



RIVER AND MERCANTILE  
ASSET MANAGEMENT

# Emerging Market ILC Equity Fund

Quarterly Report  
to 30 June 2020

### Fund objective

The objective of the fund is to achieve the highest possible return in US dollars (Reference Currency), while taking due account of the principle of risk diversification, the security of the capital invested, and the liquidity of the invested assets.

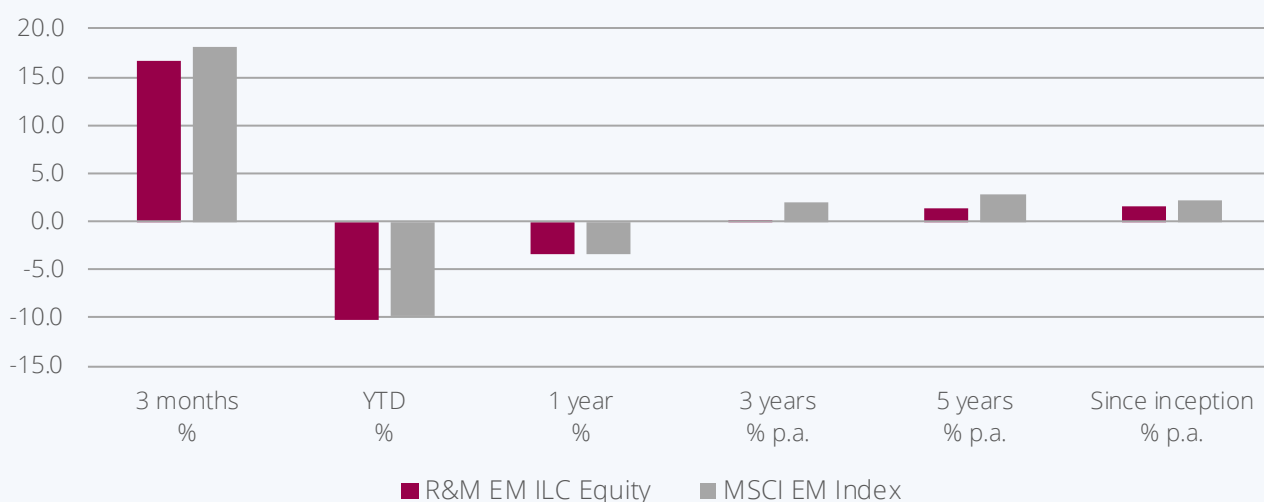
The investment process is driven by a proprietary bottom-up methodology for the stock selection based on the Industrial Life Cycle (ILC) process. The ILC process segments the universe of investable companies according to their life cycle stage and evaluates them accordingly. While stock selection is supported by the ILC process, the final investment decision remains with the Investment Manager.

### Portfolio summary and key risk characteristics

Fund assets under management (AUM)	\$ 91.7m	Return on equity (ROE)	17.8%
Strategy capacity	\$ 1bn	Price/earnings (PE) ratio	12.3
Inception date	1 October 2012	Price/book (PB) ratio	1.7
Number of holdings	79	Dividend yield	3.1%
Active share	95.5%	Weighted average market cap	\$ 117.3bn

### Performance (USD accumulation units, net of 0.50% p.a. AMC)

	Cumulative (%)			Annualised (% p.a.)		
	3 months	YTD	1 year	3 years	5 years	Since inception
<b>R&amp;M EM ILC Equity</b>	<b>16.73</b>	<b>-10.28</b>	<b>-3.48</b>	<b>0.14</b>	<b>1.42</b>	<b>1.67</b>
MSCI EM Index	18.08	-9.78	-3.39	1.90	2.86	2.26
MSCI EM Value Index	13.83	-18.05	-15.74	-2.64	-0.80	-0.89



Calendar Year	R&M EM ILC Equity %	MSCI EM Index %	MSCI EM Value Index %
2012 (1 Oct - 31 Dec)	3.97	5.30	4.51
2013	0.02	-2.60	-5.14
2014	-1.02	-2.19	-4.08
2015	-18.08	-14.92	-18.57
2016	12.17	11.19	14.90
2017	32.77	37.28	28.07
2018	-13.52	-14.58	-10.74
2019	16.65	18.44	11.96

Source: River and Mercantile Asset Management LLP. Benchmark is the MSCI Emerging Markets Index, net USD. Fund performance shown is of IB share class (accumulation units) which is net of an annual management charge of 0.50% per annum. Please note that the benchmark performance is calculated using close of business mid-market prices. Other share classes may be available. Past performance is not a reliable indicator of future results.



