Analyst
Marcus Barnard 618 9326 7673

Authorisation
Regan Burrows 618 9326 7677

Regal Partners Ltd (RPL)

Alternative assets drive growth and profitability

Recommendation
Buy (Initiation)
Price
$3.18
Target (12 months)
$3.71 (previously initiation)

GICS Sector

Diversified Financials

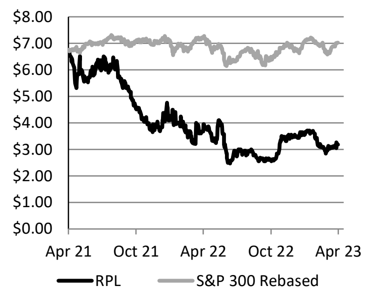
Expected Return	
Capital growth	**16.7%**
Dividend yield	**2.5%**
Total expected return	**19.2%**

Company Data & Ratios	
Enterprise value	**$754m**
Market cap	**$830m**
Issued capital	**255m**
Free float	**20%**
Avg. daily val. (52wk)	**$242k**
12 month price range	**$2.47-4.10**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	3.00	3.65	3.64
Absolute (%)	6.0	-12.9	-12.6
Rel market (%)	1.6	-15.2	-10.7

Absolute Price



SOURCE: IRESS

Boutique alternative manager

Regal Partners (RPL) is a relatively small, but rapidly growing boutique asset manager offering a range of alternative strategies across $5.5bn of FUM (at 31 March 2023). It is generating positive net inflows, which is unusual in the asset management industry (outside of Private market and ESG type strategies). It has a highly entrepreneurial culture, as illustrated by the expansion through M&A (Attunga, Kilter, VGI Partners, East Point), the launch of new strategies (7 in the last three years), and the ambitious approach to Perpetual (PPT BUY PT $30.50) in late 2022. RPL is well diversified, with around 27 funds offering active, high conviction exposure to a wide range of assets and strategies including long/short, emerging companies, small companies, resource royalties, water assets, carbon assets, and private markets. It is highly profitable with high management fees averaging 115bps, with considerable performance fees, which have in the past exceeded the management fees. But a flip side to the entrepreneurial cultural is the limited free float. Around 80% of the stock is held by insiders (past or present) meaning there is little liquidity in the shares. We expect the free float to increase as the business acquires and continues to add teams. About $0.8bn or 20% of FUM at 31 Dec 2022 is not fee earning (largely held by staff, although rebates will reduce in 2024). There is considerable key man risk to the business (Mainly through Phil King and Rob Luciano, as well as other key managers).

Investment view: BUY target price $3.71/sh

Like all asset managers, valuation depends upon future performance, which in turn will increase FUM, drive performance fees, and help form the basis of further net flows. Given RPL's size, track record of performance and inflow momentum, we have used assumptions that are more optimistic than we have used for larger more mainstream asset managers. We have included a range of sensitivity analysis for returns, net flows and (particularly) performance fees to illustrate how the valuation varies with these assumptions. We value RPL using a DCF type valuation with a WACC of 10.3% applied to our forecasts for EBITDA, adjusted for tax and working capital. We value the company at $3.71 per share.

Earnings Forecast

Year end Dec 31	2022a	2023e	2024e	2025e
Sales revenue (A$m)	88.3	97.9	130.0	149.8
EBITDA (A$m)	27.2	44.0	67.5	78.4
NPAT (adjusted) (A$m)	13.9	25.7	42.8	51.0
EPS (adjusted) (cps)	5.7	9.1	13.9	16.4
EPS growth (%)	-84.1%	59.0%	52.4%	17.7%
PER (x)	55.5	34.9	22.9	19.4
EV/EBITDA (x)	29.2	18.1	11.8	10.1
Price/CF (x)	15.1	27.2	16.6	14.1
Dividend (¢ps)	4.0	8.0	11.1	13.1
Franking (%)	50.0%	100.0%	100.0%	100.0%
Yield (%)	1.3%	2.5%	3.5%	4.1%
ROE (%)	5.4%	5.9%	9.7%	11.2%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Investment Thesis

We find the investment case attractive for the following reasons:

Exposure to alternative high growth investments: Investment in RPL offers a diversified exposure (through management and performance fees) to a range of strategies that are not widely available to investors.

Entrepreneurial culture and fast growing: RPL has expanded through adding teams, making bolt-on acquisitions and launching new funds. This culture and flexibility allowed RPL to consider the acquisition of PPT's fund management business. This has resulted in achieving a high growth rate both FUM and profitability.

Profitable/ fund returns: The company achieves high management fees of (115bps on average) from a wide range of funds. All the fee-paying funds have the potential to earn performance fees. In aggregate the funds have strong track records, and the annual returns appear to be more volatile which should be expected from high conviction funds with high management fees and performance fees. For example, 7 funds with a combined fund value of $1.5bn at 31 December 2022 have given an annualised returns of more than 20% since inception (see Figures 5 through 7 below).

Inflows and fundraising momentum: RPL has been able to raise money for itself ($110m entitlement offer in September 2022), for its listed companies ($90m RF1 placement offer + unit purchase plan), launched 4 new funds in 2022, as well as disclosed private mandates ($487m in September 2022 and a Kilter top-up of around $70m in H2 FY22). The company expects $1bn in inflows for its funds in the year to June 2023 and this follows inflows of $700m and $300m in the two previous years.

High alignment of staff: Staff are highly incentivised to perform with 30-40% of fees paid to staff through salary and bonus. Around $0.8bn of the FUM at 31 Dec 2022 is non-fee earning (although these staff rebates are being reduced in 2024), being owned by staff giving a close alignment with fund investors. Staff and former staff are heavily invested in the equity owning around 70% of the shares (see Table 3).

Set against this:

Limited market: many of RPL's underlying funds can only be marketed to sophisticated investors or wholesale clients. This limits the routes to market; however exposure can be gained through investment in RPL shares, or through the Listed Investment Trusts and Companies (RF1, VG1, RG8).

Information and Complexity: This is not a straightforward investment manager and the merger of Regal Funds Management (RFM) and VGI Partners has made the group more complex. Details about the funds are available from the company, although it can be difficult to get consistent information on all the funds in terms of size, unit price, performance. We found limited data on the underlying funds from mainstream data providers (Bloomberg, Morningstar and Iress).

Accounting: the merger between Regal Funds Management and VGI Partners has been accounted for using reverse acquisition accounting and the company has shown some numbers on a proforma basis. There are a number of adjustments to accounting profit, particularly relating to amortisation of Performance Share Rights (PSR).

Recent fund performance has been mixed. The funds in aggregate did not perform well in 2022 on average and this limited the amount of performance fees payable.

Forecasts and Valuation will be largely dependent upon future fund performance (which will drive management fees, inflows performance fees) all of which are not easy to predict. We offer a range of scenarios to assist the reader form their own basis for valuation.

Limited free float. Over 80% of the shares are held by relatively few company insiders and ex-employees, which limits liquidity in the shares.

Underlying funds

Note that in this report we refer to a number of the funds managed by RPL, to the extent that these funds exist, and their characteristics are relevant to the investment case for RPL.

In this report we are not recommending, giving investment advice, or making an offer on the underlying funds. Investors interested in the underlying funds should seek specialist investment advice.

Valuation $3.71/share – but very sensitive to performance fees

The valuation section goes into more detail as to how we have valued RPL, including sensitivity to investment returns, net flows, performance fees and valuation assumptions.

Given the valuation sensitivity to performance fees, we have produced more sensitivity analysis than we would usually provide for an investment manager. To provide this sensitivity, we define "base" performance fees as 60bps of FUM per year, based on the assumption that around 50% of the funds will outperform their benchmarks by 7% on average. We can then flex this base assumption to show how sensitive the valuation is to this assumption.

This sensitivity to performance fees and fund returns is summarised in the following two tables in Figure 1 and 2. Our valuation assumes net inflows of 15% of FUM in 2023 and 2024, and 8% thereafter.

Figure 1 - Valuation sensitivity to "BP base" performance fees (rows) & fund returns in 2023 and 2024 (columns)

	3.0%	6.0%	9.0%	12.0%
0.3%	2.67	2.85	3.03	3.22
0.6%	3.28	3.49	3.71	3.94
0.8%	3.68	3.92	4.16	4.42
1.0%	4.08	4.34	4.61	4.89

SOURCE: BELL POTTER SECURITIES

Figure 2 – As previous, % change from base valuation

	3.0%	6.0%	9.0%	12.0%
0.3%	-28%	-23%	-18%	-13%
0.6%	-12%	-6%	0%	6%
0.8%	-1%	6%	12%	19%
1.0%	10%	17%	24%	32%

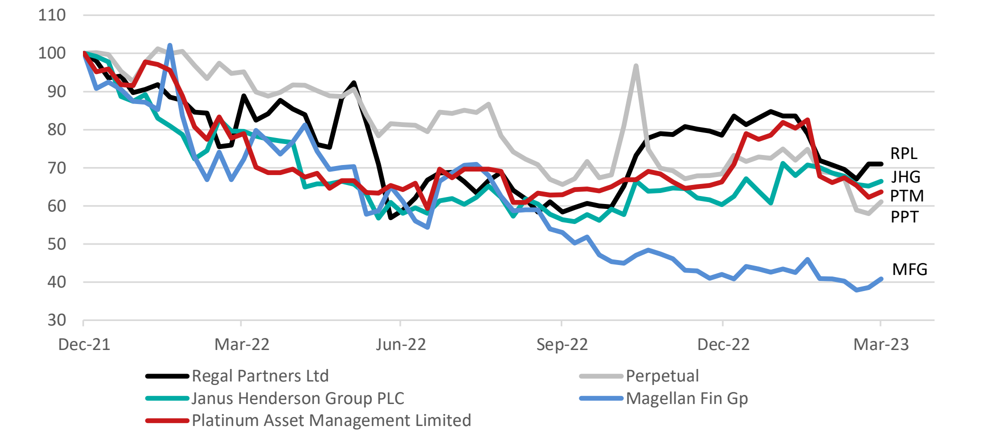
SOURCE: BELL POTTER SECURITIES

Share price performance & recent events

Share price relative to asset managers

The chart in Figure 3 shows the share prices of RPL and four other Australian asset managers since the start of 2022, rebased to 100. The period shown has been a difficult period for all asset managers with falling and volatile markets, conflict in the Ukraine, inflation, rising interest rates, and operating pressure from net outflows and rising costs. RPL's share price has performed marginally better than others in the sector. We anticipate that as markets stabilise, RPL has scope to outperform given its performance track record, its ability to continue to attract assets, and its growing profitability driven by high management and performance fees.

