# Polar Capital Holdings

## A best-in-class active fund manager

13 September 2021

**Polar Capital Holdings plc is an AIM-listed fund management group, specialising in active management, with £22.8bn of assets under management (AUM). The group is a notable performer on a multitude of metrics – including investment performance, AUM inflows, revenue generation, operating profits, and dividends – yet its share price trades at a significant discount to our fundamental valuation of 1,305p and its PE ratio of 12.7 is substantially below the sector median of 33.5. We see sound reasons for a significant change in rating.**

The business is structured as a multi-boutique, with specialist investment teams managing thematic, sector, geographic, or financial-instrument-specific portfolios. Teams are structured as semi-autonomous business units, are heavily incentivised around their investment performance (aligning their interests with clients), and mostly left alone to run these portfolios. 'Centralised' operations support teams, providing infrastructure and marketing, distribution, and client services functions.

The investment case is attractive:

- Polar is fast-growing (5Y AUM CAGR 23%), attracting **robust AUM net inflows** (3rd highest in sector, 12m to 31 Mar 21) with a **record of investment outperformance** which contributes directly to AUM growth and indirectly to inflows (by making investment products more attractive).
- It has **strong growth prospects**: from its current products (which have significant AUM capacity in high-growth areas such as healthcare); from new products about to launch (a sustainable equities team, previously managing €5bn AUM, has been recruited); and from future acquisitions, team lift-outs, and team extensions, where Polar has a proven deal-making record.
- It commands **premium investment management fee pricing** and has an **impressive record of generating performance fees**, making it the highest revenue-generator as a proportion of AUM when compared to peers (measured as a 5-years average).
- It has **strong and consistent operating margins (FY21: 38%)**, well above sector medians.
- Its **dividend yield, at 4.7%, is the 2nd highest in the sector.**

While revenue and profitability are exposed to slightly more volatility than most peers (due to the significance of perf. fees), and Polar has heavy exposure to the technology sector (49% of AUM, up from 28% in FY18, because of strong returns and inflows), we do not think this justifies its lowly rating given the powerful investment case. **1305p / share is our calculation of fair value.**

**Key Financials**

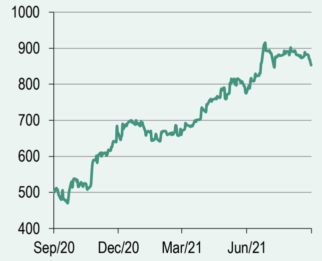
| Year-end 31 Mar | FY18A | FY19A | FY20A | FY21A | FY 22E | FY 23E |
|---|---|---|---|---|---|---|
| AUM, £bn | 12.0 | 13.8 | 12.2 | 20.9 | 23.1 | 25.3 |
| Rev, £m | 133.8 | 177.5 | 151.7 | 201.5 | 208.8 | 245.1 |
| Management fees, £m | 98.2 | 126.2 | 130.8 | 157.3 | 208.8 | 220.3 |
| Performance ees, £m | 35.6 | 51.7 | 22.3 | 43.6 | 0.0 | 24.8 |
| PBT, £m | 41.3 | 64.1 | 50.9 | 75.9 | 66.7 | 83.0 |
| Core op profit*, £m | 27.6 | 42.2 | 41.6 | 51.5 | 68.3 | 73.9 |
| Performance fee profit | 15.3 | 24.0 | 8.8 | 19.5 | 0.0 | 10.7 |
| EPS basic, p | 36.4 | 57.8 | 43.5 | 67.2 | 57.0 | 69.9 |
| EPS, adjusted, p | 38.4 | 55.5 | 42.9 | 65.3 | 54.5 | 67.4 |
| PER | 23.4 | 14.7 | 19.6 | 12.7 | 15.0 | 12.2 |
| Div, p | 28.0 | 33.0 | 33.0 | 40.0 | 40.9 | 41.3 |
| Yield | 3.3% | 3.9% | 3.9% | 4.7% | 4.8% | 4.8% |
| Net assets, £m | 87.7 | 109.7 | 116.1 | 151.4 | 171.3 | 210.7 |
| Net cash, £m | 88.0 | 111.7 | 107.8 | 136.7 | 158.6 | 206.9 |
| Fin inv on own BS**, £m | 20.5 | 31.8 | 35.1 | 37.0 | 37.0 | 37.0 |

*Source: Company Historic Data, ED estimates. PER and Yield based on share price of:* ***853p***
** excluding performance fees and performance-related costs, before tax*
*** Seed investments, securities, fund units held against deferred remuneration, other fin assets & liabilities*

**Company Data**

| | |
|---|---|
| EPIC | POLR |
| Price (last close) | 853p |
| 52 weeks Hi/Lo | 951p/442p |
| Market cap | £854m |
| ED Fair Value/share | 1305p |
| Net assets | £151m |
| Avg. daily volume | 1,580k |

**Share Price, p**




*Source: ADVFN*

**Description**

Watch CEO Gavin Rochussen discuss Polar's prospects click here

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.

Polar's target market are professional

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## Contents

Polar Capital in a nutshell ........ 3

The multi-boutique model ........ 7

Led by investment performance ........ 9

AUM growth momentum into FY22 ........ 13

Impressive FY21 financial results ........ 17

Management ........ 20

Shareholdings ........ 21

Strategy & outlook ........ 23

Growth forecasts ........ 27

Valuation: fundamental and peer-comparison ........ 29

Appendix 1: Historical and forecast Financials ........ 31

Appendix 2: Historical fund performance ........ 35

## Polar Capital in a nutshell

Polar Capital Holdings plc is an AIM-listed fund management group, specialising in active management. It was founded in 2001, listed on AIM in 2007, is headquartered in London with offices in Edinburgh, Paris, Madrid, Frankfurt, New York, Connecticut, Los Angeles, and Shanghai. Polar currently employs 180 people.

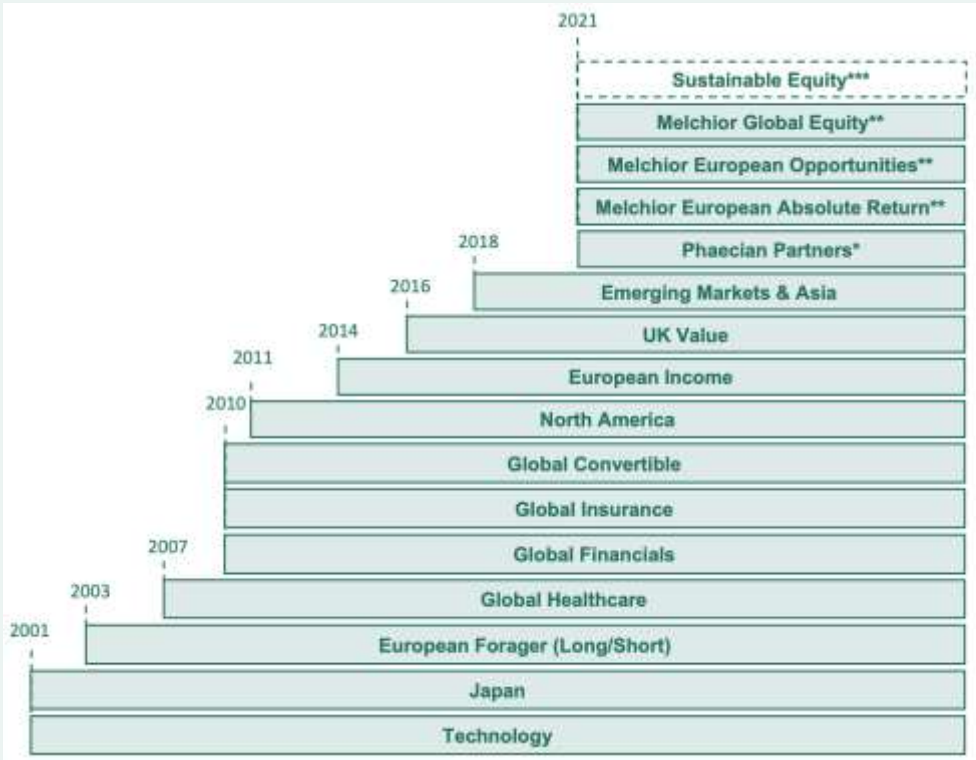
### Operating structure

**Specialist investment teams are the cornerstone of Polar's structure**. It describes itself as a 'multi-boutique'. Each team manages a portfolio designed around thematic, sector, geographic, or financial-instrument investments (see chart below). Teams operate as semi-autonomous business units, are heavily incentivised around their investment performance, and mostly left alone to run their respective portfolios. Polar's philosophy is that the fund managers of these teams need autonomy in terms of their investment decisions and should not be distracted by the day-to-day running of a business (particularly administration).

'Centralised' Polar operations are then designed to support these investment teams, providing operational infrastructure such as back-office services (IT, compliance, administration etc), a centralised dealing desk, and marketing, distribution, and client services functions. Many of these centralised functions benefit from the economies of scale created by providing them across all investment teams.

**This structure, and Polar's incentive structure for investment teams, has proved attractive to top investment talent, with the number of teams expanding from just four pre-2010, to 15 as of September 2021 (soon to be 16),** with several high-profile acquisitions and team 'lift-outs' over the years.

**Development of Polar's investment teams**




*Source: Company*
**Global equity value, US distribution*
***Dalton acquisition: European equity, adds to distribution capability, particularly in Germany and via Luxembourg fund range*
****'Team lift-out concluded, late-21 start; focus: transformation of energy sector, decarbonisation, electric vehicle theme*

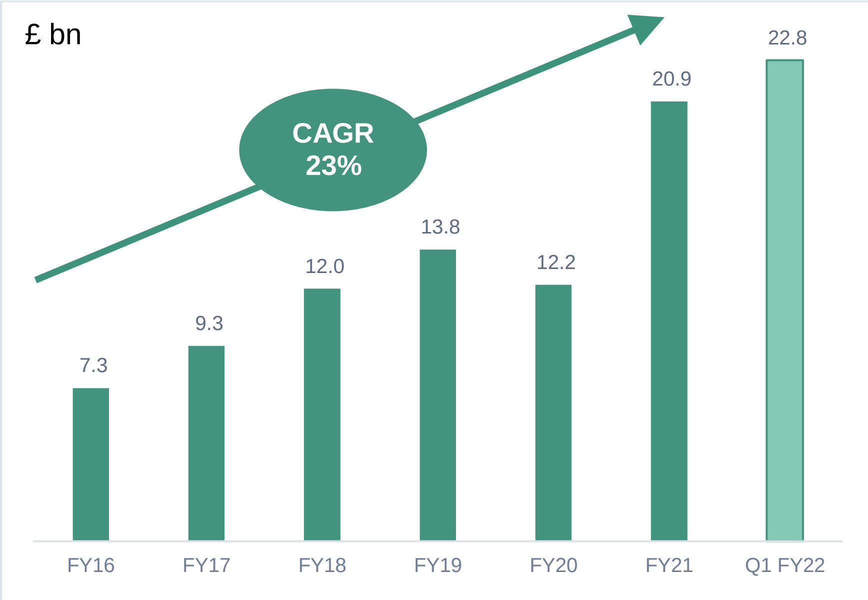
## Product range

The investment portfolios managed by Polar's teams are distributed primarily to professional and institutional investors, with some retail investor participation, via 3 main structures:

- **Open-ended funds**, primarily a range of Dublin-based UCITS[1] funds that are distributed in the UK and across the EU, as well as funds based in the Cayman Islands, Luxembourg and the USA (£17.6bn AUM as of 30 June 2021; 77% of total AUM);
- **Investment trusts**, listed on the London Stock Exchange (£4.4bn; 19%); and
- **Segregated mandates**, where larger institutional investors appoint Polar to manage a bespoke portfolio for them (£0.8bn; 4%).

Its product range and investment performance has proved attractive to clients, with inflows and market movements contributing to an **impressive AUM growth profile over the last five years** with the only significant pull-back being in H2'20, primarily because of the pandemic-induced market crash of Feb-Mar 2020 which coincided with the end of FY 20.

**AUM development**




*Source: Company*
*Q1 FY22 = AUM as of 30 June 2021*

**Technology funds** have always been core to Polar. Indeed, two of its co-founders left the Henderson Global Investor's technology team to start Polar in 2001. Over the years, additional investment strategies were added and the Group's dependence on the technology sector declined, making up 27.5% of AUM at the end of FY18.

However, with the rapid rise of technology valuations in recent years, Polar's strong investment returns compared to the sector, and strong AUM inflows into its technology funds, the AUM managed by the technology team grew to 49% of total AUM by the end of FY21, creating a concentration of AUM in this area.

[1] Polar's UCITS (Undertakings for the Collective Investment in Transferable Securities) funds are Irish domiciled. UCITS is an EU regulatory framework governing the management and sale of funds across the EU.

**We do not see this concentration persisting** as the technology team is deliberately capacity-constrained by Polar (see below), and other teams are positioned in high-growth areas of the market and have significant capacity availability e.g. healthcare, sustainable equities, and Emerging Market Stars in particular.

**The client base is well diversified** with 25% of AUM distributed via banks, 24% via investment platforms, 19% via Polar's listed investment trusts, 15% via private wealth managers, and the balance (17%) via asset managers, fund of funds', insurance companies, family offices and pension funds. Around 53% of client investors are from the UK, 37% from Europe, 7% Asia and 3% USA.

## Group philosophy

While the consideration of ESG issues has been part of Polar's fund managers' stock research process for years now, the demands of clients and society more generally with regards to ESG issues has obviously ramped up dramatically in recent years. Expectations have increased for more sustainable investing products/funds, more robust ESG reporting, higher standards of stewardship, and more sustainability initiatives at a corporate level. Polar has adapted and continues to adapt its structures and processes accordingly.

