POLAR CAPITAL HOLDINGS plc
Group Audited Results for the year ended 31 March 2020

Highlights

- Assets under Management ('AuM') at 31 March 2020 £12.2bn (2019: £13.8bn) and at 29 May 2020 £14.4bn
- Core operating profit† excluding performance fees £41.6m (2019: £42.2m)
- Pre-tax profit £50.8m (2019: £64.1m)
- Basic earnings per share 43.5p (2019: 57.8p) and adjusted diluted earnings per share† 40.7p (2019: 51.5p)
- Total dividend for the year maintained at 33.0p per share (2019: 33.0p)
- Shareholders' funds £116.1m (2019: £109.7m) including net cash of £107.8m (2019: £111.7m)
- In January 2020 we launched and seeded the Healthcare Discovery Fund which invests in a globally diversified portfolio of small cap stocks across the healthcare sector
- In February 2020 we announced the agreement to acquire the International Value and World Value equity team from Los Angeles based First Pacific Advisors

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

Gavin Rochussen, Chief Executive Officer, commented:
"Polar Capital has demonstrated pleasing operational resilience throughout this crisis. I would like to thank all our staff for their diligence and hard work during this lockdown period. The lockdown and implementation of our Business Continuity Plan proved seamless and had no negative impact on our ability to manage our funds and service clients.

'While equity markets have responded to unprecedented central bank and government stimulus, there remains considerable uncertainty as to the long-term impact on global economies. Given this significant macro uncertainty, we have concentrated on the areas where we have some degree of influence and control. We have focused on team resilience and agility, ensuring portfolios maintain adequate liquidity and are able to respond rapidly to a changing environment as the lockdown is gradually lifted.

'Following the market recovery in April and May, our AuM is at similar levels to that prior to the COVID-19 sell-off, over 70% of our AuM is ahead of benchmark this calendar year to 29 May and we experienced positive net inflows in May.

‘Our Technology and EM Stars fund ranges have had particularly good performance with both the EM Stars and Automation and Artificial Intelligence funds in the top decile, measured against their respective Lipper peer groups, since inception and over 1 year. The Global Technology fund is top quartile over 1 year and top decile over 3 and 5 years, and since inception.

‘We have continued to pursue our strategy of growth with diversification and, with our highly active specialist funds, are well positioned to perform for our clients and shareholders over the long term.”

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Assets Under Management (AuM)

AuM split by Type

	31 March 2020			31 March 2019	
	£bn	**%**		**£bn**	**%**
Long-only	11.1	91%	Long-only	12.5	91%
Alternative	1.1	9%	Alternative	1.3	9%
Total	**12.2**		Total	**13.8**	

AuM split by Strategy
(in chronological order)

	31 March 2020			31 March 2019	
	£bn	**%**		**£bn**	**%**
Technology	5.3	43%	Technology	4.5	33%
Japan Value	0.2	2%	Japan (including Japan Value)	0.7	5%
European Long/Short	0.2	2%	European Long/Short	0.2	1%
Healthcare	1.8	15%	Healthcare	2.2	16%
Insurance	1.2	10%	Insurance	1.2	9%
Financials	0.3	2%	Financials	0.6	4%
Emerging Markets Income	0.1	1%	Emerging Markets Income	0.1	1%
Convertibles	0.6	5%	Convertibles	0.6	4%
North America	1.0	8%	North America	2.1	15%
UK Absolute Return	0.3	2%	UK Absolute Return	0.5	4%
European Income	0.2	2%	European Income	0.2	1%
UK Value	0.9	7%	UK Value	0.9	7%
Emerging Markets and Asia	0.1	1%	Emerging Markets and Asia*	-	-
Total	**12.2**		Total	**13.8**	

* AuM at 31 March 2019 comprised seed capital of £21m.

Chairman's Statement

The sharp falls in equity markets and government bond yields which accompanied the worldwide spread of the coronavirus brought our financial year to a dramatic end. Major equity markets entered bear market territory due to the rapid price falls in late February and early March 2020, although at the time of writing, there has been a significant recovery. In our financial year to end March 2020, the MSCI All Countries World Index fell by 7%, measured in Sterling.

The best performing major markets were the US and China; it is perhaps ironic that these two, locked in combat over their future trade relationship, should perform measurably better than other areas such as the UK and Europe. Large technology companies are important to both the US and Chinese stock markets, and the technology sector has retained its dominance, even during the downturn prompted by COVID-19. Also, consistent with the trends of the past two years in markets, large companies have outperformed small, and growth has outperformed value.

It is likely that interest rates will stay low for an extended period to facilitate economic recovery; low rates have often created the backdrop for the outperformance of growth and quality.

In the short term, the unprecedented economic stimulus announced by governments across the world has underpinned asset markets, in the face of the inevitable economic weakness which will result from businesses being closed and consumers staying at home. Central banks, and the US Federal Reserve in particular, continue to be determined and vocal in their support for economies and financial markets.

Uncertainty has nevertheless risen significantly, and markets do not like uncertainty. Governments will, in the short to medium term, play an increased role in allocating capital, and in influencing supply and demand; this is not always a recipe for value creation across the corporate sector. While businesses such as ours are learning to operate remotely at a high level of efficiency, a remote workforce is likely to spend less on entertainment, hospitality and travel.

Despite these challenges, our technology and healthcare teams in particular have proven resilient. Polar is committed to investment excellence, and will continue to diversify, with the addition of new teams and across new markets.

Lockdown

Your Company has been able to operate effectively in a remote working status since 24 March 2020. Testament to the resilience of the operating model and technology platform, all staff can be fully operational from their homes for the foreseeable future. The Company has prioritised the health and wellbeing of staff alongside the servicing of clients with compelling investment performance from our fund managers. On behalf of the board of Directors, I would like to convey our appreciation for the hard work, commitment and flexibility of our people in these unusual times.

Results

AuM finished the year at £12.2bn compared with £13.8bn the previous year end and a high of £15.1bn in February prior to the crash. Following a record year for the Group in our previous financial period, the year under review has registered a marginal decline in core operating profits to £41.6m, despite an increase in revenue and average assets under management. This reflects an increased cost base as new teams have been hired and additional distribution capability recruited for the North American and Nordic markets. Performance fee profits during the 2019 calendar year which are reflected in the financial year to 31 March 2020 were £15m less than the prior year record profits of £24m. Consequently, profit attributable to ordinary shareholders declined by 23% to £40.1m. Adjusted diluted earnings per share, after allowing for share-based payments on preference shares and deferred remuneration costs were 40.7p, a decline of 21% from 51.5p the prior year.

Our Balance Sheet remains strong with net assets of £116.1m, an increase of 6% compared to the prior year. Cash held on the balance sheet at year-end amounted to £107.8m.

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

The second interim dividend will be 25.0p (2019: 25.0p) to be paid in July. Together with the first interim dividend of 8.0p paid in January 2020, the total dividend for the year amounts to 33.0p.