Figure 3 - Regal relative to similar asset managers (rebased to 100)



SOURCE: IRESS & BELL POTTER SECURITIES ESTIMATES

Recent events

We summarise some of the recent news and events relevant to the equity story.

December 2019: Investment in Kilter Capital

On 18 December 2018, Regal Funds Management acquired a 50% interest in Kilter, a specialist manager in Australian farmland, water, and ecosystem assets. In December 2021, RFM acquired an additional 11.49% interest in Kilter to increase its total voting interest to 61.49%. Kilter was established in 2004, and the owners have a 30-year history in delivering sustainable management of land, water, and ecosystem assets across Australian farming landscapes. The overarching philosophy is to unlock value in rural irrigation landscapes to deliver financial returns with positive environmental and social impacts. An agricultural model has been developed for regeneration of landscapes to provide returns for collaborating investors, sustainable increases in output, ecosystem protection and direct engagement of local communities.

December 2021: Investment in Attunga Capital

In December 2021, RFM acquired a 51% stake in Attunga Capital. Attunga is a specialist investment manager founded in 2005, whose philosophy is to create long term wealth and deliver uncorrelated returns for investors by seeking out niche asset classes and applying unique skills. Attunga is trustee and manager of the Attunga Power & Enviro Fund, which was launched in August 2006, and the Attunga Carbon & Enviro Fund, which was launched in January 2022. The Attunga Power & Enviro Fund primarily invests in the power market and related derivative products, mainly focusing on the Australian National Electricity Market (ETC and OTC), but with a mandate which includes CO2 emissions, weather, gas, water and other energy and environmental related markets.

June 2022: Merger of Regal Funds and VGI Partners

On 3 June the RPL was formed from the merger of Regal Funds Management Pty Ltd with VGI Partners Ltd (ASX:VGI – which was renamed Regal Partners Limited). At announcement RFM had $3.4bn of capital managed across a range of hedge funds, real assets and private markets, while VGI had $2.2bn managed in hedge funds.

The merger provided the merged company with a wider range of investment strategies, particularly in Australian and Asian equities, real assets and unlisted assets. In addition it gave access to Regal's institutional corporate platform and marketing and distribution capability.

The merged company became "a leading provider of alternative investment strategies in Australia."

September 2022: Entitlement offer

On 5 September 2022, RPL launched a 1 for 5 entitlement offer. The offer price was $2.60 per share, an 8.5% discount to $2.84, the close price on 2 September. The company aimed to issue 42.3m new shares, representing 20% of the shares previously on issue.

As at 28 September the company had raised $110m gross from an entitlement offer, retail entitlement and a shortfall placement offer.

Proceeds were expected to be used to grow and scale existing strategies, seed new strategies, accelerate distribution, marketing and technology, optionality in inorganic growth opportunities. A benefit of the offer was to increase the free float and liquidity in the shares.

Barrenjoey Markets acted as Financial Advisor and Lead arranger, with Bell Potter acting as one of the co-lead managers.

September 2022: New institutional mandate

On 1 September, RPL announced it had secured an institutional mandate of over $420m from a large domestic superannuation fund into the Regal Australian Equity Long Short Equity Strategy. This was topped up before the year end to become a $487m mandate.

October 2022: Fund launch

Launch of Regal Private Credit Opportunities Fund (RPCOF), to focus on opportunities in private credit. The strategy focuses on senior loans to small and medium sized public and private companies in Australia and New Zealand, as well as asset backed loans and other opportunistic credit opportunities. The portfolio is managed by portfolio managers Jacob Poke and Gavin George.

This fund is classified within Capital Solutions along with the Regal Resources Royalties Fund. The size of the fund has not been publicly stated. The fund became an additional strategy within RF1.

In Jan 2023, the company announced an additional $200m+ commitment to the fund from an Australian family office.

November 2022: Approach to Perpetual Limited

The proposed acquisition of Perpetual's asset management business seemed ambitious.

On 3 November 2022, RPL in consortium with Baring Private Equity Asia (BPEA) proposed a non-binding, indicative all-cash proposal to acquire Perpetual Limited (PPT.ASX, BUY TP $30.50), for $30 per share or $1.7bn. PPT was in the late stages of acquiring Pendal (PDL), a move which was seen to be unpopular with PPT shareholders as in the period since it agreed the deal, equity markets had fallen and PDL had seen outflows from its funds.

It was envisaged that RPL would acquire the asset management businesses of PPT, with Perpetual Private and Perpetual Corporate Trust sold to BPEA.

The approach was rejected by PPT's management, who noted that the approach was uncertain, conditional, materially undervalued PPT and not in the best interests of shareholders. PPT management remained committed to acquiring PDL.

A week later, (10 Nov) the Regal consortium revised their indicative offer to $33.00 per share, but this was also rejected by PPT management.

We felt the proposed acquisition was ambitious, especially given the large size of PPT's asset management and the differing approaches between PPT offering large scale conventional asset management compared to RPL's boutique style offering alternative assets.

December 2022: RF1 placement

In December RF1 Placed 26.5m ordinary units at $3.01 per unit, equal to the NAV at 25 November and a 7.1% discount to the closing price of RF1 before the announcement ($3.24 at 30 November). The fundraising ultimately raised $92m: $80m by way of the placement and a further $12m through an associated Unit Purchase Plan.

February 2023: Acquisition of East Point

RPL announced the agreement to acquire East Point Asset Management. The company managed a net US$100m of capital (A$275m of gross exposure adding long to short). The main fund has been established since January 2021. The founder and CIO Simon Walsh, and a small team, are expected to join Regal as employees upon completion of the acquisition. The price was not explicitly announced, however the statement noted the transaction would require the issue of 788k shares, which were valued at around $2.9m at the time.

February 2023: FY22 results

Company reported first set of results for the 12 months to December 2022. As the merged company only existed from June, the H2 FY22 figures were most relevant. Key points were:

- **Normalised NPAT** for H2 FY22 of $18.2m on a proforma basis;
- **Inflows:** Strong fundraising momentum, with over $690m in net inflows for the half, with the Group on target to deliver over $1bn in net inflows for the first 12 months following merger completion;
- **Funds Under Management (FUM):** rose to $5.2bn (as at 31 December 2022), increasing to $5.4bn as at 31 January 2023 (via fund flows and performance);
- **Performance fees** of $14.5m were generated over H2 FY22 on a proforma basis, despite challenging market conditions;
- **Dividend:** a fully franked final divided of 4cps was declared;

- **Balance sheet**: robust position, with $214m in cash and investments at 31 December 2022 and no debt.

April 2023 Q1 FUM/non-fee paying FUM

The company reported FUM to end March 2023 of $5.5bn, rising from $5.2bn at end 2022.

- Inflows accounted for $0.2bn of the movement primarily driven by inflows into Regal Private Credit Opportunities fund, a inflow into the Attunga Power &Enviro Fund and Cayman launch of the Regal Resources Long Short Strategy.
- Investment performance was net zero over the quarter.
- Other movements were $0.1bn which may include forex movements or income received.

The statement noted that the non-fee earning assets (of $0.8bn at 31 December) include $0.6bn at 31 March which are managed on behalf of staff on a zero fee/100% rebate basis. From 1 Jan 2024 this rebate is to be reduced to 50%, which could be expected to generate $5m in additional management fees per annum, and with the potential to generate additional performance fees.

Analysis of FUM

In this section we analyse the FUM of RPL. We want to take a more detailed look at the FUM to help us understand what is reasonable to set assumptions or range or assumptions for our forecasts. We note the following observations:

- **Funds:** There are currently around 27 identifiable funds in the RPL stable, however there will also be a number of funds, individual mandates and accounts which are privately managed by the company. These funds have a range of differentiated investment strategies.
- **Diversity:** There is diversity between the strategies, size and performance of the various funds. We note that there are five funds around $500m in size and more than 12 funds larger than $100m out of total FUM of $5.2bn. This diversity means that no single fund would represent much more than 10% of revenue and RPL is not overly dependent upon any one strategy.
- **Investment return** has been volatile over time and between funds, which should be expected from high conviction funds with high management and performance fees. FY21 was in general a good year, whereas 2022 was a more difficult year and this may affect performance fees in FY23.
- **Track record:** In aggregate the funds have a strong performance track record.
- **Net flows & Launches:** RPL has a good track record of launching and growing new funds, with 7 new strategies launched since 2020.

The following table in Figure 4 is taken from the FY22 results showing the movement in FUM over 2022.

Figure 4 - Pro forma FUM and movements in year to Dec 22

YEAR TO 31 DECEMBER 2022

	31 Dec 2021[1]	Net flows	Investment performance[2]	Other[3]	31 Dec 2022[1]
$bn					
Asset strategy					
Long/short equities	**4.3**	0.2	(0.9)	(0.1)	**3.5**
Private markets	**0.8**	0.0	(0.2)	(0.1)	**0.6**
Real and natural assets	**0.3**	0.1	0.0	0.0	**0.4**
Capital solutions	**0.1**	0.1	0.0	0.0	**0.1**
Regal Investment Fund (RF1)	**0.7**	0.1	(0.1)	(0.1)	**0.6**
Total	6.2	**0.5**	**(1.3)**	**(0.3)**	5.2

SOURCE: COMPANY DATA, NOTES

1. FUM ADJUSTED FOR BALANCE DATE SUBSCRIPTIONS, REDEMPTIONS AND DISTRIBUTIONS NET OF REINVESTMENTS. 2. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE AND SHOULD NOT BE RELIED UPON AS AN INDICATION OF THE FUTURE PERFORMANCE OF ANY FUND OR STRATEGY 3. OTHER INCLUDES BUY-BACKS WITHIN LISTED INVESTMENT VEHICLES, INVESTOR DIVIDENDS AND DISTRIBUTIONS (NET OF REINVESTMENT), FOREIGN EXCHANGE, INCOME AND TAX.