Each investment team has investment autonomy, including setting its ESG strategy and the analysis and interpretation of ESG issues specific to their funds. But there is also central involvement. ESG monitoring is part of the oversight process managed centrally by the Chief Investment Officer, with the risk team monitoring each portfolio's ESG characteristics every month. Polar (centrally) manages the process of proxy voting but investment teams and portfolio managers decide how they wish to vote. It is a signatory of the UNPRI (United Nations Principles for Responsible Investment).

Additionally, in 2020, Polar established the role of Head of Sustainability for the Group who leads and co-ordinates sustainability initiatives at a corporate level and acts as a focal point for ESG activity in investment portfolios. The aim of the position is also to further develop Polar's integration of ESG factors at fund level as well as enhancing their responsible investment and stewardship capabilities. The position reports directly to the CEO on corporate activities and to the CIO on investment activities.

**Polar places a large emphasis on managing investment capacity to preserve investment performance.** This means that each fund has an AUM limit which is monitored regularly by the Chief Risk Officer and Chief Investment Officer. Polar looks at three factors to determine each fund's capacity:

1. Stock liquidity: how easy it is to trade in a particular security under different scenarios.
2. Trading patterns: an assessment of each investment team's typical trading behaviour including turnover and the potential ability to find liquidity in a stock.
3. Client concentration: how diversified is the underlying investor base.

When a fund reaches a level considered optimal in terms of maintaining investment performance, inflows will be limited, initially via a 'soft-close'.

The fund is then shuttered to new investors (existing investors can still top up their positions) and Polar stops actively marketing the fund to focus on providing a high standard of service to existing investors. If the fund continues to grow, a 'hard close' is initiated where existing investors are also unable to top up their holdings. Redemptions are allowed through all phases.

## Strategy

One of the practical implications of this capacity management is that, to grow, it is imperative that Polar continues to add complementary teams and to extend existing team capability to enhance capacity.

**Polar's stated strategy is one of 'growth with diversification'.** Looking forward, from an investment strategy perspective, this means:

- adding complementary global/international equities capability to appeal to institutional investors i.e., adding new teams (through recruitment, acquisitions, or team lift-outs);
- extending existing teams.

From a distribution and client services perspective, this means:

- focussing on building the institutional channel;
- increasing US client assets;
- increasing distribution capability in continental Europe; and
- accessing distribution opportunities in Asia and Australia.

This strategy should see a reduction in the concentration of technology AUM and UK-based clients.

## The multi-boutique model

Polar has structured itself around its investment teams which are highly experienced and, when combined under the Polar umbrella, present clients with a diverse and highly attractive fund range.

### Investment Teams & Fund Range

| TEAM (established*) | | AUM** | FUNDS |
|---|---|---|---|
| **Technology** (2001) | Team size: 10<br>Years' experience: 150+ | £10.1bn | • Technology Trust (LSE)<br>• Global Technology (UCITS)<br>• Automation & Artificial Intelligence (UCITS) |
| **Healthcare** (2007) | Team size: 6<br>Years' exp: 130+ | £3.1bn | • Global Healthcare Trust (LSE)<br>• Healthcare Opportunities (UCITS)<br>• Biotechnology (UCITS)<br>• Healthcare Blue Chip (UCITS)<br>• Healthcare Discovery (UCITS) |
| **Global Insurance** (2010) | Team size: 2<br>Years' exp: 30+ | £1.8bn | • Global Insurance (UCITS) |
| **UK Value** (2017) | Team size: 2<br>Years' exp: 30+ | £1.6bn | • UK Value Opportunities (UCITS) |
| **Melchior European Opportunities** (2021)**** | Team size: 3<br>Years' exp: 38+ | £1.1bn | • Melchior European Opportunities Fund (LUX) |
| **North America** (2011) | Team size: 4<br>Years' exp: 70+ | £847m | • North American (UCITS) |
| **Convertibles** (2010) | Team size: 5<br>Years' exp: 115+ | £791m | • Global Convertible (UCITS)<br>• Global Absolute Return Fund (UCITS) |
| **Emerging Markets Stars** (2018) | Team size: 5<br>Years' exp: 60+ | £617m | • Emerging Markets Stars (UCITS)<br>• China Stars (UCITS)<br>• China Mercury (Cayman fund)<br>• Asia Stars (UCITS)<br>• Emerging Markets Stars (40 Act) |
| **Phaeacian Partners** (2020) | Team size: 6<br>Years' exp: 90+ | £519m | • Accent International Value (USA)<br>• Global Value (USA) |
| **Financials** (2010) | Team size: 5<br>Years' exp: 90+ | £354m | • Income Opportunities (UCITS)<br>• Financial Opportunities (UCITS)<br>• Global Financials Trust (LSE) |
| **European ex UK Income** (2014) | Team size: 3<br>Years' exp: 20+ | £152m | • European ex UK Income (UCITS) |
| **Japan** (2001) | Team size: 2<br>Years' exp: 25+ | £148m | • Japan Value (UCITS) |
| **European Long/Short** (2003) | Team size: 3<br>Years' exp: 35+ | £119m | • European Forager (Cayman Fund) |
| **Melchior European Absolute Return** (2021)**** | Team size: 3<br>Years' exp: 68+ | £20m | • Melchior European Absolute Return Fund (LUX) |
| **Melchior Global Equity** (2021)**** | Team size: 2<br>Years' exp: 50+ | £5m | • Melchior Global Equity Fund (LUX) |
| **Sustainable Equity***** (2021) | Team size: 4<br>Years' exp: 50+ | £0 (€5bn)*** | • Clean energy***<br>• Clean mobility*** |

**Date of starting with Polar, some teams were established before that and joined/were acquired by Polar*
***As of 28 May 2021*
****Team lift-out concluded, target start late-2021; team name and fund details yet to be released; focus: transformation of energy sector, decarbonisation, electric vehicle theme; previously managing €5bn with Robeco.*
*****Melchior fund range acquired as part of Dalton acquisition in 2021*

Coupled with the attractiveness of being able to independently run their own investment boutique, Polar's investment teams enjoy a highly attractive financial incentive structure. Around 50% of Polar's performance fees are passed on to investment teams, who also receive additional variable compensation in the form of 'core distributions' (which comprises a 45% share of business unit profits derived from management fee revenue – hence incentivising teams to grow AUM volumes and control costs in addition to targeting strong investment performance).

Teams enjoy a long-term incentive which has historically comprised of a separate class of preference share being issued for purchase by each new team of fund managers on their arrival at Polar. These shares provide each manager with an economic interest in the funds that they run and ultimately enable the manager to convert their interest in the revenues generated from their funds into equity in Polar Capital Holdings plc.

The equity is awarded in return for the forfeiture of their current core economic interest and vests over three years with the full quantum of the dilution being reflected in the diluted share count (and so diluted EPS) from the point of conversion. The event has been designed to be, at both the actual and the diluted levels, earnings enhancing to shareholders.

Going forward, because the number of teams has now grown substantially, Polar has decided to replace the above preference share structure with a revenue sharing model (for new teams) with deferment into equity.

**The group has clearly created an environment which is able to attract best-in-class talent**, with significant recent team moves shown in the table below, together with the additional capacity provided by the team move and the current AUM, illustrating the potential for further growth from these deals.

**Recent team moves**

| YEAR | STRATEGY / TEAM | DEAL TYPE | CAPACITY | AUM* |
|---|---|---|---|---|
| 2017 | UK Value | Lift-out | £2.5bn | £1.6bn |
| 2017 | Automation & Artificial Intelligence | Extension** | £2.1bn | £505m |
| 2018 | EM Stars | Lift-out | £5bn | £617m |
| 2019 | Convertible Absolute Return | Extension** | £1.4bn | £34m |
| 2020 | Healthcare Discovery | Extension** | £350m | £46m |
| 2020 | International/Global Value (Phaeacian) | Acquisition | £4.5bn | £519m |
| 2021 | European/Global Equities (Dalton) | Acquisition | £4bn | £1.3bn |
| 2021 | Sustainable Equities | Lift-out | £8.5bn | £0 |

**AUM with Polar as of 28 May 2021*
*** Launched by Polar within existing team*

## Led by investment performance

Polar's primary differentiating feature within the asset management sector is its prioritisation on being investment-led (meaning investment performance is its dominant performance metric), as opposed to being distribution-led (where attracting assets would be the primary performance metric).

**It believes the primacy of investment performance as a KPI creates an alignment of interest between its fund managers and clients, and that delivering a strong investment performance will lead to AUM growth (directly via investment returns, and indirectly by attracting further AUM from clients) – which is in turn a key driver of Polar's financial performance**.

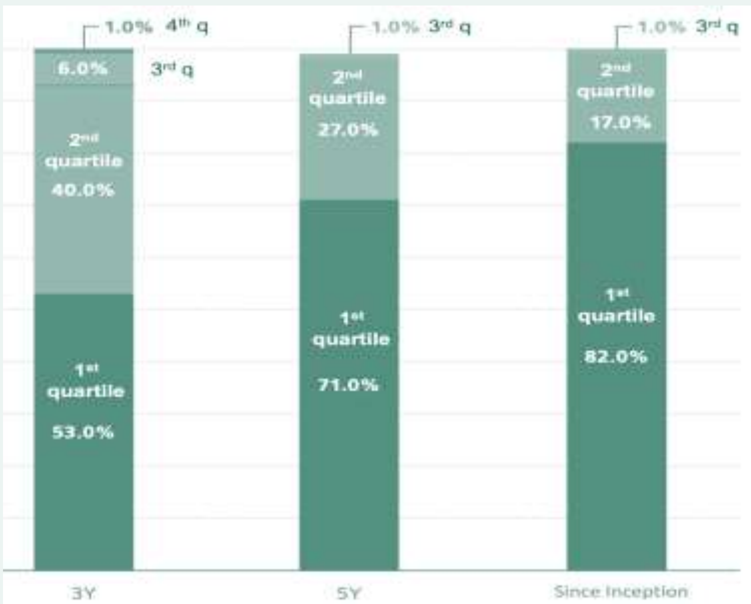
While some may dismiss this as 'marketing-speak', Polar's impressive investment performance track record and its business model (which is designed around being able to deliver this performance) provide ample evidence that Polar is indeed 'investment-led'.

### Track record

When measured over a five-year return period, Lipper[2] - a leading provider of fund performance data which looks at homogeneous groups of funds with comparable investment objectives – ranked 71% of Polar's UCITS AUM (UCITS AUM makes up 77% of total Polar AUM) **in the first quartile** of a fund peer group, with 98% ranked in either the first or second quartile.

When measured since fund inception, the outperformance compared to peers is even more impressive, **with 82% of AUM ranked in the first quartile and 99% in the first or second.**

**Proportion of UCITS AUM* by quartile compared to peer group**




*Source: Company (original source Lipper)*
*Lipper figures for long-only and alternative UCITS funds AUM at 28 May 2021*
**77% of total Polar AUM*

This performance is also illustrated at a fund level in Appendix 2, where eight of Polar's nine largest funds (around 40% of AUM) are shown to be comfortably outperforming benchmarks.

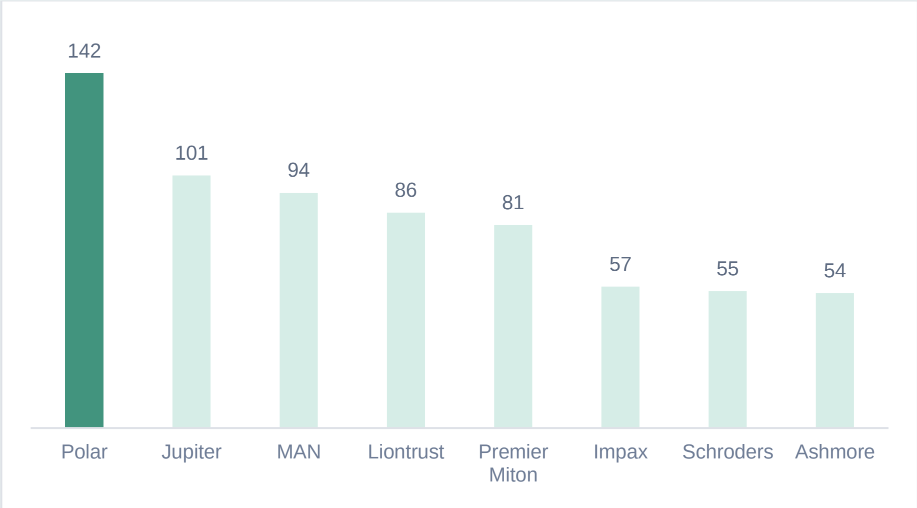
[2] lipperleaders.com

## Volume + performance driven revenues

**Polar has impressively leveraged this superior investment performance to a degree where it is a standout leader among active asset managers when it comes to the total revenue it generates in relation to its assets under management.**

[Note: In the charts below, 'active managers' refers to a UK-listed peer group of asset managers whose business models either wholly or predominantly use active management for investment selection.]

