POLAR CAPITAL HOLDINGS plc
Group Audited Results for the year ended 31 March 2021

"Achieved strong growth in an extraordinary year" Gavin Rochussen, CEO

Highlights

- Assets under Management ('AuM') at 31 March 2021 up 71% to £20.9bn (2020: £12.2bn).
- Average AuM for the year up 18% to £16.7bn (2020: £14.1bn) and boosted by net inflows of £2.1bn and acquisitions of £1.7bn.
- Net inflows (unaudited) in the quarter to 25 June 2021 of £517m and AuM (unaudited) at 25 June 2021 of £22.7bn.
- Pre-tax profit up 49% to £75.9m (2020: £50.8m)
- Core operating profit† up 24% to £51.5m (2020: £41.6m)
- Basic earnings per share of 67.2p (2020: 43.5p) and adjusted diluted total earnings per share† up 53% to 62.2p (2020: 40.7p)
- Second interim dividend increased by 24% to 31.0p per share (2020: 25.0p) bringing the total dividend for the year to 40p per share (2020: 33.0p), a 21% increase.
- On 16 October 2020, the Group completed the acquisition of the International Value and World Value equity team from the Los Angeles based asset manager First Pacific Advisors, LP and a new joint venture, Phaeacian Partners LLC has been established.
- On 26 February 2021, the Group completed the acquisition of 100% of the issued share capital of Dalton Capital (Holdings) Limited, the parent company of Dalton Strategic Partnership LLP, a UK based boutique asset manager.
- New sustainable thematic team joining in September 2021. This well-known and highly regarded team will be launching Polar Capital's first Article 9 ESG funds.

† The non-GAAP alternative performance measures shown here are described and reconciled to IFRS measures on the Alternative Performance Measures (APM) page.

Gavin Rochussen, Chief Executive Officer, commented:

"The past year has been a challenging period for all, and I am exceptionally proud of what Polar Capital has achieved. Driven by the ongoing support of our clients and the hard work and resilience of my colleagues, AuM saw the highest single year of growth, rising by 71% to £20.9bn, boosted by inflows of £2.1bn and acquisitions of £1.7bn.

"The products we launched as part of our growth strategy have seen strong demand, especially UK Value, now soft closed, and our sustainable Emerging Markets franchise, which has seen a very strong acceleration in demand. We have witnessed a rise in demand, internationally, for specialist thematic funds, which is a core area of strength for us.

Our acquisitions, in the form of Dalton Strategic Partnership and the International Value team from First Pacific Advisors in the US have not only added capacity and broadened our product offering but strongly enhanced our international footprint through the addition of a SICAV and a US 40 Act investment vehicle. We have also increased our client base in Asia and added seven institutional mandates, including through some significant global distributors.

"This has resulted in a strong year for our financial performance. It has also been pleasing to see that we have performed well in a Broadridge survey of UK fund buyers, where Polar Capital has been ranked 2nd for Brand Preference, 2nd for Product Quality and 4th for Account Management, outperforming many of our established and larger peers.

"Looking ahead, we have recently announced the addition of a new sustainable thematic team who will be joining in September. This is a well-known, highly regarded team with a very strong performance record in an area with relatively few competitors. Demand for their products has been strong and we look forward to launching Polar Capital's first Article 9 funds as we enhance our ESG capabilities.

"The outlook is positive with our diversified range of fund strategies, enhanced digital marketing footprint and broader distribution reach. We are confident that we can continue to deliver compelling returns for clients, growth in AuM and resultant increased total shareholder returns. "

For further information please contact:

Polar Capital	+44 (0)20 7227 2700
Gavin Rochussen (Chief Executive Officer)	
John Mansell (Executive Director)	
Samir Ayub (Finance Director)	
Numis Securities Limited - Nomad and Joint Broker	+44 (0)20 7260 1000
Charles Farquhar	
Stephen Westgate	
Kevin Cruickshank (QE)	
Peel Hunt - Joint Broker	+44 (0)20 7418 8893
Andrew Buchanan	
Rishi Shah	
Camarco	+44 (0)20 3757 4984
Ed Gascoigne-Pees	
Jennifer Renwick	
Monique Perks	

Assets Under Management (AuM)

AuM split by Type

	31 March 2021	
	£bn	**%**
Long-only	19.9	95%
Alternative	1.0	5%
Total	**20.9**	

	31 March 2020	
	£bn	**%**
Long-only	11.1	91%
Alternative	1.1	9%
Total	**12.2**	

AuM split by Strategy
(Ordered according to launch date)

	31 March 2021	
	£bn	**%**
Technology	10.2	49%
Japan Value	0.1	0.5%
European Long/Short	0.2	1%
Healthcare	2.9	14%
Financials	0.3	1%
Insurance	1.7	8%
Emerging Markets Income	0.1	0.5%
Convertibles	0.8	4%
North America	0.8	4%
UK Absolute Return	-	-
European Income	0.2	1%
UK Value	1.4	7%
Emerging Markets and Asia	0.4	2%
Phaeacian	0.5	2%
European Opportunities	1.1	5%
Global Equity	0.1	0.5%
European Absolute Return	0.1	0.5%
Total	**20.9**	

	31 March 2020	
	£bn	**%**
Technology	5.3	43%
Japan Value	0.2	2%
European Long/Short	0.2	2%
Healthcare	1.8	15%
Financials	0.3	2%
Insurance	1.2	10%
Emerging Markets Income	0.1	1%
Convertibles	0.6	5%
North America	1.0	8%
UK Absolute Return	0.3	2%
European Income	0.2	2%
UK Value	0.9	7%
Emerging Markets and Asia	0.1	1%
Phaeacian	-	-
European Opportunities	-	-
Global Equity	-	-
European Absolute Return	-	-
Total	**12.2**	

Chairman's Statement

Introduction

This is my first report to the shareholders and wider community of Polar Capital since being appointed to the Board on 9 April 2020, and subsequently appointed as Chairman at the following Annual General Meeting in July. As we all know, it has been an extraordinary year for individuals and for businesses. So, I would like to begin my Chair's report by paying tribute to Gavin and his Executive Team, and to all our fund managers and staff, for their commitment and unstinting support over the past year while working remotely. Everyone has performed exceptionally well during what has been the most challenging period in my professional career. On behalf of myself and the Board, thank you.

It is therefore, all the more pleasing to be able to report that, despite the challenges of the pandemic and lockdowns, Polar Capital has had a very successful year. This was achieved by the skills and experience of our fund managers, supported by excellent client service and our resilient operating platform.

The business, with its investment led culture, benefited from both excellent fund performance and increased demand for funds that invest in the so-called 'COVID-19 winners' of the pandemic and remote working primarily our technology and healthcare fund strategies. In the latter part of the year, the vaccine induced rotation into value and cyclical stocks further benefited our value style strategies.

Whilst most Board meetings since my appointment have been virtual, we were able to hold some in person meetings in the few weeks in between lockdowns. As the vaccine roll-out progresses and case numbers decline, I look forward to more meetings taking place at our offices in Palace Street and to seeing our shareholders, fund managers and staff in person as social restrictions are lifted.

Strategy

In his statement last year, our outgoing Chairman, Tom Bartlam, commented that 'Polar is committed to investment excellence, and will continue to diversify, with the addition of new teams and across new markets.' Despite all of the challenges, I am pleased to be able to report that much progress has been made in pursuit of this 'Growth with Diversification' strategy and during the year, organic growth has been complemented with two new acquisitions.

At the end of last year, we announced that agreement had been reached to acquire from the Los Angeles based asset manager, First Pacific Advisors LP, its International Value and World Value equity team with portable track records and assets under management.

The acquisition of Dalton Strategic Partnership LLP was completed in the first quarter of 2021 bringing with it an excellent range of funds predominantly investing in European equities supported by European investors. The acquisition also strengthened our distribution capability.

Culture

Whilst companies often comment on the importance of culture, at Polar Capital, it is fundamental to the success of our business. At its heart are our people and a focus on fund performance. Whilst our investment teams are independent and act with autonomy, we believe there is an alignment of interest between investment managers delivering long term superior returns and the interests of clients. This, together with high levels of customer service supported by a strong ESG focus, underpins what we do at Polar Capital.

Last year saw us appoint a new head of sustainability for the Group and make further significant progress with a number of new initiatives, including embracing 'Sustainability' with an integrated approach within our fund strategies and at corporate level. Shareholder engagement where our fund managers engage with portfolio company management on ESG matters has also continued to increase.

At the corporate level, we were pleased to provide support for local communities and to a local school in London, where we were able to provide laptops and hardware to enable pupils to continue attending lessons remotely as schools remained closed.

We further developed our focus on environmental aspects by partnering with 'Heal', a rewilding initiative with the objective of improving biodiversity in the English countryside. Diversity and inclusion have been another focus and

our activities here will, over time, improve diversity within Polar Capital as well as within the financial services sector.

Results
Fund performance, market uplift, net inflows and acquisitions during the year enabled average assets under management to increase by 18% and assets under management at year-end to increase by 71% to £20.9bn from £12.2bn.

