POLAR CAPITAL

Polar Capital Holdings plc

Annual Report and Accounts for the year ended 31 March 2019

At a Glance

Polar Capital Holdings plc is a specialist, investment led, active fund management company with a collegiate and meritocratic culture where the capacity of investment strategies is managed to enhance and protect performance.

Contents

Who we are

Since its foundation in 2001, the Polar Capital Group has grown to support 12 investment teams managing 23 funds, 3 investment trusts and 2 managed accounts across a range of long-only and alternative products, with combined AUM at 31 March 2019 of £13.8bn.

Polar Capital Holdings plc ordinary shares are traded on the Alternative Investment Market under the ticker "POLR.LN".

Our Office Locations

UK – Japan – Channel Islands – U.S.A.
China – France – Spain – Germany

Our Philosophy

Primacy of investment performance

Institutional robustness across operations, compliance, risk and relationship management

Diversified yet complementary set of funds with a focus on fundamental research driven strategies

A flexible, entrepreneurial and transparent culture

High equity ownership amongst staff

An environment in which talent can flourish and be well rewarded

Highlights

Financial

Assets Under Management (AUM)

2019	£13.8bn
2018	£12.0bn

Core Operating Profit†

2019	£42.2m
2018	£27.8m

Profit before Share-Based Payments on Preference Shares†

2019	£67.2m
2018	£46.4m

Pre-tax Profit

2019	£64.1m
2018	£41.3m

Basic EPS

2019	57.8p
2018	36.4p

Adjusted Diluted EPS†

2019	51.5p
2018	36.6p

Dividends

2019	33p
2018	28.0p

Shareholders' Funds

2019	£109.7m
2018	£87.7m

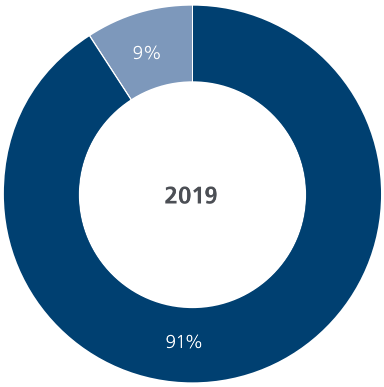
† The non-GAAP alternative performance measures shown here are described on page 21.

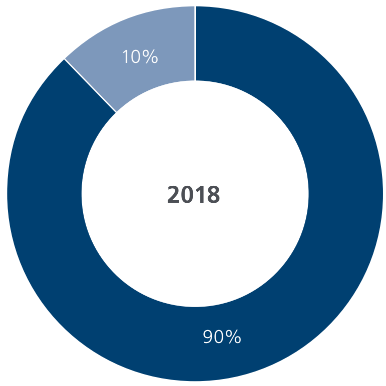
Corporate

In the final six months of the financial year we launched and seeded our Asian Stars and Global Absolute Return funds, bringing the total new fund launches in the year to five.

Assets Under Management

AUM split by Type

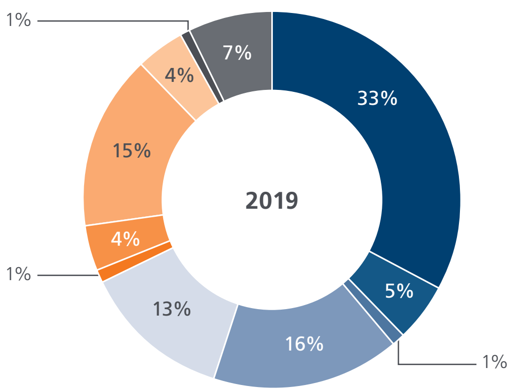


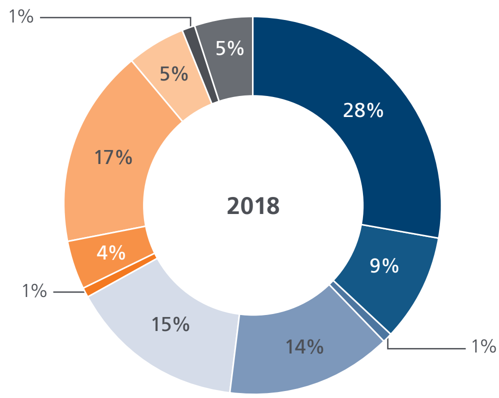


	31 March 2019	
	£bn	%
Total long-only	12.5	91%
Total alternative	1.3	9%
	13.8	

	31 March 2018	
	£bn	%
Total long-only	10.8	90%
Total alternative	1.2	10%
	12.0	

AUM split by Strategy
(In chronological order)





	31 March 2019	
	£bn	%
Technology	4.5	33%
Japan	0.7	5%
European Long/Short	0.2	1%
Healthcare	2.2	16%
Financials	1.8	13%
Emerging Markets Income	0.1	1%
Convertibles	0.6	4%
North America	2.1	15%
UK Absolute Return	0.5	4%
European Income	0.2	1%
UK Value	0.9	7%
Emerging Markets and Asia	–*	–
	13.8	

	31 March 2018	
	£bn	%
Technology	3.3	28%
Japan	1.0	9%
European Long/Short	0.2	1%
Healthcare	1.6	14%
Financials	1.8	15%
Emerging Markets Income	0.2	1%
Convertibles	0.5	4%
North America	2.0	17%
UK Absolute Return	0.5	5%
European Income	0.2	1%
UK Value	0.7	5%
Emerging Markets and Asia	–	–
	12.0	

* AUM at 31 March 2019 comprised seed capital of £21m (2018: nil).

Strategy and Business Model

The Group's aim is to remain a leading specialist, investment led, active fund manager through a strategy of delivering to professional and institutional investors a range of fundamentally driven investment products that deliver differentiated risk adjusted returns over the long-term.

Our focus is investment performance over and above the gathering of assets. We believe there is an alignment of interest between the investment managers we recruit, their focus on delivering superior returns and the interests of professional and institutional clients who are seeking differentiated investment products.

Objectives

- be a leading global investment management boutique
- be a strong and dependable partner to our clients offering them a range of attractive and differentiated investment products
- deliver first quartile fund performance over the investment cycle
- maintain a robust operational infrastructure
- sustain high levels of corporate governance and transparency
- preserve a strong balance sheet

Business model

The Group operates as a scalable business platform for specialist, active fund management teams and is structured into three main business areas: Fund Management, Operations and Distribution.

The Group currently supports 12 investment teams that manage a range of long-only and alternative products, including open-ended UCITS funds, closed-ended investment trust companies, alternative funds and segregated accounts.

The Group maintains a robust and scalable operational infrastructure and system of risk control. Third party service providers are used to provide portfolio accounting, custody and back office services to ensure resources are concentrated on fund management. The operations team provides the Group with support in the areas of compliance, risk monitoring, IT, product management, finance and the oversight of the third party service providers.

The Group's sales and marketing teams distribute its products in the UK and internationally to wholesale professional investors only.

Strategy for further growth

Investment strategies

- add complementary Global/International equities capability to appeal to institutional investors
- selectively extend existing teams to provide additional capacity

Distribution

- focus on building the institutional channel
- increase US client assets over time
- increase distribution capability in Continental Europe
- access sales opportunities in Asia and Australia

Chairman's Statement

Tom Bartlam
Chairman

The past year has been dominated from a macro perspective by the impact of ongoing US/China trade talks, whether the Federal Reserve will or will not hike interest rates and, closer to home, Brexit.

There is still great uncertainty on how these issues are going to play out as, while the US continues to openly threaten China with $250bn+ in tariffs, Presidents Trump and Xi have dates in their diaries to continue talks; the Federal Reserve has seemingly ruled out an interest rate hike in the short term; and, as I wrote last year: "We remain unclear on what the potential impact of Brexit might be".

As for the markets, we have experienced a volatile 12 months. Overall strong markets in our first half to 30th September 2018 were followed by the worst quarter since the global financial crisis, which in turn was followed in the last three months of our financial year to 31st March 2019 by the best quarter for nearly a decade.

Against this background we have seen our AUM rise during the course of the year from £12.0bn to £13.8bn, having peaked at £14.7bn in September 2018. Of this increase in AUM approximately 30% arose from net inflows with the balance from market movements. The performance of our various fund strategies was a little more varied than in the previous financial year, which is not wholly surprising in a year of such market volatility. However overall the majority of our funds continued to outperform their benchmarks.

During the period we launched a number of new funds and one new strategy. The Emerging Market Stars Fund was the first launched by the team who joined the Group in July 2018 and was followed by the launch of the China Stars Fund and the Asian Stars Fund both run using the same investment philosophy. At the end of the year we also launched the Global Absolute Return Fund, run by our Convertibles team.

During the year we were pleased to be given awards for our UK Absolute Equity, Technology and Global Convertibles funds with Polar Capital picking up a management firm of the year award.

Results

The year saw a material increase in profitability, with core profits increasing by 52% and net performance fees increasing by 57%. Profit attributable to ordinary shareholders increased from £32.8m to £52.4m and adjusted diluted earnings per ordinary share, after allowing for share-based payments on preference shares and deferred remuneration costs, rose by 41% from 36.6p to 51.5p. Our Balance Sheet remains strong with net assets of £109.7m and net cash of £111.7m.

Dividend

As previously stated the Board expects in normal circumstances to pay an annual dividend within a range of 55% and 85% of adjusted total earnings and dependent on the scale of performance fees in the relevant year.

The second interim dividend to be paid will be 25p (2018: 22.0p) to be paid in July. Together with the first interim dividend of 8.0p paid in January 2019 the total dividend for the year amounts to 33p.

Management change

Alexander (Sandy) Black joined the Group as Chief Investment Officer on 1 January 2019. He is responsible for oversight of the Group's investment strategies, incorporating style and risk analysis, trading and ESG characteristics.

The executive management team now comprises Gavin Rochussen (CEO), John Mansell (COO and FD), Iain Evans (Head of Global Distribution) and Sandy Black (CIO).

Board changes

In July 2018 we announced the appointment of Alexa Coates and Quintin Price as Non-Executive Directors. Alexa has been appointed Chair of the Audit Committee. We welcome them both to the Board.

As reported in my statement last year Hugh Aldous and Tim Woolley both retired at the conclusion of the AGM in July 2018.

Michael Thomas retired in November 2018 having been a Director since 2008. We thank him for the contribution he has made as a Non-Executive Director and Chairman of the Remuneration Committee over many years. I am pleased to report that Win Robbins has been appointed the Chair of the Remuneration Committee.

Annual General Meeting

Once again our AGM will be held at our offices at 16 Palace Street, London, SW1E 5JD. The meeting will be on 31 July 2019 commencing at 2:30pm. Although we do not give a trading update at the meeting, I encourage shareholders to attend so that they can meet the Directors after the meeting.

Details of the AGM, including an explanation of the proposed resolutions, are contained in the separate Notice of Meeting.

Outlook

Despite the macroeconomic and geopolitical challenges that appear to have become a constant backdrop over the recent past, we have started the new financial year with good momentum in terms of both fund performance and fund flows.

Whilst market volatility is expected to remain as political tensions at home and abroad continue, we believe that with a diverse range of actively managed, specialist fund strategies we are well positioned for the future.

Tom Bartlam

Chairman

21 June 2019

Chief Executive's Report

Gavin Rochussen
Chief Executive

Market background

A number of factors combined to make 2018 a tough year for equity markets. US tax cuts led to strong economic conditions and healthy corporate earnings growth following the 2016 presidential election, but the hangover began in 2018. The unpredictable path of trade talks between China and the US, economic weakness in China, and slowing business and consumer activity in the UK led to a more uncertain investment environment just as the US Federal Reserve began contemplating further interest rate rises. The decade of quantitative easing had ended and uncertainty about the pace of quantitative tightening was weighing on markets as sentiment turned.

Emerging markets were the first to suffer, followed by the UK and Europe, with US equities joining the sell-off in the final quarter of 2018. Many of the widely owned technology companies which had led the market higher were hit particularly hard. December 2018 was the worst December for global equity markets since 1988 and contributed to the worst year for equities since the 2008 financial crisis. Sector leadership shifted dramatically from technology to utilities, indicating rising risk aversion. Investors sold equities indiscriminately, leading to very oversold conditions by year end.

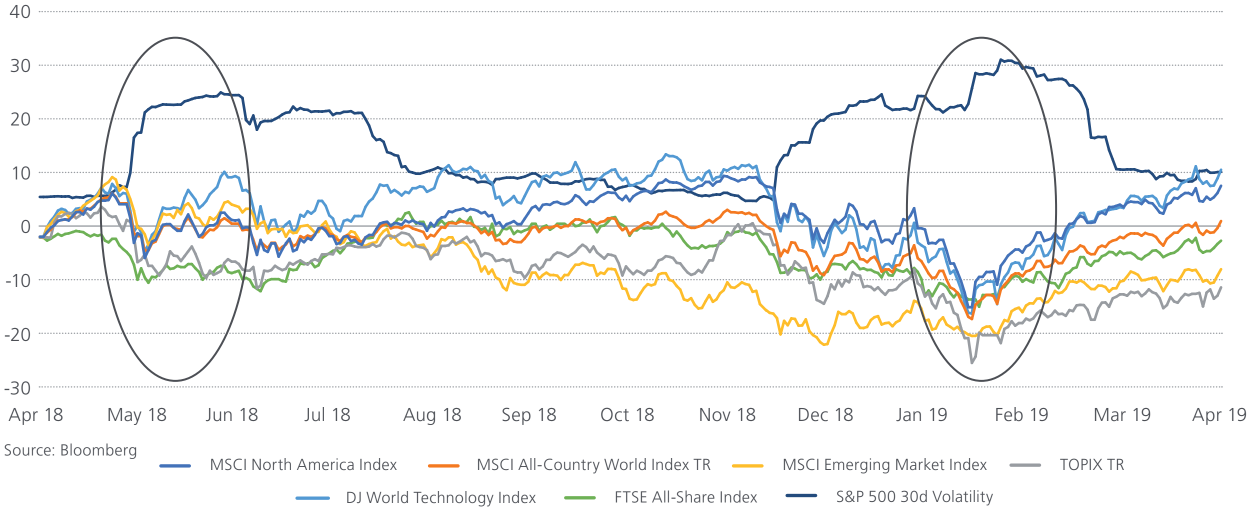
Inflation expectations fell in the second half of 2018, in part due to oil price weakness, but also because lower unemployment, particularly in the US, did not lead to sharp wage rises. These factors contributed to a rally in government bonds yet despite this and concerns about slowing economic growth, most bond yield curves have not inverted.

The storm abated somewhat in the first quarter of 2019, the final quarter of Polar Capital's financial year. The sharp equity market falls of the fourth quarter of 2018 almost entirely reversed while the first quarter of 2019 was the second strongest on record for global equities (+12%) and the best quarter for the US market since the third quarter in 2009. The Federal Reserve had a change of view, moving from a bias towards raising interest rates to an easier monetary policy stance, and the high level of pessimism and risk version in the final weeks of 2018 proved to be a low point from which investor expectations became more positive. The Chinese equity market's 25% rise during this period was eye-catching, reflecting the authorities' attempts to stimulate the economy again via tax cuts, prompting domestic investor interest in locally quoted shares, while international investors have been buying Hong Kong and New York-listed Chinese companies.

Technology has resumed sector leadership while financials was the weakest sector in the first three months of 2019, depressed by the impact on future earnings of lower interest rates and a flatter yield curve. European banks also had to contend with persistently low profitability and the ramifications of money laundering accusations in the Baltics. Corporate earnings revisions, which were in persistent decline during 2018, have begun to recover across most sectors.

While there are grounds for investor optimism based on Chinese stimulus, US productivity growth and a healthy corporate sector, decision-making for investors in the UK equity market continues to be made more difficult by Brexit uncertainty, which in turn affects companies' investment intentions and hiring plans. Sterling has at least found a degree of equilibrium, with few investors willing to take a view either way due to the unpredictable range of outcomes.

Global Indices vs Volatility



Source: Bloomberg

A year of two halves for Polar Capital

The financial year to 31 March 2019 was a year of two distinct halves for the Company. The first six months to September 2018 was a period of rising markets accompanied by global demand for risk assets. As reported at the half-year, Polar Capital benefited from rising markets and closed the half year with record net inflows and posted its highest AUM since the Group was founded in 2001.

The market correction in October, followed by a significant sell-off in December, resulted in redemptions globally of assets. Polar Capital was not immune to this and suffered a £2bn decline in AUM during the quarter as a consequence of net outflows and market declines. Despite this volatility, our funds posted a record year for performance fees, the majority of which crystallise annually in December. The Polar Capital share price, alongside all our publicly quoted peers, declined to levels of a year earlier and reflected a deterioration in sentiment towards quoted asset managers as PE multiples for the sector contracted.

In the following quarter, the fourth and final of our financial year, we benefited from the sharp recovery in markets with reduced outflows in each successive month in that quarter and we have experienced positive net inflows in the period subsequent to our year-end. Our total AUM recovered by £1.1bn in the last quarter to close the financial year at £13.8bn, an increase of £1.8bn over the full financial year.

Fund performance and fund oversight

Testifying to the quality and experience of our active fund managers, strong culture and robust fund oversight, our funds performed well throughout the more volatile period and continued to produce pleasing returns for our clients.

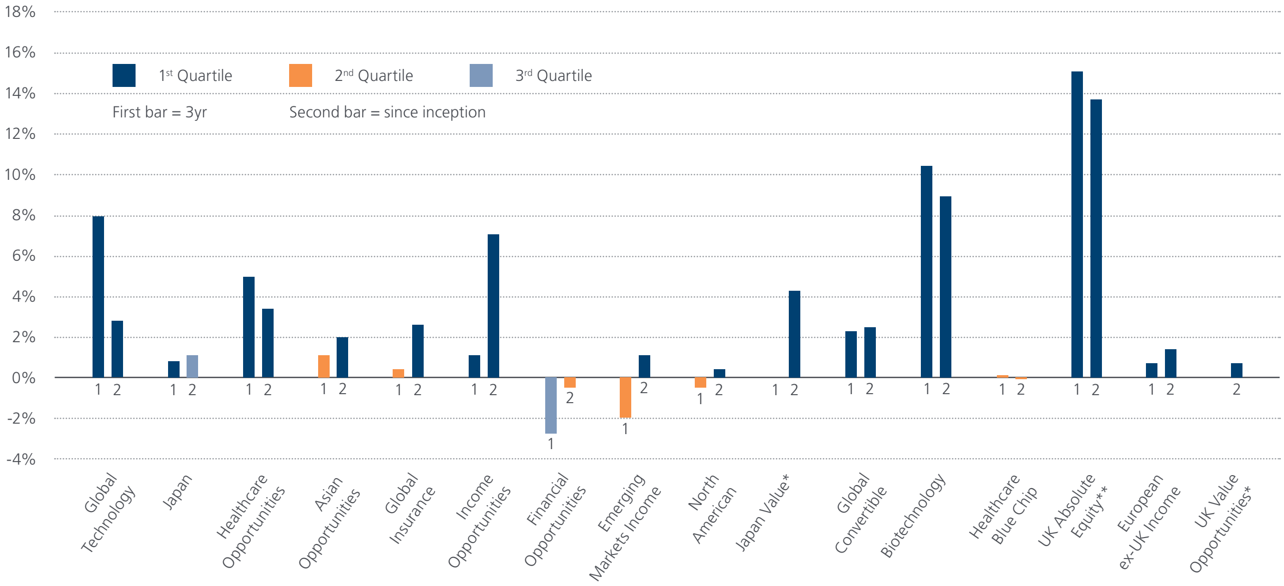
Fund performance this financial year reflects an investment environment marked by significant changes in equity market direction and investor attitude. Polar Capital's established Healthcare and Technology teams managed to weather the changes in style preference and investor risk appetite, with both strategies outperforming their benchmarks. A more risk averse backdrop also suited the Emerging Market Income and European ex-UK Income strategies, both of which performed well over the year. An increase in volatility created favourable conditions for the Convertibles team too.

Other strategies had a tougher time. The North American strategy underperformed, as did UK Value Opportunities, the latter in part due to sterling weakness and Brexit uncertainty hampering the smaller, economically sensitive businesses where the team often finds value. The Emerging Market Stars strategy, launched in July 2018, underperformed in the sharp emerging markets sell-off last year but began to post better performance numbers in the early months of 2019.

The net performance fees earned by our funds in the 2018 calendar year was £24m, compared to £15.3m in the previous year. The following chart shows fund performance over three years and since inception against benchmark, as well as indicating the Lipper peer-group ranking for each of our open-ended funds.

Chief Executive's Report continued

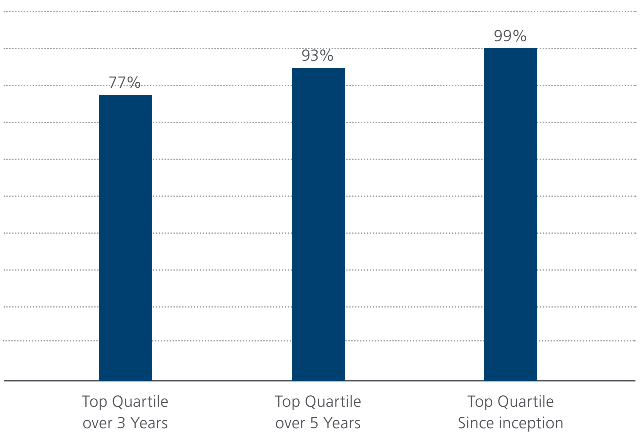
Annualised UCITS fund performance against benchmark (3yr & since inception)



Source; Polar Capital factsheet data, 31 March 2019 and Lipper quartile rankings, 31 March 2019. * 3 year data is unavailable for these funds. **Absolute return product, Benchmark: 3 month GBP LIBOR. Funds ordered according to launch date.

As at 30 April 2019, the Lipper percentile rankings for our UCITS fund range showed 99% of the funds in the top quartile against peer group since inception, with 93% and 77% in the top quartile over five and three years respectively.

Performance over time for long and alternative UCITS funds AUM

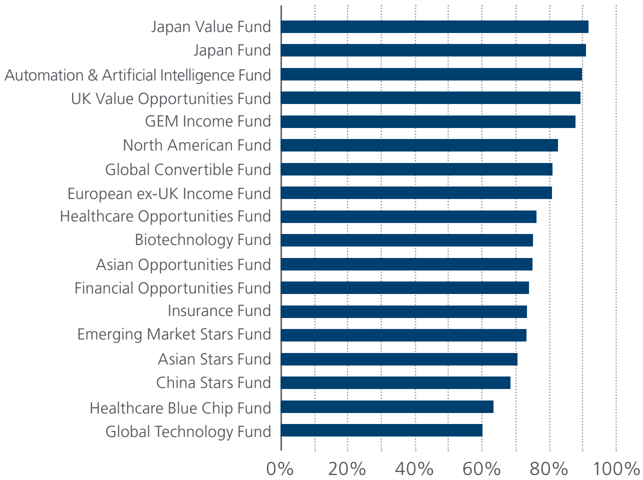


Source: Lipper figures for long-only and alternative UCITS funds at 30 April 2019.

Our actively managed strategies show high "active share" characteristics as reflected in the following chart. The Technology fund's active share (aggregate difference between portfolio weights and benchmark weights in each security) of 60%, the lowest of all our strategies, reflects the dominance of the mega cap technology names in its specialist sector benchmark.

The majority of our funds demonstrate active share of between 70% and 90%.

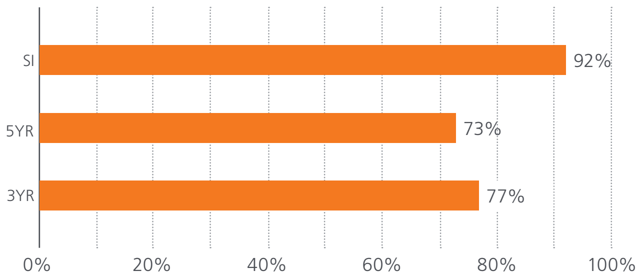
Current active share



Source: Lipper figures for long-only and alternative UCITS funds at 30 April 2019.