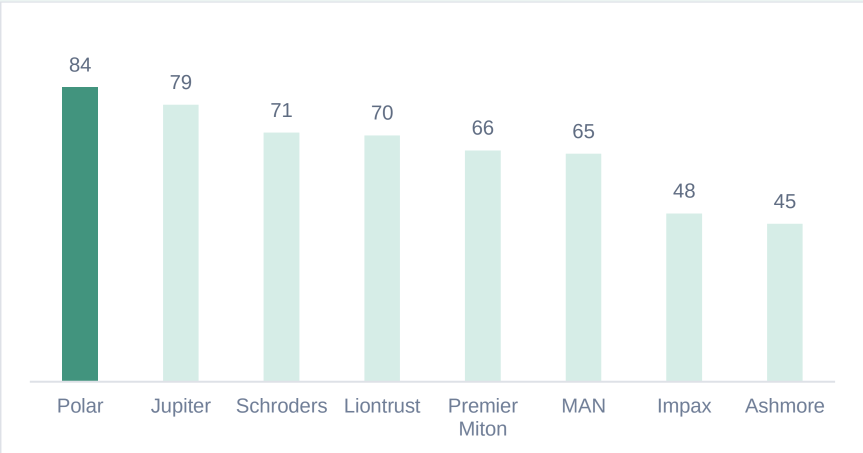
**Active managers: 5-year average gross revenue margin*, basis points**




*Source: Company reports, ED analysis*
**Gross revenue (mostly investment management fees plus performance fees) as a share of average AUM*

It has achieved this by carving out a market position where it can command **premium investment management fees** (flat fees linked to AUM volumes) compared to peers …

**Active managers: Net management fee margin*, basis points**

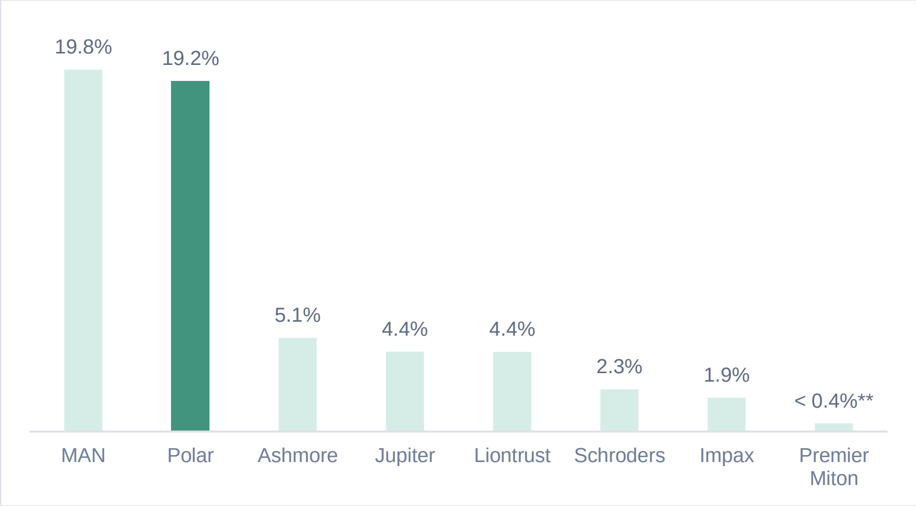



*Source: Company reports, ED analysis*
**Investment management fees as a share of average AUM, last full financial year (flat fee linked to AUM volumes, excludes rebates, distribution, and research fees).*

… and by generating **market-leading levels of investment-performance-linked income.** It does this in two ways:

- Primarily, through performance fees, where Polar's performance fees make up a much larger proportion of its revenue in comparison to most other active fund managers.

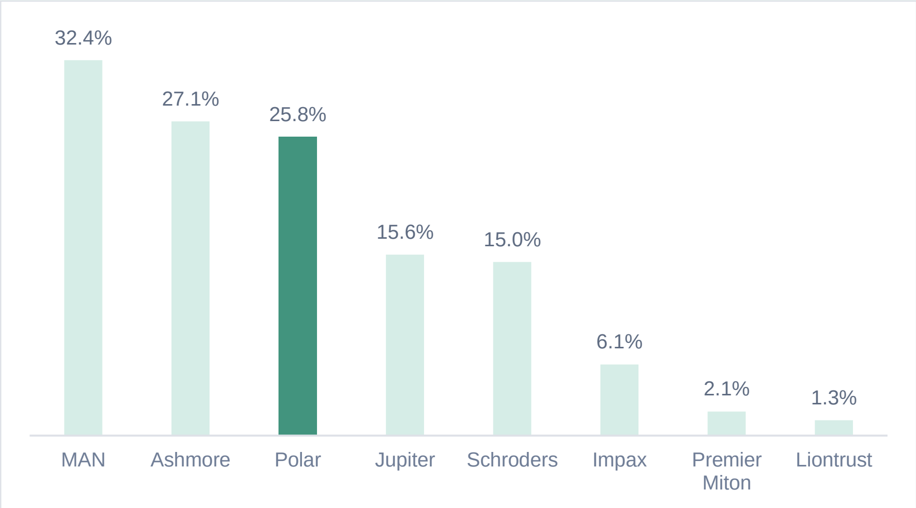
**Active managers: Performance fees as % of gross revenue (5Y ave*)**




*Source: Company reports, ED analysis*
**Ave of last 5 full financial years; **Premier Miton includes performance fees in 'other income' which averaged 0.4%*

- … and also by generating returns on capital invested into its own funds ('seed capital'), with Polar's level of seed capital investment among the highest in the sector. [Seed capital is an investment by Polar into one of its own funds which kick-starts the fund allowing it to build a track record and demonstrates to external investors the degree of confidence Polar has in the investment return potential of the fund.]

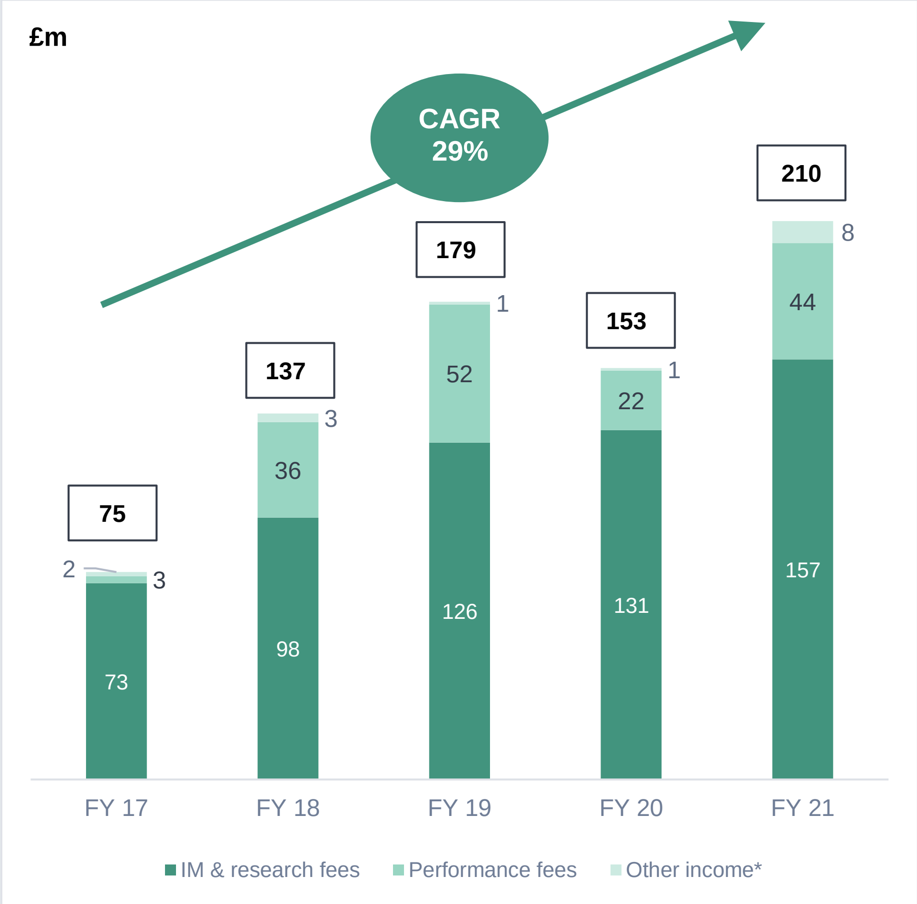
**Active managers: Capital invested into own funds as % of net assets***




*Source: Company reports, ED analysis*
**Last full financial year*

All of this has resulted in an **impressive revenue growth profile in recent years**, with the slight pull-back in FY20 being primarily as a result of the pandemic-induced market crash in February and March 2020 (FY20 for Polar Capital ended on 31 March 20 which almost exactly coincided with the market-bottom and had a significant impact on performance fees for that financial-year, and a smaller but still material impact on investment management fees).

**Gross revenue breakdown**




*Source: Company reports, ED analysis*
**Other income = interest income; gains/losses on seed capital investments, financial assets and liabilities; gains/losses on forward currency contracts; and investment income.*
*Note: Difference between sum of three revenue sources shown & gross revenue totals = gains/losses on forward currency contracts (not shown in bar chart).*

## AUM growth momentum into FY22

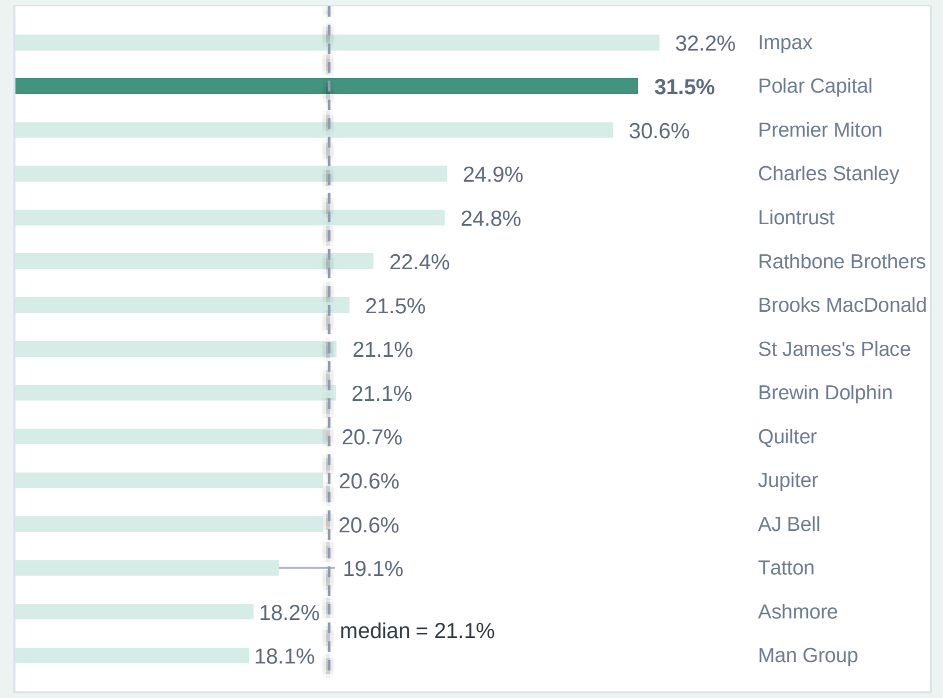
FY21 (to 31 Mar 21) saw huge growth in AUM, closing at £20.9bn, up 71% from £12.2bn on 31 Mar 20. The trend has continued post FY-end with AUM at 30 Jun 21 reaching £22.8bn, a 9% increase over Q1 22.

With the start of FY21 coinciding closely with the market bottom of the Covid-19 crash**,** it would be easy to put FY21's jump in AUM down to the market recovery alone. **That would be a mistake, and mask Polar's impressive performance compared to peers in respect of both market returns and organic net inflows**, supported by its established strategic acquisition and team lift-out strategies.

### Growth from investment performance

While the portfolio's performance did indeed contribute the most to annual AUM growth (£5.2bn or 60% of the increase), and the overall market recovery was obviously a big contributor to this, the investment returns delivered by Polar's teams resulted in it ranking 2nd out of a 15-strong peer group of UK-listed asset managers and platforms when it comes to investment returns driving AUM growth.

**AUM increase from investment performance, % of average AUM***

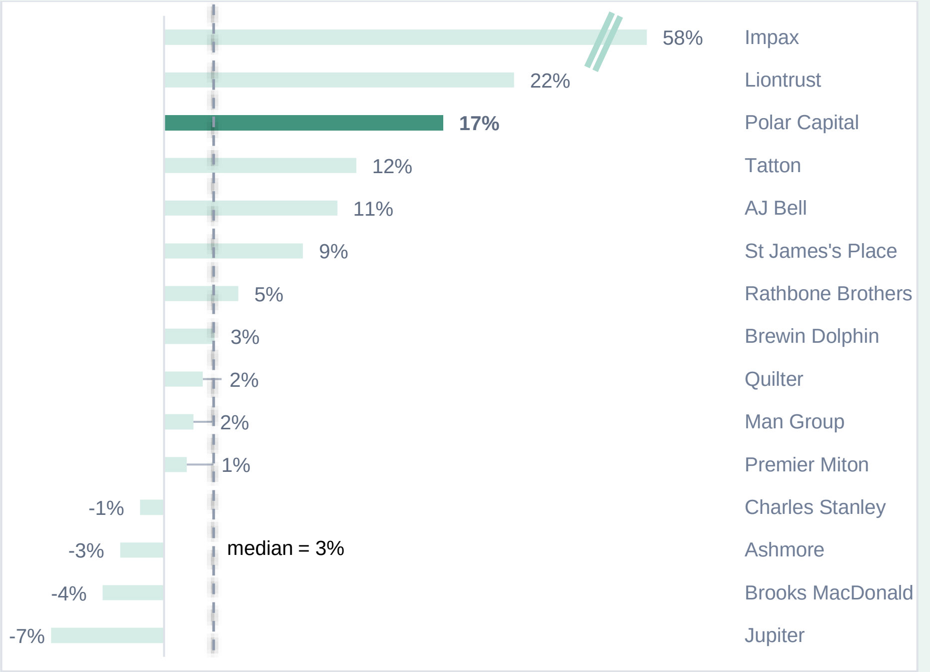



*Source: Company reports and trading updates, ED analysis*
**12 months to 31 March 2021*

## Growth from net inflows

Net inflows contributed £2.1bn (24% of overall AUM increase) to the FY21 AUM increase. Over this period, **Polar ranked 3rd among the 15-strong UK-listed peer group for net inflows as a proportion of opening AUM**.