While core operating profit† increased by 24%, excellent fund performance produced performance fees that enabled profit before tax to increase by 49%. The basic EPS increased by 54% to 67.2p and adjusted diluted total EPS† increased by 53% to 62.2p.

Dividend
As previously stated, our dividend policy means that, under normal circumstances, we would expect to pay an annual dividend within a range of 55% to 85% of adjusted total earnings. The outcome is dependent on the quantum of performance fees earned in that year.

In line with our policy, the second interim dividend will be 31p (2020: 25p) to be paid in July. Together with the first interim dividend of 9.0p paid in January 2021, the total dividend for the year amounts to 40p.

Board Changes
It is with sadness that the Board and staff will be saying goodbye to one of the founders as Brian Ashford-Russell retires from the Board at the AGM in September. On behalf of the Board, shareholders, and staff we thank Brian for his vision, knowledge and drive in setting up Polar Capital with Tim Woolley, supported by John Mansell and Jamie Cayzer-Colvin. Without Brian and Tim there would be no Polar Capital. His wisdom and challenge will be missed not only by the Board, but also by staff for whom he set the highest of investment standards.

Brian's vision for Polar Capital to be an investment led business, focused on providing the best possible outcome for investors in our funds, remains at our heart and resonates throughout all aspects of what we do and who we are.

The Board has commenced a search for a new non-executive director to further strengthen the Board.

Annual General Meeting
We are planning to hold the Company's forthcoming Annual General Meeting ('AGM') as a physical meeting at 2.30pm on Wednesday 8 September 2021, at the Company's registered office. As I explain in my letter accompanying the separate Notice of AGM, we are looking forward to engaging with our shareholders. However, while a physical meeting seems possible at today's date, we cannot be certain that we will be able to hold such a meeting when we reach September.

Hence, to provide for the contingency that some form of restriction will be imposed on gatherings of people by the time we reach the date of the AGM, the Board has decided that a contingency plan will be to hold a hybrid meeting.

Should it be necessary to impose restrictions on physical attendance we will notify shareholders through the website and via an announcement to the London Stock Exchange of the revised arrangements. Details of how we would implement these changes are given in more detail in the letter accompanying the Notice of AGM.

As there is a degree of uncertainty and to ensure that all shareholders can exercise their votes, we will carry out the voting at the meeting by Poll so that, whichever style of meeting takes place, shareholders will be able to cast their votes. Shareholders are strongly encouraged to exercise their votes by appointing the Chairman of the meeting as their proxy.

Shareholders are encouraged to submit any questions to our company secretary before the meeting (by using Investorrelations@polarcapital.co.uk , and using the subject title 'PCH AGM') who will arrange for a response to be provided to the questions. A copy of the results presentation will be posted to the Company website.

Outlook

The pandemic has, and will continue to have, far reaching consequences on the global economy and markets. At some stage, we will likely begin to see the eventual tapering of the unprecedented fiscal and monetary stimulus provided by governments and central banks, albeit offset by the positive impact of the vaccine roll-out and economies reopening.

However, it feels inevitable that the impact will be uneven across the various regions and sectors of the economy, underlining the importance of continuing to offer a well-diversified range of investment strategies.

Hence, whilst the longer-term economic impact is unknown and uncertainty remains, the Board are confident that our strong balance sheet and range of differentiated fund strategies leaves us well positioned for the future.

David Lamb
Chairman
30 June 2021

Chief Executive's Report

By way of introduction, the financial year to 31 March 2021 for Polar Capital will always be remembered as the year that started and finished in lockdown and where all staff worked remotely in a dispersed office environment. It is a credit to the commitment and extreme hard work of all our people that we delivered excellent performance for our clients and retained our high levels of client service.

It was against this backdrop that Polar Capital delivered solid financial performance with 21% management fee revenue growth, 18% increase in average AuM, 24% increase in core operating profit[†], 54% increase in the basic EPS and 53% increase in adjusted diluted total earnings per share[†].

Our priorities in the initial stages of the pandemic were the wellbeing of our people, fund performance, client service for our clients and a continued effort to deliver on our strategic objectives. The operating platform proved resilient, and staff coped well through increased communication and appropriate on-line training to ensure ongoing efficiency in the 'new' dispersed working environment. I preface my 2021 Report with a sincere thank you to all our people who have worked long and irregular hours to produce the results covered in this report.

Investment performance has been affected by significant monetary and fiscal stimulus by central banks and governments to support global economies and steady the financial system. Markets recovered and, following the development of vaccines in record time, continued to rise reaching all-time highs in 2021. Our Technology funds, in particular, benefited from the so called COVID-19 winners and delivered strong performance across all three funds managed by the team.

As at 28 May 2021, 93% of our UCITS funds AuM were in the top two quartiles against the Lipper peer group over three years. 53% of AuM were in the first quartile over this period. Over five years, as at 28 May 2021, 98% of AuM were in the first two quartiles against the Lipper peer group and 71% of AuM were in the first quartile.

Growth in assets under management and net inflows were a record for Polar Capital this year with net inflows into the majority of our funds. AuM increased by 71% from £12.2bn to £20.9bn. The increase in AuM of £8.7bn comprised net inflows of £2.1bn, an increase of £1.7bn due to the acquisitions of the Phaeacian and the Dalton teams, a reduction of £0.3bn due to a fund closure, and £5.2bn from market and fund performance. While the largest contributor to net inflows was the Technology Fund, it is pleasing to note increasing flow momentum into our Emerging Market Stars Fund where sustainability factors are at the core of the investment process. Performance and net inflows were evident in our value style funds in the first quarter of 2021 following the positive vaccine test results and Brexit agreement.

Financial performance for the year was robust with a 18% increase in average AuM, a 21% increase in management fee revenue and 24% increase in core operating profit[†]. The higher increase in core operating profit[†] relative to the increase in revenue is a result of cost control and the operating leverage our business model offers. Performance fee profit[†] of £19.5m, while not a record for Polar Capital, is a 122% increase on the £8.8m performance fee profits[†] in the prior year. Profit before tax increased by 49%, 54% increase in basic EPS and adjusted diluted total EPS[†] increased by 53% allowing us to increase the total dividend for the year by 21% to 40.0p per share.

Strategic progress has continued and, in some areas, has accelerated as a consequence of socialising restrictions and the dispersed working environment.

Digital marketing has been in the ascendancy over the past decade. Lockdown has significantly accelerated that trend, with consumption of digital content increasing in lieu of direct face-to-face contact. Polar Capital was in the fortunate position of having invested in our brand, website and content offering ahead of the pandemic. To highlight the success of our digital investment, as well as improving engagement scores, for the first time, Polar Capital was ranked 5th of all groups in the UK for Fund Manager Access. Polar Capital is now ranked 2nd in the UK for Brand Preference in the Broadridge Fund Buyer 50 survey.

Our investment in our centralised dealing facility delivered a material benefit in terms of best execution, reduction of execution costs and significantly reduced Fund Manager distraction during the intensely volatile markets at the outset of the lockdown last year.

In October 2020, we announced the completion of the acquisition from Los Angeles based asset manager First Pacific Advisors LP of its International Value and World Value team. This enabled the establishment of a Polar Capital 1940 Act Mutual Fund range and increased hiring of business development resource in North America. We launched our Emerging Market Stars strategy, where sustainability is at the core of the process, as a 40 Act Mutual Fund which allows this high performing strategy to be accessed through a Dublin UCITS fund, a 40 Act Mutual Fund and by separate account mandate.

We announced on 1 March 2021 that the pre-conditions to the acquisition of 100% of Dalton Strategic Partnership LLP, a London based investment led boutique focused on European and Global equities, had been met. We anticipate that full integration of this entity will have taken place by our financial half-year. This acquisition is another step in our **'growth with diversification'** strategy and adds culturally compatible teams with complementary fund strategies and a well-developed client base in Europe and Germany in particular.

Sustainability is a key focus and much progress has been made over the year. We continued to raise the standard of ESG integration across our range of strategies, and improve reporting of ESG, Stewardship and Climate-related activities for our clients. As ever, we aim to provide for the needs of our clients and will assess offering further sustainable strategies as defined by Article 8 and 9 of the EU Sustainable Finance Disclosure Regulation (SFDR). We are pleased to have classified five of our funds, under the SFDR, as promoting environmental or social characteristics; the Global Insurance Fund, Emerging Market Stars Fund, Asian Stars Fund, China Stars Fund and the China Mercury Fund. In addition, three funds acquired in the Dalton Strategic Partnership transaction are classified as Article 8 under the SFDR.

Diversity is an essential ingredient to our success. We welcomed our first six trainees in January as part of our partnership with Investment20/20 and, we have partnered with an inner London school, Westminster City School, to provide a bursary programme to enable young talented students from diverse social backgrounds to attend universities.