The total dividend is 81% of adjusted diluted earnings per share and is at the higher end of the range reflecting the lower quantum of performance fees earned in the year.

Board Changes
On 9 April 2020, we announced the appointment of David Lamb and Andrew Ross as Non-Executive Directors and my retirement at the conclusion of this year's Annual General Meeting (AGM). I am pleased that it has been agreed that David will succeed me as Chairman, and I wish him well. The Board welcomes both David and Andrew.

David has over 30 years' leadership experience within the asset management sector, as a Director of St James's Place plc between 2007 and 2019 and currently Chairman of its Investment Committee, having joined the firm at inception. David is also a Non-Executive Director of the Henderson Smaller Companies Investment Trust plc.

Andrew is a highly experienced financial services practitioner. He was Chief Executive Officer of Cazenove Capital Management from 2001, until its acquisition by Schroders plc in 2013, when he became Global Head of Wealth Management. Andrew is currently Vice Chairman of Wealth Management at Schroders plc and Non-Executive Chairman of Witan Investment Trust plc.

During the year, Quintin Price resigned from the Board to focus on his other commitments. We thank Quintin for his contribution during the time he served on the Board.

Annual General Meeting
We are planning to hold our AGM at our offices at 16 Palace Street, London, SW1E 5JD at 2.30pm on 28 July 2020. A separate notice of meeting and letter of explanation accompanies this report.

At the time of writing compulsory Government measures, having the force of law, are in place which restrict public gatherings of two or more people indoors and therefore would not permit a physical meeting. We have therefore arranged for the AGM to be held behind closed doors. As I describe in the letter accompanying the Notice of AGM, if it becomes possible to hold a physical AGM we will inform you through a RNS announcement to the Stock Exchange and by posting a notice on our website.

It is important that under the current guidance you do not attend the meeting, but you should read the Notice of AGM and if you have any questions please email the Company using the email address in the given in the letter. As the voting at the AGM will be conducted by a poll please cast your vote by completing and returning the proxy card as soon as possible.

Outlook

Despite the significant challenges presented by the coronavirus pandemic to our lives and the global economies, we have shown operational resilience to protect and support our people while they continue to provide good investment outcomes for clients. The longer-term impact on economic activity is unknown and continued volatility of markets will be a feature for some time. We believe that with our strong balance sheet, resilient operating platform and diverse range of specialist strategies, we are well positioned for the future.

Valete

I was appointed Chairman of Polar in September 2007, at the height of a bull market. There soon followed the financial crash of 2008/9 which was a very challenging time for Polar with AuM falling in 2009 to little over £1bn. Since then Polar, under the excellent leadership first of Tim Woolley and more recently of Gavin Rochussen, adopting a strategy of controlled and focussed growth with an emphasis on employing high quality investment teams, has grown and prospered with AuM reaching £15.1bn in 2019. While Polar, like everyone else, has been affected adversely by the latest crisis, I believe it is in a very strong position to weather this storm as it did the last, and continue its growth in the years ahead. It has been a privilege to have been associated for these many years with Polar, whose professional and friendly culture, which recognises the importance of its clients, employees and shareholders alike, has contributed much to its success. I wish it well for the future.

Tom Bartlam
Chairman
19 June 2020

Chief Executive's Report

It would be remiss of me not to preface my review with COVID-19 and the impact it has had, and is having on mankind, markets, economies and our funds.

In the closing weeks of our financial year to 31 March 2020, global equity markets entered a bear market, the quickest descent into a bear market on record bringing an abrupt end to the 11-year bull market, the longest on record. From a record high on 16 February 2020, it took just 16 trading days for the S&P500 to plunge over 20%. A perfect storm of weakening global demand as economies were placed in lockdown and a dramatic 47% plunge in the oil price as demand declined and failed talks between Saudi Arabia and Russia brought about an increase in supply. Volatility increased significantly during March and eased off by month-end, following a wave of monetary and fiscal stimulus initiatives. The VIX Index, the market fear gauge, started the year at 13.8, reached 40.1 by the end of February and surged to 82.7 mid-month before falling back to close the month at 53.6.

The scale of the monetary and fiscal policy response has been unprecedented. Since the beginning of the crisis the Federal Reserve launched a series of stimulus programs that outweigh anything attempted during the financial crisis, and over a much shorter period.

Following the massive stimulus and amid a sense that new case numbers were reducing in some parts of the world, global equities rallied in April and the MSCI All Country World Index gained 11%. The S&P500 surged 13%, closing out its best month since 1987, while the DJ Euro Stoxx 600 lagged, rising 6%. Clearly, investors were prepared to look beyond weak macroeconomic data as reported COVID-19 cases and deaths decelerated and massive intervention by central banks and governments mitigated the worst outcome in the near term.

Polar Capital has demonstrated pleasing operational resilience throughout this crisis. The lockdown and implementation of our Business Continuity Plan proved seamless and had no negative impact on our ability to manage our funds and service clients. We moved from an office in London with 147 staff to 147 decentralised offices each with one staff member. The health and wellbeing of our staff has been a priority during the lockdown period. I would like to thank all our staff for their diligence and hard work during this lockdown period working remotely.

This resilience has also resulted from the diversity of our highly specialist, actively managed sector, thematic and regional fund strategies. Sectors that have demonstrably outperformed during the crisis have been technology and healthcare. Polar Capital has deep experience and excellent long-term track records in both sectors.

The impact of the coronavirus has dominated all aspects of life, not least financial markets, but looking back to 2019, politics and central bank policy played a significant role in market behaviour. Governments were wrestling with trade disputes, of which the US-China discussions were the most prominent, elections in the UK and elsewhere threatened the status quo, and both fiscal and monetary policy makers were attempting to stimulate growth and inflation.

Equity markets traded broadly sideways for the first half of our financial year. While US economic conditions were on the whole favourable, due to solid job growth, rising wages and strong consumer activity, economic indicators were less positive in other parts of the world. UK investment was weak, in part as a result of Brexit uncertainty, and the German auto sector was under pressure.

The first calendar quarter of 2020 will be remembered for many exceptional characteristics, as it incorporated the fastest bear market in history. Other dubious accolades include the fact that

March 2020 was the most volatile month ever, the best month ever for growth indices, and the worst for value. The UK mid cap index had its worst ever quarter and the US S&P 500 banks index sank to multi decade lows. Interestingly, March 2020 also registered a record for investment grade bond issuance.

At the time of writing, the financial market recovery perhaps paints an unrealistic picture of the challenges we all face; significant uncertainties remain. Governments and central banks have acted admirably quickly to limit the damage to economies and individuals' livelihood, but it is as yet unclear how consumers and businesses will respond when restrictions on movement are completely lifted.

Fund Performance and Fund Oversight

Persistently low interest rates and anaemic growth across much of the world have been influential in defining equity market leadership. With growth in short supply, those companies that can deliver above average growth have been rewarded.

