ES River and Mercantile Dynamic Asset Allocation Fund

Quarterly Report to 30 September 2020

For unitholders only

RIVER AND MERCANTILE
ASSET MANAGEMENT

ES R&M Dynamic Asset Allocation Fund

Quarter 3, 2020

Fund Objective

The objective of the strategy is to achieve an average return (income and growth in the value of your investment (known as "capital growth")) of 4% per year above cash (based on the 3 month sterling LIBOR interest rate) (the "Benchmark") over a rolling 3 year period, after the deduction of all fees.

Portfolio Summary & Key Risk Characteristics

AUM	£216.9m
Benchmark	3 month sterling LIBOR + 4% p.a.
Inception date	2 September 2014
IA Sector	Mixed Investment 20%-60%

Lower risk — Higher risk

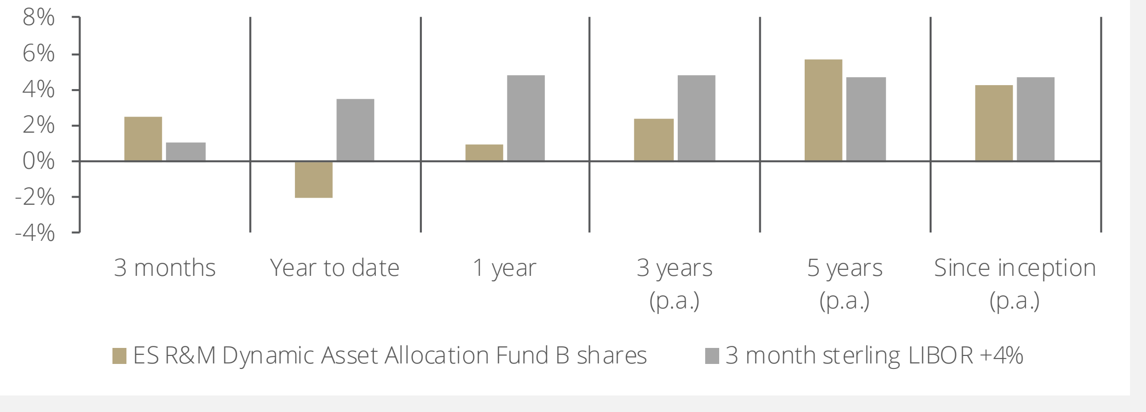
1	2	3	**4**	5	6	7

Typically lower rewards — Typically higher rewards

The Synthetic Risk and Reward Indicator (SRRI) is based on how much the returns of the shares have varied over the last five years, or since launch (whichever is the shorter period). The higher the rank the greater the potential reward but also the greater the risk of losing money. For more details please refer to the Key Investor Information Document.

Performance

	Fund	Benchmark	Difference
3 months	2.5%	1.0%	1.4%
Year to date	-2.0%	3.5%	-5.5%
1 year	0.9%	4.8%	-3.8%
3 years (p.a.)	2.4%	4.8%	-2.3%
5 years (p.a.)	5.7%	4.7%	1.0%
Since inception (p.a.)	4.2%	4.7%	-0.5%



	Fund	Benchmark	Difference
3 years (cumulative)	7.4%	15.0%	-7.6%
5 years (cumulative)	31.7%	25.7%	6.0%
Since inception (cumulative)	28.4%	32.0%	-3.6%

Source: River and Mercantile Group PLC
Fund performance shown is of B share class (accumulation units) and is calculated using the midday published price, net of an annual management charge of 0.55% per annum. Other share classes may be available. **Past performance is not a reliable indicator of future results.**

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The third quarter of the year was another strong quarter for return seeking assets, with broad global equities rising c.8% and US high yield credit rising c.4%. However, as has been the case in previous quarters, this masked significant divergences in underlying markets, with European and UK equities returning 0% and -4% respectively.

As the quarter drew on, markets appeared less resilient to the events that lie ahead. US, Europe and Asian equity markets declined over September whilst credit spreads widened modestly. Investors weighed up lofty valuations with a growing number of risks, as set out below, including the US election, rising COVID-19 cases and an impending Brexit deadline.

All eyes on the US Election

Biden remains the favourite, with his polling increasing after the debate. Trump's COVID-19 diagnosis also refocused conversation on the administration's health response, with the potential for further damage to his re-election chances. Although worth treating with caution, polls show Democrats more likely to win control of the Senate, enabling a more progressive agenda on tax reform and healthcare.