We have partnered with the Heal Charity to aid biodiversity through the rewilding of the English countryside. In addition to broadly supporting the charity, Polar is a lead sponsor of Heal's "Deserve to Bloom" project. This is an exciting multi-year partnership where we believe we can make a meaningful positive impact on climate related issues.

The outlook is positive with our diversified range of fund strategies, enhanced digital marketing footprint and broader distribution reach. We are confident that we can continue to deliver compelling returns for clients, growth in AuM and resultant increased total shareholder returns.

Gavin Rochussen
Chief Executive Officer
30 June 2021

Business Review

Assets under Management and fund flows
The early stages of the COVID-19 pandemic had a significant impact on stock markets and the resulting investor flight from risk assets led to the European funds industry's worst ever outflows in March 2020 (-£197bn). Subsequently though, the industry staged a remarkable snapback, putting net long-term inflows back in the black by year-end – not something anybody would have predicted.

The pandemic saw a renewal in active equity interest, with investors increasingly choosing to put their faith in active managers to navigate the crisis. Key investment trends were consistent for much of the reporting period, with equity investors focused on global, sectoral, and thematic equities and ESG.

Polar Capital was able to capitalise on these trends, generating net inflows of £2.1bn in the financial year to 31 March 2021. This helped raise the total AuM to £20.9bn, 71% higher than at the beginning of the financial year (£12.2bn). The average AuM for the year were £16.7bn, compared to £14.1bn the previous year.

11 of our UCITS sub funds saw positive net inflows over the reporting period, with the largest inflows recorded by Global Technology (£1.7bn), Biotechnology (£379m), Emerging Market Stars (£243m), Global Insurance (£187m) and UK Value Opportunities (£181m).

Net outflows continued from the North American Fund, totalling £545m over the reporting period; however, encouragingly, the rate slowed in Q3 2020 and turned positive in Q1 2021. Closure of our UK Absolute Equity Fund in May 2020 resulted in outflows of £301m.

At the time of writing, positive net inflows have continued into the new financial year. AuM as at 28 May 2021 were £21.4bn.

The way forward – growth and diversification
Polar Capital appears to be well positioned to build on last year's momentum, with the tailwinds of supportive fund selector intention in Europe and a rotation back to active management. The tailwinds are less clear in the US, but the opportunity to grow simply by taking market share there is significant.

Our focus in 2021 remains on growth and diversification, by both fund/investment team and by channel/geography.

Communicating with our clients
Polar Capital has continued to invest in its distribution capability, in particular its marketing function and team, expanding and enhancing the way in which we communicate with clients. 2020 witnessed an acceleration of many of the initiatives already in place. A particular area of focus has been Digital Marketing, which, having been in the ascendency over the past decade, saw a significant increase in consumption by clients in lieu of direct face-to-face contact. Fund selectors have embraced remote servicing and the feeling of proximity offered by an increased digital presence. Having a strong digital platform, coupled with an insightful content offering, has become an area of differentiation and competition for fund groups.

Since January 2020, we have completely overhauled our digital marketing infrastructure, (re)launching six websites, including one for our US affiliate, Phaeacian Partners; as a separate website for Polar Capital's US business – which includes a dedicated site for institutional investors – plus our three investment trusts. Driven by our digitally-led approach to fund promotion, the Polar Capital website has seen an increase in traffic of 150% over the reporting period. Our webcast programme, launched in April 2020 in response to lockdown, has seen 20 fund manager updates reaching 2,400 clients, a quarter of which were potential new clients, helping to support our aim of broadening and diversifying our client base.

The impact of our marketing is reflected in the latest results of Broadridge's annual Fund Buyer Focus report, where Polar Capital ranked 2nd in the UK for Brand Preference. In times of stress and difficulty, fund manager access is especially important to fund selectors and in a separate survey by Broadridge, Polar Capital ranked 5th in the UK for fund manager access.

Opportunities for growth

Our focus remains on growth and diversification, by both channel and geography, and we see significant opportunities outside of our home market of the UK. We continue to broaden and deepen our presence and support in Continental Europe – including key markets, such as Switzerland, Germany, France and Spain.

Our approach to wider expansion is both targeted and measured. We continue to invest in regions where we see significant, long-term opportunities for growth. We have made senior distribution appointments in the US, in Asia and the Nordics, facing both wholesale and institutional channels, and all three regions will be a focus going forward.

Best-in-class client servicing is key to supporting our distribution efforts. We aim to deliver a consistently high level of service and this was recognised in Broadridge's annual Fund Buyer Focus survey, where Polar Capital ranked 4th in the UK for Sales & Account Management, which bears testament to the quality of our offering.

A highly marketable product range

Polar Capital's Sales and Marketing teams can only achieve so much without a strong product range to distribute. Our products are a mix of specialist thematic and regional funds, capacity constrained, and registered for sale in many jurisdictions – recently complemented by the addition of a SICAV, through the acquisition of Dalton Strategic Partners LLP.

Of our 22 UCITS and SICAVs, 19 hold either a Morningstar Analyst Rating or Morningstar Quantitative Rating, with 10 having a Gold rating and 7 being Silver rated. 11 of our fund managers hold a Citywire fund manager rating and 4 have been ranked as 2021 Alpha Managers by FE. Since January 2020, our funds have collectively amassed 30 awards.** Again, within Broadridge's Fund Buyer Focus survey, Polar Capital was ranked 2nd in the UK for Product Quality. As an investment-led boutique, these results are gratifying; however, we cannot afford to be complacent and must continually strive to improve our offering and client experience.

The year to end March 2021 captured almost exactly the equity market rally from the COVID-19 low, leading to returns of between 23% and 76% across Polar Capital's range of equity UCITS funds. Stylistically however, it was a year of two parts. From March 2020 until the US election, low interest rates and working from home resulted in technology stocks and other long term growth companies leading the market higher. The economic stimulus measures which were expected to accompany the incoming Biden administration, and the emergence of COVID-19 vaccines at around the same time, led to a sharp rotation into more economically sensitive areas of the equity market, and to the outperformance of value versus growth and quality. This has continued in April and May.

Polar Capital's range of investment strategies spans both value and growth. The change in leadership marked an inflection in the performance of those with a greater degree of economy sensitivity; Polar Capital North America Fund outperformed by over 10% in the year to March 2021, and the Polar Capital UK Value Opportunities Fund by 19%.

Other value-oriented strategies are recovering but have not performed as well over the 12 month period. Polar Capital's Japan Value strategy has gained ground but still lags its benchmark by 6% over the year. Value stocks in Japan were slower to recover than those elsewhere, and small cap value lagged larger names. Equity income strategies have also faced difficult conditions; high dividend payers were left behind in the tech-driven 2020 rally but have begun to recover more recently.

Polar Capital's European and Global Emerging Market Income funds underperformed in the year to March 2021, but both are ahead of their respective benchmark since January this year.

All five strategies run by Polar Capital's healthcare team outperformed in the year under review, with the Biotech fund doing outstanding in both absolute performance (+64%) and relative return terms (+24%). The small and mid cap Polar Capital Healthcare Discovery Fund rose by 74% over the year, outperforming the broader small and mid cap market by 6%, while the all cap Healthcare Opportunities fund, the Healthcare Blue Chip fund and the Polar Capital Global Healthcare Trust all delivered returns ahead of benchmark.

** Source: Morningstar data as at 31 March 2021

Polar Capital's established technology team performed well relative to declining markets in February and March 2020, having taken a cautious stance earlier. The team has delivered returns of between 55% and 67% across its three strategies in the year to end March 2021, but a period of strong performance up to the third quarter of last year has led to tougher conditions for their growth-driven approach, as more economy sensitive areas of technology, such as semiconductors, have accelerated strongly. As a result, the Polar Capital Global Technology Fund is 5% behind its benchmark in the year to end March. The Polar Capital Technology Trust performed in line with its benchmark in the year to March, but both have lost ground in April and May. Despite recent underperformance as technology has slipped versus world markets, the team's Automation and Artificial Intelligence strategy is 12% ahead of its benchmark in the year due to the strength of its technology and industrial automation themes during the pandemic.

As they approach their three year anniversary at Polar Capital, the Emerging Market Stars strategies delivered a very strong year of performance, with EM Stars, Asian Stars and China Stars beating their respective benchmarks by between 14% and 18%, attributable to harnessing the strongest themes in the region, and employing a detailed sustainability assessment.

In Financials, Polar Capital's Global Insurance strategy, which specialises in property and casualty insurance, underperformed a rising market in which life companies predictably led the way. The Financial Opportunities fund, and its closed end sister fund the Polar Capital Global Financials Trust plc, outperformed a sharply rising financials benchmark as banks responded to yield curve steepening. The fund rose by 69%, an outperformance of almost 12%; the Trust outperformed by 14%.

Within Polar Capital's alternative strategies, the convertible bond funds also delivered strong returns. The sharp increase in issuance, as companies refinanced in response to the COVID-19 induced business interruption, provided a wealth of investment opportunities. Polar's Global Convertible Bond fund appreciated by 40%, outperforming its benchmark by 3%, while the Global Absolute Return version of the strategy delivered a 40% return.

