RIVER AND MERCANTILE GROUP

River and Mercantile Group PLC

Interim Financial Report for the six months ended 31 December 2019

River and Mercantile Group PLC today publishes its interim results for the six months ended 31 December 2019.

Financial Highlights

- Statutory net profit after tax was £4.1m, compared to £6.7m for the six months ended 31 December 2018, as a result of lower performance fees partly offset by increased management fees.
- Statutory basic and diluted earnings per share (EPS) were 4.86 pence per share and 4.85 pence per share respectively, compared to 8.40 pence and 8.08 pence respectively for the six months ended 30 December 2018.
- Total adjusted profit after tax[1] was £6.1m, compared to £8.4m for the six months ended 31 December 2018, as a result of lower net performance fee earnings.
- Total adjusted basic and diluted EPS[2] were 7.31 pence and 7.29 pence per share respectively, compared to 10.49 pence and 10.09 pence per share for the six months ended 31 December 2018.
- The Board of Directors has declared an interim dividend of 4.39 pence per share, of which 0.5 pence per share is a special dividend in relation to net performance fees. The dividend will be paid on 16 April 2020 to shareholders on the register as at 27 March 2020. The ex-dividend date will be 26 March 2020.

Jonathan Dawson, Chairman said:
Whilst the global outlook remains uncertain with particular challenges arising from the COVID-19 pandemic, I am confident that our diversified business model, with its clear focus on understanding and meeting our clients' needs is well placed to meet the challenges of current markets.

As we noted in last year's Annual Report, in order to accelerate the organic growth of our investment management and distribution capabilities, specifically in Australia and the US, the Board has decided to invest £3.8m, primarily in remuneration in FY2020 and a similar level in FY2021. The Board considers that the growth potential in both of these regions is a critical element in the Group's overall organic growth plan.

James Barham, Group Chief Executive said:

We have seen a steady period of growth for the business over the last six months and strong investment outcomes for our clients, with the exception in the short term of our value dominant strategies where the underlying factors continue to be out of favour. These portfolios now provide very exciting return characteristics not too dissimilar to the environment immediately post the Global Financial Crisis. In spite of this factor headwind, all of our equity strategies have positive absolute returns over the fourth calendar quarter 2019 and the year as a whole.

Our investment performance across our Liquid Alternatives team and the broader Fiduciary Management Investment team remains very strong and this, along with the growing demand for our Derivatives strategies, is leading to new client opportunity pipeline across the business.

This positive demand cycle is a critical reason why we are now investing in distribution, in order to accelerate growth, and scale the business in the next three to five years. We are facing extremely volatile market conditions and whilst I am excited about the development of the business over the balance of our financial year and the next few years, we do recognise the challenges these markets create. Our investment teams are working to ensure that the impact on our clients' portfolios are minimised and that we are positioned to take advantage of opportunities as they arise.

Whilst we all face challenges in the current climate especially with the uncertainty associated with COVID-19, the market reaction and the medium-term economic impact, we have confidence in our business' resilience and ability to continue to grow our business and to deliver for our clients.

Operating Highlights

AUM/NUM Highlights:

- Fee earning AUM/NUM increased in the six months ended 31 December 2019 by 6.2% to £42.3bn.
  - Net Sales ratio was 4.4% of opening AUM/NUM;
  - Investment performance was positive across all Divisions adding £0.7bn or 1.8% of opening AUM/NUM.
- Fee earning AUM/NUM increased 24% to £42.3bn as compared to 31 December 2018.

Total adjusted underlying profit after tax[3] was £5.4m, compared to £5.8m for the six months ended 31 December 2018, as higher revenues in the current period were offset by higher remuneration relating to investments to organically grow the business.

Total performance fee profit after tax was £0.7m, compared to £2.6m for the six months ended 31 December 2018, as a result of lower performance fees in the current period.

Total adjusted underlying pre-tax margin was 21%, compared to 24% for the six months ended 31 December 2018 and reflects additional remuneration relating to investments made to organically grow the business. Excluding these investments, the adjusted underlying pre-tax margin was 24%.

A PDF copy of the interim financial report can be found at:
https://riverandmercantile.com/docs/RandM_2020_Interim_Results.pdf

Notes:

[1] Adjusted profit comprises total revenue, remuneration expense, administrative expenses, depreciation, amortisation of software, realised gains or losses on seed investments, and finance income or expense.

[2] Adjusted EPS is the adjusted profit after tax divided by the weighted average number of shares outstanding in the period, either including or excluding those which are dilutive.

[3] Adjusted underlying profit is a measure of the underlying performance of the Group, as this is adjusted profit excluding performance fees, the remuneration associated with those performance fees, and gains or losses on seed investments.

Forward Looking Statements

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and businesses of River and Mercantile Group PLC. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements. The continuing uncertainty in the global economic outlook inevitably increases the economic and business risks to which the Group is exposed.

Nothing in this announcement should be construed as a profit forecast.

For further information please contact:

Chris Duncan
MRM Communications
020 3326 9907

Report of the Group Chairman, Jonathan Dawson

In the six months to 31 December 2019, River and Mercantile Group delivered statutory profit after tax of £4.1m (2018: £6.7m) and statutory basic EPS of 4.86 pence (2018: 8.40 pence). Adjusted profit after tax for the period was £6.1m (2018: £8.4m) and adjusted diluted EPS of 7.29 pence (2018: 10.09 pence). The Board has declared an interim dividend of 4.39 pence per share, of which 0.5 pence per share is a special dividend relating to performance fees, consistent with our policy of distributing at least 60% of adjusted profits.

As we noted in last year's Annual Report, in order to accelerate the organic growth of our investment management and distribution capabilities, specifically in Australia and the US, the Board has decided to invest £3.8m, primarily in remuneration in FY2020 and a similar level in FY2021. Accordingly, the Remuneration Committee approved a temporary exemption (as allowed under our current Remuneration policy) to the Group Remuneration cost cap to cover this expansion. The Board considers that the growth potential in both of these regions is a critical element in the Group's overall organic growth plan and James discusses these opportunities further in his Group Chief Executive Report. Under our current Remuneration Policy, approved in 2017, total Group remuneration costs are restricted to 54% of underlying earnings and 50% of performance fees. Historically there have been years when Group remuneration costs have been below these ratios, and also years when we have been able to self-fund investment, for example in new hiring, within these ratios. This remuneration restriction has however become a significant limitation on management's ability to grow the business. Our current remuneration policy expires this year and we will therefore be initiating consultations with our major shareholders shortly with the intention of putting a new policy to shareholders over the next few months.

Outlook
Whilst the global outlook still remains uncertain, I am confident that our business, with its clear focus on understanding and meeting our clients' needs is well placed to meet the challenges of current markets.

As the UK moves towards the next phase of the strategy for managing the coronavirus outbreak, we have made contingency plans to allow us to continue to serve our clients and business partners through this difficult period. We have completed a health status and travel audit of all staff and anyone with whom they have frequent contact. This helps us control the risk of office based virus transmission but

also allows us to ensure we do not place any member of our team or their extended relationships at increased risk of catching the virus.

We have already implemented a split team programme for key functions and activities in order that there is a lead group and a mirror group working in different office and/or home locations so that for the foreseeable future they will not come into contact with each other. This reduces the risk that all the members of a team are affected at the same time. In addition, a growing number of people are working from home in the critical functions in Investments and Operations. Again, this minimises the risk of contagion spread through team contact and also in the course of travelling to and from the office. We carried out testing of all home-based infrastructure a number of weeks ago to ensure critical team members can function normally from a home office setup.

The business is positioned well with its diverse business model to help our clients through these difficult times. As James highlights we are in unchartered waters with respect the management of this new virus, and we will work tirelessly with all our clients to ensure positive longer term outcomes.

Report of the Group Chief Executive, James Barham

Introduction

I wrote to you in the 2019 Annual Report setting out deliberately in some detail my views and thoughts on our business, especially around the performance of the Group during the previous year. In addition, I spent some time discussing some of the opportunities and challenges we are facing in the coming years and how I would like the business to evolve and develop to meet these and deliver on our objectives to our clients, shareholders and our people.

I would like to take the opportunity in this report to not only review the six months ended 31 December 2019 but also to touch on the investments we are making in particular in Distribution. I alluded to this in my most recent trading statement and this will be a key part of our development plans over the coming years. It is also our intention to hold our first Capital Markets day later this year, where I would like to update you on our strategic objectives for the next five years and how our investment plans in Distribution map into the broader development programme.

It would however be remiss of me not to reference the developing crises surrounding the COVID-19 pandemic. We are seeing extreme levels of volatility in markets and the FTSE 100 last week pulled back to levels last seen in June 2012. The FTSE 100 market performance on 12 March, closing the day down 10.9%, was the largest fall since the 1987 crash. These conditions are clearly challenging in the short term; however we believe that this will also provide the prospect of taking advantage of some attractive investment opportunities for our clients.

I believe we have taken the necessary steps so far to prepare for the increasing challenges that will develop as the government moves through the phases of management of the pandemic. We are prepared and able to run our business on the basis that all our people are forced to work from home for a reasonable period. All our systems are accessible from various locations enabling our people to carry out their duties safely as though they were in the office.

The significant volatility in investment markets is another dimension to the challenge. I am acutely aware of our responsibility to our clients as the steward of their assets and financial strategy. Whatever the circumstances, we will continue to fulfil our commitments to them in the weeks and months ahead.

Six Month Period Ended 31 December 2019

Revenue and AUM/NUM Growth

I have set our strategic objective to grow our assets by at least 12% per annum and for this to be driven by a combination of sales and investment growth. We grew our AUM/NUM in the six month period by 6.2% to £42.3bn. Our net sales ratio (which represents gross sales, redemptions, net rebalance, and

transfers divided by opening AUM/NUM) grew by 4.4% and the investment return ratio (which represents investment performance divided by opening AUM/NUM), which was positive across all Divisions, contributed an additional 1.8%.

Compared to 31 December 2018 our fee earning AUM/NUM in the twelve month period increased by 24% from £34.2bn to £42.3bn, with strong growth from Fiduciary Management, Derivatives and Institutional Equities. Wholesale Equities was positive over the period, although growth was lower than other parts of our business reflecting a recovery in this distribution channel. Our adjusted underlying pre-tax margin (excluding performance fees and investments) continues to improve and increased by nearly 10% compared to last year.

In the six month period we have continued to see strong net sales growth from our Derivatives business with NUM increasing by 8.6% and positive net sales from Institutional Equities. Wholesale Equities, whilst negative for the six months, showed a return to positive net sales in the last quarter of the year, which was the first net positive quarter for over 18 months. Fiduciary Management was slightly negative, mainly due to a number of long standing clients who, due to strong investment performance, were able to buy out their liabilities.

We have continued to see an increase in activity in the Fiduciary Management market as more generalised activity in the sector returns post the CMA review and we begin to see the re-tender process develop. We announced in the December 2019 trading statement the award of a significant Fiduciary Management mandate of circa £1.2bn across the Derivatives and Fiduciary Management businesses, that we expect to have fully transitioned by the end of the current calendar quarter.

Our underlying revenues grew 7% compared with the six months ended 31 December 2018 and by 7% compared with the second half of FY2019. This reflects the stronger growth emanating from our Derivatives and Fiduciary Management businesses, which although lower margin than the average has significantly lower attrition characteristics.

