

Record

Strong final quarter takes AUME above \$80bn

Record's final quarter saw continued net inflows and positive market moves allowing assets under management equivalent (AUME) to exceed over \$80bn, an increase of 37% for the year. Positively, the diversity of revenue has also increased and there is potential for this trend to continue as new products are launched, including a new EM Sustainable Finance fund in Q122. Work continues on introducing technology to facilitate new products and enhance scalability.

Year end	Revenue (£m)	PBT (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield (%)
03/19	25.0	8.0	3.25	2.30	25.9	2.7
03/20	25.6	7.7	3.26	2.30	25.8	2.7
03/21e	25.7	6.3	2.62	2.30	32.1	2.7
03/22e	30.7	10.5	4.35	2.30	19.3	2.7

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

Q421 trading update

At end March Record's AUME stood at \$80.1bn, an increase of 7% during Q421 (or £58.1bn, +6%). For FY21 as a whole (to end March), the increase was 37% or 23% in dollar or sterling terms respectively. Within the FY21 increase net flows contributed 17% growth, market moves in underlying assets 14% and FX/scaling moves 6%. Another indicator of progress is the increase in client count with 10 added in the final quarter and 17 for the full year giving a total of 89 (the additions included new funds from existing clients and new clients). During the quarter there was progress on succession plans with Dmitri Tikhonov assuming the role of chief investment officer, succeeding Bob Noyen who stepped down from the board earlier in the year; Tikhonov has been with Record for over 18 years.

Seeking diversification and fee margin enhancement

Over the year faster growth in higher-margin dynamic hedging, currency for return and multi-product categories compared with passive hedging has resulted in greater diversity of prospective revenues. On this front the EM Sustainable Finance fund (anticipated AUME of \$0.2bn–0.5bn), developed in collaboration with a major Swiss asset manager, should be launched in the current quarter, Q122. The fund is expected to pay a management fee in line with similar actively managed funds, substantially higher than the average fee margin of under 5bp earned by Record in FY20. Further new product offerings are under consideration, potentially continuing a reduction in dependence on passive hedging mandates where fee pressure is likely to remain a feature. There has also been some pruning of products with the closure of the dynamic macro currency and global macro strategies as the prospects for client demand were seen as limited.

Valuation

There are only minor changes in our estimates (see Exhibit 2). The shares trade on P/E and EV/EBITDA ratios above an asset management peer group (Exhibit 3) but our estimates do not assume further net inflows or crystallisation of performance fees.

Q421 trading update

Financial services

26 April 2021

Price 84.1p
Market cap £165m

Net cash (£m) at end-September 15.5
2020 excluding seed fund cash

Shares in issue 199.1m

Free float 53%

Code REC

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 30.0 71.3 158.8

Rel (local) 25.1 63.6 109.2

52-week high/low 84.1p 31.5p

Business description

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

Next events

FY21 results 17 June

Q122 trading update 23 July

Analysts

Andrew Mitchell +44 (0)20 3681 2500

Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

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Changes in AUME and investment performance

Exhibit 1 shows the progression in AUME since the end of FY20 with net flows, market and other changes by quarter and for FY20 and FY21.

Looking at fourth-quarter net flows, there was a further increase of \$1.4bn in dynamic hedging mainly arising from the large dynamic hedging mandate announced in September 2020 (a balance of c \$1.3bn is possible in subsequent quarters, depending on market movements). In addition, there was a \$3.7bn inflow in passive hedging and a small outflow from the multi-product category. For the full year the most important movement in net flows was the \$6.6bn net increase in dynamic hedging.

Markets, foreign exchange movements and scaling for mandates with a volatility target saw a modest net positive move in the fourth quarter but for the year as a whole, market movements added \$8.4bn and FX and scaling adjustments a further £3.4bn.

Exhibit 1: AUME progression Q421 and FY21

\$bn	AUME			Net flows and other moves						
Year end March	Q420	Q321	Q421	Q121	Q221	Q321	Q421	FY20	FY21	
Dynamic hedging	2.5	8.0	9.3	0.1	0.4	4.7	1.4	0.2	6.6	
Passive hedging	50.3	57.9	61.5	(0.6)	(0.2)	(0.8)	3.7	4.1	2.1	
Currency for return	2.6	3.6	3.9	0.0	0.0	0.0	0.0	0.3	0.0	
Multi-product	3.0	4.9	5.2	0.0	0.0	1.2	(0.2)	0.0	1.0	
Cash and futures	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	
Total	58.6	74.6	80.1	(0.5)	0.2	5.1	4.9	4.6	9.7	
Markets				3.6	0.5	1.2	3.1	(3.2)	8.4	
FX and scaling for mandate volatility targeting				1.6	1.9	2.4	(2.5)	(0.1)	3.4	
Total change				4.7	2.6	8.7	5.5	1.3	21.5	

Source: Record

Performance in the currency for return strategies saw a positive quarter for the Multi-Strategy composite with a target volatility of 4%; the return was 1.12% and its annualised performance since inception (31 July 2012) was 0.86%. We estimate that currency for return mandates account for c 8% of revenues. On the enhanced passive hedging mandates, there was also a positive return of 0.4bp as a result of tenor management (not immaterial in relation to the average passive hedging fee rate of 2.9bp for H121).

Changes to estimates

Headline numbers from our revised estimates are shown in Exhibit 2. The changes are minor with modest revenue increases partly offset by slightly higher cost assumptions to allow for technology spending. We have added the Q4 performance fee of £0.1m but our estimates do not include any assumed performance fees so if any are crystallised in FY22 they would represent upside from our estimate.