Traditional value sectors have performed less well. These tend to be more economically sensitive, so have been disadvantaged by an environment in which confidence in economic growth is low.

Reflecting on fund performance in the year to 31 March 2020, our technology funds, managed by an experienced nine strong team, had a pleasing year. While the Global Technology fund and Polar Capital Technology Trust lagged the strong rise in their benchmark index in 2019, due to caution about the pace of advances in share prices, that caution stood them in good stead as investment conditions changed in the first quarter of 2020. The more recently launched Automation and Artificial Intelligence fund also outperformed, beating its benchmark by more than 11% in the year to end March 2020.

The Emerging Market Stars team also delivered returns in excess of benchmark for its broad EM, Asian and China funds. The flagship fund, Emerging Market Stars, was more than 10% ahead of benchmark over the year.

Our Global Insurance fund, managed by another established team with strong industry credentials, outperformed by over 5% in the year to end March 2020.

The Healthcare Opportunities fund underperformed in the 12 months to March 2020, although its longer-term track record remains in the top decile since inception.

In an environment where the divergence between the performance of growth and value became more pronounced, our value-oriented strategies had a tougher time in the year under review. The Europe ex-UK Income fund and Global Emerging Market Income fund both have a specific mandate which steers away from the higher growth, lower yielding areas of the market. Both underperformed their broad benchmark in the past year. The UK Value Opportunities strategy performed well at the end of 2019 as confidence in the UK economy began to return either side of the election, but March 2020 was a difficult month, with investors showing marked preference for the largest, most defensive names in the UK market. This left the fund 3% behind benchmark for the year.

The North American fund underperformed a market led by a small cohort of very large technology companies. The level of index concentration in the US is not unprecedented but it is a challenging backdrop for investors whose approach has a strong valuation component and incorporates smaller companies as well as market leaders.

Our three absolute return strategies experienced challenges in the quarter to end March, leaving all three in negative territory for the year. The Forager fund performed well in 2019, appreciating by 13%, but lost close to 15% in Q1 2020 as several of its larger long positions suffered. The Global

Absolute Return fund run by our convertible bond team saw positive 2019 performance negated by Q1 2020 trading conditions; rapid spread widening in the high yield corporate bond market affected convertibles too. Since then the fund has had a good recovery.

The UK Absolute Equity fund, also up in calendar 2019, was on the wrong side of the sharp falls in equity markets in early 2020. Due to the ill health of the manager of this fund it was decided that it would be in the best interest of clients to suspend the fund and return capital to unit holders. I would like to take this opportunity to pay tribute to Guy Rushton, the manager, who passed away in May 2020, he was a passionate investor, a dear friend and will be sadly missed by everyone at Polar Capital.

While the month of March 2020 was challenging for performance, our funds performed very well on a relative and absolute basis in April and May 2020.

As at 29 May 2020, the Lipper percentile rankings for our UCITS fund range showed 70% of the AuM in the top quartile against peer group since inception, with 70% and 60% in the top quartile over five and three years respectively.

Approach to ESG within portfolios

In keeping with the devolved structure of Polar Capital, each investment strategy has investment autonomy, there is no one-size-fits-all investment approach, analysis and interpretation of environmental, social and governance (ESG) issues is specific to each team. This is central to Polar Capital's approach. Nevertheless, portfolio characteristics (performance, style, macro factor sensitivity, decision-making patterns, liquidity) are monitored centrally by Polar Capital's CIO and risk team.

Risk assessment - Consideration of ESG issues has been part of the research and evaluation process used by Polar Capital fund managers for many years and incorporated as a factor in their assessment of the risks and opportunities facing companies in which they may invest.

Engagement - Our fund managers frequently meet company management and have continued to do this virtually during the global lockdown. This is typically the forum in which our fund managers raise strategic ESG issues.

Third-party research - Polar Capital's ESG monitoring uses company scores provided by third-party research; each company is rated on a scale from AAA to CCC, relative to other companies in the same industry.

Polar Capital is a UNPRI signatory and reports stewardship activity in keeping with its obligations under the Financial Reporting Council's Stewardship Code.

Approach to ESG at Group level

We are addressing corporate ESG as a high priority with Board and Exco leadership. We are using the experience of the lockdown period to review all our activities; travel, recycling, resource usage and impact on society. We have set the base line at the March 2020 year end and will provide detailed reporting in the future.

Assets under Management and Fund Flows

Total AuM rose from £13.8bn at the beginning of the financial year and peaked at £15.1bn in mid-February 2020. The market sell-off caused by the pandemic and oil price collapse had the effect of reducing assets under management to £12.2bn by the close of the financial year. The average AuM for the year was £14.1bn compared to £13.6bn the previous year. AuM as at 29 May 2020 were £14.4bn.

Funds with the largest net inflows during the reporting period included the Global Technology fund - £316m, UK Value Opportunities fund - £280m, Global Insurance fund - £174m, Emerging Market Stars fund - £46m and Global Convertible Bond fund - £33m. Net outflows included those from the North American fund - £1.1bn and £485m from our Japan strategies following the restructuring of the team and the merger of two Japan funds

Results

Net management fees, after commission and rebates payable, increased by 5% from £113.5m to £119.6m as a result of average AuM increasing by 4% to £14.1bn from £13.6bn. Net revenue margin remained constant over the two years.

Core profit (excluding performance fees and financial income) for the year was £41.6m, a 1% decline on the previous year's £42.2m. The primary reason for the 1% decline in core operating profit despite a 4% increase in net management fees was the cost of additional investment in distribution, the full year cost of new investment teams and the impact of deferrals of manager distributions held back in prior years and released in the year under review.

Net performance fee profit amounted to £8.8m a decrease from the record £24m in 2019.

Net profit after tax attributable to shareholders was £40.2m, a decline of 23% on the £52.4m reported in the prior year. The primary reason for this is the reduction in performance fees of £15.2m offset by a reduction in the cost of share-based payments of £3m from the prior year.

The adjusted diluted earnings per share, adjusting for share-based payments on preference shares and deferred remuneration costs, declined by 21% from 51.5p in 2019 to 40.7p in the year under review.

	31 March 2020 £	Six months 30 September 2019 £	31 March 2019 £
Average AuM	14.1bn	14.1bn	13.6bn
Net management fees†	119.5m	59.1m	113.5m
Net management fee margin	84bps	84bps	84bps
Core operating profit†	41.6m	21.3m	42.2m
Performance fee profit (net)	8.8m	3.3m	24.0m
Other incomeΔ	0.5m	0.8m	1.0m
Profit before share-based payments on preference shares and tax	50.9m	25.4m	67.2m
Share-based payments on preference shares	(0.1)m	(0.5)m	(3.1)m
Profit before tax	50.8m	24.9m	64.1m
Profit after tax attributable to shareholders	40.2m	19.9m	52.4m
Adjusted diluted earnings per share (non-GAAP measure)	40.7p	19.8p	51.5p

† The non-GAAP alternative performance measures shown here are described on the APM page.