Can COVID-19 cases be contained?

Many countries have seen a spike in new cases, although this is not uniform. Whilst most US states are tightening restrictions, China has had more success in reopening their economy safely. But social restrictions look inevitable going into the winter and have scope to cause further market volatility. On the positive side, vaccine timelines have shortened dramatically since the start of the pandemic.

Another Brexit deadline looms

With the transition period ending in 3 months, negotiations are reaching a climax. The UK government's move to overrule the Withdrawal Agreement added to scepticism of a deal being reached, with Sterling weakening accordingly. Senior politicians have attempted to make headway ahead of the 15th October meeting, but Macron's insistence on access to UK fishing waters is a sticking point.

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We were encouraged by economic conditions generally improving over Q3, albeit off a very low base, thanks to significant amounts of monetary and fiscal stimulus; but the recovery continues to be uneven and imbalanced. Divergences continue to grow between regions, sectors, and indeed types of companies (those with strong balance sheets the primary winners). Consumer confidence is rising, and government intervention has prevented mass long-term unemployment for now. But as governments withdraw support, we are likely to see economic scarring materialising.

Financial conditions remained supportive over the quarter, with corporate borrowing costs and mortgage rates reaching record lows. Central banks, most notably the Federal Reserve ("the Fed"), have been highly effective this year in ensuring that these borrowing costs are suppressed (and therefore are not reflective of the economic backdrop). Whilst this brings major benefits to both corporates and individuals, the consequence of this is expensive valuations for most major markets.

The Fed has done an excellent job this year of correctly determining that significant stimulus applied to asset prices and low mortgage rates would create a strong wealth effect, thus encouraging spending. But, as a result US markets in particular are now trading significantly above any sensible valuation, even allowing for low bond yields.

For this reason, and recognising some of the headwinds set out above, we have been defensively overweight risk assets over the quarter. We believe a selective approach is key, and over Q3 increased exposure to equity and credit whilst maintaining a bias to high quality companies with strong balance sheets. Companies that came into this crisis with stronger balance sheets are in a better position to weather the storm and pick up cheap assets. Conversely, companies with weak balance sheets will be distracted by restructuring. We believe this is an important theme, particularly in equity markets.

Looking forward, we have identified some exciting themes for Q4, and we will be utilising in-house tools to access some of these themes. This provides us with greater flexibility to implement macro themes, it will provide costs savings, and it will allow us to integrate ESG considerations into the portfolio to a greater degree. We've set out our views on key asset classes below and elaborated on some of these emerging themes.

Current Views and Key Themes

Asset class	Current view	Rationale
Global Equities	Slightly overweight	Despite expensive valuations, we favour equities over other asset classes. Low rates and stimulus are leading to low credit spreads, which in turn means low borrowing costs. More corporate projects are viable, a benefit which accrues to shareholders. Equity exposure should be focused on particular styles, not the broad market, as set out below.
Strong balance sheets	Overweight	Current economic conditions favour companies with strong balance sheets and growth characteristics. Whilst it is key to maintain these characteristics, we expect to progressively migrate the equity portfolio towards cyclical sectors. Cyclicals will be supported in an environment of improving economic momentum, whilst the largest valuation disparity in history between cyclicals and defensives (including the tech boom) offers significant upside potential.
Fixed Income	Slightly underweight	Current spread levels, in the context of potential defaults and downgrades, do not sufficiently compensate for expected returns relative to equities.
Selective corporate credit	Neutral	This year we have favoured corporate credit, as targeted stimulus (in particular corporate bond buying by the Federal Reserve) has reduced the possibility of an extreme downside scenario. However spread compression has reduced the relative attractiveness of broad corporate credit markets, moving us to a neutral position. We continue to favour targeted exposure to higher quality parts of the high yield market and areas of the investment grade market with explicit policy support.
Alternatives	Neutral	There are a variety of opportunities across alternative, but we believe it is key to focus exposure on highly liquid underlying assets as we can see stress emerging in less liquid areas of the market. For instance, we are expecting stresses to emerge in property, and in office and retail space in particular. We favour precious metals, and liquid hedge funds as a diversifier.
Gold	Slightly overweight	Gold is a theme we have liked, and built an allocation to, over the last few months. We expect precious metals to be supported in the current environment of plentiful liquidity and money printing, with gold a particular beneficiary of falling real rates.

