Polar Capital Holdings plc

A sector growth-leader with an 8.5% yield

27th June 2024

FY24 saw a 14% rise in AUM to £21.9bn on 31 Mar 24. This was the second highest AUM increase among a London-listed peer group (page 4). Post year-end, Polar has recorded a further 4% increase in AUM to £22.8bn on 14 Jun 24 (Q1-25 ends on 30 Jun 24).

Investment performance was the AUM booster in FY24, adding +£4.3bn or +23%, making Polar a runaway leader compared to other asset managers when it comes to investment returns. While its net flows were negative for the full year at -£1.6bn, this was around the median outflow rate of the peer group. And encouragingly, a return to positive, albeit modest, net flows was recorded in Q4 of FY24 (+£56m), with further positive net flows of +£197m in Q1-25 to date.

Gross income increased 7% y-o-y from £185.5m in FY23 to £197.6m in FY24. The primary driver for the increase was a jump in performance fee income from £6.7m to £18.7m.

PBT increased 21% from £45.2m in FY23 to £54.7m, while PAT increased 15% from £35.6m to £40.8m (PAT was impacted by the higher UK corporation tax rate of 25% in FY24 v 19% in FY23).

Polar maintains its exceptionally strong balance sheet, with net assets down slightly from £142.9m to £135.9m, and cash and equivalents down from £107.0m to £98.9m, this after paying out £44.3m in dividends and spending £8.2m buying back its own shares. **Polar has no debt. An unchanged dividend of 46.0p for FY24 has been recommended, a yield of 8.5%**

Positive outlook, fundamental value unchanged at 650p

Polar started FY25 with an AUM level significantly higher than the average level of FY24, with further positive momentum in Q1-25. Absent any severe AUM pullbacks, this should translate to a solid increase in investment fees and core profitability in FY25 (see forecasts below and on page 21).

We also think Polar's track record will attract significant inflows over the longer term. It has been clear for some time that many investors' decisions to keep reducing technology (and other equity) exposures after the valuation falls of 2022 have proved costly and resulted in them missing out on exceptional returns (page 7)**.** Our fundamental value remains at 650p per share.

Key Financials

Year-end 31 Mar	FY 22A	FY 23A	FY24A	FY25E	FY 26E
AUM, £bn	22.1	19.2	21.9	23.5	25.7
Rev, £m	224.1	182.9	195.1	202.3	222.8
Management fees, £m	210.0	176.2	176.4	198.0	211.9
Performance fees, £m	14.1	6.7	18.7	4.4	10.8
PBT, £m	62.1	45.2	54.7	56.8	63.6
Core op profit*, £m	69.4	47.9	44.8	52.7	56.7
Performance fee profit	4.1	1.7	9.6	1.9	4.8
EPS basic, p	50.8	36.8	42.3	43.6	48.0
EPS adjusted diluted, p	56.0	44.3	44.0	44.1	48.5
PER	10.6	14.7	12.8	12.4	11.3
Div, p	46.0	46.0	46.0	46.0	46.0
Yield	8.5%	8.5%	8.5%	8.5%	8.5%
Net assets, £m	156.2	142.9	135.9	140.9	150.8
Net cash, £m	121.1	107.0	98.9	107.1	123.2

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***541p***

Company Data

EPIC	LSE: POLR
Price (last close)	541p
52 weeks Hi/Lo	588p/396p
Market cap	£549m
ED Fair Value/share	650p
Proforma net cash	£99m
Avg. daily volume	198k

Share Price, p

Source: ADVFN

Description

Polar Capital 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 14 Jun 24: £22.8bn

Next Event: AUM update, 11 July '24

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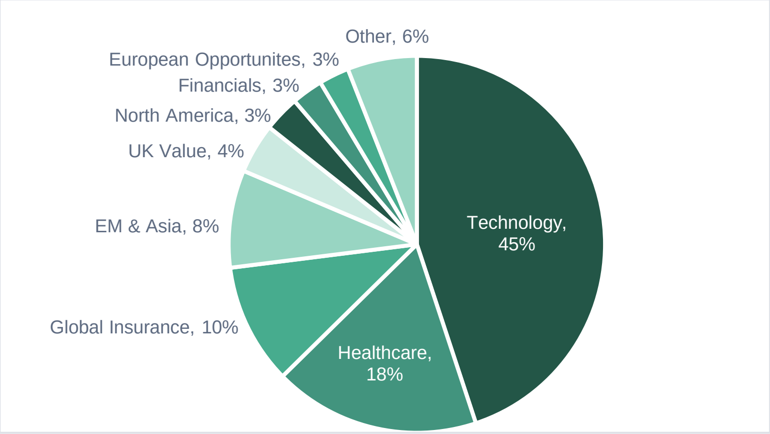
Polar at a glance

History and operating structure

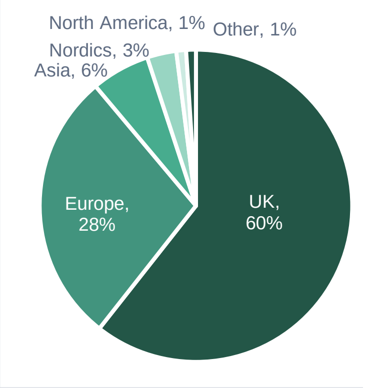
- Polar Capital is a fund management group, specialising in active management. It was founded in 2001 and listed on AIM in 2007. Headquartered in London, it has a presence in 9 countries (UK, USA, Germany, Switzerland, France, Spain, Denmark, China, and Singapore).
- 13 investment teams manage specialist portfolios and operate as semi-autonomous business units, heavily incentivised on investment performance. 'Centralised' operations support these teams.
- Technology funds have always been core to Polar, although over the years, additional investment strategies have diversified its AUM base. It manages investments primarily for institutional clients. Europe is its largest market.

Split in AUM by investment strategy (100% = £21.9bn*)



*Source: Company, as at 31 Mar 24. *Strategies with <2.5% of AUM not shown.*

Split in AUM by client geography and client type

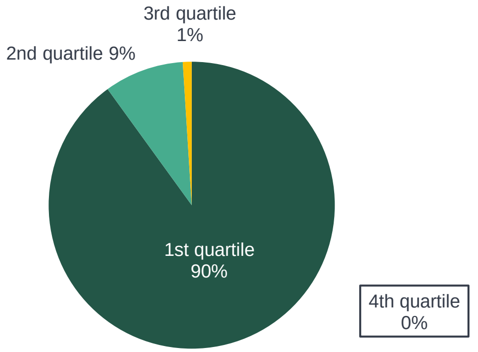


Polar Investment Trusts	24%
Bank	23%
Private Wealth Manager	17%
Platform	13%
Asset Manager	11%
Fund of Funds	5%
Pension Fund/Foundation	2%
Family Office	2%
Insurance Company	1%
Sovereign Wealth Fund	0.5%
Consultants	0.2%
Other	1.8%

Source: Company, as at 31 Mar 24.

Impressive track record of delivering superior returns

% of UCITS funds AUM by quartile ranking*
(measured since fund inception)



*Source: Company, as at 31 Mar 24. *c71% of total Polar AUM. According to Lipper peer groups/ Lipper provides performance data for homogeneous groups of funds with comparable investment objectives: lipperleaders.com*

