

# Record

Q320 update

## Positive AUME flows and performance fees

Record's Q320 update was positive, with a 4% inflow of assets under management equivalent (AUME) and the crystallisation of a performance fee in the period. AUME flows have now been positive since Q120, totalling \$4.5bn (+8%) over nine months. The performance fees in this quarter follow on from a material contribution during FY19, reflecting value added for clients. Record continues to innovate and invest to counter competitive pressure, which has contributed to broadly stable management fee rates.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 03/18    | 23.8         | 7.3       | 2.98     | 2.30    | 13.4    | 5.8       |
| 03/19    | 25.0         | 8.0       | 3.25     | 2.30    | 12.3    | 5.8       |
| 03/20e   | 25.5         | 8.0       | 3.28     | 2.30    | 12.2    | 5.8       |
| 03/21e   | 24.0         | 6.8       | 2.81     | 2.30    | 14.2    | 5.8       |

Note: \*EPS is diluted. \*\*DPS excludes special dividends.

## Q320 update provides encouragement

AUME of \$64.7bn at the end of December was up 8% in the quarter. We calculate that average sterling AUME in the quarter was virtually unchanged compared with H120, with the positive impact of net inflows offsetting strength in the pound towards the end of the calendar year. There were net inflows of \$2.5bn, including a previously announced \$1bn tactical mandate that is only expected to be in place for a short period. Other inflows were primarily in passive hedging and all came from existing clients or were associated with existing relationships. Market moves were neutral but foreign exchange movements added \$2.3bn (Exhibit 1). Performance fees of £1.8m were crystallised in Q320 relating to performance over the six and 12 months to end December.

## Estimates raised to reflect news

We have raised our estimates to reflect the AUME inflows, the performance fee reported and the sterling/dollar rate. We have only included the tactical mandate AUME for Q420 to show an FY21 estimate without the benefit of the related short-term revenue: in reality the mandate is quite likely to remain in place for longer than this. Our estimates do not assume the crystallisation of further performance fees and do not include potential AUME inflows or other outflows. Our EPS estimates increase by 30% and 14% for FY20 and FY21 respectively.

## Valuation: below peer multiples and yield premium

Record shares trade below a comparative group of UK asset managers both in terms of P/E and EV/EBITDA (page 3). This is true even when performance fees are excluded. The shares offer a yield premium based on the ordinary dividend and the potential for additional income in the form of potential special payments, subject to the level of earnings.

## Financial services

22 January 2020

**Price** 40p  
**Market cap** £80m

Net cash (£m) at end September 2019 excluding seed fund cash of £5.8m 17.7

Shares in issue 199.1m

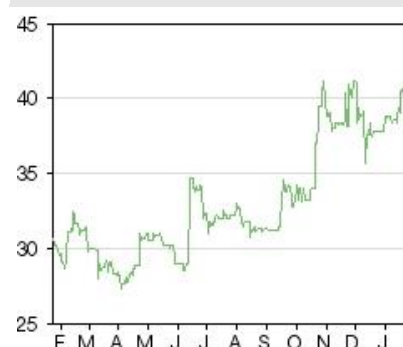
Free float 32%

Code REC

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 4.6 7.9 27.8

Rel (local) 4.2 1.3 15.9

52-week high/low 41.2p 27.3p

## 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

Q420 trading update 17 April 2020

FY20 results 19 June 2020

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## Changes in AUME and investment performance

Exhibit 1 shows the progression of AUME from Q319 and net flows for the first three quarters of FY20. Overall AUME in US dollar terms increased by 8% in Q320 and by nearly 13% for 9M20, whereas sterling-denominated AUME was little changed at £48.8bn versus £48.6bn at end Q220. As noted earlier, we calculate the average AUME in sterling terms was stable when compared with the average for H120, reflecting the positive impact of net inflows offsetting the strength in sterling towards the end of calendar year 2019. The net inflow of \$2.5bn in Q320 included a \$1bn tactical mandate that is, subject to market movements, not expected to be of long duration. As can be seen, the majority of other inflows were in passive hedging.