Demonstrating the benefits of active investing, the Polar Capital Global Insurance Fund celebrated its 20th year since inception with cumulative outperformance to 30 April 2019 of 433% (net of fees) versus the benchmark.

Percentage of AUM that has outperformed benchmark



Source: Polar Capital, 31 March 2019. Performance aggregated for all funds excludes funds launched in past 5 years.

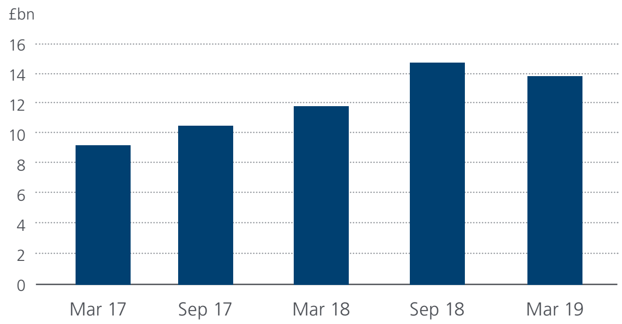
Polar Capital focuses on investment performance and its oversight process monitors underlying fund liquidity on a daily basis. Fund liquidity and concentration are key determinants of capacity. Capacity management seeks to enhance and maintain performance through the cycles. Total cumulative fund liquidity across all Polar funds as at 31 May 2019 indicates that 80% of fund positions could be liquidated within 10 days. Illiquid holdings across all our funds comprise 8 positions and represent less than 0.2% of total Group AUM at 31 May 2019.

There has been an increasing focus by our clients on shareholder engagement and sustainability within our underlying portfolio companies. During the year we have developed our approach such that ESG assessment is embedded and integral to each of our team's investment processes. While we do not believe in negative screening, we rank each of our funds on their ESG credentials and each manager is expected to ensure underlying portfolio companies are improving their ESG credentials on an ongoing basis. Polar Capital has signed up to the United Nations Principles of Responsible Investing (UNPRI) and meets all the criteria required by the UNPRI Charter.

AUM and fund flows

AUM increased by £1.8bn from £12bn to £13.8bn with £0.5bn of net inflows and £1.3bn from market uplift and performance. AUM increased by 15% over the year. The average AUM for the year was £13.2bn compared to £10.7bn the previous year which represents a 23% increase and is the key driver of increased management fee revenue.

Polar Capital AUM

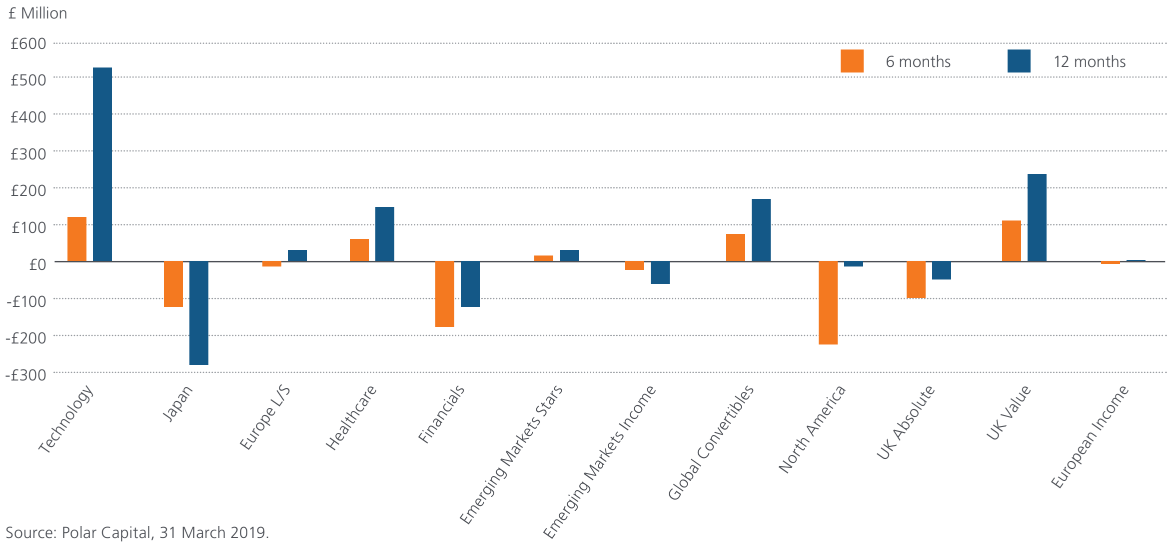


Source: Polar Capital.

Net inflows were positive across 14 of our 23 funds with 9 funds registering negative net flows in addition to one fund which was closed during the year. The December quarter sell-off impacted the North American, Global Insurance, Technology and Japan strategies the most as investors reduced risk following asset allocation changes.

In the twelve months to 31 March 2019, the Technology Fund dominated the net inflows followed by the UK Value Fund, Healthcare Fund and the Global Convertible Bond Fund. The Japan Fund continued to suffer redemptions following a challenging performance period, with net outflows for our Global Financials team, the North American Fund and the UK Absolute Return Fund.

Strategy fund flows for 6 months and 12 months to 31 March 2019



Source: Polar Capital, 31 March 2019.

Chief Executive's Report continued

Results

	31 March 2019 £'m	31 March 2018 £'m	Change %
Core operating profit†	42.2	27.8	52%
Performance fee profit† (net)	24.0	15.3	
Other income	1.0	3.3	
Profit before share-based payments on preference shares and tax†	67.2	46.4	45%
Share-based payments on preference shares	(3.1)	(5.1)	
Profit before tax	64.1	41.3	55%
Profit attributable to shareholders	52.4	32.8	
Adjusted diluted earnings per share† (non-GAAP measure)	51.5p	36.6p	41%

† The non-GAAP alternative performance measures shown here are described on page 21.

Net management fees, after commission and rebates payable, increased by 25% from £90.3m to £113.5m as result of average AUM increasing by 23% to £13.2bn from £10.7bn. Net revenue margin remained constant over the two years.

Core profit (excluding performance fees and financial income) for the year was £42.2m, an increase of 52% on the previous year's £27.8m.

Net performance fee profit amounted to £24m (2018: £15.3m), a record year for the Company. Not only was this a marked increase on the previous year, but performance fees were earned by an increased number of our funds notwithstanding the period of increased market volatility in the last quarter of calendar 2018.

The decline in other income from £3.3m in 2018 to £1.0m was a consequence of abnormally high other income in 2018 which arose from gains in seed capital in funds not repeated in 2019.

During the year the Healthcare team elected to crystallise their preference shares which allows the issue of up to 4,060,074 ordinary shares over a three year period and which can be adjusted downwards if team profitability declines. The crystallisation also results in an enhancement to EPS of 3p.

Net profit after tax attributable to shareholders was £52.4m, an increase of 60% on the £32.8m reported in the prior year.

The adjusted diluted earnings per share, adjusting for share-based payments on preference shares and deferred remuneration costs, rose by 41% to 51.5p from 36.6p in the prior year.

Regulatory backdrop

MiFID II which governs how we target investors, trade on their behalf and how those trades are monitored became effective on 3 January 2018.

Following the first full year of its application we have absorbed the impact of additional research costs where these are borne by the Group rather than the funds.

GDPR which determines how we communicate with clients as well as use and store their data became effective on 25 May 2018 and the Group was fully prepared and compliant by the implementation date. One year on, Polar Capital continues to review controls, monitor, consent, notices and undertakings as well as provide staff with reminders and training on an ongoing basis to ensure continual compliance.

We have also carefully considered the results of the FCA Asset Management Market Study on 5 April 2018 and we are confident that we meet all key recommendations. With regards to the principal recommendation, due to our philosophy of active fundamental research driven processes, we believe we offer good value for money to our clients.

The Senior Managers and Certification Regime (SMCR) is part of the UK regulator's drive to improve culture, governance and accountability within financial services firms. It aims to deter misconduct by improving individual accountability and awareness of conduct issues across firms. In particular, it aims to achieve three different things: first, to focus on accountability for misdeeds on a narrow number of individuals at or near the top of the hierarchies of FCA regulated financial institutions; second to encourage these senior individuals to take greater responsibility for their direct actions, as well as indirect behaviour that contributes to a laissez-faire culture; and last, to make it easier for regulators, auditors and bank employees to hold specific individuals to account for malfeasance. Initially only applicable to a specific group of financial institutions (including banks), from 9 December 2019, SMCR will be applicable to almost all firms regulated by the FCA as well as to non-UK firms with permission to carry out regulated activities in the UK. We are prepared for the upcoming application of SMCR and do not expect a material effect on the operations, current responsibilities and the effectiveness of our key managers.

The Packaged Retail and Insurance-based Investment Products (PRIIPs) required the preparation of a Key Investor Document (KID) for any product determined to be a PRIIP and for this to be "made available" to retail investors in the EU. The obligation falls on manufacturers of the PRIIP which, in a funds context, is the manager behind the fund. The manufacturer will also have an obligation to publish the KIDs on its website to ensure they are widely available. Polar Capital Investment Trust KIDs were available by the 1 January 2018 deadline while the transition period to produce KIDs for Polar Capital UCITS was extended until December 2021.

Given the significant additional regulation coming into effect as well as contingency planning for Brexit, we have increased the capacity within our legal and compliance team to ensure we meet all new regulatory requirements to cope with a growing business which requires increased ongoing compliance monitoring.

Brexit

While there remains uncertainty as to the final outcome of Brexit, we have taken actions to ensure we are well placed to service our clients in the EU irrespective of the final outcome of the negotiations. We have established Polar Capital (Europe) SAS (PCE) in Paris which has regulatory approval from the French regulator, the Autorité des Marchés Financiers (AMF). Key oversight, risk management and European sales personnel are part of the French regulated entity. With clients accounting for approximately 30% of our AUM based in Europe, PCE enables us to continue to passport our funds into the EU for marketing and client servicing purposes.

Approximately 70% of our AUM is held by UK based clients of which approximately a quarter is invested in our three Investment Trusts – The Polar Capital Technology Trust, The Polar Capital Global Healthcare Trust and The Polar Capital Financials Trust – where there is no impact from Brexit. Moreover, the management and marketing of our Cayman domiciled alternative funds remain unaffected by Brexit.

Our Dublin domiciled UCITS funds make up approximately 82% of our total AUM. Earlier this year the FCA agreed Memoranda of Understanding with ESMA and EU regulators which cover cooperation and exchange of information which means we will continue to manage the UCITS funds from our current office locations. The Dublin domiciled UCITS funds were also registered with the FCA under the Temporary Permissions Regime earlier this year which will allow Polar Capital to continue to market the UCITS funds in to the UK and provide UK investors continued access to investment in the funds for a period of three years after the UK's withdrawal from the EU.

Strategy

Our strategy remains to achieve growth through diversification. Given our focus on capacity management in order to preserve the performance of existing fund strategies, it is an imperative to continue to add complementary teams and extend existing team capability to enhance capacity. The key emphasis is to grow by broadening our fund strategies in terms of style and process while also focusing on diversifying the client base geographically and by client segment. We have made further progress in preparing the infrastructure to offer an institutional offering globally.

The Emerging Market Stars team that joined last year has settled well and we see encouraging signs of client interest in their core offering. A set of four funds were seeded and launched during the year providing additional capacity in an asset class where Polar Capital is under represented. Three UCITS funds included the Emerging Markets Stars Fund, Asia Stars Fund, China Stars Fund and a Cayman absolute return China Mercury Fund have performed well. The Emerging Markets Star fund is performing within the first quartile of the Lipper peer universe since inception to 31 May 2019.

We launched the Global Absolute Return Fund (UCITS) managed by the Convertibles team in January this year and this has had an encouraging start.

Subsequent to year end, succession within our Japan team has been implemented which will enable the team to focus on its Japan value strategy which has had compelling performance.

Diversification of our distribution capability regionally has progressed with the appointment of a senior experienced resource to cover the Nordic region. We have also recently appointed a senior experienced executive as Managing Director, North America and will open a modest office in New York to focus on developing relationships and new channels to market in North America.

Outlook

Notwithstanding recent concerns about global economic growth and fragile sentiment for risk assets generally, with the diversity of our 12 specialist active teams we are confident that we will continue performing for our clients and that Polar Capital will continue to deliver for our shareholders.

Gavin Rochussen

Chief Executive

21 June 2019

Business Review

Business reviews

As at 31 March 2019 the Group comprised twelve investment teams managing 23 funds, three investment trusts and two managed accounts. An overview of each of the investment teams, in chronological sequence of establishment, is as follows.

Technology

Established:
2001

Team size: 7
●●●●●●●

Years' experience:
120+

AUM:
£4.5bn

Funds managed:
- Technology Trust
- Global Technology
- Automation & Artificial Intelligence

Polar Capital's technology team is one of the most respected in the industry. It leverages the knowledge and experience of seven specialists who run one of the largest pools of technology assets in Europe.

The team's expertise lies in their identification of key secular growth trends in the industry and on their selection of those companies best placed to benefit from those trends. Their approach emphasizes growth while managing risk through a detailed knowledge of individual companies and an intense understanding of corporate obsolescence in an industry where change is ever present.

The technology industry has been transformed over the last decade by the emergence of cloud computing, big data and ubiquitous mobile internet access. Technology is already disrupting multiple industries and the accelerated development of artificial intelligence and robotics will hasten and extend this trend thereby substantially broadening the market opportunity.

The sector continues to enjoy outstanding earnings growth together with prodigious cash flow generation. Although valuations are in the upper half of their historic range, the combination of a broadening end market and outstanding execution at a corporate level, support the team's positive outlook and their strong bias towards new next-generation companies and away from incumbents that have struggled to adapt to the new environment.

Japan

Established:
2001

Team size: 5
●●●●●

Years' experience:
85+

AUM:
£0.7bn

Funds managed:
- Japan
- Japan Value

Polar Capital's Japanese team consists of four specialists with one based in Tokyo. All team members undertake regular trips to Japan and believe strongly in the importance of regular company visits as part of their bottom-up, stock-picking approach. Although they invest across the full market-cap spectrum, the team have a bias towards small and mid-cap companies where they see the greatest valuation imperfections and opportunity. Their approach focuses on identifying companies trading at a discount to their intrinsic worth. The team's portfolios have a value bias and tend to be under-represented in the more highly valued growth and defensive sectors.

After a long period in which growth has dominated the Japanese market, the team expects the market to move back towards a more value-centric approach. This trend is likely to be reinforced by the acceleration evident in Japanese corporate restructuring and by improvements in corporate governance. These factors are helping to catalyse the release of value in many hitherto neglected parts of the Japanese market and should act as strong positives for Japanese equities over the next few years.

European Long/Short

Established:

2003

Team size: 4

●●●●

Years' experience:

55+

AUM:

£0.2bn

Fund managed:

- European Forager

The team aims to maximise returns at a low level of risk by applying a value-biased, bottom-up approach to stock selection. They look to achieve this by investing predominantly in mispriced small-cap European equities, enhancing returns and reducing absolute volatility through short sales.

They identify potential investments from a large, under-researched universe through due diligence that applies fundamental research techniques. In particular, they evaluate the underlying quality of a business franchise as well as its long-term prospects of maintaining or improving its market position and sustaining above-average profitability. This includes detailed financial statement analysis and maintaining a highly disciplined approach to the price paid for any portfolio holding.

Value investing has recently experienced a prolonged period of relative underperformance as global monetary authorities have suppressed the cost of capital to record low levels that have emboldened speculators and penalised prudence. Our value-biased Fund was adversely impacted by this phenomenon in 2015 and the first half of 2016. Performance subsequently improved through 2017, and 2018 delivered a positive return against a backdrop of very weak European equity markets.

The team are enthused by the opportunity set they currently observe, seeing potential for a multi-year revival in the performance of the value style when interest rates normalise. They are confident that their proprietary research capabilities and deep knowledge of the European small-cap universe leaves them exceptionally well positioned to exploit the inefficiencies arising from the MiFID2 induced reduction in sell-side research coverage.

Healthcare

Established:

2007

Team size: 6

●●●●●●

Years' experience:

120+

AUM:

£2.2bn

Funds managed:

- Global Healthcare Trust
- Healthcare Opportunities
- Biotechnology
- Healthcare Blue Chip

Our well-established and highly experienced healthcare team has a very clear, defined way of managing money: they use a bottom-up stock-picking approach to construct well-diversified but concentrated portfolios that target growth at a reasonable price. This conviction approach remains the same across the four-strong fund range, each of which has a different risk profile and provides exposure to different aspects of the healthcare sector.

The team views healthcare as a long-term, secular growth sector as an older population drives the demand and the need for increased healthcare provision. Moreover, technology is transforming the way that healthcare is managed, delivered and paid for, changing the competitive structure of the industry.

This shifting landscape creates investment opportunities that extend well beyond the familiar pharmaceutical companies.

Looking ahead, they expect returns to be polarised and the winners will be the larger companies which adapt to change. It is those with proactive management using strategies to transform how healthcare is managed, delivered and paid for that will take market share as well as delivering stable earnings growth and compounding returns for investors. Alongside them will be smaller firms – the innovators – disrupting the sector with new technologies, devices, business models, drugs, software and services.

Business Review continued

Financials

Established:
2010

Team size: 7

Years' experience:
114+

AUM:
£1.8bn

Funds managed:
- Income Opportunities
- Financial Opportunities
- Asian Opportunities
- Global Financials Trust
- Global Insurance

Our experienced specialist team of seven are responsible for four funds, of which Global Insurance and Asian Opportunities are two of the oldest at Polar Capital.

The managers are all bottom-up stock pickers using their own proprietary analysis of companies built up over many years.

The Global Insurance fund invests primarily in the global non-life insurance industry. A key attraction of the sector is that the driver of book value growth for the best companies is underwriting profits. This profit stream tends to be largely disconnected with what is going on in the broader economy and financial markets. Combining this with the fact that insurance is mostly a compulsory purchase, often required by law, the industry exhibits robust demand characteristics meaning the sector has historically been defensive in challenging economic times. A well-run insurance company is a compounding machine. In insurance, the rate of compounding is best measured as the growth in book value per share (or NAV) and dividends over time.

The team's entire investment process is to put together a 30–35 stock portfolio where the holdings, in aggregate, grow their book values at an attractive rate over time.

The Income Opportunities Fund provides investors with attractive income returns, together with an opportunity for capital growth by investing in both fixed- income securities and equities.

The Financial Opportunities Fund and Asian Opportunities Fund (ex-Japan) provide exposure to a broad mix of financial companies and to Asian markets respectively with both focused on capital growth. The Global Financials Trust has a spread of banks, insurance companies, asset managers and other financial businesses. All the funds have a quality bias and a long-term investment horizon.

The team is positive about the future of the financial sector, which offers good value and long-term growth. With the sector undergoing a rapid transformation for both technological change as well as through financial inclusion measures, we continue to find attractive opportunities in both developed and emerging markets.

Emerging Markets Income

Established:
2010

Team size: 3

Years' experience:
60+

AUM:
£0.1bn

Fund managed:
- Emerging Markets Income

The team provides investors with an attractive income as well as exposure to the growth in emerging markets. The team's approach is to focus on companies that combine high returns on capital with strong cashflow generation thus enabling them to both invest for growth as well as to pay dividends. The style is GARP (growth at a reasonable price) with a strong emphasis on "reasonable". Although stock selection is the key driver of portfolio construction and the main source of alpha, the team also use a top-down overlay to identify the countries and sectors that provide the best opportunities.

Over the long term, yield has been a successful investment strategy, comfortably outperforming growth. However, since the taper tantrum in 2013, growth has been the dominant style. As a consequence, the valuation differential between the two is historically high. The return of capital discipline, a notable feature of the past few years, combined with increasing pressure from shareholders – including, in some instances, governments – should result in higher payout ratios. In turn, rising yields as well as improving returns on equity as lazy balance sheets are made to work harder should lead to a greater focus from investors on this unloved area of the market.

Convertibles

Established:
2010

Team size: 5

Years' experience:
100+

AUM:
£0.6bn

Funds managed:
- Global Convertible
- Global Absolute Return

The Convertible team manages two fundamentally-driven funds which provide upside equity market participation with capital protection and good, stable income. The team focuses on credit and convexity analysis together with upside equity catalysts to identify securities that will provide investors with good, risk-adjusted returns together with a consistent level of income.

With monetary policy in the US normalising from the ultra-loose setting of the past decade; with trade wars perhaps moving from Asia to Europe; with ongoing political uncertainty in both Europe and the US against a backdrop of markets revisiting previous highs, the team believes market volatility will remain and will likely rise over the medium term.

Given the characteristics inherent within convertible bonds that ensure the asset class typically outperforms during periods of higher market volatility, the team remain optimistic on the outlook for the valuation and risk-adjusted performance of convertible bonds going forward.

Moreover, with convertible issuance increasing and the convertible market growing at one of the fastest rates for a decade, the team believes investment opportunities today are both broad and growing.

North America

Established:
2011

Team size: 4

Years' experience:
64+

AUM:
£2.1bn

Fund managed:
- North American

The team's active approach to investing is research-driven and based on, bottom-up, fundamental stock analysis. The team seeks to identify companies that offer both long-term value creation and value.

This dual emphasis allows the portfolio to benefit from the three sources of potential return in a stock: operational growth, capital return and valuation appreciation. This approach also means the portfolio should benefit from a double margin of safety: a fundamental margin of safety as well as a valuation margin of safety.

The North American market offers an unrivalled choice of businesses that are well placed for long-term value creation.

Issues to watch include heightened corporate leverage after years of very low interest rates, technology-induced disruption and the maturity of the broader profit cycle. However, although the economic cycle is in its 11th year, the team expects the current environment to be conducive for growth for most high quality businesses.

The team believes the fund's characteristics offer an appealing combination of attractive business-compounding potential, balance sheet strength, excellent cash-flow characteristics and attractive valuations which should serve investors well.

Business Review continued

UK Absolute

Established:

2014

Team size: 4

Years' experience:

15+

AUM:

£0.5bn

Fund managed:

- UK Absolute Equity

The team take a fundamental approach to investing involving detailed due diligence on individual companies as well as on emerging and maturing sectoral trends. They look for mis-pricings in the market and are focused on sourcing those ideas that offer the best combinations of reward and risk.

The team manages an all cap long- short fund which aims to deliver a positive absolute return over rolling 12-month periods. While the fund is predominantly invested in UK Companies, it retains the flexibility to invest a material portion of its assets in global equities.

European Income

Established:

2014

Team size: 3

Years' experience:

17+

AUM:

£0.2bn

Fund managed:

- European ex-UK Income

The team focuses on the compounding power of dividend growth over the medium term and aims to achieve a double-digit annual return from investing in quality companies. With its value discipline, the team targets a dividend yield 10 above that of the index through buying high-quality companies when they are cheap and out of favour.

The Fund avoids both very expensive and the lowest quality companies. Instead the team favour large-cap, defensive, attractively valued sectors and companies that can sustainably grow their dividends over time. The compounding power of growing dividends is a key driver of long-term investment returns. The team typically do not buy stocks yielding more than 6 – anything beyond this level of yield usually proves unsustainable and dividends are eventually cut.

The team believes that, after several years of asset price inflation, valuation discipline is increasingly important. There were plenty of profit warnings in the second half of 2018 and the lowest quality companies will struggle in 2019. The Fund has a structural bias towards defensive stocks relative to cyclical stocks given the reliability and consistency of their ability to compound earnings growth. Attractively valued dividend payers with scope to grow their dividends are still compelling investment opportunities in the different bond yield scenarios.