Our management fee margins have reduced over the years reflecting the current mix shift in growth across the business. To put this in context our Derivatives NUM has grown from £8bn in 2014 to £23bn and as highlighted earlier, whilst this is at a lower margin, it has very attractive low attrition characteristics. In line with the rest of the market we continue to see longer term pricing pressure across most of our markets. This has been an industry wide theme and whilst we are not completely immune to this, we have always taken a sensible approach to pricing and therefore we are not seeing the more dramatic reductions in fee margins that we believe will impact the industry more broadly over the coming years. In addition, we have, through efficiencies and MIFID II, been able to reduce the overall total expense ratio for our clients.

We have seen extreme equity market volatility in the last few weeks and it is worth noting that our diversified business model has attractive defensive characteristics, with a significant percentage of our revenues independent of equity market beta. This provides the business and our shareholders greater protection through the cycle. This equity beta independence is derived principally from our Derivatives business, the diversified nature of our Fiduciary portfolios and the Advisory business where revenues are often contra-cyclical. We are seeing increased levels of project fees in early 2020 as we have increased project work with our clients in the face of the uncertain markets.

We are at a stage in the cycle where our performance fees are likely to be materially lower and we have guided the market over likely levels in this financial year and this has been further impacted by the recent sell off in equity markets. Whilst performance fees have been largely eradicated from long only equity markets, with the exception of specialist capacity constrained mandates, the development of our Liquid Alternatives strategies (formerly known as Macro strategies) which combines all of our multi asset and alternative solutions that are being developed to meet client needs, will provide a greater opportunity for the business to grow this revenue line in the coming years. Our Global Macro strategy was the first of this new breed of investment strategies that we have been developing. This pulls

together our market leading Solutions mindset in terms of investment needs and delivers this in product form available to a wide range of our underlying clients. We also anticipate that the growth in our Liquid Alternatives engine will lead to a growth in margins more broadly across the business over time.

Overall, I see our business currently as having five investment engines, (Fiduciary, Advisory, Derivatives, Equities and Liquid Alternatives) delivering products and solutions to a range of Institutional and Wholesale investors in the UK and Europe, the US and Australia.

Investment Environment

Mike has covered the impact of COVID-19 and the medium-term impact, along with a broader view of the investment environment in his CIO report later in this report.

The environment over the last eighteen months however has been difficult for our Equities business with its value focus, albeit we saw a strong return to value in the last quarter of 2019. The effect of the COVID-19 pandemic and the greater understanding of the potential impact on global economics and in particular the global supply chain, has meant that we saw a flight to defensive quality in the early part of 2020 which was frustrating for those value portfolios, with a high number of very exciting companies at heavily discounted prices. The development of COVID-19 is continuing to have a very significant impact on markets and we continue to monitor the situation closely. The more recent sell-off in equity markets has also underlined the importance of the equity option derivative strategies that we have in place with many of our clients.

At the time of writing (12 March 2020), gilt yields have continued to collapse with 10 year gilts closing at 27bps and the 30 year gilt closing at 67bps. To put this into context, 30 year gilt yields are down 66bps in the nine weeks since the beginning of the calendar year. This has naturally increased significantly pension scheme liabilities by 15%-20% depending on individual scheme maturity profiles. This combined with sharp falls across global equity markets, with the FTSE100 alone down 29% year to date, in many respects creates the perfect storm for long term pension schemes in terms of funding

We have maintained high hedging levels for our Fiduciary clients compared to industry standards, which will have protected funding levels and asset valuations from the collapse in gilt yields. In contrast growth assets will have been impacted by the collective sell off and whilst we have been proactive to defend client asset allocations, this will have affected asset and funding levels.

Our Fiduciary clients’ portfolios have increased on average by 6% in the year to 9 March, which given the level of overall volatility and equity market falls is a positive outcome. Overall our Fiduciary clients will have seen their funding levels drop a little since the calendar year end, however we believe the robust approach to risk management embedded in our approach has likely seen our clients outperform their peers in what continues to be a particularly challenging period for global markets.

Our Fiduciary Management portfolios have performed exceptionally well and 2019 was no exception. We continue to deliver investment returns that have enabled our investors to meet their near-term objectives. Our on-risk book of assets has delivered an annualised return of 10% since 2003 which is 3% ahead of equities over the same time period. This has meant that our Trustees are now in a better funded position because of our strong rotational skills, and a bias for hedging un-rewarded risks like long-term interest rates. This has provided strong returns alongside our widespread use of Equity Derivative Option Structures that have protected downside risk, while allowing higher allocations to equities.

We also have a small number of schemes that are now looking to transition to the insurance markets, and it is worth noting that they are only able to meet this critical objective due to the strong investment performance that we have delivered. We have seen a large number of other pension funds in the market, where they are not in such a strong position, where they are chasing the ever increasing Private Market trade in the hope of driving out improved investment returns. This shift to private markets does

cause me a certain amount of concern as there are signs that this has become somewhat of a “crowded trade”.

With this in mind, I thought that it would be interesting to take a quick look at Private Equity which is often compared with liquid broad public market indices such as the S&P500. There is a belief that US Private Equity markets have outperformed this broad index. The problem with this assumption is that they are different beasts. Investors commit to Private Equity for the longer term; however, their investment is not drawn down immediately and the subsequent return profile is often anaemic for many years followed by potential big returns in the final period. Private Equity did offer some advantages prior to 2005, however since then the benefits have been negligible, especially considering the extended illiquidity required and the significantly reduced illiquidity premium available. In fact, we would go as far to suggest that we are now in a period where, in certain instances an illiquidity discount is in evidence. After allowing for factors such as the small cap effect, sectors, and leverage there was no real outperformance from Private Equity vs traditional listed equity even before higher fees are considered.

As a business, we do invest in a broad range of illiquid markets for our clients however, given where we are within the market cycle, we tend to prefer private credit opportunities at the moment as opposed to the crowded trade in Private Equity opportunities.

Product Development and Delivery

I talked in our Annual Report about the unique position that we have, given the breadth of our underlying operations. Our work with our Fiduciary and our Advisory clients provides us a very clear understanding of the shape of likely client needs over the coming years. It was this understanding that led to the development of the Global Macro strategy in 2018, at a time when there was little apparent demand for these types of products. We see some interesting demand cycles evolving over the coming years and the development of our Global Responsible Investment Fund (GRIF), and the Global Absolute Enhanced Equity Strategy (GAEES) both run by the Liquid Alternatives team are good examples of this process in action.

The Global Macro strategy (GLOMA) launched in early 2018 has just reached its second anniversary and is delivering some strong returns. The fund is now c.$150m and we are seeing a high level of interest in its progress and development. We set out to develop a portfolio that would be able to deliver double digit annualised returns, that would provide positive absolute returns in sustained negative equity markets and with a volatility below that of equities. This strategy delivered around 12% annualised to the end of December, with a volatility of 6% and critically delivered a return +3% in the fourth quarter of 2018 when the equity market fell by over 10%. We are now in its third year and like most macro strategies suffered in the late February initial sharp decline in equity markets, however year to date, it has performed well against equity markets during a period of extreme volatility.

The acceleration of these products where their creation and evolution are embedded in the solutions mind set has allowed the business to meet the growing demand for Liquid Alternatives globally. We are seeing demand for these products more universally across a range of audiences and geographies and therefore the ability to be able to deliver this in appropriate product form is critical. The Liquid Alternatives strategies are an exciting development for the business, and we are seeing some innovative and original investment solutions being developed to meet these evolving client needs.

Distribution

I highlighted in the Annual Report that we were moving into a period of investment in our distribution platform. We have a broad and diversified product offering, all specifically designed to meet client needs. We have capacity across our products in excess of c£200bn yet are only currently consuming £42bn. If we do nothing else but distribute our existing products and solutions proportionately, this would deliver annualised revenues of over £200m based on current blended margins. It is not realistic to assume that we will not deliver additional products, however what is clear is that we need to ensure

that we have a Distribution business that marries with the technical nature of our product set and client needs.

We have embarked on a programme to invest heavily in our distribution platform. I want to ensure that we have a modern, effective and efficient structure that covers our core marketplace. This will require an investment across all aspects of the distribution function from sales to client service and marketing. The technical needs of the wholesale and institutional world have been converging for some time and we need to ensure that we can meet their combined requirements and develop accordingly.

We have been through periods of investment in the past, and over the last five years we have invested heavily across the business to ensure that we have the right people in these important functions to deliver the required support to the Investment and Distribution teams. We have delivered this investment at the same time that we have delivered high levels of dividend payments to our shareholders, whilst remaining within the remuneration ratio cap embedded in the current policy. This cap can have the impact of constraining our ability to make new hires and grow the business. As highlighted in the Chairman's report, we will be seeking some alterations to the total group remuneration cap in the next remuneration policy proposal to be sent out to shareholders over the next few months, which will allow the business the freedom to invest appropriately and taken advantage of the significant prevailing opportunities.

We recruited David Hanratty at the beginning of the financial year as Global Head of Distribution and he is in the process of developing and refreshing our distribution and marketing capabilities. We have seen the benefits of this, with a return to growth after 18 months in our Wholesale business. We have recently recruited a senior Fiduciary Management sales specialist to head up our Solutions sales team, and he will work seamlessly with David and the Fiduciary management team to broaden and deepen our client work in this part of our business, and we are already beginning to see benefits of this work. We have contracted an external marketing agency to provide the business with specialist advice around our broader marketing collateral and we look forward to seeing some significant developments in this over the coming months.

The investment in Distribution will not be limited to the UK markets and we are investing both in Australia and the US to ensure that we have the right capabilities to meet our developing product set. I will expand on this in more detail during our Capital Markets presentations later in the year to give a sense of the scope and scale of this programme. As outlined in the Financial Review the current break down of this investment and the impact in this financial year is likely to be £3.8m.

Since the end of the reporting period we have seen some strong wins for the business, and we announced at the trading statement in late January that we had been appointed to manage Fiduciary Management mandates with total assets of £1.2bn. At the same time, we have also seen some mandate losses in the Institutional equity teams where a couple of mandates have redeemed and are in the process of transferring their assets to private market heavy strategies or solutions which, given my earlier comments on the outlook for private markets, is interesting. Every business will lose clients from time to time, however what is interesting to note is that in all cases these losses are down to changes in strategy as opposed to performance concerns or client service issues.

Corporate Development

I explained in the last Annual Report that we were moving into a different phase of our development and that we were now seeking to complement the strong organic asset growth 17% CAGR since IPO with inorganic opportunities. We have been very focussed on identifying the right opportunities that meet our needs. These will fall into three distinct categories:

1. **It helps us accelerate existing business lines**

   Providing scale into many of our existing business lines is something that we are driving organically, and it is an area we are also seeking to deliver inorganically. We will not chase

assets for assets sake and will endeavour only to focus on those interesting opportunities that meet our specific criteria.

2. **It provides significant distribution enhancement**
   As I have mentioned in my Annual Report, developing our distribution capabilities is one of our key priorities and we are investing significantly in our internal capabilities. Opportunities that bring with them, specific distribution in our growth markets are another area of our focus.

3. **It completes the manufacturing jigsaw**
   There are certain areas that we would like to develop with the right opportunity. For example, longer term we like credit as an asset class, and as discussed earlier, it is a critical component in cash flow matching strategies. It is also a strong alternative to other less attractive assets classes from a return perspective whilst providing an alternative to “buy out” and “buy in”, in a market that still looks expensive and inaccessible for medium to smaller schemes.