Δ A reconciliation to reported results is given on the APM page.

Regulatory backdrop

- **The Senior Managers & Certification Regime (SMCR)** is part of the UK regulators' drive to improve culture, governance and accountability within financial services firms. Polar Capital has appointed seven Senior Managers responsible for the Group's seven key business areas.

The Group's risk monitoring programme was also aligned under the seven key business risk areas to ensure effective apportionment of responsibilities and oversight in compliance with the SMCR.

- **The COVID-19 pandemic** has undoubtedly impacted the business operations of firms across the asset management industry. Prior to the government-imposed lockdown on 23 March 2020, the Polar Capital COVID-19 Executive Committee was formed to identify and manage ongoing and emerging COVID-19 related issues. Throughout this period, servicing our clients, monitoring our vendors where there are outsourced functions and the health and wellbeing of our staff remained our top priority. We are cognisant of the fact that as an agency business, the impact of COVID-19 has been manageable and will remain so through a prolonged period of challenge for the greater economy. Despite this we remain focused on ensuring key business risks are identified, reviewed and managed through this unprecedented period.

- **Libor -** The London Interbank Offered Rate (LIBOR) has, for a long time, been the most broadly used benchmark for financial products. However, owing to loopholes within the benchmark's calculation, the integrity of LIBOR has been damaged. The use of LIBOR is expected to cease after December 2021. The FCA has identified the Sterling Overnight Index Average (SONIA) as the alternative to LIBOR. The impact on Polar Capital will be minimal and a timely transition to SONIA will be facilitated.

- **'Dear CEO Letters' from the FCA** - In January 2020 the FCA issued Dear CEO letters to asset managers and alternative investment firms, highlighting the FCA's views on the key risks posed to customers and markets, and setting out its supervision strategy for the coming months. We considered the extent to which the risks raised in these letters were applicable to Polar Capital and if so, we ensured these risks were suitably mitigated by ensuring appropriate controls are in place and continue to ensure these risks are reviewed and tested on an ongoing basis as part of our risk assessment procedures.

Brexit

Polar Capital has taken significant steps to ensure its ability to manage funds, distribute funds throughout Europe and ensure its UCITS funds may be marketed into the UK with offices now well established in France, Spain and Germany. However, the uncertainty as to the outcome of Brexit continues as we await the final deal. Polar Capital continues to keep abreast of the legal and regulatory developments in Europe to ensure we are well placed to service our clients in the EU irrespective of the outcome of the negotiations.

Strategic developments

Our strategy remains to achieve sustainable long-term growth through investment excellence and diversification. We are cognisant of the fact that COVID-19 and the resultant market sell-off may impact our growth trajectory. In the short term, we have continued to receive net inflows into our sector and thematic funds which are well positioned and have capacity to meet client demand.

The diversification of distribution geographically is beginning to bear fruit with pleasing net inflows from Asia and the Nordic region. We are a performance led boutique and focus on managing capacity to preserve performance, so it is an imperative to continue to add complementary teams and extend existing team capability to enhance capacity.

The addition of the GEM Stars team in 2018 was a key aspect of our strategy enabling diversification in both our assets and our distribution channels. Fund performance for all four of this team's funds has been excellent and the core fund, GEM Stars, is in the top decile since inception and over one-year against its peer group. Assets in the fund are approaching the key US$100m mark.

In January 2020 we launched the Polar Capital Healthcare Discovery Fund. This fund seeks out those healthcare 'diamonds in the rough', whether drug related, medical equipment, technology or services that are part of the healthcare solution as opposed to the problem. The fund has benefitted from good, albeit short, performance and encouraging investor interest. New investors now exceed the seed capital initially provided from our balance sheet.

In February 2020 we announced that we had reached agreement to acquire from the Los Angeles based asset manager First Pacific Advisors, LP ("FPA") its International Value and World Value equity team ("the Managers").

Polar Capital has made known its desire to build upon its strong UK and European wholesale franchises by attracting specialist active investment strategies that manage products suitable for institutional investors particularly, but not exclusively, in North America.

Subject to regulatory approval, and the successful transfer of the FPA funds into a newly established 40 Act Series Trust organised by Polar Capital, the expectation is that in the last quarter of 2020 the transaction will complete with the Managers, their team and their business transferring to Polar Capital.

Thanks

On behalf of our staff and other Directors, I want to record our thanks for Tom's leadership of Polar's Board from 2007, through the dark days of the GFC of 2008, to the current unprecedented challenges we are all facing due to the COVID-19 pandemic. Tom has proved a wise counsel through challenging times, leading the Board and Executives towards a common goal. On behalf of all his colleagues on the Board and the staff at Polar we wish him a long, happy and healthy retirement.

Outlook

While equity markets have responded to unprecedented central bank and government stimulus, there remains considerable uncertainty as to the long-term impact on global economies. Given this significant macro uncertainty, we have concentrated on the areas where we have some degree of influence and control.

We have focused on team resilience and agility, ensuring portfolios maintain adequate liquidity and are able to respond rapidly to a changing environment as the lockdown is gradually lifted. There remains significant capacity in top quartile funds.

Following the market recovery in April and May, our AuM is at similar levels to that prior to the COVID-19 sell-off, over 70% of our AuM is ahead of benchmark this calendar year to 29 May and we experienced positive net inflows in May. We have continued to pursue our strategy of growth with diversification and, with our highly active specialist funds, are well positioned to perform for our clients and shareholders over the long term.

Gavin Rochussen
Chief Executive
19 June 2020

Financial Review

The Group's financial year has not been as strong as the previous year due to last year's exceptional performance fee profits not being repeated. However, despite reporting on the results of the year just past, it is the Group's short and medium term prospects that are possibly more important. But this is a report on the year to March 2020.

Results for the year – Revenues

Revenues	31 March 2020 £'m	31 March 2019 £'m
Net management fees (net of commissions and fees payable)	119.5	113.5
Performance fees	22.3	51.7
Loss on forward currency contracts	(1.4)	(0.4)
Total net revenues	140.4	164.8
Other income	1.0	1.0
Net income	141.4	165.8

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

The Group's net management fees have crept up from £113.5m in 2019 to £119.5m this year, a 5% increase and in line with the 4% increase in the Group's average assets under management, from £13.6bn last year to £14.1bn this year. The most significant change in the year on year numbers of the Group is the reduction in the quantum of performance fees produced. Last year saw a record £51.7m of such fees generated compared to this year's more modest figure of £22.3m.