The Forager fund, which applies a value-disciplined approach to long-short investing in European small and mid cap companies, recovered from a mid year drawdown to deliver a 13% return to March 2021. China Mercury, a China long-short fund which is building a track record, rose by 21% in the year.

The International and Global Value strategies which Polar Capital acquired in October 2020 from First Pacific Advisors rose by 48% and 56% respectively in the year to March 2021. The International Value fund (now re-named Phaeacian Accent International Value) is unconstrained and can own higher levels of cash when the manager does not find compelling value in share markets. It did so in Q1 2020 and outperformed its benchmark. In the year to March 2021, it was 2% behind benchmark, but annualised three and five year returns are 4% and 3% ahead of benchmark respectively. The Phaeacian Global Value fund outperformed by 2% in the year under review.

As at 28 May 2021, the Lipper percentile rankings for our UCITS funds range showed 82% were in the top quartile against peer group since inception with, 71% and 53% in the top quartile over five and three years respectively.

Financial Review

Introduction

The Group's financial year has been strong. On all measures performance has been impressive and a significant improvement on the previous year. The success being underpinned by the strong market recovery from the lows of March 2020, good fund performance and good positive net asset flows.

In addition, the year saw the Group complete on two corporate transactions, which have delivered additional top performing strategies to help increase the Group's product range, as well as increasing the Group's scope for asset growth. The new teams join the existing Polar bench of strategies that will enable the Group to diversify from its strong world class Technology heritage and franchise. The Technology team, the original genesis of the Group some 20 years ago, has underpinned the results for the year delivering over the twelve months strong performance and impressive asset growth.

Looking ahead the Group can look into the short and medium term with some optimism.

Results for the year – Revenues

Revenues	31 March 2021 £'m	31 March 2020 £'m
Investment management and research fees	157.3	130.8
Commissions and fees payable	(15.4)	(11.3)
Gain/(loss) on forward currency contracts	0.6	(1.4)
Net management fees	142.5	118.1
Investment performance fees	43.6	22.3
Other income	8.3	1.0
Net income	194.4	141.4
Average AuM	£16.7bn	£14.1bn
Net management fee yield	85bps	84bps

The quantum of management fees earned by the Group is conventionally a factor of firstly the quantum of AuM managed by the Group and secondly the fee rate charged on the AuM.

The Group's net management fees have increased from £118.1m in 2020 to £142.5m this year, a 21% increase and mainly due to 18% increase in the Group's average assets under management, from £14.1bn last year to £16.7bn this year.

Two other significant changes seen in the year on year numbers of the Group are firstly the increase in the quantum of performance fees produced (£43.6m generated this year compared to last year's £22.3m) and secondly the increase in the contribution from other income, predominantly driven by the good relative performance of funds seeded by the Group.

Results for the year – Costs

Costs	31 March 2021 £'m	31 March 2020 £'m
Salaries, bonuses and other staff costs	29.1	25.6
Core distributions[1†]	38.5	27.7
Share-based payments[2]	2.9	3.0
Performance fee interests[3†]	24.4	13.5
Total staff compensation	94.9	69.8

Other operating costs	23.6	20.8
Total operating costs	118.5	90.6

1. Including share awards under deferment plan of £1.8m (2020: £1.7m).
2. Share-based payments on preference shares of (£0.3m) (2020: £0.1m), LTIPs of £2.4m (2020: £2.1m) and equity incentive plan of £0.8m (2020: £0.8m). Refer to Note 5 below.
3. Including share awards under deferment plan of £nil (2020: £0.5m) and LTIP award of £0.9m (2020: £nil).
† The non-GAAP alternative performance measures shown here are described and reconciled on the APM page.

Total operating costs rose to £118.5m from £90.6m last year.

The increase in salaries, bonuses and other staff costs was a product of the increase in head count in the Group (calendar year end staff numbers increased from 147 to 185) as not only did the Group complete the acquisition of the Phaeacian and Dalton investment strategies, which increased numbers by 33, but in addition the Group invested in its distribution and operational support.

The increase in core distributions was a function of both the success of the Group as evidenced by the increased AuM and the increase in the net ad valorem management fees received in the year.

The increase in other operating costs was predominantly due to costs associated with the two corporate transactions in the year. These costs have been treated as exceptional items and have been excluded in arriving at adjusted total earnings (see Note 6 below). The reason for excluding the exceptional items is that they include costs such as non-recurring acquisition related transition and termination costs as well as charges related to consideration payments and the amortisation of acquired intangible assets.

The increase in performance fee interests to £24.4m from £13.5m from last year is directly correlated to the increase in performance fee revenues.

Results for the year – Profits

Profits	**31 March 2021 £'m**	**31 March 2020 £'m**
Core operating profit†	51.5	41.6
Performance fee profit†	19.5	8.8
Other income^	7.4	0.5
Share-based payments on preference shares	0.3	(0.1)
Exceptional items	(2.8)	-
Profit before tax	75.9	50.8
Core operating margin†	36%	35%
Adjusted diluted core EPS†	40.6p	32.2p

† The non-GAAP alternative performance measures shown here are described and reconciled on the APM page.
^ A reconciliation to reported results is given on the APM page.

The headline profit before tax for the year has increased by £25.1m to £75.9m from last year's £50.8m.

The analysis of the different components of profits shows that:

• **Core operating profits**

The increase in core operating profits reflect the increase in net management fees which in turn is due to the 18% increase in average AuM.

• **Performance fee profits**

Performance fee profits increased sharply as a result of strong investment performance.

• **Other income**

The increased contribution is a product of the return and outperformance from the portfolio of seed investments held on the Group's balance sheet.

Earnings per share

The basic EPS increased by 54% to 67.2p during the year (2020: 43.5p).

The effect of the adjustments made in arriving at the adjusted diluted total EPS and adjusted diluted core EPS figures of the Group is as follows:

Earnings per share	31 March 2021 Pence	31 March 2020 Pence
Diluted earnings per share	64.0	41.3
Impact of share-based payments – preference shares only	(0.3)	0.1
Impact of exceptional items	2.2	-
Impact of deferment, where IFRS defers cost into future periods	(3.7)	(0.7)
Adjusted diluted total EPS	62.2	40.7
Performance fee profit and other income	21.6	8.5
Adjusted diluted core EPS	**40.6**	**32.2**

Preference shares

A separate class of preference share has historically been issued by Polar Capital Partners Limited for purchase by each new team of fund managers on their arrival at the Group. These shares provide each manager with an economic interest in the funds that they run and ultimately enable the manager to convert their interest in the revenues generated from their funds into equity in Polar Capital Holdings plc.

The equity is awarded in return for the forfeiture of their current core economic interest and vests over three years with the full quantum of the dilution being reflected in the diluted share count (and so diluted EPS) from the point of conversion. The event has been designed to be, at both the actual and the diluted levels, earnings enhancing to shareholders.

In the year to 31 March 2021 there were no conversions of preference shares into Polar Capital Holdings equity (2020: one).

As at 31 March 2021 four sets of preference shares have the ability to call for a conversion. The call has to be made on or before 30 November 2021 if any conversion is to take place with effect from 31 March 2021.

We have also been considering our long term investment team incentive arrangements as the Group has expanded and believe that a revenue sharing model with deferment into equity is now more appropriate.

Acquisitions during the year

Over the course of the year the Group has completed two acquisitions. Firstly, in October 2020 Phaeacian Partners the LA based International and Global equity team and secondly in February 2021 Polar acquired Dalton Strategic Partners LLP the UK based asset manager dominated by a long-only European franchise. Both additions deliver asset classes that diversify the product range of the Group, predominantly non-US equity exposure and most importantly, offer the potential to satisfy Polar Capital's ambitions in the institutional market.

The Phaeacian transaction is being satisfied through a revenue share with the vendors and the Dalton transaction was predominantly satisfied by the payment of an initial consideration of £8.5m with a final deferred consideration expected to be £7.1m after twelve months (with the quantum being linked to the value of AuM at the time).

Intangible assets including goodwill of £25.4m were recognised as a result of the two transactions.

Balance sheet and cash

At the year end the cash balances of the Group were £136.7m (2020: £107.8m). The increase was a product of increased profitability.

At the balance sheet date, the Group held £39.1m of investments in its funds (2020: £30.1m).

Capital management

The Group believes in retaining a strong balance sheet. The capital that is retained in the business is used to seed new investment products, pay dividends and fund the EBT to buy the Company shares to reduce the dilutive effects of LTIP and option awards. In the year just completed £8.5m was also used to acquire the Dalton Strategic Partnership LLP, as commented upon above.

As at 31 March 2021 £39.1m (2020: £30.1m) of the Group's balance sheet was invested to seed fledgling funds and during the year the Group advanced loans to the EBT of £10m (2020: £10m) to buy shares in the Company.

The Group's dividend policy is to pay an annual dividend within a range of 55% and 85% of adjusted total earnings, dependent on the scale of performance fees in the relevant year and the anticipated trading conditions for the following year.

