

# POLAR CAPITAL HOLDINGS PLC

**Results for Year Ending**

**31 March 2008**

**Mark Kary (CEO)  
John Mansell (COO)  
4 July 2008**



# Table of Contents

## Section I

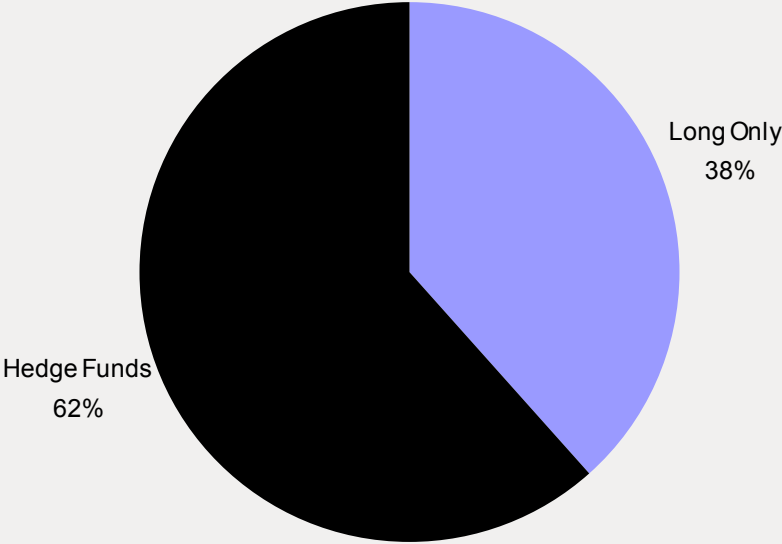
- Business Review

## Section II

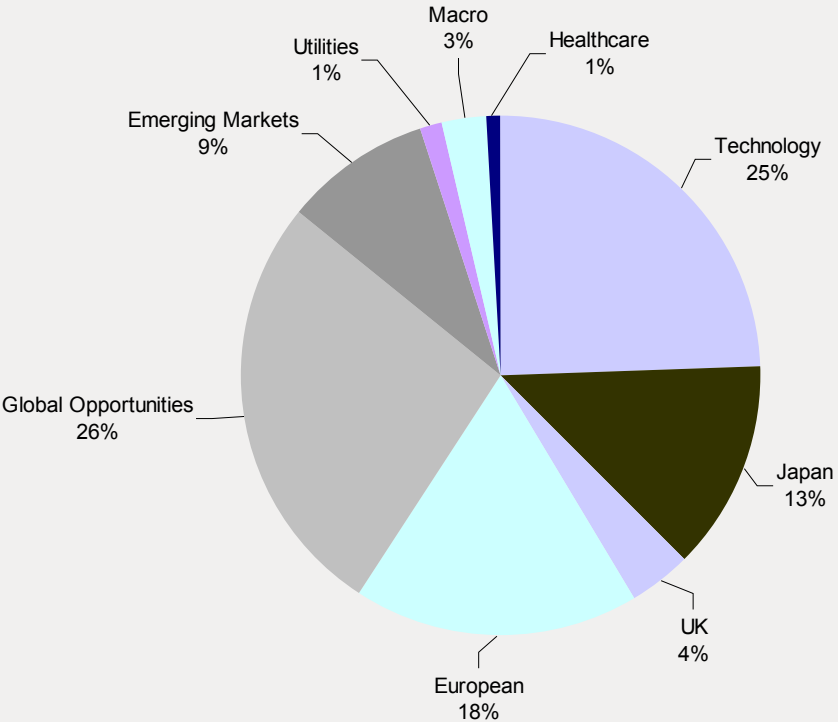
- Financial Review

# Business Review

## Overview



AuM split by strategy (13 June 2008)



AuM split by business unit (13 June 2008)

# Business Review

## *Fund Closures*

- **Action taken to close poor performing and sub optimal sized funds**
  - Asian technology hedge fund
  - Asian hedge fund
  - Asian long only fundAssets totalled \$190mm at close (\$339mm at 2007 peak)
  