The team are positive about the outlook for their Fund. A potentially more inflationary environment is a more favourable context for dividend growth. The aggregated European equities index returned to growth in 2017 after several years of disappointment. More recently, several sectors have cut their dividends and fixed their balance sheets; the overall health of European corporate balance sheets supports a positive view on the outlook for European income.

UK Value

Established:
2017

Team size: 2

Years' experience:
25+

AUM:
£0.9bn

Fund managed:
- UK Value Opportunities

Polar Capital's two UK Value fund managers have followed the same bottom-up, company-specific, research-driven process for over a decade. They have a value philosophy looking to uncover companies trading at a temporary discount to their intrinsic value. They adopt a multi-cap approach, taking advantage of the best investment opportunities in the UK large, mid and small-cap space. Their Fund has a high active share with stock holdings differing significantly from its benchmark.

Pessimism towards the UK has created an attractive equity valuation opportunity, with the market trading at a discount relative to its own history and other international markets. This positive valuation backdrop must be viewed in the context of elevated uncertainty in profit forecasts. A combination of UK consumer-spending pressure, subdued business investment, Brexit ambiguity and global trade tensions mean profit visibility is low for both domestic and overseas earners. Were these risks to subside, the risk/reward opportunity could become extremely attractive. In the meantime, the managers focus on those companies able to drive increased returns from planned capital projects.

Emerging Markets and Asia

Established:
2018

Team size: 5

Years' experience:
110+

AUM:
£35.9m

Funds managed:
- EM Stars
- Asian Stars
- China Stars
- China Mercury

The newest team to join Polar Capital is the five-strong emerging markets team led by Jorry Noeddekaer who spent the previous seven years with Nordea Asset Management in Denmark.

The team are fundamental, bottom-up, stock pickers who take a long-term investment view. Their core objective is to add alpha by identifying companies whose potential growth in economic value add (EVA) is mispriced. They seek to do this by leveraging their strong analytical skills and company relationships.

Part of this process includes a detailed analysis of a company's ESG characteristics that are most likely to create long-term, sustainable shareholder returns. They also look for potential improvements in a company's ESG profile as an indicator of an improved outlook for the company and thereby enhanced returns.

The outlook for corporate profits in emerging markets is positive. Markets have only priced in relatively low growth and return expectations over the medium term. Consequently, the team believes that higher quality companies in particular offer a good balance of risk and reward.

The team also see interesting opportunities in the more structural, growing areas such as India, China and Vietnam. In terms of sectors, they favour technology, healthcare, property, advanced industrials and selective consumer areas.

Financial Review

John Mansell
Chief Operating Officer and Finance Director

Introduction

The Group has had a strong year with an added gloss provided by the delivery of record performance fee profits, surpassing last year's figure that, at the time, was itself also a record.

Results for the year – Revenues

Revenues	31 March 2019 £'m	31 March 2018 £'m
Net management fees (net of commissions and fees payable)	113.5	90.3
Performance fees	51.7	35.6
Loss on forward currency contracts	(0.4)	–
Total net revenues	164.8	125.9
Other income	1.0	3.3
Net income	165.8	129.2

The management fees earned by the Group are conventionally a function of the quantum of AUM managed by the Group and the fee rate charged.

The 25% increase in the Group's net management fees from £90.3m in 2018 to £113.5m this year is simply a function of the increase in the Group's AUM.

The excellent relative performance of the Group's products has resulted in a significant uplift in performance fees earned and has produced the highest performance fee figure in the Group's 18 year history.

Results for the year – Costs

Costs	31 March 2019 £'m	31 March 2018 £'m
Salaries, bonuses and other staff costs[1]	22.0	20.9
Core distributions[1]	24.5	22.9
Core cash compensation costs	46.5	43.8
NIC on share options	1.0	1.7
Share-based payments[2]	6.5	7.6
Other operating costs	20.0	14.5
Core operating costs	74.0	67.6
Performance fee interests[3]	27.7	20.3
Total operating costs	101.7	87.9

1. Including share awards under deferment plan of £1.5m (2018: £0.3m).
2. Share-based payments on preference shares, Group share awards and LTIPs.
3. Including share awards under deferment plan of £0.8m (2018: £0.8m).

Total operating costs rose to £101.7m from £87.9m 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 122 to 135) as well as an increase in the discretionary bonuses paid following the improved performance of the Group.

The increase in core distributions was driven by the rise in management fees and the core profits of the Group; notwithstanding the interest forfeited by the healthcare team following their decision to crystallise their preference shares.

The national insurance cost of share options reflects both the quantum of share options and their sensitivity to the Company's share price. The reduction in the provision in 2019 was the result of the reduced quantum of options following exercises.

The increase in other operating costs is due principally to a full year's MiFID II research costs (the costs commenced from 1 January 2018).

The rise in performance fee interests to £27.7m from £20.3m last year is directly correlated to the increase in performance fee revenues.

Share-based payments

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

Share-based payments	31 March 2019 £'m	31 March 2018 £'m
Cost attributed to preference shares	3.1	5.1
Cost attributed to LTIPs and initial shares	2.7	1.8
Cost attributed to Group share awards	0.7	0.7
Cost attributed to deferred bonus awards	2.3	1.1
Total cost of share-based payments	8.8	8.7

Results for the year – Profits

Profits	31 March 2019 £'m	31 March 2018 £'m
Core operating profit[1]	42.2	27.8
Performance fee profit[2]	24.0	15.3
Other income	1.0	3.3
Profit before share-based payments on preference shares and tax	67.2	46.4
Share-based payments on preference shares	(3.1)	(5.1)
Profit before tax	64.1	41.3

1. Including cost of LTIP, Group share awards and deferred share awards to 31 March 2019 of £4.9m (2018: £2.8m).
2. Including cost of deferred share awards of £0.8m (2018: £0.8m).

The headline profit before tax for the year has increased to £64.1m from last year's £41.3m.

IFRS requires that deferred amounts be accounted for over the period they vest and not the year in which the awards are made. This matter has the consequence of not matching some costs against the revenues and profits that cause and prompt the underlying charge. The non IFRS adjusted EPS number adjusts for this as well as stripping out the share-based payment impact of the Group's preference shares.

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 rise in profits to £67.2m compared to last year's £46.4m. The analysis of the different components of profits shows that:

- **Core operating profits**
  the increase in profits reflects the rise in management fee revenues driven by the increase in average value of assets managed over the year.
- **Performance fee profits**
  stronger performance across the product range compared to last year has resulted in the significant improvement in performance fee profits.
- **Interest and similar income**
  the reduced contribution is a product of the lower return from the portfolio of seed investments held on the balance sheet.

Financial Review continued

Earnings per share

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

Earnings per share	31 March 2019 Pence	31 March 2018 Pence
Diluted earnings per share	53.6	34.7
Impact of share-based payments – preference shares only	3.2	5.3
Impact of deferment, where IFRS defers cost into future periods	(5.3)	(3.4)
Adjusted diluted EPS	51.5	36.6

Preference shares

A separate class of preference share is conventionally 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 2019 (March 2018: nil) there was a single conversion of preference shares into Polar Capital Holdings equity.

As at 31 March 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 2019 if any conversion is to take place with effect from 31 March 2019.

Balance sheet and cash

At the year end the cash balances of the Group were £111.7m (2018: £87.9m). The increase reflects the Group's increased profitability, partially counter balanced by an increase over the year in the Group's portfolio of seed investments, driven primarily by the seeding of the EM Stars new products.

At the balance sheet date the Group held £35.9m of investments in its funds (2018: £18.4m).

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 or buy back its shares to reduce the dilutive effects of LTIP and option awards. As at March 2019 £35.9m of the Group's balance sheet was invested to seed fledgling funds and during the year the Group spent £10m to buy back shares of 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.

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 are 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"). 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

Finance Director

21 June 2019

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: Page 19.

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: Pages 18 and 19.

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 3.8.

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 page 20) 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: Page 18.

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: Page 18.

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: Financial Review, page 19.

Reason for use: The Group believes that as preference share awards have been designed to be earnings enhancing to shareholders (see page 20) adjusting for this non-cash item provides a better understanding of the financial performance of the Group.

Risk Management

The Group, as any business operating in the financial services sector, faces a number of challenges to its successful operation and development. The principal risks and uncertainties facing the Group are addressed through a risk management framework that provides a structured process for identifying, assessing and managing risks associated with the Group's business objectives and strategy. The Board's assessment of the changes to the risks are shown below.

Economic and market risk

Description

Economic risks arise from the concept, design and implementation of the Group's business model. The Group operates in a highly competitive industry and if it is unable to compete effectively with its competitors its business could be adversely affected. Polar Capital's key areas for competition include historical investment performance, its ability to attract and retain the best investment professionals and quality of service.

Assessment

Risk is elevated from 2018.

Mitigation

The Board reviews the business strategy periodically and considers financial, fund performance and operational information regularly. The Group's reputation is one of its most important assets since it operates in an industry where integrity, customer trust and confidence are paramount. The Group's in-house compliance and risk teams provide a system of internal controls which seek to ensure that events which could damage or call into question the reputation of the Group, its products or staff are prevented.

Portfolio risk

Description

Poor fund performance or adverse market conditions could lead to outflows of AUM and consequent damage to the financial position of the Group.

Assessment

Risk is elevated from 2018.

Mitigation

The Group has a formal Risk Committee for portfolio risk that convenes quarterly, is chaired by the Group's Chief Compliance and Legal Officer (CCO) and comprises the Chief Executive, the Chief Operating Officer, the Global Head of Distribution, the Chief Risk Officer (CRO) and the newly appointed Chief Investment Officer (CIO). The Committee reviews all the portfolios managed by the Group and is presented analyses relating to portfolio structure, exposure, concentration, returns, liquidity and risk.

Regular contact is maintained with all clients and fund investors and the strategy of the Group is to diversify its earnings streams to be less susceptible to market movements, poor performance in different sectors or geographies.

Description

The Group is also subject to the effects of exchange rate fluctuations as Sterling is the Group's reporting currency but the Group's business is often transacted in jurisdictions which generate revenue, expenses and liabilities in other currencies. A summary of the Group's foreign currency exposures as at 31 March 2019 can be found in Note 4.3(c) to the accounts.

Assessment

Unchanged from previous year.

Mitigation

The Group looks to hedge an appropriate element of its exposure to foreign currency exchange rate fluctuations.

Key staff risk

Description

The Group has a number of key fund managers the loss of which could result in significant investor redemptions from the funds they manage and loss of revenue to the Group.

Assessment

Unchanged from previous year.

Mitigation

Through a combination of culture, team support and providing each team with an economic interest in the success of their funds and the overall business, the Group offers a highly attractive environment for investment professionals.

Regulatory risk

Description

Failure to comply with regulations in the jurisdictions in which it operates, particularly those issued by the Financial Conduct Authority or the London Stock Exchange, could result in the Group losing the ability to operate as a regulated financial services business or its AIM quotation being suspended or withdrawn.

Assessment

Unchanged from previous year.

Mitigation

In the context of the current regulatory environment, the Board believes its regulated business has sufficient resources for compliance monitoring and to take corrective action when warranted.

The Group seeks to operate within applicable Financial Conduct Authority Principles, Rules and Regulations and those issued by the London Stock Exchange to govern the trading of the Company's shares on AIM.

The Board through the work of the Audit and Risk Committee receives and reviews regular reports on the compliance controls in place to prevent or detect any non-compliance of the Group with rules and regulations.

The Audit Committee Report on pages 34 to 37 provides further details on the work undertaken.

Operational risk

Description

Operational risk arises from potentially inadequate or failed processes, from people and also from external events. Operational risk has financial and non-financial impacts and the Group's objective is to manage and mitigate risk exposure by ensuring operational risk policies are developed and applied consistently and effectively throughout the Group.

If any of the Group's financial, accounting or other data processing systems do not operate properly or are disabled or, if there are other failures in the Group's internal processes, people or systems, the Group could suffer financial loss, business disruption, liability to clients, regulatory problems or damage to its reputation.

Assessment

Unchanged from previous year.

Mitigation

The Group's core businesses have in place disaster recovery plans covering current business requirements, which are tested annually to ensure an appropriate level of resilience in the day to day operations and minimise the risk of severe disruption occurring.

The Board regularly reviews statements on internal controls and procedures and has on an annual basis subjected the Group to an annual internal control audit carried out in accordance with ISAE 3402 – Assurance Reports on Controls at a Service Organisation.

Pages 1 to 23 constitute the strategic report, which was approved by the Board on 21 June 2019 and signed on its behalf by:

Neil Taylor
Group Company Secretary

Board of Directors

Tom Bartlam

Non-Executive Chairman

Appointed to the Board in July 2007 and became Chairman in September 2007.

Experience

Tom was Managing Director of Intermediate Capital Group plc which he co-founded from 1989 until his retirement in 2005. Prior to this he was an Executive Director at Charterhouse Bank, having previously qualified as a Chartered Accountant.

Other Appointments

Tom is non-executive Chairman of Jupiter UK Growth Trust plc.

Gavin Rochussen

Chief Executive

Appointed to the Board in July 2017.

Experience

Before joining Polar Gavin was Group Chief Executive at J O Hambro Capital Management Limited (JOHCM). Prior to JOHCM, Gavin was Group Chief Executive at Fleming Family & Partners Limited, a European multi-family office. Gavin qualified as a Chartered Accountant in 1983 in South Africa.

Other Appointments

Gavin is advisor to Amigona Holdings Inc, an investment holding Company and an Independent Advisor to James Hambro & Partners LLP, a wealth management boutique.

John Mansell

Chief Operating Officer and Finance Director

Appointed to the Board in July 2002.

Experience

John joined Brian Ashford-Russell and Tim Woolley to form Polar Capital in 2001. Prior to this John spent 11 years at Lazard Asset Management. John is a Fellow of the Institute of Chartered Accountants of England and Wales.

Other Appointments

None.

Brian Ashford-Russell

Non-Executive Director and Founder

Appointed to the Board in March 2002.

Experience

Brian was head of the technology team at Henderson Global Investors from 1987 until September 2000 and is a co-founder of Polar Capital. He was the appointed fund manager of Polar Capital Technology Trust plc, from launch in 1996 until May 2006.

Other Appointments

Brian is a non-executive Director of Hawksmoor Investment Management.

Jamie Cayzer-Colvin

Non-Executive Director

Appointed to the Board in March 2002.

Experience

Jamie is head of Funds and has been an Executive Director at Caledonia Investments plc since 2005. Prior to this he was a Business Development Manager at GPT, then a division of GEC. Jamie has an MBA from Henley Management College.

Other Appointments

Jamie is non-executive Chairman of Henderson Smaller Companies Investment Trust plc.

Alexa Coates

Non-Executive Director and Chair of the Audit and Risk Committee

Appointed to the Board in July 2018.

Experience

Alexa is a Chartered Accountant with over 25 years' experience in finance and accounting. She spent the last nine years of her executive career at HSBC, where she was the Global CFO of the Asset Management division before heading up the finance function of its Commercial Banking business in Europe.

Other Appointments

Alexa is a non-executive Director of Schroders Oriental Income Fund Ltd, a Guernsey domiciled, London-listed investment trust. Alexa is also a Trustee of the University of Essex.

Quintin Price

Non-Executive Director

Appointed to the Board in July 2018.

Experience

Quintin has had a 30 year career in the investment banking and investment management industries, working at a senior level for a number of leading companies. From 2005 to 2015 he was at BlackRock where he was global head of alpha strategies and a member of the global executive committee.

Other Appointments

Quintin is a senior advisor at Actis, a privately-owned private equity, real estate and energy & infrastructure company. He is also a non-executive Director of Aperture Investors, a New York based fund manager.

Win Robbins

Non-Executive Director and Chair of Remuneration Committee

Appointed to the Board in June 2017.

Experience

Win has wide experience in the investment management industry holding senior positions at a number of asset management firms culminating as Head of European Fixed Income at Barclay Global Investors.

Other Appointments

Win is a non-executive Director of Henderson Diversified Income Trust plc, a non-executive member of the Investment Committee of St. James Place Partnership plc, and an Independent Trustee of the Institute of Cancer Research Pension Fund.

Directors' Report

The Directors present their report including reports from the Board Committees, a report on the corporate governance arrangements and the audited consolidated financial statements of Polar Capital Holdings plc ("the Company") and the Group for the year ended 31 March 2019.

Status and trading

The financial results for the year ended 31 March 2019 are set out in the attached financial statements. Matters relating to the future developments of the business and identification of branches are given in the Strategic Report.

Polar Capital's objectives are set out in the Strategic Report on page 3. Its main country of operation is the UK.

The Company is incorporated in England and Wales as a public limited Company under registered number 4235369 and its registered office is at 16 Palace Street, London SW1E 5JD. The Company is subject to the Rules of the Alternative Investment Market (AIM), UK and European regulations including Company law, financial reporting standards, taxation law, Financial Conduct Authority and other regulators in countries in which the Company carries out its regulated business and its own Articles of Association.

Directors

Biographies of the Directors who served during the year are set out on pages 24 and 25.

Changes during the year:

- Alexa Coates and Quintin Price were appointed as Directors on 25 July 2018 and will stand for election by shareholders at the Annual General Meeting (AGM) on 31 July 2019.
- Hugh Aldous and Tim Woolley retired as Directors at the close of the AGM on 25 July 2018.
- Michael Thomas retired as a Director on 22 November 2018.

All the Directors, with the exceptions stated above, held office throughout the year under review and up to the signing of this Report.

The remuneration, principal terms of employment and the interests of the Directors in the Company's shares and options are detailed in the Directors' Remuneration Report on pages 38 to 46.

The Articles of Association require all Directors who held office at the time of the two preceding AGMs, and did not retire by rotation at either of them, to retire from office by rotation and all new Directors appointed by the Board are required to seek election by shareholders at the next general meeting of the Company following their appointment. The Board has decided that all the Directors will stand for annual re-election.

Dividends

The Directors have declared two interim dividends in respect of the financial year ended 31 March 2019 amounting to 33p per share (2018: 28.0p per share). The first interim dividend of 8.0p per share was paid on 11 January 2019 to shareholders on the register on 21 December 2018. The second interim dividend of 25p per share will be paid on 26 July 2019 to shareholders on the register on 5 July 2019. The shares will trade ex dividend from 4 July 2019.

Directors' interests and conflicts

None of the Non-Executive Directors have any interest in any contract with the Group or Company.

The Board has approved a policy on the disclosure, approval and management of Directors' conflicts of interest and its application is described on page 30.

Remuneration code

Disclosure of the Group's Remuneration Code is made alongside its Pillar 3 disclosure which is available on the Group's website: www.polarcapital.co.uk.

Capital structure

The capital structure of the Company is detailed in Note 4.9. The fully paid ordinary shares of the Company are traded on AIM and it has not made any arrangements for its shares to be admitted or traded on any other exchanges or trading platforms.

The Board seeks shareholder approval at each Annual General Meeting to allot ordinary shares, disapply pre-emption rights and to make market purchases of ordinary shares. The separate Notice of Annual General Meeting sets out the resolutions and the accompanying Chairman's letter explains their purpose and any use made by the Board of the authorities.

Rights attaching to the shares

On a show of hands at a general meeting of the Company every holder of an ordinary share present in person or by proxy shall have one vote and each ordinary share has one vote on a poll. All ordinary shares rank equally for dividends.

There are no restrictions on the transfer of the fully paid ordinary shares other than those where the Company is entitled to refuse to register a transfer of a fully paid ordinary share under the Uncertificated Securities Regulations.

There are no special rights with regard to control attached to the shares, no agreements between holders of the shares regarding their transfer known to the Company and no agreement to which the Company is a party that affects its control following a takeover bid. The Company is subject to the UK City code on Takeovers and Mergers.

Upon a winding up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro-rata to their holdings of ordinary shares.

Issued share capital and changes in the year

The number of ordinary shares in issue at the year end was 94,617,760 (2018: 93,402,415). During the year the Company issued 1,215,345 (2018: 1,980,106) ordinary shares to cover the exercise of share options and the issue of new shares following the crystallisation of preference shares. Since the year-end and up to the date of this report a further 1,846,975 shares have been issued to satisfy share option exercises and the preference share crystallisation. The current issued share capital is 96,464,735 ordinary shares.

Employee benefit trust arrangements

The Employee Benefit Trust held 3,699,562 ordinary shares at the year end (2018: 2,555,653) for the benefit of the Company and its employees. The shares held by the Trustee of the EBT are held in two pools. 3,164,251 shares are held in a general pool to be used to satisfy the future exercise of share options awarded by the Company and possible future Long Term Incentive Plan (LTIP) awards and 535,311 shares are held to satisfy the initial award made under the terms of the Group's Executive Incentive Plan to Gavin Rochussen on his appointment as CEO. The initial award vests in three equal tranches on the first, second and third anniversary of its granting. For further details see the Remuneration Committee Report.

The Trustee has waived the dividend in respect of the shares held in the general pool and it receives and distributes the dividends in respect of the 535,311 shares.

The Trustee seeks directions from the Company for the casting of votes in respect of the shares in the General Pool and from Gavin Rochussen in respect of the 535,311 shares. The Company has requested that the votes attached to the shares in the general pool are not cast.

Substantial shareholdings

As at 21 June 2019, the Company had received notices for the purposes of Part 5 of the FCA's Disclosure and Transparency Rules and PDMR notifications from the undernoted shareholders. The percentage voting rights are calculated based on the number of shares shown in the notice divided by 96,464,735, the number of shares in issue as at 21 June 2019:

	Number of ordinary shares shown in notice	% of voting rights held
Canaccord Genuity Group[1/2]	9,173,566	9.5%
Fianchetto Limited[1]	8,078,573	8.4%
Harwood Capital LLP[1]	7,015,000	7.3%
Caledonia Investments PLC[1]	5,681,080	5.9%
B J D Ashford-Russell[1/2]	4,930,000	5.1%
T J Woolley[1]	4,721,739	4.9%
Artemis Investment Management[1/2]	4,045,000	4.2%

1. Direct holding.
2. Indirect holding.

In addition the Board is aware of the following interests in the ordinary shares of the Company of over 3.0%:

	% of voting rights held
J O Hambro Capital Management	4.2%
Unicorn Asset Management	4.0%
GLG Partners	4.0%
Blackrock Investment Management	3.8%
Link Trustees (Jersey) Limited	3.5%

Annual General Meeting ("AGM")

The AGM will be held at 16 Palace Street, London SW1E 5JD at 2.30pm on Wednesday 31 July 2019.

Full details of the resolutions and explanations of each resolution are given in the separate notice of meeting sent to shareholders.

Indemnity / Insurance

The Company has granted a Deed of Indemnity to each Director in respect of liabilities that may attach to them in their capacity as Directors of the Company. This Indemnity covers any liabilities that may arise to a third party for negligence, default or breach of trust or duty. This Deed of Indemnity is a qualifying third-party provision (as defined by section 234 of the Companies Act 2006) and was in force for the majority of the year under review and is in force at the date of approval of this report and will continue to be in force. A copy is available for inspection on the Company's website and will be available at the AGM.

The Group maintains Directors' and Officers' liability insurance, which is reviewed annually to ensure that cover is held at an appropriate level.

Corporate Governance Report

Dear Shareholder

The Quoted Companies Alliance (QCA) Corporate Governance Code 2018 has been adopted as the recognised corporate governance code from September 2018. The Board has reviewed the Corporate Governance disclosures set out below and believes that the Group complies with the principles and disclosure requirements of the new code in full.

The Board of Directors has always recognised the importance of good corporate governance and that best practice is adopted and applied.

As a Company operating in the Financial Services sector the business of the Company is highly regulated and subject to scrutiny by the various regulators. This regulation and scrutiny brings into sharp focus the responsibilities of the Directors to analyse and manage risk throughout the business and while we do not have an internal audit function the compliance department of the Group is central to its operations.