Regulatory Capital

As at 31 March 2021 the Group had a surplus capital of £41m (2020: £65m) above its Capital Requirement of £25m (2020: £20m) and July dividend commitment of £29.8m (2020: £23.5m).

Surplus capital as at 31 March 2021 has fallen as compared to the prior year due to the corporate transactions during the year with the value of acquisition related intangible assets and goodwill recognised being excluded from the Group's capital resources.

Going concern

The Financial Reporting Council has determined that all companies should carry out a rigorous assessment of all the factors affecting the business in deciding to adopt a going concern basis for the preparation of the accounts.

The Directors have reviewed and examined the financial and other processes embedded in the business, in particular the annual budget process and the financial stress testing inherent in the Internal Capital Adequacy Assessment Process ("ICAAP"). On the basis of such review and the significant liquid assets underpinning the balance sheet relative to the Group's predictable operating cost profile the Directors consider that the adoption of a going concern basis, covering a period of at least 12 months from the date of this report, is appropriate.

John Mansell

Executive Director

30 June 2021

Alternative Performance Measures (APMs)

The Group uses the non-GAAP APMs listed below to provide users of the annual report and accounts with supplemental financial information that helps explain its results for the current accounting period.

APM	Definition	Reconciliation	Reason for use
Core operating profit	Profit before performance fee profits, other income and tax.	APM reconciliation	To present a measure of the Group's profitability excluding performance fee profits and other components which may be volatile, non-recurring or non-cash in nature.
Performance fee profit	Gross performance fee income less performance fee interests due to staff.	APM reconciliation	To present a clear view of the net amount of performance fee earned by the Group after accounting for staff remuneration payable that is directly attributable to performance fee revenues generated.
Performance fee interests	Variable compensation payable to investment teams from performance fee revenue.	APM reconciliation	To present additional information thereby assisting users of the accounts in understanding key components of variable costs paid out of performance fee revenue.
Core distributions	Variable compensation payable to investment teams from management fee revenue.	APM reconciliation	To present additional information thereby assisting users of the accounts in understanding key components of variable costs paid out of management fee revenue.
Adjusted diluted total EPS	Profit after tax but excluding (a) cost of share-based payments on preference shares, (b) the net cost of deferred staff remuneration and (c) exceptional items which may either be non-recurring or non-cash in nature, and in the case of adjusted diluted earnings per share, divided by the weighted average number of ordinary shares.	Finance review	The Group believes that (a) as the preference share awards have been designed to be earnings enhancing to shareholders adjusting for this non-cash item provides a better understanding of the financial performance of the Group, (b) comparing staff remuneration and profits generated in the same time period (rather than deferring remuneration over a longer vesting period) allows users of the accounts to gain a better understanding of the Group's results and their comparability period on period and (c) removing acquisition related transition and termination costs as well as the non-cash amortisation, and any impairment, of intangible assets and goodwill provides a better understanding of the Group's results.

Adjusted diluted core EPS	Core operating profit after tax excluding the net cost of deferred core distributions divided by the weighted average number of ordinary shares.	Finance review	To present additional information that allows users of the accounts to measure the Group's earnings excluding those from performance fees and other components which may be volatile, non-recurring or non-cash in nature.
Core operating margin	Core operating profit divided by net management fees revenue.	Finance review	To present additional information that allows users of the accounts to measure the core profitability of the Group before performance fee profits, and other components, which can be volatile and non-recurring.
Net Management fee yield	Net management fees divided by average AuM.	Finance review	To present additional information that allows users of the accounts to measure the fee margin for the Group in relation to its assets under management.

Summary of non-GAAP financial performance and reconciliation of APMs to reported results

The summary below reconciles key APMs the Group measures to its reported results for the current year and also reclassifies the line by line impact on consolidation of seed investments to provide a clearer understanding of the Group's core business operation of fund management.

Any seed investments in newly launched or nascent funds, where the Group is determined to have control (see Note 9), are consolidated. As a consequence, the statement of profit or loss of the fund is consolidated into that of the Group on a line by line basis. Any seed investments that are not consolidated are fair valued through a single line item (other income) on the Group consolidated statement of profit or loss.

	FY 21 Reported Results £'m	Reclassification on consolidation of seed investments £'m	Reclassification of costs £'m	FY 21 Non-GAAP results £'m	APMs
Investment management and research fees	157.3	0.1	–	157.4	
Commissions and fees payable	(15.4)	–	–	(15.4)	
Gain on foreign currency contracts	0.6	–	–	0.6	
	142.5	0.1	–	142.6	
Operating costs	(118.5)	0.5	65.4	(52.6)	
	–	–	(38.5)	(38.5)	Core distributions
	24.0	0.6	26.9	51.5	Core operating profits
Investment performance fees	43.6	0.3	–	43.9	
Performance fee interests	–	–	(24.4)	(24.4)	Performance fee interests
	43.6	0.3	(24.4)	19.5	Performance fee profits
Other income	8.3	(0.9)	–	7.4	
Share based payments on preference shares	–	–	0.3	0.3	
Exceptional items	–	–	(2.8)	(2.8)	
Profit for the year	75.9	–	–	75.9	

Consolidated Statement of Profit or Loss

For the year ended 31 March 2021

	31 March 2021 £'000	31 March 2020 £'000
Revenue	**201,508**	151,714
Other income	**8,306**	1,029
Gross income	**209,814**	152,743
Commissions and fees payable	**(15,389)**	(11,300)
Net income	**194,425**	141,443
Operating costs	**(118,510)**	(90,563)
Profit for the year before tax	**75,915**	50,880
Taxation	**(13,197)**	(10,695)
Profit for the year attributable to ordinary shareholders	**62,718**	40,185
Earnings per share		
Basic	**67.2p**	43.5p
Diluted	**64.0p**	41.3p
Adjusted basic (Non-GAAP measure)	**65.2p**	42.9p
Adjusted diluted (Non-GAAP measure)	**62.2p**	40.7p

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2021

	31 March 2021	31 March 2020
	£'000	£'000
Profit for the year attributable to ordinary shareholders	**62,718**	40,185
Other comprehensive income – items that will be reclassified to profit or loss statement in subsequent periods		
Net movement on fair valuation of cash flow hedges	**1,173**	(306)
Deferred tax effect	**(223)**	76
	950	(230)
Exchange differences on translation of foreign operations	**(1,264)**	317
Other comprehensive (loss)/ income for the year	**(314)**	87
Total comprehensive income for the year, net of tax, attributable to ordinary shareholders	**62,404**	40,272

All of the items in the above statements are derived from continuing operations.

Consolidated Balance Sheet
As at 31 March 2021

	31 March 2021 £'000	31 March 2020 £'000
Non-current assets		
Goodwill and intangible assets	**24,998**	-
Property and equipment	**5,104**	6,271
Deferred tax assets	**5,783**	2,157
	35,885	8,428
Current assets		
Assets at fair value through profit or loss	**57,151**	38,654
Trade and other receivables	**23,924**	14,815
Other financial assets	**84**	2,322
Cash and cash equivalents	**136,718**	107,753
Current tax assets	**1,966**	1,008
	219,843	164,552
Total assets	**255,728**	172,980
Non-current liabilities		
Provisions and other liabilities	**4,123**	5,387
Liabilities at fair value through profit or loss	**4,258**	-
Deferred tax liabilities	**4,116**	512
	12,497	5,899
Current liabilities		
Liabilities at fair value through profit or loss	**16,124**	3,457
Trade and other payables	**71,598**	45,102
Other financial liabilities	**4,069**	2,444
	91,791	51,003
Total liabilities	**104,288**	56,902
Net assets	**151,440**	116,078
Capital and reserves		
Issued share capital	**2,468**	2,417
Share premium	**19,364**	19,101
Investment in own shares	**(26,579)**	(24,139)
Capital and other reserves	**11,030**	8,341

Retained earnings	**145,157**	110,358
Total equity – attributable to ordinary shareholders	**151,440**	116,078

Consolidated Statement of Changes in Equity

For the year ended 31 March 2021

	Issued share capital £'000	Share premium £'000	Investment in own shares £'000	Capital reserves £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
As at 1 April 2019	2,365	19,059	(17,930)	695	8,372	97,120	109,681
IFRS 16 Leases opening adjustments	–	–	–	–	–	(311)	(311)
As at 1 April 2019, restated	2,365	19,059	(17,930)	695	8,372	96,809	109,370
Profit for the year	–	–	–	–	–	40,185	40,185
Other comprehensive income	–	–	–	–	87	–	87
Total comprehensive income	–	–	–	–	87	40,185	40,272
Dividends paid to shareholders	–	–	–	–	–	(30,657)	(30,657)
Issue of shares	52	42	–	–	–	(51)	43
Own shares acquired	–	–	(9,707)	–	–	–	(9,707)
Release of own shares	–	–	3,498	–	–	(1,087)	2,411
Share-based payment	–	–	–	–	–	5,159	5,159
Current tax in respect of employee share options	–	–	–	–	759	–	759
Deferred tax in respect of employee share options	–	–	–	–	(1,572)	–	(1,572)
As at 1 April 2020	2,417	19,101	(24,139)	695	7,646	110,358	116,078
Profit for the year	-	-	-	-	-	62,718	62,718
Other comprehensive loss	-	-	-	-	(314)	-	(314)
Total comprehensive income	-	-	-	-	(314)	62,718	62,404
Dividends paid to shareholders	-	-	-	-	-	(31,907)	(31,907)
Issue of shares	51	263	-	-	-	(487)	(173)
Own shares acquired	-	-	(6,473)	-	-	-	(6,473)

