

Record

FY22 results

Changes taking effect

Record sees itself at the beginning of a new stage as it develops its capabilities as an asset manager rather than purely a supplier of specialist currency overlay services. The progress so far is good with the FY22 results beginning to show the benefits of diversification and the introduction of new, higher fee-margin products. More of these are in development and investment in systems and staff should underpin operational gearing if the group succeeds in its aim of reaching FY25 revenue of over £60m.

Year end	Revenue (£m)	PBT (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield (%)
03/21	25.4	6.2	2.73	2.30	24.6	3.4
03/22	35.1	10.9	4.37	3.60	15.3	5.4
03/23e	41.3	13.1	5.30	4.40	12.7	6.6
03/24e	45.1	14.4	5.39	4.55	12.4	6.8

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

FY22 results: Strong progress in line with expectation

Record's March year-end assets under management equivalent (AUME) of \$83.1bn were up 3.7% during FY22. This mainly reflected net inflows (\$2.4bn). We calculate that average AUME in sterling terms increased by 17.4% for FY22 compared with FY21. Reflecting flows into higher fee-margin products and helped modestly by performance fee income of £0.5m, FY22 revenue increased by 38% to £35.1m. Continued investment in new products to diversify further, to modernise IT systems and to develop and retain staff contributed to a 25% increase in operating costs. This still allowed an increase in the operating margin from 24% to 31% and a 76% increase in pre-tax profit to £10.9m. Diluted EPS rose from 2.73p to 4.37p. This in turn supported a rise in the ordinary dividend from 2.3p to 3.6p while a special dividend of 0.92p took the total dividend for the year to 4.52p versus 2.75p.

Background and outlook

Record acknowledges the current difficult macroeconomic and geopolitical background for markets but sees the progress it is making on its strategy to diversify, modernise and move to become a specialist alternative asset manager as creating an exciting outlook for the group. To make this more tangible, it has stated its aspiration to achieve revenue of over £60m in FY25, reflecting the realistic potential it sees in existing products and those in development. Subject to inflation and other developments, the group sees scope to reach an operating margin of 40% in the same year.

Valuation

Our FY23 earnings estimate is increased by 11% mainly as a result of updated sterling/US dollar rate and fee-margin assumptions. We have also introduced an FY24 forecast. P/E and EV/EBITDA multiples are above the UK asset manager peer average (see Exhibit 5), but delivery of revenue of £60m in FY25 would sharply reduce the prospective multiple and in the meantime the yield is attractive at 6.7% including the special dividend.

Financial services

11 July 2022

Price 67p
Market cap £133m

Net cash and money market instruments (£m) at end-March 2022	17.3
Shares in issue	199.1m
Free float	53%
Code	REC
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



Business description

Record is a specialist independent asset, currency and derivatives manager. It 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

Q123 trading update 22 July 2022

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Record in numbers

We have updated our compilation of information Record provides on AUME, fee income, clients and asset class exposure (Exhibit 1). This includes our calculations of estimated average fee rates by strategy and hedging fee exposure by underlying asset class.

We highlight several points:

- Hedging services in total account for 88% of AUME and 64% of management fees, reflecting the lower fees that apply to passive hedging. The growth in dynamic hedging and currency for return since FY19 has reduced the proportion of management fees accounted for by passive hedging from 52% to 35% in FY22.
- Since 2017 AUME has increased from \$58.2bn to \$83.1bn in FY22 (compound annual growth of 7.4% in AUME). The average fee rate rose slightly over the period, from 5.2bp to 5.6bp.
- The longevity of clients: measured by AUME, 60% have been in place for over six years. However, with the renewed focus on growth over the past two years there is a healthy inflow of new clients, which often start with a relatively low AUME level: by number, 40% of clients have joined Record within three years.
- Geographically, the United States accounts for 37% of revenue followed by Switzerland (31%).
- We estimate 56% of hedging mandate fees relate to underlying equity assets, 17% to fixed income and 27% to other assets.

