

# Record

## Further growth in AUME

Record's assets under management equivalent (AUME) has continued to grow in Q122 with net inflows including the launch of the new Record Emerging Market Sustainable Finance Fund. This is the first of several new product initiatives to be realised and will contribute to diversification of revenues. The group is also continuing to focus on modernisation and succession to support future growth.

Year end	Revenue (£m)	PBT (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield (%)
03/19	25.0	8.0	3.25	2.30	26.7	2.7
03/20	25.6	7.7	3.26	2.30	26.6	2.7
03/21	25.4	6.2	2.73	2.30	31.8	2.7
03/22e	33.0	12.2	5.05	2.30	17.2	2.7

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

## AUME increases with revenue diversification

At end-June Record's AUME stood at \$84.5bn, an increase of 5% compared with end-March (in sterling terms to £61.2bn, also an increase of 5%). There was a net inflow of \$1.8bn (2%), split evenly between passive hedging and currency for return. The latter included the Record Emerging Market Sustainable Finance Fund, which [launched](#) at end-June at a size of approximately \$0.75bn. The fund is important as it is a first step in the group's strategy to create new products in collaboration with clients to grow and diversify revenue. It also provides an entry point to sustainable investment as an area for development and commands a significantly higher fee margin than existing products. Changes in exchange rates and market levels together with scaling of volatility targeting mandates resulted in a positive movement in AUME of \$2.6bn (3%). The client count was reduced to 87 from 89 as two legacy funds with negligible AUME were closed in the quarter. Average fee rates were broadly stable and no performance fees were earned in the period.

## Further estimate increase

Following the increase in AUME in Q122, we have again raised our estimates for FY22. An increase of 3% in our revenue assumption results in a 6% increase in diluted earnings per share (see Exhibit 3 for further details). As with previous estimates, we do not allow for further unannounced prospective fund flows or potential performance fees.

## Valuation

On our revised estimate, the shares trade on a prospective P/E of 17x, a premium to the average for a selection of UK asset managers (Exhibit 2). Supporting this are the recent upward trend in AUME, the potential for further new product development and possible crystallisation of performance fees over time.

Q122 trading update

Financial services

29 July 2021

**Price** 86.7p  
**Market cap** £167m

Net cash (£m) excluding seed fund cash at end-March 2021	16.1
Shares in issue net of EBT	192.7m
Free float	53%
Code	REC
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(12.0)	(0.1)	143.9
Rel (local)	(11.8)	(1.2)	105.9
52-week high/low		102.00p	31.70p

## Business description

Record is a specialist independent 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 event

Q222 trading update	22 October 2021
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## AUME changes and investment performance

Changes in Q122 AUME are analysed in Exhibit 1. Looking at the AUME figures, within the overall 5% increase in the quarter the largest change (+38%) was in the currency for return category; as noted earlier, this includes the Record Emerging Market Sustainable Finance Fund launched at the end of June.

Within the 33% y-o-y increase, the largest percentage change (+238%) has been in dynamic hedging, with the winning of a large mandate announced in September 2020 reflected in the \$6.5bn 12-month inflow for the category. In absolute terms, the largest increase year-on-year was in passive hedging (\$9.9bn, 18%), reflecting a combination of market moves and inflows (7%). Splitting the 33% AUME 12-month increase of \$21.2bn in another way, 57% was accounted for by flows and 43% by market and other moves.

<b>Exhibit 1: AUME changes</b>					
March year-end	Q121	Q421	Q122	12-month	Q122
\$bn	AUME	AUME	AUME	Net flows	Net flows
Dynamic hedging	2.9	9.3	9.8	6.5	0
Passive hedging	53.9	61.5	63.8	3.6	0.9
Currency for return	3.1	3.9	5.4	0.9	0.9
Multi-product	3.2	5.2	5.3	1.0	0
Cash and futures	0.2	0.2	0.2	0.0	0
<b>Total</b>	<b>63.3</b>	<b>80.1</b>	<b>84.5</b>	<b>12.0</b>	<b>1.8</b>
Markets				6.1	1.3
FX and scaling for mandate volatility targeting				3.1	1.3
<b>Total change</b>				<b>21.2</b>	<b>4.4</b>

Source: Record, Edison Investment Research

Investment performance of the multi-strategy product was positive in the quarter, with the multi-strategy composite targeting 4% volatility, generating a quarterly return of 0.88% and an annualised, since-inception return of 0.93%. Hedging returns for US Dynamic clients were negative in the quarter with value added for a representative account of -0.44%, but the annualised performance since inception (April 2009) stood at 0.41%. Tenor-managed passive hedging returns were also negative during the quarter (-0.004% with annualised performance since October 2014 inception of 0.08%). Here, central bank injections of US dollar liquidity resulted in relative stability in forward market pricing, limiting the opportunity for gains through tenor management. From a client perspective, the passive hedging ratio is maintained in these mandates, although current market conditions mean the opportunity to limit hedging costs and for Record to earn performance fees is constrained.

