Polar Capital Holdings

AUM and forecasts up, stellar returns, positive flows

11 April 2024

AUM jumped £2.3bn (+12%) over Q4 of FY24 to £21.9bn on 31 Mar 24, which is 12% above our previous forecast of £19.5bn, and +14% y-o-y growth (AUM 31 Mar 23: £19.2bn). In turn, our FY24 revenue forecast increases from £188.4m to £191.6m (+5% y-o-y, FY23: £182.9m); PBT from £50.1m to £52.1m (+15% y-o-y, FY23: £45.2m); and basic EPS from 38.3p to 39.8p (+8% y-o-y, FY23: 36.8p). The EPS revision translates to a forward PE of just 11.5x.

Investment performance was the AUM booster in Q4, adding +£2.3bn or +12%. Primary drivers were exceptional (mostly above benchmark over 3m & 12m) investment returns in Polar's largest strategies of technology (c38% of AUM), healthcare (c20%) and insurance (c11%) – see page 2.

Probably most pleasing though, was a return to positive, albeit modest, net flows in the quarter of +£56m. Moreover, Polar reported strong net flows in March (+£228m) with net inflows from the Global Absolute Return, Emerging Market Stars, Asian Stars, Biotechnology, Global Insurance, Japan Value, Global Technology, AI and UK Value funds. There are also signs of an **improving outlook for UK and European equity and active management fund flows more generally** (pages 3 & 4).

The improvement in Polar's net flows is unsurprising to us, as it has been clear for some time that many investors' decisions to keep reducing technology (and other equity) exposures following the valuation falls of 2022 have proved costly and resulted in them missing out on exceptional returns (page 3). We think Polar's investment track record will attract significant inflows over the longer term.

Polar has also announced that a **new US-based International Small and Mid-Cap Equities investment team will be joining the business** in Sept 24 to complement its existing US offering. The highly experienced Dan Boston will lead the team. He moves from Brown Capital Management in Baltimore, Maryland where his team was responsible for managing U$3.5bn of assets.

Fundamental value increases to 650p per share

Our fundamental valuation increases to 650p per share (42% above the current share price), supported by our view that both Polar's PER (12.4) and that of the sector (13.8) have the potential for a re-rating (page 6). We also observe a steady increase in trading volumes of POLR shares over the last six months or so, a sure sign of increasing investor interest (page 6).

Key Financials

Year-end 31 Mar	FY21A	FY 22A	FY 23A	FY 24E prev.	FY24E New	FY25E prev.	FY 25E new
AUM, £bn	20.9	22.1	19.2	19.5	21.9	21.5	23.5
Rev, £m	201.5	224.1	182.9	188.4	191.6	178.6	197.1
Management fees, £m	157.3	210.0	176.2	166.6	169.8	174.3	192.9
Performance fees, £m	43.6	14.1	6.7	21.8	21.8	4.3	4.3
PBT, £m	75.9	62.1	45.2	50.1	52.1	46.9	57.5
Core op profit*, £m	51.5	69.4	47.9	40.9	43.0	42.6	53.2
Performance fee profit	19.5	4.1	1.7	9.6	9.6	1.9	1.9
EPS basic, p	67.2	50.8	36.8	38.2	39.8	35.3	43.3
EPS adjusted diluted, p	62.3	56.0	44.3	39.5	41.0	36.5	44.4
PER	6.8	9.0	12.4	12.0	11.5	13.0	10.6
Div, p	40.0	46.0	46.0	46.0	46.0	46.0	46.0
Yield	8.7%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Net assets, £m	151.4	156.2	142.9	136.7	138.3	133.0	143.0
Net cash, £m	136.7	121.1	107.0	103.2	105.7	98.5	113.4

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***457.5p***

Company Data

EPIC	POLR
Price (last close)	457.5p
52 weeks Hi/Lo	549p/397p
Market cap	£463m
ED Fair Value/share	650p
Net assets	£143m
Avg. daily volume	186k

Share Price, p

Source: ADVFN

Description

Polar Capital (Polar) is an active fund manager, established in 2001. It has 13 autonomous investment teams managing specialist portfolios with a thematic, sector, geographic, or financial instrument focus, including:

- Global Technology
- Global Healthcare
- Global Insurance
- Emerging Markets & Asia
- UK Value
- European Opportunities
- Financials
- Sustainable Thematic Equity

AUM 31 Mar 24: £21.9bn

Next Event: FY24 results, 27 Jun '24

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Stellar investment returns from Polar's largest funds…

In addition to the sectors Polar is most exposed to experiencing strong returns recently, **it's largest funds have mostly beaten their benchmarks** over Q4-24 and over FY24, boosting AUM gains [in the table below, outperformance v benchmark shaded dark green, underperformance shaded red].