Results for the year – Costs

Costs	31 March 2020 £'m	31 March 2019 £'m
Salaries, bonuses and other staff costs[1]	25.6	22.0
Core distributions[1]	27.7	24.5
Core cash compensation costs	53.3	46.5
NIC on share options	-	1.0
Share-based payments[2]	3.0	6.5
Other operating costs	20.8	20.0
Core operating costs	77.1	74.0
Performance fee interests[3]	13.5	27.7
Total operating costs	**90.6**	**101.7**

1. Including share awards under deferment plan of £1.7m (2019: £1.5m).
2. Share-based payments on preference shares, Group share awards and LTIPs.
3. Including share awards under deferment plan of £0.5m (2019: £0.8m).

Total operating costs fell to £90.6m from £101.7m last year.

The increase in salaries, bonuses and other staff costs resulted from the increase in head count in the firm (calendar year end) staff numbers increased from 135 to 147) as the firm invested in its Scandinavia and North America distribution capabilities as well as recruiting its first CIO and establishing its first central dealing desk.

The increase in core distributions was a function of both the success of the Technology team and the lopsided impact of deferment causing this year's costs to be higher than the actual entitlements that this year's profits generated.

The National Insurance cost on share options is a product of both the quantum of options that cause this cost and is sensitive to the Company's share price. The reduction in the provision in 2020 was a product of the reduced quantum of options that fuel this cost as options have been seen to be exercised as well as the lower year end share price.

Other operating costs have increased marginally as a result of absorbing the full impact of back office costs for the four new funds launched part way through the prior year and the increased legal costs relating to the FPA deal. A reduction in MiFID II research costs partly offset these increases.

The fall in performance fee interests to £13.5m from £27.7m from last year is directly correlated to the reduction in performance fee revenues.

Share-based payments

The make-up of costs of share-based payments is as follows:

	31 March 2020 £'m	**31 March 2019 £'m**
Cost attributed to preference shares	0.1	3.1
Cost attributed to LTIPs and initial share award	2.1	2.7
Cost attributed to Group share awards	0.8	0.7
Cost attributed to deferred bonus awards	2.2	2.3
Total cost of share-based payments	**5.2**	**8.8**

Results for the year – Profits

Profits	**31 March 2020 £'m**	**31 March 2019 £'m**
Core operating profit[1,†]	41.6	42.2
Performance fee profit[2,†]	8.8	24.0
Other income[Δ]	0.5	1.0
Profit before share-based payments on preference shares and tax[†]	50.9	67.2
Share-based payments on preference shares	(0.1)	(3.1)

Profit before tax	**50.8**	**64.1**

1. Including cost of LTIP, Group share awards and deferred share awards of £4.6m (2019: £4.9m).
2. Including cost of deferred share awards of £0.5m (2019: £0.8m).

† The non-GAAP alternative performance measures shown here are described on the APM page

Δ A reconciliation to reported results is given on the APM page

The headline profit before tax for the year has fallen by £13.3m to £50.8m from last year's £64.1m.

The Group believes that the best measure of the Group's profitability is the profit before share-based payments on preference shares and tax. The reason for excluding the share-based payments charge on preference shares is that they deliver, when they vest, an uplift to EPS and are not a detractor. On this basis the Group has delivered a fall in profits to £50.9m compared to last year's £67.2m. The analysis of the different components of profits shows that:

- **Core operating profits**
  the marginal decrease in profits reflects an increase in core revenues offset by the additional investment in distribution and oversight capabilities and the impact of deferment mentioned earlier.

- **Performance fee profits**
  weaker relative performance across the product range compared to last year has resulted in the reduction in performance fee profits.

- **Other income**
  the contribution is a product of the return from the portfolio of seed investments held on the Group's balance sheet.

Earnings per share

The effect that the charge for share-based payments has on the EPS figures of the Group is as follows:

	31 March 2020 Pence	31 March 2019 Pence
Diluted earnings per share	41.3	53.6
Impact of share- based payments – preference shares only	0.1	3.2
Impact of deferment, where IFRS defers cost into future periods	(0.7)	(5.3)
Adjusted diluted EPS	**40.7**	**51.5**

Preference shares

A separate class of preference share can be issued by Polar Capital Partners Limited for purchase by each new team of fund managers on their arrival at the firm. 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 2020 (March 2019: 1) there was a single conversion of preference shares into Polar Capital Holdings equity.

As at 31 March 2020 four (2019: five) sets of preference shares have the ability to call for a conversion. The call has to be made on or before 30 November 2020 if any conversion is to take place with effect from 31 March 2020.

Balance sheet and cash

At the year end the cash balances of the Group were £107.8m (2019: £111.7m). The decrease was mainly a result of HMRC's new quarterly tax instalment timetable, which the Group is subject to, and which has resulted in an acceleration of payments to HMRC during this first year of transition to the new rules.

At the balance sheet date the Group held £30.1m of investments in its funds (2019: £35.9m).

Capital management

The Group believes in retaining a strong balance sheet. The capital that is retained in the business is used to either seed new investment products, pay dividends, fund corporate activity or purchase its shares to reduce the dilutive effects of LTIP and option awards. As at March 2020 £30.1m of the Group's balance sheet was invested to seed fledgling funds and during the year the Group spent £10.0m (2019: £10.0m) to fund the EBT in buying shares in the Company at an average price over the year of £5.5 (2019: £6.3). The Group hedges currency and, where possible, market risk on its seed investments.

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

During the year the Group notified the FCA of its intention to change the way it treats seed capital investments in its capital requirements calculation. Going forward, the Group's Pillar 1 and Pillar 2 capital requirements should be sufficient to negate the need to hold specific capital aside as material holdings in relation to the Group's seed investments in the Polar fledgling funds. This change results in an increase in the Group's surplus capital of around £35m.
As at 31 March 2020 the Group has a total capital requirement of £20m (2019: £10m).

As at 31 March 2020 the Group has an indicative surplus capital of £65m (2019: £30m) above its total capital requirement and July dividend commitment.

Business risk

There are a range of risks and uncertainties faced by the Group which are more fully described in the Strategic Report. Amongst the major risks to the business strategy is the loss of assets under management due to markets falling, poor investment performance or the loss of key investment personnel. These events will not only have an immediate impact on the management fees earned by the Group but also deprive the Group of possible performance fees.

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") and the additional forecast and financial models prepared in light of the uncertainty caused by COVID-19.. 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.

Brexit

The Group is manager of only three UK resident products and all are closed end Investment Trusts that are not marketed into continental Europe. The Group is however the appointed manager of an Irish UCITS that is sold throughout Europe. In order to enable the Group's business to continue in a post Brexit world the Company has opened an AMF regulated subsidiary in France through which all European activities, including all European distribution, will be conducted.

John Mansell

Executive Director

19 June 2020

Alternative Performance Measures (APMs)

The Group uses the following Non-GAAP APMs:

Core operating profit

Definition: Profit before performance fee profits, other income and tax.

Reconciliation: Reconciliation of APMs to reported results.

Reason for use: to present users of the accounts with a clear view of what the Group considers to be the results of its underlying operations before items which may either be volatile, non-recurring or non-cash in nature and taxation.