**AUM net inflows as % of opening AUM***




*Source: Company reports and trading updates, ED analysis*
*Net inflows exclude AUMs added through acquisitions.*
**12 months to 31 March 2021*

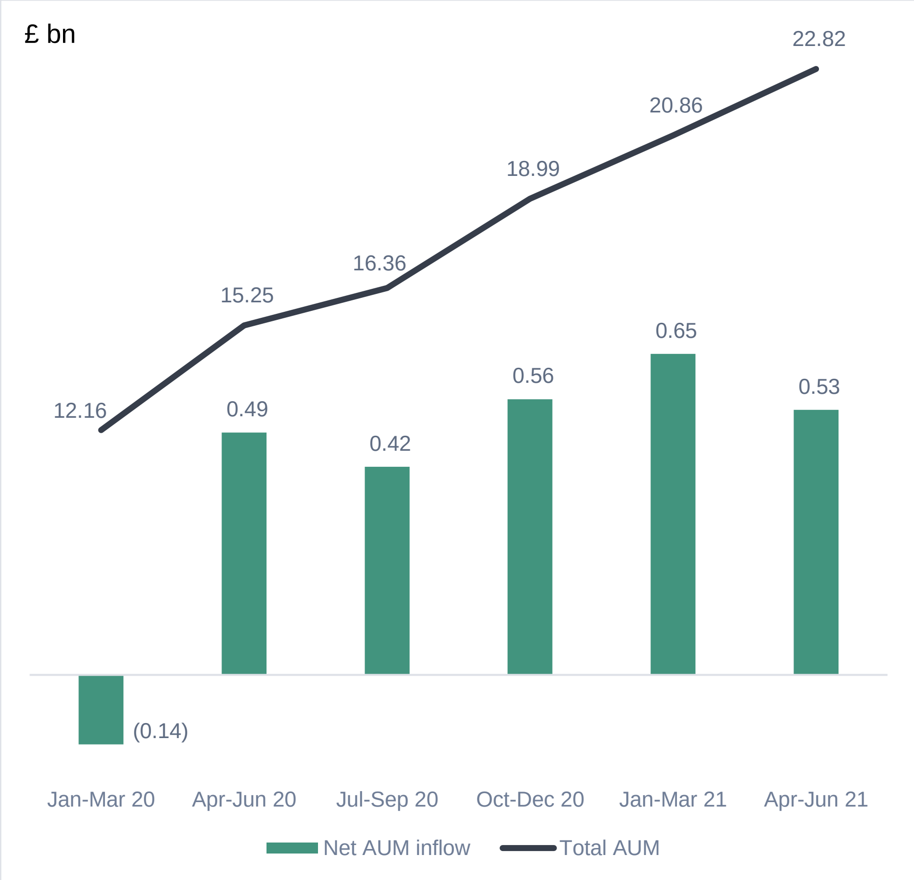
Eleven of its UCITS sub funds saw positive net inflows over FY21, with the largest inflows recorded by Global Technology (£1.7bn), Biotechnology (£379m), Emerging Market Stars (£243m), Global Insurance (£187m) and UK Value Opportunities (£181m).

The overall net inflow number of £2.1bn is made even more impressive considering Polar closed its UK Absolute Equity Fund in May 2020 which resulted in outflows of £301m.

Polar reports that newly launched products are seeing strong demand, especially ***UK Value* and *Sustainable Emerging Markets***. The group also reported witnessing a rise in demand, internationally, for specialist thematic funds, a core area of strength for Polar.

**Indeed, Polar has achieved remarkably consistent quarterly inflows since the market crash at the start of the pandemic.**

**Net AUM inflows per quarter and total AUM**




*Source: Company, ED Analysis.*

We believe the inflows Polar has managed to capture since the start of the pandemic are in part due to a structural shift in the asset management industry **back to active management** (discussed further in 'Strategy & outlook' section) and in part due to Polar's outstanding performance within the active management space (discussed earlier).

## Growth from acquisitions

Lastly, in addition to impressive absolute and relative AUM growth from market movements and inflows, Polar is adding to this with strategic acquisitions, which added £1.7bn to AUM in FY21 (16% of the year's AUM increase).

In October 2020 it completed the acquisition of the International Value and World Value equity team from the Los Angeles-based asset manager First Pacific Advisors, establishing a new joint venture, Phaeacian Partners. This acquisition added approximately £400m of AUM, with the intention being to build the new joint venture into a significant presence in the International (global ex-US) and Global equity sectors.

And in Mar 21 it completed the acquisition of Dalton Capital, a UK-based boutique asset manager, which brought onboard a leading European investment team which is complementary to Polar Capital's existing European Income team, with established funds, £1.3bn of AUM, and a longstanding track record. This acquisition also provides Polar with broader wholesale and institutional distribution into Europe, particularly in the German market and includes the existing Luxembourg SICAV (a common legal structure for Luxembourg funds - an investment company with a variable share capital) umbrella which will aid Polar's product range for international distribution.

Post FY-end, Polar has announced a further growth opportunity with the team lift-out of a sustainable investment team from Robeco Switzerland. The team of six, previously running €5bn AUM, have a long track record in sustainable equity strategies and focus on the transformation of the energy sector, decarbonisation, and on the emerging electric vehicle theme. The new Polar strategies to be run by this team will launch in late-2021.

These deals mark a continuation of Polar's inorganic growth strategy which adds to an established organic growth strategy.

**The combination of market outperformance, strong and consistent net inflows, and an environment that is obviously highly attractive to top performing investment teams, puts Polar in the position of having very strong AUM growth momentum, which we see continuing in the future.**

## Impressive FY21 financial results

**The strong AUM performance of FY21, coupled with outstanding investment returns, have been the primary drivers of an exceptional set of financial results.**

### Revenue

Investment management and research fees (fees charged on AUM volumes managed) grew 20% from £130.8m in FY20 to £157.3m; performance fees grew 96% from £22.3m to £43.6m; and 'other income' (primarily gains on the fair value of seed investments) jumped from £1.0m to £8.3m. This growth (coupled with a small gain on forward currency contracts and after the deduction of £15.4m commissions and fees payable), resulted in **net income growth of 37%, from £141.4m to £194.4m.**

Net management fee yield (investment management fees less rebates and commissions payable as a proportion of average AUM) was stable at 84bps (FY20: 85bps).

### Profitability

Total operating costs increased 31% from £90.6m to £118.5m **(at a notably slower rate than net income growth).** This resulted in profit for the year attributable to ordinary shareholders (GAAP measure) increasing 56% from £40.2m to £62.7m, **and basic EPS increasing 54% from 43.5p to 67.2p.**

**Adjusted diluted earnings** (excluding exceptional items – primarily acquisition-related costs, costs of share-based payments on preference shares and deferred staff remuneration) grew 54% from £39.6m to £61.0m. The Group believes that this measure, which aligns staff remuneration and profits generated in the same period provides a clearer picture the Group's profit and a better comparability year on year.

Net cash generated from operating activities (after tax) increased 83% from £42.1m to £77.1m.

Polar also reports on 'performance fee profit' and 'core operating profit'. The former is defined as *gross performance fee income less performance fee share due to staff* and is a direct measure of Group profits derived from superior investment performance. **Performance fee profit jumped 122% in FY21 from £8.8m to £19.5m.**

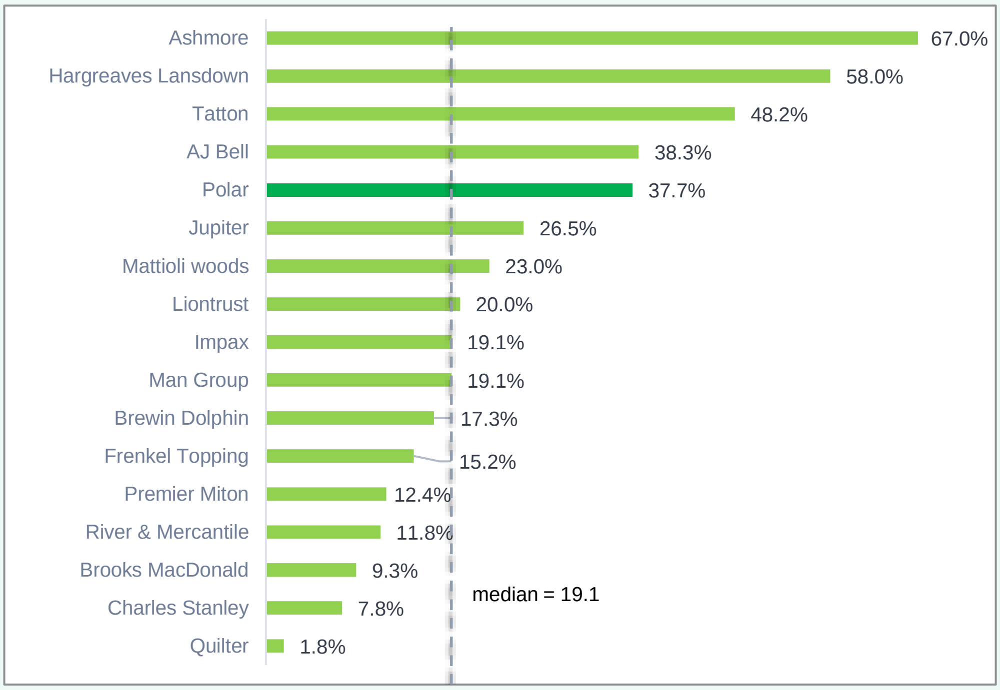
Core operating profit is defined as *profit before performance fee profits, other income and tax*, and presents a measure of the Group's profitability excluding investment-performance-related profits and other components which may be volatile, non-recurring or non-cash in nature. It is therefore mostly a function of growth and operating efficiency. **Core operating profit increased 24% from £41.6m to £51.5m, with core operating margin improving from 35% to 36%.**

We highlight that in FYs 2016-18, core operating margins were in the 31% to 33% range, with the increase providing evidence that operating leverage is kicking in. **Indeed, we see potential for the core operating margin to increase further (possibly as much as 1% per year for a few years), as cost synergies from recent acquisitions and other economies of scale are realised.**

It is also worth comparing Polar's operating profit to that of sector peers. Below, we show the (statutory) operating profit margins of a UK-listed peer group of asset managers and platforms and note that Polar's operating margin of 37.7% is far above the sector median of 19.1%.

While the FY21 margin is boosted by a bumper performance fee profit and fair-value gains on seed investments, we note that Polar's core operating margin (which excludes performance-related profits) was 36%, still well above the peer group median. We also note that the lowest operating margin reported by Polar since FY16 has been 27.7%, which confirms its status as a profit-leader in the sector.

**Operating margins: UK-listed asset managers and platforms**




*Source: ADVFN, operating margin for last-reported full financial year.*
*Operating margin defined as: "Pre-tax profit as a percentage of turnover for the last reported period"*

## Balance sheet

**Polar has an exceptionally strong balance sheet**, with net assets of £151.4m (up 30% from £116.1m) and net cash of £136.7m (up 27% from £107.8m). **It has no debt**.

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 shows that over £60m is available to maintain a strong balance sheet and pursue these growth opportunities, an ample 'war-chest' to fuel growth by anyone's standards.**

## Surplus capital calculation

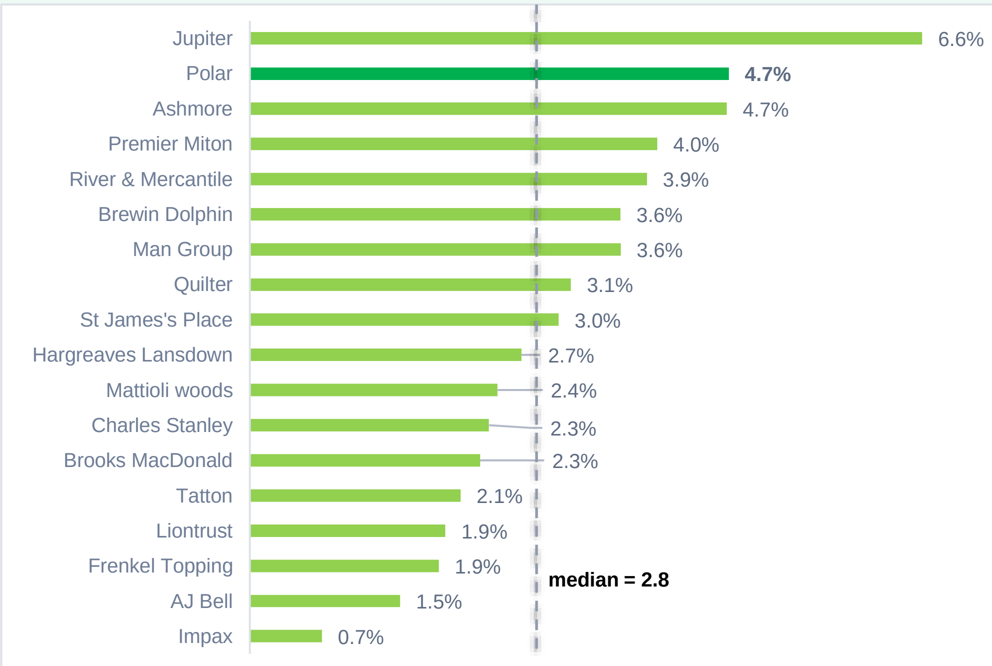
| Regulatory Capital | Year to Mar-21 £m | Year to Mar-20 £m |
|---|---|---|
| Shareholder funds | 151.4 | 116.1 |
| Less: deferred tax and capital reserves | -11.0 | -8.3 |
| Less: Goodwill and intangible assets | -25.0 | - |
| | **115.4** | **107.8** |
| Less: dividend provision | -30.0 | -23.5 |
| | **85.4** | **84.3** |
| Regulatory capital | -25.0 | -20.0 |
| Surplus capital | **60.4** | **64.3** |

*Source: Company*

## Dividends

The above performance has allowed Polar to declare **full-year dividends of 40p per share, giving a shares' yield of 4.7% (the second highest in the sector)**, and 21% up on the 33p of FY20. Polar's dividend policy is to pay annual dividends within a range of 55% to 85% of adjusted total earnings. This is dependent on the quantum of performance fees earned in that year.