Returns of largest funds within Polar's largest strategies

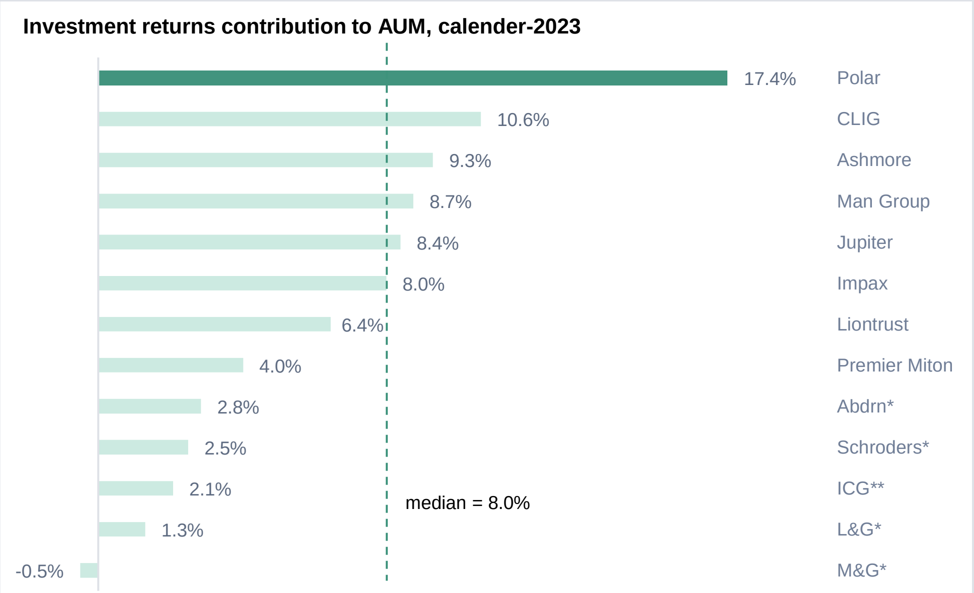
Fund/trust	AUM	fund 3m return	b'mark 3m return	fund 12m return	b'mark 12m return
Global Technology Fund[1]	£5.3bn	17.2%	13.6%	42.5%	40.7%
Polar Capital Technology Trust plc[1]	£4.0bn*	19.0%	14.9%	48.6%	49.0%
Biotechnology Fund[2]	£1.4bn	8.1%	2.4%	21.0%	5.7%
Healthcare Opportunities Fund[3]	£1.3bn	12.3%	8.0%	19.9%	10.4%
Global Insurance Fund[4]	£2.3bn	14.9%	12.5%	20.7%	23.7%
Emerging Market Stars Fund[5]	£2.3bn	5.7%	3.0%	7.2%	5.6%
	£16.6bn	(approximately 76% of AUM)			

Source: Polar Capital fund fact sheets (all as at 28 Mar 24 except Polar Capital Technology Trust, 29 Feb 24)
**NAV for Polar Capital Technology Trust*
Benchmarks: [1]Dow Jones Global Technology Net Return Index, [2]NASDAQ Biotechnology Net Total Return Index, [3]MSCI AC World Daily Total Return Net Health Care Index, [4]MSCI Daily Total Return World Net Insurance Index, [5]MSCI Emerging Markets Net Total Return Index
All returns for GBP class accumulation shares except Polar Capital Technology Trust, returns = change in NAV per share.

… making it a runaway leader compared to peers …

Of course, compared to other asset managers, Polar benefitted from having high technology, healthcare and insurance exposures. Nevertheless, it's relative investment returns over calendar 2023 were still **hugely impressive.**