Performance fee profit

Definition: Gross performance fee income less performance fee interests due to staff.

Reconciliation: Reconciliation of APMs to reported results.

Reason for use: to present users of the accounts with 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.

Adjusted diluted earnings per share and adjusted total earnings

Definition: Profit after tax but (a) excluding cost of share-based payments on preference shares and (b) allowing for the net cost of deferred staff remuneration, and in the case of adjusted diluted earnings per share, divided by the weighted average number of ordinary shares.

Reconciliation: Note 6.

Reason for use: to present users of the accounts with a clear view of what the Group considers to be the distributions from its underlying operations. The Group believes that (a) as the preference share awards have been designed to be earnings enhancing to shareholders (See Financial Review) adjusting for this non-cash item provides a better understanding of the financial performance of the Group and (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.

Net management fee

Definition: Gross management fee income less commissions and fees payable.

Reconciliation: Reconciliation of APMs to reported results.

Reason for use: to present a subtotal of fee revenue after accounting for items without which some of the revenue would not have been earned.

Core distributions

Definition: Variable compensation payable to investment teams.

Reconciliation: Reconciliation of APMs to reported results.

Reason for use: to present users of the accounts with additional information not required for disclosure by accounting standards, thereby assisting users of the accounts in understanding key components of variable costs.

Profit before share-based payments on preference shares
Definition: Profit before tax but excluding cost of share-based payments on preference shares.

Reconciliation: Reconciliation of APMs to reported results.

Reason for use: The Group believes that as 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.

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

Any seed investments in newly launched or nascent funds, where the Group is determined to have control (see Note 1), 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.

The summary below 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 and also reconciles key APMs the Group measures to its reported results for the current year.

	FY19/20 Reported results £'m	**Reclassification on consolidation of seed investments £'m**	**FY19/20 Non-GAAP results £'m**	**APM's**
Management fees	130.8	0.1	130.9	
Commissions and fees payable	(11.3)	-	(11.3)	
	119.5	0.1	119.6	Net Management fees
Loss on foreign currency contracts	(1.4)	-	(1.4)	
Core operating costs	(77.0)	0.4	(76.6)	
	41.1	0.5	41.6	Core operating profits
Performance fees	22.3	-	22.3	
Performance fee interests	(13.5)	-	(13.5)	
	8.8	-	8.8	Performance fee profits
Other income	1	(0.5)	0.5	
	50.9	-	50.9	Profit for the year before share-based payments on preference shares
Share-based payments on preference shares	(0.1)	-	(0.1)	
Profit for the year before tax	50.8	-	50.8	

Consolidated Statement of Profit or Loss for the year ended 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Revenue	**151,714**	177,514
Other income	**1,029**	1,023
Gross income	**152,743**	178,537
Commissions and fees payable	**(11,300)**	(12,690)
Net income	**141,443**	165,847
Operating costs	**(90,563)**	(101,768)
Profit for the year before tax	**50,880**	64,079
Taxation	**(10,695)**	(11,692)
Profit for the year attributable to ordinary shareholders	**40,185**	52,387
Earnings per share		
Basic	**43.5p**	57.8p
Diluted	**41.3p**	53.6p
Adjusted basic (Non-GAAP measure)	**42.9p**	55.5p
Adjusted diluted (Non-GAAP measure)	**40.7p**	51.5p

Consolidated Statement of Comprehensive Income for the year ended 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Profit for the year attributable to ordinary shareholders	**40,185**	52,387
Other comprehensive income – items that will be reclassified to profit or loss in subsequent periods		
Net movement on fair valuation of cash flow hedges	**(306)**	(1,617)
Deferred tax effect	**76**	290
	(230)	(1,327)
Exchange differences on translation of foreign operations	**317**	(1,242)
Other comprehensive income for the year	**87**	(2,569)
Total comprehensive income for the year, net of tax, attributable to ordinary shareholders	**40,272**	49,818

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

Consolidated Balance Sheet as at 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Non-current assets		
Property and equipment	**6,271**	1,723
Deferred tax assets	**2,157**	4,075
	8,428	5,798
Current assets		
Assets at fair value through profit or loss	**38,654**	35,125
Trade and other receivables	**14,815**	15,246
Other financial assets	**2,322**	-
Cash and cash equivalents	**107,753**	111,734
Current tax assets	**1,008**	-
	164,552	162,105
Total assets	**172,980**	167,903
Non-current liabilities		
Provisions and other liabilities	**5,387**	1,858
Deferred tax liabilities	**512**	30
	5,899	1,888
Current liabilities		
Liabilities at fair value through profit or loss	**3,457**	1,679
Trade and other payables	**45,102**	46,647
Other financial liabilities	**2,444**	1,668
Current tax liabilities	**-**	6,340
	51,003	56,334
Total liabilities	**56,902**	58,222
Net assets	**116,078**	109,681
Capital and reserves		
Issued share capital	**2,417**	2,365
Share premium	**19,101**	19,059
Investment in own shares	**(24,139)**	(17,930)
Capital and other reserves	**8,341**	9,067
Retained earnings	**110,358**	97,120
Total equity – attributable to ordinary shareholders	**116,078**	109,681

Consolidated Statement of Changes in Equity for the year ended 31 March 2020

	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 2018	2,335	18,872	(9,221)	695	10,746	64,241	87,668
Profit for the year	–	–	–	–	–	52,387	52,387
Other comprehensive income	–	–	–	–	(2,569)	–	(2,569)
Total comprehensive income	–	–	–	–	(2,569)	52,387	49,818
Dividends paid to shareholders	–	–	–	–	–	(27,279)	(27,279)
Dividends paid to third-party interests	–	–	–	–	–	(31)	(31)
Issue of shares	30	187	–	–	–	(28)	189
Own shares acquired	–	–	(9,757)	–	–	–	(9,757)
Release of own shares	–	–	1,048	–	–	(1,029)	19
Share-based payment	–	–	–	–	–	8,859	8,859
Current tax in respect of employee share options	–	–	–	–	691	–	691
Deferred tax in respect of employee share options	–	–	–	–	(496)	–	(496)
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 31 March 2020	**2,417**	**19,101**	**(24,139)**	**695**	**7,646**	**110,358**	**116,078**