- **Fund under review**
  - Japan hedge fund (\$569mm at peak)

# Business Review

## Performance

Fund	Fund Size June 1 <sup>st</sup> 2008	Launch Date	Performance Calendar 2007	Performance YTD*	Index YTD*
	\$m				
<b>Hedge Funds</b>					
UK	123	Nov 2001	3.27%	5.60%	MSCI Europe -11.66%
Japan	8	Dec 2001	-8.42%	-8.40%	FTSE 100 -6.25%
European Forager	385	Aug 2003	11.85%	1.28%	MSCI Emerging Markets -2.85%
European Conviction	179	Mar 2006	5.56%	5.00%	Tremont Long/ Short 0.86%
Paragon	817	Mar 2004	15.76%	14.78%	Dow Jones World Technology -3.13%
Global Utilities	45	Oct 2005	15.10%	-6.96%	Tokyo Stock Price (TOPIX) 1.99%
Discovery	87	May 2006	14.36%	-0.66%	
Elbrus	241	Apr 2006	36.08%	-0.49%	
Latin America	26	May 2006	23.57%	3.52%	
Columbus	39	Sep 2006	0.85%	1.51%	
<b>Long Only</b>					
Technology Trust	618	Feb 2001	0.33%	-1.43%	
Japan UCITS	332	Oct 2001	-7.88%	1.90%	
Global Technology UCITS	74	Oct 2001	3.36%	-5.39%	
Healthcare Opportunities UCITS	26	Dec 2007	N/A	0.00%	

\* Figures to the 31 May 2008

# Business Review

## Current Fund Flows\*

		\$bn
<b>AUM @ 31 March 2008</b>		<b>3.14</b>
Gross inflows to 1 July 2008	0.35	
Gross outflows to 1 July 2008 <i>(excluding Japan Hedge Fund)</i>	<u>(0.11)</u>	
Net flows from ongoing business to 1 July 2008		0.24
Japan Hedge Fund outflows to 1 July 2008		(0.28)
Performance		<u>0.21</u>
<b>AUM @ 1 July 2008*</b>		<b><u><u>\$3.31bn</u></u></b>

\*Note that regular quarterly disclosure in mid July will document position for quarter ending June 2008.

# Business Review

## *Responses to Issues Raised*

- Future of Polar's long only franchise
- Fee pressure
- Future of hedge funds in a global asset allocation
- Lack of performance fee revenues
- Internal sentiment
- Strategy for growth

# Financial Review

## Highlights

- **AUM**
  - AUM at 31 March 2008 down 8.8% to \$3.1bn (2007: \$3.4bn).
- **Profitability**
  - Pre-tax profitability up 42% to £14.5m (2007: £10.2m).
  - Operating margin increased to 29% (2007: 26%).
- **EPS and Dividend**
  - Basic undiluted EPS up to 14.6p (2007:14.1p) and diluted EPS up to 13.0p (2007: 12.6p).
  - Adjusted diluted EPS up to 14.6p (2007: 13.5p).  
*Adjustment excludes cost of share based payments*
  - Second interim dividend per ordinary share of 7p declared, to be paid in August 2008, making total dividend of 8.5p (2007: 7.75p).
- **Balance Sheet**
  - £24m of net cash and £13m of investments in own funds.



# Financial Review

## Revenues



# Financial Review

## Costs

	2007 £m	2008 £m
Salaries and bonuses	7.5	8.1
Core distributions	2.3	2.2
Other staff costs	<u>0.7</u>	<u>0.9</u>
	10.5	11.2
Performance fee interests	<u>12.5</u>	<u>13.0</u>
Total cash compensation cost	23.0	24.2
Other operating costs	<u>6.5</u>	<u>7.5</u>
<b>Operating Costs before SBP</b>	<b>£29.5m</b>	<b>£31.7m</b>
Cost of sales (trail)	2.2	1.9
Share based payments ("SBP")	<u>0.5</u>	<u>1.2</u>
<b>Total Costs</b>	<b><u>£32.2m</u></b>	<b><u>£34.8m</u></b>

### Comments

- £1.4m of core distributions saved in 2008 due to crystallisation.
- Other operating costs:
  - 2007 overstated due to £1m of IPO costs
  - Net £2m increase due to:
 

Overseas offices	0.5
(opening and closing)	
New teams	0.3
MIFID, CRD	0.3
PLC Costs	0.3
Inv Trust VAT	0.2
Miscellaneous	0.4
- Trail will reduce as 18 month seed interest falls away.
- Share based payments covered on p 11.