## Valuation comparison

Exhibit 2 shows an updated version of our comparative valuation table, with a selection of quoted UK fund managers. Record shares still trade at a premium to the average prospective, calendarised P/E and EV/EBITDA multiples, although this is moderated by the further increase in our estimate.

### Exhibit 2: 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	382	2,713	14.7	14.9	10.1	4.4
City of London Investment Group	516	260	10.5	9.8	N/A	5.8
Impax Asset Management	1,159	1,530	36.4	26.9	29.2	0.7
Jupiter	285	1,567	10.3	10.7	6.2	6.0
Liontrust	2,059	1,253	20.5	17.2	14.3	2.3
Man Group	196	3,888	9.9	10.8	7.3	3.9
Polar Capital	883	880	14.0	12.1	9.0	4.5
Schroders	3,675	9,674	16.9	15.6	12.5	3.1
<b>Average</b>			<b>16.6</b>	<b>14.8</b>	<b>12.6</b>	<b>3.9</b>
<b>Record</b>	<b>87</b>	<b>167</b>	<b>19.4</b>	<b>16.0</b>	<b>14.1</b>	<b>2.7</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 28 July 2021.

**Exhibit 3: Financial summary**

£000s	2018	2019	2020	2021	2022e
Year end 31 March					
<b>PROFIT &amp; LOSS</b>					
Revenue	23,834	24,973	25,563	25,412	32,995
Operating expenses	(16,735)	(17,089)	(17,996)	(19,333)	(20,882)
Other income/(expense)	173	(8)	82	41	0
Operating Profit (before amort. and except.)	7,272	7,876	7,649	6,120	12,114
Finance income	56	113	88	33	38
Profit Before Tax	7,328	7,989	7,737	6,153	12,152
Taxation	(1,182)	(1,559)	(1,365)	(802)	(2,309)
Minority interests	0	0	48	0	0
Attributable profit	6,146	6,430	6,420	5,351	9,843
Revenue/AuME (excl. perf fees) bps	5.1	4.9	4.9	4.8	5.4
Operating margin (%)	30.5	31.5	29.9	24.1	36.7
Average Number of Shares Outstanding (m)	206.5	198.1	197.1	196.2	194.9
Basic EPS (p)	3.03	3.27	3.26	2.75	5.06
EPS - diluted (p)	2.98	3.25	3.26	2.73	5.05
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	0.45	2.10
Total dividend (p)	2.80	2.99	2.71	2.75	4.40
<b>BALANCE SHEET</b>					
Non-current assets	2,339	2,161	4,868	5,153	4,488
Intangible Assets	228	288	470	420	405
Tangible Assets	910	761	751	683	533
Investments	1,115	1,112	2,472	3,046	3,046
Other	86	0	1,175	1,004	504
Current Assets	29,737	31,427	31,149	28,045	33,470
Debtors	6,775	7,562	8,704	8,006	10,088
Cash	12,498	12,966	14,294	6,847	10,190
Money market instruments	10,198	10,735	7,958	12,932	12,932
Other	266	164	193	260	260
Current liabilities	(5,525)	(6,158)	(6,955)	(5,992)	(6,383)
Creditors	(2,630)	(2,736)	(3,009)	(3,426)	(4,317)
Financial liabilities	(2,467)	(2,621)	(2,191)	(1,696)	(1,696)
Other	(428)	(801)	(1,755)	(870)	(370)
Non-current liabilities	0	(29)	(901)	(407)	(407)
Net Assets	26,551	27,401	28,161	26,799	31,168
Minority interests	0	60	132	0	0
Net assets attributable to ordinary shareholders	26,551	27,341	28,029	26,799	31,168
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	13.5	15.7
<b>CASH FLOW</b>					
Operating Cash Flow	2,746	7,026	6,543	6,798	9,569
Capex	(236)	(72)	(243)	(230)	(140)
Cash flow from other investing activities	7,899	(561)	1,513	(6,210)	(112)
Dividends	(6,810)	(5,517)	(5,888)	(5,290)	(5,474)
Other financing activities	(10,367)	(613)	(943)	(2,368)	(500)
Other	146	205	346	(147)	0
Net Cash Flow	(6,622)	468	1,328	(7,447)	3,343
Opening cash/(net debt)	19,120	12,498	12,966	14,294	6,847
Closing net (debt)/cash	12,498	12,966	14,294	6,847	10,190
Closing net (debt)/cash inc money market instruments	22,696	23,701	22,252	19,779	23,122
<b>AUME (\$bn)</b>					
Opening	58.2	62.2	57.3	58.6	80.1
Net new money flows	(1.2)	(4.5)	4.6	9.7	1.4
Market/other	5.2	(0.4)	(3.3)	11.8	3.2
Closing	62.2	57.3	58.6	80.1	84.7

Source: Record accounts, Edison Investment Research

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