The figure above shows:

Net flows of $0.5bn, on opening assets of $6.2bn represents around 8% of opening assets. This is remarkable in an industry where many have seen consistent outflows. Some of this relates to new mandates, fund launches and the issues of shares at RF1. Within Long short equities net flows were 0.2bn or 4.8% on opening assets of $4.3bn.

Investment returns: Across the funds, investment returns of $(1.3)bn on opening assets of $6.2bn implies an average return across the funds of -20% in AUD terms. Within Long short equities the investment return was $(0.9)bn or -14.5% of opening assets of $6.2bn.

To put this in context the total return on the MSCI World index in AUD terms in 2022 was around -18% and the total return on the All Ordinaries was -3% in AUD terms.

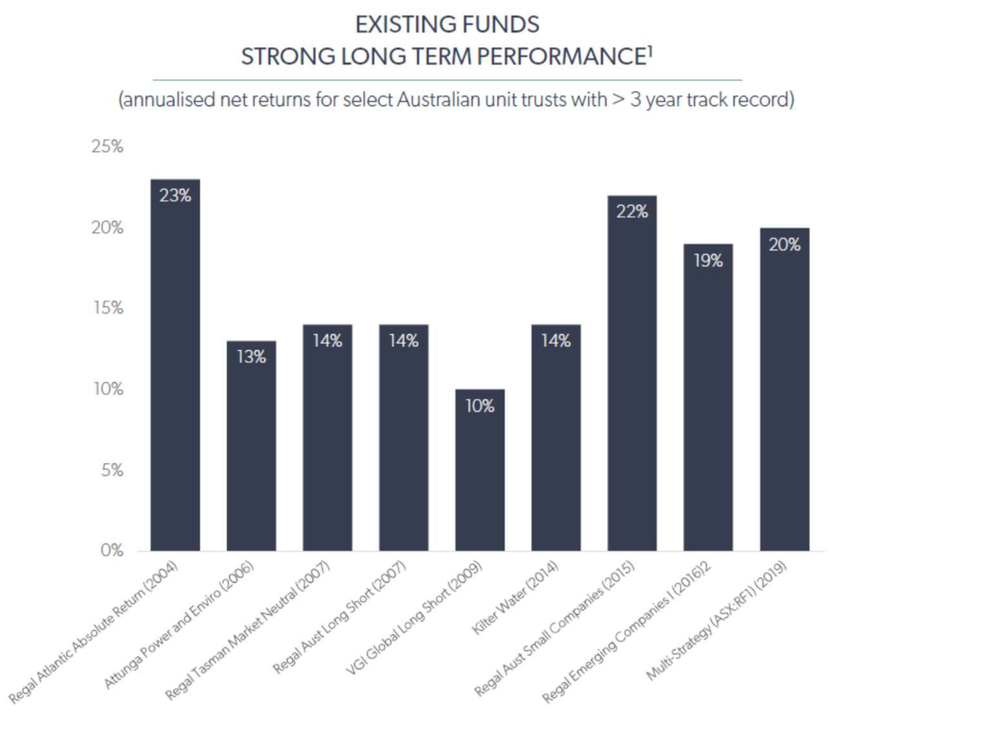
Analysis of performance

The following two charts in Figure 5 and 6 are also taken from the FY22 results presentation. The chart in Figure 5 shows the long-term performance since inception of 9 funds over three years old, showing annualised net returns of 9-23% per annum.

The chart in Figure 6 shows performance since inception for 7 funds launched in the last three years with aggregate fund size of $1.1bn. These funds have generated returns since launch varying from -4% to + 232%.

While both charts convey a positive picture about longer term performance, they say little about performance in 2022 and how that might affect the start point in 2023 and beyond. We also have little idea of what contribution to performance these funds make because these charts do not show the fund size. We would like to understand which are the key funds within the stable that will drive its profitability.

Figure 5 - Long term performance of existing funds since inception



SOURCE: COMPANY DATA, FY22 PRESENTATION

Figure 6 – New strategy performance funds

NEW INVESTMENT STRATEGIES
PROVEN ABILITY TO INNOVATE AND GROW

(new Australian unit trusts launched within previous 3 years)

7
New strategies launched in Australia since 2020

~$1.1bn
New strategy total Fund size[3]

FUND NAME	LAUNCH	TOTAL RETURN[1]	LEAD PMs
Regal Tactical Opportunities Fund	Jul 2020	+232%	Philip King
Regal Emerging Companies Opportunities Fund	Aug 2020	+45%	Ben McCallum Jessica Farr-Jones
Regal Resources Long Short Fund	Nov 2021	+69%	Tim Elliott
Regal Healthcare Long Short Fund[4]	Jan 2022	+1%	Dr Craig Collie
Attunga Carbon & Enviro Fund	Jan 2022	-4%	Donovan Marsh Sam Curtis
Regal Resources Royalties Fund[5]	Oct 2022	+120%	Simon Klimt, James Morrison
Regal Private Credit Opportunities Fund	Oct 2022	+3%	Jacob Poke Gavin George

SOURCE: COMPANY DATA, FY22 PRESENTATION

FUM by fund size and performance

In the table in Figure 7 below, we analyse RPL's funds by size from largest to smallest. The largest funds should make the largest contribution to management fees, (even taking account of the differing fee rates between the funds from 0.85-2.00%). There is around $750m of funds which are not disclosed. This could be invested in funds for which we have not been able to determine the size of the fund, as well as separately managed accounts or private mandates. There is some potential double counting of FUM from strategies held within RF1, although we have adjusted to extent that we are able to. The columns relate to:

Category: where RPL classifies the fund between hedge fund or long/short equities (HF/LS), Private markets (PM), Real and natural assets (RNA), Capital Solutions (CS) and Regal Investment fund (RF1), the quoted investment vehicle. Note that RF1 has a fund-of-funds structure and invests across 8 strategies in the other funds. To avoid double counting we have attempted to deduct RF1 holdings from the underlying fund.

Structure: Most funds/hedge funds use the open ended/unit-trust type structure. RF1, RG8 and VG1 are LIT/LIC (listed investment trust or company). Private markets launched number of finite-life closed end funds with a five-year term. Regal Emerging Companies Fund I (2016), II (2018) and III (2019), with III having two subsequent issues in (2019). In 2020 Regal launched the Regal Emerging Companies Opportunities Fund, with a more conventional open-ended structure. Fund 1 has now wound up with proceeds either being returned to investors or reinvested into other funds. We expect Fund II to wind up this year or early next year.

Fund Size: We have taken the fund size from the monthly fund reports at end December. Not all of the funds disclose the fund size. Where possible we have estimated the size from other sources (Company, ASX news, Press releases, Bloomberg, Morningstar).

Management fees will be driven by large funds with relatively high management fee rates – most of the funds earn either 1.5% or 2%, however there are around $0.8bn of non-fee earning funds (at 31 Dec 2022) that largely relate to staff ownership of the funds. Hence the average fee rate on the funds is 1.15%. The distribution of this $0.8bn between the funds is not disclosed.

Performance fees should be driven by funds that are generating strong returns in excess of their hurdle rate (HR), high-water mark (HWM) or other benchmark.

Performance

We have shown the performance of the funds in 2021 and 2022, as well as the annualised return since inception. We have colour coded theses performance statistics to highlight the best performing funds in each of the three periods in green and the worst in each period in red. We would highlight:

- There is a large deviation in the performance numbers both between funds and across the periods shown, this is to be expected for high conviction actively managed funds.
- 2022 was a difficult year for most of the larger funds, while 2021 was a good year. Many of the larger funds will start 2023 below HWM, and we can expect a weaker year for performance fees.
- Fund returns since inception are strong as illustrated in the company data in Figure 5 and Figure 6.

Note that the funds marked with note F have June year ends and we have used the company produced performance figures to June, rather than to try to recalculate performance to end December.