Record notes there was an increase in the client count of three to 73. The three new clients (separate legal entities) were associated with existing client relationships. Even so, it is encouraging to see this broad indicator of progress continuing to rise (for reference this number stood at 60 at end FY18).

| <b>Exhibit 1: AUME changes</b>                   |             |             |             |             |             |            |            |            |            |
|--|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|
| \$bn   | Q319        | Q419        | Q120        | Q220        | Q320        | Q120       | Q220       | Q320       | 9M20       |
|  | AUME        |             |             |             |             | Net flows  |            |            |            |
| Dynamic hedging                                  | 3.9         | 3.1         | 3.4         | 3.2         | 3.5         | 0.3        | (0.1)      | 0.1        | 0.3        |
| Passive hedging                                  | 48.4        | 48.2        | 48.9        | 50.4        | 53.4        | 0.1        | 1.5        | 1.4        | 3.0        |
| Currency for return                              | 2.4         | 2.7         | 2.6         | 2.9         | 3.3         | (0.1)      | 0.3        | 0.0        | 0.2        |
| Multi-product                                    | 2.9         | 3.0         | 3.1         | 3.1         | 4.2         | 0.0        | 0.0        | 1.0        | 1.0        |
| Cash and futures                                 | 0.2         | 0.3         | 0.3         | 0.3         | 0.3         | 0.0        | 0.0        | 0.0        | 0.0        |
| <b>Total</b>                                     | <b>57.8</b> | <b>57.3</b> | <b>58.3</b> | <b>59.9</b> | <b>64.7</b> | <b>0.3</b> | <b>1.7</b> | <b>2.5</b> | <b>4.5</b> |
| Markets  |             |             |             |             |             | 0.0        | 1.3        | 0.0        | 1.3        |
| FX and scaling for volatility targeting mandates |             |             |             |             |             | 0.7        | (1.4)      | 2.3        | 1.6        |
| <b>Total change</b>                              |             |             |             |             |             | <b>1.0</b> | <b>1.6</b> | <b>4.8</b> | <b>7.4</b> |
| Source: Record                                   |             |             |             |             |             |            |            |            |            |

Q320 investment performance showed the FTSE FRB10 Index (sterling excess return) up 0.19%. The Record emerging market product generated an ungeared quarterly return of +1.04% and an annualised since-inception (November 2009) return of +2.15%. The Multi-Strategy product (with 4% target volatility) had a negative quarter (-0.46%) but has still generated a positive since inception (July 2012) return of +1.41% per year.

## Estimate changes

Changes in key figures from our estimates are shown in Exhibit 2. Drivers of the changes are the increase in AUME, the inclusion for FY20 of the performance fee crystallised, and a modest negative effect of a change in the sterling/dollar rate assumed. As noted on the front page, our estimates do not assume the crystallisation of further performance fees although the £1.8m fee realised in Q320 follows £2.3m earned in FY19. The £1.8m is equivalent to 0.4bp of the trailing 12-month average AUME, which is material when compared either with passive hedging or group average management fee rates of c 3bp and 5bp respectively.

The \$1bn tactical bespoke mandate is expected to generate fees broadly in line with Multi-Product mandates (c 20bp) and to be temporary. We have only included the \$1bn AUME for Q420 so that our FY21 estimate excludes the temporary contribution to revenue this will provide. In practice the mandate may well be longer, benefiting FY21.

On a longer view, both performance fees and tactical mandates are likely to be recurring features for Record so there is an argument for including assumed contributions; the difficulty is setting an appropriate level. We note Q320 performance fees were for six- and 12-month periods to end 2019;

given this and the incidence of performance fees last year, we assume there will be no further crystallisations in FY20.

#### Exhibit 2: Estimate changes

|        | Revenue (£m) |      |        | PBT (£m) |     |        | EPS (p) |      |        | DPS (p)* |      |        |
|--------|--------------|------|--------|----------|-----|--------|---------|------|--------|----------|------|--------|
|        | Old          | New  | Change | Old      | New | Change | Old     | New  | Change | Old      | New  | Change |
| 03/20e | 22.8         | 25.5 | 12%    | 6.2      | 8.0 | 31%    | 2.52    | 3.28 | 30%    | 2.30     | 2.30 | 0%     |
| 03/21e | 22.8         | 24.0 | 5%     | 6.0      | 6.8 | 14%    | 2.47    | 2.81 | 14%    | 2.30     | 2.30 | 0%     |

Source: Edison Investment Research. Note: \*Dividend excludes any special payment.