UK-listed asset managers' investment performance, 2023

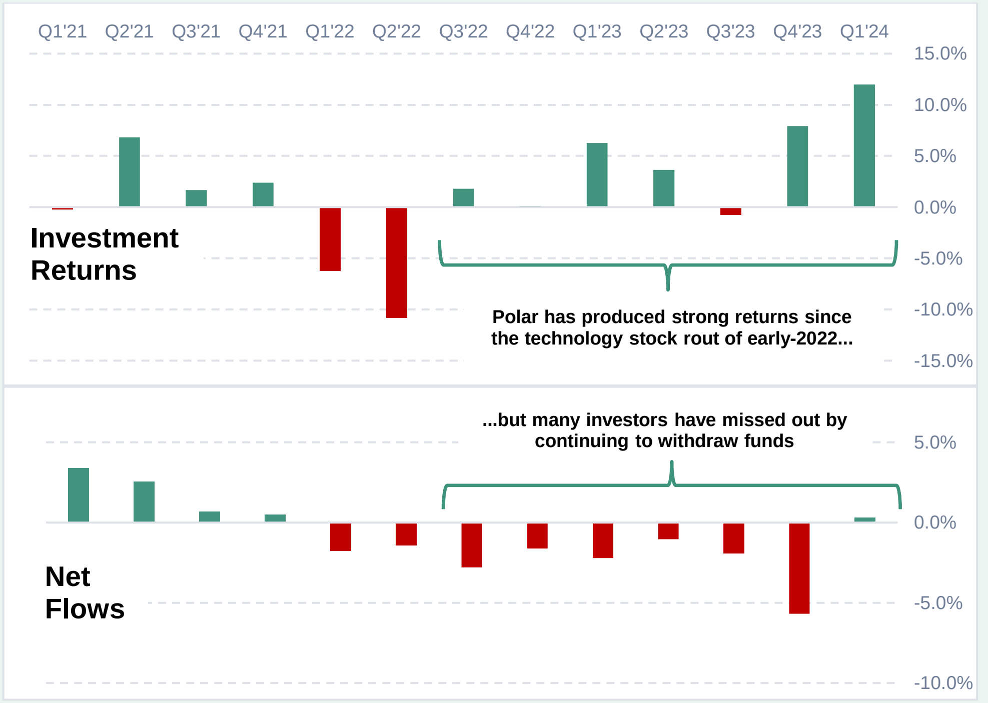


Source: Company reports, ED analysis.
** Asset Management business only (Schroders excludes wealth management, Abrdn excludes adviser & interactive investor, L&G represented by LGIM only, M&G asset management only). **Third Party AUM only*

… but many investors have missed out

Despite that, in the aggregate, investors withdrew capital from Polar over calendar-2023 (continuing the withdrawal trend of the technology stock rout of 2022), missing out on Polar's stellar returns. That mismatch between returns and flows is telling and we think **more consistent positive flows are bound to return to a quality active manager such as Polar, sooner rather than later.**

Polar's quarterly investment returns v net flows, % of AUM

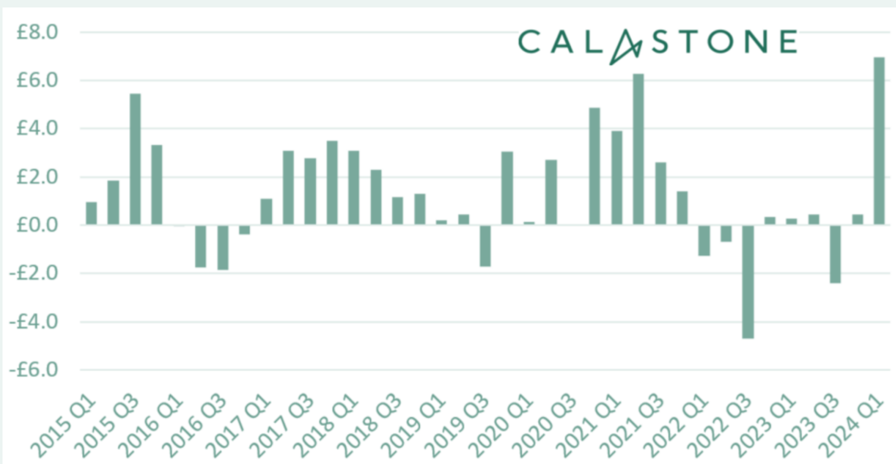


Source: Company reports, ED analysis. Calendar quarters shown.

Early signs of flow situation improving in some markets

Indeed, investors in the UK have been turning more positive on equity funds recently, following very weak flows in 2022 and 2023, with Calastone reporting 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