Figure 7 - FUM by individual funds, sorted by size

Name of fund	Category	Structure	Fund size A$m (Dec 22)	Launch year	Mgmt fee (%)	Perf fee (%)	Perf Fee over	Perf 2022 (%)	Perf 2021 (%)	CY/FY	Annualised ret'n since inception (%pa)	Notes
											G	
RF1	RF1	LIT	612	2019	1.50	20	RBA Cash	-14.3	36.7	CY	20.4	A
VG1	LS	LIC	608	2017	1.50	15	HWM	-22.3	-2.5	CY	1.6	A
New mandate (announced late 2022 - estimated)	LS		487	2022								
RG8	LS	LIC	481	2019	1.50	15	HWM	-5.3	-2.2	CY	1.7	A
Regal Emerging Companies Opportunities Fund	PM	HF/UT	475	2020	1.50	20	5% HR	-23.2	38.7	CY	16.2	
Regal Australian Small Companies Fund	LS	HF/UT	349	2015	1.00	20	ASX Small Acc'm	-23.6	35.6	CY	22.6	
Regal Resources Long Short Fund (fund size estimated)	LS	HF/UT	250	2021	1.50	20	HWM	55.0	7.7	CY	52.5	J
Attunga Power & Enviro Fund	RNA	HF/UT	171	2006	1.50	20	HWM	14.1	19.3	CY	13.1	
Atlantic Absolute Return Fund	LS	HF/UT	167	2004	2.00	20	HWM	-44.8	57.6	CY	23.2	
Regal Australian Long Short Equity Fund	LS	HF/UT	134	2009	0.80	15	ASX300	-2.4	25.2	CY	14.0	C
Regal Emerging Companies Fund III	PM	Closed	118	2019	1.50	20	5% HR	-25.6	43.6	CY	40.8	B, D
Regal Emerging Companies Fund II	PM	Closed	117	2018	1.50	20	5% HR	-30.7	29.7	CY	10.9	B
Tasman Market Neutral Fund	LS	HF/UT	101	2007	2.00	20	HWM	0.3	32.2	CY	13.7	
Amazon Market Neutral Fund	LS (CAY)	HF/UT	98	2005	2.00	20	HWM	-2.8	31.1	CY	12.4	
Kilter Balanced Water Fund	RNA	HF/UT	87	2015	0.55+TF	15	6% HR	17.5	2.8	FY	13.1	F,H,E
New Kilter mandate (estimated)	RNA	HF/UT	73									
Kilter Australian Farmlands Fund	RNA	HF/UT	68	2018	1.15+TF	15	8% HR	10.2	-1.7	FY	1.2	F,E
Kilter Water Fund (ex RF1)	RNA	HF/UT	30	2014	0.85+TF	15	8% HR	22.3	8.6	FY	14.4	F,E
Regal Absolute Return Fund	LS (CAY)	HF/UT	29	2020	2.00	20	HWM	-42.4	49.7	CY	-2.8	
Attunga Carbon & Enviro Fund	RNA	HF/UT	21	2022	1.50	15	RBA Cash	2.4	NA	CY	-4.0	
Total long/short not disclosed	**LS**		**756**									
Fund Size not disclosed:												
Regal Tactical Opportunities Fund	LS	HF/UT	ND	2020	2.00	20	HWM	25.8	51.5	CY	59.1	
Regal Healthcare Long Short Fund (Class A)	LS	HF/UT	ND	2022	1.00	20	HWM	-3.3	NA	CY	0.8	
Regal Asian Healthcare Long Short Fund	LS (CAY)	HF/UT	ND	2022	1.50	20	HWM	-1.6	NA	CY	2.9	
Regal Resources Royalties Fund	CS	HF/UT	ND	2019				46.9			26.0	
Regal Private Credit Opportunities Fund	CS	HF/UT	ND	2022							2.6	
VGI Partners Master Fund	LS	HF/UT	ND	2009				-27.3	24.7	FY	9.8	F
Regal Zambezi Absolute Return Fund	LS	HF/UT	ND	2005							14.8	I

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, NOTE

LS - LONG SHORT

RNA - REAL AND NATURAL ASSETS

PM- PRIVATE MARKETS

CAY - CAYMAN FUNDS

CS - CAPITAL SOLUTIONS

HR = HURDLE RATE

HWM = HIGH WATER MARK

A NAV RETURN

B IRR RETN - CLOSED-ENDED FIVE YEAR FUNDS WITH DISTRIBUTIONS NOT REINVESTED

C THE FUND HAS A RETAIL SUB FUND: REGAL L/S AUSTRALIAN EQUITY AMR0006AU

D FUND II HAD TWO SUBSEQUENT ISSUES: 2019-11 SERIES: RGL9873AU 2019-12 SERIES: RGL6948AU

E RPL ALSO EARNS TRUSTEE FEES (TAKING FEES FROM 0.55% TO 0.7% FOR BALANCED WATER, FROM 1.15% TO 1.5% FOR AUSTRALIAN FARMLANDS AND FROM 0.85% TO 1.0% FOR KILTER WATER FUND)

F JUNE YEAR END - QUOTED BY COMPANY

G RETURNS SINCE INCEPTION TO 31 JAN 2023

H AKA THE MURRAY-DARLING BASIN BALANCED WATER FUND

I CLOSED TO NEW INVESTORS AND MOSTLY NON-FEE EARNING. CUM RET TO DEC 22.

J REGAL RESOURCES LONG SHORT FUND RAISED $90M IN OCT 21 AND $75M IN JUN 22

Key Funds

We Describe four of the key funds, being some of the key drivers of the value creation for RPL.

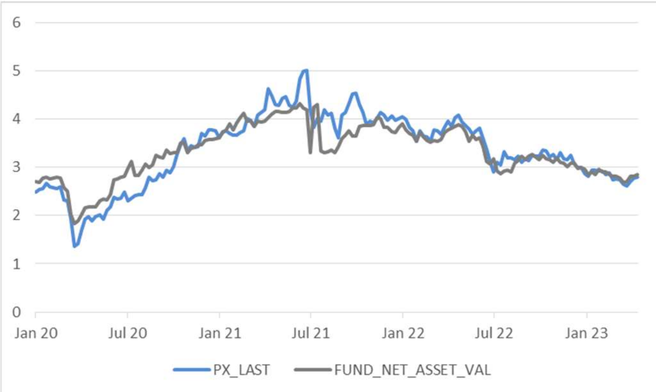
RF1 (Regal Investment Fund)

This is a flagship fund of Regal Partners, managed by Regal Chief Investment Officer, Phil King. The current fund size is approximately $600m, and it is likely to be the largest single generator of management fees in RPL.

- It is an ASX-listed investment trust, providing exposure to a selection of alternative investment strategies managed by Regal;
- It was listed in June 2019 with an aim of producing attractive risk-adjusted absolute returns over a period of more than five years with limited correlation to equity markets;
- It generated a total return of +91% from inception in June 2019 to December 2022, net of fees. It has made cash distributions of $1.84 per unit since listing to Feb 2023;
- Currently invested across nine alternative investment strategies, covering long / short equities, private markets, water and resources royalties, with a measured allocation to private credit;
- It has an on-going share buyback.

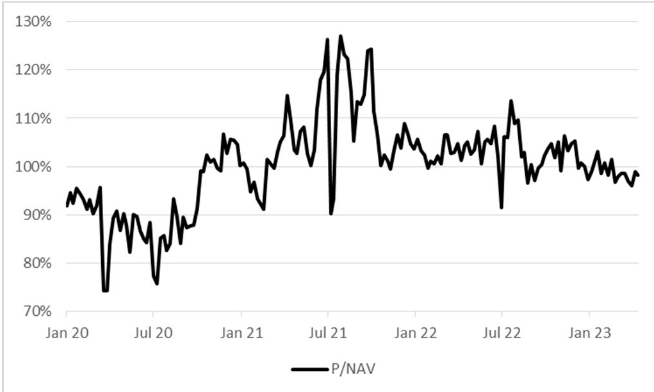
The price, NAV and price to NAV for the last 3 years are shown in the following two charts in Figure 8 and 9. The share price has been trading at or above NAV for most of the last year.

Figure 8 - RF1 Price and NAV



SOURCE: BLOOMBERG

Figure 9 - RF1 Price/NAV



SOURCE: BLOOMBERG AND BELL POTTER

VG1, VGI Partners Global Investments

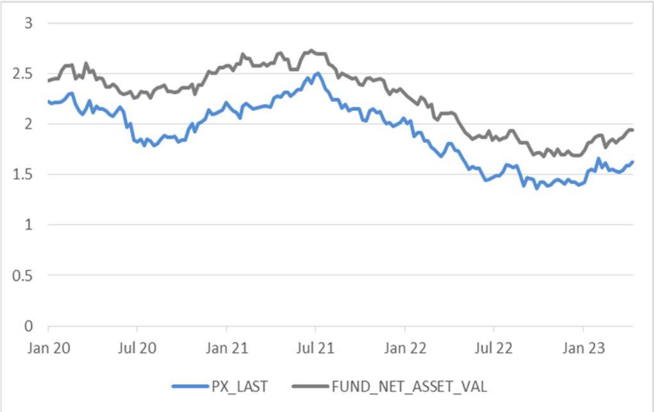
VG1 was the flagship fund of VGI Partners, managed by Chief Investment Officer Robert Luciano. The fund aims to be a listed replication of the VGI Partners Master Fund. Key points / philosophy:

- The manager seeks to build a concentrated portfolio of under-appreciated, high-quality businesses that operate within attractive industry verticals. These positions are offset by short positions in companies perceived to be encountering structural headwinds, business model weakness and/or accounting irregularities;
- Uses deep research, conviction and concentrated portfolio;
- Has a long-term investment horizon, which provides a competitive advantage;

- Seeks to avoid permanent loss of capital;
- VGI staff invest alongside VG1 shareholders;
- The LIC has an on-going share buy back.
- Benefits from Regal's operating infrastructure, access to distribution and marketing.

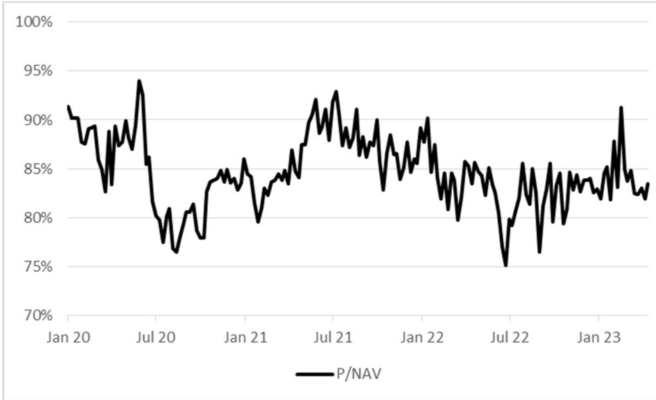
The price, NAV and price to NAV for the last 3 years are shown in the following two charts in Figure 10 and 11. Note that fund has traded at below 90% of NAV for most of the period shown.