## Investment commentary

### Review

As Covid-19 continued to spread globally, investor sentiment recovered on the belief that fiscal and monetary support from around the world would help to soften the economic impacts of the crisis. The MSCI EM index gained 18.1% in the quarter, leaving the year to date loss at -9.8%, a significant improvement over the -23% loss experienced in the first quarter. Portfolio de-risking that helped protect on the first quarter downside for the Fund led to a small lag in the second quarter gains. The Fund remains inline to the index for the year to date.

Our intuition that East Asia's "first in" nature of the pandemic coupled with its disciplined approach to lock downs, testing, and tracing would lead to a "first out" on the economic recovery has thus far been validated. The Fund began re-risking in the quarter that was aimed at raising exposure to later stage ideas in Asia.

Fears of an overblown health crisis and less fiscal space for stimulus in Brazil have commanded headlines in the quarter, but the market itself gained 23% and provided an opportunity to reduce exposure to Growth names like Arco and Pagseguro. The proceeds were directed towards new ideas such as Zoomlion in China and Mahindra & Mahindra (MM) in India.

Zoomlion is a Restructuring stage manufacturer of heavy construction equipment ranging from cement trucks to cranes. Value creation tenets in this late stage require a re-allocation of assets, and management has recently exited its capex heavy sanitation truck segment to focus on their core business. This has allowed a reduction in leverage, and the market downturn has led to a valuation potential not seen over 6 years. Growth in profits should be driven by this repositioning as well as the Chinese government's targeted infrastructure spend in lower tier cities.

MM is a Fading Winner and the world's largest producer of tractors. It also produces SUVs and automobiles. Value creation tenets in this stage also require asset re-allocation, and management has begun acknowledging an overstretch beyond the core business of tractors and domestic SUVs. Efforts are underway to re-deploy resources towards the core areas which should augment what appears to be an improving economic and agricultural recovery in rural India.

### Outlook

The shape of the global recovery is likely to be a bit bumpier than the hoped for V. Demand appears on the rise in East Asia, and much of China's production capacity is now aimed at its own consumption, but this is not enough insulation from the lagging recoveries in the rest of the world. There will be an eventual resumption of global demand that will trigger a restocking of materials at Asian factories, stoking orders for upstream commodities, providing knock-on momentum in Brazil, Russia, Indonesia and South Africa.

The Q2 recovery was surprisingly driven by momentum first, growth second, and value and financials last. The gradual re-risking of the portfolio is premised on our belief that opportunities are compelling in the later life cycles of EM and that the recovery should favor these areas in time.

**Al Bryant**  
**Portfolio Manager**  
July 2020

## Performance attribution

### Top 10 contributors to return

	Active average weight (%)	Relative contribution (%)
Pagseguro Digital	1.56	0.68
Alibaba Health Information Tech	1.22	0.44
Reliance Industries	1.78	0.43
Silergy Corp	0.81	0.41
Xinyi Solar	1.02	0.39
Wistron Corporation	1.60	0.33
ZTO Express (Cayman) Spon ADR	1.72	0.28
CD Projekt	1.42	0.28
China Construction Bank	-1.46	0.27
Chailease Holding Co.	0.81	0.20

### Attribution by region

	Contribution from allocation (%)	Contribution from selection (%)
Asia Pacific Ex Japan	0.03	1.03
Europe	-0.12	0.44
Latin America	0.17	-0.65
Middle East And Africa	0.04	-0.59
North America	0.34	0.00
Cash	-0.54	0.00
<b>Total</b>	<b>-0.08</b>	<b>0.23</b>

### Top 10 detractors from return

	Active average weight (%)	Relative contribution (%)
Clicks Group Limited	1.35	-0.44
Wal-Mart de Mexico	2.39	-0.37
MMC Norilsk Nickel PJSC ADR	0.59	-0.36
Samsung Electronics	5.33	-0.31
Agricultural Bank Of China	1.74	-0.29
Ping an Insurance	2.14	-0.28
Bank of China	1.33	-0.27
Reliance Industries Limited	-1.02	-0.27
China Resources Cement Holdings	1.86	-0.25
Meituan Dianping Class B	-0.63	-0.22