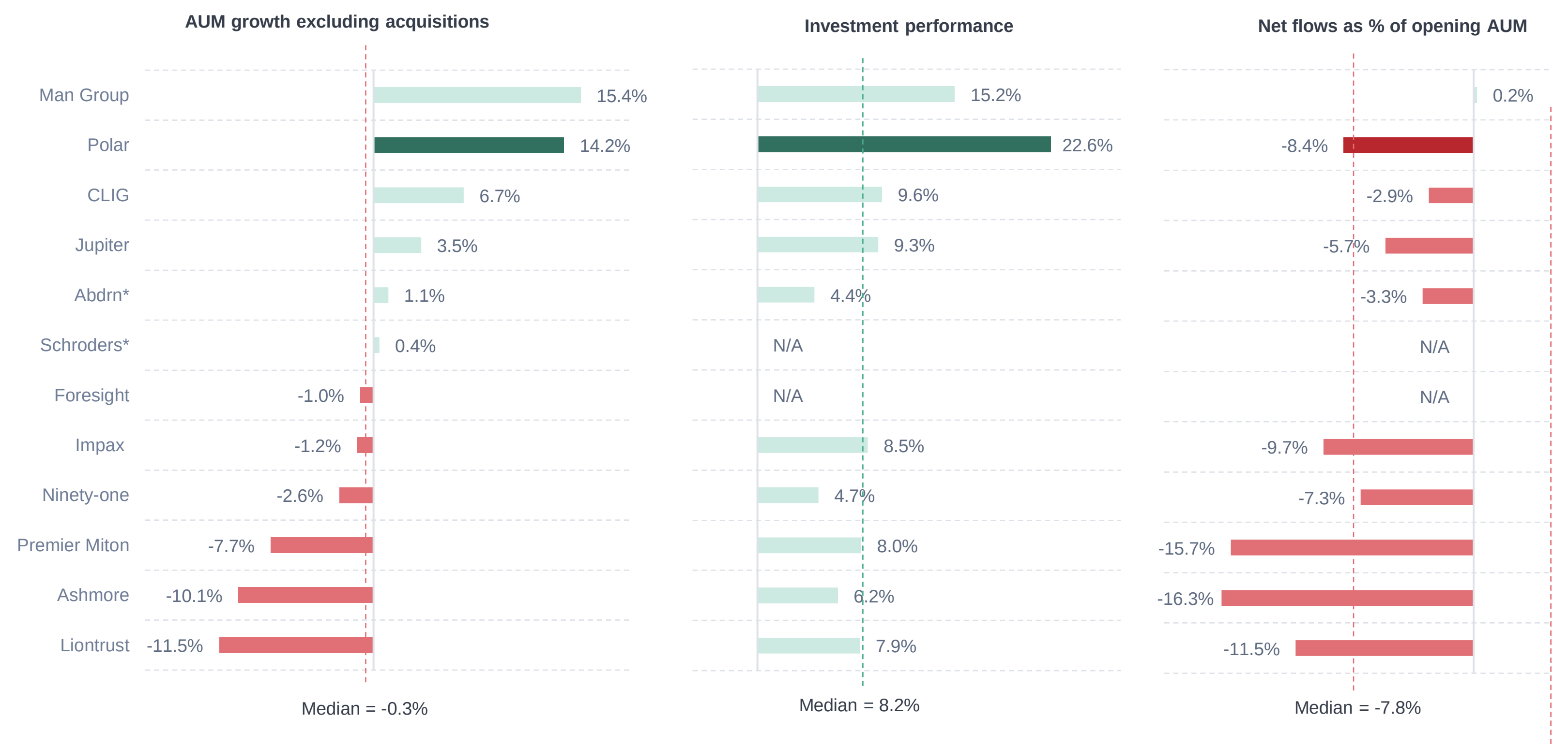
Assets under management

AUM up 14% over FY24, far more than nearly all peers

FY24 saw a jump in AUM of 14% from £19.2bn on 31 Mar 23 to £21.9bn on 31 Mar 24. This was the second highest AUM increase among a London-listed peer group. Investment performance was the AUM booster, adding +£4.3bn or +23%, making Polar a runaway leader compared to other asset managers when it comes to investment returns.

While Polar's net flows were negative for the full year at -£1.6bn, this was around the median outflow rate of a peer group. And encouragingly, a return to positive, albeit modest, net flows was recorded in Q4 of FY24 (+£56m), with **further positive net flows of +£197m in Q1-25 to date** (1 Apr 24 – 14 Jun 24).

For asset managers, the 12m to Mar 24 was characterised by strong investment returns but widespread net outflows



*Source: Company reports, ED analysis. *Asset management units only.*

Hugely impressive investment returns in FY24, and longer-term

FY24 returns had sector tailwinds…

- Of course, compared to other asset managers, Polar benefitted from having high technology (45% of AUM), healthcare (18%) and insurance (10%) exposures – sectors with very strong returns during the period.
- But that wasn't the only reason for such relative outperformance. Its **largest funds mostly beat benchmarks over FY24**, boosting AUM gains [in the table on the right, outperformance v benchmark shaded dark green, underperformance shaded red].

…but Polar beat most benchmarks, boosting returns further

Fund/trust	AUM	Polar 12m return	Benchmark 12m return
Global Technology Fund[1]	£5.3bn	42.5%	40.7%
Polar Capital Technology Trust plc[1]	£4.0bn*	41.0%	40.7%
Biotechnology Fund[2]	£1.4bn	21.0%	5.7%
Healthcare Opportunities Fund[3]	£1.3bn	19.9%	10.4%
Global Insurance Fund[4]	£2.3bn	20.7%	23.7%
Emerging Market Stars Fund[5]	£2.3bn	7.2%	5.6%
	£16.6bn (c76% of AUM)		

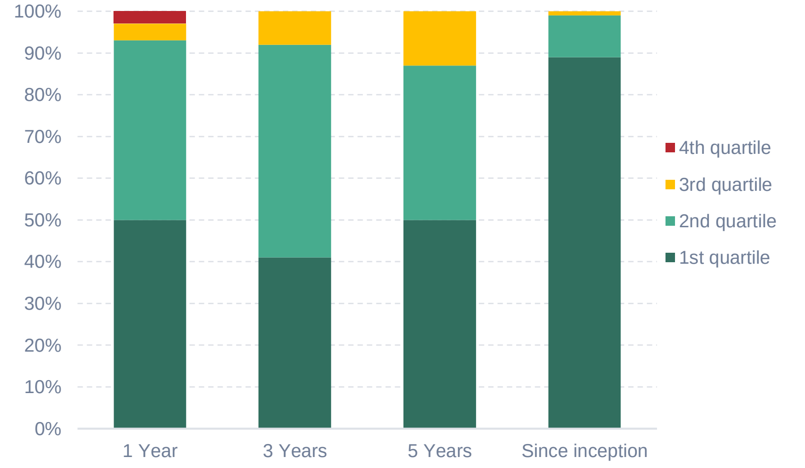
*Source: Polar Capital fund fact sheets: 28 Mar 24. *NAV for Polar Capital Technology Trust Benchmarks: [1]Dow Jones Global Technology Net Return Index, [2]NASDAQ Biotechnology Net Total Return Index, [3]MSCI AC World Daily Total Return Net Health Care Index, [4]MSCI Daily Total Return World Net Insurance 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.*

Top-quartile long-term performance for 90% of AUM

- Since fund-inception, 99% of Polar's total AUM is in the top two quartiles of relevant Lipper peer groups*, with 86% in the top two quartiles over five years, 91% over three years, and 94% over 1 year.
- For Polar's UCITs fund range (around 71% of total AUM), the proportion of AUM in each benchmark quartile is shown on the right.

*Source: Company. *Lipper provides performance data for homogeneous groups of funds with comparable investment objectives: lipperleaders.com*

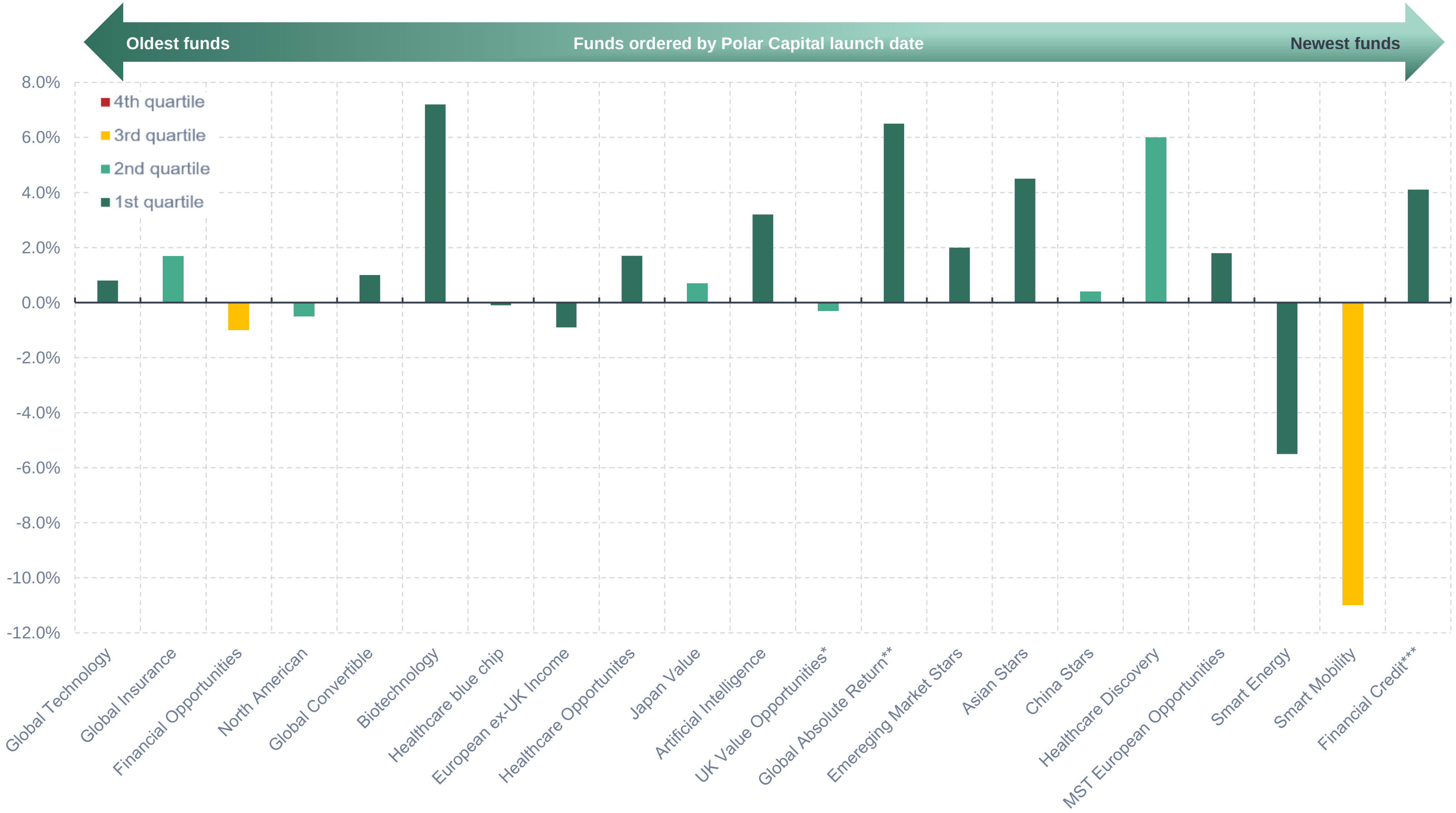
% of UCITS funds AUM by quartile ranking



*Source: Company, as at 31 Mar 24. *c71% of total Polar AUM. SI = Since Inception*

Looking at long term investment performance by investment strategy, 13 out of Polar's 21 UCITS strategies have delivered 1st quartile returns compared to peers **since inception, with 6 delivering 2nd quartile returns and only two in the third quartile.** This breakdown is shown below, which is a split of the far-right bar (since inception) in the lower chart on the previous page by investment fund.