Portfolio Changes

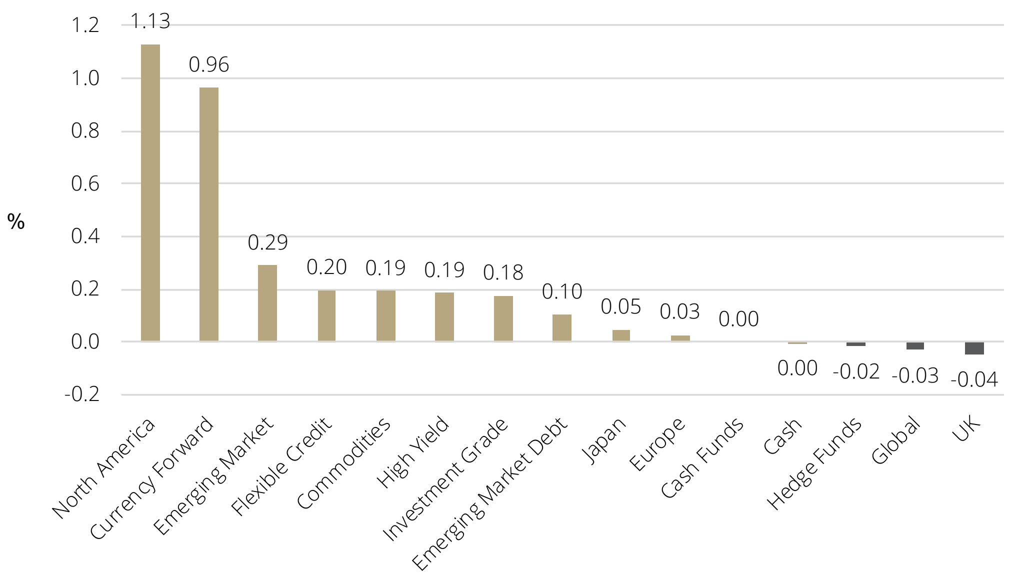
July to September was a quarter of two halves for financial markets, initially benefitting from the ultra-loose monetary and fiscal policy, but later suffering from increased COVID and political risks.

We have been comfortable with our positioning throughout the quarter but remained dynamic as opportunities arose. At the start of July we were placed to benefit from the policy tailwind in both equity and credit markets while maintaining our preference for high quality assets. Looking into August, economic expectations began to appear optimistic, but the policy response continued to be the dominant driving force behind markets. This continued to support a higher risk allocation despite the economic environment. As a result, our investment thesis remained consistent throughout July and August, and no changes were made to the portfolio.

Throughout September we were proactive in making portfolio changes. As valuations moved higher at the start of the month, we reduced our equity exposure in favour of cash, then later redeployed back into US equities having seen a pullback in markets. We also introduced two sector-specific ETFs at the same time as moving back into equities - the Global Consumer Discretionary ETF and Global Industrials ETF. Both of these ETFs were introduced to increase the cyclicality of the portfolio and provide greater exposure to companies who will benefit from the economic recovery.

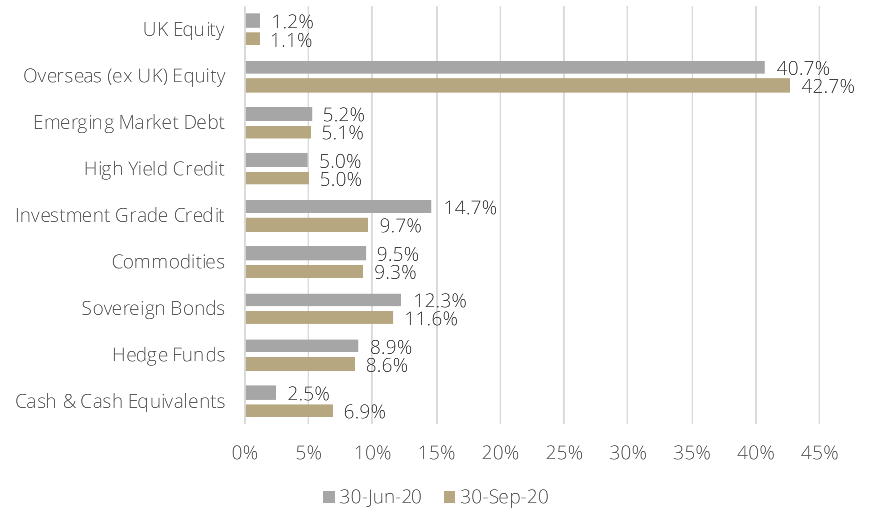
The Macro Team
River and Mercantile
October 2020