Release of own shares	-	-	4,033	-	-	(1,150)	2,883
Share-based payment	-	-	-	-	-	5,625	5,625
Current tax in respect of employee share options	-	-	-	-	377	-	377
Deferred tax in respect of employee share options	-	-	-	-	2,626	-	2,626
As at 31 March 2021	**2,468**	**19,364**	**(26,579)**	**695**	**10,335**	**145,157**	**151,440**

Consolidated Cash Flow Statement
For the year ended 31 March 2021

	31 March 2021 £'000	31 March 2020 £'000
Cash flows generated from operating activities		
Cash generated from operations	**90,854**	58,601
Tax paid	**(13,606)**	(16,308)
Interest on lease	**(107)**	(151)
Net cash inflow generated from operating activities	**77,141**	42,142
Investing activities		
Interest received	**53**	292
Investment income	**193**	192
Sale of assets at fair value through profit or loss	**33,292**	18,119
Purchase of assets at fair value through profit or loss	**(45,188)**	(24,123)
Purchase of property and equipment	**(156)**	(108)
Cash introduced through business combination	**1,060**	-
Payments in respect of business combination	**(8,472)**	-
Payments in respect of asset acquisition	**(325)**	-
Net cash proceeds from disposal of consolidated seed investment	**(264)**	-
Net cash outflow from investing activities	**(19,807)**	(5,628)
Financing activities		
Dividends paid to shareholders	**(31,907)**	(30,657)
Lease payments	**(1,296)**	(1,145)
Issue of shares	**257**	43
Purchase of own shares	**(6,118)**	(9,707)
Third-party subscriptions into consolidated funds	**12,037**	902
Third-party redemptions from consolidated funds	**(1,289)**	(63)
Net cash outflow from financing activities	**(28,316)**	(40,627)
Net increase/ (decrease) in cash and cash equivalents	**29,018**	(4,113)
Cash and cash equivalents at start of the year	**107,753**	111,734
Effect of exchange rate changes on cash and cash equivalents	**(53)**	132
Cash and cash equivalents at end of the year	**136,718**	107,753

Selected notes to the Consolidated Financial Statements for the year ended 31 March 2021

1. General information, Basis of Preparation and Accounting policies

Corporate information

Polar Capital Holdings plc (the 'Company') is a public limited company registered in England and Wales whose shares are traded on the Alternative Investment Market ('AIM') of the London Stock Exchange.

Group information

Details of operating subsidiaries, seed capital investments and indirectly held entities consolidated into the Group are disclosed in Note 9 below.

Basis of preparation

The consolidated Group financial statements have been prepared on a going concern basis in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated financial statements have been prepared under the historical cost convention, modified by the measurement at fair value of certain financial assets and liabilities and derivative financial instruments. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest thousand (£'000), except when otherwise stated.

Going concern

The Directors have made an assessment of going concern taking into account both the impact of COVID-19 on the Group's results as well as the impact on the Group's outlook. As part of this assessment the Directors have used information available to the date of issue of these financial statements and considered the following key areas:

- Analyses of the Group's budget for the year ending 31 March 2022, longer term financial projections and its regulatory capital position and forecasts. The stress testing scenarios applied as part of the Group's ICAAP have also been revisited to ensure they remain appropriate in light of COVID-19;

- Cash flow forecasts and an analysis of the Group's liquid assets, which include cash and cash equivalents and seed investments;

- The operational resilience of the Group and its ability to meet client servicing demands across all areas of the Group's business, including outsourced functions, whilst ensuring the wellbeing and health of its staff.

The Group continues to maintain a robust financial resources position, access to cashflow from ongoing investment management contracts and the Directors believe that the Group is well placed to manage its business risks, including the additional challenges to operational resilience brought on by COVID-19. The Directors also have a reasonable expectation that the Group has adequate resources to continue operating for a period of at least 12 months from the balance sheet date. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Basis of consolidation
The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries as at 31 March 2021. Subsidiaries are those entities over which the Group has control. The Group controls an investee if, and only if, the Group has:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the purpose and design of an investee, relevant activities, substantive and protective rights, voting rights and potential voting rights.

The financial statements of subsidiaries are either prepared for the same reporting period as the parent company or where necessary, adjustments are made to the financial statements of subsidiaries to bring their reporting period and results in line with those of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

When the Group loses control over a subsidiary, it derecognises the related assets, liabilities, third-party interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Seed capital investments in funds that the Group manages are accounted for as subsidiaries, associates or financial assets at fair value through profit or loss (FVTPL) depending on the holdings of the Group, on the level of influence and control that the Group is judged to have and whether the Group assesses it is acting as an agent or principal for its holdings in the seed capital investments. There is no fixed minimum percentage at which the Group consolidates, and each exposure is reviewed individually.

Where the Group concludes it is acting as a principal the entity is consolidated. This assessment is based on the Group's total exposure. This incorporates direct holdings, income earned from management and performance fees and the assessed strength of third-party kick-out rights.

The Group concludes that it acts as an agent when the power it has over an entity is deemed to be exercised for the benefit of third-party investors.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are fully consolidated from the date on which the Group obtains control and continue to be consolidated until the date when such control ceases.

Where external investors hold redeemable shares in funds controlled by the Group, the portion of profit or loss and net assets held by these third-party interests is included within other income in the consolidated statement of profit or loss and as financial liabilities at FVTPL in the consolidated balance sheet respectively.

Net cashflows on initial consolidation or deconsolidation are presented as investing activities within the consolidated cashflow statement. Cashflows from third-party interests into consolidated funds are presented as financing activities.

Investment in associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Generally, it is presumed that the Group has significant influence where it has voting rights of 20% or more, but not control of an investee.

Seed capital investments over which the Group has significant influence, but not control, are carried on the balance sheet as assets at FVTPL as permitted by IAS 28: Investment in Associates, with changes in fair value recognised in

the consolidated statement of profit or loss. The fair value of investments in associates is determined by reference to the quoted price at the close of business on the balance sheet date. The Group has no other investments in associates and, therefore, no associates are currently accounted for using the equity method.

Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the acquisition date fair value, as are the identifiable net assets acquired and liabilities incurred including any asset or liability resulting from a contingent or deferred consideration arrangement and equity instruments issued by the Group. The acquisition date is the date on which the Group effectively obtains control of the acquiree.

Acquisition-related costs are expensed as incurred and included within administrative costs in the consolidated statement of profit or loss.

The Group applies the optional concentration test to assess whether an acquired set of activities is not a business. If the concentration test is not met, the Group then determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs.

Goodwill and intangible assets

Goodwill arising on the acquisition of a business is the excess of the consideration paid over the net identifiable assets acquired and liabilities assumed. Goodwill is measured at cost less any accumulated impairment losses. Impairment testing is based on the expected future benefits of the relevant cash-generating unit (CGU) as a whole.

Intangible assets such as investment management contracts acquired separately are measured on initial recognition at cost which is their fair value as at acquisition date. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, with the related expenditure or charge recognised in the consolidated statement of profit or loss. Intangible assets are amortised on a straight line basis over their useful economic lives. Intangible assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss on derecognition is included in the consolidated statement of profit or loss.

Financial assets

The Group's financial assets include seed capital investments, investment securities, trade and other receivables, cash and equivalents and derivative financial instruments. The classification adopted by the Group depends on the purpose for which the financial assets were acquired and is determined at initial recognition.

Financial assets are initially recognised at fair value, being the consideration given, plus, any directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss where transaction costs are immediately recognised in the consolidated statement of profit or loss.

Purchases and sales of financial assets are recognised at trade date, being the date when the Group commits to purchase or sell the asset.

Financial assets at fair value through profit or loss

Financial assets at FVTPL include the Group's investments in the funds that it manages, but does not control, including those which are held by the Group against bonus awards deferred into fund units. Such assets are subsequently carried at fair value, with any gains or losses arising from changes in fair value being recognised in the consolidated statement of profit or loss.

Investment securities

Investment securities represent securities both long and short positions, other than derivatives, held by consolidated funds. These securities are classified as FVTPL and are measured at fair value with gains and losses recognised through the consolidated statement of profit or loss.

Financial liabilities
The Group's financial liabilities include trade and other payables, derivative financial instruments, deferred consideration relating to the acquisition of Dalton Capital (Holdings) Limited and third-party interests in funds that have been consolidated as subsidiaries.