Relative annualised fund performance against benchmark (since inception)



Source: Company, Original source: Lipper. Lipper quartile rankings as at 31 March 2024. UCITS performance illustrative of Polar Capital Funds plc Irish UCITS and Melchior Selected Trust European Opportunities Luxembourg SICAV fund. Geometric performance shown for all periods greater than 1yr. Figures shown reflect absolute performance. Funds ordered according to Polar Capital launch date. All data is based on the Fund's base currency.
**UK Value Opportunities quartile rankings vs IA UK All Companies sector. **The Global Absolute Return Fund does not have a benchmark, therefore figures shown reflect absolute performance. ***Financial Credit: 29 December 2023, name, objective and policy changed.*

Net flow picture brightens after tough two-year period

Active managers generally have experienced a tough period when it comes to net flows since early-2022 when Russia invaded Ukraine, energy prices spiked, the interest rate hiking cycle started, and inflation ramped up around the world. It marked the start of a period of economic uncertainty, investor nervousness and a clear 'risk-off' stance. Consequently, in 2022, Polar's flows turned negative with sharp market falls, particularly in technology equities which were heavily impacted by interest rate hikes.

Polar's investment returns quickly recovered in late-22 and into '23, but despite that, in the aggregate, investors withdrew capital over calendar-2023, missing out on stellar returns. **We don't think the mismatch between Polar's returns and flows will persist and believe more consistent positive flows are bound to return to this quality active manager, sooner rather than later**. **There are encouraging signs that this is already happening with positive net flows in Q4-24 and in Q1-25.**

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

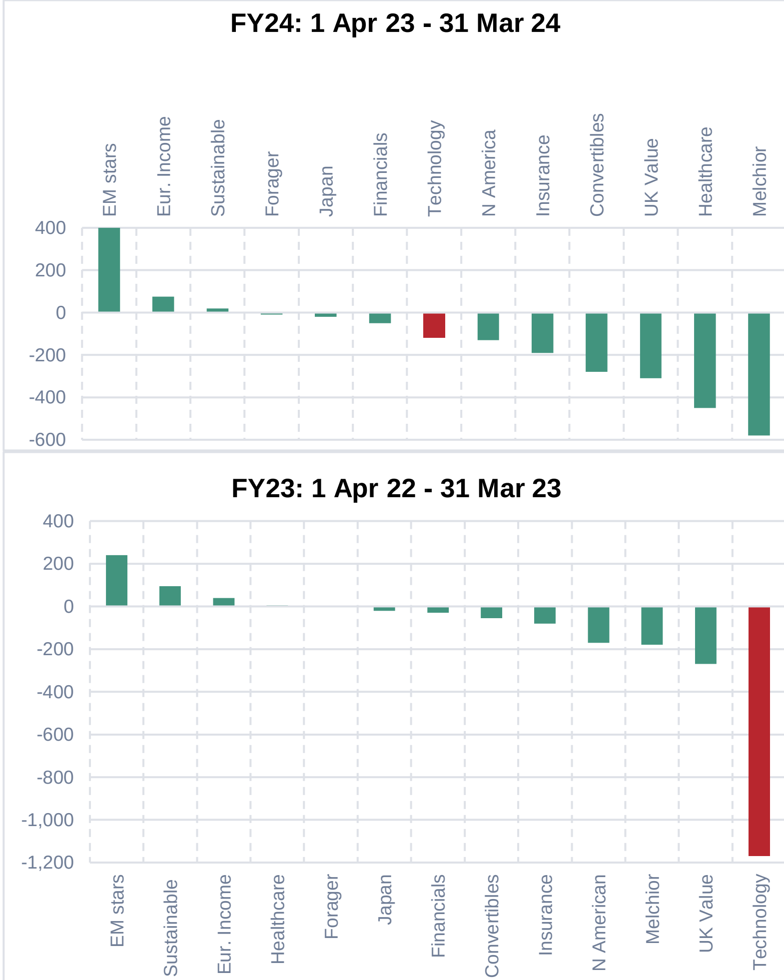
Source: Company reports, ED analysis. Calendar quarters shown, not FY quarters.

Pockets of investor interest but net outflows in FY24

Demand for EM & AI; UK & Europe out of favour

- While the overall net flow situation was negative for Polar in FY24, there were positive flows for the following funds:
  - Polar Capital Emerging Market Stars Fund: £280m
  - Polar Capital Asian Stars Fund: £94m
  - Polar Capital Artificial Intelligence Fund: £192m
  - Polar Capital Smart Energy Fund: £84m
  - Polar Capital European ex-UK Income Fund: £81m
  - Polar Capital Healthcare Bluechip Fund: £32m
- Areas especially out of favour with investors included UK and European (Melchior) equities.
- But the most obvious feature of the charts on the right is the **change in net flow position of Polar's Technology strategies**. The near-£1.2bn of net outflows in FY23 (red bar in bottom chart) reduced to just over £100m of outflows in FY24 (red bar in top chart). **Moreover, Technology strategies have had £178m of net inflows in the period 1 Jan 24 – 14 Jun 24.**
- Also worth mentioning is that net inflows in the current quarter, 1 April to 14 June 2024, have some different characteristics to the last two years. While EM and Asia strategies continued to attract assets (£292m), Healthcare turned to positive net flows (£54m), as did the Polar Capital Global Insurance Fund (£37m), and the Polar Capital UK Value Opportunities (£28m),

Net flows by strategy: FY24 v FY23



Source: Company.

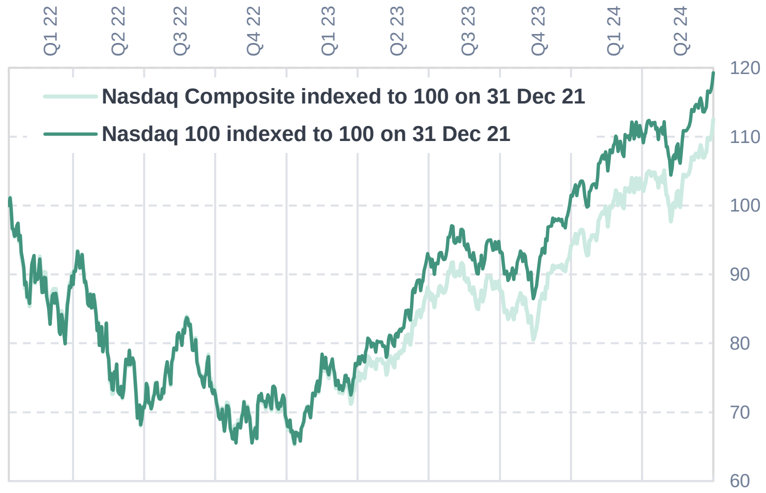
Technology fund flows continue recovery, now net positive

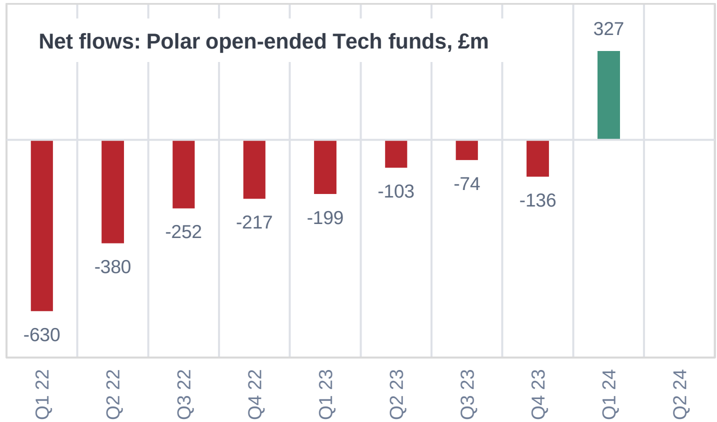
Polar's technology strategies helped by AI focus

- One of the most pleasing net flow developments has been the continued recovery of open-ended technology fund flows.
- These suffered heavy outflows following the late-2021 and early-2022 rapid rotation out of high-growth technology equities as interest rate rises accumulated.
- Outflows gradually abated in late-2022 and through 2023, and **turned strongly positive in early-2024,** with net inflows of £327m in calendar-Q1 of 2024 compared to £136m of net outflows in the previous quarter. £212m of those net inflows were during the month of March 2024

Source: Company.