Relative contribution to return over the quarter



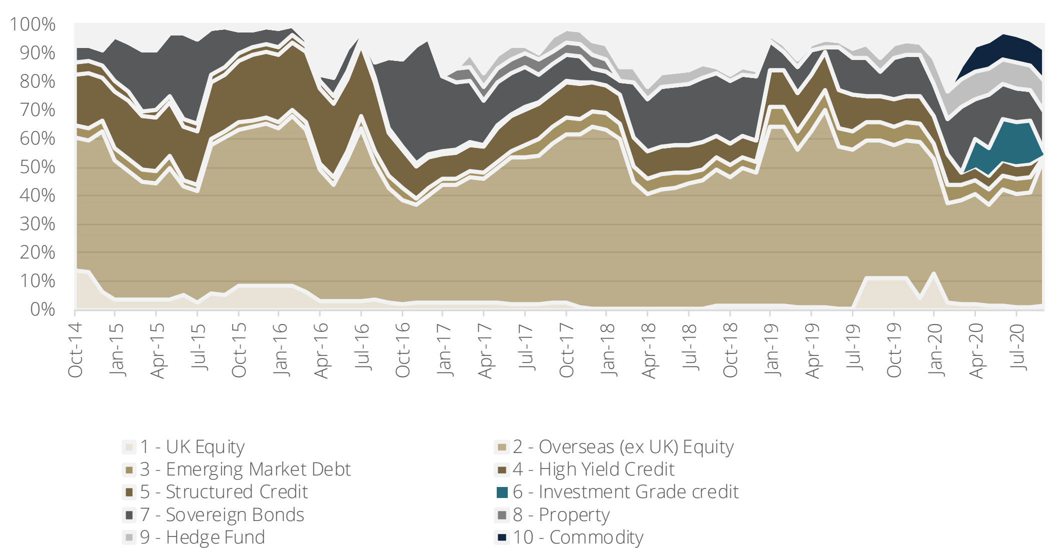
Source: FactSet, based on close of business valuation, gross of fees

Asset allocation



Source: River and Mercantile Group PLC

Asset allocation evolution since inception



Source: River and Mercantile Group PLC. 1 to 9, bottom to top.

Top 10 holdings

This table shows the fund’s ten largest holdings by weight.

	Weight (%)
iShares Physical Gold ETC	9.3
iShares S&P 500 UCITS ETF USD	8.3
Vanguard S&P 500 ETF	6.9
River and Mercantile Global Macro Z GBP Acc	5.9
Vanguard S&P 500 UCITS ETF	5.2
UK Treasury 4.5% 2034	5.2
Ninety One Global Strategy Fund	5.0
Neuberger Berman Global Flexible Credit Fund	4.9
US Treasury 1.5% 10Y Feb 2030	4.1
PIMCO GIS US IG Corp Bond Fund	4.0

Source: River and Mercantile Group PLC

Fund information

Launch date	2 September 2014
IA sector:	Mixed Investment 20%-60%
Performance target:	3 Month sterling LIBOR + 4% p.a
Strategy capacity:	£10,000m (pooled & segregated)
XD dates:	1 April & 1 October
Dividend/Accumulation payment date:	31 May and 30 Nov

Share class:	B	Z
Launch price (shares):	250.00p	500.00p
Share classification:	Retail/Institutional	Institutional
Type of shares:	Accumulation	Accumulation
Fund charges:		
Annual	0.55%	As agreed*
Initial (up to)	5.25%	5.25%
Ongoing Charge Figure (OCF) (incl. AMC)	0.86%	AMC* + 0.31%
*Z class AMC charged outside of the Fund		
Minimum investment		
Initial	£2.5 million	£5 million
Subsequent	£25,000	£50,000
Sedol	BLZH7L2	BLZH7N4
ISIN	GB00BLZH7L20	GB00BLZH7N44
Bloomberg	RMDAABA	RMDAAZA

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