Exhibit 1: Record profile in numbers (FY22 except where indicated)

Analysis by strategy					
	AUME (%)	Management fees (%)*	FY19	FY22	Est. average fee rate (bp)**
Dynamic hedging	12.8		20.6	29.4	13.2
Passive hedging	75.6		52.0	34.5	2.5
Currency for return	6.0		8.0	16.2	15.5
Multi-product	5.4		19.4	19.9	18.3
Cash	0.2		N/A	N/A	0
Total	100.0		100.0	100.0	5.6
Value	\$83.1bn		£22.3m	£34.1m	
Client analysis					
Concentration	% AUME	% fees	Longevity (years)	% Clients	% AUME
Top 10	52	73	0-1	13	5
Next 10	35	18	1-3	27	15
Balance	12	8	3-6	29	20
			6-10	11	18
			>10	20	42
	100	100		100	100
Geographical analysis and AUME progression					
By country	% revenue	By invoice currency	% revenue	AUME progression	(\$bn)
US	37	US dollar	50	2017	58.2
Switzerland	31	Swiss franc	28	2018	62.2
Europe (rest)	20	Euro	10	2019	57.3
UK	8	Sterling	7	2020	58.6
Other	4	Other	4	2021	80.1
	100		100	2022	83.1
Underlying asset class exposure of dynamic and passive hedging AUME (%)					
	Dynamic	Passive	Estimated % of hedging fees		
Equity	91	30	58		
Fixed income	0	34	18		
Other	9	37	24		
	100	100	100		

Source: Record, Edison Investment Research. Notes: *Management fee excluding performance fees. **Fee rate is our own calculation and within each strategy there will be a range of mandate types and fee structures/levels. Rounding may mean some columns do not sum.

FY22 results analysis

AUME and management fees

As announced in the April Q422 trading update, Record's AUME increased by \$3bn in FY22 (+3.7% and 8.6% in sterling terms). As shown in Exhibit 2, this mainly reflected net AUME inflows (\$2.4bn), with positive underlying market moves since March 2021 and exchange rate and scaling moves adding \$0.6bn.

Using reported quarter-end figures we calculate that average AUME for the group increased by 22% and 17% in dollar and sterling terms, respectively. The average level of AUME in FY22 benefited from the full inclusion of a large dynamic hedging mandate announced in September 2020 that was included in the \$6.6bn inflow seen in that segment in FY21.

Exhibit 2: AUME movements and management fees

Year end March	AUME movements (\$bn)		End period AUME (\$bn)			Average AUME (£bn)			Management fees (£000)		
	FY21	FY22	FY21	FY22	% change	FY21	FY22	% change	FY21	FY22	% change
Net inflow											
Dynamic hedging	6.6	1.4	9.3	10.6	14.0	3.8	7.6	99.1	5,623	10,020	78.2
Passive hedging	2.1	1.1	61.5	62.8	2.1	42.7	46.3	8.5	11,377	11,768	3.4
Currency for return	0.0	0.4	3.9	5	28.2	2.6	3.5	38.9	2,005	5,513	175.0
Multi-product	1.0	(0.5)	5.2	4.5	-13.5	3.0	3.7	23.6	5,873	6,782	15.5
Cash and futures	0.0	0.0	0.2	0.2	0.0	0.2	0.1	(4.2)			
Total	9.7	2.4	80.1	83.1	3.7	52.2	61.3	17.4	24,878	34,083	37.0
Markets	8.4	0.3									
FX and scaling	3.4	0.3									
Total change	21.5	3.0									
Opening AUME	58.6	80.1									
Closing AUME	80.1	83.1									

Source: Record, Edison Investment Research

Key points from the income statement

The profit and loss (P&L) account for FY22 is set out in Exhibit 3. We comment on key areas below, with comparisons versus FY21 unless stated.