Investors quick to exit falling markets, slower to re-enter





Source: Nasdaq, Polar Capital
Nadaq composite is an index of c3,500 stocks listed on the Nasdaq exchange; Nasdaq 100 is an index of the largest (by market cap) non-financial companies listed on the Nasdaq exchange (and hence has a larger exposure to technology 'mega-caps'). Quarters align graphically to illustrate relationship between Nasdaq indexes and net flows.

Analysis of FY24 financials

Income statement

Revenue

Revenue up on jump in performance fees

- Gross income increased 7% y-o-y from £185.5m in FY23 to £197.6m in FY24. Net income (gross income less commissions and fees payable) also increased 7% from £164.1m to £174.9m.
- Investment management and research fees (IM fees) were marginally up from £176.2m in FY23 to £176.4m on similar average AUM levels (£19.6bn). But we note that the recent increase in AUM levels (see next page) has not yet had a big impact on revenue i.e. it had limited impact in FY24.
- Net management fee yield was slightly down from 79bps to 78bps as a result of a changing product mix.
- But **performance fee income jumped from £6.7m to £18.7m** and was the primary driver of the revenue increase. This is unsurprising given Polar's strong year of returns compared to benchmarks (see page 5).
- 'Other income' (mark-to-market gains or losses on the value of seed investments and interest income) was almost unchanged (£2.6m in FY23 and £2.5m in FY24).
- It will be seen from the chart on the right that **we are forecasting a fairly substantial jump (+12%) in IM fees in FY25, - this is explained overleaf.** We also note that we keep our performance fee estimates low due to the uncertainty of performance fees.

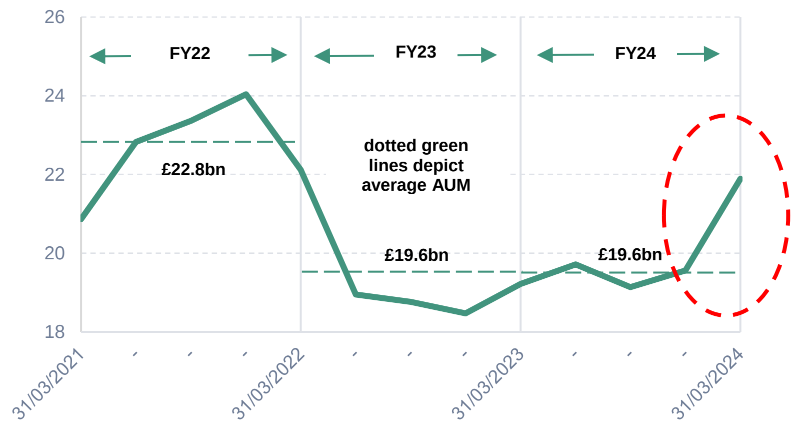
Revenue breakdown: history & forecast

Source: Company reports
**Other income = interest income; gains/losses on seed capital investments, financial assets and liabilities; gains/losses on forward currency contracts; and investment income.*

Prospects strong for a jump in IM fees in FY25…

- Because average AUM is the main driver of Polar's largest source of revenue, IM fees, it is useful to understand AUM development and AUM averages. This is presented in the chart on the right.
- And it should be clear that **FY25 will start at a substantially higher AUM level than the FY24 average. So, absent a sharp fall in AUM in FY25, it is likely that average AUM, and consequently IM fees, will be higher than FY24.**

AUM profile last three years, £bn



Source: Company reports, ED analysis

…with a reasonable outlook for Performance Fees too

- Most performance fees crystallise on 31 Dec each year, therefore FY24 fees do not include those generated in the Jan-Mar 24 quarter. And returns for that quarter were solid, with all Polar's largest funds ahead of benchmark (see table on right).
- We also flag that our perf. fee forecast for FY25 is conservative by historical standards. While an extremely volatile source of income with no guarantee of performance fees at all, in the last five years, Polar's gross performance fees as a percentage of IM fees (from FY20 through FY 24) has been: 17%, 28%, 7%, 4% and 11%, while our forecast for FY25 is just 2%.

Polar beat most benchmarks in the Jan-Mar 24 quarter

Fund/trust	AUM	Polar 3m return	Benchmark 3m return
Global Technology Fund[1]	£5.3bn	17.2%	13.6%
Polar Capital Technology Trust plc[1]	£4.0bn*	15.1%	13.6%
Biotechnology Fund[2]	£1.4bn	8.1%	2.4%
Healthcare Opportunities Fund[3]	£1.3bn	12.3%	8.0%
Global Insurance Fund[4]	£2.3bn	14.9%	12.5%
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	£16.6bn (c76% of AUM)		

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Operating costs and operating profit

Expenses well under control in an inflationary environment

- Core operating profit - *profit before performance fee profits, other income, exceptional items and tax* - presents a measure of the Group's profitability excluding investment-performance-related profits and other components which may be volatile, non-recurring or non-cash in nature (therefore it is mostly a function of growth and operating efficiency).
- It fell 6% y-o-y from £47.9m to £44.8m, mostly as a result of a only a marginal increase in IM fees and costs increasing at a slightly higher rate than revenue.
- **Core operating costs were only marginally up 2% from £106.7m to £108.7m** [these are made up of core distributions (variable compensation paid to investment teams from management fee revenue) and other core operating costs (other staff costs, office and administrative costs etc)].
- This resulted in **core operating margin falling to a lesser degree than average AUM or revenue from 31.0% to 29.2%.**
- **With the strong start to AUM levels for FY25, which should bump up IM fees, we are currently forecasting an 18% increase in core operating profit to £52.7m and a margin increase to 30.6%.**
- With a significant part of costs being variable (compensation of investment teams related to growth and profitability of each team's investment strategy), by implementing strict cost control, and with lower exceptional charges, **Polar's IFRS operating costs increased only 1%, from £118.7m in FY23 to £120.0m in FY24**, with detail of y-o-y changes shown in the table right.

Breakdown of operating costs with y-o-y comparison

	FY24	FY23
Staff compensation costs		
Salaries, bonuses & other staff costs[1]	35.0	36.1
Core distributions[2]	42.8	44.0
Share-based payments[2]	3.2	2.7
Performance fee interests	9.1	5.0
Total	**90.1**	**87.8**
Other operating costs		
IT	7.3	7.0
Rent & rates	4.6	3.2
Professional fees	2.6	2.6
Research & Corporate access	4.3	4.3
Travel & entertainment	2.6	2.2
Other	7.3	5.4
Total	**28.7**	**24.7**
Exceptional items		
Termination & reorganisation costs[3]	0.0	5.0
Amortisation of intangibles - Dalton	1.2	1.2
Total	**1.2**	**6.2**
Total operating costs	**120.0**	**118.7**

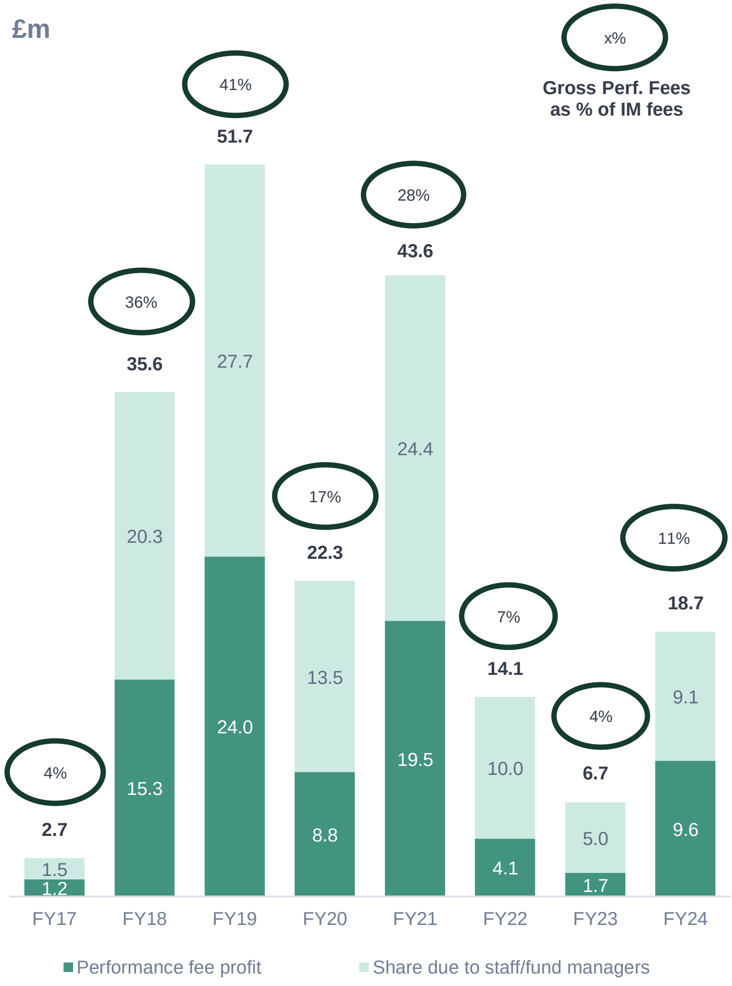
Source: Company
1. Including share awards under deferment plan of £0.7m (FY23: £0.8m)
2. Including share awards under deferment plan of £1.2m (FY23: £0.9m)
3. Share-based payments on preference shares of £0.7m (FY23: £0.3m), LTIPs of £1.9m (FY23: £1.8m) and equity incentive plan of £0.6m (FY23: £0.6m).