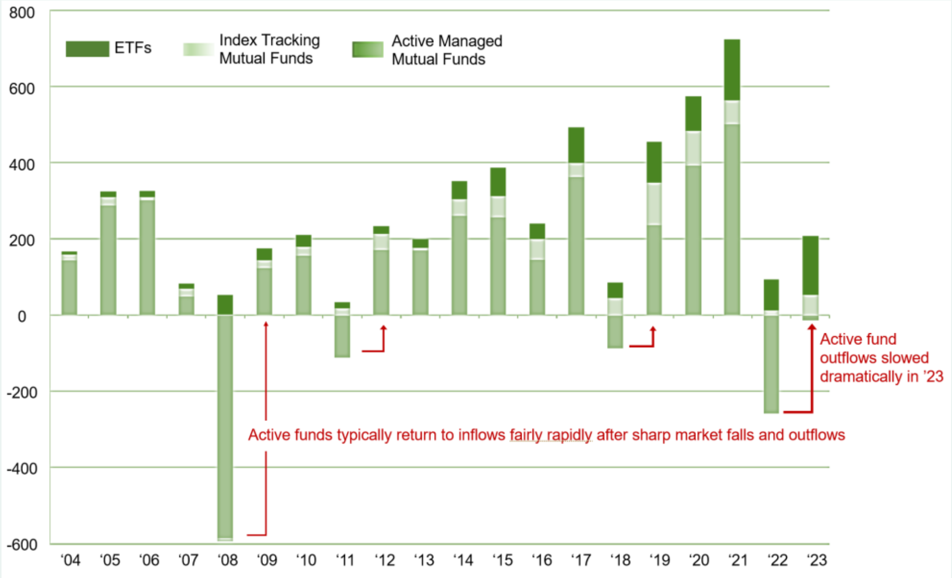


Source: Calastone: Record inflows to equity funds in Q1 as 2024 starts with a bang. Chart reproduced with permission.

The flow situation is also showing early signs of improvement when it comes to active managers acoss Europe (Polar's largest market by some distance: investors from UK + Europe + Nordics > 90% of AUM).

In the chart below, it can be seen that **flows out of active funds, compared to passives and ETFs, tend to be more severe during market downturns**. But **these flows tend to bounce back and revert to their positive longer-term trend** - see the recoveries after 2008 (financial crisis), 2011 (sovereign debt crisis), and 2018 (multiple factors) – highlighted in red. **That bounce back of active flows hasn't turned positive yet after the 2022 falls, but without doubt, outflows have slowed dramatically.**

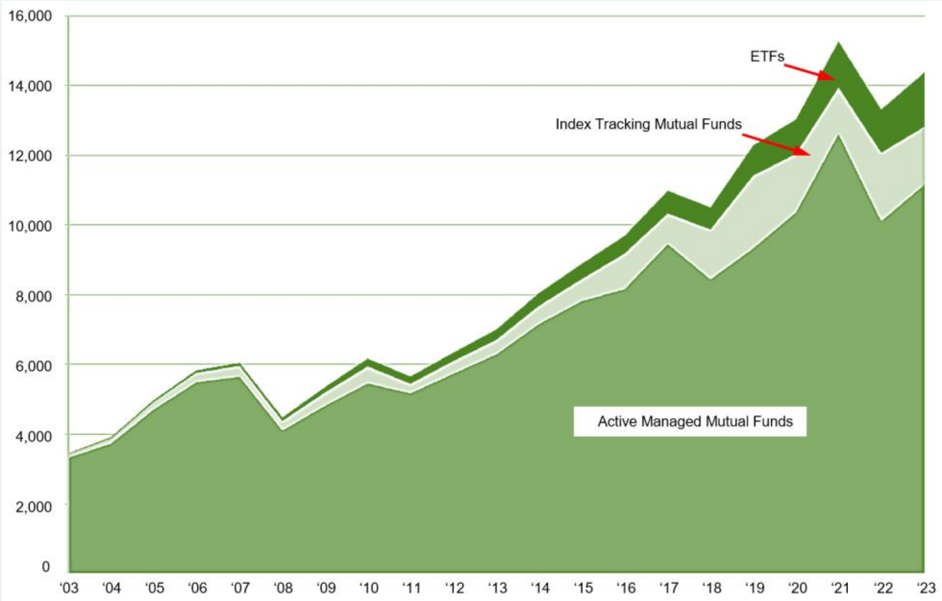
Annual estimated European net fund flows, €bn



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

We also highlight that active funds are still by far the largest segment of the fund universe in Europe (see below), still c50% of the fund universe in the US, and still very much in a long-term growth trend, a fact that is sometime overlooked given the high-profile of passive fund growth in recent years. In fact, it is clear from the chart above that active strategies have attracted the bulk of assets when viewed over multiple years.

