Market cap	£464m
ED Fair Value/share	625p
Net assets	£156m
Avg. daily volume	167k

#### Share Price, p



Source: ADVFN

#### Description

Polar Capital (Polar) is an active fund manager, established in 2001. It has 15 autonomous investment teams managing specialist portfolios with a thematic, sector, geographic, or financial instrument focus, including:

- Global Technology
- Global Healthcare
- Global Insurance
- UK Value
- North America
- Global Convertible
- Emerging Markets & Asia.
- Sustainable Equity

**AUM 31 Mar 2023: £19.2 bn**

Next Event FY23 results: 26 Jun 23

#### Paul Bryant (Analyst)

0207 065 2690

[paul.bryant@equitydevelopment.co.uk](mailto:paul.bryant@equitydevelopment.co.uk)

#### Hannah Crowe

0207 065 2692

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

### Key Financials

Year-end 31 Mar	FY20A	FY21A	FY 22A	FY 23E	FY24E
AUM, £bn	12.2	20.9	22.1	19.2	20.7
Rev, £m	151.7	201.5	224.1	177.5	185.0
Management fees, £m	130.8	157.3	210.0	173.0	177.1
Performance fees, £m	22.3	43.6	14.1	4.5	8.0
PBT, £m	50.9	75.9	62.1	50.7	49.6
Core op profit*, £m	41.6	51.5	69.4	49.9	47.2
Performance fee profit	8.8	19.5	4.1	1.9	3.4
EPS basic, p	43.5	67.2	50.8	41.5	37.5
EPS adjusted diluted, p	40.7	62.3	56.0	40.1	36.2
PER	10.6	6.9	9.1	11.1	12.3
Div, p	33.0	40.0	46.0	46.1	48.2
Yield	7.2%	8.7%	10.0%	10.0%	10.5%
Net assets, £m	116.1	151.4	156.2	149.0	152.1
Net cash, £m	107.8	136.7	121.1	96.9	103.3

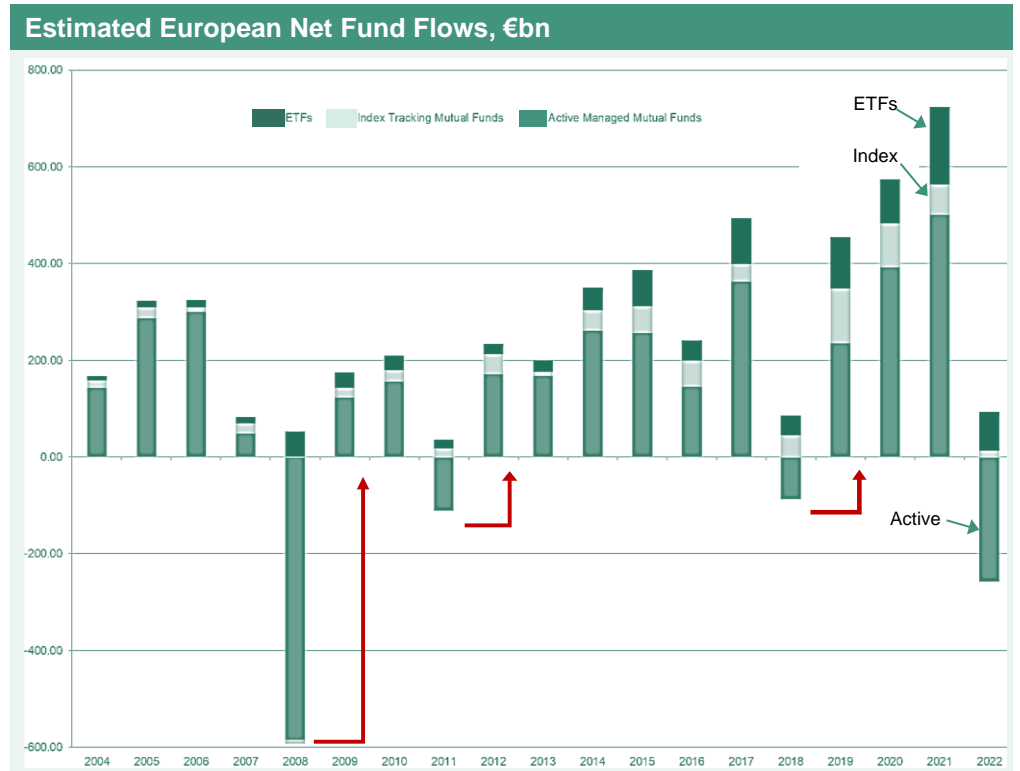
Source: Company Historic Data, ED estimates. PER and Yield based on share price of:

\* excluding performance fees and performance-related costs, other income, exceptional items and tax

461p

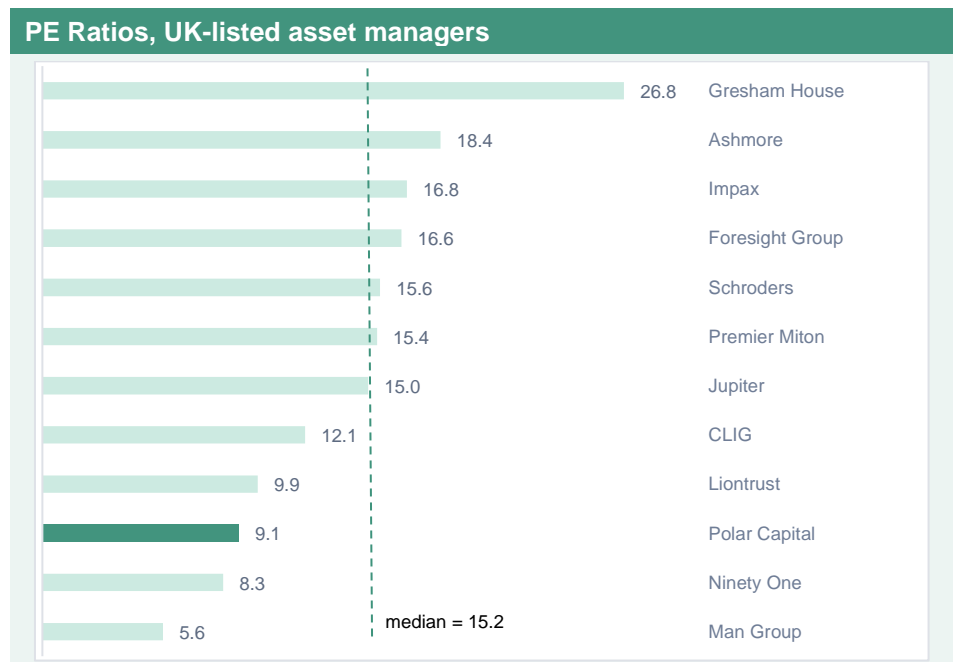
## Active flows tend to bounce back after market falls

While active funds tend to experience outflows during sharp market falls, flows tend to quickly bounce back and revert to the 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.



Source: Refinitiv Lipper: European Fund Market Trends: 2022. Chart reproduced with permission

## Polar looks undervalued compared to peers



Source: ADVFN, Company reports, ED Analysis  
Data as at 12 Apr 2023

<sup>1</sup> Refinitiv Lipper: European Fund Market Trends: 2022



## Contacts

### Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

### Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

**Equity Development Limited is regulated by the Financial Conduct Authority**

## Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its Directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document, to the maximum extent that the law permits.

More information is available on our website [www.equitydevelopment.co.uk](http://www.equitydevelopment.co.uk)

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) | 020 7065 2690