Financial liabilities at fair value through profit or loss
Financial liabilities at FVTPL are carried at fair value, with gains and losses recognised in the consolidated statement of profit or loss within other income in the period in which they arise. Financial liabilities at FVTPL include third-party interests in consolidated funds which are classified as at FVTPL.

Revenue from contracts with customers
Revenue from contracts with customers represents fees receivable, excluding value added tax, for discretionary investment management services and research fees during the period.

Management fees are based on a percentage of assets under management either per calendar month or quarter as set out in the relevant investment management agreements (IMA). Management fees relate specifically to the Group's provision of investment management services for each relevant time period and therefore such services are satisfied over time because either the customer simultaneously receives and consumes the benefits provided by the fund manager as the service is provided or, the fund manager's performance enhances the assets that the fund controls. Management fees are recognised as the service is provided and it is probable that the fee will be collected.

Research fee income relates to research provided in respect of funds managed in accordance with the relevant IMA and is recognised as the service is provided and it is probable that the fee will be collected.

Performance fees are variable consideration based on a percentage of investment performance achieved relative to predefined benchmarks as set out in the relevant IMA. Performance fees by their nature are highly susceptible to volatility until they are crystallised and are no longer subject to claw back. This is usually at the end of the performance period of a fund when the performance fee calculation can be confirmed with certainty. Therefore, performance fees are recognised at the point when they are crystallised.

Commissions and fees payable
Commissions and fees payable to third parties are in respect of rebates on investment management fees, distribution and research fees payable to third parties are recognised over the period for which the service is provided.

Standards and amendments not yet effective
There are no new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements that would be expected to have a material impact on the Group when they become effective.

Changes in accounting policies and disclosures
In the current reporting period, the Group has adopted the following new amendments.

• Definition of Material – Amendments to IAS 1 and IAS 8;

• Definition of a Business – Amendments to IFRS 3; and

• Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and not expected to significantly affect the current or future periods.

2. Revenue

	31 March 2021 £'000	31 March 2020 £'000
Investment management and research fees	**157,326**	130,837
Investment performance fees	**43,584**	22,297
Gain/ (loss) on forward currency contracts	**598**	(1,420)
	201,508	151,714

Net gains and losses on forward currency contracts used to hedge management fees derived from non-Sterling based AuM are included within revenue. This presentation better reflects the substance of these transactions and provides more relevant information about the Group's revenue.

Geographical analysis of revenue (based on the residency of source) is as follows:

	31 March 2021 £'000	31 March 2020 £'000
United Kingdom	**28,431**	29,658
Ireland	**166,588**	115,019
Cayman Islands	**1,910**	7,418
United States of America	**2,002**	-
Rest of Europe	**1,979**	1,039
Gain/ (loss) on forward currency contracts	**598**	(1,420)
	201,508	151,714

3. Operating costs

a) Operating costs include the following expenses:

	31 March 2021 £'000	31 March 2020 £'000
Staff costs including partnership profit allocations	**94,925**	69,799
Depreciation	**1,399**	1,361
Amortisation and impairment of intangible assets	**419**	-
Auditors' remuneration	**418**	159

b) Auditors' remuneration:

	31 March 2021 £'000	31 March 2020 £'000
Audit of Group financial statements	**135**	66
Local statutory audits of subsidiaries	**128**	48
Audit-related assurance services	**10**	-
Other assurance services – internal controls review	**77**	45
Other advisory services – regulatory review	**28**	-
Tax advisory services	**40**	-
	418	159

4. Dividends paid and proposed

Dividends on ordinary shares declared and paid during the year:

	31 March 2021 £'000	31 March 2020 £'000
First interim dividend for 2021: 9.0p per share (2020: 8.0p per share)	**8,413**	7,407
Second interim dividend for 2020: 25.0p per share (2019: 25.0p per share)	**23,494**	23,250
Total dividend paid and charged to equity	**31,907**	30,657

The Board has declared a second interim dividend of 31p (2020: 25.0p) to be paid in July 2021.

Together with the first interim dividend of 9.0p paid in January 2021 the total dividend for the year amounts to 40p (2020: 33.0p).

5. Share-based payments

A summary of the charge to the consolidated statement of profit or loss for each share-based payment arrangement is as follows:

	31 March 2021 £'000	31 March 2020 £'000
Preference shares	**(333)**	89
LTIP and initial share awards	**3,312**	2,047
Equity incentive plan	**794**	806
Deferred remuneration plan	**1,852**	2,217
	5,625	5,159

Certain employees of the Group and partners of Polar Capital LLP hold Manager Preference Shares or Manager Team Member Preference Shares (together 'Preference Shares') in Polar Capital Partners Limited, a group company.

The preference shares are designed to incentivise and retain the Group's fund management teams. These shares provide each manager with an economic interest in the funds that they run and ultimately enable the manager, at their option and at a future date, to convert their interest in the revenues generated from their funds to a value that may (at the discretion of the parent undertaking, Polar Capital Holdings plc) be satisfied by the issue of ordinary shares in Polar Capital Holdings plc. Such conversion takes place according to a pre-defined conversion formula that considers the relative contribution of the manager to the Group as a whole. The equity is awarded in return for the forfeiture of a manager's current core economic interest and is issued over three years from the date of conversion.

The issue of the Preference Shares constitutes a share-based payment under IFRS 2 and the cost is the estimated fair value, at the date of issue of the preference shares, of the effective entitlement to the ordinary shares. At each reporting date the estimated number of ordinary shares to be ultimately issued upon conversion will vary and the holder, initially, and the Group, ultimately, determines the start of the three year period ('Crystallisation') over which the ordinary shares are awarded following conversion. The start of this period will always be at least three years after the end of the financial accounting period in which the preference shares are issued.

In the year to 31 March 2021 there was no conversion of preference shares into Polar Capital Holdings equity (2020: one). At 31 March 2021 four sets of preference shares (2020: four sets) have the right to call for conversion.

The following table illustrates the number of, and movements in, the estimated number of ordinary shares to be issued.

Estimated number of ordinary shares to be issued against preference shares with a right to call for conversion:

	31 March 2021 Number of shares	31 March 2020 Number of shares
At 1 April	**4,676,882**	6,628,293
Conversion/crystallisation	-	(1,442,064)
Movement in the year	**(250,354)**	(509,347)
At 31 March	**4,426,528**	4,676,882

Number of ordinary shares to be issued against converted preference shares:

	31 March 2021 Number of shares	31 March 2020 Number of shares
Outstanding at 1 April	**3,733,904**	3,654,068
Conversion/crystallisation	**-**	1,442,064
Adjustment on re-calculation	**(344,982)**	-
Issued in the year	**(1,622,381)**	(1,362,228)
Outstanding at 31 March	**1,766,541**	3,733,904

6. Earnings per Share

A reconciliation of the figures used in calculating the basic, diluted and adjusted earnings per share (EPS) figures is as follows:

	31 March 2021 £'000	31 March 2020 £'000
Earnings		
Profit after tax for purpose of basic and diluted EPS	**62,718**	40,185
Adjustments (post tax):		
Add exceptional items – acquisition related costs	**1,908**	-
Add exceptional items – amortisation of intangible assets	**419**	-
(Less)/add back cost of share-based payments on preference shares	**(333)**	89
Less net amount of deferred staff remuneration	**(3,728)**	(682)
Profit after tax for purpose of adjusted basic and adjusted diluted EPS	**60,984**	39,592

The adjusted EPS figure includes an adjustment for deferred remuneration costs. The Group believes that aligning staff remuneration and profits generated in the same period will allow users of the financial statements to gain a better understanding of the Group's results and their comparability year on year.

Exceptional items were excluded from the adjusted EPS calculation as they included costs such as non-recurring acquisition related transition and termination costs and the amortisation of acquired intangible assets.

	31 March 2021 Number of shares '000	31 March 2020 Number of shares '000
Weighted average number of shares		
Weighted average number of ordinary shares, excluding own shares, for the purpose of basic and adjusted basic EPS	**93,396**	92,276
Effect of dilutive potential shares – share options and preference shares crystallised but not yet issued	**4,552**	5,020
Weighted average number of ordinary shares, for purpose of diluted and adjusted diluted EPS	**97,948**	97,296

	31 March 2021 Pence	31 March 2020 Pence
Earnings per share		
Basic	**67.2**	43.5
Diluted	**64.0**	41.3
Adjusted basic	**65.2**	42.9
Adjusted diluted	**62.2**	40.7

7. Business Combinations

Summary of the business combination

On 26 February 2021 ('the completion date'), the Group completed the acquisition of 100% of the issued share capital of Dalton Capital (Holdings) Limited, the parent company of Dalton Strategic Partnership LLP ("Dalton"), a UK based boutique asset manager for a total consideration of £15.6m which includes an estimated deferred consideration amount of £7.1m payable 12 months after completion and calculated based on the AuM at the time the deferred consideration is payable.