Figure 10 - VG1 Price and NAV



SOURCE: BLOOMBERG

Figure 11 - VG1 Price/NAV



SOURCE: BLOOMBERG AND BELL POTTER

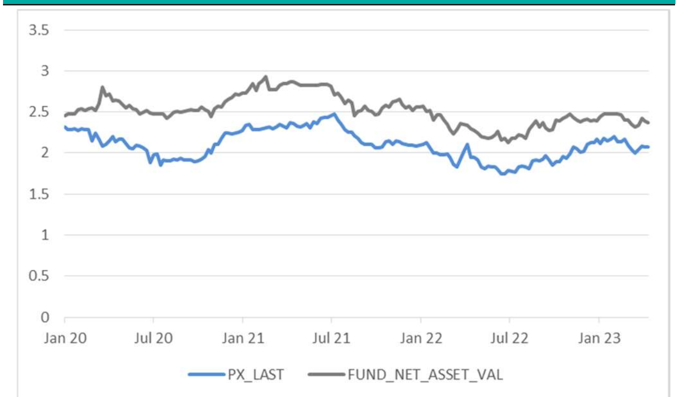
RG8 (Regal Asian Investments)

The fund provides investors with access to an actively managed, concentrated portfolio, comprising long investments and short positions in Asian listed securities. It may also take positions in other companies with significant exposure to the Asian market. RG8 will typically invest in 15-30 long investments. The top ten long investments will usually represent between 40-50% of the portfolio's NAV.

Prior to the VGI/Regal merger, the fund was known as VGI Partners Asian Investments (VG8) and managed by the investment team of VGI Partners. Following the merger, management transferred to Regal's team, giving the opportunity to benefit from Regal's strong investment experience in the Asia Pacific region, including members of Regal's Singapore team. In addition, VG8 gained to access Regal's operating infrastructure and investor relations team.

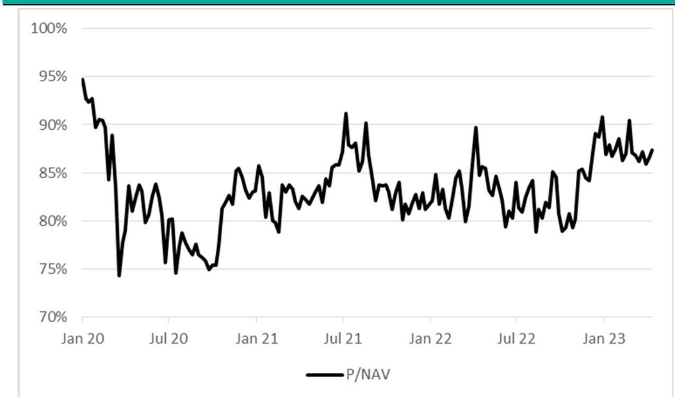
The price, NAV and price to NAV for the last 3 years are shown in the two charts in Figure 12 and 13. Note that fund traded at below 90% of NAV for most of the period shown.

Figure 12 – RG8 Price and NAV



SOURCE: BLOOMBERG

Figure 13 – RG8 Price/NAV



SOURCE: BLOOMBERG AND BELL POTTER

Regal Emerging Companies Opportunities Fund

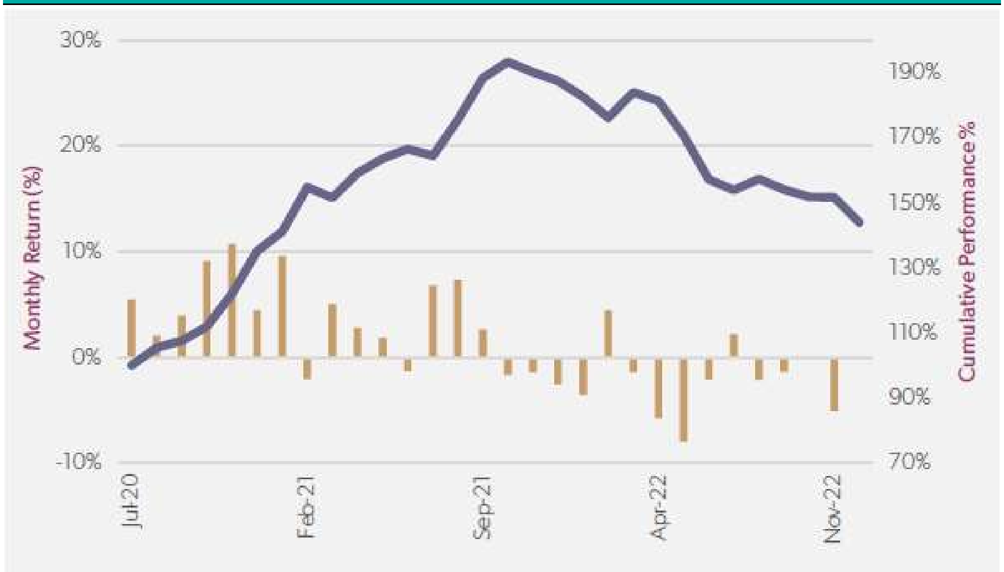
This fund is an open-ended fund, with a fund size of around $475m launched in 2020. It is part of a $700m stable of 4 funds investing in emerging companies since 2016. These funds make up the “Private Markets” classification in RPL’s FUM categories. These funds have a good track record and have raised considerable FUM for Regal since 2016. These funds are managed by Ben McCallum and Jessica Farr-Jones.

Key features of the fund include:

- Invests in Pre-IPO, Unlisted Expansion Capital and Listed Micro Cap Investments (primarily listed companies with a market capitalisation of generally less than A$300 million). The fund invests in equity, convertible notes, debt and other securities including derivatives and may use leverage (to 1.3x NAV) and sell short.
- The Fund invests predominantly in Australia but may also invest in the OECD and other developed countries.
- the Fund seeks to combine the attributes of both private equity and hedge fund investment styles, and take advantage of a gap in the Australian market for the funding of emerging companies that may not fit the mandates or criteria of traditional investment firms;
- Investments entered into by the Fund may have limited liquidity, the Fund will accept redemptions semi-annually which may be capped at 10% of the Fund’s NAV.

The chart in Figure 14 is taken form the company showing monthly returns and cumulative performance. The fund has given a total return of 45% since launch to December 2022, or 16.2% pa. The previous fund I, II and III, gave IRRs of 19.1%, 10.9% and 40.8% from inception to January 2023.

Figure 14 – Regal Emerging Companies Opportunities Fund (unit price)



SOURCE: COMPANY DATE

Key assumptions and forecasts

Our investment case depends upon the assumptions made about future key operating metrics. Varying these assumptions may lead to very different conclusions and we attempt to show how the sensitivity to the valuation will vary with these assumptions. Our assumptions are summarised in Table 1, and we explore these further below.

Table 1 - Main assumptions

	2023	2024	2025	2026 and subsequent
Market returns	9.0%	9.0%	8.0%	8.0%
Net Flows as a % of opening FUM	15.0%	15.0%	8.0%	8.0%
Net management fees	1.15%	1.15%	1.15%	1.15%
Performance fees (% of FUM)	Base 0.60%	Base +20bps 0.80%	Base +20bps 0.80%	Base 0.60%
Staff expenses as % of total revenue	30%	35%	35%	35%
Non staff expense growth	6.0%	6.0%	6.0%	6.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Factors behind our key assumptions are:

- **Fund growth** of 9% annualised in the remainder of 2023 and 2024, 8% in 2025 and thereafter. Note that this should be considered an absolute return figure. This is fund capital growth, as we assume fund distributions, and share buybacks will continue in the distributions line. We have not attempted to model bottom-up returns over hurdle rates or indices for individual funds.
- **Inflows** of 15% of opening assets in 2023 and 2024, equating to around $1bn per year. This assumption drops to 8% in 2025 and thereafter as the FUM gets larger. We believe this is a relatively aggressive short-term assumption although the company has achieved high levels of net flows in the past and has an impressive performance track record. We note the guidance given by the company for $1bn of inflows for the year to 30 June 2023, although given that the company achieved inflows of $0.7bn in the 6 months to December 2022, this should be achievable.
- **Management fee rates** continue at 115bps. This is probably a conservative assumption as there are $700m of non-fee earning assets and we would assume that fee earning assets should grow faster than non-fee earning. But this also depends upon the actions of Regal management and the contractual rights staff. If key staff continue to take bonus in funds or invest bonuses in funds on a fee-free basis, then this might not move away from 115bps as quickly as we expect.
- **Performance fees** We set a “base” level of performance fees of 60bps. We expect the business to generate base or 60bps of FUM in 2023, rising to base +20bps/80bps in 2024 and 2025, and 60bps thereafter. We vary the base level in our sensitivity analysis. We discuss these further below.
- **Staff expenses** to represent 35-40% of revenue. With a higher percentage being paid when revenue is lower, and a lower percentage would be paid in periods
- **Non-operating costs:** We have treated the $20m/pa amortisation of share-based payments as a non-operating cost, and therefore not part of EBITDA. At the time of the merger, the previous schemes were cancelled and a new performance share rights introduced to replace those schemes. This is expected to be amortised over three years.
- **Other expenses** grow at 6%.

Performance fee assumptions – base of 60bps

Nearly all RPL funds can earn performance fees, which can make a significant difference to the revenues, and profitability of the firm. Even a single medium sized fund making a material outperformance can generate a significant amount of performance fees in relation to the revenue base of the firm.

As these performance fees can vary between zero and a very large number, we make an assumption about the level of performance fees and what might be a suitable range of forecasts for future profitability. Small changes in this assumption will therefore dramatically change our forecast revenue, profitability and valuation of the business.

The amount of performance fees will depend upon:

1 The percentage of funds that have exceeded the high-water mark or hurdle rate.

2 The amount of performance across the funds, or more specifically the excess return over the HR/HWM.

3 The amount of performance fees – which is usually 15% or 20% of the fund return. We have assumed a blended rate of 18% in the following table.

We are not modelling bottom-up hurdle rates and high-water marks for separate funds. Instead, we assume this is rolled into the percentage of funds that earn a performance fee. In practice though, as fund returns increase, a greater percentage of funds would be likely to earn a performance fee. The variation of performance fees as a percentage of FUM is shown in Table 2.

Table 2 – Performance fees variation by investment return and percentage of funds earning a performance fee (bps of FUM)

% of funds that earn a performance fee	25%	50%	75%	100%
Average inv return				
6%	0.27%	0.54%	0.81%	1.08%
7%	0.32%	0.63%	0.95%	1.26%
8%	0.36%	0.72%	1.08%	1.44%
9%	0.41%	0.81%	1.22%	1.62%

SOURCE: BELL POTTER SECURITIES ESTIMATES

We set a base performance fee of 60bps of FUM and model future assumed performance fees with reference to this base figure. We can then show the sensitivity of our valuation to varying this base figure.