IFRS profits and per share profit metrics

IFRS profits boosted by a jump in performance fees

- The main differences between core profits and IFRS profits arise from 1) performance fees and 2) 'other income' (this consists primarily of interest income, gains/(losses) on financial assets and liabilities, gains/(losses) on forward currency contracts and investment income.)
- **Performance fees jumped in FY24, from £6.6m (gross fees) in FY23 to £18.7m. Net performance fees (after the deduction of staff interests) increased from £1.7m to £9.6m.**
- It is worth stressing the volatility of performance fees at this point, and hence the volatility in statutory earnings compared to core earnings. We have illustrated this on the right. An additional observation is that even though performance fees jumped substantially in FY24, they still remained low by historical standards.
- The results of the above revenue and cost moves resulted in **statutory profit before tax increasing 21% from £45.2m in FY23 to £54.7m in FY24**, and profit after tax increasing by 15% from £35.6m to £40.8m (lower than the PBT increase as the increase of the UK corporation tax rate from 19% to 25% coincided with the start of Polar's financial year).
- Basic EPS increased by 15% to 42.3p (FY23: 36.8p), diluted basic EPS by 16% to 41.8p (FY23: 36.1p), while adjusted diluted core EPS fell 12% y-o-y to 35.0p (FY23: 39.7p).

Performance fees increase volatility of statutory earnings



Source: Company historic data

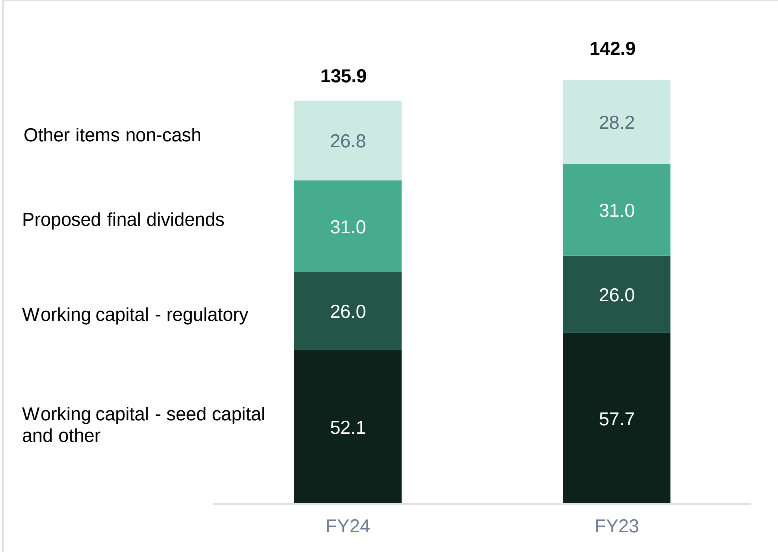
Balance Sheet and Cash Flow

Balance sheet robust

- **Polar maintains its exceptionally strong balance sheet**, with net assets down slightly from £142.9m to £135.9m. **It has no borrowings.**
- Cash and equivalents were £98.9m (down 8% y-o-y from £107.0), with significant items being: £44.3m dividends, £8.5m net cash outflow from 3rd party subscriptions into and out of consolidated funds, and £8.2m buying own shares.
- Polar considers capital in terms of four main categories: capital used to seed new investment products, a buffer for times of uncertainty, to pay dividends, and to fund the EBT to buy shares to reduce the dilutive effects of LTIP and option awards. The current and annual change of these is shown on the right.
- On 31 Mar 24 £35.8m of the Group's balance sheet (FY23 £44.1m) was invested to seed fledgling funds.

Source: Company

Capital allocation, £m



Source: Company

Regulatory capital position

- The Group produces a 'surplus capital' report which takes account of capital commitments and minimum levels of regulatory capital to illustrate the capital available to pursue growth opportunities, such as seeding new investment products or acquisitions.
- This **surplus capital amounted to £52.1m** (FY23: £57.7m) above its regulatory capital requirement of £26m (FY23: £26m) and Jul 24 dividend commitment of £31.0m.

Source: Company

Summary capital surplus position

	Year to Mar 24	Year to Mar 23
Capital after regulatory deductions	**£109.1**	**£114.7m**
Less: dividend provision	(£31.0)	(£31.0)
	£78.1m	**£83.7m**
Regulatory capital requirement	(£26.0m)	(£26.0m)
Surplus capital	**£52.1m**	**£57.7m**

Source: Company

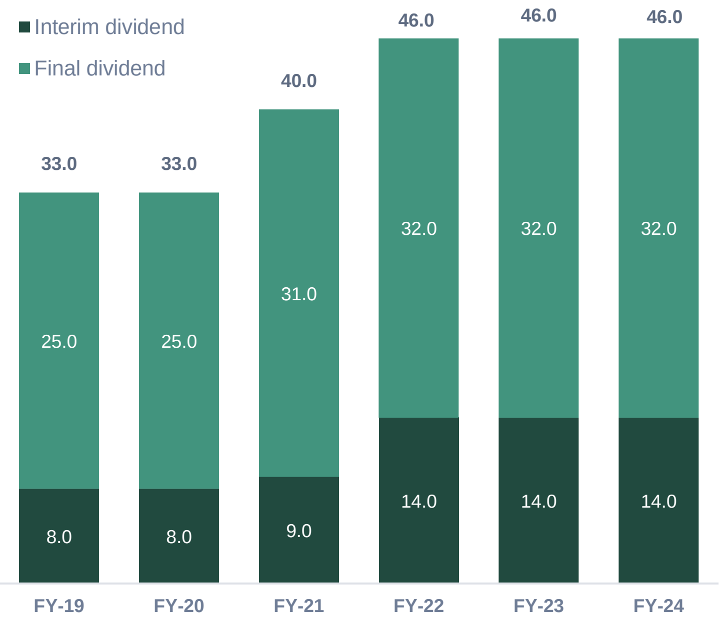
Dividends

Dividend unchanged with a yield of 8.5%

- Polar's dividend policy is to pay an annual dividend within a range of 55% and 85% of adjusted total earnings, dependent on the scale of performance fees in the relevant year and the anticipated trading conditions for the following year.
- Despite adjusted earnings falling in FY22 and FY23 (primarily as a result of the previously described fall in AUM from early-2022 until late-2023), Polar was confident enough in its outlook and its cash resources to maintain dividend levels in both of those years, resulting in the payout ratio jumping from 61% in FY21 to 79% in FY22 and 102% in FY23.
- Polar has again recommended an unchanged dividend for FY24, which results in a payout ratio of 103%, but it must be stressed that the environment for the FY24 decision is totally different to that of FY23:
    - AUM is growing rapidly again, and while there is still plenty of uncertainty in financial markets, Polar's outlook is far more positive compared to a year ago.
    - Adjusted earnings, while falling in FY24, were far stronger in H2 compared to H1, and are forecast to grow again in FY25.
    - The groups financial position is still incredibly strong with cash resources of £99m (end-FY23: £107m), making up around 18% of its market cap.

We are therefore **not surprised to see an unchanged dividend and would expect to see the payout ratio fall in the next few years as earnings grow.**

Historic and proposed dividends, pence per share



Source: Company historic data

Strategically well positioned to capitalise

Some significant opportunities in key strategies

We remind readers of Polar's 'growth with diversification' strategy and how it intends to grow its AUM organically from existing strategies and channels, and also from adding new:

1. *investment themes* (e.g. in late 2021 it launched a range of sustainable funds - Smart Energy and Smart Mobility themes);
2. *channels* (e.g. its acquisition of Dalton has added a range of Luxembourg SICAV funds and segregated mandates); and
3. *geographies* (e.g. Dalton has a strong European client base, particularly in Germany, and Polar has announced that a **new US-based International Small Company investment team will be joining the business** in Sept 24 to complement its existing US offering).