The compliance monitoring program is embedded throughout the Company and provides the Executive Directors with information on the control and reporting of risks as well as breaches. This information is relayed to the Board for consideration and review.

The Board remains committed to continue to develop best practice throughout the business and will continue to lead the business by setting standards for behaviours expected by all staff in their actions within the business and in dealing with customers.

The Companies (Miscellaneous Report) Regulations 2018 has introduced a specific reporting requirement for financial years beginning on or after 1 January 2019, that a statement should be included on how directors have discharged their duties in relation to the requirements of section 172 of the Companies Act 2006. The statement will be included within a distinct section of the strategic report and will, where information is provided elsewhere in the annual report, be incorporated by cross reference. While the reporting requirement is new the Board has addressed the requirements of Section 172 when considering their duty to promote the success of the Company and the work of the Board over the last financial year is included in the statements below.

The following report describes how the Company has applied the ten principles of the QCA Corporate Governance Code of 2018 and the disclosures indicated by the code.

Tom Bartlam

21 June 2019

Principle 1

Establish a strategy and business model which promotes long-term value for shareholders

- The strategic report set out on pages 1 to 23 described the business objectives and business model which when read with the Chief Executive's Report and the Finance Director's Reports describe the past year's achievements and the future prospects for the growth of the business.

Principle 2

Seek to understand and meet shareholder needs and expectations

- The Company welcomes dialogue with shareholders in order to achieve a mutual understanding of objectives. The Board has regular reports from the Executive Directors on shareholder visits and meetings which include meeting current and potential shareholders as part of road shows arranged by the Company's brokers after the announcement of the annual and half year results plus ad hoc meetings as needed throughout the year. The Chairman meets major shareholders without the Executive Directors present to permit direct feedback.
- The Annual General Meeting (AGM) also provides a forum for investors to meet the Directors, both formally and informally. The Chairs of the Board's Committees will usually be available to answer questions at the AGM of the Company.
- A website (www.polarcapital.co.uk) is maintained for shareholders to access information about the Company. It also has regularly updated information regarding the Group's funds, RNS announcements and shareholder reports, and contact information for communication with the Directors and Officers of the Company.

Principle 3

Take into account wider stakeholder and social responsibilities and their implications for long-term success

- The Board meets with senior executives and heads of departments on a regular basis and through the reporting structures receives information on key customer and supplier relationships.
- The Chief Compliance Officer reports to the Board on all regulatory matters and the NOMAD, annually, presents to the Directors on stock exchange regulatory matters and ensures that any regulatory concerns are raised with the Board.
- The Company supports local charities and hosts work experience opportunities for graduates.

ESG and CSR

- The Board recognises that it should take account of the needs of society and the environment and maintain high ethical standards. It takes collective responsibility for Environmental Social and Governance (ESG) matters and Corporate Social Responsibility (CSR) policy and has focused on: staff welfare; respecting the environment; and treating customers fairly.

- The extent to which individual principles have been formalised is appropriate to the size of the organisation and these are documented in both the staff handbook and the compliance manual. Appropriate steps have been taken in relation to the anti-bribery act and modern slavery act and a statement is available on the Company's website. The Company also has a whistleblowing policy and has appointed Alexa Coates as a whistleblower's champion.
- The Group continues to develop ESG matters and is now a signatory to the UN Principles for Responsible Investing.
- The Group has implemented processes to manage environmental risks so as to reduce, reuse and recycle, wherever possible, waste materials within its place of business.

Principle 4

Embed effective risk management, considering both opportunities and threats throughout the organisation

- The Board through the work of the Audit and Risk Committee considers the identified and emerging risks inherent in the business model and the management of such risks within the internal control environment. The Board considers the strategic direction in conjunction with the executive and the strategic report identifies the key business risks. The Pillar III disclosure document, available on the Company's website, also describes the risk control environment.
- The Company's compliance department makes formal visits to third-party service providers on a regular basis to review the levels of service provided to the Company or to the Company's clients such as investors in the Company's funds. Such visits supplement the day to day interaction with the third-party service providers and permits senior management to review the arrangements and risks inherent in outsourced services.
- The Company's sales and investor support teams keep in close contact with existing and potential investors in the Company's funds.

Internal control

- The Board has overall responsibility for the Group's system of internal control including financial operational compliance and risk management controls.
- The Group's fund management activity is primarily regulated by the Financial Conduct Authority of the United Kingdom (FCA), the Jersey Financial Services Commission (JFSC), the Authorité des Marchés Financiers of France (AMF) and the Securities Exchange Commission of the USA (SEC) and the Board has adopted procedures and controls designed to ensure its obligations under UK and EU legislation, the FCA Rules and the Financial Services and Markets Act 2000 as well as the SEC Rules and the Investment Advisors Act are met.
- The Group's system of internal control is designed to manage, rather than eliminate, risk of failure to achieve business objectives. It is recognised that such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss.
- The Audit and Risk Committee, as part of its role, has reviewed and monitored the effectiveness of the internal controls for the year ended 31 March 2019 and concluded that there was a satisfactory process in place to identify and manage such risks.

Principle 5

Maintain the Board as a well-functioning balanced team led by the chair

Composition

- The composition of the Board is described in the Report of the Directors. The individual biographies are listed on pages 24 and 25.
- At the date of this report the Board comprises of two Executive Directors, Gavin Rochussen and John Mansell and six Non-Executive Directors.
- The experience of each Director is detailed in their biographies and the Board is satisfied that there is the necessary mix of skills and personal qualities to deliver the strategy of the Company.

Directors' appointment

- In accordance with the Articles of Association, all new Directors appointed by the Board are required to seek election by shareholders at the next general meeting of the Company following their appointment. The Board considers it to be best practice to seek annual re-election of the Directors so this year all the Directors will stand for election or re-election.
- Directors do not have the specific time commitments. Executive Directors are full time employees and Non-Executive Directors are required to spend sufficient time to fully discharge their roles.

Role and responsibilities

- The Directors' general duties are set out under sections 171-181 of the Companies Act 2006 and the Board has responsibility to promote the success and interests of the Company and as a whole is responsible for the Group's success, its objectives and policies and the proper governance of the Group and Company. The Directors have regard to the interests of a wider group of stakeholders in the success of the longer term business and when exercising their judgement take such interests into account. The Board provides overall strategic direction to the executive management by monitoring the operating and financial results against plans and budgets; reviewing the performance of management; assessing the adequacy of risk management systems and monitoring their application. The Board defines the culture and sets the Company's values and standards ensuring that the Company's obligations to its shareholders and others are understood and met.
- Directors have the opportunity to engage with staff at informal gatherings as well as at more formal meetings throughout the year.

Corporate Governance Report continued

Principle 5 continued

- The Board, as noted elsewhere, receive reports and feedback from other parts of the business on suppliers, shareholders and investors in the Group's funds.
- The role of the Non-Executive Directors is to challenge constructively, and contribute to, the development of strategy; to scrutinise the performance of management in meeting agreed goals and objectives, monitor their performance; and, through the various Committees, to satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible and remuneration across the Group is considered.
- All Directors receive appropriate and timely information to ensure that they are properly briefed in advance of Board meetings and have unlimited access to the advice and services of the Company Secretary and other senior management should further information be required. The Company Secretary is responsible for advising the Chairman and the Board on governance matters.
- A procedure has been established for Non-Executive Directors to have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. No such advice has been sought in the year to 31 March 2019.

Independence

- In assessing the independence of Non-Executive Directors at the date of this report, the Board took account of their experience, character and judgment, and their dependence on, or relationships with the Group. In all cases the Board felt the Directors were independent in character and judgment, however guidance issued on independence generally used to assess independence, consider the length of service, the holding of a previous executive position within the Group, or a material business relationship with the Group including shareholdings, to impair the perceived independence of the Non-Executive Director.

  In light of this the Board has decided that:

  - Brian Ashford-Russell should not be considered independent as he previously held an executive position with the Group as well as being a sizeable shareholder.
  - Jamie Cayzer-Colvin should not be considered to be independent due to the fact that his employer has a sizeable shareholding in the Group.
  - Tom Bartlam has been a Director since 2007 and therefore has served 12 Years. The Nomination Committee has carefully and robustly considered his appointment and has concluded that despite this length of service he remains a key member of the Board, contributing to its effective and smooth operation and ensuring Board discussions are managed democratically with all Directors given the opportunity to express their views. He has demonstrated his commitment and independence and in light of these conclusions the Company therefore considers Tom Bartlam independent.
  - Alexa Coates, Quintin Price and Win Robbins are considered independent Non-Executive Directors and are free from any associations or relationships with the Group or its investment funds except for the fees they receive as Directors and any shares they may hold in the Company.

Conflicts of interests

- The Companies Act 2006 ("the Act") imposes a duty on Directors to avoid a situation in which they have or could have a conflict of interest or possible conflict with the interests of the Company. Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval. The Board may impose restrictions or refuse to authorise such conflicts if they consider them to conflict with the interests of the Company. Only Directors not involved in the conflict or potential conflict participate in the authorisation process taking into account their duty to promote the Company's success.
- Directors are reminded at each Board meeting of their obligations to notify any changes in their statement of conflicts and also to declare any benefits received from third parties in their capacity as a Director of the Company.
- Each new Director on appointment is required to declare any potential conflict situations.
- The register of conflicts is formally reviewed annually and the Board has concluded that the process has operated effectively during the period and no Director has declared receipt of any benefits during the year in his capacity as a Director of the Company.

Principle 6

Ensure that between them the Directors have the necessary up to date experience, skills and capabilities

- On appointment, new Directors are offered induction and training considered appropriate by the Board and subsequently as necessary.
- The Directors receive briefings at Board meetings on regulatory and other issues relevant to the Group and its business sector and may attend external courses to assist in their professional development.
- The skills and experience of each Director is assessed as part of the annual appraisal process.
- Regular compliance training is required of all Executive Directors and is offered to Non-Executive Directors.

Principle 7

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Board effectiveness

- In 2019 the Chairman carried out an appraisal of the Board, the Committees and the individual Directors and included a review of the fees paid to Non-Executive Directors including the fee for the Chairman. The formal evaluation process takes place on an annual cycle and is supported by regular contact between the Chairman and the other Directors to allow any matters to be addressed in a timely way.
- The evaluation process included a written questionnaire and confidential unattributable one-to-one interviews between the Chairman and each Director. The process also included the work of the Committees and the Directors serving on each Committee.
- The results of this process were reported to the Board which concluded that the Board and its Committees continue to operate in a dynamic and constructive way with different viewpoints and knowledge being used to challenge and review the business of the Group.
- The appraisal of the Chairman was covered as part of the process and led separately by Brian Ashford-Russell seeking the views of the other Directors. The findings were reported to the Board in June 2019. It was agreed that the Chairman should identify and progress a succession plan for changes that will be needed to the Board over the next one to two years.
- The review of the fees paid to the Non-Executive Directors was reported to the Board and details are included in the Remuneration Committee's Report.

Board meetings

- The Board meets regularly and as required. It receives detailed papers in advance of their meetings and verbal reports at each meeting from the executive management covering the financial performance of the Group, updates on fund performance, business development, matters affecting the general trading conditions and operational issues, including risk and compliance. The Board also receives reports from Committee Chairs on matters which relate to the Committee's responsibilities as well as reports and presentations from the heads of departments on matters affecting the Group. The Board receives presentations from the fund managers on their investment processes and funds as well as third party advisors on regulatory and legal updates.

The following table sets out the Board and Committee meetings schedules and attendance.

Board Meeting Attendance: 31 March 2018 to 31 March 2019

Current Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	AGM 25 July 2018
Number of Meetings in Year	7	3	1	1	1
Tom Bartlam[1]	7	3*	1	1	1
Brian Ashford-Russell	7	2*	1*	–	1
Jamie Cayzer-Colvin[2]	5	3	1	1	–
John Mansell	7	3*	1*	1*	1
Win Robbins	7	3	1	1	1
Gavin Rochussen	7	3*	–	1*	1
Number of Meetings in Period (25 July 2018 to 31 March 2019)	4	2	–	1	–
Alexa Coates (appointed 25 July 2018)	4	2	–	1	–
Quintin Price (appointed 25 July 2018)	4	2	–	1	–
Previous Directors					
Hugh Aldous (until 25 July 2018)	2/2	1/1	1/1	–	1/1
Michael Thomas (until 22 November 2018)	5/5	2/2	1/1	–	1/1
Tim Woolley (until 25 July 2018)	2/2	1/1	1/1	–	1/1

* Where an asterisk is shown, that Director was invited to attend a Committee meeting although not a member of the Committee to make proposals or to advise on matters being discussed by the Committee.

1. Tom Bartlam attended one meeting as a member of the Audit and Risk Committee before stepping down from the committee on 25 July 2018. He attended the subsequent Audit and Risk Committee meetings on 22 November 2018 and 12 March 2019 by invitation.
2. Apologies were received from Jamie Cayzer-Colvin for the two Board meetings and AGM on 25 July 2018 as he was abroad on that date.

Corporate Governance Report continued

Principle 8

Promote a corporate culture that is based on ethical values and behaviours

- The Group's success is largely dependent on recruiting, retaining, and developing the best financial services professionals. To achieve this the Group seeks to ensure that working conditions are of a high standard and has in place good and effective management and staff communications, with the ability for staff to engage in decisions. The Group also encourages participation in the success of the business through share options and has a range of benefits to support staff, including ill health protection and life cover. The Group is committed to equal opportunities and diversity in staff selection and opportunities for promotion, with appropriate consideration being given to applications for employment from disabled persons.
- The Group aims to remunerate staff in line with market practice, to provide development opportunities and to encourage staff motivation and retention.
- The Board's policy on diversity is, as it has been in the past, to seek to appoint the best qualified person to a particular role regardless of gender or other diversity criteria and therefore it has not adopted any measurable objectives in relation thereto.
- The business as a whole is committed to creating an inclusive environment where staff can develop and contribute fully without discrimination on the basis of gender, sexual orientation, age, race, nationality, disability or political or religious beliefs.

Principle 9

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

- The posts of Chairman and Chief Executive are held by different Directors.
- The Chairman's primary role is through his leadership to ensure that the Board and individual Directors are able to operate efficiently by setting the agenda, style and tone of Board discussions to promote constructive debate and effective decision making. He also leads on succession planning for the Board and certain senior executive positions.
- The Chief Executive, has led the executive management team which meets regularly and is primarily responsible for the implementation of the Board's policies and strategies, effective communication with shareholders, ensuring that all Board members develop an understanding of the views of investors and for managing the activities of the Group other than in relation to those matters specifically reserved to the Board or delegated to its Committees.
- The Board has a formal agenda of items for consideration at each scheduled meeting but it will also meet at additional times when required.
- The Board has established guidelines requiring specific matters to be decided by the full Board of Directors. These include the appointment and removal of Directors, terms of reference for Board Committees and membership thereof; approval of strategy including material acquisitions and disposals, annual financial budgets, investments and capital projects. Matters that are reserved for the Board are generally forwarded to the Board for consideration with a recommendation from the executive management or appropriate Committee.

Principle 10

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Board Committees

- To assist in running the Group a number of Board Committees have been established to provide concise information and for taking proposals to the Board, carrying out the necessary work required for the business to operate effectively and efficiently, and to comply with all the regulatory requirements. The Board has delegated certain specific areas of responsibility to each of the Committees. The Board sees minutes of all Committee meetings and the Chair of the Committee reports to the Board on any significant matters. The Board also receives copies of all minutes from subsidiary companies for information.

  The current composition of the Committees is as follows:

Allotment Committee
Any two Directors

Audit and Risk Committee
Alexa Coates (Chair)
Jamie Cayzer-Colvin
Quintin Price
Win Robbins

Nomination Committee
Tom Bartlam (Chairman)
Jamie Cayzer-Colvin
Alexa Coates
Quintin Price
Win Robbins

Remuneration Committee
Win Robbins (Chair)
Tom Bartlam
Alexa Coates
Jamie Cayzer-Colvin
Quintin Price

- In addition to the above standing formal Board Committees there are a number of management committees which have been created to address specific areas of the Group's business activities. Details of these Committees and their functions can be found on the Company's website in the corporate document section
  - Corporate Governance & Board Committees (www.polarcapital.co.uk).

Allotment Committee

- This Committee is used to allot and issue shares arising from the exercise of Board approved share awards or shares arising from previously Board approved crystallisations of fund manager preference share arrangements.

Audit and Risk Committee

- The Audit and Risk Committee formally meets at least three times a year. Only Committee members are entitled to attend meetings, however the Committee invites other Directors and executives including the Chief Executive, the Finance Director and Chief Operating Officer, the Head of Finance, the Head of Compliance and the Chief Risk Officer to attend for all or part of the meetings. The external auditor of the Company will attend the meetings on a regular basis and has unrestricted access to the Committee and its Chair.
- The Audit and Risk Committee has agreed terms of reference and assists the Board in discharging its responsibilities for corporate governance, risk management, financial control and internal controls by reviewing and monitoring risk and internal controls throughout the business.
- The Audit and Risk Committee also considers and reports on the financial statements, going concern and is responsible for the appointment, replacement and work of the auditor.

The work of the Audit and Risk Committee is set out on pages 34 to 37.

Remuneration Committee

- The Remuneration Committee has general oversight of all remuneration arrangements for Executive Directors and senior managers as well as remuneration policies across the Group. It considers all material elements of remuneration policy, remuneration and incentives with reference to independent remuneration research and professional advice. Recommendations are made to the Board on the framework for executive remuneration including the design and implementation of equity based incentive schemes.

The work of the Remuneration Committee and the Directors' remuneration are set out on pages 38 to 46.

Nomination Committee

- The Nomination Committee is responsible for all aspects of the appointment of Directors, succession planning and appointments to the Board, considering and recommending the reappointment of retiring Directors of the Company together with evaluating the workings of the Board and its Committees as well as the Directors' performance and effectiveness.

The Nomination Committee met once during the period under review and considered:

- Board composition, succession planning and the annual Directors review;
- the need for further Board appointments and the appointment of recruitment advisors; and
- the short list of candidates and agreed the Board selection process.

Approved by the Board on 21 June 2019 and signed by order of the Board.

Neil Taylor
Group Company Secretary

Audit and Risk Committee Report

Alexa Coates
Chair of the Audit and Risk Committee

Dear Shareholder

I am pleased to present you with my first Audit and Risk Committee Report for the Group following my appointment on 25 July 2018. This report is intended to provide you with an insight into the Committee's monitoring and oversight activities for the year. This year, the Committee has focused on the risk management and internal control framework of the Group and how this supports the Group's ICAAP, along with the integrity of the Group's financial reporting.

Committee composition

The composition of the Committee is set out on page 32. The Committee comprises all of the Independent Non-Executive Directors, Jamie Cayzer-Colvin and the Chair of the Board attends the meetings as an observer, by invitation.

The Committee has competence relevant to the sector in which the Group operates. Committee members have a range of financial and investment experience including fund management in both equity and fixed income funds, while as a Chartered Accountant, I bring recent and relevant financial experience to the Committee. An effectiveness review was carried out in March 2019 by the Chair of the Board and it was found that the committee was operating effectively. Details of the members of the Committee are set out on pages 24 and 25.

The Committee's responsibilities

The terms of reference for the Audit and Risk Committee are set out on the Company's website and are summarised as follows:

- reviewing the contents of the interim results and Annual Report and Accounts and advising the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy;
- reviewing the appropriateness of new accounting standards, accounting estimates and judgements used in the preparation of the Group's financial statements;
- reviewing the effectiveness of the Group's internal control and risk management systems including those for the prevention and detection of fraud;
- reviewing the Group's whistleblowing arrangements and ensuring these allow proportionate and independent investigation of such matters and appropriate follow up action;
- reviewing the Group's ICAAP and ensuring that the Group has sufficient capital to operate for the foreseeable future;
- considering the effectiveness and quality of the external audit process;
- establishing and keeping under review a policy for the provision of non-audit services by the external auditor so that their independence and objectivity is safeguarded; and
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor.

Review of activities

During the year the Committee met three times, with all members attending each meeting. A detailed review of the committee's activities during 2019 is as follows:

Consideration of the interim report and financial statements

The Committee considered the interim report and financial statements to ensure fair and balanced and consistent with the accounting policies adopted in the annual financial statements.

Significant accounting matters and judgements in relation to the annual financial statements

During the year the Committee considered new accounting standards, key accounting estimates, and matters and judgements in relation to the Group's financial statements and disclosures as listed below:

New accounting standards

During the year, the Committee reviewed the impact of new accounting standards on the annual financial statements as follows:

IFRS 9 – Financial instruments: Classification and measurement

This standard sets out the requirements for recognising and measuring financial assets, financial liabilities and contracts to buy or sell non-financial assets. The adoption of IFRS 9 has not had a material impact on the Group's financial statements.

IFRS 15 – Revenue from contracts with customers

The Group has various investment management agreements where compensation is stipulated based on either fixed-rate management fees calculated on a daily basis or performance fees calculated on an annual basis. The Group's outsourced service providers prepare the underlying revenue calculations supported by the basis of these calculations. IFRS 15 was adopted on 1 April 2018 with no material impact on the way in which the Group recognises revenue.

IFRS 16 – Leases.

The Group has a material operating lease relating to the head office in Palace Street in London. The Group is required to adopt IFRS 16 from 1 April 2019 onwards. We have assessed the impact of the revised accounting standards on the Group's financial position and this is covered in Note 2.7.

Consolidation of seed capital investments

IFRS 10 requires the Group to consolidate entities over which it has control. The key areas of judgment required in determining whether the Group controls an entity include:

- 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.

Where the Group has seeded funds that it manages, owns a significant proportion of the funds and the Group concludes it is acting as principal, rather than an agent on behalf of third-party investors, the fund is consolidated. The accounting treatment for seed capital investments is set out in Note 2.2.

The Committee considered the approach adopted by management and agreed that it was in line with accounting standards.

Share-based payments

Determining the accounting charge for share-based payment transactions requires the selection of an appropriate valuation model, consideration of appropriate input criteria for the model and an estimate as to the number of awards that are likely to vest. The accounting treatment for share-based payment transactions is set out in Note 3.6.

The Committee considered the valuation model chosen and the assumptions used by management in its review of the financial statements and agreed that these were appropriate.

Deferred tax

Determining the deferred tax charge requires various estimates to be made around whether temporary differences will reverse in future periods and whether there will be sufficient taxable profits available in future to enable the recovery of deferred tax assets. The Committee considered the estimates made by management in its review of the financial statements and agreed that these were appropriate.

Revenue and rebates

Revenue is the most significant line item in the Group's Consolidated Statement of Profit and Loss. Revenue recognition involves calculations that are complex, as in the case of performance fees, as well as the need to take into account bespoke rebate agreements. The accounting treatment for revenue and rebates and commissions and fees payable, is set out in Note 3.1.

The Committee considered the controls in place around revenue recognition and was satisfied with the controls and measurement and recognition of revenue and rebates.

Consideration of the annual report and financial statements

The Committee performed its role through monitoring the integrity of the financial statements and the system of accounting to ensure compliance with relevant and appropriate accounting standards. The scope of the audit was agreed in advance with a focus on areas of audit risk and the appropriate level of audit materiality. The auditor reported on the results of the audit work to the Committee at its June 2019 meeting and highlighted that no material issues had been discovered based on the audit work performed.

The production and the audit of the Group's Annual Report and Financial Statements is a comprehensive process requiring input from a number of different contributors.

The Audit Committee supports the Board by considering and forming an opinion to assist the Board in reaching conclusions that the Annual Report is fair, balanced and understandable and that the adoption of a going concern basis is appropriate.