- **Management fees** increased by 37% reflecting the 17% higher average AUME (in sterling terms), and a higher fee-rate mix. Of the £9.2m absolute increase in management fees, the largest changes were in dynamic hedging and currency for return. The £4.4m increase in dynamic hedging fees resulted from full-year inclusion of the 2020 mandate win mentioned above together with a \$1.4bn inflow in FY22. Currency for return fees increased by £3.5m benefiting from the launch of the Record Emerging Market (EM) Sustainable Finance Fund during the year (a \$1.2bn inflow and, we estimate, a fee rate similar to comparable actively managed fixed income funds at 50–60bp).
- **Fee rates**, on a like-for-like basis, have been reported to be broadly stable during the year, but changes in the mix of AUME meant the group average increased from 4.8bp to 5.6bp. Notable contributors were the increase in average dynamic hedging AUME (the large mandate taken on in FY21 diluted the fee rate in the category but contributed to the increase in the group average rate) and the Record EM Sustainable Finance Fund within currency for return (where we calculate the average fee rate rose from 7.9bp to 15.5bp).
- **Total revenue** rose 38% with a £0.5m performance fee earned (£0.1m) as increased interest rate differentials in the market created better opportunities for enhanced passive hedging mandates to add value.
- **Administrative expenses** increased by 25%, within which personnel costs before the group profit share (GPS) increased by 5%, with the average number of employees at 82 versus 83. The GPS increased by 78%, reflecting the rise in operating profit. As a percentage of pre-GPS

operating profit (34%) the payment was towards the top of the group's 25–35% target range in recognition of the progress made in implementing strategy and the need to incentivise and retain staff. The resulting increase in total personnel costs was 23%. Non-personnel costs rose 33% to £7.2m including costs related to the modernisation of IT systems, increased data costs that have accompanied this and the introduction of new products and the cost of office space in London. Ongoing costs related to new systems and continuing investment to support client service and product innovation are expected to remain a feature of the group P&L.

- With the full benefit of FY21 inflows and further inflows in FY22, revenue growth outpaced cost increases and **pre-tax profit** increased by 76%. A higher effective tax rate of 20% (capital spending and research allowances together with deferred tax movements lowered the prior year rate to 13%) meant the increase in diluted EPS was 60%.
- The ordinary **dividend** for FY22 is increased from 2.3p to 3.6p representing a payout of 80% of basic earnings per share. The group now targets an ordinary dividend payout in the range of 70–90% of annual earnings allowing for sustainable growth. Subject to market conditions, the board still intends to pay out earnings in excess of ordinary dividends, taking into account capital requirements (including regulatory requirements and a buffer for operating expenses, working capital and investment expectations). Such payments would usually be in the form of a special dividend and for FY22 the payment is 0.92p (versus 0.45p) giving a total dividend of 4.52p (+64.4%) and a 100% payout of basic earnings per share.

Exhibit 3: FY22 P&L analysis

£000s	FY19	FY20	FY21	FY22	% change vs FY21
Dynamic hedging	4,598	3,995	5,623	10,020	78.2
Passive hedging	11,610	12,026	11,377	11,768	3.4
Currency for return	1,775	1,982	2,005	5,513	175.0
Multi-product	4,325	5,130	5,873	6,782	15.5
Management fees	22,308	23,133	24,878	34,083	37.0
Performance fees	2,333	1,819	81	499	516.0
Other investment services income	332	611	453	570	25.8
Total revenue	24,973	25,563	25,412	35,152	38.3
Cost of sales	(385)	(255)	(399)	(219)	(45.1)
Gross profit	24,588	25,308	25,013	34,933	39.7
Administrative expenses	(16,704)	(17,741)	(18,934)	(23,726)	25.3
Other income/expense	(8)	82	41	(372)	N/A
Operating profit	7,876	7,649	6,120	10,835	77.0
Net finance income	113	88	33	21	(36.4)
Profit before tax	7,989	7,737	6,153	10,856	76.4
Taxation	(1,559)	(1,365)	(802)	(2,225)	177.4
Profit after tax	6,430	6,372	5,351	8,631	61.3
Diluted EPS (p)	3.25	3.26	2.73	4.37	60.4
DPS (p)	2.99	2.71	2.75	4.52	64.4
Tax rate	20%	18%	13%	20%	

Source: Record, Edison Investment Research

On product investment performance, Record reports that central bank tightening and increased interest rate volatility has enabled the enhanced passive hedging product to add value; over FY22 a representative account recorded a positive return of 13bp relative to a fixed-tenor benchmark and since inception there was a positive return of 9bp per year. For comparison, the average fee rate in passive hedging is under 3bp. Episodic strength in the US dollar created the conditions for dynamic hedging to add value for US investors. For a representative account the value added in FY22 was 60bp and the since-inception return was +46bp per year.