Our dividend estimates shown above exclude special dividends and, based on our earnings estimates, we have now pencilled in special payments of 0.65p and 0.25p for FY20 and FY21 respectively.

For more detail on our estimates, see Exhibit 4. For details of Record's profile in terms of AUME by strategy, management fee rates, client analysis, geographical analysis and underlying asset class exposure, see our [note](#) published in November 2019.

## Valuation

An updated version of our valuation, which shows Record in the context of a group of UK asset managers, is shown in Exhibit 3. Record is differentiated by its role as a specialist currency manager but its fees are primarily based on the size of AUME so, like the asset managers, it is exposed to movements in underlying equity and fixed income markets and flows.

#### Exhibit 3: Comparing valuation with UK fund managers

|                                 | Price (p) | Market cap (£m) | P/E 2020e (x) | EV/EBITDA 2019e (x) | Dividend yield (%) |
|---------------------------------|-----------|-----------------|---------------|---------------------|--------------------|
| Ashmore                         | 554       | 3,934           | 16.6          | 12.4                | 3.0                |
| City of London Investment Group | 458       | 121             | N/A           | 10.1                | 5.9                |
| Impax Asset Management          | 385       | 501             | 25.2          | 20.4                | 1.4                |
| Jupiter                         | 383       | 1,748           | 13.7          | 9.4                 | 4.5                |
| Liontrust                       | 1,275     | 696             | 15.5          | 13.5                | 2.1                |
| Man Group                       | 154       | 3,034           | 9.8           | 8.9                 | 5.7                |
| Polar Capital                   | 574       | 553             | 12.0          | 8.2                 | 5.7                |
| Schroders                       | 3,252     | 8,706           | 14.5          | 10.9                | 3.5                |
| <b>Average</b>                  |           |                 | <b>15.3</b>   | <b>11.7</b>         | <b>4.0</b>         |
| <b>Record</b>                   | <b>40</b> | <b>80</b>       | <b>13.7</b>   | <b>7.6</b>          | <b>5.8</b>         |

Source: Refinitiv, Edison Investment Research. Note: P/E and EV/EBITDA on a calendar-year basis. Record's dividend yield excludes the special dividend. Priced at 22 January 2020.

Our table shows calendarised figures for P/E (2020) and EV/EBITDA (2019). Record shares trade on below the peer averages for both measures. The earnings for calendar year 2020 benefit from a quarter of the performance fee earned in FY20 whereas the 2019 EV/EBITDA includes performance fees from both financial years. Excluding performance fees would push the P/E up to 14.3x and the EV/EBITDA to approximately 8.7x: both still below average. Meanwhile, the dividend yield of 5.8% is a premium to the peer average and there is the potential for this to be enhanced with a special dividend (on our estimate to 6.4%).