Audit and Risk Committee Report continued

In performing this work the Committee has given consideration to the following:

- the comprehensive control framework over the production of the Group's financial statements;
- the market outlook for the Company as described in the Chief Executive's Report and considered in the light of other internal reports and financial projections that the statements contained in the annual report fairly reflected the results for the year;
- the extensive levels of review undertaken in the production process, by the management and the Committee;
- a clean ISAE 3402 report, along with internal monitoring and their outcomes, confirming the effectiveness of internal control; and
- a going concern report from management on the Group's assessment of liquidity and timing of cashflows, contingent liabilities and a summary of budgets for the year ahead.

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31 March 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, and has reported on these findings to the Board.

The terms of the representation letter to the auditors was considered and agreed.

The Committee also recommends the adoption of the going concern basis for the preparation of the annual financial statements.

Risk management and internal controls

The Committee has responsibility for assisting the Board in maintaining an effective internal control environment. In order to discharge its responsibilities, it receives reports on the Group's compliance and internal control procedures and systems for managing risks along with the regulatory environment which governs it.

The Group has established a Risk Map which identifies emerging and principal risks. The Risk Map provides a measure of the principal risks and a RAG status based on the level of risk, frequency and mitigating controls in place.

The Chief Compliance Officer (CCO) manages a risk monitoring programme against the principal risks with the outcomes of testing shared with the relevant internal control committees. The CCO shared the Risk Maps with the Audit Committee at its November meeting and in advance of this, the Committee members also attended a review of the Risk Map with the control function heads to discuss risks and processes in place in order to mitigate, where possible, these risks. This also included a discussion on the Group's culture and Group's approach to risk. The conclusion of the Committee members from this review was that the Group continues to take a cautious approach to risk and risk mitigation.

The CCO provides a regular report to the Committee on the monitoring of controls, along with their outcomes, carried out by the Compliance function. This also covers a regulatory update on upcoming regulatory changes and the impact of changes implemented during the year, a summary of anti-money laundering related issues and any whistle-blowing incidents. In particular, the Committee received a number of updates on the implementation and impact of MiFID II.

During the financial year, there were no whistle-blowing incidents.

The Group also has a formal Risk Committee that convenes quarterly to allow the senior management team to regularly review and monitor all key risks and the minutes of which are shared with the Audit and Risk Committee.

Capital adequacy

The Committee reviewed the Group's ICAAP in detail. This included the assessment of a number of stress scenarios and their impact on the group's financial position as well as an assessment of a wind down scenario. The Committee also reviewed a forward-looking analysis of the Group's cash and capital position. Based on the above, the Committee was able to recommend the ICAAP to the Board for approval.

Internal audit

The Group does not have an internal audit function. The Committee reviewed and discussed the monitoring and related outcomes carried out by the Compliance function at its meeting in June. As a result of this discussion, the size of the Group and the internal control environment, the Committee has concluded that an internal audit function is not presently required. However, this will continue to be monitored and reassessed annually.

External auditor

Efficacy of audit process

The effectiveness of the external auditor is monitored by the Committee during the year with a focus on the quality and knowledge of staff, planning of work and quality of reporting. The Committee reviews any changes in the terms of the Auditors appointment and considers among other matters their performance, qualification, knowledge, expertise and resources.

Auditor independence was also considered along with other factors such as audit planning and accounting standards interpretations. This evaluation has been carried out throughout the year by meetings held with the auditor, review of the audit process and comments from management and others involved in the audit process.

I held regular one on one meetings with the lead partner, Amarjit Singh, and he also attended the June 2019 Committee without the executive management present.

Non-audit work

A policy has been established to safeguard the independence and objectivity of the Group's external auditor. The policy provides that certain non-audit services are not permitted under any circumstances and that the Committee will be required to consider and pre-approve any material non-audit services before the external auditor is engaged.

During the year the Committee reviewed and updated its policy for non-audit services supplied by the Group's auditor and reducing the approval to permitted non-audit services amounting to less than £10,000 in aggregate in any year to be preapproved subject to reporting retrospectively to the Committee.

The Audit Committee believes the objectivity and independence of the auditor is maintained.

Appointment of auditor and tenure

The Committee also considers the appointment, remuneration and work of the auditor.

Ernst & Young LLP has provided audit services to the Group since 2002 and these have continued through the period from its initial public offering in February 2007 to date. The audit partner changes every five years in accordance with professional guidance. Amarjit Singh is the current audit partner, having been appointed in 2016.

The Committee has considered the need for the rotation of the audit firm and, having considered the above factors, considers it appropriate to recommend to the Board and shareholders that Ernst & Young LLP be reappointed as auditors at the AGM.

Ernst & Young LLP have agreed to offer themselves for reappointment as auditors of the Group in accordance with section 487(2) of the Companies Act 2006 and a resolution requesting approval of their reappointment and to authorise the Directors to determine their remuneration will be presented at the AGM.

Amarjit Singh's five year rotation will come to an end in 2020 and the Committee has therefore decided to put the external audit out to tender for the 2020/2021 annual results. The Committee will carry out a tender process during 2019 with a view to appointing auditors in advance of the 2020/2021 financial year end.

Alexa Coates

Chair of the Audit and Risk Committee

21 June 2019

Remuneration Committee Report

Win Robbins
Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board and the Committee I have pleasure in presenting the Remuneration Committee's Report for the year ended 31 March 2019, my first since taking over as Chair of the Remuneration Committee in 2018. I would like to thank Michael Thomas for his chairing of the Committee.

The Company is not subject to the Large and Medium Sized Companies and Group (Accounts and Reports) (amendment) Regulations 2013 as it is not a Company which is listed on the Main Market. Although the Company does not have to prepare a Remuneration Policy or Implementation Report the Committee wishes to ensure that shareholders have a clear understanding of the remuneration paid by the Company and how the Committee has discharged its obligations. Consistent with prior years, this remuneration report will be submitted for an advisory shareholder vote at this year's Annual General Meeting (AGM) to provide shareholders with a mechanism to indicate their views on these arrangements. The Company values shareholders' views and welcomes their feedback.

Remuneration Committee activities during the year

The Committee's remit extends beyond the Executive Directors to capture remuneration for the senior management team. In determining pay and policies for Directors and senior management, the Committee considers the structure and implementation of remuneration policies across the Group.

The Committee met once in the year ended 31 March 2019 and once shortly after the end of the financial year and discussed the following:

- an internal review of the remuneration policies and incentive arrangements across the Group;
  - This review covered the arrangements for, Executive Directors and senior management, fund managers and their teams, central staff and sales teams. This review looked at the operation and principles of basic and variable pay, short-term cash bonuses and longer-term equity awards and fund manager incentives and retention arrangements, and the application of deferment across the Group.
- bonus and LTIP awards for the financial year to the Executive Directors and Senior Management;
  - The Committee considered the arrangements for the Executive Directors in terms of achievement of conditions for a short-term award and participation in the equity-based LTIP which are explained in greater detail below. The Committee also established the key performance outcomes for Executive Directors and members of the executive management in respect of their bonus awards for 2019 and the 2019 LTIP grant levels. Details are given on page 44.
- recommendations from the executive management for remuneration packages for existing and new fund managers;
  - Over the course of the year members of the Committee were consulted and agreed on various offers to potential fund managers and teams as well as a number of senior appointments.
- the recommended salary levels for 2019/2020 and aggregate bonus payments for 2018/19 across the Group; and
  - The Committee agreed the framework for salary reviews that could be implemented across the Group and agreed the Executive Directors recommendations for discretionary bonus awards to staff.
- a review of the levels and arrangements for deferment of variable remuneration.
  - The Committee agreed that, other than the Executive Committee who are subject to 60% deferment on their annual bonus awards, deferment of variable remuneration should commence at £100,000 in respect of the financial year ended 2019 and that the levels of deferment should be 40% or 60% depending on the level of variable pay prior to deferment.

Executive Director remuneration payable for the year under review

When setting Executive Director remuneration, the Committee considers a range of factors including strategic goals, the Group's overall success as well as personal performance.

Set out on the next page are the key principles of our remuneration strategy.

Salaries and pension

The Committee considered the basic salary paid to the Executive Directors and took into account the levels of remuneration agreed for other key senior executive positions and for members of the Executive Committee.

The Committee concluded that there should be no change for Gavin Rochussen or John Mansell in 2019/20. The average increase in basic salary for all staff excluding Executive Directors is 6%.

In line with the latest views from UK institutional investors, the Executive Directors' pension contribution rate of 10% of basic salary is the same as the percentage contribution provided to staff.

Variable remuneration awards

As described in previous remuneration reports an executive variable pay pool had been established in which the Executive Directors would participate along with other key senior executives.

The pool is based on a fixed 12 per cent of pre-bonus profit from which annual bonuses and LTIP awards are made for this group of executives. The Committee at their meeting in March 2019 considered the value and allocation of the executive variable pay pool by achievement of performance criteria for each participant and considered the targets established by the Board and progress against each achieved by the Executive Directors.

When the Committee is considering Executive Directors' performance it uses a mix of strategic, business and personal achievement criteria.

Results of Committee work

The Committee concluded that the Executive Directors had overall achieved an outstanding year for the Company with a 52% increase in core profit. The Executive Directors achieved the majority of the strategic and personal objectives and exceeded expectations on the Group results.

- in light of the increase in core profit, the Committee decided to award a short-term bonus equal to 82.5% of the maximum opportunity for the Executive Directors; and
- in reviewing the long-term incentive plan the Committee considered that the 2019/20 LTIP award pool should be set at 87.5% of the remainder of the variable pay pool. The LTIP award pool should be allocated 40 per cent for the CEO and 20 per cent for the COO. As part of the terms of his recruitment, Mr Rochussen had agreed a 60% share of the LTIP award pool. Since then he has voluntarily reduced this share by 33% to a 40% allocation. The foregone entitlement enables more individuals to participate in the LTIP scheme. The Remuneration Committee intends to carry out a review of the LTIP this year with particular focus on Executive Directors share of the 12% pool by widening participation further and determining appropriate performance criteria.

The Remuneration Committee believes the above bonus outcome and LTIP allocation for the financial year 2018/2019 reflects very strong financial and operational performance.

In line with good practice, a holding period will apply to the 2019 LTIP awards as well last year's LTIP award and Gavin Rochussen's initial share award, creating a 5 year gap between grant and potential sale.

2018 AGM vote

The votes cast at the AGM held on 25 July 2018 on the resolution on Directors' Remuneration Report were as follows:

	Number	% of cast votes
Votes in favour	53,259,647	82
Discretionary votes	4,764,308	7
Votes against	7,075,727	11
Total votes cast	65,099,682	100
Votes withheld	–	–
Total issued share capital at date of AGM	93,645,541	100

The Committee noted that 11% of shareholders (who voted) voted against the resolution. We understand the main area of contention was the lack of performance criteria attached to Gavin Rochussen's initial award granted to him upon joining Polar Capital. While the award was necessary to recruit an individual of Mr Rochussen's calibre, the Committee is aware of shareholders' views in this area and will take this into account when recruiting any future Executive Director.

Approach to Remuneration in 2019/20

The Committee will keep the Executive Directors and staff remuneration under review to take account of any changes in the Company's business environment and remuneration practice generally. The overall aim will be to ensure that the Company's remuneration arrangements continue to support it's strategy and deliver long-term shareholder value by attracting and retaining talent and rewarding executives appropriately in light of the Company performance.

In respect of the annual bonus for 2019/20, the Remuneration Committee has determined that 50% will be based on performance against a sliding scale of core operating profit targets, 30% against other financial metrics and 20% against specific strategic objectives.

The Committee believes that the revised bonus scheme is more robust and that the remuneration approach will both support and motivate the executive team whilst aligning them to the Company's strategic objectives and to achieving sustained financial growth and long-term returns for our shareholders.

The Committee encourages open dialogue with shareholders and if you have any comments or questions on this report, then please feel free to contact me through the Company Secretary (CoSec@polarcapital.co.uk).
I look forward to your support at the 2019 AGM.

Win Robbins

Chair of Remuneration Committee

21 June 2019

Remuneration Committee Report continued

Directors' remuneration policy summary

The Directors' remuneration is considered as part of the overall aim of our remuneration strategy which is to provide appropriate incentives that reflect the Group's high performance culture and values. In summary, we aim to:

- attract, retain and motivate high-calibre, high performing directors and employees; and
- encourage strong performance and engagement, both in the short and the long-term, to enable the Group to achieve its strategic objectives.

The Directors' total remuneration package is structured so that a significant proportion is linked to performance conditions measured over both the short-term and longer-term.

When setting the levels of short-term and long-term variable remuneration and the balance of equity and cash within the package, consideration is given to obtaining the appropriate balance so as not to encourage unnecessary risk-taking, whilst ensuring that performance hurdles are suitably challenging.

The table below summarises the key aspects of the Group's remuneration structure and policy:

Directors' remuneration

Element	Purpose and link to strategy	Operation
Fixed pay		
Base Salary	To attract and retain executives of a suitable calibre for the duties required by being market competitive.	Normally reviewed annually by the Committee, with increases taking effect from April, taking account of Company performance, individual performance, changes in responsibility and levels of increase for the broader staff population. The Committee considers the impact of any basic salary increase on the total remuneration package.
Benefits	To provide market competitive benefits.	The Company typically provides the following: • private medical cover; • life insurance; and • income protection scheme to cover long-term illness.
Pension	To provide market competitive benefits.	Defined contribution or cash in lieu of pension equal to 10% of base salary. This is in line with the contribution provided to staff.

Element	Purpose and link to strategy	Operation
Variable pay		
Annual Bonus Plan and Deferred Remuneration (DRP)	To drive and reward performance against annual objectives which are consistent with the strategy and aligns to shareholder interests. The DRP provides a deferral element to variable compensation above a certain level to ensure there is a link to the longer-term performance of the Company.	An executive variable pay pool is formed based on 12% of the pre-tax and executive variable compensation profits. Members of the Executive Committee, which includes the Executive Directors, participate in the pay pool. The Committee determines an individual's allocation of the variable compensation pool. For members of the Executive Committee, of this allocation, up to 200% of salary may be earned as annual bonus with the balance delivered as an award under the LTIP. The actual bonus paid is dependent on the overall success of the Company (financial and non-financial performance) and personal contribution. A significant proportion of the bonus amount is delivered in the form of a deferred share award. Awards under the deferred share award take the form of shares or nil cost options over Polar Capital Holdings plc shares. These shares are released over a three-year period.

Element	Purpose and link to strategy	Operation
Variable pay		
Long-term incentives ("LTIP")	To encourage and reward delivery of the Company's long-term strategic objectives and provide alignment with shareholders.	The remaining balance of the Executive Committee members' share of the variable pay pool (less the potential to earn 200% of salary in annual bonus) will be granted in the form of LTIP awards subject to any potential downwards adjustment by the Remuneration Committee. The LTIP awards are structured as nil cost options and vest after 3, 4 and 5 years subject to performance and continued employment (subject to good leaver provisions). The first two tranches which vest after 3 and 4 years are subject to a holding period bringing the total vesting and holding period to 5 years for all three LTIP tranches. These awards are subject to Malus and Clawback under certain circumstances. Vesting of LTIP awards is determined by reference to performance assessed over a period of at least three years,typically based on EPS growth targets. Prior to each grant, the Committee may determine that alternative measures apply as long as they are aligned with the Company's strategic objectives and long-term shareholder value.
Fee paid in cash	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market competitive fee level.	The Chairman is paid a single fee for all his responsibilities. The Non-Executives are paid a basic fee assessed on their contribution and level of responsibilities. The level of these fees is reviewed periodically by the Committee and Chief Executive for the Chairman and by the Chairman and Chief Executive for the Non-Executive Directors, with reference to market levels and a recommendation is then made to the Board. The Committee in reviewing these fees considers the extra work undertaken by the Chairmen of the Board Committees and may pay an additional fee to reflect these responsibilities if felt appropriate.

Service contracts & payments for loss of office

The Remuneration Committee reviews the contractual terms for new Executive Directors to ensure that these reflect best practice.

Service contracts normally continue until the Director's agreed retirement date or such other date as the parties agree. The service contracts contain provision for early termination. Notice periods given by the employing Company are limited to 12 months or less.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. If the employing Company terminates the employment of an Executive Director in other circumstances, compensation is limited to salary due for any unexpired notice period and any amount assessed by the Remuneration Committee as representing the value of other contractual benefits (including pension) which would have been received during the period. Payments in lieu of notice are not pensionable. In the event of a change of control of the Company there is no enhancement to contractual terms.

The Non-Executive Directors have letters of appointment, setting out the terms and conditions of their appointment and their expected time commitment. It is the Company's policy that Non-Executive Directors should be appointed for an initial period of three years (from the next general meeting following their initial appointment in the case of new Non-Executive Directors) and that they may be re-appointed for further terms of three years each. Re-appointment at the end of such periods should not be considered automatic and each Director's contribution will be carefully assessed. The letters of appointment provide for termination of the Director's appointment under certain circumstances and in all cases without any compensation.

Remuneration Committee Report continued

None of the Non-Executive Directors have any ongoing direct financial or contractual interests in the Company other than their fees and shareholdings as disclosed in this report.

Details of the indemnities granted by the Company to each Director are given on page 27.

NED fees

Following a review of the fee structure for the Chairman and Non-Executive Directors it has been agreed that the fees from 1 April 2019 will be as follows:

- Chairman: £150,000 p.a.
- Non-Executive: £60,000 p.a.
- Additional payment for the Chair of a Committee: £10,000 p.a.

Annual report on remuneration

The table below sets out the remuneration received by the Directors for the financial year ended 31 March 2019 and for comparison amounts received in the financial year ended 31 March 2018.

Single Figure of Total Remuneration

	Salary & fees		Cash Bonus (4,5)		Long Term Incentive		Taxable benefits		Pension/ payment in lieu of pension		Total remuneration	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Executive Directors'												
Gavin Rochussen (1)	350	250	578	647	–	–	2	2	35	25	965	924
John Mansell	275	250	481	500	–	–	2	2	27	25	785	777
Tim Woolley (2)	–	100	–	210	–	–	–	1	–	10	–	321
Non-Executive Directors'												
Tom Bartlam	100	100	–	–	–	–	–	–	–	–	100	100
Hugh Aldous until 25 July 2018	14	45	–	–	–	–	–	–	–	–	14	45
Brian Ashford-Russell	55	55	–	–	–	–	2	2	–	–	57	57
George Bumeder until 26 July 2017 (3)	–	5	–	–	–	–	–	–	–	–	–	5
Jamie Cayzer-Colvin (3)	20	20	–	–	–	–	–	–	–	–	20	20
Alexa Coates from 25 July 2018	31	–	–	–	–	–	–	–	–	–	31	–
Quintin Price from 25 July 2018	27		–	–	–	–	–	–	–	–	27	–
Win Robbins from 22 June 2017	42	31	–	–	–	–	–	–	–	–	42	31
Michael Thomas until 22 November 2018	30	45	–	–	–	–	–	–	–	–	30	45
Tim Woolley (2)	13	28	–	–	–	–	1	–	–	–	14	28
Total	**957**	**929**	**1,059**	**1,357**	**–**	**–**	**7**	**7**	**62**	**60**	**2,085**	**2,353**

Notes:

1. Gavin Rochussen's remuneration for 2018 reflects the period of approximately 8½ months worked during that financial year.
2. Tim Woolley was Chief Executive until 17 July 2017, and thereafter served as a Non-Executive Director until his retirement from the Board on 25 July 2018.
3. Under the terms of their appointment the Director's fees may be paid to their principal employers if so elected or to their designee. The fee for Jamie Cayzer-Colvin was paid to Caledonia Investments plc and the fee for George Bumeder, for the period he served as a Director, was paid to XL Group Ltd.
4. The short-term incentive is awarded as an annual cash bonus with deferment in accordance with the remuneration policy.
5. Included in the 2018 figure for Gavin Rochussen is a payment in lieu of dividends, of £157,000, on his initial share award (see page 46 – deferred interest).

Variable pay for the year ended 31 March 2019

As set out in the Remuneration Policy table, Executive Directors and selected senior management share in a variable pay pool created by a 12 per cent share in the pre-tax and executive variable compensation profits. From this pool, bonuses of up to 200 per cent of salary may be awarded for performance against pre-set targets and the remainder could be awarded in the form of performance shares under the LTIP.

The bonus awards and LTIP allocations are set out below.

Annual Bonus Awards for the year ended 31 March 2019

The Committee considered the Executive Directors' performance against the under noted objectives and concluded that for the year ended 31 March 2019 overall excellent performance was delivered.

For the year ended 31 March 2019, 50% of the bonus was based on profit performance against budget, and the other 50% was based on performance against KPIs and strategic objectives.

Profit performance (50% weighting):

- Core profit for the year was £42.2m.
  - Profit increased significantly by 52% over the prior year and was around 29% ahead of budget.
  - This excellent performance resulted in the full bonus being awarded in respect of the profit element.

Success of the Group: KPI performance (25% weighting):

- Net inflows.
  - Despite a good first half of the year, fund inflows of £0.5bn were below budget.
- AUM growth.
  - AUM rose to £13.8bn by 31 March 2019, having been at £14.7bn in September 2018. The year-end position was in line with a stretching budget and 15% ahead of the prior year.
- Net management fee revenue growth.
  - Net management fee revenue for the year was £113.5m which was 25% ahead of the prior year and around 9% ahead of budget.
- Margin performance.
  - Both revenue margin (84 basis points) and core profit margin (37%) were ahead of the budget agreed by the Board.
- Total shareholder return.
  - The total shareholder return exceeds the agreed peer group of asset managers (Ashmore Group PLC, Impax Asset Management Group PLC, Schroders PLC, River and Mercantile Group PLC, Jupiter Fund Management PLC, Liontrust Asset Management PLC, Miton Group PLC and Premier Asset Management Group PLC).

Performance against the above KPIs resulted in 16.25% (out of 25%) of the bonus being awarded.

Strategic and personal objectives (25% weighting):
Chief Executive

- Strategy execution.
  - The management team has been strengthened with the arrival of the CIO and the composition of the executive team seems appropriate.
  - The search for complementary teams to add capacity is ongoing with a number of opportunities assessed during 2019.
  - Progress has been made towards diversifying and extending the distribution reach geographically and by client channel. The integration of the EM team has been an enabler as has successful recruits in key roles in the US.
  - No further closures of subscale or underperforming investment strategies in 2019 following four fund closures in the prior year.

Chief Operating Officer

- Strategy execution.
  - Provided excellent support to the CEO and executive team by maintaining and fostering an open and collegiate environment.
  - Provided top tier service to the front office through management information that is comprehensive transparent and informative.
  - Appropriately allocated central costs across the investment teams in a fair and equitable manner. Ensured that regulatory and compliance requirements have been maintained to the highest standards.
  - Delivered investment support at an "excellent" level to teams.
  - Ensured stable management of department heads and team leaders to lead the delivery of the excellent services.
  - Management and attainment of budget.
- The CEO and COO had common personal objectives.

  The executive functions of the CEO and COO were reviewed against objectives established and agreed by the Remuneration Committee which included:
  - maintaining and developing the culture and ethos of the business;
  - engagement with shareholders and new investors to articulate and seek support for the group strategies; and
  - maintaining and enhancing the Polar Capital Brand with media.

Remuneration Committee Report continued

The Remuneration Committee determined that performance against strategic and personal objectives had been strong and that 16.25% (out of 25%) should be awarded.

Therefore the bonus awarded for the two Executive Directors is 82.5% of the maximum opportunity or 165% of basic salary).

- Gavin Rochussen received a bonus of £577,500 in respect of the financial year ended 31 March 2019.
- John Mansell received a bonus of £481,250 in respect of the financial year ended 31 March 2019.

In accordance with the deferment arrangements 60% of the annual bonuses awarded to Gavin Rochussen and John Mansell were deferred, after payment of tax, in to the shares of the Company which, subject to bad leaver forfeiture provisions, will be released to the respective Directors as to one third each year for the next three years. As the bonuses are cash awards tax is deducted at the time of payment and therefore the deferment is of the net amount.