We continue to work with a range of specialists across the market and as opportunities arise that meet our criteria and strict assessment of investment and distribution quality, we will advise the market accordingly. None of the criteria outlined above are mutually exclusive and the attraction of an opportunity that brings scale to an existing investment engine, or one that completes the investment jigsaw, along with enhanced distribution would be ideal.

Summary

We have seen a steady period of growth for the business over the last six months and strong investment outcomes for our clients, with the exception in the short term of our value dominant strategies where the underlying factors continue to be out of favour. These portfolios provide very exciting return characteristics not too dissimilar to the environment immediately post the Global Financial Crisis. In spite of this factor headwind, all of our equity strategies have positive absolute returns over the fourth calendar quarter of 2019 and the year as a whole.

As I noted earlier in this report, we are continuing to win in the competitive Fiduciary Management market and were delighted to have been appointed to manage a £1.2bn mandate that will transition by the end of this quarter. Our investment performance across our Liquid Alternatives team and the broader Solutions Investment team remains very strong and this, along with the growing demand for our Derivatives strategies, is leading to strong new client opportunity pipelines across the business.

This positive demand cycle is a critical reason why we are now investing heavily in distribution, in order to accelerate growth, and scale the business in the next three to five years. Whilst I am excited about the development of the business over the balance of this year and looking forward, over the next few years, we recognise that the impact of COVID-19 will be a challenge to us all and will have an impact on the Group. We will be setting out very clearly in the Capital Markets presentations, how we are structuring the business for this growth stage, the developments in our underlying investment engines from a product and solutions perspective and how our distribution strategies are evolving.

Whilst we face some challenges in the second half of the year, compounded by the uncertainty associated with COVID-19, the market reaction and the medium term economic impact, we have confidence in our business’ resilience and ability to continue to grow our business in the longer term, to meet the market challenges and to deliver for our clients.

Report of the Chief Investment Officer, Mike Faulkner

We have seen generally strong absolute returns across all of our strategies during 2019, in a market environment that has been positive for risk markets in general. This obviously followed on from 2018 which was far choppier and challenging.

The year has seen some unusual features. We saw the US market hit new highs around a time when economic expectations in some cases were consistent with recessionary conditions. Bond yields fell throughout the year, in part due to the reversal of interest rate policy by the US Federal Reserve but also, we believe, due to technical conditions relating to German bunds, where yields were driven down to very negative levels. Surprisingly in this environment, corporate bond spreads held up well – this is unusual in an environment of falling bond yields and worsening economics. This was a significant influence in the strength of equity market returns during the year.

The table below summarises the returns from our range of strategies as at 31 December 2019:

Annualised Investment Performance By Investment Strategy	AUM/NUM £bn	Estimated Capacity £bn	1 Year (%)		5 Years (% p.a.)		Since Inception (% p.a.)		
			Abs.	Rel.	Abs.	Rel.	Abs.	Rel.	Date
STABILITY/RETURN GENERATION									
TIGS	10.4		15.7%	8.3%	9.0%	3.0%	9.9%	2.5%	Jan-04
RAMIL Stable Growth Fund	1.0		13.5%	9.7%	6.5%	2.9%	8.0%	4.3%	Dec-08
Fiduciary DC - Long Term Growth	0.1	50.0	17.0%	10.7%	8.0%	1.4%	9.2%	2.5%	Oct-11
Fiduciary DC - Stable Growth	0.1		15.4%	10.1%	7.1%	1.5%	8.3%	2.6%	Oct-11
Fiduciary DC - Cautious Growth	0.1		13.1%	8.8%	7.2%	2.6%	8.5%	3.8%	Oct-11
Dynamic Asset Allocation	0.5	10.0	12.7%	7.7%	6.0%	1.3%	5.7%	1.0%	Sep-14
Global Macro	0.0	10.0	7.6%	(1.1%)	n/a	n/a	11.3%	2.7%	Mar-18
Fiduciary Insurance	0.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Apr-16
US Solutions	0.7	n/a	18.8%	(1.1%)	6.2%	(0.5%)	7.0%	(0.0%)	Aug-13
Total Solutions AUM	13.1	70.0							
RETURN GENERATION/INCOME									
UK Equity Income	0.2	2.0	14.8%	(3.6%)	6.2%	(1.0%)	11.4%	0.8%	Feb-09
RETURN GENERATION - SPECIALIST									
UK Equity Smaller Companies	0.5	0.8	24.7%	2.5%	11.2%	2.5%	13.5%	5.6%	Nov-06
UK Recovery	0.3	0.2	22.7%	4.3%	10.7%	3.4%	13.0%	5.1%	Jul-08
Global Recovery	0.5	1.0	19.6%	(2.2%)	11.5%	(0.5%)	13.7%	2.4%	Mar-13
Global Recovery Focus	0.2	1.0	29.0%	2.4%	9.4%	1.0%	14.6%	4.8%	Feb-12
RETURN GENERATION - CORE									
UK Equity High Alpha	0.1	1.0	21.3%	2.9%	9.8%	2.5%	8.5%	2.6%	Nov-06
UK Core Segregated	0.2	1.0	19.9%	1.4%	7.8%	0.6%	8.7%	1.5%	Nov-10
UK Dynamic Equity	0.1	1.0	23.6%	5.2%	9.1%	1.9%	7.5%	1.8%	Mar-07
UK Micro Cap Investment Company	0.1	0.1	7.6%	(14.6%)	14.3%	5.5%	14.3%	5.3%	Dec-14
Global High Alpha	0.2	7.0	18.9%	(2.8%)	12.9%	0.9%	12.7%	0.8%	Dec-14
Segregated Mandates*	3.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
ILC Emerging Markets									
GEM	0.1	3.5	18.1%	(0.4%)	5.3%	(0.3%)	4.4%	0.5%	Jan-12
SMID	0.0	2.0	9.2%	(2.3%)	4.1%	1.1%	4.0%	2.4%	Jan-13
Total Equity Solutions AUM	5.6	20.6							
Structured Equity	6.7	>20			n/a**				Dec-05
LDI	16.8	>30							Dec-05
Total Derivatives NUM	23.5	>50							
Total AUM/NUM	42.3	>200							

Source: River and Mercantile Group PLC as at 31 December 2019.
Z share class (gross of fees) performance for all funds except the ES R&M UK Equity Income and ES R&M UK Equity Smaller Companies funds which is B class performance. Performance for the ES R&M UK Equity Income Fund B share class (Inc) and the ES R&M UK Equity Smaller Companies Fund B share class (accumulation units) is net of an annual management charge of 0.75% per annum.

* Segregated mandates are measured against specific client benchmarks and therefore a composite performance benchmark is not meaningful.

** Derivatives mandates do not target investment outperformance therefore this is not measured.

The information above is disclosed in order to allow shareholders to assess the current performance of our investment strategies and track the business performance metric for the 2019 LTIA. While historical investment performance is not an indicator of future investment performance, the long term track records of our strategies give shareholders an indication of the sustainability of our investment performance across different investment cycles.

The information regarding the estimated capacity of the strategies gives shareholders an indication of the available capacity in each of the strategies to determine the potential for future growth in AUM/NUM and revenues.

Other than indicated above, all investment performance is shown before the Group's management and performance fees are deducted. This gross of fees basis is chosen as it enables comparison of investment returns to be made across share classes and clients with different fee arrangements. The benchmark and target used to calculate relative performance is also on a gross of fees basis. Accordingly, we believe that the presentation of the gross investment performance allows shareholders to more clearly assess the potential for each of the strategies, independent of the investors' specific contractual fee arrangements.

Some comments are worth drawing out:

- TIGS, our UK Defined Benefit fiduciary management strategy, had a very strong year as we had rotated into risk assets during the year, but maintained significant liability hedge levels (which performed strongly as bond yields fell). Similarly, our Stable Growth fund, which is managed as a diversified growth fund for our smaller fiduciary management clients, has performed well both in the short and the long term.

- Our Defined Contribution Fiduciary Management strategies are evidencing very strong long term records, with returns of over 8% over the last eight years.

- Our more aggressively rotational strategies; Dynamic Asset Allocation and Global Macro, also performed solidly and are ahead of objectives.

- Our equity strategies have generally performed very solidly and almost all are ahead of benchmark since inception. Given our value philosophy expressed with the equities division, it is a testament to the quality of the equity team that they have still managed to outperform in a number of strategies during 2019, when their style has been out of favour.

- Even though it had a more difficult year, our Micro Cap strategy (offered through the Micro Cap Investment Company) has built up a strong track record since inception. This is due significantly to the efforts of portfolio manager George Ensor, who in my view has been the key driving force behind this track record, and I would like to congratulate him for his success.

Outlook

Our belief at the beginning of the year was that we were entering a period of improving economic expectations, and that the stimulus created by lower bond yields would be supportive for equity values going throughout 2020. However, the evolution of the COVID-19 virus is clearly going to have a significant influence on how the year now actually plays out.

In recent weeks we have seen continued falls in bond yields as a response to significant concerns over the economic implications of containing the virus, initially on supply chains and now on economic growth as a result of measures aimed at managing the spread of the virus . How this actually plays out is uncertain. It is likely that there will be a significant impact on current economics, but markets are capable of looking beyond that to the future. The real question is the duration of the economic effects.

Clearly in recent weeks equity markets have corrected significantly to the point we are now technically in bear market territory. These pullbacks are a normal, if painful, part of equity investment and need to be accepted as part of the journey. If the economic effects of the virus are contained, then equity markets could move significantly higher by the end of the year. However, if the economic effects are far worse, which could happen in a number of ways, then we should expect further falls before things improve, and a deeper downturn. Currently, this is a difficult one to call and as a result we are staying broadly diversified and maintaining dry powder.

This diversification is one of the hallmarks of our business. Our Derivatives business is not exposed to these short-term directional movements. Our UK Defined Benefits Fiduciary business tends to be insulated when bond yields fall, and this has been the case through to the end of February and into March.

At some point the consequence of difficult conditions - particularly where markets sell off indiscriminately, as they are now - are a useful environment in which to identify attractive investments. Whether this is soon or later in the year, I believe the investment team is well placed to add value for clients going forward or so across our range of strategies.

Financial review

Key Performance Indicators[1]

1) Growth in Fee earning AUM/NUM	**6 months ended 31 December 2019**	Year ended 30 June 2019	6 months ended 31 December 2018
Closing fee earning AUM/NUM (£m)	**42,275**	39,814	34,169
Growth in fee earning AUM/NUM	**6%**	18%	1%

The growth in AUM/NUM is a key indicator of the client engagement process and is the driver for growth in net management fees.

AUM/NUM grew by 6.2% compared to the beginning of the financial year from a combination of net flows, increasing AUM/NUM by 4.4% and investment performance, increasing AUM/NUM by 1.8%.

AUM/NUM December 2018 and 2019:

			Equity Solutions (AUM)			
£'m	Fiduciary Management (AUM)	Derivative Solutions (NUM)	Wholesale	Institutional	Total	**Total AUM/NUM**
Closing fee earning AUM/NUM: December 2018	10,760	18,817	1,438	3,154	4,592	**34,169**
Closing fee earning AUM/NUM: December 2019	13,122	23,539	1,494	4,120	5,614	**42,275**
Growth in AUM/NUM	22%	25%	4%	31%	22%	**24%**

AUM/NUM grew by 24% compared to 31 December 2018, however management fees only grew 6.9%, reflecting the strong growth in Fiduciary, Derivatives and Institutional Equities but lower growth in Wholesale Equities, the highest margin business line.