**Exhibit 4: Financial summary**

| Year end March (£'000s unless stated)                | 2017     | 2018     | 2019     | 2020e    | 2021e    |
|--|----------|----------|----------|----------|----------|
| <b>PROFIT &amp; LOSS</b>                             |          |          |          |          |          |
| Revenue  | 22,952   | 23,834   | 24,973   | 25,532   | 23,997   |
| Operating expenses                                   | (15,365) | (16,735) | (17,089) | (17,708) | (17,369) |
| Other income/(expense)                               | 157      | 173      | (8)      | 50       | 0        |
| Operating Profit (before amort. and except.)         | 7,744    | 7,272    | 7,876    | 7,874    | 6,627    |
| Finance income                                       | 112      | 56       | 113      | 167      | 175      |
| Profit Before Tax                                    | 7,856    | 7,328    | 7,989    | 8,041    | 6,802    |
| Taxation   | (1,540)  | (1,182)  | (1,559)  | (1,608)  | (1,292)  |
| Minority interests                                   | 0        | 0        | 0        | 55       | 40       |
| Attributable profit                                  | 6,316    | 6,146    | 6,430    | 6,488    | 5,550    |
| Revenue/AuME (excl. perf fees) bps                   | 5.2      | 5.1      | 4.9      | 5.1      | 4.8      |
| Operating margin (%)                                 | 33.7     | 30.5     | 31.5     | 30.8     | 27.6     |
| Average Number of Shares Outstanding (m)             | 218.0    | 206.5    | 198.1    | 197.5    | 197.5    |
| Basic EPS (p)  | 2.91     | 3.03     | 3.27     | 3.31     | 2.83     |
| EPS - diluted (p)                                    | 2.90     | 2.98     | 3.25     | 3.28     | 2.81     |
| Dividend per share (p)                               | 2.00     | 2.30     | 2.30     | 2.30     | 2.30     |
| Special dividend per share (p)                       | 0.91     | 0.50     | 0.69     | 0.65     | 0.25     |
| Total dividend (p)                                   | 2.91     | 2.80     | 2.99     | 2.95     | 2.55     |
| <b>BALANCE SHEET</b>                                 |          |          |          |          |          |
| Non-current assets                                   | 1,228    | 2,339    | 2,161    | 3,425    | 2,806    |
| Intangible Assets                                    | 245      | 228      | 288      | 378      | 418      |
| Tangible Assets                                      | 881      | 910      | 761      | 776      | 681      |
| Investments  | 0        | 1,115    | 1,112    | 1,152    | 1,152    |
| Other  | 102      | 86       | 0        | 1,119    | 555      |
| Current Assets                                       | 44,247   | 29,737   | 31,427   | 32,554   | 31,761   |
| Debtors  | 6,972    | 6,775    | 7,562    | 8,298    | 7,065    |
| Cash   | 19,120   | 12,498   | 12,966   | 10,264   | 10,704   |
| Money market instruments                             | 18,102   | 10,198   | 10,735   | 13,860   | 13,860   |
| Other  | 53       | 266      | 164      | 132      | 132      |
| Current liabilities                                  | (8,644)  | (5,525)  | (6,158)  | (6,650)  | (6,164)  |
| Creditors  | (3,013)  | (2,630)  | (2,736)  | (3,267)  | (2,781)  |
| Financial liabilities                                | (4,779)  | (2,467)  | (2,621)  | (2,721)  | (2,721)  |
| Other  | (852)    | (428)    | (801)    | (662)    | (662)    |
| Non-current liabilities                              | 0        | 0        | (29)     | (1,170)  | (606)    |
| Net Assets   | 36,831   | 26,551   | 27,401   | 28,159   | 27,796   |
| Minority interests                                   | 0        | 0        | 60       | 125      | 85       |
| Net assets attributable to ordinary shareholders     | 36,831   | 26,551   | 27,341   | 28,034   | 27,711   |
| No of shares at year end                             | 221.4    | 199.1    | 199.1    | 199.1    | 199.1    |
| NAV per share p                                      | 16.6     | 13.3     | 13.7     | 14.1     | 13.9     |
| <b>CASH FLOW</b>                                     |          |          |          |          |          |
| Operating Cash Flow                                  | 7,107    | 2,746    | 7,026    | 6,944    | 6,992    |
| Capex  | (899)    | (236)    | (72)     | (250)    | (140)    |
| Cash flow from other investing activities            | (5,159)  | 7,899    | (561)    | (3,148)  | 25       |
| Dividends  | (3,592)  | (6,810)  | (5,517)  | (5,908)  | (5,872)  |
| Other financing activities                           | (193)    | (10,367) | (613)    | (461)    | (564)    |
| Other  | 136      | 146      | 205      | 120      | 0        |
| Net Cash Flow  | (2,600)  | (6,622)  | 468      | (2,702)  | 440      |
| Opening cash/(net debt)                              | 21,720   | 19,120   | 12,498   | 12,966   | 10,264   |
| Other  | 0        | 0        | 0        | 0        | 0        |
| Closing net (debt)/cash                              | 19,120   | 12,498   | 12,966   | 10,264   | 10,704   |
| Closing net debt/(cash) inc money market instruments | 37,222   | 22,696   | 23,701   | 24,124   | 24,564   |
| <b>AUME</b>  |          |          |          |          |          |
| Opening (\$'bn)                                      | 52.9     | 58.2     | 62.2     | 57.3     | 61.3     |
| Net new money flows                                  | 3.1      | (1.2)    | (4.5)    | 3.5      | 0.0      |
| Market/other   | 2.2      | 5.2      | (0.4)    | 0.5      | 0.6      |
| Closing (\$'bn)                                      | 58.2     | 62.2     | 57.3     | 61.3     | 61.9     |

Source: Record accounts, Edison Investment Research

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