In table above, the base figure of 60bps equates to around half the funds outperforming by 7% on average. 80bps equates to either half the funds outperforming by 9% on average, or the 75% of the funds outperforming by 6% on average.

As we noted earlier 2022 was a difficult year for many of the funds, meaning a number of funds are below HWM, and 2023 appears to have had a weak start. It may be a challenge for RPL to achieve "base" performance fees in 2023.

We assume the business should achieve base +20bps of FUM as performance fees in 2024 and 2025. For 2026 and subsequent periods we assume the base performance fee rate is used.

Forecasts

We show our forecasts for FUM and profitability in the following table in Figure 15. The development of most of the key metrics follows the assumptions laid out above.

Note that the Historic FUM figures are proforma and include FUM from VGI, whereas the historic income statement is derived from the more detailed statutory disclosures. This is effectively RFM prior to the merger and includes VGI partners from 3 June 2022. This differs from some of the historic proforma numbers reported by the company.

Figure 15 - Regal Forecasts

FUM and revenue								
Y/e Dec 31	**1H22a**	**2H22a**	**2022a**	**1H23e**	**2H23e**	**2023e**	**2024e**	**2025e**
FUM movements ($m - PF for 22)								
Open	6.2	4.6	6.2	5.1	5.6	5.1	6.1	7.3
Net-flows	-0.3	0.8	0.5	0.4	0.4	0.8	1.0	0.6
Distributions	-0.2	-0.1	-0.3	-0.2	-0.1	-0.3	-0.4	-0.4
Market growth	-1.1	-0.1	-1.2	0.2	0.3	0.5	0.6	0.6
Close	**4.6**	**5.1**	**5.1**	**5.6**	**6.1**	**6.1**	**7.3**	**8.1**
Net flow (% opening)	-5%	17%	8%	8%	8%	16%	16%	8%
Market growth (%)	-18%	-2%	-19%	5%	5%	9%	9%	8%
Growth (%)	-26%	11%	-17%	8%	10%	19%	19%	11%
Average FUM ($m - PF for 22)	5.6	5.1	5.4	5.4	5.8	5.6	6.7	7.7
Management fee rate (% - PF for 22)	1.20%	1.15%	1.17%	1.15%	1.15%	1.15%	1.15%	1.15%
Revenue ($m)								
Management Fees			50.6	30.8	33.6	64.4	76.7	88.3
Performance Fees			31.6	16.1	17.5	33.6	53.3	61.5
Total Fees			**82.2**	**46.8**	**51.1**	**97.9**	**130.0**	**149.8**

Note FUM may not add up due to rounding

INCOME STATEMENT								
Y/e Dec 31 ($m)	**1H22a**	**2H22a**	**2022a**	**1H23e**	**2H23e**	**2023e**	**2024e**	**2025e**
Sales revenue	37.7	50.6	88.3	46.8	51.1	97.9	130.0	149.8
Operating Expenses	24.5	36.6	61.1	26.0	28.0	54.0	62.5	71.4
EBITDA	**13.2**	**14.0**	**27.2**	**20.8**	**23.1**	**44.0**	**67.5**	**78.4**
Depreciation & Amortisation	-1.5	-3.7	-5.2	-4.1	-3.8	-8.0	-7.1	-6.6
EBIT	**11.7**	**10.3**	**22.1**	**16.7**	**19.3**	**36.0**	**60.4**	**71.8**
Net Interest	0.0	0.0	0.0	0.4	0.4	0.7	0.8	1.0
Pre-tax profit	**11.7**	**10.3**	**22.1**	**17.1**	**19.7**	**36.8**	**61.2**	**72.8**
Tax	-4.2	-3.9	-8.1	-5.1	-5.9	-11.0	-18.4	-21.8
Adjusted profit	**7.5**	**6.4**	**13.9**	**12.0**	**13.8**	**25.7**	**42.8**	**51.0**
Non-operating profit	0.0	0.0	0.0	-3.6	-3.6	-7.1	-7.1	-0.7
Reported net profit	**7.5**	**6.4**	**13.9**	**8.4**	**10.2**	**18.6**	**35.7**	**50.2**
EPS Reported	**5.0**	**2.7**	**6.9**	**3.4**	**3.5**	**6.9**	**12.3**	**17.3**
EPS Adjusted				**4.6**	**4.5**	**9.1**	**13.9**	**16.4**
DPS (cps)	0.0	4.0	4.0	4.0	4.0	8.0	11.1	13.1
Franking	0%	100%	50%	100%	100%	100%	100%	100%

These are based off Stat figures for RPM prior to merger and include VGI for c.1 month in H1 22.

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

We have moved other income (investment gains/losses and associate income) and amortisation of performance share rights to non-operating profit, as we feel this better represents the earning capability of the business and calculate an adjusted EPS figure on this basis.

Our cash flow and balance sheet forecasts are summarised in Table 4.

Valuation

DCF valuation

We value RPL using DCF valuation, with a WACC of 10.3% applied to EBITDA after tax. We use our forecasts for the next 4 years and then project forward using the long-term real growth rate of 4.0%. We value the next 10 years EBITDA after tax at $353m. We value the terminal value at $1,438m, assuming long term growth of 4.0% plus inflation of 2.5%, which discounted to present value terms, gives a present value of $489m. This gives a total NPV of $842m.

Adding the forecast end 2023 net cash of $35m and half the seed capital of $87m and deducting non-controlling interests of $40m (we have assumed 5% of DCF value, given that NCI represents about 5% of FUM). This gives a value for the business of $922m or $3.71 per share at December 2023.

Figure 16 - DCF valuation

WACC Calculation / key assumptions	
Risk free rate	4.0%
Market risk premium	6.0%
ß = beta	1.20
Borrowing rate	6.0%
Tax rate	30.0%
Target gearing	15.0%
Cost of equity	11.2%
Cost of debt	4.2%
WACC / Discount rate	**10.3%**
Inflation	**2.5%**
Nominal growth rate	**4.0%**
Long-term real growth rate	**6.6%**

($m)	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Beyond
EBITDA	44	68	78	77							
Provisions	2	8	4	0							
Tax paid	-11	-18	-22	-22							
Maintenance Capex	0	0	0	0							
Total cashflow/terminal value	**28**	**47**	**55**	**58**	**62**	**66**	**70**	**75**	**80**	**85**	**1,438**

Total operational NPV (A$ms)	842
Net cash/(debt)	35
Seed Capital (50%)	87
NCI (5% of operational NPV)	-42
Total NPV (A$ms)	**922**
Shares in issue (m)	249
Value per share (A$/ps)	**3.71**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation Sensitivity to fund returns and flows

In Figure 17 we show the sensitivity of our valuation to changes in equity returns and net flows. The fund return assumption applies to the balance of 2023, and 2024.On the left-hand side of the table we vary the flow rate applied to overall FUM. Our base case return of 9.0% and inflow of 15.0% per year is highlighted in red. In Figure 18 we show the % change to our base valuation from varying these assumptions.

Figure 17 - Valuation sensitivity to net flows in 2023 and 2024 (rows) & fund returns in 2023 and 2024 (columns)

	3.0%	6.0%	9.0%	12.0%
0.0%	2.65	2.84	3.03	3.23
10.0%	2.96	3.15	3.36	3.57
15.0%	3.28	3.49	3.71	3.94
20.0%	3.63	3.85	4.09	4.33

SOURCE: BELL POTTER SECURITIES

Figure 18 – As previous, % change from base valuation

	3.0%	6.0%	9.0%	12.0%
0.0%	-28%	-24%	-18%	-13%
10.0%	-20%	-15%	-9%	-4%
15.0%	-12%	-6%	0%	6%
20.0%	-2%	4%	10%	17%

SOURCE: BELL POTTER SECURITIES

Valuation Sensitivity to fund returns and performance fees

In Figure 19 we show the sensitivity of our valuation to changes in fund returns and "base" performance fees as a % of FUM. Note that we have made these assumptions independent of each other in the model. In practice these assumptions should have some linkage because a high average return could be expected to be linked to high positive performance fees.

The fund return assumption applies to the balance of 2023 and 2024. On the left-hand side of the table we vary the "base" performance fees between 30bps to 100bps.

Our base case return of 9.0% fund returns and "base" performance fees of 60bps is highlighted in red. In Figure 20 we show the % change to our base valuation from varying assumptions.

Figure 19 - Valuation sensitivity to "BP base" performance fees (rows) & fund returns in 2023 and 2024 (columns)

	3.0%	6.0%	9.0%	12.0%
0.3%	2.67	2.85	3.03	3.22
0.6%	3.28	3.49	3.71	3.94
0.8%	3.68	3.92	4.16	4.42
1.0%	4.08	4.34	4.61	4.89

SOURCE: BELL POTTER SECURITIES

Figure 20 – As previous, % change from base valuation

	3.0%	6.0%	9.0%	12.0%
0.3%	-28%	-23%	-18%	-13%
0.6%	-12%	-6%	0%	6%
0.8%	-1%	6%	12%	19%
1.0%	10%	17%	24%	32%

SOURCE: BELL POTTER SECURITIES

Valuation Sensitivity to discount rate and long-term growth

In Figure 21 we show the sensitivity to our valuation to changing the discount rate and long-term growth assumption. The base case is a 10.3% discount rate and a long-term growth rate of 4.0% and is highlighted in red. In Figure 22 we show our sensitivity as a percentage change from our base case assumptions.