[1] Definitions of the KPIs can be found in the Group’s 2019 Annual Report

AUM/NUM 30 June 2019 and 31 December 2019:

£'m	Fiduciary Management (AUM)	Derivative Solutions (NUM)	Equity Solutions (AUM) Wholesale	Institutional	Total	**Total AUM/NUM**
Opening fee earning AUM/NUM	12,864	21,683	1,482	3,785	5,267	**39,814**
Closing fee earning AUM/NUM	13,122	23,539	1,494	4,120	5,614	**42,275**
Net sales ratio	(0.7)%	8.6%	(5.7)%	1.9%	(0.2)%	**4.4%**
Investment performance	2.7%	0.0%	6.5%	6.9%	6.8%	**1.8%**
Total Increase	2.0%	8.6%	0.8%	8.9%	6.6%	**6.2%**

Fiduciary Management AUM grew by 2.0% in the period. Net flows were negative for the period, however included £156m of Fiduciary Management AUM (and £158m of Derivative Solutions NUM) relating to clients who moved to buy out their liabilities through insurance. New Fiduciary tenders and retender activity continued to be at lower volumes during the period as schemes continued to assess the retender process under the CMA guidelines. Investment performance added 2.7% of opening AUM, primarily from risk assets partially offset by mark to market losses on the gilt match funds as yields rose during the period.

Derivative Solutions' NUM increased by 8.6% during the period, as a result of increased structured equity transactions as clients continued to actively risk manage their equity exposures.

While Equity Solutions' net flows were negative, strong investment performance in the period increased AUM by 6.8%. In the three months ended 31 December 2019 Wholesale Equities had net positive flows indicating a return to sales momentum from the Wholesale channel.

New Mandates

In January 2020 a £1.2bn Fiduciary mandate was signed with a new client, which had undertaken a competitive re-tender process. As at the end of February 2020 £657m of AUM had transitioned and £530m of NUM is expected to transition by the end of March 2020.

Mandates in Redemption

Mandates in redemption at 31 December 2019 included £360m of a DC Fiduciary Management mandate which redeemed from the Dynamic Asset Allocation Fund in January, and £483m of structured equity mandates which would reach their contractual end dates by end of March 2020. Of the £483m structured equity mandates, £24m redeemed and the balance rolled their structured equity contracts.

In the two months to the end of February 2020 an aggregate £0.8bn of Equity Solutions' AUM has redeemed or is pending redemption from Institutional Equities. The annual run rate management fee revenue on these mandates is approximately £3.1m.

2) Regretted Institutional Attrition (RIA)	**6 months ended 31 December 2019**	Year ended 30 June 2019	6 months ended 31 December 2018
Outflow as a % of Opening AUM/NUM	**6%**	7%	4%
Regretted institutional attrition	**4%**	1%	1%

A key focus of our business is our client engagement process and we measure client attrition as a key indicator of our ability to retain both fee earning assets and maintain long term client relationships. RIA is not directly measured for Wholesale Equities as investor redemption decisions tend to be driven by their asset allocation decisions.

Regretted Institutional Attrition Rate

£'m	Fiduciary Management	Derivative Solutions	Equity Solutions - Institutional	Total
Gross outflows	493	1,418	203	2,114
Not regretted	379	158	-	537
Opening AUM/NUM	12,864	21,683	3,785	38,332
Outflow	3.8%	6.5%	5.4%	5.5%
RIA six months to 31 Dec 2019	**0.9%**	**5.8%**	**5.4%**	**4.1%**
RIA FY 2019	0.6%	1.7%	0.0%	1.1%
RIA six months to 31 Dec 2018	0.6%	1.1%	1.8%	1.0%

The Group's regretted institutional attrition varies from period to period and the longer-term trend has been between 2% and 6%. The increase in the RIA in the current period resulted from increased redemptions from Institutional equity mandates as clients moved out of "value" oriented equity strategies and in Derivative Solutions as a result of the termination or maturity of structured equity strategies and which were not re-contracted.

In the table above, redemptions relating to clients who moved to buy out their liabilities through insurance and pension benefit payments to retirees are classified as not regretted redemptions.

In addition to measuring the RIA we measure the sales from existing clients to demonstrate the growth of our client relationships. In the six months ended 31 December 2019, £1.8bn (60%) of sales were from our existing clients.

3) Growth in net management and advisory fees (£'000)	**6 months ended 31 December 2019**	Year ended 30 June 2019	6 months ended 30 June 2019	6 months ended 31 December 2018
Total net management fees	**29,835**	55,546	27,638	27,908
Growth in total net management fees	**8%**	3%	1%	2%
Total advisory fees	**5,408**	10,038	5,358	4,680
Growth in total advisory fees	**1%**	(2)%	14%	(13)%
Total net management and advisory fees	**35,243**	65,584	32,996	32,588
Growth in net management and advisory fees	**7%**	2%	1%	0%

Net management and advisory fees represent the underlying revenues generated by the business, which are generally recurring in nature. The growth in underlying revenues is the result in increased AUM/NUM at stable management fee margins and the growth in retainers and project fee revenues from advisory mandates.

Underlying revenues grew 8% compared to the six months ended 31 December 2018 and by 7% compared to underlying revenues in the second half of FY2019.

As noted above, AUM/NUM grew by 24% compared to 31 December 2018, however management fees grew by only 7%, reflecting the strong growth in Fiduciary, Derivatives and Institutional Equities but lower growth in Wholesale Equities, the highest margin business line.

Advisory revenues increased in the period as a result of increased project fees from the US business relating to advising clients on plan terminations.

4) Adjusted underlying pre tax margin £'000	**6 months ended 31 December 2019**	Year ended 30 June 2019	6 months ended 31 December 2018
Underlying revenues:	**35,243**	65,584	32,588
Adjusted underlying pre tax income:	**7,281**	14,650	7,911
Adjusted underlying pre tax margin:	**21%**	22%	24%
Underlying pre tax income (loss) on Investments	**(1,254)**	-	-
Adjusted underlying pre tax income, before Investments	**8,535**	14,650	7,911
Adjusted underlying pre tax margin, before Investments	**24 %**	22%	24%

Adjusted Underlying Pre Tax Income

Adjusted underlying pre tax income comprises management and advisory fee revenues, underlying remuneration expense, administrative expenses, depreciation, amortisation of software, realised gains or losses on seed investments, net of foreign exchange, and finance income or expense. The amortisation expense related to intangibles is excluded.

Adjusted underlying pre tax margin is an indication of the ability to achieve scale through increased AUM/NUM and revenues, at a lower marginal increase in related expenses. The medium-term goal is to achieve an adjusted underlying pre tax margin of 30%, pre-investments, through scale in the business.

As noted earlier, the Board has approved a series of investments in order to accelerate the organic growth of the business. The adjusted underlying pre tax income of £7.3m includes £1.1m of remuneration and £0.2m of administrative expenses relating to the Investments made in FY2020. No revenue was generated in the period attributable to the Investments.

The adjusted underlying pre tax margin was 21%,(total remuneration ratio of 57% of underlying revenues (Core 54% and Investment 3%) and administrative expenses ratio of 22%).

Excluding the Investment spend the adjusted underlying pre tax margin was 24%, compared with 22% in FY2019.

5) Earnings per share (pence)

Proposed interim dividend: **4.39 pence per share**

	6 months ended 31 December 2019	Year ended 30 June 2019	6 months ended 31 December 2018
Adjusted earnings per share (basic)	**7.31**	20.26	10.49
First Interim Dividend	**4.39**	6.30	6.30
Second Interim Dividends	**-**	5.10	
Final Dividend	**-**	5.00	
Total dividends paid or declared	**4.39**	16.40	6.30
Percentage of adjusted earnings per share distributed	**60%**	81%	60%

The Group's dividend policy is to pay at least 60% of the Group's adjusted underlying profits available for distribution by way of ordinary dividends. In addition, the Group expects to generate surplus capital over time, primarily from net performance fee earnings. The Group intends to distribute such available surpluses, after taking into account regulatory capital requirements and potential strategic opportunities, to shareholders.

Financial Review

Investing in the organic growth of our business

Historically, we have invested in the organic growth of the business through self-funding new initiatives within the overall economics of the business. As an investment manager these investments have primarily been remuneration for additional people. In years where we have had strong performance fees part of this remuneration has been reinvested in the business to self-fund business initiatives. While the Group's Remuneration Policy currently limits remuneration to 54% of underlying revenue and 50% of performance fee revenue there have been years in which our underlying ratio has been below 54%, which demonstrates our strong cost discipline.

As discussed in the Chairman's Statement and the Group Chief Executive's Report, in FY2020 the Board has approved a series of investments in order to accelerate the organic growth of the business, primarily in Australia and the United States. In FY2020 the Group intends to invest £3.8m, primarily in remuneration and a similar amount in FY2021 relating to these investments. The remuneration will be incremental to the maximum accrual rate of 54% of underlying revenues under the current Remuneration Policy of the Group. We will provide analysis on both the business and financial outcomes specifically relating to the development of the Australian and US franchises.

AUM/NUM

For the six months ended 31 December 2019 £'m	Fiduciary Management (AUM)	Derivative Solutions (NUM) Structured Equity	LDI	Total	Equity Solutions (AUM) Wholesale	Institutional	Total	TOTAL AUM/NUM
Opening fee earning AUM/NUM	12,864	5,801	15,882	21,683	1,482	3,785	5,267	39,814
Sales	271	2,101	238	2,339	115	276	391	3,001
Redemptions	(493)	(1,249)	(169)	(1,418)	(200)	(203)	(403)	(2,314)
	(222)	852	69	921	(85)	73	(12)	687
Net Rebalance and transfers	136	89	846	935	-	-	-	1,071
Net flow	(86)	941	915	1,856	(85)	73	(12)	1,758
Investment performance	344	-	-	-	97	262	359	703
Closing fee earning AUM/NUM	**13,122**	**6,742**	**16,797**	**23,539**	**1,494**	**4,120**	**5,614**	**42,275**

We have shown the breakdown of the NUM between Structured Equity and Liability Driven Investing (LDI). The structured equity hedges tend to have contractual maturity dates of 12 months or less to reflect the terms of the underlying instruments and hedging strategy. The LDI hedges represents interest rate derivatives used by pension schemes to hedge their long dated pension liabilities and therefore have a lower turnover.

AUM/NUM and margins

	Fiduciary Management (AUM)	Derivative Solutions (NUM)	Equity Solutions (AUM) Wholesale	Institutional	Total	**Total AUM/NUM**
Average fee earning AUM/NUM (£m)	13,148	23,708	1,453	3,993	5,446	**42,301**
Net management fees H1 FY2020 (£m)	10.7	7.4	4.8	6.9	11.7	**29.8**
Average margin December 2019 (bps)	15-16	6-7	65-67	34-36		
Average margin June 2019 (bps)	16-17	6-7	70-71	36-40		
Medium term margin guidance (bps)	14-15	6-7	65-67	36-40		

Overall margins have remained largely stable and consistent with our medium term guidance, which reflects increasing client mandate sizes and anticipated mix effects within each Division as discussed further in the Group Chief Executive Report.