## Dividend yield: UK-listed asset managers and platforms




*Source: London Stock Exchange, ED. Data as at 10 Sep 2021, excludes special dividends*

## Management

Polar was founded in 2001 by Brian Ashford-Russell (previously head of Henderson Global Investor's technology team), Tim Woolley (also of that team), and John Mansell. Ashford-Russell was the fund manager of the Polar Capital Technology Trust plc until 2006, when he became a non-executive director of the Group (stepping down as non-exec in September 2021). Woolley was group CEO between 2009 and 2017. Mansell remains an executive director (see below).

**In 2017, Gavin Rochussen took over from Woolley as CEO, and Polar moved smoothly into its next growth phase, with AUM increasing by an annual compounded growth rate of around 25% during his tenure to date.**

Current key executive roles include:

**Gavin Rochussen, Chief Executive Officer.** From 2008 to 2016 Gavin was group CEO of J O Hambro Capital Management ("JOHCM") the active equity investment boutique acquired by Australian listed fund management group BT Investment Management Limited. Whilst CEO of JOHCM Gavin led the business as it grew from £1.5bn of equity assets under management to £23.9bn at 30 September 2016. Gavin is also an adviser to Amigona Holdings and an independent adviser to wealth managers James Hambro & Partners.

**John Mansell, Executive Director.** John has oversight of the operations, finance, IT and human resource functions as well as working with the CEO to deliver the business strategy, focussing on expanding into the US. Before joining Polar Capital, he spent 11 years at Lazard Asset Management. John is a fellow of the Institute of Chartered Accountants of England and Wales.

**Sandy Black, Chief Investment Officer.** Sandy joined Polar Capital in January 2018 as CIO, with oversight of the firm's investment strategies, incorporating style and risk analysis, trading and ESG characteristics. Sandy began his investing career in 1985 as a US and European equity portfolio manager at Rothschild Asset Management, then at Invesco and Deutsche Asset Management where he became Head of European Equities. He was Head of Equities at Insight Investment from 2004 to 2009 then CIO at J O Hambro Capital Management until early 2018.

**Samir Ayub, Finance Director.** Samir joined Polar Capital in 2010 and became the firm's Finance Director in June 2019. Prior to joining Polar Capital, he spent 10 years at Ernst & Young during which time he worked at various international offices including Pakistan, Bahrain, Channel Islands and London. He is a qualified chartered accountant (ICAEW) as well as a qualified chartered certified accountant (ACCA) (United Kingdom designations).

**Iain Evans, Global Head of Distribution.** Iain joined Polar Capital in November 2004 and has over 28 years' sales and marketing experience in wholesale financial services. He manages the sales, marketing and client services teams. Prior to joining Polar Capital, he was an Associate Director at Henderson Global Investors where he worked with Tim Woolley and Brian Ashford-Russell, Polar Capital's co-founders.

## Shareholdings

The shareholding of Polar Capital Holdings plc is well diversified, with a highly credible list of larger shareholders and a substantial free float.

| Substantial shareholdings* | |
|---|---|
| **Largest shareholders** | **% of voting rights** |
| Canaccord Genuity Group[1/2] | 9.2 |
| Fianchetto Limited[1] | 7.8 |
| Harwood Capital LLP[1] | 7.0 |
| Schroders plc[2] | 5.2 |
| Unicorn Asset Management[1/2] | 4.9 |
| Caledonia Investments PLC[1] | 4.8 |
| Apex Financial Services (Trust Company) Limited (trustee of EBT)[2] | 4.3 |
| Artemis Investment Management[1/2] | 4.0 |
| B J D Ashford-Russell[1/2] | 3.7 |
| Franklin Templeton Fund Management | 3.3 |
| **Top 10** | **54.2%** |
| | |
| **Largest management shareholders** | |
| Gavin Rochussen[3] | 1.5% |
| John Mansell[3] | 2.0% |

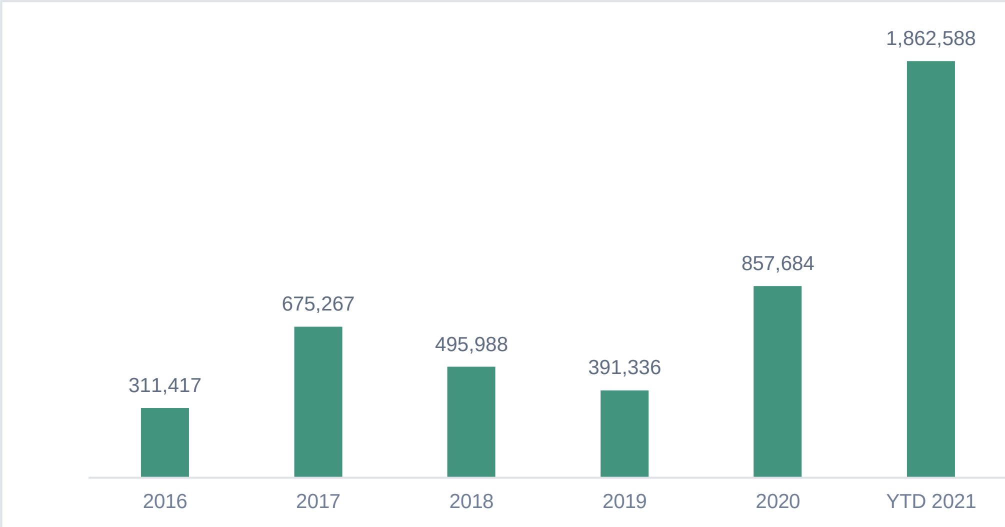
*As of 16 June 2021
*1 Direct holding*
*2 Indirect holding*
*3 Beneficial + non-beneficial + deferred interest*

### Trading activity

It is worth highlighting that over recent years, co-founder Brian Ashford-Russell has been selling down his stake in the group (from 7.2% in June 2016 to 3.7% in June 2021) which may have had some dampening effect on the share price.

**However, trading volumes in POLR shares have jumped substantially in the last 18 months or so, indicating increased investor interest in the group. And this is clearly predominantly buying interest as the share price of POLR has responded positively in lockstep with the increased trading volumes (see next chart).**

**Average daily value traded (top chart, £) & Share price (bottom chart, p)**





*Source: ADVFN, ED analysis*

## Strategy & outlook

Polar has a very focussed strategy: **to deliver a range of fundamentally driven (actively managed) investment products that provide differentiated risk adjusted returns over the long term, to professional and institutional investors.**

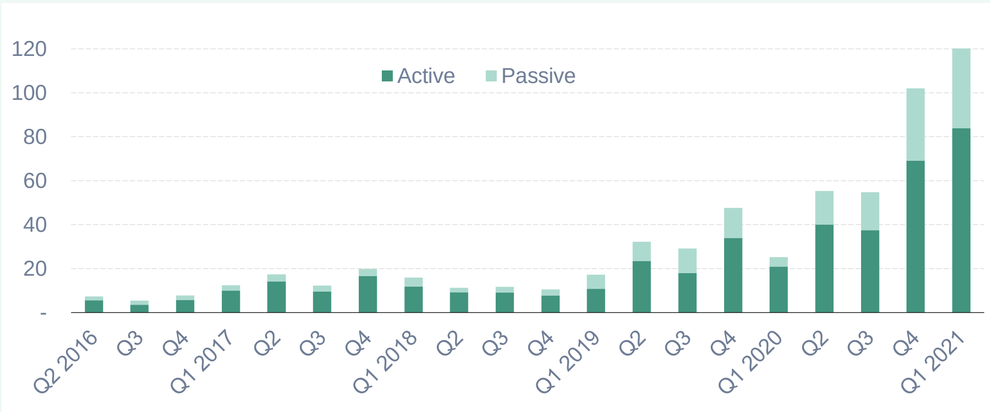
While in recent years the broader trend in the asset management sector has certainly been in favour of passively managed funds, there is no doubt that best-in-class active managers can thrive, particularly in a post-pandemic investment environment (Polar has proven this - refer to section 'AUM growth momentum into FY22'), and that active management generally is making a comeback.

**Indeed, overall active equity fund flows in Europe have been positive since April 2020, with monthly net flows into pan-European active equity funds being the dominant asset class for net flows since November 2020**[3].

We believe two of the strongest forces likely to result in this trend continuing are:

- A more pronounced split between 'winners' and 'losers' in underlying investments - resulting in more investors wanting stock picking strategies and fewer wanting to 'play the market' (some businesses and sectors will struggle to survive in a post-Covid world, others are structurally positioned to thrive, while nimble businesses will adapt and capture opportunities from radically altered societies and economies – all of which favours stock picking and plays into the hands of the best active managers).
- A much larger focus on sustainable or ESG investments, which again favours active managers and which Polar is well positioned to capitalise on. Morningstar research shows that fund flows into ESG funds have accelerated rapidly over the last year with active management funds dominant in this space. In fact, in Q1 21**, Morningstar data shows sustainable funds flows represented 51% of total fund flows with actively managed sustainable funds attracting around 70% of these flows.**

**Quarterly European Sustainable Fund* Flows, €bn**




*Source: Morningstar: European Sustainable Fund Flows: Q1 2021 in Review (chart reproduced with permission)*
** Open-end funds & ETFs domiciled in Europe that, by prospectus, fact sheet, or other available resources, 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.*

**These tailwinds at a market and company level, coupled with Polar's specific 'growth with diversification' strategy, lead us to conclude that Polar's growth trajectory is likely to remain robust.**

[3] *Broadridge Fund File and Fund Radar, as of 30 April 2021. Data excludes funds of funds, money market funds and ETFs (unless stated).*

## Sources of growth

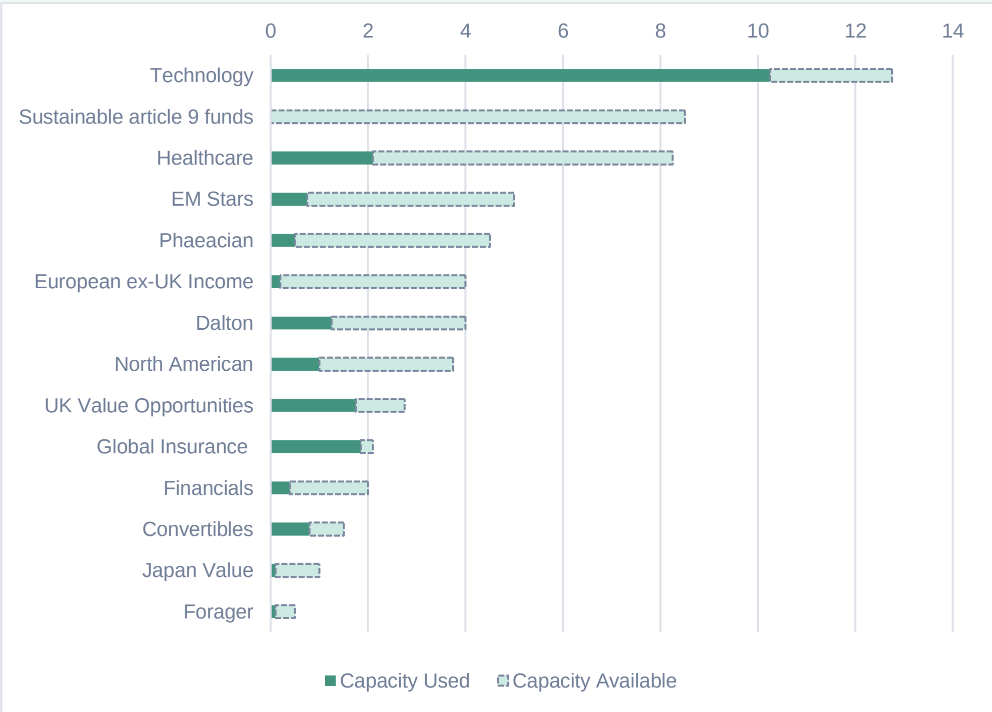
More specifically, growth with diversification means Polar is looking to add to its AUM via:

- new *investment themes* (e.g. sustainable energy, decarbonisation and electric vehicle strategies – to be launched in calender year 2021 by the team lifted from Robeco Switzerland which previously managed €5bn AUM);
- *new channels* (e.g. its recent acquisition to form Phaeacian Partners has added a range of US 40 Act Mutual Funds and its recent acquisition of Dalton has added a range of Luxembourg SICAV funds and segregated mandates);
- *new geographies* (e.g. Phaeacian Partners brings US-sourced AUM and Dalton brings a strong European client base, particularly in Germany).