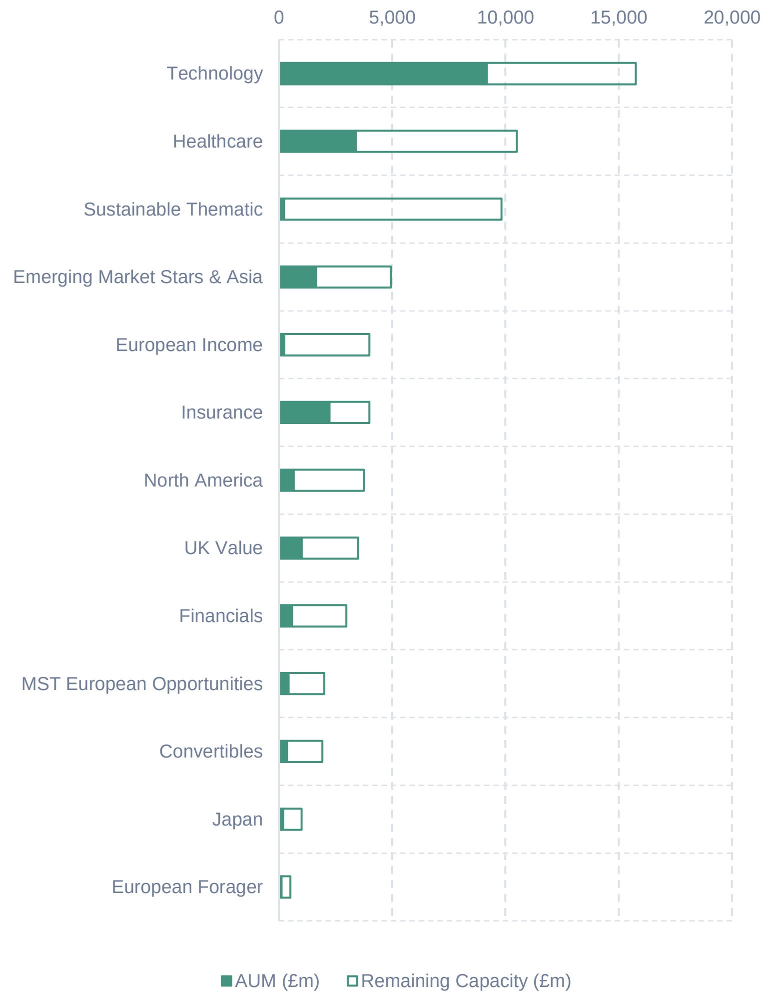
With respect to organic growth, **we see particularly strong opportunities for Polar's Sustainable Thematic strategies, Healthcare, Emerging Markets, and in the recovery of its Technology strategies** (particularly in light of Polar's expertise in and focus on artificial intelligence opportunities beyond the mag-7).

These opportunities arise not only out of market opportunities, but from Polar's available capacity, which is significant in the above areas (see chart). **Currently, Polar has a total capacity of £63bn with a current remaining capacity (opportunity for growth) of £41bn.**

Notably, £19.6bn of capacity remains in strategies that had positive net inflows in the last six months (Sustainable Thematic - Smart Energy and Mobility; Emerging Markets & Asia; European (ex-UK) Income; and Artificial Intelligence – noting that the majority of remaining capacity in Tech is the Artificial Intelligence Fund).

Source: ED Commentary

AUM and available capacity (31 Mar 23)

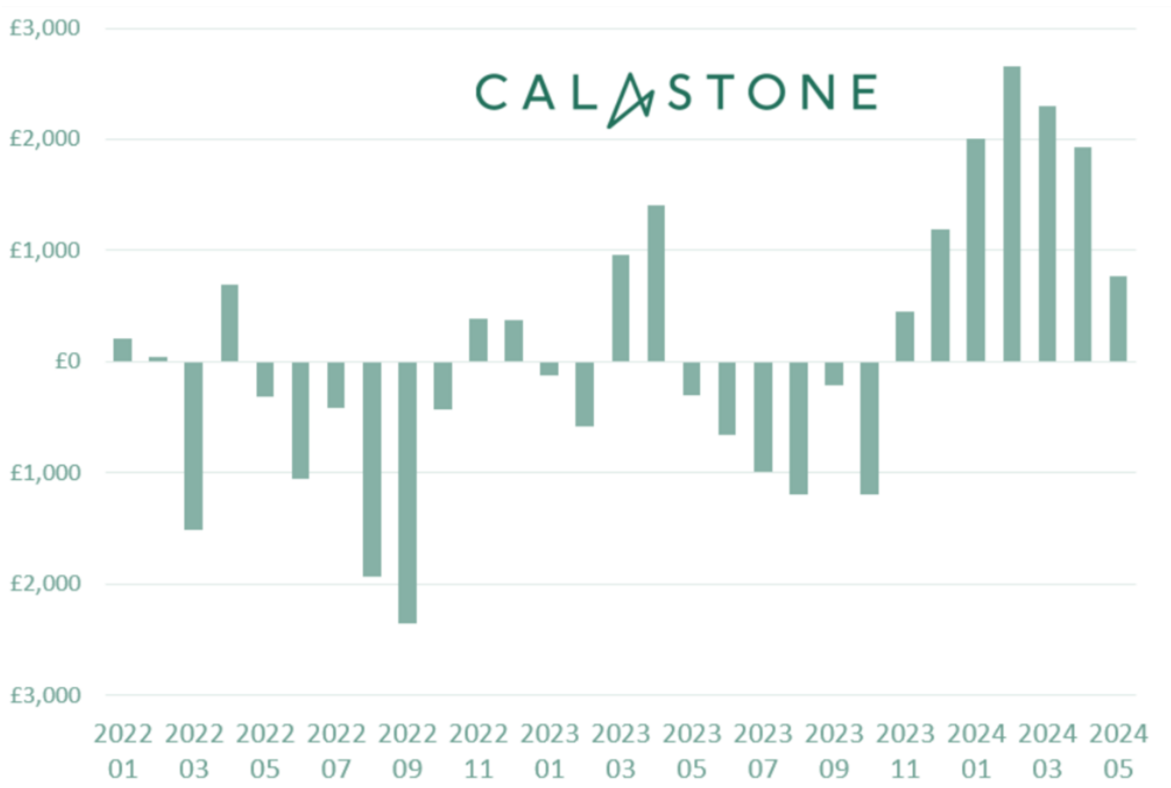


Source: Company
**Includes Artificial Intelligence Strategy*

Early signs of broader equity fund flow situation improving in the UK…

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: *"Equity funds made a very strong start to 2024 – the £8.90bn of inflows were the best start to any year on Calastone's record."* But momentum did tail off in May so we will be watching carefully if net inflows prevail.

UK open-ended net fund flows, £bn

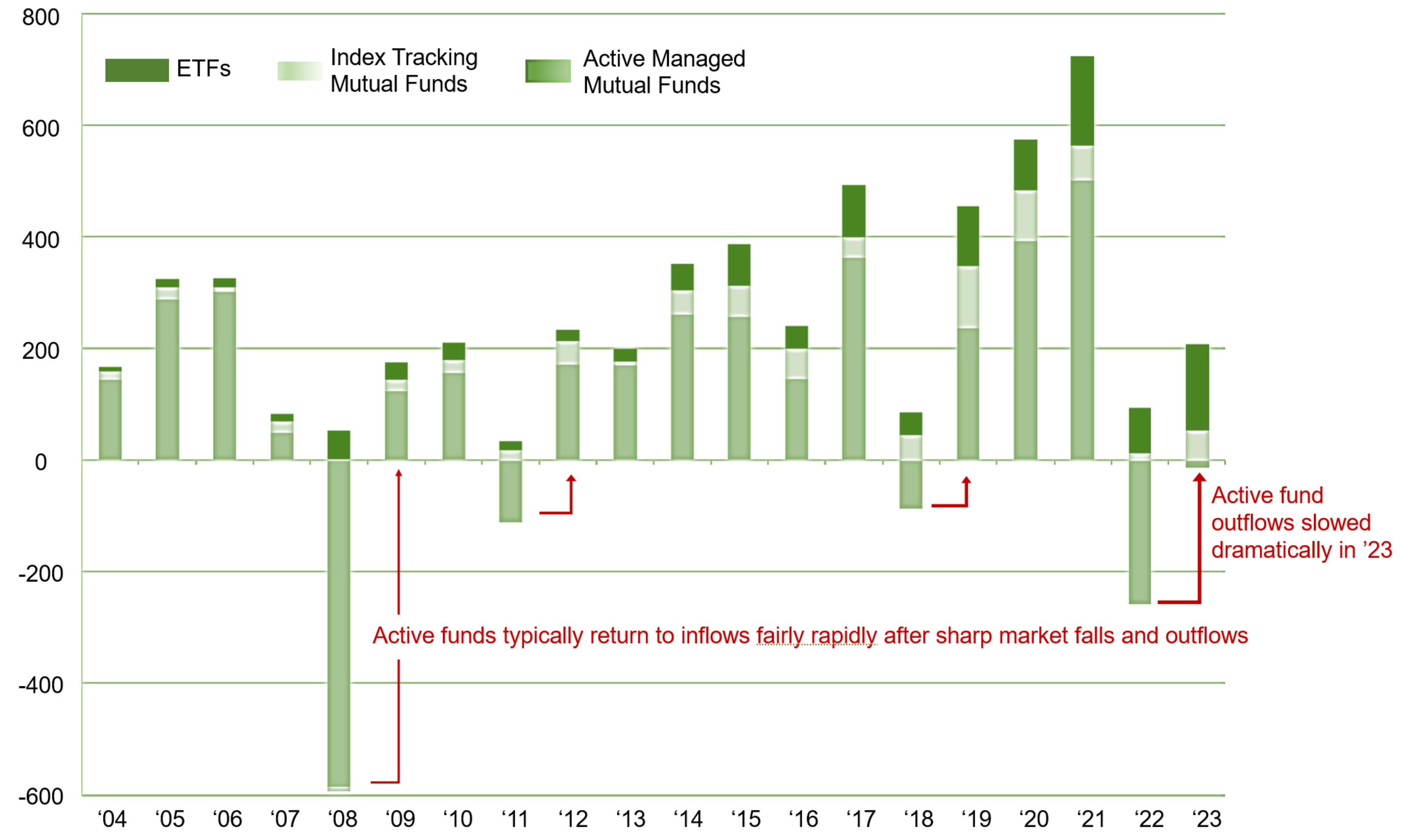


Source: Calastone, Chart reproduced with permission.