Revenue

£'000	**Unaudited 6 months ended 31 December 2019**	Unaudited 6 months ended 31 December 2018	Increase / (decrease)	Unaudited 6 months ended 30 June 2019	Increase / (decrease)
Net management fees					
- Fiduciary Management	**10,707**	9,238	16%	9,552	12%
- Derivative Solutions	**7,426**	6,790	9%	6,589	13%
- Equity Solutions – Wholesale	**4,845**	6,046	(20)%	5,224	(7)%
- Equity Solutions – Institutional	**6,857**	5,834	18%	6,273	9%
Net management fees	**29,835**	27,908	7%	27,638	8%
Advisory fees					
- Retainers	**2,439**	2,555	(5)%	2,740	(11)%
- Project fees	**2,969**	2,125	40%	2,618	13%
Advisory fees	**5,408**	4,680	16%	5,358	1%
Total net management and advisory fees	**35,243**	32,588	8%	32,996	7%
Performance fees					
- Fiduciary Management	**1,090**	4,526	(76)%	6,027	(82)%
- Equity Solutions	**-**	1,986	(100)%	(20)	(100)%
Total performance fees	**1,090**	6,512	(83)%	6,007	(82)%
Total revenues	**36,333**	39,100	(7)%	39,003	(7)%

Net management fees

Management fees are charged as a percentage of the AUM/NUM we manage for the clients and are negotiated with clients based on a number of factors including competitive pricing of similar strategies in the market, level of servicing and infrastructure associated with the mandate and the size of client's mandate. Net management fees reflect the cost of rebates and other payments to external distributors.

Management fee margins have remained stable as compared to historic levels, with the recent reductions reflecting the larger mandate sized now being transacted.

As noted above, the overall management fee margin of the Group has reduced due to the growth in Derivative strategies which have lower margins and the reduction in Wholesale Equities AUM.

Advisory fees consist of both retainer fees and project-based fees. The increase in project fees in the period resulted from increased fees generated from the US pensions advisory business for plan terminations.

Revenue-weighted asset attribution

The revenues of traditional asset management firms have a high correlation to equity markets. However, the relative diversification of the Group's revenue streams compared to many of our peers mean they display greater stability and resilience to negative equity market movements.

Revenue-weighted asset attribution (RWAA) classifies our net management and advisory revenues by the underlying asset class on which the management fees are charged. Net management fees from Equity Solutions are related to the variability of the underlying equity markets. In Fiduciary Management the management fees are based on the client's portfolio which will include equities, bonds and government securities. The management fee revenue is attributed in proportion to the

composition of the underlying portfolio between credit instruments, equities and government securities. The Equity Non-discretionary category represents the minimum level of equity exposure we are required to hold in client portfolios, where this is specified. In Derivative Solutions the underlying revenue is linked to the contractual notional amount of the derivative instrument used to hedge interest rates, inflation and equities. As a result, these revenues are also considered "independent" or cash-like in their characteristics. The Other category includes property and alternatives.

Advisory revenues are based on retainers or specific projects and are not directly linked to asset classes and are therefore classified as being "independent".

Revenue Weighted Asset Attribution	Equities - Non - discretionary	Equities - Discretionary	Interest Rates	Cash / Independent	Other
31 December 2019	**36%**	**4%**	**20%**	**37%**	**3%**
30 June 2019	37%	3%	19%	38%	3%
31 December 2018	38%	2%	22%	35%	3%
30 June 2018	38%	2%	19%	38%	3%
31 December 2017	43%	4%	19%	31%	3%

RWAA demonstrates that the Group's revenue base is diversified by underlying asset class, with around half of revenue derived from sources which are less directly linked to equity market performance. This is not to say that a prolonged downturn would not have an impact on our business over time, but our revenues should show lower volatility than other traditional long only asset managers.

Performance fee revenue

For the six months ended 31 December 2019 £1.1m of performance fees were generated, all from Fiduciary Management mandates. Subsequent to the release of the Trading Update in early February 2020, the market downturn has impacted the estimated performance fees for the six months ended 30 June 2020. Our current estimate for performance fees for the six months ended 30 June 2020 is between £0.3m and £1.5m, all from Fiduciary Management mandates.

In Equity Solutions, we have in the past earned significant performance fees from the River and Mercantile UK Microcap Investment Company Limited, however it is currently not anticipated that performance fees will be earned in this financial year.

Administrative expenses

£'000	**Unaudited 6 months ended 31 December 2019**	Unaudited 6 months ended 30 June 2019	Unaudited 6 months ended 31 December 2018
Total administrative expenses	**7,594**	8,340	7,307
Total net management and advisory fees	**35,243**	32,996	32,588
Underlying administrative expense ratio	**22%**	25%	22%

In the Group's 2019 Annual Report, we stated that whilst the ratio of administrative expenses to underlying revenue would fall over time we expected the ratio to be in a range of 21%-22% this year as we continue to invest in marketing, fund administration and the investment in Australia and the US.

£'000	**Unaudited 6 months ended 31 December 2019**	Unaudited 6 months ended 30 June 2019	Unaudited 6 months ended 31 December 2018
Marketing and Travel	**696**	851	857
Office facilities	**1,324**	1,434	1,317
Technology and communications	**2,861**	2,795	2,217
Professional fees	**652**	841	735
Research	**727**	655	679
Governance expenses	**424**	292	278
Fund administration	**295**	717	573
Insurance	**303**	348	207
Other costs	**312**	407	444
Total administrative expenses	**7,594**	8,340	7,307

Marketing spend in H1 FY2020 was lower due to the lower volumes of activity in Fiduciary Management. Marketing spend is expected to increase to a level comparable to that in H2 FY2019.

In H1 FY2020 professional fees and governance expenses increased due to undertaking the Group's Capital Reduction process to increase distributable reserves and the implementation of several regulatory changes, including the FCA's Senior Manager and Conduct Regime.

Fund administration costs reduced significantly compared to the previous periods due to a reduction in fund administration subsidies as newly launched funds gained sufficient AUM and also from efficiencies gained in our operations and trading infrastructure.

Included in H1 FY2019 administration expense is £0.2m relating to new Investments. We anticipate that in H2 FY2020 an additional £0.4m will be spent on Investments.

Remuneration

Remuneration expense includes fixed remuneration comprising base salaries, drawings, benefits and associated taxes; and variable remuneration comprising performance bonus, profit share, the amortisation of the fair value of performance share awards under non-dilutive share plans and associated taxes.

As discussed earlier, in FY2020 the Board have approved a series of investments in order to accelerate the growth of the business. In the period remuneration of £1.1m has been spent on these investments and the full year spend is expected to be approximately £3.2m.

£'000s	**Unaudited 6 months ended 31 December 2019**	Unaudited 6 months ended 30 June 2019	Unaudited 6 months ended 31 December 2018
Revenue			
Underlying revenue	**35,243**	32,996	32,588
Performance fee revenue	**1,090**	6,007	6,512
Total revenue	**36,333**	39,003	39,100
Underlying remuneration	**19,031**	17,808	17,597
Performance fee remuneration	**545**	3,003	3,256
	19,576	20,811	20,853

Investment: Remuneration	**1,072**	-	-
Total remuneration	**20,648**	20,811	20,853
Total remuneration ratio	**57%**	53%	53%

Depreciation and Amortisation

£'000	**Unaudited 6 months ended 31 December 2019**	Unaudited 6 months ended 31 December 2018
Depreciation	**107**	90
Amortisation	**1,658**	2,334
Impairment charge - ILC investment management agreements	**450**	-
	2,215	2,424

During FY2019 the RAMAM intangibles relating to the wholesale investment management agreements became fully amortised, resulting in a reduction in amortisation expense in FY2020.

In FY2018, the Group acquired the ILC investment management agreements under a contractual revenue sharing agreement with Credit Suisse. The acquisition resulted in a bargain purchase of £1m and an intangible asset of £2m. Due to lower AUM the value of the IMA intangible has been reduced by £0.45m. The remaining intangible balance of £0.99m will continue be amortised over the period of 3.5 years. At 31 December 2019 AUM in the funds was £105m with annual run rate revenues of £0.4m.

Amortisation and impairment charges are excluded from the calculation of adjusted profits.

Current and Deferred Taxes

In the consolidated financial statements a reconciliation is provided between the statutory corporation tax rate and the Group's effective tax rate. The applicable tax rate has increased to 28%, compared to last year's rate of 24% primarily due to non-deductible losses incurred by the US operations. The US entity has tax losses carried forward from prior years, however these are not recognised until profits arise in the US. It is anticipated that the full year tax rate will be approximately 28%.

Statutory and Adjusted profits

The Directors use adjusted profit as a measure of the cash operating profits of the business. The Group's stated dividend policy is based on adjusted underlying profits and the percentage paid out as dividends to shareholders is a Key Performance Indicator for the Group.

Adjusted profit comprises total revenue, remuneration expense, administrative costs, depreciation, gains or losses on seed investments, and finance income or expense.

Additionally, the Group uses adjusted underlying profit as a measure of the performance of the Group, as this is adjusted profit excluding performance fees (and remuneration associated with those performance fees).

The adjusted underlying profit margin (representing the adjusted underlying profit before tax, divided by net management and advisory fees) is a key performance indicator for the Group, as it reflects the ability of the Group to achieve further scale in its business by growing net management and advisory fees faster than costs, as a result of a scalable operating platform.

	6 months ended 31 December 2019	**6 months ended 30 June 2019**	Increase / (decrease)	**6 months ended 31 December 2018**	**Year ended 30 June 2019**
Revenue (£'000)	**36,333**	**39,003**	**(7)%**	**39,100**	**78,103**
Underlying	35,243	32,996	7%	32,588	65,584
Performance fees	1,090	6,007	(82)%	6,512	12,519
Remuneration ratio (%)					
Underlying (including Investments)	**57%**	**54%**		**54%**	**54%**
Performance fees	**50%**	**50%**		**50%**	**50%**
Adjusted pre tax income (£'000)	**8,093**	**9,762**	**(16)%**	**11,167**	**20,929**
Underlying	7,281	6,739	9%	7,911	14,650
Performance fees	812	3,023	(73)%	3,256	6,279
Pre tax Margin (%)	**22%**	**25%**		**29%**	**27%**
Underlying	21%	20%		24%	22%
Performance fees	74%	50%		50%	50%
Adjusted tax rate	25%	20%		25%	22%
Underlying tax rate	25%	20%		27%	24%
Adjusted net income (£'000)	**6,100**	**7,809**	**(21)%**	**8,419**	**16,228**
Underlying	5,442	5,361	3%	5,782	11,143
Performance fees	658	2,448	(73)%	2,637	5,085
Average weighted diluted shares	83,638	83,244		83,436	83,244
Average weighted basic shares	83,437	80,121		80,235	80,121
Diluted EPS (pence)					
Adjusted underlying	6.51	6.44		6.93	13.39
Net Performance fees	0.78	2.94		3.16	6.11
Total	**7.29**	**9.38**		**10.09**	**19.50**
Basic EPS (pence)					
Adjusted underlying	6.52	6.69		7.20	13.91
Net Performance fees	0.79	3.06		3.29	6.35
Total	**7.31**	**9.75**		**10.49**	**20.26**

Capital, liquidity and regulatory capital
The business is strongly cash generative with net cash generated from operations of £5.3m in the six period to 31 December 2019. Cash and cash equivalents at the period end were £25.8m.