Consolidated Cash Flow Statement for the year ended 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Cash flows generated from operating activities		
Cash generated from operations	**58,601**	82,948
Tax paid	**(16,308)**	(8,278)
Interest on lease	**(151)**	-
Net cash inflow generated from operating activities	**42,142**	74,670
Investing activities		
Interest received	**292**	148
Investment income	**192**	431
Sale of assets at fair value through profit or loss	**18,119**	26,449
Purchase of assets at fair value through profit or loss	**(24,123)**	(48,836)
Purchase of property and equipment	**(108)**	(99)
Cash proceeds from disposal of consolidated seed investment	**-**	8,335
Net cash outflow from investing activities	**(5,628)**	(13,572)
Financing activities		
Dividends paid to shareholders	**(30,657)**	(27,279)
Lease payments	**(1,145)**	-
Issue of shares	**43**	189
Purchase of own shares	**(9,707)**	(9,757)
Third-party subscription into consolidated funds	**902**	1,665
Third-party redemptions from consolidated funds	**(63)**	(1,735)
Dividends paid to third-party interests	**-**	(31)
Net cash outflow from financing activities	**(40,627)**	(36,948)
Net (decrease)/ increase in cash and cash equivalents	**(4,113)**	24,150
Cash and cash equivalents at start of the year	**111,734**	87,950
Effect of exchange rate changes on cash and cash equivalents	**132**	(366)
Cash and cash equivalents at end of the year	**107,753**	111,734

Selected notes to the Financial Statements for the year ended 31 March 2020

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

The consolidated financial statements of the Group include the operating subsidiaries listed below. 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 39% 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	Services 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

The consolidated financial statements of the Group also include the following seed capital investments which were judged to be subsidiaries of the Group as at 31 March 2020:

Name	Country of incorporation	Registered office	Principal activities	Percentage of ordinary shares held
Polar Capital Asian Stars Fund	Ireland	4 Georges Court, 54-62 Townsend Street, Dublin	UCITS sub-fund	94.2%
Polar Capital China Stars Fund	Ireland	4 Georges Court, 54-62 Townsend Street, Dublin	UCITS sub-fund	92.2%
Polar Capital China Mercury Fund	Cayman Island	P O Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands	Alternative fund	67.9%

Basis of preparation

The consolidated Group financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

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 COVID-19 pandemic has brought about significant social and economic change globally since the World Health Organisation first declared an international public health emergency at the end of January 2020. Although equity markets have since responded positively to both the easing of lock downs that had been implemented around the world and the unprecedented levels of central bank and government stimulus, there remains considerable uncertainty as to the medium and longer term impact on global economies and financial markets.

The Group has been able to seamlessly adapt to the remote working conditions brought about by the unprecedented government imposed lockdown on 24 March 2020. Management continue to closely monitor the evolving impact that COVID-19 has on the Group and recognise the increased levels of risk across the business. The Group also continues to prioritise the health and wellbeing of its staff and the servicing of its clients.

The Directors have made an assessment of going concern taking into account both the immediate impact of COVID-19 on the Group's results as well 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 2021, 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 2020. 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 prepared for the same reporting period as the parent company and 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 the fund 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 in 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.

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 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 income statement 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

Revenue from contracts with customers

Revenue from contracts with customers represents fees receivable, less commissions payable and 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 management of investment management contracts. Commissions, distribution and research fees payable to third parties are recognised over the period for which the service is provided.

New standards adopted by the Group

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and provides a single on-balance sheet lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless exemptions are availed for lease terms of 12 months or less, or where the underlying asset is of low value.

IFRS 16 was adopted by the Group on 1 April 2019 using the modified retrospective approach permitted by the standard. The lease liability has been measured on initial application as the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. A corresponding Right-of-Use (ROU) asset has been recognised on a retrospective basis as if IFRS 16 had always been applied. The weighted average lessee's incremental borrowing rate applied on 1 April 2019 was 2.25%.

The effect of adoption of IFRS 16 is as follows:

Impact on the Consolidated Balance Sheet (increase/(decrease)) as at 1 April 2019:

Assets	**£'000**
Property and equipment – ROU asset	**5,801**
Deferred tax asset	**72**
Total non-current assets	**5,873**

Liabilities

Lease liabilities*	**7,067**
Other provisions	**(883)**
	6,184

Equity

Retained earnings	**(311)**

* This represents the operating lease commitments of £7.6m disclosed in the 2019 Annual Report in note 4.11 discounted using an weighted average incremental borrowing rate as at 1 April 2019 of 2.25%.

Impact on the consolidated statement of profit and loss (increase/(decrease)) for year ended 31 March 2020:

	£'000
Depreciation	**1,009**
Rent expense	**(1,146)**
Interest on lease liability	**151**
Increase in operating costs	**14**

The change in accounting policy did not result into a material impact on the basic and diluted EPS.

In applying the modified retrospective approach to IFRS 16 the Group has used the following practical expedients allowed by the standard:

- applied the new rules to leases previously identified in accordance with IAS 17 Leases and IFRIC 4 determining whether an arrangement contains a lease;
- applied the recognition exemption for leases where the lease term ends within 12 months of 1 April 2019 and for leases of low value;
- excluded initial direct costs from the measurement of the right-of-use asset at 1 April 2019;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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.

2. Revenue

	31 March 2020 £'000	31 March 2019 £'000
Investment management and research fees	**130,837**	126,197
Investment performance fees	**22,297**	51,720
Loss on forward currency contracts	**(1,420)**	(403)
	151,714	177,514

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 income (based on the residency of source)

	31 March 2020 £'000	31 March 2019 £'000
UK	**29,658**	31,923
Ireland	**115,019**	138,722
Cayman	**7,418**	5,002
Rest of Europe	**1,039**	2,270
Loss on forward currency contracts	**(1,420)**	(403)
	151,714	177,514

3. Operating costs

a) Operating expenses include the following significant costs:

	31 March 2020 £'000	31 March 2019 £'000
Staff costs including partnership profit allocations	**68,599**	79,603
Depreciation	**1,361**	347
Auditors' remuneration	**159**	145
Operating lease rentals – land & buildings	**-**	1,314

With the adoption of IFRS 16, operating lease rentals on land and buildings are no longer charged to the consolidated profit and loss account.

b) Auditors' remuneration:

	31 March 2020 £'000	31 March 2019 £'000
Audit of Group financial statements	**66**	55
Local statutory audits of subsidiaries	**48**	40
Other fees		
– internal controls review	**45**	45
– tax advisory services	**-**	5
	159	145

4. Dividends paid and proposed

Dividends on ordinary shares declared and paid during the year:

	31 March 2020 £'000	31 March 2019 £'000
First interim dividend for 2020: 8.0p (2019: 8.0p per share)	**7,407**	7,299
Second interim dividend for 2019: 25.0p (2018: 22.0p)	**23,250**	19,980
Total dividend paid and charged to equity	**30,657**	27,279

The Board has declared a second interim dividend of 25.0p (2019: 25.0p) to be paid in July 2020.

Together with the first interim dividend of 8.0p paid in January 2020 the total dividend for the year amounts to 33.0p (2019: 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 2020 £'000	31 March 2019 £'000
Preference shares	**89**	3,147
LTIP and initial share awards	**2,047**	2,649
Equity incentive plan	**806**	750
Deferred remuneration plan	**2,217**	2,313
	5,159	8,859

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.