Figure 21 - Valuation vs Discount rate and LT nominal Growth

	8.0%	9.0%	10.3%	11.0%	12.0%
0.0%	3.31	2.96	2.62	2.47	2.28
2.0%	4.11	3.55	3.03	2.82	2.56
4.0%	5.72	4.62	3.71	3.37	2.98
6.0%	10.54	7.10	5.03	4.36	3.68

SOURCE: BELL POTTER SECURITIES

Figure 22 - As previous, % change from base

	8.0%	9.0%	10.3%	11.0%	12.0%
0.0%	-11%	-20%	-30%	-34%	-38%
2.0%	11%	-4%	-18%	-24%	-31%
4.0%	54%	24%	0%	-9%	-20%
6.0%	184%	91%	35%	17%	-1%

SOURCE: BELL POTTER SECURITIES

Relative valuations

In Figure 23 we compare the valuation of RPL against Australian asset management groups, with the caveat that most of these "comparators" are seeing outflows rather than inflows and struggling to grow profitability. This explains why RPL is one of the higher valued groups on an EV/EVITDA basis. On our forecasts. RPL trades on 11.7 x December 2024 EBITDA, and this is above the sector average of 7.3x (at June 2024).

We use our forecasts for the companies we have under coverage and the Bloomberg Best Estimate of consensus for the others. The multiples in the table have not been adjusted to normalise the different year ends, however only Janus, GQG and RPL do not have June year ends.

Figure 23 - Australian asset managers – relative valuations

Australian asset managers	BP Rec	BP target price (AUD)	Exp Tot Ret (%)	Year end	Close Price in Local	Shr Price Ccy	Market Cap (AUD Bn)	PE Forecast (X)	PE Next year (X)	EV/EBITDA forecast (X)	EV/EBITD A next year (X)	Dividend Yield Forecast (%)	Dividend Yield Next year (%)
PLATINUM ASSET MANAGEMENT	Hold	1.66	7%	Jun	1.70	AUD	1.00	12.47	13.81	7.23	7.85	8.85	8.26
PERPETUAL LTD	Buy	30.50	34%	Jun	23.80	AUD	2.68	10.88	9.96	8.43	5.63	6.18	7.69
INSIGNIA FINANCIAL LTD				Jun	2.94	AUD	1.90	10.14	9.51	7.09	6.64	6.87	7.31
REGAL PARTNERS LTD	Buy	3.71	19%	Dec	3.18	AUD	0.83	37.76	22.88	17.97	11.70	2.52	3.49
GQG PARTNERS INC-CDI				Dec	1.45	AUD	4.25	16.86	14.50	8.13	7.04	5.59	6.34
JANUS HENDERSON GROUP-CDI	Hold	43.81	15%	Dec	39.71	AUD	0.47	9.54	9.47	6.30	6.26	5.14	5.17
JANUS HENDERSON GROUP PLC				Dec	26.44	USD	6.55						
MAGELLAN FINANCIAL GROUP LTD				Jun	7.79	AUD	1.40	8.21	10.26	4.54	5.82	10.39	7.46
Simple Average								15.12	12.91	8.53	7.28	6.50	6.53

prices updated 17/04/23, consensus estimates updated 17/04/23

SOURCE: BLOOMBERG & BELL POTTER SECURITIES ESTIMATES (CLOSING PRICES AT 17 APRIL)

Top 20 shareholders

In Table 3, we reproduce a summary of the largest 20 shareholders at 31 January 2023 in the following table. Around 7% of the top 20 relate to custodians (HSBC, Citicorp, and BNP). The majority of the other shareholders in this list relate to current or former staff of RPL. While many of these holders will have no restriction on selling, we conclude that around 80% of the shares are held by insiders, and that the free float can be is therefore around 20%.

This free float may increase in future as the company completes more acquisitions and issues more shares. For the time being the free float is limited, which will reduce the liquidity in the shares.

Table 3 – Key shareholders

NAME	Number of shares held	Percentage of issued shares (%)
New Highland Pty Ltd <King Family A/C>	66,025,210	26.01
RMPL Investments Pty Ltd <RMPL Family A/C>	40,905,913	16.12
New Highland Pty Ltd <Philip King Family A/C>	23,921,685	9.42
Ficus Fiduciary Limited <The Regal Foundation A/C>	16,964,761	6.68
M&B O'Connor Investments Pty Ltd <O'Connor Family A/C>	8,830,107	3.48
HSBC Custody Nominees (Australia) Limited	7,653,023	3.02
D&C Tynan Investments Pty Ltd <D&C Tynan Family A/C>	7,144,415	2.81
Stroud Agricultural Company Pty Ltd <The Vernon A/C>	6,465,040	2.55
Regal Funds Management Pty Limited <The Regal Foundation A/C>	6,300,299	2.48
Citicorp Nominees Pty Limited	4,842,202	1.91
D&C Tynan Investments Pty Ltd <D&C Tynan Family A/C>	3,543,102	1.4
BNP Paribas Nominees Pty Ltd <Ib Au Noms Retailclient DRP>	3,360,925	1.32
Mightyboy Pty Ltd	2,463,317	0.97
Dr Fesq Pty Ltd <The Mariners Revenge A/C>	2,227,439	0.88
HSBC Custody Nominees (Australia) Limited – A/C 2	2,214,851	0.87
Latimore Family Pty Ltd <Latimore Family Trust A/C>	1,923,077	0.76
Washington H Soul Pattinson and Company Limited	1,923,077	0.76
Warman Investments Pty Ltd	1,923,076	0.76
Total top 20 holdings	212,349,363	83.66

SOURCE: COMPANY DATA: 2022 R&A

Regal Partners Limited (RPL) Overview

Company description

Regal is a medium sized boutique asset manager founded in 2004 by Andrew and Philip King in Sydney, Australia. It manages a number of alternative investment strategies and performs investment management and investment advisory services to a number of Australian Unit Trusts and Cayman Island Companies. It invests in public and private securities across the globe with a focus on Australia, employing market neutral and absolute return strategies.

The manager selects shares that it believes are undervalued or overvalued and are expected to rise or fall, using fundamental research. The investment process focuses on a four-step stock selection process, which focuses on: the bottom-up valuation of companies; top-down macro factors; identifying catalysts for change; and finding alternative insights in selection of its investments.

Investment thesis, Buy, Target Price $3.71/sh

We find the investment case attractive for the following reasons:

- Exposure to alternative high growth investments
- Entrepreneurial culture and fast growing business
- Profitable with track record of high fund returns
- Strong fundraising momentum
- High alignment of staff

Risks

RPL is subject to all of the following risks:

Key people risk: The loss of any key investment personnel may result in the loss of investment mandates.

Performance and net flows: The ability to attract and retain funds paying active management fees, depends in part upon showing a track record and on-going capability to achieve performance criteria.

Acquisition risks: Acquired growth can be risky. Acquired staff sometimes leave, while acquired clients or their advisors, might not like the newly formed company. Recently recruited staff are more risky than known internal promotions. A key requirement of, and test of management is how well they ensure an orderly integration.

Market risk: Management fees are usually based upon market values of the assets under management. Any significant movements in asset prices can have a material impact on RPL’s revenue and earnings.

Currency risk: RPL operates funds in multiple currencies outside Australia, particularly the US, UK and Europe, recording revenue and expenses in different markets. Any major currency movements can significantly impact the FUM, revenue and earnings and subsequently, the valuation of the group in A$ terms.

Regulatory risk: RPL is regulated by multiple agencies in different jurisdictions and changes in the regulatory regimes under which it operates may increase compliance costs and/or increase the capital requirements of the group.

Move to index funds: clients may seek out cheaper passive alternatives in favour of active investment management.

Data, information technology and outsourcing: RPL and its investment teams rely on a wide range of data sources and technology in the day-to-day management of the Funds. Provision of such, and other functions (such as fund accounting and custody) may be outsourced to third parties. RPL may be face reputational risk and/or be liable for losses as a result of the failure of one of these parties, in its role of managing assets on behalf of its clients.

Table 4 - Financial summary

Regal Partners (RPL)	Price Target (A$)	3.71	Share Price (A$)	3.18
	Recommendation:	Buy	Market Cap (A$b)	830.22

INCOME STATEMENT

Y/e Dec 31 ($m)	2021a	2022a	2023e	2024e	2025e
Sales revenue	150.0	88.3	97.9	130.0	149.8
Operating Expenses	62.2	61.1	54.0	62.5	71.4
EBITDA	**87.8**	**27.2**	**44.0**	**67.5**	**78.4**
Depreciation & Amortisation	-2.0	-5.2	-8.0	-7.1	-6.6
EBIT	**85.9**	**22.1**	**36.0**	**60.4**	**71.8**
Net Interest	0.0	0.0	0.7	0.8	1.0
Pre-tax profit	**85.9**	**22.1**	**36.8**	**61.2**	**72.8**
underlying Tax	-25.5	-8.1	-11.0	-18.4	-21.8
Adjusted profit	**60.4**	**13.9**	**25.7**	**42.8**	**51.0**
One-off items	0.0	0.0	-7.1	-7.1	-0.7
Reported net profit	**60.4**	**13.9**	**18.6**	**35.7**	**50.2**

CASHFLOW

Y/e Dec 31 ($m)	2021a	2022a	2023e	2024e	2025e
EBITDA	87.8	27.2	44.0	67.5	78.4
Change in provisions	38.9	-17.3	1.9	7.7	4.2
Working capital change	-56.6	32.7	-6.6	-10.0	-5.4
Net interest	0.5	0.5	0.7	0.8	1.0
Tax paid	-25.5	-8.1	-11.0	-18.4	-21.8
Other	3.0	0.0	0.0	0.0	0.0
Operating cashflow	**48.1**	**35.0**	**29.0**	**47.7**	**56.4**
Capex	-0.1	-0.1	-0.1	-0.1	-0.1
Investments	0.0	0.0	0.0	0.0	0.0
Asset sales	0.0	0.0	0.0	0.0	0.0
Other	28.6	14.9	-13.1	-13.0	-6.6
Investing cashflow	**28.5**	**14.8**	**-13.2**	**-13.1**	**-6.7**
Equity raised	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	-20.3	-23.4	-31.2
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflow	**0.0**	**0.0**	**-20.3**	**-23.4**	**-31.2**
Net change in cash	**76.7**	**49.8**	**-4.4**	**11.2**	**18.4**
Cash at end of period	**16.6**	**39.8**	**35.3**	**46.6**	**65.0**