As at 31 December 2019, adjusting for the effect of the declared first interim dividend the Group holds a a prudent regulatory capital surplus.

Distributable Reserves
Following approval by Shareholders at the Company's AGM in December 2019 to undertake a reduction in capital, and with a view to effecting this on approval from the Court, the Company capitalised its merger reserve of £44.43m by paying up and issuing deferred shares in the Company (the "Deferred Shares"). The Company received Court approval in January 2020 to affect the reduction in capital by cancellation of the Deferred Shares, creating distributable reserves available to the Company. As at 31 January the Company had total distributable reserves of £52.8m.

Dividends
On 22 November 2019, the 2019 second interim dividend of 5.1 pence per share was paid which included a special dividend of 1.6 pence relating to net performance fees. In addition, on 20 December 2019 the 2019 final dividend of 5.1p per share was paid, of which 2.4p pence was a special dividend relating to net performance fees.

The Directors have declared a first interim dividend of 4.39 pence per share, of which 0.5 pence per share is a special dividend relating to net performance fees. This represents 60% of the Groups total adjusted underlying profit after tax and 60% of the net performance fee profit after tax.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The risks noted below implicitly cover a wide range of business risks including the potential affects arising from an event such as COVID-19.

The Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report for the year ended 30 June 2019. At that date, the most significant risks were identified as being:

Sustained market decline

A serve economic downturn and related sustained decline in asset prices

Loss of critical staff

The risk of failure to retain or attract the people critical to successfully delivering investment outperformance to our clients and all other aspects of our strategy

Sustained fund underperformance

The risk that our clients will not meet their investment objectives due to poor relative performance of one or more of the Group's funds over a prolonged period.

Liquidity risk

The risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can only secure such resources at excessive cost.

Counterparty and credit risk

The potential failure of clients or counterparties to fulfil their contractual obligations.

Failure of a critical outsource service provider

The risk that an outsourced partner fails to provide the service required either through their own organisational failure, or through substandard performance.

Information and communication technology infrastructure

The risk of critical systems or connectivity failures leading to an inability of the Group to operate for a period of time.

Cybercrime

The risk of critical systems or connectivity failures leading to an inability of the Group to operate for a period of time.

Legal and Regulatory risks

The risk of breaching, or non-compliance with applicable law and regulations, resulting in an increased level of regulatory intervention, regulatory censure and/or fines, and temporary restrictions on our ability to operate.

Failure to perform fiduciary duty

The risk that we unintentionally or negligently fail to meet a professional obligation to specific clients (including fiduciary and suitability requirements).

Breakdown of processes and controls resulting in operational errors

The risk that inadequate or failed processes, people, systems and controls or from external events could result in direct financial losses, reputational damage and failure to win new business.

A more detailed explanation of the risks relevant to the Group is on pages 32-34 of the Group's 2019 Annual Report which is available at www.riverandmercantile.com

Responsibility Statement

The Directors confirm that to the best of their knowledge:

The unaudited condensed consolidated set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU are gives a true and fair view of the asset, liabilities, financial positive and profit or loss of the Group; and

The interim management report includes a fair review of the information required by sections 4.2.7R and 4.2.8R of the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority.

By order of the Board

James Barham
Group Chief Executive
13 March 2020

A copy of this interim report will be posted on the Company's website on the date of this statement at www. riverandmercatile.com

Independent review report to River and Mercantile Group PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the six months ended 31 December 2019 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows and condensed consolidated statement of changes in shareholder's equity; and the related notes.

We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim financial report is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting its responsibilities in respect of interim financial reporting in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 December 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BDO LLP
Chartered Accountants
London
United Kingdom
13 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Condensed consolidated interim financial statements

This Interim Report should be read in conjunction with the Annual Report of the Group for the year ended 30 June 2019.

Condensed consolidated income statement

	Note	**Unaudited 6 months ended 31 December 2019 £'000**	Unaudited 6 months ended 31 December 2018 £'000
Revenue:			
Net management fees		**29,835**	27,908
Net advisory fees		**5,408**	4,680
Performance fees		**1,090**	6,512
Total revenue	3	**36,333**	39,100
Administrative expenses	4	**7,594**	7,307
Depreciation		**107**	90
Amortisation		**1,658**	2,334
Impairments		**450**	-
Total operating expenses		**9,809**	9,731
Remuneration and benefits			
Fixed remuneration and benefits		**14,305**	12,917
Variable remuneration		**6,343**	7,936
Total remuneration and benefits		**20,648**	20,853
EPSP costs	5	**(17)**	162
Total remuneration and benefits including EPSP costs		**20,631**	21,015
Total expenses		**30,440**	30,746
Realised gain on disposal of investments held at fair value		**267**	-
Unrealised (loss)/gain on investments held at fair value		**(404)**	113
Gain on fair value of contingent consideration		**46**	177
Other gains and losses		**-**	7
Profit before interest and tax		**5,802**	8,651
Finance income		**42**	330
Finance expense		**(189)**	-
Profit before tax		**5,655**	8,981
Tax charge/(credit)			
Current tax	9	**(1,626)**	(2,847)
Deferred tax	9	**25**	604
Profit after tax for the period attributable to owners of parent		**4,054**	6,738
Earnings per share			
Basic (pence)	11	**4.86**	8.40
Diluted (pence)	11	**4.85**	8.08

Condensed consolidated statement of comprehensive income

	Unaudited 6 months ended 31 December 2019 £'000	Unaudited 6 months ended 31 December 2018 £'000
Profit for the period	4,054	6,738
Items that may be subsequently reclassified to profit or loss:		
Foreign currency translation differences	(27)	(31)
Other comprehensive loss	(27)	(31)
Total comprehensive income for the period attributable to owners of the parent	4,027	6,707

The notes to the condensed consolidated interim financial statements form part of and should be read in conjunction with these financial statements.

Condensed consolidated statement of financial position

	Note	Unaudited 31 December 2019 £'000	Audited 30 June 2019 £'000
Assets			
Cash and cash equivalents		**25,759**	24,046
Investment management balances	7	**-**	22,277
Investments held at fair value	6	**300**	5,387
Fee receivables		**4,927**	4,412
Other receivables		**16,527**	25,505
Deferred tax assets	9	**715**	1,034
Property, plant and equipment		**532**	606
Right-of-use lease assets	17	**3,242**	-
Intangible assets	8	**28,555**	30,753
Total assets		**80,557**	114,020
Liabilities			
Investment management balances	7	**-**	22,278
Trade and other payables		**12,511**	23,775
Current tax liabilities	9	**963**	621
Deferred tax liabilities	9	**2,126**	2,483
Lease liabilities	17	**3,726**	-
Total liabilities		**19,326**	49,157
Net assets		**61,231**	64,863
Equity			
Share capital	13	**256**	256
Share premium		**15,411**	15,136
Other reserves	12	**45,445**	45,472

Own shares held by EBT	13	**(4,427)**	(6,251)
Retained earnings		**4,546**	10,250
Equity attributable to owners of the parent		**61,231**	64,863

The notes to the condensed consolidated interim financial statements form part of and should be read in conjunction with these financial statements.

The financial statements were approved by the Board and authorised for issue on 13 March 2020.

James Barham

Group Chief Executive

Condensed consolidated statement of cash flows

	Note	**Unaudited 6 months ended 31 December 2019 £'000**	Unaudited 6 months ended 31 December 2018 £'000
Cash flow from operating activities			
Profit before interest and tax		**5,802**	8,651
Adjustments for:			
Amortisation of intangible assets	8	**1,658**	2,334
Impairments	8	**450**	-
Depreciation of right-of-use assets		**638**	-
Depreciation of property, plant and equipment		**107**	90
Share based payment expenses	5	**639**	911
Gain on disposal of investments held at fair value		**(267)**	-
Gain on fair value of contingent consideration		**(46)**	(177)
Unrealised loss/(gain) on investments held at fair value		**404**	(113)
Other gains and losses		**-**	(7)
Operating cash flow before movement in working capital		**9,385**	11,689
Decrease in operating assets		**30,691**	4,739
Decrease in operating liabilities		**(33,446)**	(15,173)
Cash generated from operations		**6,630**	1,255
Tax paid		**(1,281)**	(2,258)
Net cash generated from/ (used in) operations		**5,349**	(1,003)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(33)**	(96)
Purchase of investments held at fair value	6	**-**	(75)
Proceeds from disposal of investments held at fair value		**5,048**	-
Interest received		**42**	34
Net cash generated from/ (used in) investing activities		**5,057**	(137)
Cash flow from financing activities			
Interest paid		**(6)**	-
Lease payments		**(385)**	-
Dividends paid	10	**(8,457)**	(8,846)
Share issue		**275**	-
Net cash used in financing activities		**(8,573)**	(8,846)

Net increase/(decrease) in cash and cash equivalents	**1,833**	(9,986)
Cash and cash equivalents at beginning of period	**24,046**	24,029
Foreign exchange movement	**(120)**	26
Cash and cash equivalents at end of period	**25,759**	14,069

The notes to the condensed consolidated interim financial statements form part of and should be read in conjunction with these financial statements.

Condensed consolidated statement of changes in shareholders' equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Own shares held by EBT £'000	Retained earnings £'000	Total £'000
Audited balance as at 30 June 2018	246	14,688	49,372	(4,981)	6,670	65,995
Comprehensive income for the period:						
Profit for the period	-	-	-	-	12,995	12,995
Other comprehensive income	-	-	(21)	-	-	(21)
Total comprehensive income	-	-	(21)	-	12,995	12,974
Transactions with owners:						
Dividends	-	-	-	-	(13,869)	(13,869)
Share based payment expense	-	-	-	-	1,545	1,545
Deferred tax on share based payment expense	-	-	-	-	(1,350)	(1,350)
Realised tax in respect of award vesting	-	-	-	-	1,165	1,165
Share payment in respect of award vesting	-	-	-	-	(369)	(369)
Disposal of shares in respect of award vesting	-	-	-	424	(424)	-
Purchase of own shares by EBT	-	-	-	(1,694)	-	(1,694)
Reserves transfer on transition to IFRS 9	-	-	(12)	-	12	-
Transfer to retained earnings	-	-	(3,867)	-	3,867	-
Shares issued in respect of award vesting	10	448	-	-	-	458
Foreign exchange adjustments	-	-	-	-	8	8
Total transactions with owners:	10	448	(3,879)	(1,270)	(9,415)	(14,106)
Audited balance as at 30 June 2019	256	15,136	45,472	(6,251)	10,250	64,863
Adjustment to retained earnings on transition to IFRS 16	-	-	-	-	**(122)**	**(122)**
Adjusted as at 1 July 2019	**256**	**15,136**	**45,472**	**(6,251)**	**10,128**	**64,741**
Profit for the period	-	-	-	-	**4,054**	**4,054**
Other comprehensive income	-	-	**(27)**	-	-	**(27)**
Total comprehensive income	-	-	**(27)**	-	**4,054**	**4,027**
Transactions with owners:						
Dividends	-	-	-	-	**(8,457)**	**(8,457)**
Shares issued in respect of award vesting	-	**275**	-	-	-	**275**
Share based payment expense	-	-	-	-	**639**	**639**
Share payment in respect of award vesting	-	-	-	-	**13**	**13**
Deferred tax	-	-	-	-	**(7)**	**(7)**
Disposal of shares in respect of award vesting	-	-	-	**1,824**	**(1,824)**	-
Total transactions with owners:	-	**275**	-	**1,824**	**(9,636)**	**(7,537)**
Unaudited balance as at 31 December 2019	**256**	**15,411**	**45,445**	**(4,427)**	**4,546**	**61,231**

The notes to the condensed consolidated interim financial statements form part of and should be read in conjunction with these financial statements.