… and across Europe

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



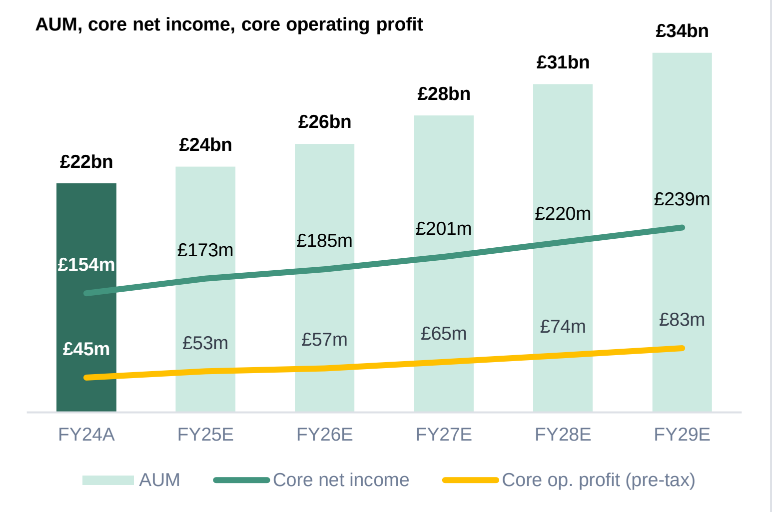
Source: LSEG Lipper: European Fund Industry Review: 2023. Chart reproduced with permission

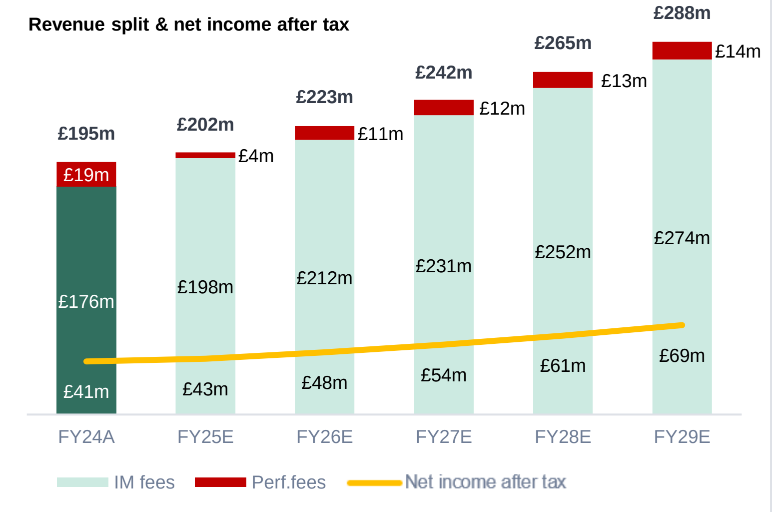
Fundamental Valuation of 650p

Underlying assumptions of fundamental valuation

- Our fundamental valuation uses a discounted cash flow methodology which is underpinned by a 5-year explicit growth forecast. This assumes:
- **AUM grows at c10% CAGR,** more specifically:
  - Polar returns to positive net flows in FY25 of around £500m, which looks credible given the current flow situation and outlook (pages 7-9).
  - Net flows build to around £1.5bn per year in the latter part of our forecast – noting that that Polar achieved net inflows of around £2bn per year in the bull markets of FY18 and FY21.
  - Investment returns contribute 5% p.a. to AUM.
- **Revenue grows at c8% CAGR**, lower than AUM growth as we have assumed (historically) very low performance fees and some price erosion. Note the performance fee assumptions (in red in lower chart on right) and compare to the actual performance fees achieved in previous 5Y period (FY20: £22m; FY21: £44m; FY22: £14m; FY23: £7m; FY24: £19m).
- **Core operating margin moves from the current 29.0% to around 35% in 5 years –** noting that Polar achieved margins of 36.1% and 37.1% in FY21 and FY22 (before AUM fell off with the tech stock rout of calendar-2022).
- For the terminal value of our DCF we assume that Polar is acquired at the end of the 5-year explicit forecast period at a PER of 15 (probably conservative (see overleaf).
- All cash flows are discounted at a rate of 13%, which produces a **fundamental valuation of 650 pence per share**.

Summary 5Y growth forecasts





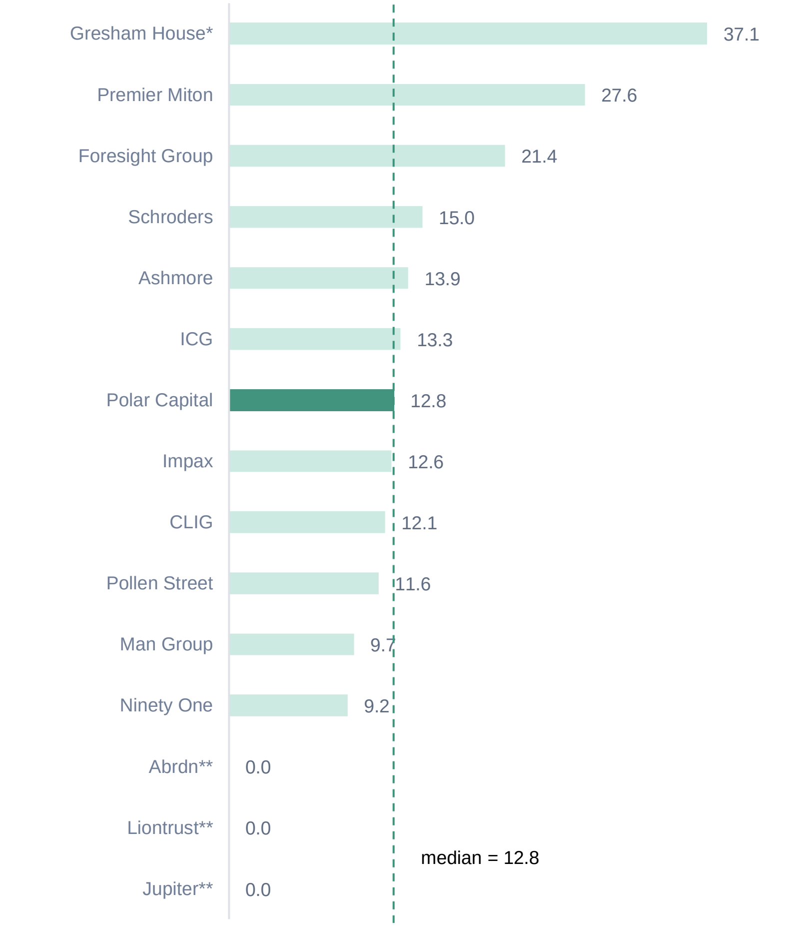
Source: Company historic data, ED forecasts and analysis

Peer comparator valuations

A sector-median PER seems strange given superior growth

- 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 12.8) with the acquisition price 63% above that of the pre-announcement share price.
- Given its superior growth rate compared to peers (page 4), niche strategic positioning, strong profit margins, and strong balance sheet (£99m net cash at the end of FY24 and no debt), would expect Polar to trade at a premium compared to peers.
- But it only trades at the peer group median PER of 12.8, and we see potential for this to adjust and for Polar's shares to re-rate.