BALANCE SHEET

Y/e Dec 31 ($m)	2021a	2022a	2023e	2024e	2025e
Cash	16.6	39.8	35.3	46.6	65.0
Receivables	64.4	27.7	35.8	47.5	53.9
PPE	5.7	4.9	3.0	1.8	1.1
Intangibles	15.1	183.8	183.8	183.8	183.8
Other	66.6	230.5	230.5	230.5	230.5
Total assets	**168.4**	**486.6**	**488.3**	**510.1**	**534.2**
Payables	7.7	3.8	5.3	7.0	7.9
Debt	0.2	0.0	0.0	0.0	0.0
Provisions	38.9	21.6	23.5	31.2	35.4
Other	42.8	25.3	25.3	25.3	25.3
Total liabilities	**89.6**	**50.7**	**54.1**	**63.5**	**68.6**
Shareholders' equity	17.2	394.1	394.1	394.1	394.1
Total shareholders funds	**78.8**	**435.9**	**434.2**	**446.6**	**465.6**
W/A shares on issue	**0.0**	**166.4**	**248.3**	**248.8**	**249.4**

VALUATION DATA

Y/e Dec 31 ($m)	2021a	2022a	2023e	2024e	2025e
Net profit adj ($m)	60.4	13.9	25.7	42.8	51.0
Adjusted EPS (c)	36.1	5.7	9.1	13.9	16.4
EPS growth (%)		-84.1%	59.0%	52.4%	17.7%
P/E ratio (x)	8.8	55.5	34.9	22.9	19.4
CFPS (c)	na	21	12	19	23
Price/CF (x)	na	15.1	27.2	16.6	14.1
DPS (c)	24.0	4.0	8.0	11.1	13.1
Yield (%)	7.5%	1.3%	2.5%	3.5%	4.1%
Franking (%)	0%	50%	100%	100%	100%
EV/EBITDA (x)	9.0	29.2	18.1	11.8	10.1
Price/book (x)	na	1.2	1.8	1.8	1.7
NTA ($)	na	1.52	1.01	1.06	1.13

PROFITABILITY RATIOS

Y/e Dec 31 ($m)	2021a	2022a	2023e	2024e	2025e
EBIT/sales (%)	57.2%	25.0%	36.8%	46.5%	47.9%
Return on assets (%)	51.0%	6.7%	7.4%	12.1%	13.8%
Return on equity (%)	**76.6%**	**5.4%**	**5.9%**	**9.7%**	**11.2%**
Dividend cover (x)	1.5	1.7	0.9	1.1	1.3
Effective tax rate (%)	29.7%	36.9%	30.0%	30.0%	30.0%

LIQUIDITY AND LEVERAGE RATIOS

Y/e Dec 31 ($m)	2021a	2022a	2023e	2024e	2025e
Net debt/(cash) ($m)	-16.4	-39.8	-35.3	-46.6	-65.0
Net debt/equity (%)	**-21%**	**-9%**	**-8%**	**-10%**	**-14%**
Current ratio (x)	1.7	5.9	5.9	5.4	5.4

INTERIMS

Half end December 31 ($m)	1H21a	1H22e	1H23e	1H24e	1H25e
Sales revenue	79.5	37.7	46.8	62.2	72.9
EBIT	**40.2**	**11.7**	**16.7**	**28.3**	**34.6**
Pre tax profit	40.2	11.7	17.1	28.7	35.0
Adjusted profit	**27.5**	**7.5**	**12.0**	**20.1**	**24.5**
One-off items	0.0	0.0	-3.6	-3.6	-3.9
Reported profit	**27.5**	**7.5**	**8.4**	**16.5**	**20.7**
Interim DPS (cents)	12.0	0.0	4.0	5.2	6.4
Interim adjusted EPS (cents)	14.6	3.2	4.6	6.5	8.0

ASSUMPTIONS

Y/e Dec 31	2021a	2022a	2023e	2024e	2025e
FUM movements ($m)					
Open		6.2	5.1	6.1	7.3
Flows, distributions and market		-1.0	1.0	1.2	0.8
Close		5.1	6.1	7.3	8.1
Growth (%)		-17%	19%	19%	11%
Average FUM ($m)		5.7	5.6	6.7	7.7
Revenue ($m)					
Management Fees	28.7	50.6	64.4	76.7	88.3
Performance Fees	109.5	31.6	33.6	53.3	61.5
Total Fees	**138.2**	**82.2**	**97.9**	**130.0**	**149.8**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Tara Speranza	Healthcare	612 8224 2815	tsperanza
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Daniel Laing	Industrials	613 8224 2886	dlaing
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Thomas Sima	Associate Analyst	612 8224 2843	tsima
James Williamson	Associate Analyst	613 9235 1692	jwilliamson
Connor Eldridge	Associate Analyst	612 8224 2893	celdridge
Baxter Kirk	Associate Analyst	613 9235 1625	bkirk

Research Coverage & Policies

For Bell Potter Securities' Research Coverage Decision Making Process and Research Independence Policy please refer to our company website: https://bellpotter.com.au/research-independence-policy/.

Authoring Research Analyst's Certification

The Authoring Research Analyst is responsible for the content of this Research Report, and, certifies that with respect to each security that the Analyst covered in this Report (1) all the views expressed accurately reflect the Analyst's personal views about those securities and were prepared in an independent manner and (2) no part of the Analyst's compensation was, is or will be, directly or indirectly, related to specific recommendations or views expressed by that Research Analyst in the Research Report.

Research Analyst's Compensation

Research Analyst's compensation is determined by Bell Potter Securities Research Management and Bell Potter Securities' Senior Management and is based upon activities and services intended to benefit the investor clients of Bell Potter Securities Ltd. Compensation is not linked to specific transactions or recommendations. Like all Company employees Research Analysts receive compensation that is impacted by overall Company profitability.

Prices

The Price appearing in the Recommendation panel on page 1 of the Research Report is the Closing Price on the Date of the Research Report (appearing in the top right hand corner of page 1 of the Research Report), unless a before midday (am) time appears below the Date of the Research Report in which case the Price appearing in the Recommendation panel will be the Closing Price on the business day prior to the Date of the Research Report.

Availability

The completion and first dissemination of a Recommendation made within a Research Report are shortly after the close of the Market on the Date of the Research Report, unless a before midday (am) time appears below the Date of the Research Report in which case the Research Report will be completed and first disseminated shortly after that am time

Disclosure: Bell Potter Securities acted as joint manager in the $110m Sept 22 entitlement offer and received fees for that service.

Dissemination

Bell Potter generally disseminates its Research to the Company's Institutional and Private Clients via both proprietary and non-proprietary electronic distribution platforms. Certain Research may be disseminated only via the Company's proprietary distribution platforms; however such Research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the Author's previously published Research. Certain Research is made available only to institutional investors to satisfy regulatory requirements. Individual Bell Potter Research Analysts may also opt to circulate published Research to one or more Clients by email; such email distribution is discretionary and is done only after the Research has been disseminated. The level and types of service provided by Bell Potter Research Analysts to Clients may vary depending on various factors such as the Client's individual preferences as to frequency and manner of receiving communications from Analysts, the Client's risk profile and investment focus and perspective (e.g. market-wide, sector specific long term and short term etc.) the size and scope of the overall Client relationship with the Company and legal and regulatory constraints.

Disclaimers

This Research Report is a private communication to Clients and is not intended for public circulation or for the use of any third party, without the prior written approval of Bell Potter Securities Limited.

The Research Report is for informational purposes only and is not intended as an offer or solicitation for the purpose of sale of a security. Any decision to purchase securities mentioned in the Report must take into account existing public information on such security or any registered prospectus.

This is general investment advice only and does not constitute personal advice to any person. Because this Research Report has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited Broker (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this Research Report.

While this Research Report is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in this document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee expressly or impliedly, that the information contained in this Research Report is complete or accurate.

Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views, opinions or recommendations contained in this Research Report or for correcting any error or omission which may have become apparent after the Research Report has been issued.

Bell Potter Securities Research Department has received assistance from the Company referred to in this Research Report including but not limited to discussions with management of the Company. Bell Potter Securities Policy prohibits Research Analysts sending draft Recommendations, Valuations and Price Targets to subject companies. However, it should be presumed that the Author of the Research Report has had discussions with the subject Company to ensure factual accuracy prior to publication.

All opinions, projections and estimates constitute the judgement of the Author as of the Date of the Research Report and these, plus any other information contained in the Research Report, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice.

Notwithstanding other departments within Bell Potter Securities Limited advising the subject Company, information obtained in such role is not used in the preparation of the Research Report.

Although Bell Potter Research does not set a predetermined frequency for publication, if the Research Report is a fundamental equity research report it is the intention of Bell Potter Research to provide research coverage of the covered issuers, including in response to news affecting the issuer. For non-fundamental Research Reports, Bell Potter Research may not provide regular updates to the views, recommendations and facts included in the reports.

Notwithstanding that Bell Potter maintains coverage on, makes recommendations concerning or discusses issuers, Bell Potter Research may be periodically restricted from referencing certain Issuers due to legal or policy reasons. Where the component of a published trade idea is subject to a restriction, the trade idea will be removed from any list of open trade ideas included in the Research Report. Upon lifting of the restriction, the trade idea will either be re-instated in the open trade ideas list if the Analyst continues to support it or it will be officially closed.

Bell Potter Research may provide different research products and services to different classes of clients (for example based upon long-term or short term investment horizons) that may lead to differing conclusions or recommendations that could impact the price of a security contrary to the recommendations in the alternative Research Report, provided each is consistent with the rating system for each respective Research Report.

Except in so far as liability under any statute cannot be excluded, Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in the document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of the document or any other person.

In the USA and the UK this Research Report is only for institutional investors. It is not for release, publication or distribution in whole or in part in the two specified countries. In Hong Kong this Research Report is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In the United States this Research Report is being distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this Research Report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

Bell Potter Securities Limited
ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 16/F
Prosperity Tower, 39 Queens Road Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929