Within currency for return products, the Record EM Sustainable Finance Fund (US dollar share class) had a negative return since inception (28 June 2021, -0.94%) but significantly outperformed relevant indices such as the JP Morgan GBI-EM Global Diversified Index (-12.07%). Finally, the multi-strategy product generated a positive return of 0.58% and a since-inception return of 0.83%, with volatility of 3.08% per year.

Strategy and three-year plan

Group management make clear it is very pleased with the progress of the strategy adopted following the appointment of Leslie Hill as chief executive two years ago. The three strands – diversification, modernisation and succession – are all advancing and starting to bear fruit as evidenced within the FY22 results and commentary.

On diversification, the launch of the Record EM Sustainable Fund and a new Luxembourg-based municipal bond fund are illustrations of the group's new emphasis of meeting clients' needs and working in partnerships (with UBS Global Wealth Management for the former and Universal Investment and VTeam for the latter). This approach helps to gain early traction with investors, reduces launch costs and brings in third-party expertise to broaden Record's potential reach while still earning higher fee-margins as an asset manager than in its traditional overlay hedging products. Looking ahead, the group has devoted considerable effort to develop its capabilities in sustainable investment and is working on further impact and sustainable investment initiatives. Products involving supply-chain finance, syndicated loans and Sharia compliant finance are in the pipeline. Recent approval of the application for a licence from BaFin for the German subsidiary will facilitate development of a European asset management business, as will creating a suite of Luxembourg funds allowing Record to offer more to its partners and clients.

Modernisation of IT systems is enabling more effective delivery of Record's established areas of expertise in currency and derivatives and should contribute to scalability and operational gearing as the group moves towards its three-year FY25 targets. As noted earlier, IT development and hence spending are expected to remain a feature at the group.

Succession. Development and retention of younger members of the team to take over management responsibility in due course has been a prominent theme. This has included promotions and hence financial reward, but also changes such as the opening of a London office, continuation of flexible working, mentoring programmes, development of sustainability capabilities and diversity and inclusion policies. Staff retention fell markedly in FY22 at 74% compared with 90% in FY21. However, this was a sign of the evolution taking place in the group with the need to change some management groups in line with the modernisation of systems and client-led approach to product development. This has been carefully managed and some senior staff have now taken alternative or advisory roles, retaining their expertise within the group.

To make clear the board's confidence in the outlook for the group and the growth potential it sees, a three-year plan with a revenue target of over £60m in FY25 has been set out. While the detail behind this aspiration has not been given, it reflects a bottom-up assessment of potential for growth in each product area with the promising development of new, higher fee-margin products a key element of the expected growth. In addition to the revenue target, Record sees an operating margin of 40% as being achievable in FY25 (subject to the effects of inflation) as higher AUME brings into play the scalability of the modernised systems now in place.

Outlook, estimate changes and financial position

The macroeconomic and geopolitical background for equity and fixed-income markets is challenging and this is likely to have some effect on the progress Record makes over its three-year plan and our forecast period to end-FY24. However, the development of new products and the diversity of clients' underlying assets provide some mitigation.

Exhibit 4 sets out the headline differences between estimate and outcome for FY22, changes in our FY23 estimate and our newly introduced FY24 estimate. For FY22 the outcome was close to expectation. For FY23, full inclusion of the Record EM Sustainable Finance Fund introduced in Q222 is a contributor to growth. In this case it seems reasonable to allow for further net allocations

to the fund and, as previously, we have assumed \$0.4bn (and the same for FY24). Similarly, we assume a \$1bn inflow into the municipal bond fund in each year although the revenue effects of this are lower given the expected fee rate of c 13bp. These assumptions are indicative with risks in both directions. The changes for FY23 compared with our old forecast arise primarily from updated sterling/US dollar rate and fee-margin assumptions. As usual, our estimates do not include any assumed performance fees so any that are crystallised would represent upside from our figures.