PER peer group comparison



Source: London Stock Exchange, company announcements. PERs based on share prices as at 26 Jun 24 and latest available basic EPS on that date.
**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, and Liontrust a statutory loss of 5.5p per share.*

Historic and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end Mar, £'m	**FY 22A**	**FY 23A**	**FY 24A**	**FY 25E**	**FY 26E**
Revenue	224.1	182.9	195.1	202.3	222.8
Other Income	1.6	2.6	2.5	2.8	2.8
Gross Income	**225.7**	**185.5**	**197.6**	**205.2**	**225.6**
Commissions and fees payable	(22.6)	(21.4)	(22.7)	(25.4)	(27.2)
Net Income	203.0	164.1	174.9	179.8	198.4
Operating Costs	(140.9)	(118.7)	(120.0)	(122.8)	(134.6)
Profit for the year before tax	**62.1**	**45.2**	**54.7**	**56.8**	**63.6**
Taxation	(13.2)	(9.6)	(13.9)	(14.2)	(15.9)
Profit attributable to ordinary shareholders	**48.9**	**35.6**	**40.8**	**42.6**	**47.7**
Adjusted Profit, £'000					
The Group believes that aligning staff rem. and profits generated in the same period will allow users of the financial statements to gain a better understanding of the Group's results and their comparability year on year (post tax).					
Add exceptional items, acquisition related costs	2.9	5.0	-	-	-
Add exceptional items, amortisation of intangible assets	1.9	1.2	1.2	-	-
Add exceptional items, impairment of intangible assets	6.0	-	-	-	-
Add back share-based payments on pref. shares	1.1	0.3	0.7	0.7	0.7
Add back exceptional. items, FV charge on def cons	*(3.7)*	-	-	-	-
Less net amount of deferred staff rem	(0.8)	1.7	0.3	0.3	0.3
Adjusted Profit After Tax	**56.2**	**43.7**	**43.0**	**43.7**	**48.8**
Earnings per share, p					
Basic	50.8	36.8	42.3	43.6	48.0
Diluted	48.7	36.1	41.8	43.0	47.4
Adjusted basic	58.4	45.2	44.6	44.7	49.1
Adjusted diluted	56.0	44.3	44.0	44.1	48.5
Core operating profit (non-GAAP), £m					
Profit before perf. fee profits, other income and tax. This presents what the Group considers to be the results of its underlying operations before items which may either be volatile, non-recurring or non-cash in nature, and taxation.					
Management fees	210.0	176.2	176.4	198.0	211.9
Commissions and fees payable	(22.6)	(21.4)	(22.7)	(25.4)	(27.2)
Net management fees	187.3	154.8	153.7	172.5	184.7
Profit/(loss) on foreign currency contracts	-	-	-	-	-
Core operating costs	(117.9)	(106.7)	(108.7)	(119.6)	(127.8)
Finance costs		(0.2)	(0.2)	(0.2)	(0.2)
Core operating profits (before tax)	**69.4**	**47.9**	**44.8**	**52.7**	**56.7**

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts

As at end Mar, £'m	FY 22A	FY 23A	FY 24A	FY 25E	FY 25E
Non-current assets					
Goodwill and intangible assets	17.1	15.9	14.8	13.6	12.4
Property & equipment	4.1	10.5	8.3	7.8	7.4
Deferred tax assets	3.5	0.1	1.9	1.9	1.9
	24.7	**26.6**	**25.0**	**23.4**	**21.8**
Current assets					
Assets at fair value through P&L	77.8	83.0	62.4	62.4	62.4
Trade & other receivables	25.4	19.5	21.1	21.9	24.1
Other financial assets	2.7	5.2	3.4	3.4	3.4
Assets at amortised cost			6.7	6.7	6.7
Cash & cash equivalents	121.1	107.0	98.9	107.1	123.2
Current tax assets	1.6	0.3	0.1	0.1	0.1
	228.6	**215.1**	**192.6**	**201.7**	**219.9**
Total assets	**253.3**	**241.7**	**217.6**	**225.0**	**241.7**
Non-current liabilities					
Provisions & other liabilities	2.9	8.9	7.5	7.5	7.5
Liabilities at fair value through P&L	0.6	0.5	0.2	0.2	0.2
Deferred tax liabilities	3.4	0.5	-	-	-
	6.9	**9.9**	**7.8**	**7.8**	**7.8**
Current liabilities					
Liabilities at fair value through P&L	10.0	16.4	5.4	5.4	5.4
Trade & other payables	80.1	68.7	64.1	66.5	73.2
Provisions		3.2	0.2	0.2	0.2
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Current tax liabilities	-	0.7	4.1	4.1	4.1
	90.1	**88.9**	**73.9**	**76.3**	**83.0**
Total liabilities	**97.0**	**98.8**	**81.7**	**84.1**	**90.8**
NET ASSETS	**156.2**	**142.9**	**135.9**	**140.9**	**150.8**
Capital & Reserves					
Issued share capital	2.5	2.5	2.5	2.5	2.5
Share premium	19.4	19.4	19.4	19.4	19.4
Investment in own shares	(24.9)	(31.6)	(34.7)	(34.7)	(34.7)
Capital & other reserves	12.4	12.3	12.0	12.0	12.0
Retained Earnings	146.9	140.3	136.6	141.7	151.6
TOTAL EQUITY	**156.2**	**142.9**	**135.9**	**140.9**	**150.8**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts (page 1 of 2)					
12 months to end Mar, £'m	**FY 22A**	**FY 23A**	**FY 24A**	**FY 25E**	**FY 26E**
OPERATING ACTIVITIES					
Profit before taxation	**62.1**	**45.2**	**54.7**	**56.8**	**63.6**
Interest receivable and similar income	(0.1)	(0.7)	(2.3)	(2.3)	(2.3)
Investment income	(0.2)	(0.6)	(0.4)	(0.5)	(0.5)
Interest on lease	0.1	0.2	0.2	0.2	0.2
Depreciation on property & equipment	1.4	2.2	2.5	2.5	2.5
Revaluation of liability at FVTPL	-	-	-	-	-
Amortisation & impairment of intangible assets	7.9	1.2	1.2	1.2	1.2
Decr/(Incr) in fair value of inv. securities	-	-	-	-	-
Decr/(incr) in fair value of assets at FVTPL	7.7	(4.2)	2.9	-	-
(Decr)/incr in other financial liabilities	(10.4)	(0.5)	0.2	-	-
incr in other financial assets	-	-	-	-	-
Decr/(incr) in receivables	(1.5)	5.9	(1.5)	(0.8)	(2.2)
(Decr)/incr in trade and other payables	8.4	(8.7)	(7.1)	2.4	6.7
Share-based payment charges	7.4	4.4	5.1	6.9	7.4
Incr/(decr) in liabilities at FVTPL	(3.9)	0.3	(2.2)	-	-
Release of fund units deferred rem	6.5	7.4	(1.2)	-	-
Other non-cash items	-	-	-	-	-
Cash generated from operations	**85.3**	**52.0**	**52.0**	**66.4**	**76.5**
Corporation tax paid	(10.9)	(7.7)	(12.4)	(14.2)	(15.9)
Interest on lease	(0.1)	-	-	-	-
Interest received		0.9	2.3	2.3	2.3
Net cash from operating activities	**74.4**	**45.1**	**41.9**	**54.5**	**63.0**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts (page 2 of 2)

12 months to end Mar, £'m	FY 22A	FY 23A	FY 24A	FY 25E	FY 26E
INVESTING ACTIVITIES					
Interest received	0.3	-	-	-	-
Investment income received	0.2	0.4	0.4	0.5	0.5
Sale of investment securities	-	-	56.1	-	-
Purchase of investment securities	-	-	-	-	-
Sale of assets at FV through P&L	41.2	55.3	-	-	-
Purchase of assets at FV through P&L	(70.3)	(62.8)	(36.4)	-	-
Purchase of assets at amortised cost	-	-	(6.7)	-	-
Purchase of property and equipment	(0.6)	(0.5)	(0.2)	(0.3)	(0.3)
Cash introduced via business combination	-	-	-	-	-
Payments in respect of business combination	(8.1)	-	-	-	-
Payments in respect of asset acquisition	(1.3)	(0.2)	(0.1)	-	-
Cash from disposal of cons seed inv.	-	(11.7)	-	-	-
Net cash used in investing activities	**(38.5)**	**(19.5)**	**13.1**	**0.2**	**0.2**
FINANCING ACTIVITIES					
Dividends paid to shareholders	(43.4)	(44.5)	(44.3)	(44.5)	(45.2)
Lease payments	(1.3)	(1.4)	(1.7)	(1.7)	(1.7)
Interest on lease		(0.2)	(0.2)	(0.2)	(0.2)
Issue of shares	0.0	-	-	-	-
Purchase of own shares	(12.4)	(10.7)	(8.2)	-	-
3rd party subs into cons funds	9.9	20.7	5.0	-	-
3rd party redemptions from cons funds	(4.6)	(3.9)	(13.4)	-	-
Dividends paid to 3rd party interests	-	-	-	-	-
Net cash from /(used in) financing	**(51.8)**	**(39.9)**	**(62.9)**	**(46.5)**	**(47.1)**
Net (decr)/incr in cash & equivalents	**(15.9)**	**(14.3)**	**(7.9)**	**8.3**	**16.0**
Cash & equivalents beginning of year	136.7	121.1	107.0	98.9	107.1
Effect of forex rate changes	0.3	0.1	(0.2)	-	-
Cash & equivalents at end of year	**121.1**	**107.0**	**98.9**	**107.1**	**123.2**

Source: Company Historic Data, ED estimates.

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