Gross AUM of European Fund Industry, €bn



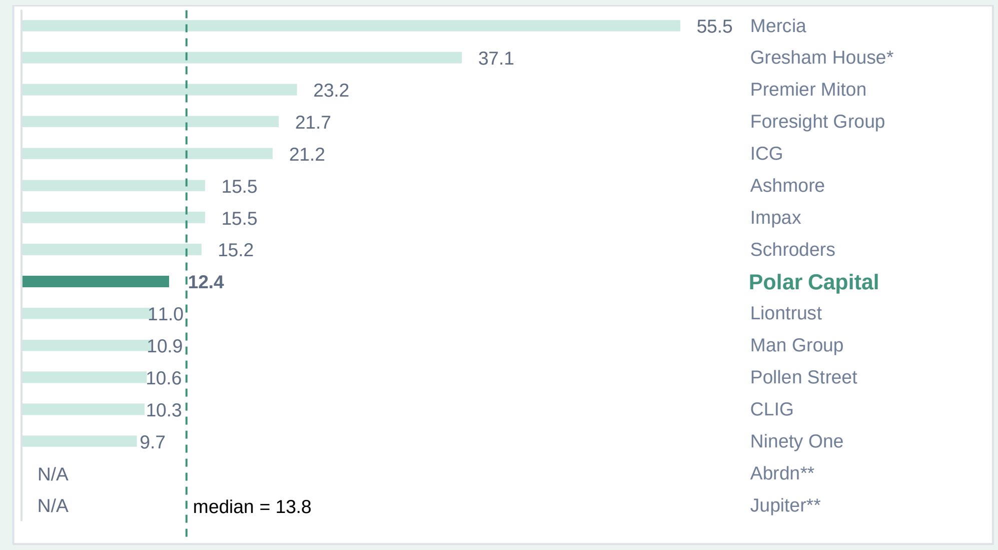
Source: LSEG Lipper: European Fund Industry Review: 2023. Chart reproduced with permission.

Looking undervalued, but investor interest building

We believe the UK asset management sector is undervalued, and highlight that acquirers appear to be seeing value in high-performers. This is demonstrated by the premium paid for Gresham House which was acquired in Dec 23. The acquisition was concluded at a PE multiple of 37.1, far above the PER of most peers (sector median 13.8) with the acquisition price 63% above that of the pre-announcement share price.

And given its strong recent performance and its strong, differentiated strategic positioning (see our Nov 23 interim results note Navigating tough markets better than most for a detailed analysis of this point), we think Polar should command **a premium PER** compared to peers, not a discounted one as it currently does.

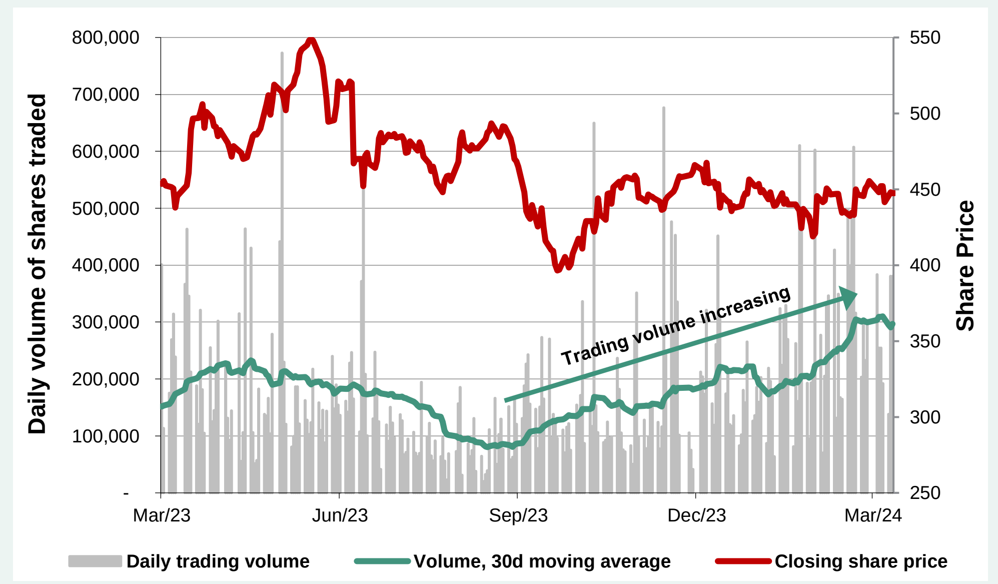
UK-listed asset managers' PE Ratios



Source: Company reports, LSEG, ED analysis as at 10 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 in its latest full FY.*

An observation we have also made is **that trading volumes in POLR shares have been steadily rising over the last six months or so, a sure sign of increasing investor interest in the shares.**

POLR share price and trading volumes



Source: LSEG, ED analysis

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