

Record

Highest AUME yet

Record reported assets under management equivalent (AUME) at a record level at the end of March reflecting positive market and currency moves in the company's final quarter. While flows have fluctuated during FY17, the uncertain macro background is contributing to good levels of interest in Record's currency management products and this should also be supported by a lengthening period of positive performance from the currency for return products.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	20.9	7.5	2.65	1.65	15.5	4.0
03/16	21.2	7.0	2.54	1.65	16.1	4.0
03/17e	22.6	7.9	2.84	1.65	14.4	4.0
03/18e	24.1	8.5	3.03	1.65	13.5	4.0

Note: *PBT and EPS exclude non-controlling interests relating to seed investments. Prospective DPS excludes any special dividends.

Q417 trading update

AUME at the end of March stood at \$58.2bn, the highest level yet and 10% ahead of the prior year figure or up 26% in sterling terms. In Q4, net flows were a negative \$0.5bn including a \$0.9bn reduction in allocation by a client operating a specific variable multi-product mandate. The number of clients was lower in the quarter on the termination of six linked accounts but just ahead for the year at 59. Market and currency movements in the quarter both had a positive impact on AUME, more than offsetting the small net outflow. The currency for return strategies extended their period of positive performance with the longest standing multi-strategy mandate recording a gain of 0.64% and an annualised gain of 1.8% since inception (page 3).

Outlook and estimate changes

The changing macroeconomic and political background over the last year has created a fertile environment for Record to attract new clients and further allocations for its currency management services. The company reports that interest remains strong across a range of countries and products providing a promising background for the current year. We have increased our revenue estimates to reflect the higher than forecast year end AUME while also allowing for the termination of a \$1.2bn passive hedging mandate since the year end. As a result our EPS estimates increase by 7% and 2% respectively for FY17 and FY18. Our dividend forecast is unchanged at 1.65p but we note that the board will consider returning excess earnings to shareholders through a special dividend which, we estimate, could take the total dividend to 2.75p, giving a yield of 6.7%.

Valuation

Record trades on an estimated calendar 2016 P/E multiple of just below 15x compared with the average of 14x for its asset manager comparators, but in terms of EV/EBITDA it trades below the peer average and, given its strong capital position and the potential to pay out surplus earnings, there would seem good scope for its rerating to resume following a share price dip following the Q4 update.

Q417 trading update

Financial services

24 April 2017

Price 41.00p
Market cap £91m

Net cash and money market instruments (£m) at 30 September 2016, excluding cash consolidated from seed funds. 28.8

Shares in issue 221.4m

Free float 32%

Code REC

Primary exchange LSE

Secondary exchange NA

Share price performance



%	1m	3m	12m
Abs	(8.6)	9.3	56.2
Rel (local)	(6.3)	9.1	39.4
52-week high/low	47.2p	24.0p	

Business description

Record is a specialist independent currency manager that provides a number of products and services, including passive and dynamic hedging, and a range of currency for return strategies, including funds and customised segregated accounts.

Next events

FY17 figures	16 June 2017
AGM	21 July 2017

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Q417 trading update: AUME reaches new high point

The quarterly update to the end of March 2017 showed a further increase in AUME reflecting positive market and exchange rate moves offset by a modest net outflow. Client numbers were down on the quarter but up from the level following a previously announced termination of six related passive mandates. Record reports that there is a good level of interest from potential clients spread across product and geography. Supporting this are both an uncertain macro background and a continuing positive performance in the currency for return strategies.

Exhibit 1: AUME changes

Year to end March	Q416	Q217	Q317	Q417	Q317	Q417
	AUME	AUME	AUME	AUME	Net flows	Net flows
\$bn						
Dynamic hedging	6.1	5.7	6.1	6.3	0.5	0.1
Passive hedging	43.4	45.6	46.3	48.2	1.3	0.3
Currency for return	0.6	0.9	1.0	1.0	0.0	0.0
Multi-product	2.6	2.6	3.0	2.5	0.4	(0.9)
Cash	0.2	0.2	0.2	0.2	0.0	0.0
Total	52.9	55.0	56.6	58.2	2.2	(0.5)
Markets					1.8	1.4
FX effects					(2.4)	0.7
Total change					1.6	1.6

Source: Record company data

Looking at the release more closely:

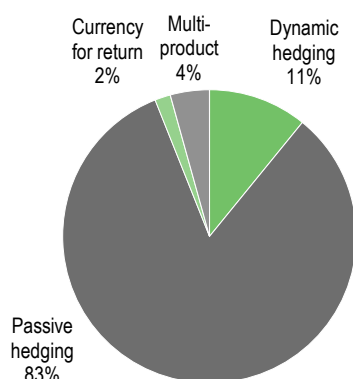
- **AUME** at the period end was at a record level of \$58.2bn, an increase of 3% from end December 2016 or 10% from the March 2016 year end (in sterling terms the increases were 2% and 26%, respectively). See Exhibit 1 for details of the evolution of AUME. A client has notified the termination of a \$1.2bn passive hedging mandate which is expected to take place in the current quarter (Q118).
- **Net flow** in Q417 was a net negative \$0.5bn. Within this overall movement there was a \$0.3bn inflow in the passive hedging category despite a \$0.6bn outflow from six connected clients which had been flagged at the time of the last update. The gain reflected a new client win of \$0.2bn and additional allocations from existing clients (\$0.7bn). The \$0.9bn outflow in the multi-product area arose when one client reduced its allocation: a demonstration of the variable nature of this bespoke mandate. In the prior quarter there had been an inflow of \$0.4bn in this area.
- The number of **clients** at the end of the quarter was 59 compared with 64 at the beginning of the period or 58, allowing for the departure of the six linked clients mentioned above. As we have noted previously, there is a degree of judgement in defining a separate client (Record counts separate legal entities), so the client count is only a qualified indicator for the business. Nevertheless, the number of clients has increased by over a third since the end of FY13 when there were 44.
- On **Q417 performance**, Record notes that US dynamic hedging programmes performed as intended while the UK programmes were affected by volatility and the resulting cash costs associated with changing hedging levels. Encouragingly, performance in the currency for return strategies shown in Exhibit 2 remained positive in the quarter extending the track record for the products. Within the multi-product category positive performances from FRB10 and emerging market strategies more than offset weakness in momentum and value. No performance fees were earned in Q417 or FY17.
- There has been no significant change in fee rates in the quarter and we assume 13bp for dynamic hedging, 17bp for currency for return, 20bp for multi-product and 4bp for passive mandates.

Exhibit 2: Currency for return products – performance data

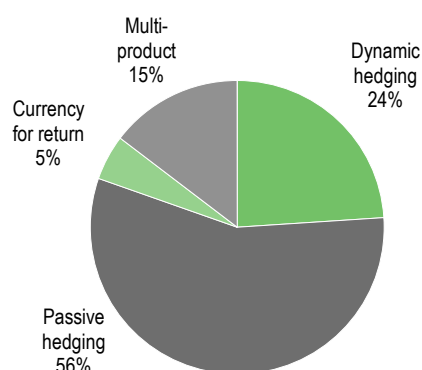
Year to end March 2017	Q1	Q2	Q3	Q4	Annualised since inception	Inception
FTSE FRB10 Currency Index	+0.78	+1.37	+1.96	+0.27		
Emerging market product (ungeared)	+0.63	+2.51	+4.02	+2.85	+2.22	30/11/2009
Multi-strategy product (ungeared)	+1.48	+1.03	+1.11	+0.64	+1.82*	31/07/2012

Source: Record company data. Note: *Annualised performance since inception for the longest standing multi-strategy mandate.

The next two exhibits show the percentage split between product categories by AUME, as reported, and for fee income (our estimate is based on Q417 AUME and indicated average fee rates for each area). The AUME split has barely changed over the year and the fee income analysis highlights that, even with the relatively low fee rates applied to passive hedging, the two hedging strategies account for 80% of fee income.

Exhibit 3: AUME analysis


Source: Record, Edison Investment Research

Exhibit 4: Estimated fee income analysis


Source: Edison Investment Research

In terms of outlook, Record continues to highlight macroeconomic and political factors as drivers of recent and potential volatility. This creates a favourable background for potential client interest in Record's services. This interest is diversified by geography and product type although management indicates the environment is somewhat less favourable in the UK reflecting recent negative returns on hedging.

Estimate changes

We have updated our estimates with changes primarily related to the increase in AUME during Q417 and allowing for the termination of the \$1.2bn passive hedging contract in Q118. Otherwise we have made adjustments for exchange rate movements and allowed slightly higher costs in FY18 to reflect costs associated with managing the effect of regulatory requirements in different territories for clients. As a result our profit and EPS estimates increase by 7% and 2% for FY17 and FY18 respectively (Exhibit 5).

Exhibit 5: Estimate changes

	Revenue* (£m)		% chg.	PBT* (£m)		% chg.	EPS (p)		% chg.	DPS (p)		% chg.
	Old	New		Old	New		Old	New		Old	New	
03/17e	21.9	22.6	4%	7.4	7.9	7%	2.64	2.84	7%	1.65	1.65	0%
03/18e	23.5	24.1	3%	8.4	8.5	2%	2.97	3.03	2%	1.65	1.65	0%

Source: Edison Investment Research. Note: *normalised.

Valuation

We have updated our valuation comparison with UK asset managers in Exhibit 6 while noting that Record is differentiated by its focus on foreign currency and hedging strategies. The level of AUME is linked to stock and other market levels (this applies to almost all hedging programmes and some of the multi-product and currency for return products), while fees are related to the level of AUME, as for asset managers with AUM.