- Gavin Rochussen has deferred £183,645 into 31,795 shares of Polar Capital Holdings;
- John Mansell has deferred £153,038 into 26,496 shares of Polar Capital Holdings; and
- Executive Directors are entitled to receive dividends on their deferred share awards at vesting.

LTIP awards granted for the year ended 31 March 2019

The variable pay pool after the deduction of senior executive annual bonuses was £6.85m. While the policy is that the remaining pool may be allocated in the form of LTIP awards, the Committee determined that 87.5% of this amount should be the LTIP pool for the year, having taken into account overall performance during the year. As per the terms of his recruitment, the CEO's allocation of the pool is 60% but he has decided to forego one-third of his allocation and therefore be awarded 40 per cent of the LTIP pool with the COO awarded 20 per cent. The remainder will be used to make awards to selected senior executives. The Committee decided to make LTIP awards as follows:

- an award to Gavin Rochussen with a face value of £2,387,000; and
- an award to John Mansell with a face value of £1,200,000.

The LTIP awards will be made as nil cost options following the release of the Group's results for the financial year ended 31 March 2019. These awards will vest in equal tranches after three, four and five years' time. In line with good practice, the first two tranches shall also be subject to a holding period which expires on the fifth anniversary of grant. Vesting is dependent on EPS performance of the Group for the year ended 31 March 2022. No awards shall vest if EPS is less than 41.1p; if EPS is equal to 41.1p, 50% of the awards will vest and vesting will increase on a straight line basis to full vesting if EPS is equal to or exceeds 62.2p.

These EPS targets are derived from the EPS of the Group for the financial year prior to Gavin Rochussen's appointment and reflect compound annual growth of 15% for the achievement of the 50% targets and 25% compound annual growth for the full vesting targets.

This approach to target setting was agreed at the time of Gavin Rochussen's appointment as part of his recruitment terms. The Committee has decided to revisit the design of the LTIP this year, with changes expected from next year's award. As part of this, the Committee intends to move away from setting EPS targets using a base reference EPS for 2017. It is also expected that one Executive Director's share of the variable pay pool will be reduced to enable wider LTIP participation. Full details of the outcome of the review, will be set out in the next year's report.

Directors' interests in the shares and options of the company

Share Options

Options to acquire ordinary shares held by the Directors and changes there to during the year ended 31 March 2019 and up to 21 June 2019 are described below. The Executive Directors also have interests in the shares of the Company by their participation in the LTIP arrangements and the deferment applied to short-term bonuses. Details of these interests are set out under the relevant sections.

	EIP Share Option Awards Grant date	At 1 April 2018	Granted in the year	Exercised in the year	Lapsed in the year	At 31 March 2019	Earliest exercise date	Latest exercise date	Market value of shares at grant price (£)	Exercise price (£)
John Mansell	22/01/2010	500,000	–	500,000	–	–	31/03/2014	31/03/2020	0.92	0.92
	26/07/2011	350,000	–	–	–	350,000	26/07/2015	26/07/2021	1.98	1.98
	04/07/2013	350,000	–	–	–	350,000	04/07/2017	04/07/2023	3.88	3.88
	Total	**1,200,000**	**–**	**500,000**	–	**700,000**				

For the year ended 31 March 2019 the taxable income on options exercised was £1.8m (2018: £nil).

Deferred Share Award

Part of the annual bonus awards are delivered net of tax in the shares of the Company. In respect of the year ended 31 March 2018, the following deferment was implemented.

	Net value of deferment	Market value of shares at grant price (£)	Shares delivered in the year	Earliest release date	Latest release date
Gavin Rochussen	£155,820	5.38	28,956	01/05/2019	01/05/2021
John Mansell	£159,000	5.38	29,544	01/05/2019	01/05/2021

Deferred share awards are released one third on the first, second and third anniversary.

LTIP

	Year Granted [1]	Face Value of Award	Market value of shares at grant price (£)	Granted in the year	Vested in the year	Lapsed in the year	Number of shares held at At 31 March 2019	Earliest vesting date	Latest vesting date
Gavin Rochussen	2019	£1,600,000	6.84	233,918	–	–	233,918	16/07/2021	16/07/2023
John Mansell	2019	£900,000	6.84	131,578	–	–	131,578	16/07/2021	16/07/2023

1) Gavin Rochussen's joining award is included in the Directors' shareholding table on page 46.

Conditions of Option awards

The options held by John Mansell are subject to the requirement that in order to exercise the option he must be employed by, or be an officer of, the Company on the relevant vesting date subject to certain defined "good leaver" situations.

The options have been issued in accordance with the rules of the Polar Capital Equity Incentive Plan, by the use of the provisions relating to Equity Settled Share Appreciation Rights ("ESARS"). The use of the ESARS provisions allows the Company to issue to the option holder only the number of shares that would equate to the number of shares over which the option becomes exercisable less the number of shares that would have needed to be sold to fund the purchase of that number of shares on the exercise date.

No other Directors held share options during the year ended 31 March 2019 (2018: nil).

Remuneration Committee Report continued

Shares

The interests of Directors in the shares of the Company at the end of the financial year were as follows:

Director Shareholdings

	31 March 2019	31 March 2018
Executive Directors		
Gavin Rochussen		
beneficial	1,122,656	1,000,000
deferred interest[(1)]	564,267	802,967
John Mansell		
beneficial	1,712,000	1,712,000
non-beneficial	160,000	160,000
deferred interest[(2)]	29,544	–
Non-Executive Directors		
Tom Bartlam	100,000	100,000
Brian Ashford-Russell		
beneficial	4,680,000	5,200,000
non-beneficial	250,000	250,000
James Cayzer-Colvin	4,250	4,250
Alexa Coates	2,000	–*
Quintin Price[(3)]	–	–*
Win Robbins	10,000	10,000

* Date of appointment.

1. On appointment (18 July 2017) Gavin Rochussen was granted an award over 802,967 ordinary shares of the Company (the deferred interest) which will vest subject to him being employed by the Company. One third of the shares were released to him on 18 July 2018 and the balance will be released on 18 July 2019 and 18 July 2020.

   Gavin Rochussen has a deferred interest in 28,956 shares arising from his 2018 deferred share award (page 45).

   Since the year end Gavin Rochussen has increased his deferred interest in the ordinary shares of the Company by 31,795 ordinary shares as part of the deferred remuneration award in respect of the year ended 31 March 2019.
2. John Mansell has a deferred interest in 29,544 shares arising from his 2018 deferred share award (page 45).

   Since the year end John Mansell has increased his deferred interest in the ordinary shares of the Company by 26,496 ordinary shares as part of the deferred remuneration award in respect of the year ended 31 March 2019.
3. Since the year end Quintin Price has purchased 10,000 ordinary shares.

There have been no other changes in the interests of the Directors who were in office at 31 March 2019 in the shares of the Company between 31 March 2019 and 21 June 2019.

Payments to past directors

No payments were made to any past Directors during the year to 31 March 2019.

Share prices over the financial year

The shares have traded at prices between 732p (28 June 2018) and 448p (6 December 2018) per share. The share price on 29 March 2019, the last trading day of the financial year, was 522p per share.

External advisors

The Committee has access to the advice of independent remuneration consultants when required. During the year the Remuneration Committee received advice from AON on the logistics of granting the 2018 LTIP awards. During the financial year, the Remuneration Committee carried out a review of advisors and decided to appoint FIT Remuneration Consultants LLP ("FIT"). FIT assisted the Company with the 2020 remuneration proposals, drafting the share plan grant documentation and the preparation of this report. The Committee also consulted with the CEO and COO on staff remuneration and incentive arrangements who in turn received guidance from Dechert LLP. The external advisors did not have any other relationship with the Company.

The constitution and composition of the Remuneration Committee is given on page 33.

Statement of Directors' Responsibilities in Relation to the Group's Financial Statements

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union and for preparing the parent Company financial statements in accordance with Financial Reporting Standard 102 (FRS 102).

The Directors are required to prepare financial statements for each financial year which present a true and fair view of the financial position of the Group and parent Company and the financial performance and cash flows of the Group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS and FRS 102 respectively is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and parent Company's financial position and financial performance; and
- state that the Group and parent Company have complied with IFRS and FRS 102, respectively, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to the Auditor

Having made enquiries of fellow Directors and the Group's auditor, each Director has taken all the steps that he is obliged to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of the information. Each of the Directors at the date of approval of this report confirms to the best of his or her knowledge and belief that there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the Group's auditor is unaware.

Going Concern

The Board with guidance from the Audit Committee has made an assessment of the Group's position as at 31 March 2019 and the factors impacting the forthcoming year are set out in the Strategic Report and in the Directors' Report which incorporates the corporate governance statements.

The financial position of the Group, its cash flows, and its liquidity position are described in the Financial Review on pages 18 to 20. Note 4.3 to the financial statements include the Group's policies and process for managing its capital; its financial risk management objectives; details of financial instruments; and hedging activities. Exposure to credit risk and liquidity risk are also disclosed.

After making enquiries the Directors believe that in light of the controls and monitoring process that are in place, and the financial resources available to the Group that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of approval of the financial statements. Accordingly the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Fair, balanced and understandable

The Directors consider that following advice from the Audit and Risk Committee, the Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of the Board

Tom Bartlam

Chairman

21 June 2019

Independent Auditor's Report to the Members of Polar Capital Holdings plc

For the year ended 31 March 2019

OPINION

In our opinion:

- Polar Capital Holdings plc's group financial statements and parent company financial statements ('the financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended.
- The group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102').
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Polar Capital Holdings plc which comprise:

Group	Parent company
Consolidated Statement of Profit or Loss for the year ended 31 March 2019	Company Balance Sheet as at 31 March 2019
Consolidated Statement of Comprehensive Income for the year ended 31 March 2019	Company Statement of Changes in Equity for the year ended 31 March 2019
Consolidated Statement of Changes in Equity for the year ended 31 March 2019	Company Cash Flow Statement for the year ended 31 March 2019
Consolidated Cash Flow Statement for the year ended 31 March 2019	Notes 5.1 to 5.5 to the Company Financial Statements for the year ended 31 March 2019, including a summary of significant accounting policies
Notes 1.1 to 4.12 to the Consolidated Financial Statements for the year ended 31 March 2019, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRS as adopted by the European Union and; as regards to the parent company financial statements, as applied in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, including FRS 102.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Incorrect measurement and recognition of management and performance fee income, including the risk of issuing fee invoices with overstated amounts and other items of management override. • Incorrect measurement and recognition of management and performance fee income arising from the risk of incorrectly calculating commissions and fees payable (rebates), including the risk of management override. • Incorrect calculation of share based payments.
Audit scope	• We performed an audit of the complete financial information of all subsidiaries within the group.
Materiality	• Overall group materiality of £3.2m which represents 5% of the profit for the year before tax.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect measurement and recognition of management and performance fee income, including the risk of issuing fee invoices with overstated amounts and other items of management override. Refer to the Accounting policy and Note 3.1 of the Consolidated Financial Statements (page 63). Revenue is the most significant balance in the Consolidated Statement of Profit or Loss. For the year ended 31 March 2019, fee income was made up of management fees and performance fees. Due to complexity of the calculations there is a risk that management and performance fee income is incorrectly recognised. There is a further risk of manipulation in the preparation of invoices as the Finance Team would have the ability to overstate the fee income billings.	We performed the following procedures: • Discussed any new products or changes to existing fee arrangements with Management. • Assessed the design effectiveness of procedures and internal controls in relation to management and performance fees by preforming walkthroughs to evaluate the design and implementation of controls. • Performed a substantive analytical review and trend analysis on the movement in management fees. • Re-calculated a sample of the management and performance fees in accordance with the underlying investment management agreements and agreed the amounts to the underlying invoices, ensuring they are recognised in the correct period. • Agreed a sample of management and performance fees to bank statements. • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	The results of our procedures did not identify any issues in the measurement or recognition of management and performance fees nor any management override.

Independent Auditor's Report to the Members of Polar Capital Holdings plc continued

For the year ended 31 March 2019

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect measurement and recognition of management and performance fee income arising from the risk of incorrectly calculating commissions and fees payable (rebates), including the risk of management override. Refer to the Accounting policy 3.1 of the Consolidated Financial Statements (page 63). Due to the number of bespoke rebate contracts considered for the calculation of total rebates, there is a risk that fee rebates are incorrectly calculated resulting in unrecorded liabilities to its customers.	We performed the following procedures: • Through walkthroughs and management discussions we updated our understanding of the process of calculating fee rebate amounts and controls to evaluate the design and implementation of controls. • Re-calculated a sample of the fee rebates in accordance with the underlying rebate agreements. • Agreed a sample of rebate payments to related bank statements. • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	The results of our procedures did not identify any issues in the measurement or recognition of rebates nor any management override
Incorrect calculation of share based payments Refer to the Audit and Risk Committee Report (page 34), and Accounting policy and Note 3.6 of the Consolidated Financial Statements (page 67). Certain employees of the group and partners of Polar Capital LLP hold Manager Preference Shares or Team Preference Shares in Polar Capital Partners Limited ("Preference Shares") and Long Term Incentive Payments (LTIP). Share options in the group are also granted to Directors and employees under an Enterprise Management Incentive scheme (EMI), Save as you Earn Scheme (SAYE), Company Share Option Scheme (CSOP and the group's Equity Incentive Plan (EIP). Due to the estimation involved in calculating the share based payments there is a risk of the share based payments not being calculated in line with IFRS 2 and the accounting policies.	We performed the following procedures: • Updated our understanding of payments made with respect to all schemes during the year and reviewed the payments authorised by the Remuneration Committee. • Reviewed the bonus pool accrual calculation for 2019 at each reporting date to determine the appropriateness of amounts to be carried forward. • Discussed any changes or new schemes with Management and reviewed the terms of the new share based compensation plans. • Updated our understanding of any changes to these plans to ensure the accounting is still in accordance IFRS 2. • Involved our EY valuations specialists to review the key inputs and assumptions used by Management in arriving at their calculation under the Black-Scholes-Merton model. • Agreed a sample of individual awards that have been either granted or exercised during the year to underlying contractual information or other notification provided to employees and performed a recalculation of the expense based on the fair value and checking it is being spread over the correct period. • Ensured the disclosures are consistent between the schemes and the financial statements and in accordance with current guidance.	The results of our procedures did not identify any issues in the calculation of employee incentive and share-based payments.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we have audited all components within the group covering entities within the United Kingdom, Jersey, United States of America, France, and China.

We performed an audit of the complete financial information of all components within the group which were selected based on their size or risk characteristics.

Changes from the prior year

The changes in the audit scope from the prior year was made as a result of the establishment of the offices in Paris and China during the current year.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £3.2m (2018: £2.1m), which is 5% (2018: 5%) of the profit for the year before tax. We believe that profit for the year before tax is the most appropriate measure as it is the primary measure that investors use to assess the performance of the group.

We determined materiality for the parent company to be £0.6m (2018: £0.6m), which is 1% (2018: 1%) of the Shareholders' funds.

During the course of our audit, we reassessed initial materiality and revised the final materiality due to the significant movement from the initial basis used at the planning stage.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgment was that performance materiality was 75% (2018: 50%) of our materiality, namely £2.4m (2018: £1.0m). We have set performance materiality at this percentage because there were no historical adjustments to the financial statements.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m (2018: £0.1m), which is set at 5% (2018: 5%) of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Independent Auditor's Report to the Members of Polar Capital Holdings plc continued

For the year ended 31 March 2019

OTHER INFORMATION

The other information comprises the information included in the annual report set out on pages 1 to 47, including the Glossary and the Shareholder Information and Advisors set out on pages 88 and 89, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities in Relation to the Group's Financial Statements set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Amarjit Singh (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

21 June 2019

Notes:

1. The maintenance and integrity of the Polar Capital Holdings plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Profit or Loss

For the year ended 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Revenue	3.1	177,514	133,808
Other income	3.3	1,023	3,350
Gross income		178,537	137,158
Commissions and fees payable	3.1	(12,690)	(7,916)
Net income		165,847	129,242
Operating costs	3.4	(101,768)	(87,965)
Profit for the year before tax		64,079	41,277
Taxation	3.7	(11,692)	(8,478)
Profit for the year attributable to ordinary shareholders		52,387	32,799
Earnings per share			
Basic	3.8	57.8p	36.4p
Diluted	3.8	53.6p	34.7p
Adjusted basic (Non-GAAP measure)	3.8	55.5p	38.4p
Adjusted diluted (Non-GAAP measure)	3.8	51.5p	36.6p

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Profit for the year attributable to ordinary shareholders		52,387	32,799
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	3.3	(1,617)	1,695
Deferred tax effect		290	(322)
		(1,327)	1,373
Exchange differences on translation of foreign operations		(1,242)	15
Other comprehensive income for the year		(2,569)	1,388
Total comprehensive income for the year, net of tax, attributable to ordinary share holders		49,818	34,187

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

The Notes on pages 58 to 84 form part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Non-current assets			
Property and equipment	4.1	1,723	1,971
Deferred tax assets	4.2	4,075	3,808
		5,798	5,779
Current assets			
Investment securities	4.3	9,902	9,750
Assets at fair value through profit or loss	4.3	25,223	11,679
Trade and other receivables	4.5	15,246	12,923
Other financial assets	4.3	–	833
Cash and cash equivalents	4.6	111,734	87,950
		162,105	123,135
Total assets		167,903	128,914
Non-current liabilities			
Provisions and other liabilities	4.7	1,858	2,026
Deferred tax liabilities	4.2	30	1,216
		1,888	3,242
Current liabilities			
Liabilities at fair value through profit or loss	4.3	1,679	1,790
Trade and other payables	4.8	46,647	34,256
Other financial liabilities	4.3	1,668	–
Current tax liabilities		6,340	1,958
		56,334	38,004
Total liabilities		58,222	41,246
Net assets		109,681	87,668
Capital and reserves			
Issued share capital	4.9	2,365	2,335
Share premium	4.9	19,059	18,872
Investment in own shares	4.9	(17,930)	(9,221)
Capital and other reserves	4.9	9,067	11,441
Retained earnings	4.9	97,120	64,241
Total equity – attributable to ordinary share holders		109,681	87,668

The Notes on pages 58 to 84 form part of these financial statements.

The Company financial statements were approved and authorised for issue by the Board on 21 June 2019:

Alexa Coates
Chair of the Audit and Risk Committee

John Mansell
Finance Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

	Note	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 2017		2,286	18,631	(3,747)	695	7,145	45,730	70,740
Profit for the year		–	–	–	–	–	32,799	32,799
Other comprehensive income		–	–	–	–	1,388	–	1,388
Total comprehensive income		–	–	–	–	1,388	32,799	34,187
Dividends paid to shareholders	4.10	–	–	–	–	–	(22,934)	(22,934)
Dividends paid to third-party interests		–	–	–	–	–	(34)	(34)
Issue of shares	4.9	49	241	–	–	–	(46)	244
Own shares acquired		–	–	(5,474)	–	–	–	(5,474)
Share-based payment	3.6	–	–	–	–	–	8,726	8,726
Current tax in respect of employee share options		–	–	–	–	1,564	–	1,564
Deferred tax in respect of employee share options		–	–	–	–	649	–	649
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	4.10	–	–	–	–	–	(27,279)	(27,279)
Dividends paid to third-party interests		–	–	–	–	–	(31)	(31)
Issue of shares	4.9	30	187	–	–	–	(28)	189
Own shares acquired		–	–	(9,757)	–	–	–	(9,757)
Release of own shares		–	–	1,048	–	–	(1,029)	19
Share-based payment	3.6	–	–	–	–	–	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 31 March 2019		2,365	19,059	(17,930)	695	8,372	97,120	109,681

The Notes on pages 58 to 84 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2019

	Notes	31 March 2019 £'000	31 March 2018 £'000
Cash flows generated from operating activities			
Cash generated from operations	4.6	82,948	57,550
Tax paid		(8,278)	(6,142)
Net cash inflow generated from operating activities		74,670	51,408
Investing activities			
Interest received		148	68
Investment income		431	549
Sale of investment securities		16,692	3,363
Purchase of investment securities		(24,266)	(3,261)
Sale of assets at fair value through profit or loss		9,757	12,493
Purchase of assets at fair value through profit or loss		(24,570)	(11,020)
Purchase of property and equipment	4.1	(99)	(77)
Cash proceeds from disposal of consolidated seed investment		8,335	4,600
Net cash (outflow) used in/ inflow generated from investing activities		(13,572)	6,715
Financing activities			
Dividends paid to shareholders	4.10	(27,279)	(22,934)
Issue of shares		189	244
Purchase of own shares		(9,757)	(5,474)
Third-party subscriptions into consolidated funds		1,665	485
Third-party redemptions from consolidated funds		(1,735)	(857)
Dividends paid to third-party interests		(31)	(34)
Net cash outflow from financing activities		(36,948)	(28,570)
Net increase in cash and cash equivalents		24,150	29,553
Cash and cash equivalents at start of the year		87,950	58,539
Effect of exchange rate changes on cash and cash equivalents		(366)	(142)
Cash and cash equivalents at end of the year	4.6	111,734	87,950

The Notes on pages 58 to 84 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

The Notes to the Consolidated Financial Statements of Polar Capital Holdings plc and its subsidiaries (collectively, the Group) for the year ended 31 March 2019 have been set out in sections to improve their structuring and cross referencing to the primary financial statements. Accounting policies are contained and highlighted within each relevant Note.

SECTION 1: CORPORATE AND GROUP INFORMATION

This section provides general information about Polar Capital Holdings plc and its subsidiaries.

1.1 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.

1.2 Group information

The consolidated financial statements of the Group include the operating subsidiaries listed below. All operating subsidiaries, other than Polar Capital Partners Limited, were indirectly held. All operating subsidiaries are wholly owned, except for Polar Capital LLP in which Polar Capital Partners Limited has contributed 99.5% of the capital.

Name	Country of incorporation	Registered office	Principal activities
Polar Capital Partners Limited	UK	16 Palace Street, London	Services company
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 Limited Liability Partnership	UK	16 Palace Street, London	Investment management
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 2019:

Name	Country of incorporation	Registered Office	Principal activities	Percentage of ordinary shares held
Polar Capital Asian Stars Fund	Ireland	4 Georges Court, 54–62 Townend Street, Dublin	UCITS sub-fund	100%
Polar Capital China Stars Fund	Ireland	4 Georges Court, 54–62 Townend Street, Dublin	UCITS sub-fund	98%
Polar Capital China Mercury Fund	Cayman Island	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands	Alternative Fund	70%

1.3 Going concern

The Group has 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. 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.

SECTION 2: BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

This section provides additional information about the overall basis of preparation that the Directors consider is useful and relevant in understanding these consolidated financial statements:

- Summary of other significant accounting policies affecting the results and financial position of the Group, including changes in accounting policies and disclosures during the year.
- Standards that have been issued but not yet adopted by the Group.

2.1 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.

2.2 Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries as at 31 March 2019. 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 the subsidiaries are prepared for the same reporting period as the parent company and where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

2.2 Basis of consolidation continued

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.

2.3 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 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.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Group bases its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Where circumstances and parameters change, the original estimates and assumptions are modified in the period in which the change occurs.

The areas where assumptions and estimates are significant to the Group's consolidated financial statements are set out in the following Notes:

- Share-based payments (Note 3.6); and
- Deferred tax (Note 4.2); and
- Consolidation of seed capital investments (Note 2.2).

2.5 Foreign currency

(i) Functional and presentational currency

The Group's consolidated financial statements are presented in Sterling which is also the functional currency for the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items, such as plant and equipment, that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items, such as investments in equity instruments, measured at fair value in a foreign currency are translated using exchange rates at the date fair value is determined. Exchange differences are recognised in the consolidated statement of profit or loss within operating costs.