Exhibit 4: Estimate changes

	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)*		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
03/22e/a	35.2	35.2	0	11.0	10.9	(2)	4.40	4.37	(1)	3.80	3.60	(5)
03/23e	39.3	41.3	5	11.6	13.1	13	4.77	5.30	11	4.40	4.40	0
03/24e		45.1			14.4			5.39			4.55	

Source: Edison Investment Research. Notes: *Dividend excludes any special payment. For FY22 Old = our estimate and New = reported.

Our dividend estimate shown above excludes special dividends. Based on our FY23 and FY24 basic earnings estimates and assuming a near 100% payout, we pencil in special payments of 1.05p and 1.1p respectively, giving total dividends of 5.45p and 5.65p.

The group figure for net cash and money market instruments managed as cash at the year-end was £17.3m (a comparable own cash figure for FY21 was £16.2m after stripping out the non-controlling interest share of cash held by seed funds). Summarising the cash flows, net operating cash generation was £11.4m while dividends absorbed £6.5m and share buybacks £4.5m: investing activities and other movements added £0.7m giving the £1.1m increase in own cash.

The group capital position remains strong. At the end of FY22 Record had regulatory capital resources of £25.3m compared with a regulatory capital requirement of £5.4m (FY21 £9.4m). The introduction of new products may increase the capital requirement, but the capital position is seen as well able to support the growth envisaged in the three-year plan.

Finally, while we have yet to include a forecast for FY25, it is interesting to consider a scenario that could generate the over £60m revenue and 40% operating margin the group seeks. For this illustration we have excluded any contribution from performance fees. Starting with AUME, we envisage most of the growth required falling within the multi-product category but also allow for additional inflows in currency for return and dynamic hedging. Our scenario assumes average AUME of just over \$94bn compared with existing estimates of \$85.7bn and \$88.5bn for FY23 and FY24, respectively. We allow for a marked increase in multi-product fee rate at 28bp (compared with 18.4bp assumed for FY24, for example) and a smaller increase for currency for return both reflecting the effects of new higher margin products, with fee rates potentially ranging between 20bp and 50bp. The overall group average fee rate is assumed to rise to 7.8bp (compared with 5.9bp and 6.2bp respectively in our FY23 and FY24 estimates). This gives revenue just above £60m. On costs we allow for an 18% increase in total operating expenses compared with our FY24 estimate, reflecting mainly an increase in group profit share but still generating considerable operating leverage and matching the target 40% operating margin. This would give pre-tax profit of c £24m and diluted EPS of just over 9p.

Valuation comparison

Exhibit 5 shows an updated version of our comparative valuation table, with a selection of quoted UK fund managers. Year-to-date, the comparator asset managers share prices are down 32% on average, while Record shares are 18% lower, potentially a reflection of its lower sensitivity to equity market volatility and the growth it is demonstrating. It trades at a premium to the average calendarised P/E and EV/EBITDA multiples for the comparators, although delivery of growth in line

with the group's three-year plan would bring the final year multiple down to c 7.5x. On our estimates, Record's prospective yield (including special dividend) would be 8.1% for FY23 and 8.4% for FY24.

Exhibit 5: Comparing valuation with UK fund managers

	Price (p)	Market cap (£m)	P/E 2022e (x)	EV/EBITDA 2022e (x)	Dividend yield (%)
Ashmore	212	1,508	10.9	4.3	8.0
City of London Investment Group	425	215	8.8	N/A	7.8
Impax Asset Management	578	766	15.3	10.3	3.6
Jupiter	142	788	9.7	3.4	12.0
Liontrust	922	599	8.4	5.0	7.8
Man Group	250	3,956	8.9	6.1	4.9
Polar Capital	476	480	10.7	4.6	9.7
Schroders	2,730	7,467	13.0	8.4	4.5
Average			10.7	6.0	7.3
Record	67.00	127	13.2	9.3	5.4

Source: Refinitiv, Edison Investment Research. Note: P/E and EV/EBITDA on a calendar-year basis. Record's (FY22) dividend yield excludes the special dividend. Priced at 8 July 2022.