Record is trading at modestly above the average calendar 2016 P/E ratio (at nearly 15x versus a range between c 10x and c 18x) and below the average EV/EBITDA ratio at below 8x. The shares have shown some weakness since the trading update but even so are up approximately 45% on a six month view. Given the strength of the capital position, with £28.8m of cash and marketable securities and shareholders' funds of £35m at the half year end the board may feel it appropriate to return excess earnings to shareholders. On our revised earnings estimate this could mean a special dividend of 1.1p taking the yield from 4% to c 6.7% at a price of 41p.

Exhibit 6: Earnings and EBITDA multiples for UK fund managers

	Price (p)	Market capitalisation (£m)	P/E ratio* (x)	EV/EBITDA (x)
Aberdeen Asset Management	276.8	3,648	13.2	9.0
Ashmore	347.0	2,473	16.6	10.7
City of London Inv Group	368.5	99	10.3	8.0
Henderson	228.9	2,591	13.8	10.2
Impax Asset Management	90.8	116	18.3	13.6
Jupiter	456.3	2,088	14.0	9.3
Liontrust	425.0	211	12.6	9.3
Man Group	149.2	2,483	9.8	6.7
Polar Capital	381.3	349	16.2	11.3
Schroders	3,069.0	8,190	15.6	8.4
Average			14.0	9.7
Record	41.0	91	14.9	7.9

Source: Bloomberg, Edison Investment Research. Note: *Using calendar 2016 actual/estimated earnings. Priced as at 21 April 2017.

Exhibit 7: Financial summary

Year to March	£'000s	2015	2016	2017e	2018e
		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		21,057	21,134	22,641	24,107
Operating expenses		(13,521)	(14,344)	(14,863)	(15,722)
Operating Profit (before amort. and except.)		7,536	6,790	7,778	8,386
Finance income		146	143	142	146
Profit Before Tax		7,682	6,933	7,920	8,532
Taxation		(1,708)	(1,523)	(1,663)	(1,792)
Minority interests		(192)	131	0	0
Attributable profit		5,782	5,541	6,257	6,740
Normalised revenue (underlying)		20,865	21,246	22,641	24,107
Operating expenses (excl. dep'n and amortisation)		(13,206)	(14,023)	(14,542)	(15,401)
EBITDA		7,659	7,223	8,099	8,707
Depreciation and amortisation		(315)	(321)	(321)	(321)
Normalised Operating profits		7,344	6,902	7,778	8,386
Finance income		146	143	142	146
Profit Before Tax (norm)		7,490	7,045	7,920	8,532
Normalised revenue/AUME (excl. perf fees) bp		6.0	4.7	4.3	5.3
Normalised Operating Margin (%)		35.2	32.5	34.4	34.8
Average Diluted Shares Outstanding (m)		218.4	217.9	220.3	222.4
Basic EPS (p)		2.66	2.55	2.85	3.04
EPS - normalised fully diluted (p)		2.65	2.54	2.84	3.03
Dividend per share - proposed (p)		1.65	1.65	1.65	1.65
BALANCE SHEET					
Fixed Assets		3,273	423	332	241
Intangible Assets		504	299	155	11
Tangible Assets		129	81	134	187
Investments		2,567	0	0	0
Deferred tax assets		73	43	43	43
Current Assets		37,053	40,541	43,477	46,819
Debtors		6,324	5,695	6,069	6,462
Cash		12,010	21,720	24,282	27,231
Money market instruments		18,100	13,020	13,020	13,020
Other		619	106	106	106
Current Liabilities		(4,522)	(3,256)	(3,428)	(3,591)
Creditors		(2,949)	(2,372)	(2,528)	(2,691)
Other		(1,573)	(884)	(900)	(900)
Net Assets		35,804	37,708	40,381	43,468
Minority interests		3,876	4,019	4,019	4,019
Net assets attributable to ordinary shareholders		31,928	33,689	36,362	39,449
No of shares at year end		217.5	217.2	221.4	221.4
NAV per share p		14.7	15.5	16.4	17.8
CASH FLOW					
Operating Cash Flow		6,472	5,791	6,234	6,686
Capex		(128)	(29)	(130)	(130)
Cash flow from investing activities		0	(39)	(100)	(100)
Dividends		(3,266)	(3,750)	(3,583)	(3,653)
Other financing activities		(2,571)	7,737	142	146
Other		0	0	0	0
Net Cash Flow		507	9,710	2,562	2,949
Opening cash/(net debt)		11,503	12,010	21,720	24,282
Other		0	0	0	0
Closing net (debt)/cash		12,010	21,720	24,282	27,231
Closing net debt/(cash) inc money market instruments		30,110	34,740	37,302	40,251
Closing (\$bn)		55.4*	52.9	58.2	57.0

Source: Record accounts, Edison Investment Research. Note: *2015 AUME on previous disclosure basis.

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