We therefore expect Polar to:

- **Add AUM to existing teams** where capacity allows (and capacity is plentiful in a number of high-growth areas at the moment, especially sustainable equity and healthcare – see chart below); and
- **Add new teams** (where Polar has a proven track record of attracting top talent – via acquisition, team lift-out, or team extension i.e. organic growth by adding team resource capacity).

**Capacity Used and Available by Investment Team*, £bn**

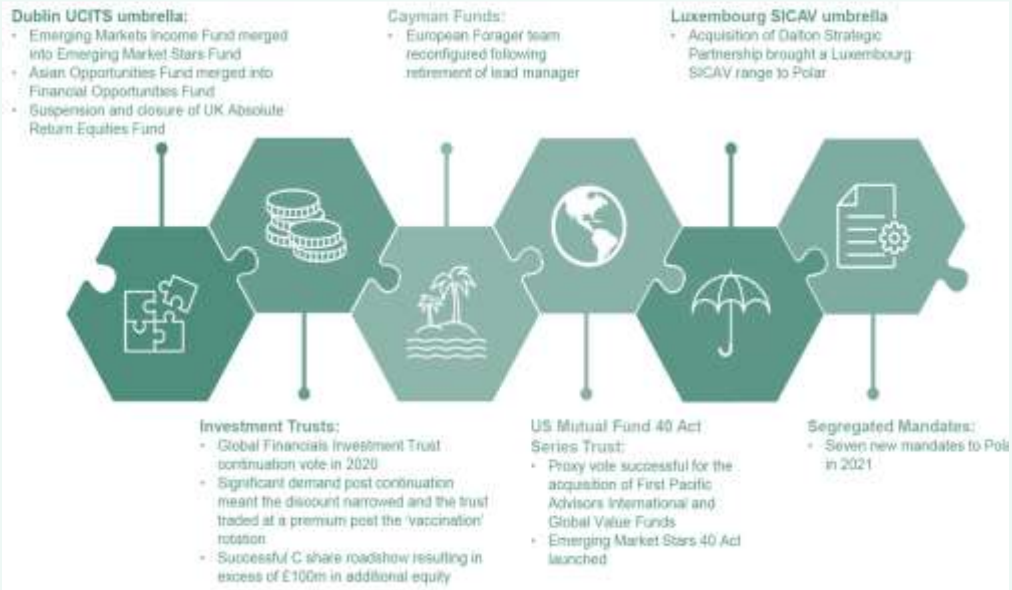



*Source: Company*
** All capacities as at 28 May 2021 except sustainable which is an estimate for the funds to be launched in late-2021*
***Sustainable energy, decarbonisation, electric vehicle themes (final products not yet announced by Polar)*

## Product and corporate credibility

Momentum is also clearly strong when considering how the above growth strategy is being translated into product offerings at a fund level.

### Fund developments during FY 2021



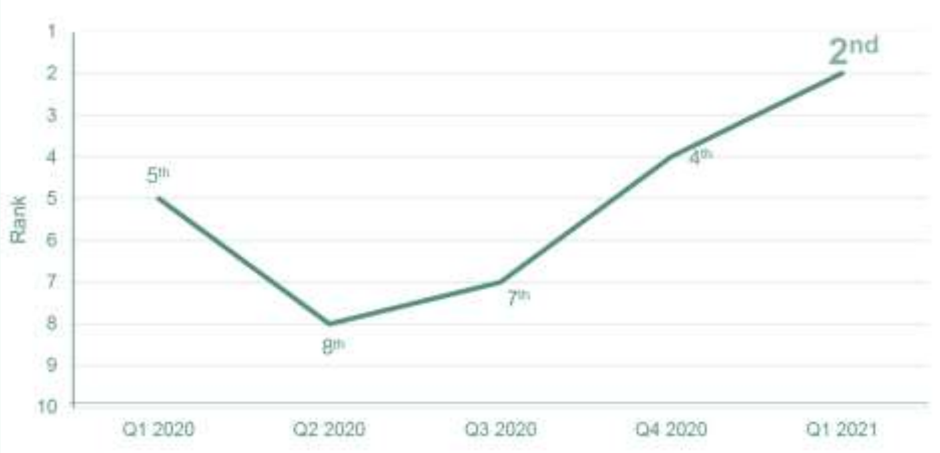

*Source: Company*

Polar's investment propositions are further enhanced by the credibility offered at a fund and fund manager level. Of the 22 UCITS and SICAVs offered by Polar, 19 funds merit either a Morningstar Analyst Rating or Morningstar Quantitative Rating, with 10 having a Gold rating and 7 being Silver rated. 11 Polar fund managers hold a Citywire fund manager rating and 4 have been ranked as 2021 Alpha Managers by FE. **Since January 2020, Polar funds have collectively amassed 30 awards**[4].

In addition, Polar's marketing initiatives in recent years have borne success - particularly digital marketing initiatives which were accelerated with the onset of the Covid-19 pandemic - with Polar Capital now ranked 2nd in the UK for Brand Preference in the Broadridge Fund Buyer 50 survey.

[4] *Source: Morningstar data as at 31 March 2021.*

### Polar Capital UK Brand Preference Ranking (among fund buyers)




*Source: Company, Broadridge*

Sales and Marketing has also been an area of focus where Polar has made senior distribution appointments in the US, Asia, and the Nordics, facing both wholesale and institutional channels, with these three regions identified as an area of focus going forward.

**When combined, all the above initiatives present a highly attractive package to clients.**

### Polar Capital rankings in Broadridge UK Fund Buyer 50 Report


*Source: Company, Broadridge*

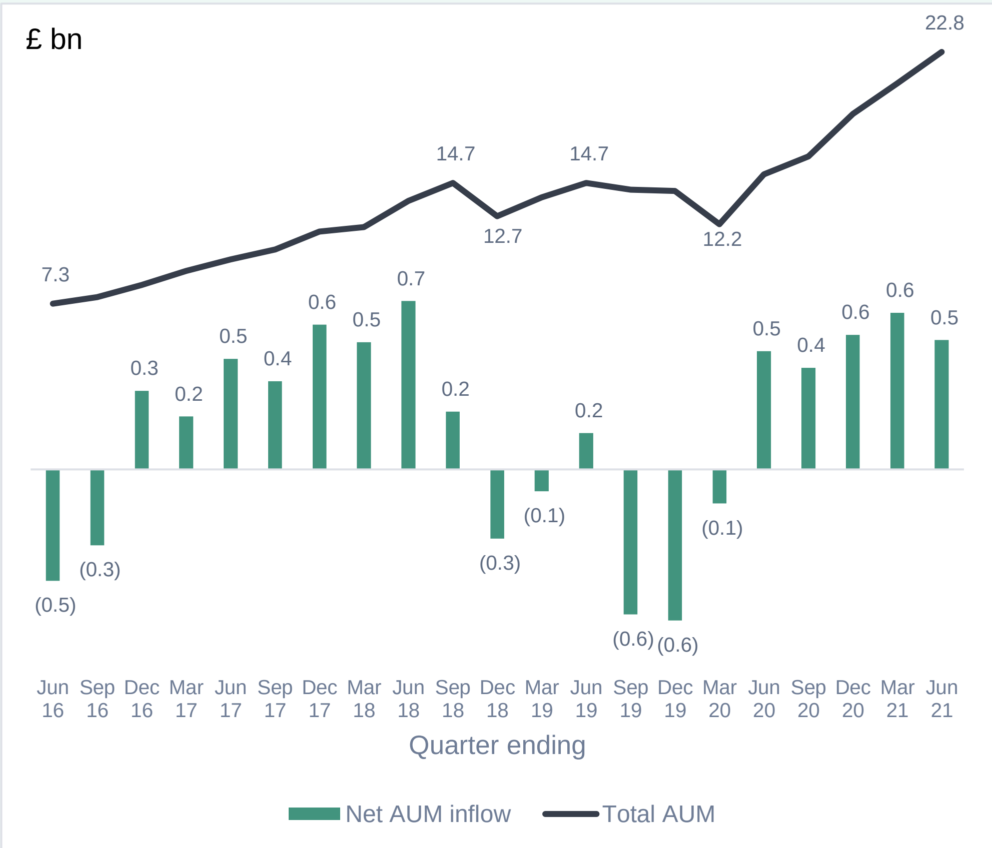
## Growth forecasts

**Based on these market opportunities and Polar's positioning, we believe the group is well positioned to grow its AUM by £2-3bn per annum on average, and achieve an AUM level of around £30-35bn by FY26 (i.e. over 5 years).**

While this assumption may appear conservative given Polar's recent growth profile (adding £5.2bn from market movements and £2.1bn from net inflows and in FY21), it is important to bear in mind that both sources of AUM can be volatile and sometimes turn negative, particularly during market downturns (when funds also often experience net outflows) or when individual funds go out of favour with investors. Polar is not immune to this and while its overall growth profile is very strong, the period Oct 18 to Mar 20 was certainly an example of a volatile period in terms of net flows and market movements, as illustrated in the chart below. The underlying causes of some of this volatility included:

- A general market correction in Dec 18
- Redemptions from a Japan fund during 2019 following the departure of a fund manager
- Redemptions from a North American fund in late-2019 following several investors deciding to reduce their exposure to North American equities, and
- The Covid crash of Feb-Mar 20.

**Polar Capital: Quarterly Net AUM flows and Total AUM: Mar 16 – Jun 21**




*Source: Company reports and trading updates, ED analysis*

We therefore believe that a cautious approach to AUM forecasting is prudent and that average growth of £2-3bn per annum is sensible.

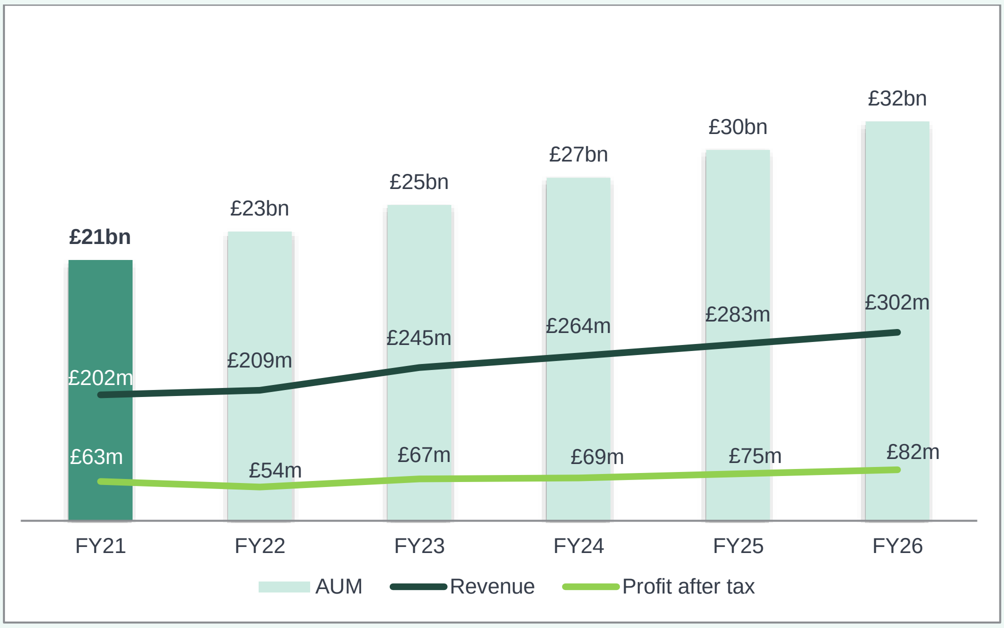
In producing our 5-year forecast, we also assume that there is some price erosion of Polar's investment management fee, and that performance fees run at only 50% of recent (5Y) average historic levels (from FY23 onwards).

At the same time, we see economies of scale kicking in as the business grows and think it is realistic for the core operating margin to increase from the current 36% to 40% in 5 years.

The combined effect of these assumptions results in us estimating Group revenue in FY26 to be around £300m (£202m in FY21) and profit after tax increasing from the £63m of FY21 (a very strong year boosted by higher-than-average investment-performance-related-profits) to £82m.

Our summary 5-year projections are shown below, which form the basis of our fundamental valuation.

**Five-year forecast key metrics**




*Source: Company Historic Data, ED Estimates*

**Five year forecast**

| Year-end 31 Mar | FY21A | FY 22E | FY 23E | FY24A | FY 25E | FY 26E |
|---|---|---|---|---|---|---|
| AUM, £bn | 20.9 | 23.1 | 25.3 | 27.4 | 29.7 | 31.9 |
| Rev, £m | 201.5 | 208.8 | 245.1 | 263.9 | 282.7 | 301.6 |
| Management fees, £m | 157.3 | 208.8 | 220.3 | 237.2 | 254.1 | 271.1 |
| Performance ees, £m | 43.6 | 0.0 | 24.8 | 26.7 | 28.6 | 30.5 |
| PBT, £m | 75.9 | 66.7 | 83.0 | 91.4 | 100.0 | 108.9 |
| Core op profit*, £m | 51.5 | 68.3 | 73.9 | 81.4 | 89.2 | 97.3 |
| Performance fee profit | 19.5 | 0.0 | 10.7 | 11.5 | 12.4 | 13.2 |
| EPS basic, p | 67.2 | 57.0 | 69.9 | 70.2 | 75.7 | 81.2 |
| EPS, adjusted, p | 65.3 | 54.5 | 67.4 | 67.8 | 73.3 | 78.8 |
| Div, p | 40.0 | 40.9 | 41.3 | 41.5 | 44.9 | 48.3 |
| Net assets, £m | 151.4 | 171.3 | 210.7 | 250.7 | 297.1 | 346.8 |
| Net cash, £m | 136.7 | 158.6 | 206.9 | 251.6 | 302.6 | 357.0 |
| Fin inv on own BS**, £m | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 |

*Source: Company Historic Data, ED estimates.*
** excluding performance fees and performance-related costs, before tax*
*** Seed investments, securities, fund units held against deferred remuneration, other fin assets & liabilities*

Note: The dip in FY22 profit forecast is primarily due to an assumption of no performance fees for FY22, because of the relatively weak year-to-date performance of sectors to which Polar has high exposure, most notably technology; and because FY21 included larger-than-usual: 1) performance fee profits (£19.4m), and 2) 'other income' (£8.4m: mostly positive revaluation of seed income investments).