The transaction added £1.3bn to the Group's overall AuM and a leading European investment team with established funds and a longstanding track record. It also provides Polar Capital with broader wholesale and institutional distribution into Europe, particularly in the German market.

The following table summarises the consideration paid for the acquisition, the fair value of assets acquired and liabilities assumed at the completion date and goodwill.

Purchase consideration at 26 February 2021:

	£'000
Cash paid	8,472
Ordinary shares issued (7,482 shares)[1]	50
Deferred consideration	7,109
Total purchase consideration	15,631

The fair values of the assets acquired and liabilities assumed at completion date are as follows:

	£'000
Assets	
Property and equipment	139
Other investments	10
Cash and cash equivalents	1,060
Trade receivables[2]	1,170
Other receivables	366
Intangible assets[3]	11,628
	14,373
Liabilities	
Trade and other payables	2,417
Other financial liability	886
Deferred tax liabilities [4]	2,209
	5,512
Total identifiable net assets	8,861
Goodwill	6,770
Total	15,631

1. Fair value is based on the published share price of Polar Capital Holdings plc on 26 February 2021 of £6.6.
2. Trade receivables equal to their gross amount and are fully recoverable.
3. Relates to the investment management contracts acquired as part of the acquisition whose fair value was calculated using the Multi Period Excess Earnings Method ('MEEM').
4. Deferred tax liability arising on acquisition.

Goodwill on acquisition is attributable to the expected synergies from combining the operations of Dalton Strategic Partnership LLP with the Group's operations. None of the goodwill recognised is expected to be deductible for income tax purposes.

The useful life of the investment management related intangible asset is estimated as 10 years.

The acquired business contributed revenues of £0.8m and net loss of £0.4m to the Group for the period from 26 February to 31 March 2021. Acquisition costs of £2.4m were recognised within operating costs in the consolidated statement of profit or loss.

If the acquisition had occurred on 1 April 2020, consolidated pro-forma revenue and net profit (including pro-forma exceptional item of £1.1m) for the year ended 31 March 2021 would have been £211.0m and £75.3m respectively.

8. Goodwill and intangible assets

	Goodwill £'000	Investment management Contracts £'000	Total £'000
Cost			
As at 1 April 2020	-	-	-
Acquisition during the year	6,770	18,647	25,417

As at 31 March 2021	6,770	18,647	25,417
Amortisation and impairment			
As at 1 April 2020	-	-	-
Amortisation for the year	-	419	419
Impairment for the year	-	-	-
As at 31 March 2021	-	419	419
Net book value as at 31 March 2021	6,770	18,228	24,998

There were no indications of impairment to the carrying value of the intangible assets as at balance sheet date.

The Group has also performed an impairment test for goodwill as at 31 March 2021 and given the proximity of initial recognition to year end, the Group has assessed that there is sufficient headroom and therefore no impairment was required.
The table below shows the carrying amount assigned to each component of the intangible asset and the remaining amortisation period.

	Carrying Value £'000	**Remaining amortisation period**
Investment management contracts acquired from Dalton Capital (Holdings) Limited	11,531	9.92 Years
Investment management contracts acquired from First Pacific Advisors LP	6,697	9.54 Years
	18,228	

9. Subsidiary undertakings
The consolidated financial statements of the Group include the operating subsidiaries listed below. At 31 March 2021 and 2020 all operating subsidiaries, other than Polar Capital Partners Limited and Polar Capital US Holdings Limited, were indirectly held. All operating subsidiaries are wholly owned, except for: Polar Capital LLP in which Polar Capital Partners Limited has contributed 25% of the capital.

Name	**Country of incorporation**	**Registered office**	**Principal activities**
Polar Capital Partners Limited	UK	16 Palace Street, London	Services company
Polar Capital US Holdings Limited	UK	16 Palace Street, London	Investment holding company
Polar Capital LLP	UK	16 Palace Street, London	Investment management
Polar Capital Secretarial Services Limited	UK	16 Palace Street, London	Corporate Secretary
Polar Capital Partners (Jersey) Limited	Jersey	12 Castle Street, St Helier, Jersey	Investment management
Polar Capital (America) Corporation	USA	2711 Centreville Road, Wilmington, USA	Investment advisory
Polar Capital (Europe) SAS	France	18 Rue de Londres, 75009 Paris, France	Investment management
Polar Capital (Shanghai) Consulting Co Limited	China	Bund Finance Centre S2, No.600 Zhongshan East 2 Road, Shanghai, 200010	Services company
Polar Capital Holdings LLC	USA	1209 Orange Street, Wilmington, USA	Investment holding company

Dalton Capital (Holdings) Limited	UK	Princes Court, 7 Princes Street, London, United Kingdom, EC2R 8AQ	Investment holding company
Dalton Strategic Partnership LLP	UK	Princes Court, 7 Princes Street, London, United Kingdom, EC2R 8AQ	Investment management
Dalton Capital (UK) Limited	UK	Princes Court, 7 Princes Street, London, United Kingdom, EC2R 8AQ	Investment holding company

The consolidated financial statements of the Group also include the following seed capital investments and indirectly held entities which were judged to require consolidation into the Group as at 31 March 2021:

Name	Country of incorporation	Registered Office	Principal activities	Percentage of ordinary shares held
Polar Capital China Stars Fund	Ireland	4 Georges Court, 54–62 Townsend Street, Dublin	UCITS sub-fund	68%
Polar Capital China Mercury Fund	Cayman Islands	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands	Alternative Fund	66%
Polar Capital Emerging Market Stars Fund	USA	50 S.LaSallee Street, Chicago, IL 60603	Mutual Fund	100%
Phaeacian Partners Holdings LP	USA	1209 Orange Street, Wilmington, USA	Investment management	55%
Phaeacian Partners LLC	USA	1209 Orange Street, Wilmington, USA	Investment management	55%

10. Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, such as forward exchange contracts, the fair value is determined using appropriate valuation techniques that take into account the terms and conditions of the contracts and utilise observable market data, such as spot and forward rates, as inputs.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At the end of both the current year as well as the comparative period, all financial instruments at fair value through profit or loss held by the Group were Level 1 except for:

- forward foreign exchange contracts classified as Level 2. These were fair valued using valuation techniques that incorporate foreign exchange spot and forward rates.

- deferred consideration payable are classified as Level 3. These were fair valued using discounted cash flow model that incorporates unobservable inputs.

The fair value hierarchy of financial assets and liabilities which are carried at fair value at the year end is as follows:

	2021				2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Financial assets								
Assets at FVTPL	**57,151**	**-**	**-**	**57,151**	38,654	-	-	38,654
Other financial assets	**-**	**84**	**-**	**84**	2,322	-	-	2,322
	57,151	**84**	**-**	**57,235**	40,976	-	-	40,976
Financial liabilities								
Liabilities at FVTPL	**6,328**	**-**	**14,054**	**20,382**	3,457	-	-	3,457
Other financial liabilities	**4,069**	**-**	**-**	**4,069**	-	2,444	-	2,444
	10,397	**-**	**14,054**	**24,451**	3,457	2,444	-	5,901

Movement in liabilities at FVTPL categorised as Level 3 during the year were:

	31 March 2021
	£'000
At 1 April 2020	-
Additions[1]	15,014
Repayment	(517)
Net revaluation gain recognised in the statement of profit or loss	(443)
At 31 March 2021	14,054

1. Additions during the year relate to deferred consideration in relation to the business acquisition of Dalton Capital (Holdings) Limited and asset acquisition from FPA.

The fair value of financial instruments not held at fair value approximates to their carrying value as at reporting date. During the reporting period there were no transfers between levels in fair value measurements.

11. Notes to the Cash Flow Statement

A reconciliation of profit before taxation to cash generated from operations is as follows:

	31 March 2021	31 March 2020
	£'000	£'000
Profit on ordinary activities before taxation	**75,915**	50,880
Interest receivable and similar income	**(53)**	(313)
Investment income	**(239)**	(279)
Interest on lease	**107**	151
Depreciation of non-current property and equipment	**1,399**	1,361
Revaluation of liability at FVTPL	**(443)**	-
Amortisation and impairment of intangible assets	**419**	-

(Increase)/decrease in assets at FVTPL	**(14,270)**	581
Increase/(decrease) in other financial liabilities	**5,109**	(1,940)
(Increase)/decrease in receivables	**(9,109)**	431
Increase/(decrease) in trade and other payables	**26,491**	(2,751)
Share-based payment	**5,625**	5,159
(Decrease)/increase in liabilities at FVTPL[1]	**(6,134)**	404
Release of fund units held against deferred remuneration	**5,633**	4,917
Other non-cash item	**404**	-
Cash generated from operations	**90,854**	58,601

1. Movement includes those arising from acquiring and/or losing control of consolidated seed funds.

12. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not included in this Note.

13. Status of results announcement

The Board of Directors approved this results announcement on 30 June 2021. Whilst the financial information included in this announcement has been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS and does not constitute statutory accounts of the Group for the years ended 31 March 2021 or 31 March 2020.