(iii) Consolidation

On consolidation, the assets and liabilities of the Group's overseas subsidiaries whose functional currency is not Sterling are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at average exchange rates for the accounting period. Exchange differences arising, if any, are recognised in other comprehensive income and are reclassified to the consolidated statement of profit or loss on disposal of the relevant overseas subsidiary.

2.6 Fair value of 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.

2.7 Standards and amendments not yet effective

The following new standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods after 1 January 2019 or later periods, but the Group has decided not to early adopt them.

(i) IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value.

The adoption of IFRS 16 is likely to have a significant impact on the Group's financial statements as total assets and liabilities will increase because of the requirement to recognise both the right-of-use (ROU) asset and the related lease liability, which represents contractual payments to be made under lease obligations.

The ROU asset and lease liability will be calculated based on the expected payments, requiring an assessment as to the likely effect of renewal options, and are discounted using an appropriate discount rate for the Group. The ROU asset will be capitalised and depreciated on a straight line basis over the expected life of the lease. The lease liability will be unwound as the payments are made with an interest charge being recognised within finance costs using an effective interest model.

The Group intends to adopt the modified retrospective approach allowed by IFRS 16 with the cumulative effect on initial application of the standard being recognised as an adjustment to the opening reserves at 1 April 2019 of £0.4m. It is expected that on initial application, the adoption of IFRS 16 will increase the Group's assets by £5.8m and liabilities by £6.2m. An impact to the income statement arises due to the front loading of the finance charge, with a greater charge in initial years until it starts to reduce in later years.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

2.8 Standards adopted in the year

In the current reporting period the Group has adopted the following new standards.

(i) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

a) Classification and measurement

IFRS 9 requires for financial assets to be classified and measured at:

- Amortised cost;
- Fair value through comprehensive income; or
- Fair value through profit or loss.

IFRS 9 requires for financial liabilities to be classified and measured at:

- Amortised cost; or
- Fair value through profit or loss.

The requirements of the standard have been applied retrospectively and have not had any significant impact to the Group, nor required for any financial assets to be either reclassified or remeasured.

b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The Group has considered the nature of the financial assets held at historical cost, consisting mainly of trade and other receivables. The assets relate to management and performance fees which have not been settled at a month end. The settlement period has historically been short and there has been no history of defaults. The Group has not historically suffered any material credit losses and considers the probability of default to be extremely low.

c) Hedging

The Group's cashflow hedges continue to be eligible to be treated as cashflow hedges following the adoption of IFRS 9. The Group continues to designate qualifying contracts as fair value through other comprehensive income (OCI) with the effective portion of the gain or loss being on the hedging instrument being recognised in OCI, while the ineffective portion is taken to the statement of profit or loss. Amounts recognised through OCI are transferred to the consolidated statement of profit or loss when the hedged items affect profit or loss.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the modified retrospective method of adoption with the date of initial adoption of 1 April 2018. The Group elected to apply the standard to all customer contracts not yet completed as at 1 April 2018.

In considering the requirements of IFRS 15, the Group's main income streams were identified as management and performance fees. The Group has reviewed the customer contracts to determine the performance obligations and the associated timing of income recognition in accordance with IFRS 15. In doing so, the Group has determined that the requirements of IFRS 15 in respect of these revenue sources are sufficiently aligned with the Group's accounting policies under IAS 18, such that the adoption of IFRS 15 has not resulted in any significant impact to the Group.

SECTION 3: DETAILED INFORMATION ON CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME ITEMS

This section provides additional information about individual line items in the statement of profit or loss and statement of comprehensive income, including the relevant accounting policies.

3.1 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.

Research fees relate to bespoke research provided in respect of funds managed and in accordance with the relevant IMA.

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.

Contract balances, being trade receivables have been detailed in Note 4.5.

Investment income

Dividend income from investments is recognised on the date that the right to receive payment has been established.

Interest receivable and similar income

Interest receivable is recognised on an accruals basis using effective interest method.

Commissions and fees payable

Commissions and fees payable to third parties are in respect of the 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.

	31 March 2019 £'000	31 March 2018 £'000
Investment management and research fees	126,197	98,153
Investment performance fees	51,720	35,639
(Loss)/ gain on forward currency contracts	(403)	16
	177,514	133,808

Net gains and losses on forward currency contracts used to hedge management fees derived from non-Sterling based AUM (see Note 4.3 (b) and (c)) are included within revenue. This presentation better reflects the substance of these transactions and provides more relevant information about the Group's revenue.

3.2 Operating segments

The financial information provided to the chief operating decision maker, the Board of Directors (the "Board") is on an aggregated basis. Strategic and financial management decisions are determined centrally and, on this basis, the Group is a single segment investment management business.

The Group is a specialist investment management group offering professional and institutional investors a range of geographical and sector investment opportunities. The Group's assets under management are separated into products and services but as the strategic and financial management decisions are determined centrally, by the Board, the Group only has one class of business, being the provision of investment management and advisory services. The Group's revenue generating operations are in London, with small offices in Tokyo, Jersey, Connecticut, Shanghai and Paris that do not generate any revenue.

Geographical analysis of income (based on the residency of source)

	31 March 2019 £'000	31 March 2018 £'000
UK	31,923	17,497
Ireland	138,722	108,156
Cayman	5,002	5,571
Rest of Europe	2,270	2,568
(Loss)/gain on forward currency contracts	(403)	16
	177,514	133,808

3.3 Components of Other income and Other comprehensive income

(a) Components of other income

	31 March 2019 £'000	31 March 2018 £'000
Interest income on cash and cash equivalents	149	68
Net loss on other financial liabilities – short positions and futures	(14)	(792)
Net (loss)/ gain on forward currency contracts	(481)	4
Net (loss)/gain on financial assets at FVTPL – seed investments	(50)	3,461
Investment income	427	492
Net gain/(loss) on investment securities	918	(112)
Other gains – attributed to third party holdings	74	229
	1,023	3,350

(b) Components of other comprehensive income

	31 March 2019 £'000	31 March 2018 £'000
Cash flow hedges – forward currency contracts:		
(Losses)/gains arising during the year	(2,020)	1,711
Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss	403	(16)
	(1,617)	1,695

No ineffectiveness has been recognised on cash flow hedges during the year.

	31 March 2019 £'000	31 March 2018 £'000
Exchange differences on translation of foreign operations:		
(Losses)/gains arising during the year	(2,084)	(7)
Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss	842	22
	(1,242)	15

3.4 Operating costs

Operating leases

A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease. Amounts payable under operating leases are charged to the statement of profit or loss on a straight-line basis over the lease term.

(a) Operating expenses include the following significant costs:

	31 March 2019 £'000	31 March 2018 £'000
Staff costs including partnership profit allocations (Note 3.5)	79,603	72,909
Depreciation	347	508
Auditors' remuneration (Note 3.4b)	145	161
Operating lease rentals – land and buildings	1,314	1,232

(b) Auditors remuneration:

	31 March 2019 £'000	31 March 2018 £'000
Audit of Group financial statements	55	52
Local statutory audits of subsidiaries	40	39
Other fees		
– GIPS review	–	12
– internal controls review	45	45
– tax advisory services	5	13
	145	161

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

3.5 Staff costs and average number of staff

Pensions

The Group operates a defined contribution pension scheme covering the majority of its staff. The costs of the pension scheme are charged to the statement of profit or loss in the period in which they are incurred.

(a) Group staff costs were as follows:

	31 March 2019 £'000	31 March 2018 £'000
Salaries	19,626	17,389
Social security costs	3,781	4,569
Pension costs	844	567
Partnership profit allocations	46,558	41,705
Share-based payments (Note 3.6)	8,859	8,726
Net gain on financial assets at fair value through profit or loss – Investments in own funds held under deferred remuneration arrangements	(65)	(47)
	79,603	72,909

Pension costs outstanding at the year-end amounted to nil (2018: nil).

The Group operates a Deferred Remuneration Plan (DRP) which all Group employees eligible for a bonus over a certain level, as determined by the Remuneration Committee, are required to participate in. The DRP provides for compulsory deferral of a proportion of bonus over a specified vesting period. Deferrals can be made either into shares in the Company or units in the Group's funds.

Included within staff costs in the income statement is a charge of £5m (2018: £1.9m) relating to bonuses deferred into fund units.

(b) Deferred remuneration

Where variable compensation is deferred, the cost of the award is spread over the vesting period and included within staff costs. Where deferment is into fund units the liability is revalued at each balance sheet date to the expected settlement amount, being the current market value of the underlying fund unit. Any increase or decrease in value is recognised in the income statement within staff costs. The liability is included in the balance sheet as part of accrued expenses within trade and other payables. Deferment into Company shares is accounted for as a share based payment (See Note 3.6).

Where deferrals are made into Company shares or fund units the Group hedges its exposure to price fluctuations by purchasing the Company shares or fund units at the date of grant. Company shares held are shown as a deduction from equity. Fund units are included within financial assets at FVTPL on the balance sheet. Any change in the fair value of the units is recognised in the income statement within staff costs.

(c) Average number of employees

	31 March 2019 £'000	31 March 2018 £'000
Average number of partners and full time employees, including Executive Directors:		
Fund Management	56	55
Administration	73	65
	129	120

All employees are directly or indirectly engaged in the Group's business.

Details regarding the total remuneration paid to Directors who served during the year as required by the Companies Act 2006 is disclosed in the Remuneration Committee Report.

3.6 Share-based payments

The Group enters into share-based payment transactions in respect of services receivable from certain employees by granting options over shares or awards over shares in the Company subject to certain vesting conditions and exercise prices. These are accounted for as equity-settled share based payments.

The cost of the awards is determined by the fair value of the share options or shares at the date of grant, using an option pricing model, the key inputs to which are disclosed in the Note below, and is recognised as an expense over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. These estimates are reviewed regularly and the charge to the consolidated statement of profit or loss is adjusted accordingly. The corresponding credit is recognised in retained earnings within total equity.

Where an award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognised is charged to the consolidated statement of profit or loss.

No expense is recognised for awards that do not ultimately vest.

A summary of the charge to the income statement for each share-based payment arrangement is as follows:

	31 March 2019 £'000	31 March 2018 £'000
Preference shares	3,147	5,045
LTIP and initial share awards	2,649	1,837
Equity incentive plan	750	701
Deferred remuneration plan	2,313	1,143
	8,859	8,726

The fair value of equity-settled share options granted is estimated at the date of grant using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 March 2019 and 31 March 2018.

	31 March 2019	31 March 2018
Dividend yield (%)	4.2–4.7	5.0–5.8
Expected share price volatility (%)	35.0–35.1	32.9–34.3
Risk free interest rate (%)	0.9–1.0	0.53–1.1
Weighted average share price (£)	6.6	4.4
Expected life of option – Preference Shares (years)	6	6
Expected life of option – LTIP awards (years)	6	6
Expected life of option – Equity Incentive Plans	Vesting period	Vesting period

The share price volatility was calculated by reference to the Company's historic share price.

No other features of options granted were incorporated into the measurement of fair value.

3.6 Share-based payments continued

(a) Manager and team preference shares ("Preference Shares")

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 2019 there was one new conversion of preference shares into Polar Capital Holdings equity (2018: nil). The initial conversion calculation is made in relation to the crystallisation period ended 31 March 2018 and results in an initial crystallisation value equivalent to the issue of up to 4,060,074 new ordinary shares. This calculation is repeated at each of the first, second and third anniversaries of the crystallisation event date, 31 March 2018, 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 4,060,074 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 2018.

At 31 March 2019 five sets of preference shares (2018: three 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 on conversion:

	31 March 2019 Number of shares	31 March 2018 Number of shares
At 1 April 2018	8,427,313	7,046,768
Conversion/crystallisation	(4,060,074)	–
Movement in the year	2,261,054	1,380,545
At 31 March 2019	6,628,293	8,427,313

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

	31 March 2019 Number of shares	31 March 2018 Number of shares
At 1 April 2018	–	–
Conversion/crystallisation	4,060,074	–
Issued in the year	(406,006)	
At 31 March 2019[1]	3,654,068	–

1. Of the 3,654,068 total shares outstanding at 31 March 2019, 1,218,022 shares were issued on 26 April 2019.

(b) LTIP and initial share awards

Initial share award

On appointment in July 2017 the CEO, Gavin Rochussen, was granted an award over 802,967 ordinary shares of the Company. The value of the shares at the date of grant was £4.3 and the award vests over a four year period.

A charge of £1.3m (2018: £1.5m) was recognised during the current financial year. As at 31 March 2019 267,656 shares had vested and had been transferred (2018: nil).

LTIP awards

Members of the Executive Committee , which includes the Executive Directors, are entitled to participate in the LTIP plan. This plan allows for an executive variable pay pool based on 12% of pre-tax and executive variable compensation profits to be delivered, after accounting for annual bonus awards, in the form of nil cost options over shares in the Company. These awards vest over a four year period subject to performance and employment conditions.

A charge of £1.4m (2018: £0.35m) was recognised during the current financial year.

(c) Group Equity Incentive Plan (EIP)

As part of an ongoing program to retain and incentivise employees, the Group issues share options under the following schemes:

(i) Save as you Earn scheme

Share options in Polar Capital Holdings plc are granted to employees under a HMRC tax-advantaged Save as You Earn scheme. These shares have a vesting period of five to seven years, and the exercise price for each option is the market value of the shares on the date the option was granted, subject to a discount of up to 20%. The scheme is linked to a SAYE savings contract.

(ii) Company share option scheme

Share options in Polar Capital Holdings plc are granted to employees under a HMRC tax-advantaged arrangement up to a value at the date of grant of £30,000. These shares have a vesting period of either three or four years from the date of grant, and the exercise price for each option is the market value of the shares on the date it was granted.

(iii) Unapproved share option scheme

In cases where the terms of the schemes above cannot be met, unapproved share options are granted, under the terms of the Group's Equity Incentive Plan or 2016 Executive Incentive Plan. These options vest in either four to five years, and are granted at a price agreed by the Directors of the Group.

The contractual term of all company share options, except for those issued under the SAYE scheme, is 10 years.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, EIP share options during the year.

	2019		2018	
	Number	WAEP	Number	WAEP
Outstanding at beginning of the year	10,770,768	£3.2	12,627,794	£2.7
Granted during the year	552,368	£6.7	1,912,643	£4.4
Exercised during the year	(1,297,716)	£2.4	(3,169,669)	£4.1
Lapsed during the year	(542,295)	£1.3	(600,000)	£1.8
Outstanding at end of the year	9,483,125	£3.6	10,770,768	£3.2
Exercisable at end of the year	5,802,440	£3.2	7,239,701	£2.9

1. Under the rules of the Group Equity Incentive Plan, unapproved share options may be issued as equity settled share appreciation rights, thereby enabling the Group to issue a net number of shares to employees on the exercise of options. During the year 809,339 shares (Note 4.9) were issued to satisfy the total number of options exercised (2018: 1,980,106 shares).

3.6 Share-based payments continued

The weighted average fair value of options granted during the year was £6.6 (2018: £4.4).

For options exercised during the year the weighted average share price at the date of exercise was £5.5 (2018: £4.7).

The weighted average remaining contractual life of the share options outstanding as at 31 March 2019 was 5.3 years (2018: 5.6 years).

The range of exercise prices for options outstanding at the end of the year was:

	2019		2018	
Earliest exercise date	Number of options	Exercise price	Number of options	Exercise price
Year ending 31 March 2018	–	–	7,239,701	£0.9 – £4.9
Year ending 31 March 2019	5,802,440	£0.9 – £4.9	54,307	£1.7 – £4.5
Year ending 31 March 2020	6,211	£3.9	6,211	£3.9
Year ending 31 March 2021	1,002,174	£3.2 – £3.6	997,750	£3.2 – £3.6
Year ending 31 March 2022	2,061,714	£2.4 – £4.8	2,110,156	£2.4 – £4.8
Year ending 31 March 2023	558,219	£3.4 – £6.8	62,643	£3.4
Year ending 31 March 2024	52,367	£4.9	–	–

(d) Deferred Remuneration Plan (DRP)

As indicated in Note 3.5 (b) all Group employees eligible for a bonus above a certain level are required to participate in the DRP. Where deferrals are made into shares of the Company these are accounted for as an equity settled share-based payment award in the consolidated accounts. There are no performance conditions attached to the awards. One third of an award will vest and become exercisable on each of the first, second and third anniversaries of the grant date.

A charge of £2.3m (2018: £1.1m) was recognised during the current financial year in relation to deferred awards. The weighted average fair value of shares granted was £5.9 (2018: £5.1).

3.7 Taxation

The tax expense represents the sum of the tax payable for the reporting period (current tax) and a charge relating to tax payable for future periods due to income or expenses being recognised in different periods for tax and accounting purposes (deferred tax).

Current tax:
The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Tax relating to items charged or credited directly to equity is also dealt with in equity.

Deferred tax
Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the statement of profit or loss, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in the statement of other comprehensive income or directly in equity.

The major components of Corporation tax for the years ended 31 March 2019 and 2018 are:

	31 March 2019 £'000	31 March 2018 £'000
(a) Tax recognised in the Consolidated statement of profit or loss		
UK Corporation tax		
UK Corporation tax on profits of the year	13,206	7,857
Adjustments in respect of prior periods	11	(55)
Total current tax	13,217	7,802
Foreign Tax		
Current year	134	2
	134	2
Deferred tax		
Originating and reversal of temporary differences	(1,444)	279
Rate change adjustment	61	(3)
Adjustments in respect of prior periods	(276)	398
	(1,659)	674
Total tax recognised in consolidated statement of profit or loss	11,692	8,478

(b) Tax recognised in the consolidated statement of other comprehensive income

Current and deferred tax recognised in the consolidated statement of other comprehensive income and the consolidated statement of changes in equity is shown on the face of those statements.

(c) Reconciliation of tax charge

The tax assessed on the profit on ordinary activities during the year differs from the standard rate of corporation tax of 19% (2018: 19%). The differences are reconciled below:

	31 March 2019 £'000	31 March 2018 £'000
Profit on ordinary activities before taxation	64,079	41,277
Tax on profit on ordinary activities at standard rate of 19% (2018: 19%)	12,175	7,843
Adjustments in respect of prior periods	(265)	343
Rate change adjustment	61	(4)
Disallowed (income)/expenses	(1,033)	(711)
Other – share based payments	754	1,007
Total tax at the effective rate of 18% (2018: 21%)	11,692	8,478

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

3.8 Earnings per share

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

	31 March 2019 £'000	31 March 2018 £'000
Earnings		
Profit after tax for purpose of basic and diluted EPS	52,387	32,799
Adjustments (post tax):		
Add back cost of share-based payments on preference shares	3,147	5,045
Less net amount of deferred staff remuneration	(5,224)	(3,237)
Profit after tax for purpose of adjusted basic and adjusted diluted EPS	50,310	34,607

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 2019 Number of shares	31 March 2018 Number of shares
Weighted average number of shares		
Weighted average number of ordinary shares, excluding own shares, for the purpose of basic and adjusted basic EPS	90,567,861	90,104,708
Effect of dilutive potential shares – share options and preference shares crystallised but not yet issued	7,104,088	4,513,728
Weighted average number of ordinary shares, for purpose of diluted and adjusted diluted EPS	97,671,949	94,618,436

	31 March 2019 Pence	31 March 2018 Pence
Earnings per share		
Basic	57.8p	36.4p
Diluted	53.6p	34.7p
Adjusted basic	55.5p	38.4p
Adjusted diluted	51.5p	36.6p

SECTION 4: DETAILED INFORMATION ON CONSOLIDATED BALANCE SHEET ITEMS

This section provides additional information about individual line items in the balance sheet, including the relevant accounting policies.

4.1 Property and equipment

Property and equipment are stated at cost, less depreciation and accumulated impairment provisions. Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful economic life. The carrying value of property, plant and equipment is assessed annually and any impairment is charged to the statement of profit or loss.

Depreciation is charged from the date that the asset is brought into use on a straight line basis as follows:

Leasehold improvements	10%
Computer equipment	33%
Office furniture	33%

	Leasehold Improvements £'000	Computer Equipment £'000	Office Furniture £'000	Total £'000
2019				
Cost				
As at 1 April 2018	2,705	512	396	3,613
Additions	27	66	6	99
As at 31 March 2019	2,732	578	402	3,712
Depreciation				
As at 1 April 2018	830	425	387	1,642
Charge for the year	280	59	8	347
As at 31 March 2019	1,110	484	395	1,989
Net book value as at 31 March 2019	1,622	94	7	1,723
2018				
Cost				
As at 1 April 2017	2,705	449	391	3,545
Additions	–	72	5	77
Disposals	–	(9)	–	(9)
As at 31 March 2018	2,705	512	396	3,613
Depreciation				
As at 1 April 2017	552	332	259	1,143
Charge for the year	278	102	128	508
Disposals	–	(9)	–	(9)
As at 31 March 2018	830	425	387	1,642
Net book value as at 31 March 2018	1,875	87	9	1,971

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

4.2 Deferred tax assets and liabilities

Deferred tax is recognised based on differences between the carrying value of assets and liabilities for accounting purposes and their tax values (See Note 3.7).

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are only recognised to the extent that the Group considers them to be recoverable; which is determined by reference to estimates that future taxable profits will be available against which deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 (on 6 September 2016). These include reductions to the main rate of corporation tax to 17% from 1 April 2020. Deferred tax at the balance sheet date has been measured using these enacted tax rates and reflected in these financial statements. An analysis of the Group's deferred tax assets and liabilities is as follows:

Deferred tax asset	31 March 2019 £'000	31 March 2018 £'000
Share-based payments	3,295	3,150
Change in basis adjustment	412	481
Other financial assets and liabilities	310	177
Liabilities at FVTPL	58	–
	4,075	3,808

Deferred tax liability	31 March 2019 £'000	31 March 2018 £'000
Capital allowances	(30)	(43)
Assets at FVTPL	–	(1,020)
Other financial assets and liabilities	–	(153)
	(30)	(1,216)

Deferred tax movements recognised in the consolidated statement of profit or loss and the consolidated statement of other comprehensive income were as follows:

	31 March 2019 £'000	31 March 2018 £'000
Deferred tax income/ (expense) during the period recognised in profit or loss		
Share-based payments	641	255
Capital allowances	13	35
Change in basis adjustment	(69)	(66)
Assets and liabilities at FVTPL	1,078	(302)
Other financial assets and liabilities	(4)	(485)
Unutilised capital losses	–	(111)
	1,659	(674)

	31 March 2019 £'000	31 March 2018 £'000
Deferred tax income/ (expense) during the period recognised in other comprehensive income		
Other financial assets and liabilities	290	(322)
	290	(322)
Deferred tax expense/ (income) during the period recognised in equity		
Share-based payments	(496)	649

4.3 Financial assets and liabilities held at fair value

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liability has been discharged, cancelled or has expired.

The adoption of IFRS 9 Financial Instruments (see Basis of preparation, Note 2.8) has not resulted in the amendment of any of the measurement categories for, or carrying amounts of, the Group's financial instruments.

Financial assets
The Group's financial assets include seed capital investments, 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.

Investment securities
Investment securities represent securities, 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 assets at fair value through profit or loss
Financial assets at FVTPL include financial assets held for trading and financial assets classified upon initial recognition as FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. The Group's investments in the funds that it manages, but does not control, including those which are held by the Group to hedge bonus awards deferred into fund units, are classified as financial assets at FVTPL. 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.

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 relate to third-party interests in consolidated funds which are classified as at FVTPL.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

4.3 Financial assets and liabilities held at fair value continued

(a) Seed capital investments

The Group ordinarily provides seed capital in order to provide initial scale and facilitate marketing of new funds to third-party investors.