Notes to the condensed consolidated interim financial statements

1. General information

River and Mercantile Group PLC (“the Company”), is a company incorporated in England and Wales (Co. no. 04035248). The condensed consolidated interim financial statements for the six months ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as “the Group").

2. Accounting policies

Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Group’s 2019 Annual Report. The comparative financial information for the year ended 30 June 2019 included in these interim financial statements does not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The Independent Auditors' Report on that Annual Report and financial statements for the year ended 30 June 2019 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the Group's latest annual audited financial statements with the exception of those that relate to new standards and interpretations effective for the first time for periods beginning on or after 1 July 2019, which for this period includes IFRS 16.

Going concern

The Directors have a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Group condensed financial statements have been prepared on a going concern basis using the historical cost convention, except for the measurement at fair value of certain financial instruments that are held at fair value.

Foreign currencies

To the extent that the Group undertakes transactions in currencies other than GBP, these transactions are translated into GBP using the exchange rate prevailing at the date of the transaction. Balances denominated in foreign currencies are translated into GBP using the exchange rate prevailing at the balance sheet date. All foreign exchange differences arising from the settlement of transactions or the translation of balances are recognised in operating expenses in the condensed income statement.

Adoption of new standards and interpretations affecting the reported results or the financial position

In the current period, one standard has been adopted that has had a significant impact on the amounts reported in the financial statements.

Transition to IFRS 16

IFRS 16 replaces IAS 17 Leases and becomes effective for reporting periods beginning on or after 1 January 2019. It provides a single accounting method for lessees, requiring the recognition of an asset and a lease liability representing the right of use of the underlying asset over the term of a lease.

The Group has opted to apply the modified retrospective approach, where the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 July 2019. Comparative information will not be restated.

As at 1 July 2019 the recognition of a right of use asset and lease liability increased total asset and total liabilities by £3,881,000 and £4,058,000 respectively.

The right-of-use asset has been calculated as the present value of all future lease payments, including those relating to dilapidations and costs incurred in obtaining the leases. The lease liability is measured using an appropriate discount rate for the Group from the date of the initial application of the standard.

The adjustment to opening reserves at 1 July 2019 was £122,000 being the difference between the right-of-use asset and the lease liability at the date of transition less any balances recognised under IAS 17. The lease payment expenses relating to the Group's property portfolio recognised as office facilities costs will now be split as the straight-line depreciation cost of the capitalised asset and the unwinding of the lease liability charged to office facilities costs and finance expenses respectively. The weighted average lessee's incremental borrowing rate applied to the leases on 1 January 2019 was 5.0%.

New standards and interpretations

There have been no new or revised standards or interpretations which have become effective or been early adopted in the six months to 31 December 2019, other than as outlined above.

Significant judgments and estimates

Some of the significant accounting policies require the Directors to make difficult, subjective or complex judgments or estimates. The policies which the Directors consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial statements are:

- Impairment of intangible assets, goodwill and investments recorded in previous acquisitions. This involves judgments including business growth and estimates including discount rates;
- Recognition of management and performance fee revenues. This involves estimates of AUM/NUM positions for the purposes of recognising revenue;
- The accounting for share-based remuneration. This involves judgments relating to forfeiture rates and business outcomes and estimates of future share prices for national insurance cost; and
- The accounting for UCITS V deferred remuneration, which involves estimates of forfeiture rates.

Accounting of seed capital investments

The Group is required to consolidate entities over which it has control. Where the Group has seeded funds that it manages or 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's assets, liabilities and results are consolidated into the Group's financial statement, together with a minority interest, where appropriate.

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

On 31 December 2019 the Group subscribed to invest US$2m as the sole seed investor in the newly launched River and Mercantile Emerging Markets Equity Absolute Return Fund.

3. Revenue

	Unaudited 6 months ended 31 December 2019 £'000	Unaudited 6 months ended 31 December 2018 £'000
Net management fees		
-Fiduciary Management	**10,707**	9,238
-Derivatives	**7,426**	6,790
-Equity Solutions Institutional	**11,702**	11,880
Net management fees	**29,835**	27,908
Advisory fees		
Advisory fees	**5,408**	4,680
Total net management and advisory fees	**35,243**	32,588
Performance fees		
-Fiduciary Management	**1,090**	4,526
-Equity Solutions	**-**	1,986
Total Performance fees	**1,090**	6,512
Total Revenue	**36,333**	39,100

Net Management Fees
Net management fees represent the fees charged pursuant to an Investment Management Agreement (IMA). Net management fees are reported net of rebates to clients and are charged as a percentage of the client's AUM or NUM. The fees are generally accrued based on a contractual daily fee calculation and billed to the client either monthly or quarterly. During the six months ended 31 December 2019, rebates totalling £1,306,000 (2018: £1,437,000) were paid in respect of management fees.

Advisory fees
Advisory fees represent fees charged under Investment Advisory Agreements (IAA) and are typically charged on a fixed retainer fee basis or through a fee for the delivery of a defined project. Fees are accrued monthly and charged when the work has been completed.

Performance fees
Performance fees are fees paid under the IMAs for generating excess investment performance either on an absolute basis subject to a high water mark, or relative to a benchmark. Performance fees are calculated as a percentage of the investment performance generated and may be subject to deferral and continued performance objectives in future periods. Performance fees are recognised in income when it is probable that the fee will be realised and there is a low probability of a significant reversal in future periods. This occurs once the end of the performance period has been reached. The client is invoiced for the performance fee at the end of the performance period, which is generally annually, either on the anniversary of their IMA or on a calendar year basis.

Contract Balances
The timing of client revenue recognition, billings and cash collections results in either trade receivables or accrued income on the Statement of Financial Position. For both management fees, advisory fees and performance fees, amounts are billed pursuant to an IMA/IAA with clients, in arrears. There were £21,000 (2018: £29,000) contract liabilities as at the year ended 30 June 2019.

4. Administrative expenses

	Unaudited 6 months ended 31 December 2019 £'000	Unaudited 6 months ended 31 December 2018 £'000
Marketing	**442**	459
Travel and entertainment	**254**	398
Office facilities	**1,324**	1,317
Technology and communications	**2,861**	2,217
Professional fees	**652**	735
Research	**727**	679
Governance expenses	**424**	278
Fund administration	**295**	573
Other staff costs	**141**	338
Insurance	**303**	207
Other costs	**171**	106
Administrative expenses	**7,594**	7,307

5. Share-based payments

Executive Performance Share Plan

After completion of the Executive Performance plan share award performance holding period during the year ended 30 June 2019 the awards vested on 26 June 2019.

Employee share plans

The Group has established Performance Share Plans (PSP) to allow the grant of nil cost options, contingent share awards or forfeitable share awards.

The Directors have granted awards to staff in respect of the years ended 30 June 2017, 30 June 2018 and 30 June 2019 which vest on 30 June 2020, 2021, or 2022 depending on the award.

The fair value of the awards has been estimated using a combination of Monte Carlo simulation and Black-Scholes modelling. The charge recognised in respect of PSP awards in the period ended 31 December 2019 is £607,000 (2018: £594,000). Additionally, a charge of £76,000 (2018: £82,000) for national insurance on vesting has been accrued.

Full details of the share awards in respect of 2015, 2016, 2017, 2018 and 2019 can be found in the 30 June 2019 Annual Report.

The charge for the period also includes £32,000 for the Group's save-as-you-earn scheme (2018: £91,000).

6. Investments held at fair value

The movement in the carrying value of investments is analysed below:

	Available-for-sale investments £'000	**Investments held at FVTPL £'000**
At 1 July 2018	5,165	-
Reclassified on initial application of IFRS 9	(5,165)	5,165
Additions	-	10
Movement in fair value	-	441
Disposals	-	(394)
Foreign exchange movement		165
At 30 June 2019 (Audited)	-	5,387
Additions	-	-
Movement in fair value	-	(404)
Disposals	-	(4,609)
Foreign exchange movement	-	(74)
At 31 December 2019 (Unaudited)	**-**	300

In accordance with IFRS 9 all such assets have been reclassified as fair value through profit or loss (FVTPL). All unrealised gains and losses and realised gains or losses recorded on disposal, are recognised in the consolidated income statement.

As at 31 December 2019 the Group had £286,000 (2018: £5,414,000) of seed capital invested in the River and Mercantile Global Macro Fund and during the period the Group redeemed a total of £4,609,000 (2018: nil) out of the fund. A life to date realised gain of £267,000 was recorded.

7. Investment management balances

	Unaudited 6 months ended 31 December 2019 £'000	Audited 30 June 2019 £'000
Investment management receivables	**-**	22,277
Investment management payables	**-**	22,278

In October 2019 the Group transferred the Authorised Corporate Director (ACD) for the River and Mercantile Funds ICVC to Equities Trustees Ltd. As a result of this transfer the Group no longer has an obligation to settle transactions between investors and the depository of the fund which has previously resulted in the Investment management receivable and payable balances.

8. Intangible assets

£'000 Cost:	Goodwill	Customer lists and IMAs	Software	Totals
At 1 July 2018	15,595	38,491	84	54,170
Foreign exchange	47	65	-	112
At 30 June 2019	15,642	38,556	84	54,282
Accumulated depreciation:				
At 1 July 2019	418	18,690	37	19,145
Amortisation charge	-	4,348	21	4,369
Foreign exchange	-	15	-	15
At 30 June 2019	418	23,053	58	23,529
Net book value:				
At 1 July 2018	15,177	19,801	47	35,025
At 30 June 2019	15,224	15,503	26	30,753

£'000	Goodwill	Customer lists and IMAs	Software	Totals
Cost:				
At 1 July 2019	**15,642**	**38,556**	**84**	**54,282**
Foreign exchange	**(50)**	**(68)**	**-**	**(118)**
At end of period	**15,592**	**38,488**	**84**	**54,164**
Accumulated depreciation:				
At 1 July 2019	**418**	**23,053**	**58**	**23,529**
Amortisation charge	**-**	**1,648**	**11**	**1,659**
Impairment charge	**-**	**450**	**-**	**450**
Foreign exchange	**-**	**(29)**	**-**	**(28)**
At end of period	**418**	**25,122**	**69**	**25,609**
Net book value:				
At 1 July 2019	**15,224**	**15,503**	**26**	**30,753**
At 31 December 2019	**15,174**	**13,366**	**15**	**28,555**

Included in customers lists and IMAs as at 30 June 2019 was a net book value of £1,358,000 relating to the investment management balances of the ILC funds. Due to a reduction in the AUM in these funds an impairment charge of £450,000 has been recorded in the period ended 31 December 2019. The net book value of the ILC IMAs as at 31 December 2019 was £755,000. Where conditions which give rise to an impairment subsequently reverse the effect of the impairment charge is reversed as a credit to the income statement.

9. Current and deferred tax

The most significant deferred tax item is the deferred tax liability established against the IMA intangible assets arising on the acquisition of RAMAM. In addition, a deferred tax asset has been recognised in respect of the EPSP and PSP share schemes. The amortisation of the IMA intangible assets is not

deductible for corporation tax purposes therefore the deferred tax liability is released into the income statement to match the amortisation of the IMA intangibles. At each reporting date the Group estimates the corporation tax deduction that might be available on the vesting of EPSP and PSP shares and the corresponding adjustment to deferred tax asset is recognised in the income statement and equity.