## Valuation: fundamental and peer-comparison

Our fundamental valuation methodology for Polar involves a discounted cash flow methodology:

- Based on the above explicit five-year growth forecast
- A terminal value based on an assumption that the business is acquired at a PE multiple of 15 – which we believe is conservative and well below the sector's median PE (see below - although we highlight that the current sector median PE is well above historical levels, for example, in December 2019, the sector median PE was around 17)
- Discounting the above free cash flows at the cost of equity which we have calculated to be 7.5%, based on a risk-free rate of 0.525%, an equity market risk premium of 5.75%, and a beta of 1.30.

**This methodology produces a per share fundamental value of 1,305p, 53% above the current share price of 853p.**

We have also compared the relative valuation of Polar to other UK-listed asset managers and platforms, **where Polar has one of the lowest PE ratios of the entire peer group and less than half of the peer group median of 33.5.**

**PE Ratios: UK-listed asset managers and platforms**


*Source: ADVFN, as of 10 September 2021*

## Investment case

This appears strange, and we remind readers of the following:

- **Polar is a fast-growing asset manager (5-year AUM CAGR 23%)**, is currently attracting strong AUM net inflows (3rd highest in the sector in the 12m to 31 Mar 21) and has a record of investment outperformance which contributes directly to AUM growth and indirectly to AUM inflows by presenting clients with attractive investment products.
- It has **strong growth prospects**: from its current products (which have significant AUM capacity in high-growth areas such as healthcare); from new products about to launch (e.g. sustainable energy, decarbonisation and electric vehicle strategies via a new sustainable equities team, previously managing €5bn AUM); and from future acquisitions, team lift-outs, and team extensions, where the pipeline is strong and Polar has a proven deal-making track-record. Moreover, its marketing initiatives are paying dividends with its brand preference ranking (among fund buyers) improving from 8th to 2nd between Q2 20 and Q1 21.
- It commands **premium investment management fee pricing** and has an **extremely impressive record of generating performance fees**, making it the highest UK-listed revenue-generating asset-manager (as a proportion of AUM).
- It has **very strong and consistent operating margins, well above sector medians**.
- Its **dividend yield, at 4.7%, is the 2nd highest in the sector**.
- Trading volumes in its shares have jumped over the last 18 months in lockstep with its share price and **it is clearly attracting significant buyer interest**.

While Polar's revenue and profitability are exposed to a slightly greater degree of volatility compared to most peers (because of the significance of its performance fee income), and does have a high sector exposure to technology (which we think will reduce), this in no way explains its lowly rating, given the powerful investment case above.

**We see potential for a significant re-rating.**

# Appendix 1: Historical and forecast Financials

| Consolidated Income Statement + Forecasts | | | | | | |
|---|---|---|---|---|---|---|
| **12 months to end Mar, £'000** | **FY18A** | **FY19A** | **FY20A** | **FY21A** | **FY 22E** | **FY 23E** |
| Revenue | 133,808 | 177,514 | 151,714 | 201,508 | 208,821 | 245,079 |
| Other Income | 3,350 | 1,023 | 1,029 | 8,306 | 500 | 500 |
| **Gross Income** | **137,158** | **178,537** | **152,743** | **209,814** | **209,321** | **245,579** |
| Commissions and fees payable | (7,916) | (12,690) | (11,300) | (15,389) | (20,426) | (21,549) |
| Net Income | 129,242 | 165,847 | 141,443 | 194,425 | 188,895 | 224,030 |
| Operating Costs | (87,965) | (101,768) | (90,563) | (118,510) | (122,173) | (141,031) |
| **Profit for the year before tax** | **41,277** | **64,079** | **50,880** | **75,915** | **66,722** | **82,999** |
| Taxation | (8,478) | (11,692) | (10,695) | (13,197) | (12,677) | (15,770) |
| **Profit attributable to ordinary shareholders** | **32,799** | **52,387** | **40,185** | **62,718** | **54,044** | **67,229** |
| | | | | | | |
| **Adjusted Profit, £'000** | | | | | | |
| The Group believes that aligning staff remuneration 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 | | | | 1,908 | | |
| Add exceptional items, amortisation of intangible assets | | | | 419 | | |
| Add back cost of share-based pmts on prefs | 5,045 | 3,147 | 89 | (333) | (333) | (333) |
| Less net amount of deferred staff rem | (3,237) | (5,224) | (682) | (3,728) | (2,000) | (2,000) |
| **Ajusted Profit After Tax** | **34,607** | **50,310** | **39,592** | **60,984** | **51,711** | **64,896** |
| | | | | | | |
| **Earnings per share, p** | | | | | | |
| Basic | 36.4 | 57.8 | 43.5 | 67.2 | 57.0 | 69.9 |
| Diluted | 34.7 | 53.6 | 41.3 | 64.0 | 54.8 | 67.6 |
| Adjusted basic | 38.4 | 55.5 | 42.9 | 65.3 | 54.5 | 67.4 |
| Adjusted diluted | 36.6 | 51.5 | 40.7 | 62.3 | 52.5 | 65.3 |
| | | | | | | |
| **Core operating profit (non-GAAP), £m** | | | | | | |
| Profit before performance fee profits, other income and tax. This presents a clear view of 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 | 98.2 | 126.2 | 130.9 | 157.4 | 208.9 | 220.4 |
| Commissions and fees payable | (7.9) | (12.7) | (11.3) | (15.4) | (20.4) | (21.5) |
| Net management fees | 90.2 | 113.5 | 119.6 | 142.0 | 188.5 | 198.8 |
| Profit/(loss) on foreign currency contracts | 0.0 | (0.4) | (1.4) | 0.6 | - | - |
| Core operating costs | (62.6) | (70.9) | (76.6) | (91.1) | (120.2) | (125.0) |
| **Core operating profits (before tax)** | **27.6** | **42.2** | **41.6** | **51.5** | **68.3** | **73.9** |

*Source: Company Historic Data, ED estimates.*

| Consolidated Balance Sheet + Forecasts | | | | | | |
|---|---|---|---|---|---|---|
| **As at end Mar, £'000** | **FY18A** | **FY19A** | **FY20A** | **FY21A** | **FY 22E** | **FY 23E** |
| | | | | | | |
| **Non-current assets** | | | | | | |
| Goodwill and intangible assets | | | | 24,998 | 24,579 | 24,160 |
| Property & equipment | 1,971 | 1,723 | 6,271 | 5,104 | 5,244 | 5,390 |
| Deferred tax assets | 3,808 | 4,075 | 2,157 | 5,783 | 5,783 | 5,783 |
| | **5,779** | **5,798** | **8,428** | **35,885** | **35,606** | **35,333** |
| **Current assets** | | | | | | |
| Investment securities | 9,750 | - | - | - | - | - |
| Assets at fair value through P&L | 11,679 | 35,125 | 38,654 | 57,151 | 57,151 | 57,151 |
| Trade & other receivables | 12,923 | 15,246 | 14,815 | 23,924 | 24,792 | 29,097 |
| Other financial assets | 833 | - | 2,322 | 84 | 84 | 84 |
| Cash & cash equivalents | 87,950 | 111,734 | 107,753 | 136,718 | 158,613 | 206,867 |
| Current tax assets | - | - | 1,008 | 1,966 | 1,966 | 1,966 |
| | **123,135** | **162,105** | **164,552** | **219,843** | **242,606** | **295,165** |
| **Total assets** | **128,914** | **167,903** | **172,980** | **255,728** | **278,212** | **330,498** |
| | | | | | | |
| **Non-current liabilities** | | | | | | |
| Provisions & other liabilities | 2,026 | 1,858 | 5,387 | 4,123 | 4,123 | 4,123 |
| Liabilities at fair value through P&L | | | | 4,258 | 4,258 | 4,258 |
| Deferred tax liabilities | 1,216 | 30 | 512 | 4,116 | 4,116 | 4,116 |
| | **3,242** | **1,888** | **5,899** | **12,497** | **12,497** | **12,497** |
| **Current liabilities** | | | | | | |
| Liabilities at fair value through P&L | 1,790 | 1,679 | 3,457 | 16,124 | 16,124 | 16,124 |
| Trade & other payables | 34,256 | 46,647 | 45,102 | 71,598 | 74,196 | 87,079 |
| Other financial liabilities | - | 1,668 | 2,444 | 4,069 | 4,069 | 4,069 |
| Current tax liabilities | 1,958 | 6,340 | - | - | - | - |
| | **38,004** | **56,334** | **51,003** | **91,791** | **94,389** | **107,272** |
| **Total liabilities** | **41,246** | **58,222** | **56,902** | **104,288** | **106,886** | **119,769** |
| **NET ASSETS** | **87,668** | **109,681** | **116,078** | **151,440** | **171,326** | **210,730** |
| | | | | | | |
| **Capital & Reserves** | | | | | | |
| Issued share capital | 2,335 | 2,365 | 2,417 | 2,468 | 2,468 | 2,468 |
| Share premium | 18,872 | 19,059 | 19,101 | 19,364 | 19,364 | 19,364 |
| Investment in own shares | (9,221) | (17,930) | (24,139) | (26,579) | (26,579) | (26,579) |
| Capital & other reserves | 11,441 | 9,067 | 8,341 | 11,030 | 11,030 | 11,030 |
| Retained Earnings | 64,241 | 97,120 | 110,358 | 145,157 | 165,043 | 204,447 |
| **TOTAL EQUITY** | **87,668** | **109,681** | **116,078** | **151,440** | **171,326** | **210,730** |

*Source: Company Historic Data, ED estimates.*

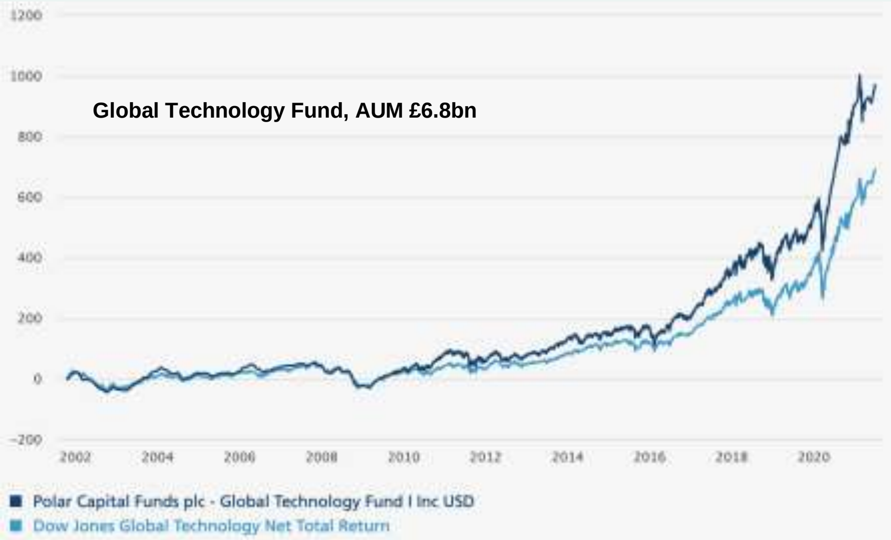
| Consolidated Cash Flow Statement + Forecasts (page 1 of 2) | | | | | | |
|---|---|---|---|---|---|---|
| **12 months to end Mar, £'000** | **FY18A** | **FY19A** | **FY20A** | **FY21A** | **FY 22E** | **FY 23E** |
| **OPERATING ACTIVITIES** | | | | | | |
| **Profit before taxation** | **41,277** | **64,079** | **50,880** | **75,915** | **66,722** | **82,999** |
| Interest receivable and similar income | (68) | (149) | (313) | (53) | (58) | (64) |
| Investment income | (492) | (427) | (279) | (239) | (500) | (500) |
| Interest on lease | - | - | 151 | 107 | 107 | 107 |
| Depreciation on property & equipment | 508 | 347 | 1,361 | 1,399 | 1,328 | 1,339 |
| Revaluation of liability at FVTPL | | | | (443) | - | - |
| Amortisation & impairment of intantible assets | | | | 419 | 419 | 419 |
| Decr/(Incr) in fair value of inv securities | 112 | - | - | - | - | - |
| Decr/(incr) in fair value of assets at FVTPL | (3,529) | (932) | 581 | (14,270) | - | - |
| (Decr)/incr in other financial liabilities | - | 967 | (1,940) | 5,109 | - | - |
| incr in other financial assets | (488) | - | - | - | - | - |
| Decr/(incr) in receivables | (2,816) | (2,323) | 431 | (9,109) | (868) | (4,305) |
| (Decr)/incr in trade and other payables | 14,515 | 12,391 | (2,751) | 26,491 | 2,598 | 12,883 |
| Decr in provisions and other liabilities | (143) | (168) | - | - | - | - |
| Share-based payment charges | 8,726 | 8,859 | 5,159 | 5,625 | 11,875 | 12,348 |
| Incr/(decr) in liabilities at FVTPL | (6) | (42) | 404 | (6,134) | - | - |
| Release of fund units deferred rem | - | 346 | 4,917 | 5,633 | - | - |
| Other non-cash items | (46) | - | - | 404 | - | - |
| **Cash generated from operations** | **57,550** | **82,948** | **58,601** | **90,854** | **81,621** | **105,226** |
| Corporation tax paid | (6,142) | (8,278) | (16,308) | (13,606) | (12,677) | (15,770) |
| Interest on lease | - | - | (151) | (107) | (107) | (107) |
| **Net cash from operating activities** | **51,408** | **74,670** | **42,142** | **77,141** | **68,837** | **89,349** |