(i) Financial assets at fair value through profit or loss

	31 March 2019 £'000	31 March 2018 £'000
Assets at fair value through profit or loss	25,223	11,679

The Group's financial assets at FVTPL include seed capital investments in funds that it manages but does not control. This includes seed capital investments in funds that are classed as associates (see Note 2.3) where the Group has significant influence but does not control the fund. At 31 March 2019 there were 3 funds classed as associates (2018: no funds). During the year the Group redeemed its seed capital investments from three funds classed as assets at FVTPL for a total cash consideration of £9.8m (2018: 5 seed capital investments were redeemed for a cash consideration of £12.5m). The fair values of such financial assets are derived from quoted market prices in active markets.

(ii) Consolidated funds

As at 31 March 2019 the Group has consolidated three funds (2018: 1 fund) over which it is deemed to have control (see Note 2.2). Consolidated funds represent seed capital investments where the Group's interest represents a controlling stake in the fund in accordance with IFRS 10. Consolidated fund assets and liabilities are presented line by line after intercompany eliminations. During the year the Group closed down the European Income Fund which in the prior year was held as a consolidated fund. Cash proceeds on closure of the fund amounted to £8.3m (2018: £4.6m).

The table below sets out an analysis of the carrying amounts of interests held by the Group in consolidated investment funds:

	31 March 2019 £'000	31 March 2018 £'000
Investment securities	9,902	9,750
Cash and cash equivalents	5,012	200
Other	20	(8)
Financial liabilities at FVTPL – third-party interests in consolidated funds	(1,679)	(1,790)
Consolidated seed capital investments	13,255	8,152

Investment securities include listed equities held by consolidated funds. Other includes trade receivables, trade payables and accruals.

(b) Derivatives

Derivative financial instruments and hedge accounting
The Group uses forward currency contracts to hedge the risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivative financial instruments are classified as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. From 1 April 2018 the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements including the analysis of sources of hedge ineffectiveness.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is an "economic relationship" between the hedged item and the hedging instrument;
- the effect of credit risk does not "dominate the value changes" that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges
Forward currency contracts used for currency hedging purposes are treated as cash flow hedges and the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while the ineffective portion is taken to the statement of profit or loss. Amounts recognised as other comprehensive income are transferred to the consolidated statement of profit or loss when the hedged items affect profit or loss.

	31 March 2019 £'000	31 March 2018 £'000
Derivatives not designated as hedging instruments		
Foreign exchange forward contracts	(294)	27
Securities – short positions	(506)	57
Derivatives designated as cash flow hedges		
Foreign exchange forward contracts	(868)	749
Other financial (liabilities)/ assets	(1,668)	833

Derivatives not designated as hedging instruments reflect the changes in fair values of foreign currency exchange forward contracts and short positions of securities that are not designated in hedge relationships, but are, nevertheless intended to reduce the level of foreign currency and price risk, respectively, on the Group's seed investments as described in Note 4.3c.

Derivatives designated as hedging instruments reflect the changes in fair values of foreign exchange forward contracts designated as cash flow hedges to hedge highly probable forecast revenue in US dollars (USD) and Japanese Yen (JPY) as described in Note 4.3c.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

4.3 Financial assets and liabilities held at fair value continued

(c) Financial instruments risk management objectives and policies

The main areas of risk arising from the Group's financial instruments are credit risk, liquidity risk, market risk (which comprises price, interest rate and foreign currency risks) and capital risk. Each of these risks is discussed in detail below. The Group monitors financial risks on a consolidated basis and intra-Group balances are settled when it is deemed appropriate for both parties to the transaction. The Company is not exposed to material financial risk and separate disclosures for the Company have not been included. The Group has designed a framework to manage the risks of its business and to ensure that the Directors have in place risk management practices appropriate for a listed company. The management of risk within the Group is governed by the Board and overseen by the Audit Committee.

(i) Credit risk

Credit risk is the risk of financial loss if a counterparty fails to settle its debt to the Group.

Fees due from funds managed by the Group are invoiced monthly or quarterly and are settled within 30 days of the invoice date. There have not been settlement issues with any funds. The risk is therefore regarded as low.

Amounts placed on deposit are invested according to a treasury policy that is designed to reduce concentration and counterparty risk. The carrying value of the Group's financial assets represents its maximum exposure to credit risk at the year end.

(ii) Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations as they fall due. The Group maintains significant liquid resources in the form of cash or cash deposits in order to meet working capital and regulatory needs. The Group's treasury policy is designed to align the duration period of the cash investments to the working capital requirements of the Group with no investment being placed for a period of more than three months.

The Group's financial liabilities comprise trade and other payables and derivative instruments and third-party interests in funds that have been consolidated as subsidiaries. The maturity dates for all financial liabilities fall within either one year or are repayable on demand.

(iii) Price risk

Price risk is the risk that changes in market prices will affect the Group's income or value of its investments.

The Group holds financial assets at fair value through profit or loss consisting of seed investments in funds that it manages and investment securities consisting of the underlying investments of the funds which have been consolidated, which are sensitive to movements in market equity prices.

Should the market move by +/- 10%, and all the funds (and hence the Group's investments) move by this same amount, it would result in a change to the carrying value of the assets of +/- £3m (2018: £2m).

This movement would be recognised in the consolidated statement of profit or loss.

(iv) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows related to financial instruments will fluctuate because of changes to market interest rates.

The Group's cash and short-term deposits earn nominal amounts of interest at a floating rate and any change in market interest rates would result in negligible change to profit before tax. The Group has no borrowings.

(v) Foreign currency risk

Foreign currency risk is the risk that changes in foreign exchange rates will cause the Group to suffer losses.

Although the majority of management fees are received in Sterling, a certain amount of those fees are generated from assets based in other countries, in particular US dollar-based assets and a smaller amount of Yen based assets.

In order to hedge the risk associated with the management fees receivable in the next reporting period, the Group enters into a number of forward foreign currency contracts over a period of 12 months. At year end, the Group had four (2018: four) open contracts to sell US dollars totalling USD $32,540,000 (2018: USD $25,950,000), for a total of £24,119,071 (2018: £19,239,380). There was one open Sterling/Yen contract to sell a total of ¥47,800,000 (2018: ¥34,000,000), for a total of £315,967 (2018: £240,822).

The Group also holds assets at FVTPL consisting of investments in its own funds. Where such investments are made in assets denominated in a currency other than the Group's functional currency, Sterling, the Group is exposed to changes in foreign currency exchange rates.

As at the year end there were four (2018: one) investments in a non-hedged product and the Group has therefore hedged against the risk of exposure to changes in the foreign currency exchange rates caused by the underlying US Dollar (2018: Euro) assets within these investments. The Group had four forward currency contracts for the sale of US$25,500,000 to purchase £19,271,993 (2018: one contract for the sale of €7,650,000 to purchase £6,733,840).

The Group's hedging policy serves to substantially mitigate its exposure to foreign currency risk on its revenue and balance sheet investments. Any changes in foreign exchange rates will have an equal and opposite effect on the hedged items and open forward currency contracts.

(vi) Capital management

All companies within the Group are managed as going concerns and have sufficient capital to meet their day-to-day needs and to fulfil any externally imposed capital requirements. The capital of the Group and the Company consists of equity attributable to equity holders of the parent company, comprising issued share capital, share premium, reserves and retained earnings as disclosed in Note 4.9.

The Group is supervised by the Financial Conduct Authority and submits appropriate returns on the capital adequacy of both the Group and the regulated entity, Polar Capital LLP. Throughout the year the Group and Polar Capital LLP held surplus capital over the regulated requirement. The Group's Pillar III disclosures can be found on the Group's website at www.polarcapital.co.uk.

(vii) Fair value hierarchy

For financial instruments held as at 31 March 2019 and 31 March 2018 there were no material differences between the carrying value and the fair value.

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. The carrying values of the Group's financial instruments are presented on the face of the balance sheet.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

4.3 Financial assets and liabilities held at fair value continued

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

	2019				2018			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets								
Investment securities	9,902	–	–	9,902	9,750	–	–	9,750
Assets at FVTPL	25,223	–	–	25,223	11,679	–	–	11,679
Other financial assets	–	–	–	–	57	776	–	833
	35,125	–	–	35,125	21,486	776	–	22,262
Financial liabilities								
Liabilities at FVTPL	1,679	–	–	1,679	1,790	–	–	1,790
Other financial liabilities	506	1,162	–	1,668	–	–	–	–
	2,185	1,162	–	3,347	1,790	–	–	1,790

4.4 Interests in Structured Entities

The Group acts as fund manager to investment funds that are considered to be structured entities. These structured entities typically consist of unitised vehicles such as open-ended Undertakings for Collective Investment in Transferable Securities (UCITS) funds, closed-ended investment trusts and alternative funds which entitle investors to a percentage of the vehicle's net asset value.

(a) Interests arising from managing client assets

The Group has an interest in funds that it manages as a result of the management of assets on behalf of its clients and this interest is reflected in the Group's AUM. The main risk the Group faces from its interest in AUM managed on behalf of clients is the loss of fee income as a result of the withdrawal of funds by clients.

A reconciliation of AUM reported by the Group within unconsolidated structured entities is shown below:

	31 March 2019 £'bn	31 March 2018 £'bn
AUM within consolidated funds	0.01	0.01
AUM within unconsolidated funds	13.83	11.97
Total AUM	13.84	11.98

(b) Interests arising from investment in unconsolidated structured entities

Where the Group has an equity holding in a fund it manages, the maximum exposure to loss constitutes the future and uncollected management fees plus the fair value of the Group's investment in that fund. The table below shows the carrying values of the Group's interests in unconsolidated structured entities, recognised in the Group balance sheet, which are equal to the Group's maximum exposure to loss from those interests.

	31 March 2019 £'000	31 March 2018 £'000
Seed capital investments	25,223	11,679
Management fees receivable at year end	11,898	10,257

4.5 Trade and other receivables

Trade and other receivables includes prepayments, accrued income and other amounts which the Group is due from third parties in the normal course of business. These are initially recorded at fair value and subsequently at amortised cost using the effective interest method, less loss allowances. The Group applies IFRS 9 simplified approach to measuring expected credit losses (ECLs) for trade receivables at an amount equal to lifetime ECLs. Historically the Group has not experienced any material defaults and the Group does not expect to incur any credit losses and has not recognised any ECLs (2018: nil).

	31 March 2019 £'000	31 March 2018 £'000
Trade receivables	11,464	9,914
Other receivables	534	1,470
Prepayments and accrued income	3,248	1,539
	15,246	12,923

Trade receivables are non-interest bearing and repayable on demand.

The Group does not have any contract assets resulting from its revenue contracts with customers (2018: nil).

4.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

	31 March 2019 £'000	31 March 2018 £'000
Cash at bank	105,689	87,715
Cash held by EBT and consolidated funds	6,045	235
	111,734	87,950

Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at 31 March 2019 the Group had placed £6,200,000 (2018: £1,500,000) of its cash at bank with counterparties to fulfil the collateral requirements for derivatives contracts related to short positions (see Note 4.3b).

Cash generated from operations

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

	31 March 2019 £'000	31 March 2018 £'000
Profit on ordinary activities before taxation	64,079	41,277
Interest receivable and similar income	(149)	(68)
Investment income	(427)	(492)
Depreciation of non-current property and equipment	347	508
(Increase)/ decrease in fair value of investment securities	(918)	112
Increase in fair value of financial assets FVTPL	(14)	(3,529)
Increase in other financial assets	–	(488)
Increase in other financial liabilities	967	–
Increase in receivables	(2,323)	(2,816)
Increase in trade and other payables	12,391	14,515
Decrease in provisions and other liabilities	(168)	(143)
Share-based payment	8,859	8,726
Decrease in liabilities at FVTPL	(42)	(6)
Other non-cash items	346	(46)
Cash generated from operations	82,948	57,550

4.7 Non-current provisions and other liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

	31 March 2019 £'000	31 March 2018 £'000
Other non-current liabilities	883	1,051
Dilapidations provisions	975	975
	1,858	2,026

(a) Other non-current liabilities

The Group has benefited from a rent free period as part of the lease agreement for the premises at 16 Palace Street. The liability represents the accumulated amount which is being released to the consolidated statement of profit or loss on a straight line basis over the remaining term of the lease which expires in December 2024.

(b) Dilapidations provision

As part of its operating lease agreement for the premises at 16 Palace Street, the Group have an obligation to pay for dilapidation costs at the end of the lease term. There have been no movements in the provision balance during the year.

4.8 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on settlement.

	31 March 2019 £'000	31 March 2018 £'000
Other creditors	29,391	21,024
Accruals	17,256	13,232
	46,647	34,256

4.9 Issued share capital and reserves

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds.

Own shares held

The Group operates, and funds by way of loan, an employee benefit trust for the purpose of satisfying certain share awards to employees. Own shares held are equity shares of the Company acquired and held by this trust. Such shares are recognised at cost and are presented in the Group balance sheet as a deduction from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Company's own shares.

(a) Issued share capital Group and Company

Allotted, called up and fully paid:	31 March 2019 £'000	31 March 2018 £'000
94,617,760 ordinary shares of 2.5p each (2018: 93,402,415 ordinary shares of 2.5p each)	2,365	2,335

The increase in share capital arises from 809,339 (2018: 1,980,106) shares issued on exercise of EIP employee share options as well as the issue of 406,006 (2018: nil) shares in connection with the crystallisation of manager preference shares as described in Note 3.6.

(b) Nature and purpose of reserves

(i) Share premium

Share premium records the difference between the nominal value of shares issued and the full value of the consideration received.

(ii) Own shares held

At 31 March 2019 there were 3,699,562 shares of 2.5p each (2018: 2,555,653 shares of 2.5p each) held by the Employee Benefit Trust, for the purpose of satisfying share option obligations to employees and 637,473 (2018: 483,969) shares of 2.5p each held by Group entities as part of the Group Deferred Remuneration Plan.

(iii) Capital reserves

The capital reserve represents a share capital repurchase reserve.

(iv) Other reserves

Other reserves relate to movements in:

- current and deferred tax that arise on share-based payments;
- movements in the fair value of other financial assets arising on Forward Foreign Exchange Contracts classified as cash flow hedges; and
- exchange differences arising on translation of foreign operations.

4.10 Dividends paid and proposed

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and paid.

Dividends on ordinary shares declared and paid during the year:

	31 March 2019 £'000	31 March 2018 £'000
First interim dividend for 2019: 8.0p per share (2018: 6.0p per share)	7,299	5,465
Second interim dividend for 2018: 22.0p (2017: 19.5p)	19,980	17,469
Total dividend paid and charged to equity	27,279	22,934

Dividends on ordinary shares proposed for approval by the board of directors (not recognised as a liability at 31 March 2019):

	31 March 2019 £'000	31 March 2018 £'000
Second interim dividend for 2019: 25.0p per share (2018: 22p per share)	23,280	19,980

The Board has declared a second interim dividend of 25.0p (2018: 22.0p) to be paid in July 2019.

Together with the first interim dividend of 8.0p paid in January 2019 the total dividend for the year amounts to 33.0p (2018: 28.0p).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2019

4.11 Operating lease commitments

As at 31 March 2019, the Group had operating lease commitments in respect of its rented premises as follows:

	31 March 2019 £'000	31 March 2018 £'000
Amounts payable within one year	1,459	1,408
Amounts payable between two and five years	5,183	5,183
Amounts payable more than five years	948	2,244

The material lease relates to the rental of the Group's premises at 16 Palace Street in London, and expires in December 2024.

4.12 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.

B J D Ashford-Russell was a member of Polar Capital LLP (the "Partnership") and a director of the Polar Capital Technology Trust plc (the Trust) until 6 September 2018. The Partnership is the appointed investment manager of the Trust. The total fees received by the Group as investment manager of the Trust during the period to 6 September 2018 were £7,289,529 (2018: £12,925,283). The amounts receivable at the year end in this respect was £nil (2018: £2,385,349).

The investments in financial assets at fair value through profit or loss disclosed in Note 4.3 are in affiliated funds that are managed by a subsidiary of the Group.

Remuneration of key management personnel

The remuneration, net of deferment, of key management, which includes the Executive and Non-Executive Directors, is summarised below.

	31 March 2019 £'000	31 March 2018 £'000
Short-term employee benefits	2,619	2,102
Defined contribution pensions	63	60
Share-based payment benefits	2,848	2,144
	5,530	4,306

At the end of the year the Group had balances owing to or in regards to key personnel of £nil (2018: £1,667). This amount related to an amount owed to another company for the services of a Non-Executive Director.

Options to acquire ordinary shares held by the directors during the year ended 31 March 2019 are disclosed in the Remuneration Committee's Report.

Company Balance Sheet

As at 31 March 2019

	Notes	31 March 2019 £'000	31 March 2018 £'000
Non-current assets			
Investments	5.2	25,819	21,589
Current assets			
Trade and other receivables	5.3	35,719	26,989
Cash and cash equivalents		946	7,572
		36,665	34,561
Current liabilities		1	1
Net assets		62,483	56,149
Capital and reserves			
Issued share capital		2,365	2,335
Share premium		19,059	18,872
Retained earnings		41,059	34,942
Shareholders' funds		62,483	56,149

The Notes on page 87 form part of these financial statements.

The Company's profit for the year after tax was £27,906,000 (2018: £18,003,000).

The Company financial statements were approved and authorised for issue by the Board on 21 June 2019 and signed on its behalf by:

Alexa Coates
Chair of the Audit and Risk Committee

John Mansell
Finance Director

Registered number: 4235369

Company Statement of Changes in Equity

For the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 1 April 2017	2,286	18,631	32,336	53,253
Profit for the year	–	–	18,003	18,003
Dividends paid to shareholders	–	–	(22,934)	(22,934)
Share-based payment	–	–	7,583	7,583
Issue of shares	49	241	(46)	244
As at 1 April 2018	2,335	18,872	34,942	56,149
Profit for the year	–	–	27,906	27,906
Dividends paid to shareholders	–	–	(27,279)	(27,279)
Share-based payment	–	–	6,545	6,545
Issue of shares	30	187	(1,055)	(838)
As at 31 March 2019	2,365	19,059	41,059	62,483

The Notes on page 87 form part of these financial statements.

Company Cash Flow Statement

For the year ended 31 March 2019

	Notes	31 March 2019 £'000	31 March 2018 £'000
Cash flows generated from operating activities			
Cash generated from operations	5.4	19,176	18,057
Net cash inflow generated from operating activities		19,176	18,057
Investing activities			
Return of contribution		1,288	914
Net cash inflow from investing activities		1,288	914
Financing activities			
Equity dividends paid		(27,279)	(22,934)
Issue of shares		189	244
Net cash outflow from financing activities		(27,090)	(22,690)
Net decrease in cash and cash equivalents		(6,626)	(3,719)
Cash and cash equivalents at start of the year		7,572	11,291
Cash and cash equivalents at end of the year		946	7,572

The Notes on page 87 form part of these financial statements.

SECTION 5: NOTES TO THE COMPANY FINANCIAL STATEMENTS

5.1 Basis of preparation

The Company financial statements have been prepared on a going concern basis in accordance with FRS 102. No profit or loss account is presented for the Company as permitted under section 408 of the Companies Act 2006.

The Company financial statements have been prepared under the historical cost convention and are presented in Sterling and all values are rounded to the nearest thousand (£'000) except when otherwise stated.

The accounting policies for the Company are the same as those for the Group except where specifically stated in the following Notes.

5.2 Investments

Investments in subsidiaries are held at the lower of cost and recoverable amount. The carrying value is reviewed for impairment when there is an indication that the carrying value may not be recoverable.

The investment is the Company's wholly owned subsidiary Polar Capital Partners Limited.

	31 March 2019 £'000	31 March 2018 £'000
As at 1 April 2018	21,589	14,920
Share-based payments	6,545	7,583
Return of contribution	(2,315)	(914)
As at 31 March 2019	25,819	21,589

Share based payments for awards granted to employees of subsidiary entities where the Company is the grantor of the awards or settles them with its own equity are accounted for as capital contributions by the Company to Polar Capital Partners Limited, with a corresponding credit to equity in the Company financial statements.

Amounts returned by subsidiary entities to the Company on settlement of awards are classified as a return of contribution.

5.3 Trade and other receivables

Other receivables for the Company are due from Polar Capital Partners Limited and are non-interest bearing and repayable on demand.

5.4 Cash generated from operations

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

	31 March 2019 £'000	31 March 2018 £'000
Profit on ordinary activities before taxation	27,906	18,004
(Increase)/ decrease in receivables	(8,730)	53
Cash generated from operations	19,176	18,057

5.5 Related party transactions

The Company has an intercompany balance with Polar Capital Partners Limited. The balance receivable from Polar Capital Partners Limited of £34,989,258 (2018: £26,989,258) relates to cash movements by the subsidiary on behalf of the Company.

Glossary

AGM	Annual General Meeting
AMF	Autorite des Marches Financiers of France
APM	Alternative Performance Measures
AUM	Assets under management
Board	The Board of Directors of the Company
Company	Polar Capital Holdings plc
DBP	Deferred Bonus Plan
EBT	An Employee Benefit Trust is a type of discretionary trust established to hold cash or other assets for the benefit of employees, such as to satisfy share awards
EPS	Earnings per share
FCA	Financial Conduct Authority of the United Kingdom
FVTPL	Fair value through profit or loss
GAAP	Generally Accepted Accounting Principles
GDPR	General Data Provision Regulation
Group	The Company and all its subsidiaries
ICAAP	Internal Capital Adequacy Assessment Process
LTIP	Long-term Incentive Plan
MiFID II	The second iteration of the Markets in Financial Instruments Directive which is the EU legislation that regulates firms who provide services to clients linked to "financial instruments" (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded
PE multiples	Price to Earnings multiples
SMCR	Senior Managers and Certification Regime; FCA regulation aimed at protecting consumers and strengthening market integrity by making senior individuals more accountable for their conduct and competence
UCITS	Undertaking for Collective Investment in Transferable Securities; a regulatory framework of the European Commission that creates a harmonised regime throughout the EU for the management and sale of regulated investment funds

Shareholder Information and Advisors

Company No.
4235369

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

Group Company Secretary
Neil Taylor

Website
www.polarcapital.co.uk

Annual General Meeting
31 July 2019
Please see separate
AGM Notice for details.

Shares
The shares are traded on the Alternative Investment Market of the London Stock Exchange and information on the share price and the Company can be accessed via the Company's website or at www.londonstockexchange.com – code: POLR; or Bloomberg: POLR LN.

ISIN number
GB00B1GCLT25

SEDOL code
B1G

Dividends
Where possible, it is recommended that dividend payments are made directly into a bank account to provide improved security and faster access to funds. You may give instruction via the registrar's website or in writing.

First interim dividend
For the financial year ended
31 March 2019

Amount
8.0p per ordinary share

Ex-dividend date
20 December 2018

Record date
21 December 2018

Payment date
11 January 2019

Second interim dividend
For the financial year ended
31 March 2019

Amount
25p per ordinary share

Ex-dividend date
4 July 2019

Record date
5 July 2019

Payment date
26 July 2019

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder helpline
0800 876 6660
(+44 121 415 7047)

Website
www.shareview.co.uk

Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

Principal Bankers
HSBC Bank plc
333 Vauxhall Bridge Road
London, SW1V 1EJ

Nominated Adviser and Corporate Broker
Numis Securities Limited
The London Stock Exchange Building
10 Parternoster Square
London, EC24M 7LT

Joint Corporate Broker
Peel Hunt LLP
Moor House
120 London Wall
London, EC2Y 5ET

Solicitors
Herbert Smith Freehills LLP
Exchange House
Primrose Street
London, EC2M 2EG

Designed and produced by **emperor**
Visit us at **emperor.works**

POLAR
CAPITAL