Exhibit 6: Financial summary

Year end 31 March	£000s	2019	2020	2021	2022	2023e	2024e
PROFIT & LOSS							
Revenue		24,973	25,563	25,412	35,152	41,268	45,110
Operating expenses		(17,089)	(17,996)	(19,333)	(23,945)	(28,136)	(30,692)
Other income/(expense)		(8)	82	41	(372)	(40)	(40)
Operating Profit (before amort. and except.)		7,876	7,649	6,120	10,835	13,092	14,378
Finance income		113	88	33	21	34	51
Profit Before Tax		7,989	7,737	6,153	10,856	13,126	14,429
Taxation		(1,559)	(1,365)	(802)	(2,225)	(2,494)	(3,607)
Minority interests		0	48	0	0	0	0
Attributable profit		6,430	6,420	5,351	8,631	10,632	10,821
Revenue/AUME (excl. perf fees) bps		4.9	4.9	4.8	5.6	5.8	6.2
Operating margin (%)		31.5	29.9	24.1	30.8	31.7	31.9
Average Number of Shares Outstanding (m)		198.1	197.1	196.2	197.3	200.8	200.8
Basic EPS (p)		3.27	3.26	2.75	4.52	5.61	5.71
EPS - diluted (p)		3.25	3.26	2.73	4.37	5.30	5.39
Dividend per share (p)		2.30	2.30	2.30	3.60	4.40	4.55
Special dividend per share (p)		0.69	0.41	0.45	0.92	1.05	1.10
Total dividend (p)		2.99	2.71	2.75	4.52	5.45	5.65
BALANCE SHEET							
Non-current assets		2,161	4,868	5,153	6,084	5,366	4,648
Intangible Assets		288	470	420	562	512	462
Tangible Assets		761	751	683	401	221	41
Investments		1,112	2,472	3,046	3,447	3,447	3,447
Other		0	1,175	1,004	1,674	1,186	698
Current Assets		31,427	31,149	28,045	27,141	27,847	27,852
Debtors		7,562	8,704	8,006	9,883	11,217	12,062
Cash		12,966	14,294	6,847	3,345	2,717	1,877
Money market instruments		10,735	7,958	12,932	13,913	13,913	13,913
Other		164	193	260	0	0	0
Current liabilities		(6,158)	(6,955)	(5,992)	(6,210)	(6,359)	(6,275)
Creditors		(2,736)	(3,009)	(3,426)	(4,721)	(5,358)	(5,762)
Financial liabilities		(2,621)	(2,191)	(1,696)	0	0	0
Other		(801)	(1,755)	(870)	(1,489)	(1,001)	(513)
Non-current liabilities		(29)	(901)	(407)	(1,085)	(1,085)	(1,085)
Net Assets		27,401	28,161	26,799	25,930	25,769	25,140
Minority interests		60	132	0	0	0	0
Net assets attributable to ordinary shareholders		27,341	28,029	26,799	25,930	25,769	25,140
No of shares at year end		199.1	199.1	199.1	199.1	199.1	199.1
NAV per share p		13.7	14.1	13.5	13.0	12.9	12.6
CASH FLOW							
Operating Cash Flow		7,026	6,543	6,798	11,355	10,939	11,367
Capex		(72)	(243)	(230)	(75)	(170)	(170)
Cash flow from other investing activities		(561)	1,513	(6,210)	(3,392)	(116)	(99)
Dividends		(5,517)	(5,888)	(5,290)	(6,512)	(9,793)	(10,450)
Other financing activities		(613)	(943)	(2,368)	(5,019)	(1,488)	(1,488)
Other		205	346	(147)	141	0	0
Net Cash Flow		468	1,328	(7,447)	(3,502)	(628)	(840)
Opening cash/(net debt)		12,498	12,966	14,294	6,847	3,345	2,717
Closing net (debt)/cash		12,966	14,294	6,847	3,345	2,717	1,877
Closing net (debt)/cash inc money market instruments		23,701	22,252	19,779	17,258	16,630	15,790
AUME (\$bn)							
Opening		62.2	57.3	58.6	80.1	83.1	87.4
Net new money flows		(4.5)	4.6	9.7	2.4	3.4	1.4
Market/other		(0.4)	(3.3)	11.8	0.6	0.9	0.9
Closing		57.3	58.6	80.1	83.1	87.4	89.7

Source: Record accounts, Edison Investment Research

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