# Financial Review

## Profitability and Margin

	2007 £m	2008 £m
Core operating profit	2.8	6.0
Performance fee profit	8.0	8.0
Interest and similar income	<u>0.9</u>	<u>1.7</u>
	11.7	15.7
IPO costs	<u>(1.0)</u>	<u>-</u>
<b>PBT pre IFRS S.B.P.</b>	<b>£10.7m</b>	<b>£15.7m</b>
Share based payments ("S.B.P")	<u>(0.5)</u>	<u>(1.2)</u>
<b>Statutory PBT</b>	<b><u>£10.2m</u></b>	<b><u>£14.5m</u></b>
Core operating margin	13.5%	22.7%
Overall operating margin	26.1%	29.4%

# Financial Review

## Share Based Payments

- **IFRS 2 / FRS 20 has imposed additional costs on the group.**
- **Polar proposition**  
A manager's interest in their management fee is exchanged for equity in the business. The dilution is intended to be less than the offsetting and linked subsequent increase in profits that is a result of the manager's forfeiture.  
i.e. the exchange is designed to be earnings enhancing.
- **IFRS imposition**  
Give up irrelevant. Delivery of equity on exchange creates a share based payment. A second charge is necessary.
- **The product of the cost of share based payments is:**

	<u>Diluted EPS</u>
<b>Diluted EPS</b>	<b>13.0p</b>
Add back cost of share based payments	<u>1.6p</u>
<b>Adjusted diluted EPS</b>	<b><u>14.6p</u></b>

# Financial Review

## *Dividend*

### **Current Dividend Policy**

- Final dividend of 7.0p making 8.5p for the year (2007: 7.75p).
- At 8.5p dividend covered 160% by earnings (176% pre SBP charge).
- At 8.5p: 50% of core profits distributed and 62% of performance fee profits (same as per 2007).

# Summary

- Market conditions are likely to remain difficult for some time.
- The opportunity for market share growth is greater today than for many years.
- Polar has a number of funds that have differentiated themselves and that are marketable.
- Capacity within existing funds remains an additional \$5bn.
- Recruitment continues to focus on adding 1 to 2 new strategies a year (Credit, Financials, Environment)

# Appendix

# Appendix

## *Overview of Crystallisation Event*

### **Mechanics**

- Manager has 45% interest in franchise's core profits.
- Exchange of annuity in return for equity in the group.
- Average of 3 years pre-performance fee profits taken for:
  - a. Franchise & b. Group
- Manager awarded an amount of equity in the group calculated as follows:  
[(franchise profits) / (group profits)] \* (45%) \* (share capital of the group) \* (66%)
- Affect is delivery of stake in proportion to core contribution: with 34% discount.
- Conversion into Ordinary Shares staggered over 3 years in 4 tranches (10%, 30%, 30%, 30%).

### **Practical Affect**

- Group buys out the 45% minority stake with equity.
- Where the design is that the percentage uplift in profits caused by forfeited minority interest, is greater than the percentage dilution of the award of equity.



# Polar Capital Disclaimer

This document does not constitute an offer to sell or an invitation to buy shares in Polar Capital Holdings plc or any other invitation or inducement to engage in investment activities. Certain statements, beliefs and opinions in this document are forward-looking, which reflect the Company's current expectations and projections about future events. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. The value of investments, and the income from them, may go down as well as up, and is not guaranteed. Past performance cannot be relied on as a guide to future performance. Exchange rate changes may cause the value of overseas investments or investments denominated in different currencies to rise and fall. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on any forward-looking statements, which speak only as of the date of this document.