In the year to 31 March 2020 there was one new conversion of preference shares into Polar Capital Holdings equity (2019: one). The initial conversion calculation is made in relation to the crystallisation period ended 31 March 2019 and results in an initial crystallisation value equivalent to the issue of up to 1,442,064 new ordinary shares. This calculation is repeated at each of the first, second and third anniversaries of the crystallisation event date, 31 March 2019, based on the profits of the business unit for the 12 months ended on the respective anniversary. If the result of the re-calculation provides for a smaller share consideration, then the shares issued to the owners of the preference shares are adjusted accordingly. The effect of such a re calculation is to cap the shares issued on conversion to 1,442,064 and allow the Group to adjust the remaining number of unissued shares downwards in case of a deterioration in performance of the relevant investment team post the crystallisation event date of 31 March 2019.

At 31 March 2020 four sets of preference shares (2019: five 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 2020 Number of shares	31 March 2019 Number of shares
At 1 April 2019	**6,628,293**	8,427,313
Conversion/crystallisation	**(1,442,064)**	(4,060,074)
Movement during the year	**(509,347)**	2,261,054
At 31 March 2020	**4,676,882**	6,628,293

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

	31 March 2020 Number of shares	31 March 2019 Number of shares
Outstanding at 1 April 2019	**3,654,068**	-
Conversion/crystallisation	**1,442,064**	4,060,074
Adjustment on re-calculation	**-**	-
Issued in the year	**(1,362,228)**	(406,006)
Outstanding at 31 March 2020	**3,733,904**	3,654,068

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 2020 £'000	31 March 2019 £'000
Earnings		
Profit after tax for purpose of basic and diluted EPS	**40,185**	52,387
Adjustments (post tax):		
Add back cost of share-based payments on preference shares	**89**	3,147
Less net amount of deferred staff remuneration	**(682)**	(5,224)
Profit after tax for purpose of adjusted basic and adjusted diluted EPS	**39,592**	50,310

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.

	31 March 2020 Number of shares '000	31 March 2019 Number of shares '000
Weighted average number of shares		
Weighted average number of ordinary shares, excluding own shares for purpose of basic and adjusted basic EPS	**92,276**	90,568
Effect of dilutive potential shares – share options and preference shares crystallised but not yet issued	**5,020**	7,104
Weighted average number of ordinary shares, for purpose of diluted and adjusted diluted EPS	**97,296**	97,672

	31 March 2020 Pence	31 March 2019 Pence
Earnings per share		
Basic	**43.5**	57.8
Diluted	**41.3**	53.6
Adjusted basic	**42.9**	55.5
Adjusted diluted	**40.7**	51.5

7. 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 as well as the comparative period, all fair value through profit or loss financial instruments held by the Group were Level 1 and all open forward foreign exchange contracts were Level 2. The open forward foreign exchange contracts are held at fair value using valuation techniques that incorporate foreign exchange spot and forward rates.

During the reporting period there were no transfers between levels in fair value measurements. There are no level 3 financial instruments.

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

31 March 2020

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Assets at FVTPL	**38,654**	**-**	**-**	**38,654**
Other financial assets	**2,322**	**-**	**-**	**2,322**
	40,976	**-**	**-**	**40,976**
Financial Liabilities				
Liabilities at FVTPL	**3,457**	**-**	**-**	**3,457**
Other financial liabilities	**-**	**2,444**	**-**	**2,444**
	3,457	**2,444**	**-**	**5,901**

31 March 2019

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Assets at FVTPL	35,125	-	-	35,125
Other financial assets	-	-	-	-
	35,125	-	-	35,125

Financial Liabilities				
Liabilities at FVTPL	1,679	-	-	1,679
Other financial liabilities	506	1,162	-	1,668
	2,185	1,162	-	3,347

8. Notes to the Cash Flow Statement

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

	31 March 2020 £'000	31 March 2019 £'000
Cash flows from operating activities		
Profit on ordinary activities before tax	**50,880**	64,079
Adjustments for:		
Interest receivable and similar income	**(313)**	(149)
Investment income	**(279)**	(427)
Interest on lease	**151**	-
Depreciation of non-current property and equipment	**1,361**	347
Decrease/ (increase) in fair value of assets at fair value through profit or loss	**581**	(932)
(Decrease)/ increase in other financial liabilities	**(1,940)**	967
Decrease/ (increase) in receivables	**431**	(2,323)
(Decrease)/ increase in trade and other payables	**(2,751)**	12,391
Decrease in provisions and other liabilities	**-**	(168)
Share-based payments	**5,159**	8,859
Increase/ (decrease) in fair value of liabilities at fair value through profit or loss	**404**	(42)
Release of fund units held against deferred remuneration	**4,917**	346
Cash generated from operations	**58,601**	82,948

9. 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.

10. Status of results announcement

The Board of Directors approved this results announcement on 19 June 2020. 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 2020 or 31 March 2019.

The financial information has been extracted from the statutory accounts of the Group for the years ended 31 March 2020 and 31 March 2019. The auditors reported on those accounts; their reports were unqualified and did not contain a statement under either Section 498 (2) or Section 498 (3) of the Companies Act 2006 and did not include references to any matters to which the auditor drew attention by way of emphasis.

The statutory accounts for the year ended 31 March 2019 have been delivered to the Registrar of Companies and those for the year ended 31 March 2020 will be delivered to the Registrar of Companies in due course.

Directors

T H Bartlam	Non-executive Chairman
G M Rochussen	Chief Executive
J B Mansell	Executive Director
B J D Ashford-Russell	Non-executive Director
J M B Cayzer-Colvin	Non-executive Director
A J Coates	Non-executive Director, Chair of Audit Committee
W E Robbins	Non-executive Director, Chair of Remuneration Committee
D J Lamb	Non-executive Director
A J S Ross	Non-executive Director

Company No. 4235369

Registered Office

16 Palace Street
London, SW1E 5JD
Tel: 020 7227 2700

Group Company Secretary

Neil Taylor

Copies of Report and Accounts and Notice of Annual General Meeting (AGM)

The annual report and accounts together with the Notice of AGM will be posted to shareholders in June 2020 and copies will be available thereafter from the Company Secretary at the Company's Registered Office, 16 Palace Street, London SW1E 5JD (020 7227 2700) or from the Company's website at www.polarcapital.co.uk

The AGM will be held as a closed-door meeting in line with current government guidelines. Please see the Notice of AGM for further information.

Forward looking statements

This preliminary announcement contains certain forward-looking statements with respect to the financial condition, results of operations and businesses and plans for Polar Capital Holdings plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that have not yet occurred. There are a number of different factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Nothing in this statement should be construed as a profit forecast.

The release, publication, transmission or distribution of this announcement in jurisdictions other than the United Kingdom may be restricted by law and therefore persons in such jurisdictions into which this announcement is released, published, transmitted or distributed should inform themselves about and observe such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction.

Neither the contents of the Company's website nor the contents of any website accessible from the hyperlinks on the Company's website (or any other website) is incorporated into or forms part of this announcement.