	Unaudited 6 months ended 31 December 2019 £'000	Unaudited 6 months ended 31 December 2018 £'000
Current tax	1,626	2,847
Deferred tax	(25)	(604)
Total tax charge	1,601	2,243

The tax assessed for the period is higher (2018: higher) than the average standard rate of corporation tax in the UK. The differences are explained below:

	Unaudited 6 months ended 31 December 2019 £'000	Unaudited 6 months ended 31 December 2018 £'000
Profit before tax	**5,655**	**8,981**
Profit before tax multiplied by the average rate of corporation tax in the UK of 19% (2018: 19%)	**1,074**	**1,706**
Effects of:		
Expenses not deductible for tax purposes	**14**	**53**
Amortisation of RAMAM IMAs (including change in future tax rates)	**281**	**407**
Losses not subject to tax	**380**	**611**
Other timing differences	**(148)**	**(588)**
Prior year adjustment	**-**	**54**
Total tax charge	**1,601**	**2,243**

Current and deferred tax (continued)

The analysis of deferred tax assets and liabilities is as follows:

	Unaudited 31 December 2019 £'000	Audited 30 June 2019 £'000
Deferred tax assets		
At beginning of period	**1,034**	2,443
Charge to the income statement:		
– share based payment expense	**(326)**	(59)
Credit/(debit) to equity:		
– share based payment expense	**7**	(291)

– recycling of deferred tax on shares vested	-	(1,059)
At end of period	**715**	1,034

Deferred tax liabilities		
At beginning of period	**2,483**	3,153
Credit to the income statement:		
– amortisation of intangibles	**(277)**	(752)
– movement in investments held at fair value	**(80)**	82
At end of period	**2,126**	2,483

10. Dividends

During the period, the following dividends were paid:

	Unaudited 31 December 2019 £'000	Unaudited 31 December 2018 £'000
2018 second interim (5.5 pence per share)	-	4,422
2018 final (5.5 pence per share)	-	4,424
2019 second interim (5.1 pence per share)	**4,269**	-
2019 final (5.0 pence per share)	**4,188**	-
	8,457	**8,846**

The first interim dividend of 4.39 pence per share will be paid on 16 April 2020 to shareholders on the register as at 27 March 2020.

11. Earnings per share

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares of the Company in issue during the period. The average number of shares held by the Group's EBT during the period are deducted in this calculation.

Additionally, the Group operates a save-as-you-earn scheme for employees. The potential dilutive effect of this scheme is also considered in the calculation of diluted earnings per share.

Earnings per share	**Unaudited 6 months ended 31 December 2019**	Unaudited 6 months ended 31 December 2018
Profit attributable to owners of the parent (£'000)	**4,054**	6,738
Weighted average number of shares in issue ('000)	**83,437**	80,235
Weighted average number of diluted shares ('000)	**83,638**	83,436

Earnings per share (pence)

Basic	**4.86**	8.40
Diluted	**4.85**	8.08

Reconciliation between weighted average shares in issue

	Unaudited 6 months ended 31 December 2019 '000	Unaudited 6 months ended 31 December 2018 '000
Weighted average number of shares in issue – basic	**83,437**	80,235
Dilutive effect of shares granted under save-as-you-earn	**201**	478
Dilutive effect of shares granted under EPSP	**-**	2,723
Weighted average number of shares in issue – diluted	**83,638**	83,436

Adjusted profit

Adjusted profit comprises total revenue, remuneration expense, administrative expenses, depreciation, amortisation of software, realised gains or losses on seed investments, and finance income or expense.

Additionally, the Group uses adjusted underlying profit as a measure of the performance of the Group, as this is adjusted profit excluding performance fees (and remuneration associated with those performance fees) and gains and losses on seed investments.

Earnings per share (continued)

	Unaudited 6 months ended 31 December 2019 £'000	Unaudited 6 months ended 31 December 2018 £'000
Adjusted underlying profit		
Net management and advisory fees	**35,243**	32,588
Administrative expenses	**(7,594)**	(7,307)
Underlying remuneration	**(20,103)**	(17,598)
Depreciation	**(107)**	(90)
Amortisation of software	**(11)**	(12)
Net finance (expense)/income	**(147)**	330
Adjusted underlying profit before tax	**7,281**	7,911
Taxes	**(1,839)**	(2,129)
Adjusted underlying profit after tax	**5,442**	5,782
Adjusted underlying pre tax margin	**21%**	24%
Performance fee profit		
Performance fees	**1,090**	6,512
Less remuneration at 50%	**(545)**	(3,256)
Gain on disposal of investments held at fair value	**439**	-
Foreign exchange loss on investments held at fair value	**(172)**	-
Performance fee profit before tax	**812**	3,256
Taxes	**(154)**	(619)

Performance fee profit after tax	**658**	2,637
Adjusted profit before tax	**8,093**	11,167
Adjusted profit after tax	**6,100**	8,419

	Unaudited 6 months ended 31 December 2019 £'000	Unaudited 6 months ended 31 December 2018 £'000
Reconciliation to statutory profit		
Profit before tax	**5,655**	8,981
Adjustments:		
Amortisation of intangible assets and IMAs	**1,647**	2,321
Impairments	**450**	-
Gain on fair value of contingent consideration	**(46)**	(177)
Unrealised gain on investments held at fair value	**404**	(113)
Other gains and losses	**-**	(7)
EPSP costs	**(17)**	162
Adjusted profit before tax	**8,093**	11,167
Weighted average shares	**83,437**	80,235
Weighted average diluted shares	**83,638**	83,436
Adjusted EPS:		
Basic (pence)	**7.31**	10.49
Diluted (pence)	**7.29**	10.09
Adjusted underlying EPS:		
Basic (pence)	**6.52**	7.21
Diluted (pence)	**6.51**	6.93

12. Other reserves

	Unaudited 31 December 2019 £'000	Audited 30 June 2019 £'000
Foreign exchange reserve	**352**	379
Capital redemption reserve	**84**	84
Merger reserve	**44,433**	44,433
Capital contribution reserve	**576**	576
Other reserves	**45,445**	45,472

13. Share capital

The Company had the following share capital at the reporting dates.

	Unaudited 31 December 2019		Audited 30 June 2019	
	Number	**£'000**	Number	£'000
Allotted, called up and fully				

Ordinary shares of £0.003	**85,443,985**	**256,332**	85,296,176	255,888

The ordinary shares carry the right to vote and rank pari passu for dividends.

Own shares held by EBT		**Unaudited**		Audited
		31 December		30 June
		2019		2019
	Number	**£'000**	Number	£'000
At start of period	**2,354**	**6,251**	1,807	4,981
Shares purchased	**-**	**-**	700	1,694
Shares sold	**(687)**	**(1,824)**	(153)	(424)
At end of period	**1,667**	**4,427**	2,354	6,251

The total number of share awards expected to vest is 1,630,000. The shares held by the EBT are measured at cost.

14. Related party transactions

Related parties to the Group are:

- Key management personnel.
- PSG who held 26% of the issued share capital of the Group.

Punter Southall Group (PSG)	**Unaudited 6 months ended 31 December 2019 £'000**	Unaudited 6 months ended 31 December 2018 £'000
Transactions – expense		
Administrative recharges from PSG	**-**	70

Key management personnel remuneration

Key management includes the Executive and Non-Executive Directors, and the Executive Committee members. The remuneration paid or payable to key management for employee services is shown below:

	Unaudited 6 months ended 31 December 2019 £'000	Unaudited 6 months ended 31 December 2018 £'000
Short-term employee benefits	**2,268**	3,277
Long-term employee benefits	**3**	267
Post-employment benefits	**92**	51
Share-based payments	**313**	421

Total	**2,676**	4,016

15. Financial instruments

Categories of financial instruments

Financial instruments held by the Group are categorised under IFRS 9 as follows:

Financial assets	**Unaudited 31 December 2019 £'000**	Audited 30 June 2019 £'000
Cash and cash equivalents	**25,759**	24,046
Investment management balances	**-**	22,277
Fee receivables	**4,927**	4,412
Other receivables	**14,992**	24,011
Total financial assets held at amortised cost	**45,678**	74,746
Investments held at fair value	**300**	5,387
Total financial assets held at fair value	**300**	5,387
Total financial assets	**45,978**	80,133

Other receivables exclude prepayments.

Financial liabilities	**Unaudited 31 December 2019 £'000**	Audited 30 June 2019 £'000
Investment management balances	**-**	22,278
Trade and other payables	**12,193**	23,344
Total other liabilities at amortised cost	**12,193**	45,267
Contingent consideration	**297**	393
Total financial liabilities held at fair value	**297**	393
Total financial liabilities	**12,490**	46,015

Trade and other payables exclude deferred income.

The Directors consider the carrying amounts of the financial assets and financial liabilities carried at amortised cost to be a reasonable approximation to their fair values based upon their nature and the relatively short period of time between the origination of the instruments and their expected realisation.

As reported in the prior year's Annual Report the Group became the investment manager of the ILC funds. The contractual agreements entered into between the parties constituted a business combination under IFRS 3. The contingent consideration is calculated based on the percentage of revenue generated by an IMA and measured at fair value at each reporting date. The contingent consideration balance is recognised within Trade and other payables in the consolidated statement of financial position and changes in fair value are recognised in the income statement.

16. Fair value of financial assets and liabilities

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, and held as FVTPL and revalued on a recurring basis, grouped into levels 1 to 3:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. The Group does not hold financial instruments in this category;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The Group's seeding of funds is held within this category; and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group's contingent consideration of the ILC team is held within this category. This contingent consideration is measured at fair value at the reporting date. Based on a discount rate of 12% and an assumed AUM growth of 10% per annum, the fair value of the contingent consideration payable is £297,000 (2019: £393,000).

Financial assets

	Unaudited 31 December 2019 £'000	Audited 30 June 2019 £'000
Financial asset held at fair value – level 2	**300**	5,387
	300	5,387

Financial liabilities

	Unaudited 31 December 2019 £'000	Audited 30 June 2019 £'000
Financial liabilities held at fair value– level 3	**297**	393
	297	393

There have been no transfers of financial instruments between levels during the period.

17. Leases

From 1 July 2019, the Group's leases relating to office accommodation with terms of more than one year are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

At 31 December 2019 the value of the right-of use asset was £3,242,000 with a corresponding £3,726,000 lease liability. The weighted average lessee's incremental borrowing rate applied to the leases on 1 July 2019 was 5.0%.

18. Events after the reporting period

Capital Reduction

Following approval by Shareholders at the Company's AGM in December 2019 to undertake a reduction in capital, and with a view to effecting this on approval from the Court, the Company capitalised its merger reserve of £44.43m by paying up and issuing deferred shares in the Company (the "Deferred Shares"). The Company received Court approval in January 2020 to effect the reduction in capital by cancellation of the Deferred Shares, creating distributable reserves available to the Company, accordingly supporting the Company's ability to pay future dividends. As at 31 January the Company had total distributable reserves of £52.8m.

Interim Dividend

The Directors have declared a first interim dividend of 4.39 pence per share, of which 0.5 pence per share is a special dividend in relation to net performance fees.