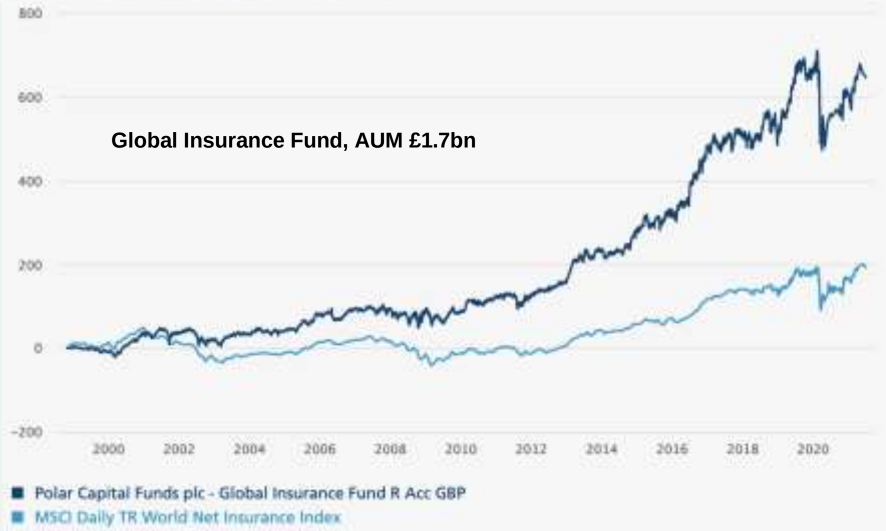
| Consolidated Cash Flow Statement + Forecasts (page 2 of 2) | | | | | | |
|---|---|---|---|---|---|---|
| **12 months to end Mar, £'000** | **FY18A** | **FY19A** | **FY20A** | **FY21A** | **FY 22E** | **FY 23E** |
| **INVESTING ACTIVITIES** | | | | | | |
| Interest received | 68 | 148 | 292 | 53 | 58 | 64 |
| Investment income received | 549 | 431 | 192 | 193 | 500 | 500 |
| Sale of investment securities | 3,363 | - | - | - | - | - |
| Purchase of investment securities | (3,261) | - | - | - | - | - |
| Sale of assets at FV through P&L | 12,493 | 26,449 | 18,119 | 33,292 | - | - |
| Purchase of assets at FV through P&L | (11,020) | (48,836) | (24,123) | (45,188) | - | - |
| Purchase of property and equipment | (77) | (99) | (108) | (156) | (172) | (189) |
| Cash introduced via business combination | | | | 1,060 | - | - |
| Payments in respect of business combination | | | | (8,472) | - | - |
| Payments in respect of asset acquisition | | | | (325) | | |
| Cash from disposal of cons seed inv | 4,600 | 8,335 | - | (264) | - | - |
| **Net cash used in investing activities** | **6,715** | **(13,572)** | **(5,628)** | **(19,807)** | **387** | **375** |
| **FINANCING ACTIVITIES** | | | | | | |
| Dividends paid to shareholders | (22,934) | (27,279) | (30,657) | (31,907) | (46,033) | (40,174) |
| Lease payments | - | - | (1,145) | (1,296) | (1,296) | (1,296) |
| Issue of shares | 244 | 189 | 43 | 257 | - | - |
| Purchase of own shares | (5,474) | (9,757) | (9,707) | (6,118) | - | - |
| 3rd party subs into cons funds | 485 | 1,665 | 902 | 12,037 | - | - |
| 3rd party redemptions from cons funds | (857) | (1,753) | (63) | (1,289) | - | - |
| Dividends paid to 3rd party interests | (34) | (31) | - | - | - | - |
| **Net cash from /(used in) financing** | **(28,570)** | **(36,948)** | **(40,627)** | **(28,316)** | **(47,329)** | **(41,470)** |
| | | | | | | |
| **Net (decr)/incr in cash & equivalents** | **29,553** | **24,150** | **(4,113)** | **29,018** | **21,895** | **48,255** |
| Cash & equivalents beginning of year | 58,539 | 87,950 | 111,734 | 107,753 | 136,718 | 158,613 |
| Effect of forex rate changes | (142) | (366) | 132 | (53) | - | - |
| **Cash & equivalents at end of year** | **87,950** | **111,734** | **107,753** | **136,718** | **158,613** | **206,867** |

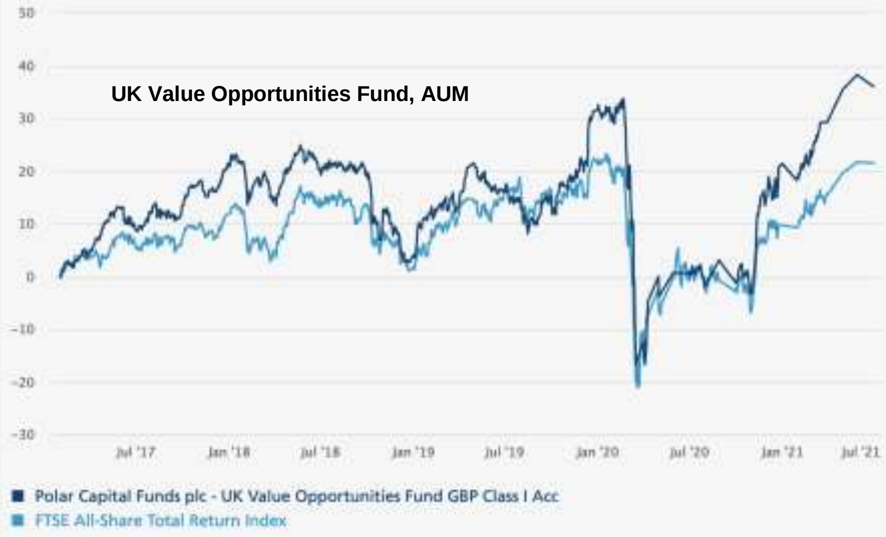
*Source: Company Historic Data, ED estimates.*

## Appendix 2: Historical fund performance

**Nine-largest funds (~40% of AUM), perf v benchmark, % since inception (page 1 of 3)**

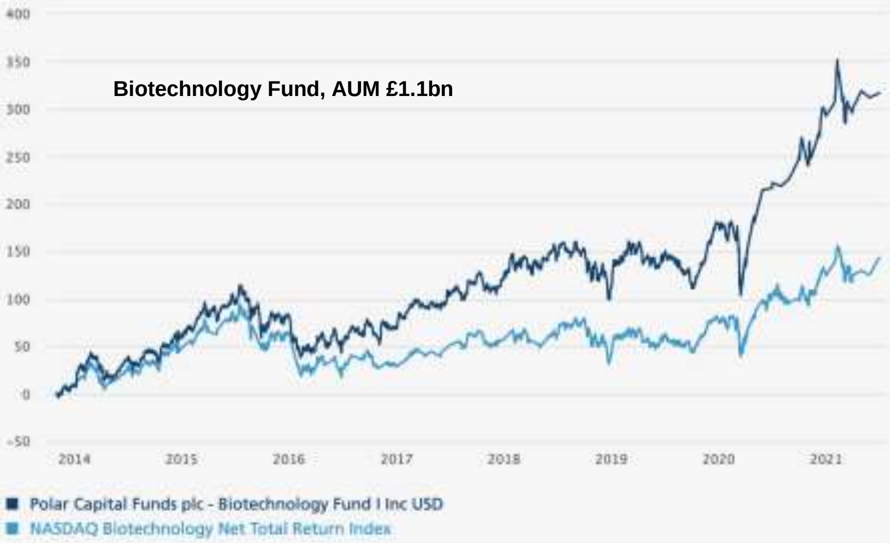


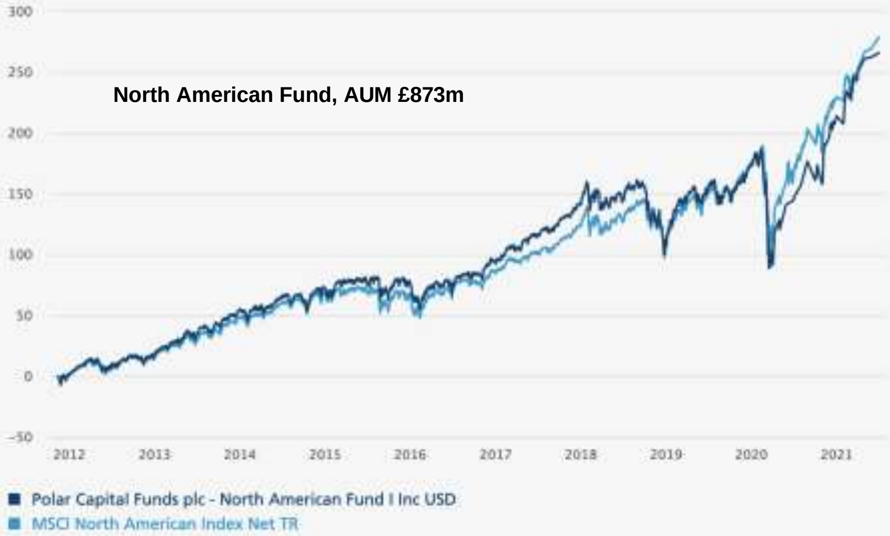




*Source: Company*
*AUM as at 30 June 2021*

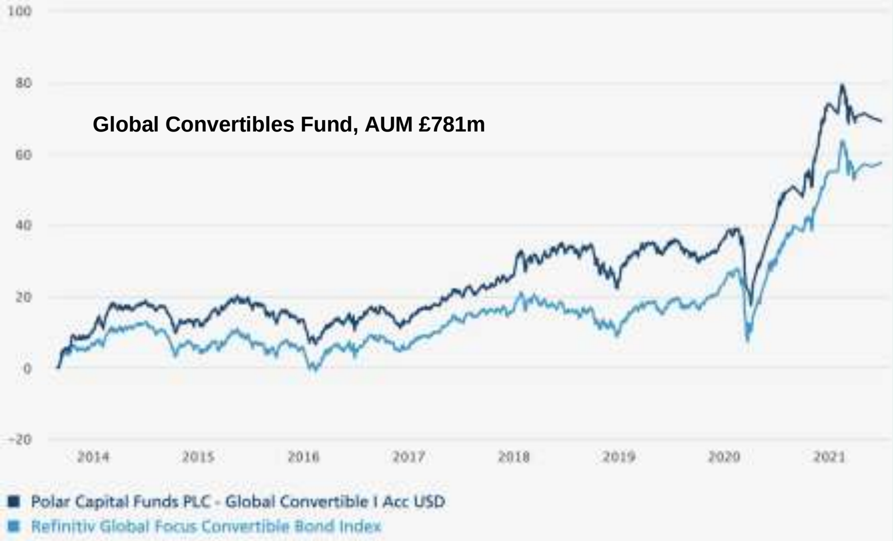
**Nine largest funds (~40% of AUM), perf v benchmark, %, since inception (page 2 of 3)**

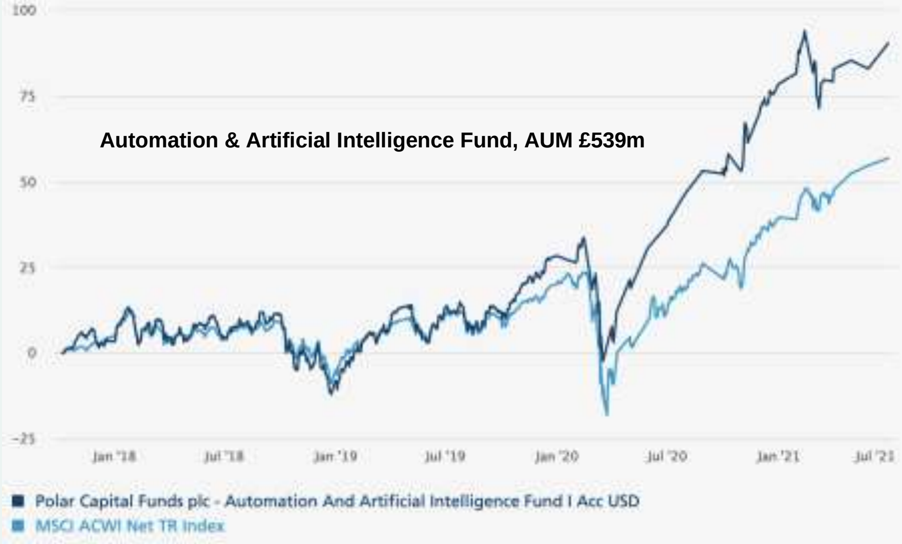




*Source: Company*
*AUM as at 30 June 2021*

## Nine largest funds (~40% of AUM), perf v benchmark, %, since inception (page 3 of 3)








*Source: Company*
*AUM as at 30 June 2021*

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