### Attribution by sector

	Contribution from allocation (%)	Contribution from selection (%)
Energy	-0.06	0.27
Materials	-0.09	-1.12
Industrials	-0.03	0.17
Consumer Discretionary	-0.04	-0.44
Consumer Staples	-0.07	-0.37
Health Care	-0.18	0.02
Financials	0.27	1.22
Information Technology	0.05	0.30
Communications Services	-0.22	0.37
Utilities	-0.09	0.42
Real Estate	0.07	0.26
Cash	-0.54	0.00
<b>Total</b>	<b>-0.92</b>	<b>1.10</b>

## Portfolio characteristics

### Top 10 holdings

	Fund weight (%)
Taiwan Semiconductor M'facturing	6.20
Tencent	5.98
Alibaba Group	5.84
Samsung Electronics	4.69
Ping an Insurance	3.04
CNOOC Group	2.10
Reliance Industries	2.05
Wal-Mart de Mexico	1.98
ENN Energy Holdings	1.90
Agricultural Bank Of China	1.86

### Country weightings

	Fund weight (%)	Benchmark weight (%)
China	36.74	40.95
Taiwan	13.29	12.28
South Korea	11.84	11.61
India	9.14	8.01
Russia	6.10	3.24
Brazil	4.19	5.14
Mexico	4.14	1.73
Philippines	2.32	0.84
Malaysia	2.01	1.76
Indonesia	1.97	1.47
Other	7.05	12.97

### Sector weightings

	Fund weight (%)	Benchmark weight (%)
Energy	5.44	5.96
Materials	8.46	6.86
Industrials	10.27	4.69
Consumer Discretionary	15.09	17.38
Consumer Staples	5.61	6.48
Health Care	2.37	4.30
Financials	17.37	19.07
Information Technology	19.71	16.93
Communications Services	8.56	13.50
Utilities	3.68	2.27
Real Estate	2.23	2.58
Cash	1.21	0.00

## Important information

The River and Mercantile Emerging Market ILC Equity Fund (the "Fund") is approved by the Commission de Surveillance du Secteur Financier as a sub-fund of the River and Mercantile Investment Funds SICAV, an undertaking for collective investment in transferable securities in the legal form of an investment company with variable capital (société d'investissement à capital variable, "SICAV"). The Fund registered as a "recognised scheme" for the purposes of Section 264 of the Financial Services and Markets Act 2000 (FSMA) of the United Kingdom and shares in the Fund may upon such registration be promoted and sold to the general public in the United Kingdom subject to compliance with FSMA and applicable regulations under FSMA. Potential investors in the United Kingdom should be aware that most of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Fund and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

The SICAV is managed by Multiconcept Fund Management S.A. and distributed by River and Mercantile Asset Management LLP as global distributor. River and Mercantile Asset Management LLP is authorized and regulated in the United Kingdom by the Financial Conduct Authority. River and Mercantile LLC is appointed as investment manager of the Fund and is registered as an investment advisor with the US Securities and Exchange Commission. River and Mercantile LLC's equity portfolio management business is conducted under the name "River and Mercantile Asset Management ILC Team".

This material has been prepared by River and Mercantile Asset Management LLP. None of MultiConcept Fund Management S.A., the registrar and transfer agent, the central administration or the custodian of the Fund has independently verified any information contained herein and no party makes any representation or warranty as to the accuracy, completeness, or reliability of such information.

Investors should refer to the latest prospectus of the SICAV (as amended or supplemented) and relevant key investor information document(s) for the Fund for further information (available from our website at [riverandmercantile.com](http://riverandmercantile.com)).

The information and opinions contained in this document do not constitute investment advice and are provided for background purposes only. References to specific securities are provided solely as illustrative examples of the River and Mercantile Asset Management ILC Team's analytical methods, and do not constitute a recommendation to buy or sell such securities. This information is subject to updating and verification. Portions of this report are based on data provided by third parties whom River and Mercantile Asset Management LLP deems to be reliable; however, there is no guarantee as to the accuracy and completeness of the information.

**PAST PERFORMANCE IS NOT A RELIABLE GUIDE TO FUTURE RESULTS.**

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