Exhibit 2: Estimate changes

	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)*		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
03/21e	25.5	25.7	1%	6.3	6.3	0%	2.61	2.62	0%	2.30	2.30	0%
03/22e	30.1	30.7	2%	10.4	10.5	1%	4.29	4.35	1%	2.30	2.30	0%

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

Valuation

An updated version of our comparative valuation table, which puts 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 and derivatives 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.

Our table shows calendarised figures for 2021 and 2022 P/Es, 2021 EV/EBITDA and historical yields. Following marked strength in the share price over three months (up nearly 60%), Record shares trade above the average P/E and EV/EBITDA multiples but are not the most highly rated on either measure. Our estimates do not assume any uncrystallised performance fees or prospective net inflows beyond the mandates already announced. The dividend yield of 2.7% is below the peer average but, consistent with the dividend policy, there is the potential for this to be enhanced with a special dividend in due course and, on our estimate, the FY22 yield would be 3.6%. The board's dividend policy is that the dividend should be at least covered by earnings, after allowing for anticipated increases in costs and regulatory capital requirements.

Exhibit 3: Comparing valuation with UK fund managers

	Price (p)	Market cap (£m)	P/E 2021e (x)	P/E 2022e (x)	EV/EBITDA 2021e (x)	Dividend yield (%)
Ashmore	391	2,779	14.8	15.0	10.3	4.3
City of London Investment Group	540	274	12.3	11.9	N/A	5.6
Impax Asset Management	966	1,281	34.5	25.9	27.7	0.9
Jupiter	261	1,441	10.3	9.7	6.1	6.6
Liontrust	1,550	946	16.7	13.8	11.2	2.1
Man Group	162	3,264	11.1	10.0	7.8	2.5
Polar Capital	757	748	12.3	11.1	8.0	4.4
Schroders	3,539	9,489	16.9	15.7	11.7	3.2
Average			16.1	14.2	11.8	3.7
Record	84.1	165	21.5	18.0	15.5	2.7

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 26 April 2021.

Exhibit 2: Financial summary

	£'000s	2018	2019	2020	2021e	2022e
Year end 31 March						
PROFIT & LOSS						
Revenue		23,834	24,973	25,563	25,718	30,731
Operating expenses		(16,735)	(17,089)	(17,996)	(19,418)	(20,221)
Other income/(expense)		173	(8)	82	(36)	0
Operating Profit (before amort. and except.)		7,272	7,876	7,649	6,265	10,510
Finance income		56	113	88	37	38
Profit Before Tax		7,328	7,989	7,737	6,302	10,548
Taxation		(1,182)	(1,559)	(1,365)	(1,197)	(2,004)
Minority interests		0	0	48	60	30
Attributable profit		6,146	6,430	6,420	5,165	8,574
Revenue/AUME (excl. perf fees) bps		5.1	4.9	4.9	4.7	5.2
Operating margin (%)		30.5	31.5	29.9	24.4	34.2
Average Number of Shares Outstanding (m)		206.5	198.1	197.1	197.1	197.1
Basic EPS (p)		3.03	3.27	3.26	2.63	4.36
EPS - diluted (p)		2.98	3.25	3.26	2.62	4.35
Dividend per share (p)		2.30	2.30	2.30	2.30	2.30
Special dividend per share (p)		0.50	0.69	0.41	0.00	0.70
Total dividend (p)		2.80	2.99	2.71	2.30	3.00
BALANCE SHEET						
Non-current assets		2,339	2,161	4,868	4,492	3,827
Intangible Assets		228	288	470	455	440
Tangible Assets		910	761	751	601	451
Investments		1,115	1,112	2,472	2,759	2,759
Other		86	0	1,175	677	177
Current Assets		29,737	31,427	31,149	27,941	32,403
Debtors		6,775	7,562	8,704	8,531	9,526
Cash		12,498	12,966	14,294	6,761	10,228
Money market instruments		10,198	10,735	7,958	12,491	12,491
Other		266	164	193	158	158
Current liabilities		(5,525)	(6,158)	(6,955)	(5,550)	(5,381)
Creditors		(2,630)	(2,736)	(3,009)	(2,840)	(3,171)
Financial liabilities		(2,467)	(2,621)	(2,191)	(1,800)	(1,800)
Other		(428)	(801)	(1,755)	(910)	(410)
Non-current liabilities		0	(29)	(901)	(353)	(353)
Net Assets		26,551	27,401	28,161	26,531	30,496
Minority interests		0	60	132	72	42
Net assets attributable to ordinary shareholders		26,551	27,341	28,029	26,459	30,454
No of shares at year end		199.1	199.1	199.1	199.1	199.1
NAV per share p		13.3	13.7	14.1	13.3	15.3
CASH FLOW						
Operating Cash Flow		2,746	7,026	6,543	5,229	8,798
Capex		(236)	(72)	(243)	(140)	(140)
Cash flow from other investing activities		7,899	(561)	1,513	(5,384)	(112)
Dividends		(6,810)	(5,517)	(5,888)	(5,357)	(4,578)
Other financing activities		(10,367)	(613)	(943)	(2,026)	(500)
Other		146	205	346	145	0
Net Cash Flow		(6,622)	468	1,328	(7,533)	3,467
Opening cash/(net debt)		19,120	12,498	12,966	14,294	6,761
Closing net (debt)/cash		12,498	12,966	14,294	6,761	10,228
Closing net debt/(cash) inc money market instruments		22,696	23,701	22,252	19,252	22,719
AUME						
Opening (\$'bn)		58.2	62.2	57.3	58.6	80.1
Net new money flows		(1.2)	(4.5)	4.6	9.7	1.2
Market/other		5.2	(0.4)	(3.3)	11.8	0.4
Closing (\$'bn)		62.2	57.3	58.6	80.1	81.7

Source: Record accounts, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia